

# **EXECUTIVE COMMITTEE**

17<sup>th</sup> January 2017

## **[HOUSING REVENUE ACCOUNT BUDGET 2017/18 to 2019/20]**

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 2017/2018.

### **2. RECOMMENDATIONS**

**The Committee is asked to RECOMMEND that**

- 1) the draft 2017/2018 Budget for the Housing Revenue Account attached to the report at Appendix A, be approved;**
- 2) the three year budget projections 2017/18 to 2019/20, incorporating the 1% rent reduction be approved;**
- 3) the actual average rent decrease for 2017/2018 be 1%**
- 4) that £780,614 be transferred to the capital reserve in 2017/18 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 2017/18, if it were not for the Welfare Reform and Work Bill, would have been 2 %, the September CPI being 1%. In 2017/18 there is a loss of rent income of

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£1.26 million compared with the HRA Business Plan model (rents going down by 1% rather than increased by 2%). 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.
- 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 1<sup>st</sup> 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 1<sup>st</sup> April for 2016, 2017, 2018 and 2019. This will be the second year of a 1% rent reduction.
- 3.7 There has also been an increased number of right to buys reducing rent income to the HRA. The overall impact is that 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 £2.35 million (2016/17), £0.78m (2017/18). Then zero in (2018/19). By 2018/19 the HRA will need to find savings or additional income of £0.240m 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.

2017/18

- 3.9 This section of the report outlines the major issues which have an impact upon the Housing Revenue Account budget setting process for 2017/18.
- 3.10 Based on the proposed legislative changes the actual average rent decrease for 2017/18 will be 1%. The average rent on a 52 week basis will be £78.63 for 52 weeks or £85.18 on a 48 week basis. This

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compares to the actual average for 2015/16 on a 52 week basis of £79.42 and £86.04 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 2018/19 savings or additional income of £0.240m 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 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.
- 3.17 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 £5.854 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 £0.258 million. However, this should ensure that sufficient resources

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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 £5.037 million for 2017/18, including inflationary increases where appropriate.

Right to Buy Scheme – Rent Income

- 3.20 In 2014/15 41 council homes were sold, from 1<sup>st</sup> April 2015 to 1st December 2016 53 council homes have been sold. The budget and four year forecast assumes 70 right to buys per annum and this equates to a rent loss of £0.315 million per annum. Over four years the rent loss totals nearly £1.260 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 £1.476m 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.'

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.

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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 2017/18  
Appendix B – Examples of rent by property type

## **6. BACKGROUND PAPERS**

None.

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