

LONDON BOROUGH OF BRENT**EXECUTIVE - 14 FEBRUARY 2005****Report from the Director of Housing Services**

For Action	Wards affected: All
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Report Title: HRA Budget Report

Forward Plan Ref: HSG-04/05-35

1. Summary

- 1.1 This report presents to Members the Revised Estimates for 2004/2005 and the Estimates for 2005/2006 as required by the Local Government and Housing Act 1989. Members are required to consider these estimates and the associated options. There is a requirement to set a budget that does not show a deficit and in particular Members need to consider the level of rents for 2005/2006.

2. Recommendations

- 2.1 Members are requested to approve the Revised Estimates 2004/2005 (Appendix 2 Table 1).
- 2.2 Members are requested to consider the Estimates (in Appendix 2 Table 1) 2005/2006 in the light of Officers' advice contained in this report.
- 2.3 Members are requested to approve an average rent increase (excluding service charges) of £2.76 per week. This to be applied on an individual basis to each property based on the governments rent convergence guidelines as detailed in paragraphs 3.20 to 3.26. This will raise an additional £1,303K
- 2.4 Members agree to increase service charges by 3.4% raising an additional £72K
- 2.5 Members agree to increase the rents on Middlesex House (including Service Charges) by 3.4% raising £25K.
- 2.6 Members agree the growth totalling £190K (as identified in Para.3.19)

- 2.7 That the Director of Housing 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 2005/06.
- 2.8 Members agree to reduce the revenue contributions to capital by £1,328K and utilise prudential borrowing as an initial strategy to achieve both the decent homes programme and a balanced budget.
- 2.9 That Members agree a joint review with Brent Housing Partnership of the HRA expenditure/income (including those budgets that are controlled by Brent Housing Partnership) and to report back to the Executive as to the outcome of this review.
- 2.10 That Members agree to the levying of service charges of £6.02 per week in respect of William Saville House for security services.

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 9721 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 each year so-called 'Determinations' which forms the basis of HRAS. 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 are made in respect of (e.g.):
 - 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).

The Council's rents (including rebatable Service Charges) have been historically amongst the highest in London (Brent's average for 2004/2005 is £77.13 per week). Due to a more restrained rent policy in recent years and the introduction of 'rent convergence', that is the government's policy of influencing rent setting principles whereby rents both in the council and

'Registered Social Landlords' (RSLs) sectors converge, the Council's rents are generally moving towards the London average.

- 3.3 Currently the Council's policy is to move rents towards the London average. In formulating this year's estimates officers have again been mindful of this policy. However, Members need to take into account the impact of the rent regime which seeks convergence and the detrimental impact on HRAS by moving rents above determined levels (which result in withdrawal of subsidy). The Council continues to lose stock through 'Right to Buy Sales' and this impacts on the HRA generally and the ALMO in particular. It is estimated that the number of sales will be 115 in 2005/06.
- 3.4 Whilst operating costs are constantly reviewed and indeed have been reviewed as part of Housing Management Services' Best Value review, the level of resources currently available (both from the HRA and Capital resources) is sufficient to deliver the Council's decent homes programme. The Council's HRA investment strategy (as identified in the HRA Business Plan) is predicated on the success of the Council's ALMO and the additional capital resources generated through this initiative, i.e. through 'supported borrowing' – that is borrowing based upon interest charges being met through the Housing Revenue Account Subsidy System (HRAS). In addition there is an assumption that the South Kilburn area (i.e. that relating to New Deal for Communities) will be regenerated through resources that are in the main generated from outside the Council (other than in relation to council land that will be made available for private house sales to cross subsidise the social housing new build).
- 3.4 This report mainly addresses budgets/rent setting for 2005/2006. A balanced budget does not imply viability. The introduction of 'Resource Accounting' moves the HRA onto longer term planning principles. It is anticipated that this process will prove challenging for all stakeholders (including officers, tenants and Members). The HRA Business Plan submitted to ODPM along with the 'Housing Strategy' meets the 'fit for purpose' criteria and that it received a rating of 4 – the highest rating.

The HRA Business Plan has demonstrated that within rent restructuring a viable business plan is attainable on the basis of:

- ALMO Initiative supported borrowing and other borrowing supported by HRAS to achieve decent homes.
- Financially innovative solution to South Kilburn dwelling stock outside the Council's HRA.
- The acknowledgement that a proportion of properties within the ALMO (e.g. Barham Park) may need a solution that is unlikely to be deliverable within the Council ownership framework.

- 3.6 Essentially the Council's retention strategy has been based upon investing in the less problematic stock through the ALMO solution and seeking a council sponsored external partner solution where the stock requires whole scale sustainable development e.g. South Kilburn.

Revised Estimates 2004/2005

- 3.7 A summary for the forecast outturn for the HRA is contained on Table 1 on Appendix 2 Table 1. The column headed Probable budget 2004-05 sets out the forecast outturn for 2004-05. It can be seen that the HRA is anticipating a 'Surplus carried forward' of £398K which is in line with Original Budget for the year (£400K).
- 3.8 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 as follows:-
- Decrease in provision for bad debts £200K.
 - Decrease in income due to higher than anticipated 'Right to Buy' sales £356K.
 - Increase in income from service charges £131K.

Estimates 2005/2006

- 3.9 The estimates are appended at Appendix 2 Table 1. They indicate a deficit of £2,851K before taking into account the possibility of a rent rise and/or growth items.
- 3.10 In considering the estimates Members need to consider the policy and legislative framework within which these estimates have been formulated.
- 3.11 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 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.
- 3.12 The estimates provide a framework for resource distribution and the setting of the rent. BHP largely has the discretion to make decisions on expenditure within broadly agreed budgets that are consistent with the agreed delivery plan. The Council's agreed resources to BHP is divided into two elements, the fee for undertaking the housing management and the purchasing budgets which BHP spends on behalf of the Council to deliver services (e.g. repairs budgets). 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. Therefore at this stage it is recommended that the

Director of Housing is delegated to agree this fee (subject to Member instructions/directions) within the overall financial planning parameters. These negotiations are important not only for establishing the appropriate fee but also in establishing the independence of BHP within a partnering framework.

- 3.13 2005/06 will be the second year of the HRA being an account that reflects its more appropriate landlord nature by the exclusion of rent rebates from being charged to that account. Rent rebates continue to be charged to the General Fund. There is a financial advantage to the HRA of this change and nationally this has been recognised by government allowing local authorities discretion to make a transfer to the General Fund for a period of two years as compensation for the additional burden to the General Fund. It is understood by the Director of Housing that the Director of Finance is included this in his budget setting strategy for 2005/06 (£300K).
- 3.14 The estimates as presented on a nil growth basis show a deficit of £2,851K (before consideration of growth items).

Housing Revenue Account Subsidy (HRAS)

- 3.15 A key element in the HRA is Housing Revenue Account Subsidy. A full and comprehensive explanation is included at Appendix 1.
- 3.16 In broad terms the HRA is receiving less HRAS (in real terms) for 2005/06 than in the previous year due to changes made in the methodology by which 'Management and Maintenance Allowance' and the debt charges element are calculated. In addition the government has increased 'notional rents' by which reduces housing subsidy by approximately £1.2M.
- 3.17 Essentially London local authorities are generally in a worse position as compared with authorities elsewhere in the country and represents, in real terms a shift in resources from London. A major impact on the 'Management and Maintenance Allowance' is the reduction in the weighting given to additional costs associated with managing and maintaining flats. 2005/06 will be the second year of the revised methodology.

HRA Business Plan

- 3.18 As previously indicated the HRA Business Plan received a '4 star' rating and was deemed 'fit for purpose' along with the 'Housing Strategy'. This means that this document does not need to be submitted to government on an annual basis. However the service continues to undertake reviews of the plan and in particular a review is being currently carried out in respect of the expenditure associated with the ALMO investment programme. The outcome of this exercise will be matched with changes to the HRAS and current rent convergence policy to ascertain whether the 'HRA Business Plan' is viable over the full 30 years.

Growth Bids

- 3.19 BHP have identified have identified a number of areas that they consider additional expenditure is warranted including work connected with Anti-social behaviour Orders (ASBOs) (£40K), Gas Servicing and Notices Seeking Possession (£100K) and miscellaneous items (£50K). The Director of Housing has indicated support for these growth items and it is anticipated that these will be funded from savings resulting from the review of budgets/operations as explained elsewhere in this report. For the purposes of agreeing the budget officers are recommending that in the interim these items are funded from balances.

Rent Restructuring

- 3.20 A full explanation of rent restructuring was included in last year's 'Rent Report' and the basis of calculating rents has not been changed by government. The following paragraphs are based around the assumption that convergence is followed although clearly it is for Members to determine the level of rents for 2005/06.
- 3.21 The current 2004/05 average rent for a council property within Brent is £72.88 while the formula rent for 2004/05 is £72.48. If rents increased in line with convergence (£2.76) the difference between actual and formula rent is minimal, however this does mask differences at an individual property level. Formula rents are those rents by reference to rent restructuring as opposed to the actual average rent charged to tenants, that is the formula rent is the rent that should be charged if a particular rent was set at the restructured level without any phasing of rents.
- 3.22 Profiled at an individual level as illustrated below there is approximately a 60:40 split between properties with rents that will increase above the rate of inflation (real increase) for 2005/06 and those with rents that will increase at less than the rate of inflation (real decrease) (if rent convergence is adhered followed).
- 3.23 For 2005/06 the paths towards target rents for each property have been planned according to government restrictions as outlined above. The rental caps have been set by ODPM by size of the property and for 2005/06 is at the levels below.

	Bed-sit	One Bed	Two Bed	Three Bed	Four or Over Bed
2005/06	£94.34	£94.34	£99.56	£105.43	£110.97

- 3.24 The table below analyses how tenants' rents will move for 2005/06 if rent convergence is followed:

Analysis of Cash Term Change in Net Rent from 2004/05 to 2005/06	
Band	Count
Under £1	186
Between £1 and £2	978
Between £2 and £3	4976
Between £3 and £4	3024
Between £4 and £5	559
Over £5	9

- 3.25 The average weekly rental rise per property for 2005/06 in cash terms is £2.76. There is no decrease in rents resulting from rent convergence.

Budget Strategy

- 3.26 Clearly Members need to be mindful of their obligations to approve a budget that is balanced and is based upon reasonable estimates. The budgets have been based upon nil growth and growth options identified as additional expenditure by officers (although clearly it is for Members to consider whether they agree these items/and-or to put forward other options).
- 3.27 It is also assumed that Members will wish to continue with rents moving towards the London average through rent convergence. 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).
- 3.28 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 continue, that is rents rise by inflation in line with the financial model (i.e. the model that underpins the financial agreements with the Network Housing Group).

Given current policies the following position emerges (assuming convergence increase and increases in service charges).

	£K
Deficit	2,851
Product of Service Charge Increase	(72)
Product of Rent Increase	(1,328)
Reduction in Revenue Contributions to Capital	(1,451)
Deficit (Revised)	0

3.28 Essentially, the deficit is substantial due to the use of balances to subsidise the HRA in 2004/05 (£900K). Clearly the 'balance' can only be used once. Officers consider that a policy of relying on balances to achieve a balanced budget is not sustainable in the long term and therefore consideration should be given to moving income and expenditure into long term alignment, particularly given the HRA has received considerable subsidy reductions. Moreover the budget should reflect the ability of the HRA to borrow thus the use of revenue contributions to capital should gradually over a period of time reduce and be replaced by borrowing in a manner that is consistent with generating sufficient resources.

Other Options

3.29 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 current Council policy. There is no growth items included in neither the base estimates nor the report generally. 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.

3.30 Members could consider raising rents above convergence levels however there is little headroom between the current rents and that level which would trigger the 'rent limitation rule' whereby only approximately 34% of the product of a rent rise above this threshold would be available to fund HRA expenditure.

Other Issues

3.31 BHP has been consulting with tenants in a number of blocks in South Kilburn on an increase of approximately 80p per week resulting from the re-tendering of security services. BHP officers were aware that the residents of William Saville House were not currently being charged for this service. Therefore in

line with the Council's policy for service charges officers are recommending the introduction of a service charge of £6.02 per week with effect from 1st April 2005 for this block. The maximum the Council may levy on a combined rent and service charge increase is RPI + 1% + £2pw, hence effectively this charge will be phased in. The Council for a number of years has operated a service charge system, indeed as part of the government's rent policy local authorities are being encouraged to introduce such charges. To maintain the integrity of service charges it is essential that appropriate charges are levied on dwellings. Leaseholders are charged for this service in accordance with their lease. Consultation meetings were held on the 12th October and 13th December 2004 in regard to the new service and tenants were generally receptive to the changes. BHP fully consults with tenants as and when services need to be changed/and or re-tendered, however unless this is in respect of an entirely new service charge for a block this does not generally form part of the rent setting proposals (other than the general RPI increase etc.).

Brent Housing Partnership and the Consultation Process

- 3.32 Senior council and BHP officers have considered the arrangements for consultation over strategic budget issues and the budget process generally to have been deficient since the ALMO was established. Clearly housing and BHP officers undertake a considerable amount of work on the budgets, however the involvement of the BHP board in being enabled to formally participate in the consultative process has been limited. This has mainly due to both parties having other priorities particularly in respect of establishing a new organisation, developing relationships and implementing the decent homes programme. This has been addressed in the current consultation process with BHP and it is understood that BHP's board has welcomed the improved arrangements.
- 3.33 Council officers have attended two meetings of BHP's Board as part of the consultative process. As a result of these consultations BHP has requested that a summary of its position be reported to Members (and this is outlined below:
- Support for rent convergence rents.
 - Support the use of prudential borrowing as a strategy for the Budget 2005/06 and that a full joint review of the HRA is carried out during the financial year (both client side expenditure/income and BHP controlled costs).
 - Agrees that £190K of 'growth items' identified is funded. That the Director of Housing consults with the BHP on longer term planning issues and in particular the investment strategy.
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Director of Housing Observations on Issues Raised by BHP

- 3.34 It is the view of the Director of Housing that in order to maintain the current high inspection ratings not only will service standards need to be maintained/improved but the costs of those services will need to be reviewed

to ascertain whether they provide overall value for money (VFM). Given the link between the overall operation of the HRA and the resources that are distributed to BHP then this needs to be a holistic and thorough exercise. Moreover Council policy, in terms of the Gershon agenda, the Council's procurement review and the need improve services supports such initiatives. The Director of Housing supports notes BHP's support for convergence rents and agrees with the development of forward planning and the investment strategy with BHP, it particular it recognises the responsibilities BHP as both a delivery vehicle and a strategic partner.

4.0 Conclusion

- 4.1 Officers have formulated the budget report on the basis of best available information and giving due regard to the Council's current rent policy. Due to rents average rent being very close to convergence levels and indeed many dwellings having rents close to formula rents then the average rent rise for Brent is likely to be towards the lower end of London rent rises (on the basis of rent convergence).
- 4.2 Given the current policy of bringing rents down to the London average, this policy aim is consistent with the rent restructuring process. For most London boroughs rents will increase overall and hence the London average will increase through rent restructuring.
- 4.3 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.
- 4.4 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.
- 4.5 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.

5.0 Financial Implications

- 5.1 This report mainly concerns financial issues. Members are advised of their duty to approve a budget that meets the statutory requirements as contained in Part VI Local Government and Housing Act 1989. Paragraphs 76 (2) and (3) essentially require Members to ensure that their proposals are realistic and do not result in a deficit budget.

6.0 Staffing Implications

- 6.1 The main purpose of the report is to set the HRA Budget for 2005/2006. 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.

7.0 Legal Implications

- 7.1 Under section 74 of the Housing Act 1985 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 set out the rules for establishing and maintaining that account. Under section 76 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.
- 7.2 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.
- 7.3 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.
- 7.4 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 2005/2006 on 28th February 2005.
- 7.5 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, put simply, 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.

- 7.6 The rent income estimates included for 2005/06 are based upon current rent policies and adjusted for RTB etc.
- 7.7 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.

8.0 Diversity

- 8.1 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.
- 8.2 In undertaking its housing management responsibilities there are a number of initiatives which support the Council's policies on diversity which is central to BHP's service delivery. Compliance with equalities objectives is monitored through BHP's Equalities & Diversity sub-committee, which receives regular reports on progress on the Equalities Scheme. Activities in year 1 of the scheme included;
- **Governance:** all reports to the BHP board and sub-committees are now required to include a reference to equalities considerations.
 - **Human Resources:** a new post of Human Resources Manager has been created; a commitment has been made to joining the 'Positive About Disability' scheme; and all staff are completing an innovative training programme in Serving Disabled Customers.
 - **Neighbour Relations:** increased training is being given to front-line staff; A Racial Harassment Policy has been drafted after extensive consultation and was agreed by the E&D sub-committee in December; A Domestic Violence policy officer has been appointed.
 - **Tenancy Management:** A new Supporting People Team is currently being set up and should be operational early in 2004. Gardening services are being provided to those elderly and disabled on our 'Vulnerable tenants list'.
 - **Procurement:** South Kilburn NDC initiative to obtain employment and training opportunities for local people on 'Decent Homes programme'.

- **'Right to Buy'**: an initial assessment of applicants by ethnicity and disability has been completed and shows that applicants reflect the diverse community.

9.0 Background Information

2005/2006 Housing Revenue Account Subsidy Determination
2005/2006 Housing Revenue Account Budget Working Papers

Any person wishing to inspect the above papers should contact:

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