London Borough of Hammersmith & Fulham

Cabinet

30 JANUARY 2012

CABINET MEMBER FOR HOUSING
Councillor Andrew Johnson

HOUSING REVENUE ACCOUNT BUDGET, FINANCIAL STRATEGY AND RENT INCREASE 2012/13

Wards: ALL

This report sets out the budget strategy for the Housing Revenue Account (HRA) from 2012/13 to 2016/17, with detailed revenue estimates and the proposed rental increases (including service charges) for 2012/13.

In line with the HRA Medium Term Financial Strategy (MTFS) Transformation Programme, a set of efficiency proposals are contained within this report.

CONTRIBUTORS

AD Resources, HRD
EDHR
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HAS AN EIA BEEN COMPLETED? YES

HAS THE REPORT CONTENT BEEN RISK ASSESSED? YES

Recommendations:

1. **That the HRA financial strategy as set out in section 7 of this report is endorsed.**

2. **That the Housing Revenue Account Budget as set out in Appendix 1 is approved.**

3. **That Cabinet approve a rent increase of 7.65% based on application of the rent restructuring formula**

4. **That approval is given for an increase in garage rents of 7.65% and water rate charges of 5.8%, to ensure full recovery of water rates, and to leave the heating charge unchanged as set out in section 15.**

1. BACKGROUND

1.1 This report addresses the following areas:

- the impact of and plans to manage Housing Revenue Account (HRA) reform
- the proposed rent increase for 2012/13 having regard to national government guidance for council rents and the maintenance requirements of the housing stock owned by the borough.
- the HRA revenue budget
- the HRA MTFS for the five years 2012/13 – 2016/17

2. SUMMARY

2.1 Between June 2004 and 31st March 2011 management of the boroughs housing stock was in the hands of H&F Homes Ltd, a fourth round Arms Length Management Organisation (ALMO). The creation of the ALMO was a condition for accessing debt funding for the previous governments Decent Homes initiative. The ALMO undertook an ambitious £215 million programme of works under this initiative. This programme was largely funded by an increase in the HRA debt of £201 million of which £191million was specifically attributable to Decent Homes. The resultant increased interest costs of £9million per annum were wholly funded by additional housing subsidy. During the period of the ALMO's management HRA reserves had reduced to £3.1m as at 31st March 2011, having been £6.4m at 31st March 2004[1].

2.2 The management of the borough's housing stock returned to the Council on 1st April 2011.

2.3 Historically LBHF and the ALMO have under invested in the Council's housing stock and the level of rents received - which are significantly below rents charged in RBKC, Westminster and Wandsworth - have not provided sufficient resources to fund the management and maintenance of stock to an effective level. This has led to significant borrowing under the Decent Homes programme[2] to fund "catch up" repairs and improvements, and a reliance on the disposal of assets to fund necessary ongoing routine maintenance. Moreover, the average rent charged for a local authority property in the borough is now in the region of one quarter of the prevailing market rent for a similar property.

2.4 Following the implementation of HRA reform on 28th March 2012 local authorities will no longer be engaged in an annual exercise with central government with regard to the redistribution of monies under the national housing subsidy system. In return for a one – off redistribution of £28 billion of debt nationally, local authorities will become "self financing" and will have to manage their housing assets to ensure their HRA stock can be supported and maintained from their HRA income.

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[1] At their peak HRA reserves were £10 million during the period of ALMO management. They declined swiftly after this point.

[2] Contracts for the Decent Homes Programme were signed in 2005 / early 2006

2.5 This report recommends that rents for council houses and flats for 2012/13 are increased in line with the rent restructuring formula in the context of the need to increase revenues over time in order that the housing stock can be maintained to an appropriate standard.

3. STATUTORY CONTEXT

3.1 The HRA is a ring-fenced account within the Council's General Fund relating to the management of the Council's housing stock. The items that can be credited and debited to the HRA are prescribed by statute and the Council has no general discretion to transfer items into and out of the HRA.

3.2 The ring-fence was introduced in Part IV of the Local Government and Housing Act 1989, and was designed to ensure that rents paid by local authority tenants accurately reflect the cost of associated services. This ring-fence also means that Council Tax cannot be used to subsidise housing rents, and rents cannot be used to subsidise Council Tax.

4. HRA REFORM

4.1 The Government is reforming the system of local authority housing finance and dissolving the Housing Subsidy system on 28 March 2012 under the Localism Act 2011.

4.2 The objectives of the reform are to:

- Give councils the resources, incentives and flexibility they need to manage their own housing stock for the long term and to drive up quality and efficiency

- Give tenants the information they need to hold their landlord to account, by replacing the current opaque subsidy system, with one which has a clear relationship between the rent a landlord collects and the services they provide.

4.3 The aim is to put local authorities in a position where they can support their own stock from their own income. To achieve this, a readjustment of each local authority's debt is needed so that the level of debt supported by an authority is then sustainable from its own resources assuming prudent and effective asset management. Some authorities are required to take on additional debt whilst others will have their current debt levels reduced.

4.4 On 21st November 2011, DCLG published the Settlement Payments Determination consultation. This broadly confirmed expectations based on previous drafts as adjusted for September 2011 RPI of 5.6% and changes in stock numbers. The Council will have its HRA debt reduced by £196.8 million on 28th March 2012. This will reduce the HRA Capital financing (borrowing) requirement from £415 million to

£218 million compared to the debt cap generated by DCLG's model of £255 million. This is expected to result in a reduction of circa £10.5m in debt servicing payments from £22.7m to £12.2m in 2012/13. In exchange, the Council will give up its entitlement to Housing Subsidy from Government. This income stream was worth £10.4m in 2011/12. It should be noted that the council needs to collect rent from over 2,300 of its tenants just to meet the annual debt servicing payment of £12.2 million in 2012/13.

5.0 ASSET MANAGEMENT

5.1 HRA Reform results in the management of housing stock supported by the income produced by that stock rather than annual transfers between central and local government. It therefore provides the opportunity for the council to adopt a pro active asset management approach to creating a 30 year investment plan, allowing for future investment needs, remodelling and the trading of assets etc. This is in contrast to previous HRA business plans under Decent Homes that typically considered the programming and sequencing of building component replacement such as kitchens, windows and bathrooms etc but did not consider the wider opportunity for estate renewal and replacement as part of a strategic approach. A new HRA Asset Management Plan will be produced in 2012/13 to inform the developing approach.

5.2 HRA Reform also brings with it more local accountability for determining rent levels and the maintenance of stock as councils will no longer be able to refer to funding decisions made by central government in the event of local dissatisfaction with rent levels or the maintenance of stock.

5.3 The inherited legacy of housing management at LBHF is mixed. The Decent Homes programme has been substantially completed. However in the context of a "business" managing 18,000 properties with an existing use value of circa £900 million and an unrestricted open market value in excess of £3 billion there is an entirely inadequate level of reserves of £3 million, equivalent to less than four weeks rent. This not only provides insufficient cover against unexpected shocks but also encourages short term decision making rather than well planned and pro active asset management. The council's level of reserves as a percentage of turnover is circa 4%. This can be compared with RBKC at 26.3%, Westminster at 91.6% and Wandsworth at 76.9%. Details of reserves held by London Housing Authorities are shown at Appendix 4.

5.4 Applying the RBKC percentage of reserves to LBHF turnover would produce a target reserve figure of £19m, applying the average percentage across RBKC, Westminster, Wandsworth and LBHF would produce a target reserves figure of £35m. Therefore a period of time will be required to rebuild the balances held from the current figure of circa £3 million which can then provide a secure basis for sustained and effective planned investment in the stock which should lead to higher levels of customer satisfaction.

5.5 In order to achieve a sustainable HRA ideally the costs of managing and maintaining the housing stock should be funded from rents and service charges, with disposals used to fund strategic initiatives and to reduce debt, thereby reducing the interest burden on the HRA, rather than routine maintenance expenditure. Rents currently charged by LBHF are significantly below rents charged in RBKC, Westminster and Wandsworth, as shown in Appendix 5. Current revenues, including rents, do not adequately cover the costs of management, repairs and maintenance and this has led historically to under investment in the stock, increased borrowing under Decent Homes to fund "catch up" repairs and improvements and a reliance on the disposal of expensive voids to fund current expenditure. It is therefore clear that over time revenues need to be increased to build a more secure financial base, in order to move to a position where repairs and maintenance are wholly funded from rents and service charges without recourse to asset sales.

6. BUDGET SETTING CONTEXT

6.1 In previous years, scrutiny by Council officers of the budgets managed by H&F Homes has been restricted due to the arms-length nature of the previous arrangement. Following the re-integration of the former H&F Homes into the Council in 2011/12, a detailed analysis and review of these budgets has been conducted and a zero-based approach taken to setting all budgets for 2012/13.

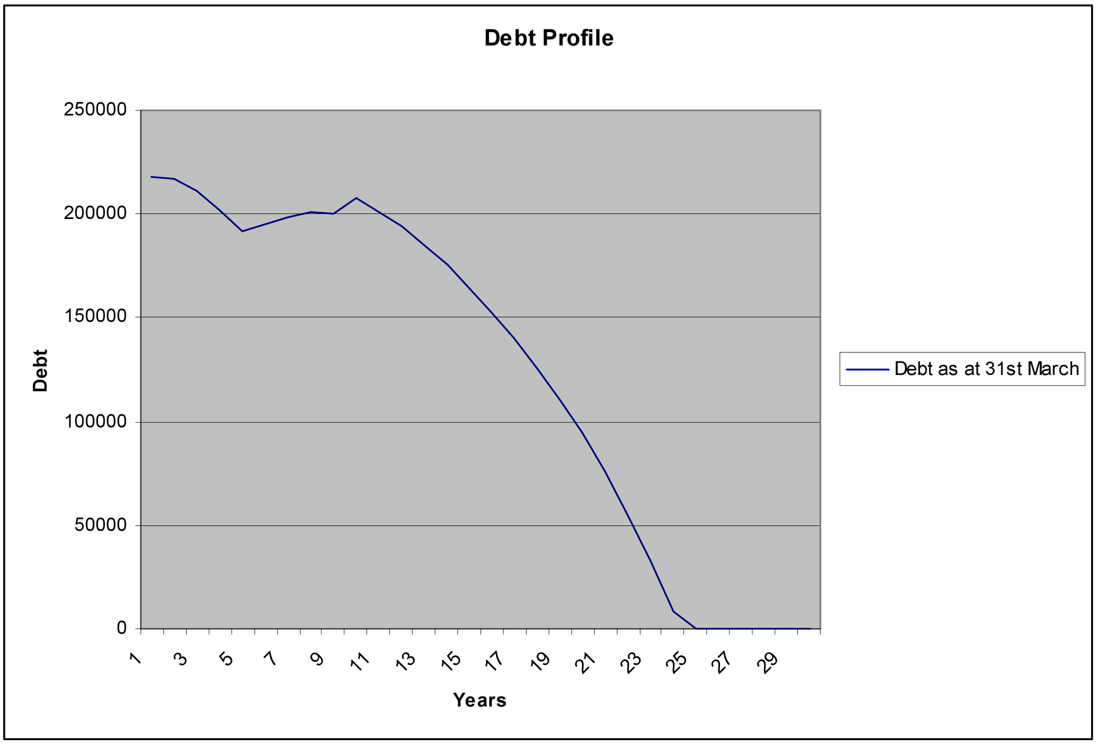
7. FINANCIAL STRATEGY

7.1 The overall strategic financial objectives for the HRA are to:

- finance both the annual interest and repayments of the principal debt (£218m after HRA reform).
- achieve a viable ongoing maintenance programme that maintains the stock in good repair.
- increase the HRA reserves balance to protect against future shocks or unanticipated events to circa £35 million[3] by 2022, in line with the percentage average level of reserves across RBKC, Westminster, Wandsworth and LBHF.
- free resources for investment in new initiatives including new housing supply.

7.2 An initial indicative 30 year business plan has been produced based on existing data, this currently predicts that the debt remaining with the Council following HRA reform will be repaid as shown in the graph below. The predicted year of repayment is 2036/37 (year 25 of the 30 year plan)

[3] The profile for the initial years is shown in Appendix 1, reserves do not build up evenly, the level at which they build increases over time.



7.3 The key assumptions made are:

- No new development is included in the current 30 year business plan. Adjustments will be made in due course for the potential impact of Earls Court and development undertaken by the Local Housing Company.
- Existing properties are maintained to the minimum level required for letting as based on the current Housing Capital Programme and stock condition survey
- Save for void sales required to cash flow the maintenance of the existing stock no other asset rationalisation has been assumed. The scope for further asset management strategies is currently being explored by the Housing and Regeneration Department.
- Rents are increased based on the rent restructuring formula
- HRA MTFS savings revenue savings are achieved of £2.5 million in 2013/14 and an ongoing annual revenue saving of £4 million per annum from 2014/15 onwards is generated by the HRA MTFS programme.
- The stock condition survey used in the current business plan was produced in 2009; a new stock condition survey is planned in 2012. The output of this will be used to inform our ongoing asset management strategy.
- Expensive void sales required to cash flow the maintenance of the existing stock are included as follows:

Year	Number of Expensive Void Sales assumed
2012/13	50
2013/14	29

2014/15	29
2015/16	29
2016/17	29
2017/18	29
2018/19	29
2019/20	29
2020/21	29

As noted above the business plan does not currently include any new development and it is anticipated there will be additional expensive void sales over and above the numbers assumed to fund this.

Debt repayment and funding

7.5 Debt repays slowly in the initial years despite contributions from Expensive Void Sales due to:

- the Housing Capital Maintenance Programme requiring an investment of circa £9 million per annum in addition to major repair allowances (funded by revenue via depreciation) and leaseholder contributions. The requirements of the Housing Capital Programme also result in a slight increase in debt levels in the current plan between years 5 and 10. It would be possible to smooth this increase in debt by including additional void sales in the plan.

- The low rent levels charged to Council tenants compared to other West London boroughs (see Appendix 5; our rents at 2011/12 levels average £92.18 per week, compared to an average between £98.88 and £111.79 per week in other central West London boroughs)

7.6 Debt then starts to repay fairly quickly after year 11 (2022/23). This is primarily because over time inflation erodes the value of the debt.

Income and Expenditure Account and Reserves

7.7 The Income and Expenditure account presented in Appendix 1 currently assumes that capital receipts are used to partially fund the Housing Capital Programme. The level of reserves held could theoretically be reduced by increasing the charge made to the income and expenditure account for capital repairs however in practice the additional cash generated by the expensive void sales would still be required to prevent additional borrowing. This alternative approach has also been modelled in Appendix 1 as a sensitivity.

The HRA MTFS savings programme

7.8 Following £6 million of savings in management costs within the HRA achieved between 2008 and 2010, the business plan includes an invest to save proposal which produces HRA MTFS net revenue savings of

£2.5 million in 2013/14 and an ongoing annual revenue saving of £4 million per annum from 2014/15 onwards. To achieve these savings a new approach is needed to the way in which services are delivered and current contracts are procured. This should bring about a sustainable improvement in service, while at the same time reducing costs following the return of the management of Council Housing to the Council from H&F Homes Ltd on 1st April 2011.

7.9 There are three areas of service within the Housing and Regeneration department that are being reviewed as part of this particular programme. They are:

- Repairs & Maintenance (including all related contracts)
- Estate Services (including cleaning and caretaking)
- Housing Management (including rent accounting)

7.10 The department commissioned a high level review of these areas which has revealed that there is potential to maintain and/or increase the level of service to residents whilst at the same time realising net revenue savings noted above.

7.11 These savings are to be achieved through a combination of re-procurement, market testing and transforming the way teams and services are delivered.

8. RENT RESTRUCTURING

8.1 The Government's rent restructuring regime was designed to achieve a coherent structure nationally for social rents and was adopted by local government in 2001. Accordingly, H&F HRA dwelling rent increases have generally been calculated in line with rent restructuring[4] since this date. However, there is no statutory requirement to adhere to rent restructuring and a number of councils operate a different approach to setting rents.

8.2 Rents are in fact constrained by a limit placed on Councils by Housing Benefit. This limit is lower than that used for Housing Benefit payments for the private sector. If that level is breached the Council would have to fund the difference between this limit and our actual rents for tenants on housing benefit. This would be likely to result in a net loss to the HRA based on our current level of housing benefit claimants.

8.3 For example based on an assumption that 60%[5] of the Council's tenants are claiming Housing Benefit, a £1 increase in average actual rents above the Housing Benefit limit rent is likely to result in a requirement to reimburse Central Government c£364k per annum. This would be offset by additional income of c (£191k) derived from those

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[4] The rent restructuring formula increases the rent by the lower of RPI + ½% + £2 (known as the "upper limit") and difference between the formulae rent and current rent) / number of years to 2016. It is capped overall by the rent cap for the property. The formulae rent for a property is calculated based on a number of variables including the 1999 property valuation.

[5] Assumes all tenants who receive Housing Benefit are impacted, currently circa 40% of HRA tenants are on full Housing Benefit and 20% on partial Housing Benefit

tenants not claiming Housing Benefit leading to a net annual loss of c£173k. The impact on the HRA would depend on the percentage of tenants claiming Housing Benefit with a net benefit likely to arise if less than 50% of the tenants were on Housing benefit. Currently 40% of our tenants receive full Housing Benefit and 20% are on partial Housing Benefit.

8.4 Currently our rents at 2011/12 levels average £92.18 per week and are approximately one quarter of the prevailing market rents in the borough. Standard application of the rent restructuring formula[6] using the September 2011 RPI of 5.6% results in an increase of 7.65% to an average £99.24 per week. For 2012/13 the Housing Benefit Limit Rent for LBHF is £105.10 per week therefore the proposed rent increase will not breach the benefit cap. Additionally:

- The average rent for a one bedroom private rented sector flat in LBHF is £298.05 per week (see Appendix 6 for private rented sector benchmarking).[7] An average one bedroom council flat is currently £82.55 which is equivalent to 28% of the prevailing market rate, whilst an average four bedroom council house is currently £118.79 which is equivalent to 13% of the prevailing market rate.
- The average 2011/12 weekly rent for other central West London boroughs is between £98.88 and £111.79 per week (see Appendix 5).
- The lowest average rent among the other central West London boroughs in 2011/12 is Kensington and Chelsea's which is £98.88 per week.
- Kensington and Chelsea have indicted that they are expecting to raise rents for 2012/13 by 7.6% meaning our proposed 7.65% increase would still result in rents below all the other central West London boroughs.

8.5 LBHF's ability to increase rents over and above the rent restructuring formula needs to be viewed in the context of the pressures on the HRA. In arriving at the debt settlement figure under HRA reform government made a number of assumptions, one of the most significant of which is the level of investment required to maintain the HRA properties. Although major repairs allowances have been uplifted when calculating the settlement, the uplift[8] is insufficient to fund the ongoing housing capital programme required to adequately maintain the Council's HRA housing stock to the level required to ensure the Council can both fulfil its obligations as a Local Housing Authority and to ensure the stock continues to generate an income stream to fund the debt as part of maintaining a viable HRA.

8.5 The Housing Capital Programme as presented to Cabinet on 5th December 2012 looks to build on the achievements of the Decent

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[6] Under the rent restructuring formula rent increases by the lower of RPI + ½% + £2 (known as the "upper limit") and difference between the formulae rent and current rent) / number of years to 2016 (the year in which rents should converge to target)
[7] Source: Rightmove
[8] LBHF's major repairs allowance has been increased from £12.7 million to £15.2 million an uplift of £2.5m

Homes programme, maintaining the standard whilst addressing the residual backlog of works that were not covered by that programme. The projects and works proposed in this programme have been the subject of a rigorous prioritisation exercise and represent broadly the minimum level of investment required to fulfil statutory obligations, to protect the health, safety and wellbeing of residents and to preserve the integrity of the housing stock. This programme identified an investment requirement for the stock of £35m for 2012/13 with an ongoing annual investment requirement of circa £30m over the following 4 years. Therefore the Housing Capital Programme requires an investment of circa £9 million per annum in addition to major repair allowances (funded by revenue via depreciation) and leaseholder contributions. This can only be funded by further reducing expenditure either on maintenance or other services or by increasing income.

8.6 The current business plan requires expensive void sales of 50 units in the first year and 29 units per year for the following eight years of the plan in order to fund maintenance investment required within the existing stock without additional borrowing. To avoid using void sales to fund the investment requirements of the existing stock a further rent increase of 14.7%[9] on top of that budgeted would be required to replace the budgeted income of £9m per annum from void sales. The additional income equates to a rent increase over and above that arising from rent restructuring of £13.62 per week per tenant equating to a total rent increase of (7.65% + 14.7%) 22.4%.

8.7 Therefore from a cash flow perspective it will be necessary in the first ten years of the plan to continue to partially fund routine maintenance investment required in the stock using sales under the expensive void sales programme. At the same time rental income must be maximised to ensure that the HRA ultimately moves to a position in 11 years time where the maintenance programme is fully funded by rental income as well as ensuring that the number of sales required to fund maintenance in the intervening years is minimised.

8.8 Therefore given the historic low rent level charged in Hammersmith & Fulham and the need to build revenues to achieve a sustainable HRA consideration should be given to at some point raising rents by more than the rent restructuring formula to both generate the additional revenue required to address the routine repairs back log and to ensure our rents are more comparable with those charged by other central West London Boroughs. The implementation of any additional rent increase over and above the rent restructuring formula should consider the Housing Benefit limit rent and should be balanced with affordability for tenants who are not on full housing benefit, ensuring there are sufficient incentives for tenants to work and improvements to the service that tenants receive.

[9] Assuming no repayment of rent above the Housing Benefit limit, in practice a rent increase to this level would breach the housing benefit limit.

9. RENTAL INCOME

9.1 The draft HRA budget for 2012/13 shown in Appendix 1 currently assumes tenant rents increase in line with the Government's rent restructuring system. The application of rent restructuring in Hammersmith and Fulham currently leads to an average rental increase of 7.65%. This is reflected in the actual rents charged to tenants.

9.2 The recommended rental increase of 7.65%, in line with current rent restructuring, will increase rental income in the HRA by £2.7m in 2012/13. The changes are shown in the following table:

Table 3: Summary of Rent Budget Movements

Description	**With a 7.65% increase £000**
Original net Rent Budget 2011/12	(60,926)
Rent Increase	(4,662)
Adjustment for disposals	970
Adjustment for day's rent[10]	(178)
Adjustment for voids	1,295
Net Rent Budget 2012/13	**(63,501)**

9.3 Negative adjustments to the net rental budget are made for an assumed loss of rent on properties disposed of, rent irrecoverable during the year and to allow for 2012 being a leap year.

9.4 A 7.65% increase in rents equates to an average weekly rental increase for tenants of £7.06. An analysis of the weekly increase across all tenants is shown in the following table:

Rent increase per week	**Number**
No Increase	2
<£1.01	0
£1.01 to £3.00	0
£3.01 to £5.00	294
£5.01 to £7.00	6,207
£7.01 to £9.00	5,418
£9.01 to £11.00	789
Total	**12,710**

9.5 Under rent restructuring 91% of tenants will see an increase of between £5.01 and £9.00 per week.

9.6 The rent and service charges for properties under licence and hostels are also subject to rent restructuring, the net average increase in these charges is 7.55%. This is marginally lower than the average for tenants

[10] 2012 is a leap year and therefore the financial year 2011/12 had 366 days in it, 2012/13 will be 365 days

as the rent level for some of these properties previously exceeded the level applicable under the rent restructuring system.

10. SERVICE CHARGES

10.1 Service charges are being de-pooled from rents as agreed by Cabinet on 5th September 2011. Hammersmith & Fulham is one of only two London boroughs who do not currently have de-pooled service charges.

10.2 A fixed service charge is being implemented from 1st April 2012; the service charge is calculated to cover the cost of the service at the point of introduction of the service charge. This charge can be inflated at the time of the annual rent-setting decision in future years.

10.3 This approach has the advantage of giving tenants a high level of transparency regarding the service they can expect whilst minimising the administrative burden and resultant costs that would be generated by moving directly to a variable service charge. The adoption of fixed service charges rather than variable will also ensure the tenants will not receive any unexpected bills making it easier for them to budget.

10.4 De-pooling is calculated as follows:

- The total amount payable per week by the tenants for 2012/13 is calculated i.e. the rent tenants would have paid without service charge de-pooling.
- Service charges are calculated based on the cost of services supplied to each block (Y)
- The service charge (Y) will then be deducted from the total amount payable (X) to give the new rent for the property (Z)
- In 2013/14 the new rent (Z) will increase in line with the rent increase strategy and the service charge will be increased to allow for predicted inflation at a rate reflecting the services provided to be agreed as part of the 2013/14 budget setting process.

10.5 Only those services which Housing Benefit will contribute to in addition to rent will be levied. We are consulting with tenants to ensure we only charge them for services they currently receive. Tenants will receive notification of their service charges as part of their rent increase letter in February 2012.

11. EFFICIENCIES AND GROWTH

11.1 Between 2008 and 2010 the ALMO delivered £6 million of efficiencies The HRD Finance & Delivery Plan addresses the financial strategy for the HRA and assumes the delivery of further significant annual efficiencies from 2013/14 onwards of £2.5 million rising to £4 million by 2014/15. These savings will be delivered through the development of alternative service delivery models with a focus on improving the quality of services to council residents as well as more efficient procurement mechanisms and the bundling of services where this is appropriate as noted above.

11.2 In addition to the above efficiencies and following the zero-based budgeting approach to the review of service budgets, efficiencies of £1,143k are proposed for 2012/13. This equates to a 2.5% saving on controllable budgets including SLA's.

11.3 These are offset by £1,142k of growth, primarily additional Health and Safety costs, an increase in employers pension contributions for former H&F Homes Ltd staff to fund service deficits[11], an additional budget for historic disrepair cases (there are 43 cases known of currently) and investment required to achieve the savings programme.

11.4 These items are explained in more detail in Appendix 2 and 3.

12 RISKS

12.1 Under the housing subsidy regime, the Council's HRA was protected from adverse fluctuations in the interest rate on its borrowings. With the advent of self-financing, this protection no longer applies. However assuming no new borrowing there is limited exposure as the current debt portfolio is all on a fixed interest rate.

12.2 There is a risk that unpredicted events may result in additional expenditure in a number of budget areas including Housing Repairs. As a result of this, the budget for 2012/13 does contain some financial provision to mitigate against this risk.

12.3 There is an element of property market risk attached to the business plan in that a down turn in the property market might result in a slowing or cessation of the expensive voids sales resulting in a lack of funds available for investment in the existing stock. This is mitigated by careful monitoring of the proposed sales to ensure that funds are likely to be realised before entering into commitments on the Housing Capital Programme and by moving towards a position where sales are no longer required to maintain the stock.

12.4 The Council proposes to conduct a mid-year review of Corporate SLA costs. In 2011/12, this resulted in a £321k increase in SLA charges and there is a risk that due to movements in the drivers for the allocation of this staff in other departments this pressure may recur.

12.5 Given the scale and scope of the HRA MTFS Transformation Programme, it is anticipated that a level of redundancy costs will be unavoidable. Management will proactively endeavour to minimise redundancies and to engineer mutually agreeable outcomes for both Council and staff where possible. However, a budget provision for

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[11] In common with other ALMO's H&F Homes Ltd did not pay for staffs service deficit on the pension fund. H&F Homes Ltd paid 15% in 2010/11 compared to a current Council rate which includes the service deficit of 24.7%. As part of a plan to move the employers pension contribution paid by the HRA for the former H&F Homes Ltd staff to the council employers contribution rate by 2013/14 in 2011/12 the rate paid was increased to 18.9%, for 2012/13 it is increasing to 22.8%.

2012/13 has been made for £458k in recognition of this risk. As proposals are at an early stage, there is a risk that this budget will be exceeded.

12.6 There are also a number of other risks associated with the delivery of the HRA MTFS Transformation Programme. These include but are not limited to the risk of slippage due to unforeseen complexities and the risk that the market may not be able to deliver the savings envisaged.

13 CAPITAL CHARGES

13.1 The two main components of capital charges are the cost to the HRA of borrowing that has taken place to fund the capital programme, including the Decent Homes Programme, and the cost to the HRA of depreciation charges.

13.2 As referred to in paragraph 4.4, HRA debt will be reduced by £196.8 million on 28th March 2012 following a payment from Government. Subject to changes in interest rates, debt servicing payments are expected to reduce by (£10.5m) from £22.7m in 2011/12 to £12.2m in 2012/13.

13.3 The Council's policy has been to use the Major Repairs Allowance as a proxy for depreciation in the HRA and this practice will not change for 2012/13. CLG's Settlement Payments Determination includes a five-year transitional period during which time Councils may use the uplifted Major Repairs Allowance (MRA) used in the self-financing valuation as the figure which must be funded in the Major Repairs Reserve. The increase in the depreciation charge for 2012/13 is £2.5million to £15.2 million.

13.4 The Council will still be able to transfer amounts in excess of the MRA to the Major Repairs Reserve.

14 INFLATION

14.1 Inflation of £680k has been applied to utilities and other contracts where unavoidable. All other inflationary pressures have been accommodated within the existing envelope of resources.

15. FEES AND CHARGES

Heating Charges

15.1 Tenants and leaseholders who receive communal heating (around 1,950 properties in total) pay a weekly charge towards the energy costs of the scheme. The Council meets the costs of heating in the year, and recharges tenants and leaseholders based on an estimated cost and usage.

15.2 The contract for the supply of gas (the major energy source for heating) was renewed at the end of September 2011 and will be for one year only. The Council is part of the LASER energy procurement group, which purchases energy on behalf of 48 local authorities. A system of flexible procurement is used which should ensure that LASER tenders for new energy contracts on a rolling basis, so that it can purchase when rates are low.

15.3 As the new energy contract rates are not expected to be received until January 2012, an estimate has been prepared in consultation with the Council's facilities management function. This is based on the need to balance the heating account, whilst taking account of estimated new energy contract rates applicable next year.

15.4 It is proposed to leave the heating charge unchanged for 2012/13. If any additional adjustments to the heating charges are required for 2012/13, a further report will be presented to explain these changes.

Garage and Parking Space Rents

15.5 The rate charged varies depending on whether the garage or parking space is located in a high or low demand area and on whether the licensee / tenant is a Council tenant, a Right to Buy leaseholder or a non Right to Buy leaseholder. Current council rents for garages and parking spaces are lower than comparable private sector garages and spaces. The recommendation of officers for 2012/13 is that garage and parking space rents are increased by 7.65% taking average rent weekly for a parking space let to a Council Resident from £2.45 to £2.64 and for a garage let to a Council Resident from £12.34 to £13.28. Prices for garages rented privately in the area vary from £1800 to £2500 per annum, per space, substantially in excess of our proposed charges.

Water Charges

15.6 The Council collects income from and pays charges on behalf of tenants. They are charged according to the rateable value of their dwelling, so in most cases the Council will recover the full cost. However there are a number of blocks where the supply is metered. It is not possible to charge these tenants according to their individual usage, and they are charged on the rateable value instead. This has resulted in an under-recovery of water charges.

15.7 In order to ensure that the Council fulfils its legal obligation to recover the water charges in full, it is recommended that water charges are increased by 5.8% to ensure full cost recovery.

HAFFTRA Levy

15.8 Subject to the review of Resident Involvement, the levy will be increased in accordance with the Tenant Participation Compact in line with the guideline rent increase for the year of 7.65%. It is therefore proposed to increase the weekly levy by 2 pence from 25 pence in 2011/12 to 27 pence in 2012/13. It should be noted that our Resident Involvement Strategy is currently under review, should after consultation an alternative approach be agreed this would be the subject of a separate cabinet report.

15.9 All other service charges, fees and levies will be increased by 7.65% in line with the Council's guideline rent increase, unless stated otherwise in this report.

16. CONSULTATION

16.1 This report being presented to the Housing, Health and Adult Social Care Select Committee on 18th January 2012 in order that the committee can comment on the budget proposals in advance of any formal decision being taken by Cabinet.

16.2 HAFFTRA will be consulted in advance of the publication of this report for Housing, Health and Adult Social Care Select Committee. This consultation will include a briefing on the HRA budget, business plan, financial pressures and consequent proposed rent increase. This will then be presented to tenants at the borough forum on 24th January 2012.

17. RISK MANAGEMENT

17.1 The principal risks are detailed in section 12 of this report, these are included in the departmental risk register

18. EQUALITY IMPLICATIONS

18.1 The rent increase and other increases in charges may impact disproportionately on groups who have a lower income level especially those who may be disproportionately represented in council stock. This disadvantage will be minimised by using our in house Welfare Benefits Advisor who provides advice to tenants who are struggling to pay their rent. The Welfare Benefits Advisor provides a joined up service acting as a bridge to other departments to enable tenants to claim their benefit entitlements. The nil increase on heating charges should also help minimise the impact on groups with a lower income level.

18.2 The department's resident involvement strategy which is currently being consulted on will increase the diversity of tenants feeding into a two-way process of continuous improvement in services, ensuring accountability and value for money.

18.3 The additional income generated within the Housing Revenue Account also ultimately enables more investment in Housing and Regeneration which will benefit ultimately tenants by creating more equality of opportunity.

19. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

19.1. Comments are contained within the body of the report.

20. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

20.1. The principal statutory provision governing the fixing of rent for Council property is contained in Section 24 of the Housing Act 1985. Sub-section (1) provides that authorities may *"…make such reasonable charges…. as they may determine"*. However, this section has to be considered in the light of Section 76 of the Local Government and Housing Act 1989 which imposed a duty on local housing authorities to prevent a debit balance arising in their Housing Revenue Account ("HRA") and which also imposes "ring-fencing" arrangements in respect of such account. It is not possible for a local housing authority to subsidise rents from its General Fund.

20.2 The Council has discretion to determine its rents and in doing so it should consider all relevant matters and exclude irrelevant ones. Relevant considerations include:

- the cost to the Council of providing accommodation and the cost of its management;
- the effect of inflation; and
- the extent and numbers of tenants qualifying for Housing Benefit.

20.3 Section 4 of the report sets out the implications of sections 167 to 175 of the Localism Act 2011 which reform the way social housing is funded.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	HRD F&D Plan	Kathleen Corbett	HRD
2.	Draft HRA Reform Determination	Kathleen Corbett	HRD
CONTACT OFFICER:		**NAME: Kathleen Corbett EXT. 3031**	

Appendix 1 HRA 2012/13 Budget and 5 year projections

	2011/12	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
	Original budget	Forecast Outturn	Proposed Budget	Proposed Budget	Proposed Budget	Proposed Budget	Proposed Budget
Management of Dwellings							
Operational Housing Management Services	22,133						
CQA		1,520	829	850	871	893	915
Finance and Resources		5,776	11,156	11,422	11,708	12,001	12,301
Housing Services		13,321	13,013	12,916	11,798	12,117	12,527
Property Services		2,111	2,554	2,413	2,473	2,535	2,598
	22,133	22,728	27,552	27,601	26,850	27,546	28,341
Retained Budgets	6,176						
Support Services		4,153					
Regeneration		1,062	1,014	1,039	1,065	1,092	1,118
Housing Options		614	666	683	700	717	735
Safer Neighbourhoods		774	785	805	825	845	866
Adult Social Care		38	48	49	50	52	53
	6,176	6,641	2,513	2,576	2,640	2,706	2,774
Total Management of Dwellings	**28,309**	**29,369**	**30,065**	**30,177**	**29,490**	**30,252**	**31,115**
Repairs and Maintenance	14,053	13,020	14,369	13,112	13,400	13,695	14,134
Capital Charges[12]	35,779	35,506	27,658	27,681	27,481	27,283	26,939
Total Expenditure	**78,141**	**77,895**	**72,092**	**70,970**	**70,371**	**71,230**	**72,188**
Income							
Dwelling Rents[13]	(59,579)	(59,986)	(63,501)	(65,229)	(67,952)	(70,760)	(73,092)
Other Managed Income	(8,279)	(7,625)	(7,667)	(8,446)	(8,657)	(8,873)	(9,095)
Housing Subsidy	(10,375)	(9,989)					
Total Resources	**(78,233)**	**(77,600)**	**(71,168)**	**(73,675)**	**(76,609)**	**(79,633)**	**(82,187)**
(Surplus)/Deficit	**(92)**	**295**	**924**	**(2,705)**	**(6,238)**	**(8,403)**	**(9,999)**
Reserves brought in from H&F Homes Ltd		**(1,868)**					
Projected Year End Balance[14]	**3,199**	**4,680**	**3,756**	**6,461**	**12,699**	**21,102**	**31,101**
Projected Year End Balance if additional contribution to Housing Capital programme is made from revenue rather than void sales	3,199	4,680	3,756	2,061	999	2,026	4,879

[12] Capital Charges consist of both interest costs and depreciation charges (for which Council policy is to use Major Repair Allowances as a proxy). Interest charges have reduced from £22.7million. in 2011/12 to £12.2 million, a reduction of £10.5million due to the repayment of debt arising on the implementation of HRA reform. This is offset by an increase in depreciation charges of £2.5m due to an increase in major repair allowances post HRA reform.

[13] Rents are assumed to increase in line with the rent restructuring formula, the RPI rate assumed for 2013/14 onwards in the formula is 2.5%

[14] Reserves show an initial dip due to invest to save expenditure and the increased employer pension contributions.

Appendix 2

HRA Efficiency Proposals	
Description	**2012/13 £000**
HRA MTFS Transformational	
Repairs re-procurement: consolidation of multiple contracts with long-term supplier(s)	(29)
Estate Services: market testing of cleaning and concierge services	(143)
Housing Management: market testing development of synergies within existing service and Housing Options division	(511)
	(683)
Business as usual	
Review of Re-housing staffing (3 FTEs): minor internally managed reorganisation	(139)
Review of Staff Training provision	(53)
Review of legal expenditure	(59)
Re-procurement of Out of Hours Service	(68)
Reorganisation of Ex ALMO central services team	(133)
Reorganisation of senior management roles	(8)
	(458)
Efficiency Proposal Total	**(1,143)**

Appendix 3

HRA Growth Proposals	
Description	**2012/13 £000**
Temporary	
Staff cover arrangements whilst existing staff focus on MTFS Transformational Savings Programme	147
Support for Estate Services transformation	50
Stock Condition Survey	125
Asset Management	75
Repairs	
Health & Safety: gas appliance testing primarily for tenants gas cookers required to deliver duty of care and mitigate financial risk	154
Change in Legislation: provision of access hatches to concealed flue joints	40
Disrepair Claims: legacy of old claims to be settled and new commercial cases	158
Pension	
Increase in employer contributions: stepped arrangement to bring former H&F Homes contributions into line with Council to fund service deficit	393
Growth Total	**1,142**

Appendix 4: London Local Housing Authorities: Working Balance Reserves as a % of Turnover

	Turnover excluding subsidy	Working Balance Reserve at 31st March 2011	Working Balance Reserve as a % of Turnover
	£'m	£'m	£'m
H&F	71.2	3.1	4.36%
Neighbouring & Partner London Housing Authorities			
RBKC	44.9	11.8	26.31%
Westminster	105.1	96.3	91.60%
Wandsworth	118.1	90.7	76.86%
Ealing	61.7	7.0	11.32%
Hillingdon	54.9	13.0	23.67%
Harrow	25.6	3.8	14.74%
Hounslow	69.0	23.4	33.89%
Other London Local Housing Authorities			
Southwark	231.9	20.6	8.87%
Lambeth	152.8	2.0	1.34%
Islington	146.4	20.2	13.82%
Camden	141.9	63.2	44.58%
Hackney	117.4	10.2	8.69%
Lewisham	124.9	9.9	7.93%
Sutton	32.4	0.8	2.62%
Brent	48.1	1.8	3.83%
Barnet	54.8	4.2	7.71%
Waltham Forest	50.8	2.0	3.93%
Redbridge	23.8	2.4	10.22%
Barking and Dagenham	90.1	4.4	4.94%
Tower Hamlets	75.6	12.8	16.92%
Kingston Upon Thames	27.2	2.5	9.06%
Croydon	81.1	6.1	7.56%
Greenwich	104.8	7.2	6.86%
Newham	82.9	4.0	4.77%
Average of Neighbouring & Partner London LHAs as listed above			39.77%
Average of 25 London LHAs			17.86%
Average of RBKC, Westminster & Wandsworth			64.92%
Average of RBKC, Westminster, Wandsworth & LBHF			49.78%

Appendix 5 - Rent Benchmarking 2011-12 rents: Local Housing Authorities

	Budgeted	Bedsits	1 bed house and bungalows	1 bed flats and maisonettes	2 bed house and bungalows	2 bed flats and maisonettes	3 bed flats and bungalows	3 bed flats and maisonettes	4 bed dwellings	5 bed dwellings	6 bed dwellings
Local Authority	Average Rent in 2011-12	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent
	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p
INNER LONDON											
Camden	91.76	66.45	91.46	81.87	100.98	94.05	112.59	105.26	117.67	131.37	135.92
Greenwich	86.68	69.00	82.39	75.49	94.51	82.89	103.90	89.80	107.70	120.40	127.52
Hackney	85.00	67.33	88.20	76.45	101.51	83.20	106.96	91.13	110.50	127.89	140.69
Hammersmith & Fulham	**92.18**	**72.33**	**89.39**	**82.55**	**101.95**	**91.84**	**114.23**	**101.71**	**118.79**	**128.65**	**130.24**
Islington	91.66	69.86	84.15	80.39	105.02	94.30	116.53	99.16	120.95	130.67	147.97
Kensington & Chelsea	98.88	73.36	111.43	87.67	117.26	104.76	127.67	114.48	128.87	143.37	-
Lambeth	**	67.91	85.49	78.31	106.95	87.68	119.13	97.60	120.04	129.61	140.41
Lewisham	**	60.26	80.79	72.22	85.44	81.06	102.11	89.45	104.37	117.52	120.74
Wandsworth	111.79	61.01	98.62	84.37	123.88	105.90	162.12	137.68	168.62	208.59	263.54
Westminster	104.49	82.68	96.27	96.89	113.16	109.44	125.38	121.94	137.49	150.83	148.43

Appendix 6
Rent Benchmarking 2011-12 private sector rents in Hammersmith and Fulham (W6, W12, W14 and SW6) (source: Rightmove)

Property size	Average rent per week	LBHF	%
Studio Flats	£217.30	72.33	33%
1 Bed Flats	£298.05	82.55	28%
2 Bed Flats	£401.84	91.84	23%
3 Bed Flats	£556.55	101.71	18%
4 Bed Flats	£670.52	118.79	18%
5 Bed Flats	£933.39	128.65	14%
6 Bed Flats	£1,248.12	130.24	10%
1 Bed Houses	£324.77	89.39	28%
2 Bed Houses	£462.18	101.95	22%
3 Bed Houses	£606.09	114.23	19%
4 Bed Houses	£894.37	118.79	13%
5 Bed Houses	£1,326.38	128.65	10%
6 Bed Houses	£1,749.48	130.24	7%