

DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET REPORT AND BUSINESS PLAN
DATE OF DECISION:	5 FEBRUARY 2013. 13 FEBRUARY 2013
REPORT OF:	CABINET MEMBER FOR HOUSING AND LEISURE SERVICES

CONTACT DETAILS

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STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

The Reform of Council Housing Finance reached its conclusion with the final settlement payment to the Department for Communities and Local Government (DCLG) at the end of March 2012, which effectively bought the Housing Revenue Account (HRA) out of the Housing Subsidy system.

The new HRA Self Financing system started from April 2012. The budget update for 2012/13 and the budget for 2013/14 in this report have been prepared using the new arrangements, which also include a requirement to prepare and publish a rolling 30 year HRA business plan.

The report sets out the revenue budgets for 2012/13 and 2013/14, the detailed capital budgets for 2012/13 to 2017/18 and the HRA business plan for the period 2013/14 to 2042/43. It includes the proposed changes in rents, service charges and other charges to council tenants from April 2013.

RECOMMENDATIONS:

CABINET

- (i) To consider the report and agree that the recommendations, as set out below, be made to Council at the meeting on 13 February 2013.
- (ii) To approve, in accordance with Financial Procedure Rules, capital spending of £1,000,000 in 2012/13 on a contribution to major investment works at Rotterdam Towers, subject to Council

agreement to add a scheme of this value to the Safe, Wind and Weather Tight section of the HRA Capital Programme.

- (iii) To approve, in accordance with Financial Procedure Rules, a transfer, within the Estate Regeneration section of the HRA Capital Programme, of £1,325,000 from the Estate Wide scheme to create a Weston Enabling Works scheme, phased £700,000 in 2013/14, £375,000 in 2014/15 and £250,000 in 2015/16.

COUNCIL

- (i) To thank tenant 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 1 April 2013, the current average weekly dwelling rent figure of £75.06 should increase by 4.62%, which equates to an average increase of £3.47 per week, and to approve the following to calculate this increase:
- That the percentage increase applied to all dwelling rents should be 3.1%, equivalent to an increase of £2.33 per week; and
 - That the rent restructuring component of the increase should follow the arrangements agreed by Council in February 2012, giving an increase in average rent levels of 1.52% (£1.14 per week) and
- to note that:
- The total percentage increase in individual rents will vary according to the restructured rent of their property.
- (iii) To note the following weekly service charges from 1 April 2013 based on a full cost recovery approach:
- Digital TV £0.42 (unchanged from 2012/13)
 - Concierge £1.20 (unchanged from 2012/13)
 - Tower Block Wardens £4.97 (unchanged from 2012/13)
- (iv) To note that the service charges in supported accommodation will not change from 1 April 2013 but that these will be reviewed, in consultation with tenants, with any changes taking effect later in 2013/14.
- (v) Subject to further 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.
- (vi) To note that the charges for garages and parking spaces for 2013/14 will be increased by 2.6% in line with the increase in RPI used in the calculation of the increase in average rents.
- (vii) To approve the Housing Revenue Account Revenue Estimates as set out in the attached Appendix 1.

- (viii) To approve, in accordance with Financial Procedure Rules, the addition of a scheme to the Safe, Wind and Weather Tight section of the HRA Capital Programme for a contribution of £1,000,000 to major investment works at Rotterdam Towers, funded by unapplied Direct Revenue Financing available within the overall HRA Business Plan.
- (ix) To approve the revised Housing Revenue Account Capital Programme set out in Appendix 2.
- (x) To approve the 30 year revenue and capital business plans set out in Appendices 4 and 5.
- (xi) To note the principles underlying capital spending plans set out in Appendix 6.
- (xii) To note the HRA business planning assumptions set out in Appendix 7.
- (xiii) To note that rental income and service charge payments will continue to be paid by tenants over a 48 week period.

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 in April 2012 brought 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 16,821 homes for Southampton tenants and their families and to 1,722 homes for leaseholders. 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 2012/13 and 2013/14, the detailed capital programme for the period 2012/13 to 2017/18 and the 30 year HRA business plan covering the period 2013/14 to 2042/43. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2013/14.
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.

Reform of Council Housing Finance – Self Financing

7. On 28th March 2012 the HRA paid a one-off levy to DCLG to buy its way out of the subsidy system and stop the need for annual payments. The February 2012 budget report assumed borrowing of £75.251M would be required to fund the payment of this levy. However, as was reported to Council in the HRA Final Accounts report of July 2012, the final settlement was £1.674M lower than anticipated and required borrowing of only £73.487M.
8. The budget report assumed an interest rate on borrowing of exactly 4%. However, when funds were acquired from the Public Works Loans Board on 26th March 2012 the average interest rate was slightly over 3.5%.
9. As previously reported, the combined impact of these variations was an annual saving of £433,000 and a subsequent increase in the surplus on the HRA Business Plan of almost £13M over thirty years. In addition, it was anticipated that there would be a forecast increase in interest on cash balances over the thirty year period of approximately £0.5M.
10. This report considers further changes to the assumptions in the original HRA business plan and the impact that these will have on the 30 year surplus.

HRA business plan principles

11. A report to Council in November 2011 approved the key business planning principles that were to be adopted in the preparation of the HRA budget and business plan. Some limited changes and additions were made in the budget report of February 2012. The following section sets out some of these principles.

Rents

12. 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.

13. The £2.00 per week limit has not been increased since rent restructuring started back in 2000. An alternative calculation was therefore considered, in the February 2012 report, whereby the £2.00 limit was increased by RPI plus

0.5% from 2001/02. For 2013/14, this would give a limit of £3.36.

14. It was agreed, however, 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. Therefore, the limit next year will be £2.45 and this will rise to £3.36 by 2015/16. This seeks to ensure that:

- All flats will be at their target rent by 2015/16, and
- In the long term, houses will also reach their target rent more quickly.

It was stated that the agreed proposal was closer to delivering the assumptions on this matter that were set out in the DCLG debt settlement.

Service charges

15. The November 2011 Council report approved the recalculation of all service charges to ensure that they were set to fully recover the costs of the service. Delegated authority was given to the Senior Manager for Housing Services, following consultation with the Cabinet Member for Housing, to approve the annual revision to service charges within the policy parameters agreed by Council.

Garages and Parking Spaces

16. Following representation from tenants it was agreed 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. As for service charges, delegated authority was given to the Senior Manager for Housing Services to approve the revised charge.

HRA Revenue budget 2012/13 and 2013/14

17. The revised estimates for 2012/13 and the original estimates for 2013/14 are set out for approval in Appendix 1. The main issues that need to be considered in setting the revenue budget are detailed below.

Responsive repairs

18. The proposed budget for 2013/14 of £10.4M includes an anticipated efficiency saving of £250,000 from the transformation programme. The budget is sufficient to fund 49,253 responsive repair orders and works to 1,213 voids.

Housing Investment

19. The overall budget for 2012/13 has been reduced by £335,000. There are forecast under spends of £508,000 on decorating, pending the appointment of a replacement contractor, £139,000 on smoke detector and electrical testing, due to fewer repairs than budgeted being required as a result of the testing programme, and £50,000 on Energy Performance Certificates, due to a reduction in the number of properties requiring certification. These have been offset by forecast over spends of £220,000 on lift maintenance, due to higher than expected lift failures, and £137,000 on asbestos removal, as the work on the CESP project at International Way has revealed unexpected volumes of asbestos.

20. The budget for 2013/14 has been increased by over £1M in comparison with the original estimate for 2012/13. This includes an addition of £816,000 in the decorating budget, to allow the new contractor to address a back log of work from previous years, and an increase of £166,000 on the budget for various servicing contracts, to facilitate more proactive asset management and potentially reduce future maintenance costs.

Supervision and Management

21. The budget for 2013/14 has been increased by over £1M in comparison with the original estimate for 2012/13. This includes an increase of £374,000 for the reinstatement of employee terms and conditions and a number of other service developments identified during the budget process. These include the refocus of HRA Grounds Maintenance activity to be more tenant specific and increases in contributions to support housing needs, employment issues, improving the natural environment, sustainability and communications.

Interest and Principal Repayments

22. There is an additional cost in 2012/13 of £726,000, due to the repayment of a loan earlier than planned. This is a timing issue, rather than an increase of cost in the business planning period, and will correct itself by the end of financial year 2013/14.

Dwelling Rent Income

23. There is an increase of £241,000 in Dwellings Rent income in 2012/13. This is partly due to rents from Local Authority New Build properties being higher than budget, leading to a favourable variance of £98,000. In addition, the income from a previous 53 week rent year has been amortised over the 6 years in which there are 52 rent weeks. This additional income of £143,000 has now been included in the revised estimate.
24. For 2013/14 rents have been calculated using the basis agreed by Council in September 2012. This means that with effect from the 1 April 2013, the current average weekly dwelling rent figure of £75.06 should increase by 4.62%, which equates to an average increase of £3.47 per week. This is made up of a 3.1% increase for all dwellings (equivalent to an increase of £2.33 per week) and a further 1.52% (£1.14 per week) for the rent restructuring component of the increase.

Service Charges

25. There is an income shortfall of £263,000 in 2012/13 from service charges for a proposed new cleaning service for walk-up blocks, due to delays in implementation of the Wardens' Review. The approval of a restructure was required prior to further consultation with tenants being undertaken.

26. The service charges for 2013/14 have been determined in accordance with the principles set out in paragraph 15. As there has been no net increase in costs, the proposed weekly charges are unchanged. A detailed list of the proposed charges is shown below (based on 52 weeks).

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

27. The review of service charges for supported accommodation has yet to be completed. Therefore, there will be no change to these charges from April 2013. The charges will be reviewed in 2013/14 and tenants will be fully consulted. Any changes will take effect later in the financial year.
28. It is also proposed that a service charge of £0.91 per week will be introduced to pay for a cleaning service in walk-up blocks. The plan is to start charging for this proposed new service early in 2013/14, subject to further consultation with tenants.

Other Charges

29. It is proposed to increase the charges for garages or parking spaces for 2013/14 in line with RPI, i.e. 2.6%.

Level of HRA Revenue Balances and Contingency Provision

30. For 2012/13, it was recommended that the minimum level of HRA balances should be increased from £1.2M to £2M. This reflected the additional risks of operating in a self-financing environment. The working balance at the start of 2012/13 was £2.621M and allowing for the revised estimates for 2012/13 the balance carried forward into 2013/14 is estimated to be £2.281M.
31. The budget proposed for 2013/14 shows a break even position, such that the balances at 31 March 2014 are forecast to be £2.281M. This position includes allowance for the deletion of the additional £100,000 contingency provision previously held within the repairs and maintenance budget.

HRA Capital Budget 2012/13 to 2017/18

32. The HRA capital programme was fully reviewed and approved in September 2012. These spending plans have now been reviewed to take account of the latest estimated costs and phasing of those schemes and the forecast change in resources.
33. The proposed February programme is shown in detail at Appendix 2. The programme update totals £206,986,000. This can be compared to the previous September update total of £145,357,000, resulting in an increase of £61,629,000, which represents a percentage increase of 42.4%.
34. The changes in the overall programme are summarised by year in the table in Appendix 3. A large proportion of the increase (£60,105,000) is due to the addition of new 'unapproved' schemes, following the extension of the programme by two years (2016/17 and 2017/18). The other main changes in total scheme spending, totalling £1,524,000, and the significant changes in spending between years are also set out in Appendix 3.

Major Investment at Rotterdam Towers

35. A report to Cabinet on 24 October 2011 stated that only four blocks at International Way were eligible for external funding (CESP) for a number of substantial investment works but that Rotterdam Towers was excluded from the funding stream due to the boundary restrictions.
36. The Housing Investment Team have subsequently been investigating other potential grant funding opportunities that would allow Rotterdam Towers to receive the identical works to its four sister blocks. They have recently been successful in securing another substantial amount of grant funding from British Gas, via their Energy Companies' Obligations (ECO) grant funding scheme.
37. The actual cost for all these energy saving projects for Rotterdam Towers has been estimated to be £2.7M. British Gas has guaranteed to contribute £1.7M to this project, resulting in the requirement for the Council to provide up to £1M as its contribution, with any cost saving reducing the Council's contribution. If, due to unforeseen circumstances, costs are forecast to exceed the original estimates, the project will be reviewed with British Gas and any necessary budget variation will be approved in accordance with Financial Procedure Rules.
38. This report recommends that £1M is added to the HRA Capital Programme, and that this sum is approved for expenditure. The amount requested is in line with the Council's contribution for the other four blocks. If approved, it is envisaged that the programme of works will commence in early 2013 and be completed by July 2013.
39. It is worth noting that the project currently being completed on the first four blocks has not only changed the aesthetics of the blocks but has met the requirements of the energy usage savings proposed in the initial submission. This scheme is providing individually controlled heating and hot water systems for each individual flat. Resident satisfaction levels with the finished work are high.

Weston Estate Regeneration Enabling Works

40. It is recommended that Cabinet approve a transfer, within the Estate Regeneration section of the HRA Capital Programme, of £1,325,000 from the Estate Wide scheme to create a Weston Enabling Works scheme. This will kick start the Weston Shopping Parade estate regeneration scheme and be available to cover the cost of items such as demolition (including archaeology), highway works and any contribution required to a developer. The expenditure is expected to be phased £700,000 in 2013/14, £375,000 in 2014/15 and £250,000 in 2015/16.

HRA business plan 2013/14 to 2042/43

41. A 30 year HRA business plan has now been prepared using the planning principles agreed in November 2011 and amended by the proposals in the February 2012 budget report. The summary for the revenue and capital budgets is set out in Appendices 4 and 5. The principles underlying 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 updated plan are set out in Appendix 7.
42. The main points to note are:
- All HRA debt can still be repaid over the 30 year life of the plan.
 - The capital spending plans still include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure in the early years that has been reflected in the updated capital programme.
 - This investment can be achieved within the Government's borrowing restrictions, as the level of borrowing remains within the 'debt cap' of £199.6M.
 - The provision that is set aside for stock replacement, which will support the renewal of any of the existing dwellings that may be required over the next 30 years, has been increased from £100M to £130M. This provision has been phased between year 10 and year 30 of the plan.
 - The revenue budget continues to meet minimum balances of £2M over the life of the plan.
43. In February 2012, it was reported that from year 10 onwards revenue balances increase above minimum levels. By year 30 the projected revenue balance was a surplus of £76.1M.
44. The main variation over the last 12 months is a small long term improvement in this position, due to the more competitive unit rates achieved from letting longer term contracts. This has reduced capital cost estimates by approximately £58M over the 30 year period. This change has been offset by a reduction in rental income projections over 30 years, which has resulted from a lower than forecast level of inflation.

45. The current 30 year Business Plan shows that consistent revenue balances above minimum levels is still achievable and by year 30 the projected revenue balance will be at a higher surplus level of £84.3M. However, predicted revenue surpluses do not begin to consistently exceed minimum levels until 2025/26 and as reported in last years budget report, the main risk to the long term success of the plan is that, if building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on HRA balances. Therefore the annual and full 30 years surplus are liable to change on an annual basis and will reflect the annual review of stock investment needs and estimated unit rates.

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 was a well attended meeting with over 100 tenants and residents in attendance. There was very broad support for the proposals in particular the ongoing higher levels of 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 has 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.

KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	ALL
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SUPPORTING DOCUMENTATION

Appendices

1.	HRA Revenue Estimates 2012/13 and 2013/14.
2.	Detailed HRA capital programme 2012/13 to 2017/18.
3.	Key Variances & Issues – February 2013 programme update
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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Equality 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

Equality 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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