

HOUSING MANAGEMENT CONSULTATIVE COMMITTEE

Agenda Item 80

Brighton & Hove City Council

Subject: Housing Revenue Account Budget 2011/12
Date of Meeting: 24 January 2011
Report of: Strategic Director Place
Director of Finance
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Key Decision: Yes
Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report presents the Housing Revenue Account Forecast Outturn for 2010/11 as at month 6 and the proposed Budget for 2011/12 as required by the Local Government and Housing Act 1989. Members are required to consider the budget proposals including changes to rents, fees and charges as well as savings and service pressures.
- 1.2 The council's Housing Revenue Account (HRA) contains the income and expenditure relating to the council's landlord duties in respect of approximately 12,300 properties and 2,230 leasehold properties. These properties are accounted for separately from the council's other services/activities which form part of the council's General Fund.

2. RECOMMENDATIONS:

- 2.1 That the Housing Management Consultative Committee recommend to the Housing Cabinet Member that Cabinet:
- (a) Approves the budget for 2011/12 as shown in Appendix 1.
 - (b) Approves individual rent increases and decreases in line with rent restructuring principles as determined by the Government.
 - (c) Approves the changes to fees and charges as detailed in paragraph 3.17 to 3.26.

3. HRA BUDGET PROPOSALS 2011/12

Summary

- 3.1 The HRA budget has been set within the context of the City's Housing strategy and the overall aim of 'achieving excellence in housing management'. It sets out

to do this by focusing on five core strategic priorities as detailed in the Housing Management Service Improvement Plan 2009 - 2012. These are:

1. Improve services to an excellent standard, with residents at the heart of everything we do
 2. Improve the quality and sustainability of our homes and neighbourhoods
 3. Deliver value for money services and maintain a sustainable 30 year business plan
 4. Make best use of our housing stock to address housing need
 5. Ensure that social housing provides a platform for reducing inequality and creating opportunity
- 3.2 The budget strategy also reflects the priorities of tenants and leaseholders as a result of their close involvement in deciding how housing services are planned and delivered (as detailed in the Housing Management Annual Report 2010).
- 3.3 The HRA budget has also been developed to provide a balanced budget, taking into account the HRA subsidy determination, other income and expenditure assumptions and the reserves position. The council's Medium Term Financial Strategy outlines an efficiency savings target for all services across the city of 4%. Officers have taken into account this required level of efficiency savings and have also sought to maximise the level of resources available to invest in meeting the Decent Homes Standard and commissioning priorities. They have therefore identified savings of 9.1%.
- 3.4 The HRA revenue budget is also set in the context of an annual Housing Subsidy settlement which will result in a net transfer of resources to the government. This presents a key challenge coupled with the following priorities:
- (a) *Aligning resources with the Housing Improvement Plan priorities:*
The budget includes continued investment in the Turning the Tide strategy to tackle anti-social behaviour and reduce social exclusion; identifying measures to tackle overcrowding through an enhanced housing options approach; engaging with residents in developing a local priorities framework; reducing our management costs through phase 2 of the Customer Access Review, in recognition of the need to achieve greater value for money and to have a sustainable future.
 - (b) *Leasing of Properties to the Local Delivery Vehicle (LDV)*
Leasing properties to Brighton & Hove Seaside Community Homes, the housing company set up by the council to raise investment for improvements to council tenants' homes.
 - (c) *Development of a comprehensive estates masterplan:*
Working in partnership with tenant representatives to develop an estates masterplan to inform best use of our assets and identify opportunities to build new Council homes. The initial findings have identified development sites where there is the potential to build over 800 new homes over the next few years.

(d) *Maintaining and improving our Homes:*

Maximising the level of revenue resources available to support the Decent Homes Programme and working with residents to ensure that we are able to respond to opportunities to generate renewable energy.

- 3.5 The HRA budget for 2011/12 is shown in Appendix 1 with the main budget variations detailed below in table 1. In preparing the base budget, inflation of 2% on other non employee costs has been applied with no increases to pay except for increases in national insurance contributions and pay awards to those employees earning less than £22,000 per annum. Savings proposals, service pressures, and changes to rents, fees and charges and housing subsidy are detailed in paragraphs 3.6 to 3.26.

Table 1: Main Budget Variations	£'000
Adjusted Base Budget 2010/11	0
<i>Increases in Resources:</i>	
Savings Proposals as detailed in paragraph 3.6 to 3.8	(963)
Increase in Rent for Dwellings (net of Empty Properties)	(2,600)
Transfer from Major Repairs reserve	(600)
<i>Reductions in Resources:</i>	
Employees pay award and other inflation	550
Other Service Pressures as detailed in paragraph 3.9	214
Increase in Revenue Contribution to Capital Programme	235
Increase in Capital Financing Costs	1,226
Increase in Subsidy Payable to the Government	1,607
Reduction in major works income from leaseholders	330
Other minor variances	1
Base Budget 2011/12	0

Savings & Service Pressures

- 3.6 Housing Management has identified savings of £0.963 million (equivalent to 9.1% savings target) in the following areas:

Housing Management

- 3.7 A reduction in the Housing Management unit costs will be achieved through a mixture of:

- A savings target of £0.263 million from the implementation of the Customer Access Review in order to meet the management cost savings target included in the HRA 30 year Business Plan.
- A reduction in the miscellaneous fees and stationary budgets of £0.050 million and a reduction in the support required from legal services and human resources resulting in a saving of £0.044 million.
- The shared use of Lavender Street Housing Office by CYPT will enable the HRA to share the running costs and provide savings of £0.090 million.
- The efficient procurement of a new gas contract achieving savings of £0.050 million.

Property & Investment

3.8 Savings within Property & Investment will ensure that long term contracts continue to deliver value for money and some savings will also support the reduction in Housing Management unit costs. These savings include:

- A saving in employee costs of £0.130 million from reduced pension liability costs associated with the transferring of staff to Mears under the Repairs, Refurbishment and Improvement Partnership.
- Deletion of a Water Engineer vacant post whose duties will be incorporated into an existing Health & Safety Manager role at a saving of £0.036 million.
- The budget strategy includes target savings of £0.300 million for the new Mears responsive repairs and planned maintenance contract. The Mears IT systems provide savings through efficient booking of repairs jobs and delivery of 'Right First Time' repairs. In addition, the IT systems enable Mears to assess whether some repairs should form part of future planned works and through packaging works together, further savings can be achieved. This sum also includes savings in the leasing of an office through co location at the Housing Centre.

3.9 Service pressures included in the budget are:

- Pay and inflationary increases of £0.550 million.
- A reduction in the income budget for leaseholder service charges of £0.159 million due to the budget originally being set at a greater level than the actual charges.
- In line with recent announcements of grant reductions, the Supporting People grant will reduce by 3% for 2011/12. This will result in a loss of Supporting People grant income of £0.042 million.
- A loss of car parking income of £0.013 million from St James House whilst essential repairs continue.

Housing Subsidy Determination

3.10 The HRA is part of the national housing subsidy system through which Council Housing Rents are standardised across the country. The subsidy system uses a national formula to set guideline rents for each property together with allowances for management, maintenance and capital charges based on notional costs. The current subsidy system was introduced in 1990 and relies on the Secretary of State publishing annual 'Determinations' which set out the basis of subsidy.

- 3.11 The department for Communities and Local Government (CLG) has now announced it's intention to use the Devolution and Localism Bill to abolish the current housing subsidy system, subject to Parliamentary approval. A new system of self financing is intended to come into effect from 1 April 2012. Under this system the council will no longer be required to transfer it's resources to central government, but in return will be required to take on additional housing debt at a level which is sustainable in the long term. This system will enable the council to plan for the longer term and to use some of the extra resources to maintain homes and possibly to build new ones.
- 3.12 The CLG have issued this year's determination using the same parameters as those issued in earlier years. This budget has been set using the final subsidy determination.
- 3.13 The 2011/12 Subsidy Determination proposes changes resulting in revenue subsidy payable of £14.532 million compared to £12.964 million payable last year. The overall subsidy position (taking also into account the capital item called the Major Repairs Allowance) is an increase in 'Negative Subsidy' (the transfer of resources to the government) of £1.296 million to £4.754 million. Further details of the draft subsidy position are attached in Appendix 2.

Rents 2011/12

- 3.14 Rents are calculated in accordance with the government's rent restructuring guidelines. Target rents for each property are calculated based on the relative property values, bedroom size and local earnings. The act of moving tenants' current rents to the target rent is called rent convergence. In order to limit increases in current rents to reach target rents, the guidance specifies a maximum rent increase equivalent to inflation + ½% + £2 per week.
- 3.15 The Housing Subsidy Determination 2011/12 requires Local Authorities to use the September 2010 Retail Price Index of 4.6% plus 0.5% for setting rent inflationary increases, resulting in a net inflationary increase of 5.1%. Due to the limits mentioned in 3.14, the Government sets a "provisional" rent convergence date annually, depending on the level of inflation set for that year.
- 3.16 Therefore, the rent convergence date has now been set at 2015/16 (compared to 2012/13 last year). As the majority of the rents are increasing towards target rents, this results in an average rent increase of 6.32% for Brighton & Hove. This is the equivalent to £4.21 per week, increasing the average rent to £70.76. However, in line with rent restructuring, all rents are moving towards their individual targets and some rents will be increasing by more or less than the average rent. The maximum increase will be approximately £7.79, with the lowest increase being £1.29 per week.

Fees and Service Charges 2011/12

- 3.17 The proposed changes to fees and charges for 2011/12 are as follows:

Heating

- 3.18 From October 2010, a new contract for the supply of gas has led to a significant reduction in the unit price of gas for Housing sites. Heating charges are also being revised to reflect the latest estimates of gas consumption for 2011/12. Taking both these changes into account, it is estimated that gas heating charges will reduce by between 41% and 11% which is an average reduction of 26%, the equivalent of £2.82 per week (with the exception of Mayflower Square where the charge remains unchanged). The new prices are for one year only and current indications are that prices will increase again in October 2011.
- 3.19 The electricity contract continues at its current contract prices for the financial year 2011/12, until 1st April 2013. Service charges for those with electric heating may be amended during this time to reflect the latest estimates of consumption. However, for 2011/12, the blocks with electric heating (Broadfields and Elywn Jones Court) will see no change to their heating charge.

Water Charges

- 3.20 The HRA administers water charges for three sheltered blocks. These charges will be amended to reflect the latest estimates of consumption, and also contract price increases by Southern Water which are estimated at 4%.

Grounds maintenance

- 3.21 Grounds maintenance charges will increase by 2% in line with contract charges. This service is currently under review. Tenants will be consulted and notified of any changes to the current service charges, resulting from future changes to service provision, at the appropriate time.

Communal Cleaning Services

- 3.22 The communal cleaning charges will increase by 1%, the equivalent of an average of £0.02 per week, to ensure the costs of the service are fully recovered through service charges. This increase includes the costs of the pay award to those employees earning less than £22,000 and increases in employers national insurance contributions.

Garages & Car Parking

- 3.23 All garages and car parking charges will increase by the September Retail Price Index of 4.6%. The proposed increase in charges is attached in Appendix 3.

Supporting People

- 3.24 Supporting people charges will remain at £12.85 per week.

Sheltered Services

- 3.25 The sheltered service charge for common ways will remain at the current level of charge. It is anticipated that efficiency savings in the cleaning contract will be achieved to cover inflationary increases.

3.26 The launderette sheltered service charge will remain at £1.26 per week.

Projected HRA Revenue Reserves

3.27 The forecast outturn for 2010/11 as at month 6 is an underspend of £0.146 million providing a contribution to reserves. The main variances are detailed in Appendix 1.

3.28 The contribution to reserves increases projected reserves as at 31 March 2011 to £3.469 million. The 2011/12 budget has been set with a breakeven position, so the reserves are therefore projected to remain at £3.469 million by 31 March 2012. The recommended minimum level of reserves is £2.500 million.

Table 2 : Projected General Revenue Reserves at 31 March 2012	£'000
Reserves at 1 April 2010	3,623
Less: Contribution to fund 2010/11 Capital Programme (Commissioning of Temporary Accommodation project)	(300)
Plus: Forecast contribution from 2010/11 Revenue Outturn	146
Projected reserves at 31 March 2011	3,469
Projected reserves at 31 March 2012	3,469

3.29 Estate Development Budget reserves, which are held separately from the HRA general reserves, are £0.234 million as at 1 April 2010. These reserves relate to committed revenue and capital expenditure for schemes agreed in previous financial years that are not yet completed. Therefore these reserves will reduce as schemes are finished.

4. CONSULTATION

4.1 Tenants are consulted during the year on the HRA Budget and the Estate Development Budget. After Cabinet approval, tenants will receive notification of their individual rents and charges for 2011/12.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 Financial Implications are included in the main body of the report

Finance Officer Consulted: Sue Chapman

Date: 05/12/10

Legal Implications

5.2 The Council is required to keep a separate Housing Revenue Account (HRA) by virtue of the Local Government and Housing Act 1989. Preceding any financial year, the council must formulate for that year proposals relating to i) the income

from rent and charges of all property within the HRA, ii) the expenditure on repair, maintenance, supervision and management of that property and iii) any other prescribed matters. In formulating the proposals, the council must use its best assumptions and estimates to secure that on their implementation the account will not show a debit balance. Within one month of formulating the proposals it must prepare and place on deposit a statement setting out the proposals and estimates.

Lawyer Consulted:

Liz Woodley

Date: 5/12/10

Equalities Implications:

- 5.3 The HRA budget will fund services to people with special needs due to age, vulnerability or health needs.

Sustainability Implications:

- 5.4 The HRA budget will fund a range of measures that will benefit and sustain the local environment.

Crime & Disorder Implications:

- 5.5 The Budget includes financial provision for Crime and disorder implications.

Risk & Opportunity Management Implications:

- 5.6 Financial risks have been assessed throughout the development of the council's budget.

Corporate / Citywide Implications:

- 5.7 The Budget seeks to improve the quality of housing and services provided to tenants across the City.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 There are no alternative options proposed. Rents are set in accordance with the Government's rent restructuring guidance and increases are in line with the Housing Subsidy Determination. The Housing Subsidy Determination controls rent setting by removing resources from local authorities through non compliance.

- 6.2 The budget proposals also includes maintaining the current service provision with improvements as identified in the Service Improvement Plan and investment in priorities such as Turning the Tide strategy. It is possible for alternative options to be considered such as increasing or reducing service provision, which would result in a reduction or increase in the revenue contributions to the capital programme. However, officers recommend that the budget proposals provide the appropriate service provision whilst ensuring that the revenue contributions to capital are in line with the current HRA Business Plan.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 The Local Government and Housing Act 1989 requires each Local Authority to formulate proposals relating to income from rent and charges, expenditure on repairs, maintenance, supervision and management and any other prescribed matters in respect of the HRA. In formulating these proposals using best estimates and assumptions the Authority must set a balanced account. This budget report provides a breakeven budget and recommends rent increases in line with current government guidance.

SUPPORTING DOCUMENTATION

Appendices:

1. HRA Forecast Outturn 2010/11 and Budget 2011/12
2. HRA Subsidy Determination 2011/12
3. Car Parking & Garages Fees 2011/12

Documents in Members' Rooms

None

Background Documents

1. CLG Housing Revenue Account Subsidy Determination 2011/12
2. 2011/12 Housing Revenue Account Working Papers

HRA Forecast Outturn 2010/11 and Budget 2011/12

	2010/11 Adjusted Budget £'000	2010/11 Forecast Outturn £'000	2011/12 Original Budget £'000
EXPENDITURE			
Employees	9,187	8,914	9,057
Premises - Repairs Response & Empty Properties	7,904	7,766	7,726
Premises - Cyclical Maintenance & Servicing	3,433	3,415	3,179
Premises - Grounds Maintenance	512	512	520
Premises Other	2,729	2,661	2,766
Transport	179	179	183
Contribution to Bad Debt Provision	263	263	268
Supplies & Services	1,591	1,780	1,677
Third Party Payments – Launderette contract	54	54	54
Support Services - From Other Departments	2,153	2,127	2,144
Revenue Contributions to Capital Schemes	3,543	3,543	3,778
Capital Financing Costs	3,729	3,594	4,955
Housing Subsidy Payable	12,925	12,964	14,532
Total Expenditure	48,202	47,772	50,839
INCOME			
Rents Dwellings	(41,613)	(41,617)	(44,213)
Rents Car Parking / Garages	(823)	(763)	(785)
Commercial Rents	(495)	(485)	(505)
Service Charges	(4,034)	(3,853)	(3,454)
Other Recharges and Interest	(1,237)	(1,200)	(1,882)
Total Income	(48,202)	(47,918)	(50,839)
DEFICIT / (SURPLUS)	0	(146)	0

Targeted Budget Management (TBM) 2010/11 as at Month 6

The forecast outturn for month 6 is an underspend of £0.146 million which will provide a contribution to revenue reserves.

Employee's costs are forecast to underspend by £0.273 million due to vacancy management both in Housing Management and Property and Investment. This is partly due to some Property and Investment posts in the new structure, which came into effect from 1 April, being recruited to later in the financial year than anticipated. The budget had assumed a full year establishment for all posts, therefore resulting in an underspend.

The responsive repairs and empty properties budget is forecast to underspend by £0.149 million of which £0.092 million is in relation to unit cost efficiencies on the works carried out on empty properties due to Mears achieving a reduction in the budgeted unit costs of £387 per unit. Service contracts which are being procured over the next 18 months, included within cyclical maintenance, are anticipated to underspend by £0.126 million.

Supplies and services includes £0.100 million towards the phased introduction of Automatic Meter Readers (AMR's) in Housing sites that fall within the gas and electric contracts. The installation of AMR's will support the Government and Council's commitment to reduce carbon emissions through lowering energy consumption as part of the 10.10 campaign, as well as legal commitments such as the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, which specifically states the need for installing AMR's as part of its early action metrics. By installing and using AMR's the Council will be able to actively monitor and manage its usage through the use of accurate actual reads from each meter. With this data to hand the reliance on estimated bills and gaps in data can be removed, allowing for a detailed analysis of high consuming sites with the intention of making savings.

Capital Financing costs are forecast to underspend by £0.135 million due to forecast interest rates for the year being lower than the assumptions used for budget setting.

Leaseholder service charges income is projected to underachieve by £0.150 million. This projection has been forecast following analysis of last year's outturn which has shown that the charges are likely to be less than budgeted for.

HRA Housing Subsidy Determination 2011/12

The Housing Subsidy Determination proposes changes resulting in revenue subsidy payable of £14.532 million compared to £12.964 million payable last year. The overall subsidy position (taking into account the capital element) is an increase in the transfer of resources to the Government of £1,296 million to £4.754 million. The following table summarises the determination and the notional elements included:

Housing Subsidy	2010/11 Forecast £'000	2011/12 Determination £'000	Change £'000
<i><u>'Notional' Revenue Items</u></i>			
Management Allowance	(8,236)	(8,374)	(138)
Maintenance Allowance	(15,256)	(15,722)	(466)
Capital Charges	(4,911)	(5,229)	(318)
	(28,403)	(29,325)	(922)
Less Guideline Rent	41,367	43,857	2,490
Net revenue subsidy payable to the Government (exc. MRA)	12,964	14,532	1,568
<i><u>Capital Items</u></i>			
Major Repairs Allowance	(9,506)	(9,778)	(272)
Overall subsidy position – net payment to the Government	3,458	4,754	1,296

Note: credits represent income

Management

The Management Allowance has been calculated on the same formulae basis as last year and will increase by 1.77% to £680.60 per dwelling, compared to a national average increase of 2.6% at £697.84 per dwelling.

Maintenance

The Maintenance Allowance has been calculated on the same basis as last year and will increase by 3.14% to £1,277.81 per dwelling, compared to a national average increase of 1.9% at £1,203.33, per dwelling.

Capital Charges

The HRA receives subsidy based on the cost of financing historical borrowing allocations. The amount of subsidy allowance for the cost of financing reflects a forecast increase in interest rates for 2011/12.

Guideline Rent

The subsidy system assumes a notional guideline rent per dwelling which increases annually in line with the government's Rent Restructuring Policy. The guideline rent for 2011/12 is £69.95 per property per week, an increase of 6.11%.

Major Repairs Allowance (MRA)

In addition to the revenue subsidy the HRA also receives a Major Repairs Allowance for each property, which is used to partly fund the Capital Programme. The MRA represents the estimated long term average amount of capital spending required to maintain the stock in it's current condition.

The MRA will increase by 2.95% (compared to 1.7% last year), increasing average MRA to £794.68 per dwelling compared to a national average of £719.88. The total MRA, including the loss of stock from Right to Buy sales, has increased by £0.271 million to £9.777 million.

Proposed Garages and Car Parking Fees 2011/12

Charge per week	Current Charge	2011/12 charge	4.6% Increase
	£	£	£
Garage Central			
Private	19.62	20.52	0.90
Private blue badge	9.09	9.51	0.42
Council / Leaseholder	9.81	10.26	0.45
Council / LH blue badge	4.36	4.56	0.20
Garage Middle			
Private	17.16	17.95	0.79
Private blue badge	8.58	8.97	0.39
Council / Leaseholder	8.58	8.97	0.39
Council / LH blue badge	4.29	4.49	0.20
Garage Outer			
Private	14.71	15.39	0.68
Private blue badge	5.95	6.22	0.27
Council / Leaseholder	7.35	7.69	0.34
Council / LH blue badge	3.25	3.40	0.15
CPS Central			
Private	16.35	17.10	0.75
Private blue badge	8.40	8.79	0.39
Council / Leaseholder	8.17	8.55	0.38
Council / LH blue badge	1.81	1.89	0.08
CPS Middle			
Private	10.63	11.12	0.49
Private blue badge	5.95	6.22	0.27
Council / Leaseholder	5.31	5.55	0.24
Council / LH blue badge	1.38	1.44	0.06
CPS Outer			
Private	4.09	4.28	0.19
Private blue badge	1.52	1.59	0.07
Council / Leaseholder	2.04	2.13	0.09
Council / LH blue badge	1.12	1.17	0.05

Note: These charges exclude VAT where it applies.