TITLE	**Housing Revenue Account Budget 2016/17**
FOR CONSIDERATION BY	Council on 18 February 2016
WARD	None specific
STRATEGIC DIRECTOR	Stuart Rowbotham, Strategic Director Health and Wellbeing
LEAD MEMBER	John Kaiser, Executive Member for Planning and Highways

OUTCOME / BENEFITS TO THE COMMUNITY

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

RECOMMENDATION

Council be recommended to approve :

1) The Housing Revenue Account Budget;

2) Council house dwelling rents be reduced by 1% effective from 1 April 2016 in line with the Welfare Reform and Work Bill 2015, (subject to confirmation of the statutory starting date);

3) Garage rents be increased by 1.1% effective from 1 April 2016 in line with Council fees and charges;

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 have been gradually increased above inflation for four years to bring the rents in line by 1 April 2016. The increase for 2016/17 and future years will be based on RPI, and is estimated to be approximately 1% in 2016/17;

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

6) The Housing Major Repairs (capital) programme for 2016/17 as set out in Appendix C.

SUMMARY OF REPORT

The proposed Housing Revenue Account budget for 2016/17 is set out for consideration and recommendation by Council. An indication of the budget for 2017/18 and 2018/19 is provided for information. Proposed 2016/17 rent levels for council housing and council-owned garages are also set out for recommendation by 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 2016/17

<u>Housing Ring Fence</u>

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.

<u>Rent Restructuring, Convergence, Housing Self Financing and the 2016/17 Rental Reduction</u>

2. For the next four years, commencing in 2016/17 the Government are introducing 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 is expected to be implemented in April 2016 (the starting date is subject to confirmation) and will be followed by a further 1% cumulative reduction from 1 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 when tenancies change (however, the 1% annual rent reduction will be applied); the real reduction in income compared to the 30 year model figures which included rent convergence will therefore be more than 1%.

3. There will be further legislative changes which will have an impact on revenue and/or capital budgets. These are subject to confirmation and clarification, and include : "Pay to Stay" , which is the requirement for households with annual income over £30k to pay market based rent; also the proposal that high value properties should be sold when tenancies end, and the proceeds reinvested in further housing.

4. 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, and a loan portfolio of thirty one loans 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. 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.

5. 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 £90.4m as at March 2017, thus giving borrowing headroom of £11.6m.
    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 2016/17 will be £6.5m, followed by £5m in 2017/18 and £5m in 2018/19. Note: We are waiting for the detail of the levy on the "Pay to Stay" and the disposal of high value voids which may impact on the level of programme which can be delivered.
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 be based on government requirements for a 1% reduction in April 2016, followed by a further 1% cumulative reduction from 1 April each year for the three further years to 2019/20.

Garage Rents

6. It is proposed to increase garage rents by 1.1% for 2016/17 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. 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. Shared Equity rents have been increased above inflation over a period of four years to 2015/16 to increase the rents and bring them in line with the terms of the leases. From 2016/17 onwards rents will then be increased annually for inflation.

2016/17 Budget Assumptions & Risks

8. The 2016/17 budget includes expenditure of £2.6m for repairs and maintenance and a contribution of £2m revenue contribution to capital to help fund a significantly increased capital investment programme compared with previous years.

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 £6.5m capital expenditure in 2016/17 is:

1) Revenue contributions £2m,
2) Major Repairs Reserve £3.2m
3) A brought forward balance of £1.3m from HRA reserves.

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

Consultation

10. The draft budget submission has been considered by Health & Wellbeing Leadership Team on the 10th December 2015, the Tenants & Landlord Improvement Panel which met on 17th December 2015 and the Affordable Housing Implementation Group on 18th January 2016.

Analysis of Issues
The Housing Revenue Account budget for 2016/17 is shown at Appendix D. The budget has been drawn up on a self-financing basis and reflects:

- Interest charge of £3m, depreciation of £3.2m and revenue contributions to capital of £2m as determined by the Council's 30-year business plan under the new self- financing system.
- Management and repairs costs have reduced from £5.2m to £4.9m following a review in 2015/16 and capitalisation of certain salary costs..
- The projected HRA balance (see Appendix A) at 31 March 2016 will be £3.4m. Reserves at 31 March 2017 are estimated to be £2.6m.

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
Housing Revenue Account working papers

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