

<b>Subject:</b>	<b>Housing Revenue Account Budget 2015/16</b>		
<b>Date of Meeting:</b>	<b>26 February 2015</b> 12 February 2015 – Policy & Resources Committee 14 January 2015 – Housing Committee		
<b>Report of:</b>	<b>Interim Executive Director of Finance &amp; Resources</b> <b>Executive Director of Environment, Development &amp; Housing</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Sue Chapman</b>	<b>Tel: 29-3105</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

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

- 1.1 This report presents the proposed Housing Revenue Account Budget for 2015/16 as required by the Local Government and Housing Act 1989. Policy & Resources Committee Members are required to consider the budget proposals including savings and service pressures as well as changes to rents, fees and charges.
- 1.2 The council's Housing Revenue Account (HRA) contains the income and expenditure relating to the council's social landlord duties, consisting of approximately 11,700 properties and 2,700 leasehold properties. The income and expenditure relating to these properties is accounted for separately from the council's other services/activities which form part of the council's General Fund.
- 1.3 In managing the HRA, the budget strategy continues its aim of reducing management costs in order to optimise investment in service delivery to the benefit of our tenants and leaseholders that in turn reduces inequality, improves homes and sustains local neighbourhoods.

**2. RECOMMENDATIONS:**

- 2.1 That Policy & Resources Committee:
  - (a) Approves and recommends to Council the budget for 2015/16 as shown in Appendix 1.
  - (b) Approves a rent increase of 2.2% in line with government guidance.
  - (c) Approves the changes to fees and charges as detailed in Appendix 2.
  - (d) Notes the Medium Term Financial Strategy shown in Appendix 3.

### **3. HRA BUDGET PROPOSALS 2015/16**

#### **Summary**

- 3.1 The Housing Revenue Account (HRA) is a ring-fenced account which covers the management and maintenance of council owned housing stock. A local authority's HRA 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. In April 2012, the HRA became a 'self financing' account which means that the authority needs to ensure sufficient funds are available to meet the future management, repairs and investment needs of the stock. This has enabled the Council to improve planning for management and investment decisions over the longer term. In developing a 30 year Business Plan it is essential that the Council balances the need to increase the rent with a programme to invest money for the benefit of tenants and also building new council homes.
- 3.2 Although the HRA is a ring-fenced account and is not therefore subject to funding reductions applicable to the council's General Fund, the HRA follows the principles of value for money and equally seeks to drive out inefficiencies and achieve cost economies wherever possible. This frees up more HRA resources to fund priority investments for tenants as well as increasing the resources available for the building of new social housing in the City. Benchmarking of both service quality and cost with comparator organisations is used extensively to identify opportunities for better efficiency and service delivery.
- 3.3 The latest draft benchmarking for 2013/14 shows that the housing management service remains a high cost service compared to comparator organisations. This is, in part, due to the fact that in line with our commissioning framework we have been reinvesting some savings from the basic landlord service into preventative services such as Tenancy Sustainment and Housing Inclusion in order to try to support our most vulnerable residents and therefore avoid costs that might arise for other services such as Homelessness, Adult Social Care or Health. However, we continue to try to ensure that we have a basic landlord service which is as streamlined and efficient as possible. Therefore the budget strategy reflects savings of £0.907 million which include a number of efficiencies, additional income and the part year effect of future service redesign. These savings will be reinvested in the priorities identified in the capital programme.
- 3.4 The HRA Budget aims to balance the priorities of both the council and housing residents within the context of the draft Corporate Plan 2015-2019, which sets out the overall direction for the council over the next four years. The council's purpose and ambition as a local authority for the city focuses on strong civic leadership, value for money, quality public services and protecting the vulnerable. This also sets the vision, principles and priorities, which are shared with the city's Sustainable Community Strategy, Brighton & Hove Connected, which is supported by the city's public, community and private sector partnerships.

#### **Our principles**

- Increasing equality
- Improving engagement

## **Our priorities**

- [City] Economy & housing
- Children & young people
- Health & wellbeing
- Community safety & resilience
- Environmental sustainability

The HRA budget strategy focuses upon investment to deliver corporate priorities:

### **1. Economy & Housing**

- Continued investment in providing specialist support services for vulnerable council housing residents on low incomes including services that promote financial inclusion. This is critical for those households needing help to adjust to Welfare Reforms;
- Continued Investment in Prevention. Vulnerable residents of the City are over-represented within the council's social housing stock. HRA investment in the sheltered service and the quality of council housing promotes social inclusion and prevents negative impacts upon Health, Adult Social Care and Children's Services budgets preventing the need for costly statutory interventions such as homelessness support, corporate parenting, hospital and residential care admissions;
- Continuing to maximise the social value arising from investment in the Repairs and Improvement Partnership with Mears through provision of local jobs, raising the aspirations of young people through apprenticeships, and creating local supply chain opportunities. To date this includes:
  - 85 apprentice and work opportunities provided;
  - 95% local employment;
  - 20 local businesses employed as subcontractors;
  - Partnership with City College to enable 35 construction students to gain experience of refurbishing empty homes and looking at further training links for sustainable building solutions;
  - Estate Development Budget run as a not-for-profit business model and improved through working with residents;
  - Completion of the "Waste House" project in partnership with the University of Brighton and Mears. More than 3,000 people, among them students, apprentices, local builders and school children are involved in building the house, with the ambition to train students and apprentices around emerging sustainable industries.
- Development of new, affordable council homes, working with the government, registered providers and other partners to maximise investment.

### **2. Health & wellbeing**

- Continue to maintain 100% of the council's housing stock at the Decent Homes Standard and invest in other priorities that promote the health and wellbeing of our residents such as:

- continuation of the loft conversion / extension programme to tackle overcrowding, and improve well-being;
- a strategic programme to tackle damp and condensation to contribute to improving health inequalities.
- Continue to provide investment in housing support for older people, through our sheltered housing model. Working proactively to enable households to retain their existing accommodation and continue to live independently in their own homes.
- Provide investment in new housing stock that supports residents and families to live independently in decent accommodation.

### **3. Community safety & resilience**

- Continued investment in specialist tenancy management and support services to support vulnerable council housing residents and services which tackle the blight of anti-social behaviour.
- Continued investment in door entry schemes, lighting and other measures to provide security and safety in council homes.

### **4. Environmental sustainability**

- Improving the sustainability and energy efficiency of the housing stock in line with the evolving One Planet Living Sustainable Action Plan for council housing. This would include:
  - Insulation improvements, cladding projects, and improvements to both communal lighting and door entry systems;
  - Providing energy advice to council tenants from operatives as part of the annual gas check and through other energy advice initiatives;
  - Tackling fuel poverty through continued investment in providing modern, energy efficient heating for council housing residents;
  - Investing in estate regeneration and building new council homes to high quality sustainability standards;
  - Developing opportunities with partners to improve the quality and energy efficiency of the city's housing stock.

## **Budget Variations**

- 3.5 The HRA budget for 2015/16 is shown in Appendix 1 with the main budget variations detailed in Table 1 below. The budget variances result in a surplus of £0.763 million which will be used to support the capital programme and is shown as 'revenue contributions to capital schemes' within the Revenue Budget.
- 3.6 Employees' costs include provision for the 2.2% pay increase along with any known increments. The inflationary provision for non-employee costs ranges from zero to 2%, with the exception of some contracts where inflationary increases are agreed within the terms of the contract. All income budgets are zero-based<sup>1</sup> and therefore charges are estimated based on known increases in costs or inflation.

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<sup>1</sup> A zero-based budget is one that is wholly recalculated each year rather than changing incrementally.

- 3.7 Savings proposals, service pressures and changes to rents and fees and charges are detailed in paragraphs 3.10 to 3.21.
- 3.8 The major works leasehold income budget has decreased by £0.409 million to reflect a decrease in planned major works during 2014/15 to blocks containing leaseholders.
- 3.9 The budget for capital financing costs of £8.341 million has reduced by £0.223 million. The budget also includes the repayment of borrowing of £3.0 million with the remaining costs being interest on the outstanding debt.

**Table 1: Main Budget Variations**

Variation	£'000
<b><i>Increases in Resources:</i></b>	
Savings Proposals as detailed in paragraph 3.10	(907)
Increase in rent for dwellings (net of empty properties)	(666)
Reduction in capital financing costs	(223)
Other Minor Variances	(25)
<b><i>Reductions in Resources:</i></b>	
Employees pay award and other inflation	404
Service Pressures as detailed in paragraph 3.11	245
Reduction in major works income from leaseholders	409
<b>Increase in Revenue Contribution to Capital Schemes</b>	
	<b>(763)</b>

### **Savings & Service Pressures**

- 3.10 The HRA Budget strategy provides savings of £0.907m for reinvestment in services and the capital programme in 2015/16 by:
- Reduction in Housing Management & Maintenance staff of £0.252m through service redesign focusing on ensuring core services benchmark well with comparator organisations.
  - A reduction of £0.120m in energy costs through improved efficiency.
  - A reduction in maintenance unit costs through service efficiencies in the Repairs and Maintenance partnership contract and service contracts saving £0.164m where underspends are already being forecast for 2014/15.
  - A reduction in a variety of budgets of £0.100m where savings have already been achieved through vacant posts, services no longer required or efficiencies. In addition there are further efficiency savings of £0.065m for materials and general office budgets.
  - An increase in income from commercial properties £0.050m (reflecting the additional income currently in the 2014/15 forecast). There is also a review underway of the use of garages and car parks which is considering both enforcement and the level of fees charged. As a result, the budget includes a proposal to increase the charges by 5% achieving a saving of £0.045m.

- An increase in income of £0.111m as a result of the second year of the 3 year phased introduction of new service charges for 'Intensive Housing Management', as agreed in last year's budget report. This service to tenants in sheltered accommodation is covered by service charges eligible for Housing Benefit making the service more financially secure. The remodelled service is more aligned to health and social care outcomes and designed to respond to the changing demographics of the older population.

3.11 The budget also provides funding of £0.245m for the following service pressures:

- The Council Tax exemption scheme includes proposals to remove the exemptions (discounts) currently in place for properties that are uninhabitable or remain empty for a period of time with effect from 1 April 2015. As a consequence any HRA empty properties will pay Council Tax which is estimated to cost an extra £0.050m per annum.
- As the rollout of Universal Credit takes effect it is unclear what impact this may have on the collection of rents and services charges, but there is evidence from other studies that collection rates will be further affected. Therefore, a small contingency of £0.030m has been included in the contribution to the bad debt provision for rents to cover this.
- The HRA is required to pay a contribution of £0.027m to support the Procurement Team in the delivery of the Value for Money programme phase 4 which should achieve efficiency savings for contracts in the HRA.
- Funding from Housing Related Services (formerly Supporting People) for the sheltered housing Carelink alarm service will cease from 1 April 2015 resulting in an income loss of £0.058m.
- Funding of £0.080m to support a play service on our council estates. The council is unable to sustain the current level of General Fund expenditure on the play service. It is proposed to develop a more targeted service on our council estates, partly funded by the HRA.

### **Rents, Fees and Service Charges 2015/16**

- 3.12 Rents for 2015/16 will be calculated in accordance with government guidelines on Rents for Social Housing (published May 2014). In the lead up to last year's budget setting, the government published a consultation document covering changes to the social housing rent policy set to apply from April 2015; this has now been enacted by the government. The main changes to be introduced with effect from April 2015 are that the annual increases will change from RPI + ½% + £2 per week to Consumer Price Index (CPI) + 1%. This change removes the flexibility of social landlords to increase social rents each year by an additional £2 where rents are below target. The government expects that this change will generally result in lower annual rental increases over the long term.
- 3.13 The current basis on which social housing target rents are set will still apply. Target rents for each property are calculated based on the relative property values, bedroom size and local earnings. Target rents will be set at every assignment of the tenancy which will include both new tenancies and mutual exchanges.
- 3.14 For 2015/16 rents, local authorities must use the September 2014 CPI of 1.2% plus 1% for setting rent inflationary increases; this results in an increase of 2.2%. This is the equivalent to an average increase of £1.84 per week, increasing the

average rent to £85.63. The maximum increase will be approximately £3.30, with the lowest increase being £1.31 per week. Approximately 68% of tenants are in receipt of full or partial housing benefit.

- 3.15 The government introduced rent restructuring with the aim of creating rents that are fair and affordable. Rents are not calculated to take into account any service charges and only include all charges associated with the occupation of a dwelling, such as maintenance of the building and general housing management services.
- 3.16 Service charges should therefore 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 service reflecting their housing circumstances. Tenants are already paying for a variety of different services such as cleaning services and grounds maintenance, depending on where they live in the City.
- 3.17 All 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 charges for 2015/16 are set out in Appendix 2. There are no new service charges proposed for 2015/16.
- 3.18 The heating and hot water service charge for residents with communal gas fired boilers is proposed to decrease by an overall average of 6.35% or £0.58 per week from 1 April 2015. Changes to charges for blocks vary between the maximum reduction of 17.6% or £2.05 per week to a maximum increase of 15.1% or £1.30 per week. Under the current corporate gas supply contract, the unit price for gas is revised annually in October each year for each block. From October 2014, the unit price for gas has decreased by an average of 3.2% for blocks with communal boilers. The latest review of gas consumption shows a reduction in estimated energy consumption in a number of blocks resulting from a mixture of improvements including boiler upgrades and replacements, and the installation of solar panels for hot water. This has therefore contributed to the overall average decrease in service charges of 6.35%.
- 3.19 Two council blocks (Elwyn Jones Court and Broadfields) are heated by electric heating systems. The latest review of consumption means an increase of 7% for these charges. This takes the average charge for electric heating from £8.34 to £8.92 per week.
- 3.20 As part of the HRA Revenue Budget Report for 2014/15, Housing Committee agreed to phase-in a new charge for Intensive Housing Management to reflect a proposed redesign of the sheltered service. The new charge has been calculated at £19.92 per week but to limit the increase to tenants, Housing Committee agreed last year to phase-in this charge over three years. Last year the charge was set at £15.06 and the proposed charge for 2015/16 is £17.49, an increase of £2.43. This charge is eligible for Housing Benefit and it is estimated that 104 tenants will have to pay this charge.
- 3.21 When the new Intensive Housing Management charge was introduced, there were 33 tenants in sheltered blocks who did not have to pay the full charge, as they had received transitional protection since the charge was introduced in

2003. The 2014/15 budget report proposed that this protection be removed gradually over a three-year period so that tenants receiving transitional protection should pay one third (£6.64) of the new charge in the first year and then the remainder of the charge will be phased in over a further 2 years. As this is year two of the phasing in, the charge for these tenants will be two thirds of the total (£19.92) charge, which is £13.28.

### **Medium Term Financial Forecast**

- 3.22 The introduction of self financing has provided additional resources from the retention of all rental income and, through greater control locally, enables longer term planning to improve the management and maintenance of council homes. Although there are additional resources available in the long term, self financing includes a cap (or limit) on the amount of HRA borrowing for capital investment by each local authority. This limit is currently set at £156.8m for Brighton & Hove and the estimated total borrowing up to 31 March 2018 is £138.6m, providing additional borrowing capacity of £18.2m.
- 3.23 The HRA 30 year Business Plan will be updated in 2015 to reflect the impact of the changes to the social rent policy from April 2015 and the 2015/16 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. In the meantime, until a debt strategy is developed, the Budget Strategy assumes that all revenue surpluses that are not required for capital investment are set aside for the repayment of debt. This will reduce the interest payments on existing debt and provide greater headroom in the borrowing limit for future development opportunities. A Medium Term Financial Forecast for years 2015/16 to 2017/18 is included in Appendix 3.

### **Projected HRA Revenue Reserves**

- 3.24 Table 2 details the projected revenue reserves for 2015/16 which are estimated at £4.426m as at 31 March 2016. Movements in reserves include a contribution of £0.500m to fund the 2014/15 capital programme with a further £1.100m for 2015/16 and an estimated contribution of £0.541m from the 2014/15 revenue forecast outturn.
- 3.25 The recommended working balance (minimum level of reserves) is £3.000m. Therefore, after taking this into account, usable revenue reserves are projected at £1.426m at 31 March 2016, which can be used to support one off items of expenditure.



**Table 2: Projected Unearmarked Revenue Reserves at 31 March 2016**

	<b>£'000</b>
Reserves at 1 April 2014	5,485
Plus: Forecast contribution from 2014/15 Revenue Outturn at month 9	541
Less: Use of Reserves to fund the capital programme 2014/15	(500)
<b>Projected reserves at 31 March 2015</b>	<b>5,526</b>
<b>Less use of reserves to fund the capital programme 2015/16</b>	<b>(1,100)</b>
<b>Total Projected Balance at 31 March 2016:</b>	<b>4,426</b>
<b>Applied to:</b>	
Working Balance	<b>3,000</b>
Usable revenue reserves	<b>1,426</b>

3.26 Estate Development Budget reserves, which are held separately from the HRA general reserves above, are £0.599 million as at 1 April 2014. These reserves relate to committed revenue and capital expenditure for schemes agreed in previous financial years that are not yet completed. A review of the EDB reserves will take place following the end of the financial year 2014/15.

#### **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 26 February 2015. Budget Council has the opportunity to debate both the proposals recommended by Policy & Resources Committee at the same time as any viable alternative proposals.

4.2 Rents have been set in accordance with the government's Social Housing Rents guidance. In previous years, the Housing Subsidy Determination controlled rent setting increases by removing resources from local authorities through non compliance. Although the subsidy system is now abolished, increases in rents above the government's rent policy will be subject to the rent rebate limitation which sets a limit on the level of rent increases. Any increases above this limit would result in a loss of Housing Benefit Subsidy, which is payable by the HRA.

4.3 The government's policy for social housing rent is to ensure rents are fair and equitable nationally. Although the authority can set rents at a lower level than rent guidelines, this would bring the rents out of line with national policy. The government's self financing valuation agreed at April 2012 is based on using the rent restructuring formula and was set at a level to provide a balanced business plan over the next 30 years. Reducing rental increases away from those levels included in the valuation will affect the 30 year Business Plan and therefore reduce the level of resources available to fund future repairs, maintenance and improvement works.

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 The timing of the detailed budget considerations rendered them too late to be taken to Area Panels, however, all Area Panel representatives and chairs were sent a letter explaining the budget proposals. This summarised the various components including the details of the proposed savings of £0.945m, how the savings would be reinvested back into the service, the 2.2% rent increase, and advised on contact details if further information or clarification was sought.
- 5.2 A paper proposing amendments to the current discretionary schemes offered to tenants (which is also presented to this committee) was presented at the last round of Area Panels. In the main, representatives had concerns about the eligibility age being increased from 65 to 75, and for this reason, it is now proposed that the saving of £0.038m that would have been made is instead used to provide transition arrangements for those most in need. Therefore the proposed savings have been reduced from £0.945m to £0.907m.
- 5.3 A budget workshop was held in October with tenant representatives from the Value for Money Service Improvement Group. The feedback from this group was that their priority areas for spend were anti-social behaviour, new build properties, discretionary schemes and on information technology that would lead to more effective or efficient services. Their thoughts on income generating ideas centred around increasing action on rent arrears, removing any waste from the repairs service, potentially selling housing services, and increasing rents.
- 5.4 When asked what the group would most like to see from their landlord, a long list was produced with some examples being a good repairs and maintenance service, to be approachable and to listen, to build more homes, to provide internet access, and to help bring people together.

## **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 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 breakeven budget and recommends rent increases in line with current government guidance.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

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

*Finance Officer Consulted: Sue Chapman*

*Date: 11/12/14*

### Legal Implications:

- 7.2 Paragraph 3.1 and Section 6 of the report outline the legal framework for the HRA. The Housing Committee cannot approve the HRA Budget for 2015/16. The

council's constitution provides that the Policy & Resources Committee is responsible for formulating budget proposals for approval by full Council.

*Lawyer Consulted:*

*Liz Woodley*

*Date: 31/12/14*

Equalities Implications:

- 7.3 The HRA budget funds services to people with special needs resulting from age, vulnerability or health. To ensure that the equality impact of the budget proposals is fully considered as part of the decision making process, an Equality Impact Assessment screening document for the HRA budget proposals has been prepared. Full 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. The self-financing settlement will provide a framework within which all local authorities can sustain their stock in a good condition in the future. This should enable the council to deliver a range of measures that will benefit and sustain the local environment.

Risk and Opportunity Management Implications:

- 7.5 Financial risks have been assessed throughout the development of the council's HRA budget. The introduction of Self Financing means that all the risks inherent in running social housing landlord services have transferred from the government to the local authority. The key risks which will need to be managed and developed as sensitivities and scenarios within the model may include:
- Inflationary risk where expenditure inflation is greater than income, particularly with rental increases determined by national rent policy;
  - 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. Appendix 1: HRA Forecast Outturn 2014/15 and Budget 2015/16
2. Appendix 2: Fees and Service Charges 2015/16
3. Appendix 3: HRA Medium Term Financial Strategy

### **Documents in Members' Rooms**

None

### **Background Documents**

1. 2015/16 Housing Revenue Account Working Papers