

Subject:	Housing Revenue Account Budget and Capital Investment Programme 2018/19 and Medium Term Financial Strategy		
Date of Meeting:	8 February 2018 22 February- Council 17 January 2018- Housing & New Homes Committee		
Report of:	Executive Director for Finance & Resources Executive Director for Neighbourhoods, Communities & Housing		
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Ward(s) affected:	All		

FOR GENERAL RELEASE**1 PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 This report presents the proposed Housing Revenue Account (HRA) revenue and capital budget for 2018/19 as required by the Local Government and Housing Act 1989. Members are required to consider the revenue budget proposals including savings and service pressures as well as changes to rents, fees and charges and also the capital programme. This report also sets out the Medium Term Financial Strategy and 30 year financial forecast.
- 1.2 The HRA contains the income and expenditure relating to the council's social landlord duties of approximately 11,590 properties and 2,870 leasehold properties. The income and expenditure relating to these properties, including rent rebates, is accounted for separately from the council's other services and activities which form part of the council's General Fund.

2 RECOMMENDATIONS:

- 2.1 That the Committee:
- (a) Approves and recommends to full Council the updated HRA revenue budget for 2018/19 as shown in Appendix 2;
 - (b) approves and recommends to full Council the capital programme expenditure and financing budget of £36.344m for 2018/19 and notes the 3 year programme as set out in Appendix 4;
 - (c) notes the HRA forecast outturn for 2017/18 in Appendix 1 of a 0.430m underspend as at month 9; (Note that this forecast has been updated

since Housing and New Homes Committee to take account of the most recent information available)

- (d) notes the Medium Term Financial Strategy and 30 year financial projections shown in Appendix 5;
- (e) notes the Integrated Service and Financial Plan (savings proposals) in Appendix 6

2.2 That the full Council:

- (a) approves the updated HRA revenue budget for 2018/19 as shown in Appendix 2;
- (b) approves the capital programme expenditure and financing budget of £36.344m for 2018/19 and notes the 3 year programme as set out in Appendix 4;

3 HRA BUDGET STRATEGY

3.1 The HRA Budget aims to balance the priorities of both the council and council housing residents within the context of the Housing Strategy 2015, and the Corporate Plan 2015-2019 which set out the overall direction for the council over the 4 year period. The council's purpose and ambition as a local authority for the city is to provide strong civic leadership alongside value for money, quality public services that aim to protect the vulnerable and reduce inequality. The Housing Strategy priorities included in developing the HRA Revenue Budget and Capital Programme are:

Priority 1: Improving Housing Supply

- Provide more council housing, through the New Homes for Neighbourhoods programme, and use Right To Buy (RTB) receipts to fund new housing;
- Support the Housing and Budget Strategies through ongoing council housing stock reviews to deliver conversions of existing under-used or unused buildings or spaces into Temporary Accommodation;
- Commission new adapted homes and ensure best use of existing adapted / accessible housing in order to promote independent living demonstrated to deliver significant cost benefits;
- Support households wanting to downsize to increase supply of available family housing;
- Purchase of homes by the HRA, both through the right of first refusal on ex council properties and on the open market (subject to business cases) to meet identified needs;
- Early intervention for families struggling with accommodation including money advice and tenancy support.

Priority 2: Improving Housing Quality

- Continue to promote the highest possible building, space and environmental standards in all new council homes being built to high

- sustainability levels;
- Continue to improve council housing sustainability standards and maintain 100% achievement of the council's housing stock meeting the Decent Homes Standard and invest in other priorities that promote the health and wellbeing of our residents
- To continue to meet our landlord obligations with regards to health and safety, including continuing to review and enhance fire safety measures for residents;
- Continue to review the energy efficiency performance of our housing stock, our approaches for future improvement and support for initiatives to reduce fuel poverty.

Priority 3: Improving Housing Support

- Ensure that as services are reviewed, they are accessible and safe for all;
- Improve front facing customer services at Council Housing Offices;
- Continued investment in specialist tenancy management and support services to support vulnerable council housing residents and work with Community Safety to resolve housing issues and harassment in a timely manner;
- Ensure that adaptations are done at the right time to support people to stay in their homes when they want to;
- Support people to 'downsize' when they choose and provide a range of options for them, including accessible tools to support decision making;
- Better links between seniors housing schemes and surrounding communities;
- Ensure new housing development includes community spaces, where resources allow.

HRA Asset Management Strategy

- 3.2 The HRA Asset Management Strategy acts as a link between Housing Strategy priorities and investment programmes. In 2016 the HRA Asset Management Strategy was agreed following extensive consultation and work with residents.
- 3.3 The key priority objectives of the strategy are to:
 - Invest in homes and neighbourhoods to provide safe, good quality housing and support services;
 - Support new housing supply;
 - Ensure financial viability within the Tenancy Strategy.
- 3.4 The proposed Capital Investment Programme supports all 3 of these objectives. For example, one of the key aims of the provisional investment programme is to continue to achieve full compliance with the Brighton & Hove Standard. This standard, developed with residents, helps to ensure that homes are safe, fit for use, have reasonably modern facilities, and supports occupiers to keep warm.
- 3.5 In September 2017, an Asset Management Strategy Review was reported to Housing & New Homes Committee specifically in relation to health and safety. The report developed upon the Asset Management Strategy by seeking to

embed further improved policies to provide a framework to ensure continued improvement in compliance and safety in homes and better access to information for residents. This report also gives an update on the proposals to retro fit sprinklers (subject to consultation with residents) in high rise blocks in the City as an enhanced fire safety measure. Committee agreed to approve the Asset Management Strategy Review in principle, subject to consideration of the detailed Capital Programme in January 2018, which is shown at Appendix 4.

HRA REVENUE BUDGET PROPOSALS 2018/19

- 3.6 The HRA is a ring-fenced account which covers the management and maintenance of council owned housing stock. This must be in balance, meaning that the authority must show in its financial planning that HRA income meets expenditure and that the HRA is consequently viable.
- 3.7 Although the HRA is not subject to the same funding constraints as the General Fund it still follows the principles of value for money and equally seeks to improve efficiency and achieve cost economies wherever possible. Benchmarking of both service quality and cost with comparator organisations is used extensively to identify opportunities for better efficiency and service delivery.
- 3.8 The HRA budget for 2018/19 is shown in Appendix 2 with the main budget variations, proposed savings, service pressures and other changes. Savings of £0.655m have been identified and include a number of efficiencies such as further savings from the procurement of the gas servicing contract, a reduction in responsive repairs expenditure and a reduction in employee costs as detailed in Appendix 2 (note 2) and Appendix 6.
- 3.9 The budget also provides funding of £0.847m for the following service pressures (detailed in Appendix 2, note 3):
- increased resources to strengthen the contract management function (client side) in relation to the repairs and maintenance contract. This includes 1 Full Time Equivalent (FTE) Contract Manager and 1 FTE Leaseholder Support post;
 - an increase in resources to form a project team in respect of the preparation for the re-procurement of the repairs and improvement contract,
 - increased resources (3 FTE posts) in support of continued compliance with and enhancement of health & safety measures in our housing stock including a proposed programme of retro-fitting sprinklers to high rise blocks;
 - further resources (3 FTE posts) for the re-housing team due to the extra workloads partly as a result of new build properties becoming available;
 - resources for the Income Management Team to undertake focused preventative work relating to the introduction of Universal Credit. The level of resources for this is anticipated to be 3 FTE posts over a period of 3 to 5 years, but this will be reviewed once the new benefits system is embedded;

- a contribution to Children's Centre Services to ensure sustainability of this valuable service to council tenants;
- The net effect of a reduction in rental income as a result of government guidance to reduce rents by 1% offset by new lets at target rents.

- 3.10 The net revenue budget results in a surplus of £25.555m which is shown as 'Direct Revenue Funding' (within expenditure) at Appendix 2, which will be used to support the capital programme.
- 3.11 Rents are calculated in accordance with government guidelines. Rent restructuring rules still apply and Target Rents for each property are calculated based on the relative property values, bedroom size and local earnings. Target Rents will apply to the granting of all new tenancies.
- 3.12 For a number of years government guidance in relation to annual rent increases was that increases should be limited to Retail Prices Index (RPI) + ½% + £2 per week in order to provide some protection to tenants whose actual rents were increasing to reach the calculated Target Rent. From April 2015 government guidance revised annual increases to Consumer Price Index (CPI) + 1%. This change removed the flexibility of social landlords to increase social rents each year by an additional £2 where rents are below target, resulting in lower annual rental increases over the long term.
- 3.13 In addition, from April 2016, the Welfare Reform and Work Act 2016 requires rents to be reduced by 1% per annum for 4 years, commencing from 2016/17. For 2018/19 this represents an average reduction of £0.84 per week, reducing the average weekly rent to £83.60 per week.
- 3.14 However, tenants will see rent increases again from 2020 as on 4 October 2017 the Department for Communities & Local Government (DCLG) announced that "increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020".
- 3.15 Rents are not calculated to take into account any service charges and only include charges associated with the occupation of a dwelling, such as maintenance of the building and general housing management services. Service charges are therefore calculated to reflect additional services which may not be provided to every tenant or which may be connected with communal facilities rather than to a particular occupation of a house or flat. Different tenants may receive different types of services reflecting their housing circumstances. All current service charges are reviewed annually to ensure full cost recovery and also to identify any service efficiencies which can be offset against inflationary increases, to keep increases to a minimum. The proposed fees and service charges for 2018/19 are set out in Appendix 3.
- 3.16 The projected level of HRA reserves at 31 March 2017 is also shown in Appendix 2 note 5.

HRA CAPITAL PROGRAMME 2018/19

- 3.17 The Housing Capital Programme seeks to provide substantial investment in the council's housing stock and improve the quality of homes. The implementation of the proposed programme will take account of all relevant best practice guidelines and has been informed by the priorities agreed in the HRA Asset

Management Strategy and the Asset Strategy Review report to Housing & New Homes Committee 20 September 2017. The proposed programme for 2018/19 and the funding arrangements totalling £36.344m are shown in Appendix 4. This programme does not include any re-profiling identified from the 2017/18 targeted budget monitoring.

- 3.18 The Capital Programme is a key part of implementing the main aims of the long-term asset management approach, which aims to maximise investment in homes and support reductions in responsive repairs need whilst providing safe, good quality housing and support services, and also supporting new housing supply and financial viability for the HRA. Other assets, such as car parks and garages, receive investment to ensure both health and safety compliance and best use of these assets. The programme for 2018/19 includes £1.050m investment in a new housing management IT system as recommended to Policy, Resources & Growth Committee by Housing & New Homes Committee in June 2017.
- 3.19 The council is committed to having robust arrangements in place to help ensure the health and safety of all of those using and visiting the council's assets to a reasonable level. This is a key responsibility, and as such, through the capital programme proposals it is ensured that the investment required is maintained and made available ahead of other investment decisions. This includes good practice procedures and resources to support the management of asbestos, fire risk, legionella, gas and electrical equipment, amongst others. We continue to work proactively with partners, including East Sussex Fire & Rescue Service, to ensure we review our Asset Management Strategy and capital programme to reflect and embed emerging advice and best practice to enable continued improvement in overall health and safety in our homes. As a result of our most recent Asset Management Strategy Review (reported to committee in September 2017) the Capital programme includes proposals for increased HRA funding for enhanced works to reduce fire risk. This budget will also help support the proposed projects to install sprinklers in high rise blocks (subject to consultation with residents), as set out in previous committee reports.
- 3.20 The Capital Programme targets investments that will ensure that the HRA maintains, and improves, where possible, the quality of housing. The programme will support the delivery of the following commitments:
- To maintain 100% achievement of properties meeting the government's Decent Homes Standard and the local Brighton & Hove Standard over the medium term.
 - To ensure that all homes are as suitable as practicable for the needs of their occupants, in line with council policy. For example, there is a substantial investment commitment to providing adaptations and to reducing overcrowding in the programme.
 - To ensure homes are energy efficient and that we continue to improve the energy performance of our housing stock, including through modern heating systems to reduce carbon emissions and resident's fuel costs.
 - Following resident feedback and analysis of responsive repairs, continued funding for both replacement door entry systems and entrance doors to blocks of flats has taken place. The programmes help ensure secure and reliable entry for residents.

- To continue working closely with residents to help increase levels of resident satisfaction with the quality of their home and to support the ongoing reduction in the level of responsive repair need.
- 3.21 Additionally, based on feedback from residents on their priorities, the programme continues the commitment to invest in external and common way repairs and decorations across the city and the modernisation of passenger lifts serving blocks of flats, subject to resident consultation and analysis of information to establish if replacement works are necessary. This programme has been very effective in helping many residents to be able to rely on their lifts to be safe and reliable. All lift project proposals are continually evaluated on a case-by-case basis to ensure value for money continues to be delivered through this programme, and that replacement works are reasonably required.
- 3.22 The proposed capital programme for 2018/19 includes a budget of £0.178m for the Estates Development Budget (EDB). The current budget strategy uses EDB capital reserves to support this further over 2 years, augmenting this budget to a total of £0.348m for 2018/19 and £0.354m for 2019/20. A reserves table is shown in Appendix 2, note 5.
- 3.23 Helping residents to live in well-insulated, efficiently heated, healthy homes remains a key long-term commitment, which is supported through the capital programme. Past progress on achieving this has been consistently good, with national Standard Assessment Procedure (SAP) energy rating performance monitoring being used to benchmark these. Key investments that contribute to these include installing high efficiency boilers, heating controls, efficient doors, windows, insulation and renewable or community energy schemes, where appropriate.
- 3.24 As outlined above, the Housing Asset Management Strategy acts as a link between the Housing Strategy and Investment Programmes including a priority of supporting new housing supply. We will continue to focus on the key Housing Strategy priorities to increase the numbers and make best use of affordable homes, including the following HRA Budget related measures:
- Housing Allocation Policy framework ensuring best use of existing council and Registered Provider resources through nomination of affordable housing to priority households.
 - The 'New Homes for Neighbourhoods' estate regeneration programme to deliver new affordable homes in the city
 - Improving supply through best use of existing HRA assets including the conversions / hidden homes programme.
 - Housing Market Intervention, direct delivery and other housing delivery options through a wholly owned housing company.
 - Ongoing work related to Greater Brighton proposals to accelerate delivery of new homes, including seeking freedoms and flexibilities around the HRA borrowing cap and use of RTB receipts.
 - The recently approved HRA Home Purchase Policy.

HRA MEDIUM TERM & 30 YEAR FINANCIAL FORECASTS

- 3.25 The introduction of self-financing in 2012 provided additional resources from the retention of all rental income and, through greater control locally, enabled

longer term planning to improve the management and maintenance of council homes.

- 3.26 The medium term and 30 year financial forecasts are provided in Appendix 5 along with the business planning assumptions used for income and expenditure.
- 3.27 Essentially, although the financial plan shows that the HRA has healthy financial indicators to borrow to source funding for regeneration and development, it is restricted by the current self-financing cap (or limit) on the amount of HRA borrowing permissible for capital investment by each local authority. This limit is currently set at £156.8m for Brighton & Hove. The current 30 year forecast assumes £5m for new build schemes in 2018/19, and £6m per annum in the 10 years thereafter. However, this means that the outstanding debt breaches the cap in 2020/21 by £0.076m and again in 2022/23 where the borrowing level is breached by £0.846m. Revenue reserves have been maintained in the business plan at £6.3m so there would be sufficient resources to fund the gap if required.
- 3.28 On a positive note, in the recent government budget announcements, Chancellor Philip Hammond promised to lift the HRA borrowing cap in areas of high housing demand. At this stage, it is unclear if this will include the city of Brighton & Hove. Clarification from the DCLG is expected in the new year.
- 3.29 In addition to the debt cap, the reduction in rental income of 1% per annum up to and including rents for 2019/20 will also restrict resources available. Therefore alternative options and delivery mechanisms for new build and regeneration funding outside the HRA are being developed in the form of a wholly owned company and the Joint Venture with Hyde Housing Association as agreed by Policy, Resources & Growth Committee alongside a review of priorities included in the financial plan.
- 3.30 However, as mentioned above, the DCLG has recently announced an increase to social housing rents limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. Assuming other factors remain stable, this will help to sustain the HRA in the medium term. The 30 year business plan shown at Appendix 5 assumes rent increases of CPI plus 1% for 3 years from 2020 and then CPI. This is to allow for the risk of adjustment to this policy as a result of any changes to government and the economic indicators for the UK.
- 3.31 As a result of the review carried out by government, a decision was reached to not proceed with the Pay-to-Stay policy included in the Housing and Planning Act 2016. However, there are still some uncertainties due to other government legislation which may have a significant impact on the long term health of the financial plan, such as:
- The Housing & Planning Act 2016 included a requirement for local authorities with social housing to pay a levy to the government which is directly linked to the high value voids within the HRA. This levy would then be redistributed to Housing Associations. There is still a lot of uncertainty around this and so the possible impact has not been factored into the budget or 30 year business plan.
 - The Welfare Reform and Work Act 2016 continues to be implemented with the reduction of the benefit cap to £20,000 per annum during 2016/17, the

single room rates extended to people under 35, the roll out of Universal Credit in 2017 and the reduction in tax credits implemented from October 2017. All these reforms are expected to affect many tenants' ability to pay their rent, but it is difficult at this stage to accurately predict to what extent this will impact on HRA resources. The budget proposes an extra 3 FTE staff during 2018/19 to undertake proactive work with tenants likely to be affected by explaining how the new benefit will operate and assisting them with setting up bank accounts and accessing support for getting online.

- Any additional investment requirements arising from any legislative or regulatory changes following post Grenfell Tower tragedy reviews.

3.32 The 30 year financial plan will continue to be updated in 2018 to reflect the 2018/19 budget proposals. This will enable a review of future opportunities for additional investment in existing housing stock and building new homes, and also how the housing debt could be structured to accommodate these plans or possibilities.

4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 The budget process allows all parties to engage in the scrutiny of budget proposals and put forward viable alternative budget proposals to Budget Council on 22 February 2018. Budget Council has the opportunity to debate both the proposals recommended by Policy, Resources & Growth Committee at the same time as any viable alternative proposals.

4.2 The Welfare Reform and Work Act 2016 details a statutory requirement to set the rents at 1% less than the previous year for 2018/19. There are financial restrictions placed upon local authorities who do not follow this statutory requirement. The government annually sets a limit rent, set to include the 1% reduction, which is used to determine how much housing benefit subsidy is received from the Department for Work and Pensions. Rises above the limit rent would reduce the amount of subsidy receivable by the council.

5 COMMUNITY ENGAGEMENT & CONSULTATION

5.1 Involvement of our residents in service delivery and priorities is a key focus for Housing. Ongoing consultation with tenants and leaseholders takes place throughout the year in a number of forums and settings.

5.2 All Area Panel representatives and chairs have been sent a letter explaining the budget proposals. This summarised the various components including the details of the proposed savings and how the savings would be reinvested back into the service. It also included information on the 1% rent reduction and advice on contact details if further information or clarification was sought.

5.3 Residents and leaseholders helped develop and shape the Asset Management Strategy through a series of discussion events and the strategy was taken to Area Panels. As such, tenant views form a key part of the strategic direction of future services and investment.

5.4 All leaseholders have been, or will be, consulted about individual contracts carried out as part of the programme in full compliance with the Commonhold and Leasehold Reform Act 2002.

- 5.5 The HRA budget task and finish group, made up of the Chair and opposition spokespersons of the Housing & New Homes Committee, residents from Service Improvement Groups and officers, met last year to work up future budget consultation arrangements. The group decided that, to inform the 2019/2020 budget, a range of residents views would be gathered on areas including energy efficiency, social isolation, support for vulnerable tenants, maintaining older stock, increasing social housing provision, and the appearance of estates.

6 CONCLUSION

- 6.1 The Local Government and Housing Act 1989 requires each local authority to formulate proposals relating to income from rent and charges, expenditure on repairs, maintenance, supervision and management, capital expenditure and any other prescribed matters in respect of the HRA. In formulating these proposals using best estimates and assumptions, the Authority must set a balanced account. This budget report provides a capital programme, breakeven revenue budget and recommends rent proposals in line with current government guidance.
- 6.2 This report also provides the latest medium and long term forecasts for the HRA. However there are a number of uncertainties due to impending government legislation, which mean that the current forecasts should be treated with caution.

7 FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The financial implications are contained within the main body of the report.

Finance Officer Consulted: Monica Brooks

Date: 08/12/17

- 7.2 Legal Implications:

In its role as a landlord, the Council has statutory and contractual obligations to maintain the structure of, and installations in, its housing stock. It also has a number of duties in relation to health and safety, such as the provision of adequate fire safety precautions and the proper treatment of asbestos. The measures outlined in the report will assist the council in fulfilling those obligations.

The Housing Revenue Account (HRA) is regulated by the Local Government and Housing Act 1989. The report sets out the Act's requirements for that account. The HRA is primarily a landlord account, containing income and expenditure arising from the council's housing functions. Most of the expenditure proposed by the report is clearly related to the council's housing functions, and is therefore properly accounted for in the HRA. Department of Environment Circular 8/95 gives advice about the operation of that account, in relation to other items which are not so clearly linked to the housing function. In relation to amenities which benefit the wider community, such as play and other recreational areas, community centres and play schemes, the Circular advises that in each case it is for the local authority to form its own judgment on

whether provision should be charged to the HRA or General Fund. Last year, budget council determined that the HRA should contribute £250,000 to Youth Services. This year the council is asked to approve expenditure of £170,000 as a contribution to Children's Centres. Whilst this expenditure is not directly linked to the council's housing functions, it probably falls within the discretion afforded by the Circular, given the locations and focus of the service.

Lawyer Consulted: Liz Woodley

Date:05/01/2018

Equalities Implications:

- 7.3 The HRA budget funds services to people with special needs resulting from age, vulnerability or health. All capital programme projects undertaken include full consideration of various equality issues and specifically the implications of the Equality Act. To ensure that the equality impact of budget proposals are fully considered as part of the decision making process, equality impact assessments have been developed on specific areas where required.

Sustainability Implications:

- 7.4 The HRA budget will fund a range of measures that will benefit and sustain the local environment. This capital programme supports the affordable warmth and fuel poverty strategy brought forward from Public Health. Housing is a key contributor to the Carbon Emissions reduction commitment and will help to reduce the number of residents affected by fuel poverty and rising energy costs.
- 7.5 Project briefs are issued on all capital projects and require due consideration of sustainability issues, including energy conservation and procurement of materials from managed and sustainable sources.

Any other Significant Implications:

- 7.6 Financial risks have been assessed throughout the development of the council's HRA annual budget and 30 year financial model. A number of key sensitivities and scenarios are modelled to ensure that the service understands the business impact of decision making and include areas such as:
- Impacts of the government's Housing & Planning Act and Welfare Reform legislation;
 - Potential impact of any post Grenfell tragedy review of building regulations and / or standards;
 - Inflationary risk where expenditure inflation is greater than income, particularly with the current reduction in rental income over the four years;
 - Managing interest rate fluctuations and the debt portfolio;
 - Long term capital and maintenance responsibilities compared with available resources;
 - Balancing regeneration and redevelopment needs with tenants' priorities.

SUPPORTING DOCUMENTATION

Appendices:

1. HRA Revenue Forecast Outturn 2017/18 (Month 7)
2. HRA Budget 2018/19
3. Fees and Service Charges 2018/19
4. Capital Programme and Funding 2018/19 – 2020/21
5. HRA Medium Term Financial Strategy & 30 Year Financial Forecast
6. Integrated Service & Financial Plan (Detailed Savings Proposals)

Documents in Members' Rooms

None

Background Documents

None