



London Borough of Hammersmith & Fulham

Cabinet

7 FEBRUARY 2011

**CABINET MEMBER
FOR HOUSING**
Councillor Lucy Ivimy

**HOUSING REVENUE ACCOUNT BUDGET
STRATEGY 2011/12**

**Wards:
All**

This report sets out the budget strategy for the Housing Revenue Account (HRA) to 2014/15, with detailed revenue estimates and the proposed rental and service charge increases for 2011/12.

In line with Hammersmith and Fulham Homes' medium term strategy, a set of efficiency proposals are contained within this report.

The increase in tenants' rents is based on the Government's rent restructuring system, and currently averages across all stock at 6.71%.

Recommendations:

CONTRIBUTORS

DH&Regen
DFCS
ADLDS
H&F Homes

That Cabinet:

- 1. Approves the Housing Revenue Account Budget for 2011/12 as set out in Appendix 1**
- 2. Agrees to an average increase in weekly rent of 6.71%, 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 Appendix 2;**
- 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 2011/12, including efficiency proposals, expected housing subsidy levels, and the impact of housing rents on the budget. The report also outlines the medium term financial targets set for the HRA and the proposed methods of meeting them.
- 1.2 The report is presented to the Housing, Health and Adult Social Care Select 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 currently resting with either the Council or H&F Homes. Responsibility for the delivery of all components will return to the Council should the formal decision be made to bring H&F Homes back to the Council, the budgets have been prepared on this basis:

Table 1: HRA Budget Areas

Budget Area & 2011/12 Net Budget	Managed by	Description
Operational Housing Management Services (Previously H&F Homes management fee) (£22.1m)	Housing and Regeneration Department, currently H&F Homes with Council scrutiny	Staffing and operational cost of providing housing management services to LBHF residents and leaseholders
Responsive Repairs and HRA Income (repairs budget of £14.0m and income budgets of £59.6m for rents and £8.2m for other managed income)	Housing and Regeneration Department, currently H&F Homes with Council scrutiny	Repairs costs and rental income collection.
Central Budgets (£31.6m – retained service budgets of £6.2m, subsidy of £10.4m and a capital budget of £35.8m)	Housing and Regeneration Department	Budgets relating to housing options, safer neighbourhoods, housing strategy, regeneration, capital, subsidy, support services and administration

3. THE FINANCIAL CONTEXT

- 3.1 The HRA is forecast to have a closing balance of approximately £2.2m at the end of 2010/11. This is above the targeted minimum balance of £2m and is expected to be achieved in the context of having implemented £3.6m of efficiencies in 2010/11.
- 3.2 The HRA financial strategy is set to achieve further efficiencies from 2011/12 onwards which will be derived from: continuing the Value for Money programme; re-integrating the ALMO into the Council; and the commercialisation of specific functions within the ALMO. This strategy also allows for some growth, is designed to allow balances to recover and to enable additional investment, which is likely to include an increased revenue contribution to the capital programme in the years ahead,.
- 3.3 Following national concerns that the housing subsidy is no longer appropriate, and a favourable response nationally from local authorities in accepting the principles of Government's proposal to reform the system of Council housing finance, the government has drafted legislation to

dismantle the subsidy system via the Localism Bill set before Parliament on 13th December 2010. It is therefore expected that 2011/12 will be the final year of the housing subsidy system, and that in future years, Hammersmith & Fulham will operate a self-financing Housing Revenue Account. We are awaiting the final details of the new system, including the amount of debt to be repaid by CLG. This will enable us to revise our medium term projections and hence this report does not include projections beyond 2011/12.

- 3.4 The draft subsidy determination for 2011/12 was announced on 5 November 2010 and gives LBHF subsidy of £10.38m for 2011/12.
- 3.5 The budget for 2011/12 is shown in Appendix 1 and key assumptions are shown in Appendix 2. The change from last year's estimates is shown in Appendix 4.

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 for Housing Subsidy paid by government to the Council, announced on 5 November 2010, gives a fixed average national guideline rent increase of 6.8% in 2011/12. The guideline rent increase for the Council in the draft determination is 5.39%. The average current Council rent increase for the main housing stock calculated using the rent restructuring regime is 6.71%, this is lower than the national average rent increase. The difference is caused by the effect of limits imposed as part of the rent restructuring regime on individual rents, applying a lower rent increase would result in significant pressure on the HRA balance.

5. RENTAL INCOME

- 5.1. The draft HRA budget for 2011/12 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 an average rental increase of 6.71%. This is reflected in the actual rents charged to tenants.
- 5.2 The recommended rental increase of 6.71%, in line with current rent restructuring, will increase rental income in the HRA by £3.1m in 2011/12. The changes are shown in the following table:

Table 2: Summary of Rent Budget Movements

Description	£000
Original net Rent Budget 2010/11	56,601
Rent Increase of 6.71%	3,800
Adjustment for disposals	(630)
Adjustment to write offs	(253)
Adjustment to include equity share properties	(61)
Net Rent Budget 2010/11	59,579

- 5.3 Negative adjustments to the net rental budget are made for an assumed loss of rent on properties disposed of and rent irrecoverable during the year.
- 5.4 A 6.71% increase in rents equates to an average weekly rental increase for tenants of £5.78. 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
£8.01 - £9.00	211
£7.01 - £8.00	1,427
£6.01 - £7.00	3,741
£5.01 - £6.00	4,576
£4.01 - £5.00	2,713
£3.01 - £4.00	221
£2.01 - £3.00	54
£0.01 - £2.00	2
Total	12,945

- 5.5 96% of tenants will see an increase of between £4.01 and £8.00 per week.
- 5.6 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 4.89%. This is lower than the average for tenants as the rent level for these properties previously exceeded the level applicable under the rent restructuring system.
- 5.7 In 2011-2012 an exercise will be undertaken to investigate the possibility of de-pooling service charges from rents as per CLG good practice guidance. LBHF is one of only two London boroughs not yet having introduced the de-pooling of service charges. De-pooled service charges

ensure a fairer approach to charging residents for services received as well as providing a charging mechanism which allows residents to choose the cost and frequency of services delivered to them. Any implementation of service charges will be preceded by a comprehensive consultation exercise.

6. MEDIUM TERM FINANCIAL STRATEGY FOR THE HRA

6.1. The guiding principles of the Council's medium term HRA financial strategy are as follows:

- To maintain balances at a minimum of £2m
- To generate sufficient efficiencies to allow significant investment in service improvements in-line with the Council's priorities
- To bring performance on responsive repairs service provision and rent and service charge collection in line with the best in London (top quartile performance)
- 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 in real terms each year on the Operational Housing Services, Responsive Repairs and Service Budgets, over the medium term.

7. HOUSING SUBSIDY

7.1 At the time of submitting this report, CLG had not yet issued the final Subsidy Determination for 2011/12. However, the draft Subsidy Determination was issued on 5 November 2010. This provides the Council with a provisional subsidy allocation of £10.38m. This is £2.8m lower than the subsidy received in 2010/11, and is due to the net effect of an increase in the guideline rent (£3.1m), the likely termination of a 20 year leasing agreement with Notting Hill (£0.7m), offset by increases in allowances of £1m.

7.2 Earlier internal financial models forecast a similar overall subsidy figure for 2010/11, although there are significant variations within this. The figure derived from the draft determination is £0.187m lower than predicted, and this is explained in the main by higher increases in the draft determination for guideline rents (reducing subsidy) and management, maintenance and major repairs allowances (increasing subsidy).

7.3 Management and maintenance allowances have been cash protected, though increases are sub-inflationary at 0.39% and 2.54% respectively.

The major repairs allowance has increased by 4.0%, though there is no net revenue benefit of this as the MRA is used as a proxy for depreciation.

- 7.4 In line with the expectation that the system of council housing finance will be reformed through the Localism Bill and implemented from 2012/13, this settlement is for one year only.
- 7.5 The final determination is expected in early January 2011.

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 2011/12, there is an estimated decrease in these costs of £0.1m. This is mainly the net effect of a reduction of £690k in costs due to the likely hand back of the Notting Hill Housing Trust properties, offset by an increase in depreciation charges of £500k. The costs of borrowing are reflected in the amount of subsidy receivable.
- 8.2. It is anticipated that Capital Charges will decrease in future years under self financing as in return for losing the subsidy we are anticipating the repayment of a significant percentage of the debt by CLG. Increases in these charges over the last 4 years have been caused by additional borrowing taken on by LBHF as part of the Decent Homes programme. This increased HRA debt held by LBHF by £192m over the 4-year period.

9. BUDGET EFFICIENCIES

- 9.1. The financial strategy for the HRA assumes the delivery of significant annual efficiencies from 2010/11 onwards. In addition to the £3.6m of efficiencies implemented in 2010/11, there are proposed efficiencies of £1.940m for 2011/12. This represents a 25% reduction on controllable budgets (2009/10 base).
- 9.2. The following table sets out the efficiencies proposed:

Table 4: Summary of Efficiencies

HRA Efficiency Proposals	
Description	2011/12 £000
Existing Efficiencies	
Re-organisation of Estate and Housing Management Services	(187)
Re-organisation of area office management arrangements	(203)
Existing Efficiencies Total	(390)
New Efficiencies	
Value for Money programme: continuation of current efficiency programme and market testing of repairs function	(696)
ALMO re-integration: back-office staffing	(621)
ALMO re-integration: administrative savings	(207)
New Efficiencies Total	(1,524)
All Efficiencies Total	(1,914)

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

9.4 As part of the LBHF medium term financial strategy, housing management services funded from the housing revenue account will be subject to a wholesale review and market-testing exercise commencing in 2011-2012 to find further cost efficiencies of up to £4m per annum through alternative service delivery models as well as more efficient procurement mechanisms and the bundling of services where this is appropriate. This will aid in producing the planned further revenue reductions from 2012-2013 onwards as set out in Appendix 1.

10. BUDGET GROWTH

10.1. In recent years, the Strategic Regeneration staffing function has been funded from a combination of non-HRA sources (including savings generated from integrating housing and regeneration activities, section 106 balances, non-repayable grants, and debt reduction savings). Originally, it was intended that the HRA core staffing costs would be met from HRA balances but alternative funding was identified when the HRA working balance came under pressure in 2009/10. However, it is now proposed to fund Strategic Regeneration core staffing costs from the HRA until the function can become self-financing from capital receipts

generated from regeneration-related disposals as well as developer contributions.

- 10.2. The Housing Solutions team focuses on reducing the impact of overcrowding and under-occupation in borough housing stock. In the last eighteen months, the team have contributed to the Council's housing strategy through releasing 84 under-utilised properties and creating 122 moves for overcrowded households in the borough. The function has previously been funded by central government grant, however, following the 2010 spending review, this grant is now subject to competitive bids from all Council departments, the outcome of which will be decided in the new financial year. Given the nature of, and value provided by the Housing Solutions team, it is proposed to fund this function from the HRA from 2011/12. In the event that additional grant becomes available, this will be utilised to reduce the growth required.
- 10.3 A contingency has been created to allow for costs that will arise from the transfer of leased properties to Notting Hill Housing Trust , as well as other unspecified costs relating to the re-integration of the ALMO into the Council.

Table 5: Summary of Growth

HRA Growth Proposals	
Description	2011/12 £000
New Growth	
Strategic Regeneration: core staffing	578
Housing Solutions: core staffing	126
Housing Management Services contingency, including provision for NHHT Surpluses & Deficits agreement	368
New Growth Total	1,072

11. INFLATION AND SLA ADJUSTMENTS

- 11.1 Inflation has been applied to utilities and other contracts where unavoidable. All other inflationary pressures have been accommodated within the existing envelope of resources.

- 11.2 The 2011/12 SLA charge which the HRA is receiving from the Council has decreased by £135k. This reduction is due to changes across a number of the support areas covered by the SLA.

12. RISKS

- 12.1 The Council is required under statute to carry out maintenance to reduce the risk of legionella outbreaks in Council housing stock. It plans to fund these costs of approximately £0.6m from budgeted contingency within the repairs budgets. The position will be monitored on an ongoing basis.
- 12.2 In the late 1980s the Council entered into a number of leases with Notting Hill Housing Trust (NHHT) for the acquisition of 102 dwellings. A “surpluses & deficits” agreement was set up whereby the Council committed to reimburse NHHT for the difference between the rents that it received from the Council and the payments to the financial institutions that provided the funds to acquire and develop the dwellings. The Council is currently negotiating the hand back these properties. It is estimated that the Council will be charged a £1.9m to satisfy this agreement with other possible costs to ensure a successful exit from this agreement depending on the exact structure of the deal. The charge under the “surpluses & deficits” agreement has yet to be finalised subject to negotiations with NHHT. Funds of £517k have already been set aside to contribute to this charge, and a proposal is being put together to fund the balance of any settlement based on paragraph 12.3 below.
- 12.3 It is anticipated that the ALMO will be re-integrated into the Council from 2011/12. Current projections indicate that a reasonably substantial balance will be available to the HRA following the winding up of the ALMO company after removing the FRS 17 pension adjustments from the accounts. This is expected to be drawn upon to mitigate the effect on the working balance from the risks noted above.

13. FEES AND CHARGES

Heating Charges

- 13.1 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.
- 13.2 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%).

- 13.3 The contract for the supply of gas (the major energy source for heating) was renewed at the end of September 2010 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.
- 13.4 Based on the new energy contract rates which have been received to date, it is proposed that the heating charges are not increased in 2011/12. This is based on the need to balance the heating account, whilst taking account of the new energy contract rates applicable next year. If any additional adjustments to the heating charges are required for 2011, then a further report will be presented to explain these changes.

Garage and Parking Space Rents

- 13.5 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 2011/12 is that garage and parking space rents are increased by 6.71% in line with the Council's guideline rent increase.

Water Charges

- 13.6 The Council collects income from and pays charges on behalf of tenants. All tenants that the Council collects water rates from 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.
- 13.7 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 9.49%.

- 13.8 All other service charges, fees and levies will be increased by 6.71% in line with the Council's guideline rent increase, unless stated otherwise in this report.

HAFFTRA Levy

- 13.9 The levy is increased in accordance with the Tenant Participation Compact in line with the guideline rent increase for the year of 6.71%. Due to the fact that the weekly levy is required to be in whole pence, it is proposed to round up the increase to 2 pence. This results in a weekly levy of 25 pence, which is greater than the 6.71% increase, but justified given that in previous years the increase to the charge was rounded down. It is recommended that the HAFFTRA weekly levy is increased from 23 pence to 25 pence in 2011/12.

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

- 14.1 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.

15. COMMENTS OF DIRECTOR OF FINANCE AND CORPORATE SERVICES

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

LOCAL GOVERNMENT ACT 2000
BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department/Location
1.	Housing Revenue Account Budget Working Papers	Kathleen Corbett Ext 3031	H&F Homes & Council Hammersmith Town Hall Extension
2.	Housing Subsidy Determination working papers	Kathleen Corbett Ext 3031	H&F Homes & Council Hammersmith Town Hall Extension