DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET REPORT AND BUSINESS PLAN
DATE OF DECISION:	10 FEBRUARY 2015 (CABINET) 11 FEBRUARY 2015 (COUNCIL)
REPORT OF:	CABINET MEMBER FOR HOUSING AND SUSTAINABILITY

CONTACT DETAILS

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STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

The national self-financing regime for the Housing Revenue Account (HRA) was introduced in April 2012. The budgets in this report have been prepared using these arrangements, which include a requirement to prepare and publish a rolling 30 year HRA Business Plan covering both capital and revenue expenditure projections.

The report sets out the 2015/16 revenue budget for all of the day to day services provided to Council tenants in the city, the detailed capital budgets for 2014/15 to 2019/20 and the HRA Business Plan for the period 2015/16 to 2044/45. It includes the proposed changes in rents, service charges and other charges to council tenants from 1 April 2015.

RECOMMENDATIONS:

CABINET

(i) To consider the report and agree that the recommendations, as set out below, be made to Council at the meeting on 11 February 2015.

(ii) To approve the addition of £1,000,000 to the Housing Revenue Account Capital Programme for an Existing Satisfactory Purchase Scheme, funded from retained ‘right to buy’ capital receipts (30%) and direct revenue financing (70%).

(iii) To approve capital expenditure of £1,000,000 in 2015/16, in accordance with Financial Procedure Rules, on the Existing Satisfactory Purchase Scheme and to give delegated authority to the Director of People to agree individual property acquisitions, as set out in paragraphs 34 to 36 of this report.

COUNCIL

(i) To thank the Tenant Resources Group for their input to the capital and revenue budget setting process and to note their endorsement of the recommendations set out in this report and also the broad support for the proposals received at the Tenants' Winter Conference.

(ii) To approve the following to calculate the dwelling rent increase from 1 April 2015:

- That the standard increase applied to all dwelling rents should be 2.2% (CPI plus 1.0%), as set out in paragraph 11 of this report, equivalent to an average increase of £1.84 per week; and
- That dwelling specific adjustments should be made to give an additional increase in average rent levels of 1.3% (£1.09 per week), subject to the total increase from both elements not exceeding £10.00 per week for any individual property, as set out in paragraph 13 of this report.

(iii) To approve, based on the calculation set out in recommendation (ii) above, that with effect from the 1 April 2015, the current average weekly dwelling rent figure of £83.92 should increase by 3.5%, which will equate to an average increase of £2.93 per week.

(iv) To note that the actual total increase in individual rents will vary by property, as explained in paragraph 14 of this report.

(v) To note the following weekly service charges from 1 April 2015 based on a full cost recovery approach:

- Digital TV £0.42 (unchanged from 2014/15)
- Concierge £1.20 (unchanged from 2014/15)
- Tower Block Warden £4.97 (unchanged from 2014/15)

(vi) To note that the new cleaning charge for walk up blocks of £0.63 per week, which was introduced from July 2014, will also be unchanged from 1 April 2015.

(vii) To note that the service charges for supported accommodation will continue at the rates approved in February 2013.

(viii) To note that the charges for garages and parking spaces for 2015/16 will be increased by 1.2% in line with the increase in CPI.

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

(x) To approve the addition of £12,272,000 to the Housing Revenue Account Capital Programme for a Provision of Social Housing Scheme, funded from retained 'right to buy' capital receipts (30%) and borrowing (70%), as set out in paragraphs 34 to 36 of this report.

(xi) To approve the revised Housing Revenue Account 5 Year Capital Programme set out in Appendix 2 and to note the key variances and issues in Appendix 3.

(xii) To approve the 30 year Business Plans for revenue and capital expenditure set out in Appendices 4 and 5 respectively.

(xiii) To note the HRA Business Plan - Planning Assumptions, as set out in Appendix 6.

(xiv) 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. In March 2012 the HRA paid a one-off levy to Government, known as the 'debt settlement', to buy its way out of the subsidy system and stop the need for annual payments. The introduction of the 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 key principles established in the HRA self-financing report approved by Council on 16 November 2011 and amended in subsequent budget reports. They are consistent with the views of tenant representatives expressed at various meetings during the preparations for HRA self-financing. More recently, these matters have been discussed at the monthly meetings of the Tenant Resources Group and at the Tenants' Winter Conference. Alternative options are not therefore supported.

DETAIL (Including consultation carried out)

<u>Background</u>

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 16,600 homes for Southampton tenants and their families and to 1,810 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 2015/16, the detailed

capital programme for the period 2014/15 to 2019/20 and the 30 year HRA business plan covering the period 2015/16 to 2044/45. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2015/16.

6. The capital and revenue estimates and the 30 year Business Plan have been prepared using the self-financing arrangements for the HRA.

7. A report to Council on 16 November 2011 approved the key principles that were to be adopted in the preparation of the HRA budget and Business Plan. Some additions and amendments were made in subsequent budget reports and the agreed principles are set out below.

Borrowing Headroom

8. The HRA must work within Government borrowing restrictions that have imposed a debt cap of £199,600,000. In November 2011, Council agreed that a proportion of any 'borrowing headroom' will be retained as a contingency for any unforeseen or high risk short term issues that need to be supported. In February 2014, Council approved the principle that the HRA Business Plan should have minimum borrowing headroom of £6,000,000, at the time of its annual approval. This set a capital contingency at a level of approximately 3% of the overall debt cap. This is comparable to the minimum level of HRA revenue balances which, when set, equated to approximately 3% of the annual dwelling rent income. The forward re-phasing of expenditure for urgent supported walkway repairs is an example of an appropriate use of the borrowing headroom. Amendments to the capital programme would then be required to ensure that the minimum headroom is restored for the next annual update of the Business Plan.

Dwelling Rents

9. The calculation of the rent increase for each individual dwelling has, since 2000/01, been made up of two elements:

- A standard increase of the September Retail Price Index (RPI) plus 0.5% and
- A dwelling specific rent restructuring adjustment that has gradually moved the actual rent towards the target rent (often referred to as the "Housing Association social rent level"). However, there was a limit on the value of this rent restructuring element.

10. In October 2013 the Department for Communities and Local Government (DCLG) issued a consultation paper entitled 'Guidance on Rents for Social Housing' setting out in detail the Government's policy on rents from 2015/16 onwards. The principles in the paper were subsequently adopted as the Government's official guidance.

11. Government guidance is that stock owning local authorities should increase rents by no more than the Consumer Price Index (CPI) plus 1.0%. For 2015/16 this would mean an increase of 2.2%, as the September 2014 CPI figure was 1.2%. The guidance was based on the assumption that by April 2015 all rents will have reached target rent levels (bringing rents into line with those charged by most housing associations). However, some properties (mainly houses) in Southampton have rents that are significantly lower than

target rent, due to the limit on the rent restructuring part of the rent increase in previous years. It was noted in the February 2014 budget report that only 75% of council homes in Southampton would be at the target rent level.

12. The original HRA Business Plan assumed that there would be 99% rent convergence by 2020/21. If the council was to keep to a rent increase of CPI plus 1.0% in 2015/16 and subsequent years, the only way the 75% figure would increase would be as vacant properties are re-let at target rent. This would have a significant adverse impact on the current capital programme, as well as the revenue surplus in the long term business plan, and will perpetuate differences in the rents payable across the city for individuals in similar dwelling types, which cannot be equitable.

13. It is, therefore, proposed that, for those properties that are not yet at target rent, a dwelling specific rent adjustment is applied in 2015/16, such that the income generated is in line with the assumptions in the original HRA Business Plan. This would mean that, with effect from the 1 April 2015, the current average weekly dwelling rent figure of £83.92 would increase by 3.5%, which equates to an average increase of £2.93 per week. This is made up of a 2.2% increase for all dwellings (equivalent to an increase of £1.84 per week) and a further 1.3% (£1.09 per week) for the dwelling specific element of the increase. As was introduced for the 2014/15 rent increase, it is proposed that the total increase from both elements will not exceed £10.00 per week for any individual property. This is an additional safeguard for the tenants of the houses where the increase may be near to this figure.

14. The actual total increase in individual rents will vary according to the restructured rent of the property. It is estimated that 12,500 properties (75% of total dwellings) will only see a rent rise of 2.2% as they have already reached target rent, hence no additional element is needed. It is further estimated that 14,000 properties (84%) will see an increase of less than £5.00 per week. The increase for 1,100 properties (7%) will be between £5.00 and £8.00 per week. The remaining 1,500 (9%) will see rises of between £8.00 and the maximum increase of £10.00 per week. With the maximum increase in place, not all properties will reach target rent in 2015/16 but the convergence level will rise from 75%, as set out last year, to a figure of 92% for the coming year. This will still leave 8% of Council dwellings, all of which are houses, below the target rent levels. This position will need to be taken into consideration as part of the rent setting consultation process for 2016/17.

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, but not produce a surplus. Delegated authority was given to the Head of 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. These principles will remain unchanged.

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 increased by RPI and not RPI plus 0.5%. It is now proposed to move to an increase based

on the September CPI figure. As for service charges, delegated authority was given to the Head of Housing Services to approve the revised charge.

HRA Revenue Revised Forecast 2014/15

17. The revised forecasts for 2014/15, which are based on month 8 revenue monitoring, are set out in Appendix 1. The working balance at the start of 2014/15 was £2,278,000. However, the approval of budget carry forward requests (£278,000) are included in the revised forecast. The balance for the end of 2014/15 is now expected to be £260,600 below the minimum level of £2M that was set under self-financing. The main issues are detailed below.

Responsive Repairs

18. The volume of repairs has increased due to the exceptional and stormy weather conditions last winter and the decision to reduce the backlog of repairs that was carried forward from the last financial year. The aim was to reduce waiting times for tenants requiring repairs to their homes in the wake of last winter's storms. The weather related repairs will involve a significant amount of complex work to the fabric of approximately 200 properties. It is anticipated this will reduce the draw on the capital programme for this stock in future years. This work is currently estimated to cost £500,000 but, due to the anticipated reduction in future year expenditure, can be funded from a reduction in Direct Revenue Financing (DRF) without impact on the capital programme. In addition, a significant amount of weather related work is being carried out by transferring internal staff resources from the capital programme to work on Responsive Repairs. The cost of this work is estimated as £700,000 and will be funded from a reduction in DRF, as it is moving cost from the capital programme to revenue. The total cost, incurred this year, in repairing the damage caused by last winter's storms is estimated at £1,200,000 (see paragraph 23 below).

19. In addition to the weather related expenditure detailed above, and in order to deal with the backlog of jobs, there will be additional costs for materials and contractors. The contractors' costs have increased largely as a result of the additional scaffolding that has been required. This additional expenditure, estimated at £1,080,000, will have to be funded from savings found elsewhere in the Responsive Repairs and wider HRA budget. Savings of £280,000 have been identified within the Responsive Repairs - estate improvement plan budget. In addition, the £742,700 saving in interest payments will also contribute (see paragraph 22 below).

Housing Investment

20. There was an approved budget carry forward for £165,000 to allow the contractors to address the backlog of decorations work. In addition, there are a number of variances which produce a small overall adverse position of £163,000 (equivalent to 3% of the total budget), as follows:-

(i) Water Quality Testing and Treatment – In order to maintain water quality within Council walk-up blocks to legal requirements, it has been necessary to implement a programme of water monitoring and testing across the city at an additional cost of £83,000.

(ii) TV Aerials – The Digital TV aerials installed in 2011/12 are now out of warranty, and are proving expensive to maintain and repair. A procurement process is underway for a new maintenance contract. In addition, there are costs for the removal of tenants' satellite dishes from some blocks. The total additional cost is £38,000.

(iii) Ventilation Duct Cleaning – A programme has been introduced to clean ducts in the tower blocks and this has also included a replacement programme of internal vents with fire-rated boxes. The total additional cost is £42,000.

Supervision & Management

21. There were approved budget carry forward requests, totalling £113,000, and virements of £227,000 to fund one-off housing transformation work. The budget has also been increased by £458,000, as it now includes provision for the post service pension costs relating to former staff of Housing Operations. These were previously accounted for as part of the cost of Responsive Repairs.

Interest Repayments

22. As a result of re-phasing in the capital programme, as detailed in the September capital update, the borrowing required to fund the capital programme has been reduced from £23,000,000 to £16,000,000. The budget assumption was that the borrowing would take place on the 1st October 2014. As a result of an analysis of the overall Council cash position, the date for borrowing to take place was revised to the 1st January 2015. The combined effect of the changes to the borrowing assumptions has resulted in a reduction of £742,700 in interest payments.

Direct Revenue Financing of Capital (DRF)

23. As a result of the increased volume of weather related work that is being funded as part of the Responsive Repairs revenue budget, DRF has been reduced by £1,200,000 to balance the HRA budget. The additional work, which is now being treated as revenue, will result in improvements to the fabric of a number of the HRA properties, which in turn will lead to reductions in demand on the capital programme in future years. Not all of this reduction will be seen in the current financial year so, in order to fund the capital programme, capital receipts bought forward from last financial year will be used to compensate for the reduction in DRF.

HRA Revenue Budget 2015/16

24. The original estimates for 2015/16 are also set out for approval in Appendix 1. The proposed budget shows a surplus of £260,600, such that the balances at 31 March 2016 revert to the minimum value of £2,000,000. The main issues that need to be considered in setting the revenue budget are detailed below.

Supervision and Management

25. The budget for 2015/16 has been increased by £846,100 (4.2%) in comparison with the original estimate for 2014/15. Employee expenditure has increased, in part due to a pay award and the next phase of the reinstatement of previous reductions in terms and conditions. In addition, past service pension costs of £458,000, relating to former Housing Operations staff and

previously accounted for within Responsive Repairs, are now included.

Interest Repayments

26. The budget for 2015/16 has been reduced by £163,400 in comparison with the original estimate for 2014/15. This is due to the reduced level of borrowing following slippage in the major investment in the housing stock originally planned for 2014/15, which was chiefly caused by changes to the Energy Companies Obligation (ECO) announced by Central Government.

Dwelling Rent Income

27. For 2015/16 rents have been calculated using the basis set out in paragraph 13 and this is estimated to generate an additional £2,400,000 in dwelling rent income compared to the original estimate for 2014/15.

Service Charges

28. The service charges for 2015/16 have been determined in accordance with the principles set out in paragraph 15. Where there has been no net increase in costs for existing services, as increases in staffing costs have been offset by reductions in other costs, the proposed weekly charges are unchanged for the third year running. The cleaning charge, which was introduced last year, also remains unchanged. A table of these proposed charges is shown below (based on 52 weeks).

Description	**Proposed weekly charge**
Tower block warden charge	£4.97
Concierge monitoring charge	£1.20
Digital TV charge	£0.42
Cleaning service in walk-up blocks	£0.63

Service Charges for Supported Accommodation

29. A review of service charges for supported accommodation proposed a revised charging structure, which was set out in last year's budget report. However, over the last year there have been ongoing considerations about the best type of support to be provided in the future to reflect the new developments in the Better Care Fund, locality working and the development of potential future models of Telecare and Telehealth. Whilst these considerations are ongoing it is not proposed to introduce any new charging structure. Therefore, the charging structure approved in February 2013, as set out in the table below, will continue in 2015/16 until such time as any new proposals are consulted on with tenants.

Description	Proposed Weekly Charge
Sheltered housing management charge: • Scheme based accommodation • All other sheltered accommodation	 £4.90 £1.23
Sheltered Support Charge	£2.63
Community Alarm monitoring charge	£1.25

Other Charges

30. It is proposed to increase the charges for garages or parking spaces for 2015/16 in line with the September CPI, i.e. 1.2%.

HRA Capital Budget 2014/15 to 2019/20

31. The HRA Capital Programme was fully reviewed and approved in September 2014. 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.

32. The proposed February programme is shown in detail at Appendix 2. The programme update total is £304,012,000. If prior year spend of £71,212,000 is excluded, the revised total is £232,800,000. This can be compared to the total of £198,996,000 in the programme approved by Council on 17 September 2014, resulting in an increase of £33,804,000, which represents a percentage increase of 17.0%.

33. The changes in the overall programme are summarised by year in the table in Appendix 3. A large proportion of the increase (£21,620,000) is due to the addition of new 'unapproved' schemes, following the extension of the programme to 2019/20. The other main changes in total scheme spending and the significant changes in spending between years are also set out in Appendix 3.

34. As part of developing the revised capital programme, funding has been allocated to utilise the retained 'right to buy' receipts under the agreement between SCC and the Department for Communities & Local Government (DCLG). Without suitable schemes, the Council would have to return a proportion of its accumulated receipts back to the DCLG and this is not the best option for the City. However, under the terms of the agreement, the receipts can only fund 30% of the total scheme costs.

35. Work is underway to identify suitable development opportunities for the Council to utilise a large proportion of the ongoing receipts within the specified time period. As a result, Council are recommended to approve the addition of a 'Provision of Social Housing' scheme to provide for the replacement of properties sold under the 'right to buy' legislation. The provisional allocation of £12,272,000 would be funded by capital receipts of £3,682,000 (30%) with the balance being met from borrowing. Full details of the proposals will be included in a future scheme approval report.

36. However, the Council has accumulated receipts which need to be utilised in advance of any development being finalised. Therefore, this report also recommends that Cabinet approve the addition of a short term Existing Satisfactory Purchase Scheme (ESPS) funded by a £1,000,000 allocation within the Capital Programme. This scheme will aim to bring 7 or 8 properties into Council stock by purchasing suitable family properties from within the local market that add long term valuable assets to the Council Housing Stock. Similar schemes are in operation in a number of other Local Authorities, including New Forest DC, as an effective way of adding to the housing stock in the short term, whilst longer term development plans are finalised. Cabinet approval is sought for capital expenditure of £1,000,000 on this scheme, with the detail of individual property acquisitions delegated to the Director of People.

HRA Business Plan 2015/16 to 2044/45

37. A 30 year HRA Business Plan has been prepared using the planning principles agreed in November 2011 and amended by the proposals in the subsequent budget reports up to and including this report. The summary for the revenue and capital budgets is set out in Appendices 4 and 5. Other key assumptions used in the updated plan are set out in Appendix 6.

38. 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 increase is a reflection of the backlog of improvements to tenants' homes, due to insufficient funding under the former HRA 'subsidy' system, which needed to be addressed under the self-financing regime.
- This investment can be achieved within the Government's borrowing limit of £199,600,000, also known as the 'debt cap'. Additionally, a reserve of at least £6,000,000 borrowing headroom is retained throughout.
- 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, remains at approximately £130,000,000. This provision has been phased between year 9 and year 30 of the plan.
- The revenue budget continues to meet minimum balances of £2,000,000 over the life of the plan.

39. The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case and the proposed updated plan for 2015/16 onwards shows that by year 30 the projected revenue balance will be £80,600,000. However, predicted revenue surpluses do not begin to significantly exceed minimum levels until 2022/23 and, as previously reported, the main risk to the long term 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 surpluses are liable to change annually, either favourably or

not, and will reflect the annual review of stock investment needs and estimated unit rates.

Consultation

40. The budget and business planning proposals were discussed with tenants at various meetings during the preparations for self-financing. More recently, these matters have been discussed at the monthly meetings of the Tenant Resources Group and at the Tenants' Winter Conference.

41. The Winter Conference was well-attended with 105 tenants and leaseholders from across the city present. There was broad support for the proposals in particular the ongoing higher levels of investment in tenants' and leaseholders' homes.

42. It is recommended that Members formally recognise and welcome the support and commitment of tenants and tenant representatives who have participated in this year's capital and revenue budget setting exercise.

43. 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

44. These are in the body of the report.

Property/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

48. The Localism Act 2011 gives the statutory basis for the HRA self-financing arrangements set out in this paper.

Other Legal Implications:

49. None

POLICY FRAMEWORK IMPLICATIONS

50. 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? Not applicable (Council decision)

WARDS/COMMUNITIES AFFECTED:	ALL

SUPPORTING DOCUMENTATION

Appendices

1.	HRA Revenue Estimates.
2.	HRA 5 Year Capital Programme.
3.	Key Variances & Issues – February 2015 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 – Planning Assumptions

Documents In Members' Rooms

1.	None

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out?	No

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.	None	