

DECISION-MAKER:	CABINET COUNCIL		
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET REPORT		
DATE OF DECISION:	2 FEBRUARY 2009 18 FEBRUARY 2009		
REPORT OF:	Cabinet Member for Housing and Local Services		
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STATEMENT OF CONFIDENTIALITY

None

SUMMARY

This is the Housing Revenue Account (HRA) budget report covering the HRA revenue budget for 2008/09 and 2009/10 and capital budget for the period 2008/09 to 2011/12.

For the revenue budget this report sets out the revised budgets for the current financial year and the budgets for the new financial year for all the day to day housing services that are provided to Council tenants. This report also sets out the proposed increases in rents, service charge and other charges to council tenants from April 2009. Key revenue issues are:

- The Department for Communities and Local Government (CLG) have extended the rent restructuring period to 2023/24.
- Following the CLGs new rent restructuring rules would give an average rent increase of 6.27%.
- The HRA subsidy payments made to CLG are estimated to increase from £5.5M in 2008/09 to £5.8M in 2009/10. This payment is forecast to increase in subsequent years.
- There are net revenue efficiency savings of approximately £1M which has helped finance the capital programme.
- The support and service charges for sheltered housing have been completely revised and updated following the approval of the sheltered housing review and the new supporting people contract from April 2009.

This report also updates the HRA Capital Programme that was approved by Council in September 2008. The capital programme has spending plans that exceed £100M over the period 2008/09 to 2011/12. The focus of spending is:

- Making improvements to over 6,000 dwellings in order to achieve the decent homes standard
- Implementing the sheltered housing review
- Completing the lift replacement programme in all high rise blocks and the

installation of the new concierge service

- Crime reduction and safety
- The decent neighbourhoods programme

The detailed spending plans reflect the priorities set out in the HRA Business Plan and have been discussed with tenants. It is expected that this programme of improvement works will achieve the objective of ensuring that all Council owned homes reach the decent homes standard by 2010.

RECOMMENDATIONS:

CABINET

- (i) To consider the report and agree that the following recommendations be made to Council at the meeting on 18 February 2009.

COUNCIL

- (i) To thank Tenant Association Representatives for their input to the capital and revenue budget setting process and to note their views as set out in this report.
- (ii) To agree that, with effect from the 6th April 2009, the current average weekly dwelling rent figure of £61.67 should increase by 6.27%, which equates to an average increase of £3.87 per week, and to approve the following to calculate this increase:

- That the percentage increase applied to all dwelling rents should be 5.5%, equivalent to £3.39 per week
- That the revised phased introduction of the Government's Rent Restructuring regime should be followed, giving a further overall increase average rent levels of 0.77% (£0.48 per week) and,

to note that:

- The total percentage increase in individual rents will vary according to the restructured rent of their property in 2023/24.
- (iii) To agree that there is no increase in the charges for garages and parking spaces for 2009/10.
 - (iv) To agree that there is no increase in the service charges for tower block wardens or the concierge service for 2009/10.
 - (v) To approve the deletion of the current Support Charges and associated transitional protection payments in sheltered housing accommodation, and the replacement of these charges by the following:
 - A new Support Charge of £2.85 pw (based on a 48 week rent year) for tenants in newly designated Scheme Based accommodation,
 - A separate Community Alarm Service (CAS) monitoring charge of £1.35 pw (based on a 48 week rent year) which applies to all sheltered accommodation

- (vi) To revise the Housing Management service charge for sheltered housing schemes so that costs are more fairly split between those who benefit from the service, and agree that the new charges (based on a 48 week rent year) will be:
 - £5.31 pw for all Scheme based accommodation
 - £1.33 pw for all non scheme based accommodation
- (vii) To approve the Housing Revenue Account Estimates as set out in the attached Appendix 1.
- (viii) To note the savings that have been made in the budget process, as set out in paragraphs 13, 14 and 15,
- (x) To note that rental income and service charge payments will be paid by tenants over a 48 week period.
- (xi) To approve the revised Housing Revenue Account Capital Programme set out in Appendix 3 which includes total spending of £83.007M on work that meets the definition of “affordable housing”.
- (xii) To approve the use of resources to fund the HRA Capital Programme as shown in Appendix 4, including the following use of unsupported (prudential) borrowing:
 - £2.150M to support the overall programme (unchanged from the report in September 2008)
 - £0.570M to fund the Estate Regeneration proposals
 - £2.600M to fund the digital TV proposals if this is more cost effectively purchased rather than leased and
 - £1.420M of short term borrowing to sustain the programme in 2009/10, which can be repaid by the end of 2011/12.

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.

CONSULTATION

2. The consultation formed part of the “Having Your Say” approach to tenants and resident involvement, with the budget consultation being part of the “winter conference”. This was a well attended meeting with over 70 tenants and residents in attendance. The key budget issues set out in this report were discussed at this meeting. There was a great deal of concern expressed about the increasing “subsidy” payment to the CLG and the impact of the Government’s rent restructuring policy on rent levels. It was agreed that everybody (tenants, members and officers) should continue their work to bring about a change to the current subsidy system as soon as practical.
3. The budget position has also been the subject of discussion with representatives from the Tenants Federation. The Tenants Federation

reluctantly concluded that the rent increase for 2009/10 should be calculated using the rent restructuring guidance but asked if the Council could look at lower, if any, increase in the charges for garages and parking spaces. The recommendations in this report take account of this and propose freezing charges for Tower Block and Concierge services as well as the charges for garages and parking spaces.

4. The size and content of the HRA capital programme was also discussed and it was noted that the capital spending proposals are in line with the outcome of stock options appraisal and tenants' aspirations.
5. It is recommended that Members formally recognise the support and commitment of tenants and tenant representatives who have participated in this years capital and revenue budget setting exercise.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

6. The alternative option of not setting next year's rent increase in accordance with the new rent restructuring guidance as well as changes to the HRA Capital Programme and HRA Revenue Estimates have been discussed with the tenant representatives. It was noted that setting a lower rent increase in 2009/10 would result in higher increases in subsequent years and lead to reductions in the capital programme, and this was not supported.

DETAIL

Background

7. The HRA budget comprises a set of revenue estimates and a capital programme. The revenue budget covers 2008/09 and 2009/10. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2009/10. The capital programme covers the period 2008/09 to 2011/12. A major issue in this years budget has been the HRA subsidy position and the scale of the rent increase brought about by the rent restructuring guidelines.
8. 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 over 18,000 Southampton tenants and leaseholders and their families. This includes housing management, repairs and improvements, welfare advice, sheltered housing services, neighbourhood wardens, and contributes to bringing all Council properties up to the decent home standard.
9. The HRA Capital Programme deals with all capital expenditure on Council Housing and related environmental works. The revised Capital Programme is shown at Appendix 3. This has been updated in consultation with tenant representatives as part of the budget setting process.
10. The main focus of the HRA capital programme is to deliver the decent homes and decent neighbourhoods agenda. Other important areas of spending are estate regeneration, crime reduction and safety and property adaptations for people with disabilities.
11. The budget proposals in this report will ensure that all Council properties meet the decent homes standard by 2010.

Revenue Budget

12. The main issues that need to be considered in setting the revenue budget are set out below.

Responsive repairs

13. The proposed budget for 2009/10 is £10.175M which is set taking into account the lower rate of inflation, fewer repair requests, the roll out of the concierge programme and the implementation of the mobile working project from October 2009. These savings amount to nearly £900,000. Savings of £400,000 are also expected in 2008/09 due to the lower number of repairs.

Programme repairs

14. The proposed budget for 2009/10 is £5.306M, which accommodates cost pressures on Asbestos Removal (£100,000), Energy Performance Certificates (£90,000) and Gas servicing (£160,000) which have been offset savings on Servicing contracts (£250,000), Structural Surveys (£30,000), Health and Safety works (£30,000) plus a range of small savings on other schemes. The net savings amount to £127,000. There are additional costs of £245,000 in 2008/09 in relation to gas boiler servicing and replacements, which was reported to Cabinet on 19 January 2009.

Supervision and Management

15. There have been a significant number of changes in this part of the budget for 2009/10 which are summarised below:
- There are savings proposals which are budgeted to deliver £562,000. These are principally efficiency savings relating to covering vacant posts, the use of consultants and other similar budgets. The only service reductions relate to no longer using the South Coast Money Line service and not proceeding with Youth Warden Pilot.
 - There are cost pressures over and above inflation of £108,000 for the loss of funding from supporting people, a worklessness project and additional support for Estate Regeneration.
 - Additional expenditure of £112,000 has been included for the full rollout of the concierge service, but there is also an increase in service charge income for this new service of £98,000 plus savings of £60,000 for responsive repairs.
 - There is additional provision of £190,000 for Neighbourhood Wardens.
 - There have been a number of changes in the arrangements for sheltered housing and supporting people. Some expenditure is now included in Supervision and Management (£225,000), but this is fully offset by service charge income. This is covered in more detail in paragraphs 22, 23 and appendix 2.

Interest income

16. Additional interest income of £500,000 is expected in 2008/09 due to higher interest rates in the early part of the year and higher balances than expected. There is however, no such gain in 2009/10 as income is expected to fall to

little over £100,000.

HRA subsidy

17. In summary, the Council is still in “negative subsidy”. The payment to CLG is increasing from £5.5M in 2008/09 to £5.8M in 2009/10. However, this is less than originally expected because the Management, Maintenance and Major Repairs allowance are all higher than expected.
18. The payment to CLG is a major concern, particularly as it is expected to increase each year. At a national level it is now generally accepted that the Government receives more in “negative subsidy” payments from some councils than it pays out in subsidy to others, which is why the system is often referred to as “a tax on tenants”. The Treasury and CLG have started a national review of the HRA and the subsidy system. The findings are due to be announced in summer 2009. Tenants are very concerned at the current payments and forecasts for the future and have expressed their concerns in writing to local MPs. In addition:
 - SCC have joined with other Councils to lobby for change and have protested about the system in our annual response to CLG on subsidy and rents and
 - The Chair of the Local Government Association has referred to the pressures this is causing in Southampton in a recent speech.

Dwelling Rent income

19. This income is determined by the CLG rent restructuring guidelines. Rent restructuring is the government’s policy that rents for all council owned dwellings will gradually increase to match those for Housing Associations.
20. Under this formula, the inflationary increase is determined by the Retail Price Index for September 2008, which was 5%. The formula requires the addition of a further 0.5% plus an element for converging with Housing Association rent levels. Last year the date for this convergence was set for 2016/17. This has now been extended to 2023/24. This has the effect of reducing the impact of this element of the rent increase, but following the latest guidelines still gives an increase in average rents of 6.27% (£3.87 per week).
21. The CLG have also indicated that they do not intend to make any changes to the calculation methodologies for 2010/11. However, they have indicated that they want to bring the rent convergence date closer to its original target of 2011/12. Whilst they have not published any figures in their final subsidy determinations any move to shorten the convergence period can only lead to a further rise well above inflation for 2010/11.

Tenants Service / Support Charges

22. The basis for the current charges to tenants was set in April 2003. Service Charges have been increased each year, generally in line with rent increases. The current service charges relating to Tower Block Wardens and Sheltered Wardens were originally set to contribute to costs and not cover them in full. Support charges have been fixed since April 2003.
23. The charges for Sheltered Wardens and the Support Charges have been completely reassessed as part of the sheltered housing review and the new

supporting people contract that starts from April 2009. In summary the proposals are to:

- Delete all current Support Charges and associated transitional support payments,
- Introduce a new Support Charge for tenants in newly designated Scheme Based sheltered accommodation,
- Introduce a separate Community Alarm Service monitoring charge and
- Revise the Housing Management charge so that costs are more fairly split between those who benefit from the service.

Appendix 2 explains these charges in more detail and gives an assessment of groups of tenants who will face an increase in the overall level of charge.

24. The charge for Tower Block Wardens is currently £5.54 per week (based on 48 weeks). As the estimates now include the expenditure for the concierge service, the service charge income has also been included for the first time. The current charge is £1.20 per week (based on 48 week year). In view of the size of the rent increase it is not proposed to increase these charges for 2009/10. These charges will be reviewed during 2009/10 as part of the post contract review of the impact of the concierge service.

Other Charges

25. It is not proposed to increase any of the charges for garages or parking spaces for 2009/10. This is a reflection of the scale of the rent increase.

Level of HRA revenue balances and contingency provision

26. The revenue budget at appendix 1 shows that the contingency provision for 2008/09 has been deleted as it is no longer required. It is however recommended that this is retained at £100,000 for 2009/10.
27. For 2009/10, it is recommended that the level of HRA balances should be unchanged at £1,200,000.

Capital Budget

28. The size of the capital programme is determined by the resources that are available to fund it.
29. The resources that are available to fund the HRA capital programme comprise:
- ◆ HRA supported borrowing
 - ◆ Unsupported (prudential) borrowing
 - ◆ Usable Capital Receipts
 - ◆ Grants and Contributions from third parties
 - ◆ Direct Revenue Financing (DRF) and
 - ◆ The Major Repairs Allowance (MRA)

30. Appendix 4 contains an explanation of these terms and an annual forecast of the resources available. The forecast assumes no change to the current

policy of allocating all new usable receipts from the Sale of Council Houses to the Housing General Fund Capital Programme. These receipts are used to fund grants to Housing Associations for the provision of new social housing. This accords with the Housing strategy and the priorities of tenants expressed in the stock options work.

31. Reasons for the changes in resources are set out below:

- Unsupported borrowing – There is additional unsupported borrowing of £4.590M. Of this, £2.6M is for digital TV if it proves more cost effective to purchase this equipment rather than lease it, £0.57M is to help fund the Estate Regeneration programme and the balance of £1.42M is short term funding to sustain the capital programme in 2009/10, which can be repaid by the end of 2011/12.
- Direct Revenue Financing – This has increased by £4.338M, principally due to the revenue savings mentioned earlier in the report
- Major Repairs Allowance – This has increased by £0.303M due to the slightly better than expected subsidy settlement.
- Grants and Contributions – These have increased by £0.390M due to the grants that are expected towards the spending on Estate Regeneration.

32. The programme presented to Council in September 2008 has also been revised taking into account the latest cost and phasing of schemes as well as available resources. The detailed programme is shown at appendix 3 and the change to the annual spending levels is shown below:

Year	New Proposed Programme £M	September 2008 Programme £M	Change £M
2008/09	27.948	33.551	-5.603
2009/10	32.906	22.826	10.080
2010/11	22.269	19.673	2.596
2011/12	19.150	16.552	2.598
Total	102.273	92.602	9.668

33. The main areas where budgets have been increased are:

- The programme for 2011/12 is £2.598M higher. However, the September 2008 figure was an early provisional assessment of the position for that year and the latest programme shows a more realistic assessment of available resources. This still means that the capital programme at that point would be the lowest for many years,
- Following the Cabinet report in December 2008 there is £2.6M included for digital TV,
- Following the Cabinet report in November 2008 the Estate Regeneration budget has been increased by £0.96M
- The Decent Homes contingency of £3M has been reinstated and

- Additional resources of £0.500M for future years have been allocated to Crime Reduction and Safety budgets, effectively doubling this budget.

The changes to the programme are explained in detail in Appendix 5.

34. The capital spending plans represent a significant investment in the stock and the surrounding neighbourhood. The main focus for spending is explained below:

- Over the next two years we plan to spend £36M achieving the Decent Homes Standard and a further £10M in 2011/12 in maintaining this level of investment. The Decent Homes budget will be spent on new kitchens and bathrooms and electrical upgrades to over 6,000 dwellings.
- There is approximately £3.85M in the programme to support the implementation of the Sheltered Housing Review. This will include the conversion of 16 bedsits with shared facilities (communal bathrooms) to 8 large 1bed or 2bed properties with internal bathroom facilities, the conversions of a further 40 bedsits (with internal bathroom facilities) to 1bed flats, improvements to other sheltered dwellings and a range of communal and landscaping works.
- We aim to complete all of the tower blocks lift refurbishments and 3 of the medium rise blocks by the end of 2009/10.
- The provision of the new electronic concierge service to all high rise blocks will be completed by the end of 2009/10.
- This year we will be completing works to another 150 dwellings as part of the window refurbishment programme with the aim of replacing all wooden and metal windows by the end of the programme.
- Energy conservation and heating improvement, including a trial to give tenants more control over their heating.
- Crime Reduction and Safety budgets have been increased from £250K to £500K for the next two years with a focus on door entry systems, lighting and designing “secured by design” areas for our estates where possible.
- Decent Neighbourhoods – The programme aims to deliver a large impact in one area at a time, carrying out major works which will benefit the surrounding area. This will include landscaping, decorating, anti-social behaviour measures, car parking and door entry systems and will be developed in consultation with residents on an estate by estate basis.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

35. These are in the body of the report.

Revenue

36. These are in the body of the report

Property

37. None.

Other

38. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

39. 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
40. The provision, maintenance and improvement of social housing by local authorities is authorised by various Housing Acts and other legislation

Other Legal Implications:

41. None.

POLICY FRAMEWORK IMPLICATIONS

42. The HRA estimates form part of the Council's budget and are therefore key elements of the council's overall budget and policy framework. The proposed estimates also reflect the priorities set out in the approved stock options report and HRA Business Plan.
43. It is expected that with the programme of capital improvements in this report the objective of ensuring that all Council owned homes reach the decent homes standard by 2010 will still be achieved.

SUPPORTING DOCUMENTATION

Appendices

1.	HRA Revenue Estimates 2008/09 and 2009/10.
2.	Analysis of the changes to Support and Sheltered Housing service charges.
3.	Detailed HRA capital programme 2008/09 to 2011/12.
4.	Forecast of HRA capital resources and explanation of terms
5.	Explanation of detailed capital variances

Documents In Members' Rooms

1.	None
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Background Documents

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	
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Background documents available for inspection at: N/A

FORWARD PLAN No: HL03263 KEY DECISION Yes

WARDS/COMMUNITIES AFFECTED:	All
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