

COMMUNITY AND SOCIAL AFFAIRS COMMITTEE

27 JANUARY 2016

JOINT REPORT OF HEAD OF CENTRAL SERVICES & HEAD OF COMMUNITIES & NEIGHBOURHOODS

REVENUE BUDGET PROPOSALS 2016-17 - HOUSING REVENUE ACCOUNT (HRA)

1 PURPOSE OF REPORT

- 1.1 To set the rents of Council dwellings, approve the HRA estimates for 2016-17 and set the working balance for 2016-17.

2.0 RECOMMENDATIONS

It is recommended that:

- 2.1 The Committee approve a rent decrease of 1% for all Council dwellings for 2016-17 with effect from 4 April 2016 and that when a property is re-let the rent continues to be brought into line with the Governments formula rent;
- 2.2 The estimates for 2016-17 be approved subject to the receipt of the limit rent Determination and final details of the 1% rent reduction with delegated authority being given to the Head of Central Services in consultation with the Head of Communities & Neighbourhoods to amend the estimated working balance based on any changes.
- 2.3 The estimates for 2016-17 be approved subject to the receipt of the Determination on high value housing, with delegated authority being given to the Head of Central Services in consultation with the Head of Communities & Neighbourhoods to amend the estimated working balance based on this Determination, and in addition, if necessary, the contribution to the Regeneration & Development Reserve;
- 2.4 A working balance of £992,910 is budgeted for at 31 March 2017 based on a 1% rent decrease.

3. KEY ISSUES

3.1 Background

- (a) The operation of the HRA is governed by the Local Government and Housing Act 1989. Some of the key requirements are detailed below:
- The HRA is a ring-fenced landlord account recording certain defined transactions arising from the powers conferred on local housing authorities by Part II of the Housing Act 1985 and certain provisions of earlier legislation;
 - The Council has a duty to keep an HRA in accordance with proper accounting practices;
 - The Council has a duty to produce and publish an annual budget for the HRA which avoids a deficit;
 - The Council has a duty to review and if necessary revise that budget from time to time. If it appears that the HRA is heading for a deficit, all reasonable and practicable steps must be taken to avoid a deficit at the end of the year.

- (b) Rent income is one of the main components of the HRA and the Government from 2015-16 stated that the increase was to be the September CPI figure + 1% so in 2016/17 rents could have been increased by 0.9%. In the budget in 2015 however, the Chancellor promised to reduce social rents by 1%, this means therefore that rents in 2016-17 will be 1.9% less (or £140k less) than they could have been. Rent restructuring is not being applied this year as all properties will have the 1% reduction. The average rent for 2016/17 will therefore become £76.16 per week.

This 1% reduction was announced to continue for 4 years and has a cumulative effect on the 30 year business plan of approx. £31m. Although no specific cuts in expenditure are currently envisaged, the annual contribution to the Regeneration & Development reserve is affected and has not been increased to the same level that it would have been had rents been increased by 0.9%. This will apply more each year as the target working balance is maintained.

- (c) Each year the Department for Communities and Local Government (DCLG) continues to set a limit rent for each Council to apply to its housing stock in addition to the formula rent decrease noted above. If the Council continues to set rents above a prescribed "limit rent" then rent rebate subsidy limitation applies. This reduces the Council's entitlement to benefit subsidy, which ultimately has an initial impact on the General Fund (GF) as rent rebates are charged to the GF, but is then recharged to the HRA accordingly. During 2015-16 we have not reached the limit rent and so no charge to the HRA will apply. There will also be no impact of this recommended rent decrease to the HRA for 2016-17 in respect of this subsidy, which continues to apply under self-financing.

3.2 HRA Estimates and Rent Decrease Options

- (a) A summary of the estimates for the HRA is attached at Appendix A.
- (b) The table below shows the projected surplus and the year-end position for the HRA working balance. The 2016-17 figures assume that rents will reduce by 1%, compared to 2015-16.

	2015-16 Original Estimate £	2015-16 Estimated Year End Position £	2016-17 Estimate £
Surplus/Deficit (-) for year	-45,740	143,560	-271,170
Working Balance B/fwd	1,000,560	1,120,520	1,264,080
Working Balance C/fwd	954,820	1,264,080	992,910

- (c) The carried forward working balance is broadly within the target working balance of £750,000 and does allow for some level of flexibility.
- (d) The Estimated Year End position is broadly in line with the current in-year forecasting.
- (e) Under the Local Government Act 2003 new borrowing freedoms for Councils to fund their capital programmes if affordable and sustainable were introduced. This is known as prudential borrowing or unsupported borrowing and does not attract any form of Government financial support for the debt repayment. Where unsupported borrowing is undertaken for the HRA it is considered prudent to make a provision for repayment, however following self-financing reform the Government continues to impose a cap on HRA borrowing to the amount of the self-financing debt level. Local authorities are therefore no longer able to borrow amounts above this cap. The cap for MBC is £33.554m. The headroom between actual debt and the borrowing cap is expected to be around £2m at 1 April 2017, assuming no other borrowing is undertaken by the end of this or the next financial year.

- (f) For the self financing settlement the Government has stated that the repayment of borrowing is not required but the Council can opt to repay the debt rather than build up cash reserves where it considers this to be in the best interests of the Council and the Housing Service. No repayment of debt is proposed in 2016-17.

3.3 High Value Housing

- (a) The Housing & Planning Bill has outlined that a determination will be made to Local Authorities each year to take funding based on the vacancy rates of our high-value houses in order to fund the purchase of housing association properties by their tenants with the same Right to Buy discounts as our tenants.
- (b) This council's determination for 2016-17 is unknown. This will be a new expense to the HRA and was not included in the 30 year business plan. Details have been sent to DCLG regarding our properties, their value and the relevant vacancy rates over the last 3 years.
- (c) The Council does not have to actually sell these homes but this money will still be payable. A breakdown of the homes considered to be high value, as per the indicative regional thresholds is as follows, though this is provisional, and totals 225 properties:

1 bed bungalows	83
2 bed bungalows	67
2 bed houses	22
3 bed houses	53
Melton Town	3
Villages	222

- (d) As this determination is unknown it is recommended that the estimated working balance is amended to reflect this change as per paragraph 2.3. In addition if the determination should take the working balance below the £750,000 target balance that the difference is taken to reduce the contribution to the Regeneration & Development Reserve.
- (e) This amount could be significant to the long term health of the HRA business plan, as such a further report will be brought to this committee in March 2016 to assess the impacts once further details are known and consider whether members would require that the homes which are ultimately identified as high value are indeed sold on the open market when they become vacant.

3.4 Pay to Stay

- (a) The Government has consulted on a new pay to stay scheme whereby tenants earning over £30,000 (£40,000 in London) will be expected to pay an increased rent –up to the market rent. This consultation closed on 20 November 2015 and MBC did send a response.
- (b) This is due to come into effect in 2017-18 and as our consultation response suggested, it is unknown how this information can or will be collected, or what level of resources will be required to administer the new system. No amounts have as yet been built into the 2016-17 budget for the administration start-up as they are so unknown.

3.5 Additional HRA Support Allocation of Costs

- (a) With the movement to Universal Credit our most vulnerable tenants on housing benefit will see a change to the way their benefit is paid, instead of being paid direct to us as the landlord it will be paid direct to the tenant 4 weeks in arrears. We, as a Council have considered this and want to proactively use our resources now to help these vulnerable tenants to manage their money in order that they do not get behind in paying their rent and Council Tax as well as encouraging the move to more digital means of communication. The possible increase in arrears from the move to Universal Credit could be critical to the business plan as around 55% of our tenants are claiming housing benefit (as per the mid-year return), as an illustration 55% of 4 weeks rental income is estimated to be around £310k.
- (b) Therefore included in these estimates is an additional contribution to the General Fund from the HRA to support this. Another report to this committee includes further details on this service and the expected outcomes. This amount of additional support is to be reviewed annually to ensure value for money for the HRA service by reducing arrears well as supporting our tenants.

3.6 HAMP Update

Officers have updated the HRA Business Plan to take into account the changes to rent levels for the next 4 years and are awaiting final determinations on the high value housing calculations. The HAMP will be updated to take into account these changes and a report to this committee in March 2016 will be presented for members to consider future key projects for the next 3 years.

4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 There are no further policy and corporate implications arising from this report.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 Full financial and other resource implications are addressed in this report and at Appendix A.

6.0 LEGAL IMPLICATIONS/POWERS

- 6.1 There are no legal implications directly arising from this report.

7.0 COMMUNITY SAFETY

- 7.1 There are no direct links to community safety arising from this report.

8.0 EQUALITIES

- 8.1 An Equalities Impact Assessment has been considered for the budget by the Head of Communities & Neighbourhoods which confirms that there are no specifically adversely affected groups and therefore no action plan is necessary. Rent levels are assessed based on the property and not on the occupants from any particular groups. The tenants are allocated properties in line with the Council's Allocation Policy and Choice Based lettings scheme, which have previously been assessed and the ability to pay is assessed through Housing Benefits assessments.

9.0 RISKS

- 9.1 Self-financing puts new pressures on the Council to continue to provide decent housing for its tenants outside of the subsidy system. The requirement to profile spending to need may mean that large short-term balances within the HRA are built up and it is imperative that these balances are saved for future spending.

9.2 Further risks in regard to the self financed HRA have been identified as follows:

L I K E L I H O O D	A	Very High				
	B	High	4	7		
	C	Significant			8	
	D	Low			3,5	
	E	Very Low			1,2,6	
	F	Almost Impossible				
			Negligible 1	Marginal 2	Critical 3	Catastrophic 4

IMPACT

Risk No	Risk Description
1	Interest Rate fluctuation on short and long term borrowing undermines the business plan
2	Proportion of RTB receipts not retained within the HRA due to pressures on other funds
3	Long term ability to fund stock to ensure kept within the decent homes standard
4	Impact of the inability to borrow beyond the self-financing cap to fund capital repairs
5	Maintenance of stock within budget constraints
6	Robustness of stock condition survey
7	Impact on the business plan of the determination on high value housing properties
8	Increase in arrears following introduction of Universal Credit and the inability of tenants to pay manage their funds and prioritise rent payment

10.0 CLIMATE CHANGE

10.1 There are no climate change issues directly arising from this report.

11.0 CONSULTATIONS

- 11.1 The Budget Holders and the Head of Communities & Neighbourhoods carried out the review of estimates with the assistance of the Service Accountant as required with reference to current budget monitoring protocols.
- 11.2 The Tenants Forum Executive Committee has been consulted on the rents and the new issues facing the HRA from 2016/17 following recent government announcements on 2 December 2015.

12.0 WARDS AFFECTED

- 12.1 All wards are affected.

Contact Officer:	Carol King
Date:	5 January 2016
Appendices:	Appendix A – HRA estimates
Background Papers:	Oracle Financial Reports HRA Budget Setting Working Papers
Reference:	X: Committees/CSA/201516/27-1-16/HRA Revenue Budget Proposals 2016-17