

<b>TITLE</b>	<b>Housing Revenue Account Budget 2019/20</b>
<b>FOR CONSIDERATION BY</b>	The Executive on Thursday, 21 February 2019
<b>WARD</b>	None specific
<b>DIRECTOR</b>	Director of Locality and Customer Services - Interim Sarah Hollamby
<b>LEAD MEMBER</b>	Executive Member for Health and Wellbeing, Adult Social Care and Housing – Parry Batth

## **PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)**

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

## **RECOMMENDATION**

That the Executive approve and recommend to Council :

- 1) the Housing Revenue Account budget;
- 2) Council house dwelling rents be reduced by 1% effective from April 2019 in line with the Welfare Reform and Work Act 2015;
- 3) garage rents be increased by 3.70% effective from April 2019 in line with Council fees and charge;
- 4) Shared Equity Rents will be increased by 3.27% based on September RPI, effective from April 2019;
- 5) Tenant Service Charges are set in line with estimated costs.
- 6) the Housing Major Repairs (capital) programme for 2019/20 as set out in Appendix C.
- 7) Sheltered room guest charges increase from £9.00 per night to £9.50 per night.

## **EXECUTIVE SUMMARY**

The proposed Housing Revenue Account (HRA) for 2019/20 is set out for consideration and recommendation to Council. An indication of the budget for 2020/21 and 2021/22 is provided for information. Proposed 2019/20 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 movement in interest rates using relevant available information from various sources, including the Council's treasury management advisors.

Wokingham Borough Council's ability to utilise retained right to buy receipts will continue to be a challenge for the HRA. For 19/20, the HRA will need to borrow to help fund its 70% share of spend from revenue. Attention is drawn to the reducing level of reserves

from £4.9m in 2016/17 to £1.8m in 2021/22. Officers are actively working to efficiently manage voids levels and effectively target expenditure.

## BACKGROUND

### HOUSING REVENUE ACCOUNT 2019/20

#### 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 £96.5cm 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. Over the next three years a further £5.6m of debt is to be repaid. The estimated debt as at the 31st March 2021 is £81.84m this includes a new loan to be taken out in 2019/20 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 £88.1m (estimate as at 31/03/2019). The Government announced in the 2018 Budget Statement that the HRA borrowing cap would be removed. Although the cap has been lifted, it is important that any additional borrowing is still affordable. The HRA business plan will be reviewed during 2019/20 to explore what options are affordable in light of the borrowing changes. Any decisions on future

borrowing will follow the prudential borrowing rules set out in the Treasury Management Strategy.

- 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 2019/20 will be £12.1m plus any carry forwards, followed by £6.2m in 2020/21 and £6.2m in 2021/22. The programme now includes the requirements to utilise the retained right to buy receipts.
- d. Rental income will be based on government requirements for a 1% reduction each year to 2019/20. This is the final year of rent reductions. Government have announced that rents will be increased by 1% + Consumer Price Inflation (CPI) in future years.

### Garage Rents

5. It is proposed to increase garage rents by 3.70% for 2019/20 in line with the council wide increase to fees and charges.

### Shared Equity Rents

6. It is proposed to increase shared equity rents by 3.27% based on September RPI, effective from April 2019.

### 2019/20 Budget Assumptions & Risks

7. The 2019/20 budget includes expenditure of £3m for repairs and maintenance and a revenue contribution of £0.5m to capital to help fund the capital investment programme.

### Housing Major Repairs (Capital Programme)

8. 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 £12.1m capital expenditure in 2019/20 is:

- a. Revenue contributions £0.5m,
- b. Major Repairs Reserve £5.9m
- c. Right to buy receipts £2.4m
- d. Developer contributions £1.5m
- e. Borrowing £1.8m

The proposed Housing Capital Programme is shown at Appendix C.

### Consultation

9. The draft budget submission has been considered by Corporate Leadership Team on the 22 January 2019, and the Tenants & Landlord Improvement Panel on 24th January 2019.

## BUSINESS CASE (Including Options and Evidence of Need)

The Housing Revenue Account budget for 2019/20 is shown at Appendix D. The budget has been drawn up on a self-financing basis and reflects:

- Interest charge of £3.0m, depreciation of £3.7m and revenue contributions to capital of £0.5m as determined by the Council's 30-year business plan under the self-financing system.
- Management and repairs costs have increased from £6.1m to £6.3m to reflect ongoing cost pressures from void properties. The projected HRA balance (see Appendix A) at 31 March 2019 will be £2.8m.

## 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
None

Stakeholder Considerations and Consultation
Budget proposals have be reported to the Tenants & Landlord Improvement Panel.

Resourcing and Timeline for Next Steps
As outlined above.

Timeline for Review and Evaluation
The HRA budget will be monitored on a regular basis and reported to Executive on a quarterly basis.

List of Background Papers
Appendix A – Housing Revenue Account Reserves Appendix B – Sample Rents & Service Charges 19/20 Appendix C – HRA Capital Budget Appendix D – HRA Revenue Budget

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