

Committee: Scrutiny Committee

Agenda Item

Date: 6 February 2014

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**Title: Housing Revenue Account 2014/15 Budget
and 5 year Business Plan Strategy**

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Item for decision
Yes

Summary

1. This report sets out the following proposals for consideration:
 - a. A proposed Housing Revenue Account (HRA) budget and reserves position for 2014/15.
 - b. HRA dwelling rents continue to converge with Formula rents, such that the average rent increase in 2014/15 will be 5.05%.
 - c. Garage rents are increased by 3.2%.
 - d. Heating, Service and Sewerage charges are increased in line with actual costs.
 - e. Service charges for common services in sheltered schemes continue to be subsidised for tenants at 31st March 2012 who are not in receipt of housing benefit.
 - f. Charge for Sheltered support services increased by 3.2%.
 - g. Sheltered support services for tenants as at 31st March 2003 who are not eligible for supporting people grant continue to receive transitional relief protection.
 - h. Lifeline basic charge is increased by 3.2%.
 - i. Introduction of a subsidised welfare garden service for tenants
 - j. A proposed 5 year financial forecast for the period from 2014/15 to 2018/19.
2. The Housing Board has reviewed the Housing Revenue Budget and 5 year financial strategy and recommended the reports for approval by Cabinet and Full Council.
3. Housing Board and The Tenants Forum have reviewed the Housing rent and service charge increases and recommended the proposals for approval by Cabinet and Full Council.

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4. There is an opportunity for the Scrutiny Committee to review the report and provide comments in support of the recommendations, or to propose alternatives. Examples of the questions Scrutiny may wish to consider are:
- a. Do the proposals have the support of the Council Tenants?
 - b. Is the rationale for proposed rent and service charge increases clearly explained and justifiable?
 - c. Are there clear plans for the use of the financial headroom that deliver useful outcomes within reasonable timescales?

Recommendations

5. The Scrutiny Committee is requested to endorse the following recommendations to Cabinet, or suggest alternatives.
6. The Cabinet is requested to approve, for recommendation to Full Council the HRA Revenue Budget and 5 year financial Strategy.

Financial Implications

7. These are included in the body of the report.

Background Papers

8. None

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Background

9. The HRA budget for 2014/15 reflects the service arrangements and investments in relation to the council's housing services for the third year under 'Self Financing'.
10. The new financial arrangements enable the service to stand alone financially and take 'local' decisions for housing services.
11. As part of the self- financing agreement and the Right to Buy scheme we are required to implement a 1 for 1 housing replacement programme.
12. The Council's overall aims and objectives for housing services over a 30 year period is reflected in the HRA Business Plan which was approved by Housing Board in January 2012.
13. The dwelling rental income has increased by an average of 5.05%.
14. Income and expenditure budgeted on an incremental and inflationary basis to reflect the financial and operational needs of the housing service, using 2013/14 as a base.
15. The HRA budget is detailed in Appendix A.

Housing Revenue Account Budget 2014/15

16. The budget identifies a net operating surplus of £3.4m made up of total income of £15.4m and total expenditure of £12.0m. The surplus has been allocated to fund agreed projects as detailed in the Business Plan. The tables below give a breakdown of the budget and associated variances.

Budget Summary

	2013/14 Restated Budget £'000	2014/15 Original Budget £'000	Increase / Decrease (-) £'000
Dwelling Rents	(13,520)	(14,390)	(870)
Other income	(984)	(1,000)	(16)
Income	(14,504)	(15,390)	(886)
Housing Finance & Business Management	476	503	26
Housing Maintenance & Repairs Service	3,026	2,872	(154)
Housing Management & Homelessness*	838	865	28
Expenditure Direct Services	4,340	4,240	(100)
Capital Repairs	3,118	3,261	143
Interest on HRA Loan	2,632	2,625	(7)
Pension Cost	86	217	131
General Fund Recharge	1,285	1,464	179
Bad Debt Provision	130	150	20
Supporting People	45	53	8
Pay Award	4	20	16
Other Costs	7,300	7,790	490
Total Expenditure	11,640	12,030	390
Operating (Surplus)	(2,864)	(3,360)	(496)
Working Balance	0	(132)	(132)
Allocation of Headroom	2,719	3,492	773
Total	(145)	0	145

*This is the management cost of the service rather than the actual service cost for homelessness which is funded from the General Fund Account.

Dwelling Rents

17. Current Government policy is to bring all national social housing rents in line with 'Formula Rents'. This has been in place since 2002 and is the basis of developing a fairer system of affordable rents for all social housing nationally.

18. Government policy also applies specific caps and limits to protect tenants from excessive annual increases; the restriction applied is RPI 3.2% + 0.5% + £2 per

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week. RPI value is taken as at the September of the preceding year of actual rent increase.

19. Based on current detailed calculations it is expected that 72.9% (2,059) of properties will converge to formula rents by the target date of 2015/16. We calculate that 99% of properties will converge by 2020/21.

20. New build properties are excluded from the 'Formula Rents' calculation. New build properties will be charged at 'Affordable (Market) Rent' and increased by RPI annually.

Financial Impact of Proposed Rent Increases

21. The current average weekly rent is £93.60 and this will increase based on the rent setting policy and central government guideline calculations in 2014/15 to £98.33 a proposed increase £4.73.

Average Rent Increase per week	Minimum Rent Increase per week	Maximum Rent Increase per week	Average weekly Rent	Estimated Gross income to HRA 2014/15
5.05%	3.61%	6.59%	£98.33	£14.4m

Tenancies Affected

22. The average weekly rent increase will have the following impact on the HRA's total tenancies:

< £3 increase per week		> £3 and < £5 per week		> £5 per week	
No. of tenancies	% of total stock	No. of tenancies	% of total stock	No. of tenancies	% of total stock
132	4.67	1,307	46.27	1,386	49.06

Garage Rents

23. The Council manages a total of 555 garages, of these 297 are rented by private residents. The annual rent is increased by RPI of 3.2% as at September 2013. The current rent is £9.12 and increasing to £9.41 (excluding VAT) for 2014/15.

Sheltered/Lifeline Charges

24. Tenants are offered 3 levels of sheltered support service, Bronze, Silver and Gold; these have been increased in line with RPI at 3.2%.

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25. Tenants as at 31st March 2003 paying sheltered support service charges and ineligible for supporting people grant assistance continue to receive transitional relief protection funded by the HRA.

Service Level	Charge for 2013/14 (£)	Proposed Charge for 2014/15 (£)
Gold	15.76	16.26
Silver	13.94	14.39
Bronze	11.15	11.51

Lifeline Charges

26. Lifeline charges were introduced in 2013/14 on a tiered level 1, 2 and 3. The basic charge for the service is £3.94 and this is proposed to be increased at the September 2013 RPI of 3.2%. The enhancement of the basic service will remain at £1 per extra enhancement.

- a. Basic level - £3.94 increasing to £4.07
- b. Extra sensors (up to 4) - £1
- c. Evening and Weekend response - £1

Heating, Service and Sewerage Charges

27. The Council manages leasehold and freehold properties where service and sewerage charges are payable and these will continue to be calculated in line with actual costs.

28. General needs and sheltered housing service charges are calculated on the same basis as leasehold/freehold properties. Tenants as at 31st March 2012 in sheltered accommodation and not in receipt of Housing Benefit will continue to receive transitional relief protection funded by the HRA.

Welfare Garden Service

29. The Garden Welfare Service for tenants is subject to the criteria laid down in the Welfare Garden and Re-decoration Policy. Current tenants using this service will be protected for 1 year. The proposed charges are listed below:

- a. One off clearance - £20
- b. One off large clearance - £45 (substantial clearance where the majority of the garden is higher than 1 meter, this includes brambles, grass and weeds)

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- c. Grass cutting throughout the growing season and up to 2 hedge cuts a year - £3 per week

For future consideration

30. Central Government is in consultation regarding the calculation for formula rent increases. The basis of this consultation is to move away from RPI + 0.5% + £2 and adopt the calculation of CPI + 1%. If this policy is approved it will be effective from 1st April 2015, information on the financial implications will be distributed at a later date as this does not affect the budget for 2014/15 but will have an impact on the HRA Business plan.

Budget Movements

	Inflation £'000	Service Investment £'000	Efficiencies £'000	Adjustments £'000
Rates and Property charges	0	0	0	(859)
Business and Performance	6	51	(13)	(20)
Estate Maintenance	1	0	0	(20)
Common Services Flats	0	0	0	(10)
Housing Services	5	0	(7)	(3)
Property Services	5	140	(30)	0
Depot	0	0	0	2
Housing Repairs	35	115	(9)	(381)
Sheltered Housing	(2)	21	0	(17)
Supporting People	0	0	0	8
Housing Sewerage	0	0	0	4
Other Costs	0	0	0	490
Sum of immaterial variances				-8
Total Budget movements	50	327	(59)	(814)

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Variations (Greater than £10k)

	Variance £'000	Reason for variance
Dwelling Rents income	(870)	Formula rent uplift (average 5.05%) and reduction in void properties
Garage Rents	10	Loss of income due to sites being demolished for future new housing development
Sheltered Support service income	(19)	Current trend shows higher level of users
Business and Performance Staffing	37	Increase in administration posts by 1.6 FTE
Property Services Staffing	109	2.6 FTE increase to cover business plan actions, includes a redefinition/grading of 2 current posts
Housing Repairs	33	2 FTE increase plus savings generated from re-grading due to retirement
	72	Electrical testing survey for health and safety in housing stock
	(425)	Presentational adjustment of the internal fees charges and works completed internally instead of using external contractors. Increased budget to reflect realistic fees
Sheltered Housing staffing	20	1 FTE increase
General Fund recharge for central services	135	Increase in support mainly from Financial and Corporate services to reflect extra resource for the self –financing and business plan requirement
Pension costs	131	Additional upfront payment to achieve a saving for the 3 year (see reserves table for draw down to offset future years payments)
Pay award	16	Estimated at 1%
Bad Debt provision	20	Minor uplift for anticipated rent arrears

Movement in Reserves

Reserve	2013/14				2014/15		
	Opening Balance	Use of Reserves	Additions to Reserves	Closing Balance	Use of Reserves	Additions to Reserves	Closing Balance
Working Balance (note 1)	680			680	(132)		548
Major Repairs	0		140	140		125	265
Change Mgt	200	(23)		177			177
Potential Projects	800		991	1,791			1,791
Revenue Projects	60	(40)		20			20
Sheltered Housing (note 2)				0		798	798
Capital Projects (note 3)	1,223	(600)		623	(550)		73
Total	2,963	(663)	1,131	3,431	(682)	923	3,672

Notes:

- 1 - Working Balance - The Council is required to make arrangements to pay off the pension deficit within the period specified by the County Council (based on actuarial advice); this is currently 30 years, this arrangement is reviewed and recalculated every three years. Different options have been provided based on the principle that paying larger sums earlier can reduce the costs overall, reserves have been used to smooth the budgetary impact and achieve best value.
- 2 - Sheltered Housing Reserve – for continued redevelopment of sheltered housing stock
- 3 - Capital Projects Reserve – balance of financing requirement not met by Capital receipts for Mead Court.

HRA Business Plan and 5 Year Strategy

31. The Housing Service prepared a 30 year HRA Business Plan in line with the Self-Financing Agreement; from this business plan a 5 year working plan has been extracted detailing specific priorities/projects up until 2018/19. This is a rolling programme and is continuously updated. The Capital programme and the capital financing tables show that all projects have been fully financed from within the HRA reserves.

- Appendix B – details all planned projects for the 5 year period 2014/15 – 2018/19
- Appendix C – identifies the capital financing for the period 2014/15 – 2018/19

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32. A 5 year budget forecast summary table, Appendix D, shows that the HRA budgets over the medium term are stable and the HRA is fully able to meet loan payments and fund the projects in the business plan along with providing a consistent level of services to residents.

33. The authority is continuing to deliver a significant programme of investment in the first five years of the HRA business plan - the largest investment in the stock/service for many years. To date the Council has made around £11.2million of investment since the introduction of self-financing to improve the standard and availability of council housing. Progress with the priorities identified in the HRA business plan is attached in Appendix E. In summary as a landlord the council has delivered the following:

- Developed a housing asset management and development strategy
- Improved the information on the housing stock
- Decent homes – all housing stock now meets this national standard
- Completed 8 new build council houses Holloway Crescent - let from June 2013
- Implemented an improved integrated monitoring, response and maintenance service for sheltered schemes and Lifeline users
- Reduction of rent arrears
- Achieved re-letting times which are substantially quicker, placing the council among the top performers (and improvers) for reducing void rent loss
- Reviewed Housing Allocations Scheme to take advantage of new opportunities and flexibilities provided by the Localism Act 2011
- Introduced fixed term tenancies
- Developed a Housing Regulation Panel to scrutinise the performance of the Housing Service and to undertake service reviews

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Changes in legislation may alter the assumptions contained in the proposed 2014/15 Budget and HRA Business Plan	2	2	Prudent Budget Management and assumptions are built into the budget predictions. This is supported by the minimum operational balance and earmarked reserves to provide a short term contingency
Rent arrears increase	2	2	Increased officer support to tenants now in place and successfully reduced arrears in 2013/14
Failure to deliver major housing and development projects	2	2	Robust project planning and resources aligned to deliver projects

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Appendices

Appendix A – 2014/15 Summary Budget

Appendix B – Capital Programme (5 year)

Appendix C – Capital Financing Requirement (5 year)

Appendix D – 5 year Budget Summary (2014/15 – 2018/19)

Appendix E – Action Plan/Progress/Priorities