REPORT FOR: CABINET

Date of Meeting:	14 February 2013
Subject:	Housing Revenue Account Budget 2013-14 and Medium Term Financial Strategy 2014-15 to 2016-17
Key Decision:	Yes
Responsible Officer:	Julie Alderson, Corporate Director of Resources Paul Najsarek, Corporate Director of Community, Health and Wellbeing
Portfolio Holder:	Councillor Bob Currie, Portfolio Holder for Housing Councillor Sachin Shah, Portfolio Holder for Finance
Exempt:	No
Decision subject to Call-in:	Yes, except for the Recommendations to Council
Enclosures:	Appendix 1 – HRA Budget 2013-14 Appendix 2 – Average Rents & Service Charges (Tenants) Appendix 3 – Garage & Parking Space Charges Appendix 4 – Facility Charges Appendix 5 – Water charges Appendix 6 – Community Centre Charges Appendix 7 – Capital Programme

Section 1 – Summary and Recommendations

This report sets out the Housing Revenue Account ("HRA") Budget for 2013-14 and Medium Term Financial Strategy for 2014-15 to 2016-17.

Recommendations:

1) That the Cabinet approves:

a) the Medium Term Financial Strategy ("MTFS") for the HRA as detailed in Appendix 1;

b) An average rent increase of £4.74 (4.64%) in line with the revised rental strategy detailed in paragraph 20(b) , resulting in an average weekly rent of £106.88

c) that the additional rental income generated in 2013-14 (detailed in paragraph 21) be used to complement the General Fund in assisting Council tenants under the Harrow Help scheme;

d) An average service charge increase of £0.07 (2.61%) resulting in an average weekly service charge of £2.75

e) In accordance with the policy recommended by TLRCF in January 2012, that garage and car parking rents be frozen pending finalisation of the garage strategy (Appendix 3);

f) an increase in energy [heating] charges of 10% from 1 April 2013 as detailed in Appendix 4;

g) an increase in annual water charges based on notified amounts from Veolia Water (Appendix 5);

h) increases in Community Centre charges as set out in Appendix 6;

2) That Cabinet notes the changes to the staffing establishment to reflect the "Getting closer to the Customer" initiative;

3) That Cabinet recommends Council approve:

a) The HRA Budget for 2013-14, including the additional rent to be generated by the proposed rental strategy;
b) The HRA capital programme (as detailed in Appendix 7)
c) Delegated authority be granted to the Portfolio Holder for Housing Services and the Portfolio Holder for Finance, in conjunction with the Corporate Director of Community, Health and Wellbeing and the Corporate Director of Resources to adjust the capital programme, within the overall capital envelope for 2013-14, without seeking approval from Cabinet to ensure delivery of works.

Reason: (For recommendation)
To publish the final HRA budget and set Council rents and other charges for 2013-14.

Section 2 – Report

Introductory paragraph

The Council has a statutory obligation to agree and publish the HRA budget for 2013-14. The MTFS to 2016-17 sets out the indicative income and expenditure for the HRA for this period and shows how the income collected will be spent in the management and maintenance of the Council's stock and in meeting its landlord obligations. The MTFS indicates a sustainable position in the medium term, consistent with the development of the 30 year HRA business plan to be presented to Cabinet in April 2013.

Background

1. Cabinet received a report in December 2011, which advised changes in the way in which Council Housing finances were to be managed from April 2012; an update was provided to Cabinet in July 2012. The key change to the HRA was a shift away from a central subsidised system to a self financed system, enabling greater local control of the HRA by the Council. This means that all income collected is retained and we are in control of our own spending. The Government, however, continues to control the national rent policy.

2. Under the HRA Subsidy system, the Council was paying in the region of 30% of its rents to the Government. In order to leave the HRA Subsidy system, the Council was obliged to take on additional debt of £88.461m and make a payment to the Government for the same amount; this amount was calculated by the Government, based on estimated income and expenditure over the next 30 years. The loan was taken out with the Public Works Loan Board on 28th March 2012, and was a 50-year maturity loan (repayable at the end of the 50-year term), at a fixed interest rate of 3.48%. Total HRA debt is now £149.6m, and this is held within the Council's single loans pool in the General Fund. The HRA pays its share of the overall interest charge to the GF in proportion to its debt as a share of the overall loans pool.

3. These changes to the way in which the HRA is financed are the biggest changes in Housing finance in many years and present an opportunity for the Council to invest significantly in its role as a landlord, which has been limited historically as a consequence of the existing funding regime and control. The HRA is better off by around £2m per annum in the short term, with balances over the 30 years expected to increase significantly in the longer term, enabling further consideration of the strategic priority of the Housing service and investment requirements.

4. As a result of this improvement in the annual finances, the following benefits to tenants are anticipated:

- Further investment in operational services – many improvements have been made through the Housing Ambition Plan. The additional resources will enable services to be improved further, which is particularly relevant given the wider housing and welfare reforms which are likely to affect many of our tenants in the coming years.

- Further investment in the stock – the Council achieved Decent Homes as expected by the Government, however, given the resources available this meant to many tenants a new kitchen or bathroom and not both. The additional investment in the stock will enable this to be revisited and will ensure that the Council's long term asset is maintained and fit for purpose.
- A further area for investment is works to improve the energy efficiency of the Council's stock, which will be beneficial to both Tenants and the environment. These works will include installing energy-efficient replacement boilers, thermal cladding as part of enveloping schemes, and replacement of old and failing windows with modern thermally-efficient ones.
- The ability to maintain safe balances and in the longer term enable further consideration around the provision of new affordable Housing to support the needs of Harrow Residents and to consider the repayment of HRA debt.

5. The budget and MTFS detailed in Appendix 1, is based on this new financial regime and is consistent with the developing 30 year business plan for the HRA and based on the existing rental strategy approved by Council in March 2011. Paragraph 20 below proposes a change to the current strategy and will generate further rental income to that detailed in this appendix.

6. The HRA budget proposed reflects the costs of delivering services at current levels and takes account of areas of identified pressures and savings. It builds on the HRA forecast outturn position at Period 6 (reported to Cabinet 13 December 2012).

7. The key assumptions that continue to underpin the financial strategy are set out in the following sections.

Consultation

8. Under s.105 of the Housing Act 1985, the Council is required to maintain arrangements as it considers appropriate to enable secure tenants to be informed and consulted about housing management matters which substantially affect them. However, rent and other charges for facilities are specifically excluded from the definition of housing management, therefore there is no statutory requirement to consult secure tenants on proposed rent changes. The Council has however, always consulted through the Tenants Leaseholders and Residents Consultative Forum (TLRCF).

9. The Tenants' Leaseholders and Residents Consultative Forum (TLRCF) have the remit to consider and submit observations to Cabinet on the annual HRA budget and in particular on the consequent rent implications.

10. The current policy of continuing the Government's rent convergence process was considered by TLRCF in March 2011 and this remains the current policy for budgeting purposes. A workshop was held for residents and members on 26th November 2012 in respect of housing finance to raise awareness of finance within the HRA. This workshop included an overview of the need to balance expenditure and income, and highlighted the impact that expenditure decisions could have on rent income as this is the main source of revenue within the HRA. Following this workshop, at the special TLRCF meeting held on 4th December 2012, the need to consider options for rent increases as part of the budget and business planning

processes was acknowledged. And it was agreed that rent options would be further considered by TLRCF at a special meeting to be held on the 31st January 2013. The minutes from that meeting are appended to this report. The meeting was not well attended compared with recent TLRCF meetings, and whilst Members were strongly supportive of the proposal to increase target rents, the residents in attendance had more mixed views.

Balances

11. HRA Balances are currently forecast to be £3.469m at the end of March 2013. The proposed budget estimates that, after additional investment in the stock and operational services (detailed in paragraph 40), balances of £3.700m at the end of March 2014 will remain. The business plan to be reported to Cabinet in April will look at the longer term investment in the stock and associated expenditure over 30 years and will note the likely level of balances over the longer term.

12. Given the raft of policy changes and potential impact on tenants, together with the financial economic environment in which the Council is operating and the potential implications of welfare reform on the HRA, balances at a level of around £3.5m over the 4-year period of the Medium Term Financial Forecast are included in appendix 1. This equates to more than £700 per tenanted dwelling or approximately 12% of gross annual HRA expenditure and will be reviewed as part of the final preparations for the business plan due to come to cabinet in April.

13. The business plan is a significant milestone and will guide the future direction around HRA resources and potentially changes in investment levels and use of Right to Buy Resources. The budget planning cycle for 2014/15 will be more informed, particularly around the potential impact of the welfare reforms.

14. Decisions regarding future levels of balances need to be taken in conjunction with considerations around future levels of capital investment, availability of Right-to-Buy receipts for use in the HRA, the Council's plans for new affordable housing as these become more developed, and the potential impact of welfare reform as the proposals are phased in. Further review of the relationship between the level and exposure to risk, in relation to the level of balances is required and is being developed as part of the business planning process.

Income

Dwelling rents

15. The Government policy intends that by the end of 2015-16 similar properties in the same area will have similar rents even if owned by different social landlords. The aim is to deliver fairer rents, and greater transparency and choice for tenants. This is generally referred to as rent convergence, however the introduction of intermediate rents in the comprehensive spending review may alter this position as Registered Social Landlords have increased flexibility to enable new build investment.

16. The rental strategy approved by Cabinet and Council in March 2011, was based on a continuation of Government rent policy which assumes rents will increase annually by no more than RPI + 0.5% real growth + £2. At that time, RPI was assumed at 2.5%, however, as part of the annual determination issued by the Government in November 2012, the September 2011 RPI figure was 5.6%; the September 2012 RPI figure was 2.6%.

17. As the self financing settlement assumes adherence to the national rent policy, the inflationary element has been updated. This results in an average rent increase of 3.76% in 2013-14, rather than 3.62% as assumed previously. This results in an average rent of £105.98 per week (the 2012-13 current average is £102.14). This will achieve rent convergence for 4,878 (99.31%) Council dwellings by the target date 2015-2016. Average rents and service charges under the existing strategy are detailed in appendix 2.

Alternative Rent Options

18. Alternative options for rent setting have been explored and consulted with tenants. The reasons for considering alternative options are two-fold:

- Firstly, whilst we are taking steps to develop strategies for dealing with the worst impacts of welfare reform and the introduction of the benefit cap, we do not currently know what the full impact on the HRA is likely to be. Increasing rents over and above the levels previously assumed would give rise to pot of money that could, at least in part, be set aside for use as an HRA hardship fund to complement the provisions being made within the General Fund.

- Secondly, given the extremely high levels of housing need within the Borough, part of any additional income could be used alongside other resources such as Right-to-Buy receipts to support and enable the commencement of a programme of new affordable housing development within the HRA to help alleviate some of this need

19. The "no change" option is detailed in paragraph 17 above and appendix 2, however an alternative option for setting rents is set out below. This option has been developed following confirmation from the Department for Communities and Local Government that they have in place a mechanism to collect data relating to property values and that this data would then be fed into the calculation of Limit Rents for the purposes of calculating Rent Rebate Subsidy Limitation. This is important because it means that increases in rents as a result of increased property values would not ultimately result in a loss of part of the additional rental income raised through the effects of Rent Rebate Subsidy Limitation, although there may be some short-term losses as a result of timing differences in the rate of application of increases to actual rents compared with those applied to Limit Rents.

20. The alternative strategy we are recommending should be followed is that of re-valuing properties to reflect the significant levels of investment that have taken place since the original valuations were carried out in 1999, and therefore the enhanced condition of the housing stock compared with that time. Our valuers have suggested that it would be appropriate to apply an increase of 7.5% to the original values to reflect this investment and in calculating the target rent for all properties. The result of these increases in property values would be to increase

the target rent by an average of 2.85%, or £3.06 per week on top of the existing calculation. We would then have two options:

a) apply the whole of this increase next year, which would obviously generate additional income, but would definitely result in a "loss of income" (i.e. a charge to the HRA to offset some of the income) through rent rebate subsidy limitation, regardless of the fact that the increase in property valuations was factored into the limit rent calculations. This is because limit rents are assumed to follow a convergence path, and any increase in the convergence target would mean higher increases in limit rent each year until convergence is reached, rather than in one go.

b) phase in the increase, which would result in the additional income being generated over the remainder of the convergence period. This would result in no loss of rent income through rent rebate subsidy limitation as limit rents would then be converging with the higher target rents calculated using the increased valuations . This would mean that the rent increase for 2013-14 be based on convergence with the revised target rents and that the target year for convergence be retained as 2015-16

21. The table below details the additional rental income. In the event that Cabinet decides to increase property values in line with the above, the impact on rent levels and the HRA for next year would be as shown in the table below, with the "no change" option being also shown for comparative purposes.

It should be noted that any increase in the January 1999 valuations would be a one-off adjustment solely for the purposes of calculating target rents, and would not impact on the balance sheet value of the properties.

It can be seen that if the option to increase valuations and apply the increase in full were chosen as the preferred option, whilst this would result in additional income of over £0.75m, nearly 50% of this would be lost as a result of rent rebate subsidy limitation. In subsequent years the amount lost would reduce until such time as convergence was reached, at which point no rent would be lost. If the increase was phased in, there should be no rent lost as result of rebate subsidy limitation as limit rents would also increase, and the full amount of additional income would be retained. This would increase over time as convergence continued, at which point the gross additional income would be in excess of £0.75m.

Comparison of rent options for 2013/14		Increase property values by 7.5% - target rent increases by £3.06	
	No Change option	Increase phased in	Increase applied in year
Average rent	£105.98	£106.88	£109.04
Increase from 2012/13	3.76%	4.64%	6.76%
Total gross rent	£27.230m	£27.460m	£28.016m
Additional rent generated	Nil	£0.230m	£0.786m
Estimated rent lost through subsidy	Nil	Nil	(£0.388m)

limitation			
Net additional income	Nil	£0.230m	£0.398m

22. Regardless of the increase for next year, void dwellings are assumed to continue to be re let at target rents for new tenants. Rents for existing tenants will gradually move towards convergence based on the formula and maximum rent increase.

23. Detailed below are some of the other increases being considered across London for comparison purposes. The 4.64% proposed increase is lower than some Councils. This may be for many reasons, including the number of properties which are already at the target rent, or that some Councils may have decided to increase rents above the Government formula to maximise rental income (although this may result in their actual rents being above limit rents, and the HRA having to fund an element of rent rebates as a consequence of rent rebate subsidy limitation).

Council	**Rent Increases**
Harrow	4.64%
Ealing	3.00%
Southwark	4.85%
Lambeth	4.17% to 4.54%

24. There have been eleven sales under Right-to-Buy so far in 2012-13 as a result of new discounts and a further five sales are anticipated by the year end. A stock level of 4,949 at the start of April 2013 is therefore assumed. It is envisaged the HRA will continue to be viable if Right-to-Buy sales continue at these levels. There is potentially a risk issue if we experience a sustained increase in sales and this is referenced in the risk section at paragraph 57.

Service charges: Tenants & Leaseholders

25. Tenants who benefit from specific estate based services will pay a charge to the Council on a weekly basis in addition to their weekly rent charge. This service charge will increase by 2.61% on average resulting in an average weekly charge of £2.75 (2012-13 current service charge £2.68), an increase of £0.07 on the current weekly charge.

26. Currently the costs of the leasehold service (excluding contribution towards estate based costs) total £627k. These costs are largely funded by various charges including the recovery of the annual insurance to leaseholder and the annual administration charge (currently £45 per leaseholder). In recent years we have been unable to recharge certain of the costs to leaseholders (e.g. grounds maintenance) due to a lack of the supporting information required to provide the necessary evidence to justify the charges. The risk of successful challenges in respect of unsubstantiated charges, and the associated possibility of incurring court costs and the loss of trust resulting from this, has been seen as too high to warrant levying charges in respect of these items. We are now developing the necessary systems and coding structures to enable us to accurately identify the full costs associated with leasehold properties, and to produce the detailed information needed to recover the full cost of services in the knowledge that we can support any charges made. This will result in increased income over time. In 2013/14 there is estimated to be a shortfall in the region of £104k, and this is projected to reduce over the period of the MTFS. We

anticipate that the completion of the Finance review of Support Service Charges will result in an overall reduction in costs.

27. Leaseholders are no longer charged an estimated service charge but are invoiced annually by the end of September for the previous financial year, based on actual recovery of costs (resulting in the leasehold financial year spanning the 30th Sept to 31st August rather than the financial year of 1st April to 31st March) Leaseholders are required to settle these invoices within 30 days, but in practice the challenge process and the payment options available to leaseholders results in some leaseholders not settling their accounts until well into the following financial year. The total income expected to be recovered from leaseholders in 2013-14 (excluding s20 income in relation to capital schemes) is £523k and reflects the recovery of costs associated with estate based costs, communal lighting, repairs, ground maintenance, insurance premiums and administration charges. Leasehold arrears at the start of the financial year 01/04/12 was £69K. However following invoicing of the annual service charges of £382K in September 2012, the service charge arrears figure now stands at £187K as at 30th November 2012. Note the service charge year is Sept 2012– Sept 2013.

Other income

28. Historically other rental income from garages, car parking, and facilities charges are recommended to increase by an annual percentage, consistent with fees & charges across the Council. The charge for garage rents in 2011-12 was held pending a review of the strategy and investment requirements; in 2012-13 the TLRCF recommended at their meeting in January 2012 that the charge should be frozen pending finalisation of the Garage Strategy Review. Given that the review is now nearing completion, we are proposing to continue this policy by freezing rents for HRA garages and car parking pending finalisation of the review. We anticipate that the outcome of the Garage Strategy Review may include alternative pricing strategies for garages and car parking, and that a further report will be presented following completion of this work.

29. Costs in relation to community centres are now being separately captured, with the exception of associated repair costs and are making a surplus in the region of £31k.

30. Details of the proposed rents for garages and parking, facility charges and charges for community centres are set out in appendices 3, 4 and 5 respectively.

Expenditure

Employee Costs

31. The HRA budgets are based on the staffing establishment, and assume a pay reduction of 1% in from January 2013, and increases of 1% in 2013/14 and 2014/15, and 2% annually thereafter in line with public sector pay policy.

32.Some Housing staff spend their time on both HRA and General Fund activities and as a result staff costs are split based on percentages of time spent on relevant services. Salary allocations between the HRA and the General Fund have been reviewed as HRA Reform has led to a change in emphasis of work; this has resulted in an increase in the time spent on HRA services and increased staffing costs of £215k being charged back to the HRA.

Utility Costs

33.Annual charges are made for energy costs i.e.; gas, electricity and water. Historically the budgets associated with these charges have been difficult to establish with any certainty and has led to an under recovery of costs. We anticipate carrying out a joint housing/finance project early in 2013 to identify the full costs of providing services to residents in order that full recovery of costs can be phased in. In 2012-13 energy budgets were reviewed and have been based on consumption data provided by the utility companies. These budgets have been uplifted in 2013-14 by 10%, 5% subsequently, as this is the corporate assumption on the general level of increases for utilities costs; if a lower rate of inflation were to be used, any under recovery of costs would increase. A review of utilities and costs with a view to reducing energy usage is a key element of the Asset Management Strategy currently being developed.

Central Recharges

34.The costs of central recharges have increased by £104k against those previously approved for 2013-14 following a review of recharges across the Council. These costs are expected to reduce in future years as departmental costs, particularly back office costs, are reviewed to ensure resources targeted towards front line service delivery. It has not been possible at this stage to estimate the likely level of reduction in this respect and moving forward, annual inflationary increases of 2% have been assumed.

The Housemark benchmarking report 2011/12 highlighted that Harrow are 13th out of 20 in relation to high level central recharge costs compared with other London Boroughs and ALMOS.

Repairs

35. The responsive and void repairs budgets will be increased in 2013-14 over the previously approved levels by £448k and £213k reflecting both the reinvestment of procurement savings achieved following the successful re-tendering of the repairs contracts in 2012 and an increase in the revenue budget following changing patterns of Health & Safety expenditure. Cyclical repairs will be reduced by £240k against that previously approved reflecting reallocation to works to response and void works and the implementation of the repairs charter.

36. The proposed 2013-14 budget assumes response repairs at £3.026m (and 19,764 jobs) and £0.943m in relation to void repairs (290 jobs).

37. The benefits of the re-procurement exercise also extended to External Decorations and cyclical repairs which are estimated at £434k and £301k respectively in 2013-14. Programmes for these works are being constructed and will be consulted with TLRCF. Section 20 income will be recovered as appropriate in relation to these programmed works.

HRA Reform

38. As mentioned earlier in the report, a self financed HRA brings a number of changes to the HRA. The key change is that there is no longer an annual payment to the Government in relation to HRA subsidy (historically around £7m pa and rising). Instead the HRA has taken on additional debt of £88.461m to be

financed from the rent that will be collected and retained by the Council. As a result, the level of borrowing, and therefore interest paid, increased in 2012-13. The HRA debt is pooled with the Council debt which enables greater flexibility over treasury management decisions. This is expected to continue to maximise the flexibility to the both the Council and the HRA over the term of the business plan.

39. The Government have introduced a cap for all Councils to ensure that, nationally, housing debt is controlled. As a consequence of previous decisions, in particular that the Council would borrow to fund the Decent Homes programme, Harrow's level of debt following the settlement, is at the cap. This means that the Council will not be able to increase its borrowing until some debt has been repaid. This will also mean that the capital investment can only be funded from available revenue.

40. The 2013-14 budget assumes the HRA Capital Financing Requirement remains at £149.6m which includes the £88.461m self financing settlement paid to Government as part of the HRA Reforms.

Additional Revenue Investment Proposals

41. Additional investment of £1.4m for 2013-14, rising to £1.55m over the term of the MTFS was assumed in the 2012-13 HRA budget. Options have already been developed in respect of a restructure of Resident Services in support of our objective of getting closer to the customer, the development of a repairs charter to improve the repairs service we deliver to our tenants and leaseholders, and in respect of improving communications and our complaints procedures. Additional options are being considered for the remaining unallocated resources, and these will be the subject of further discussion and Member approval. The service improvements already developed reflect the objectives that were considered important to tenants and residents at the special meeting held at the end of September 2011 and are summarised in the table below:

Improvement Area	**2013-14 £000**
Repairs service	311
Resident Services - Getting Closer to the Customer	453
Communications	44
Complaints Officer	20
Sub Total	**828**
Cash Incentives	250
Balance of improvement budget	322
Total	**1,400**

For the purposes of developing the business plan we are currently assuming that these changes would be a permanent increase in expenditure, and this represents a worst-case scenario. In practice, we will aim to review service provision regularly with a view to ensuring that we are meeting the needs of the service, whilst at the same time controlling costs in line with stock numbers and delivering value for money.

Charges for Capital

42. Capital charges to the HRA are expected to continue to be charged on the basis of a single pool and combined rate of interest. The combined rate of interest increased from the 4.238% budgeted for in 2012-13 to an actual rate of 4.3% as a result of the final loans pool calculations in that year, and this rate is budgeted to apply in 2013-14 and future years.

43. The capital charges also include the HRA share of the Council debt redemption premium and discounts over the next five years. As part of the business planning process, consideration will be given to the ability to repay debt, and to reduce capital charges to the HRA. Interest rate risk is one of the key risks associated with the longer term planning of the HRA finances, and whilst the risk is relatively small as the loans pool is predominantly comprised of long-term fixed rate loans, the main risk will be as a result of the rates available as existing loans are re-financed on maturity.

44. Interest on HRA balances, including the Major Repairs Reserve are expected to be earned at a rate of 0.65% for 2013-14.

Capital Investment

45. Under HRA reform further capital investment in the stock is planned on an annual basis, and will enable the investment requirements of the stock condition data to be fully delivered over the 30 years of the business plan – this is in the region of £222m at today's prices.

46. The additional resources freed up under the reforms meant that the capital programme was able to increase to £7.497m in 2012-13 (to include adaptations to Council properties), and will increase over the term of the MTFS, enabling the historic backlog of repairs to be achieved much sooner than had originally been anticipated. Furthermore, the efficiencies achieved following the re-procurement exercise should enable tenants to see significant improvements made to their properties. In the medium term further improvements to Council dwellings and estates, and in the longer term, consideration of wider housing issues can now be considered.

47. Some of the costs in relation to the capital investment programme will be recovered from leaseholders in relation to external works to properties purchased under the RTB scheme. The costs recovered from leaseholders will be dependent on the scheme, the number of leasehold properties, the scope of works and consultation with leaseholders in accordance the section 20 process.

48. As leaseholders are required to contribute to the cost of these works, some of them will receive significant bills. As a result of the likely increase in cost of works to leasehold properties, a Major Work Loan Policy for leaseholders has been agreed by Cabinet; once finalised and operational on the SAP system this policy is intended to offer leaseholders a range of payment options to assist with these bills, particularly in this economic climate. These include payment plans spanning several years dependent on the amount of the works, as well as the Council placing a legal charge on the property until it is sold. To minimise the financial risk to the Council initial discussions have taken place with its Citizen

Advice Bureau partner with a view to commissioning them to undertake affordability assessments on all leaseholders prior to agreeing any loan. In addition, to ensure impartiality, leaseholders will be advised to seek independent financial advice.

49. Appendix 7 provides details of the proposed capital programme for 2013-14. This relates to major investment work in the housing stock, compared with the repairs figures shown in Appendix 1, which relate to more day-to-day type expenditure. The detailed investment programme for 2013-14 provides for the replacement of 159 kitchens, 219 bathrooms and 159 heating systems. External works to our stock includes the replacement of 599 external doors and 386 sets of windows, these being largely carried out as part of a wider enveloping programme. Detailed programmes for 2014-15 and 2015-16 are in the process of being formulated. Following the implementation of HRA Reform, the HRA is at its borrowing cap and so cannot borrow any more money to carry out investment. It is therefore funding the majority of its capital programme from amounts set aside from the revenue account.

50. The amount of money available for investment in the stock is part of the balancing act of the HRA, and is dependent on the availability of resources to fund the necessary investment. As a result of the current view to maintain the HRA balances at around £3.5m throughout the period of the MTFS, and that Right-to-Buy receipts should not be used to fund HRA capital expenditure, it has been necessary to scale back the programme of investment by just over £1m over the period to 2016/17 so as to reduce the funding demand on the revenue account. Further discussions on this will develop as part of the final preparations for the HRA business plan which will be presented to Cabinet in April 2013.

51. It should be borne in mind that whilst we have had to reduce the investment programme slightly, the level of investment forecast to be delivered is still far in excess of that which would have been possible before the implementation of self-financing. In the final year of the HRA Subsidy system, our projections for HRA capital investment for 2012/13 to 2014/15 were in the region of £6.2m per annum, whereas under self-financing, the average of the equivalent years' expenditure is in excess of £7.7m, an average increase of £1.5m pa. As indicated above, we would anticipate future levels of HRA capital investment to be considered as part of the overall review of risks, resources and reserves, and that the profile of investment could potentially change as factors impacting on the HRA start to crystallise.

52 To ensure an element of flexibility with the housing investment programme, it is proposed that Housing Services is granted delegated authority to consult on and implement variations to the HRA Capital programme, within agreed limits and within the Council's scheme of delegation and financial regulations, to meet the requirements of the Housing Asset Management Strategy. As is currently the case, the HRA Capital programme would continue to be funded from HRA revenue resources, and therefore any such variations would not affect the Council's borrowing position or General Fund resources.

Impairment Allowance

53. Current tenant arrears continue to reduce. However, whilst a number of payment arrangements have been agreed for former tenant arrears, former tenant arrears remain high and require a significant level of provision. The continuing welfare benefit changes are likely to have an impact on arrears,

although it is difficult to quantify at this stage. The annual increase in the provision is budgeted to be £300k in 2013-14, rising to £400k in 2014-15 reflecting the full impact of the welfare changes, then dropping to £300k per annum in subsequent years.

General Contingency

54. In addition to the HRA balances, an annual amount of £200k is set aside to cover unforeseen expenditure that may arise in the management and maintenance of the housing stock.

Variation to MTFS 2013-14

55. The MTFS approved by Cabinet and Council in March 2012 estimated an in year surplus of £0.397m for 2013-14. The proposed budget changes result in a surplus of £0.231m. The reduction in surplus of +£0.166m is explained below :

- +£0.312m – increase in cost of repairs reflecting the Council's commitment to the repairs charter;
- +£0.490m – restructure of Tenant Services as part of the "Getting closer to the customer" initiative;
- -£0.828m – Investment in Services which is now reflected in repairs and the restructures of Tenants Services (above)
- +£0.300m – decapitalisation of health & safety works into repairs
- -£0.272m – Sheltered Housing Review (including increased income of £0.456m)
- +£0.215m – increased recharges from Housing GF reflecting refocusing of staff time and other staffing costs
- +£0.100m – impairment allowance reflecting impact of welfare benefit changes;
- -£0.457m – capital financing (mainly reduced RCCO of £440k originally assumed for 2013-14 in Cabinet report approved February 2012);
- +£0.094m – leaseholders income
- +£0.194m – resident surveys, prevention of sub letting and other items
- +£0.018m – Increased SSC property charge

TOTAL +£0.166m

Summary

56. The HRA Budget and MTFS detailed in Appendix 1 continues to reflect the significantly improved position reported in last year's budget as a result of HRA reform. The HRA business plan is currently in development, and will build on the final budget and MTFS to forecast the HRA over 30 years. Current forecasts suggest that significant balances could be generated within the HRA over the period of the business plan, depending on expenditure and income decisions made in the future, with current levels of projected investment expenditure being fully funded over this period. This remains an extremely positive position for the Council to be able to report and will enable the Council to meet both the challenges faced by the service from the Government changes and the increasing expectations of its tenants and Members.

Financial Implications

57. Financial matters are integral to this report

Performance Implications

58. Detailed performance measures for the HRA will be built into the Service Improvement Plans for 2013-14 and progress will be monitored by Improvement Boards and reported on a quarterly basis.

59. The table below shows an extract of key performance indicators reported to Q3 Improvement Board.

60. Given the level of resources and increases in tenant expectation, it will be important to continue to track the performance to ensure that any reductions in service levels are quickly reported and mitigating actions are put in place.

Housing Scorecard 2012-13

Indicator (cumulative for the year unless stated otherwise)	**December / Q3 actual**	**Red/ Amber/ Green**	**Q4 target**	**Current Assessment**
Resident Services				
LA rent collection and arrears: proportion of rent collected. (includes current tenant arrears b/f)	97.79%	A	99.25%	Seasonal dips in rent recovery. Performance in Q3 is slightly down on that at the same time last year, but we have managed to sustain performance over both the summer and Christmas periods.
LA rent collected as a % of rent owed (excludes current tenants arrears b/f)	99.75%	A	100.5%	Marginal decrease on last quarter
Current tenants rent arrears as a percentage of rent roll	1.65%	A	1.50%	Whilst just over target this quarter's figure is actually down on that reported at the same time last year.
Reduce former tenant arrears by 10% (£k)	718	A	663	It is envisaged that the additional resources resulting from the RS restructure will enable improved revovery from March 2013.
% of new tenants visited within 6 weeks of tenancy sign up - quarterly	100%	LG	100%	On target.This area of service to be reviewed by Tenant and Leasehold scrutiny panel
Asset Management				
Repairs completed in Target Time - urgent	96%	HG	90%	Above target and within service expectations - no concerns with the figures but work continues to validate contractor information
Repairs completed in Target Time - non urgent	97%	HG	90%	
% of appointments made that were kept - monthly	98%	HG	90%	Within service expectations - no concerns with the figures but work continues to validate contractor figures.
% of repairs completed at first visit - monthly	95%	HG	90%	Very promising performance across all 4 main contractors

Access Harrow: chasing calls as % of all calls to AH Repairs - snapshot for month	16.21%	HR	10%	Progress continues to be made, however there are some concerns with the data provided which is inconsistent with other data and is to be investigated
Access Harrow: repair recalls as % job all jobs - snapshot for month	4.03%	HG	5%	Tremendous reduction in these calls since new contracts went live in July
Council adaptations: average time from assessment to completion of work (weeks) quarterly performance	21	HG	35	Continues to be significantly above target
DFGs: average time taken from assessment to DFG approval date (weeks) quarterly performance	10	HG	35	Continues to be significantly above target
Average time taken to re-let LA housing (days) (excludes times taken for major works) **[VFM PI]**	35.8	HR	21	New processes and change of resources should see figures improve significantly during quarter 4, but outturn at year end still likely to be above target

Risk Management Implications

61. The key risks which should be highlighted, and which are referenced in the main body of the report, are those associated with the changes in the RTB arrangements and, for the longer HRA business plan, interest rate risk. Whilst these are real risks to the HRA these are not considered to be significant in the short term.

62. These risks are detailed on the Housing risk register.

Equalities Implications

63. Equality duties

Section 149 of the Equalities Act 2010 created the public sector equality duty. Section149 states:-

(1) A public authority must, in the exercise of its functions, have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

64. When making policy decisions, the Council must take account of the equality duty and in particular any potential impact on protected groups. The equality impacts of the recommended rent increase option have been considered and there has been consultation with our tenant, leaseholder and resident representative groups on the proposal. Overall the proposed policy change is considered to have a positive impact on protected groups because:

- It will enable a Hardship Fund to be set up to help those who are most affected by welfare reform such as larger families. For example we know that 22 existing tenants will be impacted by the overall benefit cap and 346 by the bedroom tax.
- It will contribute to enabling the Council to build additional affordable housing to meet high priority housing need including homelessness. For example, households from certain BAME groups and lone parents, of whom the majority are women, are more likely to be accepted as homeless or be in priority housing need.

64. The new rents will still be affordable rents and until they reach the target rent will be lower than rents for new social rented homes (developed by housing associations) and much lower than the new Affordable Rents introduced by the government in April 2012 and which apply to some of the relets and new housing association developments in the borough. The majority of existing tenants (75%) are in receipt of Housing Benefit and this will continue to cover the new rent.

Environmental Impact

65. As indicated in the body of the report, the HRA Budget 2013-14 includes investment in a number of areas that will improve the energy efficiency of the Council's housing stock and thus make a contribution towards delivering the Council's Climate Change Strategy. The draft Asset Management Strategy action plan that is currently being developed is intended to address elements of the "Delivering Warmer Homes" strategy, and additionally will consider the potential impact of ECO funding and/or Green Deal on the energy performance of the Council's housing stock..

Corporate Priorities

The report is in line with Corporate Priorities.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson Date: 4 February 2013	x	on behalf of the Chief Financial Officer
Name: Paresh Mehta Date: 4 February 2013	x	on behalf of the Monitoring Officer

Section 4 – Performance Officer Clearance

Name: Martin Randall Date: 4 February 2013	x	on behalf of Divisional Director Strategic Commissioning

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker Date: 4 February 2013	x	on behalf of Divisional Director (Environmental Services)

Section 6 - Contact Details and Background Papers

Contact:
Donna Edwards, Finance Business Partner Community, Health and Wellbeing
Telephone : 020-8420-9252

Background Papers:

- Report to Cabinet in February 2012 on the HRA Budget 2012-13 and Medium Term Financial strategy 2013-14 to 2014
- Report to Cabinet in July 2012 on Housing Changes Review

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NOT APPLICABLE** *[Call-in applies, except to the recommendations to Council]*

Appendix 1

HRA Budget 2013-14 and MTFS 2014-15 to 2016-17- Expenditure

All figures in £s	Budget 2013-14 (proposed)	Budget 2014-15 (proposed)	Budget 2015-16 (proposed)	Budget 2016-17 (proposed)
Operating Expenditure:				
Employee Costs	2,428,020	2,448,510	2,489,040	2,530,360
Supplies & Services	904,260	821,710	822,680	823,670
Utility cost (Water & Gas)	594,460	624,180	655,390	688,160
Estate & Sheltered Services	2,648,200	2,685,240	2,772,020	2,815,620
Central Recharges	3,534,170	3,604,860	3,676,960	3,750,490
Operating Expenditure	**10,109,110**	**10,184,500**	**10,416,090**	**10,608,300**
Repairs Expenditure:				
Repairs - Voids	943,230	974,390	983,770	982,330
Repairs - Responsive	3,026,110	3,132,290	3,196,190	3,235,210
Repairs – Other	2,292,040	2,322,710	2,363,720	2,405,540
Repairs Expenditure	**6,261,380**	**6,429,390**	**6,543,680**	**6,623,080**
Other Expenditure:				
Contingency - General	200,000	200,000	200,000	200,000
Investment in Services	571,740	473,750	458,780	443,560
Impairment allowance	300,000	400,000	300,000	300,000
RCCO	-	1,179,980	1,719,720	2,304,240
Charges for Capital	6,387,890	6,358,500	6,346,560	6,346,620
Depreciation	6,103,330	6,103,330	6,103,330	6,103,330
Other Expenditure	**13,562,960**	**14,715,560**	**15,128,390**	**15,697,750**
Total Expenditure	**29,933,450**	**31,329,450**	**32,088,160**	**32,929,130**

Appendix 1 (cont'd)

HRA Budget 2013-14 and MTFS 2014-15 to 2016-17 – Income

All figures in £s	Budget 2013-14 (proposed)	Budget 2014-15 (proposed)	Budget 2015-16 (proposed)	Budget 2016-17 (proposed)
Income				
Rent Income – Dwellings	(27,086,090)	(27,985,500)	(28,917,890)	(29,688,450)
Rent Income – Non Dwellings	(714,650)	(716,290)	(717,970)	(719,680)
Service Charges - Tenants	(1,135,860)	(1,164,480)	(1,193,940)	(1,223,660)
Service Charges – Leaseholders	(462,890)	(466,080)	(469,340)	(472,660)
Facility Charges (Water & Gas)	(518,870)	(540,350)	(562,820)	(586,310)
Interest	(3,600)	(3,000)	(2,500)	(2,000)
Other Income	(80,000)	(80,000)	(80,000)	(80,000)
Recharge to General Fund	(163,000)	(163,000)	(163,000)	(163,000)
Total Income	**(30,164,960)**	**(31,118,700)**	**(32,107,460)**	**(32,935,760)**
In Year Deficit / (Surplus)	**(231,510)**	**210,750**	**(19,300)**	**(6,630)**
BALANCE brought forward	**(3,468,590)**	**(3,700,100)**	**(3,489,350)**	**(3,508,650)**
BALANCE carried forward	**(3,700,100)**	**(3,489,350)**	**(3,508,650)**	**(3,515,280)**

The 2013-14 HRA budget reflects updated assumptions as detailed in the main body of the report. The MTFS for 2014-15 to 2016-17 details the likely position for future years and will be updated in subsequent budget rounds.

The figures included in the table above exclude the impact of the increased rents that could arise if the recommendation to increase target rents is approved, as detailed in paragraph 20. It is recommended that these additional rents would assist council tenants under the Harrow Help scheme to complement the General Fund provision

Appendix 2

Average Rent & Service Charges

	Number of Dwellings	2012-13	2013-14			Increase / (decrease)
		Total Weekly Charge	Rent	Service Charge	Total	£
0 Bedsit bungalow	21	£93.93	94.60	2.44	97.04	3.11
1 Bed bungalow	115	£103.86	105.40	2.10	107.50	3.64
2 Bed bungalow	25	£119.21	119.64	3.26	122.90	3.69
0 Bedsit flat	84	£81.41	80.73	3.73	84.46	3.05
1 bed flat	1222	£90.34	90.48	3.28	93.75	3.41
2 bed flat	821	£102.35	102.81	3.76	106.56	4.21
3 bed flat	45	£112.11	112.96	4.39	117.34	5.24
2 bed Maisonette	53	£101.71	102.36	3.44	105.79	4.08
3 bed Maisonette	48	£112.55	114.08	3.97	118.05	5.50
2 bed Parlour House	35	£113.27	116.24	1.18	117.42	4.15
3 bed Parlour House	544	£125.75	128.71	1.59	130.30	4.56
4 bed Parlour House	57	£136.35	139.16	2.23	141.39	5.04
2 bed Non Parlour House	521	£110.62	112.69	1.87	114.56	3.94
3 bed Non Parlour House	746	£120.85	123.55	2.01	125.56	4.70
4 bed Non Parlour House	30	£135.47	136.69	2.77	139.47	4.00
0 bed Sheltered bedsit	55	£83.48	83.48	2.47	85.59	2.11
1 bed Sheltered flat	490	£89.04	88.78	2.94	91.72	2.68

The average rents detailed above reflect the current rental strategy. These will increase under the proposal to increase target rents detailed in paragraph 20 and be used in 2013-14 to contribute towards the Harrow Help scheme and in future years to develop affordable housing provision.

Garages & parking space charges **Appendix 3**

	Current Weekly Rental 2012-13	Proposed Weekly Rental 2013-14
	£	**£**
Garages	14.05	14.05
Car Spaces	9.16	9.16

Facility Charges **Appendix 4**

Sheltered Block		**Current average weekly facility charge (Heating)**	**Proposed average weekly facility charge 10% increase (Heating)**
	No. of Properties	**2012-2013**	**2013-2014**
Alma Court	30	10.98	12.
Belmont Lodge	30	10.95	12.05
Boothman House	30	10.95	12.05
Cornell House	30	11.00	12.10
Durrant Court	27	10.95	12.05
Edwin Ware Court	30	9.21	10.15
Goddard Court	30	10.97	12.10
Grahame White House	30	10.97	12.10
Grange Court	30	9.17	10.10
Harkett Court	30	10.96	12.05
Harrow Weald Park 0 Bed	12	7.43	8.20
Harrow Weald Park 1 Bed	19	10.03	11.00
John Lamb Court	32	11.52	12.70
Meadfield	30	10.99	12.10
Sinclair House	27	10.97	12.10
Tapley Court	26	10.94	12.05
Thomas Hewlett House	30	11.00	12.10
Watkins House	43	11.52	12.67
William Allen House	29	9.96	10.95
Resident Warden Accommodation	11	15.71	16.35
Other Non-Sheltered	95	10.25	10.65

Water Charges

Appendix 5

Sheltered Block	No.of flats	Current Range Water Charge 2012-2013		Proposed Range Charge at 2% increase for 2013-2014		Amount of increase	Average Charge per Block 2013-2014	% Increase	Income per Week per Block 2013-2014
		Lower	Higher	Lower	Higher				
Alma Court	30	£4.16	£4.16	£4.24	£4.24	£0.08	£4.24	2.00%	£127.20
Belmont Lodge	30	£4.27	£4.27	£4.36	£4.36	£0.09	£4.36	2.00%	£130.80
Boothman House	30	£4.41	£4.41	£4.50	£4.50	£0.09	£4.50	2.00%	£135.00
Cornell House	30	£4.35	£4.54	£4.44	£4.63	£0.09	£4.53	2.00%	£135.90
Durrant Court	27	£4.16	£4.60	£4.24	£4.69	£0.09	£4.47	2.00%	£120.69
Edwin Ware Court	30	£3.70	£4.60	£3.77	£4.69	£0.08	£4.23	2.00%	£126.99
Goddard Court	30	£4.27	£4.27	£4.36	£4.36	£0.09	£4.36	2.00%	£130.66
Grahame White House	30	£4.41	£4.41	£4.50	£4.50	£0.09	£4.50	2.00%	£134.95
Grange Court	30	£3.51	£4.41	£3.58	£4.50	£0.08	£4.04	2.00%	£121.18
Harkett Court	30	£4.41	£4.41	£4.50	£4.50	£0.09	£4.50	2.00%	£134.95
Harrow Weald Park	31	£3.51	£4.72	£3.58	£4.81	£0.08	£4.20	2.00%	£130.12
John Lamb Court	32	£4.41	£4.41	£4.50	£4.50	£0.09	£4.50	2.00%	£143.94
Meadfield	30	£4.35	£4.54	£4.44	£4.63	£0.09	£4.53	2.00%	£136.02
Sinclair House	27	£4.16	£4.16	£4.24	£4.24	£0.08	£4.24	2.00%	£114.57
Tapley Court	26	£4.16	£4.41	£4.24	£4.50	£0.09	£4.37	2.00%	£113.64
Thomas Hewlett House	30	£4.35	£4.35	£4.44	£4.44	£0.09	£4.44	2.00%	£133.11
Watkins House	43	£3.70	£3.70	£3.77	£3.77	£0.07	£3.77	2.00%	£162.28
William Allen House	29	£3.51	£4.41	£3.58	£4.50	£0.08	£4.04	2.00%	£117.14
Total No.of Sheltered Flats	545								£2,349.08
Resident Warden Accommodation	11	£6.08	£6.08	£6.20	£6.20	£0.12	£6.20	2.00%	£68.20
Total Sheltered Flats including Warden	556								
Other Non-Sheltered	95	£4.35	£4.35	£4.44	£4.44	£0.09	£4.44	2.00%	£421.80

Annual water charges are based on notified amounts from Veolia Water. Annual increases from April 2013 have not yet been notified and charges will be levied once notified. Budget assumes 2% increase.

Community Centres **Appendix 6**

Community Hall and Capacity	Current 2012-13 Charges per first 3 hours block booking then subsequent hourly rate			Proposed 2013-14 Charges per hour letting 2% Price Increase		
	Evening Rate	Daytime Rate	Weekend Rate	Evening Rate	Daytime Rate	Weekend Rate
	£	£	£	£	£	£
Augustine Road [max 30]	20.40	10.20	30.60	20.80	10.40	31.20
Marsh Road Hall [max 30]	20.40	10.20	30.60	20.80	10.40	31.20
Brookside Hall [max 30]	20.40	10.20	30.60	20.80	10.40	31.20
Woodlands Hall [max 60]	30.60	15.30	40.80	31.20	15.60	42.60
Churchill Place [max 100]	40.80	18.36	51.00	41.60	18.70	52.00
Kenmore Park [max 100]	40.80	18.36	51.00	41.60	18.70	52.00
Pinner Hill Hall [max 100]	40.80	18.36	51.00	41.60	18.70	52.00
Northolt Road [max 100]	40.80	18.36	51.00	41.60	18.70	52.00

Terms & Conditions associated with Hall lets:

- Lets to Tenants and Residents Associations are free, providing 4 weeks notice is provided.
- Charges shown are exclusive of VAT at 20% and Insurance Premium at 7%
- Day time rates are from 9.00am to 3.30pm
- Commercial lets will be charged at above hourly rates plus 20%.
- Registered Charities will receive a discount of 50% (9.00am to 3.30pm only).
- Block Bookings of 6 months minimum will receive a 25% discount.
- A refundable deposit of £100 against loss or damage will be required by all other users.

Of the 11 community centres, there are a number of premises that are fully let and supported by lease agreements and therefore charges not levied in accordance with the above schedule. These are:

- Methuen Road community centre is fully let to Flash Musicals Youth Theatre group on a lease agreement of £25,000 rent per annum.
- Stone Gardens hall is fully let as a nursery on a lease agreement of £10,000 rent per annum.
- Northolt Road hall is partly let as a nursery on a lease agreement of £5,200 rent per annum.
- Churchill Place hall is partly let as a nursery on a lease agreement of £10,000 rent per annum.

HRA Capital Programme Appendix 7

	2013-14 No. of properties	2013-14 £	2014-15 £	2015-16 £	2016-17 £
Capitalised Salaries	*	£317,000			
Major Voids	*	£76,870			
Kitchen and Bathrooms	**370**	£1,542,000			
Health and Safety	3 schemes*	£200,000			
Heating	**275**	£871,230			
Enveloping	**400**	£1,523,660			
Enveloping Francis Road	**78**	£1,000,000			
Door Entry upgrade/renewal	**52**	£512,500			
Lifts	1 scheme	£207,500			
Sheltered Warden Voids	*	£51,250			
Structural Issues	*	£256,250			
Garages		£61,500			
Aids and Adaptations		£615,000			
Capitalisation Responsive Repairs	*	£142,500			
Develop Wider Housing Initiatives Pot	*	£256,240			
Council Funded expenditure		**£7,633,500**	**£7,526,810**	**£7,827,330**	**£8,411,850**
Grant funded Extensions		-	-	-	-
Total HRA Capital Programme		**£7,633,500**	**£7,526,810**	**£7,827,330**	**£8,411,850**

Council are asked to delegate authority to the Portfolio Holder for Housing Services and Portfolio Holder for Finance, in conjunction with the Corporate Director of Community, Health and Wellbeing and the Corporate Director of Resources to adjust the capital programme, within the overall capital envelope for 2013-14, without seeking approval from Cabinet to ensure delivery of works