

Meeting: EXECUTIVE / COUNCIL

Council
Agenda Item:

2

Portfolio Area: Housing and Resources

Date: 20 JANUARY 2015 / 28 JANUARY 2015

HOUSING REVENUE ACCOUNT FINAL BUDGET PROPOSALS 2015/16 AND RENT SETTING

KEY DECISION

Author –	Clare Fletcher	Ext. No. 2933
Lead Officer –	Scott Crudgington	Ext. No. 2185
Contributors -	Anita Thomas	Ext. No. 2430
Contact Officer –	Clare Fletcher	Ext. No. 2933

1. PURPOSE

1.1 To approve the HRA budgets, including fees and charges and the Rent increase for 2015/2016 for recommendation to Council.

2. RECOMMENDATIONS

- 2.1 That Council be recommended to approve that the that HRA dwelling rents be increased, week commencing 6 April 2015 by an average 2.18% or £2.15 per week which has been calculated using the new rent formula, CPI +1% in line with the 2014 Rent Policy.
- 2.2 That Council be recommended to approve the revised 2014/15 and the 2015/16 HRA budget, as set out in Appendix A to this report.
- 2.3 That Council be recommended to approve the proposed fees and charges as shown in Appendix B to this report.
- 2.4 That Council be recommended to approve the Savings Options totalling £283,920 as shown in Appendix C to this report.
- 2.5 That Council be recommended to approve the Growth Options with an impact of £1,503,950 on the HRA as shown in Appendix D to this report.
- 2.6 That Council be recommended to approve the minimum level of reserves for 2015/16 as shown in Appendix E to this report.
- 2.7 That the increase of £28,590 to the 2014/15 HRA working budget be approved.
- 2.8 That it be noted that a review of service charges is to be undertaken in 2015/16.

3. BACKGROUND

- 3.1 In November, the Executive approved a revised Business Plan which assumed a 2015/16 rent increase of 2.2% and delivery plan growth of £1,508,000. A revised Medium Term Financial Strategy (MTFS) was appended to that report updating the HRA for any changes to budgets including the savings approved as part of the Priority Based Budgeting report to the same committee. The 2015/16 approved savings totalled £299,160.
- 3.2 The December draft budget report recommended an average weekly rent and service charge increase for 2015/16 of 2.13%. The HRA projected year-end balance as at 31 March 2016 was projected to be £16,181,139 which was £14,181,139 higher than the minimum balances required for the future repayment of debt and risks.
- 3.3 This report presents the Council's revised 2014/15 budget and the final HRA net budget for 2015/16 taking account of the savings, pressures and growth items. The HRA Budget forms part of the Council's Budget and Policy Framework. Under Article 4 of the Constitution, the Budget includes: the allocation of financial resources to different services and projects; proposed contingency funds; setting the rents; decisions relating to the control of the Council's borrowing requirement; the control of its capital expenditure; and the setting of virement limits.
- 3.4 The Budget and Policy Framework Procedure Rules in the Constitution, prescribe the Budget setting process, which includes a minimum consultation period of three weeks. The timescale required to implement this process is outlined below:

16 December 2014	Executive	Draft HRA 2015/16 Budget (incorporating savings)
17 December 2014	Overview & Scrutiny	Draft HRA 2015/16 Budget (incorporating savings)
20 January 2015	Executive	Final HRA 2015/16
21 January 2015	Overview & Scrutiny	Final HRA 2015/16 Budget (incorporating savings)
28 January 2015	Council	Final HRA 2015/16

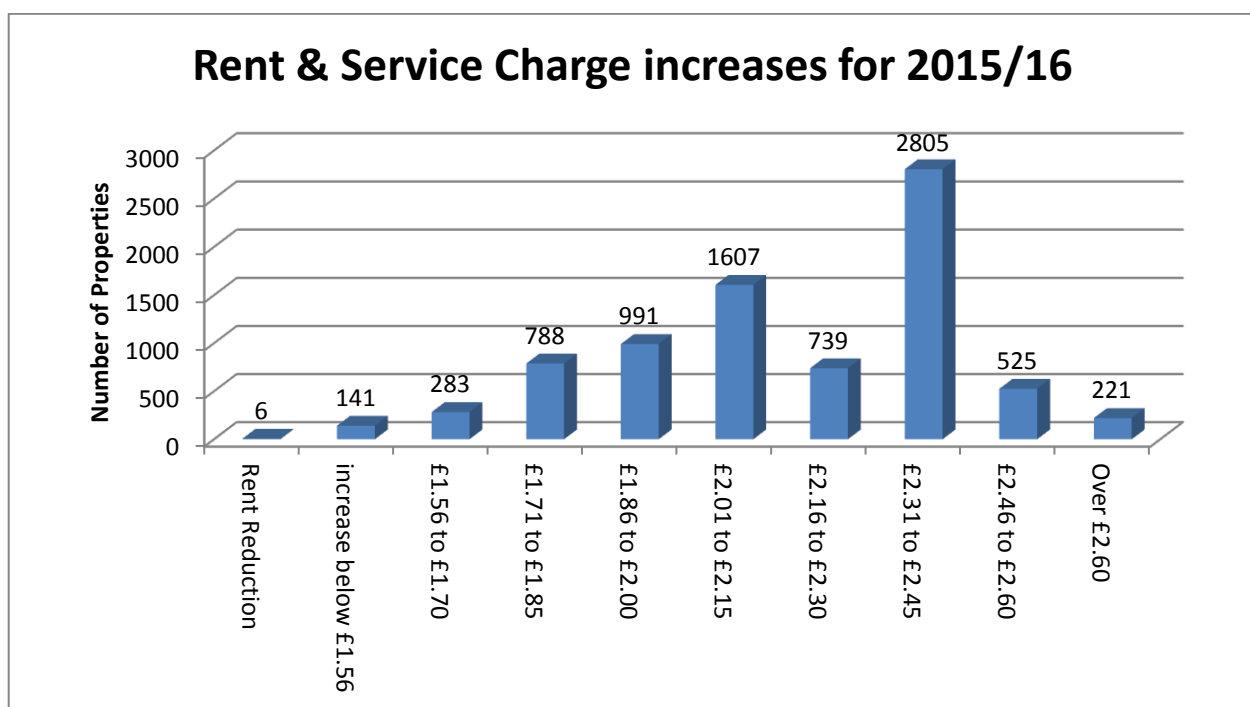
4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Update on the HRA Business Plan

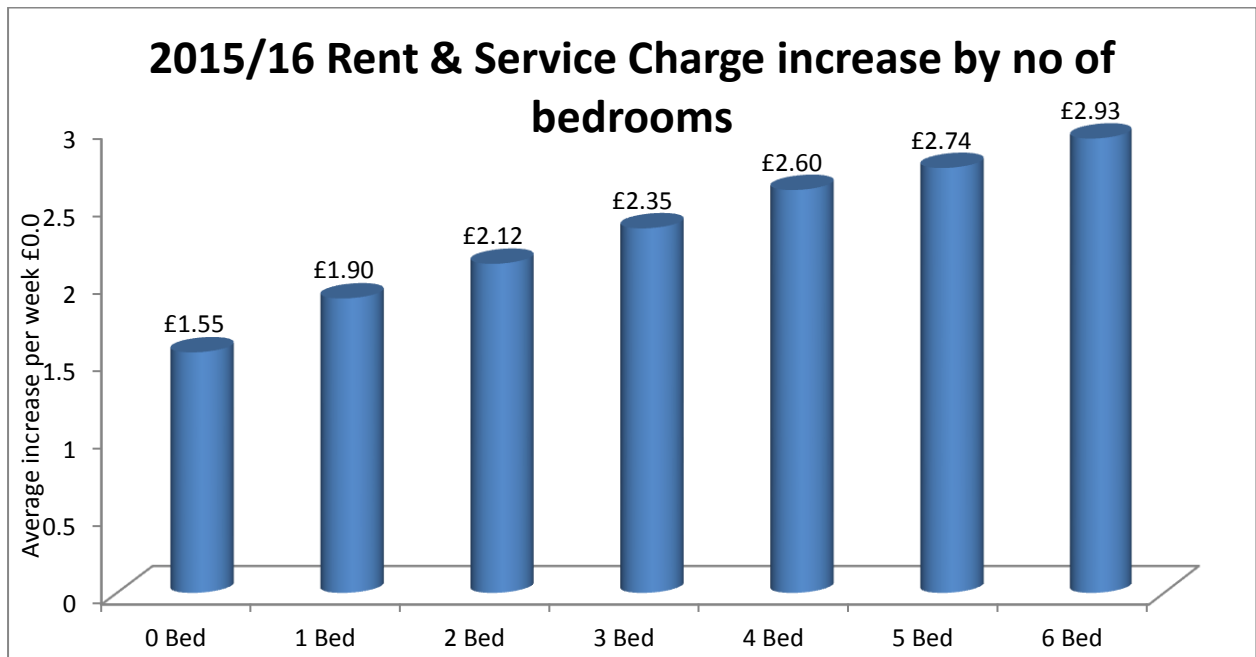
- 4.1.1 **Rental income** – In 2002/03 the Government introduced its Rent Restructuring policy which was intended to converge the rents of all social landlords over a ten year period, this was based on the formula Retail Price Index (RPI)+0.5%+/-£2. Since the introduction of self- financing (1 April 2012) deviating from the formula rent increase has not been linked to a loss of subsidy, however the first HRA business Plan was predicated on following that formula rent policy.
- 4.1.2 The Government announced in July 2013 its intention to change the current rent formula of RPI+0.5%+/- £2, to the Consumer Price Index (CPI)+1%, from 2015/16 onwards. This was intended to give more certainty about rent levels for tenants and assumed that most council properties would have met rent convergence by 2015/16. There were 3,820 properties in Stevenage that would not have rent converged under the old formula by 1 April 2015 and as a consequence this change would result in lower rent yields and therefore less income in the HRA Business Plan. The Council's rent policy was revised to the new formula and was approved at the September 2014 Executive.
- 4.1.3 The rent formula using the September CPI index would mean an average rent increase for 2015/16 of 2.2% (including service charges). Service charges are calculated for each block individually for 2,933 or 36% of SBC properties and the 2015/16 service charges mean some properties have been capped at 2.2% (as per the current rent policy) and some service charges have actually reduced, giving an overall average service charge increase for tenants of 1.44%. The estimated service charge value which could not be recharged to tenants, (exceeding the 2.2% capped increase) has been calculated at £179,088, which is higher than the £99,300 estimated in the December draft report. The increase reflects the impact of some of the growth bids on service charges. As mentioned in the December report a review of service charges will be undertaken in 2015/16 to look at the current charging methodology and the costs the Council currently pays and recharges.
- 4.1.4 The average rental and service charge is now estimated to be 2.18% which is 0.05% higher than quoted in the December report or an additional average 5pence per week. The final weekly average rent and service charge for 2015/16 is estimated to be £100.70, (December report £100.65 per week) and the rent and increase breakdown is summarised in the table overleaf.

Rent:	Rental value	Increase/ (decrease) %
Average Rent 2014/15	£96.46	
Add inflationary increase	£2.12	2.20%
Total Rent 2015/16	£98.58	
Service Charge:		
Service charges 2014/15	£2.09	
Plus Increase in charges	£0.03	
Total Service Charge 2015/16	£2.12	1.44%
Total Rent and Service Charge	£100.70	
Total Increase	£2.15	2.18%

4.1.5 There are 3,816 council tenants (47%) that have a projected total weekly rent and service charge increase of £2.15 or less, previously there were 76 properties where the service charge reduction was greater than the increase in rent, this has reduced to six properties. The highest weekly increase is £3.07, (one six bedroom property). The spread of the 2015/16 rent and service charge increase is summarised in the chart below:

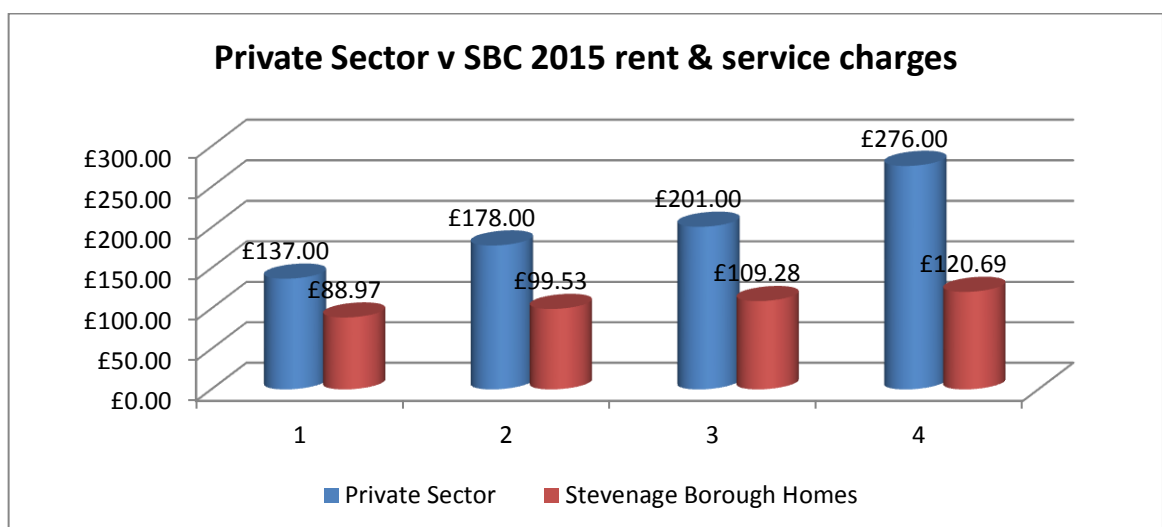


4.1.6 The average rent and service charge increase by bedroom size has been calculated and summarised in the chart below:



4.1.7 The revised Business Plan presented to and agreed at the November Executive assumed a 2.2% rental increase for 2015/16 and identified that a 1% reduction in the rent increase results in a rental loss of £3.945Million over the 30 year Business Plan with £0.405Million lost in 2015/16. This would also have a knock on impact on the capital programme which would need to be re-profiled to be spent in years where there were sufficient resources in the Business Plan.

4.1.8 Comparison between SBC rent and service charges and the private sector, is shown in the chart below for one to four bedroom properties. A three bedroom private sector rental property costs an additional 84% more per week than an SBC home.



Private sector data hometrack November 2014

4.2 New Build Programme

4.2.1 A £2 million new build programme was introduced in 2012/13 alongside HRA self-financing and with the impact of higher Right-to-Buy (RTB) sales the budget was increased by a further 30% of new build receipts.

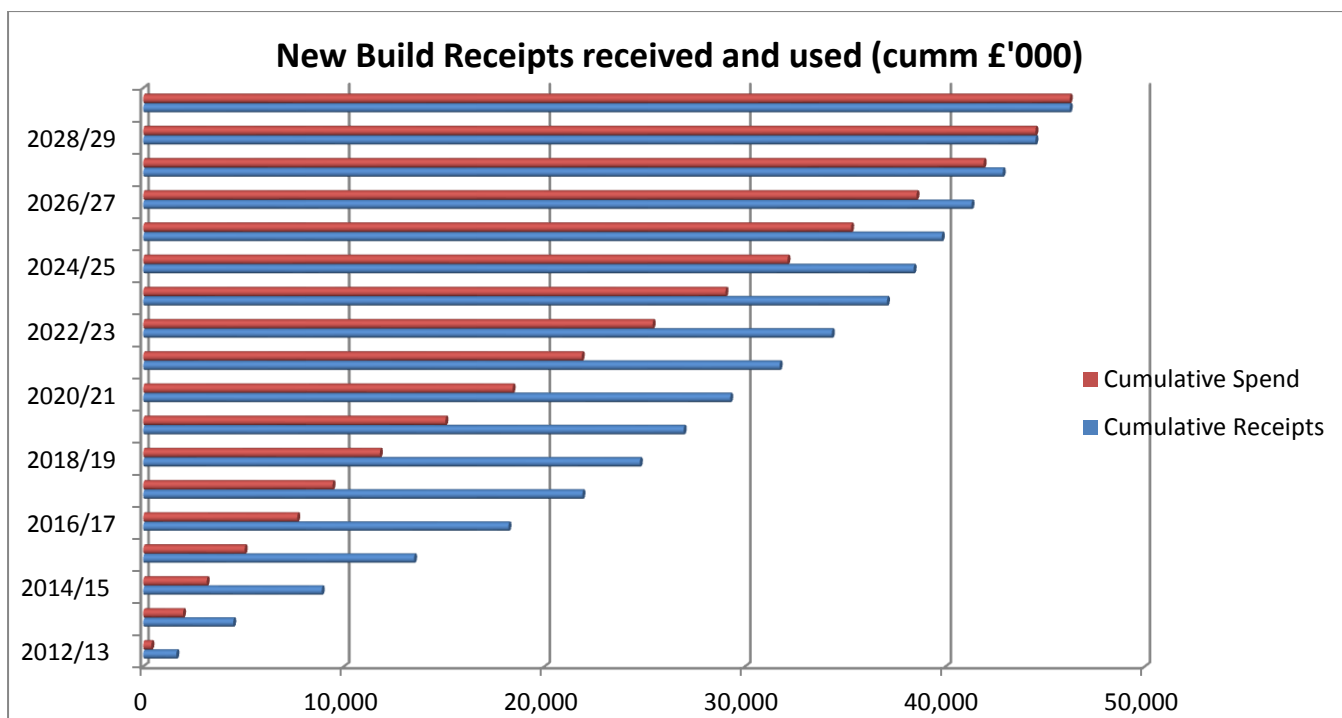
4.2.2 The revised November HRA Business Plan has increased the number of properties to be delivered over the 30 year period with an estimated 559 properties to be built/acquired in the first ten years (1,900 over 30 years), spending an estimated £416Million over 30 years. The programme has been partly funded by maximising the use of both the debt provision and new build receipts.

4.2.3 The level of house building will be reliant on a number of factors which include:

- The assumed level of RTB receipts, number and value of sales being realised.
- House build costs being within the assumptions contained within the model.
- The assumed amount of RTB receipts paid over to the Government. New consultation released in November 2014 indicates the Government's intention to increase their share of the receipt (in line with its assumed increase in RTB receipts), which is £51,948 and £23,834 higher than the assumed increase contained within the Business Plan for 2015/16 and 2016/17 respectively. These changes identified in the following table will be adjusted for in the next update to the business plan in July 2015.

Impact of November 2014 consultation	£	£	£	£	£	£
	2015/16	2015/16	2015/16	2016/17	2016/17	2016/17
Increase (Decrease) of Annual Budget compared with the HRA Business Plan	HRA BP Nov 14	Proposal by CLG 17/11/14	Annual Increase	HRA BP Nov 14	Proposal by CLG 17/11/14	Annual Increase
Pooling payable to Treasury	820,265	872,213	51,948	848,379	872,213	23,834

4.2.4 The revised Business Plan assumes that by 2028/29 all new build receipt balances will be fully utilised (as the expenditure on new build increases and RTB sales fall). Failure to use receipts within the specified three year time period means those receipts have to be returned to the Government at an interest rate of 4% above the base rate, giving a current interest charge of 4.5%. The amount of new build receipts will be reduced if the pooling percentages due to the Government increases as outlined above. It is not anticipated this will impact on the Business Plan in the first ten years as sufficient resources are available.



4.3 Consultation

4.3.1 The HRA Business Plan was agreed by the Executive in November 2014, along with the associated growth proposals that have been included in the draft 2015/16 HRA budget. The plan was developed in consultation with the Housing Management Board (HMB), which includes one leaseholder and three tenant representatives. HMB was broadly supportive of the investment priorities identified and the programme of actions proposed through the HRA Business Plan Delivery Plan.

4.3.2 The HRA Business Plan incorporated an assessment of customer feedback information, including the results of the satisfaction survey of general needs tenants (STAR), the outcomes of surveys of residents who receive older persons' support services and an analysis of customer complaints. This information influenced the identification of a number of Delivery Plan projects and the related investment and growth requirements that have been built into the HRA budget. Key messages are:

- Tenants' top priorities are repairs and maintenance, the overall quality of their home and keeping customers informed
- There should be a focus on getting repairs 'right first time' and on investing in individual homes and external works
- Levels of satisfaction with the quality of cleaning and repairs in communal areas are relatively low compared to other aspects of the housing service
- Satisfaction levels with the council's housing support services for older people remain high and these services have a positive impact on residents' independence, safety and security and wellbeing.
- Areas of the service receiving the highest level of complaints within the Housing Management Service were Anti-Social Behaviour (ASB)/nuisance, tenancy management and gardens/trees, whilst the highest levels of

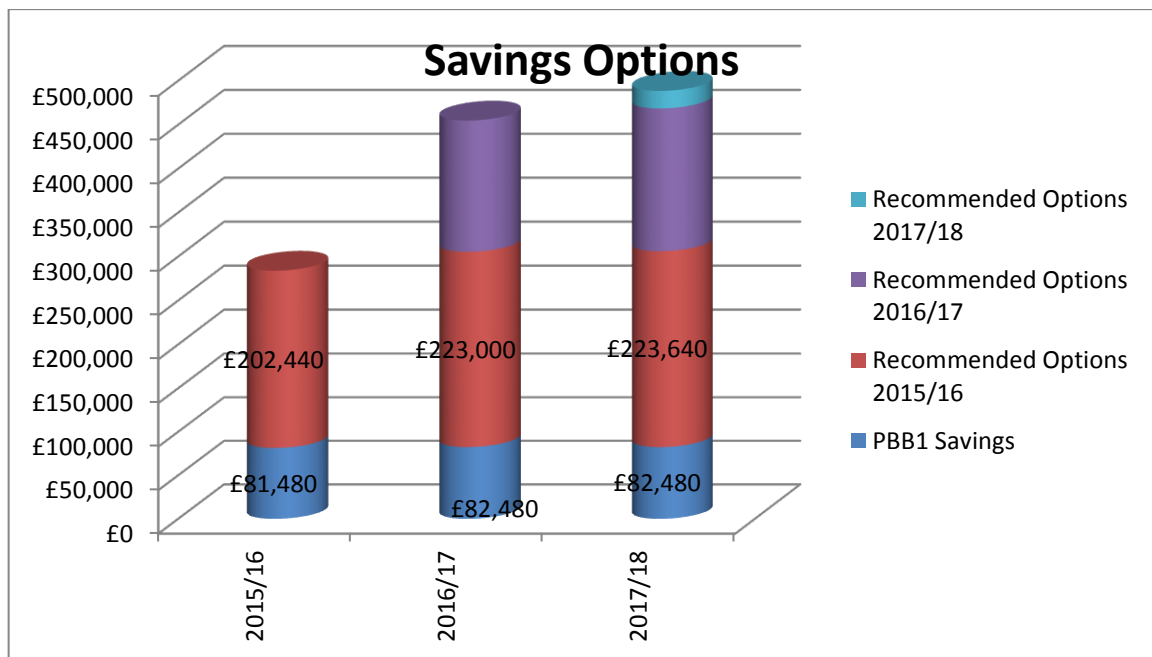
complaints within the Housing Property Service were related to gas maintenance and damp and mould.

4.3.3 The HMB was consulted on the addendum to the Council’s Rent and Service Charge Setting Policy, which was subsequently approved by the Executive in September 2014. Members of HMB were supportive of the proposals but did express their concerns to ensure that tenants are offered value for money for their rent and that any increase can be justified. They also stressed that the rent increase letter for customers should be used to communicate the changes, offering an opportunity to discuss the increase with staff if requested. The rent notification letters have been drafted to take into account this recommendation.

4.3.4 A presentation on the draft 2015/16 rent increase and service charges was given to the HMB meeting on the 18 December 2014. At that meeting the HMB also considered the rent increase letter/leaflet and made amendments.

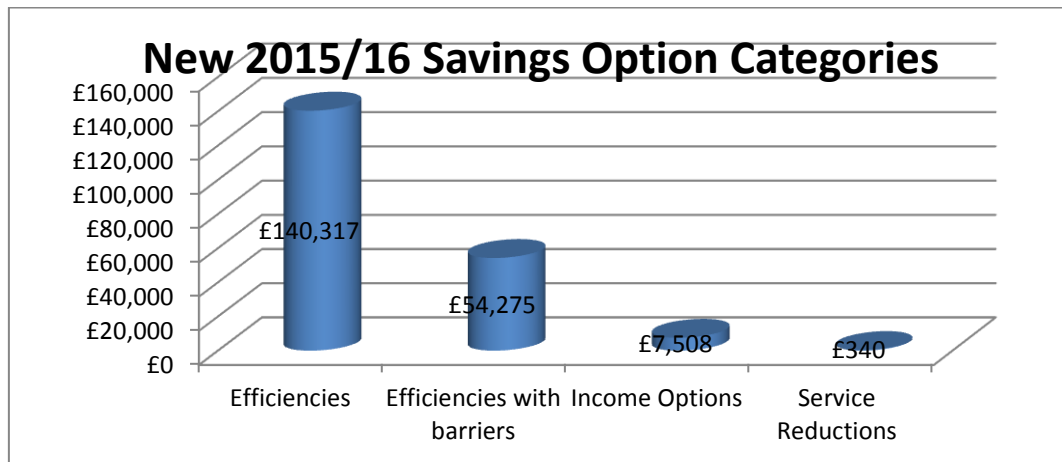
4.4 HRA Savings Proposals

4.4.1 A summary of the HRA savings options are shown in the chart below, the target set for HRA savings in the absence of the Business Plan was £750,000 for 2015/16, however the savings identified and recommended were lower (£299,150) and were incorporated into HRA Business Plan report. The 2015/16 savings package has been included in the HRA draft 2015/16 budget at a total of £283,920 which is £15,230 lower than the November total. The savings relating to later years will be represented for approval as part of the relevant year’s budget approval process.



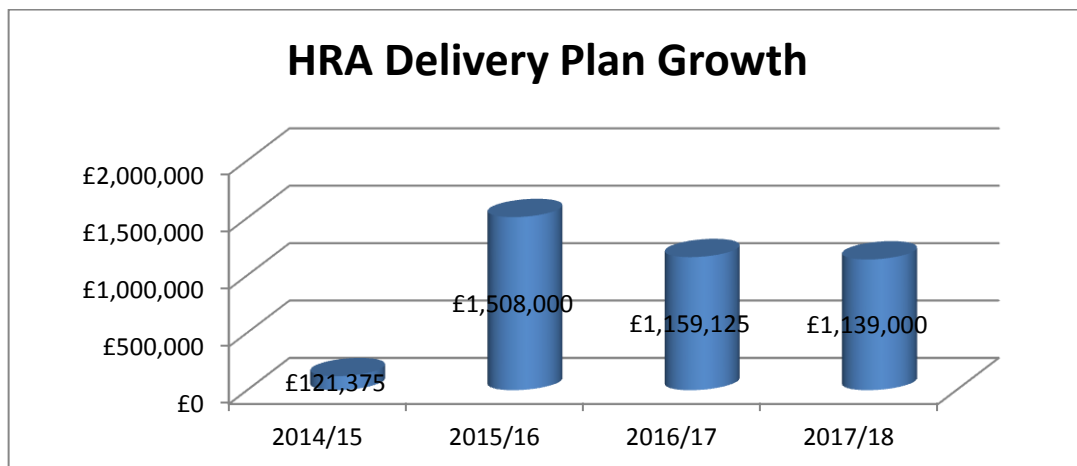
4.4.2 One saving has been withdrawn relating to additional service charges in temporary accommodation (HS17 £10,000) as the additional service charge would not generate the income anticipated due to the 2.2% capped service charges. This initiative will be included in the review of service charges in 2015/16.

4.4.3 The majority of HRA savings are efficiency related and are summarised in the chart below:

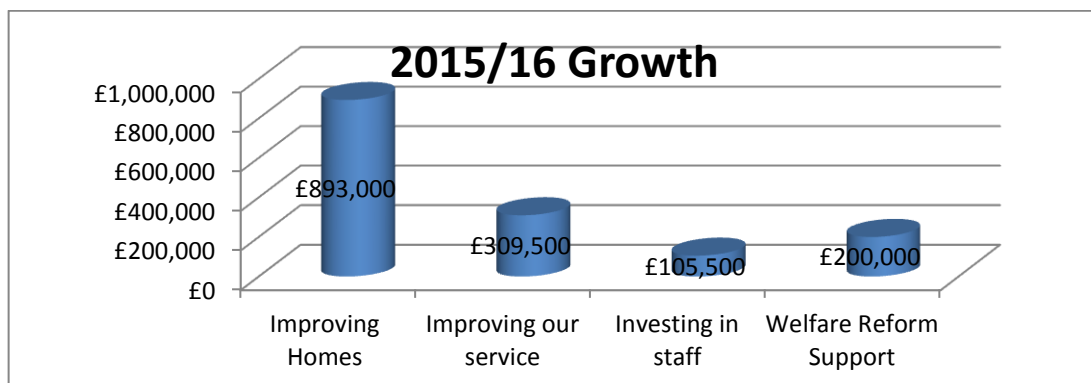


4.5 Revenue Growth

4.5.1 The Growth Options approved at the November Executive as part of the HRA Business Plan report are summarised in the chart below:



4.5.2 The 2015/16 Growth Options have been categorised in the chart below:



4.6 Final HRA 2015/16 Budget

4.6.1 A summary of the changes between the December Executive and the Final budget are summarised in the following table:

	2015/16 Draft Budget £	2015/16 Final Budget £	Variance £
Original Budget 2014/15	(4,725,610)	(4,725,610)	0
Reported Budget Monitoring Adjustments	194,580	194,580	0
Borrowing and interest Charges	5,449,700	5,449,700	0
Capital cost changes	(4,652,930)	(4,652,930)	0
Prior Year Savings and Growth	(130,970)	(130,970)	0
2015/16 Pressures	411,010	484,390	73,380
2015/16 Savings	(293,920)	(283,920)	10,000
2015/16 Growth	1,508,000	1,508,000	0
2015/16 Salary Inflation	144,480	144,480	0
2015/16 Inflation	44,870	37,350	(7,520)
Recharges	70,390	31,590	(38,800)
Rent Increases and Charges	(610,350)	(639,770)	(29,420)
Other Adjustments	(91,620)	(115,820)	(24,200)
Total Contribution to Balances	(2,682,370)	(2,698,930)	(16,560)

()= income or increase income/reduction in spend

4.6.2 The changes can be summarised as follows:

- Increase net cost of the Building Maintenance (BMO) of £73,380 based on the projected income versus cost of labour and materials that needs to be transferred back to the HRA.
- Withdrawal of saving HS17 £10,000 pending the service charge review
- Lower contractual inflation of £7,520
- Reduction in net recharges to the HRA because the Anti-Social Behaviour staff recharge is £38,800 higher to the General Fund based on case load.
- An increase in projected supporting people grant for flexicare users was negotiated at £7,520 for 2015/16 and increased income from service charges of £22,340 as a result of the reapportionment of service charges (paragraph 4.1.3 refers).
- A further review of underspends has identified £24,200 of budgets that can be removed from the HRA base budget.

4.6.3 **The 2015/16 HRA projected budget** surplus is now £2,698,930 which is £176,949 higher than the November MTFs and HRA Business Plan surplus. The impact on the HRA is shown in the table below and these changes will be included in the next update to the Business Plan in July 2015. All HRA balances in excess of the minimum balances held for assessed risks in year, are required to fund the HRA 30 year capital programme. The November Business Plan update identified a

£15.458Million capital programme deficit over the 30 years which will require additional balances, savings or re-profiling of the programme. The deficit identified in the Business Plan is however within the tolerance set by the Chief Financial officer, which is a maximum of 3% of the programme unfunded.

HRA Balances:	2014/15 £	2015/16 £
HRA Balance 1 April	(9,374,739)	(13,498,769)
Use of balances in Year	(4,124,030)	(2,698,930)
HRA Balance 1 March	(13,498,769)	(16,197,699)
Minimum Balances	(2,918,000)	(2,015,421)
Balances Required for Capital Programme	(10,580,769)	(14,182,278)

4.6.4 **The 2014/15 HRA budget** was reported as £4,124,030 in the draft December report and remains unchanged (£28,590 more spend than the working budget and £37,884 higher surplus than included in the November Business Plan). Members are recommended to approve the changes below to be incorporated in to the 2014/15 working budget totalling £28,590 made up of:

- The 2014/15 impact of the Business Plan growth options £121,380
- Budget not required in year for single status increased pay £100,000
- The HRA impact of savings option S109 (payments line) not achieved in 2014/15 £7,210.

4.6.5 The 2014/15 budget also includes the return of the balance on the single status provision of £313,960 which is no longer required. However the same amount has been included in the HRA for anticipated one off restructure costs in 2014/15.

4.6.6 A risk assessment of balances has been completed and is detailed in Appendix E. Previously the Business Plan had assumed minimum balances of £2Million per year and the risk assessment identifies £2,015,421, which is £15,421 higher than assumed in the Business Plan.

4.6.7 The HRA estimated year-end balance as at 31 March 2016 is now projected to be £16,197,699 which is £214,833 higher than the current Business Plan projections and includes £14,182,278 to fund the future capital programme. A balance of £2,015,421 is required for any unforeseen risks are required to fund the future capital programme as outlined in the HRA Business Plan to the November 2014 Executive.

4.8 Scrutiny and Overview Committee

4.8.1 The Overview and Scrutiny Committee received the draft HRA budget and were reminded that this was before them as a Budget and Policy Framework item and any comments made would be incorporated into the final report that the Executive would consider for recommendation to Council in January. The Committee did not wish for any comments to be incorporated into the final report.

5. IMPLICATIONS

5.1 Policy and Financial Implications

5.1.1 The report deals with Council policy and finances and as such all implications are contained in the main body of the report.

5.2 Legal Implications

5.2.1 Legal implications are contained within the body of the report.

5.3 Staffing Implications

5.3.1 There are savings options which were approved at the November Executive. The unions have already been consulted on the options. The Head of Human Resources is co-ordinating centrally the implementation of staff related savings.

5.4 Risk Implications

5.4.1 There are risks to setting a prudent HRA budget for one year in isolation, the impact of decisions needs to be taken over the debt repayment life cycle in the business plan to check affordability in future years. The HRA Business Plan will be updated in July 2015 for any variations identified as part of the 2015/16 draft budget.

5.4.2 There are risks to the HRA MTFs with the long anticipated introduction of Universal Credit. Currently 54% or £20Million of benefit is paid to the HRA from the benefits system rather than to tenants.

5.4.3 There are further risks to the HRA with the loss of council houses through RTB and associated rental loss. An assessment has been made of the likely number of sales for 2015/16 (100).

5.5 Equalities and Diversity Implications

5.5.1 In carrying out or changing its functions (including those relating to the provision of services and the employment of staff) the Council must comply with the Equality Act 2010 and in particular section 149 which is the Public Sector Equality Duty. The Council has a statutory obligation to comply with the requirements of the Act, demonstrating that as part of the decision-making process, due regard has been given to the needs described in the legislation. These duties are non-delegable and must be considered by Council when setting the budget in January 2015.

5.5.2 To inform the decisions about the Budget 2015/16 officers have undertaken Brief Equality Impact Assessments (EqIAs) for service-related budget savings proposals. Where there is a potentially negative impact, officers have identified further action needed to inform a final decision and to mitigate the impact where this is possible. These EqIA were included in the November Report and are appended to this report.

BACKGROUND DOCUMENTS

- BD1 - November Agenda Item 6 - Housing Revenue Account Business Plan

APPENDICES

- Appendix A – 2015/16 HRA budget
- Appendix B – Fees and Charges
- Appendix C- HRA saving options
- Appendix D- HRA Growth bids
- Appendix E- Risk Assessment of balances
- Appendix F- HRA EQIA