

HOUSING REVENUE ACCOUNT (HRA) RENT SETTING 2010-2011

Cabinet Member

Councillor Philip Corthorne, Lead Member for Social Services, Health and Housing

HEADLINE INFORMATION

Purpose of report

This report largely centres on recommended HRA rents and charges as well as the HRA budget for 2010/11.

Contribution to plans and strategies

HRA resource priorities are aligned with, and enable the Council to deliver, its strategic housing objectives set out in the Housing Strategy, Hillingdon Homes Service Plan and other housing services strategies such as the Homelessness strategy. HRA resources are also combined with other funding streams, such as Supporting People, to deliver additional priorities for the Council's landlord service including tenancy support services.

Financial Cost

The proposals centre on the application of specific, ring-fenced HRA resources, which are contained within the overall HRA Fund. There is no impact on the Council's General Fund.

RECOMMENDATIONS: That, following Cabinet's recommendation, Council resolves:

1. To use formula rents under the DCLG rent restructure policy to calculate HRA dwelling rents for 2010/2011.
2. To agree the average HRA rents, charges and allowances for 2010/11 as set out in Tables A to D of this report.
3. To agree the HRA Budget for 2010/11 as set out in Appendix 1 of this report.

INFORMATION

Reasons for recommendation

1. The purpose of this report is to seek Cabinet approval to the proposed HRA rents, service charges and allowances for 2010/2011. Under current legislation, income from council tenants for rents and service charges must be separately shown in the Housing Revenue Account. Under DCLG general guidelines these charges must be reviewed regularly to ensure that the HRA does not go into deficit.

Alternative options considered

2. Cabinet could amend or add to the proposals in respect of charges, but such amendments or additions must ensure that service charges levied cover the cost of providing services. Proposals in Table A to D reflect such costs;
3. To set rents higher or lower than those proposed in line with the Government rents restructuring policy. In both cases there would be a detrimental effect to the HRA. Setting rents higher would result in increased negative subsidy payable to the Government, with disproportionate increase in income generated. This effectively means we are charging

higher rents to pass on to the Government. Setting rent lower would result in less income with the same amount of negative subsidy payable to the Government. Neither option can be recommended.

Comments of Policy Overview Committee

4. None at this stage.

Supporting Information

A. Summary

5. The report proposes an average rent increase of £1.29 or 1.35% that will result in an average rent for Hillingdon Council dwellings of £89.89. This average rent has been calculated in line with the rent restructuring formula provided by DCLG. Other charges and allowances are recommended to stay at the same level.
6. Subsidy payable to the government is a key element within the HRA. The impact of the 2010/11 HRA Subsidy Determination issued by DCLG has had a broadly neutral impact on Hillingdon. The main reason for this is that management, maintenance and the major repairs allowances that form part of the subsidy settlement have been relatively favourable for Hillingdon as outlined in section D.
7. Normally the Determination is a key document and a detailed analysis also provides a pointer to future year resources. However the 2010/11 Subsidy Determination has been issued under the background of a joint Treasury/ DCLG two year HRA Review that is currently nearing a conclusion; and which is intending to overhaul the HRA subsidy system. As a result, the resources implied by the 2010 Determination need to be viewed in a short term horizon. The review could have a significant impact on resources available from 2011/12 onwards.
8. On the basis of current information, the HRA Balances are expected to increase by £1.7m in 2010/11. However, from 2011/12 onwards the balances are projected to reduce marginally on an annual basis. The main reason for this that the Council will be paying a higher level of subsidy to government. The projected level of balances will need to be looked at but are projected to be at a level that will sustain the HRA for the foreseeable future.
9. As the HRA Review is expected to have a significant impact on the future financing of the council housing operation, the longer term projection of the HRA resources for Hillingdon contained in this report are only indicative. In common with other authorities, a more thorough analysis of future revenue and capital spending requirements will be needed during 2010; and this will need to be set against the resource projections implied by any replacement HRA financing regime.

B. Background

10. This report sets out the analysis to support the recommended rent increase, the proposals for the increases of the other HRA charges and setting of budgets for expenditure. It also provides further details of the proposals for the 2010/11 HRA Capital Programme that are covered in the General Fund report elsewhere on the Agenda.

11. The purpose of this report is three fold, to:

- (i) provide Cabinet with proposals for HRA rents, fees and charges for 2010/11;
- (ii) update Cabinet with the latest HRA income and expenditure projections for the current financial year 2009/10; and
- (iii) provide Cabinet with the proposed HRA budget for 2010/11 for approval within the context of the budget process for 2010/11.

12. Local housing authorities are required to carry out a periodic review of rents for dwellings and charges for services and facilities provided to council tenants in connection with the provision of dwellings owned by the Council and accounted for within the HRA. The costs of providing accommodation and tenancy services to council tenants are charged to the HRA. These costs are recharged to tenants by levying rents and service charges. There is a general directive from the Department for Communities and Local Government (DCLG) that these charges are reviewed annually.

13. In preparing the HRA budget a local authority is required to estimate as accurately as possible the total level of income needed from rents and charges to fund planned expenditure. Statutory provisions prevent the HRA from planning for an overall account deficit (income less expenditure plus balances and provisions). The total income from rents and charges depends on a number of factors:

- the Government's rent restructure formula and guidelines;
- the size and composition of the HRA stock of dwellings;
- the level of voids;
- income from commercial properties (e.g. shops owned by the HRA, way leaves);
- ground rents;
- provision for bad and doubtful debts from arrears;
- provisions for future liabilities;

14. The legislative provisions for charging rents and levying charges for services and facilities in the HRA are provided by Part 1 of Schedule 4 of the Local Government and Housing Act 1989.

15. Key strategic objectives for the Housing Revenue Account (HRA) are:

- to secure the best use of resources,
- build on increasing tenants satisfaction, and
- support the delivery of the Council's strategic objectives.

16. The HRA is a ring-fenced account. The objective is to get the best service from effective use of the whole HRA resource. In this context the expectation is that savings and efficiency gains would be reinvested HRA stock and services including wider affordable housing. Therefore our main financial objective is to deliver efficiency gains, and use funds released by such gains to improve services, provide additional stock investment and take advantage of wider affordable housing opportunities.

17. The budget proposals for the HRA have been compiled through a process involving:

- a detailed review of the costs of the current level of housing services;
- review of forecasted outturn for 2009/10 to project year-end balances to be carried forward to 2010/11

18. Key areas of interest for Council tenants and HRA service users within this report are:

- HRA dwelling rents for 2010/11, calculated using the Government's rents restructure formula;
- the level of HRA funding available for investment in stock and service provision to tenants;
- percentage increase for non-dwelling rents and charges for 2010/11.

19. As in previous years, precise calculations for HRA rents, fees, charges and budget proposals can only be carried out after release of the relevant HRA subsidy determinations. The DCLG released the HRA subsidy draft determination for 2010/11 on 10th December 2009 and the final determination was issued on 3rd February 2010.

20. In accordance with requirements under the Housing Act 1985, tenants must be given 28 days notice of changes in their rents once set by Council in February 2010. Notices will be issued at the end of February 2010. This will ensure that tenants have four weeks notice of rent increases to come into force on 5th April 2010, which is the first week in the new financial year.

C. Rents and Charges

HRA Rent Setting Framework

21. The HRA account framework is regulated by the DCLG. In recent years the HRA accounting framework has changed significantly and one of the key changes is how dwelling rents are calculated. Dwelling rents are now calculated using the formula rent in line with the DCLG national rent restructure programme. The rent restructure programme was introduced in 2002/2003.

Rent Restructure

22. In 2010/2011 council dwelling rents are expected to nationally increase by 3.1%. The Hillingdon dwelling rents proposal recommends an average increase of 1.35%. This average is based on property specific calculations using the rent restructuring formula provided by DCLG. The lower percentage increase is due to Hillingdon rents getting close to the nationally determined target rents. It is worth noting that the application of the formula at individual property level varies around this average according to property size and the market value of each property, as valued in January 1999. In addition, during 2010/11 no individual rents are allowed to increase by more than 3%.

23. The 2010/11 Subsidy Determination assumes an increase of this magnitude. Consequently, in order to minimise HRA subsidy losses in the HRA, it is recommended that rents be increased by an average of 1.35%. Table A below provides the estimated average rents for HRA dwellings.

Table A: HRA Dwelling Rents

| TABLE A: HRA DWELLING RENTS | | PREVIOUS YEAR | PREVIOUS YEAR | CURRENT YEAR | NEXT YEAR PROPOSED | |
|---|---|----------------|----------------|---------------------|---------------------|--------------|
| | | 2007/08 RENT | 2008/09 RENT | 2009/10 RENT | 2010/11 RENT | 2010/11 RENT |
| | | ACTUAL RENT pw | ACTUAL RENT pw | RENT RESTRUCTURE pw | RENT RESTRUCTURE pw | % Increase |
| HRA COUNCIL DWELLING RENTS (AVERAGE) | | £84.14 | £86.09 | £88.70 | £89.89 | 1.35% |
| a. | Flats/Maisonettes 1 bed | £70.02 | £70.48 | £72.69 | £74.03 | 1.85% |
| b. | Flats/Maisonettes 2 beds | £79.96 | £79.75 | £82.05 | £83.28 | 1.50% |
| c. | Flats/Maisonettes 3+ beds | £91.09 | £92.59 | £95.43 | £96.57 | 1.20% |
| d. | Houses/Bungalows 1 bed | £76.03 | £79.53 | £81.96 | £83.22 | 1.54% |
| e. | Houses/Bungalows 2 beds | £88.85 | £92.32 | £95.15 | £96.29 | 1.20% |
| f. | Houses/Bungalows 3 beds | £100.27 | £104.81 | £108.02 | £109.05 | 0.95% |
| g. | Houses/Bungalows 4+ beds | £107.95 | £112.22 | £115.65 | £116.61 | 0.83% |
| h. | Temporary Accommodation HRA Hostels (Average)* | £57.40 | £77.54 | £79.95 | N/A | N/A |

*All hostels are sold in 2009-10

24. This average level of rent increase will broadly maintain balances at the current level. Without this increase balances would fall by around £510K.

25. Included in the rent restructuring calculation for rents set out in the table is an inflation factor prescribed by the Department for Communities and Local Government (DCLG). The national average increase of 3.1% includes other elements of the rent restructuring formula. This includes an element to convergence of social housing rents. As a result the vast majority of rents within Hillingdon will increase between 1% and 2% with some increasing by the maximum 3%. This will result in an average increase of 1.35% for tenants within the Borough.

Non Dwelling Rents

26. HRA non-dwelling rents cover garages, hard standings, carports, shops and commercial premises. This report deals with garages, hard standings and carports. Shops and commercial premises are managed as part of the Council's commercial holdings.

27. Garage and carport rents are not covered by rent restructure. These have been increased annually using the percentage inflation rate used for dwelling rents. However, for 2010/2011, officers are recommending no changes to the existing charges to maintain parity with the Councils overall intention of not increasing charges wherever possible.

Table B: HRA Non-Dwelling Rents

| Table B | | PREVIOUS YEAR | PREVIOUS YEAR | CURRENT YEAR | NEXT YEAR PROPOSED | |
|---------|------------------------|-----------------|-----------------|-----------------|--------------------|------------|
| | HRA NON DWELLING RENTS | 2007/08 CHARGES | 2008/08 CHARGES | 2009/10 CHARGES | 2010/11 CHARGES | % Increase |
| a. | Garages | £9.60 | £9.71 | £9.80 | £9.80 | No Change |
| b. | Car Ports | £5.40 | £5.60 | £5.60 | £5.60 | No Change |
| c. | Hard Standings | £3.60 | £3.80 | £3.80 | £3.80 | No Change |

Charges and Allowances

28. In previous years the Council's policy has been to increase existing service charges and allowances by inflation plus a nominal rate to support actual cost of service provision. However, officers are recommending no change for 2010/11 as set out in the following table C. The slight downward adjustment in Careline charges is for the purposes of making the weekly charge being divisible by 7 to arrive at a daily charge. Keeping the same rate of charges as last year also includes maintaining the charges for fuel at last year's level.

29. Due to increased number of tenants in receipt of the service and lower cost of the maintenance contract, the cost per individual for CCTV has lowered and a reduced charge can be levied: £1.57 to 55p per week.

30. Previously the Council has paid £1,250 to tenants who downsized and took a property with 1 less bedroom and a further payment of £1,000 was made per additional bedroom given up. However, research indicates that monetary payments are not the primary element that encourages people to move to more appropriate sized accommodation. Officers are therefore recommending that Home Release allowances are reduced from £1,250 to £750 for one bedroom release and further payment for additional bed room is capped to a total payment of £1,250. This reduction in allowance will bring Hillingdon in line with other neighbouring boroughs.

31. Similarly, a cap on the amount paid for redecoration allowances per bedroom size, is proposed to bring the Council in line with other boroughs. This will result in the following allowances per bedroom size:

- 1 bed - £250
- 2 bed - £275
- 3 bed plus - £325

Table C: Charges and Allowances

| | | CURRENT YR | | ESTIMATE |
|----|--|-----------------------------|---|-----------------------------|
| | TABLE C: CHARGES AND ALLOWANCES | 2009/10 CHARGES & ALLOWANCE | PROPOSED CHANGE | 2010/11 CHARGES & ALLOWANCE |
| 1 | ANCILLARY SERVICE CHARGES | | | |
| a. | Careline Council Tenants* | £1.35 | -£0.02 | £1.33 |
| b. | Heating Schemes | £3.54-£14.43 | No Change | £3.54-£14.43 |
| c. | Furniture in Temporary Accommodation** | £10.00 | No Change | N/A |
| d. | Hostels Heating & Hot Water** | £7.10 | No Change | N/A |
| e. | Hostels Electricity** | £5.92 | No Change | N/A |
| f. | Grounds Maintenance | £1.09-£3.26 | No Change | £1.09-£3.26 |
| g. | Communal Electricity | £0.94 | No Change | £0.94 |
| h. | CCTV | £1.57 | -£1.02 | £0.55 |
| i. | Door Entry | £0.21 | No Change | £0.21 |
| 2 | REDECORATION ALLOWANCES | | | |
| a. | Living Room | £105.00 | No Change | £105.00 |
| b. | Dinner/Kitchen | £150.00 | No Change | £150.00 |
| c. | Staircase | £105.00 | No Change | £105.00 |
| d. | Landing | £50.00 | No Change | £50.00 |
| e. | Double Bedroom | £105.00 | No Change | £105.00 |
| f. | Single Bedroom | £75.00 | No Change | £75.00 |
| g. | Bathroom | £75.00 | No Change | £75.00 |
| h. | WC | £30.00 | No Change | £30.00 |
| i. | Dining Recess | £25.00 | No Change | £25.00 |
| j. | Working Kitchen | £105.00 | No Change | £105.00 |
| k. | Sweeping Flue | £5.00 | No Change | £5.00 |
| l. | Two Room Allowance | £260.00 | No Change | £260.00 |
| 3 | OTHER ALLOWANCES | | | |
| a. | Home Release Reward - Reduction by 1 Bed | £1,250.00 | -£500.00 | £750.00 |
| b. | Home Release Reward - Reduction by 2 Bed | £2,250.00 | -£1,250.00 | £1,000.00 |
| c. | Home Release Reward - Reduction by more than 2 Beds | £3,250.00 | -£2,000.00 | £1,250.00 |
| d. | Home Release Reward - Removal Fees | £300.00 | Included in Home Release Reward payment | n/a |
| e. | Home Release Reward - Carpet/Curtain/Disconnection /Reconnection | £700.00 | Included in Home Release Reward payment | n/a |
| f. | Statutory Home Loss*** | £4,700.00 | Set by DCLG | £4,700.00 |
| g. | Golden Goodbye | | | |
| | Bedsit | £150.00 | Scheme no longer in operation | n/a |
| | 1 Bed | £200.00 | | n/a |
| | 2 Bed | £250.00 | | n/a |
| | 3+ Bed | £300.00 | | n/a |

* It is a technical change

** All Hostels are sold in 09-10

*** Set by DCLG

D. Service Charge De-pooling Update

Background

32. In the past, each local authority had some discretion over the level of dwelling rents charged to council tenants. This has largely been removed, and dwelling rents is required to be calculated using a rent formula. The formula takes accounts of property value, location, size of accommodation and relative regional affordability by reference to manual worker earnings. Rents for social housing were planned to move to the formula rent by 2011/2012. At this point rents charged by both the RSL and local government sectors would be identical for similar properties in similar locations.

33. The HRA subsidy arrangements allow a limited category of costs to cover general management and maintenance costs (M&M Allowance) and are included in base dwelling rents. These M&M allowances do not cover certain services provided to tenants such as caretaking, cleaning, grounds maintenance, warden services, estate patrols, CCTV cameras etc. Government expectations are that these costs are identified and de-pooled from the general level of rents and charged for separately. However, local authorities are only allowed to recover the actual cost of the relevant service, and tenants receiving the service individually or as a group within similar types of properties can be charged.

34. In order to fully comply with DCLG rents restructure and service charge de-pooling policies the following de-pooling strategy was adopted in February 2006: -

- a. In 2006/2007 grounds maintenance costs were de-pooled from rents;
- b. For 2007/2008 de-pool other miscellaneous charges (e.g. CCTV
- c. In 2008/2009 de-pool caretaking and cleaning costs from rent charges.

The strategy has been fully implemented and service charges are now de-pooled.

35. Caretaking charges are set out in Table D below. For 2010/11 officers are again recommending no change in the charges in line with intention of the Council to restrict increases wherever possible.

Table D: Caretaking Charges

| TABLE D: CARETAKING CHARGES | PREVIOUS YEAR | PREVIOUS YEAR | CURRENT YEAR | NEXT YEAR PROPOSED | |
|------------------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|------------|
| | 2007/08 CHARGES & ALLOWANCE | 2008/09 CHARGES & ALLOWANCE | 2009/010 CHARGES & ALLOWANCE | 2010/11 CHARGES & ALLOWANCE | % Increase |
| Caretaking Band | | | | | |
| A | n/a | £10.00 | £10.00 | £10.00 | No change |
| B | n/a | £6.50 | £6.50 | £6.50 | No change |
| C | n/a | £4.50 | £4.50 | £4.50 | No change |
| D | n/a | £3.50 | £3.50 | £3.50 | No change |
| E | n/a | £2.50 | £2.50 | £2.50 | No change |
| F | n/a | £1.50 | £1.50 | £1.50 | No change |
| Sheltered Housing | n/a | £5.00 | £5.00 | £5.00 | No change |
| Queens Lodge | n/a | £6.30 | £6.30 | £6.30 | No change |
| Additional Refuse Collection | n/a | £1.75 | £1.75 | £1.75 | No change |

E. Impact of the 2010/2011 HRA Subsidy Determination on Hillingdon

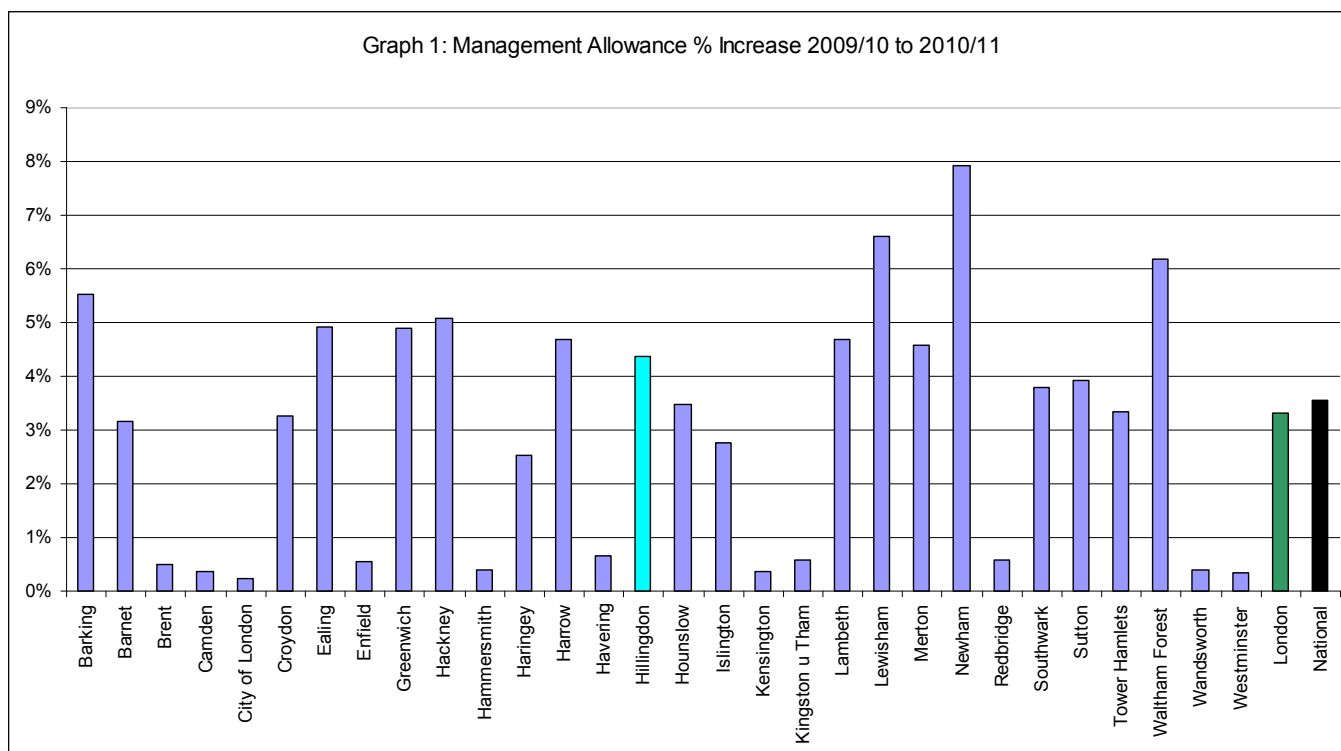
National 2010/11 Subsidy Determination Headlines

36. In common with recent years, the 2010/11 HRA rent setting process is largely dependent upon the HRA Subsidy Determination which is the responsibility of Department for Communities and Local Government (DCLG). Since 2002, when rent restructuring was introduced, the Determination also effectively provides Government direction for individual Council rents.
37. The Government is, however, near to concluding a two year review of the HRA and is intending to move away from the HRA Subsidy system from 2011/12. In taking account of this timetable for the overhaul of the subsidy system, the HRA Subsidy Determination for 2010/11 has been based on the broad parameters set out in the current years 2009/10 Determination. So this is effectively a Determination for year 2 of a two year settlement. Proposals for the future funding of the HRA will change radically and any future resource projections can not be based on the 2010/11 Subsidy Determination.
38. The final subsidy Determination for 2010/11 was issued on the evening of 3rd February 2010 and, for Hillingdon, showed negligible changes from the draft determination that was published on 10th December 2009. The Determination confirms the DCLG preferred option to restrict rent increases to a national percentage of 3.1% in 2010/11. For Hillingdon, the level of rent increase in line with the Determination (1.35%) will result in a broadly neutral impact on overall resources for Hillingdon in gross terms and represents a small real terms decrease in resources when inflation is taken into account.
39. The subsidy calculation involves working out allowances for expenditure items along with assumed income from rent levels. If the net amount is positive then the authority receives subsidy whereas if the net amount is negative the authority has to pay this net negative sum to the DCLG. Hillingdon has been in a negative position for a number of years largely as a result of having a relative low level of debt. The final subsidy Determination for 2010/11 confirmed that Hillingdon will need to pay over a negative subsidy amount of £11.04m. An increase of £0.63m compared to the £10.4m payable for this current financial year. The main reasons for this increase relates to Government assumptions about a few key income and expenditure items that are used to determine the net subsidy amount and a brief sketch of the impact on Hillingdon is outlined in the following paragraphs.

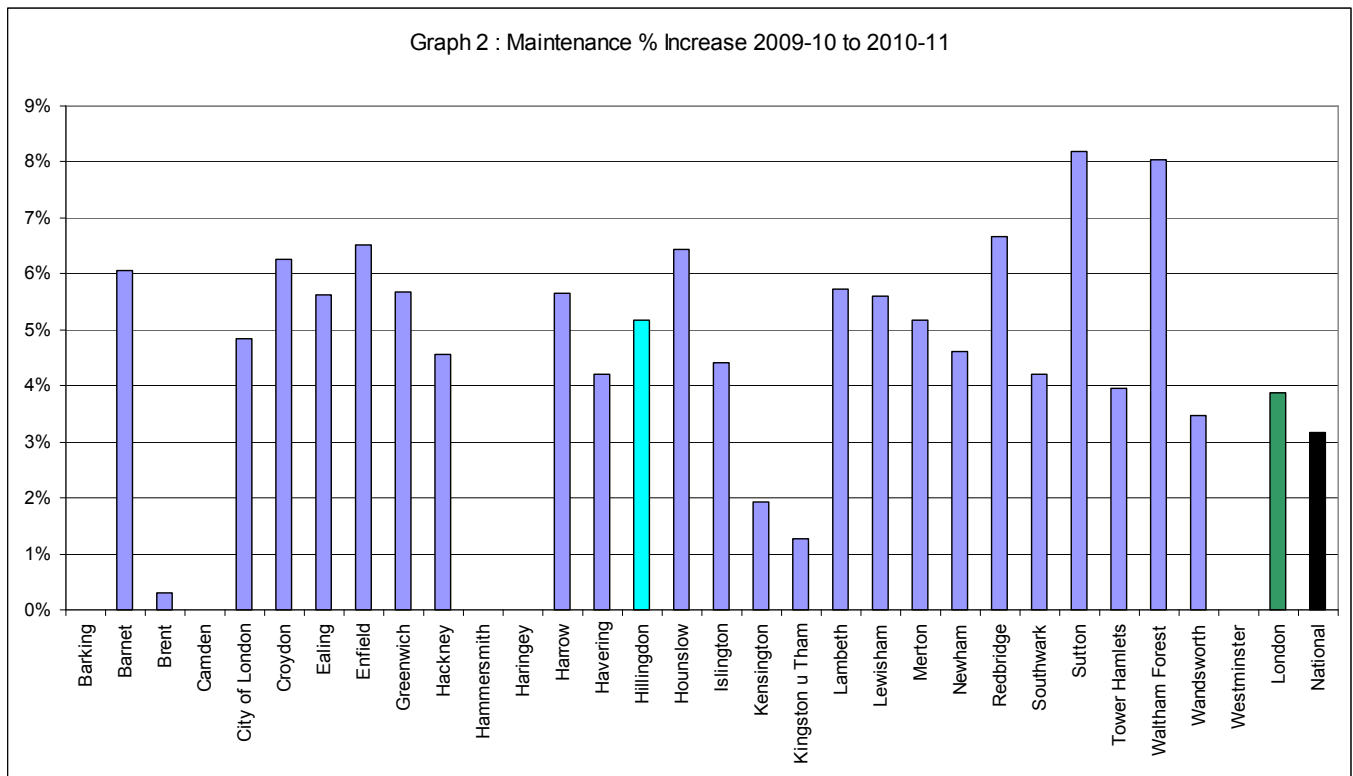
Hillingdon's Relative Position within the London Region

40. Once rent assumptions have been 'determined', the net change in subsidy payable for an authority like Hillingdon depends on the various allowances that are set off against the assumed rent increase. If increases in management, maintenance and major repairs allowances in particular match formula rent increases, then the overall change in subsidy remains neutral. As the Government effectively determines the overall level of these allowances as part of the wider Comprehensive Spending Review, movements in allowances for individual authorities depends on comparative relative position of each council. Within the overall national context, there is a fair degree of variation in these various calculated expenditure allowances inside the London region. Hillingdon's 2010/11 relative position has remained a little better than the median within the 30 London Housing Authorities that have responsibility for Council.

41. Graph 1 below shows the London variation for Management Allowances. The graph shows considerable variation between authorities along with Hillingdon's relative position within London. The London variation ranges from the City of London with only 0.2% increase compared with Newham with 7.9%. Ten Boroughs will receive a higher rate of increase per dwelling than Hillingdon but nineteen Boroughs will receive a lower rate of increase in Management Allowance for 2010/11. The rate of increase for Hillingdon, 4.4% is higher than the London average increase of 3.3% and the national average of 3.5%.

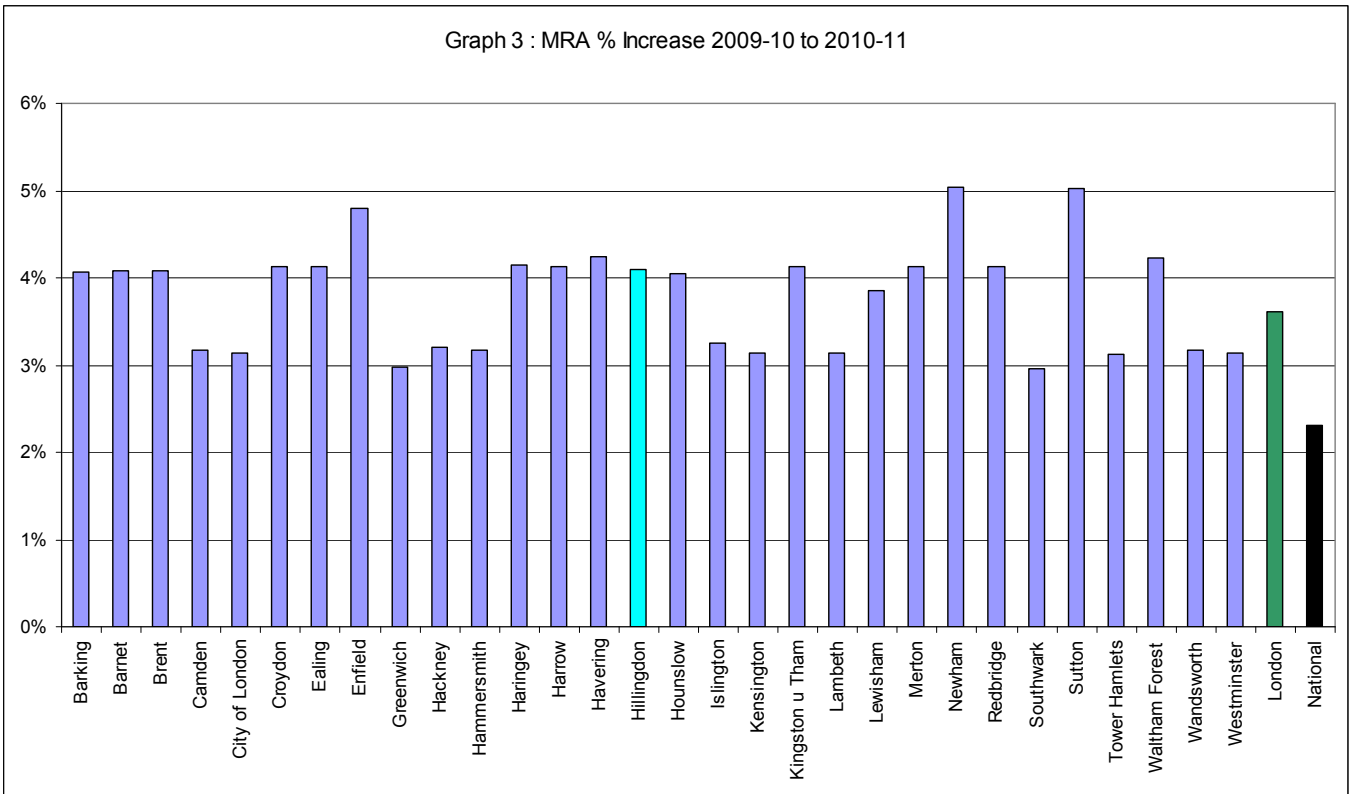


42. Graph 2 below shows the increase for the Maintenance allowance for London authorities. The graph shows that twelve Boroughs will receive a higher rate of increase per dwelling than Hillingdon and that seventeen Boroughs will receive a lower rate of increase in Maintenance Allowance for 2010/11. The 5.2% rate of increase for Hillingdon is higher than the London average. There is a fair degree of variation with Sutton having the highest level of increase of 8.2% while a number of councils having no increase in allowances. The graph also shows that the London average increase of 3.9% is slightly higher than the national average increase of 3.2%.



43. Graph 3, below, shows the percentage increase in MRA for the various London Authorities. As a result of the DCLG wish to restrict volatility within the subsidy settlement relatively uniform increases have been set for London ranging between 3.0% for Greenwich and Southwark to 5% for Newham and Sutton. Hillingdon's relative position appears favourable representing an increase of 4.1%. The graph also shows that London authorities have had favourable increases from the Determination with the London average increase of 3.6% for MRA is being higher than the 2.3% national average increase This reflects an emerging view that costs for major repairs are higher in London.

Graph 3 : MRA % Increase 2009-10 to 2010-11



44. The three graphs show that the management, maintenance and major repairs allowances increases for 2010/ 11 have been relatively favourable for Hillingdon. As a consequence, the overall change in 2010/11 has been broadly neutral.

45. A more detailed analysis of the Subsidy Determination for Hillingdon is shown in Table E below. This also includes the subsidy payments to DCLG for 2008/09 to 2009/10 for comparison. For 2010/11 the increased payment to DCLG amounts to £628k. However, this figure includes £495k for costs relating to the 20 Year Leasing Scheme that will be falling out in 2010/11 as the scheme draws to a close. Taking this into account, the net change in subsidy payable to DCLG amounts to £133k or only 0.26% of the Gross Expenditure of £51.7m.

Table E: Subsidy Payments to DCLG - 2008/09 to 2010/11

| | 2008/2009 Subsidy | 2009/2010 Subsidy Budget | 2010/2011 Subsidy Budget | Change between 2009/2010 & 2010/2011 | % Change between 2009/2010 & 2010/2011 | Comments |
|--|----------------------|-----------------------------|--------------------------------|---|---|--|
| | £ | £ | £ | £ | | |
| Dwellings Exc Share ownership | 10,697 | 10,537 | 10,423 | -114 | -1.08% | |
| Dwellings Inc Share ownership | 10,752 | 10,591 | 10,476 | -115 | -1.09% | |
| Management Allowance | 6,398,937 | 6,663,203 | 6,878,011 | 214,808 | 3.22% | Management Allowance increased by 4.36% which is reduced to 3.22% due to loss of 115 dwellings |
| Maintenance Allowance | 11,604,854 | 12,215,657 | 12,708,243 | 492,586 | 4.03% | Maintenance Allowance increased by 5.17% which is reduced to 4.03% due to loss of 115 dwellings |
| Major Repairs Allowance | 7,624,140 | 7,986,247 | 8,224,164 | 237,917 | 2.98% | MRA allowance increased by 4.11% which is reduced to 2.98% due to loss of 115 dwellings |
| Charges for Capital | 2,128,576 | 2,013,372 | 1,836,317 | -177,055 | -8.79% | Lower Interest rate by 0.31%, leading to lower debt relief |
| Other Items of Reckonable Expenditure | 1,090,997 | 517,054 | 22,010 | -495,044 | -95.74% | Relief on Ealing Family (EFHA) properties is no longer available |
| Interest on Receipts | (17,294) | (13,814) | (7,573) | 6,241 | -45.18% | Interest rate fall |
| Total General Allowances | 28,830,210 | 29,381,719 | 29,661,172 | 279,453 | 0.95% | |
| Guideline Rent Income | (43,985,463) | (44,537,995) | (45,445,171) | (907,175) | 2.04% | Rent increased by 3.16%, which is reduced to 2.04% due to loss of 115 of dwellings |
| Payment to DCLG before ALMO Allowance | (15,155,253) | (15,156,276) | (15,783,998) | (627,722) | 4.14% | |
| ALMO Allowance | 4,744,000 | 4,744,000 | 4,744,000 | 0 | 0.00% | |
| Payment to DCLG After ALMO Allowance | (10,411,253) | (10,412,276) | (11,039,998) | (627,722) | 6.03% | Increased Payment |

46. In summary, the subsidy payable to the government, once the 'reckonable expenditure' relating to 20 Year Leasing Scheme is taken into account, has remained still. However, the government's overall subsidy assumption is that Hillingdon will have greater income through rent increases compared with our need to spend on management and maintenance and major repairs allowances. Whereas the assumed income increase in rents is matched by actual increases in rents, the expenditure assumptions are difficult to relate to actual needs and costs at the local level.

47. Consequently, the review of the current subsidy regime is to be welcomed. This review is being undertaken as part of a wider review of the HRA and its financial operation on a day to day basis. The need for a review is now firmly acknowledged by both central and local government and working groups of the Review have been looking at both technical aspects and the overall resources needs at the national level. Local Government groups and representatives have been lobbying strongly for the Government to stop and perhaps reverse the leakage of funds from the overall national HRA. Currently the

national HRA will be contributing around £230m and this figure was projected to rise to £794m by 2022/23.

48. Government proposals for the future HRA regime have been scheduled to be published in late February. This is expected to dismantle the current subsidy system in exchange for a self financing package that could be effective from 2011/2012. Such a fundamental change in the financing of the HRA will have a major impact on future financial planning of the HRA. Details of any such offer along with an assessment of the impact for Hillingdon will be brought to Cabinet in the near future.

F. LATEST PROJECTED EXPENDITURE AND INCOME FOR 2009/2010 AND 2010/2011

49. An update on the projected expenditure for 2009/2010 and the proposed Original Budget for 2010/2011 is provided in Appendix 1.

50. To summarise the account shows that we are maintaining over £7.0m in balances, as at the end of 2010/11. An increase in balances of £1.7m has largely resulted from savings efficiencies. The level of revenue supported capital investment for next year has been maintained at £11.1m.

2009/2010 Latest Projections

51. In summary, for the current financial year 2009/10, a carried forward balance of £5.334m is projected. This shows a £859k under spend to the revised budget for the year.

52. The key variances for 09/10 are likely to be as follows:

- a.) Hillingdon Homes is expected to achieve a balanced budget.
- b.) The only note of caution for the Hillingdon Homes expenditure is the adverse weather conditions experienced in early January may have a corresponding adverse effect on the repairs budget
- c.) The Council side is projecting a small underspend of £78k. This is, however, the result of various combinations of overspends and underspends.
- d.) There is a favourable underspend of £387k within Other Expenditure. This is largely the result of a favourable variance from the lowering of interest rates on capital charges.
- e.) Income is showing a favorable variance of £394k as a result of improved void management by Hillingdon Homes and a favorable variance on shops' income.

2010/2011 Original Budget

53. The major factors in the preparation of the draft budget for 2010/11 are the rent increase proposals and the subsidy position as set out in sections C and E above. The proposed budget for 2010/11 set out in appendix 1 shows a closing balance of £7m. The balance has improved by £1.7m as a result of the various recommendations to increase savings. This includes Medium Term Financial Forecast (MTFF) savings of £1.4m identified by LBH and Hillingdon Homes which are listed in summary of savings in Appendix 2.

54. Appendix 3 shows a 10 year projection for the HRA. From 2011/12 a higher level of subsidy will be payable to the government. The main reason for this that the government will reimburse the actual costs on decent homes borrowing support instead of a more

favourable allowance. As a consequence, balances are shown to marginally decrease annually from 2011/12 onwards. However, this projection is based on the current subsidy arrangements and, as indicated in paragraphs 47 and 48 above, and these assumptions will be affected significantly by the HRA Review. This could have a major impact on future funding of the council housing sector and the longer term projection of the HRA resources for Hillingdon contained in this report is only indicative and a more thorough analysis of revenue and capital requirements will be needed during 2010. The implications of future arrangements and their national and local impact for both the short and medium term will be reported to Cabinet when firm proposals for the future are issued by the DCLG in late February / early March 2010.

G. HRA CAPITAL PROGRAMME 2010/2011

55. Table F below provides a summary of the proposed capital programme for 2010/11.

Table F: Capital Programme

| Capital Program 2008/09 - 2012/13 | Outturn 2008/09 (£000s) | Projected Outturn 2009/10 (£000s) | Draft Program 2010/11 (£000s) | Draft Program 2011/12 (£000s) | Draft Program 2012/13 (£000s) |
|--|--|--|--|--|--|
| Capital Expenditure | | | | | |
| Works to Existing Stocks | 11,285 | 9,812 | 10,000 | 10,000 | 10,000 |
| Estates Improvements | | 495 | 1,280 | 0 | 0 |
| Redevelopment Schemes | 120 | 120 | 0 | 0 | 0 |
| Other HRA Projects | 97 | 250 | 200 | 200 | 200 |
| Cash Incentive Scheme | 130 | 100 | 150 | 150 | 150 |
| Long Lane - Mental Health Units | 306 | 31 | 0 | 0 | 0 |
| Townfields Community Centre | | 660 | | | |
| HRA New Build - Pipeline Sites Phase 1 * | | 8 | 7,508 | 193 | |
| HRA New Build - Extra Care Site * | | | 3,430 | 3,430 | 176 |
| Program Total | 11,938 | 11,476 | 22,568 | 13,973 | 10,526 |
| Capital Financing : Sources | | | | | |
| Specific Capital Grants - MRA | 7,624 | 7,986 | 8,224 | 8,224 | 8,224 |
| Specific Capital Grants - Challenge Fund | | 8 | 6,278 | 809 | |
| Specific Capital Grants - Estates Improvements | | 495 | 1,280 | | |
| Capital Receipts | 306 | 31 | 452 | | |
| Supported Borrowing | | | 4,208 | 2,814 | 176 |
| Revenue Contribution to Capital - Works to Stock | 3,126 | 1,710 | 1,776 | 1,776 | 1,776 |
| Revenue Contribution to Capital - Other | 347 | 470 | 350 | 350 | 350 |
| Other External Funding | 535 | 776 | | | |
| Program Total | 11,938 | 11,476 | 22,568 | 13,973 | 10,526 |

* Relates to funding from "Challenge Fund"

56. A total budget of £22.568m is proposed for the HRA capital programme for 2010/2011. The major elements of this programme are Works to Existing Stock of £10.0m and £10.9m of New Build Affordable Housing.

Work to Existing Stock

57. The Council makes use of the Major Repairs Allowance (MRA) for works to existing stock with a top-up from revenue. For 2010/11 the MRA will increase from £7.986m to £8.224m. The addition of a revenue contribution of £1.776m the 2010/11 programme has been maintained at £10.0m, pending a wider long term review of repairs need, on a comparable basis to the 2009/10 works to stock programme projected outturn of £9.81m.

58. The level of spend in the future will also be affected by the amount of available revenue resources. During the 3 years 2010/13 £1.776m has been assumed as capital spends from revenue on works to stock. This compares with £3.126m in 2008/09 and £1.710m projected for 2009/10 as shown in table F above. As indicated in the previous paragraph, longer term review of the HRA Assets is planned. For 2010/11 it may be necessary to review the overall total programme of £10m in light of such a review.

59. This should also tie in HRA Review that is due to culminate in a final proposal to be published in late February / early March of this year. There is an expectation that this will offer a financial regime that will allow longer term resource planning. If this does not happen then there is a danger that a worsening negative subsidy position will continue to take resources away from Hillingdon and the associated adverse impact on balances may reduce and may even prevent revenue support for capital works in the future.

60. The draft programme for works to the existing stock in 2010/11 totals £10m (Table F above). This will be funded as follows:-

| (£m) | Description |
|--------------|---|
| 8.22 | Major Repairs Allowance (MRA) |
| 1.78 | Revenue Contribution to Capital Outlay (RCCO) |
| 10.00 | Total |

61. The approach to capital investment in the existing stock is to provide a reasonable balance between investment in decent homes standards, investment in wider renewal, and in environmental schemes to improve the quality of life of residents. The aim therefore is to deliver a mixed programme that reflects the following priorities for investment.

- *Making better use of stock* – supporting the council in increasing high priority housing units through the stock management program.
- *Other maintenance and improvements* – necessary works on estates
- *Adaptations* – to provide greater opportunities for independent living to people with disabilities
- *Security, health and safety* – programs of works that enhance the safety and security of residents - key aspects of quality of life.
- *Energy efficiency* – to support the council's strategic priority of home energy conservation
- *Environmental improvements* – investment in landscaping and other external enhancements that improve the environment, change perceptions of the area and address specific management issues.

New Build Affordable Program

62. Table G below provides an analysis of the programme since 2000/01. For new build, officers are proposing a programmed cost of £10.938m for 2010/2011. This includes the HRA Pipeline programme which is funded from the DCLG Challenge Fund that the

Council bid successfully. The extra funding will take the total spend, since 2000/01, to £14.047m.

Table G: HRA Affordable Programme

| Financial Year | Amount £ | Total £ |
|-----------------------|---------------------|--------------------|
| 2000/2001 | 397,339 | |
| 2001/2002 | 705,118 | |
| 2002/2003 | 3,009,896 | |
| 2003/2004 | 1,602,547 | |
| 2004/2005 | 1,311,831 | |
| 2005/2006 | 2,713,280 | |
| 2006/2007 | 3,371,000 | |
| 2007/2008 | 359,000 | |
| 2008/2009 | 426,000 | |
| 2009/2010* | 151,000 | |
| 2010/2011* | 10,938,000 | |
| Total Spend | | 14,047,011 |

*DENOTES ESTIMATE

Financial Implications

63. As this report is concerned with the setting of rents for council dwellings and the budget for the HRA as a whole, the financial implications are covered in the body of the report.

EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES

What will be the effect of the recommendation?

64. The effect of the recommendation will result in an average increase in rent for those residents who are council tenants by £1.19 with an average rent for 2010/11 of £89.89 a week. There will be no direct impact, however, for over 60% of tenants in receipt of housing benefit.

Consultation Carried Out or Required

65. The management agreement with Hillingdon Homes (HH) Ltd requires HH to support the Council in its review of Housing Revenue Accounts (HRA) rents and charges. This is to support the Local Authority's legal obligations in reviewing and levying appropriate charges for rents, services and facilities provided to council tenants in connection with the provision of dwellings owned by the Council and accounted for within the HRA. Hillingdon Homes Ltd consulted with tenants and tenant representatives through the Senate in February 2010.

66. At this meeting the key principles in setting rents and the HRA budget were outlined as: no significant growth in base budget; only unavoidable price increases have been incorporated; efficiency savings to be used to finance service improvements; and there will be no reduction in service.

Corporate Finance Comments

67. The budget proposals and capital expenditure projections in this report are consistent with the report on the General Fund revenue budget and capital programme for 2010/11 reported elsewhere on this Cabinet agenda.
68. The significant new HRA capital programme development is the inclusion of the new build schemes for general needs and extra care housing as part of the HRA Pipeline Sites Programme. The precise funding packages for the Council's match funding to Homes and Communities Agency funding for this programme has yet to be confirmed, but in line with the tender report approved by Cabinet on 21 January 2010 is expected to be from a mixture of borrowing, HRA balances and HRA capital receipts. This report assumes that the match funding will be in the form of capital receipts and borrowing covered by future rental income in the HRA.
69. The review of the HRA subsidy mechanism described at paragraph 41 above represents a significant forward development for the HRA. In view of the options being discussed within national debate on this issue, the Council's authorised limit for external debt and operational boundary for external debt within the Prudential Indicators considered as part of the General Fund budget report elsewhere on this agenda have been significantly increased, to allow for the possibility of the Council being able to locally manage its historic housing debt. However, this remains a scenario until precise proposals are put forward by the Government, and no recommendations have been made to Cabinet either in favour of or against this scenario.

Legal Comments

70. Part VI of the Local Government & Housing Act 1989 requires the Council to keep and maintain a Housing Revenue Account (HRA) and to comply with statutory provisions concerning what may be charged and debited to the account. The COUNCIL is also required in either January or February of each year to review rent and other charges in connection with housing to ensure that the HRA does not fall into a deficit in the forthcoming financial year.
71. The proposals in this report take account of government guidance and have also been subject to consultation. The proposals comply with the legislation and there are no legal impediments to them being implemented.

Background Papers :None

Appendix 1

HOUSING REVENUE ACCOUNT

Appendix 1

BUDGET FOR 2010-11

EXPENDITURE

HILLINGDON HOMES (HH LTD)

| | 2009/2010 | | | 2010/2011 changes | | | | | | | 2010/11 |
|--------------------------------|----------------|----------------|----------------|-------------------|-----------|----------------|----------------------|--------------------------------|----------|----------------|-----------------|
| | REVISED BUDGET | P09 YE OUTTURN | VARIANCE | BASE BUDGET | Inflation | Fees & Charges | Technical Adjustment | Unavoidable Growth / Reduction | Growth | Savings | Original Budget |
| | (£000) DEC '09 | (£000) DEC '09 | (£000) DEC '09 | | @ 0.40% | | | | | | (£000) |
| GENERAL SERVICES | 8,460 | 8,460 | (0) | 8,460 | 27 | | | | | (1,246) | 7,214 |
| SPECIAL SERVICES | 5,699 | 5,699 | 0 | 5,699 | 12 | | | | | | 5,711 |
| REPAIRS SERVICES | 11,775 | 11,775 | 0 | 11,775 | 12 | | | | | | 11,787 |
| SUPPORTING PEOPLE CONTRIBUTION | (1,092) | (1,092) | 0 | (1,092) | | | | | | | (1,092) |
| HH LTD NET OPERATIONS | 24,842 | 24,842 | 0 | 24,842 | 51 | 0 | 0 | 0 | 0 | (1,246) | 23,647 |

LONDON BOROUGH OF HILLINGDON (LBH)

| | | | | | | | | | | | |
|------------------------------------|---------------|---------------|--------------|---------------|-----------|----------|-----------|-------------|------------|----------------|---------------|
| GENERAL SERVICES | 1,327 | 1,346 | 19 | 1,327 | 5 | | (102) | 25 | 120 | (120) | 1,255 |
| SPECIAL SERVICES | 1,166 | 1,017 | (149) | 1,166 | 7 | | 102 | | | (77) | 1,198 |
| REPAIRS CONTRIBUTION | (266) | (214) | 52 | (266) | | | | 51 | | | (215) |
| LBH NET OPERATIONS | 2,227 | 2,149 | (78) | 2,227 | 12 | 0 | 0 | 76 | 120 | (197) | 2,238 |
| RENTS PAID | 711 | 470 | (241) | 711 | | | (495) | (129) | | | 87 |
| SUBSIDY PAYMENT TO GOVERNMENT | 10,412 | 10,606 | 194 | 10,412 | | | 628 | | | | 11,040 |
| CHARGES FOR CAPITAL | 3,206 | 2,813 | (393) | 3,206 | | | (302) | | | | 2,904 |
| CAPITAL FUNDED FROM REVENUE (RCCO) | 10,851 | 11,104 | 253 | 10,662 | | | 238 | 0 | 173 | 0 | 11,073 |
| INCREASE PROVISION FOR BAD DEBTS | 300 | 300 | 0 | 300 | | | 0 | | | | 300 |
| OTHER EXPENSES - PENSIONS ADJUST | 0 | 0 | 0 | 0 | | | | | | | 0 |
| CONTINGENCY | 300 | 100 | (200) | 300 | | | | | | | 300 |
| TOTAL EXPENDITURE | 52,849 | 52,384 | (465) | 52,660 | 63 | 0 | 69 | (53) | 293 | (1,443) | 51,589 |

INCOME

| | | | | | | | | | | | |
|------------------------------------|-----------------|-----------------|--------------|-----------------|----------|--------------|----------|----------|----------|----------|-----------------|
| DWELLINGS | (47,357) | (47,580) | (222) | (47,357) | | (510) | | | | | (47,867) |
| NON-DWELLINGS | (1,776) | (1,797) | (21) | (1,776) | | 6 | | | | | (1,770) |
| INTEREST - ON MORTGAGES | (14) | (10) | 4 | (14) | | 4 | | | | | (10) |
| INTEREST - ON BALANCES | (39) | (44) | (5) | (39) | | | | | | | (39) |
| OTHER - Supporting People | 0 | (91) | (91) | 0 | | (92) | | | | | (92) |
| HEATING CHARGES | (367) | (363) | 4 | (367) | | 9 | | | | | (358) |
| LEASEHOLDER'S CHARGES | (865) | (871) | (6) | (865) | | (18) | | | | | (883) |
| OTHER SERVICE CHARGES | (1,994) | (2,027) | (33) | (1,994) | | 35 | | | | | (1,959) |
| WORKS OVER PRECISED LIMIT RECEIPTS | (350) | (373) | (23) | (350) | | | | | | | (350) |
| TOTAL INCOME | (52,762) | (53,157) | (394) | (52,762) | 0 | (567) | 0 | 0 | 0 | 0 | (53,329) |

BALANCES

| | | | | | | | | | | | |
|----------------------------|----------------|----------------|--------------|----------------|-----------|--------------|-----------|-------------|------------|----------------|----------------|
| BROUGHT FORWARD | (4,561) | (4,561) | 0 | (4,561) | | | | | | | (5,334) |
| IN YEAR (SURPLUS) /DEFICIT | 87 | (773) | (859) | (102) | 63 | (567) | 69 | (53) | 293 | (1,443) | (1,740) |
| (SURPLUS) /DEFICIT | (4,474) | (5,334) | (859) | (4,663) | 63 | (567) | 69 | (53) | 293 | (1,443) | (7,074) |

LBH Savings and Unavoidable Growth/Reduction

Changes on
Base
Budget 10-
11

Unavoidable Growth/ Reduction

| | | |
|---|-------|-------------|
| Stock valuation for Final Accounts required by LBH Financial Regulation | 25 | |
| Repairs income (Recharge to leaseholders) is likely to reduce as a result of lean programmes. | 51 | |
| 20 year lease with EFHA Ended - no more deficit payments | (129) | |
| | | <u>(53)</u> |

Growth

| | | |
|---|-----|------------|
| ALMO Review | 70 | |
| Asset Review | 50 | |
| RCCO : Supported Care Home Loss | 145 | |
| RCCO : General Development costs to support projects + residual holding costs | 28 | |
| | | <u>293</u> |

Savings:

| | | |
|--|-----------------|--------------|
| LBH General :Reduction cost of 20 years leasing arrangements | £000's (120) | |
| Gas contracts negotiation | (77) | |
| | | <u>(197)</u> |

HH Savings

Est FYE
Cost /
(Saving)

| | | |
|----------------|-------|----------------|
| Service Review | (668) | |
| HR | (120) | |
| Employee | (122) | |
| Office | (124) | |
| Services | (578) | |
| Growth | 57 | |
| Recharge | 309 | |
| | | <u>(1,246)</u> |

Draft HRA 10 Year Projection

HOUSING REVENUE ACCOUNT : 10 YEAR PROJECTION

Appendix 3

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2010/2011 | 2011/2012 | 2012/2013 | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 | 2017/2018 | 2018/2019 | 2019/2020 |
| Original Budget £(000) | LATEST PRJCTN | LATEST PRJCTN | LATEST PRJCTN | LATEST PRJCTN | LATEST PRJCTN | LATEST PRJCTN | LATEST PRJCTN | LATEST PRJCTN | LATEST PRJCTN | LATEST PRJCTN |
| General Services | 7,241 | 7,314 | 7,387 | 7,461 | 7,535 | 7,611 | 7,687 | 7,764 | 7,841 | 7,920 |
| Special Services | 5,711 | 5,768 | 5,825 | 5,884 | 5,942 | 6,002 | 6,062 | 6,123 | 6,184 | 6,246 |
| Repairs Services | 11,787 | 11,655 | 11,771 | 11,889 | 12,008 | 12,128 | 12,249 | 12,372 | 12,496 | 12,621 |
| NEW BUILD (Management and Maintenance cost) | 0 | 50 | 96 | 96 | 97 | 98 | 99 | 100 | 101 | 102 |
| Supporting People Contribution | (1,092) | (1,092) | (1,092) | (1,092) | (1,092) | (1,092) | (1,092) | (1,092) | (1,092) | (1,092) |
| HILLINGDON HOMES OPERATIONS | 23,647 | 23,694 | 23,987 | 24,238 | 24,491 | 24,747 | 25,006 | 25,267 | 25,530 | 25,796 |
| General Services | 1,255 | 1,217 | 1,229 | 1,242 | 1,254 | 1,266 | 1,279 | 1,292 | 1,305 | 1,318 |
| Special Services | 1,198 | 1,210 | 1,222 | 1,234 | 1,246 | 1,259 | 1,272 | 1,284 | 1,297 | 1,310 |
| Repairs Contribution | (215) | (217) | (219) | (222) | (224) | (226) | (228) | (231) | (233) | (235) |
| LBH OPERATIONS | 2,238 | 2,210 | 2,232 | 2,254 | 2,277 | 2,299 | 2,322 | 2,346 | 2,369 | 2,393 |
| Subsidy Payment to Government Capital Funded From Revenue (RCCO) | 11,040 | 13,691 | 13,880 | 14,093 | 14,298 | 14,489 | 14,676 | 14,832 | 14,990 | 15,148 |
| Other Expenditure | 11,073 | 10,750 | 10,750 | 10,750 | 10,750 | 10,750 | 10,750 | 10,750 | 10,750 | 10,750 |
| Contingency | 3,291 | 3,489 | 3,610 | 3,576 | 3,553 | 3,537 | 3,522 | 3,526 | 3,531 | 3,511 |
| TOTAL EXPENDITURE | 51,589 | 54,135 | 54,758 | 55,212 | 55,669 | 56,123 | 56,576 | 57,021 | 57,470 | 57,898 |
| Dwelling Income | (47,867) | (48,471) | (49,133) | (49,565) | (49,992) | (50,412) | (50,837) | (51,264) | (51,695) | (52,135) |
| Other Income | (5,462) | (5,462) | (5,462) | (5,462) | (5,462) | (5,462) | (5,462) | (5,462) | (5,462) | (5,462) |
| TOTAL INCOME | (53,329) | (53,933) | (54,594) | (55,027) | (55,453) | (55,874) | (56,298) | (56,726) | (57,157) | (57,596) |
| In-Year (Surplus) / Deficit | (1,740) | 202 | 164 | 185 | 216 | 249 | 278 | 295 | 313 | 302 |
| Balance Brought Forward | (5,334) | (7,074) | (6,872) | (6,708) | (6,523) | (6,307) | (6,058) | (5,780) | (5,485) | (5,172) |
| Balance Carried Forward | (7,074) | (6,872) | (6,708) | (6,523) | (6,307) | (6,058) | (5,780) | (5,485) | (5,172) | (4,870) |