



Meeting:	Cabinet
Date:	17 December 2009
Subject:	Draft Housing Revenue Account Budget 2010-11 to 2012-13
Key Decision:	Yes
Responsible Officer:	Lynne Pennington, Interim Divisional Director Housing Myfanwy Barrett, Corporate Director of Finance
Portfolio Holder:	Councillor Barry Macleod-Cullinane, Portfolio Holder for Adults & Housing Councillor David Ashton, Leader and Portfolio Holder for Strategy, Partnership & Finance
Exempt:	No
Enclosures:	Appendix 1 – HRA Budget 2010-11 to 2012-13 Appendix 2 – Average Rent & Service Charges Appendix 3 – Garages & Parking Space Charges Appendix 4 – Facility Charges Appendix 5 – Community Centre Charges

## Section 1 – Summary and Recommendations

This report sets out the Draft HRA Medium Term Financial Strategy (MTFS) for 2010-11 to 2012-13, subject to the annual HRA subsidy determination.

### **RECOMMENDATIONS:**

The Cabinet is requested to:

1. Approve the Draft Housing Revenue Account (HRA) for 2010-11 to 2012-13 set out in Appendix 1, and refer the Draft HRA to the Tenants & Leaseholders Consultative Forum in January.
2. To agree income maximisation options in the event that the subsidy position does not improve and reduce annual in year deficits over the three year period.

**REASON:** To publish the draft budget.

## **Section 2 – Report**

### **Draft Medium Term Financial Strategy (MTFS) 2010-11 to 2012-13**

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. In recent years, annual expenditure has been greater than the income received in the year, resulting in an annual reduction in HRA balances, and causing pressures around the longer term funding of the HRA. The budget process will need to consider whether there is capacity to make annual contributions to balances to redress the impact of recent years.
4. The Draft Housing Revenue Account for 2010-11 to 2012-13 is attached at Appendix 1. It must be noted that the position is reported without the impact of the annual subsidy determination, which has yet to be received from central Government. This is likely to significantly alter the in year balances, and as a result, the decisions that may be required. The key assumptions that underpin the strategy and the three year revenue budget summary are set out below.

### **Balances**

5. The strategy will deliver an in year deficit of £1.030m in 2010-11, £0.899m in 2011-12, and £0.706m in 2012-13. The accumulated balances are estimated to decrease from £4.013m at the end of 2009-10 to £1.377m at the end of 2012-13. The Business Plan had assumed a surplus of £4.5m at the end of 2012-13 – a movement of £3.123m.
6. Increased surpluses [post subsidy determination] may enable additional investment in the stock and contributions to restore balances back to levels anticipated in the business plan.
7. In line with the business plan, the HRA aims to maintain a minimum balance of £0.75m.

### **Income**

#### Dwelling Rent

8. 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.

9. In line with Government policy, an average rent increase of 5.56% is recommended in 2010-11 (3% in 2009-10). This means an average rent charge of £88.67 per week per tenant (£84 in 2009-10) representing an average rent increase of £4.67 (£2.45 in 2009-10). This will achieve rent convergence for 77.30% of Council dwellings by the target date.
10. Average formula rents & service charges by dwelling are set out in Appendix 2.
11. Anticipating a successful ballot in relation to the transfer of 86 dwellings at Mill Farm, the strategy assumes a stock level of 4,978 at the start of April 2010 reducing marginally by an estimated three right to buy sales each year thereafter. Rent loss resulting from voids is estimated at 0.917% across all dwelling types and assumes an average turnaround of 52 calendar days. These assumptions are reflected in the estimated rental incomes detailed in Appendix 2.

#### Service Charge – Tenant and Leaseholders

12. 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 de-pooled services for 2010-11 is £2.1m. (£1.9m in 2009-10).
13. The service charge for tenants is recommended to increase by 3.62% in 2010-11 (5.49% in 2009-10) resulting in an average service charge of £4.78 (£4.61 in 2009-10), representing an average increase of £0.17 (£0.24 in 2009-10) per week per tenant.
14. Service charges by dwelling are shown in Appendix 2.
15. Service charge for leaseholders is recommended to increase by 8.98% in 2010-11 [10.6% in 2009-10]. 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 £86 per leaseholder [£53 2009-10]. It is estimated there will be 1162 leaseholders as at 31<sup>st</sup> March 2010.

#### Other Rental Income & Income Maximisation

16. Other rent income from garages, car parking, commercial shops and facilities charges is recommended to increase by 1%.
17. 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.
18. To assist in reducing annual in year deficits, there are a number of options which could be explored to generate additional income;
  - To re-let voids at target rent – this could be delivered quickly. The gap in 2010-11 between the average actual rent (£88.67) and average target

rent (£97.03) is £8.36. If implemented in April 2010 additional rental income of approximately £59k could be generated, £138k in a full year.

- To reduce void rent loss. Void rent loss has been assumed based on latest performance of 52 calendar days. If the target of 28 calendar days is achieved on all voids in 2010-11, additional rental income of £98k could be generated.
- To increase facility charges to fully recover costs – shortfall of £152k between cost of utilities and amount recovered from tenants, this would result in an average weekly increase of 30.78%.
- Improve performance of rent collection – a 0.5% improvement in collection performance would result in an additional £113k rental income being collected, reducing the bad debt provision [depending on the age of the debt].
- Application of a differential rent policy on garages. Significant rent increases in 2007-08 have resulted in an increased level of voids, it may be possible to reduce the voids by reducing the rents. In addition, garages used for commercial purposes should be charged a business rate. Further work is required to quantify the potential impact of this option.
- To maximize tenant and leaseholder service charges to ensure consistency and to fully recover estate based costs [which may result in further de-pooling]. A Lean review of the service charge process is underway.

### Summary

19. 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. This will change once the subsidy determination has been published and will be reflected in the February report to Cabinet and Council.

### **Expenditure**

20. Three RTB sales are assumed for the term of the financial strategy. 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 the staffing establishment, and anticipates a pay increase of 0.5% in 2010-11 then 2% ongoing. This includes 0.25% increase in pension contributions as part of the triennial review of the Council's Pension Fund.

### Energy Costs

22. A 2.82% increase in energy costs is assumed in 2010-11 then 4.24% ongoing. There has been considerable volatility in the energy market in recent years and historic costs have not been fully recovered from charges to tenants/leaseholders through service and facilities charges. To maximise income and fully recover costs would result in an average increase of 30.78% (see paragraph 18 above).

#### Central Recharges

23. These costs total £2.8m in 2010-11 and assume inflationary increases of 1% in 2010-11 then 2% ongoing in line with corporate assumptions. Costs of £357k capped in 2009-10, have been included in 2010-11. These reflect the costs of services provided to the landlord function across the Council.

24. There are a number of costs crossing the HRA ring fence – Helpline costs and amenities shared by the community. As part of the wider council budget process, these costs have been reviewed and will be charged in future to the General Fund. The shifts between the two funds will be cost neutral offsetting the increase in the internal capped costs detailed in the paragraph above.

#### General Contingency

25. The strategy sets aside £200k to cover unforeseen expenditure that may arise in the management and maintenance of the housing stock.

#### Charges for Capital

26. The strategy reflects the HRA share of the Council debt redemption premium across the 3 years MTFS. It also reflects discounts due to the HRA from the historic debt restructuring programme. In calculating the cost of borrowing to support the decent homes programme, detailed in paragraph 28 below, a consolidated rate of interest (CRI) of 4.72% is assumed.

27. Interest on the HRA balances is assumed at an average of 2% reflecting current interest rates.

#### Capital Investment and Prudential Borrowing

28. The strategy assumes capital expenditure to achieve the decent homes standard of £8.610m in 2010-11 (this includes £1m slippage from 2009-10), and £6.160m for each of 2011-12 and 2012-13. Capital expenditure is funded from Major Reserve Allowances (MRA) and capital receipts with the balance being financed through estimated borrowing of £3.8m in 2010-11, £1.2m in 2011-12 and £0.960m in 2012-13. The annual subsidy determination allows for supported borrowing of £2.7m.

29. Following updated stock condition data, the HRA capital programme is being developed, and is likely to require an increase in the capital programme. This can only be considered if in year deficits are reduced to ensure borrowing costs are sustainable within the HRA.

30. The forecast level of usable capital receipts has reduced from £0.5m to £0.25m, reflecting the lower level of Right To Buy sales.

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

31. Cabinet, in July 2009, agreed to increase borrowing to achieve the decent homes programme, funded by a reduction in RCCO. The contribution from the HRA at £0.5m for each of the 3 yrs is recommended to support housing capital investment on the decent homes programme and other capital works. Given the in year deficits it may be appropriate to delete this funding however this will reduce ability to deliver the major investment programme.

### Responsive Repairs

32. The strategy assumes contributions to the responsive and cyclical repairs of £3.2m in 2010-11, and £3.4m in each of 2011-12 and 2012-13. Following pressures in this area in recent years, and a Lean review of day to day repairs, the budget has been set based on the assumption of 13,337 repairs for 2010-11 together with estimated savings of £62k per annum arising directly from the Lean review.
33. The void process was outside the scope of the Lean review. The budget assumes 318 voids with an assumed transfer to Capital of £101k.

### HRA subsidy

34. As noted in paragraph 4 the HRA Subsidy Determination has not yet been announced by the Department of Communities & Local Government (DCLG). The draft budget therefore remains as estimated in the July Cabinet report – adjustments only being made for the changes in borrowing costs and stock numbers regarding the anticipated Mill Farm transfer. Management, maintenance and guideline rents remain unchanged pending the publication of the determination and will be reported in the February Cabinet report.
35. The consultation period for the review of Council Housing Finance closed on 27<sup>th</sup> October 2009. The consultation sought views on a radical reform of Housing Finance, with authorities funding a nationally allocated debt based on rent income streams and assumptions around the assumed need to spend on management and maintenance. The proposals have been welcomed in principle but further details are required to identify the implications for Harrow based on the proposed national redistribution of debt, at which point it should be possible to advise on the impact of the changes on both the HRA and the Business Plan.
36. The Government are expected to respond early 2010, however implementation is not expected until 2012-13 at the earliest and subject to political changes and primary legislation.

### **Summary**

37. The recommended HRA strategy, subject to release of the HRA Subsidy Determination, 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.
38. The draft budget estimates a deficit in each of the three years under review and estimated deficit is likely to change significantly following release of the HRA Subsidy Determination.

39. Unless the income maximisation options are pursued, the lower level of balances suggest that the HRA will not be viable from 2013-2014.

### **Financial Implications**

40. Financial matters are integral to this report.

### **Performance Issues**

41. There are no direct performance implications arising from this report. Detailed performance measures for each service will be built into the Service Improvement Plans for 2010-11 to 2012-13 and progress will be monitored by Improvement Boards and reported to cabinet on a quarterly basis.

### **Risk Management Implications**

42. As part of the budget process the budget risk register will be reviewed and updated, and included in the report to February cabinet. This helps to test the robustness of the budget.

### **Environmental Impact**

43. There are no direct environmental implications arising from this report.

### **Section 3 - Statutory Officer Clearance**

Name: Myfanwy Barrett  Chief Financial Officer

Date: 27<sup>th</sup> November 2009

Name: Paresh Mehta  On behalf of the Monitoring Officer

Date: 1<sup>st</sup> December 2009

### **Section 4 – Performance Officer Clearance**

Name: Alex Dewsnap  on behalf of the Divisional Director Partnership, Development and Performance

Date: 27<sup>th</sup> November 2009

### **Section 5 – Environmental Impact Officer Clearance**

Name: John Edwards



on behalf of the  
Divisional  
Director Environmental  
Services

Date: 1<sup>st</sup> December 2009

## **Section 6 - Contact Details and Background Papers**

### **Contact:**

Donna Edwards  
Adults & Housing Finance Business Partner  
Telephone: 020-8424-1140

### **Background Papers:**

- 30year HRA Business Plan
- Report to Cabinet in July on the Medium Term Financial Strategy



## Draft Housing Revenue Account 2010-11 to 2012-13

**SUBJECT TO DRAFT SUBSIDY DETERMINATION**

	<b>Budget 2010-11 £</b>	<b>Budget 2011-12 £</b>	<b>Budget 2012-13 £</b>	<b>Comments</b>
<b>Operating Expenditure:</b>				
Employee Costs	1,213,490	1,234,280	1,255,480	Pay inflation assumed at 0.5% 2010-11, then 2% ongoing
Supplies & Services	447,520	447,520	447,520	
Utility cost (Water & Gas)	643,900	671,200	699,900	Inflation assumed at 2.82% 2010-11 then 4.24% ongoing
Estate & Sheltered Services	2,147,930	2,193,810	2,241,320	Salaries inflated as above
Central Recharges	2,772,500	2,827,950	2,884,500	Inflation assumed at 1% 2010-11, then 2% ongoing
<b>Operating Expenditure</b>	<b>7,225,340</b>	<b>7,374,760</b>	<b>7,528,720</b>	
<b>Repairs Expenditure:</b>				
Repairs - Voids	554,150	620,310	631,670	Assumed 318 voids per annum and £101k transfer to Capital
Repairs - Responsive	2,634,850	2,829,220	2,867,590	Assumes annual volume of 13,337 day to day repairs
Repairs – Other	1,596,570	1,613,850	1,631,430	Includes external decoration, cyclical repairs and repairs salaries
<b>Total Repairs Expenditure</b>	<b>4,785,570</b>	<b>5,063,380</b>	<b>5,130,690</b>	
<b>Other Expenditure:</b>				
Contingency - General	200,000	200,000	200,000	
Charges for Capital	6,996,520	7,112,510	7,348,350	Consolidated Rate of Interest 4.72%
RCCO	500,000	500,000	500,000	
Bad or Doubtful Debts	250,000	250,000	250,000	
HRA Subsidy	6,874,450	7,411,280	7,977,730	Awaiting HRA Subsidy Determination
<b>Total Other Expenditure</b>	<b>14,820,970</b>	<b>15,473,790</b>	<b>16,276,080</b>	
<b>Total Expenditure</b>	<b>26,831,880</b>	<b>27,911,930</b>	<b>28,935,490</b>	
<b>Income</b>				
Rent Income – Dwellings	-22,728,420	-23,873,720	-25,055,070	Average rent £88.67 2010-11 and void losses of 0.9%
Rent Income – Non Dwellings	-823,500	-827,950	-832,450	Includes Garages which will increase at 1% p.a.
Service Charges - Tenants	-1,164,750	-1,215,420	-1,234,430	

	<b>Budget 2010-11 £</b>	<b>Budget 2011-12 £</b>	<b>Budget 2012-13 £</b>	<b>Comments</b>
Service Charges – Leaseholders	-415,640	-421,560	-427,730	
Facility Charges (Water & Gas)	-492,360	-497,280	-502,250	Fees & charges increase 1% annually
Interest	-6,120	-6,120	-6,120	Mortgage interest at 4.78%
Other Income	-8,010	-8,010	-8,010	
Transfer from General Fund	-163,000	-163,000	-163,000	Amenities shared by the community
<b>Total Income</b>	<b>-25,801,800</b>	<b>-27,013,060</b>	<b>-28,229,060</b>	
<b>In Year Deficit / (Surplus)</b>	<b>1,030,080</b>	<b>898,870</b>	<b>706,440</b>	
<b>BALANCE brought forward</b>	<b>-4,012,660</b>	<b>-2,982,580</b>	<b>-2,083,710</b>	
<b>BALANCE carried forward</b>	<b>-2,982,580</b>	<b>-2,083,710</b>	<b>-1,377,270</b>	
<b>BALANCE Business Plan</b>	<b>-5,319,000</b>	<b>-5,460,000</b>	<b>-4,539,000</b>	

**Average Rents & Service Charges**

Property Type	No of Beds	No of Properties	Current Average Rent 2009-10	Current Average Service Charge 2009-10	Total of Rent & Service Charge 2009-10	Proposed Average Rent 2010-11	Proposed Average Service Charge 2010-11	Total of Rent & Service Charge 2010-11	Proposed Average Rent Increase 2010-11	Proposed Average Service Charge Increase 2010-11
			£	£	£	£	£	£	£	£
Bedsit flat	0	84	64.59	3.11	67.70	68.29	3.20	71.49	3.69	0.09
Flat	1	1,232	72.15	3.28	75.42	76.25	3.38	79.62	4.10	0.10
Flat	2	827	79.54	3.51	83.05	83.91	3.61	87.52	4.37	0.11
Flat	3	45	83.91	3.69	87.60	88.43	3.80	92.23	4.52	0.11
Bedsit Bungalows	0	21	77.13	3.21	80.35	81.43	3.31	84.74	4.30	0.10
Bungalow	1	116	85.93	3.47	89.40	90.43	3.58	94.01	4.50	0.10
Bungalow	2	25	100.71	3.55	104.26	105.08	3.66	108.73	4.37	0.11
Non-Parlour Bungalows	2	1	97.82	3.55	101.37	101.11	3.66	104.77	3.29	0.11
Non-Parlour Bungalows	3	1	127.53	0.00	127.53	131.22	0.00	131.22	3.69	0.00
Non-Parlour Bungalows	7	1	166.49	4.00	170.49	165.12	4.11	169.23	-1.37	0.12
Maisonette	1	6	70.97	3.55	74.52	75.10	3.66	78.76	4.13	0.11

Maisonette	2	53	79.46	3.57	83.02	83.81	3.67	87.49	4.35	0.11
Maisonette	3	49	83.91	3.73	87.64	88.43	3.84	92.27	4.52	0.11
Maisonette	4	1	93.08	0.00	93.08	97.87	0.00	97.87	4.79	0.00
Non-Parlour House	1	1	49.69	3.55	53.24	52.18	3.66	55.84	2.49	0.11
Non-Parlour House	2	526	91.24	3.71	94.95	95.91	3.82	99.73	4.67	0.11
Non-Parlour House	3	752	97.91	3.90	101.81	102.85	4.02	106.86	4.94	0.12
Non-Parlour House	4	28	109.13	3.68	112.80	114.22	3.79	118.01	5.09	0.11
Non-Parlour House	5	3	116.11	4.00	120.11	121.60	4.12	125.71	5.48	0.12
Parlour House	2	35	94.85	2.56	97.42	99.49	2.64	102.13	4.64	0.08
Parlour House	3	551	103.69	3.08	106.77	108.73	3.17	111.90	5.04	0.09
Parlour House	4	58	112.52	3.51	116.03	117.70	3.61	121.31	5.18	0.11
Parlour House	5	6	120.95	3.63	124.57	126.38	3.73	130.11	5.43	0.11
Parlour House	6	2	133.37	2.89	136.26	139.37	2.97	142.34	6.00	0.09
Sheltered	0	545	69.51	11.88	81.39	73.56	12.23	85.79	4.05	0.36
Sheltered other	1	11	84.00	12.19	96.19	88.52	12.56	101.07	4.52	0.37
		4,980								

## Garages &amp; parking space charges

	<b>Current Weekly Rental</b>	<b>Proposed Weekly Rental</b> <b>(assuming 1% increase)</b>
	<b>2009/10</b>	<b>2010/11</b>
	£	£
Garages	13.50	13.60
Car Spaces	8.80	8.90

## Appendix 4

### Facility Charges

<b>Sheltered Block</b>	<b>No of Properties</b>	<b>Current average facility charge (Heating)</b>	<b>Proposed average facility charge (Heating) assuming 1% increase</b>
		<b>2009-10 £</b>	<b>2010-11 £</b>
Cornell House	30	10.15	10.25
Meadfield	29	10.15	10.25
Harrow Weald Park	31	8.35	8.40
Watkins House	43	10.65	10.75
Boothman House	30	10.10	10.20
Durrant Court	28	10.30	10.40
Grahame White House	29	10.15	10.25
Harkett Court	31	10.30	10.40
Sinclair House	27	10.15	10.25
Tapley Court	26	10.10	10.20
Alma Court	30	10.15	10.25
Belmont Lodge	30	10.10	10.20
Edwin Ware Court	30	8.50	8.60
Goddard Court	31	10.30	10.40
Grange Court	31	8.65	8.70
John Lamb Court	32	10.65	10.75
Thomas Hewlett House	30	10.15	10.25
William Allen House	29	9.20	9.30
Resident Warden Accommodation	9	13.50	13.60
Other Non Sheltered	129	9.40	9.50

## Community Centres

	Current 2009-10 Charges per 3 hour letting  (additional hourly charge)		Proposed 2010-11 Charges per 3 hour letting Assuming 1% increase (additional hourly charge)	
	Evening Rate £	Daytime Rate £	Evening Rate £	Daytime Rate £
Methuen Road Fully let to Flash Musicals				
Stonegrove Gardens Hall Fully let to Nursery				
Augustine Road [max 30] Each Extra Hour	73.80 14.00	37.20 7.30	38.10 9.60	18.70 5.10
Marsh Road Hall [max 30] Each Extra Hour	37.70 9.50	18.50 9.50	38.10 9.60	18.70 5.10
Brookside Hall [max 30] Each Extra Hour	73.80 14.00	37.20 7.30	38.10 9.60	18.70 5.10
Woodlands Hall [max 60] Each Extra Hour	37.70 9.50	18.50 5.00	74.50 14.15	37.60 7.40
Churchill Place Hall [max 100] Each Extra Hour	82.80 14.00	41.10 7.30	83.60 14.15	41.50 7.40
Kenmore Park Hall [max 100] Each Extra Hour	82.80 14.00	41.10 7.30	83.60 14.15	41.50 7.40
Pinner Hill Hall [max 100] Each Extra Hour	82.80 14.00	41.10 7.30	83.60 14.15	41.50 7.40
Northolt Road Hall [max 100] Each Extra Hour	82.80 14.00	41.10 7.30	83.60 15.15	41.50 7.40

NB: Charges in 2009-10 are not consistent with capacity, this has been addressed for 2010-11 but will mean increases greater than 1% in these cases. Halls with a capacity of 30 are not generally let for parties.