

Subject: Housing Revenue Account Budget 2009/10

Date of Meeting: 12 February 2009

REPORT OF: Director of Adult Social Care & Housing
Director of Finance & Resources

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Key Decision: Yes Forward Plan No. 7 *Digit Ref: 6576*

Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 This report presents the Housing Revenue Account Forecast Outturn for 2008/09 as at month 9 and the proposed Budget for 2009/10 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 12,320 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 Cabinet recommend that Council:

- a) approves the budget for 2009/10 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 3.14 to 3.20.
- d) authorises the Director of Adult Social Care & Housing to implement the new rents, fees and charges, but with delegation to make any minor amendments which may appear to be appropriate in particular cases; and
- e) authorises the Director of Adult Social Care & Housing to prepare and place on deposit the statement of proposals, estimates and other particulars as required by Section 76 of the Local Government and Housing Act 1989.

3. RELEVANT BACKGROUND INFORMATION

TARGETED BUDGET MANAGEMENT (TBM) 2008/09 MONTH 9

3.1 The adjusted budget for 2008/09 is a net expenditure budget of £0.250 million. The forecast outturn as at month 9 is an underspend of £0.373 million resulting in a surplus of £0.123 million, as shown in Appendix 1. The main variances are:

- Salary costs are projected to underspend by £0.383 million from vacancy management pending reviews to be implemented as part of the improvement programme, together with a £0.060 million provision for the implementation of single status.
- The premises repairs budgets are now projected to overspend by £0.018m and the forecast includes the following variances:
 - An overspend of £0.100 million (1.8% of total £5.6 million budget) for the responsive repairs contract based on an improved forecasting methodology.
 - The empty property repair costs overspend has increased by £0.050 million to £0.250 million due to an increase in the average cost of repair per property from £2,300 to £2,600 compared to the last year. These works will be operating through the open book process from December 2008 which will enable officers to work with partners to use transparent information to achieve unit cost reductions.
 - An underspend on service contracts of £0.232 million due to continuing with the existing contracts, which have a lower specification than the new contracts, the costs of which have been budgeted for and will be let in 2009/10.
 - An underspend of £0.100 million for cyclical decorations as more works were capitalised than anticipated.
- A review by Corgi of the way that gas inspections to installation works are carried out has resulted in an efficiency saving in the use of consultants, creating an underspend of £0.140 million.
- The income budget for service charges is projected to overachieve by £0.100 million in respect of leaseholder service charges due to costs for recharging being greater than anticipated at budget setting.

HRA BUDGET PROPOSALS 2009/10

Summary

3.2 The HRA budget has been set with the overall aim of 'achieving excellence in Housing Management', in accordance with the 30 year business plan and to maximise delivery of the core priorities in new Housing Management Service Improvement Plan. The 5 core priorities 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

3.3 The HRA Budget has also been developed to provide a balanced budget taking into account the HRA subsidy determination and other income and expenditure assumptions. The council's Medium Term Financial Strategy outlines an efficiency savings target for all services across the city of 3%. In setting this budget, officers have taken into account the required level of efficiency savings but also sought to maximise the level of resources available to invest in meeting the Decent Homes Standard and have therefore identified savings of 7.4%.

3.4 The 7.4% savings of £0.709 million identified, along with a much lower increase in HRA subsidy payable to the Government than anticipated, has resulted in an increase in revenue contributions of £1.469 million to fund additional Decent Homes works such as kitchens and bathrooms, in the capital programme for 2009/10.

3.5 The HRA budget for 2009/10 is shown in Appendix 1. In preparing the base budget, inflation of 2.3% on employee costs and 2.5% on other costs has been applied. Savings proposals, service pressures, and changes to rents, fees and charges and housing subsidy are detailed in paragraphs 3.7 to 3.29.

3.6 The following table summarises the movement on the HRA base budget between 2008/09 and 2009/10:

Main Budget Variations	£'000
Original Base Budget 2008/09	250
<i>Increases in Resources:</i>	
Savings Proposals as detailed in paragraph 3.7	(709)
Increase in Rent for Dwellings (net of Empty Properties)	(1,919)
Reduction in Capital Financing Costs due to lower interest rates on borrowing	(585)
<i>Reductions in Resources:</i>	
Employees pay award and other inflation	243
Increase in Revenue Contribution to Capital Programme	1,469
Increase in Subsidy Payable to the Government	823
Reduction in interest on reserves due to lower interest rates	78

Service Pressures as detailed in paragraph 3.8	315
Other minor variances	35
Base Budget 2009/10	0

Savings and Service Pressures

3.7 The budget includes savings of £0.709 million as detailed below:

Proposed Savings 2009/10	£'000
Review of various roles and responsibilities leading to a reduction of 1.94 fte posts and regrading of posts. These posts are vacant or reduced hours have already been agreed with staff.	73
Efficiency savings target of 2% for the responsive repairs and voids and gas servicing and maintenance contracts operating within open book accounting.	181
A review by Corgi of the way that gas inspections to installation works are carried out has resulted in an annual efficiency saving in the use of consultants.	198
Reduction in contract administration through efficient procurement of the Gardening for Older People Scheme	20
Reduction in supplies and services budgets	45
No inflationary increase and reduction in central support services recharge.	63
Housing Strategy – reduction in staff charged to HRA for management of temporary accommodation	21
Additional income from the communal cleaning service charge as approved at Housing Cabinet 4 November 2008	76
Realignment of commercial property rental income budget to reflect the current level of income.	32
Total Proposed Savings	709

3.8 The budget also includes service pressures of £0.315 million resulting from:

- Legal fees and other associated costs of £0.015 million for the creation of St James House as a Tenant Management Organisation
- Additional energy costs of £0.300 million from the increased contract prices, of an average of 53% for gas and 83% for electricity. This service pressure is net of additional income from tenants and leaseholders heating charges.

Rents 2009/10

3.9 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.

3.10 In anticipation of a positive vote for stock transfer (and in accordance with the department for Communities and Local Government Housing Stock Transfer Guidance), the property values used within the rent calculations from 2007/08 were increased to reflect the value of improvement works to be completed by 2012. The council has now once again reviewed the property values used in the rent calculation and adjusted them to exclude those works that are now unlikely to be completed by 2012. This has resulted in a reduction in each tenant's target rent compared to that previously calculated, which will be reflected through smaller increases to actual rents until rent convergence. The average reduction in the target rents at 2009/10 prices, by number of bedrooms is shown in the table below:

Number of Bedrooms	2009/10 Current Weekly Target Rent £	2009/10 Revised Weekly Target Rent £	Reduction £
0	56.03	54.93	1.10
1	64.37	62.96	1.41
2	74.03	72.15	1.88
3	87.71	85.02	2.69
4	95.00	92.06	2.94
5 and 6	112.87	108.89	3.98

3.11 The Housing subsidy determination 2009/10 requires Local Authorities to use the September 2008 RPI (Retail Price Index) of 5% for setting rent inflationary increases. The Government has acknowledged that this level of RPI will set high rent increases and in order to minimise these, the determination now proposes to set a 'provisional' rent convergence date for the future. This means that the date for rent convergence will now change yearly depending on the level of inflation for that each year.

3.12 Therefore, the rent convergence date has now been extended from 2011/12 to 2023/24. This results in an average rent increase of 5.45% for Brighton & Hove, equivalent to £3.50 per week, increasing the average rent to £67.70 (compared to a greater increase of 6.58 % for a rent convergence date of 2011/12). However, in line with rent restructuring and all rents moving towards their individual targets, some rents will increase by more than the average and others by less than this. The maximum increase will be approximately £6.80, with the lowest increase being £1.01.

Fees and Service Charges 2009/10

3.13 The proposed changes to fees and charges for 2009/10 are as follows:

- 3.14 **Heating** - There are no contract price increases for 2009/10. However charges may be amended from 6 April 2009 to reflect the latest estimates of consumption. This means that some tenants will see a reduction in their charges due to lower consumption and others an increase from higher consumption.
- 3.15 **Water Charges** - Contract price increases from 1 April 2009 will be advised to tenants once the council receives notification of the increases by Southern Water. However charges may be amended from 6 April 2009 to reflect the latest estimates of consumption. This means that some tenants will see a reduction in their charges due to lower consumption and others an increase from higher consumption.
- 3.16 **Grounds Maintenance** – Charges will increase by 2.5% from 6 April 2009 in line with contract charges to the HRA.
- 3.17 **Communal Cleaning Services** – New charges for 2009/10 were approved at Housing Cabinet on 4 November 2008 and are based on the type of building occupied. Weekly charges are £2.41 for low rise blocks, £3.58 for high rise blocks and £0.50 for Houses in Multiple Occupation.
- 3.18 **Garages & Car Parking** - All charges are frozen until 31 March 2010 as approved at Housing Committee on 16 November 2006
- 3.19 **Supporting People** – Charges will reduce by 3% from £13.25 to £12.85.
- 3.20 **Sheltered Services** – The charges have been reviewed and revised charges are detailed in the report 'Delivery of support services for council sheltered housing tenants' agreed and reported to Housing Management Consultative Committee on 20th January and Housing Cabinet on 11 February 2009.

Housing Subsidy Determination 2009/10

- 3.21 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.
- 3.22 The department for Communities and Local Government (CLG) stated that the HRA Subsidy Determination for 2008/09 was to be a one year only methodology to give Ministers time to explore the possibilities for wider reform of the HRA subsidy regime. Subsequently Ministers announced a joint CLG and Treasury review to develop a sustainable long term system for financing council housing. As the review is not expected to report until Spring 2009 it has been necessary to delay again until a new regime can be introduced possibly in 2011/12. CLG have therefore issued a determination on a similar basis to before, which will apply to 2009/10 only.

3.23 The 2009/10 Subsidy Determination proposes changes resulting in revenue subsidy payable of £12.317 million compared to £11.494 million payable last year. The overall subsidy position (taking into account the capital element) is an increase in subsidy payable to the Government of £0.538 million.

3.24 The following table summarises the determination and the notional elements included:

Housing Subsidy	2008/09 £'000	2009/10 £'000	Change £'000
<u>'Notional' Revenue Items</u>			
Management Allowance	(7,638)	(8,041)	(403)
Maintenance Allowance	(14,526)	(14,869)	(343)
Capital Charges	(7,065)	(6,240)	825
	(29,229)	(29,150)	79
Less Guideline Rent	40,723	41,467	744
Net revenue subsidy payable to the Government (exc. MRA)	11,494	12,317	823
<u>Capital Items</u>			
Major Repairs Allowance	(9,067)	(9,352)	(285)
Overall subsidy position – net payment to the Government	2,427	2,965	538

Note: Credits represent income

3.25 **Management** – The main change to the notional cost formulae used is the reintroduction of the 3 year average for crime data inputs which has led to a much more favourable settlement than last year.

The Management Allowance per dwelling will increase by 5.8% to £652.57 (0.65% increase last year) compared to a national average increase of 3.5% at £659.40 per dwelling.

3.26 **Maintenance** – The main changes to the notional cost formulae is the reintroduction of the 3 year average for crime data inputs and the use of a 3 year average to smooth the changes to the building cost indices adjustment. This has led to a much more favourable settlement than last year.

The Maintenance Allowance per dwelling will increase by 2.9% to £1,206.71 (no change last year) compared to a national average decrease of 0.8% at £1,103.20 per dwelling.

3.27 **Capital Charges** – The HRA receives subsidy based on the cost of financing

historical borrowing allocations. This has reduced due to lower interest rates anticipated for 2009/10.

- 3.28 **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 2009/10 is £66.04 per property per week, an increase of 2.36%.
- 3.29 **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 its current condition. Although there have been no changes to the methodology, the national average unit costs used to calculate the MRA have been revised. The net effect of this change is an increase of 3.7% per unit (compared to the national average of 2.4%), increasing average MRA to £758.98 per dwelling. The total MRA, including the loss of stock from Right to Buy sales, has increased by £0.285 million to £9.352 million.

PROJECTED HRA RESERVES

- 3.30 The month 9 forecast outturn for 2008/09 shows a contribution to reserves of £0.123 million increasing the projected reserves to £4.352 million at 31 March 2009. The 2009/10 budget has been set for a breakeven position. Therefore, the reserves are projected to remain at £4.352 million as at 31 March 2010 as shown in the table below.

Projected HRA general reserves at 31 March 2010	£'000
Reserves at 1 April 2008	5,615
Less: Contribution to fund 2008/09 Capital Programme	(1,386)
Plus: Forecast contribution from 2008/09 Revenue Outturn	123
Projected Reserves at 31 March 2009	4,352
Plus: contribution from 2009/10	0
Projected Reserves at 31 March 2010	4,352

- 3.31 The recommended minimum level of reserves is now £2.400 million so there is £1.952 million available for use.
- 3.32 Estate Development Budget revenue reserves are £0.034 million as at 1 April 2008. 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 2009/10.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Sue Chapman, Head of Financial Services 7 January 2009

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.

Liz Woodley, Lawyer 7 January 2009

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 and 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.

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. Housing Revenue Account Forecast Outturn 2008/09 and Budget 2009/10

Documents In Members' Rooms

1. None

Background Documents

1. 2009/10 Housing Revenue Account Subsidy Determination
2. 2009/10 Housing Revenue Account Working Papers

Appendix 1

HOUSING REVENUE ACCOUNT - BUDGET 2009-10			
	2008-09 Adjusted Budget £'000	2008-09 Forecast Outturn £'000	2009-10 Original Budget £'000
EXPENDITURE			
Employees	9,044	8,661	9,262
Premises - Repairs, Response & Voids	7,701	8,051	7,342
Premises - Repairs, Service Contracts	2,777	2,545	2,910
Premises - Repairs, Programmed Repairs	1,264	1,164	764
Premises – Grounds Maintenance	512	503	505
Premises - Other	2,411	2,449	2,428
Transport	159	249	187
Supplies and Services - Provision for Bad Debt	300	270	308
Supplies and Services - Other	1,698	1,569	1,633
Support Services - from Other Departments	2,300	2,320	2,250
Revenue contribution to Capital Schemes	2,481	2,561	4,854
Capital Financing Costs	4,941	4,908	4,356
Housing Subsidy Payable	11,494	11,547	12,317
TOTAL EXPENDITURE	47,082	46,797	49,116
INCOME			
Rents Dwellings	(41,009)	(41,069)	(42,870)
Empty Properties	531	508	473
Rents Car Parking/Garages	(757)	(721)	(728)
Commercial Rents	(452)	(490)	(495)
Service Charges	(3,433)	(3,533)	(3,861)
Other recharges and Interest	(1,712)	(1,615)	(1,635)
TOTAL INCOME	(46,832)	(46,920)	(49,116)
DEFICIT / (SURPLUS)	250	(123)	0

