

CABINET - 9 FEBRUARY 2011

HOUSING REVENUE ACCOUNT BUDGET AND RENT SETTING 2011/12 -
UPDATE

REPORT OF HEAD OF LANDLORD SERVICES

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RECENT REFERENCES:

[CAB1958](#) - Housing Revenue Account Budget 2010/11 dated 3 February 2010

[CAB1991](#) Repairs And Renewals Programme 2010/11 dated 17 March 2010

[CAB2048](#) – Housing Revenue Account Revised Budget 2010/11 dated 15
September 2010

EXECUTIVE SUMMARY:

This report supersedes CAB2116, which was considered by Social Issues Scrutiny Panel on 1 February 2010. Whilst recommendations in relation to rent increases remain unchanged, the proposed Housing Revenue Account (HRA) budget has been amended in light of revised charges prepared as part of the General Fund budget detailed in CAB2125 elsewhere on this agenda. Also, the Government has announced minor changes to allowances as part of the final subsidy determination and the budget now takes account of this.

This report proposes dwelling rent increases for April 2011 and the detailed HRA budget for 2011/12. It is proposed to increase rents in line with the Government's Guideline Rent increase which will result in an average increase for City Council tenants of 6.47%.

The HRA budget for 2011/12 recommended in this report represents an improvement on the 2010/11 budget as a result of savings, efficiencies and increased income achieved in the last year and a slightly better than anticipated Government subsidy settlement. As a result of this, it is possible to generate an increase in the final HRA balance of approximately £500,000 ahead of the Government's move to Self Financing as announced in the Localism Bill.

RECOMMENDATIONS:To Cabinet

- 1 That Cabinet authorise the Head of Landlord Services to extend the existing service contracts with Serco (Responsive Maintenance) and JAD (Void Property Reinstatement) for up to a maximum of 5 months (subject to the final tender award date) at tendered rates set out in the exempt Appendix 4.

That, subject to consideration of comments from TACT and the Social Issues Scrutiny Panel, Cabinet recommend to Council:

- 2 That the Head of Landlord Services be authorised to implement the housing rents for 2011/12 increase in line with the Government guideline, as set out in paragraph 3 of the report, resulting in an overall average increase of 6.47%.
- 3 That the Housing Revenue Budget as detailed in Appendix 1 be approved.
- 4 That garage rents be increased by 4% in line with the inflation provision included in the increase for dwelling rents.
- 5 That all service charges continue to be based on actual costs incurred, but that any individual increases be subject to a maximum increase of RPI at 4.6% + £2 and the Head of Landlord Services be authorised to implement the changes.
- 6 That a capital growth bid of £80,000 be included in the Capital Programme for the purchase of an Asset Management System for Housing and that this is funded by a revenue contribution to the capital programme as set out in paragraph 6.

CABINET - 9 FEBRUARY 2011HOUSING REVENUE ACCOUNT BUDGET AND RENT SETTING – 2011/12REPORT OF HEAD OF LANDLORD SERVICESDETAIL:1 Introduction

- 1.1 The Government has recently announced the subsidy determination for 2011/12, which sets guideline rent levels and management and maintenance allowances for the year for all stock holding councils.
- 1.2 Proposals for all stock holding councils to move to a system of self financing have been included in the Localism Bill and it is proposed to start this from April 2012. This would mean that 2011/12 will be the final year of the Subsidy system. Further details on the final settlement proposal are expected shortly but at this stage, it is not clear what the final settlement will be. There are indications that it could be significantly more than the draft figures suggested by the previous Government and once they are known, a detailed assessment on the affordability of the draft settlement will be needed. In the meantime, many landlords are seeking to prepare for the start of self financing by maximising income and increasing reserves where possible.
- 1.3 This final subsidy determination, whilst not addressing the under funding that the Government accept has occurred, does allow the Council to maintain services at current levels. Efficiency savings made in the last year, in particular to staffing costs and improved performance resulting in increased income has provided the opportunity to generate a significant surplus on the HRA by March 2012. In addition, it is anticipated that efficiencies achieved across other Council services will result in reduced charges to the HRA and a further increase in the surplus highlighted in this report. It is recommended that this surplus be retained in the form of increased reserves until the outcome of self financing is clear. Alternatively, it could be invested to address the backlog in repairs works.
- 1.4 Previous reports have highlighted the budget shortfalls in maintaining the Council's Housing stock. Government allowances provide approximately £3m per annum less than is needed to maintain the stock in a reasonable condition. Scope to reduce costs in other housing services has been explored and opportunities exploited, although it should be noted that unit costs for all key housing management and maintenance services are well below average when compared to other landlords in the South East (see benchmark report on Council website – link below):

<http://www.winchester.gov.uk/Documents/Results%20Winchester%20CC%20Phase%202%20Cross%20Sector%20Benchmarking%20Report%202010v1.0.pdf>

2 Actual Rent Increases

- 2.1 The subsidy determination assumes a basic increase in rents of 5.1% (4.6% inflation plus 0.5%). The Council is then required to apply a proportion of the move towards target rents. The inflation figure is that represented by the movement in the Retail Prices Index in the 12 months to September 2010. The Government have once again amended the convergence timetable from 2013 to 2016. The impact on actual rents is set out in the tables in paragraph 3 below.
- 2.2 The Council does have some flexibility to amend the guideline increase if it considers this to be appropriate. It is possible to reduce the convergence timetable to 2 years within the limits set by Government in relation to Housing benefit. Such a measure would generate an additional £240,000 per annum and would strengthen the Council's starting position for Self Financing. However, it would result in an average rent increase for tenants of 7.62%. The impact on tenants is indicated in the tables in paragraph 3 below.
- 2.3 The Council could alternatively decide to apply a "below inflation" increase. An average rent increase of 4% would result in a net cost to the HRA compared to the guideline increase of between £400,000 and £500,000 per annum until an above inflation increase in a future year redressed the balance. The HRA Reform settlements will be based on existing subsidy projections and as the Government has based subsidy calculations assuming at least a guideline increase, this approach is not recommended.

3 The Impact of Rent Changes

- 3.1 Average rents are currently £86.16 per property. By applying the guideline rent increase, the average increase will be 6.47% or £5.57 per week giving an average rent for 2011/12 of £91.73 per week. Specific impacts on individual rents are detailed in the tables below:

Table 1 – Summary of Percentage Increases and Number of Households Affected

Change %	Guideline Increase (5.1% + 5 year phasing to target rents)	Maximum Potential Increase (5.1% + 2 year phasing to target rents)
5.10% (i.e. tenants already at target)	598	598
up to 6%	1346	92
up to 7%	1146	1152
up to 8%	1444	507
up to 9%	496	1350
up to 10%	2	1230
up to 11%	0	101
up to 12%	0	2

Table 2 – Summary of Actual Increases and Number of Households Affected

Change per week £(x48)	Guideline Increase (5.1% + 5 year phasing to target rents)	Maximum Potential Increase (5.1% + 2 year phasing to target rents)
below £3	0	1
up to £4	201	189
up to £5	1211	773
up to £6	1829	641
up to £7	1465	1112
up to £8	324	1416
up to £9	2	898
up to £10	0	2

4 Housing Revenue Account Revised Budget 2010/11

- 4.1 The revised budget approved in September 2010 (CAB2048 dated 15 September 2010 refers), is largely on track and it is not proposed to recommend further revisions at this stage. However, it should be noted that projected spend on Void property maintenance will be in the region of £275,000 to £300,000 less than the budget set for this work, mainly as a result of reduced numbers of terminations. A few other minor projects will also only be part-completed by year-end due to delays in attaining statutory permissions, and/or having to comply with statutory consultation timeframes. A recommendation to consider a “carry forward” to fund this work in 2011/12 will be included in the final outturn report later in the year.

5 Housing Revenue Account Budget 2011/12

- 5.1 The budget detailed in Appendix 1 column 5 has a net surplus of £537,500, which will result in a year-end balance at March 2012 of £1,841,486. Whilst minimum balances required in any one year in order to mitigate against potential risks has been assessed as £1.2 million (Appendix 3 refers, it is recommended that this increase in balances be agreed pending further information on the final Self Financing requirements for Winchester.
- 5.2 The net surplus of £537,500 has been achieved through a number of measures, including:
- a) Employee Changes – Staffing reductions were approved in Report PER174 dated September 2010 resulting in 7 full time equivalent posts being deleted from the Landlord Services establishment. This has resulted in the Employee costs for 2011/12 being £124,000 lower than the original budget for 2010/11 (the increased revised 2010/11 budget included one off provision for severance costs).
 - b) Reduced Overhead Charges – As a result of savings and efficiencies already achieved across a number of Council services over the last

year, overhead charges to the HRA have reduced by £153,000. Recharges from the HRA to the General Fund for staff time spent on corporate property work has reduced by £87,000, resulting in an overall net reduction in recharges of £65,652. This takes no account of further savings that may be achieved as a result of proposals included in the General Fund Budget report (CAB2125) elsewhere on this agenda.

- c) One Off Items – the 2010/11 budget included one off provision for Digital Switchover and for the upgrade of the Housing Management system. Both these items are not included in the proposed 2011/12 budget (although provision for an Asset Management system is set out in paragraph 6).
- d) Improved Performance – Void performance has improved in the last year, both in terms of reduced numbers since the introduction of Choice Based lettings and faster turnaround on empty properties, with average relet times reducing from 44 days in 2009/10 to a current average of 28 days. This has resulted in a reduction of lost income as a result of empty properties of £120,000 since April, compared to the same period in 2009.

5.3 The key changes to the budget set out in Appendix 1 include:

- a) HRA General – The £304,507 decrease in budget relates to reduced overhead charges and to 2.2 senior staff being recoded to Sheltered Housing (along with associated employment and transport costs). The 2010/11 Revised budget figure also included provision for salary and severance payments for a part time post which was subject to redundancy and is not included in the 2011/12 budget.
- b) Central Control – The net reduction of £28,032 relates to some reallocation of staff time to Sheltered Housing and also to transport costs in relation to older person community support officers now being charged to sheltered housing.
- c) Communal Services – The net reduction of £34,657 relates to the phased increase of service charges in relation to communal services such as caretaking, cleaning and utilities charges for communal areas.
- d) Disabled Adaptations – The net reduction of £23,113 relates to reduced staff time spent on this service.
- e) Estate Maintenance – Whilst the net cost of this service remains similar to the current year, £50,000 costs in relation to Grounds Maintenance works at Sheltered Housing schemes is now charged directly to that service. This has been offset by an increase in the total estimated Contract Sum for Grounds Maintenance work on HRA land increasing by £44,000 following the recent re-tendering of this service. An additional £10,000 provision for gritting has also been included to provide for additional levels of demand in recent years.

- f) Homelessness – The net reduction of £34,715 in this service relates to staffing changes and to increased income from licence fees and service charges.
- g) Sheltered Housing – The net reduction of £17,755 relates to reduced staff numbers achieved by the reorganisation of the sheltered housing service (PER174 refers), offset in part by the increased staffing charges in relation to the reallocation from Housing Management General (see a above) and from Central Control (see b) above). Grounds maintenance charges for Sheltered Housing are now also charged directly to this cost centre rather than to Estate Maintenance.
- h) Extra Care – This is a new cost centre which separates service costs of the Extra Care schemes at Victoria House and Matilda Place. The provision of care services is part funded by Hampshire County Council and will be subject to tendering in the next two years.
- i) Repairs Admin – The net reduction of £116,221 relates to revised staffing costs following on from the recent reorganisation of Property Services. The revised budget for 2010/11 included significant provision for one-off severance costs and also a recharge to the General Fund for Landlord staff time spent on corporate property maintenance. Neither of these items are included in the 2011/12 budget.
- j) Capital Financing – The net reduction of £747,370 reflects the one off revenue contributions to the capital programme made in the current year in relation to repairs works and IT upgrades. It is recommended that a one off contribution be made in 2011/12 of £80,000 to fund the procurement of a comprehensive Asset Management solution which will allow the Council to maintain its own Asset Management data rather than procure independent surveys on a periodic basis. Such surveys are essential to inform investment programmes and typically cost £100,000. Government advice in relation to decent homes recommend that survey data is updated at least every five years
- k) Dwelling Rents – The increased income of £1,340,000 assumes an increase in line with the Government's guideline recommendation and an average increase overall of 6.47%, adjusted to allow for all new tenants moving straight to target rent during the year.
- l) Garage Rents – The increase in income of £38,000 assumes an increase in garage rents of 4%. No increase was applied in 2010/11.
- m) Sheltered Charges – The increase in income of £15,000 relates to amendments in existing service charges to reflect the actual costs of services provided.
- n) Housing Subsidy – The increased charge of £1,053,431 is based on the latest subsidy determination and results in a total subsidy payment of £10,001,412 or 46% of total rental income.

6 Improving Asset Management Planning

- 6.1 The Council is currently in the process of upgrading the Orchard Housing Management system. However, whilst this is a very comprehensive housing management system and manages general maintenance data of the dwelling stock (including contract management), it is not a comprehensive Asset Management system. To date, the Council has relied on external consultants to prepare Stock Condition surveys and provide the necessary data to inform long term maintenance plans. However, such exercises can cost in excess of £100,000 each time, and need to be updated at least on a five year cycle.
- 6.2 The last full survey was completed in 2003, with a “desktop update” in 2008. Rather than make provision for the procurement of a new Stock Condition Survey within this or the 2012/13 budget, it is recommended that provision is made to procure an Asset Management software solution that would allow the Council’s own surveyors to maintain this data. Capacity exists within the Property Services team to collate the relevant data on a cyclical basis (combined with other property visits).
- 6.3 It should also be noted that all existing maintenance investment projections and Decent Homes compliance is based on a survey which only covered 30% of the stock, with data being extrapolated on a “beacon property” basis to give an overall picture. Whilst this approach complied with Government requirements for Decent Homes returns, it is not in line with current best practice. An effective Asset Management solution would allow the Council to acquire and maintain accurate survey data for all properties, giving significantly greater reassurance on all long term financial projections.
- 6.4 An effective solution will cost in the region of £80,000. £20,000 of the provision made to fund the Orchard Housing Management upgrade will not be required and it is therefore recommended that an additional provision of £60,000 be made in the form of a one off contribution to the Capital Programme to fund this project. An effective system is likely to support the management of the Council’s corporate properties also and the Head of Estates will be fully consulted as part of any procurement process.

7 Service Charges

- 7.1 Service charges are made to certain tenants of communal and sheltered housing to reflect specific costs incurred at those properties which are not covered by the general rent. This can include:
- a) Cleaning
 - b) Grounds Maintenance
 - c) Caretaking
 - d) Utility Charges
 - e) Provision and maintenance of aerials and door entry systems

7.2 Service charges are set to recover the full cost of such services and are calculated annually to ensure that any over or under recovery of costs is rectified the following year (as a result of utility charge increases for example).

7.3 In recent years, any increase in service charges have been covered by the rent cap of a maximum increase in rent of RPI + £2.17. However, this has meant that many tenants have made no or little contribution to their service costs. It is therefore recommended that the increase in service charge not be covered by the rent cap, but that any increase in service charges be capped separately at a maximum of RPI + £2 per week. All new tenants and those who move as part of a mutual exchange will continue to be liable for the full service charge.

8 Extension of Term Maintenance Contracts

8.1 The Council is currently in the process of retendering for the Responsive Repairs and Voids contracts. Whilst it was originally planned for the tenders to be awarded by 1 January 2011 to allow for a 1 April start, it has not been possible to conclude the evaluation process in line with the original timetable. It is now planned to present final recommendations to Cabinet in March 2011 with a revised contract start date of July or August 2011.

8.2 Both existing contractors, Serco (responsive maintenance) and JAD (Voids) are prepared to extend their existing agreements, but only at the priced rates proposed in their respective tender submissions for works post 1 April 2011. - Exempt Appendix 4 refers.

8.3 It is recommended that the Head of Landlord Services be authorised to agree contract extensions with both existing contractors up to a maximum of five months, subject to the final tender award date.

8.4 It is not proposed to increase provision within the Repairs budget at this stage as a result of this extension. Current spend on void properties is significantly below budget as detailed in paragraph 5.1 above. This variance is considered sufficient to absorb the increased contract costs.

9 Conclusions

9.1 The HRA budget recommended in this report represents an improvement on the 2010/11 budget as a result of savings, efficiencies and increased income achieved in the last year and a slightly better than anticipated Government subsidy settlement. As a result of this, it may be possible to reduce the under investment in maintenance by a further £500,000 per annum.

9.2 However, in light of the uncertainty regarding the Self Financing position, it is recommended that this surplus be retained in reserves rather than committing to short term maintenance investment. Committing it at this stage may result in the need to re-suspend programmes within 12 months.

OTHER CONSIDERATIONS:10 SUSTAINABLE COMMUNITY STRATEGY AND CORPORATE BUSINESS PLAN (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 RISK MANAGEMENT ISSUES

12.1 Risks associated with the budget have been assessed in detail as set out in Appendix 3.

13 TACT COMMENT:

- 13.1 TACT was consulted on this report at a special meeting held on 19 January 2011. Although a very good meeting, the frustration of TACT members was running high, as once again year after year, council tenants and the Council are backed into a corner, facing above inflation rent rises. Knowing full well the Government intends it to be that way for many years to come.
- 13.2 TACT is aware that many tenants around the country are struggling to pay their rents now, those who do not receive housing benefit will soon have to. Where is the logic behind the Governments thinking? They are close to the straw that broke the camels back, how much more pressure do they think the average worker or retired person can take, it is no wonder people with depression is said to be on the increase.
- 13.3 Many of the Councillors present were sympathetic to our plight, but likewise cannot see any let up in the immediate future.
- 13.4 As TACT chairs, we had to be open and honest and say, the future is bleak, and we have to accept the recommendation made in the Executive Summary not because we want to but because we have no real choice but to do so.
- 13.5 Rent Setting meetings are never a pleasure because, we know the governments past and present have no idea what is affordable to the average person, and I am afraid never will. If only like Scrooge they could have the visitation from the three spirits then we might get justice.
- 13.6 My thanks to the councillors present, who shared in our concerns, and to Richard Botham Head of Landlord Services for presenting his paper and answering questions for us (and there were many), along with Richard Boardman who also was our minute taker, for the meeting.

BACKGROUND DOCUMENTS:

Working papers held in the Landlord Services and Finance Divisions.

APPENDICES:

- 1 HRA Service Budget 2011/12
- 2 HRA Subjective Budget 2011/12
- 3 HRA Balances – Risk Assessment
- 4 Contract Extension – Exempt Appendix

**Housing Revenue Account Budget 2011/12
Service Summary**

Service		09/10 Actual £	10/11 Original Budget £	10/11 Revised Budget £	Total adjustments £	11/12 Budget £	Notes
Housing Management - General	Housing Management - General	2,403,683	2,672,232	2,705,390	-304,507	2,400,883	See Para. 5.3 a)
Housing Management - General Total		2,403,683	2,672,232	2,705,390	-304,507	2,400,883	
Housing Management - Special	Central Control	444,716	175,538	235,392	-28,032	207,360	See Para 5.3 b)
	Communal Services	65,192	28,320	8,113	-34,657	-26,544	See Para 5.3 c)
	Disabled Adaptations	348,561	362,354	494,601	-23,113	471,488	See Para 5.3 d)
	Estate Maintenance	288,959	310,197	460,197	1,249	461,446	See Para 5.3 e)
	Homelessness	30,047	49,805	57,635	-34,715	22,920	See Para 5.3 f)
	Sewage works	185,086	161,726	161,726	9,170	170,896	
	Sheltered Housing	647,146	1,181,445	1,121,689	-17,755	1,103,934	See Para 5.3 g)
	Extra Care - General	376,527	18,095	18,095	201,160	219,255	See Para 5.3 h)
Housing Management - Special Total		2,386,233	2,287,480	2,557,448	73,307	2,630,755	
Housing Repairs	Repairs - administration	924,497	875,236	1,031,030	-116,221	914,809	See Para 5.3 i)
	Repairs - works	2,998,177	3,793,465	3,508,465	0	3,508,465	
Housing Repairs Total		3,922,674	4,668,701	4,539,495	-116,221	4,423,274	
Capital Financing	Capital Financing	3,757,112	3,987,516	4,687,516	-747,370	3,940,146	See Para 5.3 j)
Capital Financing Total		3,757,112	3,987,516	4,687,516	-747,370	3,940,146	
Rents & Other Income	Dwelling Rents	-20,153,338	-20,359,000	-20,550,000	-1,340,000	-21,890,000	See Para 5.3 k)
	Garage Rents	-753,102	-792,000	-762,000	-38,000	-800,000	See Para 5.3 l)
	Other Income	-184,747	-237,000	-235,000	0	-235,000	
	Sheltered Charges	-409,265	-500,000	-435,000	-15,000	-450,000	See Para 5.3 m)
	Supporting People	-723,962	-605,560	-608,620	0	-608,620	
Rents & Other Income Total		-22,224,412	-22,493,560	-22,590,620	-1,393,000	-23,983,620	
Housing Subsidy	HRA Subsidy	8,565,383	8,947,981	8,947,981	1,053,431	10,001,412	See Para 5.3 n)
Housing Subsidy Total		8,565,383	8,947,981	8,947,981	1,132,437	10,001,412	
Transfers	Transfer re Insurance Reserve	1,621	49,650	49,650	0	49,650	
	Transfer re Pension Reserve	112,613			0	0	
Transfers Total		114,234	49,650	49,650	0	49,650	
Surplus/Deficit		-1,075,093	120,000	896,860	-1,434,360	-537,500	

Housing Revenue Account Budget 2011/12 Subjective Summary

	2009/10 Actual £	2010/11 Original Budget £	10/11 Revised Budget £	Total adjustments £	11/12 Budget £	Notes
Employees	3,227,891	3,411,063	3,576,170	-288,799	3,287,371	Severance Provision and 7 posts deleted
Premises	4,655,325	5,236,769	5,239,769	61,044	5,300,813	Increased provision for Grounds Maintenance (5.3.e)
Transport	256,771	248,950	246,863	19,362	266,225	
Supplies & services	431,752	374,522	424,522		424,522	
Third party payments	44,386	41,000	41,000		41,000	
Transfer payments	8,565,383	8,947,981	8,947,981	1,053,431	10,001,412	Increased Negative Subsidy
Capital financing costs	-28,253,657	4,284,362	4,984,362	-862,919	4,121,443	2010/11 One off items now removed from budget
Management overheads	1,426,444	1,541,378	1,541,378	-65,652	1,475,726	
External income	-23,894,593	-23,404,130	-23,543,290	-1,465,300	-25,008,590	Increased rent and improved void performance
Recharges to services	-290,297	-295,760	-295,760		-295,760	
Transfers	32,755,502	-266,135	-266,135	114,473	-151,662	
Grand Total	-1,075,093	120,000	896,860	-1,434,360	-537,500	

HRA Working Balance

Opening Balance	-	2,200,846	-	1,303,986
Add Projected Deficit/(Surplus)		896,860	-	537,500
Projected Balance at Year End	-	1,303,986	-	1,841,486

HRA Working Balances - Risk Assessment

Risk	Potential	Total Impact on HRA	Risk Provision	Comment
Arrears up by 1%	20%	200,000	40,000	Consistent performance, but some risk due to recession
Voids up by 1%	20%	180,000	36,000	Currently 2% - processes improved so potential now reduced
Void Repair Costs up by 30%	30%	150,000	45,000	Increased risk as kitchens/bathrooms programme reduced
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%
Impact of Interest Rate Changes	20%	100,000	20,000	Impact on capital financing/Item 8
Unforeseen uninsured losses	15%	500,000	75,000	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%	30%	118,000	35,400	Very high risk due to proposed rent increases
Failure of drainage systems	20%	250,000	50,000	Contingency removed from budget in 2005
Boiler obsolescence increases by 25%	30%	500,000	150,000	Provision being made in Cap programme so risk lower
Delays in HRA Reform	60%	1,000,000	600,000	Voluntary agreement by all councils sought, which is unlikely
Right to Buys up by 20%	30%	25,000	7,500	Possible as sales so low in last two years
Loss of 30% lifeline contracts	20%	50,000	10,000	Increased charges will impact on competitiveness of service
Other Unforeseen Budget Pressures	15%	250,000	37,500	General provision

Minimum Provision = £ 1,241,400