

Committee: Cabinet	Date: 9 January 2013	Classification: Unrestricted	Report No: CAB 65/123
Report of: Corporate Director Development & Renewal Originating officer(s) Chris Holme, Service Head (Resources) Paul Leeson, Finance Manager Katherine Ball, Senior Accountant Development & Renewal		Title: Housing Revenue Account First Budget and Rent Setting report Wards Affected: All	

Lead Member(s)	Housing and Resources
Community Plan Theme	One Tower Hamlets
Strategic Priority	Ensuring Value for Money across the Council

1. SUMMARY

- 1.1 This report sets out officers' recommendations for 2013/14 rent levels and seeks Cabinet approval of the level of the 2013/14 rent increase necessary to maintain for the year ahead in order for the Council to comply with its statutory requirement to notify tenants.
- 1.2 As part of the move from Housing Subsidy to HRA Self-Financing, the CLG calculated a one-off debt settlement based on the valuation of each stock-owning Authority's housing business. For Tower Hamlets this meant that the loss of the annual subsidy entitlement was offset by the repayment of a large amount of outstanding housing debt.
- 1.3 In its valuation of the Authority's housing business, the CLG assumed that Authorities will continue to adhere to national social rents policy, whereby council housing rents should converge with those charged by housing associations by 2015/16, followed by rent rises at Retail Price Index (RPI) plus 0.5% each year thereafter. The applicable RPI is that prevailing in the September prior to the year of application; for 2013/14 rents this is based on RPI in September 2012 (2.6%).

2. DECISIONS REQUIRED

The Mayor in Cabinet is recommended to:-

- 2.1 Agree that the Authority will continue to follow rent restructuring guidelines, and that therefore, the average 2013/14 weekly rent increase for tenanted

Council dwellings will be £4.39 and the average weekly tenanted service charge increase will be £0.25 from the first rent week in April 2013.

- 2.2 Note that the HRA budget will be presented to Cabinet for approval in February 2013.

3. REASONS FOR THE DECISIONS

- 3.1 The Council must prepare proposals in January and February each year relating to income from rents and other charges, and expenditure in relation to management and maintenance of its housing stock. A decision is required with regard to rents and service charges in January in order that statutory notice can be given to tenants prior to 1st April implementation.

4. ALTERNATIVE OPTIONS

- 4.1 The Council is not obliged to follow national rent policy, but any rent increase below that assumed in the business plan would put at risk the Council's ability to fund the future capital programme. Mayor and Cabinet can determine to increase rents either above or below that recommended; the financial consequences of either decision are set out in section 9 of this report.

5. BACKGROUND

- 5.1 The Housing Revenue Account (HRA) relates to the activities of the Council as landlord of its dwelling stock. Since 1st April 1990 the Housing Revenue Account has been "ring-fenced"; this means that deficits on the Housing Revenue Account cannot be met from the General Fund. The HRA must remain in balance.
- 5.2 From April 2012, HRA Subsidy was abolished and replaced by self-financing, whereby a one-off adjustment was made to the housing debt of each council to reflect the assumed value of their housing business; some Authorities – including Tower Hamlets - had debt redeemed.
- 5.3 Following the start of Self-Financing, local authorities now retain all rental income, but are responsible for meeting all costs relating to council housing.
- 5.4 Cabinet on July 7th 2010 agreed the following financial principles to facilitate viability under self-financing, and these have been factored in as appropriate into the business plan assumptions:
- Income from the management of non-dwelling related HRA activities should aim to cover the total cost of providing these services to avoid being subsidised from tenant's rents;
 - Rents should not subsidise service charges, nor vice versa;

- The Council aims to achieve rent convergence in line with Government guidelines (currently 2015/16);
- High emphasis on debt collection is maintained to minimise provision for bad debts;
- Treasury management strategy for the HRA focuses on longer-term stability at a rate below the CLG discounted net present value.

6. HRA 30 YEAR FINANCIAL MODEL

- 6.1 Under Self-Financing, each Authority is required to develop and maintain an HRA 30 Year Business Plan. Current modelling indicates that the Council can fund the capital works currently anticipated to be needed over the 30 year period, including the Decent Homes programme.

7. RISKS

- 7.1 Notwithstanding the initial analysis suggesting that, overall, Tower Hamlets is able to finance the anticipated capital works needed over the 30 year period, there are a number of risks to the HRA in the short to medium term; the principal ones are highlighted below.

7.2 Right to Buy

7.2.1 Changes to the Right to Buy Policy

From April 1st 2012 the policy in relation to the Right to Buy scheme changed, with the maximum discount offered to tenants in London increasing from £16,000 to £75,000. The government also allowed Local Authorities to enter into an agreement with the Secretary of State whereby Authorities would be allowed to retain part of the receipt from Right to Buy sales, providing that the retained receipts are spent on the re-provision of social housing within three years, and are limited to a maximum of 30% of the cost of the re-provision. Tower Hamlets returned its signed agreement to the Department of Communities & Local Government in September 2012.

7.2.2 Right to Buy Applications

Between April and October 2012 over 600 Right to Buy applications were received by Tower Hamlets Homes. Applications currently still number over 50 a month, although it is anticipated that this level of interest will reduce over future months.

7.2.3 Right to Buy Sales

There have been three Right to Buy sales since April 2012, all receiving the maximum discount of £75,000. Of the applications received to date, Tower Hamlets Homes estimates that 12% will reach completion, although until sales take place in greater number and a trend is discernible, this is a planning

assumption only. Current planning assumptions are that 100 sales will take place in each of the next three years.

7.2.4 Impact of Right to Buy Sales on the HRA

As Right to Buy sales occur and properties change from tenanted to leasehold, there is a loss to the HRA of rental income, offset by higher leasehold service charges, leading to an approximate net loss to the HRA. Further details will be presented to Cabinet in the HRA 2013/14 Budget report in February 2013.

7.3 Welfare Reform

7.3.1 Changes to the Benefits System

As detailed in a previous report to Cabinet, there are a number of changes being made to the benefits system that will lead to budget pressures within the HRA within the short to medium term. The main changes that will affect THH tenants are:

- (1) Benefit Cap
- (2) Under-occupancy.
- (3) Universal Credit and Direct Payments

7.3.2 Impact of Welfare Reform changes on the HRA

Although the impact on the HRA will not become clear until the reforms come into effect, for budget planning purposes, Officers recommend that provision be made in the 2013/14 budget to reflect an anticipated increase in the amount of bad debt, equivalent to 3% of the 2013/14 rental income budget. This level of budget provision will need to be carefully monitored as the welfare changes take effect.

7.3.3 Further details will be presented to Cabinet in the HRA 2013/14 Budget report in February 2013.

7.4 Interest Rates & Debt

Over the next few years, the Authority will need to prudentially borrow in order to finance the capital programme. Although interest rates are currently at the historically low level of 0.5%, they will rise in the future, additionally, with a residual loan portfolio mostly consisting of variable rate market loans, the HRA will be exposed to interest rate risks.

7.5 Leaseholder Recovery

Leaseholders represent 40% of the total HRA stock, and where capital works required are of an external or communal nature, leaseholders are required to contribute to their share of the costs. The Tower Hamlets HRA 30 Year Financial Model assumes full recovery of leaseholder major works over a

period of seven years. However, this assumed profiling means that a high level of leaseholder major works “forward funding” is required, and it is therefore crucial that leasehold major works debt is pursued in a robust manner, as failure to do so will result in a budget pressure within the HRA.

8. 2012/13 LATEST BUDGET & PROJECTED OUTTURN

- 8.1 The latest HRA budget for 2012/13 was reported in the second quarter's budget monitoring report to Cabinet on December 5th 2012, with a forecast year-end underspend of £0.468m.

9. RENT RESTRUCTURING AND RENT IMPLICATIONS 2013/14

- 9.1 The original aim of rent restructuring was to put all council house rents on the same clear and transparent basis, to enable comparisons to be made with housing association rents in the same area.
- 9.2 At the end of rent restructuring, councils would be charging formula rents for their properties which would take into account:
- the size of a property
 - the value of a property (as a social rented property)
 - average earnings in that council's area
 - a percentage uplift each year to reflect inflation and government policy
- 9.3 Officers are recommending that rent restructuring is followed, and that a rent increase limited to RPI + 0.5% + £2 a week is agreed; indications are that other inner and outer London authorities are also proposing to follow rent restructuring. This will lead to an average 2013/14 rent increase of 4.47%.
- 9.4 The proposed 2013/14 increase of 4.47% is substantially lower than the 2012/13 rent increase of 7.5%. Even taking into account a 4.47% increase, the 2013/14 rents charged by the Council will continue to be the lowest in the borough; Table 1 below shows a comparison between weekly 2013/14 LBTH rents and 2011/12 rents for other Housing Providers in Tower Hamlets.

		1 Bed	2 Bed	3 Bed	4 Bed	5 bed
2013/14	LBTH Social Rents	£92	£104	£117	£132	£146
2011/12	Target Rents (RPs)	£135	£142	£150	£150	£158
2011/12	POD Affordable rent levels	£192	£214	£240	£271	£298
2011/12	Local Housing Allowance	£240	£290	£340	£400	£400
2011/12	80% Market rents	£237	£311	£385	£433	£530
2011/12	Market rents	£296	£389	£481	£542	£662

Table 1 – Weekly rents in Tower Hamlets (prices per week)

- 9.5 Rent increases below the Government guideline - The Final HRA Self-Financing Determination assumed that Councils would continue to increase rents in order to achieve rent convergence in 2015/16. If the Council decided to increase rents at a lower rate, then there would be a net loss of income to the HRA compared to what has been assumed in the valuation. Each 1% less than guideline rent equates to an estimated net loss of approximately £630,000; this income would be removed from the HRA's base budget, and, unless costs were reduced by an equivalent amount, this would lead to a budget pressure within the HRA, and a possible inability to fund the anticipated capital programme over 30 years.
- 9.6 Rent increases above the Government guideline - Increases in excess of those necessary to achieve rent convergence in 2015/16 are possible, but the Authority may not benefit from the full amount of the additional rent generated. Although rental income would rise, the Authority could potentially exceed the 'Limit Rent' used to control Housing Benefit grant paid to the Authority by the Government. Any benefit paid in respect of Local Authority rents that exceed the 'Limit Rent' is ultimately, under statute, an additional charge to the HRA. Due to the relatively large number of Tower Hamlets tenants in receipt of benefits, this impact would be substantial.

10. HRA BUDGET 2013/14

- 10.1 The 2013/14 HRA estimates will be considered by Cabinet in February.
- 10.2 To ensure that a rent increase is operative from the first rent week in April 2012, a Cabinet decision on the rent increase must be made in January to enable all scrutiny requirements to be met, and rent notices to be issued.

11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 11.1 The report recommends that Members adopt the level of rent necessary to follow rent convergence guidelines – as was assumed by the Government in the HRA Self-Financing Final Determination. This rent increase will ensure that over the medium to long-term, the Authority is able to finance the capital programme.
- 11.2 Although the Council is able to determine its own level of rent, section 9 of the report highlights the financial implications of departing from assumptions in the Self-Financing Draft Determination. From April 2012 the Authority will be responsible for the financing of all expenditure necessary to maintain and improve the housing stock, including completion of the Decent Homes programme. As referred to in paragraph 9.5, each 1% less than guideline rent equates to an additional ongoing net loss of over £600,000 per annum; this would be a permanent reduction in income to the HRA's base budget.

12. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 12.1 The report seeks agreement to rent increases in amounts specified in section 2.1. The Council has power under section 24 of the Housing Act 1985 to make reasonable charges for the tenancy or occupation of its houses. The Council is required to review from time to time the rents that it charges for the tenancy or occupation of its dwellings.
- 12.2 The Council is subject to an obligation under Part VI of the Local Government and Housing Act 1989 to maintain a housing revenue account (HRA). 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.
- 12.3 The report correctly identifies the effect of Chapter 3 of Part 7 of the Localism Act 2011, both in relation to removal of the HRA subsidy and the determinations made by the Secretary of State for settlement payments to local authorities. It is reasonable for the Council to have regard to the matters set out in the report, relevant to self-financing and the likely income to the HRA when determining the rent it will charge.
- 12.4 The Council may increase the rent by giving four weeks' notice to tenants. The notice period appears from section 103(4) of the Housing Act 1985, but also from the terms of the Council's standard tenancy agreement.
- 12.5 Before setting rents as proposed in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Information relevant to these considerations is contained in the One Tower Hamlets section of the report.

13. ONE TOWER HAMLETS CONSIDERATIONS

- 13.1 A detailed equality impact assessment is attached at Appendix 1.
- 13.2 As set out in the report, the Council is subject to an obligation to determine proposals targeted at maintaining a positive balance in the Housing Revenue Account. The aim of this report is to agree a level of rents that strikes the balance between maximising resources available to the Council for social housing purposes, and avoiding undue additional hardship to vulnerable tenants. If rents are not increased then additional savings will have to be identified to ensure that Tower Hamlets has a sustainable, balanced HRA business. Those savings will impact upon services relating to both the

management and maintenance of the housing stock, and are likely to impact upon specific services supporting vulnerable residents. It is considered that a rent increase of the size proposed in the report strikes the right balance and provides the best overall outcome for residents, allowing services to be maintained. For the same reason, the rent increase is considered preferable from an equalities perspective.

- 13.3 The Housing Benefits system is designed to ensure a proportionate level of protection for low-income residents. This is reimbursed by Central Government, but only up to "Limit Rent" levels, as outlined in paragraph 9.6.

14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 14.1 There are no specific implications arising directly from this report, however the Housing Revenue Account does finance initiatives to promote and maintain a greener environment. These are managed by Tower Hamlets Homes.

15. RISK MANAGEMENT IMPLICATIONS

- 15.1 With the introduction of Self-Financing, Tower Hamlets is responsible for running its HRA as a viable business, using HRA income in order to fund all HRA expenditure, including the capital works necessary to maintain and improve the housing stock, and the Decent Homes programme.
- 15.2 Various areas of risk and uncertainty are highlighted in section 7, in particular the reinvigorated Right to Buy regime and the forthcoming Welfare Reform changes. Over the next few months, it will be essential that the HRA medium-term financial strategy be kept under review, and updated to reflect changes in economic conditions and policy changes.

16. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 16.1 There are no specific crime and disorder reduction implications arising directly from this report, however the Housing Revenue Account does finance various crime prevention and safety initiatives which are managed by Tower Hamlets Homes.

17. EFFICIENCY STATEMENT

- 17.1 Draft estimates for the 2013/14 HRA budget will incorporate savings, both those already agreed by Cabinet, and those necessary to ensure that the HRA remains in balance in 2013/14. The draft estimates will be presented to Cabinet in February.

18. APPENDICES

18.1 Appendix 1 – Equalities Impact Assessment

Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 List of “Background Papers” used in the preparation of this report

There are no background papers applicable to this report