



Executive
13 February 2012

**Report from the Director of
Regeneration and Major Projects**

Wards Affected:
ALL

**Housing Revenue Account (HRA) Budget 2012/13 and Rent
Increase Proposals for Council Dwellings for 2012/13**

1.0 Summary

- 1.1 This report presents to Members the revised (probable) HRA budget for 2011/12 and the draft HRA budget for 2012/13 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 2012/13.
- 1.2 The proposed HRA budget for 2012/13 takes account of the new self financing system for Council Housing which takes effect from 1 April 2012.
- 1.3 The report also includes proposals for setting the rent and service charge levels for 2012/13 for the non HRA Brent Stonebridge dwellings.

2.0 Recommendations

It is recommended that members:-

- 2.1 Approve the revised (probable) budget for 2011/12 (Appendix 1 Table 1).
- 2.2 Note that the new HRA self financing system that takes effect from April 2012 and that the draft budget for 2012/13 has been prepared on that basis. In particular Members are asked to note that:-

- HRA Subsidy will cease from 2012/13;
- The Government will redeem £198.000m of Brent Council's debt with the Public Works Loan Board on 28 March 2012;
- Brent's HRA borrowing limit under self financing will be £199.291m; and
- The estimated HRA borrowing "headroom" will be £59m

2.3 Agree the savings/budget reductions for 2012/13 as set out in paragraph 3.53.4.

2.4 Agree the HRA budget growth of £5.642m for depreciation (major repairs or debt repayment) as set out in paragraph 3.53.5

2.5 Approve an average overall rent increase (excluding service charges) from April 2012 of £6.81 per week, which is an average overall increase of 7.14%, as set out in further detail in paragraphs 3.35 to 3.39.

2.6 Agree to increase HRA Council Dwelling service charges by 5.6% from April 2012.

2.7 Approve the HRA budget for 2012/13 (Appendix 1 Table 1).

2.8 Agree that from April 2012 all HRA dwellings that are relet (except successions, assignments and mutual exchanges) are set at target rent from the commencement of the new occupancy.

2.9 Note that an updated HRA Business Plan will be presented to the Executive shortly and this will include options for spending the Major Repairs resources.

2.10 Agree an average overall rent increase of £7.03p per dwelling per week on the Brent Stonebridge Dwellings, which is an average overall rent increase of 6.3% as set out in paragraph 3.68.

2.11 Agree to decrease the service charges on the Brent Stonebridge Dwellings by an average of 0.7% or an average of £0.06 per dwelling per week as set out in paragraph 3.71.

2.12 Delegate to the Director of Regeneration and Major Projects in consultation with the Director of Finance and Corporate Services the Brent Housing Partnership (BHP) management fee for the financial year 2012/13.

3.0 **Detail**

- 3.1 This report addresses the budgets associated with the Council's Housing Revenue Account (HRA). The HRA contains the income and expenditure relating to the Council's Landlord duties in respect of approximately 9,000 dwellings. These dwellings are statutorily accounted for separately from the Council's other services / activities which generally form part of the Council's General Revenue Fund.
- 3.2 The HRA has regulations that differentiate it from the General Fund. The current basis of HRA regulations were introduced in April 1990 as a result of the Local Government and Housing Act 1989. These regulations set out the framework for the operation of the HRA. Up to 2011/12, the Council received Central Government financial support through the HRA Subsidy (HRAS) regime. However from April 2012, a new HRA self financing system is being implemented, under which HRA Subsidy will be abolished in return for a one-off redistribution of debt. The HRA budget for 2012/13 has therefore been compiled on the basis of this new framework.
- 3.3 The HRA is a 'ring-fenced' account receiving no subsidy from the Council's General Fund nor subsidising the General Fund. 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). For example, transactions between the accounts include central costs (representing the proportion of activities undertaken by non-HRA staff that can be attributed to the HRA).
- 3.4 The Council's average rent for 2011/12 is approximately £95.24 (excluding service charges). This takes account of the 6.14% average increase that was previously agreed in setting the 2011/12 rent levels. The Council's rent setting policy has been to adopt 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). Under this policy, rents are due to converge in 2015/16.
- 3.5 The Council's housing stock continues to reduce and in 2012/13 it is estimated that it will reduce by a further 166 dwellings, comprising 10 'Right to Buy (RTB) Sales', and 156 planned demolitions (South Kilburn and Barham Park). The Council's total housing stock is forecast to be 8,834 by March 2013.
- 3.6 In November 2010, the government published *Local Decisions: a fairer future for social housing*, a consultation paper setting out significant proposals for change in social housing. Since then, the government has introduced changes to the way in which new social housing is funded, through the Affordable Rent programme managed by the Homes and Communities Agency (HCA) and has implemented the proposals set out in the consultation document through the Localism Act.
- 3.7 The Affordable Rent regime allows housing providers to charge up to 80% of local market rents on new homes and some existing properties when they are re-let. The Localism Act allows local authorities, to offer fixed-term rather than

secure tenancies to new tenants, with a similar model available to housing associations. In addition, local authorities will no longer be obliged to operate open waiting lists and will be able to exclude certain categories of applicant – for example anyone who does not live in the borough – and will be able to give additional priority to identified groups based on local needs. Finally, local authorities will have the option to discharge a homelessness duty through an offer in the private rented sector without the consent of the household that is required under current legislation.

- 3.8 Local authorities can use these new flexibilities or not, depending on their view of what will best meet local needs. The council's approach will be set out in a Tenancy Strategy, which must be agreed before changes can be implemented locally, although at the national level most of the changes will come into effect from April 2012. Consultation has begun on Brent's Tenancy Strategy, which will be the subject of a future report or reports to the Executive, which will need to endorse any changes to the council's current approach. The council's Housing Strategy 2009-14 will be reviewed during 2012 to take account of any changes introduced by the Tenancy Strategy. In addition, the council may need to amend its Homelessness Strategy and Allocation Scheme.
- 3.9 The abolition of the Tenant Services Authority (TSA) and the transfer of its regulatory functions to the HCA have been confirmed. The HCA will itself be a smaller organisation and in London its functions will transfer to the Mayor from April 2012. In anticipation of this, the Mayor published draft revisions to his Housing Strategy in December 2011. Officers will consider the implications and produce a response to the proposals by March 2012.
- 3.10 This report also contains rent increase proposals for the 332 dwellings that transferred, following a ballot, from the Stonebridge Housing Action Trust (HRA) to Brent Council in August 2007. These dwellings are maintained outside the HRA, in the General Fund, and the rent increase proposals for these dwelling are separate from the consideration of the main HRA budget, and are set out from paragraph 3.60 below.

Reform of Council Housing Finance

- 3.11 The review of Council Housing Finance was launched by the Minister for Housing in March 2008. Then following two public consultations on the proposed reforms in July 2009 and March 2010, the Government announced in October 2010 its intention to replace the HRA subsidy system with a devolved system of council Housing Finance called self financing. Provision to implement self financing for Council Housing is included in the Localism Act 2011 and HRA self financing will be implemented from April 2012. The HRA budget for 2012/13 has been compiled on this basis.
- 3.12 Under HRA self financing, the Council's HRA will continue as a ring-fenced account for the income and expenditure for Council dwellings, but the housing

subsidy system will be abolished and will be replaced by self financing (in exchange for a one off repayment of a proportion of debt).

3.13 HRA self financing is intended to allow local authority landlords to support their own stock from its own rental income.

3.14 The stated objectives of self financing are:-

- To give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long-term and to drive up quality and efficiency; and
- To give tenants the information they need to hold their landlord to account, by replacing the current opaque system with one which has a clear relationship between the rent a landlord collects and the services they provide.

3.15 These reforms are based on a calculation of the individual value of each local authority's housing business. This "valuation" is based on assumptions about a local authority's income and expenditure over a 30 year period – known as the notional business plan. The valuation includes assumptions for:-

- Continuation of existing national rent convergence policy;
- Uplifts for all local authorities for managing, maintaining and repairing the stock. The new system will also provide additional funding for local authorities to pay for disabled facilities adaptations to council housing stock;
- An assessment of planned demolitions in the first five years;
- Costs currently met through the subsidy system, such as charges relating to early redemption of debt; and
- A forecast of Right to Buy (RTB) sales based on current policy (see below re details of proposed changes to RTB policy).

3.16 The self financing valuation is then compared to their existing notional housing debt to give a sustainable self financing settlement. There will be a need for a one off redistribution of debt amongst councils, so that each local authority is left with a level of debt that it can support.

3.17 The Secretary of State has issued determinations to implement self financing and these determinations set out Brent's self financing "valuation" is £199.291m. This is the level of debt that it has been assessed that Brent's HRA can support. Brent's notional housing debt is currently £397.291m and under self financing, the Government will pay off £198.000m of the HRA debt so that our notional HRA debt equals our self financing valuation.

- 3.18 National arrangements are in place for the redistribution of the HRA debt under self financing. Under these arrangements, on 28 March 2012, the Government will redeem £198.000m of Brent Council's debt with the Public Works Loan Board (i.e. the payment from the Government will not come to Brent directly but will be used to redeem debt held by Brent). Under this arrangement, the Government will repay an equal percentage of each loan that Brent has with the Public Works Loan Board. This is in line with policy for dealing with overhanging debt in housing stock transfers, and will have a neutral effect on a local authority's average interest rates and therefore the General Fund. The costs of redeeming the debt early will be met by the Government.
- 3.19 Rent policy – the self-financing valuation assumes that local authorities follow national rent policy. This will include:
- The existing formula rent;
 - The existing guideline rent – which converges with the formula rent by 2015/16, and then follows that with rent increases of RPI plus 0.5%;
 - A limit on individual rent increase of RPI plus 0.5% plus £2; and
 - Continuation of the existing HB limit rent, where the limit rent will be set and increased in line with national policy, and rent charged above the limit rent cannot be recovered by HB subsidy.
- 3.20 Borrowing Limit – in order to ensure that borrowing is affordable nationally, each local authority will be set an HRA borrowing limit under self financing, and it will not be possible for that limit to be exceeded. Where a local authority's actual housing borrowing is less than the limit set for self financing valuation, a headroom to increase borrowing under self financing will be created. The government determinations for self financing set out that Brent's borrowing limit will be £199.291m which equals our self financing valuation. As our actual housing borrowing is estimated to be £140.425 on 1 April 2012, we will have a head room to increase borrowing of approximately £58.866m.
- 3.21 Right to Buy (RTB) sales – as set out above the self financing valuation includes a forecast of RTB sales under current RTB policy. However the Government has recently launched a consultation on proposals to raise RTB discounts in order to make RTB more attractive to tenants which in turn should increase sales. The Government has stated that it will ensure that these changes will not have any impact on the viability of self financing landlords, and Ministers have states that the first call on the net receipts from the additional RTB sales will be to pay off the housing debt associated with those properties. Officers await information on how this will be calculated.
- 3.22 Under HRA self financing, Housing Subsidy will cease from April 2012. HRA subsidy is estimated to be £8.076m in 2011/12.

- 3.23 Depreciation and Impairment– under the current housing finance system, council's must put a sum equal to their Major Repairs Allowance (MRA) into a Major Repairs Reserve (MRR). Money put into this pot can only be spent on major repairs or on repaying housing debt. This is intended to ensure that councils make appropriate provision for capital works. Our MRA in 2011/12 is £8.078m. There will be no MRA under self financing. Instead, the amount to be paid into the MRR under self financing will need to be drawn from a local assessment of capital spending needs and should be based on an assessment of depreciation (the cost of replacing or renewing all the time limited components of the stock plus an amount for the fabric of the building). Our self financing valuation includes an updated MRA, which for Brent is £10.743m reflecting an increase of £2.665m when compared to 2011/12. This increase includes £672k for council tenant disabled facilities grants. The Government recognises that councils will need time to implement component based depreciation and therefore they have proposed a five year transitional period under which councils may choose to use the uplifted MRA in the self financing valuation as the figure which must be funded in the MRR. Our draft budget includes the uplifted sum of £10.743m. Under the transitional period, Councils' will be able to reverse out any impairments as a below the line adjustment. There is a significant risk for depreciation and impairment after the 5 year transitional period as any increases will hit the HRA bottom line.
- 3.24 Treasury Management - The abolition of the Housing Subsidy system means that Councils will need to allocate existing and future borrowing costs between housing and the general funds the current statutory method of apportioning charges will cease. This work is ongoing and the principles for this are:-
- There must be no detriment to the general fund on splitting the loans at transition;
 - Local Authorities are required to deliver a solution that is broadly equitable between the HRA and General Fund;
 - Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving a greater degree of independence, certainty and control; and
 - Un-invested balance sheet resources are properly invested between General Fund and HRA.
- 3.25 Reopening the settlement – The powers to implement self financing provide for further settlement payments between local authorities and Government under certain circumstances. These circumstances will be limited, and the Government's policy paper indicates that this power would only be used if a change is made that would have a substantial material impact on the value of the landlords business.
- 3.26 The following table summarises the key self financing data for Brent:-

Dwellings at 1 April 2011	9,010
Notional capital financing requirement	£397,291,000
Self Financing Valuation	£199,291,000
HRA Debt to be repaid on 28 March 12	£198,000,000
HRA Borrowing Limit	£199,291,000
Estimated actual capital financing requirement at 1 April 12	£140,425,000
Estimated HRA borrowing headroom	£58,866,000

HRA Business Plan

3.27 The Council's HRA Business plan was updated in 2011 and showed that based on the provisional HRA self financing figures, the HRA 30 year business plan was viable. The key highlights from the 2011 Business Plan were:

- There is no capital shortfall in any year;
- The HRA operating account remains in surplus throughout the plan;
- Outstanding HRA debt is repaid in year 22; and
- A surplus on the operational HRA by year 30 of £300m+.

3.28 Officers now propose to update the HRA 30 year Business Plan, based upon the 2012/13 budget and the confirmed self financing data. This plan will be then used to propose a 5 year investment plan. A further report will be presented to the Executive shortly to brief members on the updated 30 year Business Plan and five year Investment plan.

Review of the Management of the Council's Housing Stock

3.29 The Council's Housing stock is currently managed by Brent Housing Partnership (BHP), which is an Arms length management Organisation and was established in 2002. The current management agreement between the Council and BHP is due to expire in September 2012.

3.30 An independent review of the Housing management arrangements for the Council's stock reported to the July 2011 Executive and members agreed to consult tenants on a preferred option to manage the housing stock through Brent Housing partnership as an optimised ALMO focusing strongly on housing Management.

3.31 Members also agreed, in light of the decision to optimise BHP, to undertake both an improvement and efficiency review, and a governance review.

- 3.32 Details of these reviews, together with the outcome of the consultation, will be reported to the Executive before the current council/BHP contract expires so that a final decision on the future role of BHP and the management of the councils housing stock can be taken.

Housing Revenue Account Subsidy (HRAS)

- 3.33 Up to and including 2011/12, a key element in budgeting for the HRA is Housing Revenue Account Subsidy (HRAS). HRAS is forecast to be £8.076m in 2011/12.
- 3.34 Under HRA self financing, HRAS will be abolished from 2012/13.

Rent Restructuring and Rent Setting 2012/13

- 3.35 The Communities and Local Government Department (CLG) continues to implement rent restructuring. Whilst it remains the responsibility of the Council to set rents, there is strong encouragement to set them in accordance with the 'national formula'. For 2012/13 rent setting purposes, the date for convergence under rent restructuring continues to be 2015/16 and the methodology is the same as used in 2011/12 but with factors rolled forward one further year.
- 3.36 For 2012/13, under the national formula, rents will increase at an individual level by 5.6% (RPI) *plus* 0.5% real increase *plus* 1/4th towards the target rent. At an individual level, rent increases will be limited to an increase of no greater than 5.6% plus 0.5% plus £2, and will also be subject to the following rent level caps by bed size:

Bed Size Caps 2012/13

Size	Cap £
Bedsits	127.56
1 Bed	127.56
2 Bed	135.06
3 Bed	142.57
4 Bed	150.07
5 Bed	157.57
6 Bed	165.08

- 3.37 By following the Rent Restructuring formula at individual dwelling level, Brent's overall average rent for 2012/13 should increase by 7.14%.

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

Banding	No
Between £0 and £-4	9
Between £0 and £3	3
Between £3 and £4	51
Between £4 and £5	591
Between £5 and £6	1,437
Between £6 and £7	2,541
Between £7 and £8	3,067
Over £8	1,291
Total	8,990

3.38 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	6.25%
1	7.01%
2	7.41%
3	7.22%
4	7.13%
5	6.99%
6	6.75%

3.39 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 for 2012/13 is £6.81 or 7.14% per week, with nearly 15% of tenants receiving an increase in excess of 8%. Sixty nine per cent of tenants receive some form of Housing Benefit.

Band	No of Properties	Ave increase in £ per property	Rental Increase over Previous Yr £

-4.5% to -3.50%	1	(3.91)	(203)
-3.5% to -2.50%	4	(2.84)	(591)
-2.5% to -1.50%	4	(2.19)	(455)
0% to 1%	1	0.12	6
1% to 2%	1	1.46	76
2.5% to 3%	3	3.27	510
3% to 4%	8	3.32	1,382
4% to 5%	74	4.30	16,558
5% to 6%	337	5.40	94,616
6% to 7%	3,154	6.42	1,052,770
7% to 8%	4,075	7.06	1,495,506
8% to 9%	1,246	7.62	493,927
9% to 10%	73	5.96	22,628
Over 10%	9	11.27	5,274
Total	8,990	6.81	3,182,004

- 3.40 Dwelling Relets - currently when an HRA dwelling is relet, the relet rent on the new occupancy is set at the previous tenants rent level. In order to escalate the move to target rents, it is proposed that the relet rent on occupancy (excluding successions, assignments and mutual exchanges) should be set at the target rent for that dwelling.

Brent Housing Partnership (BHP) Management Fee

- 3.41 The agreement between the Council and BHP requires each year that a management agreement fee is negotiated and agreed. The fee will be consistent with delivery plan requirements and the general requirement to reduce operating costs on a year by year basis. In general terms the management fee negotiations have in the past been based upon 2% to 3% efficiency savings including pro rata reductions based upon loss of stock under management. This formula has facilitated continuous reductions in the management fee and thus enables BHP to manage future risk in a coherent manner. For 2012/13 the agreed management fee will take account of the efficiency review being undertaken as part of the ALMO optimisation - one of the review objectives is to achieve a minimum 13.6% reduction in the Housing management budget over a five year period. Under the current management agreement the risk for changes to employer pension contributions remains with the Council. For 2012/13 the rate for BHP will (provisionally) increase from 15.8% to 17.8%. The effect on BHP's financial resources will need to be assessed, in particular with regard to pension liabilities and Financial Reporting Standard 17 (FRS17) however the cash impact on BHP will be neutral. BHP's accounts have until 2010/11 been published in accordance with the United Kingdom General Accepted Accounting Practice (UK GAAP). The accounts to 31st March 2011 were unqualified. From 2011/12 the accounts will be produced under the Statement of Recommended Practice (SORP) 10 as on 1 April 2011, BHP became a Registered Social Housing Provider.

- 3.42 BHP has achieved operating surpluses derived from a combination of the activities of its Direct Labour Organisation (DLO), the management of Brent Council's direct leasing scheme (for homeless households) and the management fee itself. These surpluses are negated through accounting requirements concerning pension liabilities (FRS17) and depreciation on acquired properties. Surplus cash, with the consent of the Council, has been invested, on a temporary basis, in support of BHP's acquisition strategy (that materially assists the Council with its housing priorities).
- 3.43 The purpose of cash surpluses is to enable BHP to manage its affairs on a prudent basis. As at 31st March 2011, BHP's revenue reserves were £7.0m but after deducting a £13.1m pension deficit reserve, the net reserves are a negative £6.1m. BHP also has loans outstanding with the Council expected to be £48m at April 2012 relating to Granville New homes and the Settled Homes Initiative. BHP needs to generate sufficient resources each year to be able to repay these and thus avoid the need for the Council to write off large sums.
- 3.44 BHP has sought to plan for budget reductions and saving to reflect stock loss and efficiency savings on an annual basis and to be in a position to anticipate the financial climate rather than respond to changes on an ad hoc uncoordinated basis.
- 3.45 BHP has achieved savings through a combination of reductions in posts, undertaking some functions direct that were formerly carried out by external companies and taking on additional services with no increase in the management fee (e.g. Disabled Facilities Grants (DFGs)). BHP continues to review its services with the Council and a comprehensive shared services review is currently underway. BHP's Value for Money strategy (that has board approval) has confirmed that BHP's preferred approach is to use the systems thinking to drive out waste and improve service delivery. The improvement in the repairs service via systems thinking has confirmed the validity of the methodology and thus it is being rolled out in the whole of the company. Currently Housing Management, Estate Services and Leasehold Services are subject to review.
- 3.46 In 2006/07 BHP offered a voluntary redundancy scheme that enabled 16 staff to be managed out of the organisation and in September 2010 a further voluntary redundancy scheme was approved by the board which was integral to a general review of the company's structure. In total a further 16 posts were removed from the establishment which represents approximately 10% reduction in staffing costs. The total annual savings is over £700K per annum. The shared services review will lead to a further reduction in posts, some of which will mean additional redundancies.
- 3.47 BHP will be further reviewing its operations in the light of the service reviews and consideration has been given to the Council Housing Finance Review which will have considerable impact on council housing finances from April 2012. Whilst BHP is currently awaiting the final decision on the continuation of

its management agreement beyond its expiry in September 2012, the view of the board is that the business remains a 'going concern'.

- 3.48 It is recommended that the Director of Regeneration and Major Projects in consultation with the Director of Finance & Corporate Services is delegated authority to agree the management fee (subject to Member instructions/directions) for 2012/13. 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

- 3.49 BHP has a risk management strategy that identifies the 'top ten' risks and is regularly reported to its board. As part of the development of the budget, officers have sought to consider the main associated risks. These risks are set out below:-
- 3.49.1 Performance on rent collection remains generally good. As indicated in last year's report the current economic environment creates a challenge for BHP and the income management officers in particular. Whilst most of the changes in Housing Benefit regulations in the main do not as yet affect council (social) housing tenants, nevertheless there are changes which could materially affect collection performance e.g. paying benefits direct to tenants and reduced HB for those on job seekers allowance.
- 3.49.2 The recovery of Leaseholder Service Charges (Major Works) remains a challenge for officers and compliance with legislation is often difficult. In addition there are often differences between tenants and leaseholders in respect of works undertaken. For instance work to a communal area may well be considered favourably whilst a leaseholder may view such expenditure as not strictly necessary under the lease and thus not recoverable.

Revised Budget 2011/12

- 3.50 A summary for the forecast outturn for the HRA for 2011/12 is contained on Table 1 on Appendix 1. It can be seen that net expenditure is predicted to be £1,143k in 2011/12, which when compared to the budget of £742k, represents a forecast overspend of £401k. Additionally the surplus balances brought forward from 2010-11 exceeded the budget by £696k. Taking account of this, the 'surplus carried forward' to 2012/13 is forecast to be £696k which is £296k more than the surplus of £400k that was budgeted. This additional £296k will be available to support one-off expenditure in the 2012/13 budget.
- 3.51 Table 2 on Appendix 1 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:-

- Provision for Bad Debts – increase of £718k following detailed assessment of rent and service charges arrears. An additional £400k is included for rent and £42k for service charges. Additionally a provision of £276k is proposed for a historic debt that is under dispute.
- Rent and Rates – increase £245k mainly due to an insurance premium increase following a retender exercise.
- Capital Financing – A reduction of £476k due to a reduction in the consolidated rate of interest. This reduction is offset in full by a reduction in housing subsidy.
- HRA Subsidy – a reduction of £476k due to a reduction in the consolidated rate of interest. This reduction is offset in full by a reduction in capital charges.
- Rental Income - Following a detailed review of income from Council tenanted dwellings, officers now forecast that rent income in 2011/12 will be £415k more than budgeted. This increase includes the impact of short life properties in regeneration areas.
- Non Dwelling Rent – A £50k overspend is forecast due to an over accrual of £50k in 2010/11.
- General Management – After the 2011/12 budget was set, the BHP pension on-cost was set at 15.8% instead of 12.6%. This increase reflects additional expenditure of £214k.
- HRA surplus brought forward – the final audited HRA for 2010/11 showed a surplus of £1,163k, which exceeded the budget of £466k by £697k. The main reasons are variances relating to repairs and maintenance expenditure, rental income from Housing dwellings, provision for bad debts, income from investment income, interest charge, general management cost, and cost of providing landlords services, such as electricity.

Draft Budget 2012/13

- 3.52 In considering the budget estimates for 2012/13, Members need to consider the policy and legislative framework within which the estimates have been formulated.
- 3.53 Estimates have been compiled on the basis of guidance for budget preparation (issued by the Director of Finance and Corporate Services) 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 ignores 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 1 has specifically been prepared on the following basis:-

- 3.53.1 Allowance for inflation – Budgets have been prepared on an outturn basis and include an allowance of 0% for pay. The Employer's Superannuation Contributions for BHP staff have been increased from 15.8 to 17.8%, and for Council Staff has remains at 25.1%. For non pay price rises, a general increase of 0% has been used, except for repairs which is 1.6% and cleaning, Grounds maintenance, and Gas servicing which is 2% in line with their contracts.
- 3.53.2 HRA Subsidy – has been abolished from 2012/13 under HRA self financing. No subsidy has been included in the 2012/13 budget.
- 3.53.3 Capital Charges – The capital charges take account of the one-off debt repayment of £198.000m on 28 March 2012 as part of the implementation of self financing. Additionally the capital charges take account of details forecast of premia, discounts, and interests rate movements. Capital charges are expected to decrease by £8.589m
- 3.53.4 Stock Loss/Efficiency Savings – The rent budget has been updated to reflect anticipated stock loss. Applicable expenditure budgets have been reduced by 1.41% to reflect the estimated stock loss in 2012/13, plus a further efficiency savings arising from one Council and other reviews (including the BHP optimisation review). Expenditure has been decreased by a net £782k to reflect these savings.
- 3.53.5 Growth – growth of £5,642k has been included in the budget for Depreciation (formerly Major Repairs Allowance). This growth comprises of four elements:-
- An ongoing sum of £2.665m to reflect the increased resources in our self financing valuation for Major Repairs Allowance (MRA). Our MRA has increased from £8.078m (in 2011-12) to £10.743m. This sum includes £672k for disabled facilities grants (see paragraph 3.23 for more details).
 - An ongoing sum of £791k which is the available unallocated resource after all other HRA budgets for 2012-13 has been compiled.
 - Use of one off useable reserves £296k - the budgeted surplus HRA working balances brought forward from 2011/12 is £696k. The draft budget proposes to budget for £400k working balances at March 2013. This is in line with previous year, and is considered reasonable. This means that £296k of reserves can be used on a one-off basis. They have been allocated to depreciation.
 - ALMO interest rate earmarked reserve £1,890k - since 2009/10 members have been setting up a budget allocation and an

earmarked reserve, for the ALMO interest rate adjustment. This was part of a planned process to smooth out the effects of the interest rate adjustment that took effect in 2011-12 at an ongoing cost to the HRA of £1.8m per year. As part of the plan to address this switch, members had agreed a growth plan that entailed growth of £169k being added to each HRA budget over the years 2012-13 to 2015-16. The budget proposed for 2012-13 includes full budget provision to meet the remaining shortfall of £676k as part of the “funded from balances/reserves” item. This therefore means that the outstanding earmarked reserve of £1.890m for this activity can be released, and members are asked to agree that this one-off funding be allocated to Depreciation (Major Repairs)

This growth £5.642m represents a real increase in HRA expenditure for 2012/13. It is proposed that this additional resource be spent on Council Housing major repairs or repaying debt. This allocation of £5.642m includes £2.186m which is a one off budget allocation for 2012/13 only, and £3.456m which is ongoing. A further report will be presented to the Executive shortly as part of the updated HRA business plan and this will provide members with options on how this additional resource will be spent.

- 3.53.6 One-off expenditure in 2011/12 – the 2011/12 probable budgets includes £318k of one-off expenditure that is not needed in 2012/13.
- 3.53.7 Funded from balances/reserves – The 2011/12 budgets included £1.143m that was funded from balances/reserves. Of this, £467k was funded from budgeted working balances, and £676k was funded from an earmarked reserve for the ALMO interest rate adjustment. It is proposed that this £1.143m be met from the revenue budget as part of the budget for 2012-13.
- 3.53.8 One off funding from balances - £296k – see growth above
- 3.53.9 One off funding from reserves £1.890k – see growth above
- 3.53.10 An average rent increase of 7.14% per dwelling per week. This will yield £3.182m.
- 3.53.11 An average service charges increase of 5.6% has been included for 2012/13 in line with the September 11 RPI indices). This will yield £158k.
- 3.54 The draft budget for 2012/13 is set out on table 1 on appendix 1. Also the detailed movement for each budget head, comparing the 2011-12 budget with the draft budget for 2012/13 is shown on table 3 on appendix 1. The draft budget shows a balanced budget. The table below shows the key summary movement from 2011/12 (as explained above):-

Description	£000
Inflation	405
Housing Subsidy	8,075

Capital Charges	-8,589
Stock Loss/Efficiency Savings (net)	-782
*Growth – Depreciation/Major Repairs	5,642
One off expenditure in 11-12	-368
Funded from balances/reserves in 11-12	1,143
One-off funding from balances	-296
One off funding from earmarked reserves	-1,890
Rent Increase	-3,182
Service Charge increase	-158
Total	0

*growth – depreciation/major repairs comprises £2.186m one off allocation for 2012/13, and £3.456m ongoing.

Other Budget Strategy Options

- 3.55 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.
- 3.56 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. The rent rebate limit for 2012/13 has been increased by 7.2%.
- 3.57 Alternatively, Members could raise rents at a rate below convergence levels (i.e. less than 7.14% on average), or indeed freeze or reduce average rents. This would mean that the Council would not be following rent restructuring policy, and members would need to agree additional specific savings over and above those savings already included in this report. Any additional savings would need to come from operational or service related costs (such as repairs).
- 3.58 The following table sets out the income generated by various percentage rent increases ranging from 0% to 7.14%, and the table sets out 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%	7.14%
	£m	£m	£m	£m	£m	£m	£m	£m
Income Generated	0	0.448	0.854	1.336	1.743	2.227	2.635	3.182
Additional Savings to be Identified	3.182	2.734	2.328	1.846	1.439	0.955	547	0

Brent Housing Partnership (BHP) and the Consultation Process

- 3.59 On 18th January 2012 BHP's Board met and received a briefing from the Director of Regeneration and Major Projects and the Assistant Director Strategic Finance on the draft HRA budget proposals for 2012-13. The BHP Board agreed the following resolution:-

“BHP board recognises and understands the basis upon which the proposed rent increase is based and agrees that this is an appropriate strategy for the Council to take. The board welcomes that fact that this will generate a significant capital sum which will be invested in the maintenance and improvement of the housing stock. However as approximately 40% of tenants are not in receipt of housing benefit and would therefore have to meet the cost of this rent increase we are aware that this may cause financial hardship to some of the poorest residents in Brent”.

Non HRA Stonebridge Dwellings

- 3.60 In addition to the Council's dwellings contained within the HRA, the Council also continues to hold dwellings outside the HRA i.e. in the General Fund. These dwellings were formerly held by the Stonebridge Housing Action Trust (HAT) and they were transferred to Brent Council in August 2007 when the HAT was wound up.
- 3.61 The Council currently owns 346 properties under this scheme. 332 of these are tenanted properties, none are currently void, and 14 properties are let on a leasehold basis.
- 3.62 Hillside Housing Trust manages these properties on the Council's behalf through a PFI contract.
- 3.63 Council dwellings are normally held in the HRA. However in order to avoid any negative impact of these dwellings on the Council's HRA, the Secretary of State issued a direction under section 74(3)(d) of the 1985 Housing Act, for the properties in this scheme to be held outside the HRA i.e. in the General Fund.
- 3.64 The income and expenditure associated with these Stonebridge dwellings (which will be broadly neutral in 2012/13) will be included in the Council's General Fund budget.
- 3.65 Last year, for 2011/12, the Council agreed an average rent increase of 5.3% and an average service charges increase of 50.3%. The overall average increase in 2011/12 was 7.4%.

3.66 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).

3.67 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. The PFI contract sets out that rent increase/decrease for next year should be based on the following formula (note that for 2012/13, the RPI is the Retail Price Index at September 2011, which was 5.6%):-

- Where rents are below target rent level – they should be increased by 5.6% (RPI) + 2%. This means that they should increase by 7.6%.

However, this is subject to a limit on the lower of:-

- the target rent at an individual level; or
- 5.6% (RPI) + 0.5% + £2.

- Where rents are at target level – they should be increased by 5.6% (RPI) plus 0.5%. This means that they should increase by 6.1%.

3.68 Taking account of the framework set out in the PFI contract, the following table sets out the 2011/12 actual rent and the proposed rent levels for 2012/13.

	Rent 2011-12 £	Rent 2012-13 £	Increase/ (Decrease) £'s	Increase/ (Decrease) %	No	Total Increase/ (Decrease) £
1 Bed Flat	89.20	94.64	5.44	6.1%	85	24,045
2 Bed Flat	104.23	112.05	7.82	7.5%	45	18,299
1 S/croft Elders	89.20	94.64	5.44	6.1%	15	4,243
2 S/croft Elders	104.23	112.05	7.82	7.5%	3	1,220
2 Bed House	114.71	121.71	7.00	6.1%	36	13,104
3 Bed House	125.71	133.38	7.67	6.1%	77	30,711
4+ Bed House	132.34	140.41	8.07	6.1%	71	29,794
Annual Total	1,930,677	2,052,093	7.03	6.3%	332	121,416

This table shows that the range of the rent change is from an increase of £5.44 to £8.07, and that the average overall rent change (excluding Service Charges) for 2012/13 will be an increase of £7.03 per week, which is an average increase of 6.3%. Members are asked to agree this.

This will increase the average rent (excluding service charges) from £111.83 to £118.87 and will result in an increase of £121k in rent income per annum (when comparing the full year effect of 332 dwellings), which will, in line with the PFI contract, be offset by a reduction in the unitary charge in 2012/13. The overall impact of this will therefore be broadly neutral on the Council's budget.

- 3.69 Service Charges - All of the costs used in calculating the Hillside Service Charges are based on the estimated actual costs of providing those services. For 2012-13 these charges have initially been uplifted by 5.6% in line with the September 11 RPI, but then reduced to reflect efficiencies achieved in some contracts.
- 3.70 Hillside does not divide the service Charges up according to bed size of the units but the Service charges are directly worked out by the costs of providing the services that every block receives.
- 3.71 As a result of this process, Hillside Housing Trust have notified us that they propose to decrease average service charges in 2012/13 (note that this is an average and that some dwellings will be subject to an increase). The following table sets out the average proposed Service charges in 2012/13 and the compares this to the Service Charges for 2011/12:-

	Average Service Charges 2011-12	Average Service Charges 2012-13	Increase/ (Decrease) £'s	Increase/ (Decrease) %	No	Total £
1 Bed Flat	13.72	14.23	0.51	3.7%	85	2,254
2 Bed Flat	13.95	13.55	-0.40	-2.9%	45	-936
1 S/croft Elders	36.35	38.47	2.12	5.8%	15	1,654
2 S/croft Elders	36.35	38.47	2.12	5.8%	3	331
2 Bed House	1.05	0.60	-0.45	-42.9%	36	-842
3 Bed House	1.05	0.60	-0.45	-42.9%	77	-1,802
4+ Bed House	1.05	0.60	-0.45	-42.9%	71	-1,661
Annual Total	137,355	136,352	-0.06	-0.7%	332	-1,003

This table shows that overall the proposals for Service Charges will be an average decrease for 2012/13 of £0.06p per week, being an average decrease of 0.7% over 2011/12 charges. 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 £7.96 to £7.90 and will result in £1k less service charges income per annum (when comparing the full year effect of 332 dwellings) , which will, in line with the PFI contract, be used to pay a reduced unitary charge in 2012/13. The overall impact of this will therefore be broadly neutral on the Council's budget.

- 3.72 The combined effect of the proposals for rents and service charges changes at Stonebridge for 2012/13 are set out in the following table:-

	Average Rents & Service Charge 2011-12	Average Rents & Service Charge 2012-13	(Increase) £'s	(Increase) %	No	Total Increase £
1 Bed Flat	102.92	108.87	5.95	5.8%	85	26,299

2 Bed Flat	118.18	125.60	7.42	6.3%	45	17,363
1 S/croft Elders	125.55	133.11	7.56	6.0%	15	5,897
2 S/croft Elders	140.58	150.52	9.94	7.1%	3	1,551
2 Bed House	115.76	122.31	6.55	5.7%	36	12,262
3 Bed House	126.76	133.98	7.22	5.7%	77	28,909
4+ Bed House	133.39	141.01	7.62	5.7%	71	28,133
Annual Total	2,068,033	2,188,445	6.97	5.8%	332	120,413

This table shows the combined impact of the proposed average rent and Service Charge increase at Stonebridge for 2012/13. The net impact on tenants will on average be an increase of £6.97 or 5.8%, although the actual impact will depend upon the dwelling type and the specific service charges that are being incurred by that dwelling.

Conclusion

- 3.73 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 1. 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 2012/13 under the new self financing system for council housing, and for setting the level of rents for Council dwellings in 2012/13.
- 4.2 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 requires 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 1989 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 2012/13 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 Under section 76(8) of the Local Government and Housing Act 1989, 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 2012/13 on 27 February 2012, when the Full Council will meet.
- 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.
- 5.9 Section 313 of the Housing and Regeneration Act 2008, which adds section 80B to the Local Government and Housing Act 1989, makes it possible for councils and specified properties belonging to Councils to be excluded from the subsidy system subject to agreement with the Secretary of State and it allows the Secretary of State to make directions in relation to such agreements.

- 5.10 As stated in paragraph 3.41 above, BHP was granted Registered Provider status by the Tenants Services Authority (“TSA”) in April 2011. The Localism Act 2011, once enacted will abolish the TSA and transfer its regulatory functions to the Homes and Communities Agency (HCA).
- 5.11 Sections 167 to 175 and schedule 15 of the Localism Act 2011 includes provisions for the reform of the Council Housing Finance System, including the abolition of the Housing Revenue Account Subsidy, and the current finance system will be replaced with a self financing system from April 2012. This new system will enable the Council to operate a Housing Revenue Account which will allow the Council to keep all of its rental income and use it to support its own housing stock. The Act includes powers for the Secretary of State to:-
- set the figure at which Councils buy themselves out of or are paid, to exit the subsidy system (essentially the level of debt individual Councils are required to take on, or have repaid, to put the self financing system in place); and
 - set a maximum limit on the amount of housing debt that each authority can hold.
- 5.12 Once the Executive decides on the setting of the rents in respect of the Council’s housing stock that is managed by Brent Housing partnership and the Brent Stonebridge Dwellings that are managed by Hillside Housing Trust, notices of variation will be served on the tenants pursuant to section 103 of the Housing Act 1985 to notify them of the changes in rent which will come into effect from 2 April 2012.

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. Training has been provided to all levels of staff and Board Members within BHP on the requirements of the Equalities Act 2010 and new public sector equality duties. BHP is in the process of drafting an updated Equalities Strategy including new equality objectives which will be published in January 2012 and have joined an ‘Investors in Diversity’ accreditation scheme which is progressing within the organisation.

6.2.1 BHP operates a devolved budget from Brent to further improve the management and processing of adaptations. For the financial year ending 31st March 2011, 126 major adaptations taking an average of 85 days to complete were carried out for council tenants costing £649k. These works included the provision of level access showers, stair lifts, ramping to allow wheelchair access, kitchen adaptations.

In the same period, 190 Minor Adaptation (works valued under £1k) taking an average of 4 days to complete were carried out costing £37k. These works included the provision of hand / grab rails, key safes.

6.2.2 The Welfare Reform bill may have some far reaching effects for the tenants we manage and consequently our ability to maximise rental income for the council. For example there will be a cap of £350 for single people and £500 for single parent households. The housing cost element of the Universal Credit is given the lowest priority, so that a single person's housing cost is taken into account after all other benefits have been calculated. It is, therefore, possible that the housing cost element may not cover a substantial part of the rent that is due.

Whilst the impact is not purely financial, the arbitrary figure being used to determine what households are expected to live on does not take into account their outgoings and as a result many people will be placed under the poverty line at a time when there are mounting fuel, food and transport costs.

7.0 Staffing/Accommodation Implications

7.1 Decisions made by the Executive on expenditure and rent levels can materially affect staffing numbers for council officers and Brent Housing Partnership. There are no direct proposals for staffing arising from this report, however the HRA budget does fund the management fee for Brent Housing Partnership and they are conducting an efficiency review as part of the ALMO optimisation, and some staff may be affected by that review. Also some staff that maybe affected by the Council's ongoing One-Council reviews". The impact on these staff will be reported separately, under the specific reviews.

7.2 BHP staff will be relocating from Chancel House into the Council's new Civic Centre in 2013/14.

8.0 Background Information

HRA Self Financing Determinations
2012/13 HRA Budget Working Papers

Any person wishing to inspect the above papers should contact:

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