



London Borough of Hammersmith & Fulham

Cabinet

8 FEBRUARY 2010

**CABINET MEMBER
FOR HOUSING**
Councillor Lucy Ivimy

HOUSING REVENUE ACCOUNT BUDGET STRATEGY 2010/11

**Wards
All**

This report sets out the budget strategy for the Housing Revenue Account (HRA) to 2013/14, with detailed revenue estimates and the proposed rental and service charge increases for 2010/11.

In line with Hammersmith and Fulham Homes' medium term strategy, a set of efficiency proposals are contained within this report. Due to continuing pressure on the HRA in 2010/11, additional efficiencies are also proposed to be made from 2010/11 onwards.

The increase in tenants' rents is based on the Government's rent restructuring system, and currently averages across all stock at 1.31%.

CONTRIBUTORS

CSD
DFCS
ADLDS
H&F Homes

Recommendations:

That Cabinet:

- 1. Approves the Housing Revenue Account Budget for 2010/11 as set out in Appendix 1.**
- 2. Agrees to an average increase in weekly rent of 1.31%, in line with the rent restructuring system.**
- 3. Endorses the Medium Term Financial Strategy for the HRA as set out in Appendix 1.**
- 4. Approves the efficiency proposals set out in the Appendices to this report**
- 5. Approves the increases in service charges and other fees and charges as set out in the body of the report.**

1. INTRODUCTION

- 1.1. This report details the HRA revenue budget for 2010/11, showing the efficiency items, expected Housing Subsidy levels, and the impact on Housing rents which affect the budget. The report also outlines the medium term financial targets set for the HRA and how it is proposed to meet them.
- 1.2. The report is presented to the Housing Scrutiny Committee in order that the committee can comment on the budget proposals in advance of any formal decision being taken. The report is then passed to Cabinet for consideration.

2. BACKGROUND

- 2.1. 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.
- 2.2. 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 reflected 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.
- 2.3. Expenditure in Hammersmith and Fulham's HRA is divided into three main components, with responsibility for delivery resting with either the Council or H&F Homes:

Table 1: HRA Budget Areas

Area & 2010/11 Net Budget	Managed by	Description
The Management Fee (£23.7m)	H&F Homes	Fee paid by the Council to H&F Homes for management services
The Managed Budgets (repairs budget of £14.5m and income budgets of £67.0m)	H&F Homes on behalf of the Council	Repairs costs, and rental income collection. These are included in the Council's financial ledger but are managed by H&F Homes

The Retained Budgets (£28.9m – service budgets of £5.8m, subsidy of £12.7m and a capital budget of £35.8m)	Council	Budgets relating to strategic and retained services provided by the Council.
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3. THE FINANCIAL CONTEXT

- 3.1 Following a worse than expected outturn on the HRA in 2008/09, remedial action has been undertaken during 2009/10 to review budgets and deliver £1.9m of additional savings. As a result, the HRA is forecast to have a closing balance of approximately £3.5m at the end of 2009/10.
- 3.2 Further efficiencies can be made from 2010/11 onwards which will allow service delivery and efficiency to improve, whilst balances are expected to recover to over £4.7m by 2013/14). The medium term budget is shown in Appendix 1.
- 3.2 The Council and H&F Homes are committed to setting clear and ambitious targets for delivering savings to demonstrate to tenants and leaseholders the core aims of improving value for money and spending their money wisely. The 2010/11 budget put forward for the LBHF retained budgets includes efficiencies of £0.19m and no growth items. The H&F Homes proposed budget for 2010/11 also requires no growth, but will generate efficiencies on the Management Fee of £2.58m, and on the Managed Repairs budgets of £0.79m.
- 3.3 The draft subsidy determination for 2010/11 was announced on 9 December 2009 and gives LBHF subsidy of £13.25m.
- 3.4 The government has initiated a wide ranging review of the subsidy system, as there are national concerns that the system is no longer appropriate. The final determination that is due to be issued in February therefore is not anticipated to provide any precedence for future years. The funding regime may change significantly for future years beyond 2010/11.
- 3.5 A national consultation exercise is currently underway to determine the possibilities for fundamental reform of the subsidy system including the possibility for increased local influence over the Housing Revenue Account.

4. RENT RESTRUCTURING

- 4.1. The Council's discretion over the level of rent charged to tenants is severely curtailed by the government's Rent Restructuring initiative. Rent restructuring aims to align rents across the social housing sector, using the mechanism of a standard 'formula rent'.
- 4.2. The draft determination announced on 9 December 2009 gives a fixed average national guideline rent increase of 3.1% in 2010/11. The Housing Subsidy paid by the government to the Council assumes that rental income will increase by a set percentage (2.86% for 2010/11) as the Council moves towards the formula rent. The current Council rent increase under rent restructuring is 1.31%, and therefore lower than government assumptions. The difference is caused by the effect of limits imposed as part of the rent restructuring regime on individual rents.

5. RENTAL INCOME

- 5.1. The draft HRA budget for 2010/11 assumes an increase in tenant rents in line with the Government's rent restructuring system. The application of rent restructuring in Hammersmith and Fulham currently leads to a target rental increase of 1.31%. This is reflected in the actual rents charged to tenants.
- 5.2. The recommended rental increase of 1.31%, in line with current rent restructuring, will lead to increased rental yield to the HRA of £1.2m in 2010/11. The changes are shown in the following table:

Table 2: Summary of Rent Budget Movements

Description	£000
Net Rent Budget 2009/10	55,419
Add back 2008-09 savings	500
	55,919
Rent Increase of 1.3%	733
Adjustment for disposals	(232)
Adjustment to write offs	181
Net Rent Budget 2010/11	56,601

- 5.3. Negative adjustments to the net rental budget are made for an assumed loss of rent on properties disposed of during the year.
- 5.4. A 1.31% increase in rents equates to an average weekly rental increase for tenants of £1.12. An analysis of the weekly increase across all tenants is shown in the following table:

Table 3: Analysis of Weekly Rent Increases

Rent increase per week	Number
(£2.01 -£3.00)	2
(£1.01 - £2.00)	38
(£0.01 - £1.00)	111
£0.00	1
£0.01 - £1.00	2,336
£1.01 - £2.00	10,458
Total	12,946

- 5.5. 99% of tenants will see an increase of between £0.01 and £2.00 per week.
- 5.6. The rent and service charges for temporary on licence properties and hostels are also subject to adjustments in line with rent restructuring, the application of which leads to a net reduction in charges of 1%. This is caused in part by the reconfiguration of the Council's hostels portfolio, and by the existing rent levels of the remaining properties previously exceeding the level applicable under the rent restructuring system. This adjustment aligns the hostel rent levels with the level applicable under rent restructuring.

6. MEDIUM TERM FINANCIAL STRATEGY FOR THE HRA

- 6.1. The guiding principles of the Council's medium term HRA financial strategy are as follow:
- To maintain balances at a minimum of 4% of gross revenue expenditure
 - To generate sufficient efficiencies to allow significant investment in service improvements in-line with the Council's priorities
 - To bring performance on repairs and rent and service charge collection in line with the best in London
 - To increase tenant and leaseholder satisfaction levels by improving the services provided to council tenants and leaseholders (e.g. caretaking, horticultural maintenance)
 - To deliver an average of 5% efficiency savings each year on the Management Fee, and Managed and Retained Budgets, over the medium term.

7. HOUSING SUBSIDY

- 7.1. At the time of submitting this report, the CLG has not yet issued the final Subsidy Determination for 2010/11. However, the draft Subsidy Determination was issued on the 9th December. This provides the Council with a provisional subsidy allocation of £13.25m. This is £0.78m lower than the subsidy received in 2009/10, and is due to the net effect of an increase in the guideline rent offset by further capital borrowing costs arising as a result of the Decent Homes programme.
- 7.2. Earlier internal financial models forecast a subsidy figure of £12.6m for 2010/11. The figure derived from the draft determination is £0.64m higher, and this is explained in the main by a slight increase in the Council's Consolidated Rate of Interest and the consequent increase in borrowing costs, a lower actual guideline rent increase, and an increase in the management allowance. Only the latter change benefits the HRA position, as any changes in subsidy for capital financing and guideline rents are reflected respectively in changes in actual borrowing costs and in actual rents charged.
- 7.3. Maintenance allowances remain the same as for 2009/10. The major repairs allowance has increased by 3.2%, though there is no net revenue benefit of this as the MRA is used as a proxy for depreciation.
- 7.5. Until the outcome of the work on the reform of council housing finance is known, CLG propose that significant changes to the current system should be avoided, and therefore the 2010/11 draft determination has been issued using similar parameters as those employed in previous years. The final determination for 2010/11 is expected in February 2010.

8. CAPITAL CHARGES

- 8.1. Capital Charges represent the cost to the HRA of borrowing that has taken place to fund the Capital Programme, including the Decent Homes Programme. For 2010/11, there is an estimated increase in these costs of £1.12m. This is mainly the result of planned additional borrowing for the Decent Homes Programme. The costs of borrowing are reflected in the amount of Subsidy receivable.

9. BUDGET EFFICIENCIES

- 9.1. The financial strategy for the HRA assumes the delivery of significant annual efficiencies from 2010/11 onwards. There are proposed efficiencies of £0.19m for 2010/11 in the LBHF retained budgets. This represents a 3.5% reduction on controllable budget. HFH have put

forward total efficiencies of £3.37m in 2010/11 against the budgets they manage.

- 9.2. The following table sets out the efficiency proposals for the retained HRA budgets

Table 4: Summary of Retained Budget Efficiencies

Council Retained Budgets	
Description	2010/11 Saving £000
Alternative funding of Strategic Regeneration team	(61)
Capitalisation of staff time in Housing Strategy	(15)
Restructuring of Wardens service in Safer Communities	(60)
Reorganisations and policy changes in Housing Options	(50)
Total	(186)

- 9.3. These items are explained in more detail in Appendix 2.

- 9.4. The following table sets out the efficiency proposals put forward by H&F Homes.:

Table 5: Summary of Management Fee & Managed Repairs Efficiencies

H&F Homes Management Fee and Managed Repairs Budget	
Description	2010/11 Saving £000
Management Fee	
Stepped Efficiencies initiated in 2009/10	(1,629)
Reduction in 2009/10 Invest to Save growth	(385)
Review of support & finance functions	(150)
Further VfM Programme Initiatives	(418)
Sub-Total	(2,582)
Responsive Repairs Budget	
Repairs Programme	(789)
Total	(3,371)

- 9.5. These proposed efficiencies are explained in more detail in Appendix 3.

10. BUDGET GROWTH

- 10.1. Neither the Council nor H&F Homes have identified any growth items for 2010/11.

11 INFLATION AND SLA ADJUSTMENTS

- 11.1 No inflation has been applied to staffing budgets, utilities or other contracts, as inflationary pressures have been accommodated within the existing envelope of resources.
- 11.2 The 2010/11 SLA charge which the HRA is receiving from the Council has risen by £392k. This increase is due to changes across a number of the support areas covered by the SLA.

12. FEES AND CHARGES

Heating Charges

- 12.1 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.
- 12.2 Recent years have witnessed significant increases in global energy prices, and this has led to corresponding increases in Communal Heating charges in 2007/08 (two consecutive increases of 19% each), 2008/09 (5%), and 2009/10 (20%).
- 12.3 The contract for the supply of gas (the major energy source for heating) was renewed at the end of September 2009 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.
- 12.4 Based on the new energy contract rates which have been received to date, it is proposed that no adjustment is made to charges in 2010/11., This is based on the expectation that the increases seen in global energy prices which have occurred in recent years are not likely to recur in the near future. If any additional adjustments to the heating charges are required for 2010, then a further report will be presented to explain these changes.

Garage and Parking Space Rents

- 12.5 At present there are several different charging rates. These reflect high and low demand areas and two levels of charge to private tenants. The two charges to private tenants separate those who bought their dwelling through Right to Buy from those who are not former council tenants. Current council rents for garages and parking spaces are lower than comparable private sector garages and spaces. The recommendation of officers for 2010/11 is that garage and parking space rents are increased by 2.86% in line with the council's guideline rent increase.

Water Charges

- 12.6 Currently the council pays water charges on meters where these exist. Consideration is being given to a change to the council being charged according to rateable value for all properties.
- 12.7 All other service charges, fees and levies will be increased by 2.86% in line with the council's guideline rent increases, unless stated otherwise in this report.

HAFFTRA Levy

- 12.8 At Borough Forum on 22nd October 2009, it was proposed that the HAFFTRA levy is extended for 2010/11. The levy would be increased in accordance with the Tenant Participation Compact in line with the rent increase of 1.3%. Due to the small increase, this would have no effect on the current weekly levy of 23 pence.

13 COMMENTS OF ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

- 13.1 As explained in the body of the report, the HRA is "ring fenced" and what may be debited and credited to it is prescribed by statute. In addition the Council has a statutory duty to balance the HRA

14 COMMENTS OF DIRECTOR OF FINANCE AND CORPORATE SERVICES

- 14.1 Comments are contained within the body of the report.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department/Location
1.	Housing Revenue Account Budget Working Papers	Peter Benz Ext 2805	H&F Homes & Council Hammersmith Town Hall Extension
2.	Housing Subsidy Determination working papers	Peter Benz Ext 2805	H&F Homes & Council Hammersmith Town Hall Extension