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|---|-----------------------------|----------------|
| <b>6 January 2015</b>   |                             | <b>ITEM: 7</b> |
| <b>Housing Overview and Scrutiny Committee</b>                            |                             |                |
| <b>Housing Revenue Account Base Budgets and Rent Setting 2016/17</b>      |                             |                |
| <b>Wards and communities affected:</b><br>All                             | <b>Key Decision:</b><br>Key |                |
| <b>Report of:</b> Councillor J Kent, Portfolio Holder for Finance         |                             |                |
| <b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance |                             |                |
| <b>Accountable Director:</b> David Bull, Interim Director of Housing      |                             |                |
| <b>This report is Public</b>  |                             |                |

### **Executive Summary**

This report sets out the proposals for the Housing Revenue Account (HRA) base budgets for 2016/17 and identifies the changes between 2015/16 and 2016/17. Any growth and loss of income within the budgets will be funded through savings and efficiencies identified elsewhere.

On the 8 July 2015 the Government announced key policy changes that impact on the Council's HRA business plan. They were as follows:

- A 1% reduction in social rents for four years from the 1 April 2016
- Pay to stay proposals from 2017/18
- The disposal of 'high value' properties as they become vacant to finance the expansion of the 'Right to Buy' to tenants of registered social landlords

In order to ensure that the HRA remains financially viable following the proposed legislative changes set out in the Governments budget statement, detailed work has been undertaken on the options available to bridge the financial gap.

The current estimated cumulative impact of the Government's proposals has the potential to make the Council's current HRA business plan unviable. However at this stage, the focus has been on making recommendations that would mitigate the financial impact of the most mature of these proposals, the 1% reduction in rents for four years from 1 April 2016. This alone has an estimated impact of taking £14.6m out of the business plan from 2016/17 to 2019/20, and £218m over the 30-year life of the business plan.

Recommendations need to be made to Cabinet and subsequently Council regarding the setting of the base budgets, rent levels for dwellings, garages and travellers sites for the next financial year 2016/17.

## **1. Recommendation(s)**

- 1.1 That the changes included in the base budget for 2016/17 be agreed.**
- 1.2 That the 1% rent reduction outlined in the Summer Budget be noted.**
- 1.3 That a 1% increase in de-pooled service charges for 2016/17 be agreed.**
- 1.4 That a 2.5% increase in garage rents for 2016/17 be agreed.**
- 1.5 That a 1.5% increase in to central heating charges in 2016/17 be agreed.**
- 1.6 That a 2.5% increase in traveller's sites rents be agreed.**

## **2. Introduction and Background**

- 2.1 This report sets out the Base Budgets for the Housing Revenue Account (HRA) for 2016/17 along with the proposals for rent and service charges. The main changes are discussed within the report.
- 2.2 The report identifies the changes within the base budgets between 2015/16 and 2016/17. Increases to budgets and the reduction in rental income will be funded from savings and efficiencies on existing expenditure along with inflationary increases to charges.
- 2.3 The HRA base budgets have been compiled in accordance with the 30-year business plan. This takes into account the long term strategy for the financial viability of the service.

### **Background**

- 2.4 The base budgets represent the cost to the Council of continuing to operate the existing level of service.

The main areas of income are:

- Rent and Service Charges - paid by tenants
- Other Income - income from residential and commercial leaseholder service charges and other miscellaneous income

- 2.5 The major items of expenditure are:

- Capital financing – the sum is used to finance the cost of major works as part of the HRA capital programme. This is calculated in accordance with the 5 year capital programme.
- Repairs and Maintenance – responsive repairs, planned maintenance and adaptations
- Salaries – the cost of employing staff
- Funding of further housing development and regeneration. This includes schemes to build 90 new properties which are on site this financial year.

### 3. Issues, Options and Analysis of Options

#### 3.1 Forecast Outturn Position 2015/16

Before considering the budget proposals for 2016/17, it is necessary to review the 2015/16 position. This gives an indication of the likely level of the HRA balances to be carried forward into 2016/17. Details from the October 2015 (Period 7) forecast position are detailed below:

**Table 1 – Overall forecast variance**

| Service Area             | Revised Budget<br>£000's | Forecast Pressures<br>£000's | Forecast Underspends<br>£000's | Total Variance<br>£000's |
|--------------------------|--------------------------|------------------------------|--------------------------------|--------------------------|
| Repairs & Maintenance    | 12,671                   | 418                          | (172)                          | 246                      |
| Supervision & Management | 10,734                   | 156                          | (402)                          | (246)                    |
| Service Improvement      | 83                       | 0                            | 0                              | 0                        |
| Financing & Recharges    | 24,547                   | 0                            | 0                              | 0                        |
| Rent & Income            | (48,828)                 | 0                            | 0                              | 0                        |
| Development              | 793                      | 0                            | 0                              | 0                        |
| <b>Grand Total</b>       | <b>0</b>                 | <b>574</b>                   | <b>(574)</b>                   | <b>0</b>                 |

#### Commentary on forecast variances

##### Repairs and Maintenance

There is a net forecast overspend of £0.246m in relation to Housing Repairs. Expenditure relating to voids and responsive repairs is forecast to be overspent by £0.418m against a budget of £10.029m. Repairs to voids are demand led and dependant on the condition of the dwelling and responsive repairs can be volatile due to fluctuations in demand. An underspend of

£0.172m on general investment and development costs partially offsets the overspend. This underspend is mainly due to reduced staffing costs.

## Housing Management

Housing Management represents the cost of delivering the landlord and business services functions, as well as central overheads and operational support. Across these services there is a net forecast underspend of £0.246m. Staff vacancies and general efficiencies account for the underspends across a number of areas and these mitigate the impact of forecast pressures elsewhere. A review of expenditure and individual budgets will be carried out as part of the detailed budget setting process to ensure they reflect service delivery.

**Table 3 – New Build Schemes**

| <b>Scheme</b>          | <b>Forecast Scheme Cost<br/>£000's</b> | <b>Actual Expenditure 2013/14<br/>£000's</b> | <b>Actual Expenditure 2014/15<br/>£000's</b> | <b>Forecast Expenditure 2015/16<br/>£000's</b> |
|------------------------|--|--|--|--|
| Seabrooke Rise         | 13,211                                 | 25   | 5,884  | 7,302  |
| Bracelet Close         | 4,928                                  | 7  | 249  | 3,907  |
| Derry Avenue           | 8,880                                  | 0  | 2,828  | 6,052  |
| Empty Homes Renovation | 1,881                                  | 0  | 597  | 1,284  |
| Calcutta Road          | 10,259                                 | 0  | 8  | 593  |
| <b>Grand Total</b>     | <b>39,159</b>                          | <b>32</b>                                    | <b>9,566</b>                                 | <b>19,138</b>                                  |

- 3.2 Table 3 shows the forecast and actual spend in relation to the Council's new build schemes. While this is classified as Capital Expenditure, the HRA part of the funding for such projects can be financed through direct revenue funding. As a result, the balances held within the Development Reserve are intrinsically linked to the operating revenue position.
- 3.3 The forecast outturn position has the following impact on the level of HRA Reserves.

**Table 4a – Forecast Retained Surplus at 31<sup>st</sup> March 2015**

|  | <b>£m</b> | <b>£m</b>    |
|--|-----------|--------------|
| <i>Forecast net operational overspends</i> | 0.574     |              |
| <i>Forecast net underspends</i>            | (0.574)   |              |
| <b>Net Operating Surplus</b>               |           | <b>0.000</b> |

**Table 4b – Forecast level of financial reserves at 31<sup>st</sup> March 2015**

| <b>Unallocated Balance</b>            | <b>£m</b>      |
|---------------------------------------|----------------|
| Balance as at 1 April 2015            | (2.654)        |
| Use of balances                       | 0              |
| <b>Forecast Balance 31 March 2015</b> | <b>(2.654)</b> |

| <b>Development Reserve</b>            | <b>£m</b>      |
|---------------------------------------|----------------|
| Balance as 1 April 2015               | (3.117)        |
| Budgeted contribution                 | 0              |
| Net operating surplus                 | (3.117)        |
| <b>Forecast Balance 31 March 2015</b> | <b>(3.117)</b> |

### 2016/17 Base Budgets

- 3.4 The proposal for a £2m reduction in revenue expenditure from the HRA will be delivered via a four year savings plan that will build on existing actions that have been taken to realise efficiencies over the last three years. These will include further opportunities for increases income, reductions in consultancy spend as a result of contraction of investment programmes, reductions in service delivery costs through reshaping and restructuring and a reduction in third party spend. As agreed at December 2015 Cabinet.

A summary of the changes to the budgets from 2015/16 to 2016/17 are shown in Table 5 below.

**Table 5 – 2016/17 Base Budget Changes**

| <b>2016/17 Budget Estimates</b>              | <b>Budget Changes £000's</b> |
|--|------------------------------|
| <b>Budget Pressures/Inflation</b>            |                              |
| Salaries and Pay Award                       | 282                          |
|  |                              |
| <b>Total Budget Pressures/Inflation</b>      | <b>282</b>                   |
|  |                              |
| <b>Budget Savings/Increased Income</b>       |                              |
| Service Charges                              | (22)                         |
| Garage Rents                                 | (27)                         |
| Heating                                      | (1)                          |
| SERCO Transition                             | (500)                        |
|  |                              |
| <b>Total Budget Savings/Increased Income</b> | <b>(550)</b>                 |
|  |                              |
| <b>Rent Reduction – loss of income</b>       | <b>460</b>                   |
|  |                              |
| <b>Contribution from reserves</b>            | <b>192</b>                   |
|  |                              |
| <b>Total HRA Net 2016/17 Budget</b>          | <b>0</b>                     |

The main reasons for the changes between the 2015/16 budgets and those proposed for 2016/17 are as follows:

- 3.5 **Salaries and pay award growth: £0.282m** As part of the terms and conditions of employment, incremental increases due as well as a provision for a pay award (1%) have been included within the estimates for 2016/17
- 3.6 **SERCO transition saving:** As a result of the reintegration of SERCO into the council there will be savings of £500k to the HRA.

## Rent

- 3.7 Social housing rents are currently set according to the Government's rent policy guidance. The current rent guidance was published in May 2014 (with effect from April 2015) and expected annual rent increases to CPI +1% for the next 10 years. This was the assumption applied within the HRA 30-year business plan. The 8th July 2015 budget announcement effectively suspends the current social rent policy guidance and instead of on-going rent increases of CPI +1%, the Council is now required to reduce rents by 1% from current levels (with a base date of 8th July 2015) i.e. the rent for a dwelling in 2016/17 should be 1% less than the rent as at 8th July 2015 and the rent in subsequent years should be 1% less than the previous year. The treatment of service charges is unaffected by the announcements.
- 3.8 The majority of tenants are paying target rent in 2015/16 which means the 1% reduction will be applied to that base. Rents for new properties will be calculated at the 2015/16 target level and then reduced by 1% to give the 2016/17 rent.
- 3.9 The Council has an ambitious programme to improve the quality of Council owned homes within the borough to a high standard that supports the long-term viability of the asset and to build new affordable homes for current and future generations. With our investment programmes well underway, the Council does not have significant surpluses in which to absorb the impact of more major changes in central Government policy, unlike many registered providers within our sector. These changes, therefore, requires changes to our existing housing investment and development programmes in order to deliver a balanced HRA and supports the recommendations that were proposed to Cabinet for approval on 11 November 2015.
- 3.10 As outlined in the report to Cabinet on 9 December 2015 there is an opportunity for the Secretary of State to issue a direction to exempt a local authority from the requirement to reduce rents by 1% to:
- Require that rents remain the same each year; or
  - Require that rents reduce by an amount which is less than 1% each year.

An exemption, or a relaxation in the 1% reduction in rents, is possible if a Local Authority is able to evidence that serious financial difficulties are unavoidable if it were to comply with the requirements.

The Council intends to submit a case for exemption early in the New Year.

- 3.11 Cabinet should note the change to the government's rent policy and that the Council will be implementing the policy as set out in the Welfare Reform and Work Bill, whilst seeking an exemption from the Secretary of State. The average rent for a property in Thurrock will be £86.47 reducing from £87.34 in 2015/16. The HRA stock by bedroom size and average rent is shown below:

| Bedroom Size       | No of properties | 2016/17 Average Rent |
|--------------------|------------------|----------------------|
| 0                  | 246              | £56.60               |
| 1                  | 2,863            | £73.00               |
| 2                  | 2,288            | £78.10               |
| 3                  | 4,534            | £99.62               |
| 4                  | 198              | £113.21              |
| 5                  | 2                | £106.44              |
| 6                  | 2                | £121.74              |
| <b>Grand Total</b> | <b>10,133</b>    | <b>£86.47</b>        |

- 3.12 For comparison purposes only, the previous rent setting arrangements and assumptions would have set an average rent of approximately £88.22 as opposed to £86.47 shown above.

### 3.13 Depooled Service Charges

It is recommended that the service charges for Caretaking and Concierge are increased by 1%. This is to ensure that these services are self-financing. This increase will finance cost pressures that arise. **Members are asked to agree this as per recommendation Paragraph 1.3.**

### 3.14 Garage Rents

The current weekly charges for garage rents are £8.81 for a Council tenant garage and £10.21 for a privately rented garage per week. It is recommended to Cabinet that an increase of 2.5% be agreed for 2016/17. **Members are asked to agree this as per recommendation Paragraph 1.4.**

### 3.15 Traveller's Sites

The council currently maintains and provides services for the following sites: Pilgrims Lane, Ship Lane and Gammons Field.

The gross cost of providing the service must be recovered by the Council through rent charges, excluding utility charges which are not supported by Housing Benefit payments.

The base budget for traveller's sites for 2015/16 has been reviewed and it is expected that there will be an increase in 2016/17 costs due to inflationary pressures. Therefore in order to ensure a breakeven budget we set a 2.5% increase needs to be applied to the current weekly rent charge. **Members are asked to agree this as per recommendation Paragraph 1.6.**

#### **4. Reasons for Recommendation**

- 4.1 The report sets out the implications for the HRA Budget in 2016/17. The proposals put forward have been calculated and assessed in line with affordability consideration and ensure that financial reserves remain with agreed levels. It is essential that rent, service charges and other charges match projected expenditure. This is a legal and operational requirement. While acknowledging that the drive for efficiency both in terms of cashable and non cashable savings is a continuous process, there are financial risks associated with assuming that the rent reduction can be mitigated solely through savings and efficiencies.

#### **5. Consultation**

- 5.1 This report will be considered by the Overview and Scrutiny Committee in advance of the February Cabinet Meeting.

#### **6. Impact on corporate policies, priorities, performance and community impact**

- 6.1 The Council's Medium Term Financial Strategy (MTFS) recommends that the HRA maintains a minimum level of general reserves of £1.7m up to a maximum of £3.0m.
- 6.2 The management and operation of the HRA strives to support vulnerable people. The 30 year business plan sets out to ensure there is value for money within the Housing Service.

#### **7. Implications**

##### **7.1 Financial**

Implications verified by: **Julie Curtis**  
**HRA and Development Accountant**

Financial implications are included throughout the report.

## 7.2 Legal

Implications verified by: **Martin Hall**  
**Solicitor / Team Leader**

This report has been produced pursuant to Part 2 of the Local government Act 2003. The Act contains a series of duties and powers that give statutory support to important aspects of good financial practice in local government, but leaves the outcome of those processes to the judgement of local authorities.

The Council has a legal requirement to review the housing Revenue Account and ensure that it does not go into deficit. In addition, determinations made under the Local government and Housing Act 1989 prescribed what can be charged to the HRA and the calculation of those charges.

## 7.3 Diversity and Equality

Implications verified by: **Natalie Warren**  
**Community Development and Equalities  
Manager**

The base budget for 2016/17 reflects the Council's policy in relation to the provision of social housing with particular regard to the use of its own stock. In addition to the provision of general housing, it incorporates a number of budgetary provisions aimed at providing assistance to disadvantaged groups. This included adaptations to the stock for residents with disabilities.

## 7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

- N/A

## 8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- N/A

## 9. Appendices to the report

- None

## Report Author

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