

EXECUTIVE COMMITTEE

8th January 2019

HOUSING REVENUE ACCOUNT BUDGET AND RENT SETTING 2019/20

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| Relevant Portfolio Holder | Councillor Craig Warhurst, Portfolio Holder for Housing |
| Portfolio Holder Consulted | Yes |
| Relevant Head of Service | Jayne Pickering, Director Finance & Resources Judith Willis, Head of Community Services |
| Wards Affected | All Wards |
| Ward Councillor Consulted | N/A |
| Non-Key Decision | |

1. SUMMARY OF PROPOSALS

To present Members with the Budget for the Housing Revenue Account and the proposed dwelling rents for 2019/20.

2. RECOMMENDATIONS

The Committee is asked to **RECOMMEND** to Council that

- 1) the draft 2019/20 Budget for the Housing Revenue Account attached to the report at Appendix A be approved;**
- 2) the actual average rent decrease for 2019/20 be 1%;**
- 3) that the £5,729k allocated to Major Repairs Reserve in 2019/20 be applied to fund the HRA capital programme; and**
- 4) that £4,619k be allocated to the acquisition of new dwellings funded from earmarked capital receipts (£1,386k) and the HRA capital reserve (£3,233k).**

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 2019/20, if it were not for the Welfare Reform and Work Act 2016, would have been 3.2%, September CPI (2.2%) plus 1% which would have generated over £738k additional income to fund the Housing Service.

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- 3.3 As members are aware 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 £98.9 million from the Public Works Loan Board.
- 3.4 Self-financing placed a limit (Debt Cap) on borrowing for housing purposes at the closing position for 2011/12 at £122.2 million, however it has been announced that this debt cap has now been removed. Officers are currently reviewing the implications of this change. The figures at Appendix A allow for the payment of interest on this sum.
- 3.5 The Welfare Reform and Work Act 2016 set out that rents within the social housing sector are to be decreased by 1% each year for 4 years commencing on 1st April 2016. This decrease is to take place on the 1st April for 2016, 2017, 2018 and 2019. 2019/20 will be the fourth and final year of a 1% rent reduction.
- 3.6 There has also been an increased number of right to buy sales reducing rent income to the HRA which is set to continue. However this is partly offset by new rent income from the acquisition of new dwellings funded 30% from right to buy receipts and 70% from the HRA capital reserve. In 2019/20 the Council plan to invest £4,619k acquiring new dwellings.

2019/20

- 3.7 For 2019/20, based on the legislative changes, the actual average rent decrease will be 1%. The average rent on a 52 week basis will be £77.02 for 52 weeks or £83.44 on a 48 week basis. This compares to the average for 2018/19 on a 52 week basis of £77.80 and £84.29 on a 48 week basis.
- 3.8 The impact of the 1% rent reduction over four years has had a significant negative impact on the HRA and in 2018/19 and 2019/20 there has been a need to use working balances to achieve a balanced budget. Working balances will reduce to £615k by 31st March 2020 very close to the £600k minimum recommended amount. However, from 2020/21 rent will start increasing again at CPI plus 1% which will help bring the account back into balance without the reliance on the use of balances.
- 3.9 In addition, new housing stock purchased through the right to buy one for one replacement scheme will provide additional rent income and

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work is currently being undertaken to explore the extent that this can be maximised.

Future years

- 3.10 Appendix A also has forecasts for 2020/21 and 2021/22. With the HRA currently going through a period of transition these estimates have a number of caveats attached to them. At present there is no inflationary factor on R&M, with a view that any increases in inflation on costs can be mitigated by efficiencies in delivery. All interim arrangements are expected to be removed post 2019/20 (with the exception of the heads of service recharge for supporting the transition), with the stock condition survey currently underway it is not possible to estimate any impact it may have on future budgets at present. Officers and members are currently working on reducing costs within the HRA to improve its financial position and replenish reserves as well as increase resources for service delivery. Officers and members are doing this in a number of ways, from looking at service delivery design to cost management. This initial estimate suggests that reserves will be replenished by year end 2021/22 for the amount forecast to be drawn down in 2019/20.

Capital Resources

- 3.11 In April 2013 the Government gave local authorities the option to retain right to buy capital receipts if they agreed 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.
- 3.12 The transitional period for the Major Repairs Allowance expired at the end of 2016/17 and was 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 bathrooms, kitchens, roof, wiring, boiler, central heating system, windows and structure. This should ensure there are sufficient resources set aside to meet future investment requirements. The cost is built into the budget and this is transferred to the Major Repairs Reserve and then applied to finance the capital programme. In 2019/20 this amounts to £5,729k.

Housing Repairs

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- 3.13 The 2019/20 budget includes £5,523k for day to day repairs and maintenance which is in addition to the capital resources of £5,729k for replacement of components.

Housing Revenue Account Balances

- 3.14 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 £600k.

Legal Implications

- 3.15 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.
- 3.16 Section 21 of the Welfare and Reform Act 2016 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

- 3.17 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. Tenants must have 28 calendar days' notice of any change to their rent charge.

Customer/Equalities and Diversity Implications

- 3.18 The rent decrease will be applied by the same percentage regardless of property size. The 2019/20 Budget provides for continuity of existing services. 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. Although the HRA borrowing cap is due to be lifted this is to provide headroom for the provision of additional Council homes rather than capital works in the existing stock.
- 4.2 The risk continues to be recorded in the Risk Register for the Council.

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5. APPENDICES

Appendix A - Housing Revenue Account Budget 2019/20

6. BACKGROUND PAPERS

None.

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