

**EXECUTIVE
COMMITTEE**

21st February 2012

HOUSING REVENUE ACCOUNT - REVIEW

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

1. SUMMARY OF PROPOSALS

- 1.1 The Government will be dismantling the current Housing Revenue Account (HRA) subsidy system and introducing a new regime of self financing from April 2012. The Council will take on a share of the national housing debt and in return in future years will be entitled to keep the subsidy which is currently paid each year to central government.
- 1.2 The Council had stated in their response to consultation in July 2010 that it agreed in principle with the proposal of taking on a share of the national housing debt which currently stands at £25 billion. The Council's share of this is £99,512 million
- 1.3 The Council does not have a choice as to whether they agree to the amount of debt being proposed for this Council as the government has introduced legislation to impose this on all local authorities through the Localisation Act (the Localism Bill received Royal Assent on 15th November 2012).

2. RECOMMENDATIONS

The Executive Committee is asked to RESOLVE that,

subject to the Council's approval of the budgetary implications,

- 1) the 5 year Housing Capital Programme as set out at Appendix 1 to the report be approved;**
- 2) the Director of Finance and Resources be authorised to acquire debt from the Public Works Loans Board up to the amount of the actual Debt Cap in line with the profile set out at Appendix 4 to the report;**

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- 3) **subject to Members' comments, the viability of the 30 Year Business Case for the Housing Revenue Account, and the projected availability of resources within the Business Plan to undertake projects such as regeneration be noted;**
- 4) **Officers be authorised to incur expenditure as detailed in Appendix 1 to the report, up to the limit approved by the Council and for the purposes detailed in the report; and**

to RECOMMEND that
- 5) **the Council approve the financial / budgetary implications, as detailed in the report.**

3. KEY ISSUES

Financial Implications

- 3.1 On 14th November 2011 the Council was issued with a consultation paper which set out the amount of debt the Council will be expected to take as part of the arrangements for implementing self-financing for housing. The figure notified is £99,512 million. At the point of taking on a share of the national housing debt the Council will be capped in terms of taking on a further borrowing to support future HRA Capital Programmes. The Cap is currently estimated at £118,040,000. Future HRA Capital Programmes will have to be funded from capital receipts and revenue contributions. Future Programmes were forecast to be partially funded by prudential borrowing.
- 3.2 Currently the Council pays around £6.8 million back to the government in negative subsidy each year. In future this sum will be used to repay the borrowing with any surplus funds being available to support future Capital Programmes. In addition the Council has been obliged to transfer £3.8 million in terms of the Major Repairs Allowance (MRA) to a Major Repairs Reserve (MRR) to fund capital expenditure. In future this transfer will be based on a depreciation charge. An enhanced MRA figure has been supplied as part of the 2012 Determination which can be used in place of substantiated depreciation charge for the first 5 years of self-financing.
- 3.3 The payment of £99.512 million has to be made on or before the 28th March 2012 and self financing goes live on 1 April 2012. The Council will be compensated for the interest paid in respect of the days between the 28th March and the 1st April. The Council is expected to demonstrate that it is able to repay the debt within 30 years.
- 3.4 Rent convergence will continue until 2016 after this point the Council will be in a position to propose future rents.

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However it is important to note that the continuation of the capital programme is reliant on the continuing amount of finances generated through the income of rent. If this amount of income fell or did not increase year on year then the capital programme would not be sustainable and a reduced capital programme would have to be produced.

Capital Programme

- 3.5 The first 5 years of the proposed Capital Programme will total £36.35 million which equates to £7.27 million each year, plus £600k p.a. for Equipment and Adaptations. A draft 30 year Capital Programme has been included in the Business Plan funded from monies transferred into the Major Repairs Reserve, topped up with revenue contributions in the early years of the Plan, see Appendix 2.

Housing Revenue Account (HRA) Debt

- 3.6 The existing HRA debt comprises £5 million of long term and £11.4 million short term borrowing. It is proposed that the short term borrowing will be replaced with long term borrowing from the Public Works Loans Board (PWLB) in order to take advantage of the relatively low rates of interest currently available for housing authorities. In September the Treasury announced that the premium imposed on PWLB interest rates as part of the Spending Review will be lifted for housing authorities as part of a special arrangement in connection with self-financing.
- 3.7 In addition it is proposed that the £15 million currently invested externally is recalled and made available to the HRA to use as part of the payment of £99.512 million required to be paid to central government. In return the General Fund would receive an interest payment equal to the interest rate that would have been payable to the PWLB. This arrangement would also reduce the arrangement fee due to the PWLB by £5,250.
- 3.8 An important decision required prior to 26th March 2012 is the profile of the borrowing to be arranged with the PWLB. There is a significant risk associated with borrowing the whole amount for the same period which would have to be for 27/30 years. Although the draft Business Plan shows that sufficient resources should be available to repay the entire debt within the 30 year period there is a risk that if the decision is taken not to repay some or all of the debt that the cost of replacement could be significant due to high interest rates and/or the availability of suitable sources of borrowing.

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- 3.9 Surplus funds within either the MRR or the HRA may be used to repay borrowing. Appendix 3 shows the forecast balances within the MRR after the funding of the annual Capital Programme. There are no balances available for the repayment of debt from within the MRR within the first 10 years of the Plan. However, balances are available within the HRA but these may be required to fund additional capital works.
- 3.10 It is recommended that the borrowing from the PWLB is taken up in accordance with the profile set out in Appendix 4. This profile is aligned with the forecast availability of resources within the MRR. The impact of this borrowing/repayment profile is also shown at Appendix 4. The repayment of debt does not deplete the MRR of resources that could be used to fund capital projects.

Reserves

- 3.11 At the end of 2010/11 the Council had a HRA Capital earmarked reserve of £5.5 million. It is estimated this will increase to £6.5 million by the close of 2011/12. The 30 year Business Case has been prepared without the need to utilise this resource to support the Capital Programme during the first 5 years. This reserve is therefore available for other projects such as regeneration.

Legal Implications

- 3.12 The Government included the changes to the Housing Revenue Account in the Localism Bill which received Royal Assent on 15th November 2011.

Service / Operational Implications

- 3.13 In return for taking on the debt the Council will in future years keep all the housing rental income, this will enable officers to manage the finances for the Council's housing stock over the longer term, rather than each year awaiting the outcome of the government subsidy to know what finances the Council has available to spend.
- 3.14 Rent convergence will continue until 2016 from then on Members will be able to set RBC rents which could increase the revenue for the council.
- 3.15 Officers have produced a 30 year capital programme which includes a range of works which will ensure the housing stock continues to meet the decent homes standard and above for all council housing stock.

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- 3.16 Moving away from the system of Housing Subsidy gives the Council more control over the housing service and the management of the housing stock. The Council will no longer have to wait for the annual Housing Subsidy Determination to know what resources will be available within the HRA for the forthcoming year.

Assumptions

- 3.17 The Business Plan has been prepared based on the following assumptions –
- a) that the current Rent Policy is applied until convergence in 2015/16,
 - b) that depreciation increases by 3% pa,
 - c) that RPI is 2.5%,
 - d) that PWLB monies are borrowed at 4%,
 - e) the provision for bad debts will increase from 2014/15,
 - f) debt will be repaid as funds become available,
 - g) interest is paid/earned on balances.

Customer / Equalities and Diversity Implications

- 3.18 Although resources may be restricted in the early years of the 30 year Business Plan period customers could benefit from the demise of the Housing Subsidy system in the longer term through greater investment in the service.

4. RISK MANAGEMENT

There are a number of risks facing the HRA over the 30 year period of the Business Plan. These include Welfare reform which has the potential for increasing rent arrears, interest rates if debt is to be replaced rather than repaid, the robustness of the data re stock/assets and future rent policy.

5. APPENDICES

- Appendix 1 - 5 year Capital Programme
- Appendix 2 - Financing of the 30 year Capital Programme
- Appendix 3 - Funds available for the repayment of debt within the MRR and HRA Balances
- Appendix 4 - Scheduling of Debt and Use of MRR to repay borrowing.

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6. BACKGROUND PAPERS

30 Year Housing Capital Programme.

7. KEY

HRA	Housing Revenue Account
MRA	Major Repairs Allowance
MRR	Major Repairs Reserve
PWLB	Public Works Loans Board
RPI	Retail Price Index

AUTHOR OF REPORT

Name: Liz Tompkin, Head of Housing
E Mail: l.tompkin@bromsgroveandredditch.gov.uk
Tel: (01527) 64252 ext 3304

Name: Teresa Kristunas, Head of Finance and Resources
E Mail: t.kristunas@bromsgroveandredditch.gov.uk
Tel: (01527) 64252 ext 3295