

4 March 2015

Ordinary Council (Budget)

**Medium Term Financial Plan (Housing Revenue Account)
2015/16 – 2017/18**

Report of: *Jo-Anne Ireland, Acting Chief Executive
Helen Gregory, Head of Housing Services*

Wards Affected: *All Wards*

This report is: *Public*

1. Executive Summary

- 1.1 The report considers the medium term Housing Revenue Account (HRA) budget.
- 1.2 The report includes results of the tenant consultation, the consideration of the Housing and Health Committee and the recommendation of the Finance & Resource Committee concerning the proposed level of rent increase for 2015/16.

2. Recommendation(s)

- 2.1 **That the Council approves a level of rent increase for 2015/16 based on the Government formula of CPI + 1% per week, for all rents as detailed in the report.**
- 2.2 **That the Council agrees to freeze the proposed Service Charges for 2015/16 for tenants, however any decrease to service charges, will be passed onto the tenant.**
- 2.3 **That the Council agrees that Leaseholder Service Charges be calculated in line with the current reconciliation policy.**
- 2.4 **That the Council agrees to applying the formula rent to all new tenancies from April 2015/16.**
- 2.5 **To approve the Section 151 Officer's Assurance Statement on the robustness of the estimates and adequacy of the reserves.**

3 Introduction and Background

- 3.1 The HRA is the budget operated by the Council which contains the income and expenditure of services connected with the Council's Housing Landlord role.
- 3.2 The main source of income into the HRA is the rental income from the properties let by the Council. These rents are calculated by reference to a Government formula which provides a target rent for the Council's properties to reach over a period of time.
- 3.3 From April 2012, a new system in Self Financing came into force for local authority social housing.
- 3.4 Self Financing represents a significant change in the way the Council's housing stock is funded. In principle, it gives more local accountability and responsibility for the operation of the Council's housing stock. The key elements of Self Financing are:
- The Government calculated a level of debt based on a 30 year assessment on expenditure, which was transferred to the authority to compensate the Government for the end of the subsidy scheme. For Brentwood, this was assessed at approximately £64.4million. We have borrowed to service this debt.
 - Councils have full responsibility for the maintenance and development of the housing stock and also the servicing of the debt.
 - A sum for depreciation of the stock is required to be included in the accounts.
- 3.5 **Inflation (CPI)** - The consumer prices index (CPI) shows a decrease in the forecast for CPI in 2014 of 0.4% and 2015 of 0.8%, compared to Budget 2014. For the purpose of the HRA, the following Budget Planning Assumptions have been used:

	2013	2014	2015	2016	2017
Autumn Statement 2014	2.6%	1.5%	1.2%	1.7%	2.0%
Budget 2014	2.6%	1.9%	2.0%	2.0%	2.0%
Autumn Statement 2013	2.6%	2.3%	2.1%	2.0%	2.0%

- 3.6 **Pay Awards (Inflation)** - National agreement has been reached for a 2 year pay award which will run from 1 January 2015 to 31 March 2016. For Brentwood Borough Council employees this results in a 2.2% increase from 1 January 2015. In addition to this, a one off non-consolidated payment of £150 per employee has been agreed. The terms of this payment are such that it is not added to the basic pay.
- 3.7 Historically, the Council has increased tenant service charges through a “rolling reconciliation” The HRA budget setting for 2012/13 by the Special Policy Committee in February 2012 [Minute 492 refers] implemented a new policy of service charge de-pooling approved by the former Environment Health and Housing Board in November 2011 [Minute 336 refers]. Typically, the tenant service charge setting formula includes a “rolling reconciliation” of estimated service chargeable expenditure with actual expenditure of the previous year. This method is similar to the method used to calculate Leaseholder Service Charges.
- 3.8 It has been proposed, for 2015/16 that the tenant service charges will not be increased. However the “rolling reconciliation” has been completed. Where there are service charges that have decreased, this decrease will be passed onto the tenant.
- 3.9 The reason behind the proposed freeze to any increase to service charges follows the recommendation that a further report be presented to the Housing & Health Committee providing details of the outcome of a planned review of the current service charges, which will then inform the 2016/17 charging levels for tenants.
- 3.10 Leaseholder service charges are levied by the Council, to recover the costs the Council incurs in providing services to a dwelling. The way in which the service charge is organised is set out in the tenant's lease or tenancy agreement. Therefore, as the service charges are stipulated in the leaseholder legal agreements the Council is recommended to calculate the charges based on the current policy and not freezing any increases.

4. Issues, Options and Analysis of Options

Projected Outturn 2014/15

- 4.1 The estimated forecast for the HRA Fund is a potential surplus £109,060 as at 31 March 2015. This compares to an anticipated £105k overspend as predicted at the half year review. The anticipated surplus will deliver a working balance at the end of the financial year of some £1.687 million and earmarked reserve balance of £1 million.

4.2 The table below outlines the key variance:

Service Pressures:

Budget	Difference £	Explanation
Responsive Repairs	296,700	Numerous long term void properties, have now been brought up to decent standard, plus urgent repairs to garages in order to make them safe.
Repairs & Maintenance	(140,230)	Schedule of Planned work has been delayed due to implementation of the new contract and ensuring void properties were brought up to decent home standard.
Supervision & Management	(60,000)	Severance Payment for 3 employees was made in 2014/15.
Charges for Services & Facilities	(23,150)	Increase to recover costs of providing services to leaseholders from prior year based on reconciliation.
RCCO	(290,000)	Smaller capital programmes have been delayed due to the extension of the larger capital programmes taking priority.
TOTAL	(216,680)	

Budget 2015/16 and Forecasts 2016/17 – 2017/18

4.3 The HRA budget for 2015/16 indicates a surplus of £234,770. The key variations from the 2014/15 projected outturn are:

- The budget for Repairs and Maintenance has reverted to the original budget of £2.6 million.
- Reduction in the sheltered salary costs due to all the Equal Pay claims being settled in 2014/15 plus the salary costs in Supervision & Management are based on the new team structures.
- Depreciation, that does hit the HRA bottom line, has increased by £131,740 based on slight increase in valuations as at 31st March 2014.
- Dwelling Rent Income increases by £357,860 taking into consideration the rent increase proposed within this report as well as the reduction in income due to the sales of council dwellings.

- The revenue contribution to the capital program has increased by £96,680. This is to assist in funding the development of Affordable Housing in the Borough.
- In 2016/17, one of the first HRA Self Financing Loans is due to be repaid. Repayment of the loan of £5 million will be funded from funds set aside.
- Anticipated savings of £145,000 (see para 4.4 and 4.5).

4.4 Services need to continue to drive through efficiencies and continually review their working practices and operations to try and make them as efficient as possible. This can be achieved by:

- Service reviews.
- Reviewing vacant posts.
- Identifying budget underspends.
- More strategic approaches regarding a review of service delivery models available.
- Review of current Committee arrangements.

4.5 Through the Council's Appraisal Service, the Corporate Leadership Board has agreed a total on-going target savings figure of £480,000. Of this amount £335,000 relates to General Fund and £145,000 relates to the HRA.

HRA Working Balance

4.6 The HRA working balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of the Working Balance should provide a reasonable allowance for unquantifiable risks or one off exceptional items of expenditure that are not covered within existing budgets. The Working Balance can also be used to act as a source of pump priming investment and/or to deliver "invest to save" projects.

4.7 General guidance and practice amongst other authorities varies. Options include % of total income, and a set value per Council Dwelling. However, individual risk assessments undertaken at a local level are considered best practice.

4.8 The Working Balance can be used to correct inflation assumptions, increase capital spend, repay debt early or to fund new HRA capital projects.

4.9 The average working balance for the period 2015/16 -2017/18 is £2.2 million.

Earmarked Reserves

4.10 In addition to the HRA Working Balance, the Council keeps two HRA Earmarked Reserves on the Balance Sheet. These Reserves are as follows:

- Carpets for Sheltered Schemes – the majority of this reserve will be utilised in 2014/15 to fund the purchase of the carpets in the recently refurbished sheltered scheme. Any remaining balance will be utilised in 2015/16.
- Council Dwellings Investment Fund – this reserve receives an annual contribution from the HRA (as outlined in the Business Plan), to support future investment in the Council's housing stock. The anticipated balance in this reserve as at 31 March 2015 is £1 million. The MTFP assumes annual contributions of £500,000 per annum for the period 2015/16 – 2017/18.

Rent Levels

4.11 For the last five years, the Council has held a consultation process both with our tenants in general, and with Tenant Talkback in particular, so that the views of our tenants are taken into account in this important decision.

4.12 As part of the 2013 spending review the government announced that from 2015/16 social rents will rise by CPI + 1% each year for ten years. This is a change from the previous policy of RPI + 0.5% plus £2 to move to convergence. Convergence has now also been ceased.

4.13 Under the new rent policy, the main changes are:

- To maintain the concept of a formula rent for each property using the existing methodology;
- To move from an annual weekly rent increase for social rents based on RPI + 0.5% + £2 to CPI + 1%. This to be for a period of ten years until 2024/25;
- Rent convergence to end from 2014/15;
- The 5% rent flexibility to be maintained, allowing those rents above formula to be brought within this over time;
- The formula rent cap to be maintained and increased annually by CPI + 1.5%;
- Affordable rents increases to be limited to CPI + 1% from RPI + 0.5%;
- To allow and enable landlords to charge higher rents to tenants on incomes over £60,000, up to full market rent;

- Rent rebate subsidy limitation to continue as previously with the limit rent calculations amended to reflect the changes;
 - An assumption that rent will be set at the target rent level when a property is re-let.
- 4.14 The rents increase recommended for 2015/16 is in line with the Government's Rent Setting Policy, which is in accordance with the assumptions made in the current HRA Business Plan. Last year's rent model has been updated and new formula rents and transitional rents have been calculated based on the guidance from Government. The rents increase recommended for garages is also in line with the formula rent increase of CPI + 1%.
- 4.15 The rent year for 2015/16 will commence on 6 April 2015 and finish on 3 April 2016. It will be a 52 week rent year.
- 4.16 The Rent Model for 2015/16 uses the CPI figure at September 2014 of 1.2% plus 1%, resulting in a total uplift of 2.2%. This compares to an uplift of 3.70% for 2014/15.
- 4.17 The average proposed increase for 2015/16 is 2.2% and the average rent is £93.37. For 2014/15, the average increase was 5.9% and the average rent was £91.54. A more detailed analysis is attached at Appendix 1.
- 4.18 All rents have increased by 2.2% based on 2014/15 actual rent charged, therefore the highest cash increase, is £3.09 per week for two 4 bed houses in Westbury Road. The lowest cash increase is £1.10 per week at six bedsit properties in Drake House.
- 4.19 If the rents are charged at the model's current calculation then the gross income will be £12,351,370 (2014/15 £11,961,540). The allowance for properties empty ("Voids") between letting will be 1%, therefore the expected Void budget will be £123,510 (2014/15 £119,620). Overall, the 2015/16 Net Dwelling Budget will be £12,227,860 (2014/15 £11,841,920).

Tenant Service Charge Policy

- 4.20 The proposed rent increases do not include service charges – specific additional charges for tenants primarily of flat blocks, relating to the provision of specific services, such as heating, communal lighting and caretaking.
- 4.21 For 2015/16, it is proposed the tenant service charges are frozen, with a review on service charges to be carried out during 2015/16 in order to inform the charging policy from 2016/17 onwards.
- 4.22 Government guidance suggests service charges should not be increased by more than CPI + 1%, this guidance will be included in the service charge review.

2015/16 Rent Increase – Options

4.23 The impact of a one year limitation of the rent increase is a loss of income not just for the year in question, but, if the deficit is not made up in the following year, amounts to a year on year decrease in income over the course of the Business Plan. In the context of the financial commitments of the Business Plan, and the proposed scrapping of the move towards target rents from 2015, Members are advised to consider very carefully the financial impact on the Business Plan of pursuing a limitation to the rent increase.

4.24 Options to reduce the increase would result in the below alternatives:

- Having modelled a Rent Freeze for 2015/16 early indications are that this will create a deficit in the HRA for 2015/16 of some £194,310. Therefore, a rent freeze would result in the HRA making a deficit in 2015/16 onwards and therefore, the current proposed capital programme would have to be revisited, this deficit would also mean the council would not meet its commitment to repay back the self financing debt it borrowed in 2012/13.
- A 2% increase would bring the HRA into a surplus in 2015/16 and the Council would meet its commitment to repay the first loan due for the self financing settlement and the proposed capital programme can be funded. However, the 2% increase does mean that the surplus for the HRA in 2016/17 is rather volatile as it is so low.

4.25 The table below shows the annual income to the HRA based on the different increases, it also shows the difference between the proposed increased and the government guidance of 2.2%:

	RPI (2.8%) £	CPI (2.2%) £	0% £	2% £
Annual Income	(12,397,900)	(12,227,860)	(11,964,640)	(12,203,930)
Difference (Gain)/Loss	(170,040)	0	263,220	23,930

4.26 Taking account the above annual income, the proposed (Surplus)/Deficit for the HRA MTFP are:

	2015/16 £	2016/17 £	2017/18 £
RPI (2.8%)	(242,970)	(55,160)	(300,800)
CPI (2.2%)	(89,770)	(48,950)	(113,880)
0%	194,310	242,860	185,830

HRA Business Plan

- 4.27 The HRA Business Plan has been updated with the recommendations proposed in this report. Sensitivity Analysis has been carried out to ensure the robustness of the 30 year Plan. A summary is attached in Appendix 2.
- 4.28 The following assumptions have been taken into account when considering the revised Business Plan:
- The financial viability of the HRA.
 - Delivering a repairs capital programme of £3m for 2015/16 onwards.
 - Budget provision for repayment of HRA self financing debt of £64.166m.
 - Development fund for new homes £500k per annum.
 - No allowance has been made for growth bids.
 - Affordability for tenants.
 - Increase to rental income and expenditure at an average of 2%.

Section 151 Officer's Assurance

- 4.29 Section 25 of the Local Government Act 2003 requires that, when the Council is considering next year's budget and rent levels, the Council's Section 151 Officer (Acting Chief Executive) must report on:
- the robustness of the estimates, and
 - the adequacy of the proposed financial reserves.
- 4.30 The estimates are considered robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and income.
- 4.31 The budget includes planned contributions to the reserves which will provide resources for investment and debt repayment requirements.

5. Reasons for Recommendation

- 5.1 Effective financial management underpins all of the priorities for the Council.
- 5.2 The Council is required to compile a budget which collates all the income and expenditure relating to the Council's housing stock. The Council is also required to agree the rent levels and notify tenants of any increases.

6. Consultation

- 6.1 A consultation meeting for tenants on the proposed rent increase was held on 25 November 2014 with the Tenant Talkback group.
- 6.2 In principle Tenants Talkback group agreed to rent setting at CPI plus 1%; tenants recognized the need to continue to invest in the homes and services.
- 6.3 In addition there was an acknowledgement that the CPI increase was a slight reduction compared to RPI formula previously used to set rents.

7. Reference to Corporate Plan

- 7.1 The Council has a legal obligation to produce a balanced HRA budget and to set the Housing Rent levels for 2015/16.

8. Implications

Financial Implications

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- 8.1 The financial implications are set out in the report.

Legal Implications

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- 8.2 The Council has a legal obligation to produce a balanced HRA budget and to set the Housing Rent levels for 2015/16.

Asset Management Implication

- 8.3 The rent income forms the major income stream to support the management of the Council's HRA assets. The detail of the HRA Asset Management Strategy is contained within the Housing Revenue Account Business Plan.

Equality and Diversity Implications

- 8.4 Provision of the Council's housing stock supports the Borough's Housing Strategy to maximise the available provision for residents in housing need, supporting equality of housing opportunities and life chances.

9. Appendices to this report

Appendix 1 – Analysis of Rent Increases/Decreases for 2015/16
(excluding Service Charges)

Appendix 2 – HRA 30 year Business Plan Summary

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Appendix 1

Analysis of Rent Increases / Decreases for 2015/16 (Excluding Service Charges)

The rent model has taken CPI for September 2014 as 1.20%. Applying the formula rent calculation from the Rent Setting guidance, an average rent increase of £2.01 per week, or 2.2% is proposed for Brentwood Borough Council tenants. Further details are as follows:

Flats

No of Bedrooms	Average Rent £	Average increase £	Average Increase %	No of Properties
Bedsit	65.50	1.41	2.2	74
1	79.17	1.70	2.2	528
2	86.45	1.86	2.2	509
3	96.36	2.07	2.2	59
Total Average	82.34	1.77	2.2	1170

Houses/Bungalows

No of Bedrooms	Average Rent £	Average increase £	Average Increase %	No of Properties
Bedsit	70.72	1.52	2.2	52
1	87.91	1.89	2.2	242
2	100.81	2.17	2.2	398
3	112.07	2.41	2.2	631
4	135.12	2.91	2.2	15
Total Average	103.02	2.22	2.2	1338

Appendix 2
HRA Business Plan Summary

Year	15/16	16/17	17/18	18/19	19/20	20-25	25-30	30-35	35-40	40-45	TOTAL
Details of Expenditure	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Repairs and Maintenance	2,670	2,670	2,670	2,737	2,805	15,114	17,100	19,347	21,889	24,765	111,766
General Management	1,627	1,624	1,636	1,669	1,690	8,785	9,376	10,015	10,709	11,461	58,591
Special Services	1,125	1,135	1,146	1,168	1,189	6,274	6,865	7,523	8,253	9,067	43,746
Rent, Rates, Taxes	190	194	198	204	209	1,126	1,274	1,442	1,631	1,845	8,314
Depreciation and Impairment	2,184	2,184	2,184	2,184	2,184	10,920	10,920	10,920	10,920	10,920	65,520
Provision for Bad Debts	85	85	85	44	46	255	304	361	429	510	2,205
Loan Repayment		5,000				5,000	10,000	15,000	15,000	14,166	64,166
Anticipated savings	(145)	(145)	(145)	(145)	(145)	(725)	(725)	(725)	(725)	(725)	(4,350)
Total Expenditure	7,736	12,747	7,774	7,861	7,978	46,749	55,113	63,882	68,106	72,011	349,958
Capital Charges Reversal	0	(5,000)	0	0	0	(5,000)	(10,000)	(15,000)	(15,000)	(14,166)	(64,166)
Interest on Loan	2,062	2,062	2,000	2,000	2,000	9,882	9,156	7,645	5,149	2,589	44,545
Interest on Balances	(72)	(64)	(60)	(76)	(76)	(380)	(380)	(380)	(380)	(380)	(2,248)
Net Expenditure	9,726	9,745	9,714	9,785	9,902	51,251	53,889	56,147	57,875	60,054	328,089
Details of Income											
Dwelling Rents (net)	(12,228)	(12,472)	(12,722)	(13,316)	(13,790)	(76,674)	(91,327)	(108,780)	(129,568)	(154,329)	(625,208)
Non Dwelling Rents (net)	(532)	(539)	(546)	(566)	(585)	(3,249)	(3,859)	(4,582)	(5,442)	(6,463)	(26,363)
Charges for Services	(652)	(664)	(675)	(700)	(723)	(3,988)	(4,691)	(5,520)	(6,494)	(7,641)	(31,748)
Contribution Towards Exp	(231)	(231)	(231)	(233)	(236)	(1,228)	(1,318)	(1,424)	(1,551)	(1,701)	(8,383)
Net Cost of HRA Services	(3,917)	(4,161)	(4,460)	(5,030)	(5,432)	(33,888)	(47,305)	(64,159)	(85,180)	(110,081)	(363,614)
CDC	496	492	496	506	515	2,713	2,963	3,241	3,550	3,893	18,864
Pension Interest Cost	300	300	300	315	331	1,919	2,449	3,126	3,989	5,092	18,121
Net Expenditure	(3,121)	(3,369)	(3,664)	(4,209)	(4,587)	(29,256)	(41,893)	(57,792)	(77,641)	(101,096)	(326,628)
Investment Fund	500	500	500	500	500	2,500	2,500	2,500	2,500	2,500	15,000
Loan Repayment	1,500	1,350	1,500	1,500	1,500	10,500	12,500	12,500	12,599	12,665	68,114
Capital Program Funding	885	1,324	1,405	1,100	1,100	5,500	5,500	5,500	5,500	5,500	33,314
(Surplus)/Deficit	(236)	(195)	(259)	(1,109)	(1,487)	(10,756)	(21,393)	(37,292)	(57,042)	(80,431)	(210,200)
Working Balance b/f	1,688	1,924	2,119	2,378	3,487	4,974	15,730	37,123	74,415	131,457	211,888
Accumulated Surplus	1,924	2,119	2,378	3,487	4,974	15,730	37,123	74,415	131,457	211,888	