

**REPORT FOR: TENANTS'
LEASEHOLDERS' &
RESIDENTS
CONSULTATIVE FORUM**

Date of Meeting:	11 December 2013
Subject:	Draft Housing Revenue Account Budget 2014-15 and Draft Medium Term Financial Strategy 2015-16 to 2017-18 Draft rent strategy for 2014-15
Key Decision:	No (but can be when considered by Cabinet)
Responsible Officer:	Simon George, Director of Finance and Assurance Paul Najsarek, Corporate Director of Community, Health and Wellbeing
Portfolio Holder:	Councillor Barry Macleod-Cullinane, Deputy Leader and Portfolio Holder for Adults & Housing Councillor Tony Ferrari, Portfolio Holder for Finance
Exempt:	No
Decision subject to Call-in:	No (but can be when considered by Cabinet)
Enclosures:	Appendix 1 – HRA Budget 2014-15 Appendix 2 – Average Rents & Service Charges (Tenants)

Section 1 – Summary

This report sets out the assumptions currently used in constructing the draft Housing Revenue Account (“HRA”) Budget for 2014-15 and the draft medium term financial strategy (MTFS) to 2017-18 to be considered by Cabinet on 12th December 2013.

Recommendations:

To note the report and considerations in formulating the draft HRA budget and provide feedback to Cabinet to assist in the decision making process.

To consider the draft strategy for setting rents for 2014-15 and to recommend that Cabinet agree the proposed strategy.

Reason: (For recommendation)

To consult on proposals to be considered by Cabinet in setting the HRA budget for 2014-15.

Section 2 – Report

Introductory paragraph

The Council has a statutory obligation to agree and publish the HRA budget for 2014-15. The MTFS to 2017-18 sets out the indicative income and expenditure for the HRA for this period and shows how the income collected will be spent in the management and maintenance of the Council's stock and in meeting its landlord obligations. The MTFS indicates a sustainable position in the medium term, consistent with the 30 year HRA business plan approved by Cabinet in June 2013.

The budget and MTFS also includes, for the first time in decades, the costs associated with commencing a programme of building 50 new properties for rent within the HRA, as approved by Cabinet in June 2013. The new housing is currently programmed to comprise 40 new 3-bed properties for rent, and a further 10 3-bed shared ownership properties, all to be built on existing garage and/or infill sites. This has been made possible as a result of the additional resources freed up by self financing, and is, we hope, the start of a longer term programme of the Council building new housing within Harrow.

The HRA budget proposed reflects the costs of delivering services at current levels and takes account of areas of identified pressures and savings. It builds on the HRA forecast outturn position at Period 6 (to be reported to Cabinet 12 December 2013).

The key assumptions that continue to underpin the financial strategy are set out in the following sections.

Consultation

1. Under s.105 of the Housing Act 1985, the Council is required to maintain arrangements as it considers appropriate to enable secure tenants to be informed and consulted about housing management matters which substantially affect them. However, rent and other charges for facilities are specifically excluded from the definition of housing management, therefore there is no statutory requirement to consult secure tenants on proposed rent changes. The Council has however, always consulted through the Tenants Leaseholders and Residents Consultative Forum (TLRCF).
2. The Tenants' Leaseholders and Residents Consultative Forum (TLRCF) have the remit to consider and submit observations to Cabinet on the annual HRA budget and in particular on the consequent rent implications.

3. The current policy of continuing the Government's rent convergence process was considered by TLRCF in March 2011 and this remains the policy assumed for the purposes of setting the 2014-15 budget. The government is currently consulting on proposals to change national social housing rent policy which could cease rent convergence before all properties have converged and thus impact on future years, but 2014-15 would be unaffected. For the purposes of the MTFs projections, we have assumed that the national policy would change following the consultation process, but would anticipate reviewing our projections once the final outcome of the consultation is known. Feedback from this meeting will be verbally reported to Cabinet on 12th December in order that the views of TLRCF can be taken into account in the consideration of the draft HRA budget.

Balances

4. HRA Balances are currently forecast to be £3.8m at the end of March 2014. The draft budget estimates that balances in the region of £4.6m will remain at the end of March 2015, partly due to the assumed use of receipts from RTB sales to fund capital expenditure, which has resulted in a reduced need for contributions from revenue. In addition, increased depreciation charges in the last two years have already had the effect of moving resources out of the revenue account and into the Major Repair Reserve for capital funding purposes, meaning less contributions from revenue are now required.
5. Over the period of the draft MTFs, balances are estimated to increase to around £6.6m, or 20% of gross annual income. Decisions regarding future levels of balances need to be taken in conjunction with considerations around future levels of capital investment, availability of Right-to-Buy receipts for use in the HRA, the Council's plans for new affordable housing as these become more developed, and the potential impact of welfare reform as the proposals are phased in. It is felt that a prudent minimum level of balances would be in the region of 5-7% of gross income, approximately £1.5 - £2.0m in today's prices, though this will depend on the level of risk at any given point and will need to be reviewed periodically.

Income

Dwelling rents

6. Current Government policy intends that by the end of 2015-16 similar properties in the same area will have similar rents even if owned by different social landlords. The aim is to deliver fairer rents, and greater transparency and choice for tenants. This is generally referred to as rent convergence. The government, however, is currently consulting on proposals to change national rent policy from 2015-16 onwards, and therefore 2014-15 may be the last year that rents continue to be set on the current basis.
7. The rental strategy approved by Cabinet and Council in March 2011, was based on a continuation of Government rent policy which assumes individual rents will increase annually by no more than RPI + 0.5% + £2, and we have assumed that this would apply for 2014-15, though this will be subject to consultation. At the time that this year's budget was set, it was assumed that RPI would be 2.5%, but the September 2013 RPI figure which must be used to set 2014-15 rents was actually 3.2%.

8. As indicated above, we have assumed that current rent policy would be followed for 2014-15, i.e. rent convergence. This results in an average rent increase of 5.1% in 2014-15, meaning an average rent of £112.43 per week (the 2013-14 current average is £107.00). Average rents and service charges under the existing strategy are detailed in appendix 2.
9. Given that the government is consulting on proposals to change the way in which rent increases are calculated from 2015-16 onwards, alternative options for rent setting in 2014-15 have not yet been considered as we have been focusing on the longer-term implications of these proposals. Given that the consultation commenced on 31st October, there has not yet been time to formulate a response. We anticipate drafting a response shortly and will undertake a virtual consultation exercise in respect of the proposals and our response to them.

Right-to-Buy sales

10. There have been eleven sales under Right-to-Buy as at the end of quarter 2 (September) 2013-14 as a result of new discounts and a further nine sales are anticipated by the year end. A stock level of 4,931 at the start of April 2014 is therefore assumed. It is envisaged the HRA will continue to be viable if Right-to-Buy sales continue at these levels. There is potentially a risk issue if we experience a sustained increase in sales.

Service charges: Tenants & Leaseholders

11. Tenants who benefit from specific estate based services will pay a charge to the Council on a weekly basis in addition to their weekly rent charge. This service charge will increase by 3.7% on average resulting in an average weekly charge of £2.85 (2013-14 current service charge £2.75), an increase of £0.10 on the current weekly charge.
12. Leaseholders are no longer charged an estimated service charge but are invoiced annually by the end of September for the previous financial year, based on actual recovery of costs (resulting in the leasehold financial year spanning the 30th Sept to 31st August rather than the financial year of 1st April to 31st March). Leaseholders are required to settle these invoices within 30 days, but in practice the challenge process and the payment options available to leaseholders results in some leaseholders not settling their accounts until well into the following financial year. The total income expected to be recovered from leaseholders in 2014-15 (excluding s20 income in relation to capital schemes) is £489k and reflects the recovery of costs associated with estate based costs, communal lighting, repairs, ground maintenance, insurance premiums and administration charges.

Other income

13. Historically other rental income from garages, car parking, and facilities charges are recommended to increase by an annual percentage, consistent with fees & charges across the Council. The charge for garage rents has been held since 2011-12 pending finalisation of the Garage Strategy Review. Given that the review has been stalled for some time (with the exception of developing infill opportunities), we are proposing to continue this policy by freezing rents for HRA garages and car parking pending finalisation of the review. We anticipate that the outcome of the Garage Strategy Review may include alternative pricing strategies

for garages and car parking, and that a further report will be presented following completion of this work.

Expenditure

Employee Costs

14. The HRA budgets are based on the staffing establishment, and assume a pay increase of 1% in 2014/15, and 2% annually thereafter.
15. Salary allocations between the HRA and the General Fund have been reviewed but no changes are currently necessary.

Utility Costs

16. These budgets have been uplifted in 2014-15 by 10%, 5% subsequently, as this is the corporate assumption on the general level of increases for utilities costs.

Central Recharges

17. The costs of central recharges have currently been assumed to increase by 1.5% pending finalisation of the recharges figures.

Repairs

18. Repairs budgets are largely unchanged from the original estimates, with some minor variations between budgets.

Charges for Capital

19. Capital charges to the HRA are assumed to continue to be charged at the rate of 4.2978% of the HRA borrowing from the General Fund of £149.6m.
20. As part of the ongoing business planning activity, consideration will be given to the ability to repay debt, and to reduce capital charges to the HRA. Interest rate risk is one of the key risks associated with the longer term planning of the HRA finances, and whilst the risk is relatively small as the loans pool is predominantly comprised of long-term fixed rate loans, the main risk will be as a result of the rates available as existing loans are re-financed on maturity.
21. Interest on HRA balances, including the Major Repairs Reserve are expected to be earned at a rate of 0.73% for 2014-15.

Capital Investment

22. The HRA capital programmes for 2014-15 to 2016-17 are as approved by Cabinet in February 2013, with the addition of the budgets for new affordable housing approved by Cabinet in June 2013. The capital programme for 2017-18 is as per the approved business plan (Cabinet June 2013).
23. To ensure an element of flexibility within the housing investment programme, Housing Services propose to use the scheme of delegation to implement variations to the HRA Capital programme within agreed limits and following appropriate consultation, to meet the requirements of the Housing Asset

Management Strategy and ensure delivery against programme can be maximised. As is currently the case, the HRA Capital programme would continue to be funded from HRA revenue resources, and therefore any such variations would not affect the Council's borrowing position or General Fund resources.

Impairment Allowance

24. Current tenant arrears continue to reduce. However, whilst a number of payment arrangements have been agreed for former tenant arrears, former tenant arrears remain high and require a significant level of provision. The continuing welfare benefit changes are likely to have an impact on arrears, although it is difficult to quantify at this stage. The annual increase in the provision is budgeted to rise from its 2013-14 level of £300k to £400k in 2014-15 to reflect the expected impact of the welfare changes, then dropping to £300k per annum in subsequent years.

General Contingency

25. In addition to the HRA balances, an annual amount of £200k is set aside to cover unforeseen expenditure that may arise in the management and maintenance of the housing stock.

Summary

26. The HRA Budget and MTFs detailed in Appendix 1 continues to reflect the significantly improved position reported in last year's budget as a result of HRA reform. The 30-year HRA business plan approved by Cabinet in June 2013 has been used as the framework within which this budget has been developed, and the outcome of the budget process will be used to re-state the business. Current forecasts suggest that significant balances are likely to be generated within the HRA over the period of the business plan, depending on expenditure and income decisions made in the future, with current levels of projected investment expenditure being fully funded over this period. This remains an extremely positive position for the Council to be able to report and will enable the Council to meet both the challenges faced by the service from the Government changes and the increasing expectations of its tenants and Members.

Financial Implications

27. Financial matters are integral to this report

Equalities Implications

28. Pursuant to the Equality Act 2010 ("the Act"), the council, in the exercise of its functions, has to have 'due regard' to (i) eliminating discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a relevant protected characteristic and those without; and (iii) fostering good relations between those with a relevant protected characteristic and those without. The relevant protected characteristics are age, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnership, but to a limited extent.

29. When making decisions, the Council must take account of the equality duty and in particular any potential impact on protected groups. The equality impacts of the

recommended rent increase option will be assessed via an Equalities Impact Assessment being undertaken, and the results being incorporated in the February Cabinet. This will take account of the ongoing implications for tenants of welfare reform and the single room subsidy benefit changes. Overall there is no proposed change to the current rent policy.

Risk Management Implications

30. The key risks which should be highlighted, and which are referenced in the main body of the report, are those associated with the changes in the RTB arrangements and, for the longer HRA business plan, interest rate risk. Whilst these are real risks to the HRA these are not considered to be significant in the short term.

31. These risks are detailed on the Housing risk register.

Section 3 - Statutory Officer Clearance

Name: Dave Roberts	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 28 November 2013		
Name: Paresh Mehta	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 28 November 2013		

Section 4 - Contact Details and Background Papers

Contact:

Dave Roberts, Housing Finance Business Partner
Direct 0208 420 9678

Background Papers: None

Appendix 1
HRA Budget 2014-15 and MTFS 2015-16 to 2017-18 – Expenditure

All figures in £s	Budget 2014-15 (proposed)	Budget 2015-16 (proposed)	Budget 2016-17 (proposed)	Budget 2017-18 (proposed)
Operating Expenditure:				
Employee Costs	2,435,160	2,461,850	2,489,060	2,516,800
Supplies & Services	913,260	844,020	858,900	874,080
Utility cost (Water & Gas)	642,000	669,550	698,380	728,560
Estate & Sheltered Services	2,744,290	2,870,650	2,934,640	3,000,300
Central Recharges	3,439,750	3,522,580	3,607,400	3,694,270
Operating Expenditure	10,174,460	10,368,650	10,588,380	10,814,010
Repairs Expenditure:				
Repairs - Voids	874,390	881,770	899,410	917,400
Repairs - Responsive	3,192,790	3,257,900	3,323,060	3,389,520
Repairs – Other	2,380,430	2,430,360	2,481,250	2,533,110
Repairs Expenditure	6,447,610	6,570,030	6,703,720	6,840,030
Other Expenditure:				
Contingency - General	236,280	233,310	234,170	238,850
Investment in Services	223,750	208,780	193,560	197,430
Impairment allowance	400,000	300,000	300,000	300,000
RCCO	-	-	1,871,930	2,437,360
Affordable Housing	300,000	100,000	100,000	100,000
Grants to Move	162,870	161,450	159,320	157,130
Charges for Capital	6,399,900	6,400,420	6,375,700	6,331,680
Depreciation	6,588,880	6,562,260	6,535,640	6,509,020
Other Expenditure	14,311,680	13,966,220	15,770,320	16,271,470
Total Expenditure	30,933,750	30,904,900	33,062,420	33,925,510

Appendix 1 (continued)
HRA Budget 2014-15 and MTFS 2015-16 to 2017-18 - Income

All figures in £s	Budget 2014-15 (proposed)	Budget 2015-16 (proposed)	Budget 2016-17 (proposed)	Budget 2017-18 (proposed)
Income				
Rent Income – Dwellings	(28,604,450)	(29,268,970)	(29,953,630)	(30,633,000)
Rent Income – Non Dwellings	(711,100)	(714,530)	(718,090)	(721,790)
Service Charges – Tenants	(1,172,240)	(1,198,990)	(1,226,500)	(1,239,890)
Service Charges – Leaseholders	(488,550)	(500,770)	(513,420)	(526,520)
Facility Charges (Water & Gas)	(561,840)	(590,180)	(617,990)	(647,130)
Interest	(3,600)	(3,600)	(3,600)	(3,600)
Other Income	(81,230)	(82,480)	(83,780)	(85,130)
Recharge to General Fund	(163,000)	(163,000)	(163,000)	(163,000)
Total Income	(31,786,010)	(32,522,520)	(33,280,010)	(34,020,060)
In Year Deficit / (Surplus)	(852,260)	(1,617,620)	(217,590)	(94,550)
BALANCE brought forward	(3,808,036)	(4,660,296)	(6,277,916)	(6,495,506)
BALANCE carried forward	(4,660,296)	(6,277,916)	(6,495,506)	(6,590,056)

Average Rent & Service Charges

Appendix 2

Description	No. units	2013-14 Total Weekly Charge	2014-15 Rent	2014-15 Service Charge	2014-15 Total	Increase £
Bedsit bungalow	20	£98.36	£100.83	£2.57	£103.40	£5.04
1 Bed bungalow	116	£108.63	£111.97	£2.17	£114.14	£5.51
2 Bed bungalow	25	£124.22	£126.81	£3.38	£130.19	£5.97
Bedsit flat	84	£85.33	£85.67	£3.87	£89.54	£4.21
1 bed flat	1,222	£94.64	£95.98	£3.40	£99.38	£4.74
2 bed flat	819	£107.53	£109.36	£3.90	£113.26	£5.73
3 bed flat	45	£118.08	£119.77	£4.55	£124.32	£6.24
1 bed Maisonette	6	£88.62	£92.41	£0.39	£92.80	£4.18
2 bed Maisonette	53	£106.86	£108.94	£3.56	£112.50	£5.64
3 bed Maisonette	46	£118.74	£120.81	£4.08	£124.89	£6.15
4 bed Maisonette	1	£125.76	£132.41	£0.00	£132.41	£6.65
2 bed Parlour House	34	£118.75	£123.66	£1.19	£124.85	£6.10
3 bed Parlour House	543	£131.51	£136.47	£1.65	£138.12	£6.61
4 bed Parlour House	57	£142.39	£147.21	£2.31	£149.52	£7.13
5 & 6 bed Parlour House	10	£151.80	£158.05	£1.14	£159.19	£7.39
2 bed Non Parlour House	521	£115.74	£119.74	£1.94	£121.68	£5.94
3 bed Non Parlour House	745	£126.77	£131.25	£2.07	£133.32	£6.55
4 bed Non Parlour House	31	£140.60	£144.40	£2.92	£147.32	£6.72
5,6 & 7 bed Parlour House	6	£154.35	£158.74	£1.11	£159.85	£5.50
Sheltered bedsit	55	£86.32	£87.42	£2.56	£89.98	£3.66
Sheltered – other units	501	£93.08	£94.15	£3.08	£97.23	£4.15
Total	4,940	£109.75	£112.43	£2.85	£115.28	£5.53

The average charge during 2013-14 was £109.75 per week comprising £107.00 rent and £2.75 service charge compared to the budgeted £106.88 and £2.74 per week respectively.

The rent increase for 2014-15 is based on the continuation of rent convergence, i.e. a maximum of Retail Prices Index (RPI) plus 0.5% plus £2 for any individual property. This yields an average rent of £112.43 and an average service charge of £2.85 per week, representing an average increase of 5.1% and 3.7% respectively.