

<b>DECISION-MAKER:</b>	CABINET COUNCIL
<b>SUBJECT:</b>	HOUSING REVENUE ACCOUNT BUDGET REPORT AND BUSINESS PLAN
<b>DATE OF DECISION:</b>	6 FEBRUARY 2012 15 FEBRUARY 2012
<b>REPORT OF:</b>	CABINET MEMBER FOR HOUSING
<b>STATEMENT OF CONFIDENTIALITY</b>	
None.	

## **BRIEF SUMMARY**

The Reform of Council Housing Finance is nearing its conclusion with final notifications expected from DCLG by the end of January 2012. This report provides an update on the latest on the self-financing proposals since the report to Council in November 2011. The change to self-financing is a very welcome development and will significantly improve the future financial resources for the Housing Revenue Account (HRA).

The new system will definitely start from April 2012. This means that the budgets for 2012/13 have been prepared on a self-financing basis. The budget update for 2011/12 is based on the current subsidy system. There is also a requirement to prepare and publish a 30 year HRA business plan.

This report therefore sets out the HRA business plan for the period 2012/13 to 2041/42, the detailed capital budget for 2011/12 to 2015/16 and the revenue budgets for 2011/12 and 2012/13. This includes the proposed increases in rents, service charge and other charges to council tenants from April 2012.

## **RECOMMENDATIONS:**

### **CABINET**

- (i) To consider the report and agree that the following recommendations be made to Council at the meeting on 15 February 2012.

### **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) Following the completion of the full financial assessment of the changes to target rents approved by Council on 16 November 2011 to:
  - Confirm that the target rent for houses will be increased by 5%,
  - Approve a further reduction in the target rent for flats of 0.06% (giving a total reduction of 2.96%) so that the overall average target rent for all dwellings remains unchanged,
  - Approve the indexing of the £2.00 factor in the individual

property rent restructuring calculation by RPI plus 0.5% from 2001/02 and the phased implementation of the amended calculation in equal instalments between 2013/14 and 2015/16

- Confirm that from 2 April 2012, all new tenants will be charged the target rent for the property they move into.
- Confirm that in all other respects, rents should be set using the Governments Rent Restructuring regime.

(iii) To agree that, with effect from the 2 April 2012, the current average weekly dwelling rent figure of £69.73 should increase by 7.54%, which equates to an average increase of £5.26 per week, and to approve the following to calculate this increase:

- That the percentage increase applied to all dwelling rents should be 6.1%, equivalent to an increase of £4.25 per week; and
- That the rent restructuring component of the increase should follow the arrangements set out in recommendation (ii) above, giving an increase in average rent levels of 1.44% (£1.01 per week) and

to note that:

- The total percentage increase in individual rents will vary according to the restructured rent of their property

(iv) To approve the following weekly service charges from 2 April 2012 based on the full cost recovery approach agreed by Council in November 2011:

- Digital TV £0.42 (unchanged from 2011/12)
- Concierge £1.20 (increased by £0.08 from 2011/12)
- Tower Block Wardens £4.97 (reduced by £0.14 from 2011/12)

(v) To note that the service charges in supported accommodation will not change from 2 April 2012 but that these will be reviewed in the spring of 2012 in consultation with tenants, with any changes taking effect from October 2012,

(vi) Subject to consultation with tenants, to approve the introduction of a new cleaning charge for walk up blocks of £0.91 per week, the start date for which will be agreed with tenants

(vii) To agree that the charges for garages and parking spaces for 2012/13 should be increased by 5.6% in line with the increase in RPI used in the calculation of the increase in average rents.

(viii) To approve the increase in minimum HRA balances to £2M.

(ix) To approve the Housing Revenue Account Revenue Estimates as set out in the attached Appendix 1.

(x) To approve the revised Housing Revenue Account Capital Programme set out in Appendix 2.

- (xi) To approve the 30 year capital and revenue business plans set out in appendices 4 and 5
- (xii) To approve the principles underlying capital spending plans that have been included in the business plan as set out in appendix 6
- (xiii) To note the HRA business planning assumptions set out in appendix 7.
- (xiv) To note that rental income and service charge payments will be paid by tenants over a 48 week period.
- (xv) To note the intention to develop a HRA efficiency programme during 2012/13

## **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.
2. The introduction of the new self-financing regime for HRA finances from April 2012 brings with it a requirement for long term business planning. This report also sets out in financial terms the HRA business plan for the next 30 years.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3. The proposals in this report follow the principles established in the report approved by Council in November 2011 and are consistent with the views of tenant representatives expressed at various meetings during the preparations for HRA self-financing. Alternative options are not therefore supported.

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

### **Background**

4. 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 homes for Southampton tenants and leaseholders and their families. This includes housing management, repairs and improvements, welfare advice, supported housing services, neighbourhood wardens, and capital spending on Council properties.
5. This report sets out the HRA revenue budgets for 2011/12 and 2012/13, the detailed capital programme for the period 2011/12 to 2015/16 and the 30 year HRA business plan covering the period 2012/13 to 2041/42. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2012/13.
6. The capital and revenue estimates for 2012/13 onwards and the 30 year business plan have been prepared using the new self-financing arrangements for the HRA. The updated budgets for 2011/12 are prepared using the current HRA subsidy system which will cease on 1 April 2012.

### **Reform of Council Housing Finance – Self Financing**

7. A comprehensive report on the implications of self-financing was submitted to Council on 16 November. This report provides an update on the self-financing developments since that report. It does not repeat all the principles agreed in the November report.
8. Since the report in November CLG have issued formal consultation papers on the final self-financing proposals now that the Localism Act has received Royal Assent. The main change in the latest papers are:
  - The sum payable to CLG to end the subsidy system has increased from £70M to £75.5M. This is due to the Retail Price Index (RPI) being higher than expected in September 2011 and some data changes within the calculation of the self-financing expenditure allowances leading to a slightly lower than expected expenditure requirement.
  - The “borrowing headroom”, which represents the increase in the level of outstanding debt that the HRA would be allowed to incur, has increased from £21.7M to £21.9M.
9. It should also be noted that at the time of writing the report, we have not received the final self-financing notifications from CLG. These are expected by the end of January and a verbal update on the position will be given at the Cabinet meeting. However, it is not expected that there will be any further changes to the self-financing arrangements when the final notifications are received. The impact on the 2012/13 budgets and 30 year business plan of the final borrowing decisions will be reported to Cabinet and Council in July 2012 as part of the Final Accounts report for 2011/12.

#### **HRA business plan principles**

10. The report to Council in November 2011 also approved the key business planning principles that were to be adopted in the preparation of the current HRA budget and business plan. This section provides information on the further work that has been undertaken on those principles and proposes some limited changes and additions.

#### **Rents**

11. It was noted in the November report that a full financial assessment was needed on the proposal to increase the target rents for houses by 5% and to reduce the target rent for flats by 2.9%. That assessment has now been concluded and the results are set out below.
12. A fundamental requirement of the change is that there must be no change in the overall average target rent for HRA as a whole. Further analysis has shown that the target rent reduction for flats should be increased by 0.06% to 2.96% and it is therefore recommended that target rents for flats are reduced by the higher amount.
13. The financial analysis then showed that there would be a substantial reduction in rent income from the proposals of approximately £4.6M over the first 9 years of the business plan.
14. Further examination of the rent increase calculation was then undertaken. The calculation of the rent level for each individual dwelling is made up of two

elements:

- A standard increase of RPI plus 0.5% plus
- A dwelling specific addition that will gradually increase the actual rent up to the target rent (often referred to as “Housing Association social rent levels”).

The CLG guidance is that the dwelling specific component should not exceed £2.00 per week.

15. The £2.00 per week limit has not been increased since rent restructuring started back in 2000 and it was this element of the calculation that was identified as leading to the reduction in rent income. An alternative calculation was therefore undertaken whereby the £2.00 limit was increased by RPI plus 0.5% from 2001/02. For 2012/13, this would give a limit of £3.03. Consideration was also given to the effect of the changes on the rent increases for the next few years and also to the impact on the number of dwellings that would not reach target rent by 2015/16.
16. The results showed that:
  - The move from the £2.00 fixed limit to the index linked limit should be phased over the 3 year period starting in 2013/14 and ending in 2015/16,
  - This would result in a lower rent increase in April 2012 and the subsequent 2 years,
  - The rent reduction would be approximately £760,000 over the 9 year period, which is affordable in the context of the business plan,
  - All flats should be at their target rent by 2015/16,
  - In the long term, houses would also reach their target rent more quickly and
  - The proposal is closer to delivering the assumptions on this matter that were set out in the CLG debt settlement.
17. It is therefore recommended that the £2.00 factor in the individual property rent restructuring calculation should be indexed by RPI plus 0.5% from 2001/02 and the implementation of the amended calculation should be phased in equal instalments between 2013/14 and 2015/16.

#### Service charges

18. The November report approved the recalculation of all service charges to ensure that the costs were set to fully recover the costs of the service. This has been done for the charges relating to Digital TV, Tower Block Wardens and the Concierge Service. Details of the new charges are set out in paragraph 35 below, but there has not been any material change as a result of this work.
19. However, the support charges for 60plus accommodation have not been reviewed at this stage and it is proposed that this is done in the spring of 2012 with any changes to start from October 2012. Tenants will be fully consulted on the changes. For the 2012/13 budget and business plan, the current charges have been retained until this work is completed.

### Garages and Parking Spaces

20. Following representation from tenants it is proposed that the basis for increasing charges for garages and parking spaces should be amended so that they are increased by RPI and not RPI plus 0.5%, with the RPI being based on the September index used in the rent calculation.

### HRA business plan 2012/13 to 2041/42

21. A 30 year HRA business plan has now been prepared using the planning principles agreed in November as amended by the proposals in this report. The summary for the capital and revenue budgets is set out in appendices 4 and 5. The principles underlying the capital spending are set out in appendix 6. This emphasises the intention to use quality materials and life cycle replacements that are in many cases better than the old decent homes standard. Other key assumptions used in the plan are set out in appendix 7.
22. The main points to note are:
- All HRA debt can be repaid over the 30 year life of the plan,
  - The capital spending plans include provision to maintain and improve all existing dwellings. There is also provision of £20M to support estate regeneration work and £100M set aside for Stock Replacement should it become necessary to renew any of the existing dwellings over the next 30 years.
  - The revenue budget meets minimum balances of £2M over the life of the plan.
  - From year 10 onwards revenue balances increase above minimum levels which demonstrates that with careful management there is a viable long term position for the HRA.
  - There are no efficiency gains included in the plan.
23. It is the intention to develop an efficiency programme during 2012/13 to deliver savings from 2013/14 onwards. This will become an integral part of the annual budget setting and business planning process. It is important to note that the business planning forecasts set out in appendix 4 are made at a high level and take a prudent approach to expenditure and income forecasts based on 2011/12 budgets. When in future years detailed annual budgets are set the allowances for inflation etc are assessed at a much more detailed level. In future, the proposed budget for the forthcoming year will be compared to the detailed inflationary assessment and the efficiency programme savings, as well as the sum allowed in the business plan.
24. A sensitivity analysis has also been undertaken to see what effect there is on the business plan if different key assumptions were assumed. The sensitivities were:
1. Increase in interest cost of 1% on the payment to CLG,
  2. Lower RPI than forecast
  3. Higher inflation on building works related costs and
  4. The impact of stock reductions of 50 dwellings per annum.
25. The results show that sensitivities 1, 2 and 4 all result in lower revenue balances by the end of the 30 years but still repay all debt and enable capital

spending plans to proceed. However, sensitivity 3 (higher inflation on building works related costs) would not enable all debt to be repaid over the 30 year period. There would be approximately £110M of debt still outstanding at this time.

26. The conclusion of this work is therefore that close attention must be given to building cost increases each year to ensure the plan remains viable.

#### **HRA Revenue budget 2011/12 and 2012/13**

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

#### **Responsive repairs**

28. The budget for 2011/12 has been reduced by £776,000 principally due to an 11% reduction in the number of voids, coupled with a 2% reduction in the average price (£440,000) and a 4.5% reduction in the average costs of a responsive repair (£289,000).

29. The proposed budget for 2012/13 is £10.178M. This budget includes a one-off provision of £172,000 to meet the costs of a 53 week year. It will fund 53,200 responsive repair orders and works to 1,260 voids.

#### **Programme repairs**

30. The proposed budget for 2012/13 is £4.694M, which is £533,000 less than in 2011/12 because the budget for gas boiler replacement is now in the capital programme.

#### **Supervision and Management**

31. The budget for 2011/12 now includes an extra £450,000 to fund the mobile working project. This includes the budget carry-forward of £250,000 agreed by Council in July 2011 and the transfer of £200,000 from capital to revenue.

32. The proposed budget for 2012/13 is £18.767M. This includes £230,000 to fund the proposed new cleaning service to walk-up blocks, an extra provision of £290,000 for bad debts to reflect possible problems arising from the reduction in welfare benefits, a provision of £400,000 in case there is a need to make a contribution to the deficit on the heating account and a provision of £100,000 for other service developments such as tackling the health inequalities in some of our estates and enhancing skills opportunities for our tenants which includes working in partnership with local universities.

#### **Dwelling Rent Income**

33. The additional income of £312,000 in 2011/12 is principally due to a lower level of voids coupled with lower Right-To-Buy sales.

34. For 2012/13 rents have been calculated using the basis set out in recommendation (ii) to this report. This means that with effect from the 2 April 2012, the current average weekly dwelling rent figure of £69.73 should increase by 7.54%, which equates to an average increase of £5.26 per week. This is made up of a 6.1% increase for all dwellings (equivalent to an increase of £4.25 per week) and a further 1.44% (£1.01 per week) for the rent restructuring component of the increase.

### Service Charges

35. The service charges for 2012/13 have been determined in accordance with the principles set out in paragraphs 18 and 19. A comparison between the current and proposed charges is shown below (based on 52 weeks):

Description	Current weekly charge	Proposed weekly charge
Tower block wardens	£5.11	£4.97
Sheltered housing management charge:		
• Scheme based accommodation	£4.90	£4.90
• All other sheltered accommodation	£1.23	£1.23
Concierge monitoring charge	£1.12	£1.20
Sheltered support charge	£2.63	£2.63
Community Alarm monitoring charge	£1.25	£1.25
Digital TV	£0.42	£0.42

36. It is also proposed that a new service charge of £0.91 will be introduced in 2012/13 to pay for a new cleaning service in walk-up blocks. This proposal is subject to consultation with tenants. The total income for 2012/13 includes income from this proposed new service.

### Other Charges

37. It is proposed to increase the charges for garages or parking spaces for 2012/13 in line with RPI ie 5.6%.

### Level of HRA Revenue Balances and Contingency Provision

38. The revenue budget at appendix 1 currently includes a contingency provision for 2011/12 of £575,000. This has been retained to meet any redundancy costs incurred in the year and also to meet any costs arising from the closedown of the stores function at Town Depot and the creation of a store for Building Works only at Shirley Depot. It is however recommended that the contingency returns to its usual level of £100,000 for 2012/13.
39. For 2012/13, it is recommended that the minimum level of HRA balances should be increased from £1,200,000 to £2,000,000. This reflects the additional risks of operating in a self-financing environment. The budget for 2012/13 shows balances at 31 March 2013 are forecast to be £95,000 above this minimum level.

### HRA Capital Budget 2011/12 to 2015/16

40. The capital programme was fully reviewed and approved in November 2011. These spending plans have been reviewed to take account of the latest estimated costs and phasing of those schemes. A comparison of the November programme with the latest proposed programme is shown below:

Programme	2011/12	2012/13	2013/14	2014/15	2015/16	Total
	£000	£000	£000	£000	£000	£000
Proposed	25,742	31,443	32,682	34,506	27,964	152,337
Current	25,164	31,781	32,105	34,506	27,964	151,520
Change	578	-338	577	0	0	817

The main changes are set out below and full details are in appendix 3.

#### Estate Regeneration

41. Overall budget provision has been reduced by £272,000 to reflect the transfer of spending and resources to the Housing General Fund capital programme in relation to the redevelopment of Cumbrian Way.

#### Safe, Wind and Weather Tight

42. The budget provision for Mobile Working of £200,000 has been transferred to the revenue budget.

#### Modern Facilities

43. The budget provision for Digital TV has been increased by £54,000 to address some additional costs of installing fibre optic into a number of the Tower Blocks. The final costs for the fire at Shirley Towers have now been assessed and £33,000 has been charged to the capital programme.

#### Well Maintained Communal Facilities

44. The main budget changes are:
- £900,000 has been added to the budget for works to Graylings supported housing scheme to reflect a significant enhancement to the specification to the scheme based on ongoing discussions with colleagues in Health and Adult Social Care. It is anticipated that this increase will be supported by significant financial contributions from Health and Adult Social Care.
  - £200,000 has been added to the budget for Holyrood Improvements due to the need to integrate the proposed works with other high quality city centre schemes.
  - £70,000 has been added to the budget for Millbrook Towers Improvements due to structural issues being discovered to the garages. This budget is a provisional sum to address the problem pending a full structural report being received,
  - There was an increase in costs of the work to Manston Court of £35,000.

#### Warm and Energy Efficient

45. This section of the programme makes provision for a significant investment in the cladding of PRC houses, flats and tower blocks to improve their thermal efficiency. The Council is actively pursuing further energy efficiency measures and will utilise the borrowing headroom to provide matched funding

for money obtained through Eco-funding, FIT and other Green Deal initiatives.

### **Consultation**

46. The budget and business planning proposals have been discussed with tenants at various meetings during the preparations for self-financing. Most recently, these matters were discussed at the Winter Conference.
47. This formed part of the “Having Your Say” approach to tenants and resident involvement. This was a well attended meeting with approximately 90 tenants and residents in attendance. There was very broad support for the proposals in particular the increased investment in tenants’ homes.
48. It is recommended that Members formally recognise the support and commitment of tenants and tenant representatives who have participated in this year’s capital and revenue budget setting exercise
49. There was also been consultation with various officers within the Council and with our partners and this will continue as the capital and revenue initiatives in this report are developed to support the delivery of wider city objectives.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

50. These are in the body of the report.

### **Property/Other**

51. None

## **LEGAL IMPLICATIONS**

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

52. 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.
53. The provision, maintenance and improvement of social housing by local authorities is authorised by various Housing Acts and other legislation
54. The Localism Act gives the statutory basis for the HRA self-financing arrangements set out in this paper.

### **Other Legal Implications:**

55. None

## **POLICY FRAMEWORK IMPLICATIONS**

56. The HRA estimates form part of the Council’s budget and are therefore key elements of the council’s overall budget and policy framework

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**KEY DECISION?** Yes

<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 2011/12 and 2012/13.
2.	Detailed HRA capital programme 2011/12 to 2015/16.
3.	Summary of changes to the HRA capital programme
4.	HRA Business Plan – 30 year revenue account
5.	HRA Business Plan – 30 year capital spending plan and financing
6.	HRA Business Plan – Principles underlying capital spending plans
7.	HRA Business Plan – planning assumptions

#### **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
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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)

1.		
2.		