

Committee/Meeting: Cabinet	Date: 9 th February 2011	Classification: Unrestricted	Report No:
Report of: Corporate Director Development and Renewal Originating officer(s) Chris Holme – Service Head Resources and Paul Leeson – Finance Manager Development & Renewal		Title: Housing Revenue Account – Budget Report 2011/12 Wards Affected: All	

Lead Member	Housing and Development
Community Plan Theme	One Tower Hamlets
Strategic Priority	Ensuring Value for money across the Council

1. **SUMMARY**

- 1.1 This is the second report on the Housing Revenue Account (HRA) for 2011/12, and incorporates Cabinet's decisions of 12th January 2011 regarding rents and tenants' service charges. The report seeks Cabinet approval of the draft HRA Estimates for 2011/12 as set out in Appendix 1, and of the Management Fee payable to Tower Hamlets Homes. The budget incorporates the impact of the final HRA Subsidy Determination for 2011/12 which was published in January 2011.

2. **DECISIONS REQUIRED**

Cabinet is recommended to:-

- 2.1 Approve the draft 2011/12 Housing Revenue Account Estimates as set out in Appendix 1.
- 2.2 Approve the draft Management Fee payable to Tower Hamlets Homes of £32,039 million as set out in Table 1 in paragraph 7.7.
- 2.3 Subject to 2.2 above, note that under the Management Agreement between the Council and Tower Hamlets Homes, THH will manage delegated income

budgets of £81.314 million and delegated expenditure budgets of £26.673 million on behalf of the Council in 2011/12.

- 2.4 Approve that, should a Special Determination be received which increases the entitlement to supported capital expenditure, the Corporate Director of Development & Renewal be given delegated authority to negotiate and agree, following consultation with the Mayor and Lead Member for Housing, an increase in the Management Fee to fund the additional cost of managing the capital programme.
- 2.5 Note the medium-term HRA budget projections (2011-15) as outlined in Appendix 2

3. REASONS FOR THE DECISIONS

- 3.1 Cabinet is required by the Local Government and Housing Act 1989 to determine a balanced Housing Revenue Account budget prior to the start of the new financial year. The Council must also approve the Management Fee payable to Tower Hamlets Homes so that it can fulfil its obligations under the Management Agreement to manage the housing stock on behalf of the Council.

4. ALTERNATIVE OPTIONS

- 4.1 The Council has a statutory duty to set a balanced HRA and provide Tower Hamlets Homes with the resources to fulfil its obligations under the Management Agreement. Whilst there may be other ways of delivering a balanced HRA, the proposals contained in this report are considered the most effective, having regard to the matters set out in the report.

5. BACKGROUND

- 5.1 The Housing Revenue Account relates to the activities of the Council as landlord of its dwelling stock. The items to be credited to the HRA are prescribed by statute. Income is primarily derived from tenants' rents, service charges and government subsidy. Expenditure includes repairs and maintenance and the provision of services to manage the Council's housing stock. Expenditure not met by Housing Revenue Account subsidy is mainly met from Council tenants and leaseholders.
- 5.2 Since 1990 the Housing Revenue Account has been "ring-fenced". This was introduced as part IV of the Local Government & Housing Act 1989 and was designed to ensure that rents paid by local authority tenants reflect the associated cost of services. This means that it cannot subsidise nor be subsidised by Council Tax i.e. any deficits or surpluses that arise on the HRA cannot be met from or transferred to the General Fund. The HRA must remain in balance.

- 5.3 In recent years the Council's entitlement to subsidy has reduced significantly both in total terms and per dwelling. This means a greater proportion of costs must be recovered by tenants and leaseholders.
- 5.4 At its last meeting on 12th January 2011, Cabinet considered the Housing Revenue Account and Rent Setting report, and approved an average weekly rent increase of £5.90 from April 2011. This has now been incorporated into the 2011/12 HRA Estimates set out in Appendix 1.

6. REVISED BUDGET 2010/11

- 6.1 On 1st December 2010, Cabinet considered the Performance and Corporate Budget Monitoring Report (Quarter 2). The forecast HRA financial position as at 30th September 2010, showed a projected overspend of £510,000. There is no capacity for any overspend in the HRA, and officers, in conjunction with Tower Hamlets Homes, have implemented an action plan to address the adverse variance.
- 6.2 To date savings of approximately £300,000 have been achieved and the action plan is on course to deliver the remainder. However, there is continuing pressure on HRA expenditure, especially during the recent adverse weather conditions. Tight control over expenditure is therefore essential in order to deliver a balanced income and expenditure account.
- 6.3 This report assumes that the action plan will bring the 2010-11 HRA outturn in line with the budget so there will be no prior year impact on 2011-12.

7. DRAFT ESTIMATES 2011/12

Housing Subsidy

- 7.1 The final HRA Subsidy Determination 2011/12 was published on 10th January 2011. The estimates as set out in Appendix 1 have been updated to reflect the allocations contained in this document.
- 7.2 The final Determination confirms the Coalition Government's proposals to increase Guideline Rent by 6.8%. In addition, the following minor changes have been made to the draft allowances:
- The percentage increase in maintenance allowances has changed from 2.37% to 3.31% resulting in additional subsidy of approximately £180,000
 - The percentage increase in the major repairs allowance has been amended from 3.48% to 4.16% giving an additional £85,000 in subsidy. This will make available additional resources to fund the capital programme.

There were no changes to the other allowances set out in the draft determination.

Supported Capital Expenditure

- 7.3 The method of financing HRA capital expenditure has changed with effect from the 2011-12 financial year, with no allocations of Supported Capital Expenditure (SCE) being incorporated within the HRA Subsidy Determination.
- 7.4 In previous years, the Authority has received mainstream HRA capital resources of approximately £28 million per annum, financed through SCE of £15.5 million and Major Repairs Allowance of £12.5 million. In anticipation of a significant reduction in available capital resources following the Comprehensive Spending Review, Cabinet approved an amended 2010-11 Housing Capital Programme on 8 September 2010 which only assumed expenditure commitments into future years against confirmed resources. This has resulted in a much reduced indicative programme for 2011-12 compared to previous years.
- 7.5 As part of the new Decent Homes capital financing regime, the Authority was invited to bid for resources for 2011/12 and future years. The bid was submitted in early January 2011 and it is not anticipated that the outcome will be made known to Authorities until early March.
- 7.6 Successful bidding organisations will receive a Supported Capital Expenditure allocation via a Special Determination. These changes to the allocation of SCE and the delay in the receipt of any Special Determinations impact upon the preparation on the HRA budget and the setting of the Management Fee. The HRA recharges in excess of £2m in respect of fees and salaries for work on capital schemes. The current position regarding capital resources available for 2011/12 will mean this has to be reduced to approximately £500,000. This potential significant loss of resources will have to be offset by compensating savings or reductions in the Management Fee paid to THH.

Management Fee

- 7.7 In February 2010, Cabinet approved the 2010/11 Management Fee payable to THH for services provided to the Council. The Management Fee represents the largest expenditure element of the HRA budget, (£35.069 million). Discussions have taken place with Tower Hamlets Homes with an initial suggested efficiency savings target of 5% of the 2010/11 fee.
- 7.8 As stated in paragraph 7.6, the potential loss of Supported Capital Expenditure and the consequent reduction in the Capital Programme could also reduce the fee by a further £1.5m. Any efficiency savings identified are net of any reduction in the recovery of leaseholder service charges.

7.9 Table 1 shows the calculation of the 2011/12 Management Fee payable to Tower Hamlets Homes.

Table 1 Calculation of the 2011/12 Management Fee

Description	Total Fee £,000
Base Budget 2010/11	35,069
Deduct 5% Efficiency Saving	-1,753
Reduced fee from reduction in Capital Programme	-1,464
	31,852
Add inflation to repairs element	188
Indicative Management Fee - 2011/12	32,039

7.10 As outlined in paragraph 7.6, should the bid for Decent Homes funding be successful the Authority will receive a Special Determination which will increase resources available to fund the capital programme. Increased capital expenditure will result in additional fees and extra income to the HRA. In the event of this THH will require additional resources to administer the capital programme.

7.11 Should the Authority receive additional supported capital expenditure, Cabinet is requested to approve that delegated authority be given to the Corporate Director of Development & Renewal, after consultation with the Mayor and Lead Member Housing, to increase the Management Fee payable to THH in order to finance the additional costs of administering the capital programme.

Other Savings

7.11 The major budgetary savings must by necessity be delivered from the management fee. In addition, Table 2 shows other savings that have been built into the 2011/12 estimates.

Table 2 – Other HRA Savings

Description of Savings	Amount £,000
Reduction in ICT recharge to the HRA	-90
Reduction in Lettings recharge to the HRA	-50
Total Savings	-140

8 THE COMPREHENSIVE SPENDING REVIEW

8.1 The Comprehensive Spending Review (CSR) was published on 20th October 2010. The coalition government confirmed that the proposals for reform of the HRA Subsidy System will go ahead in the Localism Bill, due to

be placed before Parliament before the end of November, with Royal Assent expected in the late summer or autumn of 2011. If the legislation is adopted, it is anticipated that self-financing will come into effect in 2012/13 although this has still to be confirmed. If this is the case, 2011/12 will be the final year of the HRA Subsidy system.

8.2 However, the Comprehensive Spending Review did set out amendments to the self financing proposals put forward in the prospectus. These include:

- The continuation of pooling of 75% of right-to-buy capital receipts by the Treasury until 2011-15.
- A new cap on borrowing in addition to the overall HRA borrowing limit could mean that it will be harder to invest in the dwelling infrastructure and maximise the use of assets
- The decision in the CSR to increase the Public Works Loan Board (PWLB) rates of interest will also add additional pressure to the self-financing regime.

Each of these changes will have a significant impact on the proposed self-financing regime. It means that with these changes it will take longer and cost more to repay debt and finance the investment programme.

Further detail and consultation is expected in February 2011.

8.3 The CSR also confirmed the funding in respect of the Decent Homes programme, although the financing is profiled so that resources will only become available toward the end of the 2011-15 CSR period. Additionally, the process of allocating Decent Homes resources has fundamentally changed, as outlined in paragraphs 7.3 to 7.6.

8.4 The above information relating to the CSR is already in the public domain. However there are still a major number of uncertainties which present significant risks, the most significant of which is the proposed debt settlement and the risk that there is a shift of resources from the high debt local authorities like Tower Hamlets to those required to take new debt.

8.5 All these developments and uncertainties will need to be factored into the 30 year business plan so that the Authority, in conjunction with THH, can develop a financially robust strategic investment programme and a viable HRA in the future.

9 MEDIUM TERM FINANCIAL STRATEGY 2011-14

9.1 The information contained in the Final Determination represents an estimated loss of subsidy next year of over £2.0 million. THH has identified additional budget pressures of £0.7 million due to the downturn in the economy. The consolidated rate of interest used in the calculations has also

been revised to reflect the increase in PWLB rates, which will add a further £0.5 million to capital financing costs. On 4th August 2010 Cabinet agreed a £4.7 million reduction in the net costs of the HRA over the next 3 years. Overall this figure has not altered but the profile has changed so that the majority of savings are required in 2011/12.

- 9.2 As mentioned above, specific details of the new Housing financing system have not been announced and consequently there are still many areas of uncertainty. It is for this reason that the updated Medium Financial Plan does not reflect the new self-financing regime.
- 9.3 Following the publication of the Final Determination the net savings target for 2011/12 is £3.3 million, taking into account the current position regarding available capital resources and the increase in tenant's rents approved by Cabinet on 12th January 2011. These are reflected in the HRA medium term financial strategy outlined in Appendix 2.

10. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 10.1 This report sets out the proposed budget for the Housing Revenue Account for 2011/12 and also asks Members to approve the draft management fee payable to Tower Hamlets Homes to manage the dwelling stock on behalf of the Authority.
- 10.2 The budgets have been prepared by the Authority in conjunction with Tower Hamlets Homes, in accordance with the terms of the management agreement. Section 7 of the report outlines the efficiency and other savings that have been incorporated across delegated budgets, and within the management fee.
- 10.3 The General Fund Revenue Budget reports elsewhere on this agenda set out advice to Cabinet on budget risks and the level of reserves and balances, which are applicable to the Housing Revenue Account as well as to the General Fund. Members are requested to note this advice in considering this report. Members should also note the specific Housing Revenue Account risks incorporated within this report (paragraph 14), in particular the impact on the HRA that interest rate changes cause.
- 10.4 The Council is required to maintain a reasonable level of reserves in the HRA to mitigate possible financial risks of lower than expected income or of higher than expected expenditure in the year. As in previous years, officers' assessment is that £9 million is considered the minimum reasonable level for the Authority, given the size of its HRA and its inherent risks. Depending upon the outturn position for 2010/11, further actions may need to be taken during 2011/12 to ensure that reserves do not fall below this level and this will be reported to Cabinet as necessary. Furthermore we need to regularly review reserves to take account of the risks associated with an environment of ongoing economic uncertainty.

- 10.5 As reported to Members in December, there is a projected overspend of approximately £0.5 million on the current year's (2010-11) HRA budget, although an action plan has been put in place to address this. Progress against this action plan should continue to be closely monitored.
- 10.6 The bulk of the savings must be delivered by Tower Hamlets Homes. This is a substantial task containing some risk and it will be necessary for the Corporate Director - Development & Renewal to monitor the delivery of savings closely and report back to Cabinet immediately should it appear that pressures will arise.
- 10.7 Although the 2011-12 budget that has been prepared incorporates significant savings, it is essential that the process is continued, in conjunction with Tower Hamlets Homes, to identify and generate further efficiencies and savings within this and future years' budgets, to ensure the Council complies with its statutory requirement to maintain a balanced Housing Revenue Account.
- 10.8 As outlined in section 8 of the report possible changes to the Housing Finance System will offer opportunities and challenges to the Authority's housing delivery function.

11. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 11.1 The Council is subject to an obligation under Part VI of the Local Government and Housing Act 1989 to maintain a housing revenue account. The Council is required to prepare proposals in January and February each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be based on the best assumptions and estimates available and should be designed to secure that the housing revenue account for the coming year does not show a debit balance. A report to Cabinet on 12 January 2011 dealt with a rent increase, but the subject report properly deals with other matters affecting the HRA, namely the management fee, HRA budget and financial strategy.
- 11.2 The management agreement with Tower Hamlets Homes provides the method for calculation of the management fee in Schedule 6 and it will be for officers to ensure that the calculation is made in accordance with those provisions.

12. ONE TOWER HAMLETS CONSIDERATIONS

- 12.1 The Council is required to agree a balanced housing revenue account, which means striking a balance between maximising resources available to the Council for social housing purposes and avoiding undue additional hardship to vulnerable tenants. In conjunction with Officers from Tower Hamlets Homes an Equalities Impact Assessment has been undertaken to assess the

potential impacts of both the savings proposals and the proposed rents increases. Extensive analysis of THH tenants has provided a detailed understanding of the most vulnerable tenants. The action plan set out in the Equalities Impact Assessment has identifies a number of mitigating actions which once implemented would ensure that the most vulnerable tenants are supported. Actions include enhancing the provision of advice and guidance for the most vulnerable tenants, ensuring that there is continuous analysis of the impacts on tenants, particularly the non-housing benefit claimants as well as continuous analysis and assessment of the Welfare Reforms once the proposals are implemented in earnest post 2013. The Action Plan will be continuously monitored to ensure that these actions are being progressed.

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 13.1 There are no specific implications arising from the recommendations in this report.

14. RISK MANAGEMENT IMPLICATIONS

- 14.1 The resources available to support HRA expenditure have reduced significantly as a consequence of the economic climate and subsequent low interest rates. This recent trend is unlikely to change and officers' assessment is that Subsidy levels will continue to fall if the current system continues, although this will be closely monitored. Historical levels of expenditure incurred on managing and maintaining our stock are no longer sustainable and significant real savings will be required to ensure the Council complies with its statutory responsibilities. The significant reductions in interest rates, ongoing from November 2008 are having a major financial impact on the HRA, through net loss of housing subsidy and reduced investment income. The budget incorporates an assessment of the effect of ongoing low interest rates but this continues to be an area of significant financial risk.
- 14.2 The budget has been prepared on the basis that there will be no significant changes to stock numbers in 2011/12, although the impact of the various decanting, demolition and refurbishment initiatives that are being undertaken as part of the different regeneration programmes that are being progressed in the borough must continue to be considered.
- 14.3 A detailed review of the medium term financial forecast of the HRA has been undertaken to assess the appropriate levels of balances and reserves taking into account the risks and uncertainties facing the HRA over the next five years.

15. CRIME AND DISORDER REDUCTION IMPLICATIONS

15.1 There are no significant implications arising from these specific recommendations.

16. EFFICIENCY STATEMENT

16.1 Efficiency savings have been incorporated into the draft estimates in order to ensure the HRA remains in balance. On-going projects will be undertaken in partnership with Tower Hamlets Homes to identify further on-going efficiency savings to ensure that the HRA remains sustainable in the longer term.

17. APPENDICES

Appendix 1 – HRA Draft Estimates 2011/12

Appendix 2 – HRA Medium Term Financial Projections 2011-2015

**Local Government Act, 1972 Section 100D (As amended)
List of “Background Papers” used in the preparation of this report**

Brief description of “background papers”	Name and telephone number of holder and address where open to inspection.
HRA budget files	F Paul Leeson Development & Renewal Finance. Extension 4995
Equality Impact Assessment	5th Floor, 2 Clove Crescent London, E14 2BE

HRA INCOME & EXPENDITURE ACCOUNT

APPENDIX 1

2010-11		2010-11	2010-11	2011-12
Approved Budget	Housing Revenue Account	Latest Budget	Projected Outturn	Draft Estimates
£,000		£'000	£'000	£'000
	INCOME			
(55,994)	Dwelling Rents	(55,994)	(56,182)	(59,013)
(3,433)	Non Dwelling Rents	(3,088)	(3,096)	(2,734)
(6,412)	Tenants Charges for Services & Facilities	(6,757)	(6,549)	(6,497)
(10,293)	Leaseholder Charges for Services & Facilities	(10,293)	(9,949)	(9,572)
(115)	Contributions towards expenditure	(115)	(115)	(115)
(13,625)	HRA Subsidy Receivable	(13,625)	(13,625)	(11,611)
(89,872)	GROSS INCOME	(89,872)	(89,516)	(89,542)
	EXPENDITURE			
21,705	Repair & Maintenance	21,705	21,705	20,511
25,652	Supervision & Management	25,652	24,138	24,504
11,740	Special Services	11,740	12,773	13,362
2,171	Rents, Rates, Taxes and Other Charges	2,171	2,296	2,960
900	Provision for Bad Debts	900	900	900
14,180	Interest Payable - Item 8	14,180	14,180	14,478
12,910	Depreciation - HRA Dwellings	12,910	12,910	13,021
618	Depreciation - Non Dwellings	618	618	335
225	Debt Management Costs	225	225	235
90,101	GROSS EXPENDITURE	90,101	89,745	90,306
229	NET COST OF HRA SERVICES	229	229	764
222	Amortisation of Premiums & Discounts	222	222	175
(405)	Supporting People Contribution	(405)	(405)	(404)
(200)	Interest & Investment Income	(200)	(200)	(200)
(154)	SURPLUS OR DEFICIT ON HRA	(154)	(154)	335
	Appropriations			
1,450	Revenue Contribution to Capital Expenditure	1,450	1,450	0
3,000	Net contribution from Housing Choice Reserve	3,000	3,000	0
4,296	NET POSITION	4,296	4,296	335
	Balances			
(12,978)	Balances at the beginning of the Year	(12,978)	(12,978)	(9,300)
(618)	Contribution from Major Repairs Reserve	(618)	(618)	(335)
4,296	Surplus /(Deficit) on HRA	4,296	4,296	335
(9,300)	General Balances at end of Year	(9,300)	(9,300)	(9,300)

**LONDON BOROUGH OF TOWER HAMLETS
HOUSING REVENUE ACCOUNT
MEDIUM-TERM FINANCIAL STRATEGY -
2011/2015**

Appendix 2

HEADING	2011/12 Budget £'000	2012/13 Budget £'000	2013/14 Budget £'000	2014/15 Budget £'000
HRA Income				
Base Budget - previous year	(90,477)	(94,396)	(96,309)	(98,283)
Inflation	(3,919)	(1,913)	(1,974)	(2,023)
HRA Expenditure				
Base Budget - previous year	90,323	91,855	93,419	95,020
Inflation	1,532	1,564	1,601	1,641
Initial Base HRA Budget	(2,541)	(2,890)	(3,263)	(3,645)
Committed Growth				
Buildings for the Future	60	60	60	60
	(2,481)	(2,830)	(3,203)	(3,585)
Approved Savings & Other Adjustments to Base Budget				
Subsidy Adjustments - Interest and Stock	2,014	2,600	2,800	3000
Capital Charges and other adjustments	802	1,222	1,250	1275
Net Budget Requirement	335	992	847	690
Required Use of Reserves				
Major Repairs Reserve	(335)	(335)	(335)	(335)
General Reserve including Housing Choice Reserves	0	0	0	0
Total Use of Reserves	(335)	(335)	(335)	(335)
Savings Required to maintain balances and a balanced HRA	(0)	657	512	355
HRA Balances General Balances (including Housing Choice Reserve)				
Balances at beginning of year	(9,300)	(9,300)	(9,300)	(9,300)
Balances at end of year	(9,300)	(9,300)	(9,300)	(9,300)