COMMUNITY AND SOCIAL AFFAIRS COMMITTEE

23 JANUARY 2018

JOINT REPORT OF DIRECTOR FOR CORPORATE SERVICES & HEAD OF PLACE & REGENERATION

REVENUE BUDGET PROPOSALS 2018-19 - HOUSING REVENUE ACCOUNT (HRA)

1.0 PURPOSE OF REPORT

1.1 To set the rents of Council dwellings, approve the HRA estimates for 2018-19 and set the working balance for 2018-19.

2.0 RECOMMENDATIONS

It is recommended that:

2.1 The Committee approve a rent decrease of 1% for all Council dwellings for 2018-19 with effect from 2 April 2018 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 2018-19 be approved subject to the receipt of the limit rent Determination, with delegated authority being given to the Director for Corporate Services in consultation with the Head of Place & Regeneration to amend the estimated working balance based on any changes to this determination;

2.3 A working balance of £966,869 is budgeted for at 31 March 2019 based on a 1% rent decrease;

2.4 In addition to these estimates a contribution of 25% per year be made to support the work of the Priority Neighbourhood Management Team within the Melton Mowbray town area though the additional allocation of support costs as per paragraph 3.4 c).

3.0 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 2018-19 rents could have been increased by up to 4%. In the budget in 2015 however, the Chancellor promised to reduce social rents by 1%, this means therefore that rents in 2018-19 will be up to 5% less (or up to £350k less) than they could have been. The average rent for 2018/19 will therefore become £74.99 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 could have been had rents been increased by 4%. 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. If the Council continues to set rents above this 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 2017-18 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 2018-19 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 2018-19 figures assume that rents will reduce by 1%, compared to 2017-18.

	2017-18		**2018-19**
	Original Estimate	**Estimated Year End Position**	**Estimate**
	£	**£**	**£**
Surplus/Deficit (-) for year	-59,910	252,340	-471,490
Working Balance B/fwd	1,058,994	1,186,019	1,438,359
Working Balance C/fwd	999,084	1,438,359	966,869

(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 for 2018-19 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 2019, assuming no other borrowing is undertaken by the end of this or the next financial year.

In the November 2017 budget the Chancellor announced that he would lift the borrowing cap for Councils in areas of high affordability pressure, so that they can build more Council homes. Councils can bid for the increase to the cap from 2019-20 to 2021-22. The government will monitor how authorities respond to this opportunity and consider from this whether any further action is needed.

(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 2018-19.

(g) From 1 April 2018 Severn Trent Water have ended our agency agreement for which we collect water rates from Tenants on their behalf. This has resulted in a loss of £76k per year for the commission earned from this agency agreement. We are currently in negotiations with Severn Trent to agree an amount to ensure future write-offs of current water arrears are not left with the Council.

3.3 **High Value Housing**

(a) No further information has been received from Government so no figures have been included in these estimates.

3.4 **Additional HRA Support Allocation of Costs**

(a) With the movement to Universal Credit more of 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. The possible increase in arrears from the move to Universal Credit could be critical to the business plan as around 50% of our tenants are claiming housing benefit (as at 31 March 2017), as an illustration 50% of 4 weeks rental income is estimated to be around £267k. any comment on the logistics as to how we get this paid direct as Helen mentioned there is a way although tricky.

(b) Therefore included in these estimates is a continuing contribution of £80k in 2018-19, to the General Fund from the HRA to support this via the Me and My Learning scheme.

(c) A growth bid has been submitted for the 2018-19 budget for £68k to fund Priority Neighbourhood officers to work in a number of priority neighbourhoods in the town. As a number of the properties in these areas are within the Council's HRA, in addition to these estimates a contribution of 25% (equating to £16,903 in 2018-19) of this work is requested to support the management of each area, including resident engagement, demand reduction across Council services and the encouragement of independent, sustainable living as allowed within this landlord account. This annual percentage cost from the HRA to the Council's General Fund will also be supported by a 37.5% charge from the Special Expenses (Melton Mowbray) budget. The growth form is attached at appendix B.

3.5 **HAMP Update**

(a) Officers have updated the HRA Business Plan to take into account the changes to rent levels, updates to the capital programme and any known legislative changes. This refreshed document is found elsewhere on this committee's agenda with the Housing Asset Management Plan.

3.6 **Housing Repairs Contract**

(a) The procurement of the new housing repairs contract is underway, as no results are yet known, no allowance to changes in costs, other than some inflation, have been included in these estimates.

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 Place & Regeneration 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 and Universal Credit 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:

LIKELIHOOD

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

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 in future years
8	Increase in arrears following introduction of Universal Credit and the inability of tenants to manage their funds and prioritise rent payment
	Risk re procurement?

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 Place & Regeneration 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 this report on 5 December 2017.

12.0 **WARDS AFFECTED**

12.1 All wards are affected.

Contact Officer:	Carol King
Date:	5 January 2018
Appendices:	Appendix A – HRA estimates Appendix B – Priority Neighbourhood growth form
Background Papers:	Oracle Financial Reports HRA Budget Setting Working Papers
Reference:	X: Committees/CSA/201818/23-1-18/HRA Revenue Budget Proposals 2018-19