

CABINET

12 NOVEMBER 2009

HOUSING REVENUE ACCOUNT – REVISED BUDGET 2009/10

REPORT OF HEAD OF LANDLORD SERVICES

Contact Officer: Richard Botham Tel No: 01962 848421

RECENT REFERENCES:

CAB1769 – HRA Budget and Rent Setting – 8 December 2008

CAB1797 – HRA Budget 2009/10 – 4 February 2009

CAB1820 – HRA Business Plan Update 2009/10 – 18 March 2009

EXECUTIVE SUMMARY:

The Housing Revenue Account (HRA) Budget for 2009/10 was prepared 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. Whilst accepting this approach represented an under investment of between £3-5 million per annum compared to an ideal investment profile, it is a sustainable short term approach that should allow the Council to maintain a reasonable service to tenants and properties at the Decent Homes standard until 2012, when changes to the current subsidy system along with additional investment nationally is projected.

The reduced maintenance programme is on track and should be delivered within budget. Every opportunity has been taken to reduce costs in other areas where possible, maximise income within existing policies and achieve efficiencies through improved performance. This has made it possible to recommend a revised budget with an increased overall surplus of £450,775 compared to the £172,757 approved as part of the original budget. It is recommended that £300,000 of this additional resource be transferred to the Major Repairs Reserve and be used to fund “digital switchover” works in 2010.

RECOMMENDATIONS:

- 1 That the Housing Revenue Account revised budget proposals for 2009/10 as detailed in paragraph 2 and Appendix 1 be approved.
- 2 That £300,000 of the overall forecast surplus be budgeted to be transferred to the Major Repairs Reserve and be used to fund “digital switchover” works in 2010.
- 3 That Cabinet note the clarification of the existing policy to move all new tenants to “target rent” as set out in paragraph and that this approach includes all tenants who move to a new property, including transfers and mutual exchanges.

CABINET12 NOVEMBER 2009HOUSING REVENUE ACCOUNT REVISED BUDGET 2009/10REPORT OF HEAD OF LANDLORD SERVICESDETAIL:1 Introduction

- 1.1 In February 2009, Cabinet approved a Housing Revenue Account (HRA) budget based on a rent increase averaging 6.1%. This was later reduced to 3.1% following Government subsidy changes. Due to the limitations of the current subsidy system, the budget included a maintenance programme at a level which represented an “under-investment” in Council stock of £3-5m compared to the independently assessed need to maintain properties at the Decent Homes standard. To accommodate this and to ensure all essential elements of the repairs programme are funded, it has been necessary to suspend or reduce investment in other important but less urgent areas of the programme.
- 1.2 Shortly after implementing the rent increase, the Government announced late changes that reduced average rent increases to from 6.2% to 3.1%. The impact of this change along with corresponding changes to the subsidy system resulted in a net increase in HRA income. The revised budget recommended in this report takes account of this as well as a number of other changes, savings achieved and efficiencies that have resulted from performance improvement.

2 Revised Housing Revenue Account 2009/10

- 2.1 The revised HRA for 2009/10 as detailed in Appendix 1 results in an increase in the net surplus for the year of £278,018. Significant changes contained in the revised budget include:
- a) Supervision and Management General – This increase includes the reallocation of staff costs from Repairs Admin (see 2.1f below) and the provision has also been made for £20,000 of court costs. Spend on this area is similar to previous years, although no budget provision was included in the original budget. Also included is an increase of £20,000 to cover the increased charge for staff parking permits in the current year. These increases have been offset by a lower than projected spend on mobile phones.
 - b) Sheltered Housing – This reduced cost reflects the deletion of three posts that had been included in the budget but held vacant pending the reorganisation of the sheltered housing service. The posts have been

vacant for over two years and previously covered small sheltered housing schemes with too few tenants who received and paid for support to justify a full time scheme manager. The work is now covered by teams of "older persons support officers" who provide a more consistent service to tenants, can cover more effectively in times of absence and who meet the requirements of the Supporting People regime.

- c) Communal Services – This reduced cost reflects service charge increases. Previous charges were capped and could only increase marginally each year due to Government restrictions protecting tenants from too large an increase in rent and other charges in any one year. However, the reduced rent increase implemented this year meant that previously capped charges could be increased within Government limits. The charges reflect the actual cost in specific schemes for caretakers, cleaning and utilities. In addition, one post of a cleaner has been deleted from the establishment following the retirement of the post holder. The work has been included in the contract with "City Cleaning".
- d) Homelessness – The increased cost relates to reduced licence income due to the short term decommissioning of the Sussex St hostel (offset by increased "other income" below from the lease of hostel) and savings achieved through the deletion of the hostel manager post following the retirement of the existing post holder in December.
- e) Central Control – An increase in equipment costs of £40,000 is recommended following additional costs incurred to ensure the Alarm Centre was compliant with the requirements of the Telecare Services Agency and the Disability Discrimination Act. This was necessary to ensure the medium term future of the Community Alarm Service. The increase in equipment costs has also been partly due to the purchase of replacement telecare and lifeline equipment. This will generate additional income through rentals in the next year and the 2010/11 budget will account for this.
- f) Repairs Administration – The revised budget accounts for reduced staff costs (offset by increased costs in 2.1a above) and for the procurement of specialist external procurement advice as detailed in report CAB1924 elsewhere on this agenda.
- g) Dwelling Rents – The reduction in dwelling rents reflects the reduced rent increase, offset by more tenants moving to target rent than originally projected and improved collection performance. The net effect once the reduced subsidy is taken into account is an increase in income of £195,000.
- h) Garage Rents – Lettings performance has improved following operational changes to the service and this is projected to result in an increase in garage income by March 2010 of an additional £42,000.

- i) Sheltered Service Charges – The increase in income of £40,000 results from improved lettings performance and more tenants now paying full service charge than originally projected (new tenants pay the full service charge, although some existing tenants still benefit from capped charges in line with Government rules to prevent to high an increase in rent and charges in any one year). .
- j) Supporting People – The £70,000 reduction resulted from new Supporting People contracts agreed in April being at a lower unit costs than provided for in the original budget.
- k) Other Income – This increase relates to the lease of Sussex St to the University of Winchester.
- l) Subsidy – The reduction in subsidy payment relates to changes resulting from the Government late initiative to reduce the annual rent increase to take account of reducing inflation levels. When compared to the lost potential income from the reduction in rent levels, the Council achieved a net “gain of £60,000, which more than covered administrative costs of the exercise.

2.2 The above changes result in an increase to the HRA balance to a total of £1,577,000. Previously, the Council has always tried to maintain balances above £1,000,000 and ideally above £1,250,000. A risk assessment exercise included in CAB1797 dated 4 February 2009 highlighted that the Council had to maintain at least a minimum of £700,000 in working balances. However, the continuing uncertainty with housing finance would suggest the previous higher target is still reasonable.

3 Target Rents

3.1 The policy to move new tenants to target rent has been successful in generating significant additional income within the year. This policy has been applied to any new tenant as well as any existing tenant moving house through a transfer or a mutual exchange. This approach is within the Government rent restructuring rules. The original recommendation approved in CAB1369 dated 13 December 2006 referred simply to “new tenants” and therefore a recommendation is included within this report to clarify this policy.

4 Impact of HRA Budget Strategy on Maintenance Programme

4.1 The adopted approach of suspending elements of the maintenance programme is working reasonably. Survey programmes have been maintained and urgent works identified have been completed. The approach remains the most appropriate means of managing budget shortfalls in the short term in is considered to be sustainable until 2012.

4.2 One area of concern however remains with the supplementary programme, which is only funded once receipts from asset sales are realised. In 2008/09, no receipts were realised and in the current year, it is likely that only £400,000 of this £1m programme will be funded. This will allow some further

investment in boiler replacement and in addressing the current backlog with kitchens and bathrooms. However, it does mean that no resource is available to fund the full costs of the “digital switchover” works, where the Council has a duty to upgrade communal aerials at sheltered schemes and flats by 2012. These works are estimated at between £3-400,000, whereas only £100,000 is available through the current base budget programme. In light of the increased balances resulting from the revised budget, it is recommended that £300,000 be transferred from the HRA to the Capital Major Repairs Reserve. This will allow procurement of this work to start and for works to be completed ahead of schedule. Any efficiencies that can be achieved through the procurement process will provide additional resource for other elements of the programme currently subject to suspended investment, including kitchens and window replacement.

- 4.3 Whilst this approach reduces overall reserves to support the HRA, a healthy level of balances will still be maintained, provided the 2010/11 budget can remain in surplus.

5 Housing Revenue Account Budget 2010/11

- 5.1 The Government has yet to announce its subsidy determination for next year. It is anticipated that it will keep to the current approach of setting rents at inflation plus 0.5% plus a further allowance for the move towards target rents. It is unlikely that any significant additional resource will be made available through the subsidy system, despite the announcement that the Government accept it underfunds management and maintenance allowances.
- 5.2 In light of this, it is proposed that the HRA budget for 2010/11 continue to be based on the approach of suspending key elements of the repairs programme, whilst maintaining all other service levels to tenants. Property Services staff have maintained all survey programmes and undertaken essential works. This approach, whilst less than ideal, is considered sustainable until 2012, provided sufficient reserves are maintained in both revenue working balances and the major repairs reserve to provide for any urgent demand, such as an increase in boiler failure due to the less than optimum investment in this area.
- 5.3 The budget detailed for 2010/11 will be presented to Cabinet and Council in February 2010, based on the above principles and maintaining an annual surplus if at all possible. Any additional resource that can be achieved, either through increased subsidy allowances or further efficiency gains, will be added to the maintenance programme and if possible, provide additional investment either for boiler replacement and/or kitchen and bathroom upgrades.

OTHER CONSIDERATIONS:

6 SUSTAINABLE COMMUNITY STRATEGY AND CORPORATE BUSINESS PLAN (RELEVANCE TO):

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

7 RESOURCE IMPLICATIONS:

7.1 As detailed in the body of the report

8 Risk Management

8.1 The Subsidy planning for system is notoriously volatile and is roundly criticised for preventing effective planning for tenant related services. However, the Government have stated their intention to work with councils to minimise disruption between now and 2012, when they expect to implement a new system with additional resources for housing.

8.2 There is a significant risk in the recommended approach of suspending cyclical works and investing less than maybe required in boiler replacements. However, this risk has been carefully assessed and action has been taken to mitigate the risk, through building up reasonable revenue and capital reserves and through maintaining a reasonable survey programme of properties to identify essential and urgent maintenance requirements.

9 TACT COMMENT:

9.1 TACT has mixed feelings regarding the revised Housing Revenue Account Budget.

9.2 Whilst the Council, has worked hard to make savings, achieved through efficiencies that have resulted from performance improvement.

9.3 Due to the Government's delay in implementing any changes in the system of funding, Management and Maintenance and Repairs, it is once again the case that the council tenants who are paying increased rents, are the ones getting less for their money.

9.4 TACT would like to assure the Council and Cabinet who ever is in Government after the General Election, the fight for justice will go on.

9.5 TACT has the following points they would like clarification on:

- a) Breakdown information regarding £300,000 being transferred to the Major Repairs Fund for the "digital Switchover" how many sheltered schemes involved and at approximately what cost per scheme?
- b) 3.1 Target Rents, concern has been raised has any allowances been made for elderly tenants, who might be prepared to move from properties too large for their needs. Who are not on any benefits that

would be penalised through target rents, by moving and trying to help the Council out by doing so?

- c) Dwelling Rents, It is a well known fact Council tenants in Winchester pay a higher rent than many around the country, this may be changed after the Housing Revenue Account Review only time will tell.
 - d) Council tenants appreciate the Council's efforts, but want to assure the Council, that anyone who thinks putting the pressure on, give them less charge them more is mistaken, this seems to be the Government's policy up until now. Your support will be most welcome as it has been in the past.
- 9.6 TACT after further consultation with its members may have verbal comments to make at Cabinet on the day. This avoids any criticism that decisions have been taken, without consultation of both groups of TACT being involved.
- 9.7 Like the Council we await the findings of the Government, regarding The Housing Revenue Account Review, and hope it will be fair and just.

BACKGROUND DOCUMENTS:

Working papers held in the Landlord Services and Finance Divisions

APPENDICES:

- 1 HRA Revised Budget 2009/10

Housing Revenue Account – Revised Budget 2009/10

Service	Actual 08-9	Original 09-10	Revised 09-10	Notes
	£	£	£	
Housing Management - General				
Housing Management - General	2,709,501	2,508,388	2,579,724	See 2.1a
	2,709,501	2,508,388	2,579,724	
Housing Management - Special				
Sheltered Housing	752,268	1,036,372	978,683	See 2.1b
Communal Services	107,389	91,986	19,308	See 2.1c
Homelessness	3,720	31,333	28,255	See 2.1d
Estate Maintenance	210,268	304,714	304,714	
Disabled Adaptations	360,849	361,095	361,095	
Sewage works	207,837	161,612	161,612	
Central Control	438,817	398,485	445,301	See 2.1e
	2,081,148	2,385,597	2,298,968	
Housing Repairs				
Repairs - administration	908,151	1,041,787	1,013,062	See 2.1f
Repairs - works	3,536,703	3,430,350	3,430,350	
	4,444,854	4,472,137	4,443,412	
Capital Financing				
Capital Financing	3,885,475	3,849,024	3,849,024	
	3,885,475	3,849,024	3,849,024	
Rents & Other Income				
Dwelling Rents	-19,437,438	-20,550,000	-20,140,000	See 2.1g
Garage Rents	-767,492	-750,000	-792,000	See 2.1h
Sheltered Charges	-357,712	-360,000	-400,000	See 2.1i
Supporting People	-686,387	-675,560	-605,560	See 2.1j
Other Income	-239,706	-195,000	-222,000	See 2.1k
	-21,488,735	-22,530,560	-22,159,560	
Housing Subsidy				
HRA Subsidy	8,428,670	9,093,007	8,488,007	See 2.1l
	8,428,670	9,093,007	8,488,007	
Transfers				
Transfer re Pension Reserve	96,847	0	0	
Transfer re Insurance Reserve	-257,056	49,650	49,650	
	-160,210	49,650	49,650	
HRA Deficit(Surplus)				
HRA Deficit(Surplus)	-99,296	-172,757	-450,775	
	-99,296	-172,757	-450,775	

HRA Working Balance

Opening Balance at 1/4/09 (Actual)	-	1,125,752	-	1,125,752
Add Projected Deficit/(Surplus) for 09/10	-	172,757	-	450,775
Projected Balance at 31/3/10	-	1,298,509	-	1,576,527

HRA Insurance Reserve

Opening Balance at 1/4/09 (Actual)	-	45,279	-	45,279
Revenue Contribution 2009/10	-	49,650	-	49,650
Projected Balance at 31/3/10	-	94,929	-	94,929

Balance Carried Forward Total HRA Reserves	-	1,393,438	-	1,671,456
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