DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET REPORT AND BUSINESS PLAN
DATE OF DECISION:	4 FEBRUARY 2014 (CABINET) 12 FEBRUARY 2014 (COUNCIL)
REPORT OF:	CABINET MEMBER FOR HOUSING AND SUSTAINABILITY

<u>CONTACT DETAILS</u>

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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 2014/15 revenue budget for all of the day to day services provided to Council tenants in the city, the detailed capital budgets for 2013/14 to 2018/19 and the HRA Business Plan for the period 2014/15 to 2043/44. It includes the proposed changes in rents, service charges and other charges to council tenants from 1 April 2014.

RECOMMENDATIONS:

CABINET

(i) To consider the report and agree that the recommendations, as set out below, be made to Council at the meeting on 12 February 2014.

COUNCIL

(i) To thank the Tenant Resource 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 2014:

- That the standard increase applied to all dwelling rents should be 3.7% (RPI plus 0.5% as set out in paragraph 9), equivalent to an average increase of £2.91 per week; and
- That dwelling specific rent restructuring adjustments should be made to give an additional increase in average rent levels of 3.25% (£2.55 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 16).

(iii) To approve, based on the calculation set out in recommendation (ii) above, that with effect from the 1 April 2014, the current average weekly dwelling rent figure of £78.53 should increase by 6.95%, which will equate to an average increase of £5.46 per week.

(iv) To note that the actual total increase in individual rents will vary by property as explained in paragraph 17.

(v) To note the following weekly service charges from 1 April 2014 based on a full cost recovery approach:

- Digital TV £0.42 (unchanged from 2013/14)
- Concierge £1.20 (unchanged from 2013/14)
- Tower Block Warden charge £4.97 (unchanged from 2013/14)

(vi) To approve that the proposed service charges for supported accommodation, as set out in paragraph 33 of this report, should be used as the basis for consultation with tenants.

(vii) To note that a new cleaning charge for walk up blocks of £0.91 per week, approved in the February 2013 budget report, will be introduced from 1 April 2014.

(viii) To note that the charges for garages and parking spaces for 2014/15 will be increased by 3.2% in line with the increase in RPI used in the calculation of the increase in average rents.

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

(x) To approve the principle that the HRA Business Plan should have minimum ‘borrowing headroom’ of £6M, at the time of its annual approval by Council, as detailed in paragraph 8 of this report.

(xi) To approve the revised Housing Revenue Account 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 assumptions 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 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 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 Resource Group and at the Tenants' Winter Conference. 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 16,600 homes for Southampton tenants and their families and to 1,787 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 2014/15, the detailed capital programme for the period 2013/14 to 2018/19 and the 30 year HRA business plan covering the period 2014/15 to 2043/44. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2014/15.

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 limited changes were made in subsequent budget reports and the agreed principles are set out below. In this report there is a recommendation to agree the minimum borrowing headroom within the Business Plan and a proposed amendment to the rent setting calculation, following consideration of the implications for Southampton of the Government consultation on revised social rent guidance.

Borrowing Headroom

8. The HRA must work within Government borrowing restrictions that have imposed a debt cap of £199.6M. 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 this report Council is recommended to approve the principle that the HRA Business Plan should have minimum borrowing headroom of £6M, at the time of its annual approval. This will set this 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 is 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 will gradually move the actual rent to the target rent (often referred to as the "Housing Association social rent level").

Current Government guidance states that the dwelling specific component should not exceed £2.00 per week.

10. The £2.00 per week limit in the guidance has not been increased since rent restructuring started back in 2000. An alternative calculation was therefore agreed, in the February 2012 budget report, whereby the £2.00 limit was increased by RPI plus 0.5% from 2001/02. For 2014/15, this would give a limit of £3.36.

11. 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. Under this arrangement the limit next year would be £2.90 and would rise to £3.36 by 2015/16.

12. The HRA business plan assumed that a rent restructuring adjustment would continue to be made, beyond 2015/6, until all properties reached target rent.

The principle behind the index linked limit was 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 calculation of the 'debt settlement' payment to Government.

<u>Government consultation on revised social rent guidance</u>

13. 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.

14. The expectation is that from April 2015 stock owning local authorities will increase rents by no more than the Consumer Price Index (CPI) plus 1.0%, even though some properties will not have reached target rent by this date, due to the annual limit on weekly rent increases. In such cases target rent will only be achieved where a property is re-let following vacancy.

Implications for Southampton

15. The HRA Business Plan, approved by Council in February 2013, assumed that approximately three quarters of dwellings would be at target rent by 2015/16, with 99% convergence by 2020/21. If we were to keep to a rent restructuring limit of £2.90 per week in 2014/15, as previously approved by Council, and conform to the Government's draft guidance from 2015/16 onwards, the proportion of dwellings at target rent would only be 7% and the only way this figure would increase would be as vacant properties are re-let.. This would have a significant adverse impact on the revenue surplus in the long term business plan (approximately £50M) and would require planned expenditure reductions of circa £5M in the current capital programme so as not to exceed the Government debt cap. A further consequence of not achieving the anticipated level of convergence to target rent will be significant differences in the rents payable across the city for individuals in similar dwelling types, which cannot be equitable.

16. It is therefore proposed that a rent restructuring limit of £5.80 is used in 2014/15. This is the minimum limit required to achieve a 75% convergence level (i.e. 75% of dwellings at target rent) following a CPI plus 1.0% rise in 2015/16. It would mean that with effect from the 1 April 2014, the current average weekly dwelling rent figure of £78.53 will increase by 6.95%, which equates to an average increase of £5.46 per week. This is made up of a 3.7% increase for all dwellings (equivalent to an increase of £2.91 per week) and a further 3.25% (£2.55 per week) for the rent restructuring element of the 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.

17. The actual total increase in individual rents will vary according to the restructured rent of the property. It is estimated that 9,800 properties (59% of total dwellings) will see an increase of less than £5.00 per week. However, approximately 4,700 properties (28%) will see an increase of between £8.00 and the maximum £10.00 per week. The increase for the remaining 2,100 properties (13%) will be between £5.00 and £8.00 per week. It is anticipated that all flats will be at target rent by 2015/16 but that, even with this increase, only circa 1% of houses will reach this figure. Council rents for houses will, therefore, continue to be consistently lower than the rents of equivalent Housing Association properties in the City.

Service Charges

18. 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 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.

Garages and Parking Spaces

19. 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 Head of Housing Services to approve the revised charge.

HRA Revenue Revised Forecast 2013/14

20. The revised forecasts for 2013/14, which are based on month 9 revenue monitoring, are set out in Appendix 1. The working balance at the start of 2013/14 was £3.289M. However, the approval of budget carry forward requests (£573,000) and a one-off contribution to the landlord controlled heating account (£391,000) are included in the revised forecast. The balance for the end of 2013/14 is now expected to be at the minimum level of £2M that was set under self-financing. The main issues are detailed below.

Responsive Repairs

21. Responsive repairs will cost £300,000 more than originally estimated in 2013/14. The budget has been corrected to reflect the actual cost of the works carried out by the Council's in-house team.

Housing Investment

22. After the 2013/14 original estimates had been finalised, it was found that the four lifts at Wyndham Court were in need of urgent repair, at a cost of £80,000 each. Two were repaired in 2012/13 and two in 2013/14, resulting in an anticipated over spend of £160,000 on the lifts budget.

Supervision and Management

23. There is an increase of £440,000 in the forecast spend for Supervision & Management in 2013/14. This is mainly due to the approval of a contribution to the landlord controlled heating account (£391,000).

Interest and Principal Repayments

24. Due to slippage in Capital Programme expenditure, the borrowing of £5.1M, which was built into the 2012/13 estimates, was not required. This has resulted in savings on interest payments of £153,000. The original estimates for 2013/14 assumed that the borrowing to fund the Capital Programme would take place on the 1st October 2013. Due to the profile of capital expenditure, the requirement to borrow money has been delayed. On the assumption that the borrowing took place on the 1st January 2014, there is a further saving on interest payments of £93,400.

Service Charges

25. Income from the proposed cleaning charge for walk up blocks, associated with the warden review, has been budgeted for the whole of 2013/14. However, due to delays in implementing the change, no income is expected

this year, causing an adverse variance of £232,000, Everything is now in place for the introduction of this charge in April 2014.

HRA Revenue Budget 2014/15

26. The original estimates for 2014/15 are also set out for approval in Appendix 1. The proposed budget shows a break even position, such that the balances at 31 March 2015 remain at the minimum value of £2M. The main issues that need to be considered in setting the revenue budget are detailed below.

Responsive Repairs

27. The proposed budget for 2014/15 is £11M. The budget is sufficient to fund 46,969 responsive repair orders and works to 1,204 voids.

Housing Investment

28. The budget for 2014/15 has been reduced by £237,000 in comparison with the original estimate for 2013/14. This includes a reduction of £91,400 in the decorating budget, due to efficiencies following the transfer to the Housing Investment Team to allow for in-house management of decorating contracts, and savings totalling £114,600, on the budget for various servicing contracts.

Supervision and Management

29. The budget for 2014/15 has been increased by £235,000 (1.2%) in comparison with the original estimate for 2013/14. Employee expenditure has increased, in part due to a pay award and the reinstatement of previous reductions in terms and conditions. However, there has been a reduction of approximately £250,000 in IT costs, resulting from the renegotiation of the Capita contract.

Interest and Principal Repayments

30. The budget for 2014/15 has been increased by £131,000 (1.2%) in comparison with the original estimate for 2013/14. This is due to the increased borrowing needed to fund the major investment in the housing stock planned for 2014/15.

Dwelling Rent Income

31. For 2014/15 rents have been calculated using the basis set out in paragraph 16 and this is estimated to generate an additional £3.9M in dwelling rent income compared to the original estimate for 2013/14. This will help to offset a lower level of income being collected in future years than initially predicted due to the proposed Government changes in rent policy.

Service Charges

32. The service charges for 2014/15 have been determined in accordance with the principles set out in paragraph 18. 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 second year running. A detailed list 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	£0.42

Service Charges for Supported Accommodation

33. The review of service charges for supported accommodation has been completed. The proposed revised charging structure is detailed in the table below. Not all charges listed will be payable by each tenant as the charges depend on which services they receive. The plan is to introduce this new charging structure early in 2014/15, subject to consultation with tenants. The existing charging structure, approved in February 2013, will continue until the conclusion of the consultation.

Description	Proposed Weekly Charge
Housing Management	
• Housing Management Basic	£2.10
• Housing Management Medium	£2.42
• Housing Management High	£2.73
• Housing Management Over 50s / 60s Blocks	£1.50
Welfare Support Charge	£1.50
Sheltered Support Charge	£3.95
Community Alarm	
• Alarm Charge	£1.40
• Alarm Maintenance	£0.85
• Responding Charge	£0.75
• Careline Silver	£3.00
• Careline Gold	£4.25

34. The charges review sought to see if payments could cover all costs of providing services, in line with the principle set out in paragraph 18. The new pricing structure does better reflect the costs of providing the services. However, it is proposed that an element of HRA contribution is retained to moderate the price rises for our more vulnerable residents who are in receipt of these vital services.

Other Charges

35. 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. This charge was approved in the February 2013 budget report and will be introduced from 1 April 2014.

36. It is proposed to increase the charges for garages or parking spaces for 2014/15 in line with the September RPI, i.e. 3.2%.

HRA Capital Budget 2013/14 to 2018/19

37. The HRA Capital Programme was fully reviewed and approved in September 2013. 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.

38. The proposed February programme is shown in detail at Appendix 2. The programme update total, excluding prior year spend, is £226,830,000. This can be compared to the previous September update total of £193,380,000, resulting in an increase of £33,450,000, which represents a percentage increase of 17.3%.

39. The changes in the overall programme are summarised by year in the table in Appendix 3. A large proportion of the increase (£28,608,000) is due to the addition of new 'unapproved' schemes, following the extension of the programme to 2018/19. The other main changes in total scheme spending, totalling £4,842,000, and the significant changes in spending between years, are also set out in Appendix 3.

HRA Business Plan 2014/15 to 2043/44

40. 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 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.

41. 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 restrictions, as the level of borrowing remains within the £199.6M 'debt cap'. Planned expenditure has been re-phased, where necessary, to ensure that at least £6M of 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 £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.
- The effect of moving from RPI + 0.5% to CPI +1% is difficult to quantify, as it is not known how these indices will move in future years. Using the September 2013 figures for RPI and CPI, the outcome is identical. Income has been modelled using current predictions of CPI from April 2015. However, it will not be until September 2014 that the immediate impact of this change will be known.

42. In February 2013, it was reported that from year 10 onwards revenue balances increase above minimum levels. This remains the case and the proposed updated 30 year Business Plan for 2014/15 onwards shows that by year 30 the projected revenue balance will be £76.8M. However, predicted revenue surpluses do not begin to significantly exceed minimum levels until 2022/23 and, as reported in last year's budget report, 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

43. 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 Resource Group and at the Tenants' Winter Conference.

44. The Winter Conference was a well attended meeting with 78 tenants and residents in attendance. There was broad support for the proposals in particular the ongoing higher levels of investment in tenants' homes.

45. 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.

46. 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

47. These are in the body of the report.

Property/Other

48. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

49. 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.

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

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

Other Legal Implications:

52. None

POLICY FRAMEWORK IMPLICATIONS

53. 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 2014/15.
2.	Detailed HRA capital programme 2013/14 to 2018/19.
3.	Key Variances & Issues – February 2014 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	