

BABERGH DISTRICT COUNCIL

FROM: Strategy Committee

REPORT NUMBER

TO: Council

DATE OF MEETING 22 February 2008

COUNCIL HOUSING – REVENUE BUDGET AND CAPITAL PROGRAMME

1. PURPOSE OF REPORT

The Revenue Budget for 2008/09 and the 3-year Capital Programme for Council Housing are presented for approval. Rent increases next year will be 6.6%, on average, based on the Government's rent restructuring arrangements. This is to ensure that rents are brought into line with the Registered Social Landlord sector by 2017 (previously 2012).

2. RECOMMENDATIONS

- 2.1 That the Council Housing Revenue Budget and revised charges for services for 2008/09, the revised budget for 2007/08 and the draft Council Housing 3-year Capital Programme be approved.
- 2.2 That the weekly rents for Council dwellings and compulsory let garages be increased on average by 6.6% in accordance with the Government's rent restructuring requirements and be implemented, along with the other revised charges, with effect from Monday, 14 April 2008.

3. FINANCIAL IMPLICATIONS

- 3.1 The revised budget for 2007/08 reflects changes in income and expenditure that have arisen since the original budget was approved, which results in less money being available for capital work. That position is repeated in 2008/09.
- 3.2 The reduction in support to the capital programme is necessary in order to keep the HRA deficit manageable at around £50,000 in both this and next year. Members are reminded that there was an unexpectedly high deficit in 2006/07, which has depleted reserves. At the end of 2008/09, HRA reserves will still be £250,000 above the agreed minimum level of £500,000.
- 3.3 The Government's Housing Subsidy arrangements for next year reflect lower Maintenance Allowance increases than expected and a reduction in the Major Repairs Allowance. This puts extra pressure on the HRA and means that some reductions in the capital programme for the next 3 years are necessary.
- 3.4 Assumptions have been built into the budget for efficiency and other savings and the need for these is becoming a higher priority for the HRA.
- 3.5 The overall position raises the issue of the use of capital receipts from Council House sales to help fund the capital programme. In recent years, support from these has not been necessary as the HRA capital programme has been fully

funded and those receipts have been used for the General Fund capital programme. That assumption is continuing.

- 3.6 In terms of rent levels for next year, tenants will pay an average increase of 6.6%, which is higher than in previous years. This is because rents are not reaching the levels set by Registered Social Landlords and the higher increase is required to meet the Government's rent restructuring requirements. Approximately 70% of tenants receive Housing Benefit.

4. **RISK MANAGEMENT**

- 4.1 This report is most closely associated with Significant Business Risk No.8 – Comprehensive Spending Review. Key risks are set out in the table below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Actual income and expenditure does not match budget expectations	Low	Marginal	The proposed revenue budget and capital programme have been revised to reflect current and future plans and the potential finances available. The Housing Panel is now monitoring the budget on a regular basis.
Future Govt. subsidy determinations could be poorer than expected	Significant	Marginal	Consideration to be given to non-supported borrowing and use of capital receipts, although the latter would have an impact on the General Fund capital programme.

5. **KEY INFORMATION**

- 5.1 The overall budget is influenced by the following key aspects: -

- Annual rent increases under the Government's rent restructuring arrangements whereby Council house rents are to increase above inflation over a number of years to bring them into line with Housing Association rents
- The Government's Housing Subsidy determinations, which include allowances towards management and maintenance costs and major repairs.
- Capital resources and borrowing requirements
- Changes in other areas of expenditure and income

- 5.2 The Housing Panel and the Tenants Forum has considered the budget and the issues referred to in this report. They support the proposals.

2007/08 Revised Budget

- 5.3 The following key variations are reflected in the draft revised budget compared to the original budget:

- The increased repairs and maintenance expenditure compared to budget in 2006/07 of £300,000 has been recovered to some extent this year, although costs are still predicted to be £190,000 higher than the approved budget.
- The main increases relate to the increasingly high costs of void properties of nearly £100,000 and special items of around £70,000 (mainly electrical work, tidying gardens and fences/gates)
- Rental income is down by £60,000 due to empty (void) properties as a result of the improvement work being undertaken on flats at Sandringham Court and the closure of Clibbon House. Void losses generally are also running at a higher level than in the past.
- Due to these factors, the revenue contribution available towards the capital programme has been reduced by £160,000

- 5.4 As a result of the above and the unexpected 2006/07 deficit on the HRA, this will mean that reserves as at the 31 March 2007 will be £250,000 less than previously envisaged.

- 5.5 The budget includes the HRA's share (25%) of the net projected costs of the CAST project, amounting to around £50,000. These costs will reduce in subsequent years, with potential efficiency savings as a result of the BPR voids review that is currently taking place.

2008/09 Budget

- 5.6 The budget for next year incorporates the revenue impact of new service priorities and commitments considered and agreed by the Service and Financial Planning Member Group and the O&S Committees. It also reflects the HRA's share of savings, efficiencies and additional income identified during the service and financial planning process.

- 5.7 Average rents will increase by 6.6% next year, which is higher than in 2007/08 and recent years. This arises from the Government's Rent Restructuring policy in order to ensure that rents are harmonised with the Registered Social Landlord (RSL) sector by 2017.

- 5.8 The factors that are affecting the 2007/08 budget also affect the budget for 2008/09 although there are additional issues also, which are explained further below:

- A poor level of Government maintenance and major repairs allowances (see capital programme section of the report), with an overall reduction in subsidy towards maintenance costs

- An assumed improvement in the loss of rent income from void/empty properties of £60,000 as a result of the Voids BPR review
- An assumption that repairs and maintenance costs can be cash-limited at the same level as in 2007/08, again, partly as a result of the Voids BPR review

5.9 In overall terms, these and other estimated variations in income and expenditure will result in a small estimated deficit on the HRA of approximately £50,000, similar to the position in 2007/08. Despite this, reserves will still be at an adequate level but are much closer to the minimum level of £500,000 that is considered appropriate for the HRA.

Charges

5.10 The charges being proposed for 2008/09 are supported by the Housing Panel and the Tenants Forum.

Capital Programme

5.11 Spending for the next 3 years is planned at around £3m a year. This is around £150,000 less than previously envisaged for 2008/09 and £250,000 per annum lower in the following 2 years (for the reasons set out in the report). This programme can be funded by supported borrowing, the Government's Major Repairs Allowance and revenue contributions from the HRA.

5.12 A general explanation of the reductions in annual financing available is given below:

Reason	Amount		
	2007/08 £000	2008/09 £000	2009/10 £000
Previous forecast	3,335	3,311	3,317
Lower revenue contribution	-160#	-75	-175*
Lower Major Repairs Allowance	-119#	-100	-52
This draft budget	3,056	3,136	3,090

Brought forward to 2006/07

*This depends on future HRA revenue budgets and Govt. subsidy determinations.

5.13 The main changes to the capital programme in 2008/09 are summarised in the table below. Similar changes have been reflected in subsequent years. The factors that have been taken into account in proposing these changes are:

- The need to ensure delivery of the Decent Homes Standard and maintain delivery of the Babergh Standard e.g. insulation
- The ability to extend certain programmes because work identified in the Stock Condition Survey is not materialising at the time and to the extent indicated e.g. rewiring and roofing

- The need to meet the increased demand for disabled adaptations, electrical upgrades, internal plumbing, improvements to sheltered units and major refurbishments

Work	Impact on programme
Contingent Major Repairs	Reduced by £105K per annum
Rewiring	Reduced by £50K per annum
Roofing	Reduced by £155K per annum
Kitchens & bathrooms	Reduced by £115K per annum
Disabled adaptations	Increased by £20K per annum
Electrical upgrades	Increased by £10K per annum
Internal plumbing	Increased by £10K per annum
Dampness & condensation	Increased by £20K per annum
Sheltered units general improvements	Increased by £50K per annum
Major refurbishments	Increased by £40K per annum

In 2008/09 the reductions are £100k lower than indicated above. The impact of these changes is not critical to the overall delivery of the HRA capital programme, with the main issue being the deferral of some programmes to later years balanced by the ability to address current areas where expenditure demands are increasing.

5.14 In terms of the Council's Redevelopment and Regeneration Programme, it should also be recognised that, in the past, there have been sufficient HRA capital resources to help finance these. Good examples have been the Anglia Estate Regeneration Project and the major renewal work at Sandringham Court. However, there will be very limited, if any, opportunities to fund such schemes from the projected HRA capital programme in the short to medium term.

5.15 Other ways have always, of course, been explored of securing funding. This has meant the transfer of ownership of council assets to Housing Associations, as they have access to funding that Babergh does not. Examples of this have been the demolition and redevelopment of the Clibbon House sheltered scheme site and the wholesale redevelopment of the shops and adjoining land at Poplar Road, Great Cornard. Stour House is about to be transferred in order for essential improvements to be done.

5.16 As the financial position on the HRA tightens this trend will continue in order to continue with these programmes. Currently a feasibility study into the future of the sheltered housing scheme at Tenterpiece in Lavenham is looking at a Housing Association transfer as the only viable option for securing the necessary improvements and redevelopment.

5.17 Appendix A reflects all of the above and reflects a comprehensive review of spending needs in relation to each specific area. This will provide a firmer basis for planning and programming future work, although there will still be the need from time to time to amend programmes and move budgets between financial years to react to changing circumstances. The Housing Panel will monitor the position.

5.18 In relation to financing the programme, the revenue costs of supported borrowing are met by Government subsidy. Non-supported borrowing could be undertaken over the 3 years in order to increase the programme but that could be difficult to sustain in the long-term

5.19 On a final issue, Members are reminded that there have been sufficient HRA capital resources in recent years to finance the Council Housing capital programme without the need to use any capital receipts from Right to Buy Council House sales. That is no longer the case but the draft budgets before the Committee today assume continued use to support the General Fund Capital Programme. The amounts in question are:

2007/08	£440,000
2008/09	£390,000
2009/10	£340,000
2010/11	£290,000

5.24 Any future consideration to using any of the above for the HRA would impact on the General Fund capital programme.

6. **APPENDICES**

None.

7. **BACKGROUND PAPERS**

Government Housing Subsidy determinations.

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