

THE EXECUTIVE

16 FEBRUARY 2010

JOINT REPORT OF THE CORPORATE DIRECTOR OF CUSTOMER SERVICES AND CORPORATE DIRECTOR OF FINANCE & COMMERCIAL SERVICES

This report is submitted under Agenda Item 10. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order to avoid any delay in the setting of the housing rents and other charges as part of the Council's overall budgetary framework for 2010/11.

Title: Housing Revenue Account (HRA) Estimates and Review of Rents and Other Charges 2010/11	For Decision
Summary: The Council has a statutory responsibility through the Local Government and Housing Act 1989 to manage the HRA as a ring fenced landlord account providing housing services to the Council's tenants and leaseholders. This report makes recommendations on the setting of rents, tenants' service charges and other charges for 2010/2011, along with planned reductions in expenditure, to achieve a prudent working balance. Wards Affected: ALL	
Recommendation(s) The Executive is recommended to agree: (i) The HRA estimates for 2010/2011, as set out in Appendix 1; (ii) A Council dwelling rent increase of 1.76%, calculated in accordance with the Government's rent restructuring policy, which represents an average weekly rent increase of £1.28 ; (iii) An increases to tenant service charges of 2.98% (average of £0.21 per week); (iv) An increase to communal heating and hot water charges of 13.68% (average of £1.22 per week); (v) An increase to garage rents of 1.76% (average of £0.19 per week); (vi) The above increases taking effect from 5 April 2010; (vii) To note that rents for commercial properties will increase in line with lease agreements; and (viii) The creation of a heating and hot water account to calculate charges over a three year cycle.	
Reason(s) To meet the Council's statutory duty to annually review rents and other charges, to produce a balanced Housing Revenue Account and assist in achieving the Community Priority of "Prosperous".	
Implications Financial The financial recommendations in this report allow the HRA to set a balance budget in	

2010/11. The HRA working balance retained an insufficient working balance of £977,000 at the end of 2008/09. In 2009/10 the working balance is projected to increase to £4.369m and along with the Medium Term Financial Strategy provides a prudent working balance to ensure the sustainability of the HRA over at least the next 5 years. Notwithstanding, with the ongoing subsidy pressures on the HRA, failure to set a balanced budget in 2010/11 will mean that balances will need to be used to bridge any budget shortfall in 2010/11 thus placing further strain on the long term sustainability of the HRA.

Legal

Through the Local Government & Housing Act 1989 the Council has a statutory responsibility to manage a ring fenced HRA and is responsible for ensuring that the HRA maintains prudent revenue balances.

Contractual

No specific implications

Risk Management

The recommendations set out in this report enable the Council to set a surplus budget for the HRA to ensure that the ongoing process of restoring the working balance to a prudent level is achieved.

Failure to approve recommendations in this report would mean the Council might not be able to move back into a position of maintaining a prudent working balance, leaving the HRA vulnerable to significant risk from unforeseen cost implications. This in turn could potentially require a reduction in frontline services to tenants.

Staffing

No specific implications.

Customer Impact

This report details officers recommendations on the annual rents and charges increase to tenants and leaseholders within the Borough.

Safeguarding Children

No specific implications.

Crime and Disorder

No specific implications.

Property/Assets

No specific implications.

Options appraisal

Central Government continues to review the possibility of Council HRA's exiting the current Housing Subsidy System by way of a debt settlement, LBBD as the biggest contributor to the subsidy system is continually monitoring these developments and is in ongoing discussions with Central Government about the prospects of being an early participant/pilot Authority for exiting the HRA.

At this point no clear guidance or detailed data on how this will work is available, however logical pre-emptive work is being carried out to ensure LBBD can maximise any possibilities.

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1 INTRODUCTION

- 1.1 This report sets out the 2010/11 HRA budget, together with proposed increases in rent and other charges, the outcome of the tenants consultation exercise, reviews the forecast position and options for achieving a surplus budget to restore a prudent working balance.

2 POLICY CONTEXT

- 2.1 The Council has a statutory responsibility through the Local Government and Housing Act 1989 to manage the HRA as a ring fenced landlord account providing housing services to the Council's tenants and leaseholders. This report makes recommendations on the setting of rents and other charges for 2010/11 in accordance with the Councils statutory responsibility.
- 2.2 The Local Government and Housing Act 1989 Section 74 Part V1 specifies the major items that must be included in the HRA. Section 66(4) of the Act specifies that the HRA must be produced in accordance with approved Accounting Code of Practice.

3 HRA OUTLOOK

- 3.1 LBBB is currently the biggest contributor to the National Housing Subsidy System and until the constraints of the current subsidy system can be removed the ability of the Authority to move forward on key tenant aspirations will be difficult. The CLG is currently reviewing the Housing Subsidy System with the view of allowing Councils out of the subsidy system and to manage their HRA under the proposed new terms. It is unclear exactly how this would impact on LBBB as the key issue appears to be the allocation of debt through a "Debt Redistribution" process. Until the CLG formally issue guidance on the "Debt Redistribution" methodology then LBBB cannot determine whether the new framework is sustainable. Notwithstanding LBBB continue to be involved in key discussions with the CLG and regularly participate in discussion forums that are exploring the technicalities and implications of "Debt Redistribution." The CLG has commissioned the development of a prescribed 30-year business plan for calculating a "Debt Redistribution" model and it is intended that John Healey the Minister for Housing will in mid February 2010 put forward an offer to exit the current Housing Subsidy System to all HRA Authorities. A future Executive will need to give consideration to this.

- 3.2 In 2008/09 a HRA technical support team was tasked with exploring opportunities to increase the HRA working balance. There were a number of areas investigated and some initial successes were delivered however at the 31st March 2009 the working balance had fallen to £977,000. This reflected the ongoing difficulty in reversing previous decisions that while costing the HRA significant resources could only be reversed over the next 1-3 years. Section 3.4 explores some of these issues in further detail. In the December 2009 Resource Monitoring Panel (RMP) report the HRA projected a significant in year underspend of £3.392m thus increasing the working balance to £4.369m. Members should note that an appropriate HRA working balance should be at least £3.0m and it is recommended that the working balance is maintained between £3.0m - £5.0m.
- 3.3 Right to buy sales as a result of the economic downturn have slowed considerably and for the foreseeable future is anticipated to remain low, this is also contributing to the Council's low level of available capital resources.
- 3.4 Members should note that significant efforts have focused on improving the overall management of the HRA to ensure the account remains financially viable. This has included:
- i. Completing the phased approach of depooling tenant service charges, this will generate £7.333m income in 2010/11. Completing this exercise was essential in preventing further exposure to the CLGs rent rebate subsidy limitation that was budgeted to cost £4.611m in 2008/09. The depooling resulted in this being reduced to a maximum of £500,000 in 2009/10 and this will be reduced to nil for 2010/11.
 - ii. Tenancy services work continues to drive out efficiency savings including a reduction in the Enterprise Ltd Repairs & Maintenance contract of £500,000 from 2010/11. Discussions on future efficiency continue beyond 2010/11.
 - iii. A review of the water and sewerage contract with Essex Water Board (EWB) was undertaken to assess the processes in place for managing this contractual arrangement. Changes included renegotiating the administration charge, renegotiating the management of voids, in particular voids from decants subject to a demolition order, and also identified flaws in the management process whereby the HRA failed to maximise the financial benefits of empty properties. This work has resulted in the administration charge increasing from 4.5% to 11.5% worth £500,000 a year and recovered £1m in payments previously made to EWB.
 - iv. A review of the HRA's use of energy and energy billing processes has identified process improvements that have enabled the Authority to recoup over £400,000 from EON. This work is ongoing and further savings are expected from EON and the review will then be rolled out to the second main energy provider EDF.
 - v. A fundamental review of the subsidy impact on LBB has taken place. This highlighted opportunities for the HRA to maximise payments from the CLG for rent loss through the Council's continued support of the rent restructuring policy. In 2008/09 the HRA successfully recovered £1.0m from the Rental

Constraint Allowance (RCA) and followed this process through into 2009/10 and 2010/11 by increasing the 'caps & limits' adjustment paid by the CLG from £130,000 to £980,000 in 2009/10 and £2.014m in 2010/11. Whilst this is technically not new income as the CLG is refunding the Council for lost income from tenants derived from the rent restructuring policy, it is also evidently clear that in previous years the Council had not attached the level of technical expertise needed to ensure that monies due to the Council were recovered. For example in 2007/08 the Council did not submit a claim for RCA when they were clearly entitled to do so.

- vi. During the rent setting process in 2009/10 the Housing Minister issued a statement on the 6th March 2009 informing Councils and tenants that a late adjustment to the rent restructuring policy would see all tenants benefit from a reduced rent increase. Rent letters across the country had been sent to tenants and confirmation of this change was unlikely to occur before June 2009. In light of this LBBB implemented the change to reduce tenants rents from April 2009 in doing saved tenants £2.1m which has since been fully recouped through the subsidy system from the CLG.

4 MEDIUM TERM FINANCIAL STRATEGY (MTFS)

- 4.1 The HRA MTFS aims to secure the medium and long term financial viability of the HRA. This includes robust financial management in the short term to ensure a balanced HRA budget can be set each year and the medium to long term strategy aimed at ensuring a prudent HRA working balance is maintained to support the delivery of quality services to residents in line with all stakeholders expectations. The HRA MTFS is particularly relevant with the current demands of the Housing Subsidy system and the likelihood that any move away from this system could require primary legislation and as such has the potential to not come into effect until at least 2012-13.
- 4.2 A change in Government in the 2010 election has the potential to derail this process however the indication is that the process will continue regardless of who is in power, though some details and the timetable may alter.
- 4.3 The Authority is hopeful of an exit prior to 2012-13 and on consultation it can move forward meeting our objectives of investing in our existing stock.

5 FINANCIAL IMPLICATIONS

5.1 RENTAL INCOME

- 5.2 The Government, through the rent restructuring policy, determines annual increases in rent levels. The purpose of this policy is to charge tenants fair and affordable rents below private sector market rents. The rent restructuring policy originally required tenant rents to converge to formula rent by 2011/12. In each of the last 3 years' the Government has amended the rental convergence timeframe. In the draft subsidy determination 2010/11 the Government specifically uses 3.07 years as the rent convergence factor, a significant change from 2009/10 where convergence was scheduled for 2015/16. The impact of this change will see tenants whose rents have not converged to date incurring a slightly higher rent increase than previously calculated. That being said, the

Government policy on calculating formula rents includes a driver for inflation, in 2010/11 this is -1.4%. With this deflationary factor embedded in the rent formula the proposed annual rent increase is £1.28 per week or 1.76%

- 5.3 As part of the annual subsidy determination, the Government will protect Councils where tenants' rents do not converge due to the rental income constraints of following the rent restructuring policy. This is applied through the 'caps and limits' constraints that ensure an individual tenant does not have a rent increase (including tenant service charges) that exceeds RPI + 1/2% + £2. The impact of the 'caps & limit' constraint in 2010/11 will be a loss of rental income of £1.46 per week per dwelling on average or £1.434m in total to the HRA. The protection offered within the subsidy determination will see the lost rental income paid annually in arrears.
- 5.4 The 2010/11 housing subsidy determination instructs Councils to increase rental income by RPI of -1.4% plus 0.5% (-0.9%) plus an element for rent convergence as directed through the rent restructuring policy. Appendix 3 summarises the year on year changes in rental income, tenant service charges and the impact on rent rebate subsidy limitation.

5.5 TENANT SERVICE CHARGES

- 5.6 Tenant service charges have been depooled for five services, these being caretaking, concierge, grounds maintenance, security charges and TV aerials. The proposed increase in the charge for these services is 2.97% or £0.21 per week.
- 5.7 In 2009/10 full depooling of tenant service charges was completed. This enabled a full reconciliation of the Council's charging mechanisms which subsequently highlighted that 780 properties had been charged incorrectly, in most cases meaning that no charge has been applied. These accounts have now been set up and the charges will be made in line with the correct charging process. Those tenants impacted by this oversight will see a small reduction in their rent account to offset the full inclusion of the tenant service charge.

5.8 RENT REBATE SUBSIDY LIMITATION (RRSL)

- 5.9 The RRSL represents the charge to the HRA where the average rent charged to tenants is determined as exceeding the Government's guideline rent for the Council. In 2008/09, the rent setting process set aside a budget of £4.611m for this charge. In 2010/11, this charge has been managed down to nil as a result of the ongoing work to charge tenants service charges based on services they receive rather than pooling costs under a single rental charge.

6 HOUSING SUBSIDY DETERMINATION

- 6.1 The CLG has issued the draft subsidy determination for consultation and the information contained in this report is based on the draft determination.
- 6.2 The HRA contributes annually to the national notional HRA based on the Housing Subsidy Determination as issued by the Secretary of State through the CLG. The Council's HRA continues to be a net contributor to the national notional HRA with

a payment of £19.428m in 2010/11. This represents a decrease of £459k or 2.3% from 2009/10. Appendix 6 summarises the movement in the draft subsidy determination. The key issues to be taken from this include:

- 6.3 The management allowance has increased by £708,000 to £14.851m based on an inflation factor increase of 3.05%.
- 6.4 The maintenance allowance has decreased by £124,000 to £25.352m. Historically the Council's maintenance allowance exceeded the level calculated within the subsidy determination thus meaning the Council's allowance is protected annually at the higher level. The decrease in 2010/11 is due to the lower dwellings retained by the HRA due to right to buy sales. Members should note that the protection is reviewed each year and so it is possible that this could be removed in 2011/12. The HRA will benefit by £143,000 in 2010/11.
- 6.5 The major works allowance has increased by 4.06% per dwelling in 2010/11 representing an increase of £480,000. These resources are earmarked to fund the Council's Decent Homes Programme (Housing Futures) through the Major Repairs Reserve and so will not directly benefit the HRA.
- 6.6 Subsidy capital financing requirement (payment of interest to the CLG) will decrease by £804,000 in 2010/11 this however does not represent a real increase in resources as there is a corresponding reduction in interest payments from the General Fund to the HRA.
- 6.7 Members should note that if the Major Repairs Allowance (MRA funds capital) and subsidy capital financing requirement are excluded from these figures then the subsidy payable to the Treasury increases from £32.144m to £33.000m. This is an increase of £856,000 or 2.66% and shows the real revenue impact of the draft subsidy determination on the Council's HRA.

7 OTHER INCOME

- 7.1 There are numerous other sources of income to the HRA other than rental income. The main sources of income include:
- 7.2 Commercial property rents are based on the contractual agreement in place at the start of the commercial let. The contract determines the annual increase in the rental charge. Where a contract comes up for renewal or is a new contract then these charges are determined based on market conditions. It is anticipated that the current economic situation will have minimal or no significant impact on this income.
- 7.3 Garage rental income will increase by 1.76% taking the average charge from £10.84 to £11.03 per week.
- 7.4 The heating & hot water charge is paid by over 3,300 tenants and formed part of the ongoing HRA technical review. Section 11 of this report provides further analysis on this area.
- 7.5 The HRA charges and collects water rates to tenants on behalf of the Essex Water Board (ESB). The ESB in return pay the HRA a fee for the management

and collection of water rates. The ESB also determine the annual increase in charges and these increases are applied to tenants by the Council. The ESB's proposed increase in 2010/11 has still to be agreed and so the Council have not been notified of the proposed increase to date.

8 HOUSING INVESTMENT PROGRAMME

8.1 The Housing Investment programme (formerly Housing Futures) is funded mainly from the Councils capital receipts and the Major Repairs Allowance (MRA). The MRA is the redirection of the HRA's revenue resources to capital through the Housing Subsidy determination. In 2010/11 the MRA will be £13.971m, an increase of £481,000. Appendix 7 summarises the MRR financial position and details the drawdown from the account to support the Councils Housing Futures capital programme.

8.2 Whilst the main sources of funding of the Housing Investment Programme is covered earlier it is possible for the HRA to make a revenue contribute to the MRR to assist with the funding of the capital programme. Members should note that to do this would require the HRA to maintain significant working balances that protect the long-term viability of the HRA. It is officer's opinion that the HRA does not hold sufficient revenue balances to be in a position to support the Housing Investment Programme capital programme.

9 RECHARGES

9.1 Recharges to the HRA are for services provided to HRA tenants and leaseholders by internal Council services. These range from central service functions such as Payroll, Finance and IT to front line delivery services such as refuse collection, grounds maintenance and building cleaning. Recharges in 2009/10 of £13.129m were charged to the HRA and in 2010/11 this will increase to £14.069m. This represents an increase of £940,000 or 7.16%.

9.2 Members should note that the recharges above for support services are paid by the HRA to the Council's General Fund. The HRA continues to drive out efficiencies from services and contracts controlled by Housing in order to maintain balances that protect the HRA from the difficult subsidy position driven by Central Government. If the HRA is to leave the subsidy system in the near future then it would need to ensure that the HRA maintained reasonable balances that would provide some room for manoeuvre when the "Debt Redistribution" is agreed. It would seem likely that the Council may need to reassess the level of recharges from central services made to the HRA in order to deliver more efficiencies however it should be noted that the General Fund would need to deliver these savings before reducing its charges to the HRA.

10 DIRECT COSTS

10.1 The HRA provides a repairs and maintenance service to tenants as part of its duty as a social landlord. The HRA has set aside a budget of £24.231m to meet its landlord duty in 2010/11. The service will continue to be provided by Enterprise Ltd in accordance with the ten year repairs contract between both parties. In recent years the HRA has set aside £3.5m for the capitalisation of

revenue repairs, this will be reduced to £2.5m in 2010/11 to reflect the pressure on resources available to the Capital Programme.

10.2 HRA supervision and management costs will increase by £1.439m from £27.996m to £29.435m representing an increase of 5.1%. The increase in supervision and management costs can be separated into the following categories:

- a) Inflation on salaries set at 0% in line with the Corporate policy;
- b) No net inflationary increases on central recharges to the HRA although some specific changes have occurred, notably refuse collection and grounds maintenance charges have increased by £610,000. This follows a review of the charging in these services in 2009/10 that highlighted that the HRA was being under charged for these services.
- c) Energy costs are projected to increase in 2010/11 and along with a realignment of energy budgets these costs are expected to increase by £804,000.

11 HEATING AND HOT WATER CHARGES

11.1 In 2009/10 heating and hot water charges remained at 2008/09 prices based on the assumption that gas and electric prices would reduce during the year. In fact prices did not materially change and so a shortfall in heating and hot water income of £250,000 has been incurred in 2009/10. Heating and hot water charges will need to increase by 13.68% or £1.26 in 2010/11 to bring the base charge in line with expenditure incurred in delivering this service. This will correct the base position for 2010/11 although this will not recover the £250,000 deficit in 2009/10. To recover the 2009/10 deficit a further 15.53% will need to be added to the proposed increase for one year.

11.2 While it is recommended to Members that the deficit incurred in 2009/10 is not recovered this time, officers do propose that a heating account is set up and managed over a rolling three year period. This will enable the HRA to recover one year deficits by calculating an average charge spread over three years, thus also removing the risk of large one off increases when energy prices surge.

12 Consultees

12.1 The following were consulted in the preparation of this report:

- Councillor Philip Waker Lead Member for Housing
- Stephen Clarke Divisional Director of Housing
- David Woods Corporate Director of Customer Services
- Tracie Evans Corporate Director of Financial Services
- Bill Murphy Corporate Director of Resources
- Yinka Owa Legal Partner

13 Background Papers Used in the Preparation of the Report:

- Local Government Act 2003;
- Housing Revenue Account Manual;
- Department for Communities and Local government (CLG) 2009/10 and 2010/11 Subsidy Determinations;
- Office of the Deputy Prime Minister (ODPM) Consultation Papers on Resource Accounting and Rent Convergence;
- ODPM Consultation paper on the three year review of Rent Restructuring;
- Service Plan for Housing Services;
- Executive Report 2009-10 Housing Revenue Account (HRA) Estimates and Review of Rents and other Charges

14 List of appendices:

Appendix	Description
1	HRA Estimate 2010/11
2	HRA Working Balances
3	Rental Income Analysis
4	Average Rent Analysis
5	Rent Rebate Subsidy Limitation
6	Housing Subsidy Determination
7	Major Repairs Reserve
8	Rental Income Debtor Account
9	Analysis of Rent Change