

ITEM NO: 4

DECISION-MAKER:	CABINET COUNCIL		
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET REPORT		
DATE OF DECISION:	4 FEBRUARY 2008. 20 FEBRUARY 2008.		
REPORT OF:	CABINET MEMBER FOR HOUSING AND NEIGHBOURHOODS		
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STATEMENT OF CONFIDENTIALITY

None

SUMMARY

This is the Housing Revenue Account (HRA) budget report covering the HRA revenue budget for 2007/08 and 2008/09 and capital budget for the period 2007/08 to 2010/11.

For the revenue budget this report sets out the revised estimates for the current financial year and the estimates 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 2008. Key revenue issues are:

- CLG have proposed to extend the rent restructuring period by 5 years.
- The new CLG rules for 2008/09 do not include a rent cap (in the past 2 years there has been a 5% rent cap)
- For 2008/09 CLG have also withdrawn the compensation payment they made in the last 2 years, which arose because rents would have increased by more than 6% without the rent cap, even though there is an ongoing cost of the caps. This position may change in 2009/10.
- Following the CLG's new rent restructuring rules would give an average rent increase of 5.8%.
- The increase in rent will be eligible for housing benefit and there are 54% of council tenants in receipt of full or partial housing benefit.
- The HRA subsidy payments made to CLG are estimated to increase from £1.5M in 2007/08 to £5.2M in 2008/09. This payment is forecast to increase in subsequent years

This report also updates the HRA Capital Programme that was approved by Council in September 2007. The capital programme has spending plans that exceed £100M over the period 2007/08 to 2010/11. There are updated spending plans where the focus of spending is

- Making improvements to over 6,500 dwellings in order to achieve the decent homes standard

- Implementing the sheltered housing review
- Completing the lift replacement programme in all high rise and sheltered blocks
- Installation of the new concierge service to all high rise blocks and
- The replacement of all wooden and metal windows.

In addition, there are changes proposed by the Cabinet Member for Housing and Neighbourhoods that:

- Increase the budget for disabled adaptations
- Establish a new Crime Reduction and Safety budget with additional funding
- Establish a budget to facilitate estate regeneration and
- Introduces a new approach to decent neighbourhoods so that most of the funding is focussed on one area each year in order to make lasting improvements.

The detailed spending plans reflect the priorities set out in the HRA Business Plan and have been agreed 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 20 February 2008.

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 7th April 2008, the current average weekly dwelling rent figure of £58.29 should increase by 5.8%, which equates to an average increase of £3.38 per week, and to approve the following to calculate this increase:
 - That the percentage increase applied to all dwelling rents should be 4.4%, equivalent to £2.56 per week
 - The revised phased introduction of the Government's Rent Restructuring regime giving a further overall increase average rent levels of 1.4% (£0.82 per week) and,
 to note that:
 - The total percentage increase in individual rents will vary according to the restructured rent of their property in 2017.
- (iii) To approve an increase of 5.8% in the charges for garages and parking spaces with effect from 7th April 2008.
- (iv) To approve an increase in the service charges for the non-care element of warden services of 5.8% with effect from 7th April 2008

- (v) To approve the continuation of Supporting People payment protection for a further year until the end of March 2009.
- (vi) To approve the Housing Revenue Account Estimates as set out in the attached Appendix 1.
- (vii) To note that rental income and service charge payments will be paid by tenants over a 48 week period.
- (viii) To approve the additional funding proposed by the Cabinet Member for Housing and Neighbourhoods for disabled adaptations, crime reduction and safety and estate regeneration, as well as the new approach to the decent neighbourhoods budgets, as set out in detail in paragraph 42.
- (ix) Subject to (viii) above, to approve the revised Housing Revenue Account (HRA) Capital Programme set out in Appendix 4 which includes total spending of £88.629M on work that meets the definition of “affordable housing”.
- (x) To approve the use of resources to fund the HRA Capital Programme as shown in Appendix 5, including the use of unsupported borrowing in a total sum of £2.15M.

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 formerly 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. There was a new approach this year to involving tenants in the budget process. 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 very well attended meeting with over 100 tenants and residents in attendance. The key budget issues set out in this report were discussed at this meeting. There were several questions on various aspects of the 2008/09 budget. There was no disagreement about following the Governments latest rent restructuring “rules” but concern was expressed about the HRA subsidy system which means that money is now being paid to CLG each year. 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.
3. 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

4. The alternative option of not setting next year’s rent increase in accordance with the new rent restructuring 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 increase in 2008/09 would result in higher increases in subsequent years. The recommendations contained in this report reflect the tenants' views and priorities set out in the latest HRA business plan and stock options appraisal.

DETAIL

Background

5. The HRA budget comprises a set of revenue estimates and a capital programme. The revenue budget covers 2007/08 and 2008/09. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2008/09. The capital programme covers the period 2007/08 to 2010/11. A major issue in this years budget has been the HRA subsidy position. The Councils response to the consultation paper was based on the principles of fairness, transparency, simplicity and local autonomy. The subsidy settlement is examined in paragraphs 16 to 18 below and in appendix 2.
6. The Housing Revenue Account (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.
7. The HRA Capital Programme deals with all capital expenditure on Council Housing and related environmental works. The revised Capital Programme is shown at Appendix 4. This has been updated in consultation with tenant representatives as part of the budget setting process.
8. The main focus of the HRA capital programme is to deliver the decent homes and decent neighbourhoods agenda, with the latter being refocused on making a significant improvement in one area each year. Other important areas of spending which are being proposed by the Cabinet Member for Housing and Neighbourhoods are on estate regeneration, crime reduction and safety and property adaptations for people with disabilities.
9. The budget proposals in this report will ensure that all Council properties meet the decent homes standard by 2010.
10. There are the following appendices to this report :
 1. HRA Revenue Estimates 2007/08 and 2008/09.
 2. Analysis of the HRA subsidy position
 3. HRA fees and charges 2008/09
 4. Detailed HRA capital programme 2007/08 to 2010/11.
 5. Forecast of HRA capital resources and explanation of terms.
 6. Explanation of detailed capital variances.

Revenue Budget

11. The main issues that need to be considered in setting the revenue budget are

set out below and explained more fully in the paragraphs that follow:

- Rent Restructuring
- HRA subsidy position
- Repairs spending
- Utility costs
- Interest income
- Supporting people
- Level of HRA revenue balances and contingency provision
- Contribution to capital funding (Direct Revenue Financing).

Rent restructuring

12. Rent restructuring is the governments' policy that rents for all council owned dwellings will gradually increase to match those for Housing Associations. The original intention was that by 2011/12 rents for similar dwellings would be the same in both sectors.
13. The government has now decided that this target date should be extended by 5 years until 2016/17. This was announced as part of the HRA subsidy settlement.
14. The effect of the new rent restructuring arrangements on rent increases for April 2008 shows that the base % increase would be 4.4% (which is RPI + 0.5%), plus, on average, a further 1.4% for the move towards housing association rent levels. In cash terms, the average rent would increase by £2.56 (from £58.29 to £60.85) plus a further £0.82 for the move to housing association rent levels, giving a new average rent of £61.67. At an individual level, most increases will be in the range 4.5% to 7.3%.
15. The government is also not recommending a "rent cap" for 2008/09. In the last 2 years the government has recommended that average rents should not increase by more than 5%, despite the fact that the rent restructuring process would have required rent increases in the order of 6%. For the last 2 years we limited our increase to the rent cap.

HRA subsidy

16. This is a key factor that has a significant impact on HRA finances. The council is now in the position of paying money to the Government. It is estimated that these payments will be £1.5M in 2007/08 and £5.2M in 2008/09, with the payment increasing in subsequent years
17. A separate paper is attached at appendix 2 giving more detailed information on the different aspects of HRA subsidy. The main concern over the subsidy settlement is that the rent constraint allowance, which aims to compensate the Council for following the 5% rent cap, has not been retained in 2008/09. The government has recently announced proposals to make some form of payment from 2009/10 onwards but it has not been possible to assess the implications of this in the time available. The possibility of the Council benefiting from this payment has therefore been excluded from the estimates.

18. Comparing the latest subsidy settlement to the HRA business plan for 2008/09, which was prepared this time last year, shows that the subsidy position is £856,000 worse than expected.

Repairs spending

19. Responsive repairs spending is forecast to be £153,000 lower than planned in 2007/08 and £260,000 lower in 2008/09. This is due to fewer responsive repairs and voids than anticipated.
20. Programme repairs are expected to increase by £229,000 in 2008/09 because of additional asbestos removal works and the need to produce energy performance certificates.

Utility costs

21. Electricity prices in 2008/09 are expected to significantly exceed the sums allowed for in the business plan by £200,000 and this is the reason why there is an increase in Supervision and Management costs. However other savings on a range of items have reduced the overall increase to £84,000.

Interest income

22. Interest rates have been higher than budgeted as have the balances on which interest is received. This means that interest received is now forecast to be £292,000 higher than budgeted in 2007/08 and £168,000 higher in 2008/09. In the longer term this benefit is expected to decline as HRA capital balances are used to pay for the capital programme and interest rates reduce.

Supporting people

23. The Supporting People Initiative, which came into effect in April 2003, required the separation of support and care charges from tenant's rents. Tenants who receive care now receive a separate charge for these services.
24. When the scheme was introduced the ODPM indicated that it expected the Council to offer a degree of financial protection to tenants who held their current tenancy on 1st April 2003 and who did not qualify for Supporting People grant. In the report to Council in February 2003 it was therefore proposed that existing tenants (i.e. those with a tenancy on 1st April 2003) who were not eligible for housing benefit should be protected from the full increase in their care and support charges for three years from April 2003 to March 2006. This was subject to review as part of each years rent setting process.
25. The Council's Sheltered Housing Service is currently under review. Last year it was agreed that the protection should remain in place for a further year pending the outcome of the review. The revised supporting people contracts are likely to start from April 2009 so it is proposed that the protection should continue until the new contracts are in place
26. The estimates for 2008/09 have been prepared on the basis that this protection will continue until March 2009 at an estimated cost to the HRA of £95,000.

Level of HRA revenue balances and contingency provision

27. The revenue budget at appendix 1 shows that the contingency provision for 2007/08 of £100,000 has been deleted as it is no longer required. It is however recommended that this is retained at £100,000 for 2008/09. A specific call on this provision in 2008/09 will arise from the sheltered housing review for the one-off costs in terms of lost rent income and homeless and removal payments.
28. The combined effect of the factors above mean that balances are expected to be £945,000 higher than expected at the end of 2007/08 at £2,145,000.
29. For 2008/09, it is recommended that the level of HRA balances should be unchanged at £1,200,000.

Contribution to capital funding (Direct Revenue Financing).

30. A key feature of the revenue budget is the extent to which it is possible to set money aside to support the capital programme. This is the final component of the revenue budget being set after all other matters, including the rent increase, have been agreed.
31. The net effect of all the changes to the revenue account mean that the level of Direct Revenue Financing (DRF) is £474,000 higher than planned in 2008/09. However, over the following 2 years there will be a reduction in the planned level of DRF of £715,000 in 2009/10 and £1,152,000 in 2010/11. The implications of this are examined in the capital section that follows.

Capital Budget

32. The size of the capital programme is determined by the resources that are available to fund it.
33. The resources that are available to fund the HRA capital programme comprise:
 - ◆ HRA supported borrowing
 - ◆ Unsupported borrowing
 - ◆ Usable Capital Receipts
 - ◆ Grants and Contributions from third parties
 - ◆ Direct Revenue Financing (DRF) and
 - ◆ The Major Repairs Allowance (MRA)
34. Appendix 5 contains an explanation of these terms and an annual forecast of the resources available.

35. The following table shows the changes in the forecast level of resources available to fund the HRA capital programme over the period 2007/08 to 2010/11:

Resource	New Proposed Programme £M	September 2007 Programme £M	Change £M
Supported borrowing	5.984	5.984	Nil
Unsupported borrowing	2.150	1.900	0.250
Usable Capital Receipts	3.057	3.017	0.040
Grants and Contributions from third parties	12.056	11.115	0.941
Direct Revenue Financing	28.838	30.646	-1.808
Major Repairs Allowance	49.703	50.367	-0.664
Total	101.788	103.029	-1.241

36. This 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 RSL's for the provision of new social housing. This accords with the Housing strategy and the priorities of tenants expressed in the stock options work.
37. Reasons for the changes in resources are set out below:
- Unsupported borrowing – The additional unsupported borrowing is to fund the planned investment in new IT equipment which should yield long term savings in repairs spending.
 - Grants and Contributions – There is an increase in the contribution from TPY of £300,000 for the Better Homes project because of the additional costs of this project and there is also £150,000 p.a. expected from the major energy suppliers as a contribution to the energy savings programme.
 - Direct Revenue Financing – This reduction has been explained in the previous revenue budget paragraphs.
 - Major Repairs Allowance – The increases in this allowance for inflation have been less than expected.
38. As well as updating the resources forecasts the programme presented to Council in September 2007 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 4 and the change to the annual spending levels is shown below:

Year	New Proposed Programme £M	September 2007 Programme £M	Change £M
2007/08	25.092	29.150	-4.058
2008/09	33.622	29.952	3.670
2009/10	25.230	23.237	1.993
2010/11	17.844	20.248	-2.404
Total	101.732	102.587	-0.799

39. When the programme is compared to the annual availability of resources it shows that there is a shortfall of resources of £1M in 2009/10 and an equivalent surplus in 2010/11. Options to address this would be
- Delaying spending
 - Realising the £1M asset sales forecast for 2010/11 earlier or
 - Undertaking short term prudential borrowing
40. At this stage it is not proposed to amend the capital programme but to take steps to realise the asset sales earlier. This matter will be kept under review during 2008/09.
41. The capital spending plans represent a significant investment in the stock and the surrounding neighbourhood. The main focus for spending is:
- Achieving the decent homes standard by 2010. Over £34M will be spent on new kitchens, bathrooms and electrical upgrades to over 6,500 dwellings.
 - There is nearly £6.9M in the programme to support the implementation of the Sheltered Housing Review. This will include the conversion of 48 bedsits with shared facilities, improvements to others and a range of communal improvements and landscaping works.
 - By the end of 2009/10 all the lifts will have been replaced in all the high rise blocks and existing sheltered schemes.
 - The provision of the new electronic concierge service to all high rise blocks and an upgrade of the installation at Weston.
 - In addition to the £1M needed to replace the widows in Shirley Towers there is provision each year to upgrade the windows in approximately 150 dwellings. By the end of the programme all wooden and metal windows will have been replaced.
 - Energy conservation and heating improvement, including a trial to give tenants more control over their heating.
42. The main changes to the programme proposed by the Cabinet Member for

Housing and Neighbourhoods are set out below:

- The budget for disabled adaptations has been increased by over £200,000 over the period of the programme and, by coordinating work with the decent homes programme, it has been possible to make efficiencies to reduce the sums charged to this budget. These efficiencies have resulted in savings in 2007/08 of over £250,000 which will be utilised in 2008/09.
- A new budget has been established for Crime Reduction and Safety. This is a combination of previous budgets plus additional funding of £120,000, giving a total budget of £750,000 over the period of the programme.
- Southampton's council housing estates offer the opportunity to benefit from physical, social and economic regeneration, specifically by creating more and better housing in mixed tenure communities. A new budget has been established for Estate Regeneration to take this work forward.
- The provision of £1.8M for Decent Neighbourhoods has been re-profiled so that most of the funding each year is focused in one area of the city to ensure lasting improvement in that area. A sum of £200,000 is included for community led estate improvements in areas outside of the main focus of spend.

43. More detailed comments on other changes can be found in appendix 6.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

44. These are in the body of the report.

Revenue

45. These are in the body of the report

Property

46. None.

Other

47. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

48. 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
49. The provision, maintenance and improvement of social housing by local authorities is authorised by various Housing Acts and other legislation

Other Legal Implications:

50. None.

POLICY FRAMEWORK IMPLICATIONS

51. 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.
52. 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 2007/08 and 2008/09.
2.	Analysis of the HRA subsidy position
3.	HRA fees and charges 2008/09
4.	Detailed HRA capital programme 2007/08 to 2010/11.
5.	Forecast of HRA capital resources and explanation of terms
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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)
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Background documents available for inspection at:

FORWARD PLAN No: HN02760 **KEY DECISION**Yes

WARDS/COMMUNITIES AFFECTED:	All
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