

Subject:	Housing Revenue Account Budget 2014/15	
Date of Meeting:	15 January 2014 – Housing Committee 11 February 2014 – Housing Management Consultative Sub-Committee 13 February 2014 – Policy & Resources Executive Director of Finance & Resources	
Report of:	Executive Director of Environment, Development and Housing	
Contact Officer:	Name: Monica Brooks and Susie Allen	Tel: 29-2279
	E-mail:	monica.brooks@brighton-hove.gov.uk susie.allen@brighton-hove.gov.uk
Wards Affected	ALL	

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This report presents the proposed Budget for 2014/15 as required by the Local Government and Housing Act 1989. Members are required to consider the budget proposals including savings and service pressures as well as changes to rents, fees and charges.
- 1.2 This is the first opportunity we have had to bring the HRA Revenue Budget Report 2014/15 to HMCSC. The report had to be taken to the January Housing Committee to ensure it would go on to Policy and Resources Committee on 13th February. The Housing Revenue Account and Capital Programme form part of the Council's overall budget and have been prepared on that basis. This includes a city-wide consultation process. As the thematic policy committee, Housing Committee are presented with the budget proposals of the administration and are invited to comment on the proposals and make recommendations to Policy and Resources Committee. The proposals, although agreed at Housing Committee, remain proposals until and unless they are agreed at budget Council. The approach adopted does not therefore prejudice HMCSC's ability to comment on the proposals in this report.
- 1.3 The council's Housing Revenue Account (HRA) contains the income and expenditure relating to the council's social landlord duties, of approximately 11,800 properties and 2,600 leasehold properties. The income and expenditure related to these properties are accounted for separately from the council's other services/activities which form part of the council's General Fund.
- 1.4 In managing the HRA, the budget strategy continues to aim at reducing management overhead costs in order to optimise investment in service delivery to the benefit of our

tenants and leaseholders and that reduces inequality, improves homes and sustains local neighbourhoods.

- 1.5 At the time of writing this report the council is awaiting confirmation from the Government of the 2014/15 rent restructuring guidance relating to the target rent convergence date. The government is yet to confirm whether 2014/15 or 2015/16 will be the final year of rent convergence when setting the rents for April 2014. Therefore two sets of budget proposals and rent increases have been prepared based on each of the possible convergence years. Confirmation is due mid-to-late January and the report to Policy & Resources Committee will include the budget and rent proposals based on the confirmed rent convergence date.

2. RECOMMENDATIONS:

- 2.1 That Housing Management Consultative Sub-Committee note the proposed draft 2014/15 revenue budget reported to Housing Committee on 15 January 2014, for recommendation that Policy & Resources Committee:
- (a) Approves and recommends to Council the budget for 2014/15 as shown in Appendix 1 according to the final year of rent convergence to be confirmed by government in its rent restructuring guidance for 2014/15.
 - (b) Approves individual rent increases and decreases in line with rent restructuring principles as determined by the Government and detailed in paragraphs 3.12 to 3.16, and according to the final year of rent convergence to be confirmed by government in its rent restructuring guidance for 2014/15.
 - (c) Approves the changes to fees and charges as detailed in Appendix 2.
 - (d) Approves the new service charges outlined in Appendix 2 including the phased implementation of the new Intensive Housing Management charge.

3. HRA BUDGET PROPOSALS 2014/15

Summary

- 3.1 A local authority's HRA must be in balance, and the authority must show in its financial planning that HRA income meets expenditure and that the HRA is consequently viable. The introduction of self financing of the HRA from 1st April 2012 means that the authority needs to ensure sufficient funds are available to meet the future management, repairs and investment needs of the stock. Self financing has given authorities the freedom to plan for the longer term and has given greater emphasis to the 30 year business planning process.
- 3.2 In a continuing drive to ensure value for money within the service, benchmarking of both service quality and cost is used extensively to identify opportunities for better efficiency. Benchmarking against comparator organisations and an analysis of the outcome of the Housing Quality Network value for money review in 2012 identified an efficiency savings target of £1.028m over 2 years to ensure that the service provides value for money. To continue this efficiency drive, the target set for 2014/15 was

£0.438 million and this has been met through a reduction in management costs of £0.488 million included in the savings in paragraph 3.10 below.

3.3 The HRA Budget 2014/15 aims to balance the priorities of both the council and housing residents within the context of the Corporate Plan 2011-2015, which sets out the council's strategic direction and priorities for the next three years, based around the four council priorities:

- Tackling inequality
- Creating a more sustainable city
- Engaging people who live and work in the city
- Modernising the council

3.4 The HRA revenue strategy focuses upon investment to deliver corporate priorities:

1. Investment to tackle inequality and sustain rental income

- Continued Investment in Prevention. Vulnerable residents of the City are over represented within the council's social housing stock. HRA investment in housing related support 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;
- Investment in housing support for older people. Enhancing our sheltered housing model. Working proactively to enable households to retain their existing accommodation and continue to live independently in their own homes;
- 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 impacted by Welfare Reform ;
- Continued Investment through the EU 'Interreg' grant funding in the 'Learning Cities' project will deliver support to council tenants that enhance the employability of individuals, and so improve their and their family's life chances;
- 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.

2. Creating a more sustainable city

The housing management service is developing a Sustainability Action Plan according to One Planet Living principles:

- 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;

- Improving the sustainability and energy efficiency of the housing stock in line with the emerging One Planet Living Sustainable Action Plan for council housing. This will include insulation improvements, over-cladding projects, solar PV and improvements to communal lighting;
- Investing in estate regeneration and building new council homes to high sustainability standards;
- Action to increase asset value, tackle overcrowding, and improve well-being through continuation of the loft conversion / extension programme;
- A strategic programme to tackle damp and condensation to contribute to improving health inequalities.

3. Engaging people who live and work in the city

- Further development of tenant and resident involvement and the new tenant scrutiny panel to ensure that tenants and leaseholders have a stronger voice in the management of council housing within the framework of current policies and priorities;
- 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:
 - 65 apprentice and work opportunities provided
 - 95% local employment
 - 28 local businesses employed as subcontractors
 - Partnership with City College to enable 35 construction students to gain experience refurbishing empty homes
 - Estate Development Budget run as a not-for-profit business model
 - Supporting 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.

Budget Variations

- 3.5 The HRA budget for 2014/15 is shown in Appendix 1 with the main budget variations detailed in Table 1 below. Employees’ costs include provision for a 1% pay increase along with any known increments.
- 3.6 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-based¹ and therefore charges are estimated based on known increases in costs or inflation.

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

- 3.7 The major works leasehold income budget has increased by £0.609 million to reflect a significant increase in planned major works during 2013/14 to blocks containing leaseholders.
- 3.8 The budget for capital financing costs of £8.564 million has increased by £0.416 million. In order to maximise capacity for future borrowing, this budget includes a set aside of £2 million for the future repayment of debt. The budget also includes the repayment of borrowing of £1.274 million with the remaining costs being interest on the outstanding debt.
- 3.9 The budget variances result in a surplus which will be used to support the capital programme and is shown as 'revenue contributions to capital schemes' within the Revenue Budget. Savings proposals, service pressures and changes to rents and fees and charges are detailed in paragraphs 3.10 to 3.20 with an Equalities Impact Assessment of the budget proposals shown in Appendix 3.

Table 1: Main Budget Variations

Variation	With rent convergence ending 2014/15 £'000	With rent convergence ending 2015/16 £'000
Adjusted Budget 2013/14	(0)	(0)
<i>Increases in Resources:</i>		
Savings Proposals as detailed in paragraph 3.10	(1,303)	(1,303)
Increase in rent for dwellings (net of empty properties)	(1,188)	(888)
Increase in major works income from leaseholders	(609)	(609)
<i>Reductions in Resources:</i>		
Employees pay award and other inflation	405	405
Service Pressures as detailed in paragraph 3.11	870	870
Increase in capital financing costs	416	416
Revenue contribution to capital schemes	1,350	1,050
Other Minor Variances	59	59
Original Budget 2014/15	(0)	(0)

Savings & Service Pressures

- 3.10 The HRA Budget strategy provides savings of £1.303m for reinvestment in services and the capital programme in 2014/15 by:
- Reducing housing management costs by £0.488m following the redesign of services such as the estates cleaning and neighbourhood response services; reducing the number of service access points around the City and continuing improvements in efficiency;
 - Increasing income by £0.485m per annum through the introduction of service charges to tenants for common way electricity, lift servicing and a revision to the TV aerial charge to cover the servicing and maintenance element. This also

includes increases to the commercial property portfolio income. Details of the proposed fees and service charges are shown in Appendix 2.

- A net increase in income of £0.260m as a result of a revised charge to tenants in sheltered accommodation for intensive housing management, taking account of a remodelled service and the reduction in supporting people funding of £0.340m. The proposal is to redesign the sheltered service with costs covered by service charges eligible for Housing Benefit making the service more financially secure. The remodelled service will be more aligned to health and social care outcomes and designed to respond to the changing demographics of the older population.
- Reducing maintenance unit costs through service efficiencies in the Repairs and Maintenance partnership contract saving £0.070m.

3.11 The required reinvestment in services is currently estimated at £0.870m with the remaining savings of £0.433m being reinvested in the capital programme. The revenue pressures requiring reinvestment are:

- A review of the Homemove and Housing Options budgets has identified that a greater proportion of time is spent on HRA properties than previously budgeted resulting in a reallocation of costs of £0.132m;
- £0.258m is required for investment in staffing as part of our action to mitigate against the potential negative impacts of Welfare Reform and to reduce financial and social inequality. This includes housing management staff working with families in multiple deprivation and funding for a mutual exchange scheme supporting those under-occupying to move to more suitable and financially sustainable accommodation;
- In response to feedback from sheltered residents and the increasing complexity of needs of some residents, £0.160m is being re-invested in extra staffing for the Sheltered Service;
- An additional £0.030m to provide statutory storage facilities for HRA tenants who abandon their accommodation. This budget requirement results from a number of residents making a bid to take over the current storage space at Robert Lodge for community space;
- Investment of £0.145m for legal, health and safety, and human resources to support the delivery of service redesigns and to meet health and safety legislation within the property and investment service;
- A contribution of £0.145m for grants to community groups working in and around council estates to enhance community cohesion and the lives of our residents by, for example, helping to deliver the council's financial and digital inclusion programmes.

Rents 2014/15

3.12 Rents for 2014/15 will continue to be calculated in accordance with the government's current rent restructuring guidelines. Target rents for each property are calculated based on the relative property values, bedroom size and local earnings. The act of moving tenants' current rents to the target rent is called rent convergence. In order to limit increases in current rents to reach target rents, the current guidance specifies a maximum rent increase equivalent to Retail Price Index (RPI) inflation + ½% + £2 per week.

- 3.13 The government has recently published a consultation document covering changes to social housing rent policy which is set to apply from April 2015 onwards. The current basis on which social housing target rents are set will still apply. The main changes to be introduced are that the annual increases with effect from April 2015 will change from RPI + ½% + £2 per week to Consumer Price Index (CPI) + 1%. This change will remove the flexibility of social landlords to increase social rents each year by an additional £2 where rents are below target.
- 3.14 For 2014/15 rents, local authorities must still use the September 2013 RPI of 3.2% plus ½% for setting rent inflationary increases. However the government has not confirmed when setting the rents for 2014/15 whether local authorities should treat 2014/15 or 2015/16 as the final year of convergence for limiting rent increases. This will be announced in January after the rent consultation ends. Therefore, the rent calculation and budgets proposed in this report are based on two assumptions: one which assumes that 2014/15 will be the final year of rent convergence and the other based on the final year being 2015/16. Confirmation will be received from the government in time for the final recommendations to Policy & Resources Committee on 13 February 2014.
- 3.15 Rent convergence in 2014/15 would result in an average rent increase of 5.43% for Brighton & Hove, as the majority of rents are increasing towards target rents. If rent convergence remains in 2015/16 the average increase will be 4.81%. Table 2 below provides details of the average rents and increases.

Table 2: Rent increases

Rent Convergence Year	Average weekly rent increase 2014/15 %	Average weekly rent for 2014/15	Average weekly rent increase for 2014/15	Maximum weekly increase 2014/15	Lowest increase/ (decrease)
Year 2014/15	5.43%	£83.72	£4.31	£7.28	(£1.37)
Year 2015/16	4.81%	£83.23	£3.82	£7.22	£0.57

- 3.16 It should be noted that approximately 70% of tenants are in receipt of housing benefit. The average rents still remain the lowest and the most affordable in the city, and offer our tenants secure accommodation. In 2013/14 rents were 69% lower than the private sector and in 2012/13 15% lower than housing associations in the area.

Fees and Service Charges 2014/15

- 3.17 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.

- 3.18 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.
- 3.19 Now that the HRA is self financing, it is ever more important to ensure its long term viability. The authority must ensure sufficient funds are available to meet the future management, repairs and investment needs of the stock to keep homes decent and to invest in building new affordable housing.
- 3.20 The proposed fees and charges for 2014/15 are set out in Appendix 2. This year the proposals include new service charges to recover the costs of servicing and maintaining lifts and the costs of communal electricity in blocks of flats. It also includes a new charge for Intensive Housing Management which will replace the Supporting People charge. 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. New service charges and those that have increased by more than the standard inflation provision are explained in further detail in Appendix 2. In most cases the new charges will be covered by Housing Benefit. The impact of the new service charges on different groups in the community is included in the Equalities Impact Assessment at Appendix 3.

Medium Term Financial Forecast

- 3.21 The introduction of self financing in 2012 has provided additional resources from the retention of all rental income and, through greater control locally, will enable 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 2017 is £117.4m, providing additional borrowing capacity of £39.4m. The government has recently announced in the Autumn statement that it will increase the funding available for new affordable homes, by increasing local authority Housing Revenue Account borrowing limits nationally by £150 million in 2015-16 and £150 million in 2016-17, allocated on a competitive basis and from the sale of vacant high-value social housing. This funding will support around 10,000 new affordable homes nationally and will form part of the Local Growth Fund, available to local authorities who have a proposal agreed by their Local Enterprise Partnership (LEP). Full details of these proposals have yet to be received by local authorities.
- 3.22 The HRA 30 year Business Plan will be updated in early 2014 to reflect the recent autumn statement announcements, the impact of the proposals from the social rent 2015/16 consultation and the 2014/15 budget proposals. This will enable a review of future opportunities for additional investment in existing housing stock and building new homes and 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 2014/15 to 2016/17 will be included as an appendix to the HRA budget report to Policy & Resources Committee in February once final confirmation of rent convergence is received from government.

Projected HRA Revenue Reserves

- 3.23 Table 3 details the projected revenue reserves for 2014/15 which are estimated at £4.298m as at 31 March 2015. Movements in reserves include a contribution of £1.500 million to fund the 2013/14 capital programme with a further £0.500 million for 2014/15 and an estimated contribution of £0.237 million from the 2013/14 revenue forecast outturn.
- 3.24 The recommended working balance (minimum level of reserves) is £2.800 million. Therefore, after taking this into account, usable revenue reserves are projected at £1.498 million at 31 March 2015, which can be used to support one off items of expenditure.

Table 3: Projected Unearmarked Revenue Reserves at 31 March 2015

	£'000
Reserves at 1 April 2013	6,061
Plus: Forecast contribution from 2013/14 Revenue Outturn at month 7	237
Less: Use of Reserves to fund the capital programme 2013/14	(1,500)
Projected reserves at 31 March 2014	4,798
Less use of reserves to fund the capital programme 2014/15	(500)
Total Projected Balance at 31 March 2015:	4,298
Applied to:	
Working Balance	2,800
Usable revenue reserves	1,498

- 3.25 Estate Development Budget reserves, which are held separately from the HRA general reserves above, are £0.246 million as at 1 April 2013. These reserves relate to committed revenue and capital expenditure for schemes agreed in previous financial years that are not yet completed.

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 27 February 2014. 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 rent restructuring 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 rent convergence 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 rent restructuring is to ensure rents are fair and equitable nationally. Although the authority can set rents at a lower level than rent restructuring, 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. For example a 1% reduction in the rental increase for 2014/15 (saving each tenant an average of £0.79 per week in rent increase) would result in a loss of rental income of approximately £1.5 million over the next three years (£5.7m over 10 years, £24m over 30 years).
- 4.4 This budget proposes new service charges for lift servicing and maintenance, electricity for common ways and mobility scooter storage bays. These are estimated to raise £0.108m, £0.276m and £0.006m respectively per annum for the HRA (at 2014/15 prices). There is also an additional charge proposed to be added to the current TV aerial charge to allow for the on-going servicing and maintenance. This raises a further £0.051m per annum. These charges are only for those tenants that directly benefit from these services. The income from these charges will be used for investment in maintenance and improvements to tenants' homes. Over a ten year period, this amounts to £4.410m excluding inflationary increases.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 At the Citywide Assembly, in November 2012, residents looked at a list of service priorities originally identified at Area Panels and discussed in groups their views about each area. They then identified specific areas of work that they would like to see prioritised. The wider Assembly then voted on each of these areas. Priorities which received the most support from either the assembly or from other tenant feedback included:
- Solar panels for revenue generation and reducing bills
 - Review assets to see if any can be sold e.g. offices, garages or land
 - Reacting to, and feeding back on, anti-social behaviour
 - Increase rents for new homes and those who can afford it
 - Lifts to be repaired quicker
 - Draught proofing checks for homes
 - Faster response when repairs are reported
 - Reacting quickly when a vulnerable tenant has not been seen
- 5.2 These tenant priorities have continued to inform the budget setting process for 2014/15. The various tenant groups around the City have been consulted and shared their views on a variety of budget issues, for example:

- Tenants have been consulted through Area Panels and HMCSC on the office accommodation/access to service changes and the agreement to close the 4 remaining cash desks and Selsfield Drive housing office which forms part of the proposed efficiency savings for the budget.
- There has been consultation around the new Brighton & Hove Standard for Decent Homes spend for next year to include more choice on kitchen and bathroom finishes, and tenants have been involved in working up a revised Lettable Standard to achieve better value for money for the capital programme.
- Tenant involvement meant that amendments were made to the capital programme in relation to the loft and extension scheme to ease overcrowding.
- Similarly, the Business and Value for Money Service Improvement Group has identified support for financial inclusion work for tenants as a priority for them.

5.3 Further consultation will start immediately after Housing Committee and focus on the implementation of the new service charges and further consideration of how any adverse impact on tenants and leaseholders can be mitigated..

5.4 It is proposed that the consultation should take the form of focus groups with affected tenants (particularly those not in receipt of Housing Benefit) and meetings with the Sheltered Housing Action Group and the High Rise Action Group.

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: Monica Brooks/Susie Allen *Date:* 11/12/13

Legal Implications:

7.2 Section 6 of the report outlines the legal framework for the HRA. The Housing Committee cannot approve the HRA Budget for 2014/15. The council's constitution provides that the Policy & Resources Committee is responsible for formulating budget proposals for approval by full council.

Lawyer Consulted: *Name* Liz Woodley *Date:* 09/12/13

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 and is included in appendix 3 of this report. Full equality impact assessments have been developed on specific areas where required. As part of the council's engagement process, a series of meetings are planned to be held with specific communities of interest in January/February to explore the issues for these groups arising from the council's budget changes.

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 will now transfer 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.

Corporate / Citywide Implications:

- 7.6 The Budget seeks to improve the quality of housing and services provided to tenants across the City.

SUPPORTING DOCUMENTATION

Appendices:

1. Appendix 1: HRA Forecast Outturn 2013/14 and Budget 2014/15
2. Appendix 2: Fees and Service Charges 2014/15
3. Appendix 3 : Equalities Impact Assessment

Documents in Members' Rooms

None

Background Documents

1. 2014/15 Housing Revenue Account Working Papers