

ITEM 7 – HOUSING REVENUE ACCOUNT – FINAL RENT SETTING AND BUDGET REPORT 2011/12

Additional Material for Cabinet 25 January 2011 – Housing Revenue Account Final Rent-Setting Report 2010/11

The sections below all relate to consultation meetings of Area Housing Forums in the past 10 days, and to last night's meeting of Tenant Council, which mostly have taken place since the dispatch date for the Cabinet meeting, and so the papers below are circulated on a 'round the table' basis.

- Section 1 Recommendations of Tenant Council of 24 January 2011
- Section 2 Summary of Area Housing Forum Decisions
- Section 3 Individual Area Forum Feedback and Finance Responses
- Section 4 Recommendations of Home Owners Council of 19 January 2011

		For	Against	Abstain/Not voting
2.	Approve changes in tenants' service charges as set out in paragraph 14 with effect from 4 April 2011.			
	Tenant Council resolved to vote on each tenant service charge separately:			
(a)	Estate Cleaning	6	9 Not Agreed	0
(b)	Grounds Maintenance	6	9 Not Agreed	0
(c)	Communal Lighting	1	14 Not Agreed	0
(d)	Door Entry Maintenance	13 Agreed	0	2
3.	Approve an increase in rents and charges for all non-residential property of 50% as set out in paragraph 15 with effect from 4 April 2011.	0	15 Not Agreed	0
4.	Approve a standstill in heating and hot water charges such that each charge remains at the rate determined for 2009/10 and 2010/11 (as set out in paragraph 16) with effect from 4 April 2011.	13 Agreed	0	2

Comments of the Finance Director

Negation of the proposed increases in order to adopt the position of Tenant Council would mean that the following additional savings would be required in order to set a balanced HRA Budget for 2011/12:

Dwelling Rents	£10.2m
Tenants Service Charges	£0.4m
Non-Dwellings	£0.9m

Taken with the level of efficiency savings already being consulted on of £7.0m, this totals £18.5m, or approximately 15% of the available HRA budget for 2011/12.

In addition, central government has penalised boroughs that have not followed the rent restructuring policy established since 2002/03 by either clawing back additional rental income through subsidy reductions, or by basing subsidy calculations on the notional rent set as though rent restructuring had been agreed, meaning that the failure to set a rent increase results in an on-going cash loss to the council.

Whilst detailed hypothecations have yet to be issued by CLG, it is virtually certain based on previous modelling exercises from them that the debt settlement figure which self-financing will be based on from April 2012 will assume that rent levels for the next thirty years are set according to the rent restructuring policy, meaning that this council would be unlikely to be able to agree a viable self-financing business plan with central government. The council's submission to CLG on the 'Prospectus' for self-financing (reported to Cabinet on 22 June 2010) identified particular concerns with the short-term financing of the HRA even with rent rises assumed to be at the rent restructuring level, and no increase for 2011/12 would exacerbate those issues, with probably little or no assistance from central government.

Since tenant service charges are based on the provision of specific services, a decision not to increase these charges indicates that these specific services would have to be reduced by equivalent amounts as part of the overall savings package required.

The proposed non-dwellings increase of 50% is, in part intended to address a budget gap from 2010/11, where an in-year increase in these charges was assumed for budget purposes, but then not implemented, following consultation with residents. This additional inherited gap is £1.25m.

SUMMARY OF AREA FORUM DECISIONS – HRA RENT-SETTING REPORT RECOMMENDATIONS 2011/12

Forum	Date	Rent +7.08%	Serv. Charge re-basing	Non-Dwellings +50.00%	Heating no change
Aylesbury	18 Jan 11	✓	✓	✓	✓
Bermondsey East	19 Jan 11	x	x	x	✓
Bermondsey West	11 Jan 11	x	x	x	✓
Borough & Bankside	20 Jan 11	✓ ¹	x	x	✓
Camberwell East	17 Jan 11	x	✓ ²	x	✓
Camberwell West	18 Jan 11	x	x	x	✓
Dulwich	18 Jan 11	N	N	x ³	✓
Nunhead & Peckham Rye	20 Jan 11	N	N	✓	✓
Peckham	17 Jan 11	x	✓ ²	x	N
Rotherhithe	18 Jan 11	x	x	x	✓
Walworth East	20 Jan 11	✓	✓	A ⁴	✓
Walworth West	13 Jan 11	✓	✓	x ⁵	✓
Summary:					
• ✓ Agreed		3	3	2	11
• ✓ Part-Agreed		1	2	–	–
• x Disagreed outright		6	5	9	–
• A Alternative suggested		–	–	1	–
• N Noted		2	2	–	1
Total		12	12	12	12

1. Borough and Bankside wished to make its agreement conditional regarding repairs obligations.
2. Camberwell East and Peckham rejected the communal lighting service charge increase, but accepted the changes to the other three.
3. Dulwich supported the concessionary charge for non-dwellings.
4. Walworth East proposed an increase of 100% for non-residents, and 25% for residents.
5. Walworth West wished to extend the concession to all residents, not just tenants.

Response of the Finance Director to Area Housing Forum Comments from the HRA Rent-Setting Report 2011/12 Consultation

The four recommendations on the main report are:

1. To increase dwelling rents by 7.08%;
2. To amend tenants service charges according to a rebasing exercise;
3. To increase non-dwellings charges by 50%; and
4. To maintain heating and hot water charges at 2009/10 (and 2010/11) levels.

Aylesbury (18 January 2011)

The forum accepted all four recommendations, but requested that the council make representations to central government on the financial implications for residents of such a large rise in the current economic climate. Officers were instructed to do this by Cabinet in December 2010, and did so as part of the council's response to the Draft HRA Subsidy Determination. The Government did not take the opportunity to amend guideline rent assumptions.

Bermondsey East (19 January 2011)

The forum rejected recommendations 1, 2 and 3; and accepted recommendation 4. Additional income generated by the recommended increases rejected by the Area Forum totals £11.5m, which coupled with the efficiency savings gap identified in the Final Budget Report of £7.0m would give rise to a reduction in HRA services of £18.5m, or 15% of the available budget. It would also result in a knock-on effect in terms of the funding of future HRA services, as central government support would be based on the notional rent debit at the higher, 7.08% level.

Bermondsey West (11 January 2011)

The forum rejected recommendations 1, 2 and 3; and accepted recommendation 4. Please see the comments for Bermondsey East above.

Borough & Bankside (20 January 2011)

The forum accepted recommendation 1, with the proviso that "*the council fulfils its repairs obligations to tenants and enshrines it in the new tenancy agreement*". The forum rejected recommendations 2 and 3, and accepted recommendation 4. Please see the comments for Bermondsey East above.

Camberwell East (17 January 2011)

The forum rejected recommendations 1 and 3; accepted recommendation 4, and seeks further clarification regarding the communal lighting service charge – the other service charges being accepted. Please see the comments for Bermondsey East above regarding 1 and 3. When service charges were initially established in 2002/03, the costs covered by the communal lighting charge totalled £1.84m. In 2010/11 the equivalent costs were £2.78m, or an increase of 51.1% over nine years. Over the same period, the charge has increased from 77p to 93p, or 20.8%.

Camberwell West (18 January 2011)

The forum rejected recommendations 1, 2 and 3; and accepted recommendation 4. Please see the comments for Bermondsey East above.

Dulwich (18 January 2011)

The Forum noted the four recommendations, with the following provisos:

- **Instruct officers to write to the Secretary of State for Communities and Local Government, highlighting the size of the provisional rent increase in comparison with those of recent years, where Government has intervened to place a national ceiling on average rent rises, and to ask that a similar ceiling be considered for 2011/12.** Officers were instructed to do this by Cabinet in December 2010, and did so as part of the council's response to the Draft HRA Subsidy Determination. The Government did not take the opportunity to amend guideline rent assumptions.
- **The Forum note the service charge increase but want to ensure that there *is* no impact on the level of service provided and that standards are maintained.** The purpose of rebasing the service charges is to emphasise the link between the respective charges and the services that they are derived from. Whilst alternative service levels may be explored as part of detailed discussions, the direct link between the service level and the charge level will be maintained.
- **The Forum support the concessionary charge, but would want to ensure that this is extended to all Southwark Residents and Leaseholders and applies to everyone that meets the criteria set out in the report. The Forum thinks that the 50% increase to non-residential property is inappropriate for Dulwich and counterproductive.** The additional contribution of £0.9m estimated to be generated by the proposed increase has the concession factored in. Any other reduction or mitigation of this proposed increase would need to be matched by additional savings in order to ensure that a balanced HRA budget was agreed.

Nunhead & Peckham Rye (20 January 2011)

The forum noted recommendations 1 and 2; and agreed recommendations 3 and 4. They added that they viewed the increases in communal lighting service charge and non-dwellings with concern, and the rent increase with grave concern. Please see the comments for Bermondsey East above regarding recommendations 1 and 2.

Peckham (17 January 2011)

The forum rejected recommendations 1 and 3; accepted recommendation 4, and seeks further clarification regarding the communal lighting service charge – the other service charges being accepted. Please see the comments for Camberwell East above.

Rotherhithe (18 January 2011)

The forum rejected recommendations 1, 2 and 3; and accepted recommendation 4. Please see the comments for Bermondsey East above.

Walworth East (20 January 2011)

The forum agreed to recommendations 1, 2 and 4, but asked that officers make representations to the government regarding the level of the rent increase. Please see the comments for Aylesbury regarding the caveat to recommendation 1.

The forum amended recommendation 3 such that the non-dwellings increase for non-residents be set at 100%, and for residents at 25%. Alternative proposals are welcome, and officers will study the impact of such a mix in increases on the likely contribution to the HRA from non-dwellings charges of this proposal. However, it should be borne in mind that a shortfall in income resulting from this would have to be matched in compensatory savings elsewhere within the HRA in order to ensure a balanced budget.

Walworth West (13 January 2011)

The forum agreed to recommendations 1, 2 and 4, but asked that officers make representations to the government regarding the level of the rent increase. Please see the comments for Aylesbury regarding the caveat to recommendation 1.

The forum rejected recommendation 3, but added that any concessionary rate should be made available to all residents, not just tenants. Any resultant shortfall in income will have to be met by compensatory savings elsewhere within the HRA.

Home Owners Council (19 January 2011)

Home Owners Council noted the report, and passed the following resolution:

- 1. We propose planned graduated garage rent increases over a period of 4 – 5 years to reach fair levels as steep one-off rises would mean that tenancies would be given up in the current economic climate and add to overhead reletting costs.**
- 2. There should be:**
 - a standard rental rate for residents Borough wide;**
 - a commercial rate for non-residents.**
- 3. Caution – a 25% increase two years ago followed by zero increase last year does not justify a 50% leap in one year particularly in the current economic climate.**
- 4. Council should pursue a rigorous and rent collection policy managed independently for both residents and non-residents.**
- 5. Consider discounting to special groups e.g. blue badge holders.**

Comments of the Finance Director

There was no increase in non-dwellings charges in 2010/11 despite an in-year increase in these charges being assumed for budget purposes. There is therefore a significant shortfall in the 2010/11 budget as a consequence. This shortfall is estimated to be £1.25m. Immediate implementation of the proposed increase will provide cover for this shortfall, as well as contributing an estimated additional £0.9m to assist in balancing the HRA budget for 2011/12. Any phasing of this increase directly threatens the ability of the HRA budget to be balanced, and if adopted additional savings beyond the £7.0m required within the Final Rent-Setting Report will have to be identified to compensate. The likely financial impact of the concessions scheme has been included in income calculations.