

**Decision maker:** Cabinet Member for Housing

**Subject:** COUNCIL HOUSING BUDGET FOR 2012/13

**Date of decision:** 31<sup>st</sup> January 2012

**Report by:** Head of Housing Management  
Chief Officer responsible for Financial Administration  
(Section 151 Officer)

**Wards affected:** ALL wards

**Key decision:** Yes

**Budget and policy framework decision:** Yes

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## **1 Summary & Purpose of Report**

- 1.1 The law requires that all income and expenditure relating to Council Housing is accounted for separately in the Housing Revenue Account (HRA). All other Council income and expenditure is accounted for together in a separate account called the General Fund. This report deals solely with the HRA.
- 1.2 The City Council has delegated to the Cabinet member for Housing the function of setting rents, charges and budgets for council housing. Following extensive consultation with resident's representatives this report seeks to deal with all HRA budget issues.
- 1.3 The purpose of this report is to seek the Cabinet Member's decisions on Council housing budgets, rents and other charges and to give authority for managers to incur expenditure in 2012/13.
- 1.4 The report also seeks to:
- Approve the Revenue budgets for 2011/12 and 2012/13 and give authority to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), to amend the budgets to reflect the latest available information prior to finalising budgets for 2012/13.
  - Delegate authority to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member for Housing, to review the method used for setting General Service Charges.
  - Delegate authority to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation

with the Cabinet Member for Housing and resident's representatives to produce a revised Housing Management Business Plan, including an Asset Management Plan, to be presented to Members at a later date.

- Delegate authority to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member for Housing, to review the level of funds available for new builds across the city, following the ongoing review of Repair and Maintenance priorities.
- Note that a consultation with tenants on the impact of Welfare Reform and the universal credit will take place during 2012/13 with the view to make representation to Central Government.
- Note that representation continues to be made by Officers and Members to allow Portsmouth City Council to take advantage of the PWLB special reduced rate of borrowing for self financing buyouts.
- Delegate authority to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member, to set the service charges for the Local Hospital Based Units at Avenue and Hamilton House.
- Note that the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer) formally respond to the Department for Community and Local Government's consultation paper on changes to the Right to Buy rules.

## **2 Final position for 2010/11**

- 2.1 Excluding the capital reserve the actual balance on the Housing Revenue Account at 31 March 2010 was £9.5 million, around £1.9 million more than that anticipated in the Revised Budget. The main reason for the improvement was an under spending on the Repairs & Maintenance budget. Total balances including the capital reserve were almost £34.8 million, see Appendix 4, lines 57 to 76, column B.

## **3 Revised budget for this year 2011/12**

- 3.1 This time last year the main changes made to rents and charges in setting the original budget for 2011/12 were:
- Rents up on average 4.0% or £2.77 per dwelling per week.
  - General charge:
    - Homes receiving cleaning and other special services up £2.12 to £6.86
    - All other dwellings up 55p per week to £2.61

- Mobile home rents up 3.47%.
- Garage changes to help bring charges in line with market demand:
  - Leigh Park / Wecock Farm charges for tenants, leaseholders & private lettings already equalised, increase of 3.0% to £8.50 per week.
  - Paulsgrove reduction of 18.2% for leaseholders and private lettings, 5.9% increase for tenants, to equalise the charges to £9.00 per week
  - Inside the City 10% increase for tenants and a reduction of 15.4% for leaseholders and private lettings to equalise the charges to £11.00 per week
- Parking sites increases between 6.1% and 11.1% to help bring charges in line with market demand
- Sheltered Housing Service Charges and Supporting People Charges
  - Category 1 no increase
  - Category 2 no increase
  - Category 2.5 up 7.5%
- Heating charges – rises capped at 15%.

3.2 A safe level of balances is required to avoid the possibility of falling into deficit which would be against the law (see Appendix page 1). When the budget was approved last February the balance as at 31 March 2012, excluding the capital reserve was forecast to be £7.9million. The revised forecast is £9.6million (£33.1million including capital reserve), a safe level of balances which underpins the assumptions (described later in the report) upon which the 2012/13 budgets have been prepared. The main changes are the improvement in balances brought forward at 31 March 2010 of £1.9M described in paragraph 2.1 above and offset by additional debt costs incurred during the year following the decision to prudently borrow early to secure favourable rates for the Self Financing borrowing, discussed in paragraph 5.9. Appendix 4, columns D & E show the Original and Revised budgets for the current financial year 2011/12.

## **4 Housing Strategy and Budget Principles**

4.1 The Housing Strategy drives the Budget process. Budgets have been based on the Housing Strategy for 2011/12 to 2014/15 and a copy of the Executive Summary showing the top six priorities for action is attached in Appendix 2. After discussion with Residents Consortium representatives and the Cabinet Member for Housing the budget principles (Appendix 3) were adopted.

## 5 HRA Subsidy System , The Localism Act 2011 and Self Financing

- 5.1 The Housing Revenue Account Subsidy System (HRASS) was introduced by part IV of the Local Government and Housing Act 1989 to provide grant support for council housing. It is based on a “notional” Housing Revenue Account (HRA), containing calculations for management, maintenance, debt servicing costs and rents, none of which bear any relationship to actual income and expenditure for council housing in the real world. Indeed the calculations include four different “rent” figures, all of them quite different to the actual rents paid by tenants. The calculations are set out in a Statutory Instrument and approved annually by Parliament.
- 5.2 If the “notional” HRA shows a deficit then Government pays that amount of “positive” subsidy as grant to the housing authority. If, on the other hand, the notional account shows a credit then the housing authority must pay that amount as “negative” subsidy to Government.
- 5.3 When the HRASS started, no council had to pay money to Government. The system has been adapted over the years to reflect successive Governments’ priorities. Policies such as right to buy and stock transfer have impacted on it and as a result the system now generates an ever-increasing surplus to central government some of which, instead of being used to support tenants in poor areas, has simply been used to finance general government expenditure.
- 5.4 For Portsmouth, the Housing Revenue Subsidy System has resulted in the following negative subsidy payments being paid to central government:

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 (estimate) £000
Negative Subsidy Paid to Govt	1,229	2,772	4,589	4,541	4,924	4,147	7,088

- 5.5 Substantial lobbying by Portsmouth Tenants, the City Council and other Councils led to a joint Communities and Local Government (CLG) and HM Treasury review, launched on 10 March 2008. The aim of the review was “...to develop a sustainable, long term system for financing council housing that is consistent with wider housing policy and fair to both tenant and taxpayer.”
- 5.6 Following the joint review, a formal consultation paper was issued by Communities and Local Government on 21 July 2009 suggesting two broad models for financing council housing in the future, one of which proposed a move to a devolved (self financing) system which would see all rents being retained by councils to spend on their own services, in exchange for a one-off reallocation of debt. It was also proposed that the current pooling of housing receipts would end and councils would retain all receipts, giving councils the ability to develop comprehensive asset management strategies, however the Comprehensive Spending Review removed

the proposal to abolish Right to Buy Pooling and so that regime remains, although paragraphs 9.29 to 9.38 discuss a consultation on Right to Buy which is currently seeking our views on proposals, which may effect pooling arrangements in the future.

- 5.7 Implementation of the abolition of HRASS in favour of a self financing regime was approved within the Localism Act 2011, which obtained Royal Assent on 15<sup>th</sup> November 2011 and enables councils to retain all of their rents in exchange for a one-off reallocation of debt. For Portsmouth City Council this additional debt equates to £90.4M and is payable to Central Government on 28th March 2012.
- 5.8 Council approval on 8<sup>th</sup> February 2011 delegated authority to the Head of Housing Management and Strategic Director & Section 151 Officer, in consultation with resident's representatives and the Cabinet Member for Housing, to implement Self Financing for council housing, including any necessary borrowing required.
- 5.9 Bearing in mind the current historically low interest rates and at a time where capital markets were so uncertain due to the sovereign debt crisis, the judgement of this authority was that it was more prudent to act with certainty when rates were low than to wait and face the risk of higher interest rates. Portsmouth City Council acted to limit this risk and get the best deal for its tenants by borrowing most of the funds required ahead of the transaction date. This was a prudent action informed and endorsed by expert external advice from our investment advisors.
- 5.10 However, recently, and without any prior warning, the Public Works Loans Board (PWLb) announced that the Treasury were allowing them to lend at a special reduced rate available to Local Authorities at the time of the buy out on 26th March 2012. It was stated that this rate would be substantially less than the usual PWLB loan rate.
- 5.11 The result is that by planning ahead and acting prudently, Portsmouth City Council have been denied the opportunity of taking advantage of the special reduced rate which results in rents having to rise by more than would have been required had the PWLB made councils' aware of the reduced rate in advance. We feel that this is both unfair and inequitable and are continuing to lobby Central Government to allow Portsmouth City Council to also take advantage of this special reduced rate on the borrowing that has been taken to date. It should be noted that the budgets included within this report currently reflect the existing borrowing rates already obtained.

## **6 Housing Revenue Account Business Plan and Asset Management Plan**

- 6.1 Self-Financing provides greater devolved financial arrangements and accountability to Local Authorities. This will enable more decisions to be made locally and will provide the framework for longer term planning for the Council's Housing Stock. That greater certainty over the financial future also provides the freedom needed to be innovative and ambitious in how the existing stock is managed, maintained and improved as well as allowing local decisions to be made regarding investment in new homes. As a result it is necessary for the Council to

develop a 30 year Business Plan for the current Housing Stock in order to ensure that we maintain a sustainable model for our housing stock and neighbourhoods for the next 30 years, whilst achieving our strategic objectives and priorities.

- 6.2 A key element of the HRA Business Plan will be the production of a 30 year HRA Asset Management Plan. Detailed work has already been undertaken assessing the anticipated lifecycle costs of maintaining, improving and replacing our existing homes and the assumptions made form the basis of the budgets being proposed in this report. It is however important for the HRA Asset Management Plan to also consider:
- The local needs and priorities stated within the Housing Strategy
  - Stock condition surveys and the investment needs of existing homes and the scope to replace stock with new homes that better meet future needs.
  - Current demand for existing housing stock
  - Future demand including demographic projections
  - Right to Buy forecasts
  - Potential development sites for the creation of additional new homes and use of available resources for new build and/or spend to save initiatives
  - National and Local targets for carbon reduction
  - Scope for supporting wider aims, including other Council objectives and priorities, regeneration schemes (e.g. Somerstown, Tipner) and other Neighbourhood priorities etc
  - Use of available resources for new build and/or spend to save initiatives
  - Resident involvement in decision making on an on-going basis
- 6.3 The creation of the Asset Management Plan and 30 year HRA Business Plan will provide the framework to deliver a sustainable HRA that maintains and enhances the current condition of our homes and services to tenants and as well as the providing additional housing developments in the future. It is proposed that these plans will be produced during 2012/13 in consultation with residents and presented to the Cabinet Member for Housing later in the year.
- 6.4 Having followed our key strategic priority to ensure there is sufficient HRA funding to enable the City to properly manage & maintain our existing homes over the next 30 years the HRA does not have the capacity to fund significant investment in building new homes. Delegated authority is therefore sought to allow the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member for Housing, to review the level of funds available in the future for the provision of new council homes across the City during the production of the HRA Business Plan.

- 6.5 Nationally the introduction of Self Financing has coincided with a dismantling of the existing regulatory systems that monitored the performance of Councils with Council Housing. The Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer) are working nationally with central Government, the Local Government Association, other professional bodies and representatives from other councils to come up with a system of “Self Regulation” with the aim of ensuring tenants & leaseholders receive a good level of services.

## **7 Rent Restructuring**

- 7.1 Nine years ago the Government introduced “Rent Restructuring” with the intention of bringing all council housing and social landlord (Housing Association) dwelling rents on to the same basis of calculation by 2011/12. The calculation is based on the following main factors:

Property value at January 1999 compared to a national average property value.

Average earnings in Hampshire compared to national average earnings.

A “bed weighting” to give higher rents for properties with more bedrooms.

- 7.2 Following consultation four years ago the Government decided to extend the period over which Rent Restructuring is to be achieved from 2011/12 to 2016/17, then three years ago further extended the period from 2016/17 to 2023/24. Two years ago the date of convergence was brought back to 2012/13 and now it has been extended back to 2015/16. The main effects of this are to reduce the period for which “rent rebate subsidy limitation” (RRSL) will apply and reduce the amounts payable to Government via the Housing Revenue Account Subsidy System (HRASS).
- 7.3 Rent Restructuring also provides that rents are to be subject to “Limits” and “Caps”. The “limits” are to restrict annual rent changes to a maximum increase of inflation plus half a percent plus £2 per week. The “caps” are maximum rents set by the Government each year to avoid very high rents on valuable properties, however none of Portsmouth City Council’s homes have rents so high that these “caps” would come into effect. Appendix 5 shows two worked examples of how rents have been calculated in the budget prepared for 2011/12.
- 7.4 The Rent Restructuring proposals cover only “rent” and not “service charges”. An example of a service charge is a charge made for cleaning of communal areas in flats and maisonettes. Councils can bring in service charges for new services introduced since 2001/2 without any effect on payments to/from the Government. However, if service charges are introduced for services that were already being provided in 2001/2 then payments to/from the Government may be worsened by diminishing percentages between now & 2016.
- 7.5 The policy of rent restructuring is due to continue under the self-financing regime with the target date for convergence to occur in April 2015.

## **8 Duty to involve - Resident involvement in the budget process**

- 8.1 Representatives of the Residents Consortium (The RC) have again played a vital part in the detailed budget setting process. At the invitation of the Cabinet member for Housing, the Head of Housing Management (HHM) the Chief Officer responsible for Financial Administration (Section 151 Officer), a panel of resident's representatives have helped draw up both this council housing budget and also the Housing Investment Programme budget to be reported as part of the over all Capital Programme to City Council on 14<sup>th</sup> February 2012.
- 8.2 A meeting was held with the full Residents Consortium on 13th January 2012 to brief them on the 2012/13 budget. The proposals set out below were discussed including the options for rents, service charges etc and other proposed charges as shown on the attached Appendices 4 to 14. The Residents Consortium (RC) were asked if they felt spending should be reduced and if so where they felt economies should be made. They were also asked if they felt that new services should be provided which could be financed by cuts in services or new service charges. The Residents Consortium are due to report back to the Cabinet Member for Housing on 26<sup>th</sup> January 2012 giving the views of those they represented on the proposed budget changes. The Housing Portfolio Holder has attended the Residents Consortium meetings and listened to the details of resident's responses and will be able to take them into account when making his decisions at this meeting.
- 8.3 Both HHM and Chief Officer responsible for Financial Administration (Section 151 Officer) would like to place on record their thanks for the invaluable help given by our Residents Representatives.

## **9 Budget for next year 2012/13**

- 9.1 The budget sheets attached as Appendix 4 incorporate the estimated effects of all the changes described above and columns C and D show the original and revised estimate for 2011/12 and columns E and F show the original and revised estimates for 2012/13. Also shown for comparative purposes are the estimated budgets through to 2017/18 both as they were following the decisions made at last years budget meeting in February 2011 and as they are now estimated for this report. The last three columns show the total change over the seven year period.
- 9.2 It is important to note that in 2012/13, 2014/15, 2015/16 and 2017/18 "in year" net expenditure exceeds "in year" income and the shortfalls are being funded by drawing on balances. These deficits are mainly due to large revenue contributions to fund capital projects and have been incorporated into the 30 year plan. Despite these deficit budgets, and unlike previous years, as a result of Self Financing, the HRA balances no longer go into deficit over the 30 year period.

### **Rents and General Service charges 2012/13**

- 9.3 For next year it is suggested that rents currently below the Government's "Rent Restructuring" rent should move up to that rent as quickly as possible based on

the April 2015 Rent Restructuring convergence date, but no increase will be more than inflation plus 0.5% plus £2 per week. Rents currently above the Government's "Rent Restructuring" rent should move to that rent in even stages between now and the April 2015 deadline for implementation of Rent Restructuring. Appendix 5 shows example calculations to illustrate how this would be done.

- 9.4 As described in Para 9.3 above the Government's Formula Rent increase assumes that rents in Portsmouth will rise by **8.9%**. However the "Credit Crunch" has materially altered the financial environment for everyone, including our tenants. Unemployment is higher and the price of utilities and other domestic costs are increasing. In addition to these escalating prices, interest rates have been reduced to an historic low, disadvantaging those who rely on interest income from savings. Things have changed little over the last two years and it remains important to do what we can to help offset the effects of the Credit Crunch on our tenants.
- 9.5 Accordingly options for Rents and General Charges have been prepared which are as low as possible whilst still meeting the need to have a safe level of balances remaining at the end of March 2013, and ensuring the Housing Revenue Account remains in surplus over 30 years. Two options are shown below, both of which are affordable and will raise a similar level of income.

OPTION 1 – lower net effect on those receiving more services including cleaning, mainly bedsits, maisonettes and flats:

- 5% average rent increase, average increase £3.60 per week per dwelling
- Freeze on increase in General charge for properties receiving few services
- £0.38p/week increase in General charge for properties receiving services such as cleaning

OPTION 2 - lower net effect on those receiving fewer services, mainly houses and bungalows:

- 4% average rent increase, average increase £2.88 per week per dwelling
- Freeze on increase in General charge for properties receiving few services
- £1.50/week increase in General charge for properties receiving services such as cleaning

- 9.6 Appendices 6 (5% increase) and 8 (4% increase) show how the two Options effect average rents for different types of dwelling. It must be emphasised that every single rent calculation is different and the figures shown are averages.
- 9.7 For 2012/13 it is estimated that Portsmouth's rents will still be low compared with other adjacent Councils and Housing Associations, for example Housing Association average rents in Portsmouth for the current year are estimated to be over £83 per week, around £8/week higher than average council rents.

- 9.8 It should be noted that with regard to General Service Charges, any charge made to tenants cannot exceed the cost of providing those services. Having reviewed the costs incurred in providing these services, and following a number of efficiencies, the lower general charge for those receiving fewer services, mainly houses and bungalows, is now achieving full cost recovery, which means we are able to freeze general charges to these properties in 2012/13. It should however be noted that those receiving more services including cleaning, mainly bedsits, maisonettes and flats, are still not fully covering the costs and as a result an additional charge is required in order to move towards full cost recovery over the next few years. Appendices 7 and 9 show the proposed service charges for the two options, with details of previous year's charges and budgeted changes in future years.
- 9.9 The Cabinet Member for Housing's decision is requested on the level of rents and service charges for next year.
- 9.10 It should be noted that the current method used for calculating service charges assumes that all flats and maisonettes use the same level of service, and that all houses and bungalows also use the same level of service as each other. This is clearly not the case as services such as the Out of Hours Service and Money Advice Team are not used by all residents to the same extent. It is proposed that the current method of calculating General Charges be reviewed in consultation with residents in the forthcoming year, to investigate alternative calculation methods of calculating charges to tenants.

### **Mobile Homes**

- 9.11 Following extensive consultation with residents, rent increases for mobile homes have been linked to the "Retail Price Index, all items excluding Mortgage Interest Payments & indirect taxes" (RPI) for the preceding September. RPI has been recommended in the anticipation that it will give a reasonable guide to changes in the costs of management and maintenance of Mobile Home sites. The method agreed with residents uses an average of the monthly changes for the twelve months up to and including the preceding September, although it should be noted that legally rent increases can be set at a higher rate if the net costs of running Mobile Homes rose above the RPI level of inflation. The proposed charges for 2012/13 can be found in Appendix 10.

### **Garage and Parking Site rents**

- 9.12 A number of years ago a review of garages and parking sites was undertaken to determine how to make best use of these resources in line with the Budget Principle "Get the best return possible from non-core activities". A summary of progress and proposed charges for next year based on continuing to implement the review proposals are shown on Appendix 10. It is recommended that authority to let garages at reduced rents where demand is low be delegated to HHM in consultation with the Chief Officer responsible for Financial Administration (Section 151 Officer).

## **Heating Charges**

- 9.13 Heating charge calculations are based on usage data over previous years. This is used to calculate the estimated cost of heating the relevant dwellings. For electric and gas heating the previous method for charging for this service was based on a bedroom weighting factor, meaning that all 2 bedroom homes would be charged the same regardless of size. A review has been carried out to more fairly apportion costs to dwellings and this will be implemented for 2012/13. The new method distributes the costs based on the floor area of the individual dwellings and has been used in calculating the options for charging in 2012/13.
- 9.14 Historically, the Combined Heating and Power blocks have not been recovering the full costs incurred. Residents have continued to support a move towards full cost recovery to reduce the level of subsidy required from other HRA tenants. It should be noted however that, unlike rent & General Service charge, Heating charges are not eligible for Housing Benefit and all tenants have to pay the full charges.
- 9.15 Three options are being proposed with varying degrees of cost recovery. The weekly charges for each option are shown in Appendix 12, and the Cabinet Member for Housing's decision is requested on which charges to implement in 2012/13. Delegated authority for the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer) is requested to set charges for Housing Management Staff resident in council housing as part of their job at a full cost level and to implement increased charges to tenants over a period of time where appropriate.

## **Sheltered Housing Service Charges and Supporting People Charges**

- 9.16 Sheltered Housing is intended to meet the needs of residents who require support to live independently. There are three levels of service with increasing levels of support termed Category 1, Category 2 and Category 2.5. Sheltered Housing was set up originally on the basis that the extra costs of provision of the service over and above those arising from normal Council Housing provision would be recovered from the tenants in Sheltered Housing via a "Sheltered Housing Service Charge".
- 9.17 With effect from 2003/04 the Government introduced "Supporting People" legislation requiring all landlords, including the City Council, to identify the level of "support" provided through their residential schemes providing sheltered care. A number of significant changes occurred resulting in a reduced Sheltered Housing Service Charge (which is eligible for Housing Benefit) and the creation of a new "Supporting People Charge" charge (which is NOT eligible for Housing Benefit).
- 9.18 The policy adopted was that tenants receiving any Housing Benefit (HB) towards their rent and/or Sheltered Housing Service Charge (around 80% in each category) would not have to pay anything towards their Supporting People Charge. For some years thereafter the shortfall in income arising because tenants

on HB did not pay their Supporting People Charge was offset by Supporting People Grant from the Government.

- 9.19 The new arrangements also provided that those tenants not receiving Housing Benefit who were in their current tenancy in March 2003 should only have to pay increases in Supporting People Charges in line with inflation.
- 9.20 In the last two years the Government has cut Supporting People Grant significantly and so it no longer meets the loss of income arising because tenants on HB do not pay their SP charge. Those grant cuts are the main reason why the recommended budgets reflect income for Sheltered Housing which is £418,000 less than expenditure. These extra net costs have to be funded via increased rents and the average cost to each of our tenants is approximately 53p/week. This issue has been raised with tenant's representatives during the budget consultation process. It should be noted that this level of subsidy from the remaining tenants has reduced from last year by £104,000.
- 9.21 Appendix 11 Sheltered Housing Service Charges and Supporting People Charges shows existing charges for 2011/12 and the recommended charges for 2012/13, which due to efficiencies in the service, allow for a proposed freeze in charges.

### **Locally Based Hospital Units (LBHUs) – Avenue and Hamilton Houses**

- 9.22 Following a directive from the Department of Health, the commissioning of Learning Disability Social Care and related funding has been transferred from Primary Care Trusts (PCT) to Local Government, as a result of the "Valuing People Now: From Progress to Transformation" consultation document. The homes known as Avenue House and Hamilton House provide supported living accommodation for up to 12 people with learning disabilities, physical disabilities and health needs and on 1<sup>st</sup> April 2011 a Standing Order 58 decision was made by the Chief Executive to transfer these homes and the provision of this service from the PCT into Portsmouth City Council's General Fund.
- 9.23 The cost of running the Care Service is retained in the General Fund (Adult Social Care), however, all premises costs are borne by the HRA with a full cost recovery charge made to the General Fund, plus a 12.5% management fee. As charges will be set at full cost recovery, a full years costs will be required and as such delegated authority is sought for 2012/13 and future years to allow the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member, to set service charges for Local Hospital Based Units at Avenue and Hamilton House.

### **Support Service, Front Line Service and City Government charges.**

- 9.24 A prudent first estimate of charges for the costs of professional services, office services, accommodation etc. for next financial year has been made but will

continue to be reviewed prior to being reported to City Council on 14th February. The figures shown on Appendix 4, lines 12 and 13 may therefore change, though it is not anticipated that the changes will be significant enough to affect the process of setting rents and charges.

## **Repairs and Maintenance**

9.25 As discussed in paragraph 6.2, detailed work has already been undertaken to assess the anticipated lifecycle costs of maintaining, improving and replacing our existing stock and the assumptions made form the basis of the budgets being proposed in this report. Recommended budgets have been set at a level which the Head of Housing Management is satisfied will be sufficient to provide for all day-to-day repairs and, in conjunction with the capital provision in the Housing Investment Programme, will also be sufficient to properly maintain & improve our council homes during 2012/13 and going forward.

## **Welfare Reform and the Universal Credit**

9.26 The government has published the Welfare Reform Bill 2011 which is set to mark the biggest overhaul of the benefits system since the 1940s. Proposed reforms aim to ensure that work is rewarded through improved financial incentives, making it clear that work pays by simplifying the system and cutting administration for claimants and the government by reducing the number of agencies involved in the administration of benefits.

9.27 The Universal Credit will simplify the benefits system by bringing together a range of working-age benefits, including Housing Benefits, into a single streamlined payment. The new Universal Credit system aims to:

- simplify the system, making it easier for people to understand, and easier and cheaper for staff to administer
- improve work incentives
- smooth the transitions into and out of work
- reduce in-work poverty
- cut back on fraud and error.

9.28 The reform, which is proposed to be implemented in 2013, aims to move benefit claimants onto the Universal Credit, with payments being made directly to the claimants on a monthly basis. Currently, Housing Benefits are paid directly to the landlord so this proposal will have a significant effect on landlords and tenants, as tenants are expected to manage their own budgets and prioritise their own spending. Concern has been raised by tenants that they are not being given a choice, as most would prefer to have their housing benefits continue to be paid directly to the landlord, and as a result it is proposed that the Head of Housing Management will continue to consult with residents on developments as they are announced, with a view to make representation to Central Government if deemed appropriate.

- 9.29 It should be noted that a working group consisting of officers and residents representatives will be set up to consider the impact of Welfare Reform including the introduction of Universal Credit on Local Authority residents. The group will take the lead for the Housing service in implementing the changes and respond to any consultation on behalf of the service. Links will be made to other lead roles within PCC to ensure the work is coordinated with the Council's broader remit

## Right to Buy Consultation

- 9.30 Individual local authorities have always had the ability to sell council houses to their tenants, but until the early 1970s such sales were extremely rare. It wasn't until after Margaret Thatcher became Prime Minister that legislation to implement the Right to Buy was passed in the Housing Act 1980. The sale price of a council house is based on its market valuation. However, the legislation gave council tenants the right to buy their council houses at a discounted value, based on how long they had been living in the house. This was applied to reflect the rents already paid by tenants and also to encourage take-up.
- 9.31 The Right to buys is only available to those who have been a council tenant for at least 5 years. The discount after 5 years is currently 35 per cent for houses and 50 per cent for flats. This discount then increases by 1% per year for houses, and 2% per year for flats and maisonettes, up to a maximum limit of £38,000 as demonstrated below:

Example of RTB Discount based on a property with a market value of £75,000.

Qualifying period (in years)	Discount for a £75,000 House		Discount for a £75,000 Flats/Maisonettes	
<b>5</b>	<b>35%</b>	£26,250	<b>50%</b>	£37,500
<b>10</b>	<b>40%</b>	£30,000	<b>60%</b>	£38,000
<b>15</b>	<b>45%</b>	£33,750	<b>70%</b>	£38,000
<b>20</b>	<b>50%</b>	£37,500	<b>70%</b>	£38,000
<b>25</b>	<b>55%</b>	£38,000	<b>70%</b>	£38,000
<b>30</b>	<b>60%</b>	£38,000	<b>70%</b>	£38,000
<b>Over 30</b>	<b>60%</b>	£38,000	<b>70%</b>	£38,000

- 9.32 All of the proceeds of these sales were retained by local authorities, but their use was restricted. Any receipt from the disposal of housing property was subject to 'set-aside' provisions. This meant that only 25% of the Right to Buy receipt was available as a usable receipt to meet new capital expenditure. The remaining proportion of the receipt was retained by the Council to repay debt.
- 9.33 On the 1<sup>st</sup> April 2004, the Secretary of State used their powers under section 11 of the Local Government Act 2003 to replace the set-aside method of redistribution, with a new capital financing system. This new method, known as the Prudential Capital Financing System, replaced the 75% set aside rule with the current pooling regime.

9.34 The Prudential System aimed to collect right to buy receipts nationally by requiring councils to pay 75% of every receipt to the Government, whereas before 75% was retained by the City Council to repay debt. The remaining portion of the capital receipt which is not subject to the pooling arrangements (ie 25% for right to buy sales) continues to be retained by the City Council and is available for any kind of capital expenditure, or to repay debt.

9.35 During September's Conservative Party Conference, the Prime Minister pledged to "inspire a new Tory housing revolution", by using increased right to buy discounts to encourage 100,000 people to buy their council homes and use the receipts to replace every home sold with a new 'affordable' rent property, let at up to 80 per cent of the market rent on a one for one basis.

9.36 The national Housing Strategy, published by the Government on 21 November 2011, developed the proposal further, stating Government's intention to double the current average discount, which currently averages 25% of the market value across England, to up to a discount of up to half the value of each home. Portsmouth already offers an average discount of approximately 40%, far greater than the national average, mainly due to the low market value of our housing stock compared to the national average.

9.37 The national Housing Strategy recognised the need to balance such generous discounts with the ability to raise sufficient receipts to fund the building of replacement homes, and as a result the Government have issued a consultation proposing a change in the level of discount, the five options being:

Option 1	£50k cap on discounts
Option 2	£75k cap on discounts
Option 3	40% discount no cap
Option 4	50% discount max £75k cap
Option 5	50% discount no cap

9.38 The consultation also includes four proposals to ensure delivery of the replacement homes. They are:

- Local Model - Where 100% of the additional receipts are retained by the Council to spend as they wish.
- Local Model with Direction - Where 100% of the additional receipts are retained by the Council to spend on new homes.

- Local Model with Agreement - Where 100% of the additional receipts are retained by the Council to spend as they wish, providing a local funding plan for the delivery of new affordable homes has Secretary of State Approval.
  - National Model - Where 100% of the additional receipts are pooled by Central Government and allocated through a national programme administered by the HCA.
- 9.39 The consultation, the deadline of which is 2<sup>nd</sup> February 2012, includes a number of other technical and accounting matters which are currently being reviewed by officers. The Cabinet Member for Housing is requested to note the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer) to formally respond to the Government's consultation paper on changes to the Right to Buy rules, in order to fully protect the interests of Portsmouth City Council, the HRA and its residents.

### **Other budget issues**

- 9.40 The City's Council Tax (General Fund) budgets will not be set until the Council meeting 14th February 2012. Some of the decisions taken at that time may have a knock-on effect on the Housing Revenue Account. It is therefore recommended that authority be delegated to the Head of Financial Services and Head of Housing Management to amend the budgets to reflect the latest available information prior to finalising budgets for 2012/13.
- 9.41 A Contingency Provision of £210,000 in 2011/12 and £100,000 in 2012/13 has been provided to cover any unforeseen costs that cannot be met by reducing other budgets or by generating extra income.

## **10 Future years budgets and the level of balances in hand**

- 10.1 The law requires that a budget be set to avoid a deficit on the council housing account (Housing Revenue Account). It is forecast that the level of balances will be almost £24.8 million at 31st March 2013, including the earmarked capital reserves, so unless very significant unforeseen costs or losses of income arise this requirement will be achieved for 2012/13.
- 10.2 The financial models maintained by the Head of Financial Services estimate what will happen on the council housing accounts for 30 years into the future. Prudent estimates have been made on inflation, interest rates, capital spending, etc so that the model can estimate the effects that budgets, rents and charges decisions made now could have on future years.
- 10.3 This time last year our financial projections showed that the HRA would run out of money in less than ten years. The advent of Self Financing has greatly improved

the financial position for the HRA and our latest estimates indicate that now we can afford to properly manage & maintain our homes and other assets over 30 years.

## **11 Authority to incur revenue expenditure**

11.1 It is proposed that subject to the City Council approving the revenue budgets on 14th February 2012, Heads of Service be authorised to incur expenditure in accordance with the City Council Constitution. The only exceptions would be those items members consider should be the subject of a separate report before expenditure is incurred.

## **12 Recommendations**

It is recommended that the Housing Portfolio Holder approve the following:

- (i) All new rents and charges to be effective from 2nd April 2012 or such other date as determined by the Head of Housing Management (HHM) in consultation with the Chief Officer responsible for Financial Administration (Section 151 Officer).
- (ii) Dwelling rents and the General Charge for next year to be set at this meeting by reference to the two options set out in this report.
- (iii) Mobile home license fees as shown on Appendix 10 be approved. Future years licence fees will continue to rise in line with the average of the "RPIy" measure of inflation for the twelve months up to and including the preceding September, with any further increase above this level to be subject to the proper legal processes including consultation with Mobile Home residents.
- (iv) Garage and parking site rents as shown on Appendix 10 be approved and authority to let garages at reduced rents where demand is low be delegated to HHM in consultation with the Chief Officer responsible for Financial Administration (Section 151 Officer).
- (v) Sheltered Housing Service Charges and Supporting People Charges as shown on Appendix 11 be approved.
- (vi) Heating Charges to be set at this meeting in accordance with the options in Appendix 12 and authority given to the HHM in consultation with the Chief Officer responsible for Financial Administration (Section 151 Officer) to set charges for staff who are resident in council housing as part of their job at a full cost level and to implement increased charges to tenants over a period of time where appropriate.
- (vii) Revenue budgets for 2011/12 and 2012/13 be approved and authority given to the HHM in consultation with the Chief Officer responsible for Financial Administration (Section 151 Officer) to amend the budgets to reflect the latest available information prior to finalising budgets for 2012/13.

- (viii) The relevant Managers be authorised to incur expenditure in 2012/13.
- (ix) Authority be delegated to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member for Housing, to review the method used for setting General Service Charges.
- (x) Authority be delegated to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member for Housing and resident's representatives to produce an HRA Business Plan, including an Asset Management Plan, to be presented to Members at a later date.
- (xi) Authority be delegated to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member for Housing, to review the level of funds available for the provision of new council homes across the City, as part of the production of the HRA Business Plan.
- (xii) Note that consultation with tenants on the impact of Welfare Reform and the universal credit will take place during 2012/13 with a view to making representations to Central Government.
- (xiii) Note that representation continues to be made Officers and Members to allow Portsmouth City Council to take advantage of the Public Works Loan Board special reduced rate of borrowing for self financing buyouts.
- (xiv) Authority be delegated to the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer), in consultation with the Cabinet Member, to set the rents and service charges for the tenants of the former Locally Based Hospital Units at Avenue and Hamilton Houses for 2012/13 and future years.
- (xv) Note that the Head of Housing Management & the Chief Officer responsible for Financial Administration (Section 151 Officer) formally respond to Government's consultation paper on changes to the Right to Buy rules.

### **13 Reasons for recommendations**

- 13.1 To set budgets, rents and charges for council housing for 2012/13.

### **14 Options considered and rejected**

- 14.1 This report outlines options for rents and charges and seeks the Cabinet Member's decision.

## **15 Corporate priorities**

15.1 This report and the project it refers to contribute to the following Corporate Priorities:

- Reduce crime and the fear of crime
- Increase availability, affordability and quality of housing
- Protect and support our most vulnerable residents
- Improve efficiency and encourage involvement
- Raise standards in English and maths
- Regenerate the city
- Cleaner and greener city

## **16 Financial implications**

16.1 The Chief Officer responsible for Financial Administration (Section 151 Officer) has been consulted and is in agreement with the recommendations to this report.

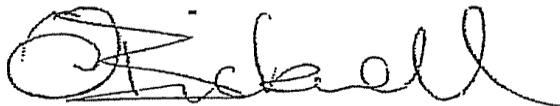
## **17 Equality impact assessment (EIA)**

17.1 A preliminary EIA has been carried out which indicates that the requirement for a full EIA is low.

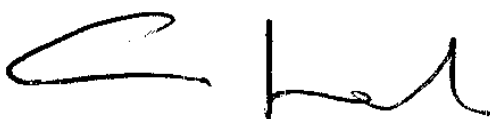
## **18 Legal implications**

18.1 The recommendations to this report cover approval to budgets and increases in rents and charges which do not require the City Solicitor's comments.

Signed by:



**Owen Buckwell – Head of Housing Management**



**Chris Ward – Chief Officer responsible for financial administration (S.151 Local Government Act 1972)**

## Appendices:

- 1 Council Housing Accounts – The Law
- 2 Housing Strategy: Executive Summary and Priorities
- 3 Budget Principles 2011/12 – 2017/18
- 4 Revenue Budget Sheets 2010/11 to 2017/18
- 5 Worked example to show calculation of dwelling rent
- 6 5.0% rent increase - Impact on average weekly rents
- 7 5.0% rent increase - General Service charge proposals
- 8 4.0% rent increase - Impact on average weekly rents
- 9 4.0% rent increase - General Service charge proposals
- 10 Mobile Homes, Garages and parking sites rents
- 11 Sheltered Housing and Supporting People Service Charges
- 12 Heating charges

## Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Budget files	Financial Services Housing Accountancy team
2	
3	
4	

Recommendations (i) to (xv) set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet Member for Housing on 31st Jan 2012.

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**Signed by: Cabinet Member for Housing**