REDDITCH BOROUGH COUNCIL

EXECUTIVE COMMITTEE

12th January 2016

HOUSING REVENUE ACCOUNT INITIAL BUDGET 2016/17

Relevant Portfolio Holder	Councillor Mark Shurmer, Portfolio Holder for Housing
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering, Director Finance & Resources Liz Tompkin, Head of Housing
Wards Affected	All Wards
Ward Councillor Consulted	N/A
Key Decision	

1. SUMMARY OF PROPOSALS

To present Members with the Initial Budget for the Housing Revenue Account and the proposed dwelling rents for 2016/2017.

2. RECOMMENDATIONS

The Committee is asked to RECOMMEND that

1) **the draft 2016/2017 Budget for the Housing Revenue Account attached to the report at Appendix A, be approved;**

2) **the four year budget projections 2016/17 to 2019/20, incorporating the 1% rent reduction, be noted and that officers be instructed to explore ways of balancing the HRA in 2019/20 including rental income from new housing stock and reviewing service charges;**

3) **the actual average rent decrease for 2016/2017 be 1% (as per the Welfare Reform and Work Bill 2015-16);**

4) **the capital programme for new housing stock be increased from £0.500 million to £1.052 million in 2016/17 and a programme of £1.064m be created in 2017/18 to ensure that all capital receipts retained under the one for one replacement scheme are applied before the deadline; and**

5) **that £2.182 million be transferred to the capital reserve in 2016/17 to fund the future Capital Programme and/or repay borrowing.**

3. KEY ISSUES

Financial Implications

3.1 This report only considers those items included in the Housing Revenue Account (HRA). General Fund items will be considered separately when setting the Council Tax.

3.2 The rent increase that would have applied in 2016/17, if it were not for the Welfare Reform and Work Bill, would have been 0.9%, the September CPI being -0.1%. In 2016/17 there is a loss of rent income of £0.451 million compared with the HRA Business Plan model (rents going down by 1% rather than increased by 0.9%). For 2017/18 to 2020/21 it was anticipated that the rent increase would have been 2.5% so a 1% rent reduction equates to a 3.5% loss of rent income. Over a 30 year period the loss of rent income is estimated at £120.873 million. This will have a significant negative impact on the HRA Business Plan. The rent income lost is almost the same as the £122.158 million debt.

3.3 The system of housing revenue account subsidy ceased on the 31st March 2012 and was replaced with a devolved system of council housing finance called self-financing. The proposal in the form of a financial settlement meant a redistribution of the ‘national’ housing debt. This resulted in the Council borrowing £98.929 million from the PWLB.

3.4 Self-financing has placed a limit (Debt Cap) on borrowing for housing purposes at the closing position for 2011/12. This is set at £122.158 million. The figures at Appendix A allow for the payment of interest on this sum. This means that all future capital programmes will have to be funded from major repairs allowance, revenue contributions, capital receipts or grants.

3.5 In May 2014 the Government produced a paper on Guidance on Rents for Social Housing and from 2015/16 rents in the social sector were to increase annually by CPI plus 1% for 10 years.

3.6 Government policy has subsequently changed and from 1st April 2016, as per the Welfare Reform and Work Bill, rents within the social housing sector are to be decreased by 1% each year for the next 4 years. This decrease is to take place on the 1st April for 2016, 2017, 2018 and 2019.
<Committee Stage: House of Lords 07/12/2015>

3.7 There has also been an increased number of right to buys reducing rent income to the HRA. The overall impact is that the over the next 4 years the contribution to the capital reserve for capital investment/debt repayment will reduce from £3.000 million in 2015/16 to £2.182 million (2016/17), £0.886m (2017/18). £0.139 million (2018/19) and zero in 2019/20. By 2019/20 the HRA will need to find savings or additional income of £0.610m to balance the account. It is unlikely that the Council will be in a position to repay the debt within the 30 year plan but it will have the base budget to pay for the interest.

3.8 Representations have been made by the Council to the Minister of State for Housing and Planning seeking a recalculation of the debt calculation taking account of the 1% rent reduction. A response is awaited at the time of writing this report.

2016/17

3.9 This section of the report outlines the major issues which have an impact upon the Housing Revenue Account budget setting process for 2016/17.

3.10 Based on the proposed legislative changes the actual average rent decrease for 2016/17 will be 1%. The average rent on a 52 week basis will be £79.42 or £86.04 on a 48 week basis. This compares to the actual average for 2015/16 on a 52 week basis of £80.23 and £86.91 on a 48 week basis. See Appendix B for examples of rent by property type.

3.11 The impact of the 1% rent reduction over four years has a significant negative impact on the HRA. For this reason the HRA projected budget for the four years 2016/17 to 2019/20 has been included in Appendix A. This identifies that by the fourth year savings or additional income of £0.610m will be required to balance the account.

3.12 New housing stock through the right to buy one for one replacement scheme will help balance the account and work is currently being undertaken to explore the extent that this can be maximised.

3.13 The introduction/extension of services charges may also provide an opportunity to increase income to the HRA. If this is an existing service current tenants would be protected until there is a change in tenancy.

Capital Resources

3.14 From the 1st April 2004 capital receipts from the sale of housing land and dwellings have been subject to pooling, (75% of Right to Buy (RTB) receipts have to be paid to the Government for redistribution).

3.15 In April 2013 the Government gave local authorities the option to retain these receipts in agreement that they would be used to replace the sales with either new build, buy back of properties or purchase on the open market (new stock). In the case where these receipts are not used then the Council will have to pay a back the capital receipts to the Government together with interest at 4% above base rate. Redditch has opted to retain the receipts.

3.16 Officers have estimated that in the short term the number of RTB sales for this Council will be around 40 per annum, generating around £0.400 million towards replacement stock. As at 31st March 2015 £0.785 million capital receipts were held to fund new housing stock providing a maximum of 30% of the funding. This will require a total capital programme of £2.616m with the balance of the funding (£1.831 million) coming from the capital reserve. £1.552m of the £2.616m needs to be spent by 31st March 2017 and £1.064 million during 2017/18 to avoid the capital receipts being repaid to the Government plus penalty interest. There is an approved programme of £0.500 million in 2016/17 and 2017/18 making a total of £1.000 million programme. Approval is therefore sought to increase the 2016/17 capital programme for new stock to £1.052 million and create a programme in 2017/18 of £1.064 million. The funding being as follows:-

£m	Capital Receipts	Capital reserve	Total
2015/16 (as approved)	0.150	0.350	0.500
2016/17	0.316	0.736	1.052
2017/18	0.319	0.745	1.064
TOTAL	0.785	1.831	2.616

3.17 The introduction of the Major Repairs Allowance from April 2001 provided the Council with additional capital resources. Following the introduction of self-financing the Council is able to continue to use this amount for a transitional period of 5 years. The figure has been adjusted for the reduction in stock and uplifted by CPI in line with the rents. The figure for 2016/17 is £5.892 million.

3.18 The transitional period for the Major Repairs Allowance expires at the end of 2016/17 and it will be replaced from 2017/18 by component depreciation. Component depreciation is similar to a sinking fund where money is set aside annually so that there is enough to replace key components when required. The key components being bathroom, kitchen, roof, wiring, boiler, central heating system, windows and structure. An exercise has been undertaken to calculate the potential impact of component depreciation and it is estimated that it will increase the cost, compared with major repairs allowance, by £0.570 million. However, this should ensure that sufficient resources are then set aside to meet future investment requirements. The cost is built into the four year projection attached as Appendix A.

Housing Repairs Account

3.19 The budgeted contribution to the Housing Repairs Account as shown at Appendix A is £4.779 million for 2016/17, including inflationary increases where appropriate.

Right to Buy Scheme – Rent Income

3.20 In 2014/15 41 council homes were sold, from 1st April 2015 to 7th December 2015 31 council homes have been sold. The budget and four year forecast assumes 40 right to buys per annum and this equates to a rent loss of £0.168 million per annum. Over four years the rent loss totals nearly £0.700 million.

Housing Revenue Account Balances

3.21 The Section 151 Officer has previously advised Members on the minimum level of revenue balances to be maintained in lieu of unforeseen events affecting the Housing Revenue Account and the Council's housing stock. Members have previously approved the retention of a minimum balance of £0.600 million.

3.22 The figures shown in Appendix A indicate that the estimated balances will be £0.903m throughout the four year plan.

Legal Implications

3.23 Section 76 of the Local Government and Housing Act 1989 requires that the Council sets its budget relating to the Housing Revenue Account such that the account does not plan to be in a deficit position.

3.24 Section 21 of the Welfare and Reform Bill part 1 requires 'In relation to each relevant year, registered providers of social housing must secure that the amount of rent payable in respect of that relevant year by a tenant of their social housing in England is at least 1% less than the amount of rent that was payable by the tenant in respect of the preceding 12 months.' [*Note: This Bill has not yet been approved we will need to seek clarification if it is not enacted by the date the report is despatched*]

Service/Operational Implications

3.25 The Council needs to approve the rents in a timely manner in order to allow officer time to notify the tenants of the annual rent increase. Tenants must have 28 calendar days' notice of any change to their rent charge.

Customer/Equalities and Diversity Implications

3.26 The rent decrease will be applied by the same percentage regardless of property size. The 2016/17 Budget provides for continuity of existing services but the four year forecast estimates that base budget savings/additional income of £0.610m will be required by 2019/20. The equality and diversity implications of the changes will be evaluated and considered as part of the decision making process.

4. RISK MANAGEMENT

4.1 There is a risk to the HRA Capital Programme if sufficient resources do not exist within the Housing Revenue Account to provide funding now that the Council is unable to borrow to fund the housing capital programme. This risk reduces with the introduction of component depreciation and changes to the estimated life of components prove inaccurate

4.2 The risk continues to be recorded in the Risk Register for the Council.

5. APPENDICES

Appendix A – Housing Revenue Account Budget 2016/17
Appendix B – Examples of rent by property type

6. BACKGROUND PAPERS

None.

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