

Title of meeting: Cabinet Member for Housing

Date of meeting: 29th January 2013

Subject: COUNCIL HOUSING BUDGET 2013/14

Report by: Head of Housing Management
Chief Officer responsible for financial administration (S.151
Local Government Act 1972)

Wards affected: ALL wards

Key decision: Yes

Full Council decision: Yes

1. 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 the function of setting rents, charges and budgets for council housing to the Cabinet Member for Housing. Following extensive consultation with residents and leaseholders 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 2013/14.
- 1.4 The report also seeks to:
- Approve the Revenue budgets for 2012/13 and 2013/14 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 2013/14.
 - Set a five year rent policy which not only ensures that Portsmouth City Council meets convergence with Governments Formula Rent by 2015/16, but also ensures that rents continue to be set on a basis that is not only based on a consistent approach, but that also enables PCC to adequately manage, maintain, repair and replace our Council homes over a 30 year period.

- Recognise the need to replace those homes sold under the Right to Buy, and provide the funding to ensure that Portsmouth is able to maximise the provision of replacement homes through a combination of borrowing, increased rents and capital receipts.

2. Recommendations

Recommendations submitted for approval by the Housing Portfolio Holder:

- (i) All new rents and charges to be effective from 4th April 2013 or such other date as determined by the Head of Housing Management (HHM) in consultation with the Head of Financial Services (HFS).
- (ii) Dwelling Rents to be rebased, to ensure that identical flats and maisonettes in the same block, are charged the same rents.
- (iii) Dwelling rents for next year to be set at this meeting by reference to the three options set out in this report.
- (iv) An additional charge of 1% linked to rents be made to assist in the replacement of homes lost under right to buy.
- (v) General Service Charges to be set at this meeting in accordance with the options in Appendix 8.
- (vi) Mobile home license fees as shown on Appendix 12 are approved.
- (vii) Garage and parking site rents as shown on Appendix 12 be approved and authority to let garages at reduced rents where demand is low be delegated to HHM in consultation with the HFS.
- (viii) Charges for Sheltered Housing Service Charges and Supporting People Charges for next year to be set at this meeting by reference to the three options set out in Appendix 9.
- (ix) The method of calculating Sheltered Housing charges be reviewed in consultation with residents during the forthcoming year.
- (ix) Heating Charges to be set at this meeting in accordance with Appendix 10.
- (x) Laundry Charges to be set at this meeting in accordance with the options in Appendix 11.
- (xi) Revenue budgets for 2012/13 and 2013/14 be approved and authority given to the HHM in consultation with the HFS to amend the budgets to

reflect the latest available information prior to finalising budgets for 2013/14.

(xii) The relevant Managers be authorised to incur expenditure in 2013/14.

3. Background

The Localism Act 2011, Self Financing and the Asset Management Strategy

3.1 The Localism Act 2011 included the abolition of the Housing Revenue Account Subsidy System, in favour of a self financing regime, which enables Councils to retain all of their housing rents in exchange for a one-off reallocation of national debt. For Portsmouth City Council this additional debt equated to £88.6M and was paid to Central Government in March 2012.

3.2 This has had a significant impact on the Housing Revenue Account (HRA). Under the previous Housing Revenue Account Subsidy System, the Council was unable to accurately assess the required rent increases until December/January, due to a significant part of the HRA annual spend relating to the amount of negative subsidy payable to Government, not being announced until then. Self financing means that this delay and uncertainty no longer exists.

3.3 This 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 has been 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.

3.4 A key element of the HRA Business Plan is the production of an HRA Asset Management Strategy. This Strategy was approved by the Cabinet Member for Housing at their meeting of 18th September 2012. The Asset Management Strategy assesses the anticipated lifecycle costs of maintaining, improving and replacing our existing stock and the assumptions made will form the basis of the budgets set in the future. It also considers:

- 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
- National and Local targets for carbon reduction
- Scope for supporting wider aims, including other Council objectives and priorities, regeneration schemes, and 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

3.5 The creation of the Asset Management Strategy and 30 year Business Plan provides the framework to deliver a sustainable HRA that maintains and enhances the current stock condition and services to tenants and as well as providing additional housing developments in the future. .

4. Rent Restructuring and Rebasing

The History of Rent Restructuring

4.1 Rent restructuring has been in place since 2002 with the initial aim to achieve the alignment of social sector rents, by bringing all council housing and social landlord (Housing Association) dwelling rents on to the same basis of calculation by 2012. The calculation is based on the following main factors:

- Property value at January 1999 compared to 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.

4.2 Following consultation five years ago the Government decided to extend the period over which Rent Restructuring is to be achieved from 2011/12 to 2016/17, then four years ago further extended the period from 2016/17 to 2023/24. Three years ago the date of convergence was brought back to 2012/13 and two years ago it was extended back to 2015/16. The policy of rent restructuring continues under the self-financing regime with the target date for convergence to occur in April 2015.

4.3 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.

Rebasing of Rents

- 4.4 As stated in paragraph 4.1, an element of the formula rent calculation is based on the value of the property in 1999. As part of a detailed review of stock, it became evident that there were a number of instances where identical flats in the same block were being charged differing rents. Whilst in the past this discrepancy was anticipated to be reduced over a period of time, it is now proposed to re-base these rents in order to have a consistent rent per flat size per block from 2013/14 and any annual rent increase applied to these re-based/adjusted rents.
- 4.5 The effects of re-basing the rents as discussed above results in the average rent for the City increasing from £74.97 to £75.59. Whilst it is not proposed that the 2012/13 rents are adjusted to reflect this increase, it has been suggested that the adjustment be reflected in the starting point in setting 2013/14's rents and going forward.
- 4.6 The Cabinet Member for Housing's decision on rebasing of rents is requested.

HRA Rent Proposals and the Five Year Rent Strategy

- 4.7 As discussed in paragraph 4.2, rent restructuring requires Portsmouth City Council's Rents to converge with other Social Sector rents by 2015/16. This average notional rent is known as Formula Rent. Historically, Portsmouth has always set relatively low rents year on year when compared to the formula rent, as shown in the table below.

Year	Formula Rent (per week)	Average Actual Rent (per week)	Variance between Formula and Actual Rent (per week)
2002/03	55.97	51.43	4.54
2003/04	57.21	53.89	3.32
2004/05	59.10	55.68	3.42
2005/06	61.22	57.38	3.84
2006/07	63.18	60.30	2.88
2007/08	65.77	63.33	2.44
2008/09	68.66	66.47	2.19
2009/10	72.44	68.41	4.03
2010/11	71.76	69.31	2.45
2011/12	75.42	72.08	3.34
2012/13	80.02	74.97	5.05

- 4.8 Whilst setting low rents is to the personal financial benefit of tenants, it does result in the variance between formula and actual rents becoming wider. The

impact of this is that the necessary increase required to reduce this variance by 2015/16 will be steeper in the latter period.

4.9 In order to meet convergence in 2015/16 and the ongoing need to ensure that the HRA remains able to manage, maintain, improve and replace its housing stock, it is proposed that the following options for setting rents be considered.

- Option 1 Two years of low increases then a big increase

Year	Formula Rent (per week) £	Average Actual Rent (per week) £	Increase Required (per week)	
			£	%
2013/14	82.98	77.97	3.00	4.0
2014/15	86.22	80.97	3.00	3.8
2015/16	88.32	88.32	7.35	9.1
2016/17	-	91.85	3.59	4.0
2017/18	-	95.53	3.73	4.0

- Option 2 Two years of high increases then a low increase

Year	Formula Rent (per week) £	Average Actual Rent (per week) £	Increase Required (per week)	
			£	%
2013/14	82.98	80.77	5.80	7.7
2014/15	86.22	86.57	5.80	7.2
2015/16	88.32	88.32	1.75	2.0
2016/17	-	91.85	3.59	4.0
2017/18	-	95.53	3.73	4.0

- Option 3 Three years of steady increases

Year	Formula Rent (per week) £	Average Actual Rent (per week) £	Increase Required (per week)	
			£	%
2013/14	82.98	79.42	4.45	5.9
2014/15	86.22	83.87	4.45	5.6
2015/16	88.32	88.32	4.45	5.3
2016/17	-	91.85	3.59	4.0
2017/18	-	95.53	3.73	4.0

- 4.10 From 2016/17 onwards, the proposed annual rental increase is based on RPI plus 0,5%. It is important to acknowledge that the rates used above are based on our latest RPI estimates and are subject to change.
- 4.11 The Cabinet Member for Housing's decision is requested on the level of Rents for next year.

5. Right to Buy and the Provision of Replacement Homes

5.1 As discussed in the Reinvigoration of Right to Buy and One for One Replacement report which was approved by the Cabinet Member for Housing on 15 March 2012, the recent increase in Right to Buy discount available to tenants from £38,000 to £75,000 has a significant impact on the 30 year HRA business plan. Not only does the increased discount reduce the proceeds retained by PCC on each sale, but the anticipated take up is likely to far exceed our ability to replace the housing stock, at a much higher rate than previously anticipated.

5.2 Central Government limits us to fund no more than 30% of the cost of replacing homes from Right to Buy receipts. The remaining 70% of the costs must come from increasing rents, using other HRA capital receipts or borrowing against the anticipated future rental income. Based on the average social housing valuation in Portsmouth of £120,000, this shortfall would equate to £84,000.

Affordable Rent The average affordable rent (80% of market rent) in the area equates to £720 per month. This level of income could support borrowing of up to £150,000 based on current rates, which would cover any shortfall.

Social Rent Social rent for the same dwelling would equate to £404 per month which could support borrowing of up to £84,000, which would also cover the shortfall.

5.3 Whilst the above demonstrates that additional prudential borrowing could be used to fund the shortfall, Section 171 of the Localism Act 2011 has put a limit on the amount of borrowing that the HRA can take out. This cap equates to £180M and with the HRA's current debt already totalling £141M, the HRA available borrowing headroom totals £39M, which could fund approximately 450 dwellings.

5.4 As a result of the limit to borrowing and the recognised need to replace housing sold under Right to Buy, it is suggested that additional revenue contributions are made to increase the HRA's ability to replace its housing stock.

5.5 A 1% increase on current rents would generate an additional £630,000 per year which could be set aside for the provision of new homes. This would equate to an additional 75p per week based on the average rent. The additional rental income generated from the replacement stock will benefit the HRA as a whole

by ensuring a sustained maintenance provision and help keep rent increases lower in the future, whilst also enabling PCC to continue to offer properties to help house those on our waiting list and better assist those existing tenants who are seeking to up or downsize.

6. Budget for next year 2013/14

- 6.1 The budget sheets attached as Appendix 4 shows the original and revised estimate for 2012/13 and columns E and F show the original and revised estimates for 2013/14. Also shown for comparative purposes are the estimated budgets through to 2018/19 both as they were following the decisions made at last years budget meeting in January 2012 compared to as they are now estimated for this report. The last three columns show the total change over the seven year period.
- 6.2 It is important to note that there are a number of years that show in year deficits where expenditure exceeds anticipated income, and the shortfalls are being funded by drawing on HRA 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, the HRA balances as a whole no longer go into deficit over the 30 year period.

A Full Cost Recovery Approach for “Other Charges“

- 6.3 In recent years tenants have said that they would rather they only paid for the services they receive, and not pay extra to subsidise services that other tenants are receiving. In accordance with this request, charges have been gradually moving toward this basis of setting charges for a couple of years now, to ensure that only those receiving a service, pay for that service. The main areas of charge which this relates to are General Services Charges, Sheltered Housing Charges, Laundry Charges and Heating Charges.
- 6.4 In our consultation with tenants and leaseholders, the thoughts on three options have been sought for each of the areas of charge mentioned above:
- Option 1 Freeze rates as they are, with the recognition that a much bigger increase would be needed in the following year.
- Option 2 Set charges that fully recover the cost of that service from April 2013
- Option 3 Moves towards full cost recovery over a three year period.
- 6.5 Appendix pages 8 to 11 identify the impact of each of these options on each of the charges.

General Service Charges

- 6.6 General Service charges are made to all tenants and relate to the provision of a number of different services, including the Estate Services Officers, Anti-Social Behaviour team and Residents Participation Team. The charge to tenants for these services cannot exceed the cost of providing them. Having reviewed the costs incurred in providing these services, and following a number of service efficiencies, the lower general charge for those receiving fewer services, mainly houses and bungalows, continues to achieve full cost recovery, which means we are able to continue to freeze general charges to these properties in 2013/14.
- 6.7 It should be noted that those charges to tenants in receipt of more services including the green and clean service and lighting in communal areas (mainly bedsits, maisonettes and flats) are currently 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.
- 6.8 Appendix page 9 shows the proposed general service charges for the three options that were considered as part of the consultation process.
- 6.9 The Cabinet Member for Housing's decision is requested on the level of General Service Charges for next year.

Sheltered Housing Charges

- 6.10 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".
- 6.11 With effect from 2003/04 the Government introduced "Supporting People" legislation which required 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).
- 6.12 The policy adopted was that tenants receiving any Housing Benefit (HB) towards their rent and/or Sheltered Housing Service Charge (currently around 80%) 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.

- 6.13 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.
- 6.14 In the last three 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. As these grant cuts result in our income not recovering the cost of the service by approximately £640,000, these costs would need to be funded via increased rents for all HRA tenants. This issue has been raised with tenant's representatives during the budget consultation process.
- 6.15 Appendix page 9 shows the existing charges for 2012/13 and the options that were considered as part of the consultation process.
- 6.16 The Cabinet Member for Housing's decision is requested on the level of Sheltered Housing Charges for next year.
- 6.17 With the recent cessation of Supporting People Grant and the imminent end to Housing Benefits (to be replaced by Universal Credit), it will be necessary to review the method by which charges to residents of Sheltered Housing are calculated. It is proposed that the method of calculating these charges be reviewed in consultation with residents during the forthcoming year, in order to be implemented as part of the 2014/15 budget setting process.

Heating Charges

- 6.18 Heating charge calculations are based on usage data over previous years. This is used to calculate the estimated cost of heating the relevant dwellings. Historically, the Combined Heating and Power blocks have not been recovering the full costs of providing their energy, and residents have been keen to continue to support a move towards full cost recovery and reduce the level of subsidy required from other HRA tenants.
- 6.19 To assist, Housing Management have undertaken extensive work to both reduce energy consumption and negotiate better tariffs which has resulted in the required heating charge increases to be relatively low compared to those in previous years, whilst still maintaining full cost recovery.
- 6.20 Appendix page 10 shows the proposed charges for 2013/14.
- 6.21 The Cabinet Member for Housing's decision is requested on the level of Heating Charges for next year.

Laundry Charges

- 6.22 The Council has a number of Laundry facilities that operate from within blocks and Sheltered Housing Schemes. Although the charges for both washing and drying facilities were reviewed last year, they still remain much lower than the commercial market price. In addition, following a review of the cost of running the service, it was evident that the charges failed to recover the cost of the service.
- 6.23 Appendix page 11 shows the existing charges for 2012/13 and the options that were considered as part of the consultation process.
- 6.24 The Cabinet Member for Housing's decision is requested on the level of Laundry Charges for next year.

Mobile Homes

- 6.25 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. 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 2013/14 can be found in Appendix 12.

Garage and Parking Site rents

- 6.26 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". This continues to be an income earner to the HRA, and despite the proposal to increase charges to those who are neither tenants nor leaseholders, the charges continue to remain lower than those made by other parking service providers across the city, including Portsmouth City Council's own Parking Service.
- 6.27 A further review of the garages and parking charges is due to be undertaken during 2013/14 with a view to better understand the demand and usage. This will take into account the other parking provisions offered by private providers as well as PCC and consider the impact of the new park and ride scheme.
- 6.28 A summary of the proposed charges for next year are shown on Appendix 12. It is recommended that authority to let garages at reduced rents where demand is low be delegated to HHM in consultation with the HFS.

Support Service and Front Line Service charges

- 6.29 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 12th February. The figures shown on Appendix 4, lines 14 and 15 may therefore change, though it is not anticipated that the changes will be significant enough to affect the process of setting rents and charges.

Other budget issues

- 6.30 The City's Council Tax (General Fund) budgets will not be set until the Council meeting 12th February 2013. 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 2013/14.
- 6.31 A Contingency Provision of £200,000 in 2013/14 and £100,000 in 2014/15 has been provided to cover any unforeseen costs that cannot be met by reducing other budgets or by generating extra income.

7. Future years budgets and the level of balances in hand

- 7.1 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 £16.3 million at 31st March 2014, including the earmarked capital reserves, so unless very significant unforeseen costs or losses of income arise this requirement will be achieved for 2013/14.
- 7.2 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.
- 7.3 The advantage of longer term financial planning over 30 years is to enable actions to be taken well in advance to achieve a medium term balanced budget. The aim therefore for the Council Housing Account is to remain in balance over the medium term, i.e. over a minimum rolling 6 year period and ultimately over the 30 year period, which the budgets presented in this report achieve.

8. Authority to incur revenue expenditure

- 8.1 It is proposed that subject to the City Council approving the revenue budgets on 12th February 2013, 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.

9. Duty to involve - Resident involvement in the budget process

9.1 Representatives of the Residents Consortium 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) and the Head of Financial Services (HFS) 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 overall Capital Programme to City Council on 12th February 2012.

9.2 A number of meetings have also been held with the full Residents Consortium where 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 5 to 12. The Residents Consortium 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.

9.3 In addition to obtaining feedback from the Residents Consortium meetings, an article was published in the December edition of Housetalk magazine, which aimed to inform all residents and leaseholders of the issues, and encouraged them to respond with their views on the matters raised.

9.4 The Housing Portfolio Holder has attended the Residents Consortium meetings, listened to the details of residents responses and reviewed the feedback from our Housetalk article in time to take them into account when making his decisions at this meeting.

9.5 Both HHM and HFS would like to place on record their thanks for the invaluable help given by our resident representatives, tenants and leaseholders.

10. Reasons for recommendations

10.1 To set budgets, rents and charges for council housing for 2013/14.

11. Equality impact assessment (EIA)

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

12. Head of legal, licensing & registrars' comments

12.1 The body of the report contains a discussion of the key legal issues, and the Council is empowered to approve the recommendations.

13. Head of Finance's comments

13.1 The Head of Finance has been consulted and is in agreement with the recommendations to this report

Signed by:

.....
Owen Buckwell – Head of Housing and Property Services

.....
**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 2011/12 to 2018/19
- 5 Rent Increase Option 1 - 4.0%
- 6 Rent Increase Option 2 – 7.7%
- 7 Rent Increase Option 3 – 5.9%
- 8 General Service charge proposals
- 9 Sheltered Housing Charges
- 10 Heating charges
- 11 Laundry Charges
- 12 Mobile Homes, Garages and parking sites rents

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

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by: