

**Meeting: COUNCIL**

*Portfolio Area: Resources*

**Agenda Item:**

**2**

**Date: 26 JANUARY 2016**

**HOUSING REVENUE ACCOUNT FINAL BUDGET PROPOSALS 2016/17 AND RENT SETTING**

**KEY DECISION**

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**REASON FOR URGENCY**

*This report has been updated for decisions taken at the 19 January Executive and consideration of the 2016/17 HRA rent levels are required to be approved at the Special Council meeting on the 26 January 2016 in order to implement it at the beginning of the 2016/2017 Financial Year.*

**1. PURPOSE**

- 1.1 To consider the council's HRA Budget for 2016/17 and projected 2015/16 HRA budget and final proposals for the 2016/17 rent, service charge and fee setting.
- 1.2 This report updates the HRA budget (2015/16 and 2016/17) for the recommendations included in the Building Maintenance report approved by Members at the January 2016 Executive.
- 1.3 This report also includes the Rent and Service charge policy approved by Members at the January 2016 Executive and updates the 2016/17 HRA budget for any changes as a result of the policy.

**2. RECOMMENDATIONS**

- 2.1 That Council approve that the HRA dwelling rents not subject to the 1% rent reduction be increased, week commencing 4 April 2016 by an average 0.9% or £0.95 per week which has been calculated using the existing rent formula, CPI +1% in line with the 2014 Rent Policy.

- 2.2 That Council note that HRA dwelling rents (other than those outlined in 2.1) are subject to the 1% rent reduction from week commencing 4 April 2016 or £0.99 per week as outlined in the Governments Welfare Reform Bill (subject to the Bill being passed into statute).
- 2.3 That Council approve the 2016/17 HRA budget, as set out in Appendix A. This may be subject to change as a result of consultation, changes to the government's Welfare Reform Bill.
- 2.4 That Council approve the proposed fees and charges as shown in Appendix B.
- 2.5 That Council approve the proposed 2016/17 savings options as outlined in Appendix C.
- 2.6 That Council approve the proposed 2016/17 growth options as outlined in Appendix D.
- 2.7 That Council approve the 2016/17 proposed maximum increase in Service Charges of £3.00.
- 2.8 That Council approve the minimum level of reserves for 2016/17 as shown in Appendix E to this report.
- 2.9 That Council approve the revised 2015/16 budget of £1,688,120 surplus.
- 2.10 That Council approved the Rent and Service Charge Policy as shown in Appendix G to this report.
- 2.11 That the contingency sum of £250,000 within which the Executive can approve supplementary estimates, be approved for 2016/17, (unchanged from 2015/16).

### **3. BACKGROUND**

- 3.1 In November 2014, the Executive approved a revised Business Plan which had assumed a 2016/17 rent increase of 2.2% and delivery plan growth of £1,508,000. The next update of the Business Plan was scheduled for 2015, however the government's announcements on the 8 July concerning a raft of measures which included reduction of the Welfare Bill (by reducing social rents) and support the extension of Right to Buy to Housing Associations through measures including 'pay to stay' for tenants earning over £30,000 and selling high value council properties, has made a significant impact on the HRA's finances. Officers are working with Members to determine what changes should be made to the existing spending plans. This includes:
- Review of the HRA debt and options to refinance or take additional borrowing
  - Review of the programme of planned works on the existing housing stock
  - Review of the new build programme
  - Review of rents and service charges
  - Review the service offer

- 3.2 It is anticipated that once this work is completed and the relative future priorities have been agreed the updated HRA Business Plan will be presented to the Executive in early 2016. That notwithstanding the Council needs to set its HRA budget in line with the Budgetary Framework Procedures.
- 3.3 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:

<b>15 December 2015</b>	<b>Executive</b>	<b>Draft HRA 2016/17 Budget (incorporating savings)</b>
<b>16 December 2015</b>	<b>Overview &amp; Scrutiny</b>	<b>Draft HRA 2016/17 Budget (incorporating savings)</b>
<b>19 January 2016</b>	<b>Executive</b>	<b>Final HRA 2016/17</b>
<b>20 January 2016</b>	<b>Overview &amp; Scrutiny</b>	<b>Final HRA 2016/17 Budget (incorporating savings)</b>
<b>26 January 2016</b>	<b>Council</b>	<b>Final HRA 2016/17</b>

- 3.4 This report presents the Council's draft HRA net expenditure for 2016/17 taking account of the savings and growth approved at the November Executive. In addition, any known pressures have been included. This budget for 2016/17 will need to be set in advance of the revisions to the Business Plan.
- 3.5 The December draft budget report recommended an average weekly rent decrease of £0.99 per week for properties to subject to the 1% rent reduction and a £0.95 increase for properties not subject to the 1% reduction. In addition the report recommended a maximum increase in service charges per week of £3.00 for 2016/17. The HRA projected year-end balance as at 31 March 2017 was projected to be £19,560,897.
- 3.6 This matter was considered by the Executive at its meeting on 19 January 2016 and the recommendations at Section 2 above reflect the decisions of that meeting.

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

### 4.1 Rents

- 4.1.1 Social housing rents are set in line with Government policies. In recent years, rents have been based on a formula that was designed to move towards charging similar rents for properties of similar size and standard across the sector. The policy allowed for annual rent increases of Retail Price Index (RPI) + 0.5%, and limited annual rent increases to RPI + 0.5% + £2 where rents were below formula rent.
- 4.1.2 In 2011, the Government introduced a new form of social housing, known as 'affordable rents', whereby rents can be set at up to 80% of market rate, inclusive of service charges. A new rent policy was published in May 2014 (with effect from April 2015), limiting annual rent increases to Consumer Price Index (CPI) + 1% for the next ten years. The underlying social or 'formula' rents are also uprated annually at a rate of CPI + 1%. Stevenage Borough Council implemented rent increases from 2015/16 of CPI+1% including service charges. The Council's rent policy was revised to the new formula and was approved at the September 2014 Executive. However Members will be aware that the first HRA business plan was predicated on following the RPI+0.5%+/-£2 formula rent policy.
- 4.1.3 In 2015 the Government introduced the Welfare Reform and Work Bill which was published and introduced into the House of Commons on 9th July 2015; the Bill had its second reading in the House of Commons on 20 July 2015. The measures in the Bill implement policies that were outlined in the Conservative Party manifesto and/or were announced in the Summer Budget on 8 July 2015. The Government's stated intentions as set out in the explanatory notes to the Bill are: *to support the Government's commitments to increase employment; slow the growth of the welfare budget to help achieve a more sustainable welfare system; and support the policy of rewarding hard work while increasing fairness with working households.*
- 4.1.4 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**. The Government believes that this is necessary because social rents have become out of kilter with private rents. The government believes the 1% reduction will also reduce Housing Benefit expenditure and protect tenants from rising housing costs. The provision extends to England and Wales, but will only apply to England. The measure is estimated to reduce average rents for households in the social housing sector by around 12% by 2020 compared to current forecasts. It will reduce social landlords' rental income by £2.5bn in today's prices, and it is expected to save £1.45bn from the Housing Benefit bill in 2020/21.
- 4.1.5 The proposed 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 8 July 2015 is an anti-avoidance provision. There are a few exceptions to that including where no tenancy existed

(new properties etc), however in accordance with the Bill it ensures that rents for tenancies beginning after the 8 July 2015 will track down in parallel with those of established tenancies.

- 4.1.6 The Government's stance on rent setting from RPI+0.5%+/- £2, to the Consumer Price Index (CPI)+1%, came in from 2015/16 onwards. There were significant properties in Stevenage that would not have rent converged under the old formula by 1 April 2015 and as a consequence this change resulted in lower rent yields and therefore less income in the HRA Business Plan.
- 4.1.7 The 1% rent reduction is estimated to have a far more fundamental impact on the HRA Business plan with an **estimated £225Million loss of rental income which represents nearly 25% of the overall 30 Year capital programme or more than the £199Million paid to the government under the self- financing settlement**, to come out of the HRA subsidy system. The impact for 2016/17 is estimated to be a £764,000 rental loss.
- 4.1.8 The Welfare Reform and Work Bill has yet to be put into statute and it also includes other reductions to benefit (reduction in the benefit cap and changes to benefits such as tax credits).
- 4.1.9 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 93 LSSO properties or 87.4 full house equivalents, this report recommends these rents are set in line with the existing rent policy formula CPI+1%, a 0.9% increase for 2016/17, (September CPI, -0.1%) . The total rent roll for the properties is £479,000 and an increase of 0.9% equates to £4,340 additional rental income to the HRA.
- 4.1.10 The average rent for LSSO's and the rest of the housing stock remains unchanged from that reported at the December Executive and is summarised in the table below.

Rent:	LSSO	Increase/ (decrease) %	100% rent housing stock	Increase/ (decrease) %
Average Rent 2015/16	£105.47		£98.59	
Add rent impact 2016/17	£0.95	0.90%	-£0.99	-1.00%
<b>Total 52 week Rent 2016/17</b>	<b>£106.42</b>		<b>£97.60</b>	

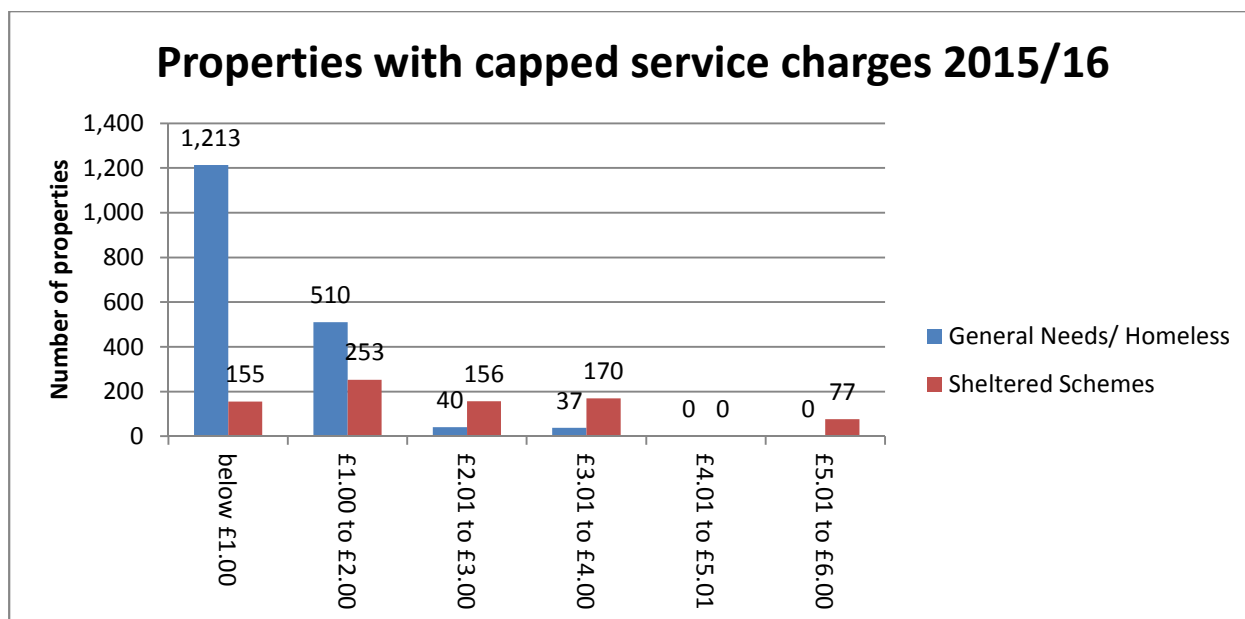
- 4.1.11 An assumption has been included in the final 2016/17 budget for the impact of moving to formula rents on re-letting of void properties totalling £21,000, this is in addition to the 2016/17 HRA budget approved at the January Executive. No change has been made to the average rent and service charges in the charts below as the properties are based on the current rent and service charges.

## 4.2 Service Charges

- 4.2.1 Service charges are calculated for each block individually for 2,932 or 36% of SBC properties and in 2015/16 service charges were only increased by 2.2% (the average rent increases) and not the total service charge cost (in line with the rent policy). This meant that in 2015/16 some property service charges were capped at 2.2%. The estimated value of service charges which could not be recharged to tenants as they exceeded the 2.2% increase is estimated to total £166,800 in unrecovered tenant service charges in the current year.
- 4.2.2 The rent policy was considered at the January Executive this set out the policy for service charges as well as rental income.
- 4.2.3 As reported at the December Executive the HRA finances have now changed significantly with the government's proposed changes to rent increases and this report still proposes that those tenants that receive service charges should pay the actual cost of providing these services. The services 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

- 4.2.4 The welfare reform bill currently does not identify service charges as being subject to the 1% rent reduction and it is proposed to increase service charges based on actual cost (plus or minus any prior year adjustments) and in addition to recover some of the capped service charges from 2015/16, (see also paragraph 4.2.1). The number and value of capped service charges is shown in the chart below.



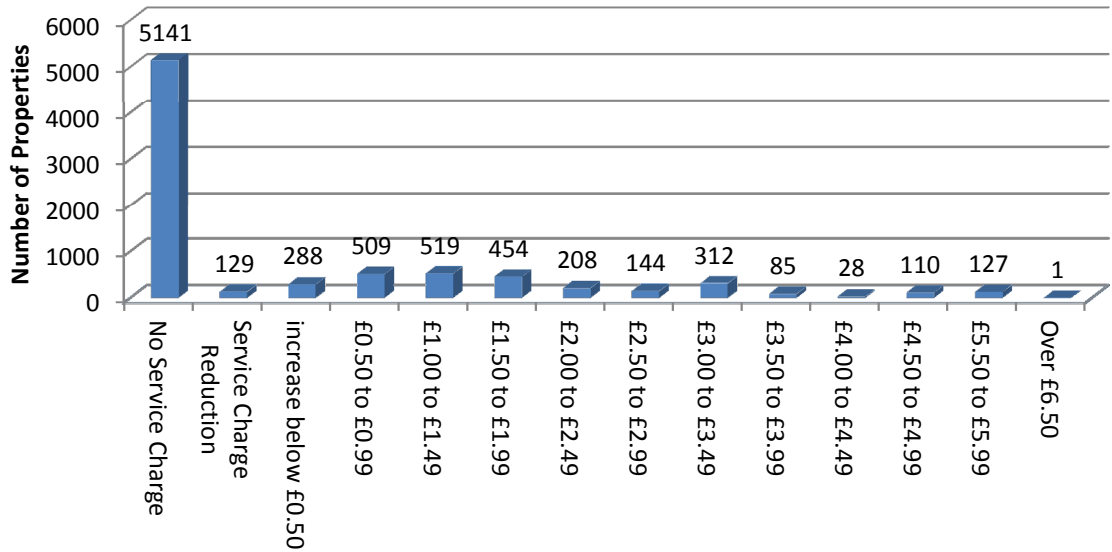
4.2.5 There are a total of 2,611 properties that had their service charges capped in 2015/16, however 1,368 or 52% have a capped charge of less than £1.00. The properties with the highest capped value are sheltered schemes and there are 77 properties with a cap between £5.00-£6.00.

4.2.6 As reported at the December Executive officers recognised moving from a capped increased service charge to full cost recovery could cause financial hardship for some tenants not on full housing benefit and the rent policy has revised to take account of this approach as approved at the January 2016 Executive and appended to this report (Appendix G) for approval at Council. Members will be aware that there are also savings options reported at the November Executive which, when considered alongside developing proposals to review Supporting Housing charges (following the £386k reduction in grant funding from April 2015) are likely to impact on those tenants in council properties with service charges.

4.2.7 This report proposes **that the maximum increase for service charges is £3.00 for 2016/17**, as reported in December there are 658 properties whose service charges are capped at £3.00.

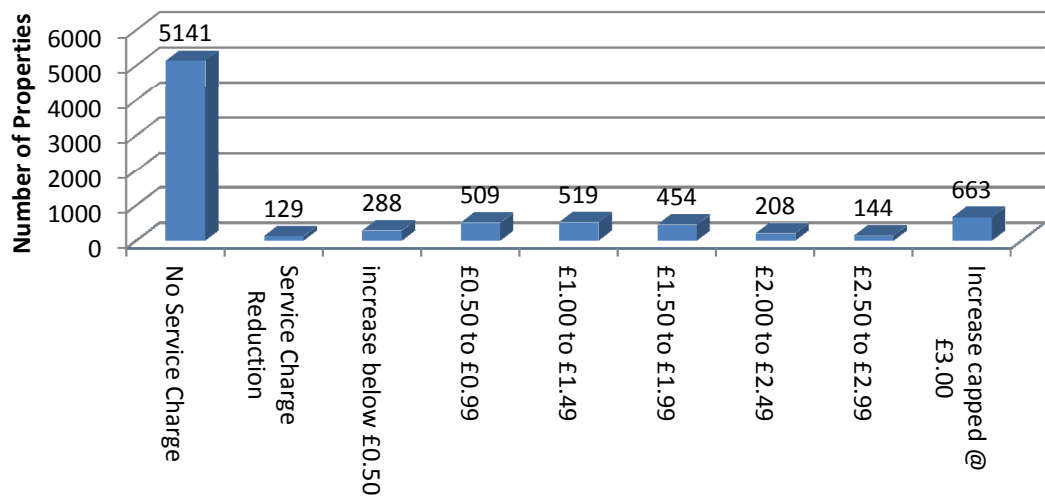
4.2.8 A maximum £3.00 increase for service charges is an average charge £7.30 per week (2015/16 £5.86 per week) for those properties currently receiving these services. This does equate to an average increase of **£1.44 per week**. This increase includes savings option approved at the November Executive totalling £23,400. If service charges were not capped the increases would be as shown in the chart below.

### Service Charge increases for 2016/17 (Uncapped)



4.2.9 Based on a maximum £3.00 increase for service charges in 2016/17 the amount of un-recharged costs or capped service charges remains unchanged from that reported to the December Executive and is estimated to be £37,322 (before RTB's and void's) a reduction of £141,348 compared to 2015/16 service charges. The legislation concerning rent reductions and service charges has yet to pass into statute, if changes are made to the Bill e.g. regarding service charge increases, then the charges recommended in this report will need to be recalculated. The impact of service charges capped at £3.00 increase is shown in the table below.

### Service Charge increases for 2016/17 (capped at £3.00)



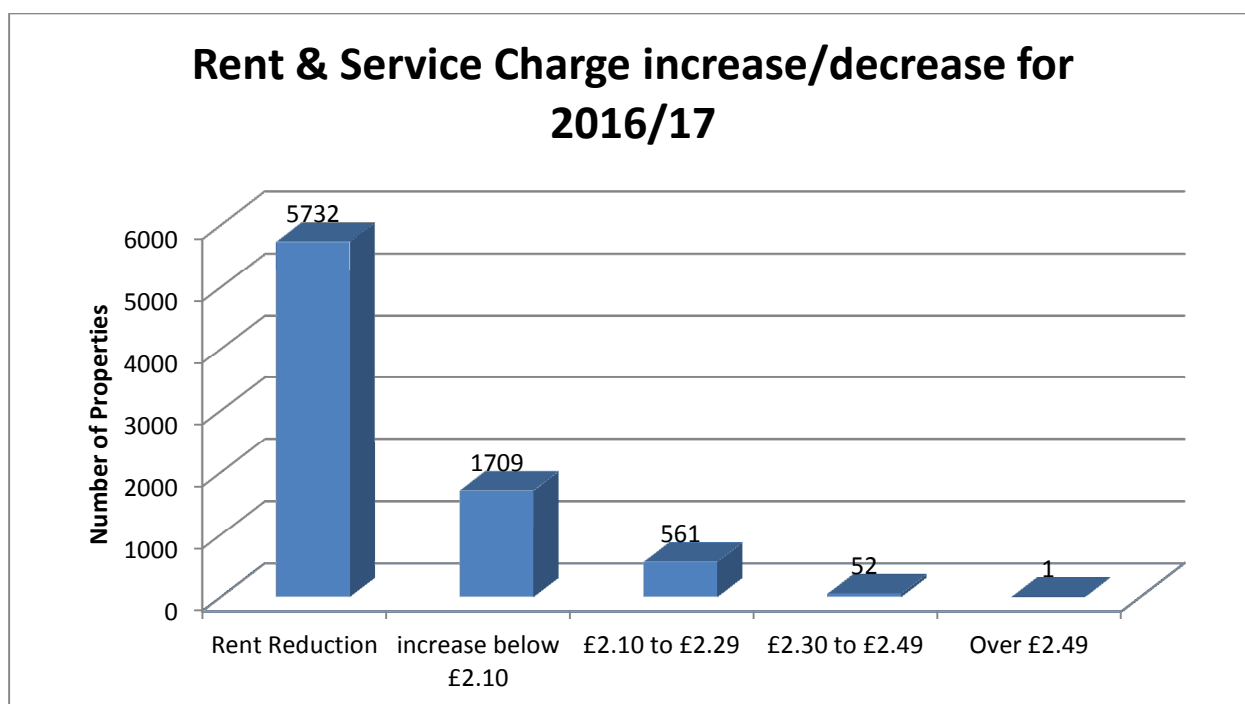


4.2.10 If service charges were increased in line with the rent policy approved in 2014 charges would only increase 0.9% regardless of the costs incurred by the HRA. This would not be recommended as service charges of **£902,000** would be recovered from tenants (before adjustment for voids) compared to **£1,174,000** costs incurred, increasing the amount of capped or non-recovered service charges to **£272,000**. This remains unchanged from the December Executive.

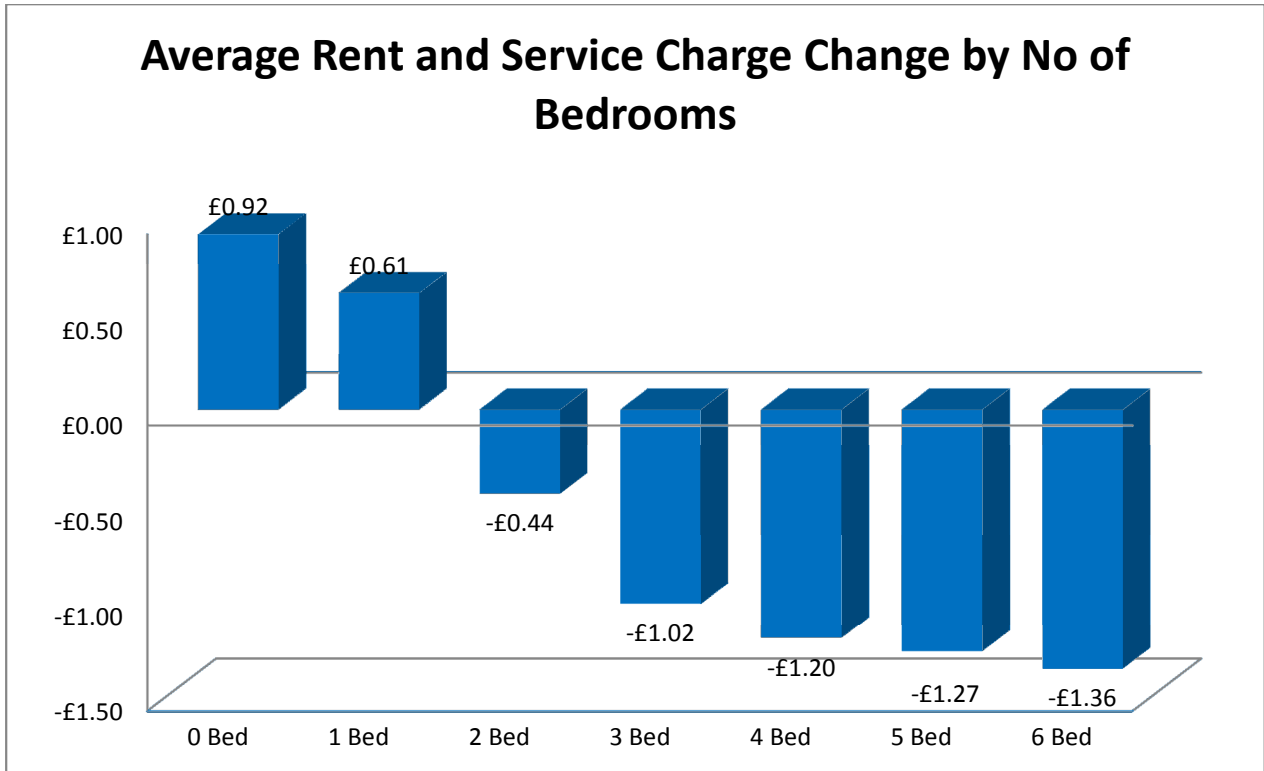
	Comparison of Service charge Costs and Capped Charges					
	2015/16	2015/16	2015/16	2016/17	2016/17	2016/17
	Recovered in 2015/16	Capped	Total Costs incurred	Service Charges	Capped	Total Costs incurred
<b>Service charges Proposed</b>	£893,992	£178,670	<b>£1,072,662</b>	£1,136,549	<b>£37,322</b>	£1,173,871
<b>Service charges increase CPI+1%</b>				£902,038	<b>£271,833</b>	£1,173,871

### 4.3 Rents and Service Charges

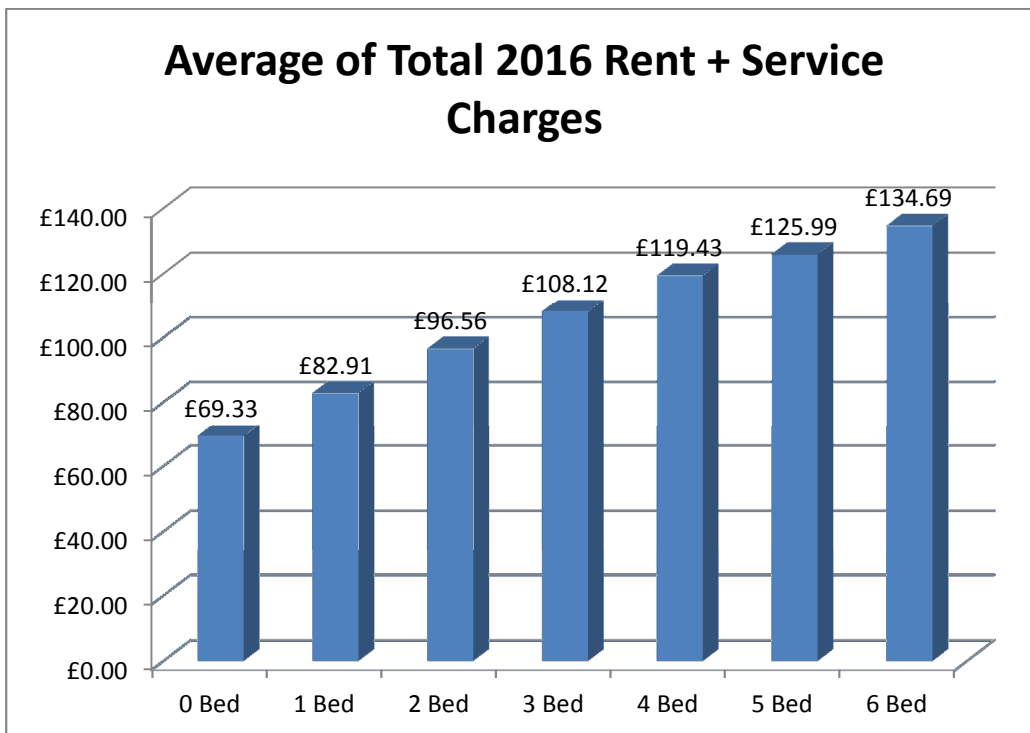
4.3.1 As reported in December there are 5,732 council tenants (71%) that have a projected total rent and service charge reduction and a further 1,709 tenants (21.2%) with an increase of less than £2.10. The highest combined rent and service charge increase is £3.80, which is a LSSO property. The spread of the 2016/17 rent and service charge increase is summarised in the chart below.



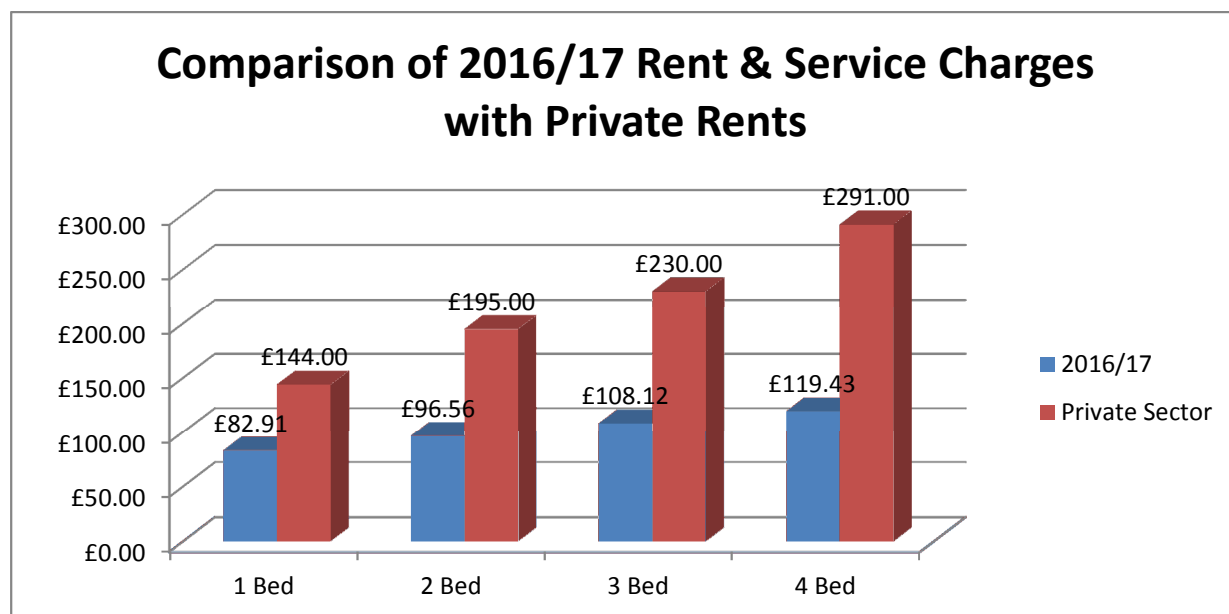
4.3.2 The average rent and service charge increase by bedroom size has been calculated and summarised in the chart below:



4.3.3 A comparison has been done between SBC rent and service charges and the private sector. The average 2016/17 rent and service charges for HRA properties are shown below.



4.3.4 The comparison between HRA property rents and private sector rents for one to four bedroom properties is shown in the chart below. A three bedroom private sector rental property costs an additional 112% more per week than a SBC council home even with the increase in service charges.



Private sector data hometrack November 2015

#### 4.4 Supported Housing Income and Expenditure

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

4.4.2 Members will recall that the Supporting People grant (paid via the County Council) has been reducing over the last few years and a total of £386,000 was withdrawn in 2015/16. 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 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) from 2015/16 is now charged to the General Fund.

4.4.4 In the December draft budget there was a proposed phasing of supported housing charges and an assumption of £150,300 of income had been included in the 2016/17 HRA budgets. The total net cost of the service in 2015/16 is estimated to be £658,040.

4.4.5 However given the complexity of this matter along with the need to allow sufficient time for consultation with Members, service users and relevant stakeholders a revised additional income has been estimated of £38,270 a reduction of £112,030 on the amount included in the December Executive report.

- 4.4.6 This revised approach for careline services starts moving towards recovery of service costs in 2016/17. The proposal reduces the HRA and General Fund subsidy to the service on an equitable basis following loss of HCC's housing related support grant. Existing residents who self-fund will receive a 16.5% increase in their charge to £4.95 per week for the Careline response service and a 2.2% increase for the monitoring service to £2.40 per week. Increases above inflation will be phased over a 2 – 3 year period in order to achieve full cost recovery by 2018/19. The service is not eligible for housing benefit so the proposal aims to be reasonable and affordable for vulnerable residents on low incomes.
- 4.4.7 The remaining supported housing services will be reviewed to look at cost, level of provision and charging regime over the coming months.

#### 4.5 Total Fees and Charges

- 4.5.1 The 2016/17 miscellaneous fee increases have been reviewed and the recommended increases are detailed in Appendix B. The net decrease in fees and charges now include the Supported Housing proposals and additional income from moving to formula rents for relet properties a total of £161,650. The table below summarises the increases/decreases which have been included in the 2016/17 final HRA budget summarised in Appendix A.

Income	December draft budget (Increase)/decrease £	Final Budget (Increase)/decrease £	Variance (Increase)/decrease £
Net Rent Reduction	714,330	693,330	(21,000)
Tenant service charges (benefitable)	(248,610)	(248,610)	0
Tenant service charges (non-benefitable)	(14,540)	(14,540)	0
Supporting people charges	(150,300)	(38,270)	112,030
Other Fees and Charges	(28,520)	(28,520)	0
Leaseholder service charges	(44,300)	(37,750)	6,550
Commission & allowances received	(45,840)	(45,840)	0
Interest income due to the HRA	(118,150)	(118,150)	0
<b>Total Income</b>	<b>64,070</b>	<b>161,650</b>	<b>97,580</b>

## 4.6 BMO

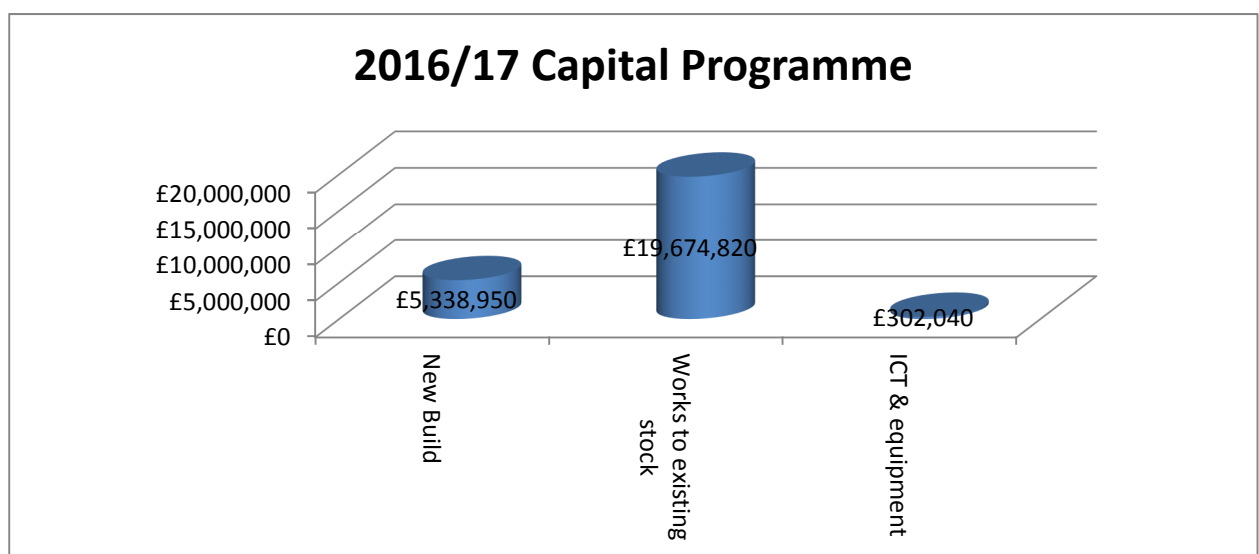
- 4.6.1 Following the 2014/15 outturn position, an independent review by Housing Quality Network (HQN) was commissioned to assess the effectiveness of the BMO against similar organisations. An internal audit was also commissioned to review material issue processes and usage and the new interim Service Manager (Property & Repairs) has also carried out a detailed review of the BMO's operations / financial performance. A presentation was made to Executive Members and Housing Management Board in November 2015 which included recommended actions.
- 4.6.2 This report was approved at the January Executive and the 2015/16 and 2016/17 HRA budget has been adjusted for the financial implications of that report.

## 4.7 Borrowing

- 4.7.1 The HRA business plan currently includes an average interest rate of 3.40% based on debt charges for £206.415Million of borrowing. No allowance has been made in 2016/17 for any new borrowing in the HRA. There are no debt repayments in 2016/17 and the budgeted interest charges are £7,019,648, this remains unchanged from the December Executive.

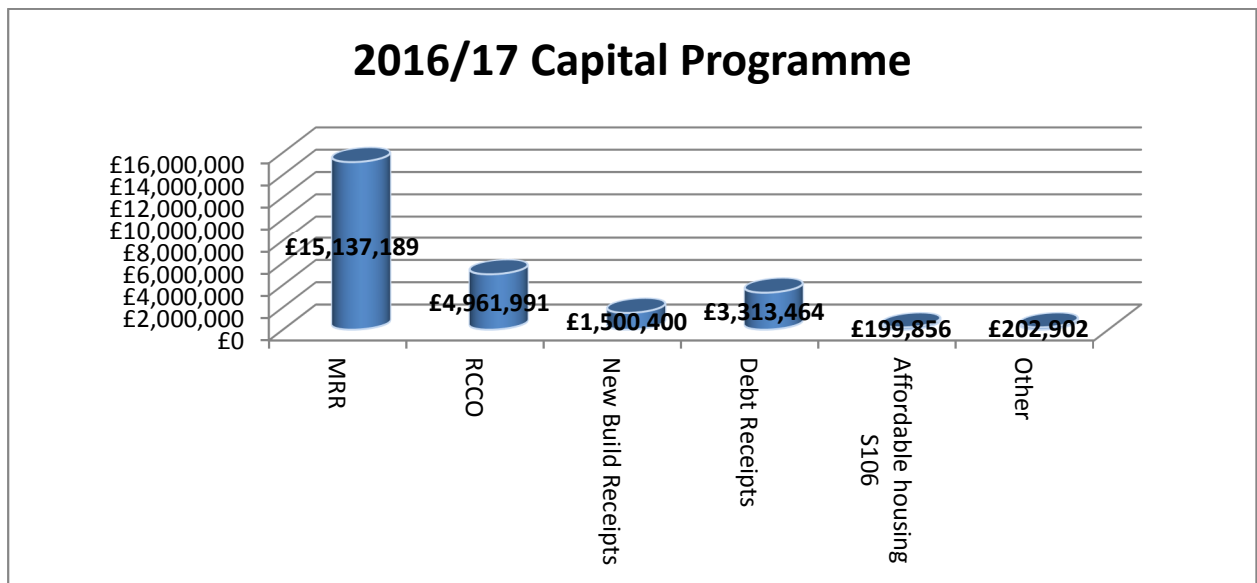
## 4.8 Contributions to Capital Expenditure

- 4.8.1 The draft HRA 2016/17 budget had a revenue contribution to capital of £3,752,670 and a budgeted depreciation allowance of £11,148,190 to support the 2016/17 capital programme of £24,575,270. This has been amended for changes to the profiling of Archer Road scheme, some slippage to be reported as part of the draft capital strategy and an adjustment for the use of debt provision receipts for the General Fund proportion of the Archer Road scheme. A revised summary of the 2016/17 capital programme totalling £25,315,810 is shown in the table below.



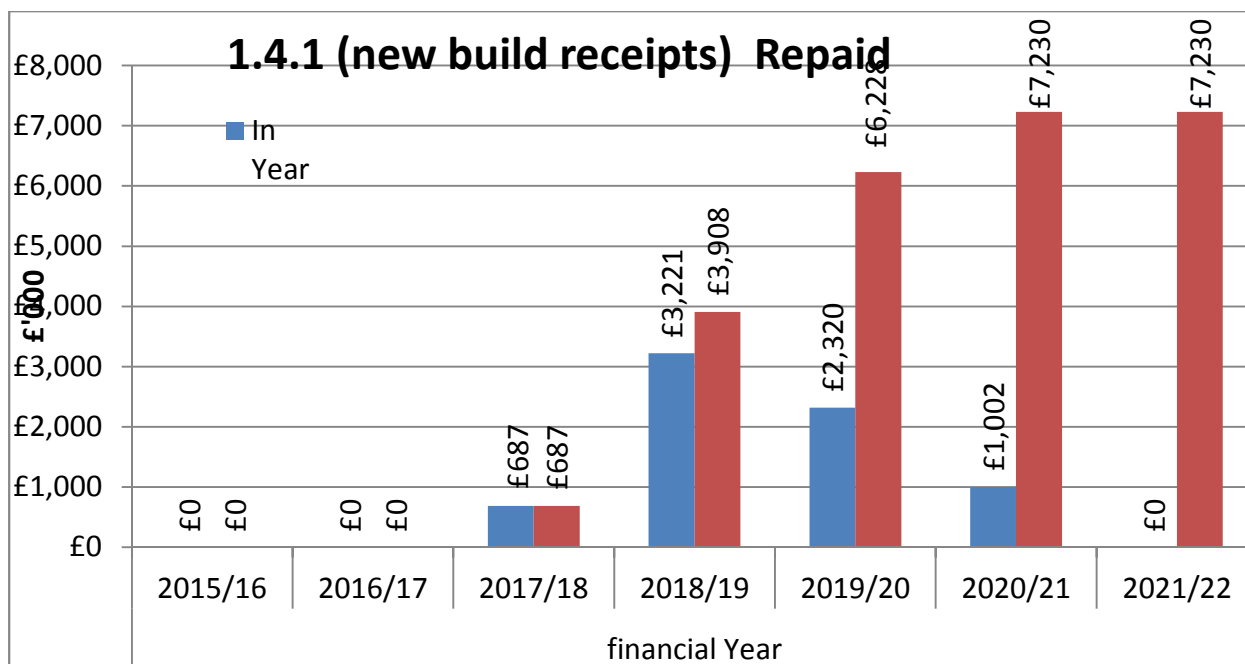
- 4.8.2 The Programme funding is identified below:

HRA Budget Proposals  
2016/17 Savings Options, Growth  
and Updated Financial Strategy



#### 4.9 Use of RTB One for One Receipts

- 4.9.1 The new build programme was introduced in 2012/13 alongside HRA self-financing (£2Million per annum) and with the impact of higher RTB sales the budget was increased by a further 30% using one for one receipts.
- 4.9.2 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 programme was partly funded by maximising the use of both the debt provision receipts and new build receipts.
- 4.9.3 Despite an ambitious new build programme, (the HRA Business Plan assumes spending £101Million for the next 10 years) the number of RTB receipts and the one for one proportion has continued to increase. Based on the current capital programme and estimated one for one receipts, it is anticipated that receipts will be returned to the government. The chart below shows the profile of unused receipts by the three year deadline.



4.9.4 Members agreed at the November 2015 Executive that as the use of borrowing should be considered as a means of not returning one for one receipts to the Treasury. This will be reviewed in January as part of the HRA Business Plan update. 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%.

#### 4.10 Changes in HRA between Draft and Final Budget

4.10.1 There has been changes totalling **£622,260** (net increased costs) to the 2015/16 working budget of:

- Increase in estimated council tax due on void properties £20,000
- Increase in grant income (£5,000) given by the CLG for the compilation of the housing stock data (requested by 23 December 2015) to be used to assess the 'sale of high value properties'.
- Increase in agency payments £25,790.
- Increase in salaries as a result of re-gradings (£630).
- BMO review and Improvement Plan a one off increase in costs of £580,840

4.10.2 There have been changes totalling **£1,493,260** (net increased costs) to the 2016/17 original budget of:

- Increase in use of revenue contributions to capital (RCCO) partly as a result of the Archer Road Scheme profiled spend being brought forward in 2016/17. Total increase £1,209,320 (see also section 4.8).
- Reduction in assumed Supported Housing charges (see also section 4.4) of £112,030.

- Increase in estimated council tax due on void properties £20,000
- Increase in salaries as a result of re-gradings, £650.
- Revision of Leaseholder insurance costs and income, a net increase in costs of £10,580.
- BMO review and Improvement Plan a one off increase in costs of £161,680
- Increase in rents from moving to target rents for re-let properties £21,000

## 4.11 Consultation

4.11.1 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)

4.11.2 The HRA Business Plan was agreed by the Executive in November 2014 and incorporates 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 Housing Delivery Plan projects and the related investment and growth requirements that are built into the HRA budget. Key messages are:

- Tenants' top service 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 are high and these services have a positive impact on residents' independence, safety and security and wellbeing

4.11.3 The Housing Management Board (HMB) acts as an advisory body to the Portfolio Holder for Housing and the Executive for council housing related matters, including participation in the HRA budget-setting process and the development of the HRA Business Plan. HMB includes one leaseholder and three tenant representatives in addition to Member and officer representation. The draft HRA budget and rent setting proposals were presented to HMB at their meeting on 17 December.

4.11.4 The Housing Management Board received a presentation on the impact of Government proposals and implications to the HRA Business Plan and the draft



HRA budget report. The Board welcomed the presentation and noted the report and were pleased to receive a degree of reassurance for the future in that key matters were being considered. The Board welcomed the efforts by officers to help find practicable solutions to the challenges faced.

4.11.5 Specific consultation will be/has taken place with affected groups for;

- The HRA growth and savings package
- Supported Housing charges
- Service Charges

Consultation undertaken/planned in respect of increases in service charges and Supported Housing fees will include drop in session in schemes (where requested).

## **4.12 Overview and Scrutiny Committee**

4.12.1 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 asked a number of questions but did not wish for any comments to be incorporated into the final report.

## **4.13 Leaders Service Priority Group (LSPG)**

4.13.1 LSPG was re-convened to take a key role in the 'challenge and prioritisation' stage for the third year of Priority Based Budgeting (PBB3). A cross-party group of Members were invited to consider all categories of savings options and to score the saving to be taken or rejected.

4.13.2 To achieve this, LSPG met during September and October 2015. During those meetings Heads of Service presented savings and growth options. The options were considered in detail by LSPG, before each option was given a final 'yes' or 'no' by every participating Member of the Group. The HRA savings options were then approved at the November Executive for inclusion in the HRA budget.

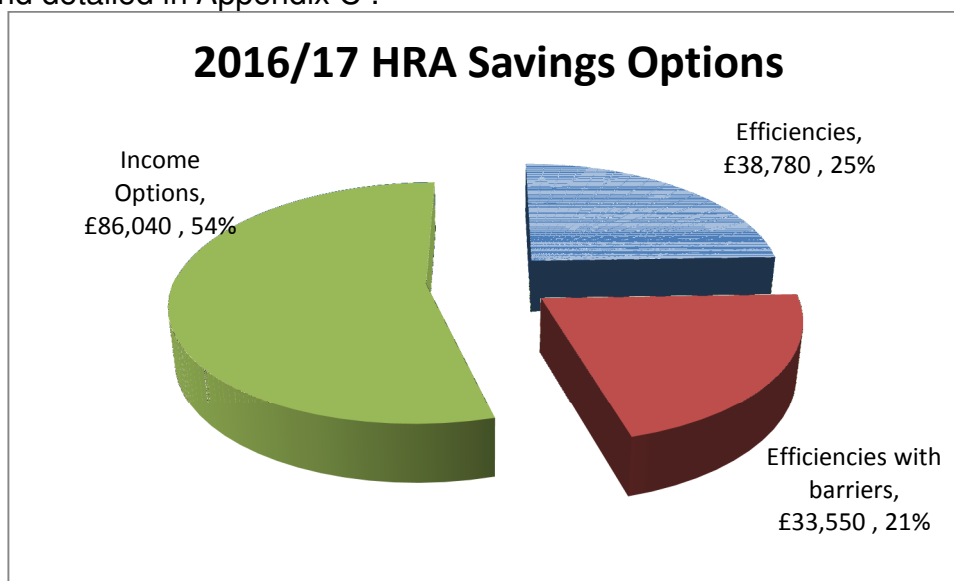
4.13.3 In addition to scoring the savings options, LSPG challenged important aspects of the Council's HRA financial arrangements. That challenge covered:

- The 2014/15 outturn
- A fees and charges review

## **4.14 HRA Budget Proposals**

4.14.1 A summary of the HRA savings options are shown in the chart below, the target set for HRA savings was £600,000 (or £200,000 per year for three years). However the savings identified in the November Executive report for the period 2016/17-2018/19 totalled £342,810. The 2016/17 savings totalling £158,370 have been included in the HRA 2016/17 budget (no change from the December Executive).

4.14.2 The majority of HRA savings are efficiency related and are summarised in the chart below and detailed in Appendix C .



#### 4.15 Revenue Growth

4.15.1 The growth options approved at the November 2015 Executive total £81,340, however this includes growth of £30,270 relating to a post to support leaseholder consultation on the flat blocks contract. It is anticipated that this post will be fully funded by leaseholders and therefore the net impact of growth on the HRA for 2016/17 is **£51,070**. The Growth Bids recommended for approval are detailed in Appendix C.

#### 4.16 Risk Assessment of HRA Balances

4.16.1 It is the Chief Finance Officer's view that the financial future for the HRA is facing considerable uncertainty as a result of a number of challenges some of which are not yet possible to assess. Some of these risks will impact in the coming financial year while others are likely to impact over the medium term and mean that the current capital programme needs to be revised.

4.16.2 The HRA MTFS has calculated the impact of the 1% rent reduction over the next four years, however there is no guarantee that after this period the council will have discretion over future rent setting policy. This is a risk for the revision of the HRA Business Plan to consider.

4.16.3 The 2016/17 HRA budget includes an increase in service charges by a maximum of £3.00 as recommended in this report. Currently the interpretation of the legislation excludes service charges from a 1% reduction. However the Bill has yet to be passed into statute and therefore the HRA balances include a financial amount for this risk in 2016/17.

4.16.4 The government is planning to introduce a charge to the HRA for high value properties that become void. The council had to complete information regarding its

stock, value of properties and void history by 23 December 2015. The rules regarding what is a high value property and which properties are exempt has not yet been made clear. Recent indications on the mechanics of how this will work are that the council may pay the government an amount based on anticipated voids. The wording in the Housing and Planning Bill requires local authorities to 'consider' selling their interest (freehold or leasehold) in high value housing but as the required payments will be formula driven and not based on actual sales, contributions could be met in part or solely from other resources. If this is based on vacant property values (the values the government has asked for), this could have a significant adverse impact on the HRA's cash flow and ability to carry out future capital works. For example there have been an average 370 voids per year over the period 2012/13-2014/15, even if 10% of the stock are included this would equate to 37 properties. **The latest estimates of the policy cost (the cost of RTB discounts to housing association tenants) is about £10bn over 5 years or £2bn per annum (Source: CIH "Selling off the stock"), which is equivalent to over £1,100 for every HRA dwelling.** The scale of the impact on local authorities has been reinforced by a statement made to the Communities and Local Government Select Committee by the Housing Minister, Brandon Lewis, where he indicated about a third of council properties would be affected by the policy. It is not clear what costs would be excluded from the calculation. The HRA balances include a financial amount for this risk in 2016/17.

4.16.5 The pay to stay legislation is due to come into force by 1 April 2017 whereby households with an income in excess of £30,000 (although this value may change) will pay a market rent rather than the social rent set by the council. In advance of this change this may lead tenants to purchase their council property and so increase the number of RTB's higher than the 100 assumed for 2016/17. The HRA balances include a financial amount for this risk in 2016/17.

4.16.6 The number of RTB's may also increase as a result of the government's campaign to increase home ownership and this has been evident in recent publicity campaigns and the targeting of postcodes within the borough. The HRA balances include a financial amount for this risk in 2016/17.

4.16.7 The government intends to introduce a lower benefit cap in the Autumn of 2016, if this is set at £20,000 the council's calculations have shown that this is going to affect working aged benefit claimants in three bedroom properties and above. This is going to put pressure on any discretionary housing benefit payments that can be administered and in all probability lead to higher rent arrears as tenants benefit is capped. The HRA balances include a financial amount for this risk in 2016/17.

4.16.8 The risk assessed level of balances for 2016/17 has been assessed at £2,784,237 and a summary of the risks is included in Appendix E.

## **4.17 Final HRA 2016/17 Budget**

4.17.1 The HRA budget is summarised in the following table:

	2015/16	2016/17	2016/17	2016/17
HRA Budgets	Revised Budget £	Draft Budget £	Final Budget £	Variance £
Original Budget 2015/16	(2,698,930)	(2,698,930)	(2,698,930)	0
Reported Budget Monitoring Adjustments	528,550	(99,960)	(99,960)	0
Borrowing and interest charges		(5,596,198)	(5,596,198)	0
Capital cost changes		4,223,378	5,432,698	1,209,320
Prior Year Savings and Growth	(10,000)	(659,990)	(659,990)	0
2016/17 net savings/pressures		74,462	74,462	0
2016/17 Savings		(158,380)	(158,380)	0
2016/17 Growth		51,070	51,070	0
2016/17 Salary Inflation		369,550	370,200	650
Increase in technical assistance charged to capital		(235,260)	(235,260)	0
Recharges (excluding technical assistance charged to capital)		110,160	110,160	0
2016/17 Inflation		52,920	52,920	0
Rent decrease and service charges		406,880	385,880	(21,000)
Other Fees and charges		(224,660)	(106,080)	118,580
Interest income due to the HRA		(118,150)	(118,150)	0
BMO adjustments	430,840	846,890	1,008,570	161,680
Anti Fraud Service (HRA share)	20,000	20,000	20,000	0
Other Adjustments	41,420	(60,752)	(36,722)	24,030
<b>Total Contribution to Balances</b>	<b>(1,688,120)</b>	<b>(3,696,970)</b>	<b>(2,203,710)</b>	<b>1,493,260</b>

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

4.17.2 The 2016/17 HRA projected budget is now a £2,203,710, this includes the changes as a result of the BMO Review report to the January Executive.

4.17.3 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, the current business plan is being updated but the deficit is in the order of £170Million. This will require additional balances, savings or re-profiling of the programme. The deficit identified is outside of the tolerance set by the Chief Financial Officer, which is a maximum of 3% of the programme unfunded. A summary of the 2015/16 and 2016/17 balances are shown in the table below.

<b>HRA Balances:</b>	<b>2015/16 £</b>	<b>2016/17 £</b>
<b>HRA Balance 1 April</b>	(13,703,547)	(15,391,667)
<b>Use of / (contribution to) of balances in Year</b>	(1,688,120)	(2,203,710)
<b>HRA Balance 31 March</b>	(15,391,667)	(17,595,377)
<b>Minimum Balances</b>	(2,015,000)	(2,784,237)

4.17.4 The 2015/16 HRA budget working budget of £2,170,380 (surplus) is now projected to be a surplus of £1,688,120, a reduction in surplus of £482,260 (of which £10,000 was reported in the December draft budget report, (see also paragraph 4.10).

4.17.5 The HRA projected year-end balance as at 31 March 2017 is now projected to be £17,595,377. However Members are aware that the HRA will have lost £225Million of rental income in the 30 Year Business Plan due to the government's Welfare Reform Bill, this represents about 25% of the total capital programme. There is therefore a shortfall in the 30 year capital programme which is still being assessed together with the other risks identified.

4.17.6 Officers and Members are currently revisiting the HRA's priorities so as to reduce expenditure or increase income in the HRA Business Plan. Pending that work minimum balances held for the HRA for day to day spending have been calculated at £2,784,237, based on the risks facing the HRA (Appendix E). Any remaining reserves need to be set aside to fund the capital programme which currently is not financed in total from 2019/20 and for the future payment of debt.

#### **4.18 Contingency Sums**

4.18.1 The Executive will recall that a Contingency Sum needs to be determined by the Council as part of the Budget and Policy Framework in order to avoid the need for Council to consider all supplementary estimates during the course of the year. This contingency sum constitutes an upper cumulative limit during the financial year within which the Executive can approve supplementary estimates, rather than part of the Council's Budget Requirement for the year. A sum of £250,000 is proposed for 2016/17, this remains unchanged from the previous year.

### **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. Human Resources staff are co-ordinating centrally the implementation of any 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 the new year for any variations identified as part of the 2016/17 draft budget.

5.4.2 There are **significant risks** to the HRA and these are laid out in section 4.16 of this report.

5.4.3 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.

### **5.5 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 2016.

5.5.2 To inform the decisions about the Budget 2016/17 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, 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 2014 Agenda Item 6 - Housing Revenue Account Business Plan
- BD2 –December 2015 Agenda item 5 –Housing Revenue Account Draft Budget Proposals and rent setting
- BD3 January Executive Agenda Item 4 Housing Revenue Account Final Budget Proposals and 2016/2017 Rent Setting
- BD4 January Executive Agenda Item 15 BMO review and Improvement Plan

- BD5 - January Executive Agenda Item 11 Revised Rent and Service Charge Setting Policy.

## **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
- Appendix G1 - Rent and Service charge policy
- Appendix G2 - Summary Guide to the Rent Reduction Policy as set out in the Welfare Reform and Work Bill as at 25 November