

**EXECUTIVE
COMMITTEE**

31st January 2012

HOUSING REVENUE ACCOUNT - INITIAL ESTIMATE 2012/13

Relevant Portfolio Holder	Councillor Brandon Clayton, Portfolio Holder for Housing, Local Environment and Health
Portfolio Holder Consulted	Not stated
Relevant Heads of Service	Teresa Kristunas, Head of Finance and Resources and Liz Tompkin, Head of Housing Services.
Wards Affected	All Wards
Ward Councillor Consulted	Not applicable
Key Decision	

1. SUMMARY OF PROPOSALS

To present Members with the Initial Estimates for the Housing Revenue Account for 2012/13 and the proposed dwelling rents for 2012/13.

2. RECOMMENDATIONS

The Committee is asked to **RECOMMEND** that

- 1) **the draft 2012/13 Estimates for the Housing Revenue Account, attached to the report at Appendix 1, be approved;**
- 2) **the actual average rent increase for 2012/13 be 7%; and**
- 3) **£2 million be transferred to a reserve as a Revenue Contribution to Capital to fund the future Capital Programme.**

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.

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- 3.2 The Council, through the system of Housing finance introduced by the Local Government and Housing Act 1989, has been subject to reducing external support to the Housing Revenue Account in the form of diminishing Housing Subsidy over the past few years. The Council has paid in excess of £6.8 million to central government because of it being in a negative subsidy position. The system of housing subsidy giving rise to this payment will cease on the 31st March 2012.
- 3.3 On 5th October 2010 the Government announced in a Written Ministerial Statement its intention to replace the Housing Revenue Account subsidy system with a devolved system of Council housing finance called self-financing. The proposal in the form of a financial settlement will mean a redistribution of the `national' housing debt.
- 3.4 Rent restructuring was introduced in 2002/03. The objective of this is set out in a Government policy statement "Quality and Choice: A Decent Home for All – The Way Forward for Housing". It is proposed that rent setting in the social housing sector should be brought on to a common system based upon relative property values and local earnings levels. The intention was for there to be rent convergence between sectors within 10 years. Briefly, the rent increase each year should be based on an increase for inflation plus an adjustment of 10% of the difference between the formula rent and the actual rent on an individual property basis. The 10% adjustment, which is aimed at achieving the formula rent for all properties within 10 years, may result in an increase or decrease in rent. The target date for rent convergence is 2015/16. In valuing each local authority's housing business the Government has assumed continued adherence to this rent policy.
- 3.5 This section of the report outlines the major issues which have an impact upon the Housing Revenue budget Account setting process for 2012/13.
- 3.6 Based on the data included in the draft Determination to Implement Self-financing for Council Housing the actual average rent increase for 2012/13 will be 7%. The average rent on a 52 week basis will be £71.91, or £77.90 on a 48 week basis. This compares to the actual average for 2011/12 on a 52 week basis of £67.22 and £72.82 on a 48 week basis.
- 3.7 The Settlement Payments Determination 2012 details the self-financing valuation of each local housing authority's Council housing stock using a discounted cash flow model. The model is based on assumptions made by the Government about rental income and expenditure required to maintain each Council's Council housing stock over 30 years.

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Where the valuation is greater than the authority's Subsidy Capital Financing Requirement (SCFR) then the authority must pay to the Secretary of State the amount by which the self-financing valuation exceeds the SCFR. The payment has to be made on or before the 28th March 2012. For Redditch Borough Council this amounts to £99,512,000.

- 3.8 Self-financing will place a limit (Debt Cap) on borrowing for housing purposes at the closing position for 2011/12. This is estimated to be £118,040,000. The figures at Appendix 1 allow for the payment of interest on this sum.

Capital Resources

- 3.9 From the 1st of 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). Officers have estimated that in the short term the number of RTB sales for this Council will be around 5 per annum, generating around £85k in usable capital receipts.
- 3.10 The introduction of the Major Repairs Allowance from April 2001 provided the Council with additional capital resources. With the introduction of self-financing and the end of the current subsidy system this arrangement will cease. In 2011/12 £3,843,949 was transferred from the Housing Revenue Account into a Major Repairs Reserve. In place of this transfer to a Major Repairs Reserve each authority will be required to transfer an amount to the Reserve in respect of depreciation. This Reserve will continue to be available to fund capital expenditure for Housing Revenue Account purposes and to repay borrowing. The self-financing determination provides for a 5 year transitional period before the full depreciation figure must be funded. It is permissible to use the uplifted Major Repairs Allowance. The transfer for 2012/13 will be £5,835,930.
- 3.11 The Council has previously made transfers of monies from the HRA, when resources permit, to transfer sums to a reserve to fund future capital programmes. It is estimated that there will be sufficient resources in the HRA in 2012/13 to allow £2m to be transferred in this way. With the introduction a Debt Cap from 1st April 2012 these monies will be required to support the Housing Capital Programme.
Housing Repairs Account
- 3.12 The budgeted contribution to the Housing Repairs Account as shown at Appendix 1 is £4,251,600 for 2012/13, including inflationary increases where appropriate.

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Right to Buy Scheme - Rent Income

- 3.13 The 2012/13 figures at Appendix 1 allow for the sale of 5 Council homes. The full effect is an anticipated £18,696 loss of rent income.

Provision for Bad and Doubtful Debts

- 3.14 Members will be aware that the provision was reduced to £550,000. Appendix 1 reflects the need to maintain this provision for 2012/13.

Housing Revenue Account Balances

- 3.15 The Head of Finance and Resources 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 £600,000.
- 3.16 The figures shown in Appendix 1 indicate that the balance carried forward at the 1st of April 2012 will be £1,018,530, which will leave a working balance of £836,270 at the 31st March 2013.

Legal Implications

- 3.17 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.

Service/Operational Implications

- 3.18 The Council since 2002/03 has set its dwelling rents by reference to the rent formula introduced as part of the Government Rent Restructuring policy.
- 3.19 The HRA provides the financial resources to enable the Council to meet its objectives with respect to the management and maintenance of its housing stock.
- 3.20 The budget provides resources for the maintenance of the housing stock.

Customer / Equalities and Diversity Implications

- 3.21 The report contains implications for customers in terms of rent increases.

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4. RISK MANAGEMENT

- 4.1 There are financial risks to the Council of not following government policy in terms of rent restructuring.
- 4.2. 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.

5. APPENDICES

Appendix 1 - Housing Revenue Account 2012/13

6. BACKGROUND PAPERS

Housing Subsidy Determination 2011/12 - DCLG

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