

Meeting: EXECUTIVE / COUNCIL

Council Agenda Item:

3

Portfolio Area: Resources

Date: 24 JANUARY 2017 / 31 JANUARY
2017

**HOUSING REVENUE ACCOUNT FINAL BUDGET PROPOSALS 2017/18 AND RENT
SETTING**

BUDGET & POLICY FRAMEWORK

Author – Clare Fletcher Ext. No. 2933
Lead Officer – Clare Fletcher Ext. No. 2933
Contributors - Housing Management Team
Finance Team (HRA)
Anita Thomas Ext No 2430
Contact Officer – Clare Fletcher Ext. No. 2933

1. PURPOSE

- 1.1 To update Members on the draft proposals on the HRA budgets and rent setting for 2017/18, to be considered by Council on 31 January 2017.
- 1.2 To propose the 2017/18 Rent levels.
- 1.3 To propose the 2017/18 Service Charge levels.
- 1.4 To propose the 2017/18 Fees and Charges increases.
- 1.5 To update Members on the 2016/17 and 2017/18 HRA budget, incorporating any revised income and expenditure assumptions for 2016/17 and 2017/18.

2. RECOMMENDATIONS

- 2.1 That Council be recommended to approve that HRA dwelling rents not subject to the 1% rent reduction (currently Low Start Shared Ownership LSSO's) be increased, week commencing 3 April 2017 by 2% i.e. £2.13 per week which has been calculated using the existing rent formula, CPI +1% in line with the 2016 Rent and Service Charge Policy approved at the November Executive.
- 2.2 That Council be recommended to note that HRA dwelling rents (other than those outlined in 2.1) are subject to the 1% rent reduction from week commencing 3 April 2017 or £0.97 and £1.70 per week for social and affordable rents respectively, as outlined in the Government's Welfare Reform and Work Act 2016.

- 2.3 That Council be recommended to approve the final 2017/18 HRA, as set out in Appendix A.
- 2.4 That Council be recommended to approve the proposed fees and charges be approved as shown in Appendix B.
- 2.5 That Council be recommended to approve the proposed 2017/18 savings options as outlined in Appendix C.
- 2.6 That Council be recommended to approve the proposed 2017/18 growth options as outlined in Appendix D.
- 2.7 That Council be recommended to approve the 2017/18 service charges.
- 2.8 That Council be recommended to approve the minimum level of reserves for 2016/17 as shown in Appendix E to this report.
- 2.9 That Council be recommended to approve the increase of £149,570 to the 2016/17 HRA working budget be approved.
- 2.10 That Council be recommended to approve the Rent and Service charge Policy approved at the November Executive and as shown in Appendix G.
- 2.11 That the contingency sum of £250,000 within which the Executive can approve supplementary estimates, be approved for 2017/18 (unchanged from 2016/17).

3. BACKGROUND

- 3.1 In November 2016, the Executive approved a revised HRA Business Plan which was an update on the previous plan approved in 2014. The revision was required because of the significantly negative financial impact of government legislation, (Welfare Reform and Work Act 2016 and the Housing and Planning Act introduced 2016) on the future financial viability of the existing plan. The single biggest known financial loss of income is as a result of the four year 1% rent reduction legislated for the period 2016/17-2019/20, which has had an estimated £225Million loss of income over a 30 year period.
- 3.2 In the Autumn Statement the Government revised the compulsory nature of 'pay to stay' for tenants earning over £31,000 so the council will not have to introduce this for 2017/18.
- 3.3 The Government is yet to announce the regulations around the higher value void levy, but did signal in the Autumn Statement that the pilot would be extended to a further 3,000 housing association properties, but it was not clear who would pay for this. A letter from the Minister on the 24 November stated that 'The Government will fund the expanded pilot so I can confirm that we will not be requiring Higher Value Asset payments from local authorities in 2017/18'. The HRA business plan and the 2016/17 and draft 2017/18 HRA budget makes assumptions regarding payment of a higher value void levy as shown in the following table.

Estimated cost of higher value voids	2016/17	2017/18	2018/19	2019/20	2020/21 & future years	Total
Number of high value voids sold	3	6	6	6	156	177
Levy Paid (capital) £'000	£348	£711	£732	£756	31,628	34,175

3.4 The 2016 HRA Business Plan budget options approved in November have been incorporated into the revised 2016/17 and 2017/18 HRA revenue budgets, a summary of the financial assumptions for 2016/17 and 2017/18 from the HRA plan are shown in the table below. This includes provision for refinancing of £3,500,000 of debt in 2017/18.

Financial Assumptions included in the HRA BP	2016/17	2017/18
Rent & Service Charge Increases (from 2015/16 at CPI+1%)	1% rent reduction for general stock and 1%+CPI for LSSO's and relets to formula rent	
New Build	50% Affordable 50% Social	
Right-to-Buys	50	50
Bad debt rates	0.60%	0.60%
Recovery of costs/reduced expenditure on Supporting People (approved November Executive)	(38,270)	(145,140)
2015/16 Delivery Plan reductions included in BP (approved November Executive)	(141,470)	(418,970)
2017/18 Savings included in the BP	0	(110,806)
2017/18 Growth Assumptions (3 years)	0	520,000
Capital Programme new Build	9,559,512	7,467,897
Capital Programme Excl new Build	17,816,720	9,394,284
Capital Programme ICT & Equipment (now includes vehicles 10 year life)	498,720	782,718
New Build - Number of Units	32	66
Repayment of Debt	0	3,741,000
New loans	0	3,500,000
Capital Deficit in the Business Plan	0	0

- 3.5 The Budget and Policy Framework Procedure Rules in the Constitution, prescribe the Budget setting process, which includes a minimum consultation period of three weeks. Under Article 4 of the Constitution, the Budget also 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. The timescale required to implement this process is outlined below:

14 December 2016	Executive	Draft HRA 2017/18 Budget (incorporating budget options)
15 December 2016	Overview & Scrutiny	Draft HRA 2017/18 Budget (incorporating budget options)
24 January 2017	Executive	Final HRA 2017/18
25 January 2017	Overview & Scrutiny	Final HRA 2017/18
31 January 2017	Council	Final HRA 2017/18

- 3.6 This report presents the Council’s final HRA net expenditure for 2017/18 taking account of the financial assumptions in paragraph 3.4. In addition, any known pressures and budget reductions have been included.
- 3.7 This report also includes the changes Rent and Service Charge Policy in relation to not adopting pay to stay for tenants as agreed at the December 2016 Executive (Appendix G).

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Rents

- 4.1.1 In 2015 the Government introduced the Welfare Reform and Work Bill. This Bill changed the provisions for setting social rents, by legislating that social housing rents in England are reduced by 1% a year for four years from April 2016. 2017/18 will be the second year when a 1% rent reduction (excluding LSSO properties) will be applicable for councils with housing stock.

4.1.2 The impact of the 1% rent reduction on an average rent can be seen in the following table. Over the four year period a CPI+1% increase would be 9.55% increase in average rents compared to a 3.94% reduction, giving an overall difference of 13.49% and an estimated rent loss for four years of £5.5Million.

Impact of 1% rent reduction	2016/17	2017/18	2018/19	2019/20	Incr.(decr.) after 4 years £	Incr./(decr.) after 4 years %
Rent based on CPI+1%	£99.48	£101.47	£104.51	£108.00		
Increase per year	£0.89	£1.99	£3.04	£3.49	£9.41	9.55%
Rent with 1% rent reduction	£97.60	£96.63	£95.66	£94.71		
Decrease per year	(£0.99)	(£0.98)	(£0.97)	(£0.96)	(£3.88)	-3.94%
Overall loss per average property	£1.87	£2.97	£4.01	£4.45	£13.30	
Estimated rent loss per year	£777,711	£1,231,047	£1,663,670	£1,843,108	£5,515,537	

4.1.3 The Government believed that social rents had become out of kilter with private rents and that it would also reduce Housing Benefit expenditure and protect tenants from rising housing costs. The measure was estimated to reduce average rents for households in the social housing sector by around 12% by 2020 compared to 2015 forecasts. It was projected to reduce social landlords' rental income by £2.5bn (2015 prices) and save £1.45bn from the Housing Benefit bill in 2020/21.

4.1.4 The legislation says that the rent reduction should be based on a tenant's rent in the 12 months prior to the first relevant year. The starting point should be the rent on 8 July 2015 – the date on which the intention to legislate regarding rent reductions was announced. The link to rent on the 8 July 2015 was an anti-avoidance provision. There are a few exceptions to that including where no tenancy existed (new properties etc), however in accordance with the Act it ensures that rents for tenancies beginning after the 8 July 2015 will track down in parallel with those of established tenancies.

4.1.5 There are some exceptions to the 1% rent reduction which, for Stevenage Borough Council, includes Low Start Shared Ownership properties (LSSO's). The Council has 92 LSSO properties or 86.45 full house equivalents. This report recommends that these rents are set in line with the rent policy CPI+1% or a 2% increase for 2017/18, (2016/17 increase 0.9%).

4.1.6 For 2016/17 rents there was a one year exemption from the 1% reduction, for supported housing properties, which was given by the Government when the regulations were published. However Members at the January 2016 Council approved a 1% reduction for all the 878 sheltered properties.

4.1.7 The average rent for LSSO's, new affordable rented properties and the rest of the housing stock is summarised in the following table. **The average rents remain**

unchanged from the HRA Draft rent and service charges (December 2016 Executive report).

Rent:	LSSO	Incr./ (decr.) %	social rented housing stock	Increase/ (decrease) %	Affordable rented housing stock*	Incr./ (decr.) %
Average Rent 2016/17	£106.48		£97.52		£169.99	
Add rent impact 2017/18	£2.13	2.00%	(£0.97)	(1.00%)	(£1.70)	(1.00%)
Total 52 week Rent 2017/18	£108.61		£96.55		£168.29	

*affordable rents include service charges and relate to 5 properties

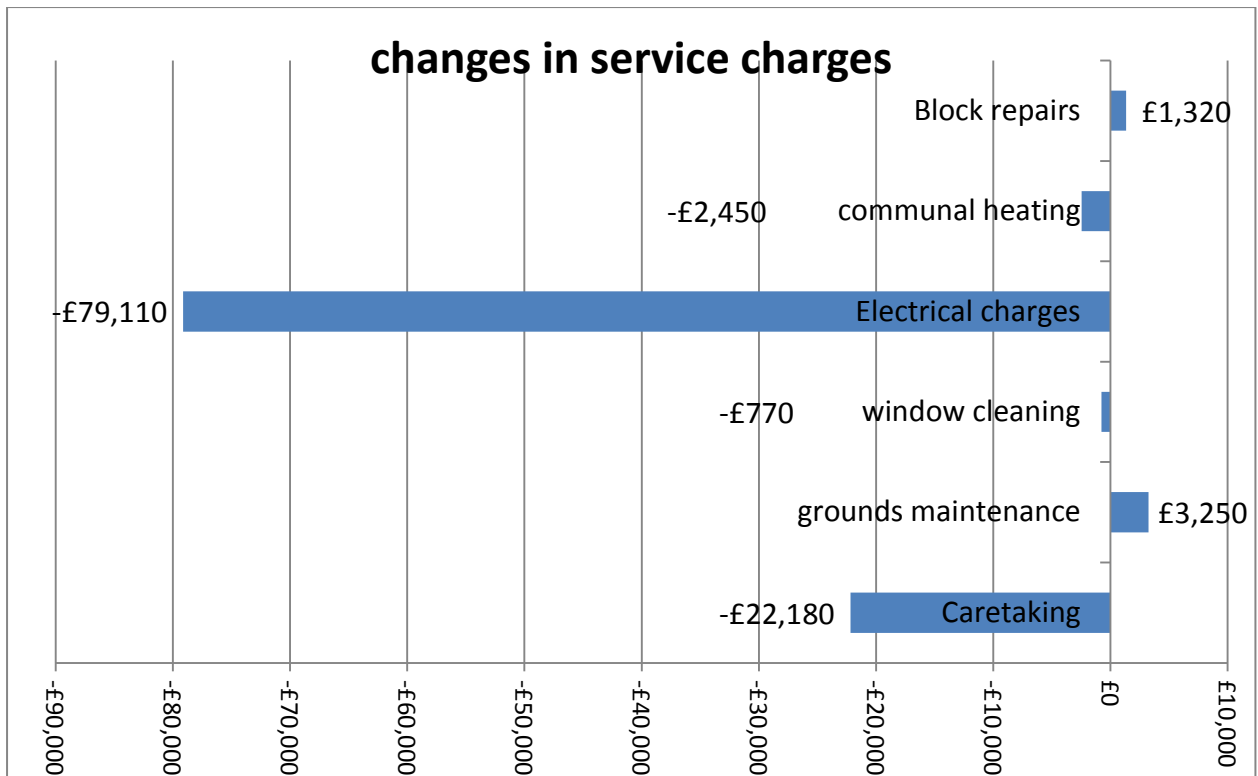
4.2 Service Charges

4.2.1 Service charges are calculated for each block individually for 2,885 (2016/17 estimate 2,932) or 36% of SBC properties. In 2016/17 service charges were capped at a total increase of £3.00 (2015/16 increased by 2.2% based on the average rent increase). The value of capped service charges not recovered in 2016/17 totalled £38,490.

4.2.2 A review of service charges is planned for 2017/18 which will involve tenant consultation before any charges are proposed. The service charges currently provided (which are subject to housing benefit) are shown below.

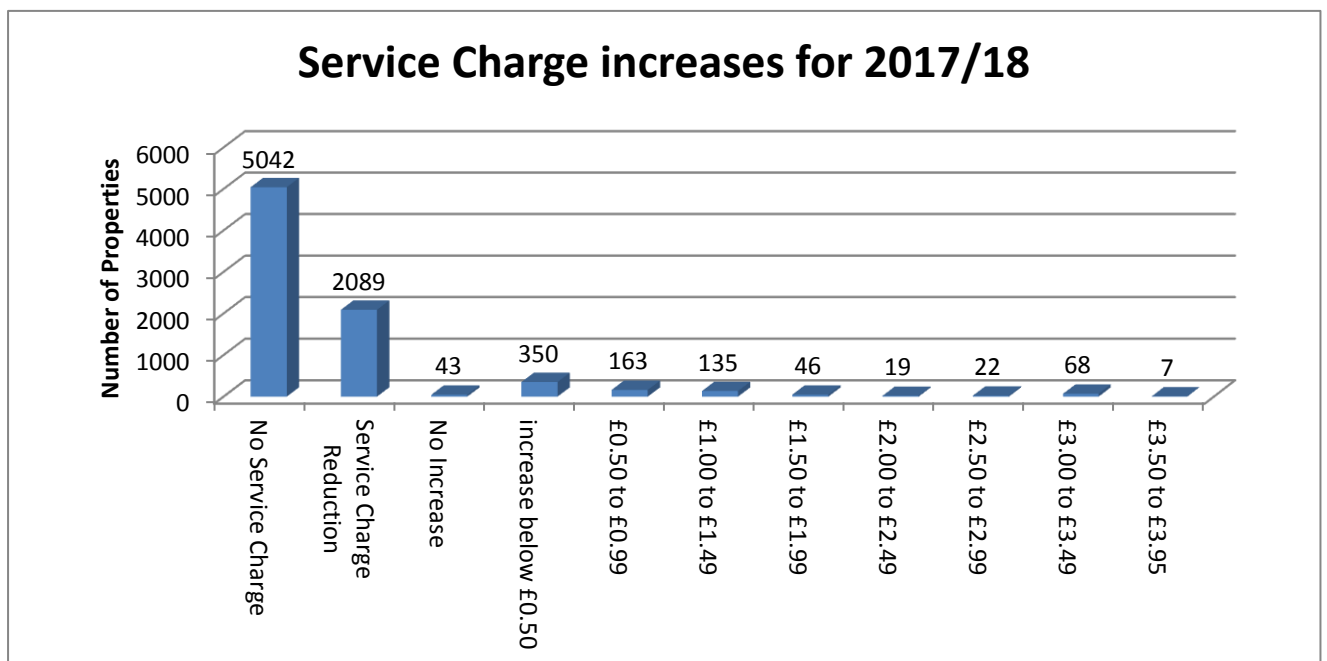
Service Charges:
Caretaking
Grounds maintenance
Window cleaning
Block repairs (including pest control)
Electrical charges
Communal heating

4.2.3 Service charges are not subject to the 1% rent reduction but are based on cost recovery. In 2017/18 there have been reductions in some costs which are then passed on to tenants. Changes in service charges for 2017/18 are shown in the following table. **The service charges remain unchanged from the HRA Draft rent and service charges (December 2016 Executive report).**



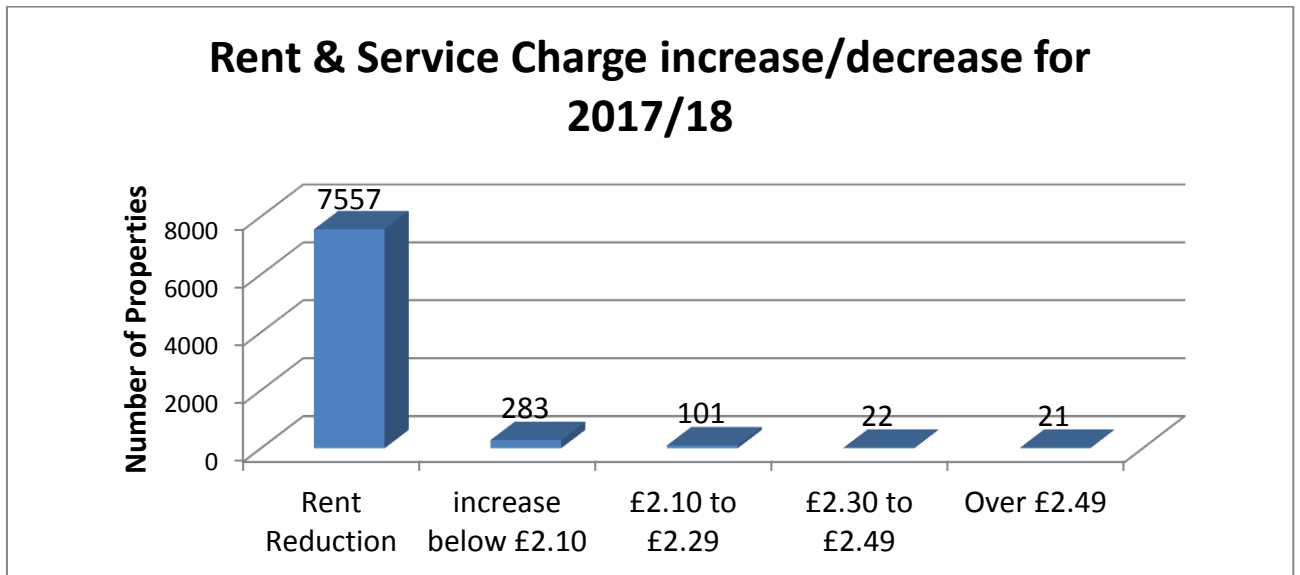
* - = reduction in service charges

4.2.4 Service charges for 2017/18 are shown in the chart below. The impact of the reduction in service charge costs means that 2,089 properties have a service charge reduction with only 810 properties receiving service charge increases.

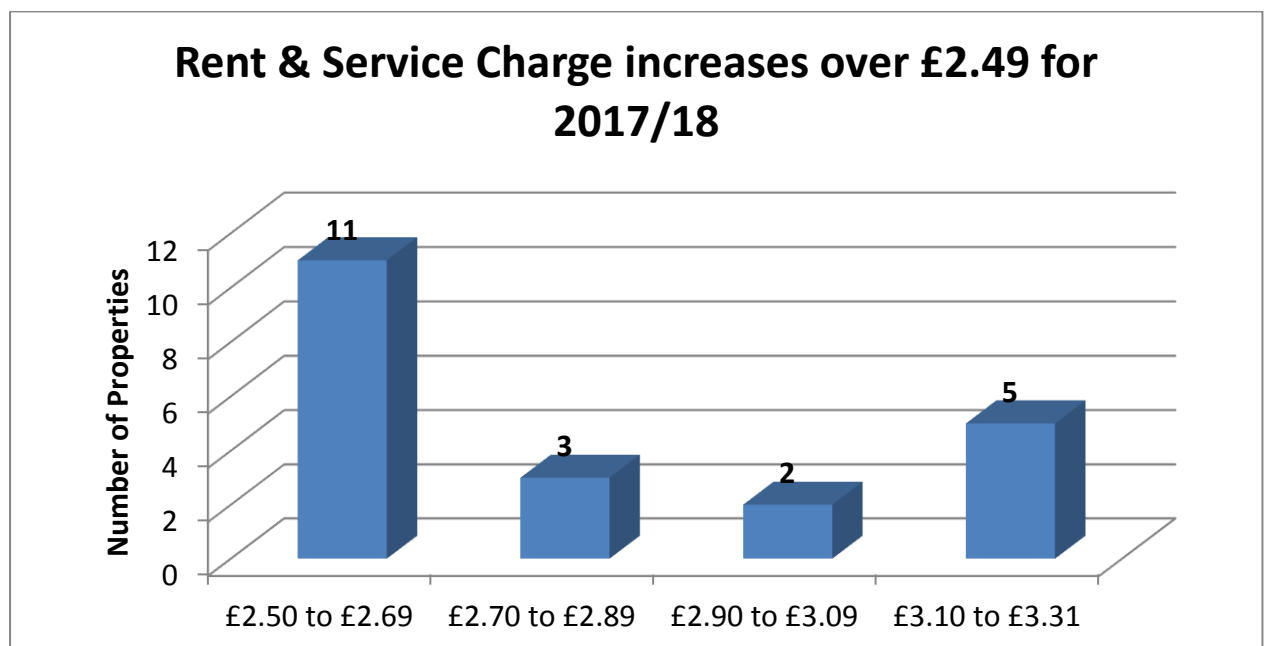


4.3 Rents and Service Charges

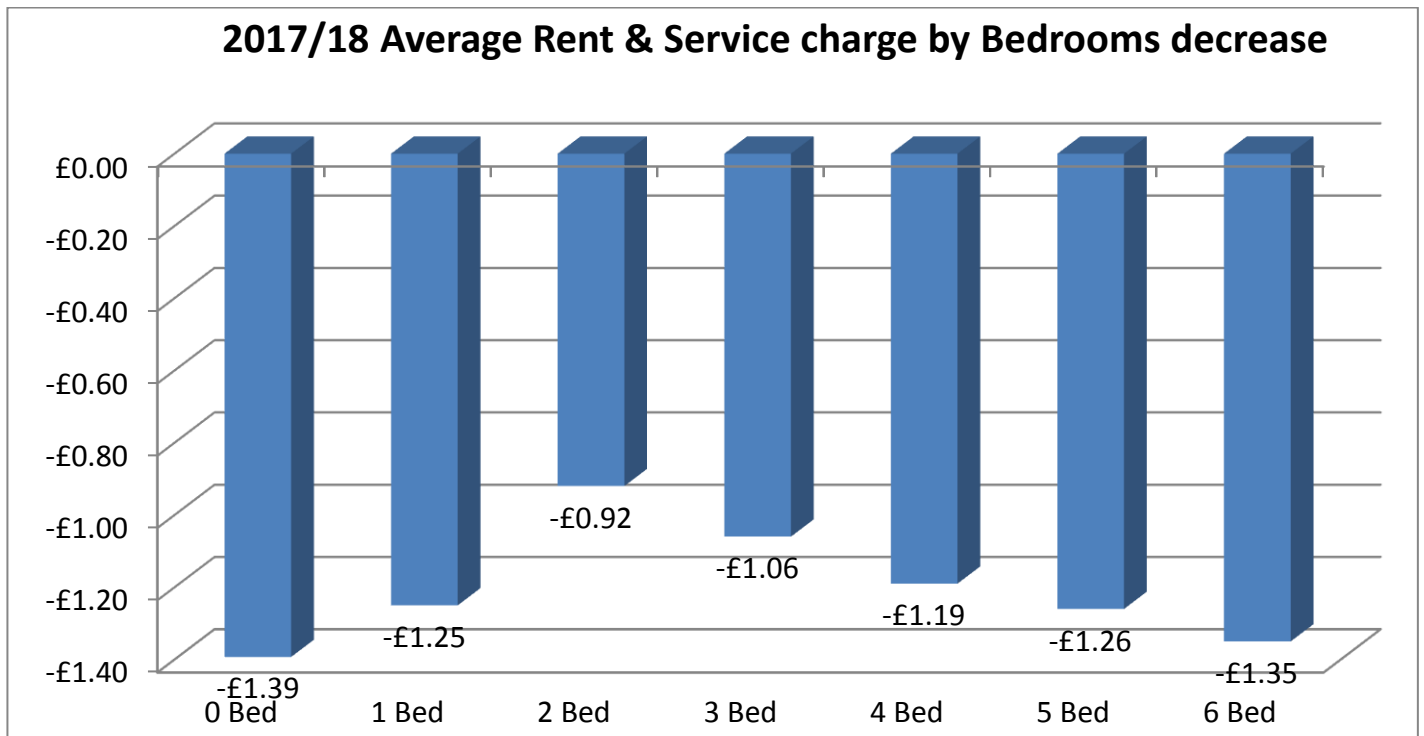
4.3.1 There are 7,557 tenants or 94.6% (2015/16, 5,732 Council tenants) compared to 71% in 2016/17 receiving a rent and service charge reduction. This is predominately because of the reduction in costs for service charges combined with the 1% rent reduction. The spread of the 2017/18 rent and service charge increase is summarised in the chart below.



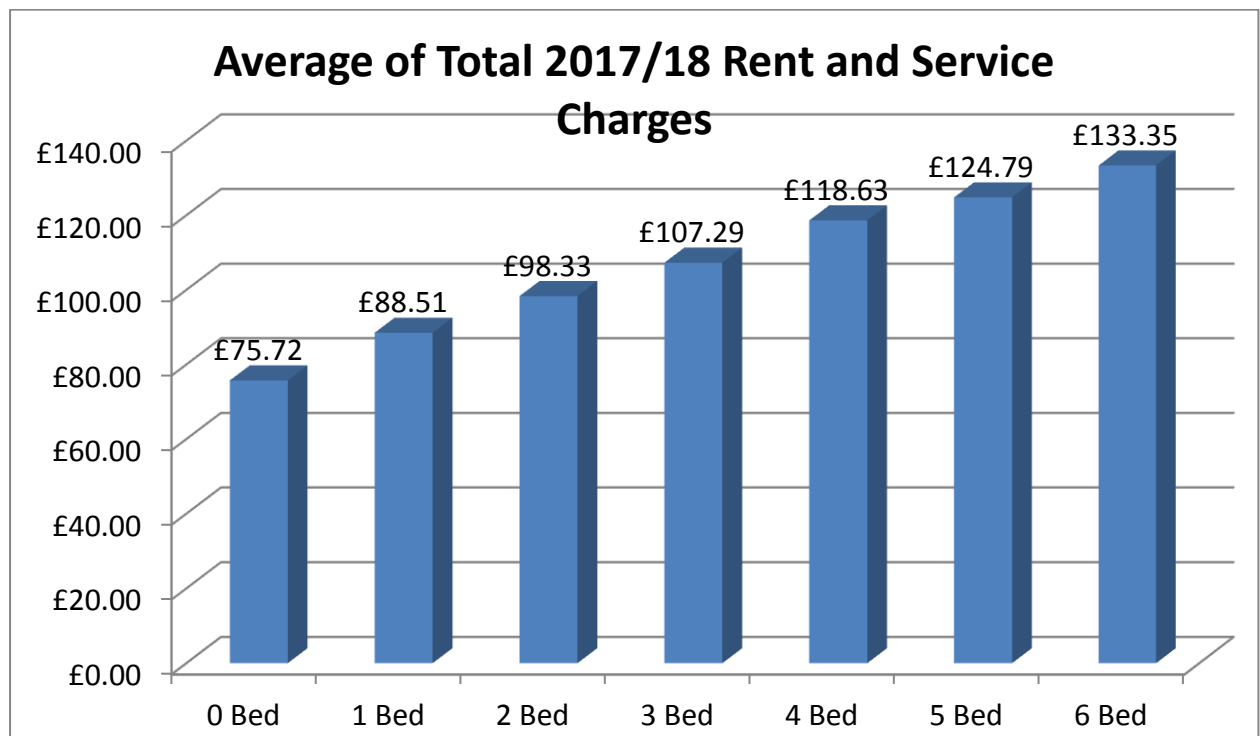
4.3.2 Only 21 properties have an increase of more than £2.49. There are 21 properties with the highest percentage increase for rent and service charges being 4.14% (2016/17 £79.82 to 2017/18 £83.13). There are 10 Properties between 3% and 3.99% and just 2 properties over 4% (4.11% and 4.14%). The increases above £2.49 are shown in the chart below.



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



4.3.4 A comparison has been done between SBC rent and service charges and the private sector. The average 2017/18 rent and service charges for HRA properties are shown below.



4.3.5 The comparison between HRA property rents and private sector rents for one to four bedroom properties is shown in the table below. A three bedroom private sector rental property costs an additional 147% more per week than a SBC council home, even with the increase in service charges, and 44% higher than the affordable let properties.

	SBC Social Rent	SBC Affordable Rent	Median Private Rent	% v SBC Social	% v SBC Affordable
1 Bed Property	£88.47	£121.13	£184.00	108%	52%
2 Bed Property	£98.30	£153.81	£206.00	110%	34%
3 Bed Property	£107.25	£184.60	£265.00	147%	44%
4 Bed Property	£118.28	£228.10	£309.00	161%	35%

Private sector data hometrack November 2016

4.4 Supported Housing Income and Expenditure

4.4.1 Included in the 2014 and 2016 HRA Business Plan approved by Members in November of the respective years there was an assumption that £100,000 of Supported Housing charges would be recovered either from lower costs or higher charges in 2016/17-2018/19.

4.4.2 The business plan was attempting to address the reducing supporting people grant (paid via the County Council) that Members will recall had been withdrawn, (£386,000 by 2015/16). Furthermore a calculation of the cost of the service in 2015/16 was a net cost to the HRA of some £656,000. This has meant that the total cost of the service (apart from a small number of self-funders) is being met from the HRA which is not affordable in the medium to longer term especially now given the impact of the 1% rent reduction.

4.4.3 As part of a review of supporting housing costs a number of non HRA tenants were identified and the cost of the service to these residents (£48,000 in 2015/16) is charged to the General Fund and continues to be so.

4.4.4 Members have approved further budget options and fee increases totalling £149,790 which were included in the 2016 HRA Business Plan and the Financial Security reports to the November 2016 Executive. Members will recall that a phased approach to fee increases was supported by Members in 2016/17.

4.4.5 Members should also note that the majority of the budget options (£127,540) related to cost reduction rather than fee increases.

4.5 Other Fees and Charges

4.5.1 The 2017/18 miscellaneous fee increases have been reviewed and the recommended increases are detailed in Appendix B. The increase in fees and charges has only a minor impact on the 2016/17 HRA budgets £10,970 (2016/17 £6,670). **These remain unchanged from the December Executive report.**

4.6 Inflation

4.6.1 Salary Inflation –The estimated pay award included in the 2017/18 budget has been based on 1%. The estimates included an increase in the superannuation fixed lump sum which has been advised by the pension actuaries based on the latest 2016 triennial valuation. Pay inflation of £257,828 has been included in the draft budget.

4.6.2 Contractual Inflation - Inflation for 2017/18 includes an assumed increase in electricity prices of 8.84% for the year. Gas charges decreased by 15.36% for April to September 2017 with a 12.29% increase assumed for October 2017 to March 2018.

4.6.3 **Total 2017/18 inflation**, (excluding recharges from the General Fund) is estimated at £262,188. The non salary inflation has decreased by £51,510 (compared to the HRA business plan), mainly as a result of lower utility charges (some identified as part of the 2015/16 closure), which has meant lower service charge income from tenants and leaseholders. **Budgeted inflation remains unchanged from the December Executive report.**

4.7 Repairs and Void Service

4.7.1 A report on the improvement plan for the renamed 'Repairs and Void' service was approved at the January 2016 Executive. This included some one off improvement costs and projections for the service for 2016/17 and 2017/18. These projections have been included in the draft 2017/18 budgets. The cost of the implementing the new stores has been included all in the 2016/17 budget, rather than spread over four years 2017/18-2020/21 (see also paragraph 4.17.2).

4.8 Borrowing

4.8.1 The HRA business plan existing loans are an average interest rate of 3.40% based on debt charges for £206.174Million of borrowing. The 2016 HRA Business Plan approved at the November Executive makes allowance for new loans totalling £3,500,000. There are also debt repayments in 2017/18 of £3,741,000 and the budgeted interest charges for the year are £7,017,260. **Borrowing cost estimates remain unchanged from the December Executive report.**

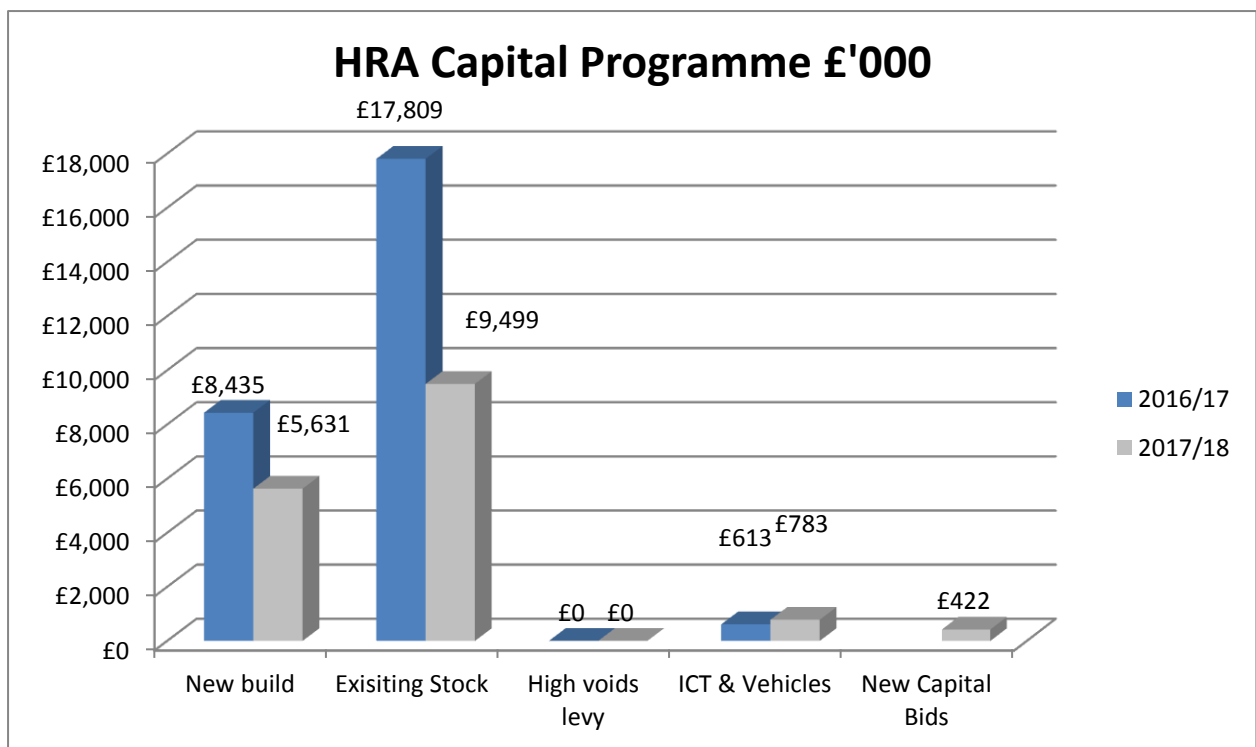
4.9 Contributions to Capital Expenditure

4.9.1 There was no 2017/18 budgeted revenue contribution to capital in the HRA business plan, however the estimate of staff charged to capital schemes was increased as part of the draft HRA budget to the December Executive and a

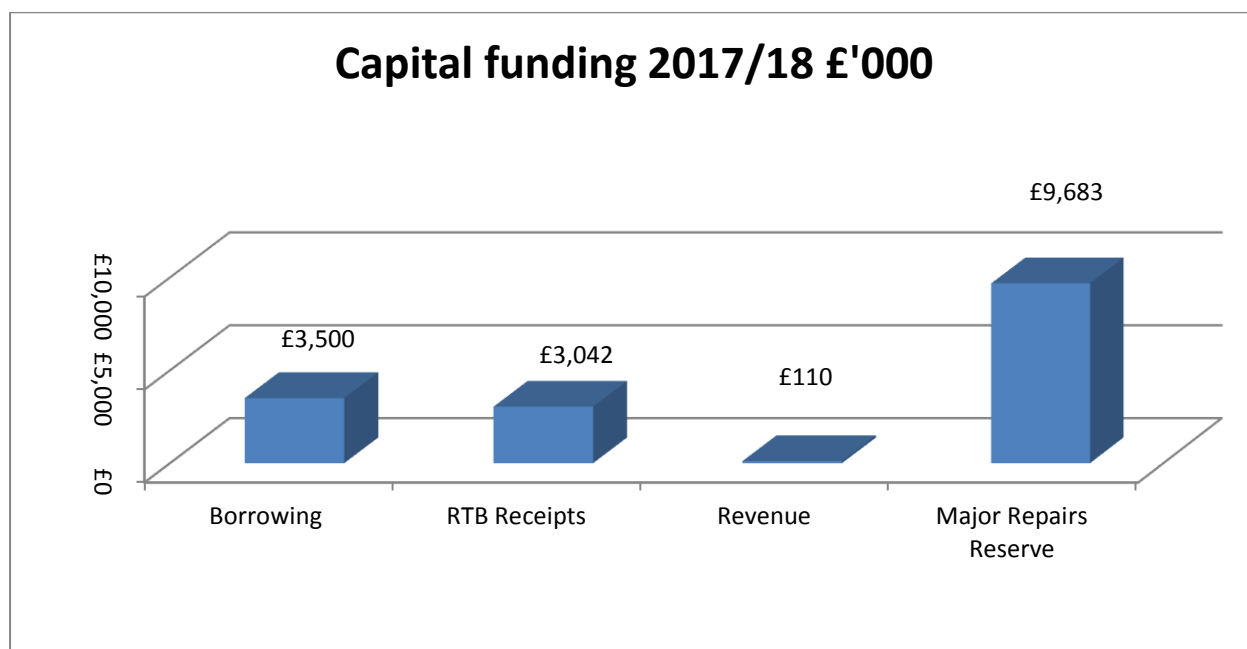
2017/18 contribution to capital of £110,230 has been included in the 2017/18 budget. The budgeted depreciation allowance to be transferred in 2017/18 to the major repairs reserve to fund the capital programme remains at £11,356,970. **This was £12,440 higher than in the November business plan but unchanged from the December Executive report.**

4.9.2 The Government announcement on the 24 November (para 3.3 refers), the higher value voids levy (HVV) will not be payable for 2016/17-2017/18 totalling an estimated £1,058,920. These costs have been removed from the capital programme. However, there are some additional capital bids in the Draft Capital Strategy (to this Executive), which if approved will total for 2017/18 £421,850, 2018/19 £568,000, and 2019/20 £190,000. The capital bids total £1,179,850 and are £120,930 more than the reduction in HVV levy payments, but the additional cost can be contained within the projected level of HRA balances (see para 4.18.1 and Appendix E) .

4.9.3 A summary of the 2016/17-2017/18 capital programme including the bids identified on 4.9.2 above is shown in the chart below.



4.9.4 The 2017/18 capital programme is identified below, this includes the proposed new capital bids of £421,850 in 2017/18, of which £358,000 relates to implementing the Council's digital agenda and recommended for approval as part of the Capital Strategy report to this Executive.



4.10 Use of RTB One for One Receipts

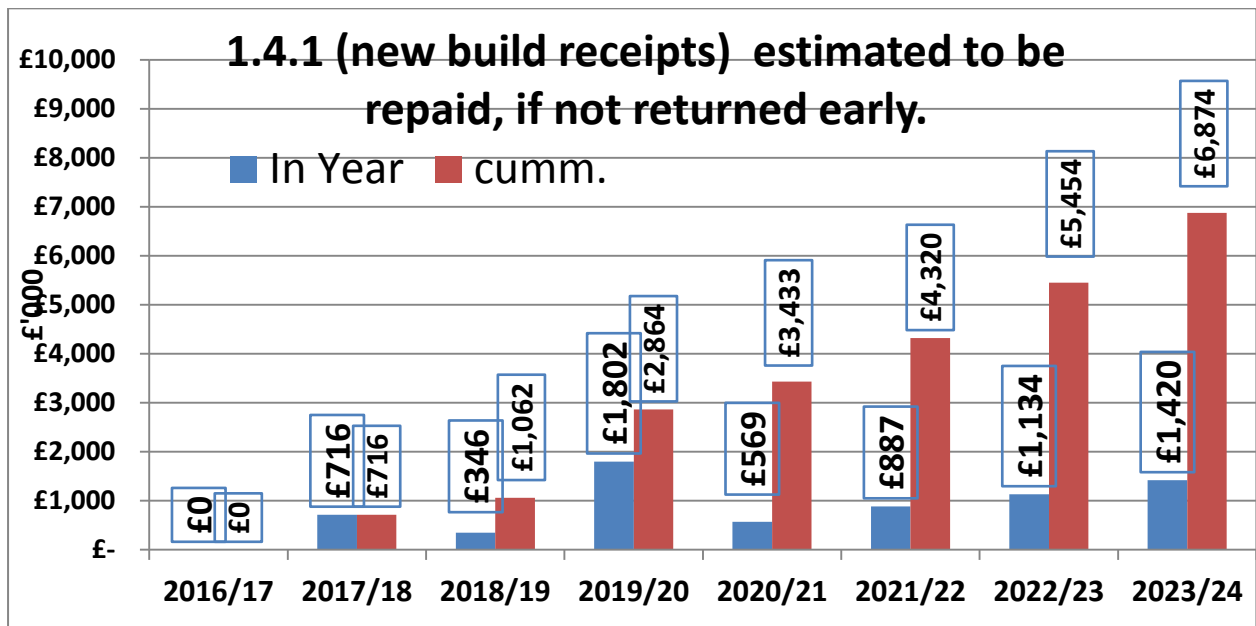
4.10.1 The new build programme was introduced in 2012/13 alongside HRA self-financing (£2Million per annum) and with the impact higher RTB sales the budget was increased by a further 30% using one for one receipts.

4.10.2 The revised November 2014 HRA Business Plan increased the spend and 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 2016 Business Plan has a similar level of funding with an estimated 1,946 new properties.

4.10.3 Despite having an ambitious new build programme, the value of one for one receipts have continued to increase as house prices and/or RTB's have increased and in April 2016, the Council regrettably returned £3.9Million of receipts because the 2015/16 receipts were unlikely to spent by the deadline and so would have incurred punitive interest rate penalties (4% above the Bank of England base rate).

4.10.4 Based on the current capital programme and estimated one for one receipts, there are receipts that would be due back in 2017/18, however the Assistant Director (Housing Development) has planned to fund Housing Association schemes to avoid handing any back. These projections are very much dependent on the level of

sales and profiling of capital expenditure. There are projected returns in future years and these are being monitored as some relate to estimates of RTB receipts yet to be received.



4.11 Recharge changes in the HRA

4.11.1 At the December Executive there was a reported net increase in recharges to the HRA of £43,340 (adverse variance to the HRA), which was £8,930 higher than in the HRA Business Plan. **The final 2017/18 budget is a further increase of £91,240 which is £100,170 higher than the business plan projection.**

4.12 Consultation

4.12.1 The Council carried out a town-wide Residents' Survey in June/July 2015, and 286 of the 1,356 surveys returned were completed by social rented tenants. 48% of social rented tenants agreed that Stevenage Borough Council provides Value for Money, 27% disagreed and 25% neither agreed nor disagreed. The level of agreement has increased from 42% in 2013 and is 2% higher than that of residents as a whole. Respondents were asked to state what they felt should be the main priorities for the town. Three of the top four priorities for social rented tenants were particularly relevant to the Housing Service and associated HRA budgets, namely:

- Tackling crime and anti-social behaviour (priority 1)
- A range of housing, including affordable housing (priority 2)
- Activities and support for older people (priority 4)

4.12.2 Proposals for a revised HRA Business Plan were agreed by the Executive at their meeting in November 2016. These proposals included investment plans to support commitments relating to new build, existing housing assets and service improvements and also a series of savings assumptions. The proposals were developed with input from Housing Management Board (HMB) via a number of working groups and presentation sessions. The HMB acts as an advisory body to

the Executive for council housing-related matters, including participation in the HRA budget-setting process and the development of the HRA Business Plan. HMB currently includes one leaseholder and four tenant representatives in addition to Member and officer representation.

4.12.3 With regard to the revised 2016 Business Plan, HMB acknowledged that the plan is built on assumptions and that situations are subject to change. They were assured that the plan would be reviewed regularly, to enable it to adjust in response to external factors. The Board was supportive of the continued investment in the Council's stock and praised the Council's new build ambitions. They stressed the need to consider staff turnover and pressures and to recognise staff as an important resource, essential to provide the service and to deliver the plan. They also made some specific comments about some of the savings options and these were fed back to the Executive at a session held on 7 November.

4.12.4 HMB also reviewed the draft revised Rent and Service Charge Policy at their meeting on 27 October 2016 and broadly supported the proposed revisions.

4.12.5 The draft budget and rent setting proposals were discussed at the HMB on 24 November. The chair of the board clarified that the affordable rent pilot scheme has the rent capped at the local housing allowance rate and rent charges would be covered by housing benefit if the customer was eligible to claim this. The board were assured that affordability assessments were undertaken before each letting to ensure that the customer could afford to pay the rent.

4.12.6 At its meeting on 4 January HMB were consulted on the proposed rent change notification letters due to be sent out at the end of February. There was discussion about the contents of the rent letters and also encouraging customers to sign up for Direct Debit to pay their rent. HMB were advised that the supporting information explaining the rent changes would be available on line, but could be printed off if requested. HMB were also advised that since the pay to stay scheme was no longer mandatory, SBC would not be implementing this.

4.12.7 The revised Rent and Service Charge Policy includes reference to plans to review service charges in 2017/18 ahead of implementing a new and more transparent model from 2018/19. This review will include consideration of both service charges and support charges and will involve consultation with tenants and leaseholders. The rent policy approved at the November Executive is shown in Appendix G to this report. The policy has been updated to remove the mandatory reference to 'Pay to Stay' which Members resolved not to introduce at the December Executive.

4.12.8 The restructure associated with the 2017/18 supported housing savings has been subject to the Council's corporate staff consultation process and there were no redundancies.

4.13 Leaders Financial Security Group (LFSG)

4.13.1 LFSG work programme was reported in the 2016/17 Financial Security report to the November Executive. The group has met at least monthly from September 2016

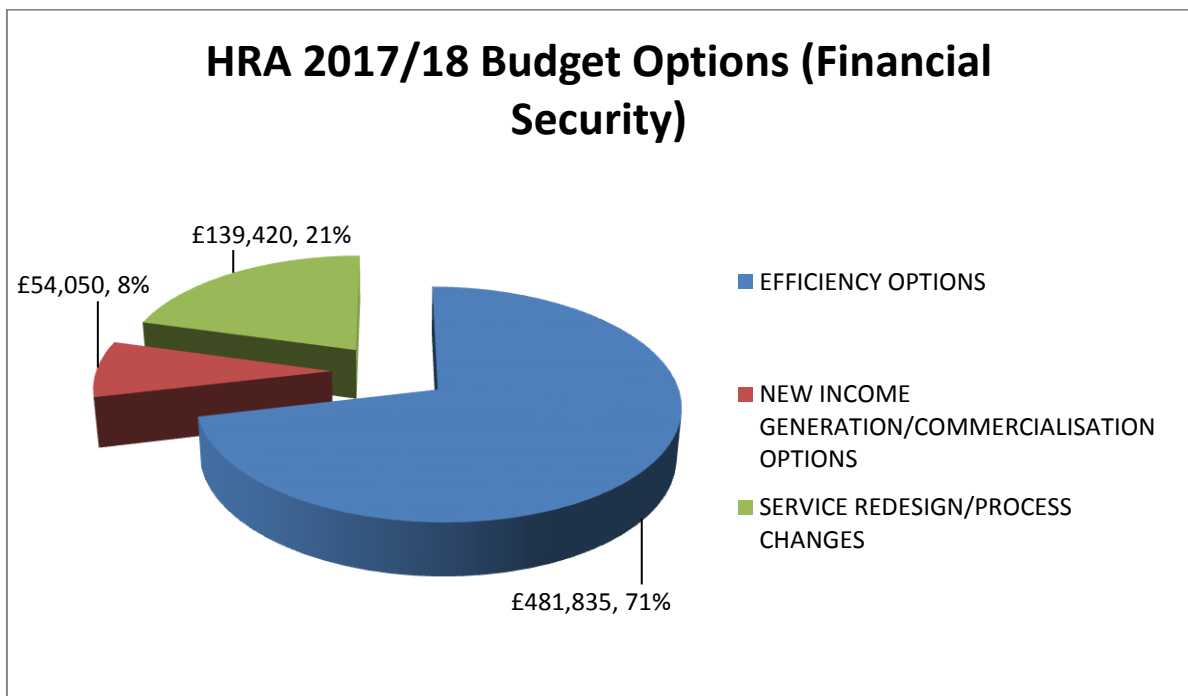
and is a cross party group of Members. The group's work included consideration of the HRA budget options. LFSG recommended all the HRA options presented to them and these were subsequently approved at the November 2016 Executive (Appendix C).

4.13.2 The LFSG will continue to meet monthly during the rest of the financial year and on-going in order to review and challenge the Council's capital programme for approval at February Council and to scrutinise new budget options required to meet the HRA's 2018/19-2019/20 unidentified budget reductions target.

4.14 HRA Budget Proposals

4.14.1 The Financial Security report to the November Executive identified a savings of £675,305 for 2017/18 and an unidentified target up to and including 2019/20 of £422,213. The business plan does assume an annual target of £200,000 per year beyond 2019/20.

4.14.2 The majority of new HRA savings approved at the November Executive are efficiency related. A summary of the budget are shown in the chart below.



4.15 Revenue Growth

4.15.1 The growth options approved at the November 2016 Executive totalled £542,500, of which £520,000 was included in the HRA Business Plan. The majority of this (£500,000) relates to the Housing Management improvement plan (Appendix D). **Revenue growth bids remain unchanged from the December Executive report.**

4.16 Final HRA 2017/18 Budget

4.16.1 The 2017/18 HRA draft budget surplus (December Executive) was reported as £5,052 higher than the Business Plan with the main differences impacting on the bottom line of the HRA being:

- Higher investment interest (£88,670 favourable) as the anticipated Bank of England base rate is not expected to reduce further in December 2016.
- Lower service charge income (£129,982 adverse) partly as a result of lower utility costs (£51,510) than estimated.
- Rent income slightly higher than estimated in the November business plan (£22,628 favourable)
- Other variances £27,774 (adverse)

4.16.2 The Final HRA budget is estimated to be a surplus of £2,790,940 a decrease of £64,740 compared to the draft budget reported in December. The changes are listed below:

- Increase in HRA share of support and corporate charges including cost of democracy and corporate management £91,240.
- Reduction in stores set up costs as full cost in 2016/17 budget, (£26,500 saving in 2017/18)

4.16.3 The movements between the HRA Business Plan and the 2017/18 final HRA budget are summarised in the following table.

	2017/18	2017/18	2017/18	
HRA Budgets	HRA BP £	Final Budget £	variance £	
Original Budget	(£2,203,710)	(£2,203,710)	£0	
Reported Budget Monitoring Adjustments	(£526,538)	(£524,878)	£1,660	Small change to ongoing saving identified
Borrowing, interest charges, contributions to capital, repayment of debt	(£1,022,924)	(£900,254)	£122,670	Additional revenue contribution for increase in staff changes to capital plus increased depreciation charge.
Prior Year Savings and Growth	£93,528	£103,218	£9,690	Withdrawal of savings option to sell Anti Social Behaviour services to other registered providers
2017/18 Savings	(£674,916)	(£609,526)	£65,390	Grounds maintenance service for sheltered units deferred a year

	2017/18	2017/18	2017/18	
HRA Budgets	HRA BP £	Final Budget £	variance £	
2017/18 Growth	£520,000	£542,500	£22,500	Business Plan did not include growth for 'connecting to our customers ' growth bid G4.
2017/18 Salary Inflation	£262,348	£192,828	(£69,520)	Anticipated increase in pension costs following triannual review did not materialise
2017/18 other Inflation	£55,870	£4,360	(£51,510)	Expected increase in gas contract did not materialise (saving passed on to tenants via reduced service charge).
Recharges	£34,408	£134,578	£100,170	Estimate of internal recharges from the General Fund have increased by £58K relating to higher cost of democracy charge and £33K adjustment for recharges including caretaking service (between draft and final budget).
Rent decrease	£338,317	£294,603	(£43,714)	Affordable and formula rent has increase income projections for 2017/18.
Service charge decrease	(£49,307)	£80,675	£129,982	Actual inflation rate and utility charges lower than forecasted. This saving is passed on in the service charge.
Other Fees and charges	(£32,056)	(£10,970)	£21,086	Lower inflation rate so fees increased at a lower rate.
Interest income due to the HRA	£209,738	£121,068	(£88,670)	Investment interest rate forecast at 0.25%. Revised forecast is 0.54%
Other Adjustments	£144,614	(£15,432)	(£160,046)	Increased staff time charged to capital and reduction in store set up costs (charged all in 2016/17).
Total Contribution to Balances	(£2,850,628)	(£2,790,940)	£59,688	

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

4.16.4 The HRA projected year-end balance as at 31 March 2018 is now projected to be £21,501,354. However balances reduce in the next few years and Members will be aware that to balance the HRA business plan reductions in both revenue and capital expenditure needed to be found in addition to new borrowing in 2017/18 of £3,500,000 to meet the capital deficit.

4.17 Changes to the HRA 2016/17 Working Budget

4.17.1 The 2016/17 HRA working budget of £1,773,010 (surplus) was projected in December 2016 report as a surplus of £1,690,590, a reduction of £82,420. The reasons given in the report included an adjustment for water rates commission earned and the HRA share of redundancy costs for the Senior Management Review (SMR).

4.17.2 The 2016/17 working budget is now projected to be £1,623,440 which is a further reduction in surplus of £67,150 on the figures contained within the draft HRA report to the December Executive and a £149,570 reduction from the approved working budget. The January 2016/17 budget surplus has decreased further as a result of:

- Cost for setting up the depot store paid in year one rather than over the four years as previously estimated £100,000 increased spend (reduced spend in future years).
- Improvement in rental income projection £32,850 increased income.

4.18 HRA Projected Balances for 2016/17 and 2017/18

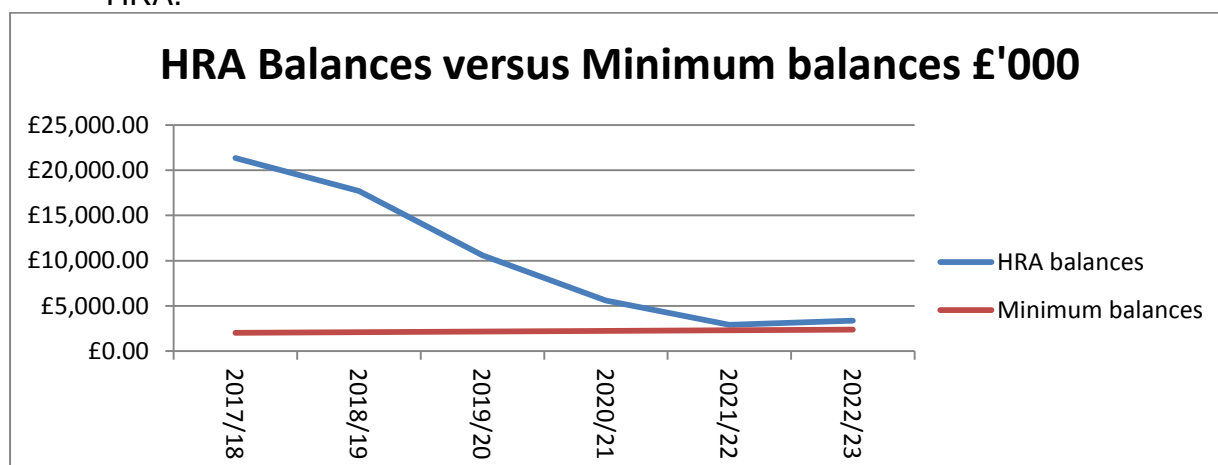
4.18.1 The summary of balances is shown in the table below. All HRA balances in excess of the minimum balances held for assessed risks in year, are required to fund the HRA 30 year capital programme.

HRA Balances:	2016/17 £	2017/18 £
HRA Balance 1 April	(£ 16,955,084)	(£ 18,578,524)
Contribution to balances in Year	(£ 1,623,440)	(£ 2,790,940)
HRA Balance 31 March	(£ 18,578,524)	(£ 21,369,464)
Minimum Balances	(£ 3,000,000)	(£ 1,947,740)
Balances Required for Capital Programme	(£ 15,578,524)	(£ 19,418,179)*
Surplus balances	£ 0	(£ 3,545)

**includes additional cost of new capital bids less reduction in higher value voids levy*

4.18.2 The 2016/17 and 2017/18 HRA balances seem relatively high, however Members should remember that the Business Plan showed a significant reduction in HRA reserves over the next few years resulting in a need to make reductions in the HRA capital programme and a need to refinance £3.5Million in 2017/18. There are

minimum balances in 2021/22-2022/23 and there are still significant risks facing the HRA.



4.19 Scrutiny and Overview Committee

4.19.1 The Overview and Scrutiny Committee received the draft HRA budget on the 15 December 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 asked a number of questions but 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 The unions have already been consulted on the options approved at the November Executive. Human Resources staff are co-ordinating centrally the implementation of any staff related savings. However there are no compulsory redundancies within the options for the HRA.

5.4 Risk Implications and Risk Assessment of Minimum balances

5.4.1 There are risks to setting the HRA budget and business plan as there have been so many government policy changes concerning rent and welfare reforms. Between 2014/15-2016/17 there were three different rent policies which when compared to the 2014 HRA business plan show a loss of income of some £253Million, (this includes updated assumptions about rent increases, inflation and RTB's).

- 5.4.2 There are still significant risks to the HRA with the future impact of HVV levy as the impact on the HRA has only been delayed up to and including 2017/18. The impact over 30 years has been estimated at £34Million on the HRA, however no regulations have been published and the impact could be much more adverse.
- 5.4.3 The current Government has abolished 'pay to stay' for tenants earning more than £31,000 per year who would have been paying market rents. However the end of life time tenancies from 2017/18 may encourage tenants to invoke their right to buy, which in turn could deplete the available housing stock and rental income in the HRA.
- 5.4.4 There is also the impact of Universal Credit and other welfare reforms. Currently 54% or £20Million of benefit is paid to the HRA from the benefits system rather than to tenants.
- 5.4.5 The 30 year HRA business plan calculates the balances required to meet the capital programme and revenue spend including debt repayments. The business plan does assume that after 2019/20 the rent increase will be based on CPI+1%. There is no certainty that the Government will revert to this stance or look to reduce the benefit bill by suppressing rents further.
- 5.4.6 There is also a threat to the HRA of high inflationary pressures, when rents are suppressed i.e. 1% rent reduction for 4 years. If inflation rises above that assumed in the business plan, as a result of say BREXIT, then further reductions in spend may need to be made.
- 5.4.7 Since 2012/13 the RTB discount has increased from £34,000 to £77,900 in 2016/17. Reducing the cost of purchase for a property has a double negative effect on the HRA, not only does it lose the rental supporting the capital programme it also cannot afford to replace the property with the resulting receipt.
- 5.4.8 The number of RTB sales assumed in the 2017/18 budget is 50, however to the 9 January 2017 a total of 49 sales have been completed with a revised estimate of 61 for the year. If the number of sales increase above the estimate in 2017/18 then the rental income will reduce and the amount of 1.4.1 receipts will increase. The impact of higher RTB sales has been factored into the risk assessment of balances.
- 5.4.9 The Government introduced a new benefit cap of £20,000 in the Autumn of 2016, this could have an impact on the level of arrears in 2017/18 and this has been included in the risk assessment of balances.
- 5.4.10 As a result of the number of risks outlined above the authority has not borrowed up to the debt cap. The head room of £9Million which will be reviewed annually allows for land to be transferred into the HRA to meet its house building ambitions and also to address any shortfalls in funding identified as a result of the risks mentioned above.
- 5.4.11 The risk assessed level of balances for 2017/18 has been assessed at £1,947,740 , however the remaining balances are required to be held to fund the future years

debt repayments and capital programmes a summary of the risks for 2017/18 are included in Appendix E.

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 2017.

5.5.2 To inform the decisions about the Budget 2017/18 officers have undertaken 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, an overarching EQIA has been developed for the HRA which includes the rent and service charge increase, supported housing changes and the savings options and is summarised in Appendix F.

BACKGROUND DOCUMENTS

- BD1 - November 2016 Agenda Item 6 - Housing Revenue Account Business Plan <http://www.stevenage.gov.uk/content/committees/160923/160931/160995/20161122-Item7.pdf>
- BD2- December 2016 Agenda Item 4- Draft HRA budget and rent Setting <http://www.stevenage.gov.uk/content/committees/160923/160931/160995/20161214-Item4.pdf>

APPENDICES

- Appendix A – 2016/17 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 including rent and service charges
- Appendix G – Rent and Service Charge Policy