

***Housing Revenue
Budget***

BABERGH DISTRICT COUNCIL

FROM: STRATEGY

REPORT NUMBER

TO: COUNCIL

DATE OF MEETING 23 February 2010

COUNCIL HOUSING – REVENUE BUDGET AND CAPITAL PROGRAMME

1. PURPOSE OF REPORT

- 1.1 The Revenue Budget for 2010/11 and 3-year Capital Programme for Council Housing is presented for approval.
- 1.2 Rent increases next year will be 1.9% on average based on the Government's rent restructuring arrangements.

2. FINANCIAL IMPLICATIONS

- 2.1 The 2010/11 Housing Revenue Account (HRA) budget is based on the Government's Housing Subsidy and rent restructuring arrangements. The revised revenue budget for 2009/10 reflects changes in income and expenditure that have arisen since the original budget was approved, resulting in a small deficit for the year.
- 2.2 In terms of rent levels for next year, tenants will have to pay an average increase of 1.9%, which is less than the increase for 2009/10. This is due to the Government's rent restructuring arrangements and proposals for 2010/11, which would result in an average rent increase of around £1.29 a week (on a 52-week basis) although approximately 70% of tenants receive Housing Benefit.
- 2.3 In terms of the capital programme, there is a very substantial programme of £3.6m programmed for 2010/11. This, however, is likely to reduce to around £3.0m in 2011/12 and subsequent years as the current Government supported borrowing allocation of £550k is expected to cease after 2011.

3. RISK MANAGEMENT

- 3.1 This report is most closely associated with Significant Business Risk No.7 – Financial, Performance and Risk Management. 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. Budgets are regularly monitored by officers and Members on a quarterly basis.
Future Govt. subsidy determinations in relation to management, maintenance and major repairs could be poorer than expected, affecting future spending plans.	Significant	Marginal	Consideration can be given to non-supported borrowing if necessary to maintain spending plans.

4. **KEY INFORMATION**

4.1 The overall Council Housing Budget, rent levels and the capital programme is influenced by the following key aspects: -

- Annual rent increases that have to be applied 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
- Babergh's guideline rent for 2010/11 is based on the Government's proposals for an average rent increase of 3.1% nationally, subject to consultation. For Babergh tenants, the average increase is 1.9%
- This would, depending on future proposals in this respect, result in rents being brought into line with the Registered Social Landlord sector by 2013 (previously 2024)
- The Government's Housing Subsidy determinations, which include allowances towards management and maintenance costs, borrowing and subsidy allowances/allocations for capital purposes and major repairs
- Changes in other areas of expenditure and income

2009/10 Revised Budget

4.2 The revised budget incorporates the following changes since the original budgets were approved last year:

- Lower HRA rent income, due to the late reduction in Government rent restructuring increases from 6.7% to 3.1% for the current year, which is partly offset by a reduction in the payment of government subsidy
- A reduction in other rental income and an increase in garage voids, resulting in an overall reduction in income of £40k
- Some reductions in general management costs resulting from the savings and efficiencies achieved this year, which partly benefit the HRA
- A delay in the implementation of the Babergh Standard scheme relating to Internal Decorations for the Elderly, as this funding has had to be deferred to next year as a result of the lost subsidy relating to the Government's 2009/10 final arrangements for rent increase
- Increased energy and other costs in sheltered schemes.

4.3 As a result of the above, estimated reserves as at the 31 March 2010 are expected to reduce slightly but remain at around £1m, which is well above the minimum level of £0.5m approved for the HRA.

2010/11 Budget

4.4 The main factors that are reflected in the draft budget for 2010/11 are explained below:

- An increase in HRA rent income of around £220k compared to the revised budget, based on the anticipated average rent increase of 1.9% - although this is largely paid over to the Government through the housing subsidy arrangements
- Reduction on £27k in other rent income and garage voids.
- Savings in repair and maintenance costs as a result of the whole-house servicing contract, with additional savings expected in subsequent years
- The HRA's share of potential savings in staffing costs, terms and conditions and other areas resulting from discussions with Unison
- An increase of around 1% in the Government's maintenance and management cost allowances – similar to 2009/10.

4.5 The average rent increase of 3.1% nationally and 1.9% for Babergh will ensure that rents are harmonised with the Registered Social Landlord (RSL) within the next 3 years under the Government's Rent Restructuring policy.

4.6 It is proposed that Supporting People service charges for those in sheltered accommodation is reduced by 0.9% to take account of negative inflation. Costs relating to this type of accommodation, including energy costs, cannot be cross-subsidised and paid for by tenants generally.

- 4.7 Although new energy contracts have been agreed from October 2009 and this will see prices level out overall, the required increases to recover the outstanding balances over the next 4 years could be as high as 26% per annum.
- 4.8 This would have a significant impact on sheltered residents and it is clear that there will be a high and negative impact on Babergh's oldest and most vulnerable tenant group as a result of this proposal. An Equality Impact Assessment has, therefore, been undertaken to establish if there is an alternative arrangement that could be determined.
- 4.9 The majority of tenants living in the Council's sheltered accommodation are in receipt of housing benefit and are therefore among the poorest of all our tenants, with many living on basic state pensions. The energy charge is not covered by housing benefit so the full increase will fall on sheltered residents. Such an increase represents an attempt to `claw-back` some of the energy costs going back to 2007.
- 4.10 Following careful consideration and having been reviewed by the Housing Panel, it is now proposed that this amount should be absorbed by the HRA generally rather than seeking repayment from elderly tenants who may or have may not have been living in sheltered accommodation at that time.
- 4.11 By taking this approach, the increase in the energy service charge for this year can be a more manageable 11.5%, and it is this amount that it is proposed should be applied. A full review of the charging policies and processes will be carried out later in the year to establish whether the basis for future charges should be amended i.e. whether the differentials in charges for different types and size of accommodation appropriate.
- 4.12 By adopting this approach, Members will appreciate that the £100k cost that is not recovered reduces the amount of money that can be spent (via the Direct Revenue Financing of the capital programme) on capital work. This cost can be met from reserves without any overall detrimental impact on the HRA.
- 4.13 On service charges (covering Supporting People and accommodation) for those in sheltered accommodation, based on the Government requirement that such charges should not increase by more than RPI +0.5%, a reduction of 0.9% is recommended.
- 4.14 Prior to the sale of Stour House the service charges for homeless accommodation had been pooled which resulted in some cross subsidising. The only dedicated homeless property is now the Old School House, Hadleigh therefore service charges can be reduced by approximately 40% to recover the total cost of the facilities provided for this accommodation.
- 4.15 No guidance has been given on the rent increase for 2011/12 but the Department of Communities and Local Government have said that significant changes to the current system should be avoided until the final outcome of the work on the reform of Council Housing Finance is known.

Capital Programme

- 4.16 Planned spending for 2010/11 year is about £3.6m , it is estimated that this will fall to about £3.0m in 2011/12 as the Government's supported borrowing allocation of £550k a year is likely to cease once funding for the decent homes standard is withdrawn.
- 4.17 The draft capital programme reflects:
- Increased budget to meet demand for disabled adaptations in 2009/10 by reallocating funds from other areas.
 - Work to complete the Decent Homes Standard by April 2010 and funding for the Babergh Standard.
 - Energy poverty and efficiency measures in relation to central heating and insulation.
 - Reduced budgets for central heating and bathroom/kitchen improvements although these programmes will still continue at around £1m for the next 2 years.
- 4.18 There have been very limited opportunities to fund major regeneration and redevelopment schemes. Babergh has dealt with these problems in the past by transferring ownership of council properties to Housing Associations (examples include Stour House, Clibbon House and Poplar Road). This approach can continue although the Government has now given Local Authorities (LAs) new powers to enable them to start building again, providing certain, fairly tough, criteria is met. The new freedom means LAs can keep rental surpluses generated on new homes on which they can borrow money as well as being able to bid for funding for Social Housing Grant from the Homes and Communities Agency (previously known as the Housing Corporation) in the same way as Housing Associations can. The Housing Panel is examining the implications of this new freedom for Babergh and will be reporting on their conclusions to Committee as part of their 2010 Housing Review report.
- 4.19 In relation to the capital programme, this includes provision for undertaking a stock condition survey in 2010/11 as this is a pre-requisite of any work that is done on a Stock Options Appraisal. Having an up to date picture of the condition of the Council Housing stock will be needed irrespective of LGR, in order for either a Unitary Council or Babergh to undertake Tenant consultation.

5. APPENDICES

None.

6. BACKGROUND PAPERS

Government Housing Subsidy Determinations

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