Brent	**Executive** 17 February 2014 **Report from the Director of Regeneration and Growth**
	Wards Affected: ALL
Housing Revenue Account (HRA) Budget 2014/15 and Rent Proposals for Council Dwellings for 2014/15	

1.0 Summary

1.1 This report presents to Members the Housing Revenue Account (HRA) forecast outturn for 2013/14 and the draft HRA budget for 2014/15 as required by the Local Government and Housing Act 1989. Members are required to consider these budget estimates and the associated options, taking account of the requirement to set an HRA budget that does not show a debit balance at year end, and in particular Members need to consider and agree the level of HRA dwelling rents and service charges for 2014/15.

1.2 The report includes recommendations to increase HRA dwellings rents for 2014-15 by an average 4.39% per week per dwelling and to increase service charges by 3.2%. Overall the proposed combined increase for both rent and service charges will be an average increase of 4.32% or £4.88 per dwelling per week. This overall increase includes a 3.2% uplift for inflation (in line with the rent restructuring formula). The real terms increase is therefore 1.12%, based on the September RPI on which the formula is predicated, or slightly over 2% based on the most recent Bank of England forecasts.

1.3 The report also includes proposals for setting the rent and service charge levels for 2014/15 for the non HRA Brent Stonebridge dwellings.

2.0 Recommendations

It is recommended that Members:-

2.1 Note the HRA forecast outturn 2013/14 (Appendix 1 Table 1).

2.2 Agree the savings/budget reductions for 2014/15 as set out in paragraph 3.48.3.

2.3 Agree the HRA budget growth for 2014-15 of £3.740m as set out in paragraph 3.48.4.

2.4 Approve an average overall rent increase (excluding service charges) from April 2014 of £4.67 per week, which is an average overall increase of 4.39%, as set out in further detail in paragraphs 3.23 to 3.29.

2.5 Agree to increase HRA Council Dwelling service charges from April 2014 by 3.2%, which is an average increase of £0.21 per dwelling per week.

2.6 Approve the proposals for the HRA budget for 2014/15 as set out in Table 1 on Appendix 1 of this report and agree that they be included in the overall Budget for 2014-15 for approval by Full Council on 3 March 2014.

2.7 Agree an average overall rent increase from April 2014 of £4.53 per dwelling per week on the Brent Stonebridge Dwellings, which is an average overall rent increase of 3.7% as set out in paragraph 3.62.

2.8 Agree to decrease the service charges on the Brent Stonebridge Dwellings from April 2014 by an average of 11.4% or an average of £1.01 per dwelling per week as set out in paragraph 3.64.

3.0 Detail

3.1 This report addresses the budgets associated with the Council's Housing Revenue Account (HRA). The HRA contains the income and expenditure relating to the Council's Landlord duties in respect of approximately 8,445 dwellings. These dwellings are statutorily accounted for separately from the Council's other services / activities which generally form part of the Council's General Revenue Fund.

3.2 The HRA has regulations that differentiate it from the General Fund. The current basis of HRA regulations were introduced in April 1990 as a result of the Local Government and Housing Act 1989. These regulations set out the framework for the operation of the HRA. The HRA budget for 2014/15 has also been compiled on the basis of the HRA self financing framework, which was introduced in April 2012.

3.3 The HRA is a 'ring-fenced' account receiving no subsidy from the Council's General Fund nor subsidising the General Fund. Whilst the ring-fence position is clear, this does not mean that there are no financial transactions between the HRA and General Fund. For example, transactions between the accounts include central costs (representing the proportion of activities undertaken by non-HRA staff that should be attributed to the HRA).

3.4 The Council's average weekly rent for 2013/14 is approximately £106.45 (excluding service charges). This takes account of the 3.74% average increase that was previously agreed in setting the 2013/14 rent levels. The Council's rent setting policy has been to adopt the Government's rent restructuring policy (that is the government's policy of influencing rent setting principles so that rents both in the council and 'Registered Social Landlords' (RSLs) sectors converge). Under this policy, rents are due to converge in 2015/16 (note that the Government is consulting on proposed changes to rent policy for social housing from 2015).

3.5 The Council's housing stock continues to reduce and in 2014/15 it is estimated that it will reduce by a further 260 dwellings, comprising 42 'Right to Buy (RTB) Sales', and 218 planned demolitions (South Kilburn). The Council's total housing stock is forecast to be 8,185 by March 2015.

3.6 The HRA Budget report for 2013 noted the implementation of the council's Tenancy Strategy and the range of welfare reforms. The following paragraphs provide an update on further change implemented during 2013.

3.7 The Executive approved the council's Tenancy Strategy in July 2012, setting out the approach to the Affordable Rent programme and use of fixed term tenancies by the council and other social housing providers. As noted in the last HRA budget report, these changes also required a review of the council's Allocation Scheme. This review has now been completed and phased implementation of the new scheme began in October 2013. The main changes include the introduction of a residence qualification applying to applicants on the Housing Register, which require either residence or employment for a set period in Brent before an applicant can be eligible to bid through the Locata choice-based lettings system. Band D on the Locata system is now treated as an inactive band, since it contains households with no identified housing need; although able to register, applicants in this band are not eligible to bid other than in exceptional circumstances. In addition, the scheme gives additional priority to working households through the award of notional additional years of waiting time. Note that the majority of transfers – for example, management transfers – take place outside the allocation scheme and are only covered if the tenant also has a reasonable preference (i.e. a recognised housing need) as defined by regulation.

3.8 In response to the social sector size criteria, usually referred to as the bedroom tax, additional priority has been given to affected households who wish to move to a smaller property, in addition to existing incentive schemes, where rates have been raised.

3.9 Consultation on a revised Housing Strategy has now completed and officers intend to submit the document to the Executive for approval in March 2014. The revised strategy has been drafted in response to the issues noted above and to the draft London Housing Strategy published by the Mayor in November 2013. At the same time, work is underway on an Employment Strategy for the borough, which will work in tandem with the Housing Strategy to ensure that links between housing and employment are strengthened.

3.10 This report also contains rent increase proposals for the 332 dwellings that transferred, following a ballot, from the Stonebridge Housing Action Trust (HRA) to Brent Council in August 2007. These dwellings are maintained outside the HRA, in the General Fund, and the rent increase proposals for these dwelling are separate from the consideration of the main HRA budget, and are set out from paragraph 3.54 below.

Reform of Council Housing Finance 2012

3.11 A new HRA self financing system for Council Housing was implemented in April 2012.

3.12 Under HRA self financing, the Council's HRA continues to be a ring-fenced account for the income and expenditure for Council dwellings, but the housing subsidy system was abolished and replaced by self financing (in exchange for a one off repayment of a proportion of debt).

3.13 HRA self financing is intended to allow local authority landlords to support their own stock from its own rental income.

3.14 The stated objectives of self financing are:-

- To give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long-term and to drive up quality and efficiency; and

- To give tenants the information they need to hold their landlord to account, by replacing the current opaque system with one which has a clear relationship between the rent a landlord collects and the services they provide.

3.15 Rent policy – The Government have assumed under self financing that local authorities follow national rent policy. This will include:

- The existing formula rent;

- The existing guideline rent – which converges with the formula rent by 2015/16, and then follows that with rent increases of RPI plus 0.5%;

- A limit on individual rent increase of RPI plus 0.5% plus £2; and

- Continuation of the existing HB limit rent, where the limit rent will be set and increased in line with national policy, and rent charged above the limit rent cannot be recovered by HB subsidy.

The Department for Communities and Local Government consulted in the period October – December 2013 on proposed changes to rent policy for social housing from April 15. The main proposed change is to move from annual increases in weekly rents of Retail Price Index (RPI) + 0.5% + up to £2 for social rents, to increases of Consumer Price Index (CPI) + 1%. The outcome following consultation is awaited.

3.16 Borrowing Limit – in order to ensure that borrowing is affordable nationally, each local authority was set an HRA borrowing limit under self financing, and it will not be possible for that limit to be exceeded. Where a local authority's Housing Capital Financing Requirement (HCFR) is less than the limit set for self financing valuation, a headroom to increase borrowing under self financing will be created. The government determinations for self financing set out that Brent's borrowing limit will be £199.291m. As our HCFR is estimated to be £140.598m on 1 April 2014, we will have an estimated head room to increase borrowing of approximately £58.693m. The Executive agreed in November 2013 (HRA Asset Management Strategy report) to borrow up to £20.6m under the HRA prudential regime, to be used by March 2016. In the Autumn statement 2013, the Government announced that it will increase the funding available for new affordable homes, by increasing local authority Housing Revenue Account borrowing limits 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 – further details on this is awaited.

3.17 Depreciation and Impairment – For depreciation, as part of the implementation of HRA self-financing, the Government recognised that Councils will need time to implement component based depreciation (an assessment of the cost of replacing or renewing all the time limited components of the stock plus an amount for the fabric of the building) and therefore they agreed a five year transitional period under which councils may choose to use as a minimum, the uplifted Major Repairs Allowance in the self financing valuation as the figure for depreciation. The draft HRA budget for 2014/15 includes £15.461m for depreciation comprising £10.259m from the self financing settlement valuation and a further uplift of £5.091m. Officers consider the proposed budget sum for depreciation reasonable. For HRA Impairment, under the transitional period, Councils will be able to reverse out any impairments as a below the line adjustment. There is a significant risk for depreciation and impairment after the 5 year transitional period as any increases will hit the HRA bottom line.

3.18 Treasury Management - The abolition of the Housing Subsidy system meant that Councils had to allocate existing borrowing costs at 1 April 2012 between the HRA and the General Fund. Any new HRA borrowing costs will be attributed to the HRA in line with proper accounting practices.

HRA Business Plan

3.19 The HRA business plan provides long term financial forecasts of the effects of the council's HRA spending, investment and rent-setting decisions, based on the authority's current income, expenditure and investment expectations. This hard data is combined with key assumptions on how costs and incomes might change in future to produce projections of what the authority can reasonable expect to happen, using the best available information.

3.20 The HRA business plan has been aligned with the HRA asset management strategy. This shows that the HRA continues to be viable over 30 years. Officers will continue to keep the HRA 30 year Business Plan up to date.

HRA Asset Management Strategy

3.21 The HRA Asset Management Strategy was approved by the Executive in November 2013. This strategy sets out a long term approach to the maintenance and development of the Council's housing in order to best meet its housing objectives. The HRA Asset management strategy encompasses plans for:-

- Stock investment – to improve and maintain the condition of the existing housing stock;
- Stock Reform – to raise the performance and improve the balance of the stock to better align with housing demand;
- Development – to provide additional affordable housing to increase the capacity to meet housing need; and
- Rent Policy – to provide the income required to fund the investment in existing and new council homes.

3.22 The HRA Asset Management Strategy specifically sets out proposals for:-

- An indicative five year capital budget of £86m for stock investment;
- An initial programme for the development of between 75 and 100 new affordable homes within the HRA;
- Ringfencing Capital Receipts from the Disposal of HRA stock and replacement receipts arising from RTB sales for the development and acquisition of affordable housing (subject to annual approval through the capital programme)
- Further examination of approaches to maximise the provision of new affordable housing with the intention of being able to develop one thousand affordable homes, including replacement homes, from 2014-2022; and
- An additional HRA borrowing of up to £20.6m under the HRA prudential regime, to be used by March 2016

Rent Restructuring and Rent Setting 2014/15

3.23 The Department for Communities and Local Government (CLG) continues to implement rent restructuring in 2014-15. Whilst it remains the responsibility of the Council to set rents, there is strong encouragement to set them in accordance with the ‘national formula’. For 2014/15 rent setting purposes, the date for convergence under rent restructuring continues to be 2015/16 and the methodology is the same as used in 2013/14 but with factors rolled forward one further year.

3.24 For 2014/15, under the national formula, rents will increase at an individual level by 3.2% (Retail Price Index at September 2013) *plus* 0.5% real increase *plus* 1/2 towards the target rent. At an individual level, rent increases will be limited to an increase of no greater than 3.2% plus 0.5% plus £2, and will also be subject to the following rent level caps by bed size:

Size	Cap £
0	138.50
1	138.50
2	146.64
3	154.80
4	162.94
5	171.07
6	179.23

3.25 The rent proposals for 2014-15 in this report follow the National Rent Restructuring formula, and this is in line with the policy agreed by the Executive in November 2013 when considering the HRA asset management strategy. This means that Brent’s overall average rent for 2014/15 should increase by 4.39%.

The following table analyses the amount of rent decrease/increase in £1 bands, and shows the number of tenants effected within each of those bands:-

Banding	No
Below £-2	36
Between £-2 and £-1	7
Between £-1 and £0	56
Between £0 and £1	130
Between £1 and £2	640
Between £2 and £3	767
Between £3 and £4	1,198
Between £4 and £5	1,474
Between £5 and £6	1,147
Between £6 and £7	2,962
Between £7 and £8	55
Total	**8,472**

3.26 Rents can also be expressed in terms of increases in rents by property size as demonstrated in the table below:-

No of Beds	Average % increase
0	1.84%
1	3.53%
2	4.73%
3	5.08%
4	5.15%
5	5.15%
6	5.12%

3.27 The table below is an analysis of the rents, (using rent restructuring policy) by percentage band, showing the number of properties and the average weekly increase/ (decrease) in cash terms. The average overall rent rise for 2014/15 is £4.67 or 4.39% per week. Sixty six per cent of tenants receive some form of Housing Benefit.

Band	No of Properties	Ave increase in £ per property	Rental Increase over Previous Yr
Below -4.50%	1	(8.78)	(457)
-3.5% to -2.50%	8	(3.28)	(1,364)
-2.5% to -1.50%	29	(2.25)	(3,388)
-1.5% to 0%	61	(0.41)	(1,307)
0% to 1%	130	0.49	3,338
1% to 2%	283	1.59	23,396
2% to 2.5%	530	1.89	52,135
2.5% to 3%	404	2.75	57,669
3% to 4%	1,520	3.49	275,733
4% to 5%	1,382	4.61	331,024
5% to 6%	4,035	6.19	1,299,170
6% to 7%	84	4.94	21,572
7% to 8%	3	2.73	425
8% to 9%	2	2.79	290
Total	8,472	4.67	2,058,234

3.28 Dwelling Relets – Since April 2012, in order to escalate the move to target rents, the relet rent on a new occupancy (except all internal transfers, successions, assignments and mutual exchanges) are set at the target rent for that dwelling.

3.29 The Department for Communities and Local Government consulted in the period October – December 2013 on proposed changes to rent policy for social housing from April 15. The main proposed change is to move from annual increases in weekly rents of Retail Price Index (RPI) + 0.5% + up to £2 for social rents, to increases of Consumer Price Index (CPI + 1%). The outcome following consultation is awaited.

Welfare Reform

3.30 The recent Welfare Reforms included a number of significant implications, both for social rented sector landlords and for their tenants which were intended to reduce people's reliance on benefits and encourage a back to work culture. The provisions included:

1. Universal Credit
2. Direct payment of housing benefit to tenants
3. Changes to non-dependant deductions
4. Under-occupation

3.31 To date provisions 3 and 4 have been introduced, and although BHP has managed to maintain the income collection rate, there are a number of underlying trends in individual rent accounts which are a cause for concern. Although the target date for the complete implementation of Universal Credit and Direct Payment of 2017 still stands, the phasing of their implementation is still unclear.

3.32 BHP are continuing to work on their revised Action Plan and are looking at ways in which they can reach those tenants most at risk from the changes. The current work which is being undertaken is as follows:

- Maintenance of a welfare reform/early intervention team;
- Continued analysis of affected tenants;
- Communication with affected tenants including letters, factsheets, visits, and surgeries;
- Presentations to tenants groups;
- Restructure of the income collection function; and
- Review income management procedures.

3.33 As at the end of November 623 council tenants were affected by the under-occupation changes, and in this group arrears have grown since the end of March 2012 by 60%. 15% of these tenants were previously in credit on their rent accounts and have now moved into arrears.

3.34 The continuing impact of the national economic conditions, and the ever-changing group of affected tenants, has not yet had a material impact on the levels of debt, however, this is being kept under review. The HRA budget for 2013-14 included £200k for BHP's welfare reform team, and the budget for 2014-15 assumes that this funding will continue.

Brent Housing Partnership (BHP) Management Fee

3.35 The Council's Housing stock is currently managed by Brent Housing Partnership (BHP), which is an Arms Length Management Organisation and was established in 2002. The original management agreement between the Council and BHP expired in September 2012, but in line with the decision of the Council's Executive on 16 July 2012 the original agreement has been replaced by a new long term management agreement which expires on 31st March 2023.

3.36 The agreement between the Council and BHP requires each year that a management agreement fee is negotiated and agreed. The fee has to be consistent with delivery plan requirements and the general requirement to reduce operating costs on a year by year basis. In general terms the management fee negotiations have been based upon 2% to 3% efficiency savings including pro rata reductions based upon loss of stock under management which has enabled continuous reductions in the management fee and helped BHP to manage future risk in a coherent manner. Under the management agreement the risk for changes to employer pension contributions remains with the Council. For 2013/14 the rate for BHP was 17.8% and the budgeted rate for 2014/15 is 18.8%. The contributions are expected to increase from April 2014 due to the triennial actuarial review.

3.37 BHP's accounts have until 2010/11 been published in accordance with the United Kingdom General Accepted Accounting Practice (UK GAAP). Following on from BHP becoming a Registered Social Housing Provider on 1st April 2011, their accounts have been produced under the Statement of Recommended Practice (SORP) 10. The BHP accounts to 31st March 2013 received an unqualified audit opinion.

3.38 The 2013/14 management fee took account of the recommendations of the ALMO optimisation project undertaken as part of the review of the management agreement. This project led to agreed schedule of savings and targets as set out below:

- To deliver top quartile financial performance in relation London housing providers;
- To save a minimum 13.6% over four years based on the following split;
  - 2012- 2013 8-10%
  - 2013- 2014 3%
  - 2014 – 2015 3%
- To achieve a minimum 10% budget reduction for all other special services including repairs and maintenance over a 5 year period, based on a 2.5 percentage point increments from year 2 (2013/14) onwards;
- To maximise the efficiencies associated with the co-location of the ALMO with the Council in the new Civic Centre from 2013 onwards; and
- To achieve these efficiencies without having a negative effect on service quality and customer satisfaction.

3.39 The table below sets out how BHP has performed against the target of reducing back office costs in line with the targets set out above. It should be noted that this level of savings is over and above the reductions each year in the management agreement in relation to stock loss which have averaged around 3%. As can been seen the majority of these savings have been achieved with £40,000 worth of savings planned for 2015/16. The Board of BHP are currently working with the new leadership team to establish a fit for purpose structure and setting action plans to ensure that the targets set out paragraph 3.38 in relation to being top quartile performance in all areas are being met. A large procurement exercise is also underway which is expected to reduce repairs and maintenance costs in future years.

Year	Efficiency/ Stock Loss Savings £000	Optimisation Savings £000	Percentage of Optimisation Savings Achieved	Saving £000	Cumulative Saving £000
2012/13	233	698	10%	931	931
2013/14	221	214	3%	435	1,366
2014/15	247			247	1,613
2015/16	230	40	0.6%	270	1,883
Total	**931**	**952**	**13.6%**	**1,883**	

Excluded from the table about are £340k savings which have been delivered in 2014-15 as a result of BHP moving into the Civic Centre.

3.40 BHP budgets each year to generate a surplus, however the accumulated surpluses are negated through accounting requirements concerning pension liabilities (IAS19) and the revaluation of acquired properties as required by SORP 10. Surplus cash, with the consent of the Council, has been invested, on a temporary basis, in support of BHP's acquisition strategy (that materially assists the Council with its housing priorities).

3.41 As at 31st March 2013, BHP's revenue reserves were £5.7m but after deducting a £19.2m pension deficit reserve, the net reserves are a negative £13.4m. BHP also has loans outstanding with the Council to the value of £41m as at April 2013 relating to Granville New Homes and the Settled Homes Initiative. BHP needs to generate sufficient resources each year to be able to repay these loans.

3.42 BHP has sought to plan for budget reductions and savings to reflect stock loss and efficiency savings on an annual basis and to be in a position to anticipate the financial climate rather than respond to changes on an ad hoc uncoordinated basis. This allows BHP to ensure that all changes are managed in such a way that performance and service quality are not put at risk as savings are made.

3.43 The BHP management fee for 2014-15 will be based on the provisions set out in the new management agreement, which will be in place from April 2013.

Risks

3.44 BHP has a risk management strategy that identifies the Board's significant risks and is regularly reported to the board. As part of the development of the budget, officers have sought to consider the main associated risks in relation to the HRA. These risks are set out below:-

3.44.1 Performance on rent collection has remained on target, even through the period of economic uncertainty. However, as outlined in the Welfare Reform section, there are still concerns surrounding the introduction of direct payment to tenants. As a result the HRA budget for 2014-15 assumes the funding for the BHP Welfare Reform team will continue.

3.44.2 The recovery of Leaseholder Service Charges (Major Works) also remains a challenge for officers and compliance with legislation is often difficult. In addition there are often differences between tenants and leaseholders in respect of works undertaken. For instance work to a communal area may well be considered favourably whilst a leaseholder may view such expenditure as not strictly necessary under the lease and thus not recoverable.

HRA Forecast Outturn 2013/14

3.45 A summary for the forecast outturn for the HRA for 2013/14 is contained on Table 1 on Appendix 1. It can be seen that the ‘surplus carried forward’ to 2014/15 is forecast to be £511k which is £111k more than the surplus of £400k that was budgeted. This additional £111k will be available to support one-off expenditure in the 2014/15 budget.

3.46 Table 2 on Appendix 1 sets out the detailed forecast outturn. The major variances are as follows:-

- Rental Income - Following a detailed review of income from Council tenanted dwellings, Officers now forecast that rent income in 2013/14 will be £766k less than budgeted. This is mainly due to decanting of dwellings at South Kilburn and Barham Park. This forecast includes the impact of short life properties in regeneration areas.

- Leaseholder Service Charges Income £470k - Income from leaseholders in 2012-13 (re health and safety works) did not continue into 2013-14.

- Housing Repairs and Maintenance £-550k – mainly relates to additional income from leaseholders relating to Major Works.

- General Management - this expenditure budget is forecast to under-spend by £417k. This includes a number of favourable variances including increased Right to Buy administration income, reduced management fees, and a review of water rates.

- Special Management- This expenditure budget to forecast to overspend by £170k and relates to the allocation of charges between the HRA and general fund re communal areas.

- Rent and Rates – A one off charge of £364k is forecast in 2013-14 due to an under provision for insurance in the 2012-13 HRA.

- Provision for Bad Debts £-300k – increase in arrears due to welfare reform is lower than originally forecast

- HRA surplus brought forward – the final audited HRA for 2012/13 showed a surplus of £2,586k, which exceeded the budget of £1,972k by £614k. The main reasons are variances relating to repairs and maintenance expenditure, rental income from Housing dwellings, provision for bad debts, income from investment income, interest charge, general management cost, and cost of providing landlords services, such as electricity.

Draft HRA Budget 2014/15

3.47 In considering the budget estimates for 2014/15, Members need to consider the policy and legislative framework within which the estimates have been formulated.

3.48 Estimates have been compiled on the basis of the Council's corporate guidance for budget preparation and on the basis that the spending budgets should be adjusted in relation to the stock numbers. The advantage of this approach (which ignores fixed costs) is that managers are able to reduce their expenditure on a planned basis. The budget as set out on table 1 on appendix 1 has specifically been prepared on the basis as set out in the following paragraphs:-

3.48.1 Allowance for inflation – Budgets have been prepared on an outturn basis and include an allowance of 1% for pay. The budget for the Employer's Superannuation Contributions for BHP staff has been increased from 17.8% to 18.8% to reflect an estimated increase from the actuarial review although the level of increase remains subject to confirmation. For non pay price rises, a general increase of 0% has been used, except for repairs, cleaning, grounds maintenance, and gas servicing which have been increased in line with the inflation provision set out in their contracts.

3.48.2 Capital Charges –the capital charges take account of details forecast of premia, discounts, and interests rate movements. Capital charges are expected to decrease by £2m which is mainly associated with a reduction of HRA premia costs.

3.48.3 Stock Loss/Efficiency Savings – The rent budget has been updated to reflect anticipated stock loss (Barham Park, South Kilburn and Right to Buy). Applicable expenditure budgets have been reduced 3.1% to reflect the estimated stock loss in 2014/15, plus a further efficiency savings. The rent loss is forecast to be £530k, and total savings included in the draft budget are £862k. The net impact of Stockloss/efficiency savings is £-591k.

3.48.4 Growth – the draft budget includes £3.740m Growth, and Members are asked to agree this. The growth includes:-

- Council Tax on Empty Properties – The Council introduced a new Local Council Tax Support Scheme in April 2013, and changed some of the Council Tax Discounts and Exemptions that applied prior to that time, in particular with regard to empty dwellings (awaiting major works). The impact of these changes on the HRA is estimated to be £90k per annum.

- Rubbish Disposal Costs - As part of the Council's contact retender for Waste Disposal in 2013, it was been agreed that the waste disposal costs associated with HRA dwellings be charged direct to the HRA. The full year disposal costs are estimated to be £145k, and no budget currently exists in the HRA for these costs.

- Legal Fees – The recent welfare reforms and Right to Buy changes have increased the use of lawyers on work associated with the HRA. For example there were 4 RTB sales in 2011-12, and there are likely to be over 50 RTB sales in 2013-14. The admin income associated with these increased RTB sales is included elsewhere in the HRA budget. Furthermore, the implementation of Welfare Reforms, in particular the bedroom tax, has led to a significant increase in the volume of referrals to Legal. The legal fees budget has been increased by £225k to reflect this increased demand.

- Depreciation and Major Works - £3.280m, comprising an ongoing sum of £3.169m which is the available unallocated resource after all other HRA budgets for 2014-15 have been compiled, and use of one off useable reserves £111k from the budgeted surplus HRA working balances brought forward from 2013/14. These additional resources will be used in line with the new asset management strategy. The Executive agreed in November 2013 to borrow up to £20.6m for HRA capital work by March 2016 and it is intended that this budget will be used to fund the debt charges.

This growth of £3.740m represents a real increase in HRA expenditure for 2014/15. This allocation includes £111k which is a one off budget allocation for major works for 2014/15 only, and £3.629m which is ongoing.

3.48.5 Funded from balances/reserves – The 2013/14 budget included £1.572m for Major Works that was funded from balances– this one-off budget has been eliminated from the 2014/15 budget. This report proposes that a further £111k from HRA balances be used on a one off basis on the 2014-15 budget for major works.

3.48.6 One off funding from balances - £111k – see growth above

3.48.7 An average rent increase of 4.39% per dwelling per week. This will yield £2.026m.

3.48.8 An average service charges increase of 3.2% has been included for 2014/15 (in line with the September 13 RPI indices). This will yield £94k.

3.48.9 The draft budget for 2014/15 is set out on table 1 on appendix 1. Also the detailed movement for each budget head, comparing the 2013/14 budget with the draft budget for 2014/15 is shown on table 3 on appendix 1. The draft budget shows a balanced budget. The table below shows the key summary movement from 2013/14 (as explained above):-

Description	**£000**
Forecast Outturn 2013-14	2,075
Inflation	488
Capital Charges	-2,064
Stock Loss/Efficiency Savings (net)	-591
Growth	3,740
One off income in 13/14	155
Funded from balances/reserves in 14-15	-111
One-off funding from balances in 13/14	-1,572
Rent Increase	-2,026
Service Charge increase	-94
Total	**0**

Other Budget Strategy Options

3.49 Clearly, it is open to Members to consider other options. Officers have produced a strategy that in their view is prudent, realistic and in line with Council policy. The basis of the report is structured as in previous years, that is officers give advice as to the resources available for next year based upon current policies and give indications as to the income required for a 'balanced budget' based on those policies. It is for Members to determine the appropriate level of rents/growth/reductions within the law. Any budget proposals must be achievable in both financial and housing operational terms.

3.50 Members could consider raising rents above convergence levels however account will need to be taken of the impact of rent rebate subsidy limitation, whereby increasing actual rents above the rent limit would trigger the 'rent limitation rule' whereby only approximately 40% of the product of a rent rise above this threshold would be available to fund HRA expenditure. The rent rebate limit percentage increase for 2014/15 has not yet been published, but is expected to be around 4.5%.

3.51 Alternatively, Members could raise rents at a rate below convergence levels (i.e. less than 4.39% on average), or indeed freeze or reduce average rents. This would mean that the Council would not be following rent restructuring policy and is likely to have a significant impact on the HRA Business Plan, and members would need to agree additional specific savings over and above those savings already included in this report and/or reduce the proposed growth. Any additional savings would need to come from operational or service related costs (such as repairs or major works).

If we did not increase our rents for 2014 -15 as set out in this report then:-

- then we would not converge our rents under rent restructuring – scheduled nationally for 2015-16;
- We would forego the £2.026m additional income for 2014-15. This is likely to mean that we that will have £2.026m less to spend on major works or capital charges associated with major works or other HRA asset strategies;
- There would be a cumulative cash impact of approximately £89m on the 30year HRA Business plan;
- We would not be able to meet all our HRA stock investment needs;
- It will take longer to repay our HRA debt; and
- It will restrict the ability to fund options that may be identified in the HRA asset management strategy.

3.52 The following table sets out the income generated by various percentage rent increases ranging from 0% to 4.39%, and the table sets out the additional savings that would need to be identified in order to achieve a balanced budget:-

Percentage Increase	**0%**	**1%**	**2%**	**3%**	**4.39%**
	£m	**£m**	**£m**	**£m**	**£m**
Income Generated	0	0.414	0.901	1.439	2.026
Additional Savings to be Identified	2.026	1.644	1,157	619	0

Brent Housing Partnership (BHP) and the Consultation Process

3.53 BHPs Board met on 30 January 2014 and received a briefing from the Council's Head of Finance and Operational Director (Housing and Employment) on the draft HRA budget proposals for 2014-15. The BHP Board agreed the following resolution:-

That the Board recommend the proposed increases to the Council's Executive Committee.

Non HRA Stonebridge Dwellings

3.54 In addition to the Council's dwellings contained within the HRA, the Council also continues to hold dwellings outside the HRA i.e. in the General Fund. These dwellings were formerly held by the Stonebridge Housing Action Trust (HAT) and they were transferred to Brent Council in August 2007 when the HAT was wound up.

3.55 The Council currently owns 332 properties under this scheme. A further 15 properties are let on a leasehold basis.

3.56 Hillside Housing Trust, part of the Hyde Housing Group, manages these properties on the Council's behalf through a PFI contract.

3.57 Council dwellings are normally held in the HRA. However in order to avoid any negative impact of these dwellings on the Council's HRA, the Secretary of State issued a direction under section 74(3)(d) of the 1985 Housing Act, for the properties in this scheme to be held outside the HRA i.e. in the General Fund.

3.58 The income and expenditure associated with these Stonebridge dwellings (which will be broadly neutral in 2014/15) will be included in the Council's General Fund budget.

3.59 Last year, for 2013/14, the Council agreed an average rent increase of 3.1% and an average service charges increase of 11.8%. The overall average increase in 2013/14 was 3.6%.

3.60 The Council has the responsibility for setting rents and service charges for these Brent Stonebridge Dwellings (in consultation with Hillside Housing Trust, and in line with the terms of the PFI contract).

Rents

3.61 The framework for the annual rent setting for the Brent Stonebridge dwellings is contained in the 30 year PFI contract between Hyde Housing (Hillside Housing Trust) and the Council. As all Brent Stonebridge dwellings are now at target rent, the PFI contract sets out that rent increase/decrease for each year should be based on the Retail Price Index (RPI) plus 0.5%. This means that the rent for 2014-15 should increase by 3.7% (being 3.2% RPI (at September 2013) plus 0.5%).

3.62 Taking account of the framework set out in the PFI contract, the following table sets out the 2013/14 actual rent and the proposed rent levels for 2014/15.

	Rent 2013-14 £	**Rent 2014-15 £**	**Increase £'s**	**Increase %**	**No**	**Total Increase £**
1 Bed Flat	97.57	101.18	3.61	3.7%	85	15,956
2 Bed Flat	115.52	119.79	4.27	3.7%	44	9,770
1 S/croft Elders	97.57	101.18	3.61	3.7%	16	3,004
2 S/croft Elders	115.52	119.79	4.27	3.7%	3	666
2 Bed House	125.48	130.12	4.64	3.7%	36	8,686
3 Bed House	137.51	142.60	5.09	3.7%	77	20,380
4+ Bed House	144.76	150.12	5.36	3.7%	71	19,789
Annual Total	**2,114,711**	**2,192,962**	**4.53**	**3.7%**	**332**	**78,251**

This table shows that the range of the weekly rent increase is from £3.61 to £5.36, and that the average overall rent change (excluding Service Charges) for 2014/15 will be an increase of £4.53 per week, which is an average increase of 3.7%. Members are asked to agree this.

This will increase the average rent (excluding service charges) from £122.49 to £127.02 per week and will result in an increase of £78k in rent income per annum (when comparing the full year effect of 332 dwellings), which will, in line with the PFI contract, be offset by an increase in the unitary charge in 2014/15. The overall impact of this will therefore be broadly neutral on the Council's budget.

Service Charges

3.63 All of the costs used in calculating the Hillside Service Charges are based on the estimated actual costs of providing those services. Following negotiations with the relevant contractor(s), the overall charges for 2014-15 will reduce compared to 2013-14. New contracts are expected to be in place for 2015-16.

3.64 Hillside Housing Trust has indicated that they propose to decrease average service charges in 2014/15 by an average of 11.2%. Note that at an individual level, there is an increase of £0.20p per week for 2 bed flats. The following table sets out the average proposed Service charges in 2014/15 and compares this to the Service Charges for 2013/14:-

	Average Service Charges 2013-14 £	**Average Service Charges 2014-15 £**	**Increase/ (Decrease) £'s**	**Increase/ (Decrease) %**	**No**	**Total £**
1 Bed Flat	16.08	13.83	-2.25	-14.0%	85	-9,945
2 Bed Flat	15.44	15.64	0.20	1.3%	44	458
1 S/croft Elders	39.73	31.93	-7.80	-19.6%	16	-6,490
2 S/croft Elders	39.73	31.93	-7.80	-19.6%	3	-1,217
2 Bed House	0.85	0.80	-0.05	-5.9%	36	-94
3 Bed House	0.84	0.80	-0.04	-4.8%	77	-160
4+ Bed House	0.83	0.82	-0.01	-1.2%	71	-37
Annual Total	**153,672**	**136,188**	**-1.01**	**-11.4%**	**332**	**-17,484**

This table shows that overall the proposals for Service Charges will be an average decrease for 2014/15 of £1.01p per week, being an average decrease of 11.4% over 2013/14 charges. The impact at individual level will depend upon the specific dwelling type and the service charges allocated to that dwelling. This proposal will decrease the average service charge from £8.90 to £7.89 and will result in £17k less service charges income per annum (when comparing the full year effect of 332 dwellings) , which will, in line with the PFI contract, be used to pay a reduced unitary charge in 2014/15. The overall impact of this will therefore be broadly neutral on the Council's budget.

3.65 The combined effect of the proposals for rents and service charges changes at Stonebridge for 2014/15 are set out in the following table:-

	Average Rents & Service Charge 2013-14	**Average Rents & Service Charge 2014-15**	**Increase/ (Decrease)**	**Increase/ (Decrease)**		**Total Increase/ (Decrease)**

	£	£	£'s	%	No	£
1 Bed Flat	113.65	115.01	1.36	1.2%	85	6,011
2 Bed Flat	130.96	135.43	4.47	3.4%	44	10,227
1 S/croft Elders	137.30	133.11	-4.19	-3.1%	16	-3,486
2 S/croft Elders	155.25	151.72	-3.53	-2.3%	3	-551
2 Bed House	126.33	130.92	4.59	3.6%	36	8,592
3 Bed House	138.35	143.40	5.05	3.7%	77	20,220
4+ Bed House	145.59	150.94	5.35	3.7%	71	19,752
Annual Total	**2,268,384**	**2,329,150**	**3.52**	**2.7%**	**332**	**60,767**

This table shows the combined impact of the proposed average rent and Service Charge increase at Stonebridge for 2014/15. The net impact on tenants will an average increase of £3.52 or 2.7%, although the actual impact will depend upon the dwelling type and the specific service charges that are being incurred by that dwelling.

Conclusion

3.66 Officers consider their role to produce a realistic and prudent budget within the policy guidelines and dealing with solutions to problems within the internal Housing Service budget process. All these budget adjustments are clearly outlined in Appendix 1. Therefore, officers consider the advice contained in this report forms a reasonable basis for setting next year’s rents and budgets.

4.0 Financial Implications

4.1 This report is wholly concerned with financial issues associated with setting the HRA budget for 2014/15 under the self financing system for council housing, and for setting the level of rents for Council dwellings in 2014/15.

4.2 Members are advised of their duty to approve a budget that meets the statutory requirements as contained in Part VI of the Local Government and Housing Act 1989. Sections 76 (2) and (3) of that Act requires Members to ensure that their proposals are realistic and that the Council’s Housing Revenue Account does not show a debit balance.

5.0 Legal Implications

5.1 Under section 74 of the Local Government and Housing Act 1989 (“the 1989 Act”), the Council is required to keep a separate Housing Revenue Account of sums falling to be credited or debited in respect of its housing stock. Sections 75 and 76 of the 1989 Act set out the rules for establishing and maintaining that account. Under section 76 of the 1989 Act, the Council is required to formulate in January and February of each year proposals for the HRA for the following year which satisfy the requirements of that section and which relate to income, expenditure and any other matters which the Secretary of state has directed shall be included.

5.2 In formulating these proposals the Council must secure that upon their implementation the HRA will not show a debit balance assuming that the best assumptions and best estimates it can make at the time prove to be correct.

Put simply, the legislation requires the Council to prevent a debit balance, to act reasonable in making assumptions and estimates and to act prudently.

5.3 The 1989 Act also requires the authority to review the proposals from time to time and make such adjustments as are necessary to ensure that the requirements, as set out above, continue to be met. This report sets out the forecast outturn for the current financial year and also the proposals for the coming year.

5.4 The Council may make such *reasonable* charges as it so determines for the tenancy or occupation of their dwellings and shall review those rents and charges from time to time. In so doing the Council shall have regard to the principle that the rents for different types of houses should bear broadly the same proportion to private sector rents for those different types of houses. This means that the difference between the Local Authority rent for, say, a bedsit and a two bed house with a garden should be broadly comparable to the difference between the rents for those types of dwellings in the private sector. In making such reasonable charges officers have given consideration to the Government's policy aims of introducing social housing rents that will ultimately produce rents being set (both in the council and Registered Provider/RSL sectors) on a nationally determined basis (whilst taking into account local factors such as the value of dwellings). This aim is not prescriptive in so much it remains the responsibility of the local housing authority to set rents.

5.5 The rent income estimates included for 2014/15 are based upon the Governments Rent Restructuring formula and adjusted for RTB etc.

5.6 The decisions recommended in this report are an exercise of the Executive's rent-setting function and must take into account the implications of the Council's overall budget.

5.7 Under section 76(8) of the Local Government and Housing Act 1989, the Council is required to prepare a statement of the revised estimates and new proposals within one month of the proposals and this requirement will be satisfied by Council approval of the overall budgets for 2014/15 on 3 March 2014, when the Full Council will meet.

5.8 The Secretary of State issued a Direction (under section 74(3)(d) of the Local Government and Housing Act 1989) in March 2008 which allows the Council to hold outside the Housing Revenue Account the rent accounts of the Council owned properties on the Stonebridge estate that were transferred from the Stonebridge HAT to the Council in 2007.

5.9 Section 313 of the Housing and Regeneration Act 2008, which adds section 80B to the Local Government and Housing Act 1989, makes it possible for councils and specified properties belonging to Councils to be excluded from the subsidy system subject to agreement with the Secretary of State and it allows the Secretary of State to make directions in relation to such agreements.

5.10 Once the Executive decides on the setting of the rents in respect of the Council's housing stock that is managed by Brent Housing partnership and the Brent Stonebridge Dwellings that are managed by Hillside Housing Trust, notices of variation will be served on the tenants pursuant to section 103 of the Housing Act 1985 to notify them of the changes in rent which will come into effect from 7 April 2014.

6.0 Diversity Implications

6.1 This report, in the main deals with the rent setting and budget proposals for the Council's HRA. Officers are not proposing any major changes to the operation of this account. In particular this report deals with a number of strategic issues and does not in itself deal with specific operational ones. Operational housing management issues are, in the main, the responsibility of Brent Housing Partnership (BHP) and this service is monitored by the Housing Service by reference to the agreements between Brent Council and its wholly owned subsidiary – BHP.

6.2 As part of any change to the structure or organisation of BHP separate Equality Impact Assessments are carried out in line with the management agreement.

6.3 BHP operates a devolved budget from Brent to further improve the management and processing of adaptations. For the financial year ending 31st March 2013, 109 major adaptations taking an average of 43 days to complete were carried out for council tenants costing £714k. These works included the provision of level access showers, stair lifts, ramping to allow wheelchair access, kitchen adaptations. In the same period, 122 Minor Adaptation (works valued under £1k) taking an average of 1 day to complete were carried out costing £28k. These works included the provision of hand/grab rails, key safes.

6.4 The Welfare Reform Act and the regulations made under this Act will have some far reaching effects for tenants and consequently the ability to maximise rental income for the council. Within the caps the housing cost element of the Universal Credit is given the lowest priority, meaning that a person's housing cost is taken into account after all other benefits have been calculated. It is, therefore, possible that the housing cost element may not cover a substantial part of the rent that is due. Whilst the impact is not purely financial, the arbitrary figure being used to determine what households are expected to live on does not take into account their outgoings and as a result many people will be placed under the poverty line at a time when there are mounting fuel, food and transport costs. This is likely to become a greater risk when the move to direct payments is made.

7.0 Staffing/Accommodation Implications

7.1 Decisions made by the Executive on expenditure and rent levels can materially affect staffing numbers for council officers and Brent Housing Partnership. There are no direct proposals for staffing arising from this report, however the HRA budget does fund the management fee for Brent Housing Partnership and they are implementing an efficiency review as part of the ALMO optimisation, and some staff may be affected by that review. Also some staff that maybe affected by the Council's ongoing One-Council reviews. The impact on these staff will be reported separately, under the specific reviews.

8.0 Background Information

None

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