



CABINET REPORT

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| Report Title | Housing Revenue Account (HRA) Budget, Rent Setting 2013/14 and Budget Projections 2014/15 and 2015/16 |
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AGENDA STATUS: PUBLIC

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|------------------------------------|---------------------|
| Cabinet Meeting Date: | 20 February 2013 |
| 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 2013/14 budget and the HRA forecasts for 2014/15 and 2015/16, rent increases, service charges and other charges for 2013/14 to Council on 25 February 2013 (summarised in **Appendix 3**).
- 1.2 To provide a brief update on the on-going work on the direction of the HRA.

2. Recommendations

- 2.1 That Cabinet recommend to Council to approve:
 - a) An average rent increase of 4.41% per dwelling, in line with the Government's rent restructuring policy, convergence in 2015/16, to take effect from 1 April 2013.
 - b) The proposed service charges listed in **Appendix 5**

- 2.2 That the feedback from the Overview and Scrutiny Committee be considered and welcomed (detailed at **Appendix 1**).
- 2.3 That the HRA budget for 2013/14 of £53.4m expenditure (including options) be recommended to the Council (detailed in **Appendix 3**) for its own purposes.
- 2.4 That the Cabinet acknowledges the issues and risks detailed in the Chief Finance Officer's statement on the robustness of estimates and the adequacy of the reserves (**Appendix 6**).
- 2.5 That Council be recommended to delegate authority to the Chief Executive and Chief Finance Officer to implement all budget options and restructures.
- 2.6 **That authority be delegated to the Chief Finance Officer** 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.
- 2.7 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 2013/14 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 still calculated by applying the rent restructuring formula as defined by the Government.
- 3.1.2 The HRA Budget proposed for 2013/14 reflects the current service levels and the current methods of service delivery, plus some proposals for some specific changes Medium Term Planning (MTP) options detailed in **Appendix 4**.
- 3.1.3 On 19 December 2012, Cabinet approved the Draft HRA Budget for consultation. A schedule of all changes since this meeting is included at **Appendix 2** and discussed below in paragraph 3.2.2 to 3.2.6 below.

3.2 Issues

Draft budget Position – Cabinet 19 December 2012

- 3.2.1 Cabinet met on the 19 December 2012 and recommended proposals for consultation. The headlines were:

- a) Proposing rent increase in line with government rent restructuring policy of 4.41%
- b) A HRA budget for 2013/14 of £51.99m expenditure plus medium term planning options totalling a net cost of £356k.

Draft Budget Position - Cabinet 20 February 2013

3.2.2 Further work on the HRA budget has been undertaken to refine the estimates since 19 December 2012, taking into account any feedback from the budget consultation period from the 19 December 2012 to the 31 January 2013. This has resulted in a number of adjustments, some of a technical, nature which impact on the draft budget since 19 December.

3.2.4 A schedule of all changes since the 19 December 2012 proposals is shown at **Appendix 2**. Since the draft budget was proposed the summary HRA position for 2013/14 has changed as follows:

| | £ |
|--|------------------|
| Contribution to (from) reserves 19 Dec Report | 9,534,700 |
| Income Dwelling Rents | (1,010,000) |
| Income Service Charges | (30,900) |
| Rent Rebate Subsidy Limitation | 71,000 |
| Net recharges | (74,800) |
| Depreciation/ MRA | 3,364,900 |
| Contribution from reserves | (2,320,200) |
| Contribution to (from) reserves 20 Feb Report | 7,214,500 |

Rents and Rent Restructuring

3.2.5 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, including that held by Housing Associations.

3.2.6 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

3.2.7 The percentage change in rental charges will vary from property to property depending on the formula rent calculation. The draft budget assumes that the Council will continue to apply the rent restructuring policy with the convergence target date of 2015/16. This will result in an average rent increase of 4.41% for 2013/14.

3.2.8 Revised rents will take effect from 1 April 2013. The table below shows the range of rent increases for 2013/14 in percentage and pounds per week terms.

| Rent Increase/Decrease | No of Properties |
|-------------------------------|-------------------------|
| Above 7% | 174 |
| 6% to 7% | 1,563 |
| 5% to 6% | 2,028 |
| 4% to 5% | 3,053 |
| 3% to 4% | 5,035 |
| Under 3% | 197 |

| Rent Increase / Decrease £/week | No of Properties |
|---------------------------------|------------------|
| Between £6 & £7 | 16 |
| Between £5 & £6 | 1,005 |
| Between £4 & £5 | 7,874 |
| Between £3 & £4 | 3,150 |
| Between £2 & £3 | 5 |

Rent Rebate Subsidy Limitation

- 3.2.13 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.
- 3.2.14 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.
- 3.2.15 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 pressure on the HRA until the point at which all rents have been restructured or the Governments national rent policy changes.

HRA Subsidy/ Self-financing

- 3.2.16 From 1 April 2012 the HRA Subsidy system was abolished and replaced by the Self-financing HRA. 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 move to Self-financing HRA's was laid down in the Localism Act which received Royal assent in January 2012.

HRA Budget

- 3.2.17 The Housing Revenue Account budget includes the effect of proposed rent increases, and service charge increases.
- 3.2.18 Summary draft budget figures are contained in **Appendix 3**.

Housing Repairs Account

- 3.2.19 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.

3.2.20 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

3.2.21 The HRA Capital Programme is subject to a separate report Capital Programme 2013-14 to 2015-16. The budget for 2013/14 includes 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.

3.2.22 The Capital Programme includes sums for the debt taken on under Self-financing and allows for future Prudential Borrowing from 2013/14. 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

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

- The sale of council houses through Right to Buy whereby, broadly speaking, the better quality housing stock will be sold and the Council will lose some of its revenue stream and contribution to overheads; and
- Increasing Repairs costs through the pressure to meet and maintain the decent homes standard and increasing expectations of tenants.

3.2.24 The Council is currently conducting a full stock option appraisal.

HRA Reserves

3.2.25 In previous years, Cabinet has approved the prudent set aside of funds into specific HRA Reserves to finance future HRA expenditure including capital financing, a Leaseholder reserve, a Service Improvement reserve, a Debt reserve to set aside an allowance for future debt repayment, and a Supporting People reserve. These reserves at 1 April 2012 currently totalled £2.6m, £0.17m, £1k, £2m, and £0.56m 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 HRA .

3.2.26 The level of general working balances estimated at £5m for the end of 2013/14 is within what is acceptable under the robustness of estimates assessment shown at **Appendix 6**.

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 4**. 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 3**. Any

MTP options not approved will increase/decrease 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 regime has moved the focus of HRA financial planning towards long term business planning. With it comes initially high level of debt and increased treasury management and other 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 6** 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 are generally consulted on Housing matters through the Tenant Sounding Board. The quarterly area based tenant meeting of 11 February 2013 gave an overview of the HRA Rent Setting process. 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. Changes to draft HRA budget since 19 December Cabinet
3. Proposed HRA Budget 2013/14 and forecasts for 2014/15 and 15/16
4. Schedule of HRA Budget Options 2013/14 – 2015/16
5. Schedule of Service charges
6. 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:

- Draft Budget 2013-16 19 December 2012
- HRA Business Plan 18 January 2012
- Capital Programme 2013-14 To 2015-16

5.2 Equality Impact Assessments (NBC Internet website)

5.3 External documents:

- CLG – Letter informing of Weekly Limit Rent for Local Authorities
- Equalities and Human Rights Commission – The Public Sector Equality Duties and Financial Decisions

Phil Morrison, Assistant Head of Finance, ext. 7194
Isabell Procter, Director of Finance & Support, ext 8757