

REPORT FOR: CABINET

Date:	11 February 2010
Subject:	Housing Revenue Account 2010-11 to 2012-13
Key Decision:	Yes
Responsible Officer:	Myfanwy Barrett Corporate Director of Finance Lynne Pennington, Interim Divisional Director Housing
Portfolio Holder:	Councillor David Ashton Leader & Portfolio Holder for Strategy, Partnerships & Finance Councillor Barry Macleod-Cullinane Portfolio Holder for Adults & Housing
Exempt:	No
Decision subject to Call-in:	Yes (Applies only to those recommendations falling within the remit of Cabinet)
Enclosures:	Appendix 1 – HRA Medium Term Budget Strategy 2010-11 to 2012-13 Appendix 2 – Average Rents & Service Charges (Tenants) Appendix 3 –Garage & Parking Space Charges Appendix 4 – Facility Charges Appendix 5 – Community Centre Charges

Section 1 – Summary and Recommendations

This report sets out the Housing Revenue Account (HRA) Budget for 2010-11 and Medium Term Financial Strategy 2010-11 to 2012-13.

Recommendations:

- 1) That Cabinet approves the Medium Term Budget Strategy for the HRA detailed in Appendix 1.
- 2) That Cabinet asks Council to approve the Housing Revenue Account for 2010-11 and in particular to agree to:
 - (a) Increase rents by 2.85%% on average from 1 April 2010 (as detailed in Appendix 2)
 - (b) Increase service charges for tenants by 2.85%% (as detailed in Appendix 2) and freeze charges for leaseholders pending a review of the service and charging methodology from 1 April 2010
 - (c) Increase garage and car parking rents by 2% from 1 April 2010 (as detailed in Appendix 3)
 - (d) Increase energy (heating) charges by 2% from 1 April 2010 (as detailed in Appendix 4)
 - (e) Increase Community Centre charges by 2% from 1 April 2010 (as detailed in Appendix 5)

Reason: (For recommendation)

To publish the final HRA budget proposals and set Council rents and other charges for 2010-11.

Section 2 – Report

Introductory paragraph

The Council has a statutory obligation to agree and publish the HRA Budget for 2010-11. The Medium Term Financial Strategy sets out the planned income and expenditure for the HRA over the coming three years and shows how income collected will be spent in the management and maintenance of the Council's housing stock and in meeting its landlord obligations.

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 Period 9 (reported elsewhere on this agenda) and is subject to changes that may be required to reflect government policy and housing priorities. The key assumptions that underpin the strategy and the three year revenue budget summary are set out below.
3. Cabinet agreed in December a range of income maximisation options which have been built into the financial strategy and are detailed in paragraph 12 below.
4. The rent increases proposed in paragraph 9, reflect below inflationary increases, enable rent convergence in 2013 in line with Government policy and reduce the speed at which balances decline to enable investment to deliver the Housing Improvement Programme.

Balances

5. The strategy will deliver an in year deficit of £0.677m in 2010-11, £0.583m in 2011-12, and a small surplus of £0.074m in 2012-13. The accumulated balances are estimated to decrease from £3.947m at the end of 2009-10 to £2.761m at the end of 2012-13. The Business Plan had assumed a surplus of £4.5m at the end of 2012-13.
6. The table below details the movement on the HRA balances:

	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Balance brought forward	-5,705	-6,240	-5,142	-3,947	-3,270	-2,687
In year (surplus) / deficit	-535	1,098	1,195	677	583	-74
Balance Carried forward	-6,240	-5,142	-3,947	-3,270	-2,687	-2,761

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 2013 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. To achieve rent convergence, and maximise rental income, an average rent increase of 2.85% is recommended in 2010-11 (3% in 2009-10), and 4.95% for 2011-12 and 2012-13.
10. The rent increase of 2.85% results in an average rent charge of £86.60 per week per tenant (£84 in 2009-10) representing an average rent increase of £2.60 (£2.45 in 2009-10). These increases are above the formula increase of RPI (-1.4% September 2009)+ 0.5% + £2 and enable convergence to be met by the Government target date. However, this average rent is still below the Government guideline rent of £87.19 for 2010-11. In 2009-10, 24 London Boroughs charged rents above the guideline.
11. Average formula rents & service charges by dwelling are set out in Appendix 2.
12. Increased rental income of £533k is included across the three financial years and reflects the December Cabinet decision for voids to be relet within a maximum of 28 working days annually from 1st April 2010 (currently 32 days) and the rent for relet properties set at the target rent. Reletting at target rent will increase rental income and assist in moving towards convergence, by closing the gap between local authority and registered social landlord rents. These assumptions are reflected in the estimated rental incomes detailed in Appendix 2.
13. The strategy assumes a stock level of 5,063 at the start of April 2010 reducing to 4,977 from May 2010 following the transfer of 86 dwellings on the Mill Farm estate. Thereafter, a marginal reduction of three dwellings each year is estimated arising from the sale of dwellings through the Right to Buy process.

Service Charge – Tenants

14. 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).
15. Service charges to tenants will also increase by 2.85% in 2010-11 and 4.95% for 2011-12 and 2012-13. This will result in an average service charge of £4.77 (£4.61 in 2009-10), representing an average increase of £0.16 (£0.24 increase in 2009-10) per week per tenant.
16. Tenant service charges by dwelling are shown in Appendix 2.

Service Charge – Leaseholders

17. Charges for leaseholders are based on a proportion of estate based costs, reflecting the services that they receive.
18. Charges to leaseholders will be frozen for 2010-11, pending a complete review of the service and charging methodology. The methodology for recovering service charges from tenants and leaseholders is different – tenants service charges were calculated as part of the de-pooling of rents in 2007. The review will include both tenant and leaseholder service charges to ensure a consistent calculation and adjustment where appropriate.

Other Income

19. Other rent income from garages, car parking, commercial shops and facilities charges is recommended to increase by 2% in line with other services across the Council.
20. 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.

Summary

21. 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.

Expenditure

22. 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

23. The financial strategy is based on the staffing establishment. Given the outlook for public sector spending, and the references made to pay freezes in recent weeks, it is assumed that there will be a 0% pay award in 2010-11. The provision for pay is being maintained at 2% in 2011-12 and 2012-13 for the time being, although the Pre-Budget report suggested that public sector pay increases would be capped at 1% in these years.
24. A provision of 0.25% has been made for the increase in pension contributions in 2010-11, in line with the last triennial actuarial valuation of the Council's pension fund.

Energy Costs

25. A 2.82% increase in energy costs is assumed in 2010-11 then 4.24% ongoing based on anticipated contractual price increases. These costs are recovered from tenants and leaseholders by way of facility charges (for energy costs

associated with heating in sheltered blocks) and services charges (for costs of lighting communal areas). As a result, these costs will form part of the review of service charges to tenants and leaseholders referred to in paragraph 18 above.

Central Recharges

26. These costs total £2.9m 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, together with an additional £120k in respect of Access Harrow. These reflect the costs of services provided to the landlord function across the Council.
27. 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

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

Charges for Capital

29. 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.
30. Interest on the HRA balances is assumed at an average of 2% reflecting current interest rates.

Capital Investment and Prudential Borrowing

31. 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 £3.9m in 2010-11, £1.4m in 2011-12 and £1.3m in 2012-13. The annual subsidy determination allows for supported borrowing of £2.7m in 2010-11 and may continue but will be dependent upon the next comprehensive spending review. As a result, borrowing from 2011-12 onwards is unsupported at this stage.
32. 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.
33. 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)

34. 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

35. 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.

36. The void process was outside the scope of the Lean review. The budget assumes 318 voids with an assumed transfer to Capital of £101k, reflecting Decent Homes works carried out as part of the response repair process.

HRA subsidy

37. The financial position of the HRA is heavily influenced by the HRA subsidy system – the present system for delivering finance to Council housing, and is based on the notional income and expenditure calculated by the Secretary of State in the annual determination.

38. The budget includes uplifts to all the allowances and guideline rents in line with the final HRA Subsidy determination. The Government has employed the Caps & Limits regime since 2008-09, which superseded the Rental Constraint Allowance.

39. Harrow is one of approximately 154 authorities, where the notional income exceeds the notional expenditure, requiring an annual payment to be made by Harrow to the Government. These repayments (often referred to as 'negative subsidy') are captured and redistributed to other parts of the country to meet notional deficits for other authorities. The Council continues to support Waverley Campaign which seeks to redress the imbalances in the current system.

40. The consultation period for the review of Council Housing Finance closed on 27th 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.

41. 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

42. 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.
43. The budget estimates reducing annual in year deficit and a small surplus in 2012-13, resulting in a reduction of balances of £1.778m when compared with the business plan surplus of £4.50m anticipated at the end of 2012-13.
44. The slowing down of the reduction in balances will prolong the period during which the Council has a viable HRA.

Financial Implications

45. Financial matters are integral to this report.

Performance Issues

46. 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.
47. CAA implications – successful financial management of the HRA contributes to the Use of Resources assessment, in particular the following priorities from the Audit Commission guidance:
- 1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?
 - 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?

Environmental Impact

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

Risk Management Implications

49. Radical reforms in Council Housing Finance are awaited following the consultation on the reform, with implementation expected in 2012-13. These developments, together with the overall viability of the HRA, are identified risks on the Council's risk register.

Corporate Priorities

50. The report, although focused on the HRA, contributes to all three of the Corporate priorities through the allocation of appropriate financial resources for the expedition of Housing and associated services.
- Deliver cleaner and safer streets
 - Improve support for vulnerable people
 - Build stronger communities

Section 3 - Statutory Officer Clearance

Name: Jennifer Hydari

on behalf of the
Chief Financial Officer

Date: 25.01.2010.....

Name: Paresh Mehta.....

on behalf of the
Monitoring Officer

Date: 29.01.2010.....

Section 4 – Performance Officer Clearance

Name: David Harrington....

on behalf of the
Divisional Director
Partnership,
Development and
Performance

Date: 22.01.2010.....

Section 5 – Environmental Impact Officer Clearance

Name: John Edwards

Divisional Director
(Environmental Services)

Date: 22 January 2010

Section 6 - Contact Details and Background

Papers

Contact:

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

Background Papers:

- 30 year HRA Business Plan
- Report to Cabinet 17 December 2009 on HRA Medium Term Budget Strategy

**Call-In Waived by the
Chairman of Overview
and Scrutiny Committee**

NO

Housing Revenue Account 2010-11 to 2012-13

	Budget 2010-11 £	Budget 2011-12 £	Budget 2012-13 £	Comments
Operating Expenditure:				
Employee Costs	1,165,490	1,187,720	1,210,390	Pay inflation assumed at 0% 2010-11, then 2% ongoing. Includes 0.25% pension contributions.
Supplies & Services	439,360	439,360	439,360	
Utility cost (Water & Gas)	684,500	711,800	741,500	Inflation assumed at 2.82% 2010-11 then 4.24% ongoing
Estate & Sheltered Services	2,185,760	2,232,450	2,280,800	Salaries inflated as above
Central Recharges	2,892,500	2,947,950	3,004,500	Inflation assumed at 1% 2010-11, then 2% ongoing. Includes Access Harrow at £120k per annum
Operating Expenditure	7,367,610	7,519,280	7,676,550	
Repairs Expenditure:				
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
Total Repairs Expenditure	4,785,570	5,063,380	5,130,690	
Other Expenditure:				
Contingency - General	200,000	200,000	200,000	
Charges for Capital	6,915,910	6,969,320	6,987,050	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	6,178,250	6,719,690	6,995,040	Based on Government Final Determination
Total Other Expenditure	14,044,160	14,639,010	14,932,090	
Total Expenditure	26,197,340	27,221,670	27,739,330	
Income				
Rent Income – Dwellings	-22,424,930	-23,456,560	-24,568,180	Average rent £86.60 2010-11 and void losses of 0.5%. Assumes Mill Farm transfer May 2010.
Rent Income – Non Dwellings	-840,900	-843,780	-851,940	Includes Garages which will increase at 2% p.a.
Service Charges - Tenants	-1,164,480	-1,237,020	-1,280,800	

	Budget 2010-11 £	Budget 2011-12 £	Budget 2012-13 £	Comments
Service Charges – Leaseholders	-415,640	-421,560	-427,730	
Facility Charges (Water & Gas)	-497,230	-502,200	-507,220	Fees & charges increase 2% 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
Total Income	-25,520,310	-26,638,250	-27,813,000	
In Year Deficit / (Surplus)	677,030	583,420	-73,670	
BALANCE brought forward	-3,947,416	-3,270,386	-2,686,966	
BALANCE carried forward	-3,270,386	-2,686,966	-2,760,636	
BALANCE Business Plan	-5,319,000	-5,460,000	-4,539,000	

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	66.21	3.20	69.41	1.62	0.09
Flat	1	1,232	72.15	3.28	75.42	74.06	3.37	77.43	1.91	0.09
Flat	2	827	79.54	3.51	83.05	82.77	3.61	86.37	3.23	0.10
Flat	3	45	83.91	3.69	87.60	89.11	3.79	92.90	5.20	0.11
Bedsit Bungalows	0	21	77.13	3.21	80.35	78.49	3.30	81.80	1.36	0.09
Bungalow	1	115	85.93	3.47	89.40	87.40	3.57	90.97	1.46	0.10
Bungalow	2	25	100.71	3.55	104.26	101.07	3.65	104.72	0.36	0.10
Non-Parlour Bungalows	2	1	97.82	3.55	101.37	97.13	3.65	100.78	-0.69	0.10
Non-Parlour Bungalows	3	1	127.53	0.00	127.53	126.04	0.00	126.04	-1.49	0.00
Non-Parlour Bungalows	7	1	166.49	4.00	170.49	158.87	4.11	162.98	-7.62	0.11
Maisonette	1	6	70.97	3.55	74.52	72.26	3.65	75.91	1.29	0.10

Maisonette	2	53	79.46	3.57	83.03	82.57	3.67	86.24	3.11	0.10
Maisonette	3	49	83.91	3.73	87.64	89.39	3.84	93.23	5.48	0.11
Maisonette	4	1	93.08	0.00	93.08	101.99	0.00	101.99	8.91	0.00
Non-Parlour House	1	1	49.69	3.55	53.24	51.47	3.65	55.12	1.78	0.10
Non-Parlour House	2	526	91.24	3.71	94.95	93.09	3.82	96.91	1.85	0.11
Non-Parlour House	3	752	97.91	3.90	101.81	100.89	4.01	104.90	2.98	0.11
Non-Parlour House	4	28	109.13	3.68	112.80	112.91	3.78	116.69	3.78	0.10
Non-Parlour House	5	3	116.11	4.00	120.11	119.36	4.11	123.47	3.25	0.11
Parlour House	2	35	94.85	2.56	97.42	96.52	2.63	99.16	1.67	0.07
Parlour House	3	549	103.69	3.08	106.77	106.01	3.17	109.18	2.32	0.09
Parlour House	4	58	112.52	3.51	116.03	115.26	3.61	118.86	2.73	0.10
Parlour House	5	6	120.95	3.63	124.57	123.12	3.73	126.84	2.17	0.10
Parlour House	6	2	133.37	2.89	136.26	140.77	2.97	143.73	7.39	0.08
Sheltered	0	545	69.51	11.88	81.39	71.35	12.21	83.56	1.84	0.34
Sheltered other	1	11	84.00	12.19	96.19	89.32	12.54	101.86	5.32	0.35
		<u>4,977</u>								

Appendix 3

Garages & parking space charges

	Current Weekly Rental	Proposed Weekly Rental (assuming 2% increase)
	2009/10	2010/11
	£	£
Garages	13.50	13.80
Car Spaces	8.80	9.00

Appendix 4

Facility Charges

Sheltered Block	No of Properties	Current average facility charge (Heating)	Proposed average facility charge (Heating) assuming 2% increase
		2009-10 £	2010-11 £
Cornell House	30	10.15	10.35
Meadfield	29	10.15	10.35
Harrow Weald Park	31	8.35	8.50
Watkins House	43	10.65	10.85
Boothman House	30	10.10	10.30
Durrant Court	28	10.30	10.50
Grahame White House	29	10.15	10.35
Harkett Court	31	10.30	10.50
Sinclair House	27	10.15	10.35
Tapley Court	26	10.10	10.30
Alma Court	30	10.15	10.35
Belmont Lodge	30	10.10	10.30
Edwin Ware Court	30	8.50	8.70
Goddard Court	31	10.30	10.50
Grange Court	31	8.65	8.80
John Lamb Court	32	10.65	10.85
Thomas Hewlett House	30	10.15	10.35
William Allen House	29	9.20	9.40
Resident Warden Accommodation	9	13.50	13.80
Other Non Sheltered	129	9.40	9.60

Community Centres

	Current 2009-10 Charges per 3 hour letting (additional hourly charge)		Proposed 2010-11 Charges per 3 hour letting Assuming 2% 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	38.45 9.70	18.90 5.10
Marsh Road Hall [max 30] Each Extra Hour	37.70 9.50	18.50 9.50	38.45 9.70	18.90 5.10
Brookside Hall [max 30] Each Extra Hour	73.80 14.00	37.20 7.30	38.45 9.70	18.90 5.10
Woodlands Hall [max 60] Each Extra Hour	37.70 9.50	18.50 5.00	75.30 14.30	37.95 7.45
Churchill Place Hall [max 100] Each Extra Hour	82.80 14.00	41.10 7.30	84.45 14.30	41.90 7.45
Kenmore Park Hall [max 100] Each Extra Hour	82.80 14.00	41.10 7.30	84.45 14.30	41.90 7.45
Pinner Hill Hall [max 100] Each Extra Hour	82.80 14.00	41.10 7.30	84.45 14.30	41.90 7.45
Northolt Road Hall [max 100] Each Extra Hour	82.80 14.00	41.10 7.30	84.45 14.30	41.90 7.45

NB: Charges in 2009-10 are not consistent with capacity, this has been addressed for 2010-11 but will mean increases greater than 2% in such cases. Halls with a capacity of 30 are not generally let for parties.