



Cabinet
8 February 2016

**Report of the Strategic Director,
Community Wellbeing**

Wards Affected:
ALL

**Housing Revenue Account (HRA) Budget
and Rent-setting for Council Dwellings for 2016/17**

1.0 Summary

1.1 This report sets out the Housing Revenue Account (HRA) forecast outturn for 2015/16 and the proposed HRA budget for 2016/17 as required by the Local Government and Housing Act 1989. The proposed annual budget takes account of the national rent reductions as required by Government. This will reduce rental income by £498,000 compared with 2015-16 with further reductions required each year to 2020.

1.2 To offset this it is necessary to make significant savings to revenue budgets over this period and the budget for 2016-17 includes provision for initial efficiency and other savings. Further savings will be required in future years to assure the future financial sustainability of the HRA and to support the programmes for stock investment and new housing development agreed through the HRA Asset Management Strategy in 2013.

1.3 The proposed HRA annual budget for 2016-17 sets out proposed expenditure for housing management services, stock investment and maintenance works and new council housing development programmes as well as rent and service charge setting proposals for 2016/17. This report also sets out rent-setting proposals for other council managed partnerships by Hillside (Hyde Group) and for the Residential Pitches portfolio.

1.4 HRA Business Plan Budget:

The proposed annual Management Fee for BHP for 2016/17 is £7.5m, which reflects efficiency savings of 9.7% once allowance for additional costs relating to pensions and National Insurance are taken into account. There is a saving of £0.73m from 2015/16 (BHP managed budgets) from estate services whilst making provision for some additional works. On the basis of the proposed budget, an outturn surplus of £400,000 is projected for 2016/17. Additional borrowing of £9m to fund capital expenditure for stock investment and the development of new homes is proposed, bringing total borrowing to a forecast of £146m against the HRA borrowing limit of £200m.

1.3 HRA Rent Setting and Service Charges 2016-17:

In accordance with the requirements of the Welfare and Reform Bill, rent decreases of 1% for 2016/17 are proposed and limited changes to service charges are set out. The report also includes proposals for rents (and service charges) for the non-HRA Brent Stonebridge homes managed by Hyde (Hillside) and for residential licenced pitches.

1.4 Management Services 2016-17:

This budget proposes a series of Management Service Reviews in 2016-17, including the continuation of the BHP Operating Model Review commenced in late 2015. Other proposed management reviews include for Tenant Management Organisation (TMO) managed services and Residential Pitches services. These reviews will focus on cost, quality, performance and customer satisfaction. This report also seeks approval to amendments to certain terms and conditions of Council Secure Tenancies addressing Anti-social Behaviour, Pets in Homes Policy and Landlord Access to Properties following tenant consultation undertaken in 2015.

1.5 Stock Investment and Improvement Programmes 2016-17:

This budget proposes planned investment improvements to approximately 1700 homes in 2016/17 (2000 homes will be programmed for improvement). This will continue to progress the Council's commitment to bring all homes up to the agreed investment standard over 7 years by 2021 as per the council's agreed Asset Management Strategy 2013. Total capital and revenue stock investment expenditure is budgeted at £33.789m in 2016-17.

1.6 Development Programmes 2016-18:

This budget proposes provision for further programmes of new infill housing development programmes of £14.657m in 2016/17 and £19.51m in 2017/18, with additional General Fund provision of £2.083m 2016/17 and £1.289m for the development of new accommodation for independent living (NAIL). This proposed development programme will provide 155 new affordable homes and 16 additional new independent living homes. The budget proposal also includes a £1.476m Management Fee to support staffing and technical support to deliver the development programme.

2.0 Recommendations

That Cabinet:

2.1 HRA Business Plan Budget 2016-17:

- a) Note the HRA forecast outturn for 2015/16 as set out in section 3.1.1 (Table 1) – Budget Outturn Table 2015/16 of this report and to:
- b) Approve the proposals and agree the savings and budget reductions for the HRA budget for 2016/17, as set out in Table 15 of this report and agree that they be included in the overall Budget for 2016/17 for approval by Full Council in February 2016.
- c) Approve the HRA budget growth for 2016/17 of £512k and the use of £3.504m of one-off available resources.

2.2 HRA Rent Setting 2016-17:

- a) Approve an average overall rent decrease (excluding service charges) from April 2016 of £1.15 per dwelling per week, for HRA council dwellings, which is an average overall rent decrease of 1%.
- b) Agree an average overall rent decrease from April 2016 of £1.26 per dwelling per week for Hillside Dwellings, which is an average overall rent decrease of 1% as set out in section 3.2.2 (Table 6) of this report
- c) Approve an average overall licence decrease (excluding service charges) from April 2016 of £2.45 per pitch, per week, for residential council pitches, which is an average overall licence decrease of 1% as set out in section 3.2.3 (Table 7) of this report.

2.3 HRA Service Charges 2016-17:

- a) Agree the following Service Charges from April 2016:
 - i. Concierge Service Charge: An average increase from £7.76 to £9.04 per week, to meet the actual costs of providing this service.
 - ii. Agree all other Service Charge amounts will remain the same in 2016/17 as in 2015/16.
 - iii. A review of Helpline Service Charges, including service-user consultation, is carried out in 2016-17 to consider the service specification and costs.
- b) Agree an increase in Garage Rents, as set out in section 3.3.3 and in Table 11 of this report.
- c) Agree to increase the service charges for Hillside dwellings from April 2016 by an average of 0.6% (an average of £0.36 per dwelling per week) as set out in section 3.3.2 (Table 9) of this report.

2.4 Management Services 2016-17:

- a) Agree a Management Fee for Brent Housing Partnership of £7.458m for 2016/17 which reflects an efficiency saving as set in section 3.1.3 (Table 3).
- b) Note that a review of BHP's Operating Model is underway with a further report to be made to Cabinet in 2016-17 with recommendations for service improvement and cost savings.
- c) Agree the amendments to the Council's Tenancy Terms and Conditions for Brent Council Introductory and Secure tenants as set out in section 3.4.1 of this report, taking account of responses to consultation that has been undertaken.
- d) Approve a programme of financial and service reviews to be carried out in 2016/17 to review the cost, quality and customer satisfaction of:
 - I. Tenant Management Organisation - Watling Gardens
 - II. Tenant Management Organisation - Kilburn Square
 - III. Residential Site Pitch Managed Services
- e) Approve a review of the existing Helpline and Estate Wardens Services in 2016-17 to consider future service arrangements including considerations of cost, quality and customer satisfaction.
- f) And agree to report to Cabinet on the outcome of the reviews, as set out in 2.4 b), 2.4 d) and 2.4 e) above.

2.5 HRA Stock Investment Programmes 2016-17:

- a) Approve an overall HRA stock investment programme of £33.789m for 2016/17, as set out in **Appendix 1** of this report.

2.6 HRA Development Programmes 2016-18:

- a) Agree a Phase 1 (infill) Council New Build Development Programme HRA budget of £8.373m for 2016/17 and £6.415m for 2017/18 to complete 61 homes.
- b) Approve the HRA Development Agency Fee of £608K for 2016-17 and £139K General Fund Development Agency Fee within the Phase 1 and Phase 2 budget at a) above as set out in section 3.6.1 and in Table 14 of this report.

- c) Agree a Phase 2 (infill) Council New Build Development Programme HRA budget of £6.284m for 2016/17 and £13.095m for 2017/18 to develop 94 homes.
- d) Agree a feasibility budget of £478k for Phase 2 (Infill) within the Phase 2 Infill budget at c) above and £250k for Phase 3 (Infill) in 2016/17 to progress future pipeline schemes.
- e) Agree a Phase 2 (NAIL) New Accommodation Independent Living Development Programme General Fund budget of £2.083 for 2016/17 and £1.289m for 2017-18 to complete 16 homes.

3.0 Detail

3.1 The Housing Revenue Account (HRA):

The Housing Revenue Account contains the income and expenditure relating to the Council's landlord duties in respect of approximately 8060 dwellings. The HRA is a 'ring-fenced' account receiving no subsidy from the Council's General Fund nor subsidising the General Fund.

The proposed budget takes account of the rent reductions required by Government under the Welfare Reform and Work bill between 2016 and 2020. These will significantly reduce the income to the HRA and a number of budget savings are proposed to mitigate the impact of this.

The Housing and Planning Bill includes provisions that will impact on the HRA, in particular the requirement to give consideration to the disposal of 'high-value' properties when they become vacant and to make an annual payment to government from such assumed disposal receipts. At this point it is not possible to estimate the potential impact on the HRA and a further report will be brought to Cabinet when the final national provisions and their impact is better known.

3.1.1 HRA Annual Budget Outturn 2015/16

A summary of the HRA forecast outturn for 2015/16 is contained in Table 1. It can be seen that the surplus carried forward to 2016/17 is forecast to be £4.4m which is £4m more than the surplus of £400k that was budgeted. This additional £4m will be available to support one-off expenditure in the 2016/17 budget.

The major budget variances are as follows:

- **HRA surplus bought forward** - The final audited accounts for 2014/15 show a surplus of £4,483m, which exceeds the budgeted amount of £1,178k by £3,305k. This additional surplus has, in turn increased the projected surplus for 2015/16. The main reasons for this increased surplus were: variances relating to repairs and maintenance expenditure, provision

for bad debt, general management costs and the costs of providing grounds maintenance services.

- **Rental income** - Following a detailed review of income arising from tenanted dwellings, rental income in 2015/16 is forecast to be £901k less than budgeted. This is mainly due to increased Right to Buy sales and longer than targeted void turnaround times. This forecast also includes the impact of short-life properties in regeneration areas.
- **Leaseholder Service Charge income**– A £565k adjustment following the re-tendering of the Building Insurance Contract has seen costs fall by approximately 50% matched by reduced income collected from leaseholders in 2015/16. However, this reduction in costs had not been reflected in the budget.
- **Rent and Rates** - This expenditure budget is forecast to underspend by £547k mainly due to a reduction in Premises Insurance Contract costs.
- **General Management** - This expenditure budget is forecast to underspend by £574k. This includes a number of favourable variances including increased Right to Buy administration income, reduced management fees and central recharges.
- **Housing Repairs** - This expenditure budget is forecast to underspend by £766k and relates to a reduction in responsive repairs costs.
- **Housing Planned and Cyclical Works** – This reflects slippage in the programme of external decorations and repairs and other planned maintenance works charged to revenue.
- **Provision for Bad Debts** – Forecasted tenant arrears (due to Welfare Reform) is £230k lower than originally anticipated. This in part reflects the contribution from discretionary housing payments for tenants impacted by Welfare Reform and the results of the work of the BHP Welfare Reform Team funded by the council.

Table 1: Budget Outturn 2015/16

HRA Summary – Forecast Budget 2015/16 Vs Original Budget and Variance							
Description	(1)	Original Budget	(2)	Forecast Out turn	(3)	Variance £000's	Variance Explanation

	2015/16 £000's	2015/16 £000's		
Rent and service charges Income	-52,505	-51,605	901	Reduced income due to increased RTB sales, voids and reduction in the number of short life properties
Leaseholder Service Charges	-2,760	-2,195	565	Reduction in income inline with the reduction in insurance costs following the retender of contracts
Non Dwelling Rent	-254	-249	5	
Other Income	-59	-11	48	
GROSS INCOME	-55,579	-54,060	1,519	
Provision for Bad Debts	1,158	928	-230	Forecast reduction in tenant arrears
Rent and Rates	1,733	1,186	-547	Reduced expenditure on Premises insurance
Services	590	590	0	
Capital Financing	8,440	8,340	-100	Reduced Debt Management Expenses
Depreciation	17,674	17,674	0	
Major Repairs Allowance (MRA)				
General Management	10,900	10,326	-574	Forecast reduced core recharges and management fees
Special Management	4,866	4,853	-13	
Housing Repairs	10,995	10,229	-766	Reduced expenditure on responsive repairs, cyclical and planned M&E
GROSS EXPENDITURE	56,357	54,127	-2,229	
NET BUDGET	778	67	-711	
Surplus B/Fwd	-1,178	-4,483	-3,305	Remaining income from unused balances in 2015/16
Transfer from Earmarked Res		0	0	
Surplus C/Fwd	-400	-4,416	-4,016	
TOTAL	0	0	0	Available balances to fund expenditure on Major Repairs

3.1.2 Revenue Budgets

The Government's required rent reductions of 1% per annum in each of the four years from April 2016 will significantly reduce income to the HRA. This will be exacerbated by the loss of stock through Right to Buy, the

redevelopment of existing units in the South Kilburn Regeneration Programme and the potential disposal of 'high-value' properties to fund required payments to Government.

To compensate for the loss of rental income revenue costs will need to be reduced both in 2016/17 and in subsequent years in order to ensure that the HRA remains financially sustainable. The Government's rent policy after 2020 is not known and the HRA needs to be put in a strong financial position to maximise its ability to manage any further rent reductions or restraints that are required in the longer-term and the impact of the government's other housing reforms.

For 2016/17 initial savings have been identified from BHP's Management Fee and from service budgets that are managed by BHP. To realise further savings a comprehensive review of BHP's services and operational arrangements has been jointly commissioned in 2015 by the council and BHP in order to reduce costs and reform and modernise services. This review is currently underway and the results of this review with proposals for the new Operating Model will be reported to Cabinet early in 2016/17. This review will set out recommendations for efficiency savings and cost reductions in the BHP Management Fee and in other service budgets managed by BHP, for the period to 2020/21 to provide a clear basis for business and financial planning over this period.

3.1.3 Brent Housing Partnership – Proposed Management Fee for 2016/17

The Management Agreement between the Council and BHP, which expires on 31st March 2023, requires each year that a Management Fee is negotiated and agreed. The fee has to be consistent with delivery plan requirements and the general requirement to reduce operating costs year by year.

In previous years the management fee has been based upon 2-3% efficiency savings in addition to pro rata reductions based upon loss of stock under management which has enabled continuous reductions in the management fee.

For 2016/17 an initial efficiency savings of 9.7% is proposed plus a reduction of 1.8% relating to stock loss through the regeneration programme at South Kilburn. A combined reduction of 11.5% is proposed which equates to a reduction of £0.685m.

Table 2 – Summary Efficiency Saving

	Stock loss savings	Efficiency Savings	Accommodation	Total Saving in year	Savings as a % of management fee
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Year	£000's	£000's	£000's	£000's	
2014/15	73	174	341	588	7%
2015/16	72	214		286	4%
2016/17	107	578		685	11.5%
	269	950	341	1,560	

This, however, is offset by allowances for an increase of 1% in National Insurance contributions, a 3.3% increase in pension costs under the Local Government Pension scheme (LGPS), pay award increases, and an increase in service level agreement charges by the council to BHP. These increases total £446k.

The net reduction is therefore £191k with the proposed Management Fee for 2016/17 being £7.458m as shown in Table 3 below.

Table 3 – BHP Proposed Management Fee for 2016/17

	£000's
BHP Management Fee 2015/16	7,649
Efficiency Savings 2016/17 (9.7%)	578
Stock loss reduction (1.8%)	107
Sub-total	6,964
Add Growth Items	494
Management Fee 2016-17	7,458
Net Reduction	191

Managed Budgets and Efficiency Savings

On behalf of the council, BHP has undertaken a zero-based budgeting review of the managed accounts in 2015. The largest of these relates to Responsive Repairs with a saving of £0.3m against the £7.4m responsive repairs budget for 2015/16. The other contracts, which are mainly externally contracted, include estate services, block cleaning, grounds maintenance and asbestos management. In total the review has identified scope for savings of over £1m across these services in 2016/17. Further detail on these savings is set out in Appendix 2 to this report.

In 2016/17 it is intended to undertake a review of the Estate Wardens service which costs approximately £0.7m per annum. This will include consultation with tenants and leaseholders on the future of the service and its scope. This service is currently funded from the overall income to the HRA and the review will include examination of options for its funding including that of introducing a service charge. The results of the review will be reported to Cabinet in 2016/17.

Additional expenditure of £199k within the Managed Budgets is required to improve services:

These include:

- Stock Condition Survey to improve capital programme and budget-planning - £25k
- Enhanced Tree Works Programme - £17k
- Increased Maintenance of un-adopted Roads- £100k

There are also a number of contractual inflationary uplifts in BHP managed contracts which will incur additional expenditure of £57k.

Overall a £0.83m reduction in these Managed Budgets, equivalent to a 5.1% reduction is proposed. Further detail on the proposed budgets is set out in Appendix 2.

3.2 Proposed Rent Setting for HRA Dwellings - 2016/17

3.2.1 The government introduced the Welfare Reform and Work Bill to the House of Commons on 9 July 2015 following the Chancellor of the Exchequer's budget on 8 July 2015.

Clauses 21 to 28 of the Bill sets out the government's policy for social housing rents, which if enacted in its current form, requires all Registered Providers of social housing, including Local Authority landlords, to reduce rents by 1% per year, for four years with effect from April 2016.

In November 2013, the Council agreed a HRA Asset Management Strategy. This Strategy included a five-year Rent Policy for 2014-19 to provide sufficient resources to fund the proposed stock investment and development programmes set out in the strategy.

This Rent Policy provided for rents to increase each year by:

- CPI plus 1% for those properties already at Target rents
- And by CPI plus 1% plus £2 for those properties where the rent was below Target rent.

Once enacted, the provisions of the Bill will leave no discretion to the Council in respect of rent increases and will require that rents are reduced from April 2016.

In 2016/17 rental income will be £498k less than in 2015/16 and £3.23m less than it would have been had the Council's rent policy been allowed to continue. Table 4 below shows the impact of the rent reductions over the next four-years on rental income to the HRA:

Table 4 – Impact of rent reductions from 2016-2020

Scenarios	2016/17	2017/18	2018/19	2019/20
No. Tenanted Units	8,055	7,999	7,716	7,703
	£'000	£'000	£'000	£'000

Forecast Rental Income based on previous rent policy	50,410	52,153	53,081	54,010
Forecast Rental Income following change of government rent policy	47,180	46,426	46,204	46,545
Impact of change of rent policy per annum	-3,230	-5,727	-6,877	-7,465

(figures relate only to the rent aspect of HRA income)

Over the next four years rental income will reduce in cash terms by £1.896m largely as a consequence of the rent reductions required, but also as a result of a reduction in the number of units over this period. In 2019/20 rental income is, however, projected to be £7.465m less than it would have been under the Council's pre-existing rent policy.

It is therefore necessary to make revenue savings in the HRA to compensate for this income loss, both in 2016/17 and in subsequent years.

Initial savings have been identified in the BHP Management Fee and in other service budgets managed by BHP. Taking account of the 1% rent reduction in 2016/17, and the proposed savings, funding for the proposed stock investment programme in 2016/17 and the development of new homes in 2016/17 and 2017/18 can be afforded within the Housing Revenue Account.

Proposals for additional savings are being developed and will be further reported to Cabinet to ensure that the HRA remains financially robust and that sufficient resources are available in future years to complete the stock investment programme and for new-build development.

Table 5 sets out the current average 2015/16 rents and the proposed rents for 2016/17, taking account of the 1% reduction required.

Table 5 – Current average rents and proposed rents for 2016/17

Bed Size	Number of Properties	Average of Net Rent 2015/16 (£)	Average of Net Rent 2016/17 (£)	Average of Decrease in Rent (£)	Average of Decrease in Rent	Total Reduction in Income (£)
0	425	88.12	87.24	-0.88	-1%	-19,475
1	2530	102.06	101.04	-1.02	-1%	-134,271
2	2627	115.66	114.51	-1.16	-1%	-158,000
3	2062	127.73	126.45	-1.28	-1%	-136,957
4	413	138.95	137.56	-1.39	-1%	-29,841
5	62	148.83	147.34	-1.49	-1%	-4,798
6	9	152.56	151.04	-1.53	-1%	-714
Grand Total	8128	114.53	113.38	-1.15	-1%	-484,056

3.2.2 Hillside Rent Setting 2016/17– General Fund

In addition to the Council's dwellings contained within the HRA, the Council also continues to hold dwellings in the General Fund (GF). These dwellings were formerly held by the Stonebridge Housing Action Trust (HAT) and were transferred to Brent Council in August 2007 when the HAT was dissolved. The Council currently owns 328 properties under this scheme and Hillside Housing Trust (part of Hyde Housing Group) manages these properties on the Council's behalf through a PFI contract.

The Council has the responsibility for setting rents and service charges for these dwellings (in consultation with Hillside Housing Trust) and in line with the terms of the Private Finance Initiative (PFI) contract.

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 Consumer Price Index (CPI) plus 1.0%.

However with the anticipated enactment of the Welfare Reform and Work Bill this requires Registered Providers to reduce the nominal rent for each individual tenant by 1% per year for four years commencing on the 1st April 2016. Table 6 below sets out the proposed rent levels for 2016/17. The reduction of 1% will decrease weekly rents (excluding service charges) by an average of £1.26 per week.

Table 6 – Range of Weekly Rents

	Weekly Rent 2015/16 (£)	Weekly Rent 2016/17 (£)	Decrease (£)	Decrease %	NO	Full Year Reduction
1 Bed Flat	103.41	102.38	(1.03)	-1.0	85	(4,571)
2 Bed Flat	122.43	121.21	(1.22)	-1.0	44	(2,801)
1 S/croft Elders	103.41	102.38	(1.03)	-1.0	16	(860)
2 S/croft Elders	122.43	121.21	(1.22)	-1.0	3	(191)
2 Bed House	132.98	131.65	(1.33)	-1.0	36	(2,489)
3 Bed House	145.74	144.28	(1.46)	-1.0	77	(5,836)
4+ Bed House	153.42	151.89	(1.53)	-1.0	70	(5,584)
ANNUAL TOTAL	2,211,336	2,189,259	(1.26)	-1.0	328	(22,077)

Under the PFI contract there will need to be an increase in the unitary charge paid by the Council in 2016/17 to reflect the difference between the income from the reduced rents and the rental income that would have been generated if rents had increased by CPI plus 1% as set out in the PFI contract.

3.2.3 Residential Pitch Licence -Rent Setting 2016/17 – General Fund

It is proposed for 2016/17 that the current licence charge will decrease by 1%, in line with rent reductions for social housing, as set out in Table 7 below.

Table 7 – Proposed Licence Charge for 2016/17

Proposed Residential Sites – Proposed Rental Income						
Descriptions	2012/13	2013/14	2014/15	2015/16	2016/17 Rent	2016/17 Decrease
Weekly Rent £	238	240	243	245	242	3
Total Weekly Rental Income £ (31 lot)	7,373	7,447	7,522	7,597	7,502	75
% Change		1	1	1	-1	
Annual Rental Income £	383,414	387,251	391,120	385,081	390,091	-4,940
% Change		1	1	1	-1	-1

A review of the licence and site management fees and management service arrangements for Residential Pitches Sites is proposed to be undertaken in 2016/17.

3.3 Proposed Service Charges to HRA Dwellings for 2016/17:

3.3.1 A service charge review was carried out in 2015 by BHP on behalf of the Council. This review considered income generated compared to the cost of services received. The result of the review showed that the majority of the service charges did not require change from the agreed 2015/16 service charge amounts. Therefore, there is no recommended increase and/or decrease to these charges in 2016/17.

Review of the existing service charges for Concierge Services shows that this needs to be increased in order to meet the costs of this service. It is therefore proposed that the average weekly charge for Concierge Services is increased from £7.76 to £9.04 (a 16% increase). This service is provided only to certain blocks in Brent and is levied only on those tenants and leaseholders who benefit from the service.

It is proposed that all other service charges will remain at the 2015/16 charge level. Table 8 below sets out in summary the proposed changes to service charges for 2016/17.

Table 8: Proposed Service Charges for 2016/17:

Service	Income from Tenants 2015/16	Average Charge 2015/16 (£/Week)	Recommended Average Charge 2016/17 (£/Week)	Estimated Income from Tenants 2016/17	Increase/ (Decrease) (£/Week)	Comments
Concierge	308,450	7.76	9.04	358,954	1.27	Increase
Communal Lighting	404,309	1.38	1.38	404,309	-	No Change
Grounds Maintenance	317,994	1.19	1.19	317,994	-	No Change
Cleaning (Ext & Int)	1,571,626	6.27	6.27	1,571,626	-	No Change
Fridge	141	0.11	-	-	(0.11)	Remove Charge
Laundry	2,869	1.90	1.90	2,869	-	No Change
TV Aerial	140,073	0.70	0.70	140,073	-	No Change
Communal Heating (District)	249,172	8.39	8.39	249,172	-	No Change
Hot Water	1,489	1.59	1.59	1,489	-	No Change
Helpline Monitoring Service	3,918	1.42	1.42	3,918	-	No Change
Totals	3,000,041	3.07	3.19	3,050,404	0.12	Increase

3.3.2 Service Charge Setting for Hillside Dwellings 2016/17 – General Fund

All of the costs used in calculating the Hillside Service Charges are required to be based on the estimated actual costs of providing those services.

Hillside Housing Trust, the Council's management agent, has advised that they propose to increase average service charges in 2016/17 by 0.6%. Table 9 below sets out the average proposed Service charges in 2016/17 and compares this to the Service Charges for 2015/16:

Table 9: Average Proposed Service Charges in 2016/17 compared to Service Charges for 2015/16

Average Service Charges	Average Service Charges	Increase	Increase
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	2015-16	2016-17				Total
	£	£	£'s	%	No	£
1 Bed Flat	18.88	19.09	0.21	1.1	85	928
2 Bed Flat	13.49	13.64	0.15	1.1	43	335
1 S/croft Elders	42.45	42.92	0.47	1.1	16	391
2 S/croft Elders	42.45	42.92	0.47	1.1	3	73
2 Bed House	0.75	0.75	0.00	0	36	0
3 Bed House	0.74	0.74	0.00	0	76	0
4+ Bed House	0.74	0.74	0.00	0	69	0
Annual Total	162,537	164,265	0.19	0.6%	328	1,728

Overall, it is proposed that Service Charges will increase for 2016/17 by £0.19 per week, being an average increase of 0.6% over 2015/16 charges. The impact at individual level will depend upon the specific dwelling type and the service charges allocated to that dwelling. This proposal will therefore increase service charge income for 2016-17 by 6%. This proposed service charge increase reflects the actual cost of providing the services and is required to be recharged to tenants due to the requirement to recover actual costs.

Table 10 sets out the combined effect of the proposals for rents and service charges changes at Stonebridge for 2016/17. The net impact on tenants will be an average decrease of £1.07 or 0.8%, although the actual impact will depend upon the dwelling type and the specific service charges that are being incurred by that dwelling.

Table 10 Summary of combined effect of proposed rents and service charges at Hillside for 2016/17.

	Average Rents & Service Charge 2015-16	Average Rents & Service Charge 2016-17	(Decrease) £'s	Decrease %	No	Total Increase/ (Decrease) £
	£	£				
1 Bed Flat	122.29	121.47	(0.82)	-0.7%	85	(3,624)
2 Bed Flat	135.92	134.85	(1.07)	-0.8%	43	(2,393)
1 S/croft Elders	145.86	145.30	(0.56)	-0.4%	16	(466)
2 S/croft Elders	164.88	164.13	(0.75)	-0.5%	3	(117)
2 Bed House	133.73	132.40	(1.33)	-1.0%	36	(2,490)
3 Bed House	146.48	145.02	(1.46)	-1.0%	76	(5,770)
4+ Bed House	154.16	152.63	(1.53)	-1.0%	69	(5,490)
Annual Total	2,373,873	2,353,524	(1.07)	-0.8%	328	(20,349)

3.3.3 HRA Garage Charges and Asset Portfolio Management.

A review and consultation on the Terms for garage rentals was undertaken in 2015/16 by BHP on the Council's behalf. The current garage charges which average £4.41 per week are in the main significantly below those being charged by other London Authorities. A summary of the consultation responses are set out in summary in **Appendix 3**.

To bring the charges for residents and non-residents in line with those charged by other councils the following increased charges are proposed as set out in Table 11 below:

Table 11 – Proposed Charges for Garages for 2016/17.

	Existing Charges	Proposed Charges
Cage Garages	0.50	2.63
Half Garages	2.21	5.25
Single Garages	4.41	10.50
Double Garages	9.94	21.00

These proposed charges will generate additional income of £197,818 per annum.

In 2016/17 a survey of the garage asset portfolio will be undertaken and a planned investment programme and revised management arrangements developed.

3.4 Housing Management Services

3.4.1 Amendments to Tenancy Conditions

Consultation carried out by BHP for the Council took place from September to December 2015 proposing amendments to the Council's Tenancy Terms and Conditions for introductory and secure tenants whose tenancies are managed by BHP. Any changes to the Council's Tenancy Terms and Conditions require the Council to consult with its secure tenants as set out under Section 105 of the Housing Act 1985.

The Proposed amendments concern:

- Pets in Homes Policy
- ASB Tenancy Conditions
- Landlord Access to Property in Case of Emergency
- Landlord Access to Property to carry out pre -inspection - Pre Void

Appendix 4 sets out the proposed amendments recommended in these areas.

3.4.2 Reviews of Management Partnerships

The council has two agreed Tenant Management Organisations (TMOs): Watling Gardens TMO, which manages 164 properties and Kilburn Square Co-op which manages 246 properties. Both TMOs are responsible for the day-to-day delivery of management services such as Repairs and Maintenance. Voids Management, Rent Collection and Arrears Management, Lettings, Estate Services and Customer Satisfaction.

The Council's management of TMO properties are delegated to Brent Housing Partnership (BHP) as part of the existing Management Agreement. These agreements have not been reviewed for some time and it is therefore proposed to review in consultation with the TMOs in 2016/17.

3.5 HRA Stock Investment and Improvements

The HRA Asset Management Strategy was approved by the Cabinet in November 2013. This strategy set out a long-term approach to stock maintenance and investment in order to best meet asset management objectives. The HRA Asset Management Strategy requires that all council homes are brought up to a set Investment Standard by 2021.

3.5.1 Delivery of the stock Investment and Improvement Works 2016-17

At the end of quarter 3 expenditure on stock investment and improvement works for 2015/16 was forecast to be £28.6m against a budget of £41.7m, but the final out-turn figure will vary from this.

The projected under-spend of approximately £13.1m relates mainly to slippage in the planned cyclical maintenance programme. In response a comprehensive examination of the contract management arrangements and contractor performance is being conducted and revised managements arrangements will be put in place to improve programme delivery and assurance for the coming year. In addition to existing contracts the need to procure additional contractors to assure delivery and mitigate programme risks is also anticipated.

The planned overall Stock Investment Programme for 2016/17 is budgeted at £33.789m. This includes provision for a programme of cyclical and planned works, health and safety works, energy efficiency and environmental works, and the completion of a 3-year programme of fire safety improvements.

The proposed budget provides £12m to improve 1,700 homes (programmed for 2000 homes to outturn at 1,700). This equates to one-seventh of the council's tenanted and leasehold stock in accordance with the agreed Asset Management Strategy. It will be necessary in subsequent years to increase the scale of the programme in order to recover the slippage in 2015/16 and this will be enabled by the revised contract management and contracting arrangements noted above.

The main areas of expenditure are set out in Table 12. The programme includes works carried over from 2015/16.

Table 12: Proposed Stock Investment Expenditure for 2016/17

Programme

	Proposed Budget	Estimated Tenanted Costs	Estimated Leasehold Costs
	£'000	£'000	£'000
Total M&E / Health and Safety	9,419	7,678	1,741
Total Planned Cyclical Maintenance	15,050	10,595	4,455
Total Energy Efficiency & Environment Works	2,970	2,533	437
Total Other Works Expenditure	3,850	3,610	240
Total Overheads Costs	2,500	2,252	248
TOTAL STOCK INVESTMENT BUDGET	33,789	26,668	7,121

The budget of £33.789m includes an estimated £7.12m of expenditure on leaseholder properties that is rechargeable. In advance of any works proceeding detailed costings and statutory consultation will be undertaken with leaseholders on the prospective works and rechargeable costs.

3.6 Development Services 2016-18

The development of new council homes is a key priority of the council's Housing Strategy and of the HRA Asset Management Strategy. It is proposed to expand the current programme over the next two years to support achievement of the objectives set out in these strategies.

Phase 1: An initial programme has previously been approved to provide 61 new affordable rented council homes and to deliver 23 NAIL units to provide better and more cost-effective alternatives to residential care. This programme is supported by the GLA's 2015-18 grant programme.

Infill schemes, by their nature, present particular design, planning and consultation challenges and there has been some slippage in the programme's delivery in 2015-16. The first three new-build infill schemes are, however, now under construction with anticipated completion in summer 2016. Planning consent has been secured for over half the programme and all the projects in the programme are expected to be on-site in 2016/17.

Phase 2: Following feasibility studies across a number of infill sites, including larger opportunity sites, it is proposed to progress a second phase for the development of a further 94 new general needs homes and 16 NAIL homes, to be completed by March 2018. It is also anticipated that these homes will be supported by GLA grant under their 2015-18 programme and a grant application will be submitted shortly.

Phase 3: Provision is also required to prepare proposals for a third phase of development and details of the programme and capital budget for this phase will be reported further to Cabinet in 2016/17.

The proposed capital budgets for development for 2016/17 and 2017/18 are set out in Table 13 below:

Table 13 Proposed Capital Budget for Development Programme 2016/17 and 2017/18

Phase	Units	16/17 (£m)	17/18 (£m)
Infill Development (HRA)			
Phase 1	61	8.373	6.415
Phase 2	94	6.284	13.095
Sub-total	155	14.657	19.510
NAIL Development (General Fund)			
Phase 1	23	(Funding previously agreed Cabinet 2014)	-
Phase 2	16	2.083	1.289
Sub-total	55	2.083	1.289
Total	210	16.74	20.799

3.6.1 Development and Agency Services Management Fee 2016/17

The Cabinet have previously agreed for BHP to be responsible for the delivery of the council's first phase development programmes under a Development Management Services Agreement entered into in 2015/16. It is proposed to commission the further phases of development of both general needs and NAIL homes provision under this existing Agreement.

For the programme the staffing and fee budget is £1.476m funded from the HRA except for provision from the General Fund of £139,650 which is required to continue the progress the NAIL programme.

Table 14 below sets out the proposed Development services fee for 2016/17

Programme Fees	Fees 2016/17 £
BHP Development Team Staffing	416,000
Overheads	
Phase 1 GLA – HRA Approved	192,334
Sub Total Phase 1	608,334
Phase 2 – Fee Budget	478,013
Phase 3 – Fee Budget	250,168
Programme Sub Total (HRA)	1,337,000
NAIL Programme Fee (General Fund)	139,650
GRAND TOTAL	1,476,165

4.0 Financial Implications

4.1 This report is concerned with financial issues associated with setting the HRA budget for 2016/17 under the self financing system for council housing, and for setting the level of rents for Council dwellings in 2016/17. Cabinet are required 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.

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.

4.2 HRA 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 is £199.291m. The HCFR is estimated to be £136.989m on 1 April 2016, giving estimated "headroom" to increase borrowing of approximately £62.302m.

4.3 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 23.3% to 26.3% to reflect an estimated increase from the actuarial review although the level of increase remains subject to confirmation. It should also be noted that there is an increase in National Insurance contributions in relation to the reduced contributions for work-place pensions being phased out. Allowance has been made for inflation as set out in the relevant contracts for repairs, cleaning, grounds maintenance, and gas servicing, with no other inflation being added.

4.4 Stock Loss/Efficiency Savings:

The rent budget has been updated to reflect anticipated stock loss through Right to Buy and through demolition as part of the South Kilburn Regeneration Programme. Applicable expenditure budgets have been reduced by 1.8% to reflect the estimated stock loss in 2016/17 in addition to efficiency savings.

4.5 The Expenditure Budget:

This includes £494k Growth and the use of £4.016m carried forward balances from 2015/16. £3.504m of the carried forward balance will be used to fund future capital expenditure on stock investment works and provide for depreciation. The remaining £512k of the carried forward balance is the available unallocated resource after all other HRA budgets for 2016/17 have been compiled. These additional resources will be used in line with the agreed Asset Management Strategy (2013). The revised Business Plan now indicates borrowing of £9m will be required by March 2017.

The budget includes a decrease in rent of 1% per dwelling per week excluding service charges. The rent loss will amount to £498 and the service charge yield will amount to £71k with a total net loss of £413k.

4.6 The draft budget shows a balanced budget. Table 15 below shows the key summary movement from 2016/17.

Table 15: Proposed Budget 2016/17

HRA Budget Summary – Forecast Budget 2015-16 Vs Original Budget 2016-17 Variance				
Description	(1) Draft Forecast Out Turn 2015/16 £000's	(2) Draft Budget 2016/17 £000's	(3) Variance £000's	Variance Explanation
Rent Income	-51,601	-50,202	1,402	Stock reduction through right to buy sales (£228k), decanting of South Kilburn (£761k), rent decrease 16/17 (£484k), and 2016/17 service charges increase £71k
Leaseholder Service Charges	-2,185	-1,278	-84	
Non Dwelling Rent	-249	-396	-147	
Other Income	-11	-11	0	
Gross Income	-54,060	-52,888	1,172	
Provision for Bad Debts	928	928	0	
Rent & Rates	1,186	1,191	5	
Services	590	590	0	
Capital Financing	8,340	8,340	0	
Depreciation	17,674	21,178	3,504	Expenditure funded by one off balances from 2015/16.
Major Repair Allowance (MRA)				
General Management	10,326	11,503	1,177	Management fee savings (£786k), offset by growth for 1% pay ward/NC and Pensions £490k and reclassification of BHP expenditure £1,470k
Special Management	4,853	4,988	134	Growth (BHP) for Health & Safety requirements

Housing Repairs	10,229	8,186	-2,043	Reduction Repairs (planned cyclical, responsive, estate services etc.) works and reclassification of expenditure as part of BHP overall based exercise
Gross Expenditure	<u>54,127</u>	<u>56,904</u>	<u>2,777</u>	
Net Budget	<u>67</u>	<u>4,016</u>	<u>3,949</u>	
Surplus B/fwd	-4,483	-4,416	67	Additional expenditure to be funded from one off balances from 2015/16
Transfer from Earmarked Res	0	0	0	
Surplus C/Fwd	-4,416	-400	-4,016	
TOTAL	0	0	0	After balances transferred to fund expenditure on Major Repairs

5.0 Risks

The main associated risks are set out below:-

- Performance on rent collection has remained on target, even through the period of economic uncertainty. However, there are still risks associated with the introduction of direct payment to tenants and from the provisions of the Welfare Reform and Work Bill, and the reduction in the Overall Benefit Cap during 2016-17. The HRA budget for 2016-17 provides for the continuation of funding for the BHP Welfare Reform team. The phased introduction of Universal Credit which will bring direct payment of housing benefit to tenants will have an impact on rent collection figures and costs, meaning both expenditure and income will be put under pressure. The potential impact of this and how to mitigate it will be considered within the context of Target Operating Model review and the future structure of housing management services within BHP.
- 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.
- Between April and October 2015 the Financial Inclusion team have maximised the income of 91 tenants amounting to a total of £110k being paid to tenants in backdated housing/DWP benefits. This is in addition to Financial Inclusion Open Days and surgeries and supporting all care leavers and under 24s that sign an introductory tenancy.

6.0 Legal Implications

6.1. Legal Implications for the Housing Revenue Account and Rent Setting:

- 6.1.1** 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.

- 6.1.2** 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.
- 6.1.3** 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.
- 6.1.4** 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.
- 6.1.5.** The rent income estimates included for 2016/17 are based upon the Governments Rent Restructuring formula and adjusted for Right to Buy.
- 6.1.6** 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.
- 6.1.7** 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 2016/17 on 7th March 2016.
- 6.1.8.** 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.

6.1.9. 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.

6.1.10. Once Cabinet 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 give them notification of the changes in rent which will come into effect from 4th April 2016.

6.1.11 Clause 21 (1) of the latest version of the Welfare Reform and Work Bill states:

“Registered Providers of social housing must secure that the amount of rent payable in a relevant year by a tenant of their social housing in England is 1% less than the amount that was payable by the tenant in the preceding 12 months.”

As at late November 2015, this Bill is being considered at the Committee stage in the House of Lords. The full impact of this Bill will be considered in 2016/17.

6.1.12 This above-mentioned clause will require registered providers to reduce the nominal rent for each individual tenant by 1% per year for four years commencing on the 1st April 2016. This means that rents will fall by 1% in cash terms because the reduction is not linked to movements in the CPI, unlike the current policy whereby rents increase by CPI plus 1%. This will effectively reduce government rent forecasts for 2020 by around 12%, thereby contributing to the government's planned welfare budget savings by simultaneously reducing the cost of housing benefits in England.

6.2 Legal Implications for Developing New Council Housing using the HRA:

6.2.1 The Council entered into the Funding Delivery Agreement with the Greater London Authority for 2015-18 to develop new council housing assets requires the council to:

- Possess a Secure Legal Interest in the site to be developed.
- Obtained all Consents necessary for the lawful development of the Developable Scheme to submitted scheme standards.
- Ensure the council is not subject to any direction of the Secretary of State under Section 15 of the Local Government Act 1999.
- Ensure any applicable requirements of the EU Procurement Regime are complied with.

- Offer through the Housing Moves Pan London Mobility Service at least 5% of Affordable Rent Dwellings on the initial letting of such Affordable Rent Dwelling in accordance with schemes eligible as part of the Pan-London Allocations "top slice".
- Not use the Affordable Dwellings created for any purpose other than GLA Agreed Purposes without the GLA's prior written consent.

6.3 Legal Implications for the Amendment of Tenancy Terms and Conditions

Under section 105 of the Housing Act 1985, a local authority landlord is required to make arrangements to consult with tenants on matters of housing management which are likely to affect them, and this includes proposing to amend the Tenancy Terms and Conditions.

The details of the proposed amendments are set out in paragraph 3.5.1 of this report and in Appendix 2. A preliminary notice under section 103(2) of the Housing Act 1985 has been served on tenants to advise them of the Council's proposals to amend the Tenancy Terms and Conditions as part of the consultation process. If the Cabinet approves the proposed amendments to the Tenancy Terms and Conditions as set out in paragraph 3.5.1 of this report, a formal Notice of Variation under section 103(4) of the Housing Act 1985 to vary the Tenancy Terms and Conditions will be served on tenants so that the amendments will take place in April 2016. Details regarding the outcome of the consultation are set out in 3.4.1 of this report

7.0 Diversity Implications:

This report deals with the rent setting and budget proposals for the Council's HRA. This report does not propose any significant changes to the operation of this account. The proposals in respect of stock investment and new development are in accordance with the HRA Asset Management Strategy agreed by Cabinet in November 2013.

An equality analysis screening was carried out by Brent Housing Partnerships for the council as part of the Tenancy Amendments Consultation, which suggested that a full EIA was not required for this specific consultation exercise.

This report is not concerned with operational service issues. Operational housing management issues are, in the main, the responsibility of Brent Housing Partnership (ALMO) under the terms of the Management Agreement. Brent Housing Partnership, by reference to the agreements between Brent Council and its wholly owned subsidiary. As part of any change to the structure or organisation of BHP separate Equality Impact Assessments are carried out in line with the existing Management Agreement.

An equality analysis screening was carried out in respect of the proposed amendments to Tenancy terms and conditions which found that a full equalities analysis is not required. The results of the screening are set out in **Appendix 4** to this report.

8.0 Staffing/Accommodation Implications

There are no anticipated direct implications for council staff arising from this report. It is proposed to reduce the BHP Management Fee through efficiency savings and in proportion to stock loss and BHP will need to consider the staffing implications of this in their business planning for 2016/17 and, as necessary consult with staff.

Council and BHP staff may be affected by the Council's proposed management reviews. Any impact on staff will be reported separately following the completion of the reviews.

9.0 Background Information

- Cabinet Report – HRA Annual Budget and Rent Setting 2015/16 (February 2015)
- Cabinet Report – Right to Buy Receipts Development Programme (August 2015).
- HRA Asset Management Strategy (including Rent Policy) (November 2013)

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