

<b>DECISION-MAKER:</b>	CABINET COUNCIL
<b>SUBJECT:</b>	HOUSING REVENUE ACCOUNT BUDGET REPORT
<b>DATE OF DECISION:</b>	7 FEBRUARY 2011 16 FEBRUARY 2011
<b>REPORT OF:</b>	CABINET MEMBER FOR HOUSING

<b>STATEMENT OF CONFIDENTIALITY</b>
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None
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### **BRIEF SUMMARY**

This is the Housing Revenue Account (HRA) budget report covering the HRA revenue budget for 2010/11 and 2011/12 and capital budget for the period 2010/11 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 2011. Key revenue issues are:

- The self-financing arrangements for the HRA will not be in place for 2011/12. The new arrangements are included in the Localism Bill. It is anticipated that the new system will start in 2012/13.
- The Council is in “negative subsidy”. The underlying payment to CLG is increasing from £6.2M in 2010/11 to £7.6M in 2011/12. However, the actual payment for 2010/11 is £2.4M higher at £8.6M because £2.4M of the Major Repairs Allowance was taken into account in assessing the subsidy payment for 2009/10.
- In the subsidy determinations the CLG are proposing to amend the target completion date for rent restructuring to 2015/16 from 2012/13.
- Following the CLGs new rent restructuring rules would give an average rent increase of 6.99%.
- It is recommended that charges for garages and parking spaces are increased in line with the average rent increase.
- No increases are proposed on service charges.

This report also updates the HRA Capital Programme that was approved by Council in September 2010. The capital programme has spending plans of approximately £90M over the period 2010/11 to 2012/13. The focus of spending is:

- Continuing the investment in estate regeneration, with the launch of the first estate wide programme;
- Maintaining the decent homes standard;
- Completing the council new build programme;
- Improvements to housing for older people;
- Lift refurbishments;

- Heating upgrades;
- Window replacement;
- Energy efficiency measures; and
- Decent Neighbourhoods Programme.

The report also provides an update on the Reform of Council Housing Finance.

## **RECOMMENDATIONS:**

### **CABINET**

- (i) To consider the report and agree that the following recommendations be made to Council at the meeting on 16 February 2011.

### **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 4<sup>th</sup> April 2011, the current average weekly dwelling rent figure of £65.15 should increase by 6.99%, which equates to an average increase of £4.55 per week, and to approve the following to calculate this increase:
  - That the percentage increase applied to all dwelling rents should be 5.1%, equivalent to an increase of £3.32 per week; and
  - That the revised phased introduction of the Government's Rent Restructuring regime should be followed, giving an increase in average rent levels of 1.89% (£1.23 per week) and to note that:
    - The total percentage increase in individual rents will vary according to the restructured rent of their property in 2015/16.
- (iii) To agree that the charges for garages and parking spaces for 2011/12 should be increased by 6.99% in line with the increase in average rents.
- (iv) To approve the Housing Revenue Account Revenue Estimates as set out in the attached Appendix 1.
- (v) To approve the revised Housing Revenue Account Capital Programme set out in Appendix 2 which includes total spending of £55.028M on work that meets the definition of "affordable housing".
- (vi) 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 2010);
  - £3.356M to fund the new build programme that is not funded

- from HCA grant,
    - £2.230M to fund the digital TV proposals,
    - £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.
- (vii) To amend that parking charges at Wyndham Court as set out in appendix 5.
- (viii) To adopt the rent setting policy for new build, acquired and converted dwellings set out in Appendix 6.
- (ix) To note that rental income and service charge payments will be paid by tenants over a 48 week period.
- (x) To note that the overall shortfall in resources of £3.079M 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 35.

## **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.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. 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. These options were not supported.

## **DETAIL (Including consultation carried out)**

3. 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 100 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.
4. 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 noted that the HRA self-financing proposals in the Localism Bill would bring the HRA subsidy system to an end and it is hoped that this new system would start from April 2012.
5. 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.

6. 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.

### **Background**

7. The HRA budget comprises a set of revenue estimates and a capital programme. The revenue budget covers 2010/11 and 2011/12. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2011/12. The capital programme covers the period 2010/11 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 capital spending on Council properties.
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 estate regeneration, maintaining the decent homes standard and delivering the decent neighbourhoods agenda.

### **Reform of Council Housing Finance**

11. In last years budget report it was reported that there was a possibility of a voluntary self-financing agreement being available that could enable the council to exit the subsidy system by April 2010. This possibility did not materialise.
12. The current position is that the new self-financing system will be enforced through provision in the current Localism Bill. It is anticipated that the new system will start from April 2012, but this is subject to the Localism Bill progressing through Parliament as planned.
13. At the time of writing the council has not been provided with the level of detail necessary to assess the impact of the new system on the HRA. The CLG anticipate making detailed information available at the end of January 2011 but this will be too late to include in this report. The budget in this report has therefore been prepared on the basis that the subsidy system continues for 2011/12. In assessing the capital resources for 2012/13 it has also been assumed that the subsidy system will continue for that year. However, it is clear that the new system will be operating for 2013/14 but it is not possible to make any assessment of the impact on the HRA.
14. Given this uncertainty over the detail and timing of the new system it is expected that it may be necessary to make a special report on the implications of the new system during the summer and to further update capital spending plans for 2012/13 and subsequent years at that time.

## Revenue Budget

15. The main issues that need to be considered in setting the revenue budget are set out below. It should be noted that the revenue budget figures used in the paragraphs below and in appendix 1 do not make any allowance for the savings that will arise from the proposed corporate changes to the terms and conditions of council staff. The budgets will be amended once these are agreed and the additional revenue resources will be available to help bridge the funding gap in the HRA capital programme. Based on the current proposals as set out in the General Fund budget report to Full Council, it is anticipated that the revenue savings to the HRA over 2011/12 and 2012/13 would be in the order of £1.2M.

### Responsive repairs

16. The budget for 2010/11 has been increased for that year only by £250,000 which has been transferred from the capital programme as the expenditure is more appropriately charged to revenue.
17. The proposed budget for 2011/12 is £10.547M. This budget will fund 52,700 responsive repair orders and works to 1,400 voids. The budget is £183,000 less than allowed in the budget forecast.

### Programme repairs

18. The budget for 2010/11 includes the one-off increase to complete decoration work originally funded in 2009/10 (£249,000), together with efficiency savings on smoke detector testing (£84,000) and fewer than expected properties needing electrical testing (£160,000).
19. The proposed budget for 2011/12 is £5.227M, which is £95,000 less than allowed in the budget forecast.

### Supervision and Management

20. The proposed budget for 2011/12 is £17.566M. This is £160,000 less than allowed in the budget forecast which is attributable to the lower than budgeted pay award in 2010.

### HRA Subsidy

21. The Council is still in “negative subsidy”. The underlying payment to CLG is increasing from £6.2M in 2010/11 to £7.6M in 2011/12. However, the actual payment for 2010/11 is £2.4M higher at £8.6M because £2.4M of the Major Repairs Allowance was taken into account in assessing the subsidy payment for 2009/10. In overall terms, the Government is increasing the rent income it is taking from the council by 6.9% but only increasing allowances by 3.4%. At a national level the surplus the government receives from this system is increasing and this further emphasises the need to move to a self-financing system.
22. 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 £35.6M in 2011/12, approximately £380,000 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 £13.1M for 2011/12 this is slightly higher than expected (£78,000).
- 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 £122M, compared to a real debt level of approximately £106M. In 2011/12 the subsidy payment is estimated to be £3.5M, compared to the estimated real interest charges of around £3.0M.
- Last year CLG announced that the convergence date for Rent Restructuring would be brought forward to 2012/13. It is now proposed that rent convergence is changed to 2015/16. When this new date is incorporated into the rent calculation it means that there is an overall increase in rent income paid to CLG of 6.9%. The issues arising from this are examined in more detail below.

### Dwelling Rent Income

23. 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 the current social rent levels currently charged by Housing Associations. The council is not required to increase rents to the proposed new affordable rent levels which can be set at up to 80% of market rents.
24. Under this formula, the inflationary increase is determined by the Retail Price Index for September 2010, which was 4.6%. 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 2012/13. This has now been extended to 2015/16. This has the effect of increasing average rent levels by 2.1%, giving an overall increase in average rent levels of 7.2%%, or £4.67 per week.
25. 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. Applying this rule means that the increase for the rent convergence element of the calculation is 1.89% and not 2.1%. This gives an overall rent increase of 6.99% or £4.55 per week.
26. This also means that CLG are taking away approximately £100,000 more than the council is able to increase its charges to tenants.
27. Whilst the rent restructuring process gives the basis for calculating rent increases every year it does not establish what rent level should initially be charged for new properties or when properties are newly acquired or converted. In order to provide clarity on this issue a policy has been prepared and this is set out in Appendix 6. In summary, it is proposed that the initial rents for newly built or acquired dwellings would be set at the full formula rent from initial let (or as otherwise required by any grant giving body) and that initial rents for converted properties would be set by reference

to similar properties in the area.

#### Tenants Service / Support Charges

28. The current service charges for 2010/11 are shown in the table below (based on 48 rent weeks):

<b>Description</b>	<b>Weekly charge</b>
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
Digital TV	£0.45

29. It is not proposed to increase these charges for 2011/12. However, work will be undertaken during 2011/12 to compare the income generated with the costs of the services. The aim would be to ensure that the service charges are linked to costs and would vary in line with cost changes each year. Changes to service charges resulting from this work would be discussed as part of the budget preparation for 2012/13.

#### Other Charges

30. It is proposed to increase the charges for garages or parking spaces for 2011/12 in line with rents ie 6.99%.
31. It is also proposed to harmonise charges at Wyndham Court so that council tenants and leaseholders are charged the same. This would be a fairer and more equitable system. Leaseholders currently pay £1.63 per week more than tenants. Details of this proposal can be found in appendix 5.

#### Level of HRA Revenue Balances and Contingency Provision

32. The revenue budget at appendix 1 shows that the contingency provision for 2010/11 has been deleted as it is no longer required. It is however recommended that this is retained at £100,000 for 2011/12.
33. For 2011/12, it is recommended that the level of HRA balances should be unchanged at £1,200,000.

### **Capital Budget**

#### Overall Position

34. When the capital programme was last considered by Council in September it was noted that there was a balanced programme, with forecast income matching expenditure. In overall terms for the period 2010/11 to 2012/13, spending has increased by £10.941M and resources have increased by £7.862M. This means that the latest programme has sufficient resources to meet expenditure up to the end of 2011/12 but there is a forecast resource

shortfall of £3.079M by the end of 2012/13.

35. This shortfall in resources is within the tolerances set by the Executive Director for Resources in the approved Medium Term Financial Strategy so it is not proposed to make any reductions to spending plans at this time. There are the following options for increasing resources to close this gap before considering spending reductions:
- Benefits from reductions in staff terms and conditions which, as set out in paragraph 15, could yield £1.2M over 2011/12 and 2012/13,
  - Benefits from self-financing and
  - Capital receipts from asset sales.
36. It is proposed that firm plans to produce a fully funded programme for 2012/13 will be developed as part of the work on assessing the implications of the new self-financing proposals over the next few months.
37. In the capital update report to Council in September 2010 it was noted that Estate Regeneration was the main priority for the administration and that there would be a full review of all unapproved spend in 2011/12 and 2012/13. The outcome of the review for 2011/12 is included in the new capital programme at appendix 2. Any changes for 2012/13 will be considered as part of the proposed work to develop the detailed work for that year as explained above.

#### Resources

38. 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).
39. Appendix 3 contains an explanation of these terms and an annual forecast of the resources available.
40. Reasons for the changes in resources are set out below:
- Borrowing – There is no change in the level of supported or prudential borrowing.
  - The level of contributions has increased by £2.7M because the forecasts now include the contribution from leaseholders to digital TV work, a further contribution from the HCA to the phase 2 estate regeneration scheme in lieu of a capital receipt from the developer and the use of S106 receipts to fund the council led redevelopment of Cumbrian Way.
  - The level of capital receipts has increased by £1M because of the inclusion of £2.7M of capital receipts from the council led



redevelopment of Cumbrian Way. This is offset by a reduction of £1.4M in receipts from phase 2 estate regeneration as this money is now expected from the HCA and there is a further £0.3M not now expected to be received until 2013/14.

- The level of DRF has increased by £4.1M. This is due to the various revenue budget variations referred to earlier in this report and the effect of these in 2012/13.
- Major Repairs Allowance – This has increased by £0.1M due to the increase in allowances in 2011/12.

#### Capital Spending Plans

41. The programme presented to Council in September 2010 has been revised taking into account the latest cost and phasing of schemes. The detailed programme is shown at appendix 2 and the change to the annual spending levels is shown below:

	2010/11	2011/12	2012/13	Total
	£M	£M	£M	£M
New Proposed Programme	38.057	26.142	26.471	90.670
September Programme	40.720	21.062	17.947	79.729
Total	(2.663)	5.080	8.524	10.941

A number of changes have been approved through the new council project management system and the effect of these, along with other cabinet approvals and the latest proposed changes to the programme are set out in Appendix 4.

42. The capital spending plans represent a significant investment in the stock and the surrounding neighbourhood. The main focus for spending is explained below:
- Accelerating the investment in estate regeneration, with the launch of the first estate wide programme, the selection of a further regeneration site and the sale of a number of small vacant sites;
  - Maintaining the decent homes standard;
  - Completing the council new build programme which in total will see the completion of 53 new council dwellings;
  - Improvements to housing for older people with works undertaken at Graylings, Rozel Court, Sarnia Court, Milner Court, Neptune Court and James Street;
  - Lift refurbishments at Milner Court, Neptune Court and then Itchen estate;
  - Heating upgrades will enable the council to fuel swap a number of tenants houses which currently have electric heating to be replaced with gas central heating and allow replacement of gas central heating systems which are problematic to service and maintain;
  - The budget associated with window replacement will allow the council to complete its programme of replacing all homes which have single

glazed windows with new UPVC double glazed windows which will make these homes more thermally efficient;

- Energy efficiency measures include increasing loft insulation to our homes and installing cavity wall insulation as well as installing new gas condensing boilers to our homes; and
- Continuation of the Decent Neighbourhoods Programme with major works at Shirely, Millbrook, Northam and Holyrood.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

43. These are in the body of the report.

### **Property/Other**

44. None.

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

45. 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.
46. The provision, maintenance and improvement of social housing by local authorities is authorised by various Housing Acts and other legislation.

### **Other Legal Implications:**

47. None.

## **POLICY FRAMEWORK IMPLICATIONS**

48. 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.

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**KEY DECISION?** No

<b>WARDS/COMMUNITIES AFFECTED:</b>	All
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### **SUPPORTING DOCUMENTATION**

**Non-confidential appendices are in the Members' Rooms and can be accessed on-line**

#### **Appendices**

1.	HRA Revenue Estimates 2010/11 and 2011/12.
2.	Detailed HRA capital programme 2010/11 to 2012/13.
3.	Forecast of HRA capital resources and explanation of terms
4.	Proposed changes to the capital programme.
5.	Revised parking charges for Wyndham Court
6.	Rent setting Policy for new build, acquired or converted properties

#### **Documents In Members' Rooms**

1.	None
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#### **Integrated Impact Assessment**

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No
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#### **Other Background Documents**

**Integrated Impact Assessment and 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)
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1.	None	
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