Part I – Release to Press

STEVENAGE BOROUGH COUNCIL

Meeting	**EXECUTIVE**
Portfolio Area	Resources/Housing
Date	**23 JANUARY 2018**

2018/2019 HRA RENT SETTING AND BUDGET

KEY DECISION

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1. PURPOSE

1.1 To update Members on the final proposals on the HRA budgets and rent setting for 2018/19, to be considered by Council on 30 January 2018.

1.2 To propose the HRA rents for 2018/19.

1.3 To propose the HRA service charges for 2018/19.

1.4 To update Members on the 2017/18 and 2018/19 HRA budget, incorporating the Financial Security options, growth bids and fees and charges included in the November Financial Security report, together with any revised income and expenditure assumptions identified since that report.

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 LSSOs) be increased, week commencing 2 April 2018 by 4% i.e. £4.37 per week which has been calculated using the existing rent formula, CPI +1% in line with the Rent and Service Charge Policy approved at the January 2017 Council.

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 2 April 2018 or £0.95 and £1.62 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 2018/19 HRA budget, as set out in Appendix A and the revised 2017/18 budget of £2,802,250, (surplus).

2.4 That Council be recommended to approve the HRA Financial Savings options as outlined in Appendix B.

2.5 That Council be recommended to approve the HRA Growth options as outlined in Appendix C.

2.6 That Council be recommended to approve the HRA Fees and Charges as outlined in Appendix D.

2.7 That Council be recommended to approve the 2018/19 service charges.

2.8 That Council be recommended to approve the minimum level of reserves for 2018/19 as shown in Appendix E to this report.

2.9 That the contingency sum of £250,000 within which the Executive can approve supplementary estimates, be approved for 2018/19 (unchanged from 2017/18).

3. BACKGROUND

3.1 In November 2017, the Executive approved a revised HRA Business Plan which was an update on earlier versions approved in 2016 and 2014. Since the initial 2014 Business Plan update, the projections have undergone a number of reiterations, mainly due to the significantly negative financial impact on the HRA of the four year 1% rent reduction and other government legislation in the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. Members will be aware that the single biggest financial impact on the HRA was the four year rent reduction with an estimated £225Million loss of income over a 30 year period. 2018/19 represents year three of the four year rent reduction.

3.2 The Government has indicated that after 2019/20, rent increases will be based on the formula CPI+1%. If this policy had been in force for 2018/19 this would have equated to a 4% rent increase rather than the 1% rent reduction for social and affordable rents for the coming year.

3.3 In terms of other Government legislation the financial landscape still looks uncertain for housing. However the government has announced that the introduction of Higher Value Asset levy (HVV) on councils has been deferred for another year (2018/19) but as of yet no decision has been announced on whether the government will introduce it. The 2017 Autumn budget confirmed that the government will proceed with a £200 million large scale regional pilot of the Right to Buy for housing association tenants in the Midlands. The Autumn budget costs, include an £85m sum for this pilot in 2019/20, but the accompanying policy costings document doesn't explain how this has been arrived at. The HRA business plan to the September Executive had assumed a cost of £732K to the HRA in 2018/19 which has been removed and for the 30 year business plan a total cost of £29Million.

3.4 Secondly the end of lifetime tenancies, replaced with a two to five year fixed term (with some exceptions). The DCLG had indicated it was ready to consult prior to the General Election but this hasn't materialised since then and there has been no decision on an implementation date. Both of these Government initiatives require the approval of regulations by Parliament.

3.5 In summary the current regulations in force require the Council to set a 1% rent reduction for social and affordable rents, the exception being low start shared ownership (LSSOs). There are 90 LSSO properties which equate to 85 full house equivalents. Any service charges can be charged at cost and sit outside the rent reduction regulations.

3.6 The total number of HRA homes in management at the 18 December 2017 is summarised in the table below. The average rents for 2018/19 are based on this housing stock, however any right to buys or new schemes subsequent to the 18 December may change the average rent per property type. This is 11 properties less than that reported in the Draft HRA report to the December Executive.

Stock Numbers at 18/12/2017	Social	Affordable	Sheltered	LSSO	Homeless	Total
Number of Properties	6,851	10	858	85	130	7,934

3.7 The HRA Business Plan presented to the September Executive has been adjusted for the Financial Security Options and Fees and Charges approved at the November Executive. A summary of the assumptions for the budget are shown in the table below.

Financial Assumptions included in the HRA BP and November FS report	2017/18	2018/19
Rent & Service Charge Increases	1% rent reduction for general stock and 1%+CPI (3%) for LSSO's and re-lets to formula rent	
New Build	50% Affordable 50% Social	
Right-to-Buys	42	50
Bad debt rates	0.60%	0.60%
2018/19 Financial Security options	0	(£225,959)
2018/19 Growth bids	£154,751	£365,092
New Build - Number of Units (HRA BP)	56	37
Repayment of Debt	3,741,000	0
New loans	3,500,000	
Capital Deficit in the Business Plan	0	0

3.8 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 overleaf.

Date	Meeting	Report
Dec-17	Executive	Draft HRA 2018/19 Budget (incorporating Financial Security Options)
	Overview and Scrutiny	Draft HRA 2018/19 Budget (incorporating Financial Security Options)
Jan-18	Executive	Final HRA rent setting and 2018/19 Budget
	Overview and Scrutiny	Final HRA rent setting and 2018/19 Budget
	Council	Final HRA rent setting and 2018/19 Budget

3.9 The Draft HRA budget was presented to the December Executive and Overview and Scrutiny Committee which was a 2018/19 Deficit of £2,618,690 with an average 2018/19 social rent of £95.75, affordable rent £160.21 and LSSO of £113.55. There were 141 properties with an increase of between £4.00-£5.50, this included 90 LSSO properties with the remaining 51 being social rented homes.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Rents

4.1.1 The continuing impact of the 1% rent reduction on an average rent is illustrated in the table below. Over the four year period a CPI+1% increase is estimated to be a 10.78% increase in average rents, compared to a 3.94% loss of a 1% rent reduction for four years. This gives an overall difference between the two rents of 14.72% and an estimated rent loss by year four of £5.9Million and in total £12.6Million. The impact over a 30 year business plan has been estimated at £225Million.

Impact of 1% rent reduction (starting rent £98.59)	2016/17	2017/18	2018/19	2019/20	Incr.(decr.) 4 years £	Incr./(decr.) 4 years
Rent based on CPI+1%	£99.48	£101.47	£105.53	£109.22		
Increase per year	£0.89	£1.99	£4.06	£3.69	£10.63	10.78%
Rent with 1% rent reduction	£97.60	£96.62	£95.66	£94.70		
Decrease per year	(£0.99)	(£0.98)	(£0.97)	(£0.96)	(£3.88)	(3.94%)
Overall loss per average property	£1.88	£4.85	£9.87	£14.52	£31.11	**(14.72%)**
Rent loss in £'000	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**Incr.(decr) 4 years £**	
Estimated rent loss per year £'000	£771	£1,960	£3,975	£5,940	£12,647	

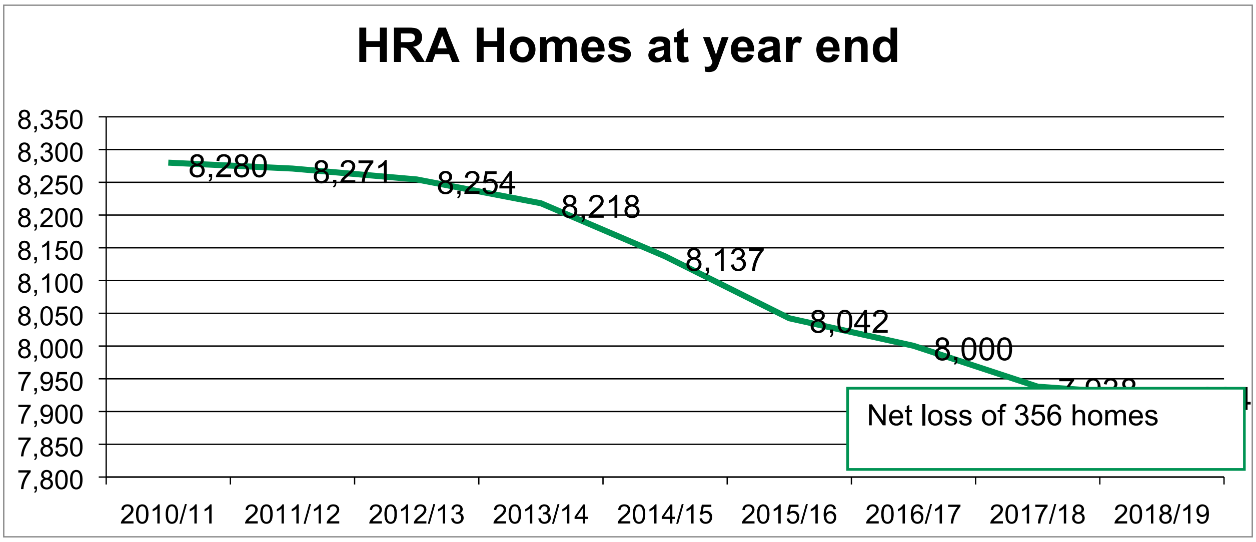
4.1.2 The legislation governing the rent reduction states that it should be based on a tenant's rent in the 12 months prior to the first relevant year. The starting point should be the rent on 8 July 2015 – the date on which the intention to legislate regarding rent reductions was announced. The link to rent on 8 July 2015 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.

4.1.3 The exceptions to the 1% rent reduction for Stevenage Borough Council, is Low Start Shared Ownership properties (LSSOs). The Council has 90 LSSO properties and owns 85 full house equivalents. This report recommends that these rents are set in line with the rent policy CPI+1% or a 4% increase for 2018/19, (2017/18 increase 2%).

4.1.4 The proposed average rents for 2018/19 are set out in the table below, there are currently 10 affordable rented properties (ranging from 4 bedroom-2 bedroom houses and flats).

Average Rents 2018/19	LSSO	Incr./ (decr.) %	social	Increase/ (decrease) %	Affordable	Incr./ (decr.) %
Average Rent 2017/18	£109.18		£96.71		£161.83	
Add rent impact 2018/19	£4.37	4.00%	(£0.95)	(1.00%)	(£1.62)	(1.00%)
Total 52 week Rent 2018/19	**£113.55**		**£95.76**		**£160.21**	

4.1.5 **The only change between the Draft and Final proposed rents is that the average social rent for 2018/19 is now £95.76 per week compared to an average draft rent of £95.75 a difference of £0.01.** This as a result of void properties being re-let at formula rents and removal of right to buy sales between October and December. Net rental income decrease for 2018/19 is estimated to be £566,000, which includes the impacts of the rent reduction and estimated right to buys, offset by estimated new properties. The total number of properties in management is estimated to have reduced by 356 homes between 2010/11 and 2018/19, the 2017/18 numbers have been temporarily impacted by sheltered properties out of management ready for scheme redevelopment. **This remains unchanged from the Draft HRA report to the December Executive.**

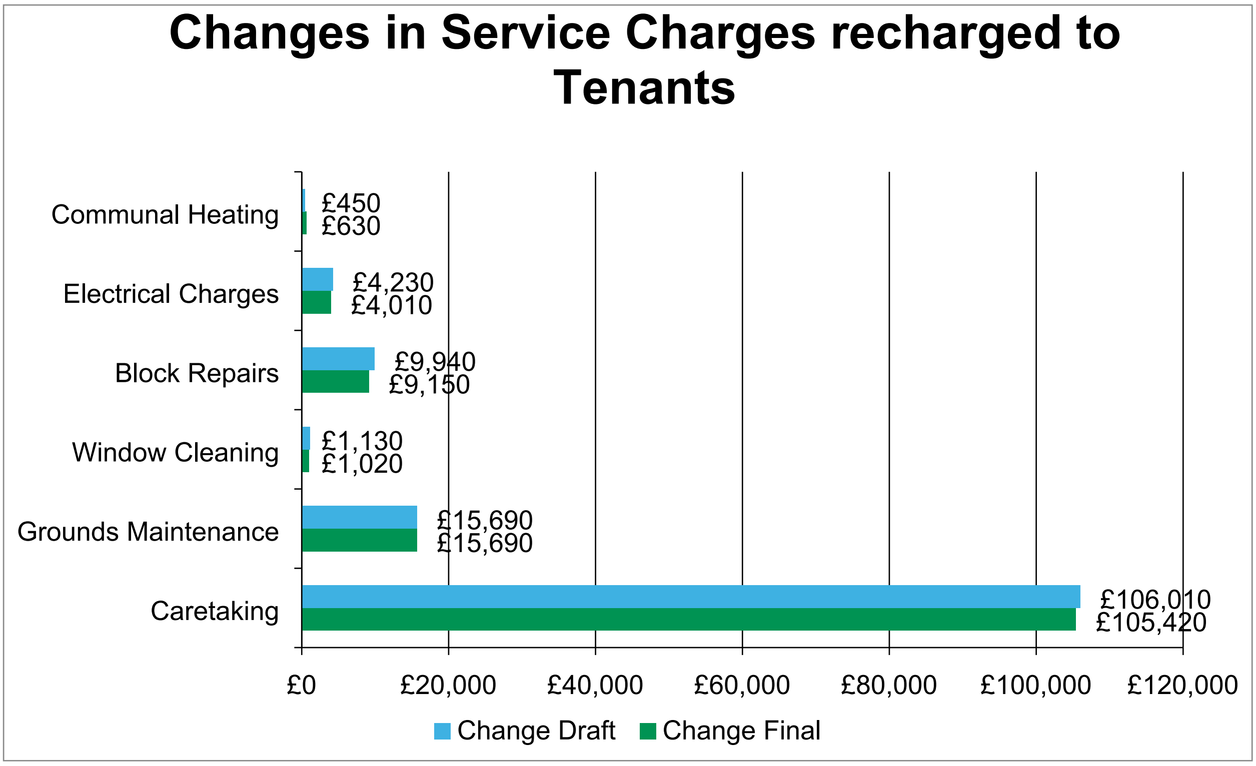


4.2 Service Charges

4.2.1 Service charges are calculated for each block individually for 2,925 properties, (2017/18 2,885) or 37% of current SBC tenanted properties. A review of service charges was trailed in the 2017/18 HRA rent setting report, however the review was not concluded in time for the 2018/19 rent setting and still requires tenant and Member consultation. The Executive will receive a report in the spring/summer with a view to necessary action / consultation being undertaken in time to inform the 2019/20 budget. Service charges currently provided, (eligible for housing benefit) are shown below.

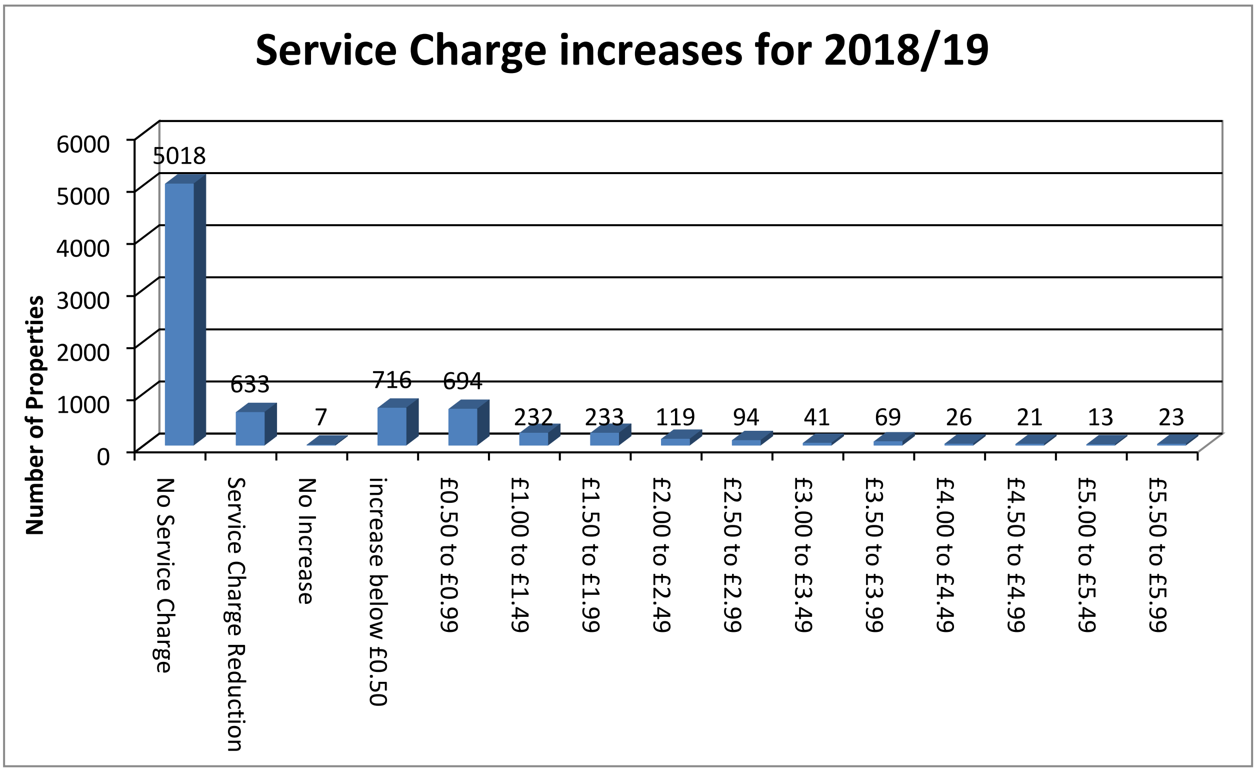
Service Charges:
Caretaking
Grounds maintenance
Window cleaning
Block repairs (including pest control)
Electrical charges
Communal heating

4.2.2 Service charges are not subject to the 1% rent reduction regulations, but are based on cost recovery. For 2018/19, service charge costs will increase with inflationary pressures and changes in usage. Both the draft and final estimates of service charge costs to be charged to tenants are shown in the chart below. The recharge to tenants has been amended to reflect RTB properties and any adjustments to service charges. The reduction in tenant income will be recouped via leaseholder service charges.



4.2.3 In the draft HRA report caretaking costs were shown to have increased by £106,010, this has reduced slightly to £105,420. As reported previously the reason for the increase is because historically reactive work undertaken by the caretakers has not been charged to tenants and leaseholders, meaning that only 58% of caretaking costs have been recovered. Including the reactive work (not on the normal schedule for removal of debris etc.) in chargeable time means that 84% compared to 58% of productive hours are estimated to be paid for in 2018/19.

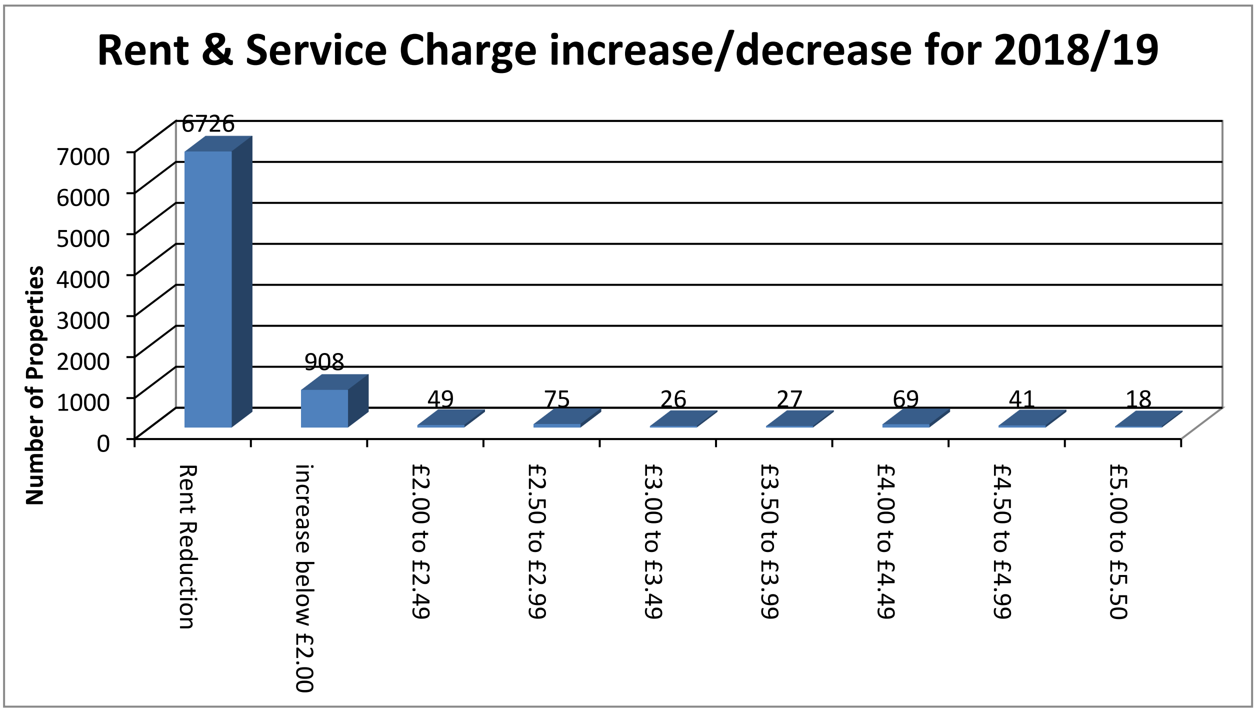
4.2.4 The spread of service charge increases for all tenants in 2018/19 is shown in the chart below and has been updated since the draft report. The impact of the increase in service charges (including caretaking), means **2,050 homes will receive a service charge increase of less than £1.00** (in the draft report this was 2,062), there are still 23 properties which have an increase of between £5.50-£5.99 per week.



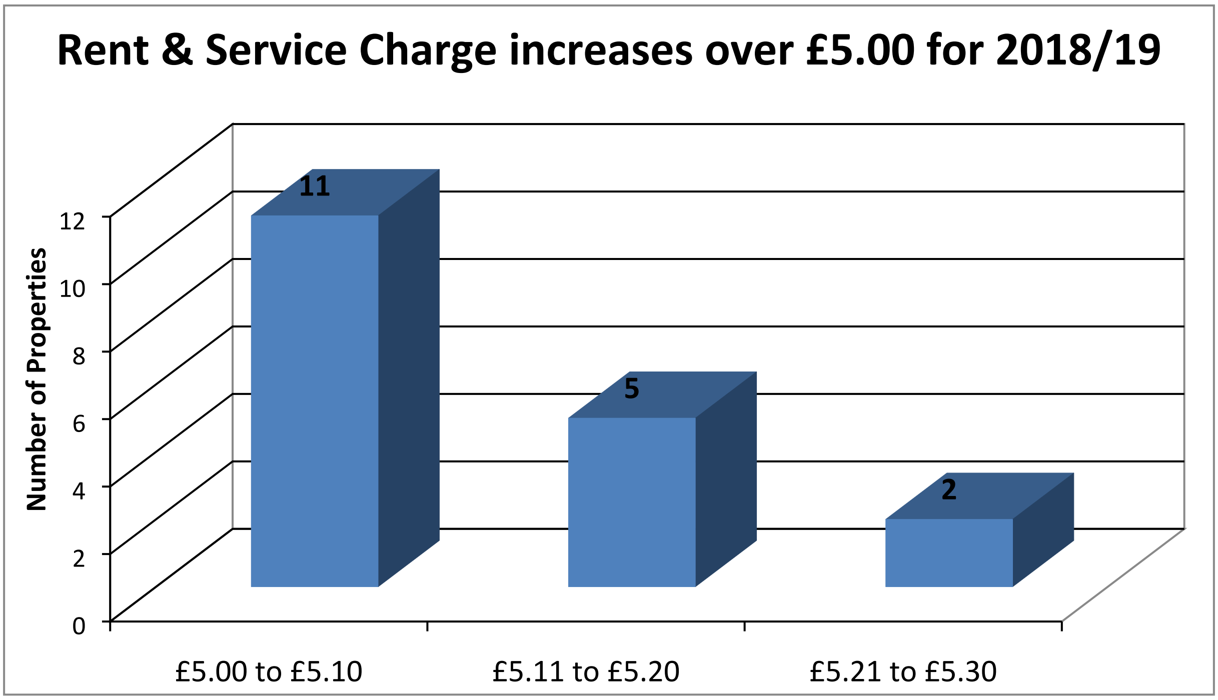
**includes LSSO in total not reduced for the share owned by the tenant*

4.3 Rents and Service Charges

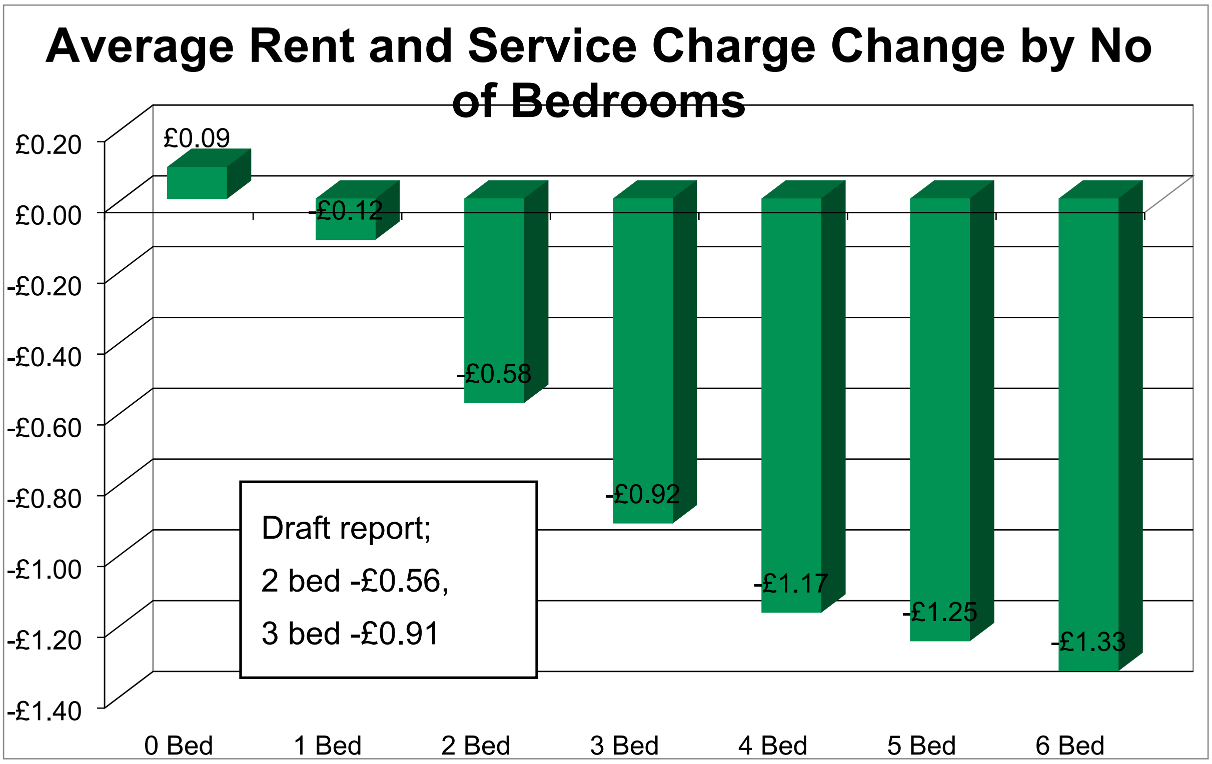
4.3.1 There are 6,726 or 84.7% of council tenants compared to 91.6% in 2017/18 receiving a rent and service charge reduction. **There were 141 properties with an increase over £4.00 in the draft report, this has reduced to 128 properties**. The spread of the 2018/19 rent and service charge changes are summarised in the chart below.



4.3.2 There are 18 properties with an increase in excess of £5.00 with two properties estimated to have an increase of between £5.21 and £5.30. A summary of these properties is shown in the chart below and this remains unchanged from the Draft HRA report to the December Executive.



4.3.3 The average rent and service charge increase/(decrease) by bedroom size has also been calculated and summarised in the chart below.



4.3.4 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 139%, (2017/18,147%) per week than a SBC council home and 38% more than the affordable let properties,(2017/18 44%).

	SBC Social Rent (EXC LSSO's)	SBC Affordable Rent	Median Private Rent	Local Housing Allowance (LHA)	Median % v SBC Social	Median % v SBC Affordable
1 Bed Property	£81.56	£119.92	£184.00	£126.03	126%	53%
2 Bed Property	£94.94	£153.38	£219.00	£155.37	131%	43%
3 Bed Property	£106.03	£182.75	£253.00	£192.05	139%	38%
4 Bed Property	£117.15	£225.82	£299.00	£245.96	155%	32%

4.3.5 **The Local Housing Allowance (LHA)** shown in the table above is the maximum amount of housing benefit payable by property size for private rented properties.

4.4 Supported Housing Income and Expenditure

4.4.1 Included in the approved 2014, 2016 and 2017 HRA Business Plan was an assumption that £100,000 of Supported Housing charges would be recovered either from lower costs or higher charges in the period 2016/17-2018/19.

4.4.2 The business plan was trying to address the removal of supporting people grant, (paid via the County Council), of which £386,000 had been removed by 2015/16. Furthermore the cost of the service in 2015/16 was a net charge to the HRA of some £656,000, so even with grant funding the cost of the service was not met. This has meant that the cost of this service (apart from some self-funders) is being met from the HRA which is not sustainable.

4.4.3 Since 2015/16 a number of income increases have been introduced together with service cost reductions which lowered the cost of the service by £149,790 in 2017/18, (fee increases accounted for £22,250). In 2018/19 further options have been considered (subject to consultation) which is a £2.00 charge per week for those recipients of the service that are currently not paying anything, whose costs (in part) would have been covered by the supporting people grant. The charge to self funders will be £17.70 in 2018/19.

4.5 Borrowing

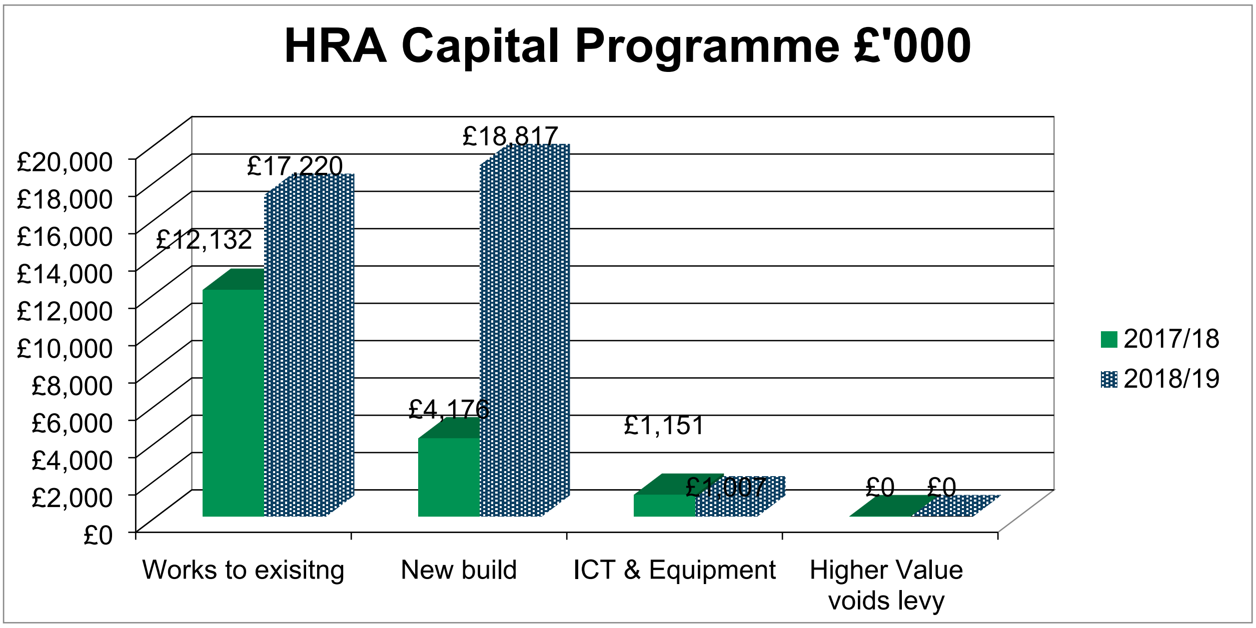
4.5.1 The HRA business plan's existing loans are an average interest rate of 3.40% based on £206.174Million of borrowing. The current business plan makes allowance for new loans totalling £3,500,000 in 2017/18, together with debt repayments in this year of £3,741,000. The decision when to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing PWLB rates. The interest payable in 2017/18 and 2018/19 is estimated to be £7,017,260 and £6,960,140.

4.6 Contributions to Capital Expenditure

4.6.1 A large part of the capital programme is funded from HRA revenue resources, however in 2017/18 there was only a small revenue contribution to capital (RCCO) of £60,230 in the HRA. The contribution increases considerably in 2018/19 due to the size of the capital programme and is £7,675,440 (draft budget £7,540,240) for 2018/19. T**he 2018/19 capital programme has increased by £76,000 (ICT slippage) and is £37,043,750, the level of RTB debt receipts is forecast to be £135,200 lower than previously estimated, which has meant a higher RCCO contribution required for the year**. The 2018/19 programme is much higher than the 2017/18 capital programme of £17,459,250 as next year includes the Major Repairs contract on flat blocks and higher new build budgets.

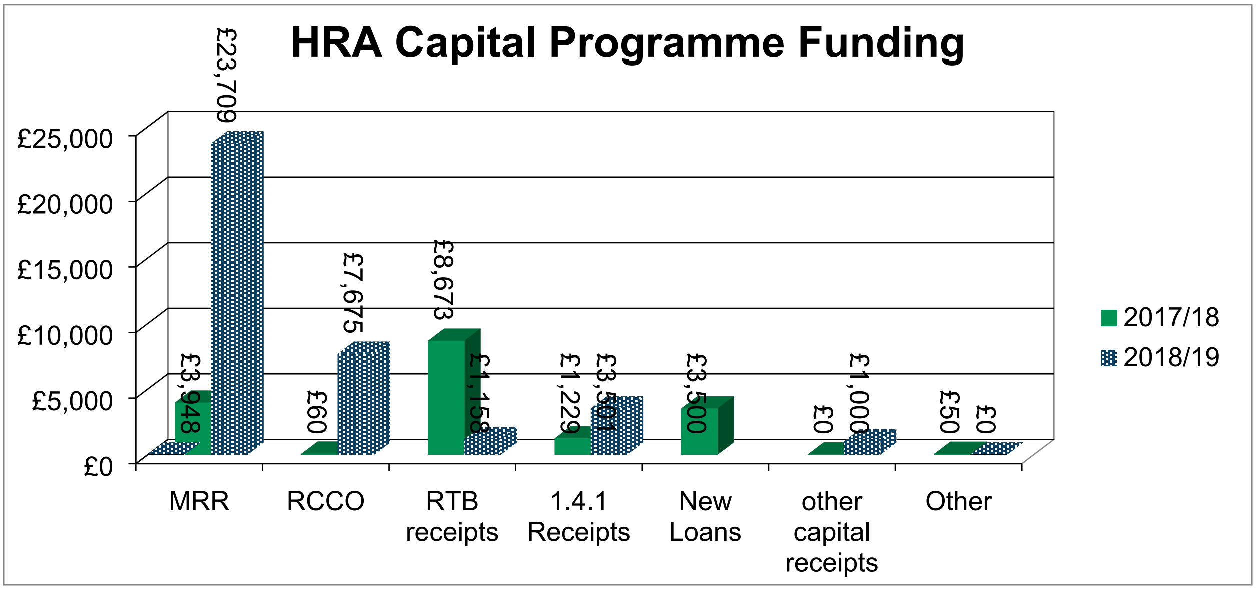
4.6.2 The 2018/19 capital programme does not include any higher value voids levy, (which was estimated to be £732,000 in 2018/19). As outlined in paragraph 3.3 the government announced in December that this would not be introduced in 2018/19.

4.6.3 The 2018/19 budgeted depreciation allowance to be transferred to the Major Repairs Reserve (MRR) to fund the capital programme is £11,792,190, (no change to the November MTFS). A summary of the 2017/18-2018/19 capital programme is shown in the chart below.



4.6.4 The increase in the size of the capital programme in 2018/19 compared to the 2017/18 programme, (as outlined in paragraph 4.6.1), is mainly funded from increased use of the Major Repairs Reserve (effectively depreciation balances from the HRA) and RCCO.

4.6.5 The funding for the HRA capital programme is shown in the chart below, this includes the increase in RCCO as outlined in paragraph 4.6.1.



4.6.6 The current HRA Business Plan does not assume borrowing above the government imposed borrowing cap (£217.685Million). The 2017 Autumn budget announced the Government will be lifting borrowing caps for councils in areas of high affordability pressure. Local authorities will be able to bid for increases in their caps from 2019/20, up to a total of £1 billion by the end of 2021/22. However, the rules on how Authorities can do this have yet to be published but the Government has notified councils that it intends to set out detailed arrangements shortly. The Government anticipates that the additional borrowing could help local authorities to build replacement homes sold under the right to buy, or be used alongside Affordable Homes Programme grant. These measures in the Budget and the reforms announced in the Housing White Paper by the government reflect their desire to raise housing supply to 300,000 per year by the mid 2020s.

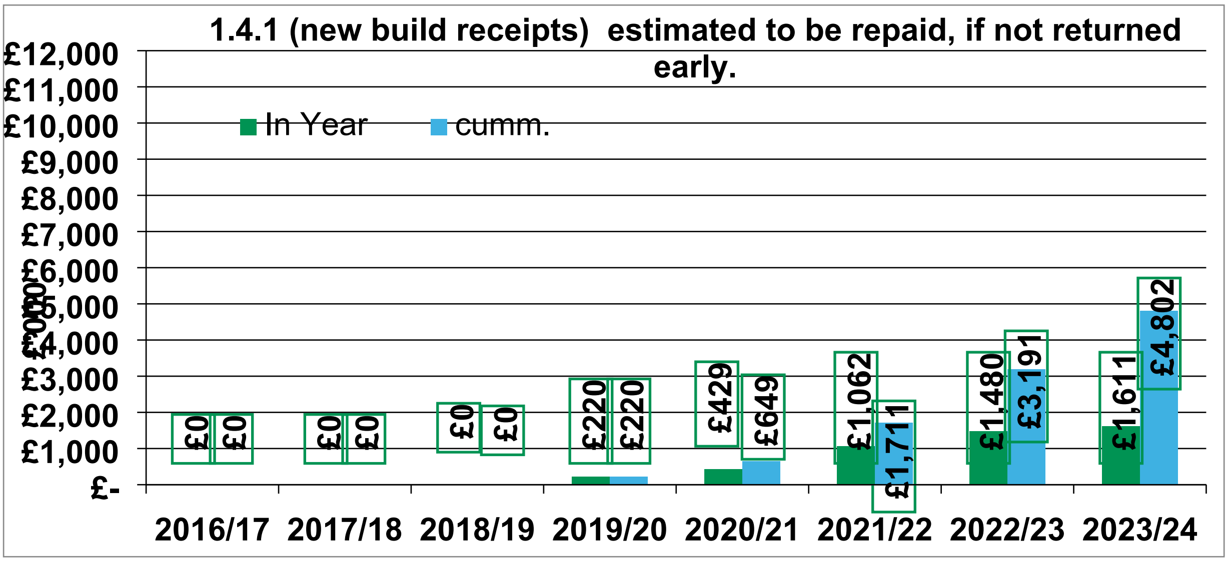
4.7 Use of One for One Receipts

4.7.1 The new build programme was introduced in 2012/13 alongside HRA self-financing. The revised November 2014 HRA Business Plan projected 1,900 properties over a 30 year period with 559 properties to be built/acquired in the first ten years, spending an estimated £416Million. The 2017 Business Plan increased funding to £453Million with an estimated 1,986 new council homes and 88 replacement properties.

4.7.2 Despite having an ambitious new build programme, the value of 1.4.1 receipts has continued to increase as house prices and the number of RTB’s have risen. However to date only £3.9Million of receipts have been returned to the Government to avoid the punitive interest rate penalties (4% above the Bank of England base rate).

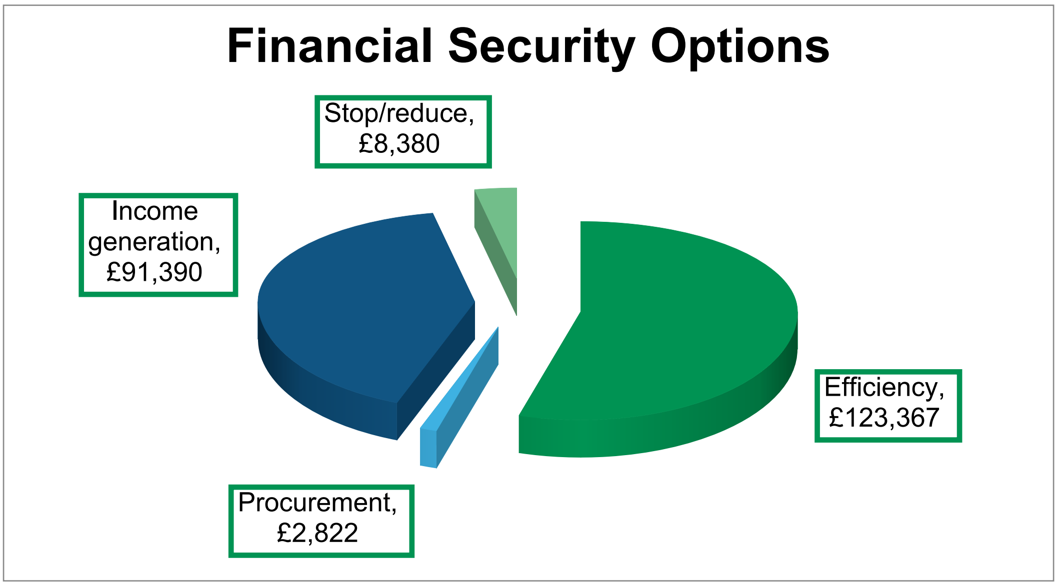
4.7.3 Based on the current capital programme and estimated 1.4.1 receipts, no receipts need to be returned in 2017/18 and 2018/19. However these projections are very much dependent on the level of sales and profiling of capital expenditure, the sales for the current year are estimated to be 42 which is lower than the 50 sales originally budgeted for.

4.7.4 The calculation for the use of 1.4.1 receipts has been completed for the period October to December 2017, (quarter 3 2017/18) and no receipts are due to be returned up to the 31 December 2017.



4.8 Financial Security Options

4.8.1 At the November Executive, Members approved HRA Financial Security Options of £225,959 and detailed in Appendix B. A summary of the options is shown in the chart below.



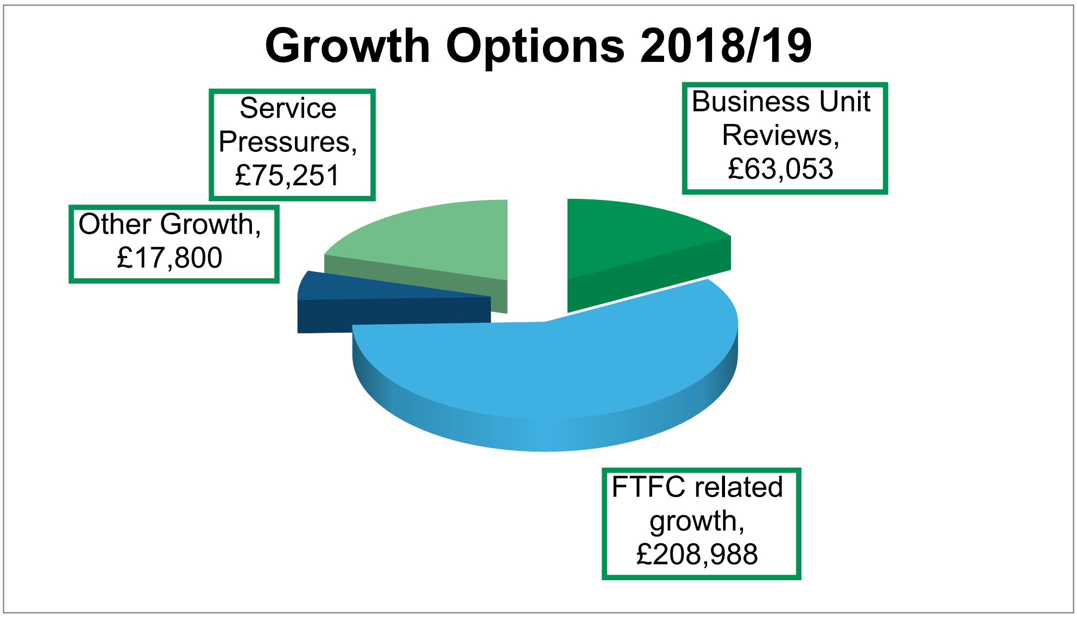
4.8.2 The majority of the options related to efficiencies (55%); included within the income generation options is the £2.00 per week charge for supported housing as outlined in paragraph 4.4.3.

4.8.3 Officers with the Leaders Financial Security Group (LFSG) will be working towards achieving the unidentified Financial Security target which totals £0.977Million for the next four years, (2019/20-2022/23).

4.9 Growth Options and Service Pressures

4.9.1 At the November Executive, Members approved General Fund Growth and Service Pressures of £365,092 with implementation costs of £154,750 in 2017/18. This included the financial cost of the Business Unit Reviews (BUR) and ICT Improvement Plan which were reported separately and approved by Members at the November Executive.

4.9.2 This growth is in addition to the previously agreed housing transformation fund which totals £500,000 per year for 2017/18-2019/20. The growth and pressures are summarised in Appendix C. A summary of the options is shown in the chart below.



4.10 Fees and Charges

4.10.1 2018/19 fees, charges and concessions have been reviewed as part of the work of the Corporate Fees and Charges Group, with the results scrutinised and recommended for approval by LFSG and included in Appendix D. The recommended Fees and Charges for the HRA total £7,580. The majority of HRA fee income relates to rent and service charges.

4.11 Final Budget Proposals

4.11.1 The Final HRA budget is estimated to be a net expenditure of £2,756,630, which is a reduction of £217,419 on that reported in the Financial Security report to the November Executive, but £137,940 more than the draft budget to the December Executive. The reasons for the changes are summarised in the table below.

Notes	Summary of 2018/19 budget movements		
	November MTFS (28 November 2017 Executive)		**£2,974,049**
	Increases in Income/Reductions in Expenditure:		
	Additional Rental Income	(£6,310)	
Updated	Other fees and charges incl. caretaking	(£120,130)	

Notes	Summary of 2018/19 budget movements		
	(reduced by £1,100 since draft budget)		
Updated	Revenue contribution to capital (increased by £135,200 since draft budget)	(£305,300)	
New	Salary changes (Ni overstated £53,600 partly offset by higher pay award costs £52,450), para. 4.11.5).	(£1,150)	
	Interest receivable (para 4.11.6)	(£20,120)	**(£453,010)**
	Increases in Expenditure:		
	Additional Pension strain costs following statutory opt in (para 4.11.4)	£72,560	
Updated	Net increase in recharges between HRA and GF (increased by £2,790 since draft budget)	£139,200	
	other minor changes	£23,831	**£235,591**
	Net decrease in budget		**(£217,419)**
	Updated HRA 2018-19 net budget		**£2,756,630**

4.11.2 The largest increase in fees and charges relates to the increase in caretaking staff charged as part of service charge recovery, this is outlined in paragraph 4.2.3.

4.11.3 Revenue Contribution to Capital (RCCO) has reduced by a net £305,300, this is a result of the removal of the HVV levy from the 2018/19 draft HRA capital programme partly offset by lower projected debt provision receipts.

4.11.4 There has been an increase in the employer pension costs as the number of HRA employees in the pension scheme has increased, compared to that previously estimated. All new employees are automatically enrolled in the pension scheme and must opt out if they want to leave the scheme. The current pension contribution for 2018/19 is 18.5% of gross pay including overtime and other pay elements.

4.11.5 There is a small reduction in other salary costs, national insurance contributions were overstated (£53,600) which offset the impact of increasing the pay award in the budgets from 1.5% to 2% (£52,450).

4.11.6 Interest on HRA balances has increased over that estimated based on a 0.7% investment rate achieved and is calculated based on average projected HRA balances for 2018/19.

4.11.7 There has been an increase in net recharges from the General Fund to the HRA of £139,200, (draft budget, £136,410) over that budgeted. The total net recharges to the HRA are now just over £6Million and include the HRA share of corporate management and cost of democracy for 2018/19.

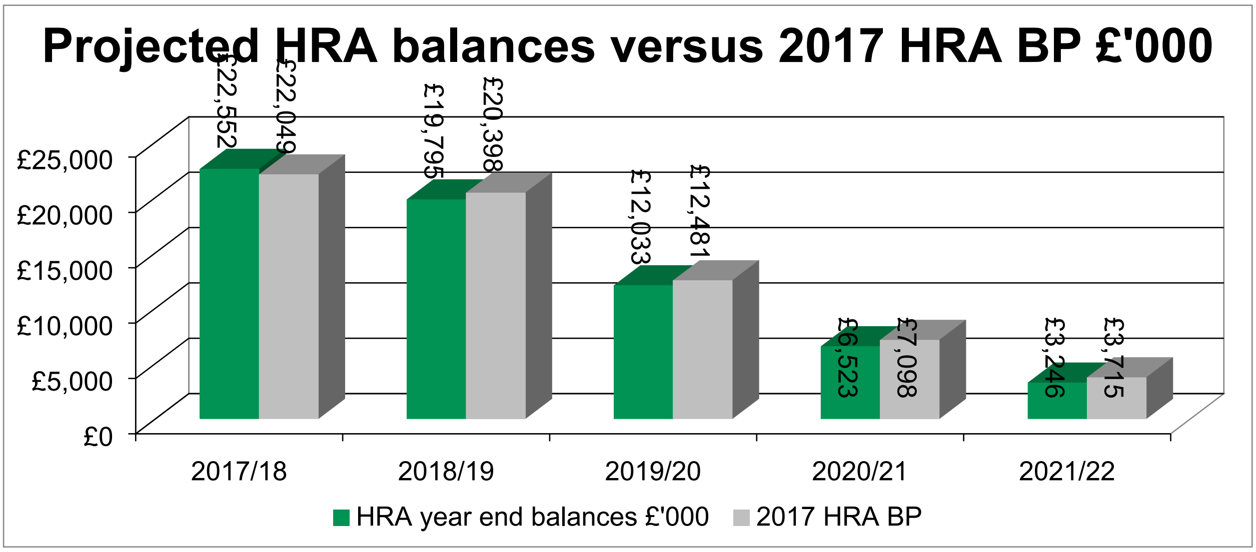
4.11.8 The 2018/19 HRA projected budget is now net expenditure of £2,756,630, the summary of balances is shown in the table below. All HRA balances in excess of the minimum balances held for assessed risks in year, are required to fund the HRA 30 year capital programme. The 2018/19 minimum balances for 2018/19 are based on the risk assessment of balances which are detailed in Appendix E to this report.

HRA Balances:	2017/18 £	2018/19 £
HRA Balance 1 April	(£19,749,571)	(£22,551,821)
Use of balances in Year	(£2,802,250)	£2,756,630
HRA Balance 31 March	(£22,551,821)	(£19,795,191)
Minimum Balances	(£1,947,740)	(£2,144,950)

4.11.9 The risk assessment of the level of balances required in 2018/19 has been completed based on a number of forecast risks for the HRA. The minimum level of balances required in the HRA for 2018/19 is £2,144,950, which is higher than the business plan assumption of £2,074,000. The risk assessment is summarised in Appendix E to this report.

4.11.10The HRA projected year-end balances as at 31 March 2019 are now projected to be £19,795,191 which is £137,944 lower than the projected draft budget balances of £19,933,135. However balances are £159,344 higher than the September business plan. Members will be aware that balances reduce in the next few years and there is currently a deficit in future years in the business plan.

4.11.11The Business Plan shows a significant reduction in HRA reserves over the next few years and for a number of years minimum balances are held within the business plan, together with a deficit of £27Million over the 30 year plan. The reduction in HRA balances is shown in the table below and there is a significant use of HRA reserves of £19.306Million between the period 2017/18 and 2021/22. The business plan assumed a slightly lower use of reserves.



4.11.12 The 2021/22 HRA projected balance is £469K lower than the 2017 Business Plan, this is partly because of higher inflationary pressures in the HRA, which have partly been offset by removing the costs associated with the HVV levy in 2018/19. With balances forecast to be £3.246Million by 2021/22, there is much less ability to absorb the impact of unplanned expenditure or loss of income. The next update of the business plan will review the Financial Security target in the HRA.

4.11.13 The 2017/18 Projected HRA budget is estimated to be a surplus of £2,802,250 which remains unchanged from the draft HRA report.

4.12 Consultation

4.12.1 The Housing Management Board (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 five tenant representatives in addition to Member and officer representation. Its terms of reference allow for up to ten customer representatives in total.

4.12.2 HMB reviewed the draft revised Rent and Service Charge Policy at their meeting on 27 October 2016 and broadly supported proposed revisions at that time. No further changes to the policy have been made since then.

4.12.3 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 HMB via a number of working groups and presentation sessions.

4.12.4 HMB received a presentation on the revised HRA Medium Term Financial Strategy (MTFS) and refreshed HRA Business Plan assumptions (including savings targets) in August 2017. Their comments were reported within the HRA MTFS Executive report in September 2017.

4.12.5 A presentation by the Assistant Director (Finance and Estates) was given to HMB on the HRA budget and rent setting proposals contained in this report on 3 January 2018. HMB asked a number of questions regarding the budget and asked that service charges around caretaking were transparent and the increases explained clearly to both tenants and leaseholders.

4.12.6 The Assistant Directors for Finance and Estates and Housing and Investment, reiterated the comments made by the Executive and assured HMB that part of the service charge review would be not just clarity what was included in charges but would also look at consistent service levels across the different flat blocks.

4.12.7 In addition, as referred to in paragraph 4.2.1, there are plans to review service charges ahead of implementing a new and more transparent service charge model in 2019/20. This review will include consideration of both service charges and support charges and will involve consultation with tenants and leaseholders.

4.12.8 Targeted consultation will be carried out with staff, customers and stakeholders directly affected by the financial security options agreed by the Executive in November 2017. All tenants will be notified of changes to their rent and service charges in February/March 2018.

4.13 Overview and Scrutiny Consultation

4.13.1 The Draft report was discussed at the December Overview and Scrutiny meeting. The Assistant Director (Finance & Estates) introduced the report and advised Members that the Executive had asked that the service charge review ensured transparency around service charges including caretaking. Overview and Scrutiny Members questioned what was included in "caretaking" and were advised this included fly tipping, removal of dog fouling etc.

4.13.2 Members also asked about HRA interest rates on borrowing and were advised that these were fixed interest rates and the principal was repayable on maturity.

4.14 Leaders Financial Security Group

4.14.1 The LFSG chaired by the portfolio holder for Resources on behalf of the Leader and with cross party representation has been meeting frequently since August 2016. The group has;

- Reviewed the HRA assumptions regarding the 2018/19 onwards saving target
- Review of the HRA MTFS assumptions
- Review of the HRA 2018/19 Financial Security package
- Reviewed the HRA 2018/19 Fees and charges

4.14.2 The LFSG considered the options above and scored the Financial Security options, growth and fees and charges for inclusion in the HRA budget.

4.15 Chief Finance Officer's Commentary

4.15.1 The Chief Finance Officer is the Council's principal financial advisor and has statutory responsibilities in relation to the administration of the Council's financial affairs (Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988). This commentary is given in light of these statutory responsibilities.

4.15.2 The Council has evolved its budget strategy to meet the ongoing challenging economic conditions because of funding cuts, welfare reforms or inflationary increases. The Financial Strategy to deal with this is the 'Financial Security' strand of 'Future Town Future Council'.

4.15.3 Officers regularly update the MTFS to ensure that a clear financial position for the Council can be demonstrated over the next five years. This medium term view of the budget gives a mechanism by which future 'budget gaps' can be identified allowing for a measured rather than reactive approach to reducing net expenditure. The Financial Security year round approach to identifying budget options means that work is on-going throughout the year to bridge the gap.

4.15.4 In addition officers regularly update the 30 year HRA Business Plan which is approved by Members annually and is the period over which the self-financing borrowing was initially taken. The last approved version of the business plan (September 2017) had a £27Million deficit over the 30 year plan. .

4.15.5 The Council has taken significant steps over recent years to re-balance the HRA as a result of significant changes in government policy relating to RTB discounts and permissible rent increases. One of the principle aims of the MTFS is 'Provide funding to build 1900 new homes over 30 years, new social and affordable rented homes that contribute to meeting local housing demand and the needs of an ageing population. This is still projected to be achieved however Financial Security targets have been added each year to the HRA business plan and there have been revisions to capital works to the existing stock. In addition as outlined in 4.11.10 there is a funding deficit in the business plan and balances fall to minimum balances in future years. There is also a £19.3Million use of balances between 2017/18 and 2021/22 which will reduce the HRA's ability to deal with unforeseen events.

4.15.6 However, leaving borrowing headroom in the HRA does allow for works such as any fire safety initiatives to potentially be funded and as a consequence the risk assessment of balances reflects this. The HRA is also moving into large scale housing developments, (a top council and resident priority) and this priority will come with the risk of potentially needing to invest more resources.

4.15.7 Members approved growth at the November Executive (and included in the General Fund and HRA budgets) for Business Unit Reviews which while increasing the salary bill for the Council was recommended on the basis the right structure would unlock future savings and help meet the Council's Financial Security targets for 2019/20 onwards.

4.15.8 The HRA MTFS has been updated along with the HRA business plan and will be kept under regular review in 2018/19.

5. IMPLICATIONS

4.3 Financial Implications

5.1.1 Financial implications are included in the body of the report.

4.4 Legal Implications

5.2.1 Legal implications are included in the body of the report.

5.3 Staffing Implications

5.3.1 The unions were consulted on the options approved at the November Executive on the 6 December 2017 and did not raise any specific issues. 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

5.4.1 There is considerable risk in setting HRA spend as there have been so many government policy changes concerning rent and welfare reforms, making medium to long term planning difficult. Between 2014/15-2016/17 there were three different rent policies which when compared to the 2014 HRA business plan showed a loss of income of some £253Million, (this includes updated assumptions about rent increases, inflation and RTB's). The government has indicated that beyond 2019/20 rent increases will be based on CPI+1%, however policy could change.

5.4.2 There are still significant risks to the HRA with the future impact of HVV levy, the draft HRA budget has removed the cost in 2018/19 based on the government's plan to extend pilots. However there is a risk it could still be introduced in future years. The impact over the remaining 28 years of the 30 year business plan is estimated to be £29Million, however without the publication of the regulations the impact could be much more adverse.

5.4.3 There is the impact of Universal Credit (UC) and other welfare reforms on tenants, currently 54% or £20Million of benefit is paid to the HRA from the benefits system rather than to tenants and experience has shown that for other local authorities, arrears have increased significantly with the roll out of UC.

5.4.4 There is a potential adverse financial impact on the HRA as a result of high inflationary pressures, when rents are supressed. If inflation rises above that assumed in the business plan, as a result of for example BREXIT, further reductions in spend may need to be made. In addition there already is a £27Million deficit in capital funding over the 30 year programme.

5.4.5 Since 2012/13 the RTB discount has increased from £34,000 to £78,600 in 2017/18. 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.

5.4.6 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. The Council now has the opportunity to bid to increase the level of debt it can have through measures announced in the Autumn Budget in November 2017, however the Council has to demonstrate that it is an area of high demand and the additional debt has to be affordable to the HRA. If SBC chooses to bid and is successful, funding would not be available until 2019.

5.4.7 The level of growth approved in the Financial Security report to the November Executive would not be financially sustainable year on year, furthermore the HRA has an annual Financial Security target to achieve, which for 2019/20 is £365,000.

5.4.8 The financial impact of any health and safety recommendations as a result of the Grenfell fire and subsequent new regulations is still to be fully understood and funded. The capital cost could be in excess of £2Million subject to decisions being taken regarding specific works and there would be some on-going revenue implications. An amount has been included in the risk assessment of balances should the council need to borrow to fund the works.

5.4.9 The capital programme for 2018/19 onwards includes major works to flat blocks that will include works that need to be recovered from leaseholders, currently Section 20 income has been assumed from 2019/20 onwards which will be used to fund that share of the works. If the monies are not received then other capital funding resources will need to be used e.g. RCCO or the capital programme will need to be reduced.

5.4.10 The risk assessed level of balances for 2018/19 has been assessed at £2,144,950, 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 2018/19 are included in Appendix E. The updated business plan currently has a deficit over the 30 year programme of £27Million.

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 2018.

5.5.2 To inform the decisions about the Budget 2018/19 officers have undertaken Brief Equality Impact Assessments (EqIAs) for service-related budget savings proposals. Where there is a potentially negative impact, officers have identified further action needed to inform a final decision and to mitigate the impact where this is possible. These EqIA were included in the November Report and are appended to this report (Appendix F) and this includes both the HRA and General Fund options.

BACKGROUND DOCUMENTS

BD1 Housing Revenue Account Medium Term Financial Strategy (2017/18-2021/22) - September Executive

http://www.stevenage.gov.uk/content/committees/182083/182087/182091/Executive-19-September_2107-Item5.pdf

BD2 Draft HRA Rent setting and budget report – December Executive

http://www.stevenage.gov.uk/content/committees/182083/182087/182091/Executive-12-December-2017-Item7.pdf

APPENDICES

Appendix A - Draft HRA Summary
Appendix B - Financial Security Options
Appendix C - Growth options
Appendix D - Fees and Charges
Appendix E - Risk Assessment of Balances
Appendix F - EQIA for HRA and General Fund services