A11

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

TMO BOARD – 6 JANUARY 2011

TENANTS CONSULTATIVE COMMITTEE - 12 JANUARY 2011

HOUSING AND PROPERTY SCRUTINY COMMITTEE – 20 JANUARY 2011

REPORT BY THE EXECUTIVE DIRECTOR FOR HOUSING, HEALTH AND ADULT SOCIAL CARE AND THE TMO CHIEF EXECUTIVE

HOUSING REVENUE ACCOUNT - RENT REPORT 2011/12

This report sets out proposals for changes in 2011/12 in rent levels and in fees and charges to tenants and leaseholders in Council properties managed by the TMO. It also sets out the proposed Housing Revenue Account Budget for 2011/12.

The proposals in this report result in an average increase in rents of 8.5%. This level of increase partly arises from the Government's rent restructuring policy and partly from the Council's need to address the anticipated deficit on the Housing Revenue Account

FOR COMMENT

1. BACKGROUND

1.1 This report sets out proposals for budgets within the Housing Revenue Account (HRA) for 2011/12 and recommends the level of increase/decrease to be applied to rents and other charges for the coming financial year.

1.2 Management arrangements for budgets within the Housing Revenue Account (HRA) are set out in the management agreement with the TMO. This provides for a number of budgets within the HRA to be managed by the TMO (covering both TMO company budgets and budgets managed by the TMO on behalf of the Council which are known within the agreement as Tenants Consultative Committee (TCC) budgets). The other budgets remain the responsibility of the Council. Budgets within the HRA therefore fall into three categories as follows:

- The management costs of the TMO which are recorded in the TMO's own company accounts and are charged to the HRA through an agreed management fee.

- Managed TCC budgets which include the major budgets covering repairs, maintenance, energy costs, etc. Income from rents, service charges and commercial income is also included. These budgets also cover direct spend on the Lancaster West Estate.
- Council managed HRA budgets including significant budgets that are outside day to day control (such as capital financing charges and subsidy income) and other costs relating to the Council's statutory housing functions.

1.3 Each year, the Government issues a document known as the Housing Revenue Account Subsidy Determination which sets out the framework for setting rents in the following year (see section 7 of this report). Following its publication, there is a consultation period before the final Determination is published. The version of the report presented to the TMO Board and the Tenants Consultative Committee had to be prepared using the draft Determination.

1.4 The final determination was delayed until 10 January 2011. In the final determination the level of Housing Subsidy increased by £127,000 reflecting a higher level of inflation for repairs and maintenance. Of this increase £84,000 relates to revenue expenditure. This version of the report reflects this higher level of housing subsidy and corresponding increase in the transfer to the working balance.

2. HRA OUTLOOK AND RECOMMENDED FINANCIAL STRATEGY

2.1 The Department for Communities and Local Government (CLG) operates a national subsidy system. Subsidy entitlement is based on assumptions about the key elements of housing expenditure, including borrowing costs, and the rents that councils should be charging. If this rent assumption is more than enough to cover assumed expenditure, then the Council must pay the difference to the Government. Conversely the rent assumption may not be enough to cover assumed expenditure, if so the Council will receive subsidy from the government. The majority of authorities make a subsidy payment to the government, whilst a smaller number are in receipt of subsidy. The Royal Borough currently receives subsidy (£1.8million in 2011/12) but is predicted to start to make payments to the government in 2013/14. This is because we expect transitional protection on allowances to fall out and guideline rents will continue to increase.

2.2 The expected loss of housing subsidy outlined above is one of the main causes of a potential deficit on the Royal Borough's Housing Revenue Account (HRA). This is well known to members and has been one of the drivers of the stock options work.

2.3 With the projected HRA deficit in mind, and to address the reduction in capital resources following the completion of the decent home work, the Council undertook a stock options review. At its meeting in November 2009, the Cabinet agreed a mix of options as the future solution. One of the agreed work streams was to focus on identifying savings and generating income in order to avoid an HRA deficit in the future.

2.4 In July 2009, the consultation document *Reform of Council Housing Finance* was published following a review of Council Housing finance. The main proposal was to dismantle the current system for funding Council Housing and to set up a new self-financing model. The Coalition Government has indicated that this new model will be effective from April 2012 and that details of the regime will be published in the New Year.

2.5 These proposals are welcome, and based on the previous Government's figures would improve the HRA's financial outlook, although would not generate additional capital resources in the early years (the recent stock condition survey has identified that around £43 million in additional capital resources is needed over the next five years).

2.6 However, given the current economic climate, the final proposals may not be as advantageous as those in the consultation document, and therefore budget savings and opportunities for income generation are still required.

2.7 It is proposed that for 2011/12, rents are set at the Transitional Rent level which is the maximum rent level permitted within the Government's rent setting methodology without incurring Housing Subsidy penalties. This would result in an average rent increase of 8.5%, whereas continuing with the previous methodology would result in an average rent increase of 6.65%. This extra 1.85% equates to additional annual income of £600,000.

2.8 Savings within expenditure budgets and setting rents at transitional rents levels would put back the deficit to 2020/21. These estimates do not take account of self financing, expected to be effective from April 2012, but should put us in a strong position when the settlement is announced.

3. BUDGETS – 2010/11 AND 2011/12

3.1 An overall statement of HRA budgets for the current year and 2011/12 is set out at Appendix 1. These are summarised below:

Heading	2010/11	2010/11	2011/12

	Original Budget £'000	Revised Budget £'000	Proposed Budget £'000
TMO management fee	10,294	10,294	10,294
LW management fee	334	334	334
Budget Transfer to TCC Managed	0	-236	-236
Total TMO management fee	**10,628**	**10,392**	**10,392**
Additional LW costs Funded by Reserves	15	115	0
Managed TCC budgets	**-27,033**	**-28,244**	**-29,723**
Council managed budgets	**16,906**	**16,710**	**18,911**
Net HRA Exp(+)/Income(-)	**516**	**-1,027**	**-420**

3.2 Further details on the current year's budget and the proposed budget for 2011/12 are set out in the following sections and attached appendices. The figures incorporate the effects of the proposed rent increase.

4. TMO MANAGEMENT EXPENSES

4.1 The management costs incurred by the TMO in fulfilling its responsibilities under the Management Agreement are funded from the HRA by way of a fixed management fee approved by the Council annually. The total management fee for 2010/11 is £10.392 million. Appendix 2 provides information on the key changes in terms of the revised position for the current year and a proposed budget for 2011/12.

4.2 Since 2006/07 the management fee has fallen by £1.25 million on a like for like basis after adjusting for inflation. The TMO has undertaken staff restructuring over the three years to March 2011 and made efficiency savings to enable it to provide the required service at a lower cost to the Council.

4.3 The Management Fee for 2011/12 has been set at £10.392 million. The TMO has absorbed the cost of inflation and other one off costs such as procurement costs (£102,000) and legal costs related to debt collection (£200,000). The following factors have been taken into account when arriving at this figure:

- No provision for inflation has been allowed given the majority of costs are staff related and no pay awards are anticipated next year.

- A further 3 posts have been identified for deletion in the 2011/12 budget.

This level of management fee will enable the TMO to maintain and improve its level of services within the financial framework.

4.4 The Lancaster West management fee for 2010/11 is £334,000. However, the costs are expected to be £115,000 more than this sum due to additional staff costs arising in year. The intention is that these additional costs would be funded from Reserves. In 2011/12 the proposed management fee for Lancaster West remains at £334,000, which assumes no inflationary provision. This will give Lancaster West a break even budget and not require any draw-down from its reserves.

5. MANAGED TCC BUDGETS

5.1 These budgets, managed by the TMO on behalf of the Council, comprise the major running costs relating to the management of the stock (repairs and maintenance, utilities, cleaning and refuse, etc.) and the income collected in the form of rents, service charges and other charges. The original net budget for 2010/11 therefore splits down between budgeted income of £45.390 million and budgeted expenditure of £18.357 million to produce a net income budget of £27.033 million. Although managed during the year by the TMO, the expenditure and income on these budgets is included in the Council's HRA. Any variance at the year-end therefore impacts on the HRA working balance.

5.2 Appendix 3 provides information on the key changes in terms of the projected position for the current year and budget proposals for 2011/12. The overall position is summarised below:

	2010/11 Original Budget £'000	**2010/11 Revised Budget £'000**	**2011/12 Proposed Budget £'000**
Expenditure	18,357	17,156	18,931
Income	-45,390	-45,400	-48,654
Net Managed TCC Budgets	**-27,033**	**-28,244**	**-29,723**

5.3 For the current year, the revised net TCC managed budget indicates an increase in surplus of £1.211 million that will increase the working balance during the current year. The main factors resulting in the variance are:

- Planned Maintenance in 2010/11 – an underspend of £727,000 has been forecast. The costs on external decorations were reduced by £603,000 in line with the revised schedule of cyclical works that were identified as not being required in the current year programme. Further savings are expected on Heating Costs (£63,000), Door Entry & CCTV maintenance, (£40,000) and Estate Lighting (£30,000), partly offset by various other overspends of £9,000.

- Responsive Maintenance – An underspend of £333,000 has been forecast. This is mainly attributed to savings achieved following negotiations with Connaught regarding outstanding invoices. The new repairs contract with Morrisons is now underway and is expected to generate further savings in the future.

- HRA Area Revenue Works (ARW) – additional expenditure of £132,000 is expected based on schemes completed to date and additional schemes which have been approved by Local Area Review Boards. This will be offset by a transfer from reserves. The transfer will result in a net reserve balance of zero at 31 March 2011.

- Electricity, Heating and Hot Water Charges – recently renewed utility contracts including the main gas contract indicate costs are below original predictions used when budgets were set. The resulting revised forecast shows a decrease in costs of £164,000. This will be offset by a corresponding decrease in charges to tenants and leaseholders which will be agreed via a Key Decision Report.

- Contract Cleaning – An increase in expenditure of £37,000 is forecast. This mainly arises from an inflationary increase relating to salary costs. Contract cleaning is a rechargeable service to tenants and leaseholders.
- Provision for bad debts – A decrease in the provision for Bad Debts of £600,000 has been assumed which reflects the significant improvement in debt levels. Of this reduction, £200,000 will be used to fund additional Legal Costs arising from Leasehold Valuation Tribunals (LVT).

- Supporting People – The Supporting People budget of £236,000 is being transferred from the TMO Management fee to the TCC managed budget. It will then match the Supporting People Grant within the TCC Managed budget. This is a presentational change.

- Legal costs – provision of £200,000 has been made to fund the costs of the increase in LVT cases. This funding has been transferred from the provision for bad debts.

- Commercial rent income – a shortfall of £28,000 is expected which is mainly due to a reduction in the used of HRA buildings by Council Departments e.g. the Council is no longer occupying Greaves Tower. Family and Children's Services (FCS) are also proposing to move out of Grenfell Tower at a future date.

- Garage Rent Income – a decrease of £42,000 is estimated reflecting current levels of income.

- Major Works Service Charges (Leaseholders) – a shortfall of £214,000 is expected. This comprises refunds of £160,000 arising from LVT decisions, compensation payments, adjustments arising from the 2009/10 final accounts process and slippage of £55,000 arising on the Major Works Programme.

- Heating & Hot Water Charges (income) – the reduction in costs of these services will result in a reduction of £27,000 in income from charges. The reduction in charges to leaseholders will be included in their Final Accounts for 2010/11 in September 2011. A Key Decision Report (KDR) will be proposed by the Council and residents will be informed of the new charges;

- Insurance Charges Leaseholders – an increase of £110,000 following the retendering of the current contract.

- Transfer to / from reserves – additional draw downs from reserves are anticipated in 2010/11 for Lancaster West (£100,000) and Area Revenue Works (£132,000).

5.4 The proposed TCC managed budget for 2011/12 is a net income of £29.723 million which indicates an increase in surplus of £2.690 million that will increase the working balance. The main factors resulting in the proposed changes are:

- Planned Maintenance – a £85,000 increase in the budget which is mainly due to the 1.5% inflationary increase applied to the budget.

- Responsive Maintenance – a £440,000 decrease in the budget which is mainly due to the savings from the new Repairs contract with Morrisons, after applying the 1.5% increase to the budget.

- Electricity, Heating and Hot Water – a £331,000 increase in expenditure is forecast reflecting best estimates of likely utility and maintenance costs in 2011/12.

- Cleaning Contract – An increase of £73,000 in the budget which is mainly due to inflation costs relating to salary increases in year and from April 2011. Contract cleaning is a rechargeable service to tenants and leaseholders.

- Provision for Bad Debts – the 2011/12 provision has been reduced by £130,000 reflecting the improved debt position. However, following the establishment of the Income Collection team and the proactive approach to arrears collection, the number of LVT cases has increased. This has resulted in an increase in legal costs. The £130,000 decrease in the budget for Provision for Bad Debts is therefore being transferred to a Legal Costs budget.

- Supporting People – The Supporting People budget of £236,000 is being transferred from the TMO Management fee to the TCC managed budget. It will then match the Supporting People Grant within the TCC Managed budget. This is a presentational change.

- Digital Television – budget provision of £225,000 has been made to reflect the anticipated costs arising in 2011/12 under the leasing arrangement. These costs are rechargeable via service charges to tenants and leaseholders.

- Legal costs - provision of £200,000 has been made to fund the costs of the increase in LVT cases. This provision is partly being met from a transfer from the bad debt provision (see above).

- Dwelling Rents – the estimated income from rents in 2011/12 is £2.691 million more than budgeted in the 2010/11 original budget. This change is as a result of additional income arising from applying the 8.5% rent increase for 2011/12 (see paragraphs 2.7 and 7.7). This reflects the recently published Final Revenue Account Subsidy Determination for 2011/12 and the proposal to further increase rents by lifting rents to "Transitional rent". The void level has been set at 0.75% which is below the CLG's assumed void level of 2% allowed within the subsidy calculations.

- Garage Rent Income: the Royal Borough has usually increased garage rents by the same percentage as the average rent increase. An increase of 8.5% has therefore been assumed.

- Heating and Hot Water Charges (income) – a £314,000 increase in the income budget to reflect the estimated increase in costs of providing Heating and Hot Water services to Tenants.

- Leaseholder Service Charges (Income) – an increase of £50,000 reflecting the additional charges arising from the new digital TV system.

- Insurance Charges Leaseholders – an increase of £110,000 following the retendering of the current contract.

5.5 The main risk factors associated with the proposed 2011/12 estimate for TCC managed budgets have been assessed as follows:

- Inflation – a 2.5% allowance for inflation has been added to responsive repairs expenditure budgets for 2010/11 but only 1.5% has been allowed in 2011/12. The increase is assumed to be sufficient to cover changes which may occur from wage agreements. However, inflationary pressures have been consistently above standard RPI for relevant housing costs (including repairs and maintenance);
- Major Works Service Charges (Leaseholders) – income of almost £1m is assumed from these works. However, there is a risk to the achievement of this income due to decreased capital funding, risks associated with the programme, consultation slippage and non-recoverable costs.
- Planned and Responsive Maintenance – due to increasing pressure on the Capital Programme there is a risk that expenditure will be higher than budgeted. Appropriate risk maps and risk strategies have been put in place to assist management in their achievement of this goal and to mitigate this risk.

TMO staff are putting in place actions to mitigate these risks, wherever possible. However, given wider budget pressures, the proposals submitted for 2011/12 are demanding targets within this context.

6. COUNCIL MANAGED BUDGETS

6.1 The budgets within the HRA which continue to be directly managed by the Council comprise two distinct elements:

- Inescapable costs - costs which are the result of historic decisions and/or are not subject to day to day control - these include capital financing charges, property insurance and HRA subsidy income.
- Other HRA costs - a limited range of items required to support the Council's statutory responsibilities in relation to the HRA including audit, performance review, stock option review, accounting/legal advice, the cost of Council officer time spent on HRA matters and support to the Cabinet members with responsibility for Housing.

6.2 The position in terms of the revised budget for the current year and the proposed budgets for 2011/12 are set out in Appendix 4. The overall position is summarised below:

	2010/11 **Original Budget £'000**	**2010/11** **Revised Budget £'000**	**2011/12** **Proposed Budget £'000**
Expenditure	22,567	20,798	21,013
Income	-5,661	-4,088	-2,102
Net Council Managed Budget	16,906	16,710	18,911

6.3 In terms of the current year, the revised budget indicates a decrease of £196,000 (see appendix 4 for details), which is primarily due to:

- *Capital Charges* – A decrease of £330,000 in the cost of debt charges (interest costs on borrowing to fund the capital programme) net of subsidy is due to a decrease in the interest rate used to calculate the debt charges from that used in the original budget. The interest rate is based on historic external long term fixed rate borrowing costs and the relationship between the HRA and the Council's total Capital Funding Requirements which has been subject to change since budget setting;

- Income from interest on balances - has increased by £5,000. This is mainly due to a minor increase in interest rates.

- Insurance Cost – An increase of £119,000. Of the increase, £110,000 relates to an increase in rechargeable insurance to Leaseholders properties and £9,000 relates to an increase to non-rechargeable insurance. The insurance agreement for leaseholders is a fully insured external arrangement that was re-tendered and the terms required for the cover resulted in additional costs. The insurance arrangement for tenanted flats remains unaltered being a combination of Council self-insurance for losses up to £250,000 and external insurance above this sum.

- Stock Options/Regeneration – the request for slippage of £119,000 within the HRA 2009/10 outturn key decision report is no longer required so will remain within the HRA working balance;

- Miscellaneous budgets, an increase of £18,000 relates to the cost of stock revaluations.

6.4 The proposed council managed budgets for 2011/12, indicates an increase of £2.005 million (see appendix 4 for details). The main factors resulting in the proposed changes are;

- Overall, subsidy income in 2011/12 has decreased by £3.550 million as shown in the following table:

Housing Subsidy Final Determination - 2011/12

HRA Subsidy	Original 2010/11 £'000	Final 2011/12 £'000	Variation from Revised 2010/11 £'000
Major Repairs Allowance	6,834	7,202	368
Management Allowance	7,629	7,657	28
Maintenance Allowance	9,794	10,194	400
ALMO allowance (Decent Homes)	3,475	0	-3,475
Charges for Capital	10,861	11,778	917
DME Allowance	110	132	23
Notional Rents (Guideline rent)	-35,516	-37,886	-2,370
Caps and Limits Adjustment	2,198	2,756	557
Income on Receipts	-5	-3	2
Total Subsidy	**5,380**	**1,830**	**-3,550**

6.5 The main reasons for this change in subsidy are as follows:

- An increase of £368,000 in the Major Repairs Allowance which results in an increase in capital resources available to fund the Capital Programme. The increase reflects inflation but also an additional £74,000 following the reclassification of some Council stock arising from the recent stock condition survey;

- An increase of £428,000 in Management and Maintenance Allowances. The Management Allowance has increased by £28,000 due to cash protection for the energy performance allowance. The Maintenance Allowance has increased by £400,000 which is mainly due to inflation increases. The formula for calculating Management and Maintenance (MMA) allowances changed in 2004/05. The weighting in the allowance for the cost of managing and maintaining flats was reduced, which adversely affected the Royal Borough. The subsidy determination for 2011/12 has again granted cash protection of around £1.6 million to Kensington and Chelsea's until the end of 2011/12.

- The Charges for Capital Allowance provides funding towards the capital financing costs incurred by the HRA. This is calculated as the level of debt the CLG assumes we have to fund (£196 million including the Decent Homes work) at the Council's estimated consolidated interest rate (5.99%). Previously, funding for the Decent Homes work was provided separately and at a higher rate of 8%. Overall the loss in subsidy towards capital financing costs is £2.558 million, of which £1.685 million reflects the capital financing allowance reducing due to the reduction in consolidated interest rates and £873,000 due to the change in policy for funding decent homes work. This is partly offset by a £2.041 million decrease in actual costs of capital debt charges.

- The £2.370 million adjustment for Notional Rents reflects the increase in rental income that the CLG assumes we are collecting based on our average guideline rent. The determination sets out an authority's average guideline rent for the following year which depends upon RPI at the previous September (4.6%) and a convergence factor reflecting the number of years to rental convergence (2015/16). The guideline rent for 2011/12 is £107.37 compared to £100.70 for 2010/11 which is an increase of 6.6% compared to the national average of 6.8%.

- In order to avoid excessive rent increases, Caps and Limits adjustments were introduced into the rent restructuring regime. An allowance to compensate authorities for this loss in rental income is included within housing subsidy. The Caps and Limits Allowance is paid in arrears and relates to the previous year's rental income. When rents were set for 2009/10 the convergence date was assumed by CLG to be 2023/24, whereas the following year CLG brought the convergence date forward to 2012/13. This change in convergence date is the main reason for the £557,000 increase in this allowance within housing subsidy.

6.6 Overall, the Council's Central Support Services budgets are decreasing by £24,000. The main reasons are:

- Charges made by the Corporate Services business group – following the value for money review the overall position is a decrease of £76,000. The main decrease of £47,000 is due to a reduction in Bank Charges and Added Years Pensions costs. A reduction of £33,000 in Risk Management and insurance is due to a change in the method of calculating this recharge, other recharges net to a £4,000 increase;

- Charges made by the Housing, Health and Adult Social Care Business Group - the overall position is an increase of £52,000. This mainly due to an increase of £25,000 arising from an accounting adjustment relating to pensions, an increase of £6,000 in salaries due to time allocation changes and £17,000 from associated central costs.

6.7 Overall, the Council's Other Budgets are increasing by £153,000. The main reasons for this are:

- Income from interest on balances - has decreased by £9,000. This is mainly due a combination of a minor projected decrease in interest rates and a reduction of balances.

- Insurance Cost – an increase of £132,000. Of the increase, £110,000 relates to an increase in rechargeable insurance to Leaseholders properties and £22,000 relates to an increase to non-rechargeable insurance. The insurance agreement for leaseholders is a fully insured external arrangement that was re-tendered and the terms required for the cover resulted in additional costs. The insurance arrangement for tenanted flats remains unaltered being a combination of Council self-insurance for losses up to £250,000 and external insurance above this sum.

- Miscellaneous budgets, an increase of £9,000 is mainly due to the cost of stock revaluations.

6.8 Stock Options/Regeneration

- Provision of £360,000 has been made in the 2011/12 budget to fund the costs relating to work on Stock Options/Regeneration.

- The Housing Stock Finance and Development programme has completed its analysis and put forward proposals that will prevent the HRA going into deficit over the next five years. At the Cabinet meeting on 21 October 2010 approval was given to proceed with moving to a Transitional Rent setting formula for all Council tenants from April 2011.

- In addition, the financial analyses have identified a number of projects related to property disposals, small sites development, capital work and Value for Money that will continue to provide a positive impact to the HRA in the medium to long-term. A detailed Benefit Realisation plan is being developed to embed the outcomes from these projects into normal business operations.

- Work has gathered momentum on the Silchester Garages Site scheme which needs to be delivered by 2014 to meet an affordable housing obligation from the Holland Park School site. Further exploratory work will also begin on Edenham Way.

- Resources are required to ensure that Benefit Realisation plans are embedded into normal business operations, delivery of regeneration projects occur on time, according to required procurement regulations and in full consultation with our residents.

6.9 In 2004/05, Government changes to Capital Financing accounting included the abolition of the HRA's statutory annual duty to repay 2% of debt. The HRA has not budgeted to repay debt in 2010/11 and is not proposing to do so for 2011/12.

7. PROPOSALS ON RENT LEVELS AND OTHER CHARGES

7.1 In 2002/2003, the previous Government introduced its "rent restructuring" regime which requires rents to be set in line with a national formula which is used to calculate a target rent for each property. This means there is limited flexibility in rent levels if authorities comply with the regime.

7.2 It is not a statutory requirement that local authorities comply with this regime, however, failure to comply is likely to result in authorities being ineligible to claim the Caps and Limits Adjustment (see paragraph 7.5) which in 2011/12 amounts to £2.8million.

7.3 The implementation of rent restructuring means that it is no longer possible to increase rents by a single percentage across the board. Rents have rather to be set at an individual property level based on a formula set out by the Government. The calculation of the "formula rent" is based on the following:

- 70% of the average rent multiplied by relative county earnings multiplied by bedroom weight; and
- 30% of the average rent multiplied by relative property value as a percentage of the national average value.

The valuation used is the open market value as at January 1999 assuming vacant possession and continued residential use. No downward adjustment can be made for the fact that the property is used for social housing.

7.4 Local authorities are advised that they should adjust rental amounts annually to reach either the "formula rent" or the "capped rent" for all properties by the year 2011/12.

7.5 As a result of lobbying by the Council/TMO and other local authorities leading up to the implementation of rent restructuring, the previous Government also introduced a number of limits and caps to protect tenants from excessive increases in rents. This means that the very large potential increases that were a concern when the implementation of rent restructuring was being considered have not happened. The limits/caps are as follows:

- No rent shall increase by more than the Retail Price Index (RPI) + 0.5% + £2.
- The Council may decide the speed by which they reduce any rents that are over the formula rent to that level, provided that the reduction is achieved by the date of convergence. Rent caps have been set to ensure that no tenant pays over a maximum rent for any particular size property, no matter what the value of that property.
- Local Authorities are partially compensated for rents that are capped or limited by the above constraints. This compensation is paid in arrears.

7.6 The Government's subsidy calculation for 2011/12 assumes additional rent income of £2.370 million from that assumed for 2010/11 as a result of the implementation of rent restructuring.

7.7 The Council is proposing to increase rents further in 2011/12 to the Transitional Rent level, the maximum level permitted without incurring Housing Subsidy penalties. This will help to address the anticipated deficit on the HRA (see section 2 of this report).

7.8 If rents were not increased in line with the proposals in this report, the difference between actual rent collected by the Council (£35.341

million in 2011/12) and the notional rent collected via subsidy (£37.886 million) would increase and be a direct cost on the HRA.

7.9 Detailed modelling of the impact of the rent restructuring formula on individual dwelling rents has been undertaken and this indicates an overall average increase in rents of 8.5%. This compares with a national average dwelling rent increase of 6.8%.

7.10 As in previous years, the increase in charges for garages and parking will be linked to the average dwelling rent increase which for 2011/12 is 8.5%.

7.11 When the previous Government introduced rent restructuring it was with the expectation that councils would also move towards separate service charges for communal services. This would allow proper convergence to occur with Registered Providers' rents where service charges are separated out. Tenant Service Charges were introduced in Kensington and Chelsea in 2005/2006. Both the rent and service charges are eligible for housing benefit.

7.12 Tenant Service Charges are still constrained by the rent restructuring limit so that increases for tenants are not more than RPI + 0.5% per week, except in the case of new services such as digital television. In addition rent capping will still apply so that the Council will not always recover the full cost increases where these exceed the permitted levels.

7.13 A new charge is to be introduced for the new Digital TV service. Leaseholders must be charged in accordance with the costs arising in year from the installation of this facility within their block. However, for tenants, a borough wide weekly charge is proposed which for administrative reasons would be effective from April 2012. Tenants and leaseholders would incur these costs over a 10 year period which equates to the period of the lease. At the end of this period a small maintenance charge would be made.

8. HRA WORKING BALANCE

8.1 As at 1 April 2010, the working balance was £10.595 million. As a result of the projected net contribution to the working balance of £1.027million (see table in paragraph 3.1), the forecast for the working balance as at 31 March 2010 is £11.622 million. The proposed budgets for 2011/12 (see table in paragraph 3.1) would result in a contribution to the working balance of £420,000 resulting in a projected working balance at the end of 2011/12 of £12.042 million.

8.2 The policy adopted in recent years has been to maintain a HRA working balance comprising £1 million for general working balances and £1 million as a cushion against future loss of subsidy. Given the future pressures on the HRA highlighted in section 2 above and unforeseen budgetary risks which may face the TMO and Council, it is recommended that the level of HRA working balance is maintained at the level shown in the table following paragraph 8.3.

8.3 The projected movements in the working balance up to March 2012 can therefore be summarised as follows:

HRA Working Balance		
		£'000
	Opening balance (1 April 2010)	10,595
add	Projected outturn variance 2010/2011	1,027
equals	Projected Working Balance (31 March 2011)	11,622
add	Budgeted contribution to Working Balance 2011/2012	420
equals	Projected Working Balance (31 March 2012)	12,042

9. RESERVES

9.1 The draft budgets also incorporate changes in the budgeted level of HRA reserves during 2011/12. The planned reduction is as follows:

Heading	1 April 2010 (Actual) £'000	31 March 2011 (Forecast) £'000	31 March 2012 (Forecast) £'000
TMO Managed Reserves			
Controlled Repairs/Area Revenue Works Reserve	132	0	0
Energy Efficiency Reserve	12	12	12
Lancaster West	168	53	53
Council Managed Reserves			
Capital/Major Works Reserve	2,166	749	0
Total	2,478	814	65

Further information on changes to the reserves is set out below:

- Controlled Repairs/Area Revenue Works Reserve – the forecast assumes that £132,000 of additional expenditure will be incurred during 2010/11 which will be funded by reserves (see section 5.3);
- Lancaster West – it is estimated that the reserve will decrease in 2010/11 by £115,000. The decrease is due to the transfer of £115,000 arising from an overspend against the Lancaster West Management Fee. In 2011/12 it is estimated that the reserves will not be utilised by Lancaster West;
- The Capital and Major Works reserve is assumed to be fully released to fund capital projects by March 2012.

10. RECOMMENDATIONS

10.1 The proposals in this report have already been considered by both the TMO Board and the Tenants Consultative Committee. The final decision on these matters rests with the Cabinet Member for Housing and Property. The Scrutiny Committee is therefore asked to pass any comments it wishes to make to the Cabinet Member, in particular on recommendations for:

(i) Rents being set at Transitional Rent level resulting in an average rent increase of 8.5%;

(ii) An increase in garages/car parking charges of 8.5% for tenants for 2011/12;

(iii) A cross borough weekly charge to all tenants to recover the costs of the new Digital TV service. This will be effective from April 2012;

(iv) An increase in general Tenant (including Hostels) and Leaseholder Service Charges for 2011/12 in line with revised estimates of costs recoverable;

(v) That the HRA Working Balance and other reserves be retained at the level set out in section 8 and section 9.

Robert Black
TMO Chief Executive

Laura Johnson
Chief Housing Officer

Jean Daintith
Executive Director for Housing, Health and Adult Social Care

<u>Background papers used in the preparation of this report:</u>
DCLG Guidance – Rent Restructuring, Housing Subsidy Determination
Budget Working papers
TMO Board reports

Contact officer: Mr S Mellor on 020 7361 2370