TITLE	**Housing Revenue Account Budget 2018/19**
FOR CONSIDERATION BY	Council on 22 February 2018
WARD	None specific
STRATEGIC DIRECTOR	Graham Ebers, Director of Corporate Services
LEAD MEMBER	Richard Dolinski, Executive Member for Adults' Services

OUTCOME / BENEFITS TO THE COMMUNITY

Sound finances and value for money in providing housing services for council tenants.

RECOMMENDATION

Council is recommended to approve:

1) The Housing Revenue Account budget;

2) Council house dwelling rents be reduced by 1% effective from April 2018 in line with the Welfare Reform and Work Bill 2015;

3) Garage rents be increased by 3.6% effective from April 2018 in line with Council fees and charges;

4) Shared Equity Rents will be increased by 3.85% based on September RPI, effective from April 2018;

5) Tenant Service Charges are set in line with estimated costs;

6) The Housing Major Repairs (capital) programme for 2018/19 as set out in Appendix C;

7) Sheltered room guest charges to remain at £9.00 per night.

SUMMARY OF REPORT

The proposed Housing Revenue Account budget for 2018/19 is set out for consideration and recommendation to Council. An indication of the budget for 2019/20 and 2020/21 is provided for information. Proposed 2018/19 rent levels for council housing and council-owned garages are also set out for recommendation to Council. The budget takes account of forecast economic changes and movements in interest rates using relevant available information from various sources, including the Council's treasury advisors.

The national housing landscape is set for further change from 2018/19 onwards that will have implications for the HRA over the longer term. These may include the introduction of a high value asset levy from 2018/19; current thinking is that the HRA will dispose of

assets to fund the levy. Clearly any disposals will affect business plan income and our ability to house those in housing need at a time when our duties are increasing.

The HRA has also seen an increase in right to buy completions, 14 were sold in 2013/14, 13 in 2014/15, 8 in 2015/16, 19 in 2016/17, and 5 to December 2017 in the current financial year. Any loss of stock has income implications over the life of the business plan.

Wokingham Borough Council's ability to utilise retained right to buy receipts will also diminish over time, the HRA will be unable to fund its 70% share of spend from revenue from 2021/22. Attention is drawn to the reducing level of reserves from £4.9m in 2016/17 to £1.9m in 2020/21. Officers are actively working to efficiently manage voids levels and effectively target expenditure, but it is noted that a policy decision on the use of retained right to buy is required in 2018/19.

Background

HOUSING REVENUE ACCOUNT 2018/19

Housing Ring Fence

1. The Housing Revenue Account (HRA) is a ring-fenced fund. This means that the HRA must be self-financing and expenditure must be paid for by Council tenants through rent and service charges. HRA expenditure cannot be funded by council tax and similarly HRA income should not be used to pay for general fund services.

Rent Restructuring, Convergence, Housing Self Financing and the 2018/19 Rental Reduction

2. For four years, commencing in 2016/17 the Government introduced a compulsory 1% reduction in Social and Affordable rents. There is no discretion in making this change and it applies to all council tenants. The 1% reduction was implemented in April 2016 will be followed by a further 1% cumulative reduction from April each year for the three years to 2019/20. The rent restructuring and convergence initiative to create a fair rental system for social rents can therefore no longer be implemented, although the Council will continue increasing rents to target rent when properties are re-let whilst still maintaining the compulsory 1% reduction. Initially the 30 year model included year on year rent increases so the real reduction in income compared to the model will therefore be more than the 1% reduction.

3. At 28 March 2012 the self-financing system was introduced for the HRA. The self-financing system allocated a debt cap of £102m to the Council, and a loan portfolio of thirty one loans totalling £96.5m was created to ensure the best interest rates were achieved for the HRA at an average of 2.55% as opposed to the forecast average headline rate of 4.2%. As part of the change to the self-financing system, the Council has prepared a 30-year business plan for the HRA. The allocated debt is based on an up-to-date valuation of the Council's housing stock and a 30 year notional business plan of income and expenditure. The HRA will incur an annual interest charge and principal debt repayment over the first twenty three years of the plan. As of 1st April 2018 the HRA would have repaid debt of £8m. Over the next three years a further £10.5m of debt is to be repaid. The estimated debt as at the 31st March 2021 is £83.47m this includes a new loan to be taken out in 2020/21 to fund the 70% expenditure needed for the use of RTB receipts in 2020/21, budget provision is included under the HRA principal repayments line in Appendix D for these loans.

4. The council's 30 year business plan is being reviewed and updated to reflect known changes including the rent policy issues highlighted above. The business plan includes the following:-
    a. As at the 31st March 2013 the HRA had a capital financing requirement of £96.5m, this has now reduced to £87.8m (as at 31/03/2018) thus giving the HRA borrowing headroom of £14.2m.
    b. The Council set its HRA Authorised Debt Limit at £102m and the HRA Operational Boundary for Borrowing as £100m as set out in the Treasury Management Strategy.
    c. The HRA Capital Programme for 2018/19 will be £5.9m plus any carry forward, followed by £8.1m in 2019/20 and £7.3m in 2020/21. The programme now includes the requirements to utilise the retained right to

buy receipts. Note: We are waiting for the detail of the disposal of high value voids which may impact on the level of programme which can be delivered.

d. Rental income will be based on government requirements for a 1% reduction each year to 2019/20.

Garage Rents

6. It is proposed to increase garage rents by 3.6% for 2018/19 in line with the council wide increase to fees and charges.

Shared Equity Rents

7. Shared Equity rents are paid monthly in advance. Annual increases in shared equity rents were thought to be limited to a rate equivalent to RPI on the month before the lease commenced however review of these properties during the development of the 30-year business plan for the self financing system has determined that the annual increase should have been based on the increase in RPI since the leases were signed. Rents are now to be increased annually by inflation.

2018/19 Budget Assumptions & Risks

8. The 2018/19 budget includes expenditure of £2.7m for repairs and maintenance and a contribution of £1.4m revenue contribution to capital to help fund the capital investment programme.

Housing Major Repairs (Capital Programme)

9. The Council is required to fund major repairs from the rental income. The intention over the 30 year business plan is to generate additional resource to help the Council meet the decent homes standard and also to invest further in the redevelopment and regeneration of the council's housing stock.

The breakdown of the funding of the £5.9m capital expenditure in 2018/19 is:

1) Revenue contributions £1.5m,
2) Major Repairs Reserve £3.9m
3) Right to buy receipts £0.5m

The proposed Housing Capital Programme is shown at Appendix C.

Consultation

10. The draft budget submission will be considered by Corporate Leadership Team on the 16 January 2018, and reported to the Affordable Housing Implementation Group on 19 February 2018 and the Tenants & Landlord Improvement Panel on 22 February 2018.

Analysis of Issues

The Housing Revenue Account budget for 2018/19 is shown at Appendix D. The budget has been drawn up on a self-financing basis and reflects:

- Interest charge of £2.9m, depreciation of £3.4m and revenue contributions to capital of £1.5m as determined by the Council's 30-year business plan under the self-financing system.
- Management and repairs costs have increased from £5.2m to £5.4m to meet regulatory commitments and fund staffing cost base increases. The projected HRA balance (see Appendix A) at 31 March 2018 will be £4m.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	See attached reports	Yes	Revenue & capital
Next Financial Year (Year 2)	See attached reports	Yes	Revenue & capital
Following Financial Year (Year 3)	See attached reports	Yes	Revenue & capital

Other financial information relevant to the Recommendation/Decision
None

Cross-Council Implications
None

List of Background Papers
None

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