

## CABINET

14 FEBRUARY 2012

<b>Title:</b> Housing Revenue Account Estimates and Review of Rents and Other Charges 2012/13	
<b>Report of the Cabinet Members for Housing and Finance and Education</b>	
Open	<b>For Decision:</b> Yes
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Directors:</b> Darren Henaghan, Corporate Director of Housing and Health and Tracie Evans, Corporate Director of Finance and Resources	
<b>Summary:</b> <p>This report concerns 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.</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 2012/13, along with planned reductions in expenditure, to set a balanced revenue budget and maintain prudent reserves.</p> <p>Fundamental changes to council housing finance come into effect from 1 April 2012 upon the introduction of HRA self-financing. Future subsidy payments to CLG will be replaced by additional borrowing costs associated with the debt acquired as a result of the self-financing settlement currently estimated to be approx £265m. This removes the dependency of councils to await an annual determination figures from CLG and enables LBBd to set budgets based on its long term business plan and stock investment priorities.</p> <p>An HRA Business Plan will be brought to Cabinet in March 2012 which will set out the investment needs and proposed resourcing for the Council's housing service in terms of new build homes, estate renewal and major investment programmes to improve living conditions for the Council's tenants and leaseholders.</p>	
<b>Recommendation(s)</b>	
The Cabinet is recommended to agree:	
(i) The HRA estimates for 2012/2013, as set out in Appendix 1 and in doing so:	

- a. An overall average Council dwelling rent increase of 6.8%, equivalent to £5.37 per week, which comprises the following
  - New build Council homes - rents set at 50% of the appropriate Local Housing Allowance level
  - Other houses - 7.1% average increase
  - Other flats - 6.3% average increase
- b. A decrease to tenant service charges (excluding concierges) of 10.7% (£1.91 per week)
- c. An increase in Concierges charge of 9.6% (£1.02 per week)
- d. No increase to communal heating and hot water charges
- e. That rents for commercial properties will increase in line with lease agreements

(ii) The above changes taking effect from 2 April 2012.

### **Reason(s)**

The Council must prepare proposals in January and February each year relating to income from rent and other charges, and expenditure in relation to management and maintenance of its housing stock. A decision is required with regard to rents and service charges in February in order that statutory notice can be given to tenants prior to 2 April 2012 implementation.

## **1. Introduction and Background**

1.1 This report sets out the 2012/13 HRA budget, together with proposed increases in rent and other charges, reviews the forecast position and options for maintaining sufficient reserves to safeguard against contingencies and generate the resources to ensure that the Council can deliver its Housing investment priorities.

## **2. Proposal and Issues**

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 2012/13 in accordance with the Council's 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

2.3 The Localism Act 2011 has introduced a new system of financial arrangements for council housing, replacing the former national HRA and subsidy system with local self-financing of council housing. In return for re-allocating the national aggregate council housing debt, councils can retain all of their locally generated income from council housing but will have no further recourse to Central Government in the managing of its housing finances.

2.4 The Cabinet can determine to increase rents higher or lower than national guidelines but any rent increase below that assumed in the business plan would put

at risk the council's ability to fund the future housing capital programme. Increases above national rent policy however are restricted due to Housing Benefit rent limits.

### **3. HRA Overview**

- 3.1 LBBB is currently the biggest contributor to the National Housing Subsidy System and until the constraints of the current subsidy system are removed, the Council's ability to move forward on key tenant aspirations has proved difficult. The CLG has now completed its review and consultation on the Housing Subsidy System with HRA Reform set to be introduced on 1 April 2012. It allows Councils to buy themselves out of the current subsidy system and it is expected that the allocation of debt to LBBB will be in the region of £265m.
- 3.2 The settlement methodology is based on estimated future income streams and expenditure of authorities. Once the debt settlement figure is finalised (end of January 2012) this will also constitute an overall borrowing cap for the Council. Although local authorities will be permitted to breach the cap during the course of a financial year they will be required to reduce any borrowing to the cap limit by the end of that financial year.
- 3.3 There are two important aspects of Right-to-buy sales which affect the debt settlement. The Council's average RTB sales are still considerably higher than the London average which unfortunately is the figure which CLG have assumed as part of the debt settlement. The importance of the RTB figure used is that the settlement removes the forecast number of RTB properties from the settlement calculation on the basis that there will be no further income streams or costs associated with these properties. As the Council's actual number of RTBs are higher than the London average the Council will have debt associated with these additional RTB sales. However, the settlement also assumes the capital receipts will be used to offset that debt and therefore ring-fenced within the HRA.
- 3.4 The recent announcement by central government regarding proposals to stimulate RTB sales is currently subject to consultation but CLG have indicated that Councils will not be prejudiced in this respect in relation to the debt settlement.
- 3.5 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 de-pooling tenant service charges, this will generate £6.3m income in 2012/13. 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 de-pooling resulted in this being reduced to nil by 2010/11. Further work to review the methodology for allocating service charges is also currently underway.
  - ii. Tenancy services work continues to drive out efficiency savings including a reduction in the Repairs & Maintenance budget of £2.1m (Revenue) from 2012/13. The contract with Enterprise is set to expire in March 2013 and LBBB is currently in the process of putting in place new arrangements for the future delivery of repairs and maintenance.

- 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 £624,000 a year and recovered £1m in payments previously made to EWB.
- iv. The Council is committed to Regeneration of estates within the borough where 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 £46m was agreed by Cabinet for which revenue implications have been built into the HRA business plan and the budget for 2012/13.

#### **4. Consultation**

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

Councillor Philip Waker	Lead Member for Housing
Darren Henaghan	Corporate Director of Housing & Environment
Tracie Evans	Corporate Director of Financial & Resources
Ken Jones	Divisional Director of Housing Strategy
Paul Field	Senior Lawyer Planning & Housing
Maureen McEleney	Divisional Director of Housing & Neighbourhood Services

#### **5. Financial Implications**

Implications completed by Jo Moore, Group Finance Manager, Housing & Environment

##### **5.1 Rental Income**

- 5.1.1 Under the existing subsidy system 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 Determination for 2012/13 the Government specifically uses four years as the rent convergence factor.
- 5.1.2 The Government policy on calculating formula rents also includes a driver for inflation and for 2012/13 this would be 5.6%. With this inflationary factor embedded in the rent formula the proposed annual rent increase would have been an average of £6.37 per week or 7.98%. However, in light of such high rent increases in current economic conditions for 2012/13 the proposal is an increase of £5.38 per week or 6.8%. It is also proposed to implement a rents policy which differentiates between

property types. This would mean whilst the overall rental income increase is proposed to be 6.8% for 2012/13 the composition is as follows:-

- new build Council homes – rents set at 50% of the appropriate Local Housing Allowance (LHA) levels
- other houses – rent increase 7.1%
- other flats – rent increase 6.3%

5.1.3 In future years it is proposed that, for houses and flats that have been refurbished, rents will be set at 50% of LHA. The justification for this approach is that new homes and fully refurbished homes will enjoy significantly reduced heating and energy bills and will be more desirable. It is also the case that houses are generally more sought after than flats. The impact of the policy is that the rents for less attractive flats, which have yet to benefit from the major investment programme, will increase at a lower rate than that for houses and refurbished flats.

#### 5.1.4 London Borough comparisons of proposed rent increases 2012/13

<b>Borough</b>	
Brent	7.15%
Enfield	6.95%
Lambeth	7.2%
Southwark	7.96%
Havering	7.45%
Newham	7.8%
Tower Hamlets	7.5%
Camden	8.1%
Ealing	6.8% - 7.5%
Greenwich	7.2%

The above increases are derived from the Government formula and are the levels being proposed for consideration by those Councils to impose from April 2012. As can be seen, the rent increase proposed for Barking & Dagenham tenants is the lowest.

5.1 5 Appendix 3 summarises the year-on-year changes in rental income, tenant service charges and the impact on rent rebate subsidy limitation.

## 5.2 Tenant Service Charges

5.2.1 Tenant service charges have been de-pooled for five services. These charges are in respect of caretaking, concierge, grounds maintenance, security charges and TV aerials. It is proposed to offer a reduction in the charge for these services of 3.1% or £0.89 per week, to be funded by efficiency savings achieved within the HRA. Further work on the distribution of service charges is also being carried out and will be brought to Cabinet over the coming months.

## 5.3 Rent Rebate Subsidy Limitation (RRSL)

5.3.1 The RRSL relates to Housing Benefit and represents the charge to the HRA where the average rent charged to tenants is determined as exceeding the

Government's limit rent for the Council. In 2008/09, the rent setting process set aside a budget of £4.611m for this charge. In 2012/13, 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.

- 5.3.2 The rent increase proposed in this report is lower than the limit rent increase and therefore there is no implication in respect of RRSL.
- 5.3.3 If, the Council were required to follow rent convergence at some point in the future there would still be no impact because limit rent also follows rent convergence.
- 5.3.4 Should the current review of the distribution of service charges "re-pool" some charges back into core rents such that the revised rent was increased above limit rent then there would a cost to the HRA.

## **5.4 Housing Subsidy Determination**

- 5.4.1 The introduction of Self-financing means that the annual Subsidy payments made by LBBB to the CLG (£19m in 2011/12) will be replaced by the one-off debt settlement (of £265m) effective from 1st April 2012.

## **5.5 Other Income**

- 5.5.1 There are some other sources of income to the HRA other than rental income. The main sources of income include:
  - (a) 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.
  - (b) Garage rents - a review is currently being undertaken of garage rents and proposals for better usage of garage sites. A report will be brought to Cabinet on this issue. Any disposals arising from the approval of the report have not been taken into account in the budget setting for 2012/13.
  - (c) The heating & hot water charge is paid by over 3,300 tenants and formed part of the ongoing HRA technical review. Section 5.8 of this report provides further analysis on this area.
  - (d) 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 2012/13 has still to be agreed and so the Council have not been notified of the proposed increase to date.

## **5.6 Recharges**

- 5.6.1 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 of £13.757m were made to the HRA in 2011/12 and in 2012/13 this will decrease to £12.431m. This represents a net decrease of £1.3m or 9.6%.
- 5.6.2 In 2011/12 a review of HRA recharges from the General Fund was undertaken which included looking at the basis of apportionment. The review identified that a reduction in recharges from the General Fund in the region of £2.5m was appropriate. Taking account of up-to-date data for activity for 2012/13 this figure is revised to £2.3m.
- 5.6.3 However, there have been a number of new charges for 2012/13 equating to approximately £1m which are in respect of charges that were previously paid directly or have been justified as chargeable to the HRA.
- 5.6.4 The net benefit to the HRA is £1.3m (as in 5.6.1 above) and this has been partly used to reduce the tenant services charges – see 5.2.1 above.

## **5.7 Direct Costs**

- 5.7.1 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 £20.043m to meet its landlord duty in 2012/13 (£17.9m for the Enterprise contract). 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 £2.5m for the capitalisation of revenue repairs but this will be reduced to £1.0m in 2012/13.
- 5.7.2 HRA supervision and management costs will increase by £0.218m from £28.9m to £29.1 (0.8%). 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) £500k cost of introducing MET police service within housing estates;
  - c) Energy costs are projected to reduce in 2012/13 following formal announcement by energy providers suggesting a reduction in rates.
- 5.7.3 The borrowing costs attached to the debt settlement represent a significant cost to the HRA. The exact cost will only be known once Treasury Management activity is undertaken in March 2012. This is because the Public Works and Loans Board (PWLb) are going to offer preferential rates (purely for settlement debt) on 26-28 March 2012.
- 5.7.4 The HRA treasury management function will form a key component of the business plan and HRA budgets. The two main aspects of this will be to ensure

interest payments servicing the final debt allocation are minimised whilst cash flow management allows stock investment to progress as required.

## **5.8 Heating and Hot Water Charges**

- 5.8.1 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 had been incurred in 2009/10.
- 5.8.2 The increased price rises continued in 2010/11 and 2011/12 and therefore, although recharges were increased, they were not sufficient to fully recover all of the costs incurred.
- 5.8.3 The market indicates for 2012/13 that there will be a reduction in energy costs. It is not proposed to increase tenants' heating and hot water charges for 2012/13 as it is anticipated that the Council will be able to fully recover all of its costs at current levels.

## **5.9 Housing Investment Programme**

- 5.9.1 Previously, the Housing Investment programme was funded mainly from capital receipts and the Major Repairs Allowance (MRA) which it has been widely acknowledged to be insufficient to meet the required investment in the Council's stock.
- 5.9.2 In 2010/11 LBBB commissioned Savills to carry out a detailed stock condition survey which highlighted the need to invest £1.2bn (over 30 years) in the Council's existing housing stock. This has formed the basis of a 30-year business plan to utilise HRA revenue to support this investment need.
- 5.9.3 The Government 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 2010 submitted a bid for the period of the current Government Spending Review period based on an updated stock condition survey. An allocation of £42m was made to LBBB (£9.5m in 2012/13) over 4 years – although the last two years are estimates only.
- 5.9.4 The HRA income and expenditure projections underpin, over the 30-year cycle, the Council's housing investment strategy which will be contained in the HRA Business Plan. The basic elements of this are:
  - a) Estate renewal pump priming ( £38m needed over 5 years)
  - b) New build Council homes ( £32m Council investment + £18.3m HCA grant improving);
  - c) Investment in existing stock (£2bn over the full 30 years);



## **5.10 Medium Term Financial Strategy (MTFS)**

- 5.10.1 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 and appropriate capital investment.
- 5.10.2 The HRA MTFS is relevant only until April 2012 with the removal of the current Housing Subsidy system through primary legislation. The HRA 30-year business plan will now replace the MTFS and will be taken to Cabinet in March 2012.

## **6. Legal Implications**

The Local Government & Housing Act 1989 places on the Council as a Housing Authority a duty to manage a ring fenced HRA that is to say it is neither a burden on the General Fund or a net contributor. In addition there is a requirement to that the HRA maintains prudent revenue balances. The Localism Act 2011 changes the way that funding of social housing is administered in that no longer will rent be pooled into a central government pot instead Councils will keep the rent collected and use it locally to maintain their social housing stock. The previous funding regime formula worked against the Council and the changes are likely to be beneficial to housing in the borough going forward.

## **7. Other Implications**

The Cabinet can determine to increase rents higher or lower than national guidelines but any rent increase below that assumed in the business plan would put at risk the council's ability to fund the future housing capital programme. Increases above national rent policy however are restricted due to Housing Benefit rent limits.

### **7.1 Risk Management**

Failure to approve recommendations in this report would mean that the Council would not have sufficient resources to meet it proposed capital investment strategy: build over 300 new Council homes; continue the estate renewal programme and carry out refurbishments /improvements to the existing housing stock.

Within the budget setting process there is a degree of estimation and the adoption of assumptions which may or may not prove accurate. Any key assumptions are stated where necessary within this report. It should be noted that the borrowing rate used for the debt settlement is only indicative and will depend on Treasury management activities undertaken in March 2012.

There is a risk, albeit remote, that there could be a mandatory directive that forces the Council to follow rent convergence. If this were the case, future years' increases would be significantly higher than inflation due to the "catch up" that would be required over and above inflation.

However, there is the need to consider the impact on tenants who are not in receipt of housing benefit (around 35% of HRA tenants). Those receiving housing benefit would be unaffected by an increase to 7.98% as this would be within the housing benefit limits for 2012/13.

The repair and maintenance of the Council's stock is a significant cost to the HRA and the current contract with Enterprise is due to come to an end at the end of 2012/13. Although the design and procurement of the new contract(s) is currently underway there are risks around the termination of the existing contract and commencement of the new.

The debt settlement figure has incorporated the decanting costs of the properties contained within the Estate renewals programme. However, a condition of the housing orders which enable the decanting is that for them to be effective the Council must decant these properties within five years. If there should be slippage in the programme costs would escalate.

## 7.2 Customer Impact

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

### 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;
- Executive Report 2010-11 Housing Revenue Account (HRA) Estimates and Review of Rents and other Charges

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