



CABINET REPORT

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| Report Title | Housing Revenue Account (HRA) Budget, Rent Setting 2012/13 and Budget Projections 2013/14 and 2014/15 |
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AGENDA STATUS: PUBLIC

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|------------------------------------|---------------------|
| Cabinet Meeting Date: | 22 February 2012 |
| Key Decision: | Yes |
| Listed on Forward Plan: | Yes |
| Within Policy: | Yes |
| Policy Document: | No |
| Directorate: | Finance and Support |
| Accountable Cabinet Member: | Cllr A Bottwood |
| Ward(s) | N/a |

1. Purpose

- 1.1 To recommend the HRA 2012/13 budget and the HRA forecasts for 2013/14 and 2014/15, rent increases, de-pooled service charges and other charges for 2012/13 to Council on 29 February 2012 (summarised in **Appendix 4**).
- 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 6.79% per dwelling, in line with the Government's rent restructuring regime, convergence in 2015/16, to take effect from 2 April 2012.
 - b) The de-pooled service charges listed in **Appendix 6**.

- c) The increase in existing service charges listed in **Appendix 6**, which includes Sheltered Accommodation Warden charges (including Eleonore House), Heating service charges, garage charges and Brookside Meadows service charges.
- 2.2 That the feedback from the Overview and Scrutiny Committee be considered and welcomed (detailed at **Appendix 1**).
- 2.3 That the Council's representations on the draft HRA Self-financing determination be noted (**Appendix 2**).
- 2.4 That the changes to the proposed budget (detailed at **Appendix 3**), in light of the consultation responses, equalities issues and the Governments Draft then Final HRA Self-financing Determinations be agreed.
- 2.5 That the HRA budget for 2012/13 of £50.2m expenditure (including options) be recommended to the Council (detailed in **Appendix 4**) for its own purposes.
- 2.6 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 (**Appendix 7**).
- 2.7 That Council be recommended to delegate authority to the Chief Executive and Director of Finance and Support to implement all budget options and restructures.
- 2.8 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.
 - update the budget tables and Appendices, prior to Council should any further changes be necessary
 - update prudential indicators in both the Prudential Indicators report and Treasury Strategy report, prior to Council for any budget changes that impact on these.
- 2.9 That the Council be recommended to confirm the reserves strategy of protecting balances wherever possible to allow the option of supporting future years budgets, aiming for a minimum level of unallocated HRA reserves of £5.0m at the end of 2012/13 having regard to the outcome of the financial risk assessment and remaining at this level over the medium term and in line with the 30 year Business Plan.

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 2012/13 reflects the changes in Housing Finance legislation from the 1 April 2012, (i.e. the abolition of the HRA subsidy system and the introduction of Self-financing), current service levels in the current service methods of delivery.
- 3.1.3 On 22 December 2011, Cabinet approved the Draft HRA Budget for consultation. A schedule of all changes since this meeting is included at **Appendix 3** and discussed below in paragraph 3.2.2 to 3.2.6 below.

3.2 Issues

Draft budget Position – Cabinet 21 December 2011

- 3.2.1 Cabinet met on the 21 December 2011 and recommended proposals for consultation. The headlines were:
- a) Proposing rent increase in line with government rent restructuring policy of 6.79%
 - b) A HRA budget for 2012/13 of £49.6m expenditure plus £575k medium term planning options.
 - c) The abolition of the HRA subsidy system to be replaced by the Self-financing HRA taking on a one off debt figure for the housing stock.

Draft Budget Position - Cabinet 22 February 2012

- 3.2.2 Further work on the HRA budget has been undertaken to refine the estimates since 21 December 2011 in light of the final HRA Self-financing determination issued by government and the decision to de-pool service charges. This has resulted in a number of adjustments of a technical nature which impact on the draft budget since 21 December.

Housing Stock Transfer Programme

- 3.2.3 The administrations manifesto included:

“Consulting with tenants regarding a large scale stock transfer to using associations”

Therefore the exploration of a possible stock transfer or alternative has been included as a MTP Option and will be a key programme of work beginning in 2012/13. A programme team will be established to take this work forward. It will require internal and external resource and a sum of £1m has been set-aside for 2012/13 as part of the medium term planning process.

- 3.2.4 This work will examine under the Self-financing regulations the options open to the Council and tenants on the housing stock to ensure that the most beneficial strategy is pursued to ensure future sustainability. The development of the options and outcome/s of the stock option appraisal will be subject to appropriate consultation with tenants.
- 3.2.5 A schedule of all changes since the 21 December 2011 proposals is shown at **Appendix 3**. Since the draft budget was proposed the summary HRA position for 2012/13 has changed as follows:

| | £ |
|--|-------------------|
| Contribution to (from) reserves 21 Dec Report | 1,691,126 |
| Income Dwelling Rents | 970,400 |
| Income De-pooled Service Charges | -970,400 |
| HRA Subsidy | -14,626,000 |
| Interest and Financing costs | 5,955,402 |
| Voluntary Debt Repayment | 8,197,624 |
| MTP Options | 1,000,000 |
| RCCO | 3,147,500 |
| Depreciation/ MRA | 16,600 |
| Contribution to (from) reserves 22 Feb Report | -2,000,000 |

- 3.2.6 The introduction of Self-financing has produced the biggest technical adjustments namely the removal of the HRA Subsidy and take on of debt, resulting in increases in Interest and financing costs and the introduction of a voluntary debt repayment budget.

Rents and Rent Restructuring

- 3.2.7 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.
- 3.2.8 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 2012/13 in line with the Government's Comprehensive Spending Review and disseminated through the HRA Self-Financing Determination. The determination for rents restructuring for 2012/13 is for one year only) and leaves the convergence date at the same year 2015/16.
- 3.2.9 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 along with the current convergence target date of 2015/16 specified in the Self-financing Determination. This will result in an average rent increase of 6.79% for 2012/13.

3.2.10 Revised rents will take effect from 2 April 2012. The tables below show the range of rent increases for 2012/13 in percentage and pounds per week terms.

| Rent Increase/Decrease | No of Properties |
|--|-------------------------|
| Above 9% | 3 |
| 8% to 9% | 210 |
| 7% to 8% | 3315 |
| 6% to 7% | 8068 |
| 5% to 6% | 474 |
| 4% to 5% | 22 |
| Rent Increase / Decrease £/week | No of Properties |
| Between £7 & £8 | 664 |
| Between £6 & £7 | 4448 |
| Between £5 & £6 | 6114 |
| Between £4 & £5 | 783 |
| Between £3 & £4 | 83 |

De-pooling Service Charges

3.2.11 The rent tenants pay currently covers the costs of all services provided. For example all tenants pay towards the cost of cleaning the communal areas of flats. Tenants pay whether or not they receive such a service. From the 2 April 2012 these charges will be separated out enabling tenants to identify the costs of the service they receive. At the point of de-pooling those dwellings in receipt of the de-pooled service will receive a corresponding reduction in the rent. There is therefore no additional increase in income resulting from de-pooling in the first year. There will be an increase in income to the HRA in subsequent years due to the rent restructuring process. The Cabinet report De-pooling of Council Rents 14 December 2011 provides more background. Cabinet agreed to de-pool service charges from rents from the 2 April 2012 after consulting tenants.

3.2.12 The services de-pooled are Caretaking, CCTV, communal Electricity, (for lighting, security doors), and Grounds Maintenance and is applied to those dwellings that have shared communal services. Approximately 42% of the housing stock has shared communal services.

3.2.13 The de-pooled service charges are listed within the schedule at **Appendix 6**. The listing shows the lowest and highest charges for Caretaking and Electricity communal to show difference in charge reflecting the level of service received. The CCTV and Grounds Maintenance services are standard across dwellings in receipt of the service and therefore attract one standard charge.

3.2.14 As part of the rent restructuring process there is a formula applied to increase the cost of these de-pooled service charges of RPI (for September of each year) plus 0.5%, subject to the Council not over recovering the costs of providing these services.

Rent Rebate Subsidy Limitation

- 3.2.15 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.
- 3.2.16 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.
- 3.2.17 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/ Self-financing

- 3.2.18 From 1 April 2012 the HRA Subsidy system is abolished and in its place the HRA Self-financing is introduced. This means that the HRA no longer has to pay rents over to the Government but has to instead finance the debt taken on through the introduction of Self-financing of £192.9m. The Cabinet report Draft Response to the Consultation on Self-financing in the Housing Revenue Account 14 December 2011 meeting provides the detailed background to Self-financing. The move to Self-financing HRA's is laid down in the Localism Act which received Royal assent in January 2012.

HRA Budget

- 3.2.19 The Housing Revenue Account budget includes the effect of proposed rent increases, de-pooling service charges and charge increases as recommended. The budget also includes the changes brought about by the Governments fundamental review of housing finance with the abolition of HRA Subsidy and introduction of Self-financing.
- 3.2.20 Summary draft budget figures are contained in **Appendix 4**.

Housing Repairs Account

- 3.2.21 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.

3.2.22 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

3.2.23 The HRA Capital Programme is subject to a separate report Capital Programme 2012-13 to 2014-15. The budget for 2012/13 includes £8.246m for the Depreciation/Major Repairs Allowance. This can only be used to finance HRA capital expenditure. 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 under Self-financing to be considered together.

3.2.24 The Capital Programme includes sums for the Self-financing take on debt and allows for future Prudential Borrowing from 2012/13. The revenue costs of the borrowing under Self-financing are reflected in the Interest and Financing costs of the HRA below the Net cost of services.

Medium Term Planning (MTP) Position

3.2.25 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.

3.2.26 The Council will be conducting a full stock option appraisal as reported in paragraph 3.2.3 above.

HRA Reserves

3.2.27 In previous years, Cabinet has approved the prudent set aside of funds into specific HRA Reserves to finance future capital programmes, a Leaseholder reserve, a Service Improvement reserve, a HRA Reform reserve and a Supporting People reserve. These reserves at 1 April 2011 currently total £12.86m, £1m, £880k, £2m and £500k respectively. 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 and future funding requirements under the Self-financing regime.

3.2.28 The level of general working balances estimated at £5m for the end of 2012/13 is within what is acceptable under the robustness of estimates assessment shown at **Appendix 7**.

3.3 Choices (Options)

MTP Options

- 3.3.1 The Cabinet can suggest changes to the budget proposals and adjust the budget proposals accordingly in consultation with the Chief Financial Officer. It would then recommend the amended budget and rents (if applicable) to Council.
- 3.3.2 The MTP options are summarised at **Appendix 5**. The Cabinet are invited to indicate if they wish any specific services to be considered for inclusion. These MTP options are included in the summary budget figures at **Appendix 4**. 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 Self-financing determination sees the end of the HRA subsidy mechanism, and the focus on long term business planning. With it comes initially high level of debt and increased treasury management risks with the onus on the Council to ensure long-term viability of the HRA. In addition to this the Council bears the interest and inflation risks
- 4.2.2 **Appendix 7** addresses the robustness of estimates and adequacy of the Council's reserves with reference to risks identified.

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 has been 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.

4.5.3 Tenants were consulted on de-pooling of services charges at area tenant panels in September 2011, and further consultation meetings in November 2011. In addition to this all tenants were consulted individually via a consultation booklet with a questionnaire seeking their views. The December De-pooling report provides more details.

4.5.4 Tenants are generally consulted on Housing matters through the Tenant Sounding Board. The quarterly area based tenant meeting of 21 November 2011 gave an overview of the HRA Rent Setting and HRA Self-financing. Tenants were invited to provide feedback on capital work priorities.

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

4.7.1 The Appendices are set out as follows:

1. Consultation responses – Overview and Scrutiny
2. Council's representations on the draft HRA Self –financing Determinations
3. Changes to draft HRA budget since 21 December Cabinet
4. Proposed HRA Budget 2012/13 and forecasts for 2013/14 and 14/15
5. Schedule of HRA Budget Options 2012/13 – 2014/15
6. Schedule of Existing and De-pooled Service charges
7. Robustness of Estimates - Statement of the Section 151 officer under the requirements of section 25 of the Local government Act 2003

5. Background Papers

5.1 Cabinet Reports:

- De-pooling Of Council Rents 14 December 2011
- Draft response to the Consultation on Self-financing in the Housing Revenue Account
- Draft Budget 2012-15 21 December 2011
- HRA Business Plan 18 January 2012
- Capital Programme 2012-13 To 2014-15

5.2 Equality Impact Assessments (NBC Internet website)

5.3 External documents:

- CLG – Draft HRA Self-financing Determinations 2012/13
- CLG – Final HRA Self-financing Determinations 2012/13
- Equalities and Human Rights Commission – The Public Sector Equality Duties and Financial Decisions

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