

CABINET – 13 FEBRUARY 2008

HOUSING REVENUE ACCOUNT BUDGET 2008/09

REPORT OF HEAD OF LANDLORD SERVICES

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RECENT REFERENCES:

CAB1071 - Housing Options Appraisal, Draft Final Report – 20 April 2005

CAB1178 - Housing Revenue Account Budget 2006/07 – 14 December 2005

CAB1231 - Delivering Decent Homes – Business Plan Update 2006/07 – 22 March 2006

CAB1336 – Disposal of Vacant Dwellings – 15 November 2006

CAB 1369 – Housing Revenue Account 2007/08 – 13 December 2006

EXECUTIVE SUMMARY:

The Government has now announced Housing Revenue Account (HRA) subsidy determinations and rent increase proposals for 2008/09. Councils can delay the implementation of rent restructuring and the move to target rents to 2017 if necessary but this will result in lower income and a deficit budget for 2008/09. It is therefore not recommended.

Additional income and changes to the Rent Constraint Allowance for 2006/07 and 2007/08 have resulted in a very positive short term position for the HRA and the revised budget for 2007/08 proposed in this report allows for increasing provision to the capital repairs programme, further changes based on current demand and also increasing balances to allow for the very sensitive nature of the housing subsidy system.

The subsidy determination assumes a basic increase in current actual rents of 4.4%. The Council is then required to apply at an allocation for the remaining difference between the increased actual rent and the calculated formula rent for 2008. Actual increases are detailed in the report.

The report also proposes an HRA budget for 2008/09 and recommends a number of changes that will maintain the net surplus on the budget whilst allowing reasonable provision to ensure existing service standards are maintained.

RECOMMENDATIONS:

That, subject to consideration of comments from TACT, Cabinet recommend to Council:

- 1 That housing rents for 2008/09 increase in line with the Government guideline, which assumes a basic increase in current actual rents of 4.4% plus one quarter of the difference between current and formula rents under rent restructuring.
- 2 That the Housing Revenue Account revised budget proposals for 2007/08 and budget for 2008/09 as detailed in Appendix 1 be approved.
- 3 That weekly garage rents for tenants who already rented garages prior to April 2007 be increased to £7.50 (before applying the annual rent increase to all garages set out in recommendation 4 below) and that all garage rents be charged over a 52 week period.
- 4 That all garage rents be increased by 5% for inflation.
- 5 That all service charges continue to be based on actual costs incurred, but that any individual increases be subject to the same capping rules as for dwelling rents (4.4% + £2).

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DETAIL:

1 Introduction

- 1.1 The Housing Revenue Account (HRA) is a ring-fenced budget which funds all the Council's housing landlord services. The budget is funded by housing rents and other income, offset by "negative subsidy", which is a payment back to Government to reflect what they consider to be the difference between the rent we collect and what providing our services should cost. In councils where the level of rent collected is less than the assessed cost of services, the Government pay subsidy (funded from the negative subsidy collected from councils such as Winchester). In effect, Council tenants in Winchester pay part of their rent to other councils elsewhere in the country to pay for services to their tenants.
- 1.2 The net effect of changes to management and maintenance allowances and to rent assumptions within the subsidy formula is that the negative subsidy payment for 2008/09 to the national HRA increases from £7,627,020 to £8,259,590.
- 1.3 The Rent Constraint Allowance, paid to compensate councils which have not been able to raise rents in line with guidelines due to capping restrictions will not be continued in 2008. Instead, subsidy calculations have assumed that councils can extend the move towards target rents to 2017. If the City Council were to adopt this approach it would result in very slightly lower rent increases for tenants but it would raise £120,000 less rental income in 2007/08. Whilst this report recommends a very healthy revised budget for 2007/08 and an increase in balances, a lower rent increase would still result in the HRA operating at a deficit in 2008/09 and is therefore not recommended. By keeping to the existing timetable of moving towards target rents by 2011, it is possible to recommend a budget for next year operating at a small surplus.
- 1.4 Year on year changes to the subsidy system make long term projections very difficult. This report recommends an increase in balances to allow for the risk of adverse changes in future years.

2 Revised Housing Revenue Account 2007/08

- 2.1 The revised HRA for 2007/08 as detailed in Appendix 1 column 4 and Appendix 2 column 4 takes account of a number of changes including:
- a) Housing Subsidy Changes – As part of the subsidy allocations, the Government paid an additional allowance in 2006/07 and 2007/08 to compensate councils who have been prevented from increasing rents in line with subsidy guidelines by the cap limits set to protect tenants from too large an increase in any one year. As part of final auditing of subsidy returns, the allocation for 2006/07 has been increased by £220,000. Also, this year's

allocation has been increased by a further £283,000, providing an overall increase in Rent Constraint Allowance for the Council of £491,000.

- b) Rent and Other Income – In January 2007, the Council agreed to move all new tenancies direct to target rent as a further means of protecting the long term sustainability of the HRA. With over 400 new tenancies this year, this has resulted in a significant increase in rental income. Along with continued excellent arrears performance this will result in an additional £200,000 income this year. Additional garage income has been generated as fewer garages than projected were terminated following this year's increases. All this, along with further adjustments to take account of updated projections for service charges and Supporting People grant, will generate an additional £400,000 income in the current year.
 - c) Supplies and Services – General provision for supplies and services costs, particularly for supported housing were not sufficient to cover all costs and a further £60,000 has been included in the revised budget. Most of these costs are offset by the increased service charges referred to in b) above.
 - d) Employees – Employee budgets also need to be revised. Original provision for 2007/08 did not take full account of actual pay levels. Also, insufficient budget provision was included in the original budget to meet the costs of agency and overtime payments to cover vacancies for essential supported housing staff. The review of actual employees spend has resulted in the need to increase employee budgets by £100,000 (3%).
- 2.2 Demand on the housing capital programme continues to increase as highlighted in the HRA Business Plan and in reports proposing the asset sales programme. Currently, the Major Repairs Allowance (MRA) is fully committed every year and the Council has very few resources in the Major Repairs Reserve. To assist with managing demand in future years, it is recommended that a contribution of £250,000 be made from the surpluses generated from additional income to the capital programme to fund part of the maintenance programme originally intended to be funded from the MRA. This programme is on track for the year and this additional contribution will allow a similar sum to be left unspent in the current year and therefore build a small provision within the Major Repairs Reserve. This provision will allow for better planning of the programme in future years in a similar way that HRA balances help to manage the revenue account. Provision for this is included in Appendix 1 within Capital Financing (line m column 4).
- 2.3 The net effect of these changes is detailed in Appendix 1 and 2 and results in an increase in the overall in surpluses from £48,860 to £447,920, resulting in projected year-end balances at March 2008 of £1,109,948.

3 HRA Balances

- 3.1 Balances at the start of 2007/08 were £660,000, in addition to an insurance reserve of £344,744 (to cover for insured risks below an excess level of £18,000). The proposed revised budget provides for a significant increase in balances.
- 3.2 CIPFA recommend that reserves should be retained at a level that makes adequate provision for potential risks and sensitivities that may face the service. In order to

review requirements, a risk assessment has been completed and is detailed in Appendix 3.

- 3.3 Whilst a reserve of £700,000 were considered reasonable for the current year, the risk assessment has been updated to take account of the possibility of further adjustments to subsidy allocations when accounts are audited because the Council has increased rents for new tenants directly to target rent. This has resulted in average rents being higher than first projected in subsidy calculations.
- 3.4 The updated risk assessment detailed in Appendix 3 takes account of the increasing risk the Council may be exposed to by fluctuations in the Housing subsidy system. The increased balances that are recommended are considered essential if the Council is to protect itself against the sensitivity of the HRA system.

4 Housing Revenue Account Budget 2008/09

- 4.1 The budget detailed in Appendix 1 column 5 has a net surplus of £15,250. This budget will result in a year-end balance at March 2009 of £1,125,198. The HRA budget for 2008/09, as detailed in Appendix 1 (column 5) includes growth items as detailed below:
- a) Repairs – Inflation provision on revenue repairs in recent years has not kept pace with increases in national building indices. With general building costs increasing significantly above inflation for some years now, it is proposed to increase provision for revenue repairs by 5% (£147,000).
 - b) Employees – Employee costs have increased due to incremental progression and annual pay awards. The budget takes account of Property Services and Sheltered housing posts currently on establishment but held vacant as part of the Council's vacancy management regime. The revised 2007/08 budget is based on actual costs incurred this year. However, consideration will need to be given to recruiting to some or all of these posts and so budget provision is included at this stage. Also business management staff, previously funded through overheads are now directly funded from the HRA salary budget. This has no net increase on the overall budget.
 - c) Support Service Costs – Despite support costs across the Council projected to reduce over the next year, charges to the HRA will increase overall. Much of this relates to additional work now being undertaken by Corporate Communications, Engineers (in managing sewage treatment works) and Human Resources due to Central Control now falling within the HRA. In addition, IT costs have increased by over £70,000 (due to infrastructure changes and new corporate systems) and the costs of the Customer Services Centre have increased by £25,000 (based on number of customer contacts in the last year). Charges to the HRA for many support services have reduced, including Legal and Accountancy. In total, overheads have increased by £83,000. Recharges from the HRA have increased by £64,000 to offset this, due to increased charges for corporate property management and for business support services provided to other divisions.
- 4.2 As well as what can be raised through rent increases, further actions are required to ensure that the budget can remain in surplus for next year, including:

- a) Increasing Garage Rents –It is proposed that increases for 2008/09 be 5%. Whilst the charge for tenants increased to £7.50 this year, the increase was phased for existing tenants over two years. The current charge is £6.50 for these tenants and will increase to £7.50 in April 2008 plus the further 5% increase. It is also proposed that all garage rents be charged over 52 weeks (tenants are currently charged over 48 weeks whilst non tenants pay over 52 weeks). It is estimated that these increases will generate approximately £75,000.
- b) Housing Options – Current provision in the budget totalling £50,000 to support the Options review is to be reduced to £25,000. This provisional sum will cover costs of updating financial appraisals and also any ongoing tenant consultation. If further action is required or recommended to Cabinet, then how any action will be funded will be addressed at that time.
- c) Service Charges – All service charges are now calculated to recover actual costs incurred on a scheme by scheme basis. For existing tenants, increases were capped by the same inflation plus £2 limit applied to rents. The difference remains subsidised by the HRA generally. The service charges for 2008/09 will move a step further towards removing this subsidy and generate an additional £20,000.

5 Options for Actual Rent Increases

- 5.1 As part of implementing rent restructuring, all properties have a “target rent” based on a national rent formula. Rents for all properties have been moving towards target rents with an aim to having all properties at target by 2011. However, Government capping rules mean that not all properties will achieve that target in the next three years. The Government’s subsidy determination has therefore given councils the option of extending the period for achieving target rents to 2017. This would mean slightly lower rent increases for tenants. However, it would also mean less income and it is unlikely that this approach would generate sufficient resources to keep the HRA in balance. It is therefore recommended that the Council keeps to its existing plans of moving to target rents by 2011.
- 5.2 The draft subsidy determination assumes a basic increase in current actual rents of 4.4% (3.9% inflation plus 0.5%). The Council is then required to apply either one quarter or one ninth of the remaining difference between the increased actual rent and the target rent, depending on whether it is working to 2011 or 2017.

6 The Impact of Rent Changes

- 6.1 Average rents are currently £75.85 per property. By keeping to plans to achieve “target rents” by 2011, average rents will increase to £80.81 per week. Delaying the move to target rents would result in average rents being £80.21 for 2008. Specific impacts on individual rents are detailed in the tables below:

Table 1 – Summary of Percentage Increases

Change %	Target Rent by 2011 No. of tenancies	Target Rent by 2017 No. of tenancies
Increase up to 4.5%	0	747
Increase, more than 4.4%, up to 5%	826	420
Increase, more than 5%, up to 6%	509	1905
Increase, more than 6%, up to 7%	1479	1320
Increase, more than 7%, up to 8%	1777	562
Increase, more than 8%, up to 9%	522	159

Table 2 – Summary of Actual Increases

Change per week £(x48)	Target Rent by 2011 No. of tenancies	Target Rent by 2017 No. of tenancies
Increase £2.50 to £3.00	44	50
Increase £3.01 to £3.50	434	633
Increase £3.51 to £4.00	348	864
Increase £4.01 to £4.50	260	1196
Increase £4.51 to £5.00	1329	1379
Increase £5.01 to £5.50	1240	844
Increase £5.51 to £6.00	1064	141
Increase £6.01 to £6.50	389	6
Increase £6.51 to £7.00	4	0
Increase £7.01 to £7.16	1	0

7 Conclusions

- 7.1 The proposed budget for 2008/09 not only maintains the HRA surplus, it also addresses a number of the current funding pressures which have had a direct effect on services delivered to tenants. Whilst it does ensure that key services such as repairs and estate maintenance keep pace with inflation without relying on balances, the proposed budget takes no account of the emerging pressures facing the service in the medium term.
- 7.2 Costs of maintaining a decent stock will increase sharply in the next 5 years. In addition, a review of existing maintenance programmes has highlighted a significant shortfall in investment in the maintenance and replacement of gas systems. These pressures will hit the Council's capital programme more than the HRA itself. However, the HRA Business Plan and maintenance and renewal strategy will be brought to Cabinet in March and will need to set out options for funding the programme in future years. Also, the Housing Options project, to be completed in 2008, will need to consider whether the Council has sufficient resources at its disposal to maintain the current service.

OTHER CONSIDERATIONS:

8 CORPORATE STRATEGY (RELEVANCE TO):

- 8.1 The proposals accord with the principles of making the best use of all available resources by continued clear financial planning.

9 RESOURCE IMPLICATIONS:

9.1 As detailed in the body of the report.

10 TACT COMMENT:

10.1 TACT would like to thank Richard Botham, Head of Landlord Services for presenting the Social Issues Scrutiny Panel paper SO53, to the TACT Joint meeting on 16th January 2008 at the Guildhall.

10.2 The comments below explain the problems TACT had in reaching its conclusion to go for the 2011 option. It was not one they whole heartedly went for but the lesser of two evils. You can be sure that TACT will pursue with all vigour the removal of the unjust negative subsidy, and the selling off Council properties in an effort to maintain standards. The tenant who pays their full rent is not getting value for money, it is the crime of the century. As quoted in the report TACT members had a free vote in reaching their decision, and it was not one they took lightly.

10.3 The Impact of Rent Changes - A long period of time and discussion went into this both sides of the argument were thoroughly gone into:

- a) covering the unfairness of the negative subsidy
- b) selling off Council properties to make up short falls
- c) by the end of 2017 would we be Council Tenants?
- d) Could we buy out of the HRA and at what cost?
- e) What will come out of the Government's Green and White Papers?
- f) Cllr Tony Coates and TACT Chair Alan Rickman will be giving evidence to the Parliamentary Committee in London. Will it produce any answers?

10.4 Many searching question and answers put to the meeting, but not all could be answered.

10.5 TACT Chairs then gave members a free vote to decide which option to go for, though choice because of Government constraints was limited. The vote went in favour of meeting the rent requirements by 2011. However should the Government alter the goal posts, TACT may have to reconsider in 2009.

10.6 TACT note with concern the increasing costs of management overheads and question why IT costs have risen so sharply. Have all Council services been subject to the same percentage increase? Also, the increasing cost of the Customer Service Centre raises further concerns. Surely this was meant to save money. TACT also ask that every effort be made to limit the use of agency staff. Whilst it is accepted that some use is unavoidable at Extra Care and Sheltered schemes, use of agency staff in other areas must be minimised.

10.7 A robust and well conducted meeting our thanks to all including Cllr Tony Coates, Cllr Berry, Cllr Tait, for their contributions to the meeting, and to Richard Botham and Richard Boardman and our TP Section, Glynis Cole and David Lumby.

10.8 Thanks also to our TACT members (both tenants and Leaseholders), for conducting themselves so well at this important meeting.

BACKGROUND DOCUMENTS:

Working papers held in the Landlord Services and Finance divisions

APPENDICES:

- 1 HRA Service Summary 2008/09
- 2 HRA Subjective Summary 2008/09
- 3 HRA Balances – Risk Assessment

HOUSING REVENUE ACCOUNT BUDGET 2008/09

Service summary	2006/07 Actual	2007/08 Original Budget	2007/08 Revised Budget	2008/09 Original Budget
(1)	(2)	(3)	(4)	(5)
<u>Service</u>	£	£	£	£
a) Housing management - General	2,425,259	2,473,350	2,572,280	2,716,800
Housing management - Special :				
b) - Sheltered housing	1,121,186	783,650	760,170	881,100
c) - Communal services	76,742	87,470	79,180	73,980
d) - Homelessness	4,097	(5,150)	15,980	16,830
e) - Estate maintenance	167,418	180,860	179,960	186,900
f) - Disabled adaptations	339,593	341,620	346,580	349,480
g) - Sewage works	172,559	71,140	77,470	104,230
h) - Central Control		317,740	387,460	315,740
i) Total housing management - Special	1,881,595	1,777,330	1,846,800	1,928,260
j) Repairs - administration	681,310	842,400	903,290	849,940
k) Repairs - works	2,881,237	3,040,000	3,040,000	3,187,000
l) HRA housing benefits		37,770		
m) Capital Financing	4,247,304	3,994,310	4,358,090	4,152,710
n) Dwelling rents	(17,251,817)	(18,020,000)	(18,220,000)	(19,230,000)
o) Garage rents	(456,654)	(590,000)	(690,000)	(750,000)
p) Sheltered charges	(253,762)	(288,330)	(317,000)	(325,000)
q) Supporting People	(677,422)	(640,560)	(665,000)	(640,560)
r) Other income	(247,439)	(180,760)	(216,460)	(216,460)
s) Total rents and other income	(18,887,095)	(19,719,650)	(20,108,460)	(21,162,020)
t) HRA subsidy	7,003,470	7,985,630	7,627,020	8,259,590
u) Subsidy-Rental Constraint Allowance		(480,000)	(686,940)	
v) Transfer re Pension Reserve	(96,663)			
w) Transfer re Insurance Reserve	33,230			52,470
x) Net HRA -Deficit/(Surplus)	169,648	(48,860)	(447,920)	(15,250)

HOUSING REVENUE ACCOUNT BUDGET 2008/09

Subjective summary	2006/07	2007/08	2007/08	2008/09
	Actual	Original Budget	Revised Budget	Original Budget
(1)	(2)	(3)	(4)	(5)
<u>Detail</u>				
	£	£	£	£
a) Employees	2,583,967	2,999,520	3,097,370	3,321,330
b) Premises	4,170,730	4,134,950	4,255,430	4,434,400
c) Transport	154,593	173,330	164,020	167,630
d) Supplies and services	364,128	289,270	366,740	373,050
e) Third party payments	25,727	35,000	41,000	41,000
f) Transfer payments	500			
g) Capital financing	4,522,140	4,298,790	4,701,280	4,504,550
h) Management overheads	1,853,201	1,640,390	1,729,150	1,723,450
h) Expenditure	13,674,985	13,571,250	14,354,990	14,565,410
i) Fees and charges	(12,525,371)	(12,844,770)	(13,946,670)	(13,705,510)
j) Internal contributions to GF	(30,860)	(44,000)	(44,900)	(45,760)
k) Recharges to services	(574,724)	(427,960)	(431,480)	(492,030)
l) Income	(13,130,955)	(13,316,730)	(14,423,050)	(14,243,300)
m) Transfers	(374,382)	(303,380)	(379,860)	(337,360)
n) Net HRA-Deficit/(Surplus)	169,648	(48,860)	(447,920)	(15,250)

HOUSING REVENUE ACCOUNT BUDGET 2008/09

WORKING BALANCE

	£
a) Opening Balance @ 1/4/07 (Actual)	(662,028)
b) Add Projected Surplus 2007/08	(447,920)
c) Projected Working Balance @ 31/3/2008	(1,109,948)
d) Add Projected Surplus 2008/09	(15,250)
e) Projected Working Balance @ 31/3/2009	(1,125,198)

INSURANCE RESERVE

Opening Balance 1/4/07	(364,403)
Revenue Contribution 2007/08	(53,570)
Contribution to HRA	53,570
Balance 31/3/08	(364,403)
Revenue Contribution 2008/09	(52,470)
Contribution to HRA	
Balance 31/3/09	(416,873)

HRA Working Balances – Risk Assessment

Risk	Potential	Total Impact on HRA	Risk Provision	Comment
Arrears up by 1%	30%	180,000	54,000	Consistent performance, but some risk due to staff changes
Voids up by 1%	10%	180,000	18,000	Currently 2% - processes & targets improved for 2008/09
Urgent Repairs up by 10%	10%	100,000	10,000	Proportion of urgent work already high for WCC
Inflation up by a further 1%	20%	100,000	20,000	Budget allowed for 3%
Unforeseen uninsured losses	15%	800,000	120,000	Could include storm damage, building failure etc
Overheads increase above inflation	30%	350,000	105,000	Significant changes in recent years so risk is high
Garage voids increase by 20%	40%	118,000	47,200	Very high risk due to proposed rent increases
Failure of drainage systems	30%	250,000	75,000	Contingency removed from budget in 2005
Boiler obsolescence increases by 25%	40%	1,000,000	400,000	Provision being made in Cap programme so risk lower
Subsidy changes/Constraint Allowance	50%	300,000	150,000	System under pressure, below inflation M&M increases
Right to Buys up by 20%	15%	50,000	7,500	Unlikely in current market
Loss of 30% lifeline contracts	40%	50,000	20,000	Increased charges will impact on competitiveness of service
Other Unforeseen Budget Pressures	20%	250,000	50,000	General provision

Minimum Provision = £ 1,076,700