

CABINET REPORT

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2010/11 and Budget Projections 2011/12 and 2012/13
---------------------	--

AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	24 th February 2010
Key Decision:	Yes
Listed on Forward Plan:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Finance and Support
Accountable Cabinet Member:	Cllr D Perkins
Ward(s)	N/a

1. Purpose

- 1.1 To recommend the HRA 2010/11 budget and the HRA forecasts for 2011/12 and 2012/13, rent increases and other charges for 2010/11 to Council on 25 February 2010 (summarised in **Annex 1**).
- 1.2 To provide a brief update on the ongoing work on the direction of the HRA.

2. Recommendations

- 2.1 That Cabinet recommend to Council to approve:
 - a) An average rent increase of 0.58% per dwelling, in line with the Government's rent restructuring regime, convergence in 2012/13, to take effect from 5 April 2010.
 - b) The Medium Term Planning Options and Efficiency Options at **Annex 3** and **4** respectively and the revised contributions to /from working balances;

- c) The HRA budget for 2010/11 set out in **Annex 1** and note the indicative budgets for 2011/12 and 2012/13;
 - d) That Sheltered Accommodation Warden charges (including Eleanore House) are frozen in line with the expected funding settlement from Northampton Supporting People (as shown in **Annex 2**);
 - e) That heating service charges are increased by 0.58% (as shown in **Annex 2**);
 - f) That garage charges are increased by 0.58% (as shown in **Annex 2**);
- 2.2 That the changes to the proposed budget (detailed at **Annex 5**), in light of the Governments Draft and then Final HRA Subsidy Determinations be agreed.
- 2.3 That the Cabinet acknowledges the issues and risks detailed in the Section 151 Officer's statement on the robustness of estimates and the adequacy of the reserves (**Annex 6**).
- 2.4 That authority be delegated to the Director of Finance and Support in consultation with the Portfolio Holder for Finance, and where appropriate the relevant Director and Portfolio Holder to:
- transfer monies from earmarked reserves should that become necessary during the financial year.
 - to update the budget tables and annexes, prior to Council should any further changes be necessary

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Housing Revenue Account (HRA) is a ring-fenced account that represents the costs of holding the Council housing stock. There are strict rules surrounding the costs and income that can be charged to this account. Much of the income and expenditure is dictated by legislation and regulation leaving the Council with direct control over a limited number of these budgets. Rental income, by far the largest single budget within the HRA, is calculated by applying the rent restructuring formula as defined by the Government.
- 3.1.2 The HRA Budget proposed for 2010/11 reflects the current service levels in the current service methods of delivery.
- 3.1.3 On 16th December 2009, Cabinet approved the Draft HRA Budget for consultation. Subsequent proposed adjustments to the Draft Budget are included at **Annex 5**.

3.2 Issues

Rents and Rent Restructuring

- 3.2.1 Rents within the HRA are currently being restructured in line with the Government Rent Restructuring formula. The intention of this restructuring is to have a consistent approach to rental charges across the whole of the Public Sector housing stock. The government has undertaken a fundamental review of rent restructuring and the entire subsidy regime over the last year as it recognised that the National HRA subsidy position is now in surplus and is not operating as originally intended. The outcome of this review has resulted in the Government intending to make an offer to HRA Local Authorities for buying out of the subsidy mechanism. This offer is due in Spring 2010 and will be the subject of a separate report.
- 3.2.2 The average rent increase and the methodology by which rents on individual properties move towards the calculated (formula) rent is determined by the Government Rent Restructuring formula, which is allocated for 2010/11 in line with the Government's Comprehensive Spending Review and disseminated through the HRA Subsidy Determination. The settlement for 2010/11 is for one year only and shortens the rent convergence period from 2023/24 to 2012/2013.
- 3.2.3 The percentage change in rental charges will vary from property to property depending on the formula rent calculation. It is proposed that the Council continues to follow the rent restructuring policies and adopts the revised convergence target date of 2012/13 specified in the Determination. This will result in an average rent increase of 0.58% for 2010/11.
- 3.2.4 Revised rents will take effect from 5th April 2010. The tables below show the range of rent increases for 2010/11 in percentage and pounds per week terms. The impact of the negative Retail Price Index used in the formula results in a quarter of the stock receiving a rent reduction.

Rent Increase/Decrease	No of Properties
Above 4%	0
3% to 4%	17
2% to 3%	856
1% to 2%	3,269
0% to 1%	4,964
-1% to 0%	2,477
-2% to -1%	402
-3% to -2%	158
Less than - 3%	78

Rent Increase / Decrease £/week	No of Properties
Between £2 & £3	2,554
Between £1 & £2	561
Between £0 & £1	5,991
Between -£1 & £0	2,753
Between -£2 & -£1	344
Less than -£2	18

Rent Rebate Subsidy Limitation

- 3.2.5 The Government set a 'limit rent' which defines the maximum amount of rent rise on which a Council receives rent rebate subsidy. This was colloquially known as the 'rent cap'. Until the introduction of rent restructuring in the 2001/02 financial year, Councils could raise rents by more than the level set by the Government, an approach adopted by Northampton, but would receive a financial penalty for doing so. This had an impact in the year of the rent rise and continues to have an impact on into future years.
- 3.2.6 By complying with rent restructuring, the rent levels within the subsidy calculation, the limit rent for rent rebate subsidy purposes, and the actual rent charged to tenants are all being brought into line.
- 3.2.7 Councils that raised rents by more than the amounts specified by the Government and benefited by doing so are now gradually seeing the corresponding benefit being removed through the rent restructuring process. This will continue to put additional increasing pressure on the HRA until the point at which all rents have been restructured.

HRA Subsidy

- 3.2.8 The subsidy budget is based on the Determination received from the Government. An analysis of the Determination indicates the following changes to the subsidy between 2009/10 and 2010/11. These are: -
- Management and Maintenance Allowances, which tend to decrease the amount of money paid to the Government. The calculation of these are formula based around types of properties and is intended to reflect the impact on HRA costs of different types of dwelling;
 - Notional income from rents, which tend to increase the amount of money paid to the Government. The calculation of this is formula based and forms part of the overall move to restructure rents towards a standard level for subsidy purposes and the actual rent charged to HRA tenants.
- 3.2.9 Also paid through the subsidy system is the Major Repairs Allowance, (MRA), which is used as part of the financing of the HRA capital programme.
- 3.2.10 The summary below shows the estimate for 2010/11 compared to 2009/10 revised.

	2009/10	2010/11	Changes in Subsidy
	£'000	£'000	£'000
Management and Maintenance	-20,555	-21,274	-719
Major Repairs Allowance	-7,956	-8,039	-83
Capital Charges	-1,277	-1,183	94
Interest on Receipts	3	1	-2
Notional Income for Rents	39,287	40,545	1,258
HRA Subsidy Entitlement	9,502	10,050	548

HRA Budget

3.2.11 The Housing Revenue Account budget includes the effect of rent and charges increases as recommended.

3.2.12 Summary draft budget figures are contained in Appendix A.

3.2.13 In addition, the Department of Communities and Local Government (CLG) has undertaken a review of HRA Subsidy and the HRA ring-fence. The results of this review are expected to be released in Spring 2010, the major change being the offer to buy out of the subsidy mechanism that could have a significant impact on future year budgets.

Un-pooling of service charges

3.2.14 The Government set a policy for social housing rents in the December 2000 policy statement, 'The Way Forward for Housing'. This policy included separating certain charges for service from the standard rent in order to make the charging policy to tenants clearer and fairer for the tenants of housing authorities. There are a number of these service charges that are still charged through rent including caretaking and cleaning. A further assessment of the effects of the un-pooling will be undertaken once the details of the Governments review are released. Un-pooling will be implemented at the optimum time, taking account of clarity of accountability and any logistical issues regarding implementation in-year, rather than at the start of a financial year and after consultation with stakeholders.

Housing Repairs Account

3.2.15 Housing Repairs Account is used to keep a separate record of income and expenditure relating to the repair and maintenance – but not the supervision and management – of an authority's HRA houses or other HRA property. It operates within the HRA ring-fence and, as such, no transfers can be made to or from any accounts other than the HRA. Other key points are:

- (i) the account must be kept in accordance with proper practices;
- (ii) the account must be kept to **avoid a debit balance** in any year;
- (iii) authorities may make **transfers** to the account from the HRA and, in practice, will need to do so to avoid a deficit. They may also transfer some or all of any balance from the account to the HRA;
- (iv) the account must cover the **whole** of an authority's HRA stock;
- (v) if the account is closed, any balance must be transferred to the HRA.

3.2.16 From 2006/07 Northampton has operated a Housing Repairs Account. The Housing Repairs Account is intended to equalise the effect to the HRA of Housing Repairs and can carry its own balance from one year to another.

Capital Programme

3.2.17 The HRA Capital Programme is subject to a separate report. The budget for 2010/11 includes £8.04m for the Major Repairs Allowance. This can only be used to finance HRA capital expenditure. It should be noted that the Revenue Contribution to Capital Expenditure (RCCE) has been removed from the 2010/11 and future years budgets, in line with the business plan, in order to ensure a sustainable revenue position in the medium term. The HRA capital programme has a direct impact on the revenue position of the HRA.

Expenditure for capital purposes and the effect on revenue expenditure continue to be considered together.

- 3.2.18 The Capital Programme includes sums for future Prudential Borrowing from 2010/11. The revenue costs of this borrowing are reflected in the Interest and Financing costs of the HRA below the Net cost of services.

Medium Term Planning (MTP) Position

- 3.2.19 The financial pressure on the HRA is increasing over time. This arises from a number of factors, the main ones being: -

- Rents pressure through the rent restructuring process;
- The sale of council houses through Right to Buy whereby, broadly speaking, the better quality housing stock will be sold; and
- Repairs costs through the pressure to meet and maintain the decent homes standard.

- 3.2.20 Other future options, including buying the HRA out of the subsidy regime, will be subject to detailed examination and consultation when details are released.

HRA Reserves

- 3.2.21 In previous years, Cabinet has approved the prudent set aside of funds into specific HRA Reserves to finance future capital programmes, a Leaseholder sinking fund or similar mechanism, and HRA PFI reserve. These reserves currently total £7m, £1m, and £275k respectively. The budget includes further contributions to earmarked reserves of £1m in 2010/11 and £400k in 2011/12. These reserves can be drawn down as required, to finance the future strategic requirements of the service, and will be subject to change depending on the approval of MTP options.

- 3.2.22 The level of general working balances estimated is within what is acceptable under the robustness of estimates assessment shown at **Annex 6**.

3.3 Choices (Options)

MTP Options

- 3.3.1 The Cabinet can suggest changes to the budget proposals subject to the advice of the Chief Financial Officer.
- 3.3.2 The Cabinet can identify service areas to be scrutinized prior to consideration and approval in February.
- 3.3.3 The MTP options are summarised at **Annex 3**. The Cabinet are invited to indicate if they wish any specific services to be considered for inclusion. These MTP options are included in the figures at **Annex 1**. Any MTP options not approved will increase budgeted reserves by that amount. All options have been subject to Equalities Impact Screening and Assessments where required.
-

4. Implications (including financial implications)

4.1 Policy

4.1.1 None

4.2 Resources and Risk

4.2.1 The HRA subsidy determination is for one year only, making forecasting forward difficult, especially in light of the Government's fundamental review of HRA Finance. The details behind the subsidy buy out offer are expected to be issued by the time of this meeting.

4.3 Legal

4.3.1 There are no specific legal issues arising from this report.

4.4 Equality

4.4.1 Equality and Diversity were considered as a part of the budget build process, and an equalities assessment will be completed as part of each medium term planning option submitted.

4.5 Consultees (Internal and External)

4.5.1 Internally, Heads of Service, Budget Managers and the Portfolio Holder have been consulted.

4.5.2 The HRA Capital programme has been consulted on as part of the General Fund and Capital programme consultation process. No consultation is required on rent setting or charges setting (as explained in the report, rents are set by the Government determination). However, the Council is required to consult on matters of Housing Management. Consultation on the Housing Asset Management Strategy and the wider Housing Strategy is currently underway, although this is not anticipated to affect the overall HRA budget.

4.5.3 As explained in the report, the Council is anticipating an offer from CLG on buying out of the Housing Subsidy system. Since acceptance of any offer would constitute a significant change on policy and is likely to substantially affect all tenants, there will be appropriate consultation on this in due course, given that the time to respond to CLG is likely to be limited.

4.5.4 Tenants are generally consulted on Housing matters through the Tenant Sounding Board.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Any discretionary proposals considered during the budget process will be assessed against the corporate priorities as set out in the Corporate Plan.

4.7 Other Implications

The Annexes are set out as follows:

1. Proposed Budget 2010/11 and Budget Projections 2011/12 - 2012/13
2. Other Charges - Current Charges and Proposed Charges.
3. MTP Options Summary
4. Efficiencies Options
5. Changes Since Draft Budget for Consultation -16 December 2009
6. Statement of Robustness of Estimates

5. Background Papers

- 5.1 CLG – Final HRA Subsidy Determination 2010/11
- 5.2 EIA documentation

Phil Morrison, Finance Manager, ext. 7187