



CABINET REPORT

Report Title	HRA Budget, Rent Setting 2009/10 and Budget Projections 2010/11 and 2011/12
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	19 th February 2009
Key Decision:	Yes
Listed on Forward Plan:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Governance and Improvement
Accountable Cabinet Member:	Malcolm Mildren
Ward(s)	N/a

1. Purpose

- 1.1 To consider and approve the overall HRA budgets for 2009/10 and the forecasts for 2010/11 and 2011/12, (summarised in **Annex A** and detailed in **Annex B**).
- 1.2 To approve the HRA Rent increases and other charges, (**Annex C**), for 2009/10
- 1.3 To consider and approve the Medium Term Planning Options submitted, (listed in **Annex D**).
- 1.4 To provide and 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 5.65% per dwelling per week, in line with the Government's rent restructuring regime, convergence in 2023/24, to take effect from 1 April 2009.
- b) The Medium Term Planning options at **Annex D** and the revised contributions to /from working balances;
- c) The HRA budget for 2009/10 set out in **Annex A** and note the indicative budgets for 2010/11 and 2011/12;
- d) That Warden and Call Care charges (including Eleanore House) are increased by 2% in line with Northampton Supporting People (as shown in **Annex C**);
- e) That heating service charges are increased by 5.00% (as shown in **Annex C**);
- f) That garage charges are increased by 5.00% (as shown in **Annex C**);

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 2009/10 reflects the current service levels in the current service methods of delivery. The budgets are likely to be reworked early in the new financial year to reflect the outcomes of the Housing Asset Management Strategy review, the HRA Business Plan and the restructure of the Housing Service.

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 is due to be published in late spring of 2009.

- 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 2009/10 in line with the Government's Comprehensive Spending Review and disseminated through the HRA subsidy determination. The settlement for 2009/10 is for two years only and extends the rent convergence path out from the original target of 2011/12 to 2023/24 in an attempt to negate the need for larger rent increases to achieve convergence.
- 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 2023/24 specified in the Determination. This will result in an average rent increase of 5.65% for 2009/10.
- 3.2.4 Revised rents will take effect from 1st April 2009. The tables below show the range of rent increases for 2009/10 in percentage and pounds per week terms.

Rent Increase	No of Properties
Above 8%	0
7% to 8%	1
6% to 7%	1087
5% to 6%	10,918
3% to 5%	216
Less than 3%	0

Rent Increase £/week	No of Properties
Between £5 - £6	33
Between £4 - £5	3,302
Between £3 - £4	8,166
Between £2 - £3	721
Less than £2	0

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 2008/09 and 2009/10. 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 2009/10 compared to 2008/09.

	2008/09	2009/10	Changes in Subsidy
	£'000	£'000	£'000
Management and Maintenance	-20,270	-20,555	-285
Major Repairs Allowance	-7,831	-7,956	-125
Capital Charges	-1,245	-1,277	-32
Interest on Receipts	4	3	-1
Notional Income for Rents	38,335	40,468	2,133
HRA Subsidy Entitlement	8,993	10,683	1,690

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 Annex A.

3.2.13 The incidence of charges between the HRA and the General Fund is under continual review and there may be some effects to budgets arising from this, which will impact in future years.

3.2.14 In addition, the CLG has undertaken a review of HRA Subsidy and the HRA ring-fence. The results of this review are expected to be released early in the new financial year and 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. Work is continuing to assess the effects of the un-pooling, and un-pooling will be implemented as soon as possible, taking account of clarity of accountability and any logistical issues regarding implementation in-year, rather than at the start of a financial year.

Housing Repairs Account

3.2.15 A 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 2009/10 includes £7.96m 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 2009/10 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.

MTFP Position

3.2.18 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.

3.2.19 A Cabinet Advisory Panel on Housing Options is considering the results of the HRA financial modelling and Housing Asset Management Strategy.

3.2.20 Other future options, including buying the HRA out of the subsidy regime, will be considered when appropriate.

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 and a Leaseholder sinking fund or similar mechanism. These reserves currently total £5m and £1m respectively. The budget includes further contributions to earmarked reserves of £2.5m in 2009/10, £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.

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 Three MTP options are summarised at **Annex D**. The Cabinet are invited to indicate if they wish any specific services to be considered for inclusion. These MTP options have not been included in the figures at **Annex A**. If approved, the contribution to working balances would decrease by £260,000 for 2009/10 from £6.3m to £6.1m.

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 two years only, making forecasting forward difficult, especially in light of the Government's fundamental review of the rent restructuring policy and subsidy regime. Further information about this review is expected to be published in late spring 2009.

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, Corporate Managers, Budget Managers and the Portfolio Holder have been consulted.

4.5.2 NBC Overview and Scrutiny has been consulted on the HRA budget. The notes are attached at Annex E.

4.5.3 Tenants will be consulted 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:

- A. Proposed Budget 2009/10 and Budget Projections 2010/11 - 2011/12
- B. Summary and Detailed Service Budgets - HRA
- C. Other Charges Current charges and Proposed Charges.
- D. MTP Options Summary

5. Background Papers

5.1 CLG – Final HRA Subsidy Determination 2009/10

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