

CABINET

10 DECEMBER 2008

HOUSING REVENUE ACCOUNT BUDGET AND RENT SETTING

REPORT OF HEAD OF LANDLORD SERVICES

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RECENT REFERENCES:

CAB1336 – Disposal of Vacant Dwellings – 15 November 2006
CAB 1369 – Housing Revenue Account 2007/08 – 13 December 2006
CAB 1610 – Housing Revenue Account Budget 2008/09 – 13 February 2008
CAB 1646 – HRA Business Plan 2008/09 Update – 26 March 2008

EXECUTIVE SUMMARY:

The Housing Revenue Account (HRA) Business Plan has highlighted the very significant shortfall projected for the 2009/10 maintenance programme of £3m. To date, asset sales have been the only potential solution to address this issue, although this has never been seen as a long term solution and is having very little impact this year due to the housing market. The Government are currently reviewing the Housing Subsidy system. Announcements are expected in 2009 although it is unlikely that changes will address the current shortfall. Any changes would take several years to take effect.

This report recommends the rent increase for 2009/10 based on the Government guideline rent proposals announced recently. It also recommends guiding principles to help prepare the detailed 2009/10 budget, which will be reported in February 2009. Notice of the Rent increase needs to be issued to tenants ahead of that time. In order to address the shortfall, the guiding principles are based on an interim solution of very significant reductions in elements of the maintenance programme by suspending cyclical and other works until further notice, in order to fund essential additional spend on the boiler replacement programme and other unavoidable expenditure. This will include external redecoration of properties (except where urgent repairs are needed), the internal decoration service offered to tenants over 60 and a significant proportion of the kitchen replacement programme.

It also reviews the asset sales process. Whilst accepting the limitations of the policy in the current housing market, the very significant pressure on the maintenance programme means that a continuation of the current policy is recommended to minimise pressure on an already stretched voids budget and to exploit opportunities where they arise to generate much needed capital resources.

RECOMMENDATIONS:

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

- 1 That the Head of Landlord Services be authorised to implement the housing rents for 2009/10 increase in line with the Government guideline, as set out in paragraph 5 of the report, resulting in an overall average increase of 6.14%.
- 2 That the above rent level and the guiding principals set out in the report and recommendations below be used to determine the detailed HRA Budget for 2009/10, which will be reported to Cabinet and Council in February 2009.
- 3 That the Housing Revenue Account revised budget proposals for 2008/09 as detailed in paragraph 2 and Appendix 1 be approved.
- 4 That no inflationary increase be applied to garage rents to address the falling demand for units in some areas.
- 5 That the interim proposals to suspend elements of the Repairs and Renewals Programme as detailed in paragraph 6 be approved.
- 6 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 (5.5% + £2), and the Head of Landlord Services be authorised to implement the changes.
- 7 That the Housing Options Informal Member/Officer group be requested to recommend clear proposals for the future management of the Council's Housing stock that address the current projected shortfall in maintenance requirements.
- 8 That the current policy to sell up to 10 vacant dwellings per annum be continued.

CABINET10 DECEMBER 2008HOUSING REVENUE ACCOUNT BUDGET AND RENT SETTINGREPORT OF HEAD OF LANDLORD SERVICESDETAIL:1 Introduction

- 1.1 The Council invested very heavily in the 1980s in its housing stock to bring it up to a good standard and make significant energy efficiency improvements. This investment has helped the overall sustainability of the service in recent years, although many elements updated at that time, particularly boilers and windows, now need replacing. This, along with the age profile of kitchens and bathrooms (two thousand are over 20 years old), increasing demand for disabled adaptations and other capital works mean that the Council's projected investment needs for 2009/10 are under-funded by £3m. This emerging need has been highlighted in the HRA Business Plans for 2006/07 and 2008/09 and asset sales have to date been the only solution to addressing the shortfall. However, in the current housing market, sales are not likely to be able to support this level of investment needs.
- 1.2 The Government have accepted that the Housing Subsidy system is outdated and it is currently under review, with new proposals anticipated in the spring of 2009. However, in the meantime, they have now announced the subsidy determination for 2009/10.
- 1.3 The Government propose a rent increase of 5.5% plus the next allowance for moving to target rents. However, as inflation is so high, they are proposing to limit actual increases to an average of 7% nationally and this will delay convergence with housing associations, potentially for up to 15 years. They also propose that next year's increase for rent restructuring be kept at a similar level and so if inflation falls as is expected, the target for convergence would return to near the original 2011 target. Whilst the proposal is likely to delay convergence, it does recognise the very real hardships that would be faced by tenants if the Government kept to the 2011 targets.
- 1.4 Under this proposal, average rent increases for Winchester would be 6.14%. Negative subsidy increases from £8,259,585 to £8,646,126. Overall, the increase in rent income should be sufficient to meet additional subsidy, salary costs and inflation on utilities and contracts. It will not however make any significant provision towards the additional maintenance requirements highlighted in 1.1 above and in more detail below.
- 1.5 This report recommends a revised budget for this year, the rent level for 2009/10 based on the Government guideline and also the guiding principles

for preparing the detailed budget for 2009/10. Once the full impact of the latest subsidy announcements and the final General Fund budget for next year have been assessed, a detailed 2009/10 budget will be reported to Cabinet in February 2009.

2 Revised Housing Revenue Account 2008/09

2.1 The revised HRA for 2008/09 as detailed in Appendix 1 results in a potential net deficit for the year of £158,219 and a reduction in projected balances from £1,394,403 to £1,235,813 which is still well above the minimum requirement of £1m based on the risk assessment included in CAB1610 dated 13 February 2008. Significant changes contained in the revised budget include:

- a) Repairs Works – The Repairs works programme is currently suffering significant increased demand over and above the budget allowed for in the HRA Business Plan. There has been a significant increase in the numbers of kitchens and bathrooms that need replacing when properties become void. There has also been an increased demand on responsive repairs and health and safety works on estates, additional works to leasehold properties and an estate shop (both of which will be recharged to the existing or former occupiers). It is projected that year end spend at March 2009 could be as much as £375,000 more than the budget. Terminations have slowed in recent weeks and it may be possible to accommodate this increased work to date well within this additional projected spend, although it is considered appropriate to revise the budget as proposed at this stage. If actual spend can be contained below the revised figure, any surplus will be retained within HRA balances for future years.
- b) Rent and Other Income – The significant improvements in void performance and the continued impact of new tenants moving directly to target rent have resulted in additional rent income of £170,000 over and above the original budget projections. In addition, renegotiated Supporting People contracts, adjusted service and support charges and charges to leaseholders for works completed are likely to generate an additional £100,000 in the current year.
- c) Sewage Works – The Council has this year had to fund external legal costs of a rating review completed some five years ago. The challenge at that time achieved some reduction in rates charges for certain schemes, although the Council was liable for costs where the challenge was not upheld. These amount to £60,000 and have taken until now to agree a final settlement.

3 Housing Revenue Account Budget 2009/10

3.1 The HRA Business Plan (CAB1646 dated 26 March 2008 refers) highlighted the potential £3m shortfall on the Repairs programme for 2009/10. As part of the Housing Options work, the Council has commissioned independent

studies into the future investment needs to maintain all properties at the minimum decent homes standard, and also how much it would cost to bring the kitchen and bathroom at every property up to a reasonable base standard in the next five years.

- 3.2 Under the standard, kitchens should be no more than 20 years and bathrooms no more than 30 years old, although properties can still comply with the Decent Homes Standard with older units provided they are in a reasonable condition and that certain other elements meet the standard. Whilst stock is generally in good condition, there are currently over 2000 properties that have a kitchen over 20 years old. Over 2000 properties have bathrooms over 30 years. Some properties fall into both categories.
- 3.3 The Stock Condition Survey has highlighted that the cost of maintaining a reasonable programme over the next five years is £9.8m per annum. The cost of an enhanced programme that brings all kitchens and bathrooms within the strict standard over the next five years would be £13.4 m. The Council's current programme is £7.7m, although £1m of this is funded by asset sales. With currently no sales being progressed, this leaves only £6.7m to operate a repairs programme that needs to invest at least £9.8m per annum.
- 3.4 Since 2005, "negative subsidy" taken from Winchester tenants has increased from £6.2m to over £8m per annum, whereas rental income has increased by only £1.7m in the same period. Whilst every effort has been made to achieve efficiencies, asking any service with net operating costs in excess of £12m to survive with absolutely no allowance for salary or building inflation in three years is simply not sustainable. Whilst £6.7m was considered just about adequate in 2005, a number of issues have all contributed to increasing costs to the current £9.8m projections, including:
 - a) The programme being underfunded from the outset in 2004
 - b) Little or no inflation increase to revenue or capital programme budgets since 2004, despite significant increases in building costs
 - c) Increasing boiler obsolescence which has resulted in the need to accelerate the replacement programme
 - d) An increase in the number of kitchens and bathrooms requiring replacement "on demand" as part of void property works or property surveyor assessment (over 2000 properties have kitchens and/or bathrooms that are over 20 years old).
 - e) A need to accelerate remaining window replacement programme to meet identified need
 - f) A significant increase in demand for disabled adaptations
 - g) Requirement to meet planned maintenance staff salaries from repairs budget to balance the HRA budget overall.

4 Growth Requirements

4.1 The ability to fund growth will be severely limited, although some additional provision is needed for:

- a) Boiler Replacement Programme – As reported in the HRA Business Plan 2008 (CAB1646 refers), the effect of increasing obsolescence in gas fired central heating systems will result in greater numbers of heating appliances and systems being required, preferably commencing from April 2008. To meet increasing demand and minimise risk (of breakdown with no spares available) a replacement programme averaging 480 units per year at a cost of approximately £1.4m p.a. over the next 5 years will be required. This is more than double the existing programme and would require expenditure of approximately £800,000 p.a. greater than budgeted for within the existing programme (not including the Supplementary programme). In reality, this will not be achievable in 2008 because of the slow down in sales, although increased provision of £550,000 is proposed to be made, funded by reducing costs elsewhere in the proposed 2009/10 base programme. As the full programme cannot be funded, the increased risk of system failures needs to be appreciated and will be included in the Business Plan and Landlord Risk register. Some contingency to support the potential for increased failure will be needed, funded either from existing capital receipts or from HRA balances if required. Proposals of how to make such funding available via the Major Repairs Reserve will be made in the February 2009 detailed budget report.
- b) Digital Switchover – The Council has a 2012 deadline to meet this target. Some provision has to be made next year to get this work off the ground and therefore £100,000 needs to be provided for, funded by reductions elsewhere in the programme.
- c) Garage Rents – The recent increases have resulted in significant increases in income for the HRA in the last two years. However, letting garages is now not surprisingly proving more difficult and over 100 are currently awaiting letting. Therefore, no rent increase is proposed for 2009.
- d) Choice Based Lettings – The introduction of the CBL system will result in additional duties on Landlord teams and provision of £25,000 to cover the additional data entry and work to assist vulnerable and elderly applicants will need to be included.

5 Opportunities for Savings

6.1 Scope for achieving savings, improving efficiencies or increasing income is limited. The Council has had significant success in this area in recent years through reducing void losses, increasing garage income and through staff

reductions in key areas. However, costs are now well below average and no specific proposals are current available, other than to absorb the above changes within the overall repairs programme by temporarily suspending key programmes until future funding proposals are known. In effect this will mean:

- a) Gas Fired Heating Systems – Notwithstanding switching functions within the base programme, approximately 30% of the required boiler replacement programme (approximately £500,000) will remain unfunded and would need to be deferred.
- b) Disabled Adaptations - At existing referral rates it is estimated that at final year end 2008/09 a backlog of 80 cases at an estimated cost of £240,000 will exist. With a base budget of £400,000 for 2009/10 and similar referral rates an estimated backlog of £430,000 will exist at final year end 2010/11.
- c) Inflation Adjustment - No inflation adjustment will result in a reduction of repairs of approximately £870,000 pa, resulting in a corresponding level of disrepair generally to the stock year on year.
- d) External Repairs & Painting - Only essential repairs and repainting will be carried out to the 1100 properties programmed per year. Properties needing no urgent repairs will have redecoration deferred until a future date.
- e) Internal Redecoration - The entire programme of approximately 350 properties and communal areas would be deferred until further notice.
- f) Kitchen & Bathroom Programme - It is estimated that at financial year end 2008/09 a waiting list of 70 properties requiring kitchen replacement will exist and will be deferred. A further 80 kitchens or 200 bathrooms will not be replaced as planned in 2009/10 and will be deferred.
- g) Reinstatement Of Void Properties - The projected extra costs of £120,000 to turn around properties to current standards and timescales is unfunded and will result in fewer repairs at re-let. This will result in the potential slowdown or refusal of offers of properties to prospective tenants. Any properties with very expensive void works may not be able to be funded next year, even if the sales process is not continued.
- h) Pvcu Window Replacement Programme - Approximately 50% (£100,000) of the window replacement programme will be deferred to a later date. This will affect approximately 40 properties.

6 Review of Asset Sales

- 6.1 Whilst the asset sales policy achieved its target in the first year of generating £2m of receipts, it did not achieve its main aim of generating £1m in time to support the delivery of supplementary repairs to Council properties by March 2008. These repairs are now being completed in the current year. The falling

market in the second half of 2007 resulted in sales taking longer than anticipated and 3 were not completed until March 2008, resulting in a delay in being able to commit receipts to repair works or affordable housing schemes.

- 6.2 In the first year, four properties came forward in the “high value compared to rental income” category and four met the “repairs in excess of £8,000 category. This £8000 figure has been increased to £8,300 in the current year and will be subject to a further inflationary increase from April 2009.
- 6.3 Receipts from the first year of sales have funded a major improvement in delivering the programme of disabled adaptations as well as helping to meet the additional demands on the kitchen and bathroom replacement programme. In addition, the Council has directly funded five affordable rented properties in Grange Rd, New Alresford and are currently funding the construction of an additional 2 bed unit within existing Council accommodation in Winchester.
- 6.4 Currently too few properties come forward meeting either criteria and with sales taking significantly longer, it is very unlikely that income targets will be achieved. This will have a direct result of meaning essential works will go unfunded and build up an additional burden on next year.
- 6.5 Property prices have fallen in excess of 12% in recent months and with the current slow sales market, the impact of this on property values needs to be monitored carefully. However, asset sales remain the only viable option to assist the Council in meeting projected shortfalls on the repairs programme. Any further slow timing or cessation of this approach only adds to the pressure on the 2009/10 programme and to the risk of Decent Homes failures or non repairable breakdowns of heating systems that would mean tenants having no heat or hot water for extended periods. It is therefore recommended that the Council continues to take every opportunity to generate receipts in line with the approved policy.
- 6.6 Despite the current market conditions, it is recommended that up to 10 properties annually continue to be sold, with any receipts that can be generated being used to fund programme shortfalls, particularly in the areas of boiler replacement and disabled adaptations.

7. Actual Rent Increases

- 7.1 The draft subsidy determination assumes a basic increase in current actual rents of 5.5% (5% inflation plus 0.5%). The Council is then required to apply a proportion of the move towards target rents. Due to this year’s very high inflation rate, the Government have extended the convergence timetable for a further 15 years. However, they have said that next year’s increase will be pegged to the same level and so if there is a significant drop in inflation, it would bring convergence back nearer to the 2011 deadline. Whilst this creates uncertainty for the organisation, it does reflect an attempt to keep

rents reasonably affordable. The impact on actual rents is detailed in the tables below.

8 The Impact of Rent Changes

- 8.1. Average rents are currently £81.35 per property. By applying the guideline rent increase, the average increase will be 6.14% or £5.00 per week giving an average rent for 2009/10 of £86.35 per week. Specific impacts on individual rents are detailed in the tables below:

Table 1 – Summary of Percentage Increases

Change %	No. of tenancies	Percentage
up to 5.5%	1037	20.45%
more than 5.5, up to 6%	1471	29.01%
more than 6.0, up to 6.5%	1353	26.68%
more than 6.5, up to 7.0%	758	14.95%
more than 7.0, up to 7.5%	298	5.88%
more than 7.5, up to 8.0%	86	1.70%
more than 8.0, up to 8.5%	40	0.79%
more than 8.5, up to 9.6%	28	0.55%

Table 2 – Summary of Actual Increases

Change per week £(x48)	No. of tenancies	Percentage
increase up to £1	0	0.00%
increase more than £1 up to £2	8	0.16%
increase more than £2 up to £3	6	0.12%
increase more than £3 up to £4	173	3.39%
increase more than £4 up to £5	2277	44.68%
increase more than £5 up to £6	2427	47.63%
increase more than £6 up to £7	203	3.98%
increase more than £7 up to £8	2	0.04%
increase more than £8 up to £9	0	0.00%

9 Conclusions

- 9.1. Whilst it is possible to maintain the HRA services in the very short term by suspending elements of the Repairs programme, this approach is not sustainable and with no change to the subsidy system, balances would be exhausted within 5 years. The suspension of the programme is not sustainable over that period anyway.
- 9.2. It is essential that the Housing Options Informal Member/Officer Group consider options available to the Council and make clear recommendations to Cabinet on proposals for the future management of the Council's Housing stock. This cannot be completed until the findings of the Government review are known, although work needs to commence now in light of the immediate

pressures that will be faced by tenants waiting for essential repairs to their properties.

- 9.3. The portfolio holder, officers and TACT have all made representations to the Government pressing for more local control of rents paid by Winchester tenants. Without this, it is difficult to see how a Council Housing service can be maintained in Winchester.
- 9.4. It is essential that tenants are kept fully informed of the proposed changes to the maintenance programme. This will be addressed through the next edition of "On the House".

OTHER CONSIDERATIONS:

10 CORPORATE STRATEGY (RELEVANCE TO):

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

11 RESOURCE IMPLICATIONS:

- 11.1 As detailed in the body of the report.

12 TACT COMMENT:

- 12.1. TACT has arranged a special meeting of all members on 3 December 2008 to consider this report in detail. A supplementary paper with their response will be forwarded to Cabinet after that meeting.

BACKGROUND DOCUMENTS:

Working papers held in the Landlord Services and Finance divisions

APPENDICES:

- 1 HRA Revised Budget 2008/09

HOUSING REVENUE ACCOUNT - REVISED BUDGET 2008/09

		Actual 07-08	Original 08-09	Revised 08-09	Report Para
Housing Management - General	Housing Management - General	2,614,790	2,716,800	2,717,353	2.1.b
Total		2,614,790	2,716,800	2,717,353	
Housing Management - Special	Capital Financing	0	0	0	
	Central Control	431,683	315,740	315,740	
	Communal Services	74,933	73,980	73,980	
	Disabled Adaptations	344,997	349,480	349,480	
	Estate Maintenance	194,029	186,900	186,900	
	Homelessness	12,500	16,830	16,830	
	Sewage works	133,336	104,230	172,146	2.1.c
	Sheiltered Housing	716,253	881,100	881,100	
Total		1,907,732	1,928,260	1,996,176	
Housing Repairs	Repairs - administration	739,596	849,940	798,480	
	Repairs - works	3,166,634	3,187,000	3,562,000	2.1.a
Total		3,906,231	4,036,940	4,360,480	
Capital Financing	Capital Financing	4,560,364	4,152,710	4,152,710	
Total		4,560,364	4,152,710	4,152,710	
Rents & Other Income	Dwelling Rents	-18,109,635	-19,230,000	-19,400,000	2.1.b
	Garage Rents	-697,740	-750,000	-750,000	
	Other Income	-264,828	-216,460	-195,000	
	Sheltered Charges	-317,701	-325,000	-360,000	2.1.b
	Supporting People	-750,668	-640,560	-675,560	2.1.b
Total		-20,140,572	-21,162,020	-21,380,560	
Housing Subsidy	HRA Subsidy	6,911,530	8,259,590	8,259,590	
Total		6,911,530	8,259,590	8,259,590	
Transfers	Transfer re Insurance Reserve	-62,068	52,470	52,470	
	Transfer re Pension Reserve	-62,434	0	0	
Total		-124,502	52,470	52,470	
HRA Deficit(Surplus)		-364,428	-15,250	158,219	

WORKING BALANCE	
	£
Opening Balance @ 1/4/08 (Actual)	- 1,026,457
Add Projected Revised Deficit 2008/09	158,219
Projected Revised Balance @ 31/3/2009	- 868,238
INSURANCE RESERVE	
Opening Balance 1/4/08	- 302,335
Revenue Contribution 2008/09	- 65,240
Balance 31/3/09	- 367,575
TOTAL PROJECTED BALANCES AT 31/3/09	- 1,235,813