

**REPORT FOR: TENANTS' &
LEASEHOLDERS'
CONSULTATIVE FORUM**

Date of Meeting:	5 January 2011
Subject:	Draft Housing Revenue Account Budget 2011/12 to 2015/16
Key Decision:	No
Responsible Officer:	Myfanwy Barrett, Corporate Director of Finance
Portfolio Holder:	Councillor Bob Currie, Portfolio Holder for Housing
Exempt:	No
Decision subject to Call-in:	No
Enclosures:	Appendix 1 - Report submitted to Cabinet: Draft Housing Revenue Account 2011-12 -2015-16

Section 1 – Summary and Recommendations

This report sets out the Draft Housing Revenue Account (“HRA”) Budget 2011-12 to 2015-16 as submitted to Cabinet on 15 December 2010. Reference is made to the income maximisation options available and, in particular, those relating to the rents.

Recommendations:

TLCF is requested to consider the budget including the income maximisation options, and make recommendations to Cabinet to enable the HRA Budget to

be considered following this consultation at Cabinet and Council in February.

Reason: (For recommendation)

To ensure consultation with tenants on the rent strategy and with tenants, leaseholders and freeholders on the income maximisation options.

Section 2 – Report

Overview

1. The Draft HRA Budget 2011-12 to 2015-16 was reported to Cabinet on 15 December 2010, and included assumptions in respect of income, expenditure and Government Subsidy. These assumptions will be reviewed as part of the finalisation of the budget, which will be reported to Cabinet on 10 February 2011 and Council on 17 February 2011.

2. The Cabinet report of 15 December 2010 is attached at Appendix 1. The key assumptions used are set out below for consideration and comment.

Income

- Dwelling rents are assumed to increase by 4.95% in 2011-12 and 2012-13, then 2% ongoing, resulting in an average rent of £95.89 in 2011-12. Void turnaround of 20 days is assumed to be achieved by 2015-16.
- Service charges to tenants are assumed to fall from £4.77 to £2.53 on average reflecting the results of the LEAN review. Further details are given below in the Income generation & maximisation section.

Expenditure

- Central charges have increased by 2% in general with an additional £245k being charged reflecting the removal of the cap on these charges
- Void and Response repair unit costs are assumed to cost £2,400 and £141 respectively from 2011-12 although given the historic pressures on repairs expenditure, these unit costs will be kept under review
- External Decorations and Cyclical expenditure are assumed to be £425k and £553k respectively, and include all contractor overheads.

These assume no carry over of uncompleted works from the current financial year

- A contingency of £200k remains for unforeseen expenditure
- The Capital programme, originally assumed to be £6.36m for 2011-12 and 2012-13, then £6.16m ongoing, is under review to ensure savings arising from the review of the Asset Management Structure can be best utilised
- Capital expenditure is financed from the national subsidy system, capital receipts, contributions from revenue and borrowing. The contributions from revenue have been reduced from £500k to £250k from 2011-12 to accommodate additional costs from the Asset Management Restructure
- Provision for bad debts has been reduced by £50k to £200k from 2011-12 reflecting the improved collection performance during 2010-11
- The results of the final subsidy determination have been included for 2011-12 with annual inflation of 3% assumed thereafter. Although the HRA Reforms have been approved by the Coalition Government, they have not been assumed to take effect until clarification on their timing and impact have been issued

Income generation & maximisation options

3. The above assumptions result in expenditure exceeding income by some £1.3m in 2011-12. This has the effect of reducing HRA balances from an estimated £3.3m at 1st April 2011 to £2.0m at 31st March 2012.

4. Unless action is taken to control expenditure and maximise income, it is expected expenditure will exceed income in future years. It is expected this situation will lead to HRA balances falling below the recommended minimum of £750k by the end of 2013-14.

5. As a result, a range of income generation and maximisation options have been put to Cabinet for consideration and these are set out below for comment.

Dwelling rents

6. Cabinet in February 2010 approved a three year rent strategy. The continuation of this rent strategy (referred to as Option 1) would result in an average rent charge of £95.89, an increase of £4.52 per dwelling per week or 4.95%. Future increases are estimated to be £4.75 per week on average for 2012-13, then £2.87 ongoing, equivalent to 4.95% then 2% ongoing.

7. Cabinet considered reviewing the rent strategy to determine whether it is possible to bring forward rent increases to offset the subsidy impact and to increase income to the account to reduce the in year deficit. There are three further options, referred to as Options 2 to 4 which are now being consulted with tenants.

8. Option 2 – follow Government Guidance by applying a broad percentage increase, the impact of which is limited by Government caps. This would result in an average rent of £96.86 for 2011-12, an increase of £5.49 per week or 6.04%. Future increases are estimated to be £3.78 per week on average from 2012-13, equivalent to 3.9%. If this option were to be approved, additional income in the region of £383k in 2011-12 would be generated when compared with option 1.

9. Option 3 – follow Government Guidance which permits the maximisation of rents, as opposed to a broad percentage increase limited by Government caps. This would result in an average rent of £98.16 for 2011-12, an increase of £6.79 per week or 7.46%. Future increases are estimated to be £3.53 per week on average from 2012-13, equivalent to 3.6%. If this option were to be approved, additional income in the region of £715k in 2011-12 would be generated when compared with option 1.

10. Option 4 – as option 3 except vacant dwellings are immediately re-let to a higher “target” rent. This would result in an average rent of £98.11 for 2011-12, an increase of £6.74 per week or 7.46%. The impact on the HRA, together with future increases, are in line with option 3.

Service charges

11. Prior to April 2007, charges for services were recovered as part of the overall rent charge and resulted in all tenants paying for services whether these were received or not.

12. From April 2007, rents were depooled. This meant that costs associated with services were charged separately to tenants as a service charge. Whilst separate charges were made, the review did not identify which tenants received services and therefore all tenants continued to pay for services, whether they received the service or not.

13. Following the lean review in 2010, service charges have been reviewed to enable a consistent ‘tenure blind’ approach for the charging of services to be developed from April 2011. For the first time, tenants will pay for services that they receive directly, and this will be consistent with charges to leaseholders. As a result of this review the average service charge for tenants will reduce from £4.77 to £2.53 per week.

14. Additional charges for the services received by sheltered tenants are not reflected in this charge and therefore all tenants are contributing towards these specific services as part of weekly rent charge. A further review is planned during 2011-12 for implementation in 2012-13, subject to further consultation.

Other Income options

15. An estimated £500k can be generated by charging former tenants who exercised their right to buy, whose freehold properties continue to benefit from services charged to the HRA.

16. The LEAN review of the Home Ownership Service identified better processes for managing major works that involved properties owned by

leaseholders. This work enables the Council to be better prepared to deliver the capital programme in a way that ensures that s20 notices can be issued at the appropriate time to enable the leaseholders' share of the costs to be recharged and collected.

17. As a result the income anticipated from this process has not previously been allowed for in the budget reports but it is expected that the income that will be collected from leaseholders through this process will help to resource the capital programme, which has not been possible in the past.

HRA Reforms

18. The new Coalition Government have confirmed the reform of the HRA will continue. The Draft HRA Budget assumes the Subsidy system will continue until further clarification relating to the debt settlement and timing are issued.

19. The impact of the final subsidy determination has been included in the draft budget together with an annual increase of 3% per annum assumed from 2012-13.

Summary

20. TLCF are requested to consider the key assumptions included in the HRA Budget 2011-12 to 2015-16 considered by Cabinet on 15 December 2010 and make recommendations to Cabinet to enable the budget to be finalised following consultation.

Section 3 - Statutory Officer Clearance

Name: Donna Edwards	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 13 December 2010		
Name: Paresh Mehta	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 20 December 2010		

Section 4 - Contact Details and Background Papers

Contact: Milan Joshi, Housing Finance Manager, Tel : 020 8416 8662

Background Papers: 30 year HRA Business Plan, HRA Budget & Financial Strategy 2010-11 to 2012-13