REPORT FOR:	**TENANTS' AND LEASEHOLDERS' CONSULTATIVE FORUM**
Date of Meeting:	28 September 2011
Subject:	INFORMATION REPORT – Budget Planning 2012-13 to 2015-16
Responsible Officer:	Lynne Pennington, Divisional Director of Housing Services
Exempt:	No
Enclosures:	Appendix 1 HRA MTFS 2011-12 to 2015-16

Section 1 – Summary

The purpose of this report is to remind the forum of the five year Medium Term Financial Strategy [MTFS] approved by Cabinet on 10th February 2011 and to enable early discussion around some of the income options and update on HRA reform in advance of the draft budget which will be considered by Cabinet in December 2011.

FOR INFORMATION

Harrow COUNCIL LONDON

Section 2 – Report

Background

The five year MTFS approved by Cabinet in February 2011 set out the HRA budget [Appendix 1]. Given the need to improve the longer term finances of the HRA the rent strategy approved in February 2010 was revisited. Four options were explored which resulted in an average rent increase ranging from 4.95% in 2011-12 (at the time the existing rent strategy) to 7.65% (final approved option). The option approved by Council in March 2011 assisted annual expenditure being brought back in line with income streams, and increasing HRA balances over the term of the plan.

Cabinet will receive the draft HRA budget in December 2011, ahead of further discussion at TLCF in January 2012. TLCF will make recommendations to Cabinet and Council to approve the budget and rent increase. This report is intended to prompt early discussion with tenants and leaseholders on the issues to help inform the decision making process.

HRA Reform: Self Financing for Council Housing

At the moment there is a very complicated national system of funding for council housing. From April 2012 this will change. The council's Housing Revenue Account will become self-financing – basically this means we will collect rental and service charge income and control our own spending, without having to make a large contribution to support other Councils through the subsidy system. In return for being able to keep all the income we collect in Harrow, the council will have to take on additional debt of around £85m. Nevertheless we anticipate we will be better off by around £2m per year than we would be if we remained under the old system.

These figures are estimates and may change as a result of the final settlement with the Government. No decisions have yet been made on how to use any additional resources that may be available subject to the investment requirements over the term of the business plan.

The MTFS noted the intended changes around these new arrangements however, given the uncertainty around the impact of the reforms, or when it would actually change, the five year plan assumed the continuation of the subsidy system.

We are now preparing a business plan that will look at how much money needs to be spent on our council homes over the next 30 years. To do this we will need to balance the financial demands of improving individual homes (kitchens / bathrooms etc) with improvements to the environment and services or even putting some money towards building new homes and maybe repaying debt.

The business plan currently being drafted assumes that the income and expenditure on the HRA is consistent with the MTFS (see Appendix 1), but feeds in the investment requirements and changes that are required to pay for the additional debt. Early indications suggest that the level of investment required over the next 30 years is in the order of £200m. This figure is currently being refined using stock condition data to understand the anticipated requirements over the life of the plan. From an initial analysis of the stock data officers are confident that the basic requirements to achieve decency and keep properties weather proof can be met. It should be noted that the stock condition database does not hold all the potential investment needs that could be identified, for example improvements to hard and soft landscaping, major drain renewals or installation of green energy improvements. In reality the business plan will need to identify the maximum available resources in line with prudent maintenance of reserves and debt management principles and then a prioritisation process will continue with a cycle of 5 yearly reviews.

The Government will be placing a maximum borrowing limit on each Council from April 2012. This is likely to mean that the investment in the first 10 years of the plan may need to be restricted, to ensure our borrowing stays below this limit.

To help inform the development of this work we would like to seek residents' views on the following questions at TLCF:

- Do you think that if the Council is in a better financial position from April 2012 that the additional money should be used to invest further in the Housing stock?
- If the investment in the stock had to be restricted, what do you consider to be the immediate priorities?
- Do you think that any of the additional money should be used to improve service delivery? If so what are the most important improvements you would like to see?
- Do you think that any of the additional money should be set aside to repay debt?

Facility Charges

For tenants in sheltered accommodation (and some leaseholders), the Council provide utilities for heating and hot water in individual flats. The energy costs associated with the lighting of communal areas form part of the weekly service charge rather the weekly facilities charge.

Cabinet approved an increase in energy [heating] charges of 2% from 1 April 2011, pending further consultation on the revised charging methodology for individual block costs. The approved charges ranged from £12.50 to £14.90 and were originally set several years ago, with an annual increase for inflation. The charges therefore no longer directly reflect the amount of energy actually used.

In 2011-12 the budgeted expenditure associated with these utility costs is £679k and the anticipated income [based on the current charges] is £507k – a shortfall of £172k a year.

To address this funding gap it is proposed that in future the charges are calculated based on annual consumption for 2011-12 on a block by block basis, which will result in differential charging. The charges would be calculated using council tax values for each dwelling, consistent with the methodology for service charges. This would mean that the facility charges for two bedroom sheltered accommodation would be higher than for one bedroom accommodation and bedsits.

If the Council were to consider collecting the actual energy costs and not making a loss, and assuming an annual cost of the energy of £679k, this could result in an additional charge in the region of £5.95 per week. For those tenants currently paying £14.90 per week, this would increase the weekly charge to £20.85 or £1,084 per year, which is a significant increase. However, if the charges are based on annual consumption, it is possible that all charges will change. This could mean some of the charges reducing whilst others could increase by more than £5.95 per week.

To help inform the development of this work we would like to seek residents' views on the following questions at TLCF:

- Do you think that those tenants who receive facilities paid by the Council should pay the actual cost of the energy used?
- Do you think that the weekly charges should be calculated using council tax values, consistent with the calculation of service charges?
- If there is a significant increase in this charge to a number of tenants, should this increase be introduced gradually over 2 or 3 years, or should the full charge be levied in the first year? If the charges made do not fully recover the costs, any shortfall will be subsidised by other tenants.

Sheltered Services

At the TLCF meeting on 5th January 2011 members were advised that there would be changes to the way service charges for tenants were calculated with effect from April 2011. The report also said that further work was necessary to review the services charges for sheltered housing tenants with a view to implementing these changes from April 2012.

The cost of services to this specific group of tenants totals £580k in 2011-12, after allowing for the Supporting People grant of £427k. If charged separately as a service charge to all sheltered tenants, this would be a charge of approximately £20 per week (£1,040 per year).

Members of TLCF are asked to note that this work has been delayed. This is largely due to the current review of the sheltered housing service which is intended to modernise the service and better meet the needs and aspirations of tenants of the Council's 18 sheltered housing scheme. This work is progressing well, in full consultation with tenants and staff and we anticipate that the new arrangements can be implemented by April 2012. In addition to possible staff changes there may also be changes to the funding sheltered housing receives through Supporting People grant. This means that potentially the new arrangements, once implemented, could change the amount of the service charge for sheltered tenants. Rather than make two changes it is now proposed to delay the review of these charges until the financial implications of the review are clear.

Rent Strategy

The Government 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. The rent strategy approved in February 2011 resulted in an average rent charge of £95.52 per dwelling per week and will achieve rent convergence for 4,908 (99%) Council dwellings by the target date.

Currently all properties are relet at ‘target’ rent [the formula rent]. This will assist moving all properties to the formula rent by the intended date and generate additional rent income. This year to date, 108 properties have been moved to this rent.

Continuing with the rent strategy approved as part of the MTFS will result in the following average rents and service charges:

	Average Rent	Service Charge	Total	Additional Income
2011/12	£95.52	£2.66	£98.18	Base year
2012/13	£99.02	£2.73	£101.75	£913k
2013/14	£102.65	£2.79	£105.44	£944k
2014/15	£106.40	£2.86	£109.26	£977k
2015/16	£110.29	£2.94	£113.23	£1,017k

Officers are working to produce some comparative figures for other registered social landlord rents in the borough, and these will be available at TLCF.

To enable additional rent income to be generated, the Council could consider revisiting the valuation on which the rents are based, which would reflect the improvements (and therefore value) on which the rents are calculated. This is standard practice with registered social landlords. The Government will in late November, advise Councils of the relevant uplift for rents, which may mean greater increases than detailed above.

In September 2011, out of 4973 tenancies, 3526 tenants were in receipt of housing benefit. Of this amount, 1995 tenants were in receipt of full benefit and 1531 in receipt of partial benefit. There are a number of housing and welfare benefit changes anticipated over the next couple of years and these will affect people differently. It is possible that benefit for some tenants will reduce and may make it harder for people to pay their rent.

To help inform the development of the future rent strategy we would like to seek resident's views on the following question at TLCF.

Do you think that the Council should increase rents as much as possible every year to enable further investment in the Housing stock?

Service Charges

All tenants and leaseholders receive a service charge for estate based costs such as caretaking and grounds maintenance services. Specific services provided to tenants in Sheltered Accommodation are not included in the service charge and remain part of rent (see above).

As a result of the leaseholder review, from April 2011 service charges for both tenants and leaseholders have been calculated in the same way and, for the first time since 'de-pooling', tenants are paying charges based on the services being received. Legislation prescribes that the service charges for leaseholders is calculated on an actual rather than estimated basis as is the case with tenants.

The cost of estate and sheltered services for 2011-12 is £2,293k. Service charges from both tenants and leaseholders in relation to these costs amount to £829k – a shortfall of £1,464k, of which a significant amount are the costs relating to tenants in sheltered accommodation of £580k (see above). Following depooling the Council has, on an annual basis, remained within Government guidelines around the maximum annual increase which has resulted in this shortfall.

Further refinement of these charges is necessary as is the need to ensure value for money is delivered, both of which will affect the charges over time.

- To generate additional income to support further investment in the housing stock or operational services or repaying debt, should the Council consider increasing the charges from April 2012 to fully recover the shortfall?

To help inform the development of the future service charge strategy we would like to seek resident's views on these options at TLCF.

Section 3 – Further Information

All relevant information is contained within the report.

Section 4 – Financial Implications

Financial matters are integral to the report.

Section 5 – Corporate Priorities

The report supports the following corporate priorities:

- United and involved communities: A council that listens and leads - involving local residents in determining the priorities and choices
- Supporting and protecting people who are most in need – the financial decisions may impact those in the community most in need of the Council's support during these challenging financial times.

Name: Donna Edwards	X	on behalf of the Chief Financial Officer
Date: 19 September 2011		

Section 6 - Contact Details and Background Papers

Contact:

Donna Edwards, Finance Business Partner Adults & Housing 020 8424 1140
Maggie Challoner, Resident Services Manager 020 8424 1473

Background Papers:

TLCF papers January 2011
Cabinet December 2010 & February 2011

Appendix 1: HRA MTFS 2011-12 to 2015-16

	Budget 2011-12 £	Budget 2012-13 £	Budget 2013-14 £	Budget 2014-15 £	Budget 2015-16 £
Operating Expenditure:					
Employee Costs	1,564,300	1,466,670	1,544,030	1,557,760	1,571,560
Supplies & Services	639,260	639,260	539,260	539,260	539,260
Utility cost (Water,Gas,Elec)	679,000	679,000	679,000	679,000	679,000
Estate & Sheltered Services	2,680,040	2,774,510	2,798,680	2,817,790	2,837,070
Central Recharges	3,028,200	3,088,770	3,150,540	3,213,550	3,277,820
Operating Expenditure	**8,590,800**	**8,648,210**	**8,711,510**	**8,807,360**	**8,904,710**
Repairs Expenditure:					
Repairs - Voids	619,100	636,410	654,500	673,400	693,160
Repairs - Responsive	2,652,850	2,744,430	2,840,120	2,940,120	3,044,630
Repairs – Other	2,048,640	2,091,140	2,135,290	2,181,150	2,228,750
Total Repairs Expenditure	**5,320,590**	**5,471,980**	**5,629,910**	**5,794,670**	**5,966,540**
Other Expenditure:					
Contingency - General	200,000	200,000	200,000	200,000	200,000
Charges for Capital	6,943,390	6,918,420	6,950,980	6,962,440	6,995,430
Bad or Doubtful Debts	200,000	200,000	200,000	200,000	200,000
HRA Subsidy	6,988,350	6,988,350	6,988,350	6,988,350	6,988,350
Total Other Expenditure	**14,331,740**	**14,306,770**	**14,339,330**	**14,350,790**	**14,383,780**
Total Expenditure	**28,243,130**	**28,426,960**	**28,680,750**	**28,952,820**	**29,255,030**

	Budget 2011-12 £	Budget 2012-13 £	Budget 2013-14 £	Budget 2014-15 £	Budget 2015-16 £
Income					
Rent Income – Dwellings	-24,501,410	-25,397,420	-26,325,020	-27,285,280	-28,284,000
Rent Income – Non Dwellings	-754,090	-761,970	-770,000	-778,200	-786,560
Service Charges - Tenants	-649,380	-665,540	-682,100	-699,080	-716,600
Service Charges – Leaseholders	-657,140	-760,410	-763,750	-767,150	-770,620
Facility Charges (Water & Gas)	-507,170	-517,320	-527,660	-538,200	-548,980
Interest	-6,120	-6,120	-6,120	-6,120	-6,120
Other Income	-183,010	-183,010	-83,010	-83,010	-83,010
Transfer from General Fund	-163,000	-163,000	-163,000	-163,000	-163,000
Total Income	**-27,421,320**	**-28,454,790**	**-29,320,660**	**-30,320,040**	**-31,358,890**
In Year Deficit / (Surplus)	**821,810**	**-27,830**	**-639,910**	**-1,367,220**	**-2,103,860**
BALANCE brought forward	**-3,503,540***	**-2,681,730**	**-2,709,560**	**-3,349,470**	**-4,716,690**
BALANCE carried forward	**-2,681,730**	**-2,709,560**	**-3,349,470**	**-4,716,690**	**-6,820,550**
BALANCE Business Plan	**-5,319,000**	**-5,460,000**	**-4,539,000**	**-3,572,000**	**-2,899,000**

* Note : Balances brought forward 01 April 2010 £4,783,836 less forecast outturn Qtr 03 £1,280,296 yields estimated balances at 31st March 2011 £3,503,540