



Cabinet
23 February 2015

**Report from the Strategic Director of
Regeneration and Growth**

For Action

Wards Affected:
ALL

**Housing Revenue Account (HRA) Business Plan and
Budget (including Rent Proposals) for Council Dwellings
for 2015/16**

1.0 Summary

- 1.1** This report presents to Members the Housing Revenue Account (HRA) forecast outturn for 2014/15 and a proposed HRA Business Plan budget for 2015/16 as required by the Local Government and Housing Act 1989. The report sets out budget proposals for housing management services, stock investment and new council housing development, and rent-setting proposals for 2015/16.
- 1.2 Housing Management Services** – the housing management fee for BHP is proposed to increase by 0.3% after allowing for efficiency gains. Budgets for responsive repairs and grounds maintenance and other revenue expenditure remain largely unchanged for 2015/16.
- 1.3 Stock Investment and Improvement** – following the procurement and appointment of an Asset Management Partner, major and cyclical works will be carried out to 2924 homes in 15/16. This will represent significant progress towards the Council's commitment to bring all the stock up to the agreed investment standard over 7 years by 2021. Total expenditure will be £41.7m compared with forecast expenditure in 14/15 of £10.8m.
- 1.4 New Development** – £5.47m of funding is provided to commence construction of 100 new council homes on infill sites and to undertake feasibility works for a further phase of new development. A further £1.7m will be utilised to support the development of new council housing supported by £0.5m of HRA Right to Buy receipts. The report recommends that the Council enter into a Development Services agreement with BHP for the delivery of this programme and into a grant agreement with the GLA to support the programme.

1.5 Rent and Service charge increases – the report proposes rent increases on average of 2.8% in line with the previously agreed rent policy. Service charges generally are increasing by 0.4%. Taking rents and service charges together the average increase will be 2.7%. The report also includes proposals for rent and service charge increases for the non-HRA Brent Stonebridge Dwellings and for residential traveller pitches for 2015/16.

1.6 HRA Business Plan Forecast – 2015/16. On the basis of the budgets and rent increases the HRA is projected to generate a small surplus of £400,000 in 2015/16. Additional borrowing of £4m to fund capital expenditure on stock investment and new-build is required bringing total borrowing to £140m against the borrowing limit of £200m. The larger stock investment programme in 2015/16 and the re-profiling of subsequent years will see borrowing increase to a peak of £170m in 2018/19.

2.0 Recommendations

It is recommended that Cabinet:

2.1 HRA Business Plan Budget 2014/15:

Note the HRA forecast outturn 2014/15 (*Table 1 –Budget Outturn Table 2014/15*):

2.2 HRA Business Plan Budget 2015/16:

- A. Approve the proposals and agree the savings/budget reductions for the HRA budget for 2015/16, as set out in Table 11 of this report and agree that they be included in the overall Budget for 2015/16 for approval by Full Council in March 2015.
- B. Approve the HRA budget growth for 2015-16 of £1.434m and use of £778k of one off available resources.

2.3 Rent Setting 2015/16:

- A. Approve an average overall rent increase (excluding service charges) from April 2015 of £3.14 per week, which is an average overall increase of 2.8%.
- B. Agree to the revised HRA Council Dwelling service charges from April 2015 which results in an average increase of 0.4% and £0.03 per week for the majority of households affected.
- C. Agree an average overall rent increase from April 2015 of £2.79 per dwelling per week on the Brent Stonebridge Dwellings, which is an average overall rent increase of 2.2% as set out in Appendix 1
- D. Agree the service charges on the Brent Stonebridge Dwellings from April 2015 by an average of 2% or an average of £0.17 per dwelling per week as set out in Appendix 1

- E. Agree the rent increase for Residential Travellers Pitches from April 2015 of £2.45 per week, which is an average increase of 1% as set out in Appendix 2.
- F. Agree to consult on proposals to de-pool charges for particular services, including CCTV and Door Entry and report the outcomes of this service charge review and consultation in 2015/16

2.4 HRA Stock Investment 2015/16:

- A. Approve the HRA stock investment capital programme of £41.7m for 2015/16.

2.5 HRA Council Housing Development 2015/16:

- A. Approve the HRA Development Consultancy Fee of £1.045m and a capital new build programme of £5.447m for 2015/16 as set out in Table 10 to develop new council housing stock.
- B. Agree an exemption from the procurement requirements of Contract Standing Orders and delegates to the Strategic Director of Regeneration and Growth in consultation with the Director of Legal and Procurement, the negotiation and entry into a Development Services Agreement with Brent Housing Partnership (Arms Length Management Organisation) to deliver Development Services functions in relation to the development of new council homes.
- C. Agree Cabinet delegate to the Strategic Director of Regeneration and Growth in consultation with the Director of Legal and Procurement, the negotiation and entry into a Funding Delivery Agreement with the Greater London Authority, securing Investment Partnering Housing Status for Brent and Social Housing Grant funding in 2015 – 2018 to enable the development of new council homes.
- D. Agree the Phase 1 Council New Build Development Programme schemes as set out in Appendix 3.

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 8,372 dwellings (1st April 2014). The HRA is a 'ring-fenced' account receiving no subsidy from the Council's General Fund nor subsidising the General Fund.

3.2 Budget Outturn 2014/15

Table 1 below sets out the forecast budget outturn position for 2014/15. The primary income to the HRA is rental income. Rent collection to date (end of

quarter 3) is 98.7% against a target of 99%. It is expected that total collected rent will be met by year end.

The major variances are that an underspend of £301k is forecast against the repairs budget relating to the grounds maintenance contract and the carry forward balance from 2014/15 is greater than originally budgeted by £477k.

It can be seen that the surplus carried forward to 2015/16 is forecast to be £1,178k which is £778k more than the original budget surplus of £400k. This additional £778k will be available to support one off expenditure in the 2015/16 budget.

Table 1: Budget Outturn 2014/15

HRA Budget Summary - Probable Budget 2014-15 Vs Original Budget 2015-16 Variance				
	(1)	(2)	(3)	
	Original Budget 2014-15	Draft Probable Out Turn 2014-15	Variance	
Description	£000's	£000's	£000's	Variance Explanation
Rent Income	-51,224	-51,224	0	
Leaseholder Service Charges	-2,760	-2,760	0	
Non Dwelling Rent	-254	-254	0	
Other Income	-59	-59	0	
Gross Income	-54,297	-54,297	0	
Provision For Bad Debts	1,158	1,158	0	
Rent & Rates	1,733	1,733	0	
Services	590	590	0	
Capital Financing	8,440	8,440	0	
Depreciation (Major Repairs Allowance (MRA))	15,461	15,461	0	
General Management	11,165	11,165	0	
Special Management	4,866	4,866	0	
Housing Repairs	10,995	10,694	-301	Reduced expenditure on Grounds Maintenance element of contract
Gross Expenditure	54,408	54,107	-301	
Net Budget	111	-190	-301	
Surplus B/Fwd	-511	-988	-477	Remaining income from unused one off balances in 2014-15
Transfer From Earmarked Res		0	0	
Surplus C/Fwd	-400	-1,178	-778	
Total	0	0	0	Available balances to fund expenditure on Major Repairs

3.3 Proposed Rent Increase 2015/16:

As part of the HRA Asset Management Strategy the council agreed in November 2013 to the Rent Policy set out below, with final approval to be given by the Executive each year:

- For rents to continue to increase in line with the Rent Convergence Regime - a maximum annual increase in 2014 of RPI +0.5% plus £2 per week and from 2015 CPI+ 1% plus £2 per week for existing tenants - subject to any direction by Government.
- Following rent convergence, for the annual increase to be set at CPI+1%
- For properties to be re-let at Target Rents.
- For consideration to be given annually to restraint in rent increases for 4-bedroom and larger properties in order to assure affordability under the overall benefits cap.

3.3.1 Checks have been undertaken to identify whether there are any individuals who will be particularly affected by the proposed increases. Appendix 4 provided details on the range of rent increases and number of properties affected. In respect of rents, Table 2 below sets out the average rent per property size and the number of properties in each category.

Table 2: Proposed Rent Increases for 2015/16

Bed Sizes	Property Count	Net Rent 2014/15	Net Rent 2015/16	Increase £	Increase %
0	434	86.52	88.11	1.58	1.8%
1	2581	99.76	101.99	2.23	2.2%
2	2688	112.21	115.56	3.35	3.0%
3	2116	123.65	127.63	3.98	3.2%
4	413	134.55	139.00	4.46	3.3%
5	64	144.24	148.77	4.53	3.1%
6	9	147.85	152.59	4.74	3.2%
	8305	111.31	114.45	3.14	2.8%

3.4 Alternative Rent Increase Options for 2015/16

The impact of the proposed rent increase (as per the agreed Rent Policy) is set out below in Table 3. This Table shows the impact of other rent increase options including:

- No increase in rent in 2015/16 followed by CPI+1% thereafter
- An increase in rent of CPI+1% in perpetuity
- An increase in rent taking all rents to Target Rent in 2015/16

Table 3 : Impact of other Rent Increase Options

Bed Sizes	Net Rent 2014/15	Proposed	%age increase	No increase	%age increase	CPI+1%	%age increase	Straight to Target	%age increase
0	86.52	88.11	1.83%	86.52	0.00%	88.43	2.20%	91.64	5.91%
1	99.76	101.99	2.24%	99.76	0.00%	101.95	2.20%	106.66	5.91%
2	112.21	115.56	2.99%	112.21	0.00%	114.67	2.20%	118.84	5.91%
3	123.65	127.63	3.22%	123.65	0.00%	126.37	2.20%	130.96	5.91%
4	134.55	139.00	3.31%	134.55	0.00%	137.51	2.20%	142.50	5.91%
5	144.24	148.77	3.14%	144.24	0.00%	147.41	2.20%	152.77	5.91%
6	147.85	152.59	3.20%	147.85	0.00%	151.11	2.20%	156.60	5.91%
Average Rent	111.31	114.45	2.82%	111.31	0.00%	113.76	2.20%	117.15	5.25%

3.4.1 Effects of the above on the HRA operating account and the Capital requirement are set out below.

- No increase in rents would result in the HRA falling into deficit of almost £2m by 2016/17 and a total loss in income to the HRA over 5 years of over £3m. Rents would need to be increase or expenditure reduced in 2016/17 in order to set a legal budget. In addition borrowing would need to increase by £4.5m between 2021 and 2024.
- An increase in rents limited to CPI+1% would result in the HRA falling into deficit by 2017/18 and a total loss in income to the HRA over 5 years of c£1.5m. Rents would need to be increase or expenditure reduced in 2017/18 in order to set a legal budget. In addition borrowing would need to increase by £4.5m between 2021 and 2024.
- An increase in rents taking all to target rent would result in increasing surplus HRA resources of around £10m by 2018/19 with increased income of £3m in 15/16 increasing to £4m per year by 2018/19. This additional income would be available for reinvestment in the HRA and could be used to reduce borrowing or for additional investment subject to the limit of the Debt Cap.

3.4.2. The Department for Communities and Local Government consulted in the period October – December 2014 on proposed changes to rent policy for social housing from April 2015. The agreed change was 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 Department for Communities and Local Government (CLG) continues to advise on rent setting and whilst it remains the responsibility of the Council to set rents, there is strong encouragement to set them in accordance with the ‘National Formula’.

3.4.3 Under the National Formula rents would increase at an individual level by 2.2% (Consumer Price Index at September 2014 plus 1.0% real increase). However, there is no requirement to follow this guidance. Continuing to follow the current Rent Policy provides the additional revenue to deliver the strategic priorities as set out in the HRA Asset Management Strategy and HRA Business Plan for 2015/16 and beyond. This means that Brent’s overall average rent for 2015/16 is recommended to increase by 2.8%.

3.5 Proposed Service Charges for 2015/16:

3.5.1 BHP has undertaken a detailed review of service charges which indicates that overall the existing service charges currently contribute £3.122m to the HRA, and that they do overall recover costs.

3.5.2 It is therefore proposed that the rent formula of CPI + 1% is applied to the existing service charges where applicable, and where existing charges are forecast to over recover, they are reduced to actual cost levels. It is also proposed to consult in 2015/16 on proposals to de-pool charges for District Heating, Door Entry and CCTV from the current rent calculation and include this as a specific charge to beneficiaries of the services. A review of the Helpline Service and its charges will also be undertaken in 2015/16.

Table 4: Proposed Service Charges:

The table below shows the proposed changes to service charges.

Service Charges	Average Per Week 2015/16	£ Change	% Change
Concierge	7.94	0.50	7%
Electric Lighting & Heating	1.42	0.02	1%
Ground Maintenance	1.19	(0.68)	(37%)
Building Cleaning	6.32	0.66	12%
Fridges	0.00	(0.12)	(100%)
Laundry	2.24	(0.32)	(13%)
TV Aerial	0.70	0.00	0%
Gas Central Heating & Hot Water	10.28	1.78	21%
Helpline	1.42	0.03	2%

Table 5 – Net Rent Adjusted

The table below shows the overall combined increase in rent and service charges.

Bed Sizes	Property Count	Net Rent 2014/15	Net Rent 2015/16	Increase £	Increase %
0	434	92.92	95.37	1.42	1.5%
1	2581	106.42	109.25	2.03	1.9%
2	2688	119.62	122.82	3.12	2.6%
3	2116	131.36	134.89	3.72	2.8%
4	413	142.42	146.26	4.17	2.9%
5	64	151.92	156.03	4.22	2.8%
6	9	155.63	159.85	4.41	2.9%
	8305	118.54	121.71	3.17	2.7%

3.6 Traveller Pitch Rent Setting 2015/16:

Rent Increase for Residential Traveller Pitches has been in recent years limited to 1%. It is proposed for a second year to increase the current rents by 1% for 2015/16 as set out in Appendix 2. It is intended to undertake a further review of rents and service charges for Residential Travellers Pitches Sites in 2015/16

3.7 Hillside Rent Setting 2015/16:

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 closed. 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 Private Finance Initiative (PFI) contract).

3.7.1 The Council currently owns 332 properties under this scheme and Hillside Housing Trust (part of the Hyde Housing Group), manages these properties on the Council's behalf through the PFI contract.

3.7.2 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.

3.7.3 The income and expenditure associated with these Stonebridge dwellings (which will be broadly neutral in 2015/16) will be included in the Council's General Fund budget.

Last year, for 2014/15, the Council agreed an average rent increase of 3.7% and an average service charges decrease of 11.4%. The overall average increase in 2014/15 was 2.7%.

3.7.4 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%. This means that the rent for 2015/16 should increase by 2.2% (being 1.2% CPI (at September 2014) plus 1.0%).

Taking account of the framework set out in the PFI contract, Table 6 below, sets out the 2015/16 actual rent and the proposed rent levels for 2015/16. This Table also shows that the range of the weekly rent increase is from £2.23 to £3.30, and that the average overall rent change (excluding Service Charges) for 2015/16 will be an increase of £2.79 per week, which is an average increase of 2.2%.

This will increase the average rent (excluding service charges) from £127.02 to £129.82 per week and will result in an increase of £48k 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 2015/16. The overall impact of this will therefore be broadly neutral on the Council's budget.

Table 6 - Range of the weekly rent increase

	Rent 2014-15 £	Rent 2015-16 £	Increase £'s	Increase %	No	Total Increase £
1 Bed Flat	101.18	103.41	2.23	2.2%	85	9,857
2 Bed Flat	119.79	122.43	2.64	2.2%	44	6,040
1 S/croft Elders	101.18	103.41	2.23	2.2%	16	1,855
2 S/croft Elders	119.79	122.43	2.64	2.2%	3	412
2 Bed House	130.12	132.98	2.86	2.2%	36	5,354
3 Bed House	142.60	145.74	3.14	2.2%	77	12,573
4+ Bed House	150.12	153.42	3.30	2.2%	71	12,184
Annual Total	2,192,962	2,241,237	2.79	2.2%	332	48,275

3.7.5 Hillside Property Service Charges

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

Hillside Housing Trust has indicated that they propose to increase average service charges in 2015/16 by an average of 2.2%. Table 7 below, sets out the average proposed Service charges in 2015/16 and compares this to the Service Charges for 2014/15:-

Table 7: Average Proposed Service Charges in 2015/16 compared to Service Charges for 2014/15

	Average Service Charges 2014-15	Average Service Charges 2015-16	Increase/ (Decrease) £'s	Increase/ (Decrease) %	No	Total £
1 Bed Flat	13.83	14.13	0.30	2.2%	85	1,326
2 Bed Flat	15.64	15.98	0.34	2.2%	44	778
1 S/croft Elders	31.93	32.63	0.70	2.2%	16	582
2 S/croft Elders	31.93	32.63	0.70	2.2%	3	109
2 Bed House	0.80	0.82	0.02	2.2%	36	37
3 Bed House	0.80	0.82	0.02	2.2%	77	80
4+ Bed House	0.82	0.84	0.02	2.2%	71	74
Annual Total	136,188	139,174	0.17	2.2%	332	2,986

Table 7 shows that overall the proposals for Service Charges will be an average increase for 2015/16 of £0.17 per week, being an average increase of 2.2% over 2014/15 charges. The impact at individual level will depend upon the specific dwelling type and the service charges allocated to that dwelling. This proposal will increase the average service charge from £136,188 to £139,174 and will result in £3k more 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 2015/16. The overall impact of this will therefore be broadly neutral on the Council's budget.

The combined effect of the proposals for rents and service charges changes at Stonebridge for 2014/15 is set out in Appendix 1. This shows the combined impact of the proposed average rent and Service Charge increase at Stonebridge for 2015/16. The net impact on tenants will an average increase of £2.97 or 2.2%, although the actual impact will depend upon the dwelling type and the specific service charges that are being incurred by that dwelling.

3.8 Revenue Budgets

3.8.1 Proposal 1-Brent Housing Partnership (ALMO) – Proposed Management Fee:

The agreement between the Council and BHP, which expires on 31st March 2023, 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 in addition to 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 2014/15 the rate for BHP was 20.3% and the budgeted rate for 2015/16 is 23.3%.

3.8.2 Increases in Pay inflation of £122k and employer pension contributions of £181k have been offset by 3% efficiency savings of £229k and ALMO

optimisation savings of £55k leading to a small overall increase of £25k or 0.3% of the overall fee of £7.6m.

3.9 The 2014/15 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 an 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.

3.10 Table 8 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 be seen these savings have been achieved with £286k worth of savings planned for 2015/16.

Table 8: Efficiency Savings Performance / Planned Efficiency 2015/16

Year	Efficiency / stock loss savings £000's	Optimisation Savings £000's	Other £000's	Total Saving in year £000's	Savings as a %age of management fee
2012/13	233	698		931	12%
2013/14	221	214		435	6%
2014/15	247		341	588	7%
2015/16	231	55		286	4%
	932	967	341	2,240	
			7,649		
			29%		
Other	Accommodation reduction			341	

Benchmarking is frequently undertaken to compare BHP costs and those of comparable providers in London. BHP fees are achieving middle to upper quartile performance of unit costs compared to similar organisations.

In 2013 an additional fee of £200,000 was added to provide additional resources to address the impact of Welfare Reform and to maintain rent collection levels. Proposed fee for 15/16 includes a continuation of this additional provision

3.11 HRA Stock Investment and Improvement Programme:

The HRA Asset Management Strategy specifically set 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;
- Ring-fencing 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

3.12 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.

3.13 The Planned works for 2015/16 are budgeted at £41.7m. These include a major programme of cyclical and major works to almost 3,000 homes, energy efficiency improvements and the completion of a 3-year programme of fire safety works. The main areas of expenditure are set out below in Table 9.

Table 9: Proposed Stock Investment:

	2014/15 (Year 1) Spend	2015/16 (Year 2) Spend	Impact

M&E / Health & Safety	5,036	14,683	3377 homes H&S 818 homes boilers and district Heating
Capital & Cyclical	1,000	20,115	2924 homes 914 homes energy efficiency
Other Expenditure	3,000	3,850	Including capitalised repairs Up to 12 Lift Replacements
Works Expenditure Total	9,036	38,648	
Overheads and Contingency	1,350	3,019	Management & Contingency
Stock investment Total	10,386	41,667	

The proposed expenditure in 2015/16 on stock investment is significantly higher than for at least a decade. The major increase in the scale of the programme compared with that delivered in previous years is made possible by the additional capacity provided by the appointment of a single comprehensive asset management contractor. A range of contractual arrangements are also in place for delivery of other discrete areas of the programme. It is, however, recognised that achieving this expenditure will be challenging and rigorous performance monitoring by the Council and BHP will take place.

The expenditure of £41.7m includes an estimated £5.8m of expenditure on leaseholder properties that is rechargeable. In advance of any works proceeding detailed costing's and statutory consultation will be undertaken with leaseholders on the prospective works and rechargeable costs.

3.14 HRA Garage Strategy and Portfolio:

A separate review of the Council's HRA garage asset portfolio will be completed in the first six months of 2015/16 to consider the commercial viability and value for money to the HRA over the longer-term. A further Report will be present for Member's consideration in 2015/16.

3.15 HRA Development Services Fee and Council House Building Programme:

The delivery of new supply affordable housing is a key strategic priority underpinning the council's Housing Strategy. The council has agreed that Brent Housing Partnership will deliver new affordable council homes to support this priority. This section sets out the financial considerations, proposed budget for 2015/16 and actions required to establish the Development Services function as part of the HRA Business Plan to enable the delivery of these new council homes from 7 April 2015.

Two key agreements are required, these are:

- I) The council is required to enter into a Development Services Agreement with Brent Housing Partnership (ALMO). This Agreement may form part of the existing governance arrangements of the ALMO. It will include the provision of development services functions required to enable the development of (or remodelling of existing stock) to provide new council homes.

The Development Agreement will provide for the following development services on behalf of the council:

- site feasibility studies, including design-led appraisals for new council housing
 - financial viability appraisals to model delivery and building costs
 - management of pre-construction works, including seeking planning permission for scheme proposals
 - onsite management of building programme, including Client-side CDM regulation compliance, health and safety and sub-contractor management
 - procurement of technical support and suppliers through approved frameworks
 - carrying out local resident consultation and options appraisal
 - land and/ or property acquisitions (including s.106 homes) to increase the supply of new council housing
 - submission of grant funding proposals to support the delivery of new council homes to the GLA, HCA or other funding bodies as required and delegated
 - Maintenance of the GLA/HCA Investment Management System, including document management and all other information required as per GLA Compliance Audit guidance, Capital Funding Guide and inline with best practice standards.
 - appraisal of existing assets, as part of considerations to make the best use of stock to develop, remodel or infill to provide new council housing
- II) The council has been allocated £4.8m (as part of the Greater London Authority Mayor's Covenant 2015 -18 Housing Programme) funding for Brent Housing Partnership to deliver a Phase 1 Development Programme in 2015/16. To secure this funding from April 2015 and to access future years funding until 2018, the council is required to enter into a Funding Delivery Agreement with the Greater London Authority by 31 March 2015

3.16 Proposed Development Services Fee 2015/16:

The table below sets out the proposed Development services fee for 2015/16

Table 10: Development Services Fee:

	2015/16 (Year 2) Spend
Consultancy Fees	1,045
Works Expenditure	3,866
Feasibility	120
Overheads	416
Development Expenditure Total	5,447

The consultancy amount of £1.045m includes provision both for Brent Housing Partnership Development Management Services and any other consultant fee as required to deliver the 2015/16 council housing development programme.

It is proposed that £5.447m of HRA funding be agreed to be used to provide 100 council homes in 2015/16, including supporting design, works expenditure and feasibility study fees.

3.17 Phase 1 Council Housing Build Programme 2015/16:

Feasibility work and design for the Phase 1 programme has been undertaken on the first group of sites, with the capacity to provide 50 new homes. The sites recommended to proceed are set out at Appendix 3.

3.18 Phase 2 Costs in 2015/16 for Council Housing Build Programme 2016/17:

A Review has been undertaken of some of the existing HRA garage sites and areas of land with potential for new development. The review has investigated over 45 sites, although about half of these were assessed to be unsuitable for development.

This assessment has concluded that although the remaining sites have some constraints, Phase 2 could still yield the following potential for new homes:

Flats	175
Bungalows	21
Houses	32
Total	228

A number of the sites are very small and therefore the recommended approach is to focus resources on progressing more significant sized sites with the potential for a greater number of new homes.

Following completion of feasibility studies, Phase 2 sites will be presented to Cabinet for approval in 2015/16. It is recommended to progress to architect feasibility stage for £190,000 fee in 2015/16 to prepare (including submitting for grant funding support from the GLA) a potential of a minimum of 100 new council homes in readiness for development in 2016/17.

4.0 Financial Implications

4.1 This report is concerned with financial issues associated with setting the HRA budget for 2015/16 under the self financing system for council housing, and for setting the level of rents for Council dwellings in 2015/16. 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.

4.2 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.

4.3 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 2014 received an unqualified audit opinion.

4.4 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 will be £199.291m. As our HCFR is estimated to be £140.598m on 1 April 2015, 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.

4.5 Allowance for Inflation:

Budgets have been prepared on an outturn basis and include an allowance of 2.2% for pay. The budget for the Employer's Superannuation Contributions for BHP staff has been increased from 20.3% to 23.3% 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.

4.6 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 South Kilburn Regeneration Programme. Applicable expenditure budgets have been reduced by 1.5% to reflect the estimated stock loss in 2015/16, plus further efficiency savings.

4.7 The Expenditure Budget

Includes £1.434m Growth and the use of £778k one off available funding from carried forward balances to fund future capital expenditure on Major Works and provide for depreciation. The ongoing sum of £1.434m is the available unallocated resource after all other HRA budgets for 2015/16 have been compiled, and the £778k is one off useable reserves from the budgeted surplus HRA working balances brought forward from 2014/15. These additional resources will be used in line with the agreed Asset Management Strategy (2013). The Executive agreed in November 2014 to borrow up to £20.6m for HRA capital work by March 2016. The revised Business Plan now indicates borrowing of £8.4m will be required by March 2016 and a further £24.6m by March 2019 to fund the proposed investment.

4.8 The budget includes an average rent increase of 2.7% per dwelling per week including service charges. The rent yield will amount to £1,355k and the service charge yield will amount to £13k with a total yield of £1.368m.

4.9 The draft budget shows a balanced budget. The table overleaf below shows the key summary movement from 2014/15 in Table 11.

Table 11: Proposed Budget 2015/16

HRA Budget Summary - Probable Budget 2014-15 Vs Original Budget 2015-16 Variance				
	(1)	(2)	(3)	
	Draft	Draft		
	Probable	Original		
	Out Turn	Budget		
	2014-15	2015-16	Variance	
Description	£000's	£000's	£000's	Variance Explanation
Rent Income	-51,224	-52,505	-1,281	Stock reduction through right to buy sales £87k, 2014-15 rent increase £-1,355k, and 2014-15 service charges increase £-13k
Leaseholder Service Charges	-2,760	-2,760	0	
Non Dwelling Rent	-254	-254	0	
Other Income	-59	-59	0	
Gross Income	-54,297	-55,578	-1,281	
Provision For Bad Debts	1,158	1,158	0	
Rent & Rates	1,733	1,733	0	
Services	590	590	0	
Capital Financing	8,440	8,440	0	
Depreciation (Major Repairs Allowance (MRA))	15,461	17,673	2,212	Expenditure funded by one-off balances in 2014-15 £778k and Growth for HRA Major Works £1,434k
General Management	11,165	10,901	-264	Inflation £248k, stock reduction/efficiency savings -£512k
Special Management	4,866	4,866	0	
Housing Repairs	10,694	10,995	301	Reversal of one off income in 2014-15 £301k
Gross Expenditure	54,107	56,356	2,249	
Net Budget	-190	778	968	
Surplus B/Fwd	-988	-1,178	-190	Remaining income from unused one off balances in 2014-15
Transfer From Earmarked Res	0	0	0	
Surplus C/Fwd	-1,178	-400	778	
Total	0	0	0	After balances transferred to fund expenditure on Major Repairs

4.10 Entering into the Funding Delivery Agreement (FDA) with the Greater London Authority for the development of new Council Housing using the HRA:

Entering into the Funding Delivery Agreement with the GLA for stock development creates a legal financial obligation on the council to:

- i) Deliver an agreed Funding Delivery Agreement development and investment programme by 31 March 2018.
- ii) Complete Permitted Tenure Conversions within the Housing Revenue Account by 31 March 2019 in accordance with the timescale projected for such Permitted Conversions set out in the programme offer.

- iii) Provide Affordable Rent Dwellings in an equal split between those provided on Capped Rent terms and those provided on Discounted Rent terms, subject to a tolerance of one (1).
- iv) Ensure that GLA subsidy does not exceed an amount equal to the aggregated Actual Development Costs incurred in respect of the delivery of the programme.
- v) Ensure all funding is subject to the provisions of Sections 30, 34 and 333ZE of the Greater London Authority Act 1999. Any determinations made under such provisions (and the provisions of Condition 14) represent the events and principles determined by the GLA for the purposes of Sections 31-34 of the Housing Revenue Account 2008.
- vi) Ensure the council has not given rise to the making of a report under Section 114(3) or Section 114A of the Local Government Finance Act 1988 before or during the Funding Delivery Agreement period.
- vii) Retain its Investment Partnering Status with the GLA for the duration of the Funding Delivery Period.
- viii) Assets created with GLA funding if sold require the grant to be paid back to the GLA in the form of Recycled Capital Grant Fund (RCGF). RCGF is ring-fenced currently by the GLA to the authority of origin.
- ix) Interest can be charged by the GLA for funding awarded or recovered.
- x) Funding awarded is subject to adherence to the GLA Capital Funding Guide and its audit compliance arrangements, including Grant Recovery Events (as set out in the Funding Delivery Agreement).
- xi) The council cannot increase the rent in relation to a new Affordable Rent Dwelling more than once in any consecutive period of twelve months or by more than CPI + 1 per annum.
- xii) Open Book Accounting Obligations are required and if breached funding could be placed at risk.

Financial reporting and monitoring of the grant is required through the GLA Investment Management System (IMS). This IMS is required to be maintained and it is proposed this be managed by Brent Housing Partnership.

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

Welfare Reform. As a result the HRA budget for 2015-16 assumes the funding for the BHP Welfare Reform team will continue.

- 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.

6.0 Legal Implications

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

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.

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.

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.

- 6.2** 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.

The rent income estimates included for 2015/16 are based upon the Governments Rent Restructuring formula and adjusted for Right to Buy.

- 6.3** 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.

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 2015/16 on 2 March 2015.

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.

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.

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 7 April 2015.

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

Entering into the Funding Delivery Agreement 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 Service at least 5% of Affordable Rent Dwellings on each Site and at least 10% on each Site comprising 150 dwellings or more 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.

It is proposed that the Council enter into a development agreement with BHP. BHP is an Arms Length Management Organisation (ALMO) and whilst the council has delegated certain of its management functions to BHP in accordance with s27 of the Housing Act 1985, these delegations do not cover the proposed development agreement in respect of the development of new affordable council housing. Clarification will be sought with the Homes and Community Agency as to whether the consent of the Secretary of State is required under section 27 of the Housing Act 1985 for the Council to enter into the development agreement with BHP.

- 6.2.1** Contract Standing Orders provide that every Contract entered into by the Council shall be entered into pursuant to the Council's function and procured in accordance with all relevant domestic and EU legislation including the Council's Contract Standing Orders and Financial Regulations. The Council's Contract Standing Orders require a competitive procurement process to be conducted in relation to the award of contracts including the proposed development agreement.

However, under Contract Standing Orders 84(a) Cabinet is able to approve a departure from this requirement and grant an exemption where there are good operational and / or financial reasons for doing so. The operational and financial reasons for not tendering are set out in this report.

- 6.2.2.** The EU public procurement regime, set out in UK law in the Public Contracts Regulations 2006, ordinarily requires a competitive procurement procedure to be operated for contracts subject to relevant thresholds. In the case of *Teckal s.r.l v the Commune of Viano C-107/98* the European Court of Justice recognised that if a contract were concluded between a local authority and a person legally distinct from that local authority, then the contract between them would not be a "public contract", under the EU public procurement directive if two tests were satisfied:

1. The local authority exercises over the person concerned a control which is similar to that which it exercises over its own departments (the control test);
2. In addition, that same person carries out the essential part of its activity with the local authority or authorities (the function test).

It is considered that the both limbs of the above test are met in relation to BHP and therefore it is considered that the award of a development agreement to BHP to develop new council housing is consistent with the EU public procurement regime.

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, new development and rent-setting are in accordance with the HRA Asset Management Strategy agreed by the Executive in November 2013.

This report is not concerned with operational service issues. Operational housing management issues are, in the main, the responsibility of Brent Housing Partnership (ALMO) and this service is monitored by the Housing Partnerships Service 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 management agreement.

8.0 Staffing/Accommodation Implications

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 savings 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 OneCouncil reviews. The impact on these staff will be reported separately, under the specific reviews.

9.0 Background Information

HRA Asset Management Strategy (November 2013)

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