

TITLE	Housing Revenue Account Budget 2015/18
FOR CONSIDERATION BY	Council on 19 February 2015
WARD	None specific
DIRECTOR	Stuart Rowbotham, Director Health and Wellbeing
LEAD MEMBER	John Kaiser, Executive Member Planning and Highways

OUTCOME / BENEFITS TO THE COMMUNITY

Sound finances and value for money in providing housing services for council tenants, leaseholders, site dwellers, garage renters and shared equity customers.

RECOMMENDATION

Council be recommended to approve :

- 1) the Housing Revenue Account Budget;
- 2) Council house dwelling rents be increased by an average 3.34% effective from 1 April 2015;
- 3) garage rents be increased by 2.4% effective from 1 April 2015;
- 4) it be noted that a review of the Shared Equity Rents in 2011 had determined that rents had been kept artificially low in previous years and not increased in line with the terms of the leases. Therefore rents for shared equity properties will gradually increase above inflation for four years to bring the rents in line by 1 April 2016. The increase for 2015/16 will be between 6% and 13% (£3 and £11 per month) depending on the property;
- 5) Tenant Service Charges are set in line with estimated costs;
- 6) the Housing Major Repairs (capital) programme for 2015/16 as set out in Appendix C.

SUMMARY OF REPORT

The proposed Housing Revenue Account budget for 2015/16 is set out for consideration and recommendation to Council. An indication of the budget for 2016/17 and 2017/18 is provided for information. Proposed 2015/16 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.

Background

HOUSING REVENUE ACCOUNT 2015/16

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 2015/16 Rental Increase

2. Rent restructuring and convergence was a government initiative to create a fair rental system for social rents. It applied to all registered providers, both local authorities and registered social landlords.

3. The rent formula accounts for local earnings, the number of bedrooms a property has and its value. Each property has a formula rent based on these factors and rents have been moving to converge with the formula rent (rents are currently below the formula rent level) gradually over time. Wokingham Borough Council has 382 properties at target rent, 1,821 properties below target rent and 414 above target rent. The rents above target will be reduced over the next four years to reach formula rent.

4. The national guidance which sets out the basis for local authorities to set their rents has changed, this is a result of the Government's consultation on changes to social rent policy in 2013/14. This change comes 2 years after we entered into the self-financing regime, all business planning was based on rent convergence so has impacted on our business plan. The new policy has a significant impact on how rents will be set for the next ten years commencing in April 2015. The new policy allows local authorities significant freedom in setting their rent policy and Wokingham is proposing to implement the option as set out in paragraph 5 below :

5. Wokingham Council has in previous years increased rents by RPI plus 0.5%, using September 2014 figures. RPI was 2.3% and with the plus 0.5% this would lead to an increase of 2.8% (However those properties that had not reached formula rent will have an additional £2 per week added). From 1 April 2015 the Council is proposing to increase rents using the more relevant Consumer Price Index (CPI) plus 1%. The September 2014 CPI figure was 1.2%, and with the extra 1% this is an increase of 2.2%. Properties that have not reached formula rent will have the following increases so that the rent reaches formula rent within four years, except for rent that is £20 below target which will be spread over six years."

- If the rent is less than £5 below target then increases are limited to CPI plus 1% plus £1.50
- If the rent is more than £5 but less than £10 below target then increases are limited to CPI plus 1% plus £3.00
- If the rent is more than £10 but less than £20 below target then increases are limited to CPI plus 1% plus £6.00
- If the rent is more than £20 below target then increases are limited to CPI plus 1% plus £10.75

The formula rent that is used in the rent calculations above was calculated with reference to a number of factors relating to the property and the local economy. The formula rent is calculated as follows:

70% x (bedroom factor x national average rent x relative earnings) plus 30% x (national average rent x relative property value).”

6. As at 28 March 2012 the self-financing system was introduced for the HRA. The self-financing system allocated a debt of £96.5m to the Council, a loan portfolio of thirty one loans have been created to ensure the best interest rates were achieved for the HRA of 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 next twenty three years. The first loan, for a sum of £2.7m, was repaid in March 2014. Two further loans totalling £5.226m are repayable by 31 March 2018, and budget provision is included under the HRA principal repayments line in Appendix D for these loans.

7. The council’s 30 year business plan has been updated to reflect known changes including the rent policy issues highlighted above. The business plan includes the following:-

- a. Based on a valuation of £102m the HRA now has a capital financing requirement of £91.1m as at March 2015, thus giving borrowing headroom of £10.9m. This difference is due to the debts which the HRA had paid off prior to the start of the new regime plus a £2.7m debt repayment in 2013/14.
- 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 2015/16 will be £8.065m, followed by £6.8m in 2016/17 and £6.9m in 2017/18.
- d. The relevant proportion of future retained Right to Buy receipts will be used within the HRA for investment in the stock.
- e. Rental income will continue to be based on setting rents in line with rent restructuring for 2015/16 and assumes inflation (as measured by the Consumer Price Index) plus approximately 2% thereafter.

Garage Rents

7. It is proposed to increase garage rents by 2.4% for 2015/16 in line with the council wide increase to fees and charges.

Shared Equity Rents

8. 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. Therefore the rents had not been increased in previous years in line with the expectations in the lease agreement resulting in current rents being significantly lower than market values for social rents. Consequently Shared Equity rents are being

increased above inflation over a period of four years to increase the rents and bring them in line with the terms of the leases. 2015/16 is the fourth year of the four year period. This results in an increase of 6%-13% (or £3 to £11 per month) depending on the property.

2015/16 Budget Assumptions & Risks

9. The 2015/16 budget includes expenditure of £2.8m for repairs and maintenance and a contribution of £3.4m revenue contribution to capital to help fund a significantly increased capital investment programme compared with previous years.

Housing Major Repairs (Capital Programme)

11. 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 £8.065m capital expenditure in 2015/16 is:

- 1) Miscellaneous receipts £0.2m,
- 2) Revenue contributions £3.4m,
- 3) Major Repairs Reserve £3.3m
- 4) A brought forward balance of £1.1m from the Major Repairs Reserve.

The proposed Housing Capital Programme, funded through revenue contributions to capital, depreciation and the Major Repairs Reserve, is shown at Appendix C.

Consultation

13. The draft budget submission has been considered by the Affordable Housing Implementation Group on November 17 2014 and by the Tenants & Landlord Improvement Panel which met on November 27 2014.

Analysis of Issues

The Housing Revenue Account budget for 2015/16 is shown at Appendix D. The budget has been drawn up on a self-financing basis and reflects:

- Interest charge of £2.8m, depreciation of £3.3m and revenue contributions to capital of £3.4m as determined by the Council's 30-year business plan under the new self-financing system.
- Management and repairs costs have remained static following a review in 2014/15.
- It is forecast that additional rent income of approximately £30k will be raised due to vacant properties moving to formula rent.
- Impact Assessment – the number of tenants claiming housing benefit either partially or in full amounts to 971 out of 2,606 rent accounts that are currently open. This equates to 37% of all tenants claiming some form of benefit and is a decrease of 97 claimants or 10%.
- The projected HRA balance (see Appendix A) at 31 March 2015 will be £3.8m. Reserves at 31 March 2016 are estimated to be £2.9m.

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	Y	Revenue & capital
Next Financial Year (Year 2)	See attached reports	Y	Revenue & capital
Following Financial Year (Year 3)	See attached reports	Y	Revenue & capital

Other financial information relevant to the Recommendation/Decision
None

Cross-Council Implications
None

List of Background Papers
Housing Revenue Account working papers

Contact Stephen McGrail	Service Resources
Telephone No 0118 974 6560	Email Stephen.mcgrail@wokingham.gov.uk
Date 5 February 2015	Version No. 1

APPENDIX A

Reserve	Policy	Estimated Level	Benefits	Opportunity Costs
<p>Housing Revenue Account</p>	<p>Local Government and Housing Act 1989 section 76 (3) forbids a year end deficit on the HRA</p> <ul style="list-style-type: none"> • Balance is determined by level of risk associated with the budget • Minimum 5% of gross spend <p>Current recommended minimum level of reserves is: £0.9m - minimum level</p>	<p>March 15 £3.8m</p> <p>March 16 £2.9m</p> <p>March 17 £1m</p> <p>March 18 £1m</p>	<ul style="list-style-type: none"> • Provides general contingency for unavoidable and unseen expenditure or fall in income • Stability for longer term planning and for meeting the decent homes standards • Interest on balances helps to reduce costs. 	<ul style="list-style-type: none"> • Could be used to fund HRA capital expenditure to help meet decent homes standard which would result in loss of interest. • Could be used to fund development opportunities within the HRA • Could be used to fund debt repayment. • Could be used to fund HRA expenditure which would result in loss of interest.

APPENDIX B

PROPOSED RENT INCREASE 2015/16 – Sample Rents, Service Charges & Fees

Address	Date Built	Weekly Rent 2013/14	Weekly Rent 2014/15	Weekly Rent Cap 2014-15	% Increase/Decrease	Weekly Rent 2015/16	Weekly Rent Cap 2015-16	% Increase/Decrease
Bed-sit Flat, Longs Way	1959	£ 68.16	£ 72.69	£ 136.38	6.6%	£ 78.40	£ 140.06	7.9%
Bed-sit Bungalow, Finch Road	1954	£ 77.06	£ 81.91	£ 136.38	6.3%	£ 87.73	£ 140.06	7.1%
1 Bed Flat, Cobham House	1964	£ 78.86	£ 83.78	£ 136.38	6.2%	£ 87.88	£ 140.06	4.9%
1 Bed Bungalow, Firs Close	1974	£ 83.80	£ 88.16	£ 136.38	5.2%	£ 90.42	£ 140.06	2.6%
2 Bed Flat, Field End	1984	£ 102.30	£ 107.73	£ 144.40	5.3%	£ 110.52	£ 148.30	2.6%
2 Bed Maisonette, Clements Close	1977	£ 99.36	£ 102.31	£ 144.40	3.0%	£ 104.37	£ 148.30	2.0%
2 Bed Bungalow, Emblen Crescent	1951	£ 94.60	£ 100.10	£ 144.40	5.8%	£ 106.21	£ 148.30	6.1%
2 Bed House, Mole Road	<1945	£ 111.45	£ 117.57	£ 144.40	5.5%	£ 120.94	£ 148.30	2.9%
3 Bed Maisonette, Patten Ash Drive	1965	£ 117.23	£ 119.67	£ 153.47	2.1%	£ 121.82	£ 157.61	1.8%
3 Bed Bungalow, Harman Court	1969	£ 120.27	£ 126.62	£ 153.47	5.3%	£ 129.89	£ 157.61	2.6%
3 Bed House, Hurst Road	<1945	£ 125.27	£ 131.89	£ 153.47	5.3%	£ 135.30	£ 157.61	2.6%
4 Bed Maisonette, Patten Ash Drive	1969	£ 127.31	£ 130.98	£ 160.44	2.9%	£ 133.60	£ 164.78	2.0%
4 Bed House, Chestnut Crescent	1969	£ 128.13	£ 134.87	£ 160.44	5.3%	£ 138.84	£ 164.78	2.9%
5 Bed House, Bayley Court	1969	£ 136.95	£ 140.99	£ 167.93	3.0%	£ 143.83	£ 172.47	2.0%

Note: It should be noted that construction of the dwellings does vary between traditional, non-traditional, PRC (pre-reinforced concrete) and timber framed homes.

APPENDIX B

Communal Area Address	Service Charge per property per week 2015/16*		
Arnett Avenue	£0.10	-	£4.76
Ashridge Road	£0.91	-	£2.00
Barker Court		£2.10	
Budges Road	£0.99	-	£1.03
Chatsworth Avenue		£0.04	
Chestnut Crescent	£0.02	-	£0.85
Cheviot Drive		£4.56	
Chiltern Drive		£2.03	
Cobham House	£1.82	-	£5.39
Ditchfield Lane	£2.52	-	£2.64
Dowding Court		£1.68	
Field End		£1.39	
Finch Road		£0.05	
Frensham Green		£0.17	
Halpin House		£9.00	
Highfield Park		£0.00	
Hunters Court	£5.54	-	£5.59
Kingsbridge Cottages		£1.29	
Loddon View		£1.51	
Lunds Farm Road		£0.00	
Martineau Lane		£0.29	
Middlefields Court		£0.29	
Norreys Avenue		£2.35	
Ormonde Road		£0.51	
Patten Ash Drive	£0.58	-	£1.76
Pennfields		£0.35	
Queen Victoria House		£3.75	
Recreation Road		£8.92	
Roycroft Lane		£2.09	
Stephanie Chase Court		£1.38	
Toutley Road		£3.39	

* The service charge may include any, or all of the following: Grounds Maintenance, Cleaning, and Electricity where applicable.

Sheltered Accommodation Address	Service Charge per property per week 2015/16*		
Dickens Court		£33.52	
Glebe Gardens		£14.18	
Harman Court		£23.62	
Meachen Court		£36.51	
Palmer Court		£37.86	
Polehampton Court	£20.95	-	£28.11
Sale Gardens	£18.74	-	£25.94
Spring Gardens		£38.39	
Treacher Court		£18.81	
Cockayne Court	£29.22	-	£33.02

* The service charge may include any of the following Grounds Maintenance, Cleaner, Cleaning, Communal Water, Water, Communal Electric, Electric, Communal Gas, Gas, Warden, Scheme Telephone, Alarm Phones, Window Cleaning, Common Room Cooker & Refrigerator, Heating Plant & Equipment, Lift Servicing, Ventilation System, Fire Fighting Equipment, Sewerage Pumps, Warden Call System/Entry Phones/Emergency Lighting, Forest Care, Malibu Bath, CCTV, Business Rates, where applicable.

APPENDIX B

Sheltered Accommodation Guest Charges	Guest Charge Per Night 2015/16
Dickens Court	£8.20
Cockayne Court	£8.20
Harman Court	£8.20
Meachen Court	£8.20
Palmer Court	£8.20
Polehampton Court	£8.20
Sale Garden Cottages	£8.20
Spring Gardens	£8.20

Garages	Weekly Rent 2015/16
Council Tenants (Non vatable)	£7.57
Non Tenants (vatable)	£10.78

Leaseholder Charges	Per Annum 2015/16
Ground Rent	£10.00
Management	£90.00

APPENDIX C

CAPITAL EXPENDITURE	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Service: Health and Wellbeing			
Capital - Housing Revenue Account			
Capitalised Staffing Costs	811	827	841
Estate Improvements	740	1,292	591
Adaptations for the Disabled	150	150	150
Roofing, Windows and Doors	972	1,730	2,452
Energy (including energy Efficiency, Heating & Testing)	1,242	829	541
Planned & Cyclical Works	1,177	1,347	1,298
Supported Living Accommodation	1,415	0	0
Kitchen & Bathroom Refurbishment Programme	1,558	604	1,026
Subtotal Health and WellBeing (Housing)	8,065	6,779	6,899
	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Redevelopment Reserve	0	0	0
Major Repairs Reserve	4,435	3,372	3,455
Short Term Borrowing	0	0	688
Other Receipts/Grants	218	218	226
Revenue Contributions	3,412	3,189	2,530
Total Capital Funding	8,065	6,779	6,899
Balances at Year End	0	0	0

HOUSING REVENUE ACCOUNT BUDGET 2015/16

APPENDIX D

		2014/15 Budget £'000	2015/16 Budget £'000	2016/17 Budget £'000	2017/18 Budget £'000
INCOME					
Rents					
Dwelling Rents	Note 1	(14,544)	(14,993)	(15,595)	(16,252)
Garage Rents		(199)	(204)	(209)	(214)
Commercial Rents		(5)	(5)	(6)	(6)
Total Rents		(14,748)	(15,202)	(15,810)	(16,472)
Fees & Charges					
Service Charges		(378)	(365)	(375)	(388)
Leasehold Charges		(44)	(49)	(50)	(51)
Sheltered Fees & Charges		(80)	(80)	(82)	(84)
Interest on balances		(9)	(6)	(20)	(20)
Total Income		(15,259)	(15,702)	(16,337)	(17,015)
EXPENDITURE					
Housing Repairs		2,735	2,768	2,796	2,873
General Management		2,480	2,525	2,556	2,606
Sheltered Accommodation		655	655	688	688
Other Special Expenses		197	197	203	207
Depreciation		3,098	3,313	3,372	3,455
Revenue Contribution to Capital	Note 2	639	3,412	3,189	2,530
Capital Finance Interest Charge		2,888	2,838	2,838	2,838
HRA Principal Repayments	Note 3	0	912	2,564	1,750
Transfer to/(from) Bad Debts Provision	Note 4	514	0	0	100
Transfer to redevelopment reserve	Note 5	2,053	0	0	0
Total Expenditure		15,259	16,620	18,206	17,047
Net Expenditure / (Income)		0	918	1,869	32
REVENUE ACCOUNT					
Balance at Beginning of Year		(1,767)	(3,820)	(2,902)	(1,032)
Transfer to earmarked reserve	Note 5	(2,053)	0	0	0
Forecast outturn for year		0	918	1,869	32
Balances at End of Year		(3,820)	(2,902)	(1,032)	(1,000)

Note 1. The average rental increase in 2015/16 is 3.34% after the change in rent convergence policy

Note 2. Increase in the Revenue Contribution to Capital due to increase in activity

Note 3. Based on the maturity of the loans taken up to fund HRA Self Financing

Note 4. The transfer to bad debts provision is reduced to nil in 2015/16 due to the estimated significant balance at 31 March 2015, and no further increase should be required before 2017/18.

Note 5. The transfer to development reserve of £2.053m in the 2014/15 budget is not required, and the