

CABINET

15 FEBRUARY 2011

REPORT OF THE CABINET MEMBER FOR HOUSING

Title: Housing Revenue Account (HRA) Estimates and Review of Rents and Other Charges 2011/12	For Decision
<p>Summary:</p> <p>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 2011/12, along with planned reductions in expenditure, to achieve a prudent working balance.</p> <p>In achieving efficiencies which have benefited the HRA, headroom has been created to support the proposal to borrow £16.4 million to accelerate the Council's estate renewal programme. This sum together with the £7.1m agreed by the Cabinet on 5 October 2010 funds the full first phase of the Estate Renewal Programme of £23.5m.</p> <p>Wards Affected: All</p>	
<p>Recommendation(s)</p> <p>The Cabinet is recommended to agree:</p> <ul style="list-style-type: none">(i) The HRA estimates for 2011/2012, as set out in Appendix 1, and in particular;<ul style="list-style-type: none">a) A Council dwelling rent increase of 7.06%, calculated in accordance with the Government's rent restructuring policy, which represents an average weekly rent increase of £5.22;b) An increase to tenant service charges of 0.72% (an average of £0.20 per week);c) An increase to communal heating and hot water charges of 22.1% (an average of £2.11 per week);d) An increase to garage rents of 7.06% (an average of £0.77 per week);(ii) The increases in (a) to (d) above taking effect on 4 April 2011;(iii) To note that rents for commercial properties will increase in line with lease agreements;(iv) Approval to borrow £16.4m to pump prime the Council's Estate Renewal Programme, subject to (a) the finalisation of the "debt settlement" cap operating under the new HRA self-financing system and its impact on resulting borrowing capacity, and (b) confirmation by the Corporate Director of Finance and Resources and the Corporate Director of Customer Services that the conditions for prudential borrowing have been met; and	

- (v) That a further report be brought to the Cabinet following a review of HRA costs and charges with a view to identifying additional potential savings to the HRA which may provide capacity for service greater investment.

Reason(s)

To meet the Council's statutory duty to annually review rents and other charges, to ensure rent levels conform with the Government's rent restructuring proposals and to produce a balanced Housing Revenue Account and assist in achieving the Community Priority "Prosperous".

Comments of the Chief Financial Officer

The financial recommendations in this report allow the HRA to set a balanced budget in 2011/12. The HRA working balance retained a working balance of £3.4m at the end of 2009/10, and is forecast to increase further to £4.4m by March 2011. This provides a prudent working balance to ensure the sustainability of the HRA until HRA reform takes place at the proposed date of 1 April 2012. Setting a deficit budget in 2011/12 would require a call on reserves to bridge any budget shortfall in 2011/12 thus placing further strain on the long term sustainability of the HRA.

Comments of the Legal Partner

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.

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1. Background

- 1.1 This report sets out the 2011/12 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 2011/12 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.

3.2 The CLG is currently reviewing the Housing Subsidy System with the view of allowing Councils to buy themselves out of the current subsidy system and to manage their HRA under a self-finance regime. It is unclear, at this stage, exactly how this would impact on LBBB as the key issue appears to be the allocation of debt through a "debt redistribution" process. CLG has provided formal guidance on the "Debt Redistribution" methodology but final figures will not be known until January 2012.

3.3 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" and to determine whether the new framework is sustainable. The CLG has commissioned the development of a prescribed 30-year business plan for calculating a "debt redistribution" model and Grant Shapps (Minister for Housing) will put forward an offer to exit the current Housing Subsidy System to all HRA Authorities through the Localism Bill – this is subject to primary legislation being passed by the end of 2011. A future Cabinet meeting will need to give consideration to this.

3.4 The offer will be based on future income streams of authorities and will place an overall borrowing cap on the HRA. LBBB is seeking particular clarity over a number of issues: its negative subsidy debt of £19m; the fact that 2,400 properties will drop out of its base stock as a result of the estate renewal programme and the fact that it has been borrowing to fund new builds and supplement capital spend on Housing Futures. These are all factors that will contribute to the 'settlement' and 'borrowing cap' figures.

3.5 In 2008/09 a HRA technical support team was tasked with exploring opportunities to increase the HRA working balance. There were a number areas investigated and some initial successes were delivered. However at 31 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 3.7 explores some of these issues in further detail. By 31 March 2010 the working balance had been increased to £3.4m and a further under spend of £1m is targeted in 2010/11, thus potentially increasing the working balance to £4.4m. Members should note that Officers' recommend 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.

- 3.6 Right-to-buy sales as a result of the economic downturn have slowed considerably and, for the foreseeable future, are anticipated to remain low which is also contributing to the Council's low level of available capital resources.
- 3.7 Members should note that significant efforts have been 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 which will generate £7.5m income in 2011/12. Completing this exercise was essential in preventing further exposure to the CLG's rent rebate subsidy limitation that was budgeted to cost £4.611m in 2008/09. The depooling resulted in this being reduced to nil for 2010/11 and 2011/12.
 - (ii) Tenancy services work continues to drive out efficiency savings including a reduction in the Enterprise Ltd Repairs & Maintenance contract of £500,000 from 2011/12. The contract with Enterprise is set to expire in March 2013.
 - (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 fundamental review of the subsidy impact on LBBD 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, 2010/11 and 2011/12 by increasing the 'caps & limits' adjustment paid by the CLG from £130,000 to £980,000 in 2009/10, £2.094m in 2010/11 and £2.015m in 2011/12. 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 evident 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.
- 3.8 The Council is committed to regenerating its estates within the borough where the cost to achieve the government Decent Homes standard is thought not to provide value for money, and/or communities are failing in the current set up. A programme for an initial £7.1m was agreed by members for which revenue implications have been built into the 2011/12 budget. This constitutes an income loss of approx £1.4m. A further £16.4m is estimated to complete the Estate Renewal Programme, and has been included in the budget but will be subject to CLG approval of settlement debt cap (note 3.2). Income loss of £733,000 and debt charges of £1.48m is estimated for this additional borrowing based on the estimated profiling of the decanting process.

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.
- 4.2 The current HRA MTFS is relevant only until April 2012 when it is likely that the government will impose a self financing regime. A revised MTFS will be produced post settlement.
- 4.3 The changes to the HRA subsidy system were started by the previous government and it looks likely that the changes will be implemented by the new government through the provisions in the Localism Bill which is due to be enacted shortly.

5. Financial Issues

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 three years the Government has amended the rental convergence timeframe. In the Subsidy Determination 2011/12, the Government specifically uses 5 years as the rent convergence factor. The Government policy on calculating formula rents also includes a driver for inflation, in 2011/12 this is 4.6%. With this inflationary factor embedded in the rent formula the proposed annual rent increase is £5.22 per week or 7.06%
- 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 2011/12 will be a loss of rental income of £2.06 per week per dwelling on average or £2.015m 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 2011/12 housing subsidy determination instructs Councils to increase rental income by RPI of 4.6% plus 0.5% (5.1%) 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 0.70% or £0.20 per week.

5.7 Rent Rebate Subsidy Limitation (RRSL)

5.8 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 2011/12, 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 final subsidy determination for consultation and the information contained in this report is based on the final 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 £18.931m in 2011/12. This represents a decrease of £497,000 or 2.56% from 2010/11. 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 £1.396m to £16.249m based on an inflation factor increase of 9.9%.

6.4 The maintenance allowance has increased by £1.890m to £27.2439m. 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.

6.5 The major works allowance has increased by 5.65% per dwelling in 2011/12 representing an increase of £728,000. 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 £242,000 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 £33.0m to £33.475m. This is an increase of £475,000 or 1.43% 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 7.06% taking the average charge from £11.03 to £11.80 per week.
- 7.4 The heating and 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 2011/12 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 Council's 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 2011/12 the MRA will be £14.697m, an increase of £728,000. Appendix 7 summarises the MRR (Major Repairs Reserve) financial position and details the drawdown from the account to support the Council's Housing Futures capital programme.
- 8.2 Whilst the main sources of funding of the Housing Investment Programme are covered earlier it is possible for the HRA to make a revenue contribution 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.
- 8.3 The Government has invited all authorities that have not yet achieved Decent Homes for all their stock to make bids for further resources. The Council on 11th January submitted a bid for £65 million for the period of the current Government Spending Review period based on an updated stock condition survey. If the bid is successful, this will be an addition to the Housing Investment Programme as currently agreed. The mechanism of providing resources is likely to be through borrowing approval in the first year, with cash grants in the proceeding years. The borrowing cost has been factored into the budget setting.

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 2010/11 of £13.643m were charged to the HRA and in 2011/12 this will decrease to £12.302m. This represents a decrease of £1.4m or 9.82%.

- 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. Evidence of this has started to materialise with a reduction of £1.4m for 2011/12.
- 9.3 A thorough review is currently in progress of the costs borne by the HRA with the aim of bringing a report to Cabinet in late Spring 2011 with a view to find further headroom to the £1.4m referred to in 9.2 to improve the future viability of the Council's Housing stock and the services to tenants.

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 £23.154m to meet its landlord duty in 2011/12. 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 2011/12 to reflect the pressure on resources available to the Capital Programme.
- 10.2 HRA supervision and management costs will decrease by £0.668m from £29.599m to £28.931m representing a decrease of 2.3%. The decrease 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.
 - c) Energy costs are projected to increase in 2011/12 and whilst no formal announcement has been made by energy providers, the market has seen costs rise by 7-10%.

11. Heating and Hot Water Charges

- 11.1 A heating account was set up in 2010/11 to be 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.

- 11.2 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 had been incurred in 2009/10. Heating and hot water charges were 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 corrected the base position for 2010/11 although did not recover the deficit in 2009/10 which would have required a further 15.53% increase. 2011/12 charges need to increase by total of 22% to recover full charges - 7% due to price increase, and 15% due to shortfall in previous year.

12 Other Implications

12.1 Risk Management

The recommendations for the revenue increases as set out in this report enable the Council to generate 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 be detrimental to the Council' objective 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.

There is a risk that CLG will not adjust the borrowing cap which will be set as an integral part of the Council's Housing self financing settlement to come into place in April 2012 to reflect the additional £16.4 million borrowing in recommendation (iv). To mitigate this risk the Council is in negotiations with senior CLG officials to emphasise that estate renewal is central to our Housing Asset Management Strategy and the Council's regeneration plans.

The Section 151 officer and Corporate Director of Customer Services will need to assess, if there is continuing uncertainty on this matter, whether entering into this borrowing would have a prejudicial impact on the Council's HRA Business Plan.

The debt apportionment upon which the self financing regime will be predicated is based on the number of homes that are in the HRA. Given that estate renewal is central to the Council's Housing Asset Management Strategy and regeneration plans it is vital that the 2,400 flats to be decanted and demolished are discounted from the CLG calculations. Ongoing negotiations are in place with CLG officials on this issue – indications are positive that the adjustment will be made on an incremental basis as housing stock is demolished.

12.2 Contractual Issues

No specific implications

12.3 Staffing Issues

No specific implications.

12.4 Customer Impact

It is recognised that an average rent increase of £5.22 per week will impose a significant burden for many tenants. This is the direct impact of the application of the Government's proposals on Council Housing subsidies and allowances, over which the Council has no effective discretion nor flexibility.

Support and advice will be given to tenants in relation to benefit take up where appropriate. It should also be noted that the Council is accelerating the estate renewal programme which will directly benefit up to 2,400 tenants and is producing a Housing Asset Management Strategy which will include investment plans for the remainder of the housing stock. A particular priority within the strategy will be investment in measures to tackle fuel poverty which should reduce energy costs for tenants and therefore help mitigate the impact of the rent and other increases in charges.

12.5 Safeguarding Children

No specific implications.

12.6 Health Issues

No specific implications.

12.7 Crime and Disorder Issues

No specific implications.

12.8 Property / Asset Issues

This reports deals with assets belonging to the HRA.

13. Options appraisal

13.1 Rents

Rent increases are controlled through a mixture of the current Housing Subsidy System and Housing Benefit Limits. Therefore, not increasing by the proposed amount will result in an income shortfall to the – the negative subsidy payment calculation “assumes” a certain level of rents which wouldn’t be achieved if the percentage increase was lower than that proposed in this report. Conversely, increasing rents by higher amounts than that proposed will not result in additional income as this would have to be passed over to DWP.

13.2 Service Charges

The proposed increases are based on the estimate required to recover full cost of providing these services. Lower increases will result in under recovery, and a resulting increased pressure on reserves, whilst any higher increases can potentially be challenged by tenants and leaseholders.

13.3 HRA investment through borrowing

The regeneration of housing estates requires investment and it is appropriate that Council tenants and future council tenants pay for this investment rather than the general Council Tax payer. The cost of investment (via borrowing) should therefore be borne by the HRA rather than the General Fund.

14. Background Papers Used in the Preparation of the Report:

- Local Government Act 2003;
- Housing Revenue Account Manual;
- Department for Communities and Local government (CLG) 2010/11 and 2011/12 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;
- Cabinet Report 2010-11 Housing Revenue Account (HRA) Estimates and Review of Rents and other Charges

15. List of appendices:

Appendix	Description
1	HRA Estimate 2011/12
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