BUDGET COUNCIL	Agenda Item 72
23 February 2012	Brighton & Hove City Council

Subject:		**Housing Revenue Account Budget 2012/13**	
Date of Meeting:		**23 February 2012** 9 February 2012 - Cabinet 6 February - HMCC	
Report of:		**Strategic Director Place** **Director of Finance**	
Contact Officer:	**Name:**	**Sue Chapman**	**Tel: 29-3105**
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Key Decision:	**Yes**		
Wards Affected:	**All**		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 This report presents the proposed Budget for 2012/13 as required by the Local Government and Housing Act 1989. Members are required to consider the budget proposals including changes to rents, fees and charges as well as savings and service pressures.

1.2 The council's Housing Revenue Account (HRA) contains the income and expenditure relating to the council's landlord duties in respect of approximately 12,250 properties and 2,250 leasehold properties. These properties are accounted for separately from the council's other services/activities which form part of the council's General Fund.

2. RECOMMENDATIONS:

2.1 That Cabinet:

(a) Approves the budget for 2012/13 as shown in Appendix 1.

(b) Approves individual rent increases and decreases in line with rent restructuring principles as determined by the Government.

(c) Approves the changes to fees and charges as detailed in paragraph 3.18 to 3.26.

(d) Approves the introduction of new service charges for communal digital aerials as detailed in paragraph 3.23.

(e) Approves the separation of general fund and housing debt into two separate pools from 1 April 2012 in accordance with CIPFA guidance.

3. **HRA BUDGET PROPOSALS 2012/13**

Summary

Housing Commissioning priorities

3.1 The HRA Budget 2012/13 aims to balance the priorities of both the City Council and our residents within the context of the Corporate Plan 2011-2015, which sets out the council's strategic direction and priorities for the next four years, based around the five council priorities:

- Tackling inequality
- Creating a more sustainable city
- Engaging people who live and work in the city
- A responsible and empowering employer
- A council the city deserves

3.2 Our strategic housing vision supports the 'Improving Housing and Affordability' priority set out in the city's Sustainable Communities Strategy Creating the City of Opportunities and is detailed in the Housing Strategy 2009-2014: healthy homes, healthy lives, healthy city, and the City Councils priorities as set out in the Corporate Plan. To deliver our housing vision we have 3 outcomes that reflect the basic housing needs of the city:

- Strategic Outcome 1: Improving housing supply
- Strategic Outcome 2: Improving housing quality
- Strategic Outcome 3: Improving housing support

3.3 The Commissioning framework for the HRA aims to reduce management unit costs to enable re-investment in services to tackle inequality (support) and improvements to homes and neighbourhoods (investment). The HRA budget strategy reflects the priorities of tenants and leaseholders as a result of their close involvement in deciding how housing services are planned and delivered (as detailed in the Housing Management Annual Report 2010) and responds to the housing commissioning framework and corporate plan priorities by focusing upon the following keys areas:

- reducing housing management and maintenance unit costs.
- Continuation of the council's commitment to improve the quality of existing council homes.
- Improving engagement with council housing tenants through the introduction of Tenant Scrutiny.
- Improving access to housing services through phase 3 the Housing Customer Access Review.
- Improvements to the energy efficiency of the Council's housing stock through the capital programme.
- Delivery of work, learning and apprenticeship initiatives for staff and residents through establishing a 'Learning Centre' at the Housing Centre and the Interreg IVa.
- Taking action to promote financial inclusion, working with the Advice Partnership.

3.4 Therefore savings will be reinvested in areas to tackle inequality, promote financial inclusion and also to fund capital investment.

3.5 The HRA budget has also been developed to provide a balanced budget, taking into account the income and expenditure assumptions and the reserves position.

3.6 The HRA budget for 2012/13 is shown in Appendix 1 with the main budget variations detailed below in table 1. In preparing the base budget, inflation of 2% on non employee costs has been applied with no increases to pay. Savings proposals, service pressures, self financing and changes to rent and fees and charges are detailed in paragraphs 3.7 to 3.26.

Table 1: Main Budget Variations	**£'000**
Adjusted Base Budget 2011/12	0
Increases in Resources:	
Savings Proposals as detailed in paragraph 3.7	(983)
Increase in Rent for Dwellings (net of Empty Properties)	(2,489)
TV Aerials Service Charge Income	(180)
Increase in major works income from leaseholders	(459)
Reduction in Empty Property Repairs expenditure	(250)
Reduction in Subsidy Payable to the Government	(14,710)
Other minor variances	(4)
Reductions in Resources:	
Employees pay award and other inflation	408
Other Service Pressures as detailed in paragraph 3.9	263
Increase in Revenue Contribution to Capital Programme	14,305
Increase in Capital Financing Costs relating to the implementation of self financing as detailed in paragraph 3.13	2,800
Increase in Capital Financing costs relating to interest and repayments on unsupported borrowing.	899
Base Budget 2012/13	(400)

Savings & Service Pressures

3.7 Housing Management has identified savings of £0.983 million (equivalent to 9.3% savings target) in the following areas:

- The introduction of Customer Access Review phase 3 will achieve savings of £0.146 million resulting in a reduction in Housing Management unit costs.
- A reduction in office and running costs of £0.031 million due to the relocation of staff from Manor Place to the Whitehawk hub.

- A reduction in the contribution to the bad debt provision of £0.060 million due to improved collection rates of rental income.
- A saving in employee costs of £0.227 million from reduced pension liability costs associated with the transferring of staff to Mears within the Repairs, Refurbishment and Improvement Partnership.
- Reduction in the management costs of £0.050 million associated with managing temporary accommodation properties following the leasing of these properties to Brighton & Hove Seaside Community Homes.
- A net reduction in overall support services charges of £0.050 million following a review of the charges.
- A saving of £0.259 million for the Mears responsive repairs and empty property works through the phased introduction of open book accounting, including a reduction in unit costs, Mears overheads and the removal of set up costs.
- The gas servicing and maintenance contract with Mears and PH Jones has achieved efficiencies of £0.160 million.

3.8 The 2012/13 savings included in the Budget will achieve a reduction of £0.71 in housing management unit costs per dwelling per week and a reduction in housing maintenance unit costs of £0.66 per week.

3.9 Service pressures and improvements of £0.263 million are:

- Additional short term support of £0.102 million to deliver specific projects such as resident involvement in the setting up of Tenancy Management Organisations and supporting Internal Audit to identify tenancy fraud to enable the release of properties for housing need.
- Increased costs for housing property insurance estimated at £0.120 million relating to an increased number of insurance claims for damage by fire, flood etc. to council dwellings in recent years.
- A net increase of £0.041 million in energy costs for offices and communal lighting due to recent energy price increases.

Self Financing & Medium Term Financial Forecast

3.10 The HRA has been part of the national housing subsidy system through which Council Housing Rents are standardised across the country. The subsidy system uses a national formula to set guideline rents for each property together with allowances for management, maintenance and capital charges based on notional costs. This system therefore determined the amounts local authorities need to spend on their council housing and whether subsidy is required to support this expenditure. 'HRA subsidy' is the sum paid by Government to make up any shortfall between HRA income and expenditure.

3.11 HRA subsidy may be a negative amount where the government determines that the local authorities have more money than they need to finance their expenditure. Local authorities therefore pay this sum across to the Government. In 2011/12 the negative subsidy payment for the HRA was £4.75 million. The subsidy system was introduced in 1990 and has been abolished by the Localism Act. It has been replaced with a new system of self financing which will come into effect from 1 April 2012. Further details of Self Financing are included in Appendix 2.

3.12 Under self financing the council will no longer be required to transfer it's resources to central government, but in return will be required to take on additional housing debt called the 'self financing settlement' of £19.444 million at a level which is sustainable in the long term.

3.13 Therefore the implications of self financing for 2012/13 are an estimated net increase in resources of £3.900 million (which has been invested in the capital programme) resulting from the following:

- No further negative subsidy payments to the Government (2011/12 payment of £4.750 million which would have increased to approximately £6.700 m for 2012/13)
- An increase in capital financing payments resulting from the additional settlement debt of £19.444 million of £1.300 million
- An increase in capital financing payments due to a higher rate of interest, of £1.500 million resulting from the separating of existing housing debt into a separate pool from the general fund debt as detailed in Appendix 2 paragraphs 24 and 25.

3.14 Self financing will provide additional resources from the retention of all rental income and through greater control locally will enable longer term planning to improve the management and maintenance of council homes. However, although there are additional resources available in the long term, self financing includes a cap (or limit) on the amount of borrowing for capital investment by each local authority. The HRA 30 year Business Plan is currently being reviewed and updated to reflect self financing and the opportunities for additional investment and will also need consider how the housing debt is to be structured to accommodate these plans or possibilities. The current Medium Term Financial Forecasts are detailed in Appendix 3.

Rents 2012/13

3.15 Rents will continue to be calculated in accordance with the government's rent restructuring guidelines. Target rents for each property are calculated based on the relative property values, bedroom size and local earnings. The act of moving tenants' current rents to the target rent is called rent convergence. In order to limit increases in current rents to reach target rents, the guidance specifies a maximum rent increase equivalent to inflation + ½% + £2 per week.

3.16 The self financing determination requires Local Authorities to use the September 2011 Retail Price Index of 5.6% plus 0.5% for setting rent inflationary increases, resulting in a net inflationary increase of 6.1%. Due to the limits mentioned in 3.15, the Government sets a "provisional" rent convergence date annually, depending on the level of inflation set for that year.

3.17 The self financing determination has set the rent convergence date at 2015/16 which remains the same as last year. As the majority of the rents are increasing towards target rents, this results in an average rent increase of 7.3% for Brighton & Hove. This is the equivalent to £5.17 per week, increasing the average rent to £75.93. However, in line with rent restructuring, all rents are moving towards their individual targets and some rents will be increasing by more or less than the average rent. The maximum increase will be approximately £9.57, with the lowest increase being £1.89 per week. Approximately 71% of tenants are in receipt of housing benefit.

Fees and Service Charges 2012/13

The proposed changes to fees and charges for 2012/13 are as follows:

Heating

3.18 The heating and hot water service charges for residents with communal gas fired boilers are proposed to increase by an average of 14.6% (£1.17 per week) from 1 April 2012, with the maximum increase of 20%. Under the current corporate gas supply contract, the unit price for gas is revised annually in October each year. From October 2011, the unit price for gas has increased by an average of 20% which is comparable with the average increases of the major suppliers of gas to the domestic market. However, the latest review of gas consumption shows a reduction from last year for some blocks, and so we have been able to limit the increase for residents in those blocks.

An analysis of the gas consumption and the costs to residents shows that the maximum heating service charge for a medium user in a 2 bedroom flat at £579 compares well to the lowest tariff for a medium user (16,000 Kwh) in the Brighton & Hove area at £742 per year (Eon 11/9/2011). The analysis also highlighted blocks which appear to have above average consumption and where energy efficiency appears to be poor. This is being addressed within the HRA capital programme 2012-15, also on this agenda. The programme includes boiler replacements or upgrades over the next 2 years at Nettleton & Dudeney, Jubilee Court, Rose Hill Court, Hazelholt, Manor Paddock and Lindfield Court, where required, which will improve energy efficiency and therefore reduce future costs.

3.19 The electricity contract continues at current contract prices for the financial year 2012/13, until 1st April 2013. Service charges for those with electric heating may be amended during this time to reflect the latest estimates of consumption.

Water Charges

3.20 The HRA administers water charges for three sheltered blocks. These charges will be adjusted to ensure full recovery of costs including an estimated annual inflationary increase by Southern Water of 5.6%.

Grounds Maintenance

3.21 The Grounds Maintenance service has been reviewed this year in partnership with residents and the findings of this review were reported to Housing Management Consultative Committee on 7 November 2011. This review has led to changes to the specification for various blocks, which has led to both increases and decreases in the service charges levied to each block. The new service charges also reflect a 2% inflation increase to the contract. The maximum increase is £0.63 per week and the maximum reduction is £1.52 per week. The average change is an increase of £0.01 per week per resident.

Communal Cleaning Services

3.22 There will be no increase to the communal cleaning charges for 2012/13. Continued efficiencies in this service are anticipated to offset any inflationary increases.

Communal Digital Aerials

3.23 The HRA has installed new digital TV Aerials to blocks of flats throughout the City in anticipation of the digital switchover in 2012 as reported to Housing Management Consultative Committee on 27th September 2010. This provides tenants and leaseholders in blocks of flats access to new digital aerials, without which, they would no longer be able to view TV programmes. The cost of the installation will be recovered from tenants as a service charge of £0.56 per week which is allowable for housing benefit. The service charge is higher than previously estimated because each installation has cost more due to the need for more digital capacity and remote power supply. Leaseholders will be charged for the installation as part of their major works service charge and the maintenance costs as part of their annual service charge, as specified in the terms of their lease.

Garages & Car Parking

3.24 All garages and car parking charges will increase by 2%.

Supporting People

3.25 Supporting people charges will remain at £12.85 per week.

Sheltered Services

3.26 The sheltered service charge for common ways will remain at the current level of charge. The launderette service charge will remain at £1.26 per week.

Projected HRA Revenue Reserves

3.27 The forecast outturn for 2011/12 as at month 9 is an underspend of £0.889 million providing a contribution to reserves. The main variances from the forecast outturn are detailed in the Targeted Budget Management 2011/12 Month 9 report also included on this agenda.

3.28 The contribution to reserves increases the projected reserves as at 31 March 2012 to £5.589 million. The 2012/13 budget has been set with a surplus of £0.400 million, but the reserves are projected to reduce to £3.719 million by 31 March 2013 after using revenue reserves to fund part of the 2012/13 Housing Capital Investment Programme.

3.29 The recommended working balance (minimum level of reserves) is £2.700 million. The Housing & Social Inclusion delivery unit is currently working with Commissioners and the Advice Services Partnership to develop plans to tackle financial exclusion and inequality, promoting access to services and improving support for vulnerable families and adults on low incomes. It is anticipated that up to £0.400 million may be required to support commissioning priorities and it is proposed to establish an earmarked reserve for this purpose. Once spending plans are fully developed, these will be included in the 2012/13 Targeted Budget Management Report and approval sought for the release of these funds. Therefore usable revenue reserves are projected at £0.619 million at 31 March 2013 which can be used to support one off items of expenditure in the revenue budget.

Projected Unearmarked Revenue Reserves at 31 March 2013	**£'000**
Reserves at 1 April 2011	4,700
Plus: Forecast contribution from 2011/12 Revenue Outturn	889
Projected reserves at 31 March 2012	**5,589**
Plus: Surplus from 2012/13 Revenue Budget	400
Less: Use of revenue reserves to fund the capital programme 2012/13	(2,270)
Total Projected Balance at 31 March 2013:	**3,719**
Applied to:	
Working Balance	**2,700**
Earmarked reserve- commissioning priorities	**400**
Usable revenue reserves	**619**

3.30 Estate Development Budget reserves, which are held separately from the HRA general reserves, are £0.146 million as at 1 April 2011. These reserves relate to committed revenue and capital expenditure for schemes agreed in previous financial years that are not yet completed. Therefore these reserves will reduce as schemes are finished.

4. CONSULTATION

4.1 The City Assembly in November 2011 included an agenda item on the HRA budget setting process and the introduction of self-financing. A budget workshop was also held which gave tenants and leaseholders the opportunity to discuss their views on priorities for discretionary spending in relation to the Housing Capital Investment Programme.

4.2 A budget round table discussion has been held with Leaders and Finance spokespeople for all political parties invested alongside representatives of the Trades Unions and Community and Voluntary Sector Forum. In addition there has been a series of separate informal consultation discussions with unions and these will continue throughout the remainder of the budget process. Formal consultation with staff, unions and service users will continue as required.

4.3 The review and challenge of the options as they were developed for this paper included members from all political parties (the “star chamber” process). A Scrutiny Panel considered the HRA budget strategy proposals on 06th Jan 2012.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Finance Officer Consulted: Sue Chapman Date: 05/01/12

Legal Implications

5.2 The Council is required to keep a separate Housing Revenue Account (HRA) by virtue of the Local Government and Housing Act 1989. Preceding any financial year, the council must formulate for that year proposals relating to i) the income from rent and charges of all property within the HRA, ii) the expenditure on repair, maintenance, supervision and management of that property and iii) any other prescribed matters. In formulating the proposals, the council must use its best assumptions and estimates to secure that on their implementation the account will not show a debit balance. Within one month of formulating the proposals it must prepare and place on deposit a statement setting out the proposals and estimates. The report is compatible with the council’s statutory obligations.

Lawyer Consulted: Liz Woodley Date: 5/01/12

Equalities Implications:

5.3 The HRA budget will fund services to people with special needs due to age, vulnerability or health needs. In order to ensure that the equality impact of the budget proposals is fully considered as part of the decision making process, an Equality Impact Assessment screening document for the HRA budget proposals has been prepared and is included elsewhere on the agenda. Full equality impact assessments have been developed on specific areas where required. As part of the Council's engagement process, a series of meetings are being held with specific communities of interest in January to explore the issues for these groups arising from the Council's budget changes

Sustainability Implications:

5.4 The HRA budget will fund a range of measures that will benefit and sustain the local environment. The self financing settlement will provide a framework within which all local authorities can sustain their stock in a good condition in the future. This should enable the council to deliver a range of measures that will benefit and sustain the local environment.

Crime & Disorder Implications:

5.5 The Budget includes financial provision for Crime and disorder implications.

Risk & Opportunity Management Implications:

5.6 Financial risks have been assessed throughout the development of the council's budget. The introduction of Self Financing means that all the risks inherent in running a housing business will now transfer from the government to the local authority. The key risks which will need to be managed and developed as sensitivities and scenarios within the model may include:

- Inflationary risk that expenditure inflation is greater than income, particularly with rental increases determined by national rent policy.
- Managing interest rate fluctuations and debt portfolio
- Long term capital and maintenance responsibilities cannot be met by available resources
- Balancing regeneration and redevelopment needs with tenants priorities

5.7 A full risk register will therefore be developed in preparing the HRA Business Plan.

Corporate / Citywide Implications:

5.8 The Budget seeks to improve the quality of housing and services provided to tenants across the City.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

6.1 There are no alternative options proposed.

6.2 Rents have been set in accordance with the Government's rent restructuring guidance. In previous years, the Housing Subsidy Determination controlled rent setting increases by removing resources from local authorities through non compliance. Although the subsidy system is now abolished increases in rents above rent convergence will be subject the rent rebate limitation which sets a limit on how much rents can be increased. Any increases above this limit result in a loss of Housing Benefit Subsidy which is payable by the HRA.

6.3 The government's policy for rent restructuring is to ensure rents are fair and equitable nationally so although the authority can set rents at a lower level than rent restructuring this will bring the rents out of line nationally and provide a lower level of resources to fund repairs, maintenance and improvements works both in this years and future financial years. For example a 1% reduction in the rental increase (saving each tenant an average of £0.71 per week in rent increase) will result in a loss of rental income of approximately £1.3 million over the next five years.

7. REASONS FOR REPORT RECOMMENDATIONS

7.1 The Local Government and Housing Act 1989 requires each Local Authority to formulate proposals relating to income from rent and charges, expenditure on repairs, maintenance, supervision and management and any other prescribed matters in respect of the HRA. In formulating these proposals using best estimates and assumptions the Authority must set a balanced account. This budget report provides a breakeven budget and recommends rent increases in line with current government guidance.

SUPPORTING DOCUMENTATION

Appendices:

1. HRA Forecast Outturn 2011/12 and Budget 2012/13
2. Summary of Self Financing
3. Medium Term Financial Forecasts

Documents in Members' Rooms

None

Background Documents

1. Reinvigorating the Right to Buy and one for one replacement issued by CLG December 2011
2. The HRA Self Financing Determinations issued by CLG November 2011
3. Council housing a real future: Prospectus, issued by CLG 25 March 2010
4. Implementing self-financing for council housing, issued by CLG February 2011
5. Self Financing: planning the transition, issued by CLG July 2011
6. The HRA and self Financing Determinations, issued by CLG July 2011
7. 2012/13 Housing Revenue Account Working Papers

Appendix 1

HRA Forecast Outturn 2011/12 and Budget 2012/13

	2011/12 Adjusted Budget £'000	2011/12 Forecast Outturn £'000	2012/13 Original Budget £'000
EXPENDITURE			
Employees	9,187	8,724	8,980
Premises - Repairs Response & Voids	7,696	7,560	7,516
Premises - Cyclical Maintenance & Servicing	3,119	2,948	3,019
Premises - Grounds Maintenance	520	520	528
Premises Other	2,766	2,810	3,032
Transport	183	183	166
Contribution to Bad Debt Provision	268	168	214
Supplies & Services	1,571	1,487	1,672
Third Party Payments – Launderette contract	54	57	55
Support Services - From Other Departments	2,210	2,201	1,963
Revenue Contributions to Capital Schemes	3,778	3,778	18,084
Capital Financing Costs	4,268	4,145	7,777
Housing Subsidy Payable	14,710	14,724	0
Total Expenditure	**50,330**	**49,305**	**53,006**
INCOME			
Rents Dwellings	(44,213)	(44,176)	(46,701)
Rents Car Parking / Garages	(785)	(750)	(800)
Commercial Rents	(455)	(455)	(446)
Service Charges	(3,354)	(3,302)	(4,617)
Other Recharges and Interest	(1,523)	(1,511)	(842)
Total Income	**(50,330)**	**(50,194)**	**(53,406)**
DEFICIT / (SURPLUS)	**0**	**(889)**	**(400)**
Contribution to Earmarked Reserves			**400**
TOTAL DEFICIT / (SURPLUS)			**0**

Appendix 2

Summary of Self Financing

BACKGROUND INFORMATION

1. The current HRA subsidy system has been in operation since 1989 and serves 177 local authorities. It is subject to an annual settlement of housing subsidy where rents are effectively pooled nationally and the subsidy system subsequently reallocates these resources. Reallocation is based on a notional HRA and the repayment of historical debt. The system however has a number of flaws:
    - The notional system is complex and difficult to understand, is based on assumptions and does not really take into account local situations.
    - The annual nature of the process makes it difficult to develop a strategic approach to longer term planning.
    - The requirement for the majority of local authorities to pay a proportion of their rents known as ‘negative subsidy’ back into the national pot is unpopular, particularly now that the national pot creates a surplus overall.
    - For local authorities similar to Brighton & Hove where HRA subsidy debt is greater than HRA debt the system does not promote efficient treasury management. For example action to reduce the average cost of the council’s debt portfolio results in a decrease in General Fund expenditure but an increase in HRA expenditure.

2. The review of the Council Housing Finance system was initially launched by Ministers in March 2008. These reforms have been developed in partnership with stock-owning local authorities and have been the subject of two public consultations. Responses to the second consultation in March 2010 showed strong support for implementing the principles of self-financing and the broad methodology proposed. The Government has introduced legislation in the Localism Act now before Parliament which would commence self-financing and abolish the Housing Revenue Account subsidy system from 1 April 2012.

3. The objectives of these reforms are:
    - To give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long-term and to drive up quality and efficiency.
    - To give tenants the information they need to hold their landlord to account, by replacing the current opaque system with one which has a clear relationship between the rent a landlord collects and the services they provide.

4. Self Financing reforms are based on a calculation of the individual value of each local authority’s housing business. This is compared to their existing housing debt in order to give each a sustainable self-financing settlement. The reforms do not redistribute a fixed amount of debt between local authorities.

SELF FINANCING VALUATION MODEL

5. Self-financing will put all local authority landlords in the position where they can support their own stock from their own income. In order to bring about this change, there will be a readjustment of each local authority's housing debt. This will give each local authority a level of debt it can support, based on a valuation of its council housing stock. If this valuation is lower than the amount of housing debt which is currently supported through the Housing Revenue Account subsidy system, Government will pay off the difference. If the valuation is higher than the debt supported by Housing Revenue Account subsidy, the local authority will be required to pay Government the difference.

6. Valuations will be based on assumptions about each local authority's income and need to spend over 30 years. This 30-year cash flow of income and expenditure will then be converted into a capital sum using standard discounted cash flow techniques.

7. The following assumptions are used in the valuation model:

Income

8. The only income included in the valuation is rental income using assumptions following from the Government's social rent policy which assumes that guideline and formula (target) rents will converge by 2015/16, followed by rent increases set at the Retail Price Index plus 0.5% per annum. The valuation also assumes that the current mechanism for protecting public expenditure and rent increases by providing a cap on the level of Housing Benefit an authority will receive for its tenants will continue.

Expenditure

9. The spending needs built into the valuation are based on independent research about the costs of managing, maintaining and repairing the stock and are significantly higher than those in the current subsidy system. This has resulted in an increase of 14.8% for Brighton & Hove compared to the national average increase of 14.5%

10. In addition, the new system will now provide funding for disabled adaptations to council housing stock as the needs of tenants change in future. Expert consultants estimated the cost of meeting newly arising need at £60 per dwelling per year across the country providing funding of £116 million nationally per annum. This has resulted in funding of £0.858 million per annum for Brighton & Hove which is reflected in the HRA Capital Programme.

11. The valuation will exclude any assumed income or costs from homes that will be demolished within the next few years as part of regeneration schemes which are at an advanced stage. This is to ensure that the reform does not adversely affect the completion of current regeneration schemes. The homes on the Ainsworth Site redevelopment scheme have been excluded from the Brighton and Hove Valuation.

12. The valuation includes a forecast for losses of income and costs when properties are sold under the Right-to-Buy scheme. This forecast is based on national forecasts for house sales issued by the Office for Budget Responsibility. These have been disaggregated to local authority level using recent historical data about regional levels of Right-to-Buy sales

Discount rate

13. The assumed rents and costs will be used to produce a notional 30 year business plan of income and expenditure for each local authority landlord's business. This will be converted into a stock valuation using standard discounted cash flow principles, using a 6.5 per cent discount rate which is consistent with rates used in valuing stock in housing transfers.

Settlement payment

14. In order to calculate the payment to or from Government, the valuation will be compared with the notional amount of housing debt supported by HRA subsidy (the Subsidy Capital Financing Requirement). If the valuation is higher than the subsidy debt figure, the local authority will be required to pay Government the difference. If the valuation is lower, the Government will pay the difference to the local authority.

15. In most local authorities, the notional debt figure supported by subsidy is higher than the actual amount of debt. By using the subsidy debt figure, most local authorities will make a smaller payment to Government or receive a larger payment from Government than they would have done if the payment was based on the actual debt figure. This will benefit local authorities who have found ways to reduce their borrowing by, for example, electing to use capital receipts to pay down debt or fund investment

16. The one off settlement payment for Brighton & Hove is £19.444 million, calculated as shown in the table below:

	£'000
NPV of 30 year cashflows:	
Rental income	705,122
Management & Maintenance expenditure	(365,115)
Major Repairs Allowance expenditure	(181,632)
Debt Management costs	(1,875)
Total Valuation of Business	**156,500**
Total Notional Amount of Debt (Subsidy Capital Financing Requirement)	**(137,056)**
Settlement Payment (Debt taken on 1 April 2012)	**19,444**

Borrowing limit

17. The Prudential Code for Capital Finance (developed by the Chartered Institute of Public Finance & Accountancy) prescribes the methodology to determine the levels of borrowing affordable for local authorities. However, as the Government's first

priority is to reduce the national deficit, (and borrowing for housing purposes is included as part of the Public Sector Borrowing Requirement), housing borrowing must be affordable nationally as well as locally and therefore there will be a limit (or cap) placed at the self financing debt settlement level calculated for each authority.

18. In order to retain some flexibility over the borrowing limit to respond to big external changes which affect council housing the Localism Act includes powers to vary the definition or calculation of the Council Housing Borrowing Requirement and the Council Housing Borrowing Limit for one, some or all local authorities in the future.

19. Brighton & Hove's forecast actual housing debt at March 2012 is £127.6 million, including the settlement figure of £19.444 million, which is lower than the self financing indicative debt cap level of £158.2 million thereby providing capacity to borrow a further c£29 million subject to affordability.

Reopening the settlement

20. The introduction of Self Financing means that all the risks inherent in running a housing business will now transfer from the government to the local authority and a full risk register is being developed in preparing the HRA Business Plan. The key risks which will need to be managed and developed as sensitivities and scenarios within the model may include:
    - Inflationary risk that expenditure inflation is greater than income, particularly with rental increases determined by national rent policy.
    - Managing interest rate fluctuations and debt portfolio
    - Long term capital and maintenance responsibilities cannot be met by available resources
    - Balancing regeneration and redevelopment needs with tenants priorities

21. The Localism Bill allows the government to re open the settlements in the future where there has been a change in one of the factors taken into account in calculating the current payment (i.e. expenditure, income and debt). This would only occur if a change is made that would have a substantial material impact on the valuation and in these exceptional cases, the Government would have to issue a further determination and consult on it. For example, this could be a major change in national rental policy or a significant increase in the environmental standards expected of council housing.

THE SURROUNDING POLICY FRAMEWORK

The Housing Revenue Account ring-fence

22. The HRA operates as a separate ring fenced account and is a record of revenue income and expenditure relating to local authority's own housing stock. Items that must be accounted for within the ring fence are defined by Schedule 4 of the Local Government and Housing Act 1989 and also a DoE Circular 8/95 published in 1995. The self financing regime does not end the requirement to maintain a statutory, ring-fenced Housing Revenue Account and there is no new guidance. The Government has stated that they expect local authorities to take their own decisions, rooted in the principle that 'who benefits pays'.

Accounting and regulatory framework

Accounting Arrangements

23. The abolition of the housing subsidy system requires changes to the capital financing arrangements for housing in Treasury Management and Accounting issues such as accounting for depreciation. The self financing guidance proposes a change to the method for charging depreciation to the housing revenue account and the separation (unpooling) of housing debt from other local authority borrowing. The accounting arrangements for depreciation are being reviewed by CIPFA and guidance will be issued to local authorities with an anticipated 5 year transitional period to implement the required accounting changes.

Unpooling of Debt

24. At present, local authorities hold all their debt in one single ‘pool’ across all services so the debt attributable to housing is part of each local authority’s overall debt portfolio. Interest on the HRA debt is charged at the consolidated rate of interest (The calculation of the CRI is based on the council’s overall debt portfolio and therefore changes in the level of debt, either GF or HRA, can impact on the rate and hence the interest charged to the HRA). The current system of pooling debt allows for more efficient treasury management but leaves the HRA exposed to interest rate changes from treasury management decisions taken by the GF and vice versa.

25. Self financing requires all local authorities to separate (unpool) their housing and general fund debt into two pools. This means that the HRA will now pay interest based on it’s actual debt rather than a notional calculation.

Regulation

26. Regulation of council housing under the regulatory framework for social housing will continue to focus on consumer protection. In line with the recommendations of the Government's 2010 review of social housing regulation, as reflected in the Localism Act and proposed revised regulatory framework to take effect on 1 April 2012, the Regulator's consumer protection role will be refocused on setting clear service standards for social landlords and intervening only to address breaches of those standards which entail a risk of serious detriment to tenants. Tenants will have access to stronger tools to hold landlords to account on service delivery, with the Regulator acting as a backstop where problems cannot be resolved locally, or where a pattern of problems gives rise to broader concerns.

Disposals

27. The Government propose to reform the current statutory framework under which local authorities must first seek the consent of the Secretary of State before disposing of council housing assets and the requirement to seek the specific consent of the Secretary of State to a disposal at market value except where a local authority proposes to dispose of a dwelling occupied by a secure or introductory tenant or disposal is to a subsidiary of the local authority. The Government is reviewing responses to their consultation paper ‘Streamlining council housing asset management: Disposal and the use of receipts’. It is anticipated that changes to this framework will also come into effect from 1 April 2012.

28. In addition the Government will update the regulations governing the pooling of receipts to ensure that proposed greater freedom to dispose does not inadvertently

disadvantage any authority. Receipts from sales of vacant land or empty homes will be retained by local authorities provided they are spent on affordable housing, for regeneration.

Right to Buy

29. At present 75% of the capital receipt from the sale of council homes under the Right to Buy is paid across to the Government and local authorities retain the remaining 25%. However, the Government have published consultation proposals ('Reinvigorating the Right to Buy and one for one replacement') to increase the cap on discounts available to tenants from 1 April 2012 with the aim of increasing the number of sales above the level included in the self financing valuation assumptions. The proposals also intend that net capital receipts from sales (after administration costs, repayment of housing debt and currently forecast receipts for councils and central government) should be used to replace additional homes sold as a result of the higher discount levels. The consultation includes various replacement delivery models and outcome of the consultation will be known late February/early March.

Retention of National Rent Policy

30. Local authorities will still be required to follow national rent policy and rent convergence. The current rent restructuring formula provides a mechanism for protecting public expenditure and rent increases by providing a cap on the level of Housing Benefit an authority will receive for its tenants.

Appendix 3

Medium Term Financial Forecasts

Revenue Budget	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Expenditure			
Employees	8968	9,017	9,048
Premises -Repairs	10,535	10,625	10,469
Other expenditure	7,642	7,498	7,446
Capital Financing	7,777	9,144	10,083
Total Expenditure	**34,922**	**36,284**	**37,046**
Income			
Rental Income	(46,701)	(48,694)	(48,967)
Other Income	(6,705)	(6,388)	(6,353)
Total Income	**(53,406)**	**(55,082)**	**(55,320)**
NET SURPLUS	**18,484**	**18,798**	**18,274**
Allocated to :			
Revenue Contribution to Capital schemes	18,084	18,798	17,606
Usable Revenue Reserves	400		668

Assumptions

1. Inflation is included at 2% per annum with pay increases at 1% for 2012/13 and 2% per annum thereafter to cover pay award and pay related matters.
2. Efficiency savings are assumed at £1.100 million over 2013/14 and 2014/15.
3. Capital financing costs are projected to increase reflecting the full repayment of unsupported borrowing included in the 2009 -2012 capital programmes.
4. Rents are assumed to increase by 3.5% for 2013/14 and 3% for 2014/15. An additional weeks rents fall due in 2013/14 at an estimated rental income of £0.900 million.
5. Other income is projected to increase by 1%. However, income from major works to leasehold properties is projected to reduce by £0.380 million from 2013/14 and reduce by a further £0.100 million in 2014/15.

Revenue surpluses will be used to fund the HRA Capital Programme 2012 - 2015, also included on this agenda. Any surpluses not required for the capital programme will be held in usable revenue reserves.