



Executive
13th February 2006

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

For Action

Wards Affected:
ALL

HRA Budget Report 2006/07

Forward Plan Ref: HSG&CC-05/06-18

1.0 Summary

- 1.1 This report presents to Members the Revised (Probable) Budget for 2005/2006 and the Draft Budget for 2006/2007 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 an HRA budget that does not show a deficit and in particular Members need to consider the level of rents for 2006/2007.

2.0 Recommendations

- 2.1 Members are requested to approve the Revised (Probable) Budget for 2005/2006 (Appendix 2 Table 1).
- 2.2 Members are requested to consider the draft Budget for 2006-07 (Appendix 2 Table 1) in the light of Officers' advice contained in this report.
- 2.3 That members consider and agree the savings/budget reductions as set out in paragraph 3.38.
- 2.4 Members are requested to approve an average overall rent increase (excluding service charges) of £3.39 per week, which is an average overall increase of 4.54%. This to be applied on an individual basis to each property based on the governments rent convergence guidelines as detailed in paragraphs 3.24 to 3.28. This will raise an additional £1.638m.

- 2.5 Members agree to increase service charges by 3.2% raising an additional £76K.
- 2.6 Members agree to increase the rents on Middlesex House (including Service Charges) by 3.2% raising £25K.
- 2.7 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 2006/07 and to agree an indicative fee for 2007-08 and 2008-09.

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 9,512 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 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 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).
- 3.3 The Council's rents (including rebatable Service Charges) have been historically amongst the highest in London (Brent's average for 2005/2006 is £79.87 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.
- 3.4 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 80 in 2006/07.

3.5 A Draft Service Development Plan 2006-07 to 2009/10 for Housing and Customer Services was considered by the Executive on 12 December 2005. This document is now being updated to take account of the merger with Adult Services to produce a Plan for Housing and Community Care. Key priorities for partnership working with BHP include:

- Meet Decent Homes standard targets by 2010 across all tenures.
- Ensure tenants and residents are empowered and able to participate fully in decision making.
- Deliver HECA and the Fuel Poverty strategy.

3.6 Following ODPM consultation in late 2005 and early 2006 there will be continuing debate about the future of the strategic housing role, which will be key to the future development of the service. Government are considering the options for the future of ALMO's, including the possibility of additional financial freedoms, and the Service Development Plan highlights the need to respond to the changing picture and prepare for the period following completion of the Decent Homes programme.

3.7 The HRA Business Plan incorporating the HRA investment strategy 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. 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).
- 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.

3.8 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.

- 3.9 The HRA Business Plan submitted to ODPM received a rating of 4 out of 4 – the highest rating achievable. Additionally, the Councils 'Housing Strategy' has been assessed as being 'fit for purpose'.
- 3.10 This report mainly addresses budgets/rent setting for 2006/2007. 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, BHP, tenants and Members).

Revised Budget 2005/2006

- 3.11 A summary for the forecast outturn for the HRA for 2005-06 is contained on Table 1 on Appendix 2. The column headed Probable budget 2005-06 sets out the forecast outturn for 2005-06. It can be seen that the HRA is anticipating a 'Surplus carried forward' of £777K which exceeds the original/approved budget of £400k by £377k.
- 3.12 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:-
- Increase in rental income, through lower than anticipated dwelling sales through RTB and improved voids management £-449k;
 - Decrease in business rental income £13k; and
 - Reduction in central heating income (stock loss and decent homes) £61K.

Draft Budget 2006/2007

- 3.13 The draft budget for 2006-07 is set out on table 1 on appendix 2. The draft budget shows a deficit of £2,517K before taking into account the possibility of a rent rise, and any growth or saving items. It should be noted that the draft budget takes account of the one-off surplus of £377k from 2005-06. If this surplus had not been included, the deficit would have been £2,894k. As this surplus of £377k is one-off, it will not be available in 2007-08. Details setting out the movement from the Probable budget 2005-06 to the draft budget 2006-07 are set out on appendix 2, table 3.
- 3.14 In considering the estimates Members need to consider the policy and legislative framework within which these estimates have been formulated.
- 3.15 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:-

- 3.15.1 Growth – No growth has been included in the draft budget.
- 3.15.2 Allowance for inflation – Budgets have been prepared on an outturn basis and include an allowance of 2.95% for pay and an appropriate allocation for price rises (generally 2% and 3.2% for repairs). The pay budget also includes an increase in the Employer's Superannuation Contributions to take account of the actuarial review. For Brent staff, this has increased by 1.5% from 20.1% to 21.6% in 2006-07. For BHP staff, this has increased by 0.6% from 18.6% to 19.2%.
- 3.15.3 Stock Loss – Applicable budgets have been reduced by 0.83% to reflect the estimated stock loss in 2006-07. Gross expenditure has been decreased by £573k to reflect the stock loss adjustment.
- 3.16 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).

BHP Management Fee

- 3.17 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. In line with the Governments move towards 3 year budgets, it is proposed that in addition to agreeing an annual fee, that an indicative fee budget for the following two years also be agreed. This will greatly assist BHP with their forward financial planning. This indicative fee to take account of, for example inflationary increases, employer's pension contributions increases, stock loss, and a percentage efficiency reduction.
- 3.18 Therefore at this stage 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 2006-07 and an indicative fee for 2007-08, 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. The BHP board will also consider the fee arrangements via a special finance meeting on 26 January 2006.

Rent Rebates

- 3.19 Rent Rebates expenditure and the associated subsidy transferred to the General Fund in April 2004. Transitional arrangements were in place to enable authorities to adjust to the new arrangements over a two year period (2004-05 and 2005-06). Under these arrangements, the HRA made a

contribution to the General Fund of £600k in 2004-05 and £300k in 2005-06. As the transitional arrangements have now ceased, no contribution will be made in 2006-07.

Housing Revenue Account Subsidy (HRAS)

- 3.20 A key element in the HRA is Housing Revenue Account Subsidy (HRAS) which is forecast to be £23.7m in 2006-07. HRAS is updated each year through the HRA Subsidy Determinations. These set out the changes to, and level of Government support for Councils' HRA's.
- 3.21 In 2006-07, arising out of the subsidy determinations, Brent's HRA will receive over £2m less subsidy when compared to 2005-06. This withdrawal of subsidy comprises the following items:-

Item	Subsidy Changes £'000
Management Allowances	-430
Maintenance Allowances	-666
Notional Income	2,905
Sub Total	1,809
Admissable Allowance	222
Total	2,031

- 3.22 The Government's 3 year review of rent restructuring will be implemented in 2006-07 see para 3.24 below. The Government has cushioned the impact of implementing the review in 2006-07, by limiting increases to an average of 5%. Details of a new subsidy factor to compensate authorities for limiting increase to 5% will have not yet been issued and is therefore not included in the draft budget.

A full and comprehensive explanation of the individual components of HRAS as set out on appendix 1.

HRA Business Plan

- 3.23 As indicated in previous years, 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.

Rent Restructuring

- 3.24 ODPM continues to implement rent restructuring which continues to have 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'. However the formula used to calculate Rents under "Rent Restructuring" is changing for 2006/07. The methodology is essentially the same as used in previous years; however, certain aspects have been amended. These all have different impacts but generally they contribute to an increase in rent over and above that originally anticipated and a narrowing of the gap between rents and convergence. These changes are summarised below:-

- 3.24.1 Bed weightings (that is the factor which ensures, irrespective of the capital value of a property, dwellings have a greater influence over the actual rent payable by virtue of the number of bedrooms) have changed for properties of 3 or more beds. The table below demonstrates the change in weightings:-

Bed Size	Weight 2005/06	Weight 2006/07
0	0.8	0.8
1	0.9	0.9
2	1.0	1.0
3	1.05	1.1
4	1.1	1.2
5	1.1	1.3
6	1.1	1.4

Essentially the Government has decided that the differences between smaller dwellings' rents (as identified through the number of bedrooms) and larger dwellings (i.e. 3 bedrooms and over) should increase.

- 3.24.2 The national average property value has increased from £41,350 to £49,750. This is the value of property that is included within the rent formula.
- 3.24.3 The national average Rent has increased from £45.60 to £54.62 per week. Again this is the amount included within the rent formula and is not associated with rents in Brent i.e. it is determined on a national basis.
- 3.24.4 The inflation factors used to re-calculate the formula rent from 2000/2001 to 2006/07 have changed resulting in a 0.50% decrease in inflation over the period.
- 3.24.5 Rental caps have increased between years and these are tabulated below:-

Increase in Rental Caps by Property Size			
	2005/06 £	2006/07 £	Increase %
Bed-Sit	94.34	97.83	3.70
One Bed	94.34	97.83	3.70
Two Bed	99.56	103.57	4.03
Three Bed	105.43	109.33	3.70
Four Bed	110.97	115.08	3.70
Five Bed	110.97	120.84	8.89
Six Bed	110.97	126.59	14.08

- 3.24.6 There is no limit on the downwards movement of rent. This means that downwards movement of rents is unrestricted; however this is not an issue for Brent.
- 3.24.7 The average weekly rent cannot increase by more than 5%. The government, through its rent policy has determined that whilst rents are generally increasing substantially more than the rate of inflation, overall average increase should be no more than 5%
- 3.25 Current average rent for 2005/06 is £74.69. Due to the changes in the Rent Restructuring formula, formula rent had to be restated at this year's rate to make a meaningful comparison. This means that the formula rent for 2005/06 equals £82.08 and for 2006/07 is £84.71. This is an increase of £2.63
- 3.26 If Members are minded to follow convergence rents then 92% of rents will increase above the rate of inflation, i.e. a real increase, and 8% will increase at less than the rate of inflation, i.e. a real decrease. The increases are analysed below:

Banding	No
Under £1	404
Between £1 and £2	1,493
Between £2 and £3	4,324
Between £3 and £4	2,888
Between £4 and £5	75
Over £5	110

- 3.27 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	4.37
1	4.60
2	4.67
3	4.39
4	4.25
5	4.80
6	5.08

3.28 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 4.54%.

Band	No of Properties	Ave increase in £ per property	Rental Increase over Previous Year
-1.5% to 0%	13	(0.90)	(607)
0% to 1%	70	0.36	1,326
1% to 2%	240	1.35	16,839
2% to 2.5%	310	1.98	31,931
2.5% to 3%	319	2.43	40,256
3% to 4%	1317	3.29	225,275
4% to 5%	3925	3.32	677,851
5% to 6%	2405	4.05	506,322
6% to 7%	622	3.83	123,851
7% to 8%	73	3.40	12,904
Total	9,294		1,635,946

Appendix 3 contains further versions of the above table, setting out various rent increase options from 0% to 5%.

Risks

3.29 As part of the development of the budget, officers have sought to consider the main associated risks. One key area of risk to note that may impact upon the HRA budget is a legal case concerning a leaseholder. The worst case scenario in financial terms would be that the leaseholder is successful, and the matter applied to all eligible leaseholders. This could cost upto £1.2m, although this is considered unlikely. Given the likelihood, there is no provision in the HRA budget for 2006-07 for this.

Medium Term Financial Plan

3.30 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.

3.31 Historically, predicting income has been a difficult task, give the nature of the annual subsidy settlement. The Government is now moving the HRA subsidy regime towards a 3 year settlement, bringing the regime into line with the spending cycle. The initial move will be to a 2 year settlement (2006-07 and 2007-08) in which the formulae and definitions will be fixed in the first year, remaining unchanged, as far as is possible, for the following financial years in the cycle. However the position for 2007-08 is unfortunately not yet totally

clear. Officers have sought to put together an initial forecast for 2007-08 and 2008-09. This is set out in the following table:-

Item	2006-07 £000's	2007-08 £000's	2008-09 £000's
Subsidy Withdrawal	2,031	1,982	1,676
One Off Income Not Carried Forward	631	377	0
Inflation	1,047	1,050	1,050
Rent Rebates Transitional Scheme	-300	0	0
Savings in Previous Year	-377	0	0
Use of Balances	-377	0	0
Capital Financing/Stock Loss	-138	0	0
Deficit before any Rent Rise	2,517	3,409	2,726
Assumed Rent Rise at 4.45%	-1,714	-1,714	-1,714
Deficit	803	1,695	1,012

- 3.32 The table above does not include any assessment of any potential stock transfer(s) at South Kilburn and Barham Park in 2007-08 and 2008-09. A joint process, between Council and BHP Officers will explore the timetable and implications of this in the coming months. This will assess the implications for direct and indirect costs (including Council recharges).
- 3.33 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 2007-08 and 2008-09 assumes the same rise as the 2006-07 rent restructuring rise. This will of course be subject to update and Member's approval at the relevant time. The Government has indicated that rents will again be limited to an increase of 5% for 2007-08, and the position for 2008-09 is not known.
- 3.34 It can be seen that the initial forecast for 2007-08 is not favourable, with a £3.4m forecast deficit prior to any rent rise. Officers will be monitoring and updating the HRA Medium Term Financial Plan through 2006-07 and developing options to address the bottom line projection.

Budget Strategy

- 3.35 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.
- 3.36 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).

- 3.37 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 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 (this assumes convergence increase and increases in service charges).

Description	£000's
Deficit (per appendix 2, table 1)	2,517
Product of Service Charge Increase	-76
Product of Rent Increase	<u>-1,638</u>
Revised Deficit	803

- 3.38 This revised deficit could be mitigated through the following measures

Description	£000's
Revised Deficit (above)	803
Ongoing increase for bad debt provision	-50
Delete contingency budget	-50
Income from Capital Receipts pooling	-100
Reduction in BHP Fee	-200
Reduction in non BHP operational costs	-100
Capitalisation/New Subsidy Item	<u>-303</u>
Further Revised Deficit	0

Each of these items are explained below:-

- 3.38.1 Ongoing increase for bad debt provision. HRA rent arrears at 31 March 2005 stood at £3.1m and our provision in respect of these arrears was £2.9m. Our auditors are satisfied with this position. Information at December 2005 shows that over £500k of uncollectable arrears have been written off this year to date, and the total arrears have reduced to £2.7m. This position also takes account of rent arrears that have been collected during 2005-06 and new arrears that have arisen. The ongoing budget for increase the provision in rent arrears is £250k in the draft budget for 2006-07 and it is proposed to reduce the ongoing annual budget by £50k to £200k, due to sustained collection performance.
- 3.38.2 Delete contingency budget. The contingency budget included in the draft budget for 2006-07 is £50k. This budget has been available, but not used, for a number of years. It is considered that that the working balances of £400k maintained within the HRA are sufficient to cover any unanticipated items, and that the contingency budget should be deleted.
- 3.38.3 Income from capital receipts pooling. Capital receipts pooling was introduced in 2004-05. As part of this new regime, we are required to "pool" 75% of Right to Buy receipts. However we are able to offset the cost of expenditure on improvements to those dwellings in the previous 3 years. This income is not

included in the HRA budget. The level of income will be variable from year to year, as it will be dwellings specific. It is estimated that £100k will be generated in 2006-07.

- 3.38.4 Reduction in BHP Fee -£200k – BHP is continuously reviewing working practices and has recently undertaken an extensive best value review that indicates that over a period of time savings are achievable. Plans are in place to implement these savings and the BHP board will be considering in detail officers recommendations how these savings will be made without seriously affecting service delivery. To achieve savings does require management to address the issues that arise from organisational change, however at this stage BHP officers advise that this can be achieved and that BHP is seeking to achieve an understanding as to the principles to be applied to future management fees in order that it can relate future finances to service delivery and organisational change.
- 3.38.5 Reduction in non BHP operational costs -£100k – this relates to the Staff employed by the Housing and Community Care Department whose direct and associated costs are in part charged to the HRA. This covers for example some staff in the Directorate, Finance, and Policy and Research. This decrease represents a reduction of 7%. This will be achieved through efficiencies savings, including the deletion of the Head of Housing Finance Post (currently vacant), and other efficiency savings arising out of the creation of the new Housing and Community Care Department. These savings are achievable without impacting upon service delivery.
- 3.38.6 Capitalisation/New Subsidy Item – In the first instance, it is proposed to reduce revenue contributions to capital. However as this is taking money away from the decent homes investment programme, it is proposed that the capitalisation be reduced by the value of the new subsidy item (see para 3.22), when known.

Other Options

- 3.39 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.
- 3.40 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 40% of the product of a rent rise above this threshold would be available to fund HRA expenditure.

- 3.41 Alternatively, Members could raise rents at a rate below convergence levels (i.e. less than 4.54% 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 CPA score, and our upcoming ALMO inspection.

The following table sets out the income generated by various percentage rent increases, 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%	4.54%	5%
Income Generated	£0	£374k	£699k	£1,096k	£1,456k	£1,638k	£1,816k
Additional Savings to be Identified	£1,638k	£1,264k	£939k	£542k	£182k	£0	£-178k

The tables on appendix 3 set out the impact on tenants, in bandings, of various rent increase options, from 1% to 5%.

Brent Housing Partnership (BHP) and the Consultation Process

- 3.42 Senior Council and BHP Officers have met to discuss the HRA budget report in detail, and this final version of the report has been updated to reflect the comments that were made by BHP Senior Officers, where applicable.
- 3.43 The Finance and Audit Sub Committee of the BHP Board met on 26 January 2006 to consider a briefing report from BHP's Director of Finance on the HRA Draft Budget 2006-07. The Council's Head of Finance (Housing and Community Care) also attended this meeting as part of the consultative process. With regard to this rent report, the Finance and Audit Sub Committee agreed to advise Brent Council of (the Sub Committee) Members' disquiet at the suggested 4.54% rent increase; and that in the event of a rent increase, Brent Council be asked to ensure that appropriate financial advice and support is made available at the One Stop Shops.

Director of Housing and Community Care - Observations on Issues Raised by BHP

- 3.44 The Director of Housing and Community Care notes the comments of the BHP Finance and Audit Sub Committee.
- 3.45 As set out elsewhere in this report, the average rent increase of 4.54% as recommended in this report is in order to comply with the Governments rent convergence policy. The Council has been following this policy since it was introduced in 2002.
- 3.45 The implications for not following rent restructuring policy are set out elsewhere in this report. Importantly, if average rents are increased at a rate lower than 4.54%, then further savings will need to be identified in order to balance the budget. The table at paragraph 3.41 above sets out the additional savings that would need to be found, at various rent levels. For example, for

an average rent increase of say 2%, a further £939k of savings would need to be found.

- 3.46 Whilst understanding the concerns expressed by the BHP Finance and Audit Sub Committee, it is the view of the Director of Housing and Community Care that the Council should proceed with the recommendations as set out in this report. The Director does, however, welcome the suggestion for the One Stop Shop to provide appropriate financial advice and support.

Conclusion

- 3.47 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.
- 3.48 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.
- 3.49 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.
- 3.50 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 2006-07. 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.

5.0 Legal Implications

- 5.1 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.

- 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 2006/07 are based upon current rent policies 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 2006/2007 on 6th March 2006.

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 Data collected on ethnicity of tenants has been increased to 91% enabling the profile of tenants to be mapped against the profile of Brent and the UK as a whole. This is set out in the following table:-

	Tenants	Brent	UK
Asian/Asian British	11%	28%	4%
Black/Black British	43%	21%	2%
White/White British	40%	45%	92%
Mixed/Other	6%	7%	2%

- 6.3 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 2 of the scheme included:-

6.3.1. Tenant Participation

- Developing a range of mechanisms for making contact with young people.
- Developing a strategy to promote involvement and prevent exclusion of tenants of street properties.

6.3.2 Board – Strategy & Policy

- Awareness of equalities and diversity issues and Equalities Scheme promoted through training for staff and BHP board members.
- Usage of front-line services, customer satisfaction levels and complaints monitored by ethnicity, age and gender.

6.3.3 Building Cleaning Services

- Information provided to customers reviewed to ensure it can be understood by a range of customers with diverse communication needs.
- Training for staff and contractors in cultural and diversity awareness to ensure cleaning service is responsive to needs of all customers.

6.3.4 Services to Leaseholders

- Annual Billing correspondence reviewed to ensure information provided is easy to understand.
- Database implemented to record leaseholder/occupant age, ethnicity, gender, date of birth, disability and language/communication needs.

6.3.5 Customer Care

- BHP providing Customer Care and Equalities Awareness training for contractors commencing with the new Repairs and Voids contracts.
- Programme of Mystery Shopping of BHP services by tenants.

7.0 Staffing/Accommodation Implications

- 7.1 The main purpose of the report is to set the HRA Budget for 2006/2007. 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.
- 7.2 Brent Housing Partnership have given notice to the Council regarding their intention to vacate both Mahatma Gandhi House (where they occupy 2 floors) and Dyne Road, in order move into new premises at Chancel House, Neasden. Negotiations for the move, between BHP and the Council, are ongoing with the move expected to take place in the Spring 2006. The costs of the move will be maintained within existing resources.

8.0 Background Information

2006/07 Housing Revenue Account Subsidy Determination
2006/07 Housing Revenue Account Determinations
2006/07 Housing Revenue Account Budget Working Papers

Any person wishing to inspect the above papers should contact:

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