

DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET REPORT
DATE OF DECISION:	1 FEBRUARY 2010 17 FEBRUARY 2010

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 2009/10 and 2010/11 and capital budget for the period 2009/10 to 2012/13.

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 2010. Key revenue issues are:

- At the time of preparing this report the final HRA subsidy determination for 2010/11 have not been received from the Department for Communities and Local Government (CLG) so the budget proposals in this report may need to be modified if there is a material difference between the final and draft determinations.
- The Council is in “negative subsidy”. The payment to CLG is increasing from £4.0M in 2009/10 to £8.5M in 2010/11. However, the payment for 2010/11 is £2.4M higher than would have been the case because £2.4M of the Major Repairs Allowance was taken into account in assessing the subsidy payment for 2009/10. The negative subsidy payment is forecast to increase in subsequent years.
- In the draft determinations the CLG are proposing to bring the target completion date for rent restructuring forward to 2012/13 from 2023/24.
- Following the CLGs new rent restructuring rules would give an average rent increase of 2.45%.
- There are net revenue efficiency savings of approximately £750,000 p.a.
- No increases are proposed on service charges or charges for garages and parking spaces.

This report also updates the HRA Capital Programme that was approved by Council in September 2009. The capital programme has spending plans of approximately £110M over the period 2009/10 to 2012/13. The focus of spending is:

- Making improvements to over 6,000 dwellings in order to achieve and maintain the decent homes standard
- Improvements to housing for older people
- Crime reduction and safety
- Lift refurbishments
- Communal Digital TV
- Heating upgrades
- Window replacement
- Energy efficiency measures
- 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.

The report also provides an update on the Reform of Council Housing Finance, including the possibility of the Council receiving a “buy-out” offer that would enable it to exit from the HRA subsidy system and cease making annual payments to CLG. Delegations to officers are proposed in the event that a response to the “buy-out” offer is required in such a period that it is not possible to report to Council.

RECOMMENDATIONS:

CABINET

- (i) To consider the report and agree that the following recommendations be made to Council at the meeting on 17 February 2010.

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 5th April 2010, the current average weekly dwelling rent figure of £63.57 should increase by 2.45%, which equates to an average increase of £1.56 per week, and to approve the following to calculate this increase:
 - That the percentage reduction applied to all dwelling rents should be 0.9%, equivalent to a reduction of £0.57 per week
 - That the revised phased introduction of the Government’s Rent Restructuring regime should be followed, giving an increase in average rent levels of 2.96% (£1.88 per week)
 - That the final step should be a further increase in average rent levels of 0.39% (£0.25 per week) for the caps and limits adjustment and,
 to note that:
 - The total percentage increase in individual rents will vary according to the restructured rent of their property in 2012/13.

- (iii) To agree that there is no increase in the charges for garages and parking spaces for 2010/11.
- (iv) To agree that there is no increase in tenants service charges for 2010/11.
- (v) To approve the Housing Revenue Account Revenue Estimates as set out in the attached Appendix 1.
- (vi) To approve the revised Housing Revenue Account Capital Programme set out in Appendix 2 which includes total spending of £82.214M on work that meets the definition of “affordable housing”.
- (vii) To approve the use of resources to fund the HRA Capital Programme as shown in Appendix 3, including the following use of unsupported (prudential) borrowing:
 - £2.150M to support the overall programme (unchanged from the report in September 2009)
 - £3.356M to fund the new build programme that is not funded from HCA grant
 - £2.600M to fund the digital TV proposals if this is more cost effectively purchased rather than leased
 - £0.870M to fund the estate regeneration programme pending the receipt of capital receipts from sale of the sites and
 - £3.100M of short term borrowing to sustain the programme in 2010/11, which can be repaid by the end of 2012/13.
- (viii) To note that, because the final HRA subsidy papers have not yet been received from the Government, it may be necessary for either:
 - The Cabinet Member for Housing and Local Services to move changes to the recommendations in this report at Council if there is a material difference between the final subsidy papers and the draft subsidy papers that have been used in compiling these estimates or
 - For Council to agree to delegate to the Executive Director for Neighbourhoods, in consultation with the Executive Director for Resources and following consultation with the Cabinet Member for Housing and Local Services, authority to make changes to the recommendations in this report if the final subsidy papers have not been received by the time of the Council meeting and there is a material difference between the final subsidy papers and the draft subsidy papers that have been used in compiling these estimates.
- (ix) To note the savings that have been made in the budget process, as set out in paragraphs 13 to 15.
- (x) To note that rental income and service charge payments will be paid by tenants over a 48 week period.
- (xi) To note that the overall shortfall in resources of £2.561M to fund the capital programme is within the tolerances set by the Executive

Director for Resources in the approved Medium Term Financial Strategy and that plans are in place to close this gap as set out in paragraph 31.

- (xii) To delegate to the Executive Director for Resources, following consultation with the Cabinet Members for Housing and Local Services and Resources and Workforce Planning, the Executive Director for Neighbourhoods and the Solicitor to the Council, authority to determine the Council's response to the "buy-out" offer for Reform of Council Housing Finance if the response is required in such a period that it is not possible to submit a report to Council.

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 65 tenants and residents in attendance. The key budget issues set out in this report were discussed at this meeting. The budget position has also been the subject of discussion with representatives from the Tenants Federation
3. There was 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 and it is hoped that the anticipated proposals on the Reform of Council Housing Finance will address the problems with HRA subsidy.
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 2010/11 would result in higher increases in subsequent years and lead to reductions in the capital programme. It was also noted that setting a higher rent increase in 2010/11 would lead to an equivalent loss of HRA subsidy in 2011/12. Both options were not supported.

DETAIL

Background

7. The HRA budget comprises a set of revenue estimates and a capital programme. The revenue budget covers 2009/10 and 2010/11. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2010/11. The capital programme covers the period 2009/10 to 2012/13.
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 2. 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 2010/11 is £10.549M. The main features of this budget have been a drop in the number of responsive repair orders (saving £325,000) offset by an increase in the number of voids (costing £298,000). The combined effect of this is that savings of £27,000 are expected in 2010/11.

Programme repairs

14. The proposed budget for 2010/11 is £5.193M, which accommodates cost pressures on Emergency Lighting (£70,000) and Gas servicing (£90,000) which have been offset by savings on Servicing contracts (£46,000), Structural Surveys (£170,000), Health and Safety works (£40,000) plus a range of small savings on other schemes. The net savings amount to £248,000.

Supervision and Management

15. There have been a significant number of changes in this part of the budget for 2010/11 which are summarised below:

- There are projected savings arising from the restructure of the Housing Management division which are estimated at £203,000. These are efficiency savings relating to the way business support and project / policy development is delivered.
- The Housing Management division restructure is also reviewing how the Council interacts with its customers to best deliver the services that residents want. The division will in future be working in a more proactive way with its residents in the communities where they live. This part of the restructure will generate some further efficiencies of approximately £270k

The overall effect of these savings plus a number of other smaller items is that overall savings of £475,000 are expected in 2010/11.

HRA subsidy

16. At the time of preparing this report the Council, in common with all other Councils in the country, has only received a draft subsidy determination for 2010/11. The final determination is not expected until early February, although CLG have not given any definitive date when it will be published. This means that all the subsidy and rent increase assessments in this report are based on draft information and may need to be revised when the final papers are received. Other consequential budget changes may also be required.
17. In order to manage this situation and ensure that further changes to rents are not required after 5 April 2010, it may be necessary for either:
 - The Cabinet Member for Housing and Local Services to move changes to the recommendations in this report at Council if there is a material difference between the final subsidy papers and the draft subsidy papers that have been used in compiling these estimates or
 - For Council to agree to delegate to the Executive Director for Neighbourhoods, in consultation with the Executive Director for Resources and following consultation with the Cabinet Member for Housing and Local Services, authority to make changes to the recommendations in this report if the final subsidy papers have not been received by the time of the Council meeting and there is a material difference between the final subsidy papers and the draft subsidy papers that have been used in compiling these estimates.
18. Based on the draft determinations, the Council is still in “negative subsidy”. The payment to CLG is increasing from £4.0M in 2009/10 to £8.5M in 2010/11. However, the payment for 2010/11 is £2.4M higher than would have been the case because £2.4M of the Major Repairs Allowance was taken into account in assessing the subsidy payment for 2009/10. The payment to CLG is a major concern, particularly as it is expected to increase in subsequent years. 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”. Proposals that are expected on the Reform of Council Housing Finance could well address this issue (see paragraphs 37 – 41 below)

19. The main features of the draft determinations are set out below:
- The Management and Maintenance allowances are the Governments assessment of how much the Council should spend on Supervision and Management and the Repairs service. The Council will receive £34.7M in 2010/11, approximately £600,000 more than expected from these allowances.
 - The Major Repairs allowance is paid to help finance the HRA capital programme and is supposed to represent the costs of maintaining the stock at its current standard. At £10.4M for 2010/11 this is in line with expected levels.
 - The Government pays a Capital Financing allowance based on what it assumes the level of HRA debt to be. The assumed debt level for Southampton is approximately £121M, compared to a real debt level of approximately £102M. In 2010/11 the subsidy payment is estimated to be £3.0M, compared to the estimated real interest charges of around £2.4M. Whilst there is still a “surplus” from this system it is still some £350K lower than was the case a year ago due to lower interest rates.
 - Last year CLG announced that the convergence date for Rent Restructuring would be extended to 2023/24. It is now proposed that rent convergence is brought forward to 2012/13. This gives an overall increase in rent income paid to CLG of 3.3%. The issues arising from this are examined in more detail below.

Dwelling Rent income

20. 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.
21. Under this formula, the inflationary increase is determined by the Retail Price Index for September 2009, which was -1.4%. 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 2023/24. This has now been brought forward to 2012/13. This has the effect of increasing average rent levels by 4.5%, giving an overall increase in average rent levels of 3.6%, or £2.26 per week.
22. However, within the rent restructuring rules, there is also a requirement that the rent convergence component of the increase for each dwelling should not exceed £2.00 per week. This requirement is not new, but this is the first time that this has become a major issue for us. Applying this constraint would reduce the rent convergence component to 2.96%, giving an average rent increase to 2.06%. However, the rent taken away by CLG through the subsidy settlement will still increase by 3.3%, which would lead to a reduction in resources available to fund the capital programme.
23. CLG recognise that the 2 different methods of calculation can result in financial problems for Councils and there is a formula for calculating compensation (known as caps and limits), but this is only paid a year in arrears.

24. In this formula, the government makes an assumption of what the level of actual average rents should be and our actual average rents are £0.25 per week below the government's assumptions. It is proposed that our actual average rents are brought up to the level assumed by government as this is permitted by the rent restructuring rules and will still enable us to maximise our caps and limits compensation claim in 2011/12.
25. The £0.25 per week is equivalent to a 0.39% increase in average rents, which gives an overall average rent increase of 2.45% (£1.56 per week).

Tenants Service / Support Charges

26. There are no changes to the number of service charges proposed for 2010/11. The current service charges for 2009/10 are shown in the table below (based on 48 rent weeks):

Description	Weekly charge
Tower block wardens	£5.53
Sheltered housing management charge:	
• Scheme based accommodation	£5.31
• All other sheltered accommodation	£1.33
Concierge monitoring charge	£1.20
Sheltered support charge	£2.85
Community Alarm monitoring charge	£1.35

27. In view of the current economic situation it is not proposed to increase these charges for 2010/11.

Other Charges

28. It is not proposed to increase any of the charges for garages or parking spaces for 2010/11. This is also a reflection of the current economic situation.

Level of HRA revenue balances and contingency provision

29. The revenue budget at appendix 1 shows that the contingency provision for 2009/10 has been deleted as it is no longer required. It is however recommended that this is retained at £100,000 for 2010/11.
30. For 2010/11, it is recommended that the level of HRA balances should be unchanged at £1,200,000.

Capital Budget

31. The size of the capital programme is determined by the resources that are available to fund it. When the capital programme was last considered by Council in September it was noted that there was an overall shortfall in resources of £2.420M and that plans were in place to close the gap. This gap is substantively unchanged and stands at £2.561M. In order to bridge the gap discussions are continuing with the HCA over the availability of grant aid for

the estate regeneration programme. If this is unsuccessful it will be necessary to consider expenditure reductions or undertaking prudential borrowing. There is scope to fund borrowing from the direct revenue financing that is available.

32. 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)

33. Appendix 3 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 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.

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

- Unsupported borrowing – There is a reduction in the level of unsupported borrowing of £0.480M. The borrowing requirement for the New Build programme has been reduced by £1.350M to match with that required to fund the schemes that have been approved by the Homes and Communities Agency (HCA). The borrowing requirement for Estate Regeneration has been increased by £0.870M as the capital receipts are now expected later than previously forecast. This borrowing will be repaid when the capital receipts are received.
- Direct Revenue Financing – This has increased by £0.239M, due to the revenue changes mentioned earlier in the report
- Major Repairs Allowance – This has decreased by £0.450M due to a forecast reduction in allowances after 2010/11.
- Grants and Contributions – These have increased by £0.119M. There have been a number of changes in this area, the main items of which are summarised below:
 - Grant from the HCA for the LA new build programme has been reduced to match the latest approvals (£1.490M reduction)
 - PUSH funding previously allocated to fund the set up costs for the Local Housing Company has been transferred to fund the immediate costs of estate regeneration (£0.470M increase)
 - Additional contributions from the HCA to fund additional expenditure on estate regeneration, together with a contribution towards existing approved expenditure (£1.107M increase)

- Loss of contributions from energy suppliers (£0.420M).

35. The programme presented to Council in September 2009 has also been revised taking into account the latest cost and phasing of schemes as well as available resources. A provisional programme has also been developed for 2012/13 to maintain a 3 year forward view. The detailed programme is shown at appendix 2 and the change to the annual spending levels is shown below:

Year	New Proposed Programme £M	September 2009 Programme £M	Change £M
2009/10	32.426	34.339	-1.913
2010/11	36.631	38.627	-1.996
2011/12	22.287	17.538	4.749
Sub - total	91.344	90.504	0.840
2012/13	19.219	n/a	n/a
Total	110.563	n/a	n/a

The changes to the programme are explained in detail in Appendix 4

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

- In 2010/11 SCC is planning to spend £10.6M on achieving the Decent Homes' Standard with a further £16.7M being spent in the following two years maintaining the Standard.
- There is approximately £2.618M in the programme to continue to support the implementation of the Sheltered Housing Review. Works are planned to be carried out to Manston Court, Challis Court, Milner Court, Graylings, Weston Court, Neptune Court and Pleasant View. These works will primarily consist of redecoration, new flooring, lighting and ceilings to the communal areas with other enhancements such as entrance lobbies/canopies, new internet/computer areas as well as a new external scooter store being installed within the Manston Court project. There is also a plan for landscaping works to all Courts across the city.
- This year will see the refurbishment of 6 lifts on the east side of the city being commenced (Wharnccliffe, Highlands and Riverview House). In addition to this both Milner and Neptune Courts will have new fully DDA compliant lifts built externally to the main entrance. The lift works recently commenced at Millbank House will continue into 2010/11.
- This year we will be completing works to a further 120 dwellings as part of the window refurbishment programme. This forms part of SCC's aim to replace all the existing single glazed wooden and metal framed windows across the city.

- Crime Reduction and Safety is a “key” element and is important to SCC tenants. Procurement has now been tackled and new electronic door entry systems, complete with metal doors, are being installed to 3 areas of the city (Central, Millbrook/Maybush and Townhill). The investment of £1.247M will see enhancements to approximately 100 front and rear entrances.
- Digital TV will be the only way of receiving a signal by mid-2012. To meet this deadline SCC has been developing a method for a network to be installed across all of our dwellings. It is anticipated that works will commence early in 2010/11 and be completed within 2011/12 with a total investment of £2.6M.
- Over the next 3 years £2.5M will be invested in installing new heating system and also heating system upgrades.
- SCC are currently actively investigating the possibility of external cladding to solid wall constructed properties and other non-traditional build types. Following the successful implementation of individual meters a second phase will be commenced following consultation with tenants. There are a number of inefficient traditional boilers currently in use across the city and investment is being made to upgrade these to condensing boilers.

Reform of Council Housing Finance

37. For some time SCC has been promoting the reform of council housing finance. In last years budget report it was noted that:
- 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 subsidy payments to CLG and forecasts for the future and have expressed their concerns in writing to local MPs.
 - 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

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.

38. The consultation paper was published in July 2009 and consultation closed at the end of October 2009. The consultation covered a range of matters, but the key issue for this report is the potential for Councils to be able to “buy” their way out of the subsidy system. The buy out is likely to involve the council needing to borrow money in order to pay the levy to government and in return, the council will exit from the subsidy system and cease making annual payments to CLG.
39. It is understood that there was overwhelming support for this option in principle amongst local authorities, as the alternative was to continue with a modified version of the current system. However, the consultation paper did not contain any details of what the costs might be for each council to buy

their way out of the current system, and this is clearly crucial in determining whether this cost effective for the council.

40. The government is still considering the responses to the consultation paper but it is understood that they are likely to make each council a buy out offer in “the spring”, with councils needing to decide their response before the general election. This could require a very quick assessment of the economics of the offer which may not allow time for reporting to council.
41. It is therefore proposed to delegate to the Executive Director for Resources, following consultation with appropriate Cabinet Members for Housing and Local Services and Resources and Workforce Planning, the Executive Director for Neighbourhoods and the Solicitor to the Council, authority to determine the Council’s response to the buy-out” offer for Reform of Council Housing Finance if the response is required in such a period that it is not possible to submit a report to Council.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

42. These are in the body of the report.

Revenue

43. These are in the body of the report

Property

44. None.

Other

45. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

46. 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
47. The provision, maintenance and improvement of social housing by local authorities is authorised by various Housing Acts and other legislation

Other Legal Implications:

48. None.

POLICY FRAMEWORK IMPLICATIONS

49. 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.
50. 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 2009/10 and 2010/11.
2.	Detailed HRA capital programme 2009/10 to 2012/13.
3.	Forecast of HRA capital resources and explanation of terms
4.	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:

KEY DECISION **Yes**

WARDS/COMMUNITIES AFFECTED:	All
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