

**LONDON BOROUGH OF HARROW**

**TENANTS' AND LEASEHOLDERS' CONSULTATIVE FORUM**

**TUESDAY 6 JANUARY 2009**

**Key Decision - Draft Revenue Budget 2009-10 to 2011-12**

**Reference from the meeting of Cabinet held on 18 December 2008**

1. The Portfolio Holder for Strategy, Partnership and Finance introduced the report, which set out the draft revenue medium term financial strategy (MTFS) for 2009-10 to 2011-12, and outlined the context for the budget. He advised that a funding gap of £4.2m remained and that there needed to be a radical assessment of the services provided. There would be limited funding from the Government in future years.
2. The Corporate Director of Finance stated that there were funding gaps year on year. She highlighted the proposed change in relation to the contribution to reserves from £1m to £0.5m per annum. Therefore it was essential that the Council came in on budget this year and added £1m to reserves as planned.

**RESOLVED:** That (1) the results of the consultation carried out on the draft corporate priorities, set out in Appendix 1 to the report of the Corporate Director of Finance, be noted;

(2) the draft revenue budget of £168.599m for 2009-10 and the draft MTFS be agreed;

(3) the reserves policy set out in paragraph 46 of the report of the Corporate Director of Finance be approved;

**(4) the draft Housing Revenue Account (HRA) for 2009-10 to 2011-12 set out in Appendix 6 of the Corporate Director of Finance's report be approved, and the draft HRA be referred to the Tenants and Leaseholders Consultative Forum in January.**

**Reason for Decision:** To publish the draft budget.

**FOR CONSIDERATION**

Background documents:

1. Cabinet report – 18 December 2008.
2. Minutes of the Cabinet meeting held on 18 December 2008.

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## HOUSING REVENUE ACCOUNT (HRA)

### Draft Medium Term Financial Strategy (MTFS) 2008-09 to 2010-11

1. The Council's 30 year HRA business plan was updated and submitted to the Government Office for London (GOL) in July 2006. The plan sets out how the Council intends to manage and maintain its housing stock over the next 30 years. This financial strategy, as set out below, relies on the business plan assumptions, which have been updated where relevant to reflect changing operational needs and priorities.
2. The medium term financial strategy 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 quarter 2 and is subject to changes that may be required to reflect government policy and housing priorities.
3. The draft housing revenue account for 2009-10 to 2011-12 is attached at Appendix 6a. The key assumptions that underpin the strategy and the three year revenue budget summary are set out below.

### Balances

4. The strategy will deliver an in year deficit of £1.4m in 2009-10 and £0.8m in 2010-11, and a surplus of £0.1m in 2011-12. The accumulated balances are estimated to reduce from £6.2m at the end of 2007-08 to £3m at the end of 2011-12.
5. In line with the business plan, the HRA aims to maintain a minimum balance of £0.75m.

### Income

#### **Dwelling Rent**

6. The Government intends that by 2016 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.
7. In line with Government policy, an average rent increase of 6.19% is recommended in 2009-10 (5.66% in 2008-09). This means an average rent charge of £86.17 per week per tenant (£81.59 in 2008-09) representing an average rent increase of £4.58 (£4.37 in 2008-09). This will achieve rent convergence for 83% of Council dwellings by the target date.
8. Average formula rents and service charges by dwelling are set out in Appendix 6b. (The average rent for 2008-09 is the average as at November 2008, reflecting sales to date.)

9. The strategy assumes a stock level of 5,065 at the start of April 2009 reducing marginally by an estimated five right to buy sales each year thereafter. Rent loss resulting from voids is estimated at 1.44% of the rental income for dwellings and 0.58% for sheltered accommodation. These assumptions are reflected in the estimated rental incomes detailed in appendix 6a.

### Service Charge – Tenant and Leaseholders

10. In line with Government guidance, the Council separated service charge from dwelling rent in April 2007. The costs of delivering estate based communal services are recovered directly from tenants through the service charge. The estimated total cost of depooled services in the current year is £1.9m. (£1.24m in 2007-08).
11. The service charge for tenants is recommended to increase by 5.50% in 2009-10 (3.5% in 2008-09) resulting in an average service charge of £4.39 (£4.13 in 2008-09), representing an average increase of £0.26 (£0.14 in 2008-09) per week per tenant.
12. As noted above, service charges by dwelling are shown in Appendix 6b.
13. The service charge for leaseholders is recommended to increase by 10.6% in 2009-10, reflecting additional repairs costs. Recovery of costs for administering the leasehold team is recommended to remain at 20% of the service charge costs. Recovery of the costs of repairs to leasehold blocks is estimated at £53 per leaseholder. Building insurance is to be recovered based on an average of £157 per year per leaseholder. It is estimated there will be 1,172 leaseholders as at 31<sup>st</sup> March 2009.

### Other Rental Income

14. Other rent income from garages, car parking, commercial shops and facilities charges is recommended to increase by 2.5%.
15. Details of the proposed rents for garages and parking, facility charges and charges for community centres are set out in appendices 6c, 6d and 6e respectively.

### Summary

16. The recommended rent increases will support the delivery of key services to tenants at their present level, to reflect increases to management and borrowing costs to support the delivery of decent homes. The recommended rental increases have been adjusted for voids and right to buy sales where relevant.

### HRA subsidy

17. The draft budget includes uplifts to all the allowances and guideline rents in line with draft HRA Subsidy determination. Rental Constraint

Allowance, as previously assumed, has not continued beyond 2007-08, with the Government reverting to the Caps and Limits regime from 2008-09.

18. In March 2008 a review of Council Housing Finance was launched by the Communities and Local Government and HM Treasury Departments. The purpose of the review is to develop a sustainable, long term system for financing council housing, and one which is consistent with wider housing policy, including the establishment of a regulator of social housing. The review is due to report to Ministers mid 2009, setting out options for the subsidy system including proposals for changing to rent policy.
19. A formal consultation will follow the review and at this point it should be possible to advise on the impact of the changes on both the HRA and the Business Plan.

### ***Expenditure***

20. Five RTB sales are assumed in 2009-10. The marginal reduction in stock levels is reflected in the assumed level of maintenance expenditure. No reduction is assumed for management costs.

### **Employee Costs**

21. The financial strategy is based on estimated outturn and reflects pay increases for staff of 2.75% each year and pension contribution increases of 0.25% each year. It also reflects the proposed changes to the housing structure where confirmed.

### **Responsive Repairs**

22. The strategy assumes contributions to the responsive and cyclical repairs of £4.8m in each of the next three years. This area is subject to further review, with benchmarking being progressed to ensure that Harrow's repairs costs are reasonable. Discussions are progressing with Kier on a partnership basis to improve service delivery whilst containing and controlling costs.

### **Energy Costs**

23. A 3% increase in energy costs is assumed. Whilst prices increases in the last year of so have been significant the budget for energy costs was increased substantially in 2008-09. These costs are recovered directly from charges to tenants/leaseholders through the service and facilities charges.

### **Charges for Capital**

24. The strategy reflects the HRA share of the Council debt redemption premium across all 3 years. It also reflects discounts due to the HRA from the debt restructuring. In calculating the cost of borrowing to support the decent homes programme, detailed in paragraph 21 below, a consolidated rate of interest (CRI) of 5.45% is assumed.
25. Interest on the HRA balances is assumed at an average of 2.1% reflecting the anticipated reduction in interest rates.

### **Capital Investment and Prudential Borrowing**

26. The strategy assumes capital expenditure to achieve the decent homes standard of £6.9m in 2009-10, £5.9m in 2010-11 and £6.1m in 2011-12 in line with the business plan. Capital expenditure is funded from Major Reserve Allowances (MRA) and capital receipts with the balance being financed through estimated borrowing of £1.9m in 2009-10, £817k in 2010-11 and £1m in 2011-12. This level of borrowing is within the supported borrowing figure of £2.7m included in the subsidy determination.
27. The forecast level of usable capital receipts has reduced from £0.5m to £0.25m. This reduction reflects the lower level of Right To Buy sales.
28. Significant investment has been made in IT services during 2008-09 and will assist in delivering business efficiency during 2009-10. Additional borrowing costs of £195k have been included within capital financing costs. These borrowing costs along with the ongoing system support costs are offset by efficiency savings arising from the new technology.

### **Revenue Contribution to Capital Outlay (RCCO)**

29. A contribution from the HRA reserves of £1m for each of the 3 yrs is recommended to support housing capital investment on the decent homes programme.

### **General Contingency**

30. The strategy sets aside £200k to cover unforeseen expenditure that may arise in the management and maintenance of the housing stock, with the balance representing the anticipated increases in employee costs as detailed in above.

### **Summary**

31. The recommended HRA strategy is broadly consistent with the 30 year business plan and reflects current operational needs and priorities. It is expected that the strategy will support the continuing improvement to current service levels in order to meet expectations of tenants and comply with Government requirements.
32. The impact of the current economic climate has been estimated where possible within this three year budget position now being reported. The increase quantified within this budget totals approximately £0.5m and arises from the need to increase the bad debt provision for Council tenants, lower levels of rental income for non-dwelling HRA assets, and a reduction in the investment income earned.

33. The draft budget estimates a deficit until 2011-12, when the HRA anticipates a small surplus, resulting in a reduction of balances of £2.5m when compared with the business plan surplus of £5.5m at the end of 2011-12. The main reasons for this shift are additional repairs costs in 2008-09, changes to the subsidy regime and increased capital financing costs arising from the decent homes programme.
34. The impact of the lower level of balances will significantly shorten the period during which the Council has a viable HRA. If income and expenditure assumptions remain in line with the business plan, in year 7 [2013-2014] the balances will fall below the recommended level of £0.75m. By this point, the Council will have considered the options around the future of housing in this respect.

**Appendix 6a**  
Draft Housing Revenue Account 2009-10 to 2011-12

	<b>Budget 2009-10</b>	<b>Budget 2010-11</b>	<b>Budget 2011-12</b>	<b>Comments</b>
<b>Expenditure</b>				
Employee Costs	1,915,245	1,865,245	1,865,245	Pay inflation assumed as 2.75% and held in contingency
Supplies & Services	465,360	485,360	465,360	
Utility cost (Water & Gas)	549,000	565,470	582,434	Inflation assumed at 3%
Estate & Sheltered Services	1,916,390	1,916,390	1,916,390	
Central Recharges	2,000,710	2,050,728	2,101,996	Inflation assumed at 2.5%
<b>Operating Expenditure</b>	<b>6,846,705</b>	<b>6,883,193</b>	<b>6,931,425</b>	
Contingency - general	285,220	372,220	461,220	Provision for unforeseen expenditure & pay inflation
Charges for Capital	6,989,420	7,176,600	7,044,140	Includes £195k HARP costs, CRI @ 5.45%, interest on balances @ average 2.1%
Contribution to Repairs Account	4,800,680	4,800,680	4,800,680	
RCCO	1,000,000	1,000,000	1,000,000	Annual contribution
Bad or Doubtful Debts	250,000	250,000	250,000	
<b>Total Expenditure</b>	<b>20,172,025</b>	<b>20,482,693</b>	<b>20,487,465</b>	
<b>Income</b>				
Rent Income – Dwellings	-22,566,752	-23,991,910	-25,488,070	Average rent increase 2009-10 6.19% in line with rent model
Rent Income – Non Dwellings	-869,840	-881,840	-893,840	Average increase of 2.5% for garages. Commercial premises reflect lease agreements
Service Charges - Tenants	-1,150,426	-1,201,045	-1,253,891	Average rent increase 2009-10 5.5% in line with rent model
Service Charges - Leaseholders	-426,037	-426,037	-426,037	Average rent increase 2009-10 10.6% reflecting leaseholder costs to be recovered

	<b>Revised Budget 2009- 10</b>	<b>Budget 2010-11</b>	<b>Budget 2011- 12</b>	<b>Comments</b>
Facility Charges (Water & Gas)	-487,480	-499,480	-511,480	Average increase of 2.5%
Interest	-17,000	-17,000	-17,000	
Other Income	-8,010	-8,010	-8,010	
Transfer from General Fund	-83,000	-83,000	-83,000	
HRA Subsidy	6,880,274	7,392,910	8,093,462	
<b>Total Income</b>	<b>-18,728,271</b>	<b>-19,715,413</b>	<b>-20,587,866</b>	Based on draft determination issued by CLG
<b>In Year Deficit / (Surplus)</b>	<b>1,443,754</b>	<b>764,010</b>	<b>-103,671</b>	
<b>BALANCE carried forward</b>	<b>-3,626,531</b>	<b>-2,862,521</b>	<b>-2,966,192</b>	
<b>BALANCE Business Plan</b>	<b>-4,764,000</b>	<b>-5,319,000</b>	<b>-5,460,000</b>	

**Appendix 6b**

### Average Rents & Service Charges

Property Type	No of Beds	No of Properties	Current Average Rent 2008-09	Current Average Service Charge 2008-09	Total of Rent & Service Charge 2008-09	Proposed Average Rent 2009-10	Proposed Average Service Charge 2009-10	Total of Rent & Service Charge 2009-10	Proposed Average Rent Increase 2009-10	Proposed Average Service Charge Increase 2009-10
			£	£	£	£	£	£	£	£
Bedsit flat	0	102	62.26	2.95	65.21	66.06	3.11	69.17	3.80	0.16
Flat	1	1,246	69.74	3.11	72.85	74.02	3.28	77.30	4.29	0.17
Flat	2	827	76.47	3.33	79.79	81.42	3.51	84.93	4.95	0.18
Flat	3	45	80.12	3.50	83.62	85.72	3.69	89.41	5.60	0.19
Bedsit Bungalows	0	21	74.83	3.05	77.88	79.27	3.21	82.48	4.44	0.17
Bungalow	1	116	83.38	3.29	86.67	88.31	3.47	91.78	4.93	0.18
Bungalow	2	25	98.24	3.37	101.60	103.74	3.55	107.29	5.50	0.19
Non-Parlour Bungalows	2	1	95.83	3.37	99.20	100.95	3.55	104.50	5.12	0.19
Non-Parlour Bungalows	3	1	125.17	0.00	125.17	131.73	0.00	131.73	6.56	0.00
Non-Parlour Bungalows	7	1	165.76	3.79	169.55	173.03	4.00	177.03	7.27	0.21
Maisonette	1	6	68.83	3.37	72.20	72.92	3.55	76.47	4.09	0.19
Maisonette	2	96	76.28	3.37	79.66	81.17	3.56	84.74	4.89	0.19
Maisonette	3	61	80.30	3.58	83.88	85.92	3.78	89.70	5.62	0.20
Maisonette	4	1	88.90	0.00	88.90	95.74	0.00	95.74	6.84	0.00

Property Type	No of Beds	No of Properties	Current Average Rent 2008-09	Current Average Service Charge 2008-09	Total of Rent & Service Charge 2008-09	Proposed Average Rent 2009-10	Proposed Average Service Charge 2009-10	Total of Rent & Service Charge 2009-10	Proposed Average Rent Increase 2009-10	Proposed Average Service Charge Increase 2009-10
			£	£	£	£	£	£	£	£
Non-Parlour House	1	1	48.03	3.37	51.40	52.65	3.55	56.20	4.62	0.19
Non-Parlour House	2	526	88.42	3.52	91.93	93.71	3.71	97.43	5.30	0.19
Non-Parlour House	3	752	94.52	3.70	98.21	100.40	3.90	104.31	5.89	0.20
Non-Parlour House	4	28	105.42	3.49	108.90	111.96	3.68	115.64	6.54	0.19
Non-Parlour House	5	3	112.19	3.79	115.97	119.12	4.00	123.11	6.93	0.21
Parlour House	2	35	92.02	2.43	94.45	97.48	2.56	100.04	5.45	0.13
Parlour House	3	551	100.41	2.92	103.33	106.47	3.08	109.56	6.07	0.16
Parlour House	4	58	108.99	3.32	112.31	115.56	3.51	119.06	6.56	0.18
Parlour House	5	6	117.40	3.44	120.83	124.36	3.63	127.99	6.96	0.19
Parlour House	6	2	129.43	2.73	132.16	137.08	2.89	139.97	7.65	0.15
Sheltered	0	547	67.20	11.26	78.46	71.32	11.88	83.20	4.13	0.62
Sheltered other	1	9	80.60	11.56	92.15	86.22	12.19	98.41	5.62	0.64
		5067								



**Garages & parking space charges**

	<b>Current Weekly Rental 2008/09</b>	<b>Proposed Weekly Rental 2009/10</b>
	<b>£</b>	<b>£</b>
Garages	13.13	13.50
Car Spaces	8.62	8.80

## Appendix 6d

### Facility Charges

Sheltered Block	No of Properties	Current average facility charge (Heating) 2008-09 £	Proposed average facility charge (Heating) 2009-10 £
Cornell House	30	9.91	10.15
Meadfield	29	9.91	10.15
Harrow Weald Park	31	8.13	8.35
Watkins House	43	10.38	10.65
Boothman House	30	9.87	10.10
Durrant Court	28	10.03	10.30
Grahame White House	29	9.89	10.15
Harkett Court	31	10.02	10.30
Sinclair House	27	9.89	10.15
Tapley Court	26	9.86	10.10
Alma Court	30	9.89	10.15
Belmont Lodge	30	9.87	10.10
Edwin Ware Court	30	8.30	8.50
Goddard Court	31	10.03	10.30
Grange Court	31	8.46	8.65
John Lamb Court	32	10.38	10.65
Thomas Hewlett House	30	9.92	10.15
William Allen House	29	8.98	9.20
Resident Warden Accommodation	9	13.15	13.50
Other Non Sheltered	129	9.16	9.40

## Community Centres

	Current 2008-09 Charges per 3 hour letting (additional hourly charge)		Proposed 2.5% uplift for 2009-10 Charges per 3 hour letting (additional hourly charge)	
	Evening Rate £	Daytime Rate £	Evening Rate £	Evening Rate £
Methuen Road Fully Let to Flash Musicals				
Augustine Road	72.01	36.27	73.80	37.20
Each Extra Hour	13.69	7.17	14.00	7.30
Marsh Road Hall	36.81	18.08	37.70	18.50
Each Extra Hour	9.31	4.92	9.50	5.00
Stonegrove Gardens Hall	80.78	40.13	82.80	41.10
Each Extra Hour	13.69	7.17	14.00	7.30
Churchill Place Hall	80.78	40.13	82.80	41.10
Each Extra Hour	13.69	7.17	14.00	7.30
Kenmore Park Hall	80.78	40.13	82.80	41.10
Each Extra Hour	13.69	7.17	14.00	7.30
Pinner Hill Hall	80.78	40.13	82.80	41.10
Each Extra Hour	13.69	7.17	14.00	7.30
Northolt Road Hall	80.78	40.13	82.80	41.10
Each Extra Hour	13.69	7.17	14.00	7.30
Brookside Hall	72.01	36.27	73.80	37.20
Each Extra Hour	13.69	7.17	14.00	7.30
Woodlands Hall	36.81	18.08	37.70	18.50
Each Extra Hour	9.31	4.92	9.50	5.00