DECISION-MAKER:	CABINET COUNCIL			
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET REPORT AND BUSINESS PLAN			
DATE OF DECISION:	9 FEBRUARY 2016 (CABINET) 10 FEBRUARY 2016 (COUNCIL)			
REPORT OF:	CABINET MEMBER FOR HOUSING AND SUSTAINABILITY			

CONTACT DETAILS					
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STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

The national self-financing regime for the Housing Revenue Account (HRA) was introduced in April 2012. The budgets in this report have been prepared using these arrangements, which include a requirement to prepare and publish a rolling 30 year HRA Business Plan covering both capital and revenue expenditure projections.

The report sets out the 2016/17 revenue budget for all of the day to day services provided to Council tenants in the city, the detailed capital budgets for 2015/16 to 2020/21 and the HRA Business Plan for the period 2016/17 to 2045/46. It includes the proposed changes in rents, service charges and other charges to council tenants from 1 April 2016.

RECOMMENDATIONS:

CABINET

(i)	To consider the report and agree that the recommendations, as set out below, be made to Council at the meeting on 10 February 2016.

COUNCIL

(i)	To thank the Tenant Resources Group for their input to the capital and revenue budget setting process and to note their endorsement of the recommendations set out in this report and also the broad support for the proposals received at the Tenants' Winter Conference.
(ii)	To note that the consultation feedback has been taken into

		consideration by Cabinet and has informed their final budget proposals.
	(iii)	To approve that, from 1 April 2016, a standard decrease should be applied to all dwelling rents of 1.0%, as set out in paragraph 16 of this report, equivalent to an average decrease of £0.87 per week in the current average weekly dwelling rent figure of £86.81.
	(iv)	To approve the Executive's savings proposals, as set out in Appendix 1 to this report, which amount to £4,311,000 in 2016/17 and £4,439,000 in subsequent years.
	(v)	To note the following weekly service charges from 1 April 2016 based on a full cost recovery approach: • Digital TV £0.42 (unchanged from 2015/16) • Concierge monitoring £1.20 (unchanged from 2015/16) • Tower Block Warden £4.97 (unchanged from 2015/16) • Cleaning service in walk-up blocks £0.63 (unchanged from 2015/16).
	(vi)	To note the new service charging model for Community Alarm and private Careline customers set out in paragraphs 37 and 38 of this report.
	(vii)	To note that the charges to Council tenants for garages and parking spaces for 2016/17 will be unchanged and that there will be an increase of garage rents by £1.00 per week for private residents.
	(viii)	To approve the Housing Revenue Account Revenue Estimates as set out in the attached Appendix 2.
	(ix)	To approve the revised Housing Revenue Account 5 Year Capital Programme set out in Appendix 3 and to note the key variances and issues in Appendix 4.
	(x)	To approve the 30 year Business Plans for revenue and capital expenditure set out in Appendices 5 and 6 respectively.
	(xi)	To note the HRA Business Plan - Planning Assumptions, as set out in Appendix 7.
	(xii)	To note that rental income and service charge payments will continue to be paid by tenants over a 48 week period.
REASONS FOR REPORT RECOMMENDATIONS		
1.	The Council's Constitution sets out the process to be followed in preparing the Council's budget. This process includes a requirement for the Executive to formally submit their budget proposals for the forthcoming year to Council. The budget proposals in this report cover the HRA revenue budget and capital programme.	
2.	In March 2012 the HRA paid a one-off levy to Government of approx. £74,000,000, known as the 'debt settlement', to buy its way out of the subsidy system and stop the need for annual payments. The introduction of the self-financing regime for HRA finances in April 2012 brought with it a requirement for long term business planning. This report also sets out in financial terms the HRA Business Plan for the next 30 years.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		

3.	The proposals in this report follow the key principles established in the HRA self-financing report approved by Council on 16 November 2011 and amended in subsequent budget reports. They are consistent with the views of tenant representatives expressed at various meetings during the preparations for HRA self-financing. More recently, these matters have been discussed at the monthly meetings of the Tenant Resources Group and at the Tenants' Winter Conference. Alternative options are not therefore supported.
DETAIL (Including consultation carried out)	
<u>Background</u>	
4.	The HRA records all the income and expenditure associated with the provision and management of Council owned homes in the City. This account funds a significant range of services to 16,438 homes for Southampton tenants and their families and to 1,843 homes for leaseholders. This includes housing management, repairs and improvements, welfare advice, supported housing services, neighbourhood wardens and capital spending on Council properties.
5.	This report sets out the HRA revenue budgets for 2016/17, the detailed capital programme for the period 2015/6 to 2020/21 and the 30 year HRA business plan covering the period 2016/17 to 2045/46. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2016/17.
<u>The HRA Business Plan Priorities</u>	
6.	The HRA Business Plan forms a fundamental part of the City Council Strategy 2014-17 – Good Quality and Affordable Housing. Resources are prioritised to the investment in improving the quality of accommodation and provide more affordable housing through the business plan headings as follows: • Safe, wind and weather tight; • Warm & Energy Efficient; • Modern facilities within the home; • Well maintained communal facilities; • Estate Regeneration & New Build. The Council is required to maintain its homes in accordance with the Homes and Communities Agency Regulatory Standard. This includes ensuring that Council owned homes continue to meet the Decent Homes Standard as well as ensuring we meet all our statutory compliance obligations as laid down in various regulations and legislation e.g. gas safety, electrical regulations, fire risk assessments, control of asbestos etc.
7.	In addition to the physical accommodation the Council's Housing Service plays a key role in two other elements of the City Council Strategy: • Prevention and Early Intervention; and • Protecting Vulnerable People. Work to support these elements of the Strategy are prioritised under the following headings.
<u>Tenancy Sustainment</u>	
8.	The Council recognises that a settled home is a fundamental building block to independence and quality of life. Families and individuals who experience a housing crisis are often suffering wider issues which require the intervention of

	wider Council or Health services. Therefore maintaining a settled home by sustaining a tenancy either in the social or private rented sector supports better life chances for the individual and household including better health outcomes, educational attainment and reduced demand for social care services. Housing Services is therefore committed to supporting: • Homelessness prevention; • Minimising tenancy failure; • Safeguarding vulnerable adults and children; and • The 'Families Matter' programme.
<u>Housing and well-being</u>	
9.	Housing Services supports some of the most vulnerable residents in the City from those who are Street Homeless through to Elderly Vulnerable residents in Extra Care Housing. By working with vulnerable groups through a 'Housing Plus' approach Housing can prevent or delay recourse to expensive social care or health services and help reduce crime and offending. Housing Services is therefore committed to supporting: • Outreach and support services helping residents self-manage, avoid crisis to remain healthy for longer; • Adaptations and Telecare Services enabling more people to live independently in their own homes for longer; • Investment in Housing with care accommodation reducing demand for high cost residential and nursing care; and • Community investment through Neighbourhood Wardens, Decent Neighbourhoods projects and Community Engagement to support active and vibrant communities where residents feel safe.
<u>Business Planning Principles</u>	
10.	A report to Council on 16 November 2011 approved the key principles that were to be adopted in the preparation of the HRA budget and Business Plan. Some additions and amendments were made in subsequent budget reports and the agreed principles are set out below.
<u>Borrowing Headroom</u>	
11.	The HRA must work within Government borrowing restrictions that have imposed a debt cap of £199,600,000. In November 2011, Council agreed that a proportion of any 'borrowing headroom' will be retained as a contingency for any unforeseen or high risk short term issues that need to be supported. In February 2014, Council approved the principle that the HRA Business Plan should have minimum borrowing headroom of £6,000,000, at the time of its annual approval. This set a capital contingency at a level of approximately 3% of the overall debt cap. This is comparable to the minimum level of HRA revenue balances which, when set, equated to approximately 3% of the annual dwelling rent income. Amendments to the capital programme would then be required to ensure that the minimum headroom is restored for the next annual update of the Business Plan.
<u>Dwelling Rents</u>	
12.	In October 2013 the Department for Communities and Local Government

	(DCLG) issued a consultation paper entitled 'Guidance on Rents for Social Housing' setting out in detail the Government's policy on rents from 2015/16 onwards. The principles in the paper were subsequently adopted as the Government's official guidance. The guidance stated that stock owning local authorities should increase rents by no more than the Consumer Price Index (CPI) plus 1.0%.
13.	The Housing Revenue Account Business Plan, as agreed by Council in February 2015, used a rent model which followed the Government's rental formula. The budget included assumptions of the CPI figure through the 30 year business plan and therefore the approved budget and spending commitments were agreed based on the anticipated rental income that the increase would provide for over the next 30 years. These assumptions are updated annually based on long term financial assessments and reported to Cabinet and Council as part of the HRA Business Plan Budget report in February each year.
14.	In their National Budget on 8 July 2015 the Government announced a number of proposals which are now contained within the Welfare Reform and Work Bill 2015/16 aimed at reducing the national welfare bill by £12bn a year. As part of the legislation the Government will impose a 1.0% per annum reduction in the level of Social Rent charged by Local Authorities and Housing Associations to their tenants for a 4 year period from 2016 to 2020.
15.	As a result of the proposals within the Welfare Bill, the new rental figures have been applied to the current business plan model. These new assumptions have the effect of both reducing the actual income within the HRA over the four years of the rental reduction, as well as the income over the duration of the business plan, as the Government Minister has announced the return to the rental formula previously in place. As reported to Cabinet in August and November, the reduction in Social Housing Rents has a significant impact on the HRA Business Plan. Based on the assumptions agreed by Council in February 2015 this has the impact of reducing the actual income within the HRA over the next 4 years by £33M and over the 30 year business plan by £493M. The immediate shortfall is addressed through the range of savings proposals set out in this report.
16.	This report recommends that, from 1 April 2016, a standard decrease should be applied to all dwelling rents of 1.0%, in line with the legislation. This is equivalent to an average decrease of £0.87 per week in the current average weekly dwelling rent figure of £86.81.
Service Charges	
17.	The November 2011 Council report approved the recalculation of all service charges to ensure that they were set to fully recover the costs of the service, but not produce a surplus. Delegated authority was given to the Head of Housing Services, following consultation with the Cabinet Member for Housing, to approve the annual revision to service charges within the policy parameters agreed by Council.
Garages and Parking Spaces	
18.	In February 2015 it was agreed to move to an increase based on the September CPI figure, rather than the Retail Price Index (RPI) figure. As for service charges, delegated authority was given to the Head of Housing Services to approve the revised charge.
HRA Revenue Revised Forecast 2015/16	

19.	The revised forecasts for 2015/16, which are based on month 8 revenue monitoring, are set out in Appendix 1. As the balance for the end of 2014/15 was expected to be £260,600 below the minimum level of £2,000,000 that was set under self-financing, there was a surplus budgeted for 2015/16 to reinstate balances to this minimum level. However, the position in 2014/15 improved and the working balance at the start of 2015/16 was at the required £2,000,000 level. This means that, although there is an adverse forecast variance of £218,600 in 2015/16, the end of year balance is forecast to be £42,000 over the minimum level. The main revenue issues are detailed below.
Responsive Repairs	
20.	During the 2015/16 estimates process there was a move towards transforming and modernising the future structure of the Housing Operations Division, identifying the structure of the teams and the value of work that would be available. As a result, it was not possible to provide a detailed estimate for Responsive Repairs and a figure of £11,000,000 was used which was based largely on the previous year's outturn. Since then more detailed estimates have been available, resulting in an increase in the forecast expenditure by £650,000. It is envisaged that a restructure of the repairs team in 2015/16, and the ongoing implementation of mobile working, will deliver part-year savings and reduce or eliminate the forecast overspend.
Rents Payable	
21.	Following an investigation into council tax payable on empty properties set aside for regeneration, an exemption from council tax was agreed, resulting in a large prior-year credit being received and a reduction in the forecast for current year costs. The total forecast favourable variance is £100,000.
Supervision & Management	
22.	There is a forecast adverse variance of circa £300,000. There are unbudgeted redundancy / pension release costs (£80,000), as well as costs associated with the implementation of the Living Wage for SCC, which is being backdated to April 2013 (£166,000). In addition, there are larger than budgeted exceptional disrepair claims of £55,000.
Interest Repayments	
23.	A re-evaluation of the capital programme has resulted in a reduction in the borrowing requirement and reduced the financing cost charged to revenue by £600,000.
Dwelling Rents	
24.	As part of the estimate process, certain assumptions were made as to the size of the housing stock. A larger number of right-to-buy sales than estimated were made during the last few months of 2014/15, which has led to a reduced income from dwelling rents of £440,000. In addition, dwelling and hostel voids are higher than estimated, which has led to a reduced income of £160,000. The recently recruited Empty Properties Manager will aim to continue to improve the void turnaround time and thus lower the rental income loss from void properties.
Leaseholder Service Charges	
25.	There is a forecast favourable variance of £650,000, as additional weather related repairs to leasehold properties from 2014/15 are being charged to leaseholders as per the conditions of their lease.
HRA Revenue Budget 2016/17	

26. The February 2015 approved HRA Business Plan made certain assumptions about the level of rental income that would be received over 30 years based on Government guidance that provided for an annual rent increase of CPI plus 1.0%. It assumed that on average CPI would be 2.5% per annum over the life of the plan. This was in line with average inflation figures over the past ten years and published forecasts. However, the actual CPI in September 2015, which would have been used to set the rent increase, was minus 0.1%.

27. As described in paragraph 15 of this report, the revised estimate of rental income compared to the approved HRA Business Plan shows a significant reduction over the next 4 years. This is set out in more detail in table 1, which follows this paragraph. The income loss has been split between the element that can be attributed to the CPI being lower than anticipated and that due to the change in Government guidance.

TABLE 1 - HRA Rental Income - Impact of 1% rent reduction for four years

	Income Loss			
	2016/17	**2017/18**	**2018/19**	**2019/20**
Rental Income Reduction	**£M**	**£M**	**£M**	**£M**
Due to CPI forecast variance	1.88	2.66	2.72	2.84
Due to change in Government guidance	1.38	3.90	7.14	10.61
Total reduction	3.26	6.56	9.86	13.45
Revenue Efficiency Savings	(3.43)	(3.44)	(3.53)	(3.62)
Increased Income	(0.28)	(0.29)	(0.29)	(0.30)
Revenue Service Reduction	(0.60)	(0.81)	(0.83)	(0.85)
Total savings proposals	(4.31)	(4.54)	(4.65)	(4.77)
Budget gap (Nov. 2015)	**(1.05)**	**2.02**	**5.21**	**8.68**
Further revenue budget & capital financing requirement changes	0.04	(1.02)	(1.63)	(1.25)
Revised Budget Gap	**(1.01)**	**1.00**	**3.58**	**7.43**
Revenue savings targets	Met	Met	(3.58)	(7.43)
Proposed Budget Position (Feb. 2016)	**(1.01)**	**1.00**	**0.00**	**0.00**
HRA Balance (Minimum £2M)	**3.01**	**2.01**	**2.01**	**2.01**

28.	Appendix 1 to this report outlines the full list of HRA budget proposals that were put forward for consultation in November 2015 with a description of each proposal and its impact. Table 1 above shows the extent to which these savings proposals address the income shortfall. Further changes, which have been identified from a detailed analysis of revenue budget and capital financing requirements over the next four years, totalling £3,900,000, are also shown. There has been a re-profiling of the required borrowing to shift capital loan repayments to later years (£2,900,000), as well as a reduction in financing costs due to the re-phasing of the capital programme from 2017/18 (£600,000). Additionally, the void rate for rents has been reduced from 2017/18 to reflect an anticipated reduction in the number of dwellings that are void, principally as a result of action taken by the new voids Manager (£400,000).
29.	It can be seen from Table 1 that the sum of the proposals, including appropriate inflation assumptions, would offset the income reduction in 2016/17 and all but £1,000,000 of the shortfall in 2017/18. However, if the proposals were implemented in line with the suggested profile, there would be an increase in balances in 2016/17 of £1,010,000 that would be sufficient to set a balanced budget in 2017/18. However, it should be noted that savings will be required over the next four years, not just two. Making more savings in the first year than required will ease this process, but significant further savings will have to be found in the new financial climate to make the HRA sustainable and balanced beyond 2017/18. Specifically, the HRA Business Plan includes further revenue savings targets of £3,580,000 in 2018/19, rising to £7,430,000 in 2019/20. It should be noted that the level of savings required to meet the reduction in income from the 1% rent reduction are significant. Such revenue savings cannot be achieved through efficiencies alone and will inevitably result in changes and reductions in the services currently provided to tenants or increases in charges for services.
30.	The original estimates for 2016/17 are set out for approval in Appendix 2. The main issues that need to be considered in setting the revenue budget are detailed below.
<u>Responsive Repairs</u>	
31.	A reduction of £2,790,000 (25.4%), compared to the original estimate for 2015/16, relates to expected revenue savings from the reorganisation of the Housing Operations Team (see savings proposals HOU 6 to HOU 9).
<u>Housing Investment</u>	
32.	The budget for 2016/17 is £750,000 (13.6%) lower than for 2015/16, principally due to a reduction in the decorations budget. A three year programme, commencing in 2013/14, to fund the catch up of a back log of work has now been completed.
<u>Supervision and Management</u>	
33.	The budget for 2016/17 has been reduced by £390,000 (1.8%) in comparison with the original estimate for 2015/16. This reflects the expected level of revenue savings, net of increasing budgets for inflation, staff increments and making provision for a 1% pay award.
<u>Interest & Principal Repayments</u>	
34.	Interest & principal repayments vary due to the level of borrowing required to fund the HRA Capital Programme and the loans maturing during the year.

Dwelling Rents	
35.	For 2016/17 rents have been calculated using the basis set out in paragraph 16. The income from dwelling rents is expected to be £1,460,000 lower in 2016/17, compared to the original estimate for 2015/16. This is principally due to the reduction of 1.0% in rents in line with Government proposals (£1,380,000). The balance reflects the lower number of properties due to Right to Buy sales.
Service Charges	
36.	The service charges for 2016/17 have been determined in accordance with the principles set out in paragraph 17. Where there has been no net increase in costs for existing services, as increases in staffing costs have been offset by reductions in other costs, the proposed weekly charges remain unchanged. A table of these proposed charges is shown below (based on 52 weeks).

Description	**Proposed weekly charge**
Tower block warden charge	£4.97
Concierge monitoring charge	£1.20
Digital TV charge	£0.42
Cleaning service in walk-up blocks	£0.63

Service Charges for Supported Accommodation	
37.	A review of service charges for supported accommodation was postponed to allow ongoing considerations about the best type of support to be provided in the future to reflect the new developments in the Better Care Fund, locality working and the development of potential future models of Telecare and Telehealth. However, a new service charging model will be introduced for Community Alarm customers, as set out in the Executive's initial savings proposals put forward for consultation in November 2015. The Community Alarm charges have not increased from a flat fee of £1.25 per week since 2009 and, if inflation had been applied, the charge would now be £1.46. Although approximately 70% of service users claim Housing Benefit, the current charge does not attract this benefit. Following a review of the costs of delivering the service, a revised charging model is proposed, as shown below. A maintenance charge has been split out, which will be eligible for Housing Benefit, along with an additional charge for an optional 24 hour home responding service.

Description	**Proposed Weekly Charge**
Community Alarm	
• Call Monitoring charge	£1.25
• Maintenance charge (eligible for Housing Benefit)	£0.85
• Responding Service charge (optional)	£0.75

38.	In addition, there will be an increase in charges to private Careline customers. The Careline Silver and Gold charges have not increased since 2005.

	Following a review undertaken, our charges need to be increased to better reflect service costs whilst remaining in line with market rates. Careline Silver will increase from £2.50 per week to £3.00 per week and Careline Gold will increase from £3.50 per week to £4.25 per week. If inflation had been applied charges would now be £3.39 & £4.74 respectively although not aligned to the market.
Other Charges	
39.	As the September CPI was a very minor reduction of 0.1%, the charges for garages and parking spaces will remain unchanged for 2016/17. As set out in the Executive's initial savings proposals put forward for consultation in November 2015, there will be an increase of garage rents by £1.00 per week for private residents.
HRA Capital Budget 2014/15 to 2019/20	
40.	The HRA Capital Programme was last updated and approved in November 2015. These spending plans have now been reviewed to take account of the latest estimated costs and phasing of those schemes and the forecast change in resources.
41.	The proposed February programme is shown in detail at Appendix 3. The programme update total is £311,757,000. If prior year spend of £63,656,000 is excluded, the revised total is £248,101,000. This can be compared to the total of £202,492,000 in the programme approved by Council on 18 November 2015, resulting in an increase of £45,609,000, which represents a percentage increase of 22.5%.
42.	The changes in the overall programme are summarised by year in the table in Appendix 4. A large proportion of the increase (£39,084,000) is due to the addition of new schemes following the extension of the programme to 2020/21. The other main changes in total scheme spending, totalling £6,525,000, and the significant changes in spending between years are also set out in Appendix 4.
Townhill Park Estate Regeneration	
43.	The previously approved site assembly funding for Townhill Park Estate Regeneration remains within the HRA Capital Programme. However, the provision within the HRA Business Plan to buy-back units has been reduced from £50,000,000 to £7,700,000. This is intended to allow the buy-back of 50 phase 1 units in 2018/19, which are part funded from a grant from the Homes and Communities Agency. There is no longer any provision to acquire further units in phases 2 and 3 at the present time, but this will be reviewed pending what Devolution deal is reached with Government on housing investment. Further details on the Estate Regeneration programme are contained in a separate report on the Cabinet agenda.
HRA Business Plan 2016/17 to 2045/46	
44.	A 30 year HRA Business Plan has been prepared using the planning principles agreed in November 2011 and amended by the proposals in the subsequent budget reports. The summary for the revenue and capital budgets is set out in Appendices 5 and 6. Other key assumptions used in the updated plan are set out in Appendix 7.
45.	The main points to note are: • All HRA debt can still be repaid over the 30 year life of the plan. • The capital spending plans still include provision to maintain and improve all existing dwellings and feature an increase in the level of planned

	expenditure in the early years that has been reflected in the updated capital programme. This increase is a reflection of the backlog of improvements to tenants' homes, due to insufficient funding under the former HRA 'subsidy' system, which needed to be addressed under the self-financing regime. • This investment can be achieved within the Government's borrowing limit of £199,600,000, also known as the 'debt cap'. Additionally, a reserve of at least £6,000,000 borrowing headroom is retained throughout. • The provision that is set aside for stock replacement, which will support the renewal of any of the existing dwellings that may be required over the next 30 years, remains at approximately £130,000,000. This provision has been phased between year 9 and year 30 of the plan. • In addition, the funding of £10,000,000 for Citywide Estate Regeneration is retained and £7,700,000 is included to buy back properties as part of Townhill Park Estate Regeneration • The revenue budget continues to meet minimum balances of £2,000,000 over the life of the plan.
46.	The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case, although in the proposed updated plan for 2016/17 onwards the year 30 projected revenue balance will be reduced to £18,800,000 compared to the equivalent figure of £80,600,000 in the previous approved plan, due to the impact of the 1% reduction in rents. The predicted revenue surpluses do not now begin to significantly exceed minimum levels until 2026/27, rather than 2022/23 in the previous plan limiting capacity and flexibility for new schemes or additional expenditure for this period.
47.	As previously reported, the main risk to the long term plan is that, if building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on HRA balances. Therefore the surpluses are liable to change annually, either favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates.
Sensitivity Analysis	
48.	In order to show the sensitivity of the Business Plan to other changes, two independent sensitivity analyses have been undertaken to show the impact on the year 30 projected revenue balance of £18,800,000. • If average CPI over the 30 years is 2.0%, rather than 2.5%, the 30 year revenue position becomes a deficit of £94,300,000; • If the rent increase is limited to CPI in years 5 to 9 of the plan, rather than CPI plus 1.0% as per current guidance, the 30 year revenue position becomes a deficit of £50,500,000. Therefore, it will be necessary to closely review and monitor the impacts of changes to any assumptions underlying the business plan so that the overall budget position can be maintained to support the investment in services and properties to meet the expectations of tenants and our regulatory requirements.
The Housing and Planning Bill and other potential pressures	
49.	On 13th October 2015 the Government published the Housing and Planning Bill 2015/16. This bill sets out a number of proposed changes to Housing legislation which will impact on the current delivery of services to tenants and the resources required to do so. In summary, the main proposals likely to affect the HRA Business Plan are as follows:

Extension of the Right to Buy	
50.	Following a deal struck between the Government and the National Housing Federation, whereby housing associations will extend the right to buy to their tenants on a voluntary basis, the Bill will enable the Government to make payments to associations to compensate them for the cost of the discounts on offer. The Bill will also allow the Government to publish ‘the home ownership criteria’ (a set of rules for the extension of right to buy) and to direct the Homes and Communities Agency to monitor associations’ compliance with the criteria. Although the government intends to ‘phase in’ the scheme and it does not directly apply to Local Authorities it is predicted that initially around 10% of homes owned by Housing Associations may be sold under the new Right to Buy proposals within the first two years. This may have the impact of reducing the supply of affordable housing within the City by around 600 homes placing further pressure on waiting lists and potentially homelessness in the City.
Sale of High Value Vacant Council Homes	
51.	The government has previously announced a plan to require local authorities which have retained ownership of their stock to sell high value homes as they become vacant. It intends to use the receipts from these sales to fund the extension of the right to buy to housing association tenants and to create a Brownfield Development fund. The Bill will enable the government to set out a definition of ‘high value’ homes and will create a duty on local authorities to consider selling homes that meet this definition when they become vacant. The Bill will also allow the government to estimate the amount of money it would expect each individual authority to receive, in each financial year, from sales of high value homes. Authorities will then be required to pay this amount to the Treasury. Details of both the definition of high value homes and the mechanism by which the government will calculate the amount owed by each stock retaining authority will be published at a later date. Once full details are published we will be able to review the impact on the HRA Business Plan both in the potential number of homes that will be required to be sold and the amount due to be paid to the Government under the annual calculation. At this stage it has not been possible to make any provision for this within the Business Plan. Should this be introduced, as anticipated, from April 2016 this will have to be addressed as a pressure to the Business Plan in 2016/17 whilst formal calculations on the longer term impacts are considered for inclusion in the Business Plan from April 2017.
High Income Social Tenants; Mandatory Rents (Pay to Stay)	
52.	The Bill will require council tenants with a higher income to pay a higher rent. Initially a ‘higher income’ will be defined as a household earning more than £30,000 per year, or £40,000 in London. However the government will set out details of how increased rents will be calculated at a later date. The Bill will require council tenants to declare their income to their landlord and will also allow social landlords to share data with HMRC in order to verify that the information they have been given is correct. The Bill will require local authorities to return any additional rental income generated by the policy (minus some limited allowance for administrative costs) to the Treasury. The Government consulted on these proposals in November and at the time of writing we have yet to receive guidance on how the policy will operate or when it will be implemented. At this time it is difficult to anticipate the impact in Southampton however both the requirement to collect income data from tenants and the

	requirement to collect and then pay to Government higher rents will have an administrative burden on the City Council for which no provision is currently made. Further if the cost to the Council is introduced in the form of a levy which becomes payable regardless of the actual rent collected then any non-payment of higher rents will be a real income loss to the Council. Whilst the guidance suggests Councils will be provided an allowance for administrative costs of the scheme we have no detail to ascertain if the allowance made for administration will cover actual costs of administering the scheme therefore placing potential further revenue pressures on the Business Plan.
<u>Lifetime Tenancies</u>	
53.	In December the Government introduced an amendment to the Housing Bill proposing a removal of the practice of granting Lifetime tenancies to tenants of affordable housing. The Government is proposing that lifetime tenancies are replaced with ‘flexible tenancies’ for a period between 2 and 5 years for all new and transferring tenants with very limited exceptions. If this is introduced there will be a requirement on all landlords to review every new tenancy based on the length of the tenancy. The City Council currently lets on average around 1,100 homes each year. This will undoubtedly increase housing turnover. This review requirement will increase the administrative burden on the City Council as well as potentially increasing both the costs of managing empty properties and the lost rent whilst a property is empty. No provision is currently made for these potential costs. Further if certain property types or transferring tenants are not exempted it may have a direct impact on reducing tenants’ ability to move to smaller accommodation such as supported housing and the Council’s ability to let our Supported Housing or Housing with Care schemes to older residents.
<u>Universal Credit</u>	
54.	The Government has begun the roll out of Universal Credit to all new applicants in a series of phases. It is anticipated that full roll out in Southampton will be undertaken in 2017. Universal Credit is a combined single transaction incorporating most state paid benefits into one monthly payment to the claimant. This includes a provision for Housing costs currently covered under Housing Benefit. Universal Credit is paid directly to the claimant in arrears and the individual is then required to budget for and make the necessary payments for their household expenses in order to help prepare individuals for work. Presently approximately 50% of the Council’s rent income from around 60% of its tenants comes direct through the Housing Benefit system. Once Universal Credit is rolled out the Council will need to collect all its rental income directly from tenants significantly increasing transactional costs. Based on a recent study of Local Authorities who have already introduced Universal Credit 89% of tenants who receive Universal Credit have some level of arrears of rent on their account and around a third have required an Alternative Payment Arrangement (APA). Any loss of rental income will impact on the City Council’s ability to fund its proposed expenditure. Whilst some consideration has been given to the bad debt provision within the HRA Business Plan and the resources in the Income Team to support increased customer contacts no provision has yet been made for the additional transaction costs or the reduction of current tenant collection rates.
<u>Consultation</u>	
55.	The budget and business planning key principles were discussed with tenants

	at various meetings during the preparations for self-financing. More recently, these matters have been discussed at the monthly meetings of the Tenant Resources Group and at the Tenants' Winter Conference.
56.	The Winter Conference was well-attended with 93 tenants and leaseholders from across the city present. There was broad support for the proposals in particular the ongoing higher levels of investment in tenants' and leaseholders' homes.
57.	It is recommended that Members formally recognise and welcome the support and commitment of tenants and tenant representatives who have participated in this year's capital and revenue budget setting exercise which has been a particularly challenging process due to the level of changes currently proposed.
58.	The Executive's initial savings proposals were put forward for consultation in a Cabinet Report approved on 18 November 2015. They were used as the basis for extensive consultation with a range of stakeholders. The consultation process is described in more detail in the General Fund budget report on this agenda.
59.	The results of the consultation were reported to Cabinet Members prior to the agreement of the Executive's final proposals, which are now presented to Cabinet and Council. The final savings proposed, included as Appendix 1, are unchanged from the initial proposals.
60.	There has also been consultation with various officers within the Council and with our partners and this will continue as the capital and revenue initiatives in this report are developed to support the delivery of wider city objectives.
RESOURCE IMPLICATIONS	
Capital/Revenue	
61.	These are in the body of the report.
Property/Other	
62.	None.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
63.	Housing Act legislation provides the authority to increase rent and other associated or like charges. There are no specific legal implications arising from the overall budget proposals contained in this report.
64.	The provision, maintenance and improvement of social housing by local authorities is authorised by various Housing Acts and other legislation.
65.	The Localism Act 2011 gives the statutory basis for the HRA self-financing arrangements set out in this paper.
Other Legal Implications:	
66.	None.
POLICY FRAMEWORK IMPLICATIONS	
67.	The HRA estimates form part of the Council's budget and are therefore key elements of the council's overall budget and policy framework.

KEY DECISION?	Not applicable (Council decision)
WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION	
Appendices	
1.	HRA – Budget Savings Proposals 2016/17 to 2019/20.
2.	HRA Revenue Estimates.
3.	HRA 5 Year Capital Programme.
4.	Key Variances & Issues – February 2016 programme update.
5.	HRA Business Plan – 30 year revenue account.
6.	HRA Business Plan – 30 year capital spending plan and financing.
7.	HRA Business Plan – Planning Assumptions.
	ESIAs http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=126&MId=3055&Ver=4

Documents In Members' Rooms

1.	None.
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**Yes**
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	**No**
Other Background Documents **Other Background documents available for inspection at:**	
Title of Background Paper(s)	**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1. None.	