

**To the Chair and Members of Council**

**HOUSING REVENUE ACCOUNT BUDGET 2015/16**

<b>Relevant Cabinet Member(s)</b>	<b>Wards Affected</b>	<b>Key Decision</b>
Cllr Christine Mills	ALL	K1242

**EXECUTIVE SUMMARY**

1. This report sets out the Mayor’s proposals for 2015/16 Housing Revenue Account (HRA) Budget. The report focuses on the following key areas:-
  - the level of the Council’s housing rents for 2015/16; current average rent is £69.42 per week which is the lowest within South Yorkshire, rents will increase by 2.2%
  - the Housing Revenue Account (HRA) budget proposals for 2015/16 and estimated budgets for 2016/17, 2017/18 and 2018/19; the HRA budget follows the budget strategy as set out in previous years and maintains a working balance of £3.0m within the HRA, the budget for 2015/16 is a balanced budget (income equals expenditure) and
  - the level of fees and charges for 2015/16 as detailed in paragraph 12.

**EXEMPT REPORT**

2. Not applicable.

**RECOMMENDATIONS**

3. Council is asked to approve the Housing Revenue Account budget proposals as set out in this report and including:-
  - i. Rents are increased from 6th April 2015, by 2.2% as detailed in paragraph 9. This will provide an average weekly rent increase of £1.53, resulting in an average rent of approximately £70.95 per week. Rents will be charged every week of the year.
  - ii. The budget proposals for the HRA for 2015/16, which are contained in Appendix A. These proposals set a balanced budget for the HRA and maintain a working balance of £3.0m;
  - iii. Fees and charges set out in paragraph 12.

## **WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?**

4. The council provides housing to over 20,000 households through the housing stock within the HRA. The majority of these properties are let at social rents which are currently the lowest within South Yorkshire and they will continue to be after this increase. The proposals within this report mean that the tenants of these properties will pay higher rents in 2015/16. Increasing the rents enables the Council to continue to provide quality social housing maintained to the Doncaster decency standard and enables new properties to be built to provide additional accommodation for those in need of social housing.

## **BACKGROUND**

5. The Housing Revenue Account budget for 2014/15 was approved on 20th February 2014. Since then the regular financial management reports to Cabinet have provided the latest projections of the 2014/15 financial position. This report explains the main issues that have been taken into account in developing the recommended budget for 2015/16, including the 2.2% increase in rents.

## **BUDGET PROPOSALS 2015/16**

6. The Budget proposals are shown in detail at Appendix A. The key features are as follows:-
  - a) An increase in rents of 2.2% (see paragraphs 8, 9 & 10 for more details);
  - b) Dwelling rent income is expected to be £1.710m higher at £74.152m due to the effect of the rent increase and the projected number of Right to Buy Sales, new build properties, acquisitions and void (empty) properties;
  - c) As and when properties become empty they will be advertised and relet at target rent (see paragraphs 8 to 10 for further details), this rent policy was agreed in February 2014 and implemented with effect from April 2014. This was a change to rent setting policy in Doncaster and will ensure that over a period of time the rent will be the same for the same properties in the same area. This policy is in line with government guidance "Rents for Social Housing from 2015/16" issued in May 2014;
  - d) The majority of HRA services are provided by St. Leger Homes of Doncaster (SLHD). The management fee paid to SLHD reflects an additional payment of £0.330m as a result of a number of growth areas detailed at Appendix B. Inflationary increases such as pay award, increments and other increased costs have not been paid to SLHD who have identified these costs from efficiencies and savings. The management fee paid from the HRA for 2015/16 is £26.9m;
  - e) The freeze on the management fee paid to SLHD for general expenditure excluding growth items is in line with a three year budget strategy agreed in February 2014 which means that SLHD has to fund any inflationary costs from within the business;

- f) Total management & maintenance costs within the HRA are £32.4m which is £9.7m less than the Government estimates the need to spend on management & maintenance in Doncaster, this further demonstrates the efficient delivery of services in Doncaster and helps to maintain low rents;
- g) A budget of £1.0m was established within the HRA from April 2013 to assist tenants to deal with changes as a result of welfare benefit reform, this budget has been reduced to £0.6m in 2015/16 based on usage over the last two financial years. Both the usage and the policy will be kept under review as further changes to welfare reform are rolled out;
- h) The number of Right to Buy sales continues to be monitored and total sales to the 31st December 2014 were 87 giving an average of 2.2 sales per week. A projected level of 58 sales, 6 proposed demolitions and 73 new build and acquisitions have been used for calculating the rental income for 2015/16;
- i) Housing Subsidy was abolished with effect from 1 April 2012 and the HRA became self-financing. A self-financing HRA needs to fund both its revenue services and deliver the investment/capital programme from rent income;
- j) Following the introduction of self-financing for the HRA a longer term view (30 years) is taken on HRA budgets to ensure that there is sufficient funding available in future years to maintain the properties at the Doncaster decency standard;
- k) Based on a rent increase for existing tenants of 2.2% (CPI plus 1% based on September 2014 figures) in 2015/16 and 2.0% in 2016/17 and 2017/18 the 30 year business plan will deliver in excess of 3,000 new build or acquisitions;
- l) A prudent level of balances for the HRA is considered to be £3.0m therefore the surplus funds in excess of this, £3.058m, have been transferred to the housing public sector capital programme to fund investment in the housing stock and the programme for building more council houses.

A balanced budget will be set for 2015/16. This will maintain an estimated working balance within the HRA of £3.0m by 31 March 2016.

## **SELF- FINANCING HOUSING REVENUE ACCOUNT**

7. The Localism Act 2011, changed the system for funding Local Authority Housing with effect from 1 April 2012, when self-financing for the HRA was introduced. The main changes are detailed below;

**Rents** – local authority decision, central Government issue guidance.

**Housing Subsidy** – Abolished

**Debt Cap** – This is a figure issued by the Government, it is the maximum amount of borrowing which is allowed for the HRA, this figure for Doncaster is £270m (current HRA debt is projected to be £266m)

**Depreciation** – this calculation is specified by the Government for the first five years of self-financing and is the amount which must be put into the major

repairs reserve (MRR) for future investment in the stock to ensure that a backlog of investment does not occur, this figure is £20.8m (referred to as Depreciation on Council Dwellings in Appendix A) in 2015/16

**Overall Business Plan and Decision Making** – rent income is required to fund day to day services, investment needs, to service debt and provide new build council houses, decisions made need to consider all aspects of housing income and expenditure. Estimated figures are calculated over a 30 year period to ensure that sufficient funding will always be available to maintain the properties at the decency standard.

## RENT RESTRUCTURING & RENT INCREASES

8. From 1st April, 2002, Local Authorities were effectively required by Central Government to set rents in relation to a formula rent determined for each individual property, which takes account of regional earnings, number of bedrooms and property value. Up to the 2011/12 financial year if Local Authorities did not follow Government guidance they lost rent income and housing subsidy. Following the HRA becoming self-financing on 1 April 2012, the Government guidance on rent setting remained unchanged until 31 March 2015. In May 2014 the Government issued new guidance, "Rents for Social Housing from 2015/16". The guidance for social rents issued in May 2014 recommends that rents for existing tenants are increased by Consumer Price Index (CPI) plus 1% based on the CPI figure from the previous September. A target rent figure is still calculated for each property using the original formula. This figure is also now increased by CPI plus 1% each year. When properties become empty it is recommended that they are relet at target rent. It is necessary to let empty properties at target rent as the HRA business plan assumes that properties will achieve target rent. It is estimated that the average rent will have increased by £0.50 (0.7%) during 2014/15 as a result of letting empty properties at target rent.
9. The current guidance for social rents was introduced in Doncaster with effect from April 2014. The rent increase for 2015/16 is 2.2%, based on CPI plus 1.0% resulting in rents increasing from £69.42 to £70.95 (£1.53 increase) per week. Currently some tenants pay different rents although they live in the same type and size property in the same area. Applying the Government's former rent restructuring policy would have addressed this issue by 2019/20. The change to Doncaster's rent setting policy in April 2014 will also address the different rents for the same property issue, however it is not possible to assess the timescale as it is dependent on the turnover of properties
10. Target rent (sometimes referred to as formula rent) for each property is calculated using the following formula;
  - 70% of the national average rent (April 2000) multiplied by relative county earnings (1999 levels) multiplied by a bedroom weighting (higher weighting for larger properties) plus 30% of the national average rent (April 2000) multiplied by relative property value (January 1999).This calculation gives a target rent figure for the financial year 2000/01. It has then been updated each year by R.P.I plus 0.5% up until 2014/15. In 2015/16 the target rent will be increased by CPI plus 1%, the average target rent in Doncaster for 2015/16 is £75.26 per week.

11. Affordable rents – Affordable rent is defined as 80% of open market rent. A number of properties which are now in the HRA have either been built or acquired with the assistance of some grant funding from the Homes and Communities Agency (HCA). One of the grant conditions for these properties is that they are let at affordable rents (or target rent if that is higher). Government guidance for affordable rents is that they increase by CPI plus 1% each year and are reviewed each time the tenancy becomes vacant. In 2015/16 it is recommended that the rent increase for these properties is 2.2%.

## **FEES AND CHARGES**

12. The following recommendations are proposed in respect of fees and charges for 2015/16:-
- a) That the charges for garages and garage sites are increased by CPI at 1.2%. These charges will be reviewed again in future years and the 2016/17, 2017/18 and 2018/19 budgets assume CPI increases. These are the charges to tenants, if non tenants rent garages or garage sites then VAT is added to these charges.
  - b) The only properties which still have district heating but the tenants do not have individual meters are on Skellow Road. These properties (14 in total) are currently subject to an option appraisal due to the type and layout of the properties. It is proposed that the heating charges at Skellow Road do not change, if the option appraisal recommends keeping these properties the district heating scheme will be replaced with individual boilers.
  - c) The bio mass district heating boiler at Ennerdale provides heat and hot water to the bungalows at Ennerdale and the properties in Jubilee Court. The current charge for heating at this scheme is 5.8p per one kilowatt hour (kwh) (plus VAT). This scheme is forecast to breakeven in 2015/16. It is therefore recommended that the charges remain the same.
  - d) The district heating charge for properties on the Balby estate will increase to 5.2p per one kwh (inclusive of VAT). This is a 13.0% increase and is the second year of a three year strategy to increase the charges at Balby to the same level as those at Ennerdale. These charges are still at an affordable level following a whole scale investment programme of energy efficiency measures.
  - e) The current enclosed garden charge is between £2.39 and £3.95 (inclusive of VAT) per week dependent on the size of the garden. This is available as a whole year service (charged every week) or as a summer service (charged for 34 weeks) and will be increased by CPI at 1.2%. This service is an optional service. It is not eligible for housing benefit and it is available to all tenants. These charges will be reviewed again in future years and the 2016/17, 2017/18 and 2018/19 budgets assume CPI increases;
  - f) A furnished tenancy charge was introduced during 2014/15. This service is only available to young adults leaving care, estimated at 10 per year. The furniture is provided by an external provider and the charge for 2015/16 will be £19.91 per week.

- g) That the leaseholders service charges are calculated based on the actual costs of providing the services and repairs and maintenance to the property.

The table below identifies the fees and charges that are included within the HRA budget assumptions.

<b>Fee</b>	<b>Current Charge 2014/15</b>	<b>Proposed Charge 2015/16</b>	<b>Budget Implication</b>
Garages	£5.08 per week (charged every week)	£5.14 per week (charged every week)	£3,120
Garage Sites	£45.00 per annum	£45.54 per annum	£3,240
District Heating - Balby Bridge	4.6p per 1kwh	5.2p per 1kwh	Income dependant on ticket sales, usage is estimated to be less due to investment in energy efficiency improvements.
Enclosed Garden Service	Between £2.39 and £3.95 per week (charged every week or 34 weeks)	Between £2.42 and £4.00 per week (charged every week or 34 weeks)	£830
Furnished Tenancy	£18.92 per week	£19.91 per week	£257

### **OPTIONS CONSIDERED**

13. Two options were considered for the rent increase in 2015/16;  
Option 1 (recommended option) – A 2.2% rent increase which is in accordance with Government guidance. This keeps rents in Doncaster the lowest in South Yorkshire and ensures that there are sufficient resources available to deliver day to day services and the investment/capital programme including new build council houses. Each 1% rent increase generates just over £0.7m per year.

Option 2 – Increase the rents in accordance with the previous Government guidance would result in a 5.5% rent increase, based on RPI in September 2014 plus 0.5% and working towards rent convergence.

### **REASONS FOR RECOMMENDED OPTION**

14. The Authority is required to approve the Housing Revenue Account budget for each financial year and monitor spending throughout the year. HRA budget information is reported quarterly to Cabinet. The HRA must make a provision for depreciation on Council dwellings as specified by the Government (as a minimum). It must also pay the necessary charges due on all its loans (loan charges - interest), any expenditure over and above this is discretionary but all expenditure must be funded from rent income. Option 1, a recommended rent increase of 2.2% allows the Council to fulfill its financial obligations in relation to the HRA.

## IMPACT ON THE COUNCIL'S KEY PRIORITIES

15. These are detailed in the table below:

	<b>Priority</b>	<b>Implications</b>
	<p>We will support a strong economy where businesses can locate, grow and employ local people.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Be a strong voice for our veterans</i></li> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	<p>More affordable homes will be built and more local jobs will be created.</p>
	<p>We will help people to live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	<p>More affordable homes will be built. SLHD helps tenants to sustain their tenancies.</p>
	<p>We will make Doncaster a better place to live, with cleaner, more sustainable communities.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	<p>More affordable homes will be built and money will be invested in improving the environmental aspects of estates.</p> <p>The HRA funds the Capital programme which includes £15m of energy efficiency work, which will reduce household bills.</p>
	<p>We will support all families to thrive.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	<p>More affordable homes will be built. SLHD helps tenants to sustain their tenancies.</p>
	<p>We will deliver modern value for money services.</p>	<p>Housing services in Doncaster are excellent value for money, see paragraph 6(f).</p>
	<p>We will provide strong leadership and governance, working in partnership.</p>	<p>St Leger Homes works as a key partner with a number of organisations across Doncaster.</p>

## RISKS AND ASSUMPTIONS

16. The table below identifies the main quantifiable risks, which might result in the actual income and expenditure in 2015/16 being significantly different from the estimates and proposed actions to manage/mitigate them;

Risk/Assumption	Probability	Impact	Proposed Action
Increase in rent arrears as a result of welfare benefit reform (under occupation criteria)	Medium	£2.0m of direct housing benefit payments will be lost by tenants during 2015/16.	Increased focus on rent collection and financial advice. Bad debt provision of £0.75m and £0.6m assistance fund.
Increase in rent arrears as a result of the introduction of universal credit.	Medium	Estimated that 200 new tenants will receive universal credit in 2015/16, instead of housing benefit paid direct to the landlord.	Increased focus on rent collection and financial advice. Bad debt provision of £0.75m and £0.6m assistance fund
Interest rates increase by 0.5%	Medium	Increased costs of £1.3m	A prudent estimate has been assumed for interest rates, a large proportion of loans are at fixed rates of interest.
Dwelling rent voids exceed the assumed level of 2.0% of the rent debit (£1.483m income reduction for the year) by 0.25% of rent debit.	Medium	Income reduction £0.185m	Regular monitoring of voids, reduce re-let periods, review strategy for long term voids. Demand for most properties remains high.
Dwelling rent voids exceed the assumed level of 2.0% of the rent debit (£1.483m income reduction for the year) by 1.0% of rent debit	Low	Income reduction £0.742m	Regular monitoring of voids, reduce re-let periods, review strategy for long term voids. Demand for most properties remains high.
Inflation in future years is lower than anticipated.	Medium	Rental income reduced, each 1% rent increase generates apx £0.7m	Inflationary projections for future years are based on low figures.

## LEGAL IMPLICATIONS

17. Section 24 of the Housing Act 1985 provides that a local housing authority may make such reasonable charges as they may determine for the tenancy or occupation of their houses. There is a duty from time to time to review rents and make such changes, either of rents generally or of particular rents, as circumstances may require. In exercising their functions under Section 24 a local housing authority in England shall have regard to any relevant standards set out for them under Section 193 of the Housing and Regeneration Act 2008.
18. The standards are set out in the Regulatory Framework for Social Housing in England from April 2012 issued by the Homes and Communities Agency.
19. Any increase in rents will be a variation to the terms of Council house tenancies requiring the service of a notice of variation on tenants specifying the reviewed rent at least four weeks prior to the variation taking effect in accordance with Section 103 of the Housing Act 1985.



20. With regard to furnished tenancies, Section 10 of the Housing Act 1985 provides that a local housing authority may fit out, furnish and supply a house under Part II of the Act with all requisite furniture, fittings and conveniences. It is a condition upon which occupation of the dwelling depends so that if a tenant does not pay the service charge in respect of the furniture etc, he or she risks eviction from the dwelling.
21. In taking this decision, the decision maker must be aware of their obligations under section 149 Equality Act 2010. This section contains the Public Sector Equality Duty (PSED). It obliges public authorities, when exercising their functions, to have 'due regard' to the need to:
- a. Eliminate discrimination, harassment and victimization and other conduct which the Act prohibits;
  - b. Advance equality of opportunity; and
  - c. Foster good relations between people who share relevant protected characteristics and those who do not.
22. The relevant protected characteristics under the Equality Act are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnerships, but only in respect of eliminating unlawful discrimination.
23. Case law has established the following requirements for the PSED to be exercised lawfully:
- The equality duties are an integral and important part of the mechanisms for ensuring the fulfilment of the aims of anti-discrimination legislation.
  - The relevant duty is on the decision maker personally. What matters is what he or she took into account and what he or she knew. The decision maker cannot be taken to know what his or her officials know or what may have been in the minds of officials in proffering their advice
  - It is important to record the steps taken by the decision maker in seeking to meet the statutory requirements in order to demonstrate that the duty has been discharged;
  - The decision-maker must assess the risk and extent of any adverse impact and the ways in which such risk may be eliminated before the adoption of a proposed policy. It is not sufficient for due regard to be a "rear-guard action" following a concluded decision;
  - In order to be able to discharge the duty the decision-maker must have information about the potential or actual equality impact of a decision. This information will often be gained in part through consultation;
  - The duty must be exercised in substance, with rigour, and with an open mind. It is not a question of ticking boxes; while there is no duty to make express reference to the regard paid to the relevant duty, reference to it and to the relevant criteria reduces the scope for argument;
  - General regard to issues of equality is not the same as having specific regard, by way of conscious approach to the statutory criteria;
  - Officers reporting to decision makers, on matters material to the discharge of the duty, must not merely tell the decision maker what he/she wants to hear but they have to be "rigorous in both enquiring and reporting to them";

- Although it is for the court to review whether a decision-maker has complied with the PSED, it is for the decision-maker to decide how much weight should be given to the various factors informing the decision, including how much weight should be given to the PSED itself;
  - The duty is a continuing one.
24. Decision makers should in particular note that the duty is for them personally. It is not sufficient to rely on advising officers to discharge the duty by the preparation of the due regard statement and this report. Decision makers must themselves read and actively take into consideration the due regard statement and the consultation materials.
25. Decision makers should also note that as the duty is a continuing one, it will be necessary for decision-makers to have due regard again at the time at which subsequent decisions may be taken. There should be a record/audit trail of how due regard has been shown.
26. The decision maker must also pay regard to any countervailing factors, which it is proper and reasonable for you to consider. Budgetary pressures, economics and practical factors will often be important. The weight of these countervailing factors in the decision making process is a matter for the decision maker.

## **FINANCIAL IMPLICATIONS**

27. These are contained within the body of the report.

## **EQUALITY IMPLICATIONS**

28. A Public Sector Equality Duty assessment is attached at Appendix C. There will be implications for individuals as a result of increasing rents but fundamentally rents are set based on the type and location of the property not with regard to the tenant.

## **CONSULTATION**

29. Cabinet have considered these matters at several meetings between October 2014 and February 2015.
30. Overview and Scrutiny Management Committee have been consulted on the Mayor's budget proposals at meetings held between November 2014 and February 2015. The following meetings have taken place:
- a. Members Budget Seminar – 25th November, 2014;
  - b. OSMC Formal Budget Meeting – 8th December, 2014;
  - c. Budget Meeting – 29th January, 2015 and 10th February, 2015;
  - d. Overview and Scrutiny Management Committee on the 19th February, 2015 formally considered the budget proposals. The Chair has provided a detailed written response for the Mayor.
- Members have been consulted through various meetings meetings (November 2014 to February 2015); Labour group and with the Leaders of other parties.

31. The proposed HRA budget and changes to rent and service charges have been the subject of formal consultation with representatives of the Doncaster Federation of Tenants' and Residents Association (TARA), members of the Tenants and Residents Involvement Panel (TRIP) and representatives from TARA groups on both 17 December 2014 and 19 January 2015. In summary, the response from the group is that they would like to see a rent increase which is as low as possible but they understand the reasons for the increase and the impact on the HRA business plan. Tenants want to receive value for money services but do not want to see a reduction in service delivery at a time when rents are increasing.
32. SLHD consult with their staff and unions on the proposals within the HRA budget which directly affect them.

This report has significant implications in terms of the following:

Procurement	N/A	Crime & Disorder	N/A
Human Resources	N/A	Human Rights & Equalities	N/A
Buildings, Land and Occupiers	N/A	Environment & Sustainability	N/A
ICT	N/A	Capital Programme	Yes

## **BACKGROUND PAPERS**

33. Housing Revenue Account Self-Financing Determinations  
Rents for Social Housing from 2015/16  
Budget working papers

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