FULL COUNCIL

13 FEBRUARY 2019

JOINT REPORT OF DIRECTOR FOR CORPORATE SERVICES & DEPUTY CHIEF EXECUTIVE

REVENUE BUDGET PROPOSALS 2019-20 - HOUSING REVENUE ACCOUNT (HRA)

1.0 **PURPOSE OF REPORT**

1.1 To set the rents of Council dwellings, following consultation with the Place Committee, approve the HRA estimates for 2019-20 and set the working balance for 2019-20.

2.0 **RECOMMENDATIONS**

It is recommended that:

2.1 The Council approve a weekly rent decrease of 1.56% for all Council dwellings for 2019-20 with effect from 1 April 2019 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 2019-20 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 Deputy Chief Executive to amend the estimated working balance based on any changes to this determination;

2.3 A working balance of £975,079 is budgeted for at 31 March 2020 based on a 1.56% rent decrease;

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 a 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 2019-20 rents could have been increased by up to 3.4%. In the budget in 2015 however, the Chancellor promised to reduce social rents by 1%, this means therefore that rents in 2019-20 will be up to 4.4% less (or up to £310k less) than they could have been.

In keeping with this 1% rent reduction for the 4th year, at the same time taking into account that this rent setting exercise covers the period 1 April 2019 to 5 April 2020, so 53 weeks, average rents will reduce to £73.78 per week. This effectively means a weekly rental reduction of 1.56%. This is due to the fact of the 53 week rent year and the requirement for the total rent for the year to be reduced by 1%. As this rent period also includes 1-5 April 2020 this proportion of the rent will be accounted for in the 2020-21 accounts and taken into consideration when setting the 2020-21 rents next year.

2019-20 is the final year of the 4 years that this rent reduction was to apply. A recent consultation paper on rents has been issued which suggests that from 2020-21 rent will be able to increase by CPI + 1% once again.

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 3.4%. This will apply more each year as the target working balance is maintained.

(c) Each year the Minister for Housing, Communities and Local Government (MHCLG) 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 2018-19 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 2019-20 in respect of this subsidy, which continues to apply under self-financing, however a recent consultation on rents does suggest that this will no longer apply from 2020-21.

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 2019-20 figures assume that rents will reduce by 1%, compared to 2018-19.

	2018-19		2019-20
	Original Estimate	Estimated Year End Position	Estimate
	£	£	£
Surplus/Deficit (-) for year	-488,390	-276,700	-414,750
Working Balance B/fwd	1,438,359	1,666,529	1,389,829
Working Balance C/fwd	949,969	1,389,829	975,079

(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 which is showing a significant underspend following an unexpected refund from Severn Trent following the closure of our agency agreement, increases in rental income due to lower than budgeted voids, increased interest on unspent balances and partially offset with an increase in professional fees for the new repairs contract and stock valuations.

(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. The debt cap that had been imposed on Councils since Self financing has been removed. The actual borrowing is expected to be around £31m at 1 April 2020, 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 2019-20.

3.3 **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. The possible increase in arrears from the move to Universal Credit could be critical to the business plan as around 45% of our tenants are claiming housing benefit (as at 31 March 2018), as an illustration 45% of 6 weeks rental income is estimated to be around £361k.

(b) In the period from April to September 2018 the number of tenants in receipt of Universal Credit in arrears increased from 83 to 148. The two main factors in this are; increased waiting periods – the majority of new rent accounts on Universal Credit do not receive a payment until week 6 at the earliest; and the increased amount of payments made direct to tenants rather than direct to the council which has led to tenants struggling to effectively manage their finances

(c) Therefore included in these estimates is a continuing contribution of £80k in 2019-20, to the General Fund from the HRA to support this via the Me and My Learning scheme. This approach is consistent with a number of Housing Associations across the country who are working to try and improve the skills of tenants to manage their money better or to be able to attract higher paid work.

3.4 **Future Considerations**

The budget proposals for 2019-20 are set based on conditions known at this time. It should however be noted that as other priorities are developed which will impact on the proactive addition and enhancement to the housing stock, this will have an impact on the Housing Revenue Account budgets, these will be considered in conjunction with the HRA Business plan and the Council's capital strategy and will be brought back to this committee in due course as appropriate.

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 The Council, under the Local Government and Housing Act 1989 have a legal obligation to set a budget for the Housing Revenue Account..

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 Housing & Communities Manager 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

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

IMPACT

	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	Maintenance of stock within budget constraints
5	Robustness of stock condition survey
6	Increase in arrears following introduction of Universal Credit and the inability of tenants to 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, Deputy Chief Executive and the Director for Growth & 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 12 December 2018.

12.0 **WARDS AFFECTED**

12.1 All wards are affected.

Contact Officer:	Carol King
Date:	23 January 2019
Appendices:	Appendix A – HRA estimates
Background Papers:	Oracle Financial Reports HRA Budget Setting Working Papers
Reference:	X: Committees/Full Council/201819/13-2-19/HRA Revenue Budget Proposals 2019-20