

**Meeting:** EXECUTIVE  
Portfolio Area: Housing and Resources

Council Agenda Item:

**2**

**Date:** 21 JANUARY 2014

## **HOUSING REVENUE ACCOUNT FINAL BUDGET PROPOSALS 2014/15 AND RENT SETTING**

### KEY DECISION

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### **1. PURPOSE**

- 1.1 To approve the HRA budgets, including fees and charges and the Rent increase for 2014/2015 for recommendation to Council.

### **2. RECOMMENDATIONS**

- 2.1 That Council be recommended to approve that the HRA dwelling rents be increased, week commencing 7 April 2014 by an average 5.61% or £5.23 per week which has been calculated using the Rent Restructuring Formula, subject to the Government's caps and limits applicable to each property.
- 2.2 That Council be recommended to approve the revised 2013/14 and the 2014/15 HRA budget be approved, as set out in Appendix A.
- 2.3 That Council be recommended to approve the proposed fees and charges as shown in Appendix B.
- 2.4 That Council be recommended to approve the Savings Options totalling £622,850 as shown in Appendix C.
- 2.5 That Council be recommended to approve the Growth Options totalling £468,120 as shown in Appendix D.
- 2.6 That Council be recommended to approve the minimum level of reserves for 2014/15 as shown in Appendix E.

### **3. BACKGROUND**

- 3.1 In July, the Executive approved a revised Medium Term Financial Strategy (MTFS), which assumed a rent increase of 4.83% for 2014/15 and a savings and growth target each of £500,000.

- 3.2 At the November meeting, the MTFs was updated for changes to income and expenditure and a range of savings and growth bids which were approved by the Executive at that meeting for inclusion in the 2014/15 HRA Budget.
- 3.3 A revised projected rent and service charge increase of 5.53%, (based on the September RPI of 3.2%) was also included together with the impact of changing the rent formula to CPI+1%.
- 3.4 The December draft budget report recommended an average rent increase for 2014/15 of 5.62% (including service charges), which was slightly higher than that included in the November MTFs (5.53%). The 2014/15 HRA balance as at 31 March 2015 was projected to be £12,870,480 which was higher than the minimum balance required of £10,249,000, however by 2017/18 HRA balances were projected to be £893,635 lower than the minimum required balances for the year.
- 3.5 This report presents the Council’s revised 2013/14 budget and the final HRA net budget for 2014/15 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.
- 3.6 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:

<b>December 2013</b>	<b>Executive</b>	<b>Draft HRA 2014/15 Budget (incorporating savings)</b>
<b>December 2013</b>	<b>Overview &amp; Scrutiny</b>	<b>Draft HRA 2014/15 Budget (incorporating savings)</b>
<b>January 2014</b>	<b>Executive</b>	<b>Final HRA 2014/15</b>
<b>January 2014</b>	<b>Overview &amp; Scrutiny</b>	<b>Final HRA 2014/15 Budget (incorporating savings)</b>
<b>January 2014</b>	<b>Council</b>	<b>Final HRA 2014/15</b>

3.7 The Scrutiny Overview Committee considered the draft proposals at its meeting on 11 December 2013. However after a full discussion and detailed questioning of officers no changes to the recommendations were proposed.

#### 4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

##### 4.1 Rental Income

4.1.1 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, in order that rents of tenants in similar Council or Register Social Landlord (RSL) properties would be the same by the end of the period. The increase in annual rent is based on a formula which is a maximum of RPI+0.5%+£2. The use of the formula rent increase is not a statutory requirement, however Members will be aware that the HRA business plan was predicated on following the formula rent policy and the rent increase has been proposed in line with the Council's approved rent policy.

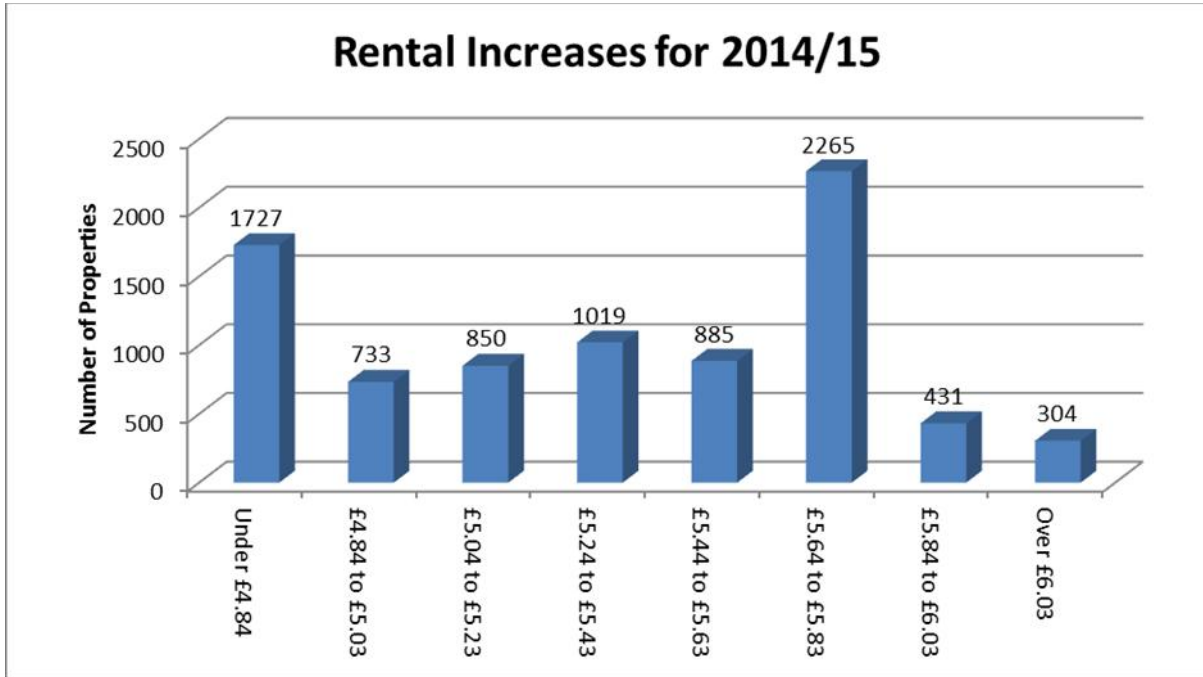
4.1.2 The rent formula uses the September Retail Price (RPI) index which was 3.2%, resulting in an average rent increase for 2014/15 of 5.62% (including service charges). The 2014/15 rent increase of 5.61% is 0.01% lower than that contained within the December draft budget report.

4.1.3 The average rental and service charge increase is summarised in the table below:

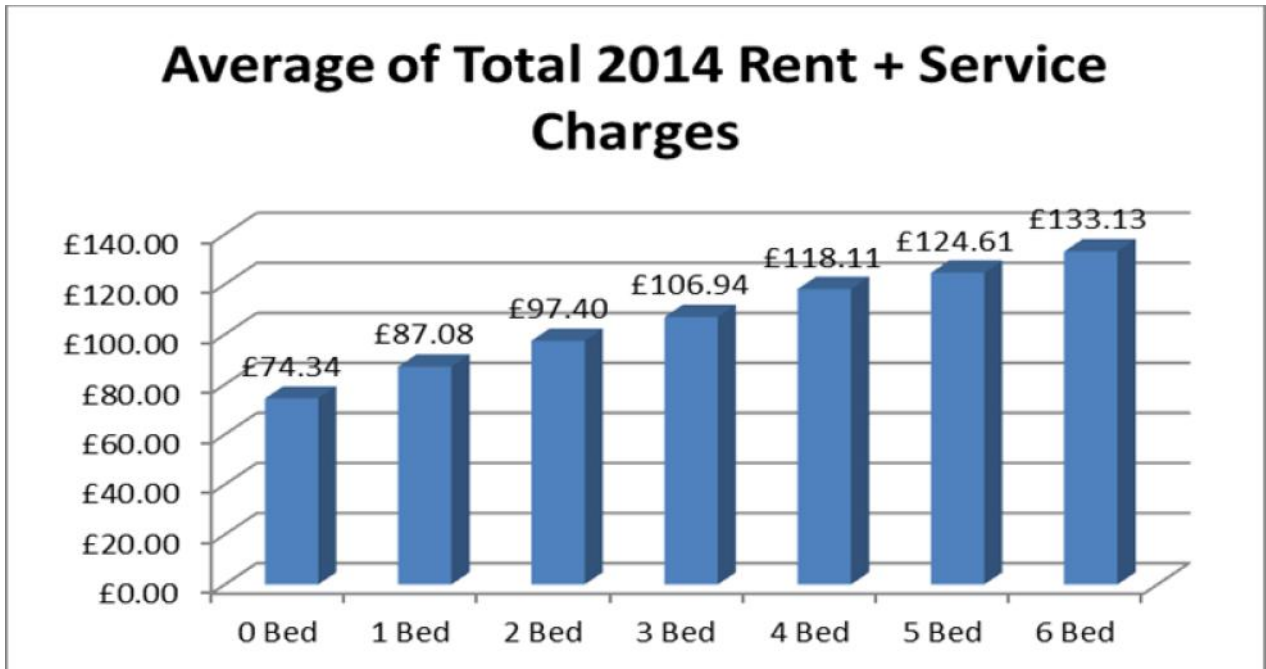
<b>Rent:</b>	<b>Rental value</b>	<b>Increase/ (decrease) %</b>
Average Rent & Service Charge 2013/14*	£93.34	
Add inflationary increase	£3.45	3.70%
Add average rent restructuring increase	£1.78	1.91%
<b>Overall Increase</b>	<b>£5.23</b>	<b>5.61%</b>
<b>Total Rent 2014/15</b>	<b>£98.57</b>	

\*2013/14 figures have been updated to include new build properties

4.1.4 There are 3,310 Council tenants (40%) that have a projected rental increase of less than £5.23 for 2014/15. The highest increase is £6.91 (one property) and the lowest increase is £1.03, (one property). The variation of the 2014/15 rent increase is summarised in the chart below:



4.1.5 The average rent by number of bedrooms has been calculated and summarised in the chart below:



4.1.6 There are a number of factors that are having an adverse impact on the Council's income projections over the life of the 30 year business plan, these are:

- Rent formula calculation change from 2015/16 onwards (CPI+1%) which would mean the 3,820 properties in Stevenage will not reach rent

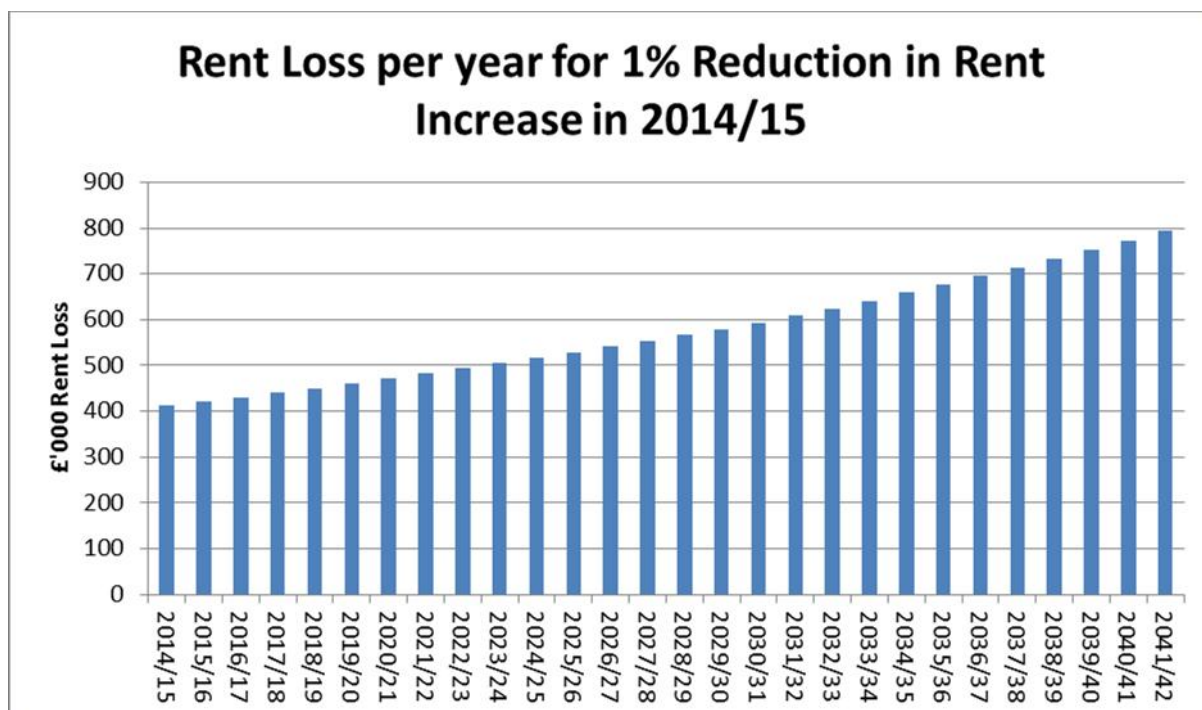
convergence with a consequential loss of rental income (£25.1Million over 30 years)

- Higher RTB sales on current projections together with newly announced government initiatives means reduced rental income to the HRA (£110Million over 30 years, net of new build properties).

This is summarised in the table below:

Description	30 Year Rent Loss (£m)
Loss of rent through additional RTBs	171.430
Loss of rent from CPI+1% from 15/16 onwards	25.130
Increased rent from 13 New Build properties per annum	(61.120)
<b>Net Impact</b>	<b>135.440</b>

4.1.7 Any reduction in the proposed 2014/15 rental increase has an on-going impact on the HRA particularly combined with the RTB sales and moving to a rent formula of CPI+1%, as there would be no mechanism to converge rents in later years. Reducing the rent increase by say 1% lowers rental income by a further £16Million over the 30 years of the business plan, this would be in addition to the £135.4million identified above. These reductions will require a rephasing or reduction in the Council's HRA capital programme. The chart below shows the loss of rental income per year over the life of the Business Plan.



4.1.8 The loss of income may impact on the affordability of the capital programme, however, officers have commissioned a comprehensive review of the housing assets (through Ark consultancy) the findings and proposals from which are due to be presented in March / April 2014. Once finalised and with the appropriate funding / delivery arrangements in place, the Council will have a comprehensive development programme for the short, medium and longer term. Officers also intend to refresh and re-present the HRA Business Plan in June / July 2014 which should incorporate these changes.

## 4.2 New Build Programme

4.2.1 The new build programme was introduced in 2012/13 when HRA self-financing was implemented. This was because the actual self-financing borrowing costs were lower than those originally assumed within the Business Plan. A new build programme of £2Million a year was introduced for the first time in 30 years in Stevenage. Additional resources were approved by Members and added to the programme to enable the completion of two schemes in Wedgewood Way and Hertford Road, resulting in 39 council properties built in 2013/14-2014/15. A further scheme has also been approved at Archer Road.

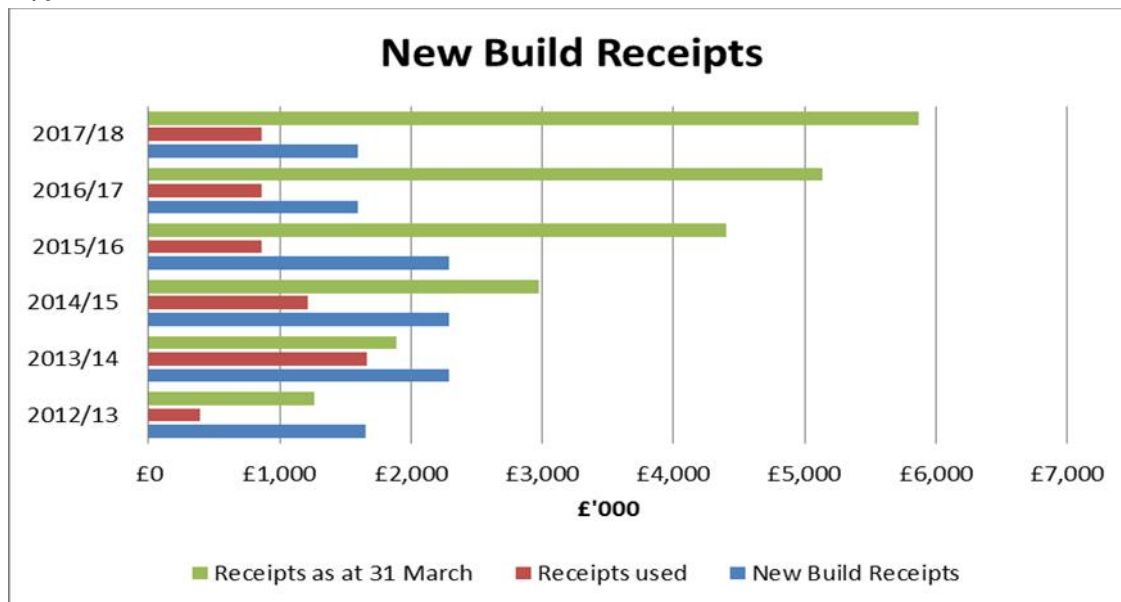
4.2.2 Since the introduction of self-financing the Council is able to retain a proportion of right to buy (RTB) receipts for the provision of providing new council houses. This receipt is generated when the Council sells more RTB's than included within the HRA Business Plan. Sales have dramatically increased, as a result of the government changing the maximum discount value applied to RTB sales, which was increased from £34,000 to £75,000 on the 1 April 2013. New build receipts can be applied to 30% of new build costs with the Council having to provide the remaining 70%. Failure to use the receipts within three years of receipt would mean returning the receipts to the Government with interest at the base rate plus 4%. The increase in sales has also had a detrimental impact on rental income. The sale assumptions together with the rent loss are shown in the table below.

Right to Buy Sales						
	2012/13 (no)	2013/14 (no)	2014/15 (no)	2015/16 (no)	2016/17 (no)	2017/18 (no)
<b>Business Plan (no)</b>	10	10	12	12	12	12
<b>Revised Projection (no)</b>	51	72	72	72	50	50
<b>Business Plan V Revised Projection (no)</b>	<b>(41)</b>	<b>(62)</b>	<b>(60)</b>	<b>(60)</b>	<b>(38)</b>	<b>(38)</b>
<b>Cumm. loss of houses (no)</b>	<b>(41)</b>	<b>(103)</b>	<b>(163)</b>	<b>(223)</b>	<b>(261)</b>	<b>(299)</b>
<b>Estimated Rental Loss (£)* (2013/14 rents average)</b>	(£97,486)	(£342,389)	(£632,468)	(£917,792)	(£1,150,807)	(£1,331,512)

4.2.3 Based on the current level of sales the new build base programme has been increased to £2.85Million per year. There is a disconnect between the level of new build receipts projected over the next few years and the value of the new build programme. There is a 2014/15 growth bid approved by Members in the draft HRA budget to increase officer capacity to facilitate regeneration and development. Contained within the 2014/15 new build programme is



£3.5Million of potential spend, that still needs to be allocated to schemes. Officers are currently identifying options and will be updating Members during 2014/15. The chart below shows that the level of new build receipts increases faster than they are used and by 2017/18 an estimated £5.8Million remains unused. Receipts have to be used within the three years' timescale otherwise some monies may have to be returned to the Treasury at a cost of base plus 4%.



### 4.3 HRA Savings Proposals

4.3.1 A new approach to identifying and prioritising savings options was agreed at a meeting of the Executive on 23 July 2013. That approach, known as Priority Based Budgeting (PBB), is based on a longer term view of the Council's General Fund and HRA budgets and is designed to protect the organisation from future year on year 'salami slicing' of budgets, but more importantly to provide a stable financial environment for the HRA to operate in.

4.3.2 The three years savings package was categorised as follows:

- Category A – Immediate efficiency options
- Category B – Efficiency with barriers options
- Category C – Income generation options (this includes a review of fees & charges)
- Category D – Transformation options
- Category E – Stop / reduce options

4.3.3 The Leader's Services Priority Group (LSPG) was re-convened to take a key role in the 'Challenge and prioritisation' stage of PBB. A cross-party group of nine Members were invited to consider all categories of savings options and to rank them in priority order.

4.3.4 To achieve this, LSPG met on 10 occasions during September and October 2013. During those meetings, Strategic Directors, the Assistant Director

(Housing) and Heads of Service presented savings options. The options were considered in detail by LSPG, before each option was given a final ranking score by every participating Member of the Group.

4.3.5 Each savings option was allocated a score from one to four by each participating Member of LSPG. A saving was recommended for implementation if the options mean average was a score of one or two. Options scoring three or four were not recommended for approval at the current time. A summary of the scoring mechanism is shown below.

Score	Meaning	Appendix A
1.	Implement savings option immediately	Recommended for approval
2.	Propose that the savings option is taken	Recommended for approval
3.	Take the savings option only if necessary	Recommended for Future Consideration
4.	Protect the budget	Not Recommended

4.3.6 In addition to scoring the savings options, LSPG challenged other important aspects of the Council's financial arrangements. This covered:

- The Medium Term Financial Strategies
- The Capital Strategy and the 2014/15 capital programme
- The 2012/13 outturn
- Fees and charges review

4.3.7 The 2014/15 **Revenue Saving Options** approved at the November Executive are summarised in the table below and detailed in Appendix C. The total savings package has increased by £26,700 to £622,850 (2014/15) as a result of changes to savings option HS3 (now HS3a) and a new saving option HS23. The 2014/15 savings package estimated implementation costs of £204,040 have decreased by £19,680 to £184,360 and are included in the revised 2013/14 working budget. The HRA specific savings options are all efficiency related, although there are staffing implications associated with some of them. The Savings are summarised below:

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
HRA savings Options	(92.04)	390.64	724.81	798.96
General Fund savings Options	(92.32)	232.21	258.46	259.46
Total Savings Options	(184.36)	622.85	983.27	1,058.42

**(= net cost to HRA)**



#### 4.4 Revenue Growth

4.4.1 The proposed **Growth Options** approved at the November Executive are detailed in **Appendix D** and summarised in the table below and remain unchanged:

	2014/15	2015/16	2016/17	2017/18
	£,000	£,000	£,000	£,000
Recommended by LSPG	£468	£452	£452	£452

#### 4.5 Revised 2013/14 HRA budget

4.5.1 A summary of the changes between the draft proposals in the December report and the 2013/14 revised budget are summarised in the table below:

2013/14 HRA Budget Changes		
Description	£	Comment
<b>December Reported surplus</b>	<b>(403,660)</b>	
Recharge Changes	(33,940)	Reduction in the HRA's share of CSC and audit fee recharges.
Reduction in Repair & Maintenance budgets	(350,000)	The process of procuring a new contractor for external works is currently underway and officers anticipate that the contractor will be in the mobilisation phase early next financial year. The budget is not required in 2013/14
Increase in staffing costs	25,710	Includes one off impact of housing restructures and includes the impact of implementing the living wage from 1 January 2014.
Savings implementation costs	(19,680)	As a result of the changes to savings options, the projected implementation one off costs have decreased.
CAB grant	21,250	Increased cost of SLA in 2013/14 agreed as part of the welfare reform work and as reported to in the Welfare Reform report to the November Executive.
Relocation incentive payments	(15,000)	The under-occupation policy was agreed in November 2013 and officer project the budget will be partially underspent as a result.
Tenant Consultation expenses	(3,500)	Resident involvement has been planned for the remainder of the year and an underspend is forecast
Decrease in staff time charged to capital	88,410	The cost estimated to be attributable to capital projects has decreased due to staff vacancies of which some have already been previously incorporated into the working budget.
<b>Total Changes</b>	<b>(286,750)</b>	Total value of all the changes listed above
Post December Budget	<b>(690,410)</b>	

#### 4.6 Draft HRA 2014/15 Budget

4.6.1 A summary of the changes between the draft HRA budget and the final budget are summarised in the table overleaf:

HRA Budget Proposals  
2014/15 Savings Options, Growth  
and Updated Financial Strategy

2014/15 HRA Budget Changes		
Description	£	Comment
<b>December Reported surplus</b>	<b>(4,564,400)</b>	
Reduction in utility costs	(138,010)	The December report identified a review of projected heating charges and the outcome is a reduction in anticipated increased costs based on usage and projected inflation increases.
Recharge Changes	19,430	Waste disposal recharges to the HRA have increased as a result of higher projected void and junk disposal costs.
ICT charges	5,300	This is the HRA share of the software charges relating to the new INTRANET costs.
Staffing costs	1,540	Increase in staff budgets.
Increase in Savings Options	(24,620)	Two savings options presented to the November Executive have changed and result in further savings to the HRA.
Reduction in Rental & Service Charge Income	8,830	The average rental & service charge income has reduced by £0.02 as a result of the review of service charge costs and therefore reduces the projected income for the year
Reduction in Heating Service Charges	49,250	The December report identified a review of projected heating charges and the outcome is a reduction in anticipated increased costs based on usage and projected inflation increases.
Increase in staff time charged to capital	(82,930)	The cost estimated to be attributable to capital projects has increased since the December report, which includes some slippage on the HRA capital programme into 2014/15.
<b>Total Changes</b>	<b>(161,210)</b>	Total value of all the changes listed above
Post December Budget	<b>(4,725,610)</b>	

*( )= income or increase income/reduction in spend*

#### 4.7 HRA Reserves

4.7.1 The 2014/15 HRA projected budget is now a £4,725,610 surplus which is £161,210 higher than the December draft HRA budget and £105,161 higher than the November MTFS.

4.7.2 A risk assessment of the level of balances required for the 2014/15 HRA has been completed and is detailed in Appendix E. The HRA balances as at 31 March 2015 are projected to be £13,318,443, which is £3,151,235 higher than the minimum balances (Appendix E).

4.7.3 The minimum balances required to be held within the HRA are currently being reviewed as a result of the projected loss of rental income outlined in paragraph 4.1 above. This work will be combined with a review of the stock data and will be updated in the July 2014 MTFS. This is to ensure the 30 year capital and debt repayment programme are affordable.

4.7.4 The HRA will be required to hold higher cash balances than would normally be expected in the first 10 years. This is because when the Council took the

borrowing to fund the £200Million Self-Financing payment to the Government, it took up the offer of preferential rates of 0.88% below normal rates. Interest rates are at an historic low point, and the Council's treasury team demonstrated the cost of refinancing would be greater (if monies were repaid in the early years and refinanced at a later date), than the cost of the initial borrowing. The balances required in the Business Plan to meet future debt repayments and capital spend are identified below for the next five years. The recommended level of balances can be identified as follows:

Year	Minimum Balances £'000	Risk Assessed Reserves £'000	Reserves held for financing £'000
2012.13	4,903	3,500	1,403
2013.14	6,169	3,000	3,169
2014.15	10,167	2,918	7,249
2015.16	9,063	3,000	6,063
2016.17	13,509	3,000	10,509
2017.18	10,767	3,000	7,767

## 4.8 Consultation

4.8.1 The savings options that were proposed in the November Executive report and included in the 2014/15 draft HRA budget were as a result of previous tenant consultation. In December the Council held a Café Choice event which asked tenants and leaseholders specific questions regarding management and maintenance.

4.8.2 The feedback from Café Choice was that:

- Tenants were keen for us to tackle tenancy fraud
- The repairs service was felt in the main to be good with some minor changes needing to be made.
- Voids feedback suggests that we introduce an incentive scheme,
- The most popular options for rent statements were to have one a year and to have on line statements. Leaseholders were happy to have annual statements.
- The majority of tenants want to receive Housing for You twice a year as part of Chronicle.

4.8.3 Officers will continue to engage with groups of tenants affected by specific changes; via housing matters events and their feedback will be fed into budget process.

## **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 Some of the savings options (Appendix D) which were approved at the November Executive have staffing implications the unions have already been consulted on the options and a Council wide staff EQIA has been prepared and is detailed in Appendix G to this report. 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. A risk assessment of balances has been completed and is shown in Appendix E.

5.4.2 There are further risks to the HRA with the loss of council houses through RTB and associated rental loss together with proposed but yet un-adopted changes to rent calculations, (e.g. 2015/16 CPI+1%).

### **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 Act replaced three previous equality legislations – the Race Relations Act (section 71), the Sex Discrimination Act (section 76A) and the Disability Discrimination Act (section 49A). 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 2014.

5.5.2 To inform the decisions about the Budget 2014/15 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 where necessary have been updated and are appended to this report (Appendix F).

## **BACKGROUND DOCUMENTS**

- BD1 -July Agenda Item 7-General Fund and Housing Revenue Account Medium Term Financial Strategies (2014/15-2016/17)
- BD2- December draft HRA rent setting report
- BD3 – Minutes – Overview and Scrutiny Committee – 11 December 2013

## **APPENDICES**

- Appendix A – Summary 2014/15 HRA budget
- Appendix B – Fees and Charges
- Appendix C –Savings Options
- Appendix D- Growth Options
- Appendix E- HRA Assessment of Minimum Level of Balances
- Appendix F- HRA EQIA
- Appendix G-Council wide staffing EQIA