



Executive
16th February 2009

**Report from the Director of
Housing and Community Care**

Wards Affected:
ALL

Housing Revenue Account (HRA) Budget 2009-10 and Rent Increase Proposals for Council Dwellings for 2009-10

Forward Plan Ref: H&CC-08/09-19

1.0 Summary

- 1.1 This report presents to Members the Revised (Probable) HRA Budget for 2008-09 and the Draft HRA Budget for 2009/2010 as required by the Local Government and Housing Act 1989. Members are required to consider these budget estimates and the associated options, taking account of the requirement to set a Housing Revenue Account (HRA) budget that does not show a deficit and in particular Members need to consider and agree the level of HRA dwelling rents and service charges for 2009-10.
- 1.2 The rent increase proposals for the Council's HRA dwellings fully comply with the Government's rent restructuring policy. This policy, which has been in place since 2002-03, has meant that average dwelling rents in Brent have increased over the last three years, from 2006-07 to 2008-09, by 4.54%, 5.00%, and 5.16% respectively. The proposals for 2009-10, in line with rent restructuring policy, are to increase average rents by 6.01%.
- 1.3 The report also includes proposals for setting the rent and service charge levels for 2009-10 for the non HRA Brent Stonebridge dwellings.

2.0 Recommendations

- 2.1 Members are requested to approve the Revised (Probable) Budget for 2008/2009 (Appendix 2 Table 1).

- 2.2 Members are requested to consider the draft Budget for 2009-10 (Appendix 2 Table 1) in the light of Officers' advice contained in this report.
- 2.3 That Members consider and agree the growth items, totalling £546k, as set out in paragraph 3.39.
- 2.4 That members consider and agree the allocation of HRA useable balances of £2.245m as set out in paragraph 3.44.
- 2.5 Members are requested to approve an average overall rent increase (excluding service charges) of £5.18 per week, which is an average overall increase of 6.01%. This to be applied on an individual basis to each property based on the Government's rent convergence guidelines as detailed in paragraphs 3.16 to 3.20. This will raise an additional £2.508m rent income.
- 2.6 Members agree to increase service charges by 5.0% (RPI at September 2008) raising an additional £131K.
- 2.7 Members agree to increase the rents on Middlesex House (including Service Charges) by 5% raising £38K (full Year effect).
- 2.8 Members agree to increase the rents on the Brent Stonebridge Dwellings by an average 6.2%, raising £99k, and to decrease the service charges by an average of 22%, decreasing income by £24k.
- 2.9 That the Director of Housing and Community Care is delegated to agree the ALMO management fee after negotiations with that organisation on the basis it is funded from agreed overall financial resources for the financial year 2009/10.
- 3.0 **Detail**
- 3.1 This report addresses the budgets associated with the Council's Housing Revenue Account (HRA). It contains the income and expenditure relating to the Council's Landlord duties in respect of approximately 9,450 dwellings. These dwellings are accounted for separately from the Council's other services / activities which generally form part of the Council's General Revenue Fund. The HRA has a particular set of regulations that differentiates it from the General Revenue Fund and receives central Government financial support through the Housing Revenue Account Subsidy (HRAS) regime. The current basis of regulations and subsidy was introduced in April 1990 (as a result of the Local Government and Housing Act 1989). The system relies on the Secretary of State publishing annual 'Determinations' (the determination for 2009-10 was issued on 18 December 2008) which set out the basis of HRA Subsidy. It also determines the way debt charges are calculated.
- 3.2 The account should receive no subsidy from the Council's General Fund nor subsidise the General Fund – it is what is commonly referred to as a 'ring-fenced account'. Whilst the subsidy position is clear, this does not mean that there are no financial transactions between the HRA and General Fund (or vice versa). Transactions between the accounts include for example:

- Debt Charges (associated with historic capital expenditure)
- Central Costs (representing the proportion of activities undertaken by non-HRA staff that can be attributed to the HRA).

3.3 The Council's average rent for 2008-09 is approximately £86.03 (excluding service charges). This takes account of the 5.16% average increase that was agreed in setting the 2008-09 rent levels. The Council's rent setting policy has been to follow and comply with the Government's rent restructuring policy (that is the government's policy of influencing rent setting principles so that rents both in the council and 'Registered Social Landlords' (RSLs) sectors converge).

3.4 In considering the rent policy for 2009-10, Members need to take into account the impact of the Government's Rent Restructuring Regime which currently seeks rent convergence by 2023/24, and the detrimental impact on HRA Subsidy by moving rents above determined levels (which result in withdrawal of subsidy).

3.5 The Council continues to lose stock through 'Right to Buy (RTB) Sales'. RTB sales impact on the HRA generally and the ALMO in particular. It is estimated that the number of sales will be 10 in 2009/10. Additionally, two long term HRA leases are due to expire in 2009-10, resulting in a further 148 dwellings dropping out of the HRA. The total estimated stock loss in 2009-10 is therefore estimated to be 158 dwellings.

3.6 The Corporate Strategy 2006-2010 identified a range of priorities in relation to the Council's work with BHP, including:

- Meeting the Decent Homes target by April 2007 for all stock outside South Kilburn and Barham Park
- Ensuring that the Decent Homes Standard is maintained through an agreed programme of maintenance
- To work with BHP to identify new business opportunities

The first of these priorities has now been met and the focus will now remain on ensuring that the standard is maintained through appropriate works to any properties falling out of the standard during the year. In addition, the Council will work with BHP to move beyond the basic standard and develop a "decent homes plus" approach that will also consider the broader neighbourhood. This will also ensure that the Council is working with the Mayor of London's proposals to develop a standard for decent neighbourhoods.

3.7 Homes for the Future, the Housing Green Paper published in July 2007, set out the government's policy priorities for housing, chief among which is a drive to increase supply across all tenures. BHP, along with other high-performing ALMOs, is now able to bid for National Affordable Housing Programme funding from the Housing Corporation and has been successful in obtaining an allocation in the 2008-11 programme. Although the initial programme is relatively small, there is scope to expand in future years and, in particular, to

identify opportunities that may arise from current economic conditions. At the time of writing, the government has yet to publish its Housing Reform Green Paper, but it is expected that this will include additional proposals to encourage local authorities and ALMOs to develop new housing.

3.8 The Mayor of London has published a first consultation draft of his regional housing strategy that will, among other things, direct capital allocations with regard to new affordable housing and some smaller capital programmes. The initial draft is for consultation with the London Assembly and the GLA functional bodies and a more detailed, public consultation draft is expected in the spring. The Council and BHP will continue to take up any opportunities to bid for capital allocations through the Mayor's programmes pending final agreement of the strategy.

3.9 The review of Council Housing Finance was launched by the Minister for Housing in March 2008. This important review is being conducted because it is considered that the current subsidy system:-

- is volatile and does not allow for long term planning;
- will not deliver sufficient funding in the future to maintain homes to a good standard;
- redistributes rents to other areas with any money left over going back to the Government; and
- Distorts the relationship of rents to service charges.

The review has five main strands of work which are:-

- Costs and standards
- Rents and Service charges
- The mechanism for delivering funding to local authority housing
- The operation of the Housing Revenue Account; and
- Ensuring all these strands come together in a workable solution.

The outcome of the review is likely to have significant implications for the future of the Government's Rent Policy, Council Housing, the funding of Council Housing and the operation of the HRA. The review is expected to report to Ministers in Spring 2009.

3.10 This report also contains rent increase proposals for the approximate 305 tenanted dwellings that transferred, following a ballot, from the Stonebridge Housing Action Trust (HRA) to Brent Council in August 2007. The dwellings are maintained outside the HRA, in the General Fund, and the rent increase proposals for these dwelling are being kept separate from the consideration of the main HRA budget, and are set out from paragraph 3.50 below.

HRA Business Plan

3.11 The last full HRA Business Plan was completed in 2002 and received a '4 star' rating and was deemed 'fit for purpose' along with the then 'Housing Strategy'. The 2002 HRA Business Plan led to the establishment of Brent

Housing Partnership (BHP) Ltd, the Council's Arms Length Management Organisation (ALMO). BHP was given the responsibility for the management and maintenance of the Council housing stock, including the delivery of the housing stock investment programme to meet the government Decent Homes Standard. BHP completed its Decent Home Standard investment programme in 2006, well ahead of the government's target date of 2010.

3.12 Last Year's HRA Budget Report informed Members that work was progressing on updating the 30 year HRA Business Plan. The first stage of this review is now complete and shows that:-

- the initial projection of the investment needs of the housing stock over a 30 year period, will be a net shortfall of the region of £518m including South Kilburn stock and £414m excluding South Kilburn stock; and
- the initial projection for the Operational HRA (both including and excluding South Kilburn housing stock), is that the account is likely to be running into net deficit from year 5. Remedial actions will be required to prevent this happening, as Local Authorities are legally required to set a balanced HRA Revenue Account each financial year.

3.13 A separate report, updating members on the key issues of the updated HRA Business Plan and setting out initial options for addressing this, is being presented to the Executive at its meeting on 16 February 2009.

Housing Revenue Account Subsidy (HRAS)

3.14 A key element in the HRA is Housing Revenue Account Subsidy (HRAS) which is forecast to be £13.536m in 2009-10. HRAS is updated each year through the HRA Subsidy Determinations. These determinations set out the changes to, and level of Government support for Councils' HRA's.

3.15 In 2009-10, arising out of the subsidy determinations, Brent's HRA will receive over £2.2m less net subsidy when compared to 2008-09. This withdrawal of the net subsidy comprises the following items:-

Item	Subsidy Changes £'000
Management Allowances	-38
Maintenance Allowances	0
Notional Income	2,276
Total	2,238

3.15.1 Brent's management allowances target for 2009-10 is below our actual management allowance for 2008-09, and due to a transitional protection scheme, our management allowance is therefore frozen at 2008-09 levels. A separate allocation of £38k, to fund the production of energy performance certificates for local authority stock, means that our overall management allowance for 2009-10 will increase by £38k.

- 3.15.2 Brent's maintenance allowance target for 2009-10 is below our actual maintenance allowance for 2008-09, and therefore under the transitional measures, our maintenance allowance for 2009-10 is frozen in cash terms at 2008-09 levels.
- 3.15.3 Notional income (guideline rents), representing a withdrawal of subsidy, has been increased by 5.8%, which means a reduction in subsidy for 2009-10 of £2.276m.

A full and comprehensive explanation of the individual components of HRAS is set out in appendix 1.

Rent Restructuring

- 3.16 The Communities and Local Government Department (CLG) continues to implement rent restructuring which, as in previous years, has a substantial impact on the overall income attributable to the HRA. Whilst it remains the responsibility of the Council to set rents, there is strong encouragement to set these in accordance with the 'national formula' through the operation of the HRAS system and the performance regime applicable to 'Housing'. For 2009-10, for the purpose of setting guideline rents, the date for convergence under rent restructuring has been put back to 2023-24 (instead of 2016). Otherwise, the methodology is the same as used in 2008-09 but with factors rolled forward one further year.
- 3.17 For 2009-10, under the national formula, rents will increase at an individual level by 5.5% (comprising 5.0% RPI plus 0.5% real increase) + 1/15th towards the target rent. At an individual level, rent increases will be limited to an increase of no greater than 5.5% + £2, and will also be subject to the following rent level caps by bed size:

Bed Size Caps 2009-10

Size	Cap £
Bedsits	113.77
1 Bed	113.77
2 Bed	120.46
3 Bed	127.16
4 Bed	133.85
5 Bed	140.53
6 Bed	147.23

- 3.18 By following the Rent Restructuring formula at individual dwelling level, Brent's overall average rent for 2009-10 should increase by 6.01%.

The following table analyses the amount of rent increase in £1 bands, and shows the number of tenants effected within each of those bands:-

Banding	No
Less than -£1.5	11
Between -£1.5 and £1	12
Between £1 and £2	30
Between £2 and £3	44
Between £3 and £4	92
Between £4 and £5	3,104
Between £5 and £6	5,041
Between £6 and £7	898
Between £7 and £8	71
Over £8	1

3.19 Rents can also be expressed in terms of increases in rents by property size as demonstrated in the table below:-

No of Beds	Average % increase
0	6.89%
1	6.47%
2	6.04%
3	5.62%
4	4.99%
5	4.44%
6	4.99%

3.20 The table below is an analysis of the rents, (using rent restructuring policy) by percentage band, showing the number of properties and the average weekly increase/(decrease) in cash terms. The average overall rent rise is 6.01%.

Band	No of Properties	Average Increase (Decrease) £	Total Increase (Decrease) £
Below -4.50%	8	(10.46)	(4,353)
-4.5% to -3.50%	2	(4.15)	(432)
-2.5% to -1.50%	1	(2.44)	(127)
-1.5% to 0%	6	(0.51)	(159)
0% to 1%	3	0.44	69
1% to 2%	25	1.45	1,886
2% to 2.5%	21	2.08	2,272
2.5% to 3%	25	2.49	3,235
3% to 4%	31	3.31	5,337
4% to 5%	1472	5.05	386,184
5% to 6%	2823	5.13	752,533
6% to 7%	3125	5.09	826,423
7% to 8%	1452	5.95	449,477
8% to 9%	260	5.56	75,144
9% to 10%	14	4.73	3,443
10% to 12%	30	3.98	6,205
12% to 14%	6	3.41	1,065
Total	9,304	5.18	2,508,204

Appendix 3 contains further versions of the above table, setting out various rent increase options from 1% to 6.01%.

Brent Housing Partnership (BHP) Management Fee

- 3.21 The agreements between the Council and BHP require each year that a management fee is negotiated and agreed that is consistent with the delivery plan. Where the parties are unable to agree, the Management Agreement provides for arbitration.
- 3.22 BHP, a subsidiary of Brent Council, is governed in the main by the Companies Act and accounting standards applicable to the private sector as opposed to the legislative regime applicable to Local Government. The BHP Board is ultimately responsible for satisfying themselves that overall governance, including financial information is compliant. As reported last year BHP has built up surpluses, achieved through efficiency savings that enables it to satisfy a number of accounting requirements, in particular those arising from future estimated pension liabilities. BHP is acutely conscious that the management fee is ultimately funded from tenants' rents and hence it is committed to using its surpluses in a responsible manner and wherever

possible in support of Brent's housing strategy. Accumulated surpluses enable BHP to consider a number of initiatives that in the absence of those surpluses would be unable to be considered e.g. the purchase of Granville New Homes. Moreover, balance sheet strength enables BHP to demonstrate to its external auditors that it is a 'going concern' and thus negates any need to seek guarantees/assurances from Brent Council.

- 3.23 BHP Projected Surpluses and Proposed Use – Brent Housing Partnership continues to have a financial target of achieving a surplus within a range of 7% - 10%. These surpluses have been achieved through efficiency measures. Essentially this surplus may be broken down over the following elements:

	%
'Normal' Business Target to cover 'day to day' business risks	3
Contribution towards FRS17 Obligations/Risks	4
Total	7

As at 31st March 2008, BHP's reserves were £790,000 (including pension fund deficits).

- 3.24 It is recommended that the Director of Housing and Community Care is delegated authority to agree the management fee (subject to Member instructions/directions) for 2009-10. These negotiations are important not only for establishing the appropriate fee but also in establishing the Arms Length nature of BHP within a partnering framework. The BHP board will also consider the fee arrangements.

Risks

- 3.25 As part of the development of the budget, officers have sought to consider the main associated risks. These risks are set out below:-
- 3.25.1 Performance on Rent Collection is good, but not currently at last year's levels. With rent income generating over £44m per annum for the HRA, even a small reduction in collection performance can have a significant impact. It is therefore important that a close watch needs to be held on rent collection to ensure constantly high performance. Currently BHP is experiencing a challenging environment on rent collection which may reflect the current economic climate. Additional measures are being instigated to ensure rent collection is maximised.
- 3.25.2 Leaseholder Service Charges (Major Works) - The recovery of major works from leaseholders remains not only a problem to Brent but for all London boroughs that have undertaken major works programmes. In essence the receipt of an often substantial bill for works undertaken has brought about a high degree of resistance from the leaseholder meeting the bill. It is apparent that the complaints fall into the following: A) quality of work B) work is more expensive due to Council not historically undertaking work in accordance with the lease C) work undertaken was not in accordance with the lease i.e. the work undertaken was not strictly required at that time. Until these matters are

resolved, in the main through decisions from tribunals, this risk cannot be wholly quantified. If work was found not to be recoverable on a number of contracts then this would fall to be borne by the HRA.

- 3.25.3 The major risk for the HRA is its medium and long term viability, due to the insufficient resources to maintain service standards, which is mainly due to the current Housing Finance Regime under which the government reduces subsidy to Brent annually (and indeed many other London boroughs). There is a separate report on the agenda for the Executive in February 2009, which provides members with an assessment of the Council's updated 30 year HRA Business Plan. That report sets out that there are insufficient capital resources to maintain the stock post decent homes, and also that the Operational HRA is likely to be in deficit from year 5. Under the current regime, the Council will not be able to keep stock up to standards in regard to obligations implied in tenancy agreements and those in respect of leaseholders. This will increase tenant/leaseholder dissatisfaction with services, increased complaints/Ombudsman activity and a general increase in day to day management and maintenance costs. This will have serious consequences for reputations of BHP and the Council. The Government recognises the issues that Council's with Housing stock are facing and are conducting a wide ranging review of Council Housing Finance, and this review is due to report to Ministers in Spring 2009.
- 3.26 It is not considered necessary at this stage to provide additional resources for these risks areas. However, close monitoring will need to take place during 2009-10 as applicable, and these areas will need to be managed within the overall existing HRA budget.

Medium Term Financial Plan

- 3.27 Financial planning for future years needs to be carried out in the context of a Medium Term Financial Strategy. A key factor in this for the HRA is the likely income that it will receive from the Government via HRA Subsidy, and forecast rent levels. This in turn provides the resources available for the management and maintenance of the dwelling stock.
- 3.28 Historically, predicting income has been a difficult task, given the nature of the annual subsidy settlement. The Government has previously stated its intention to move the HRA subsidy regime towards a 3 year settlement, bringing the regime into line with the spending cycle. However, for 2009-10, we only have a one year settlement, which is due to the Council Housing Finance Review (which explores the possibility of wider reforms for the HRA subsidy regime and the possibility of Councils leaving the HRA system altogether).

3.29 Officers have sought to put together an initial forecast for 2010-11 and 2011-12. This is set out in the following table:-

Item	2009-10 £000's	2010-11 £000's	2011-12 £000's
Subsidy Withdrawal	2,238	2,196	2,176
One Off Income Not Carried Forward	215	136	0
Inflation	975	1,000	1,000
Technical	3	100	100
Underspend from previous Year	-136	0	0
Growth (interest rate adj 2010-11 and 2011-12)	546	596	596
Stock Loss Adj/Efficiency and Other Savings	-1,202	-700	-700
Deficit before any Rent Rise	2,639	3,328	3,172
Rent Rise and Service Charges Increase	-2,639	-2,608	-2,608
Deficit	0	720	564

3.30 The table above does not include any assessment of any potential stock transfer(s) at South Kilburn and Barham Park. The earliest that either of these could take is likely to be 2010-11. A joint process, between Council and BHP Officers will explore the timetable and implications of this, as applicable, in the coming months. This will assess the implications for direct and indirect costs (including Council recharges).

3.31 The table above is no more than an initial forecast and will be subject to change. The exemplifications depend upon a range of assumptions including, for example, inflation and interest rates, and many of these assumptions are outside the council's control. The forecast rent rise for 2010-11 and 2011-12 assumes the same rise as the 2008-09 rent restructuring rise. The forecast also assumes that efficiency/stock loss savings at 3% will be achieved. The growth for 2010-11 and 2011-12 relates to the change in 2011-12 for Councils with Round 2 Almos, whereby the subsidy interest rate is forecast to change from 8% to around 5. This stepped growth will ensure that the £1.6m needed as a result of this change will be reflected in the 2011-12 budget. The HRA National HRA Subsidy Policy and position beyond 2010-11 is uncertain, and will be subject to the wider reform of the Council Housing Finance that has been announced. At this stage it is assumed that the current policies (including transitional measures) will continue. This will of course be subject to update and Member's approval at the relevant time.

3.32 It can be seen that the initial forecast for 2010-11 and 2011-12 are not favourable, with a forecast deficit of £720k and £564k respectively. Officers will be monitoring and updating the HRA Medium Term Financial Plan through 2009-10 and developing options to address the bottom line projection.

Revised Budget 2008/2009

3.33 A summary for the forecast outturn for the HRA for 2008-09 is contained on Table 1 on Appendix 2. The column headed Probable Budget 2008-09 sets out the forecast outturn for 2008-09. It can be seen that the HRA is anticipating a 'Surplus carried forward' of £2,645K which exceeds the original budget of £400k by £2,245k.

3.34 Table 2 on Appendix 2 sets out the detailed virements associated with this forecast outturn. The major adjustments that affect the overall net expenditure are included in column 3, and are as follows:-

- Capital Financing - Officers are forecasting an underspend on interest charges of £30k due to an underspend on the HRA Capital Programme in 2007-08.
- HRA Subsidy - Officers are forecasting an overspend of £7k due to a reduction in the Consolidated Rate of Interest.
- Rental Income - Following a detailed review of income from Council tenanted dwellings, officers now forecast that rent income in 2008-09 will exceed the budget by £169k. The increase is mainly due to improvement in management of voids leading to a reduction in amount of rental loss from void dwellings.
- General Management – Officers currently forecast an overspend of £291k being:-
 - Right to Buy Capitalisation – the amount of administrative costs that may be capitalised under the Capital Receipt Pooling Regulations has reduced due to the significant reduction in Right to Buy applications that are now processed each year. Officers now predict that the amount that may be capitalised in 2008-09 will reduce by £163k (being a £372k reduction in income offset by a £209k reduction in expenditure);
 - Legal Cost – the spend on this budget is mostly demand led. Officers are forecasting an over spend of £104k on legal cost related to legal fees incurred in dealing with repossessions cases, as the numbers of cases are forecast to increase;
 - Compensation paid to council's tenants - Officers are forecasting a reduction of £36k on compensation paid to council tenants, as the numbers of claims are forecast to fall;
 - Right to Buy Capital Receipt Pooling - Under the Capital Receipt Pooling Regulations, certain expenditure on capital improvement works to Council properties, which are then subsequently sold, can be deducted from the related capital receipts before they are pooled (to the Government). This income stream to the HRA has reduced due to the significant reduction in Right to Buy cases. Officers now predict that the amount that the income from this source in 2008-09 will be reduced for £100k to £50k, a reduction of £50k; and
 - Miscellaneous Budget Lines – Officers are forecasting a £10k overspend.

- Special Management - Officers currently forecast an underspend of £66k. The forecast is mainly due to a reduction of £47k in the costs associated with the Wardens scheme, which is offset by a £22k overspend on various miscellaneous Special Management budget heads.
- Housing Repairs – In April 2008, BHP introduced new working arrangement, locally know as ‘lean fundamental’ on Pilot basis, with one of the main repairs contractors. Officers now forecast the new process will result in an under spend on the original repairs budget by £353k.
- HRA surplus brought forward £1,925k – The Housing Revenue Account for 2007-08 has now been audited. The final audited account showed a surplus of £2,509k, which exceeded the budget by £1,925k. The main reasons for this were favourable variances on repairs and maintenance, provision for bad and doubtful debts, income from pooling of right to buy capital receipts, income from commercial rents, and management costs.

Draft Budget 2009/2010

- 3.35 In considering the budget estimates for 2009-10, Members need to consider the policy and legislative framework within which the estimates have been formulated.
- 3.36 For a number of years the estimates have been compiled on the basis of current guidance for budget preparation (as agreed by Members and issued by the Director of Finance and Corporate Resources) and the ‘budget envelope’ as agreed by the former Housing Committee – that is the spending budgets should be adjusted in relation to the stock numbers. The advantage of this approach (which basically ignores the possibility of ‘so-called’ fixed costs) is that managers are able to reduce their expenditure on a planned basis. The budget as set out on table 1 on appendix 2 has specifically been prepared on the following basis:-
- 3.36.1 Growth – No growth has been included in the draft base budget. Growth bids are set out in the Section that follows.
- 3.36.2 Allowance for inflation – Budgets have been prepared on an outturn basis and include an allowance of 2.0% for pay and a 0.1% reduction for Employers National Insurance, and an uplift for price rises (general 2% and 3.46% for repairs). The Employer’s Superannuation Contributions for BHP staff and Council Staff remains at 14.1% and 23.1% respectively.
- 3.36.3 Stock Loss/Efficiency Savings – Applicable budgets have been reduced by 1.81% to reflect the estimated stock loss in 2009-10, plus a further 1.19% for further efficiency savings, making a total reduction of 3% (except for the BHP management fee where the assumed reduction for the budget report is 2% (this will be subject to negotiation with BHP as part of agreeing the

management fee for 2009-10)). Expenditure has been decreased by a net £1.202m to reflect these savings.

3.36.4 Subsidy – See paragraph 3.14 above.

3.36.5 No rent increase has been assumed within the draft budget.

3.37 The draft budget for 2009-10 is set out on table 1 on appendix 2. The draft budget (excluding balances) shows a deficit of £2,093K. The table below shows how this deficit has been compiled:-

Description	£000
Housing Subsidy	2,238
Inflation	975
Technical	3
Stock Loss/Efficiency Savings (net)	-1,202
Surplus B/Fwd	-136
One off savings in 2008-09	215
Total	2,093

3.38 It should be noted that the draft budget takes account of the one-off surplus of £136k from 2008-09. If this surplus had not been included, the deficit would have been £2,229k. As this surplus of £136k is one-off, it will not be available in 2010-11. Details setting out the movement from the Probable budget 2008-09 to the draft budget 2009-10 are set out on appendix 2, table 3.

Growth 2009-10

3.39 Officers have identified a number of growth areas totalling £546k. Members are asked to consider and agree the following specific growth items:-

3.39.1 Revenue Costs (Capital Financing) of £2m HRA Capital Programme – Officers have identified critical Health and Safety Works that need to be undertaken urgently for the Council’s South Kilburn Dwelling Stock. This growth of £100k would fund a £2m capital programme under the Prudential Borrowing Regime. Taken with the proposals elsewhere in this report for using balances for fund urgent Health and Safety Works in South Kilburn, this would create a Capital budget in 2009-10 of £3.045m.

3.39.2 Energy Performance Certificates – the HRA subsidy grant for 2009-10 includes an allocation of £38k to fund the production of Energy Performance Certificates for local authority stock. This is in addition to the £38k provided in 2008-09. This growth bid is therefore seeking to use that subsidy for the purpose it was allocated by setting up an expenditure budget for producing Energy Performance Certificates.

3.39.3 ALMO Round 2 Interest Rate Adjustment - Brent Council was included in the Government’s Round 2 ALMO Decent Homes funding allocation. Under this scheme, Brent was given authority to borrow £54m to fund Decent Homes Work with the Government meeting the interest on this borrowing through subsidy at an assumed “generous” interest rate of 8%. This means that the HRA attracts £4.32m subsidy (Almo allowance) in this regard each year. The

Government has indicated however, that this interest rate is likely to revert to the Council's Consolidated Rate of Interest from 2011-12. This would mean that instead of getting interest at 8% on the amount borrowed, we would only receive 5% (based on the current CRI). This would reduce the subsidy that we receive for our ALMO allowance in 2011-12 from £4.32m to approximately £2.7m, a reduction of around £1.6m.

It will clearly be very difficult to absorb a loss of income in one year of around £1.6m. Officers are therefore proposing that growth of £408k be included in the 2009-10 budget, and that further increases of £596k be made in 2010-11 and again in 2011-12 in order to meet the shortfall. These will be set out in next year's rent report. Furthermore, the budget created should be placed in an earmarked reserve in 2009-10 and 2010-11, in order to help to mitigate the impact of this increase for 2011-12 over a number of years.

Budget Strategy

- 3.40 Clearly Members need to be mindful of their obligations to approve a budget that is balanced and is based upon reasonable estimates. It is for Members to consider whether they agree the items below and/or to put forward other options.
- 3.41 It is officer's advice that the Council should continue to comply with the Government's Rent Restructuring Regime. However the report clearly demonstrates below other rent options including the indication of what level of rents activates rent limitation whereby HRAS is withdrawn from the Council (thus the HRA would not receive the full product of rises above limitation levels).
- 3.42 If Members agree to adopt officers' advice regarding rent restructuring (that is agreeing to the Government's rent restructuring formula on the basis that it maximises subsidy) then the focus can be upon how to fund the gap between anticipated resources (including the additional income arising from an overall average rent rise). Officers recommend that the existing policy on rents for Middlesex House dwellings should continue, that is that rents rise in line with the financial model (i.e. the model that underpins the financial agreements with the Network Housing Group) which requires that rents at Middlesex House increase in line with inflation. The Retail Price Index at September 2008 was 5%, and members are therefore asked to agree a 5% rent increase and service charge increase for Middlesex House dwellings (note that the Middlesex House HRA lease ends on 13 August 2009, after which these dwelling will no longer be accounted for within the HRA).
- 3.43 By taking account of rent restructuring, the following budget position emerges (this assumes convergence increase and increases in service charges).

Description	£000's
Deficit (per appendix 2, table 1)	2,093
Growth	546
Subtotal	2,639
Product of Service Charge Increase	-131
Product of Rent Increase	-2,508
Revised Deficit	0

It can be seen that the proposals above result in a balanced HRA budget for 2009-10.

HRA Balances

- 3.44 The proposals set out above to balance the HRA budget for 2009-10 have disregarded the balances on the HRA of £2.645m being carried forward from 2008-09. This is because Officers would not recommend setting the HRA budget through the use of considerable balances, as these are one off, and would clearly store a significant problem for the year that follows ie. the year that follows would have an immediate deficit that would match the level of previous year balances used. However Officers have considered the estimated level of balances at 31 March 2009 (a full breakdown of how these have been derived is set out in paragraphs 3.33 and 3.34) and after allowing for the £400k that Members should earmark for working balances, this does leave £2.245m available for discretionary one off spend. Officers have considered this carefully in light of the Corporate Strategy, and the medium term HRA, and taking account of the ringfenced HRA would recommend the following:-
- 3.44.1 Revenue Contribution to Capital Outlay - £1.045m – Health and safety works at South Kilburn - Officers have identified critical Health and Safety Works that need to be undertaken urgently for the Council's South Kilburn Dwelling Stock. The allocation of £1.045m would fund a one off capital programme. Taken with the proposals elsewhere in this report for growth to fund interest charges under the prudential capital regime for fund urgent Health and Safety Works in South Kilburn, this would create a Capital budget in 2009-10 of £3.045m. The Director of Housing and Community Care has requested that BHP undertakes stock condition survey work in South Kilburn to ascertain a programme of works appropriate to a combination of stock condition and when the individual blocks are likely to be demolished.
- 3.44.2 Earmarked Reserve for ALMO R2 Interest Rate Change - £1.200m – The Government intends to change the arrangements for paying subsidy interest for Councils with Round 2 Almos in 2011-12. This will create a deficit of around £1.6m on Brent's HRA from 2011-12 – see paragraph 3.39.3. It will clearly be very difficult to absorb a loss of income in one year of around £1.6m. Officers are therefore proposing that £1.2m of working balances be placed in an earmarked reserve in order to provide resources so that the shortfall of £1.6m can be built up over a number of years, in a more manageable manner.

Other Budget Strategy Options

- 3.45 Clearly, it is open to Members to consider other options. Officers have produced a strategy that in their view is prudent, realistic and in line with Council policy. The basis of the report is structured as in previous years, that is officers give advice as to the resources available for next year based upon current policies and give indications as to the income required for a 'balanced budget' based on those policies. It is for Members to determine the

appropriate level of rents/growth/reductions within the law. Any budget proposals must be achievable in both financial and housing operational terms.

3.46 Members could consider raising rents above convergence levels however account will need to be taken of the impact of rent rebate subsidy limitation, whereby increasing actual rents above the rent limit would trigger the 'rent limitation rule' whereby only approximately 40% of the product of a rent rise above this threshold would be available to fund HRA expenditure.

3.47 Alternatively, Members could raise rents at a rate below convergence levels (i.e. less than 6.01% on average), or indeed freeze or reduce average rents. It should be noted that non compliance with rent restructuring convergence may impact unfavourably upon our future CAA score and any ALMO inspection.

The following table sets out the income generated by various percentage rent increases ranging from 0% to 6.01%, together with the additional savings that would need to be identified in order to achieve a balanced budget:-

Percentage Increase	0%	1%	2%	3%	4%	5%	6.01%
Income Generated	£0	£353k	£758k	£1,142k	£1,645k	£2,086k	£2,508k
Additional Savings to be Identified	£2,508k	£2,155k	£1,750k	£1,366k	£863k	£422k	£0

The tables on appendix 3 set out the impact on tenants, in bandings, of various rent increase options, from 1% to 6.01%.

Brent Housing Partnership (BHP) and the Consultation Process

3.48 Senior Council and BHP Officers have discussed the draft HRA budget 2009-10 in detail. BHP Senior Officers have also commented as follows:-

- BHP Officers have considered the draft report and have no particular detailed comments. In essence they consider that the highly co-operative relationship between the Council and BHP, and in particular the strategic budgeting framework that has operated for a number of years has enabled budget adjustments to be effected without recourse to drastic and unplanned changes to service delivery.
- Not dissimilar to other councils that has retained stock through the ALMO programme and has completed the decent homes programme; BHP is concerned that the inability to properly plan for future major works due to the government having not yet completed its HRA review will result in stock not being maintained at the current standard. Both in operational and investment terms the uncertainties associated with the South Kilburn regeneration is of a concern to BHP.

3.49 BHP is calling an 'informal' meeting of its board on the 11th February 2009 to consider the Council's HRA budget proposals. This meeting will be attended by a representative for the Council's Director of Housing and Community Care and the Head of Finance (Housing and Community Care). A verbal update of the outcome of this meeting will be made at the Executive meeting on 16 February 2009.

Non HRA Stonebridge Dwellings

- 3.50 In addition to the Council's dwellings contained in the HRA, the Council also holds dwellings outside the HRA i.e. in the General Fund. These dwellings, which were formally held by the Stonebridge Housing Action Trust, transferred to Brent in August 2007.
- 3.51 A total of 327 dwellings are owned by the Council under this scheme, of which 305 have tenants, 10 are void, and 12 have leaseholders. Further prospective dwellings may also transfer to the Council under the scheme. Hillside Housing Trust manages these properties on the Council's behalf through a PFI contract.
- 3.52 Council dwellings are normally held in the HRA. However, following the transfer of properties from Stonebridge HAT to Brent Council in August 2007, an application was made to the Secretary of State (SoS), under section 74(3)(d) of the 1985 Housing Act, for the properties to be held outside the HRA. This was made in order that the PFI contract between Hillside Housing Ltd and Brent Council should be at no cost to the Council as the properties would have an adverse effect on the HRA budget if they had to be held in the HRA. The Secretary of State has since issued a Direction enabling these dwellings to be held outside the HRA from the transfer date.
- 3.53 The income and expenditure (which will be broadly neutral in 2009-10) associated with the Stonebridge dwellings will be included in the Council's General Fund budget.
- 3.54 Last year, for 2008-09, the Council agreed an average rent increase of 5.5% and a service charge increase of 5.95%.
- 3.55 Members are reminded that the transitional rent scheme previously enjoyed by tenants of the Stonebridge HAT when they transferred to the new (more expensive) Hillside homes was discontinued for Brent Tenants on the Hillside Estate when the properties were transferred to Brent. Therefore all Brent Hillside Tenants moved to the full forecast rents rent in April 2008.
- 3.56 The Council has the responsibility for setting rents and service charges for these Brent Stonebridge Dwellings (in consultation with Hillside Housing Trust, and in line with the terms of the PFI contract).
- 3.57 The framework for the annual rent setting for the Brent Stonebridge dwellings is contained in the 30 year PFI contract between Hyde Housing (Hillside Housing Trust) and the Council. For the annual rent increase uplift, that PFI contract sets out that rents that are:-
- Below target rent level - should be increased each year by RPI (5.0%) + 2%, total 7.0%, subject to a limit on the increase at an individual level of RPI (5.0%) + 0.5% + £2.

- At target level – should be increase by RPI (5.0%) plus 0.5%, total 5.5%.

3.58 Taking account of the framework set out in the PFI contract, the following table sets out the 2008-09 rents and the proposed rents for 2009-10.

	Actual/ Forecast Rent 2008-09 £	Proposed Forecast Rent 2009-10 £	Increase £'s	Increase %	No	Total Increase £
1 Bed Flat	81.18	85.64	4.46	5.5%	93	21,569
2 Bed Flat	90.84	97.20	6.36	7.0%	43	14,221
2 Bed House	103.26	110.13	6.87	6.7%	33	11,789
3 Bed House	111.93	119.77	7.84	7.0%	67	27,315
4+ Bed House	120.44	127.06	6.62	5.5%	69	23,753
Total	1,595,002	1,693,647	6.22	6.2%	305	98,646

This table shows that the overall rent increase (excluding Service Charges) for 2009-10 will be £6.22 per week, being an average increase of 6.2% and Members are asked to agree this. This will increase the average rent (excluding service charges) from £99.64 to £105.86 and will generate an additional £99k rent income per annum, which will, in line with the PFI contract, be used to pay for the increased unitary charge in 2009-10. The overall impact of this will therefore be broadly neutral on the council's budget.

- 3.59 For service charges Hillside has continued the work of rationalisation of Service charges which it started last year. Contracts for the portion of Service charges attributable to using contractors have been retendered, with residents represented on the tendering panels and considerable savings have been made in some of the costs within the service charges.
- 3.60 The regrouping of some of contracts included in the charges, and changes in which properties receive what services, carried out with residents' representative involved in the process, has led to a new Service charge regime that it is not directly comparable to the previous scheme inherited from the Stonebridge e HAT.

3.61 As a result of this process, Hillside Housing Trust have notified us that they propose to reduce service charges for flats and limit service charge increases for houses in 2009-10. The new Service Contract with Pinnacle is not yet finalised and may be subject to some final amendments. The following table sets out the average Service charges in 2008-09 and the expected Service Charges in 2009-10:-

	Average Service Charges 2008-09	Average Service Charges 2009-10	Decrease	Decrease		Total Increase
	£	£	£'s	%	No	£
1 Bed Flat	13.91	10.46	-3.45	-24.8%	93	-16,684
2 Bed Flat	13.89	9.75	-4.14	-29.8%	43	-9,257
2 Bed House	1.07	1.29	0.22	20.6%	33	378
3 Bed House	1.07	1.29	0.22	20.6%	67	766
4+ Bed House	1.07	1.29	0.22	20.6%	69	789
Total	107,730	83,722	-1.51	-22.3%	305	-24,008

This table shows that the overall proposed average Service Charge decrease for 2009-10 will be £1.51 per week, being an average decrease of 22.3% and Members are asked to agree this. The impact at individual level will depend upon the specific dwelling type and the service charges allocated to that dwelling. This proposal will decrease the average service charge from £6.79 to £5.28 and will result in £24k less service charges income per annum, which will, in line with the PFI contract, be used to pay a reduced unitary charge in 2009-10. The overall impact of this will therefore be broadly neutral on the council's budget.

3.62 The combined effect of the proposals for rents and service charges at Stonebridge are set out in the following table:-

	Average Rents & Svce Chge 2008-09	Average Rents & Svce Chge 2009-10	Increase (Decrease)	Increase (Decrease)		Total Increase
	£	£	£'s	%	No	£
1 Bed Flat	95.09	96.10	1.01	1.1%	93	4,884
2 Bed Flat	104.73	106.95	2.22	2.1%	43	4,964
2 Bed House	104.33	111.42	7.09	6.8%	33	12,166
3 Bed House	113.00	121.06	8.06	7.1%	67	28,081
4+ Bed House	121.51	128.35	6.84	5.6%	69	24,542
Total	1,702,732	1,777,369	4.71	4.4%	305	74,638

This table shows the combined impact of the proposed Rent Increase and Service Charge decrease at Stonebridge for 2009-10. The net impact on tenants will on average be an increase of £4.71 or 4.4%, although the actual impact will depend upon the dwelling and the specific service charges that are allocated to that dwelling.

Conclusion

- 3.63 Officers advice for a balanced budget is prudent and in line with the Housing Service's standard approach to budget setting which is both realistic and transparent. Officers consider that the current process ensures that whilst overall resources are inadequate, all HRA service areas equally bear the consequences of stock reduction.
- 3.64 As in previous years, officers cannot be confident that problems will not occur in particular areas, e.g. repairs. The reporting process during the year is well developed and ensures that budget problems are addressed and managed accordingly.
- 3.65 Officers consider their role to produce a realistic and prudent budget within the policy guidelines and dealing with solutions to problems within the internal Housing Service budget process. All these budget adjustments are clearly outlined in Appendix 2. Therefore, officers consider the advice contained in this report forms a reasonable basis for setting next year's rents and budgets.

4.0 Financial Implications

- 4.1 This report is wholly concerned with financial issues associated with setting the HRA budget for 2009-10 and the level of rents for Council dwellings in 2009-10. Members are advised of their duty to approve a budget that meets the statutory requirements as contained in Part VI of the Local Government and Housing Act 1989. Sections 76 (2) and (3) of that Act essentially require Members to ensure that their proposals are realistic and that the Council's Housing Revenue Account does not show a debit balance.

5.0 Legal Implications

- 5.1 Under section 74 of the Local Government and Housing Act 1989 ("the 1989 Act"), the Council is required to keep a separate Housing Revenue Account of sums falling to be credited or debited in respect of its housing stock. Sections 75 and 76 of the 1989 Act set out the rules for establishing and maintaining that account. Under section 76 of the 1989 Act, the Council is required to formulate in January and February of each year proposals for the HRA for the following year which satisfy the requirements of that section and which relate to income, expenditure and any other matters which the Secretary of state has directed shall be included.
- 5.2 In formulating these proposals the Council must secure that upon their implementation the HRA will not show a debit balance assuming that the best assumptions and best estimates it can make at the time prove to be correct. Put simply, the legislation requires the Council to prevent a debit balance, to act reasonable in making assumptions and estimates and to act prudently.
- 5.3 The Act also requires the authority to review the proposals from time to time and make such adjustments as are necessary to ensure that the requirements, as set out above, continue to be met. This report sets out the

revised estimates for the current financial year and also the proposals for the coming year.

- 5.4 The Council may make such *reasonable* charges as it so determines for the tenancy or occupation of their dwellings and shall review those rents and charges from time to time. In so doing the Council shall have regard to the principle that the rents for different types of houses should bear broadly the same proportion to private sector rents for those different types of houses. This means that the difference between the Local Authority rent for, say, a bedsit and a two bed house with a garden should be broadly comparable to the difference between the rents for those types of dwellings in the private sector. In making such reasonable charges officers have given consideration to the Government's policy aims of introducing social housing rents that will ultimately produce rents being set (both in the council and RSL sectors) on a nationally determined basis (whilst taking into account local factors such as the value of dwellings). This aim is not prescriptive in so much it remains the responsibility of the local housing authority to set rents.
- 5.5 The rent income estimates included for 2009/10 are based upon the Governments Rent Restructuring formula and adjusted for RTB etc.
- 5.6 The decisions recommended in this report are an exercise of the Executive's rent-setting function and must take into account the implications of the Council's overall budget.
- 5.7 The Council is required to prepare a statement of the revised estimates and new proposals within one month of the proposals and this requirement will be satisfied by Council approval of the overall budgets for 2009/2010 on 2nd March 2009.
- 5.8 The Secretary of State issued a Direction (under section 74(3)(d) of the Local Government and Housing Act 1989) in March 2008 which allows the Council to hold outside the Housing Revenue Account the rent accounts of the Council owned properties on the Stonebridge estate that were transferred from the Stonebridge HAT to the Council in 2007.

6.0 Diversity Implications

- 6.1 This report, in the main deals with the rent setting and budget proposals for the Council's HRA. Officers are not proposing any major changes to the operation of this account. In particular this report deals with a number of strategic issues and does not in itself deal with specific operational ones. Operational housing management issues are, in the main, the responsibility of Brent Housing Partnership (BHP) and this service is monitored by the Housing Service by reference to the agreements between Brent Council and its wholly owned subsidiary – BHP.
- 6.2 Compliance with equalities objectives is monitored by BHP's Service Delivery Sub-Committee. This sub-committee meets quarterly. Equalities and Diversity initiatives during 2008-09 included the following:-

- 6.2.1 The Trusted Assessor scheme, implemented in 2008-09 was developed this year to enhance access for vulnerable residents to minor adaptations in their homes. To date we have offered 58 vulnerable users a range of minor adaptations such as grab rails. The average waiting times has now improved to between 4 – 6 weeks. Prior to the enhanced processing for accessing adaptations (pre-2006), the average waiting times exceeded 16 weeks. The scheme continues to receive very positive feedback from residents, board members and the Supporting People Inspectorate as it offers value to the programme of support and the accident prevention services.
- 6.2.2 A programme of training has been developed for contractor staff in Equalities and Diversity issues. The objectives of the training are to:
- Provide an overview for staff and contractors on the legal and good practice requirements for employers and service providers in relation to equalities and diversity
 - Brief staff and contractors in current developments and external influences in equalities and diversity issues
 - Raise awareness of a range of diversity needs including disability, communication, ethnicity, age and gender
 - Improve confidence of front line staff from BHP and contractor organisations in dealing with equalities & diversity issues through discussion & case studies. To help them gain an understanding of applying concepts in everyday situations when dealing with BHP residents face to face and by telephone
- 6.2.3 Continued involvement of Disabled Forum members in the quarterly Mystery Shopping programme, including visits to reception points to assess accessibility for customers with a range of disabilities.
- 6.2.4 Ongoing consultation with Disabled Forum members to agree service priorities for the Equalities action plan.
- 6.2.5 Ongoing development of the Gardening Scheme for vulnerable residents. The primary objective of the scheme was to offer a one-off crisis support for garden and environmental clearance for vulnerable residents that meet eligibility criteria. Due to the measurable demand for the scheme, additional funding is being sought to provide routine maintenance for our most vulnerable residents. To date, we have assisted about 221 vulnerable residents with a range of gardening clearance works. The service also helps with resolving complaints from neighbours resulting from unkept gardens which often pose significant health and safety risks to the residents and the general public.
- 6.2.6 Following the review of the Equalities Action Plan, an exercise was undertaken to consolidate all disability and vulnerable data in one place on the Northgate v5 database. This short-term project was successful in loading about 90% of relevant data of vulnerables, including disability information on the V5. Further funding is now being investigated to complete this exercise and to initiate a further exercise to consolidate on v5 disability data for non-vulnerable residents and also data on specific communication needs.

7.0 Staffing/Accommodation Implications

- 7.1 The main purpose of the report is to set the HRA Budget for 2009/2010. Clearly decisions made by this Committee on expenditure and rent levels can materially affect staffing numbers. There are no major staffing implications arising from this report unless, as a matter of policy, Members determine significant additional savings.

8.0 Background Information

2009/10 Housing Revenue Account Subsidy Determination
2009/10 Housing Revenue Account Determinations
2009/10 Housing Revenue Account Budget Working Papers

Any person wishing to inspect the above papers should contact:

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