

## **Extraordinary Cabinet**

**15 January 2015**

**Present:** Mrs N Redfearn (Elected Mayor) (in the Chair),  
Councillors CA Burdis, EN Darke, R Glindon, JLL Harrison  
F Lott, CB Pickard and JJ Stirling

**In Attendance:** D Hodgson (Business Sector)

### **CAB130/01/15 Apologies**

Apologies were received from Councillors I Grayson and L Spillard.

### **CAB131/01/15 Declarations of Interest**

There were no declarations of interest made.

### **CAB132/01/15 2015-2018 Financial Planning and Budget Process: Cabinet's Final Budget Proposals for the 2015/16 Housing Revenue Account (HRA) Business Plan and Budget (All Wards)**

Cabinet considered a report on the Final Budget Proposals for the 2015/16 Housing Revenue Account (HRA) Business Plan and Budget.

Annex 1 of the report detailed the Cabinet's 2015/16 final budget proposals for the Housing Revenue Account and associated Business Plan, the 2015-2019 Housing Investment Plan and the Housing Treasury Management Statement and Annual Investment Strategy for 2015/16.

At its meeting on 8 September 2014, Cabinet had approved the process and timetable to be adopted for the preparation of the 2015/16 revenue budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), and the 2015-2019 Investment Plan, as part of the overall Financial Planning and Budget process for 2015-2018. Cabinet had also approved the Budget Engagement Strategy at that meeting (Minute CAB56/09/14 refers.)

Cabinet, in its report of 24 November 2014, had set out the estimates of amounts for all aspects of the Elected Mayor and Cabinet's proposed spending and resource plans for the General Fund and the Housing Revenue Account budget 2015-2018 and associated Investment Plan 2015-2019. In addition, the report had outlined the proposed housing rent, garage rent and service charge increases for 2015/16. (Minute CAB99/11/14 refers.)

Following the report on 24 November 2014 in relation to the Housing Revenue Account for 2015/16, in accordance with the responsibilities of Cabinet pursuant to the Local Government Act 2000, Cabinet was now formally asked to approve the housing rent, garage rent and service charge increases, along with the housing element of the 2015-2019 Investment Plan. The November report had started with the 2014/15 budget monitoring position reported to Cabinet as at September 2014. At Cabinet on 12 January 2015 the budget monitoring position at November 2014 had been reported (Minute CAB121/01/15 refers). The starting balance for the revenue account had therefore increased by £0.095m, and, in the Investment Plan, the amount of re-programming had increased by £0.834m in relation to New Build schemes. These changes had been reflected in the figures shown in Appendix A and Appendix B of Annex 1 of the report.

There had been no changes to the rent, garage and service charge increases proposed in the 24 November 2014 Cabinet report for 2015/16, and no other changes to the revenue plans for 2015-2018 or to the 2015-2019 Investment Plan programme from the figures presented on 24 November 2014.

Since April 2014 the Authority had engaged with over 2,000 tenants and leaseholders in detail in relation to all aspects of housing services. This had included where money was spent, rent increases for tenants and priorities for the budget moving forward.

Specific consultation had included discussions at Area Housing Forums and the 'Making a Difference' event in summer 2014 where 120 tenants had been consulted. Tenants on the Income Service Development Group monitored the rent performance and had been consulted on the implications to the HRA of the proposed rent increase. Tenants had also been involved in the review and development of a new Housing Asset Management Strategy which set the key priorities for investment in the housing stock.

The next edition of Housing Matters would provide tenants with information on the proposed rent increase for 2015/16 and on how the rent money had been spent in 2014/15. Housing Matters would also contain comprehensive information about current service delivery and the priorities for the future, based upon tenant feedback.

Priorities and challenges for the year ahead were discussed with the Housing Overview Panel on a quarterly basis. The Panel was made up of representatives from each of the Service Development Groups. Topics for discussion included proposals for new build properties, developments arising out of the welfare reform changes, budget priorities for next year and performance management of rent arrears.

The key issues arising from the consultation on Housing so far, included:

- Support for building new affordable homes;
- Pressures on advice services arising from the Government's Welfare Reform changes;
- Support for improvements being made at North Tyneside Living Accommodation for older tenants in the borough;
- Concern at the cumulative impact of Welfare Reform on tenants of working age, on benefits and on tenants currently under occupying their homes;
- Support for proposals to make it easier for tenants to move home; and
- Tenants were pleased to see continued investment in maintaining their homes to the decent homes standard.

Historically, the HRA budget-setting process had revolved around HRA Subsidy Determinations, which had a major impact on the HRA budget. Self-financing had changed that, with the critical determinants of the budget now being the rent increase, rent collection rates, the Treasury Management Strategy, and how the costs of managing and maintaining stock was controlled and the future stock investment needs.

Setting the rent was still crucial to the HRA budget-setting process. The Chancellor's Spending Review statement in June 2013 had included proposals to effectively end rent convergence a year early, and set a new social rent policy for the next 10 years. From 2015/16 rent increases for the next 10 years would be based on the Consumer Prices Index (CPI) inflation measure plus 1%, instead of Retail Price Index (RPI) plus ½%. This represented a fundamental change to some of the basic assumptions within the self-financing model, which considered alongside changes to the RTB scheme and Welfare Reform changes, provided a challenge to maintaining the resource base within the plan. Based on CPI at September 2014 of 1.2%, the recommended average rent increase for 2015/16 for North Tyneside would be 2.2%.

The change in rent policy was announced as giving the social housing sector greater certainty in its planning. At that time CPI (2.7% for September 2013) was trending at ½% a year below RPI (3.2% for September 2013), which in itself logically would make little difference to rent levels i.e. RPI + ½% compared to CPI + 1%. The difficulty for future planning was the timing of the change, and potential changes to the basis of the calculation, rather than the overall intention to provide certainty, because:

- As feared, CPI and RPI had diverged as measures of inflation. The gap had been 0.5% a year ago but now stood at 1.1% as RPI in September 2014 was 2.3% compared to CPI at 1.2%. The Office of Budget Responsibility (OBR) had predicted this divergence but what they had not estimated was that both measures would be so low. The Government target measure for CPI was 2%; and,
- Applying the policy from 2015/16 effectively ended rent restructuring a year early, which for authorities such as North Tyneside who were on a steep convergence path, would mean a significant loss of resources from the Business Plan, estimated at over £50m during the next 30 years.

Therefore, under these proposals, tenants were likely to see lower rent increases from 2015/16 than if the current rent re-structuring path continued, but this acceleration of the timetable would reduce the resources available to develop the stock, improve services and build new homes. A further consequence would be that very few homes would ever converge to target rent, other than new build or significantly refurbished homes, and hence two identical council homes which currently had differential rents would never move to an equitable rent, with each other or with other homes provided by registered providers in the Borough. The implications and possible mitigations for this were detailed in the report.

Given the significant nature of the national policy changes being implemented, the HRA would have to continually revise its position as there was a degree of fluidity in a number of the key variables in this process.

Section 76 (2) of the Housing Act 1989 required each authority to produce a Housing Revenue Account budget in the January and February that immediately preceded the financial year to which it would relate. In relation to the Housing Revenue Account (HRA) revenue budget, there was a legal requirement to give all tenants at least four weeks notice of any rent changes. By agreeing to set the rent increase and the HRA budget at this meeting, Cabinet would ensure that there would be time to comply with the notice period, and to allow time for the production and delivery of the appropriate notifications as well as all relevant system testing and changes to be made.

The Elected Mayor thanked all Members and Officers involved in drawing up the proposals.

Cabinet considered the following decision options: either to agree the recommendations as set out in section 1.2 of the report, or alternatively to disagree with the proposals.

**Resolved** that (1) the final proposals in relation to the 2015/16 Housing Revenue Account Budget, and associated Business Plan, be approved and the Housing Revenue Account Statement to Cabinet by the Chief Finance Officer, be noted;  
 (2.) an increase in individual council rents by 2.2% as outlined in the report in line with the Government's new guidance on social rent policy, be approved;  
 (3) moving rents to target social rent when properties become vacant and are due for re-let, except in certain circumstances i.e. mutual exchanges, successor tenancies or in circumstances where the authority requests people to move with no choice, be approved;  
 (4) housing service charges and garage rents be increased by 1.2%;

- (5) the assessment in relation to the current year's budget monitoring information (2014/15) and indications of financial plans for 2015/16, 2016/17 and 2017/18 for the Housing Revenue Account, be noted;
- (6) the Housing (HRA) 2015-2019 Investment Plan, be approved;
- (7) the current position in relation to the Government's Welfare Reform changes as they affect the HRA, be noted and authority be delegated to the Chief Executive (as Section 151 Officer) in consultation with the Elected Mayor, Cabinet Member for Housing and Environment and Deputy Chief Executive to take appropriate action should it be necessary, with particular reference to the level of in-year Bad Debt Provision within the HRA;
- (8) the Prudential Indicators which are specific to the Housing Revenue Account as detailed in the report, be approved; and
- (9) the Draft Corporate Treasury Management Statement and Annual Investment Strategy for 2015/16 which sets out the general principles followed by both the HRA and the General Fund in relation to the Authority's management of investments, cash flows, banking, money market and capital transactions, be noted. The draft will be due for approval by Full Council at its meeting on 19 February 2015 as part of the overall Financial Planning and Budget process. In relation to the HRA the continued policy of paying off existing debt where affordable and appropriate for the Plan, which will see an estimated £122.395m reduction in loans attributed to the HRA from the start of self-financing to the end of this 30 year plan, be noted.

(Reason for decision – In order to maintain the integrity of the self-financing HRA Business Plan, the Cabinet needs to maximise the resources available to the HRA, but also needs to be mindful of the impact upon tenants and overall affordability. Therefore Cabinet has been advised to adhere to the new Government guidance on social rent policy, whilst taking the opportunity to move properties to target rent upon re-let, which will help maximise the resources available within the Plan. The full implications of Welfare Reform are as yet unknown, but the Authority will be in a more difficult financial position if it cannot generate the income required to maintain and develop the stock and indeed to build new stock, to help meet the aspirations of Members and tenants.)

### **CAB133/01/15 Date and Time of Next Meeting**

6.00pm on Wednesday 28 January 2015 (Extraordinary Meeting)  
6.00pm on Monday 9 February 2015(Ordinary Meeting)

**Minutes published on Tuesday 20 January 2015.**