**London Borough of Hammersmith & Fulham**

# The Economy, Housing and the Arts Policy and Accountability Committee

## Agenda

**Tuesday 25 January 2022 at 6.30 pm**

**This is being held as an informal remote meeting**

**You can watch live on YouTube:** https://youtu.be/HAhqgSrCbfs

**MEMBERSHIP**

| Administration | Opposition |
|---|---|
| Councillor Rory Vaughan (Chair)<br>Councillor Daryl Brown<br>Councillor Ann Rosenberg<br>Councillor Helen Rowbottom | Councillor Adronie Alford |


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Date Issued: 17 January 2022

London Borough of Hammersmith & Fulham

# The Economy, Housing and the Arts Policy and Accountability Committee
## Agenda

**25 January 2022**



If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.

Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.

Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Standards Committee.



To note the minutes of the previous meeting.



This meeting is being held remotely on Zoom and will be live streamed to YouTube: https://youtu.be/HAhqgSrCbfs

If you would like to ask a question at the meeting about any of the items on the agenda please send your question to governance@lbhf.gov.uk by 12 noon on Friday, 21 January



This report sets out the budget proposals for the services covered by this Policy and Accountability Committee (PAC). An update is also provided on any proposed changes in fees and charges in the budget.

**6. FINANCIAL PLAN FOR COUNCIL HOMES: THE HOUSING REVENUE ACCOUNT (HRA) 2022/23 HRA BUDGET, 2022/23 RENT SETTING AND HRA 40-YEAR FINANCIAL BUSINESS PLAN** 37 - 55

This report sets out the HRA budget proposals for the financial year 2022/23 including changes to rent levels and other charges and explains the wider financial risks facing the HRA. Recognising the cost of living pressures faced by tenants due to inflation and Government tax increases, it notes that the administration proposes a real-terms reduction in rent.

**7. FUTURE MEETINGS**

Dates of future meetings:
22 March 2022

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# London Borough of Hammersmith & Fulham
# The Economy, Housing and the Arts Policy and Accountability Committee
# Minutes

**Tuesday 9 November 2021**

**PRESENT**

**Committee members:** Councillors Rory Vaughan (Chair), Daryl Brown, Ann Rosenberg, Helen Rowbottom and Adronie Alford

**Other Councillors:** Councillor Lisa Homan

Jonathan Pickstone – (Strategic Director The Economy), Daniel Miller – (Head of Community Engagement /Resident Involvement & Service Improvement Manager), Magda Goncalves – (Resident Involvement and Governance Manager), Matt Rumble – (Strategic Head for Regeneration and Development), Labab Lubub – (Development Programme Manager), Richard Buckley – (AD Resident and Building Safety Housing) and Charles Francis – (Committee Services)

## 1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Andrew Jones.

## 2. ROLL - CALL AND DECLARATIONS OF INTEREST

There were no declarations of interest.

## 3. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 20 July 2021 were noted. As this was an informal meeting, minutes will be formally agreed at the next meeting.

## 4. PUBLIC QUESTIONS

No public questions were received.

## 4i) UPDATE FROM JONATHAN PICKSTONE -

The Chair welcomed Jonathan Pickstone, (the new Strategic Director, The Economy) to his first Economy, Housing and the Arts Policy and Accountability Committee meeting.

Jonathan Pickstone introduced himself and provided an update on recent activities within the Economy Department. Further to the Business Support update at the July meeting, he explained that a range of initiatives had been launched to support small independent businesses across the borough. These included an e-commerce platform to allow businesses to compete against larger online suppliers, assistance to help small businesses successfully bid for Council contracts and support to help them to become digitally enabled.

Additional workstreams included: a set of hardship recovery grants, measures to improve high street footfall and a fund that had been created to bring local businesses and community groups together to work on projects such as lighting / floor displays and well as local events. It was noted that £200k had been won from the European Social Fund to assist residents access training and employment.

In relation to Housing, Jonathan Pickstone explained the Stock Condition Survey (covering every tenanted home in the next two years) had started in October 2021 which would inform the Council's capital investment in Housing for the next 12 years. Officers were also collecting data on ways to reduce carbon emissions, as well as, ensuring the Council met its health and safety obligations.

Updates were provided on the work being done to resettle Afghan refugees, the Disabled Peoples Strategy (including the Disabled Peoples' Housing Group) and the focus of the Capital works Programme - fire doors, digital warden systems and video-controlled access to all sheltered housing.

In relation to Estates Based Services, Jonathan Pickstone explained that procurement for a new grounds maintenance contract had been concluded and an announcement would be made in the near feature. It was also noted that Pinnacle Cleaning and Caretaking contract had achieved its highest performance standards in the last 3 years.

Concluding his remarks, Jonathan Pickstone provided brief summaries for the Council's Delivery of Affordable Homes and Fire Safety Housing reports which were considered in due course.

## 5. RESIDENT INVOLVEMENT UPDATE

Daniel Miller (Head of Community Engagement /Resident Involvement & Service Improvement Manager), gave a brief introduction and asked Magda Goncalves – (Resident Involvement and Governance Manager), to provide a presentation on the environmental improvement projects (EIP) delivered between 2020 and 2021, where over £500k of improvements had been undertaken on council housing estates. The presentation covered what EIP were, the levels of investment and the projects funded by the investment group. Further topics included: the 2020/21 Place Environmental Rejuvenation Programme Bids, updates on Neighbourhood Improvement Project (NIP) Bids in the North and South of the borough and the successful implementation of the H&F Urban Ecology Trail.

In the second part of the presentation, Daniel Miller gave an overview of Housing Involvement work. Information was provided on the Resident Involvement Strategy 2019 to 2022, the changing nature of involvement and engagement since the Covid-19 pandemic and current projects being worked on. Finally, information was provided on future activities and workstreams.

The Chair welcomed the comprehensive updates and acknowledged that a significant amount had been achieved since the last update.

Councillor Adronie Alford asked a series of questions. In relation to the sustainability of EIPs, she enquired if these were going to last and how they were going to be maintained. Turning to anecdotal evidence, she raised drug dealing which had occurred at St Peter's Terrace and enquired whether planters and furniture would be removed to curtail this. In response, Daniel Miller confirmed that a joined-up approach was being taken and most of the projects were delivered by Idverde, who was also the Council's grounds maintenance contractor. This meant it was important sustainable solutions were delivered which dovetailed with existing maintenance plans. With regards to longevity, Daniel Miller confirmed that the wood used for planters, seating and playground equipment was tantalised wood which had an estimated shelf-life of 15 years.

Addressing the St Peter's Terrace issues, Daniel Miller confirmed that a Housing Management plan was in place to address these issues and the area of concern did not relate to the NIP project undertaken there.

**Action: Daniel Miller to provide Cllr Adronie Alford with an update on the St Peter's Terrace issues.**

Councillor Adronie Alford commented that she had recently attended a Sheltered Housing Forum meeting and she was concerned about the reduced number of resident attendees. She asked whether a decline in numbers was representative of other forums. In response, Daniel Miller confirmed that this was a not representative of other forums and he cited the Housing Representative Forum which had recently been attended by 20 resident representatives (which was an average number). However, he acknowledged attendance was important and officers were looking at ways to support representatives attend forums in greater numbers in the future, such as through more support to access online meetings and exploring the use of hybrid meetings in the future at a time when it's safe to do so.

Councillor Adronie Alford acknowledged that officers were acting on a variety of involvement fronts and queried whether resources were being spread too thinly as a result. Daniel Miller confirmed he had a fully staffed team, and everyone had their own respective responsibilities. He highlighted the important role played by Block Champions and confirmed Officers reviewed current ways of working and the involvement structure and made changes as and when necessary.

Councillor Adronie Alford asked what support was in place for the gap sites and small blocks which were prone to suffering from anti-social behaviour. In response, Daniel Miller confirmed a Block Champions Forum had been established, so if residents wished to join these as part of the block champions forum, their input would be welcomed.

**Action: Daniel Miller to provide further information on the Block Champions to Cllr Adronie Alford.**

Councillor Helen Rowbottom welcomed the progress that had been made. She asked what routes were used to engage those groups which did not have a strong TRA. Daniel Miller confirmed that during consultations, all affected residents were written to and postal and online feedback was also sought. The Resident Involvement Team also undertake door knocking as well as phone calls to verify that the improvements being made had resident buy-in. The Team were also using text messages to get important messages out to residents.

Councillor Helen Rowbottom asked whether it was a competitive bid process or if projects were initiated if there had been enough interest. In response, Daniel Miller explained the criteria the Investment Group had put in place to ensure that no specific site/s dominated funding streams and underlined the importance of achieving community buy-in and sustainability with these projects. Magda Goncalves reiterated the importance of feedback and highlighted that all consultations encouraged new suggestions from residents to keep ideas fresh and innovative.

The Chair, Councillor Rory Vaughan, welcomed the considerable number of projects that had been completed, the diverse range of active forums and the work which had been conducted on estates. He asked if officers reviewed projects to assess their impact in terms of whether the facilities were well used (in the case of playgrounds) and what parameters were used to gauge the success of a project. In response, Daniel Miller confirmed that as many of these projects were very recent, assessing the effectiveness of the projects was the next stage officers would be looking at. A lesson learnt at this stage was to ensure that communities were engaged throughout the project and that by its conclusion, the outcomes reflected the groups original vision. Magda Goncalves confirmed the Authority now had a pro-forma in place which was used to collect data at the end of the project to look at what had gone well and what aspects might be improved in the future.

The Chair asked if successful projects were used a catalyst to engage even more residents. Daniel Miller confirmed that playgrounds were good examples of pocket improvements within blocks which residents reacted to and wanted transposed across whole estates. It was also noted that when ball courts were installed, there was further resident interest and engagement when murals (which sought their design input) were integrated within a project.

Councillor Adronie Alford asked if checks were made on projects, 18 months to two years after their conclusion to ensure they were sustainable. In response, Daniel Miller confirmed the Council were developing a community asset register which would list all local facilities, including their condition. In addition, the Council was working closely with Idverde to ensure projects such as community gardens were revitalised. Magda Conclaves highlighted the community fund which residents could also bid to use from Idverde.

Councillor Homan, Cabinet Member for Housing, commented that she had asked similar questions around the issue of sustainability and would continue to do so, to ensure that projects delivered value for money. She explained that engagement was at the heart of the Administration in terms of doing things with residents and not to them.

Councillor Lisa Homan thanked those residents which had put many hours work into making projects successful through their commitment to the forums and service improvement groups. She welcomed the scrutiny of Council performance by residents and agreed with the Committee that the move to online provision (necessitated by Covid) had been a challenge. However, aspects such as the voting buttons used at Resident's Voice had worked brilliantly. Councillor Lisa Homan formally thanked the Resident Involvement Team for the innovation they had brought to resident engagement during the pandemic period. Closing her remarks, Councillor Lisa Homan referred to gap sites and the block champions and the importance of ensuring these areas were engaged.

Concluding the item, the Chair underlined the value of resident-led projects evolving to co-production, the importance of sustainability and given how recent some of the project work was, that a comprehensive evaluation process would take place at some point in the future.

**RESOLVED**

That the Committee noted and commented on the report.

## 6. UPDATE ON THE COUNCIL'S DELIVERY OF AFFORDABLE HOMES

Matt Rumble – (Strategic Head for Regeneration and Development), introduced the item which provided an update on the Council's delivery of affordable homes. It was noted that until relatively recently, the Council's ability to deliver housing was restricted by the government caps on the way the Council was able to borrow to deliver new homes. In late 2018, central government announced the scrapping of the HRA debt cap, which meant councils had greater freedoms to borrow to invest in existing and new housing stock.

Matt Rumble provided a short presentation. This covered: the Building Homes and Communities Strategy 2019 and its objectives, and the development and approval / financing process. Information was provided on the Defend Council Homes Policy, the Partnership Programme, and: the Education City programme, the White City Central project, the operational net zero carbon construction elements and Spring Vale Development.

Councillor Adronie Alford asked officers to provide further details on the funding / costs of the development programme. In response, Matt Rumble confirmed the total costs were £500 million. He explained that the Council borrowed from the Housing Revenue Account (HRA), how these mechanisms worked; and how in the long term, the rent generated from the new homes paid off the remaining debt. It was also noted that the

Council also bid for grant money from the GLA to offset the cost of delivering affordable homes and used Right to Buy money in the same way.

Councillor Adronie Alford asked officers to define what a Youth Zone was and provide details on its size and sustainability. In response, Matt Rumble confirmed this was a designated space for young people to engage in positive activities (incorporating a multi-use games sports area – MUGA - on the roof) with various activity rooms, with the total floor space mirroring the MUGA. In relation to its use / viability, Matt Rumble explained that On Side – the provider – needed to produce a business plan which was then signed off by the Council's Education's Commissioning Team.

Councillor Adronie Alford asked for clarification on the total number of homes for the Hartopp and Lannoy site. In response, Matt Rumble confirmed this was for 134 homes.

Councillor Adronie Alford asked for further details to be provided on the breakdown of house sizes within the projected 134 homes and also the garage site. Matt Rumble explained that officers determined the housing needs of the borough from the Housing Register and sought to create a mix within new developments to meet this need. In relation to the garage site, he explained that officers were about to start a consultation with residents about a small development on that site.

The Chair, Councillor Rory Vaughan, welcomed that there was a significant amount of genuinely affordable housing being delivered by the programmes which had been highlighted. He asked if more detail could be provided on how the climate emergency had been factored into new homes. Matt Rumble confirmed the Council was designing new buildings (net carbon zero) which far exceeded the current specifications laid down by the Major of London, which meant that there would be a target of reducing carbon by 45% in all new developments. In relation to the Council's Climate and Ecology Strategy, Matt Rumble confirmed that officers would be looking at 3 example path finder projects and to design these (using new and emerging technologies) to operational net zero carbon which would progress overall carbon reduction to between 80% and 85% on these developments. Matt Rumble confirmed the Hartopp and Lannoy would become the exemplar scheme across London using a net zero carbon approach.

Councillor Ann Rosenberg stated she was impressed by the building projects which had been mentioned but asked what the impact would be on the waiting list for Council accommodation. Matt Rumble explained that over the next 8 to 10 years, the Council aspired to deliver approximately 1800 new homes. Of these, approximately 1100 were designated to be affordable. He confirmed that the current Housing Register, numbered about 2800, but this would fluctuate, and so it was clear that the affordable housing programme would have a significant impact.

Councillor Lisa Homan acknowledged that a significant proportion of this work was met by Councillor Andrew Jones's portfolio, but remarked she was pleased that in the last few years, the Authority had started to focus on delivering more Council homes. Referencing local lettings plans, Councillor Lisa Homan explained this was something the Administration had been keen to introduce, as it meant the people in most need were given the first opportunity to bid. She remarked that the supply of affordable homes which were in the pipeline would go a long way to help ease the register.

Concluding her remarks, Councillor Lisa Homan commented on Hartopp and Lannoy and cited it as good example to turning a very difficult situation a few years ago into a positive one which embraced the themes which had been discussed: affordability, new technology, defend council homes and the importance of resident engagement.

The Chair explained he was encouraged that so much development was in the pipeline to address the need for affordable homes. He was glad that sustainability, the response to the climate emergency and resident engagement and involvement had been incorporated into the project planning. He confirmed the Committee would keep a watching brief on the supply of affordable homes and he looked forward to seeing the delivery of new homes soon.

**RESOLVED**

That the Committee reviewed and commented on the report.

## 7. FIRE SAFETY HOUSING

Richard Buckley – (AD Resident and Building Safety Housing) introduced the report which provided an overview of the fire safety arrangements in place, on-going monitoring and reporting arrangements and planned capital fire safety works.

He explained that officers met with London Councils on a bi-monthly basis and these meetings were also attended by the Department for Levelling Up, GLA and Fire Brigade. During these meetings, the London Fire Brigade provided an update on the status of large buildings and their evacuation procedures. It was noted that London had 60% of all the tower blocks nationally (of 6 blocks or above). He explained that one London Borough with 14 tower blocks was incurring costs of £450k per month in waking watch which in many boroughs charged to leaseholders. Whereas in Hammersmith and Fulham, it was noted that the Administration had decided not to charge any leaseholders for these costs (or any associated fire safety costs).

Details were provided on accountabilities and the implications of the Buildings Safety Bill which was passing through Parliament. At this stage, it was still uncertain whether the height of tower blocks would be altered from 18 metres to 11 metres which would significantly increase the number of buildings officers would need to register. The roles and responsibilities of the Buildings Safety Bill regulator were provided and the requirement for all buildings of 18 meters or over to have a safety case file were discussed. It was apparent that the Buildings Safety Bill increased duties of care and held responsible persons / bodies to account.

Richard Buckley confirmed a Fire Safety Management system was in place to ensure buildings were safe for residents. It was noted that over 1,500 fire risk assessments had been conducted for buildings of 6 storeys or above and these were reviewed annually, as were higher risk buildings such as sheltered housing and hostels. The Committee were reassured that when fires took place, processes and procedures were reviewed to see if any new learning had emerged. It was noted that as part of planned works all fire detection systems would be upgraded as part of an overall electrical upgrade over the next 5 years.

Information was provided on the Fire Safety Plus Scheme and fire safety measures which the Administration had committed to under its Capital Programme in 2018. The update also included details of the works which had been conducted In Edward Woods (sprinkler systems) and Drake and Shackleton (sprinkler, fire detection systems and new evacuation plans). Richard Buckley confirmed the Council had its own specific Fire Safety Team for delivering works and Bazaars were currently conducting and independent safety audit of the Council

Making initial remarks, Councillor Lisa Homan commented it was vital that all Councillors were aware of the work which was being done on fire safety, as all Councillors were responsible for ensuring residents were safe. As Cabinet Member for Housing, she explained she had fortnightly updates which provided rolling updates of how works were progressing. Given the challenging situation, Councillor Lisa Homan was also encouraged by how the Council was proactively adapting to Government guidance and the recommendations arising from the ongoing Grenfell enquiry.

Councillor Helen Rowbottom asked how the fire safety priorities dovetailed with the Council's sustainability and ecological implications of its housing stock. In response, Richard Buckley explained that all capital projects were scoped to PAS 2035 standards before relevant Cabinet Members decided whether to agree the progression of specific projects. Richard Buckley highlighted there were cost implications of adopting a sustainable and ecological approach but works needed to be future proofed and this was something that needed to be allowed for.

Councillor Adronie Alford asked how much the rain screen and cladding removal from Edwards Woods block would cost. Richard Buckley confirmed this work was estimated to cost between £25 and £30 million which had been set out in Cabinet report which was approved in September 2021. He confirmed the Council had applied to the Building Safety Fund to assist with these costs and would be looking to apply for any grants, from a climate change perspective to also help.

Referring to Edward Woods, Councillor Adronie Alford noted that the Council did not have a waking watch, but did use fire wardens, and asked if this was 24 hours per day. In response, Richard Buckley confirmed that fire wardens patrolled 24 / 7 and this work involved checking that the means of escape were not blocked with any combustibles or items such as bikes or scooter which would hamper egress. It was noted that these fire wardens were Council trained and so were fully conversant with their respective blocks and patrol parameters.

Councillor Adronie Alford noted that Appendix 1 described the panel risk as high and asked how this was evaluated. In response, Richard Buckley confirmed the Council was responsible for 27 buildings with panelling and a list of ascending risk had been drawn up. Risk factors included the height of buildings, the amount of cladding and what the cladding was made from. Asking a supplementary question, Councillor Adronie Alford asked when officers anticipated they would start to remove the panels. Richard Buckley confirmed that in many cases, contracts had been awarded for the removal, but contractors (and the use of expert contractors) were now assessing what the most effective method would be to remove the panelling safely.

The Chair, Councillor Rory Vaughan, noted the information that had been provided on the appointment of building safety managers and asked what plans were in place to ensure residents were kept aware of any new fire safety measures and any actions they needed to take. In response, Richard Buckley confirmed the Council had two building safety managers at present, and conversations were still ongoing nationally as to their function and competency. In terms of resident engagement, it was noted that the Fire Residents Action Group (FRAG) still existed (with an extended safety remit) and a key element of the Building Safety Bill was for every building to have its own bespoke strategy. In relation to notifying residents and ensuring they were kept informed, Richard Buckley confirmed this was achieved by using a combination of the Housing Representatives Forum, FRAG (issues such as charging electric scooters in hallways and BBQs) and the Residents Engagement Team. Richard Buckley also highlighted there were plans to roll out fire / building safety awareness training for residents via Zoom, webinars or in some cases, in person

Councillor Lisa Homan commented in relation to the Fire Brigade, that with the numbers of Council properties in the borough, there would inevitably be fires (with most being small and contained). When there were fires of consequence, she confirmed she was notified and advised about the incident. However, despite all best efforts, it was impossible to eliminate all fire risk from every property and the Council needed to mitigate this where it could.

Concluding the item, the Chair, Councillor Rory Vaughan, stated he was pleased the Council was taking a proactive approach and doing its best to get ahead of the curve in relation to recommendations arising from the Grenfell tragedy. He underlined the importance of residents being fully engaged with emerging guidance and confirmed the Committee wished to revisit the topic to monitor progress in the future.

**RESOLVED**

That the Committee reviewed and commented on the report.

Meeting started: 6.30 pm
Meeting ended: 9.00 pm

Chair ...........................................................

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# Agenda Item 5

**London Borough of Hammersmith & Fulham**

**Report to:** Economy, Housing and the Arts Policy & Accountability Committee

**Date:** 25 January 2022

**Subject:** 2022 Medium Term Financial Strategy (MTFS)

**Report author:** Andy Lord – Head of Strategic Planning and Monitoring
Danny Rochford – Head of Finance, Economy

**Responsible Director:** Strategic Director of Economy – Jonathan Pickstone
Director of Finance – Emily Hill

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## SUMMARY

Cabinet will present their revenue budget and council tax proposals to Budget Council on 24 February 2022. A balanced budget will be set in accordance with the Local Government Finance Act 1992.

In recognition of the significant increases in the cost of living of residents, due to inflation and Government tax increases, the administration proposes to freeze council tax and not to apply the government modelled 1% adult social care precept increase. Despite this freeze, council savings and other areas of income will fund £7.4m in increased investment in services, including over £5m in adult social care and public health.

This report sets out the budget proposals for the services covered by this Policy and Accountability Committee (PAC). An update is also provided on any proposed changes in fees and charges in the budget.

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## RECOMMENDATIONS

1. That the Policy and Accountability Committee (PAC) considers the budget proposals and makes recommendations to Cabinet as appropriate.

2. That the PAC considers the proposed changes to fees and charges and makes recommendations as appropriate.

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**Wards Affected:** All

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| Our values | Summary of how this report aligns to the H&F values |
|---|---|
| Being ruthlessly financially efficient | We need to always confirm that spend fits our Council's priorities; challenge how much needs to be spent; and achieve results within agreed budgets. Finance is everyone's business and every penny counts. |

## Contact Officers

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## Background Papers Used in Preparing This Report

Not applicable

**PROPOSALS AND DETAILED ANALYSIS**

## The budget requirement and gap

1. The gross General Fund budget[1] rolled forward from 2021/22 to 2022/23 is £533.5m of which a **net budget requirement of £160.4m** is funded from council resources (such as council tax and business rates) and general government grant.

**Table 1 – Budget rolled forward from 2021/22**

| 2021/22 budgeted expenditure | £m |
|---|---|
| Housing benefit payments | 98.0 |
| Social care and public health | 112.0 |
| Children's services | 113.0 |
| Economy | 48.0 |
| Environment (includes parking) | 110.0 |
| Corporate (Finance, Resources and Council wide) | 52.5 |
| **Gross budgeted expenditure** | **533.5** |
| Less: | |
| Specific government grants (including housing benefits and dedicated schools grant) | (242.0) |
| Fees and charges | (67.0) |
| Contributions (e.g. health, other boroughs) | (47.0) |
| Other income (e.g. investment interest, rentals and recharges) | (17.1) |
| **Budget requirement rolled forward to 2022/23** | **160.4** |

2. The budget proposals for 2022/23, and forecast to 2025/26, are summarised in Table 2. A balanced budget is projected for 2022/23 with a contribution to reserves and balances of £2.1m. A council tax freeze is modelled, and the Council will step in to fund significant social care growth rather than applying the Government's modelled increase in the adult social care precept.

[1] Figures exclude capital charges and internal service level agreements. These have a net nil impact on the budget.

**Table 2 – Budget summary**

| | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m |
|---|---|---|---|---|
| **Base budget rolled forward** | **160.4** | **160.4** | **160.4** | **160.4** |
| Provision for inflation | 10.0 | 16.0 | 22.0 | 28.0 |
| Investment | 4.8 | 10.8 | 16.8 | 22.8 |
| Covid-19 impact | 2.7 | | | |
| Net cost of borrowing | 0.4 | 1.7 | 2.1 | 2.1 |
| Savings and additional income | (4.9) | (5.3) | (5.3) | (5.4) |
| One-off Covid contingency | 1.5 | | | |
| Increase in the unallocated contingency | 0.5 | 0.5 | 0.5 | 0.5 |
| Covid-19 impact on concessionary fares | (2.3) | | | |
| Recognition of current year income projection | (3.4) | (3.4) | (3.4) | (3.4) |
| Contribution to reserves and balances | 2.1 | | | |
| **Budgeted expenditure** | **171.8** | **180.7** | **192.9** | **204.8** |
| Government resources | (44.45) | (40.9) | (40.9) | (40.9) |
| Business rates (net of tariff) | (57.2) | (59.3) | (60.7) | (61.9) |
| Council tax | (68.45) | (69.1) | (69.7) | (70.3) |
| Use of developer contributions for law enforcement team and gangs unit | (1.7) | (1.7) | (1.7) | (1.7) |
| **Budgeted resources** | **(171.8)** | **(171.0)** | **(173.0)** | **(174.8)** |
| **Budget gap** | **0** | **9.7** | **20.1** | **30.2** |

## Budget assumptions

3. Supply constraints, driven by Covid-19 and Brexit, have led to higher prices and pressure on wages. The Consumer Price Index has reached 5.1% in the 12 months to November 2021 and the government[2] forecast that it will still be 4.4% in the second quarter of 2022. The pressure on wages is compounded by the Government's introduction of the health and social care levy which will increase employer national insurance costs by 1.25%. This will impact on both Hammersmith & Fulham staff costs and suppliers. The 2022/23 budget includes a **£10m provision for inflation**. This allows for:
   - contract inflation of £3.15m.
   - catch up inflation of £1.75m regarding 2021/22 pay - a wage freeze was assumed in the 2021/22 budget but the latest national pay offer is for a 1.75% increase.

[2] Autumn 2021 budget statement.

- £1.25m regarding the 1.25% increase in employer national insurance contributions (the health and social care levy).
- £2.35m provision for a 2022/23 pay award (this equates to a 2.3% pay award).
- A retained contingency of £1.5m as mitigation against additional inflationary risk.

Beyond 2022/23 headroom of £6m per annum is modelled for future inflation.

4. For **fees and charges,** levied by the Council, the inflation assumption is:
   - Frozen for Adult Social Care, Children's Services and Housing.
   - Commercial services that are charged on a for-profit basis, will be reviewed on an ongoing basis in response to market conditions and varied up and down as appropriate, with proper authorisations according to the Council Constitution.
   - Parking charges and fines are set in line with transport policy objectives and not considered as part of the budget process.
   - A standard uplift of 3.8% to be applied, based on the July 2021 Retail Price Index, for other non-commercial and non-parking fees.

   There are no exceptions to these assumptions for this Committee.

5. Allowance is made within the budget for an increase in the **net cost of borrowing** in line with the 2022/23 capital programme commitments. Whilst the current low interest rate environment enables Hammersmith & Fulham to borrow at low rates it also means that minimal returns are earned on the Council's cash balances.

6. The Council has determined that a key priority area for the investment of available **developer contributions,** with general purposes, is to support the Law Enforcement Team and Gangs Unit. An on-going investment of £1.7m per annum is included within the financial forecast **and** this can be met from receipts currently in hand.

7. **General government grant fundin**g of £44.45m is forecast for 2022/23. This is an increase of £6.2m from 2021/22. £1.8m of the grant increase is not new money but compensation for the government decision not to increase business rates in 2022/23. The extra grant is also meant to recompense local authorities for the extra costs that will arise from the Government's 1.25% increase in employer national insurance contributions (estimated at £1.25m for H&F staff costs). Historically, government funding has reduced by £58m from 2010/11 to 2022/23. The 2022/23 grant funding includes an extra £2.7m for social care support. This has part funded the new investment in children's and adult social care of £5.6m and contributed toward inflationary pressures.

8. No grant allocations are confirmed beyond 2022/23 following the government decision to announce a single year local government finance settlement (LGFS). The lack of future certainty continues to undermine effective medium-term financial planning and the risk of future funding reform and levelling up remains with the government making clear that the new 2022/23 'services grant' of £4.234m will be potentially subject to significant redistribution in 2023/24. The government have stressed that authorities should not assume that 2022/23 funding allocations will be fully protected in 2023/24.

9. As part of the LGFS, the government calculated that Hammersmith & Fulham spending power will increase by 6.3% in 2022/23. This is below the London average increase (6.7%) and national average increase (6.9%). The government spending power calculation assumes that authorities will increase council tax (including the adult social care precept) by 3%, which the Council is proposing to freeze, and that business rates collection is not adversely impacted by rating appeals or lower collection rates experienced during the Covid-19 pandemic. Should Budget Council confirm a council tax freeze the Hammersmith & Fulham calculation is that spending power will increase by 2.1%.

## Council Tax and Business Rates

10. A freeze in the Hammersmith & Fulham element of **council tax** is proposed for 2022/23. This is proposed by the administration in recognition of the significant increases in costs faced by residents due to inflation and Government tax increases. This includes not levying a 1% 'adult social care precept' increase or increasing council tax by 2% as assumed by central government in their spending power calculations. A tax freeze will provide a balanced budget whilst not increasing the burden on local taxpayers. The council tax freeze has been delivered despite the upturn in inflation with the November 2021 Consumer Price Index standing at 5.1% causing significant pressure on Council costs.

11. Due to the anticipated impact of Covid-19 the budgeted council tax collection rate reduced from 97.5% in 2020/21 to 97% in 2021/22. A 97% collection rate continues to be modelled for 2022/23. For years beyond 2022/23 a tax freeze is modelled with the tax base increasing in line with trend data for increases in dwelling numbers. As set out below, only 52% of households are liable for 100% council tax, with the remainder receiving discounts or council tax support from the council.

**Table 4: Liability for council tax**

| | |
|---|---|
| Total dwellings in the borough | 92,148 |
| Reductions: | |
| Exemptions (mainly students, includes care leavers) | (3,780) |
| Council tax support claimants (elderly & working age on low income) | (10,819) |
| Single person discount (25% discount) | (30,060) |
| **Dwellings liable for 100% of council tax** | 47,489 |

12. As part of the Autumn 2021 Budget, the Chancellor of the Exchequer announced that a new temporary 50% **business rates** relief will apply for eligible retail, hospitality and leisure properties for 2022/23. In addition, a new 100% improvement relief will be available where eligible improvements increase rateable value. There will also be a business rates freeze in 2022/23 (no increase in line with the multiplier). Local authorities will be compensated by the government for the resultant loss of income from these measures.

13. The detail of the business rates changes has yet to be confirmed. For financial planning purposes the budget assumes that Hammersmith & Fulham will receive

the minimum amount guaranteed, the safety net threshold, by government. This is £57.2m for 2022/23. The safety net threshold is £4.6m less than that assumed by the government in their spending power calculation. For years beyond 2022/23 a 2% inflationary increase to the safety net is modelled.

## Investment, savings and risks

14. Investment in services (increasing the available budget) and savings proposals (reducing the available budget) for the services covered by this PAC are set out in Appendix 1 with budget risks set out in Appendix 2.

### Investment

15. Investment is required to fund expenditure on priority areas and/ or to meet the costs associated with demographic or demand led pressures. Growth is also required to fund the new additional costs arising from government reform (such as the impact on suppliers of the increase in employer national insurance contributions). Investment in services is summarised by department in Table 4 and by category in Table 5. Beyond 2022/23 headroom of £6m per annum is modelled to fund new investment.

**Table 5: 2022/23 investment proposals**

| Department | £m |
|---|---:|
| Children's Services | 0.534 |
| Social Care and Public Health | 5.031 |
| Economy | 0.650 |
| Environment | 0.878 |
| Corporate (Finance, Resources and Council wide) | 0.341 |
| **Total** | **7.434** |

**Table 6: Categorisation of investment proposals**

| Investment categories | £m |
|---|---:|
| Increase in demand / demographic growth | 2.311 |
| Resident priority | 0.690 |
| Budget pressure | 0.655 |
| New burden / government pressure | 1.137 |
| Impact of Covid-19 / economic downturn | 2.641 |
| **Total** | **7.434** |

## Savings and Income Generation

16. After ten years of austerity it is increasingly difficult to identify and deliver substantive savings. However, further savings are necessary if the financial challenge of real terms government funding cuts, unfunded burdens, inflation, and demand and growth pressures is to be met and the Council has to consider all available options to operate within the funding available to it.

17. The proposed savings (including additional income) for 2022/23 are set out in Table 7. London Councils have also indicated that a further short-term saving of £2.3m for 2022/23 will arise from the reduced cost of the concessionary fares scheme (freedom pass). This is due to lower usage of the pass during lockdown and more broadly in response to the Covid-19 pandemic. As a short-term saving the majority of this sum will be added to reserves and general balances in line with the Council's reserves strategy.

**Table 7: 2022/23 firm savings and additional income**

| Department | £m |
|---|---|
| Children's Services | (0.533) |
| Social Care and reinvestment in Public Health | (1.670) |
| Economy | (0.235) |
| Environment | (1.184) |
| Corporate (Finance, Resources and Council wide) | (1.229) |
| **Total savings** | **(4.851)** |

18. The saving proposals are categorised by type in Table 8.

**Table 8: Categorisation of 2022/23 savings**

| Savings categories | £m |
|---|---|
| Commercialisation / income | (0.650) |
| Outside investment | (0.035) |
| Procurement / commissioning | (1.828) |
| Service reconfiguration | (0.892) |
| Staffing / productivity | (1.446) |
| **Total savings** | **(4.851)** |

### Risk and financial resilience

19. An updated reserves strategy and action plan will be included within the suite of finance reports presented to Budget Council.

20. The current reserves forecast is set out in Table 9 and models a fall in overall general fund reserves and balances to £97.0m by 2025/26. This assumes a balanced budget is set each year with no further call on reserves. Allowance is made for the forecast (month 6) 2021/22 underspend of £4.7m and a budgeted 2022/23 contribution of £2.1m.

**Table 9 – Reserves and general balances - cash flow forecast to 2025/26**

| | 2021 £m | 2022 £m | 2023 £m | 2024 £m | 2025 £m |
|---|---|---|---|---|---|
| **Opening balance** | | | | | |
| General balances | 19.3 | | | | |
| Earmarked reserves – unrestricted | 63.7 | | | | |
| Covid-19 related | 51.4 | | | | |
| Earmarked reserves – restricted | 10.4 | | | | |
| **Subtotal** | **144.8** | **93.1** | **85.0** | **84.4** | **97.0** |
| Forecast movement | (56.4) | (10.2) | (0.6) | 12.6 | |
| Forecast 2021/22 underspend | 4.7 | 0 | 0 | 0 | |
| 2022/23 new contribution | 0 | 2.1 | 0 | 0 | |
| **Closing balance** | **93.1** | **85.0** | **84.4** | **97.0** | |
| Revenue developer contributions | 46.0 | Subject to separate monitoring and approval | | | |

21. The Covid-19 pandemic has emphasised that councils need an adequate safety net to manage increased levels of financial risk. The experience of several councils, including Croydon and Bexley in London, has shown the difficulties that can arise when reserves are not maintained at a sufficient level. The Council's reserve forecast includes a general balance of £20.4m which represents 3.8% (equivalent to 14 days spend) of the Council's gross spend of £533.5m. As part of the 2022/23 budget, consideration will be given to increasing the general balance by £0.6m to £21m. The Director of Finance has recommended that the optimal range for the general balance is between £19m and £25m.

22. The key financial risks that face the Council have been identified and quantified and total £13.4m. Other substantive risks include:

- The Covid-19 recovery and addressing pent-up demand
- An upturn in inflation post Brexit and Covid-19
- The future impact on London of the government's 'levelling-up' agenda and wider local government finance reform (such as business rates)
- The impact of the wider economy on major Council development projects and future contributions from developers
- The impact of, and costs of tackling, climate change
- The challenge of identifying further significant future savings that balance the budget over the longer-term.

Departmental risks of £6.1m for the services covered by this PAC are set out in Appendix 2.

23. Reserves are also a key enabler for future service transformation. The financial challenge facing the Council will require investment to deliver future efficiencies to enable the council to balance the budget in future years.

**Comments of the Strategic Director for The Economy on the budget proposals**

24. The Economy Department provides a diverse range of services including housing solutions and management, planning, economic and physical regeneration, land and asset management. The majority of what is provided are statutory services although all services are vital to delivering the Council's priorities for residents particularly building shared prosperity, creating a compassionate council, and taking pride in Hammersmith & Fulham. The Department has a leading role in the partnering work required to deliver the Council's ambitions for climate and bio-diversity change. Co-production arrangements with residents and businesses are strong, supported by well-established systems across the management of estates, major developments and our Industrial Strategy.

25. Services are funded by both the Housing Revenue Account (HRA) and the General Fund. Demands on the General Fund are minimised by the high levels of income secured across service areas, strategic management of the Council's land and asset portfolio and associated capital investment. There is a strong track record of financial efficiency to deliver savings and a balanced budget.

26. This report considers those services provided from General Fund budgets. The gross general fund expenditure budget is £48m of which £41m (excluding internal recharges and adjustments) is controllable. After allowance for income of £30m the net controllable budget is £11m. The Economy Department plans to deliver General Fund revenue savings of £0.235m in line with its proportion of wider corporate revenue savings. The report also describes where areas of temporary permanent and growth are necessary within a balanced budget for 2022/23 and the key financial risks for each service area in delivering continuing services and new priorities for residents.

27. The main area of General Fund spend is associated with Housing Solutions and reflects the important services delivered to residents. In 2019 ambitious plans were committed to, resulting in the delivery of over £2.8m of savings through the 2019-23 medium term representing more than 11% of the base General Fund controllable budget. This is being delivered to plan. It is important to note that savings have been delivered through careful service review and re-design, income maximisation and policy development. In line with administration policy, there have been no reductions in services.

28. Careful financial management linked to wider strategic planning and efforts to support local recovery from the pandemic will help the Economy Department to continue to deliver all its services and its performance and improvement priorities in 2022/23. These include:

**Housing Solutions**

- Reducing expenditure on temporary accommodation by providing better, more settled accommodation for our residents
- Continuing to work toward eliminating rough sleeping by providing supported accommodation and associated services

- Continuing to prevent homelessness by implementing innovative resident-focused support and systemic action planning at the right time.

**Planning**
- Maximising contributions negotiated from developers, including s106 receipts
- Supporting the delivery of economic recovery, new housing, and our response to climate and biodiversity change through new developments, wider masterplans, and planning policy

**Operations**
- Facilities Management will continue to ensure Covid safety across multiple sites and work with colleagues to implement Hello Hybrid Futures.
- The Commercial Property team will review the estate to maximise commercial returns, transform our office accommodation solution and develop plans to deliver carbon net zero by 2030.
- Continuing to deliver the Civic Campus programme in collaboration with colleagues across the Council.

29. S106 and wider government grants will also contribute to delivering benefits under regeneration and economic development services:

- Delivery of new homes, public and community infrastructure in 2022/23, under the Building Homes and Communities Strategy:
    - Schemes designed and built directly by the Council and co-produced with the local community.
    - Planning secured for over 900 new homes (65% affordable), as well as new schools and education facilities, community space, public realm, office and commercial.
    - Construction started on the Hartopp and Lannoy site delivering 134 (112 affordable) operationally net zero carbon homes.
    - Ongoing construction of phase 1 of Education City, which will deliver 30 affordable homes, a new primary school, youth zone and office.
- Greater support for businesses, local workforces and residents through a refreshed Industrial Strategy and delivery plan that advances Hammersmith & Fulham as a world-class destination to do business, and which ensures opportunities for all, including via enhanced training and employment opportunities for local residents and stronger links between anchor institutions and our communities.
- Continued delivery and development of the borough's arts and culture offer. This builds on our partnering approach and 10 year programme established following our London Borough of Culture award in 2020. It is delivered at no cost to the general fund with a budget of £0.285m secured for 2022/23 made up of S106, GLA and other grant income.

## Economy Savings Proposals

30. Considering the continuing drive for greater efficiencies, the Economy Department plans to deliver further General Fund revenue savings of £0.235m in 2022/23:

- **Consolidation of management & workforce and reduction in the use of agency staff** (**£200**,**000)** – the final year of implementation of a three-year phased delivery programme to enable overall staffing that has produced total annual savings of £400,000 and is closely associated with the plans set out in 2019 noted in paragraph 28.
- **Review of senior management funding (£35,000)** – this relates to a review of Section 106 funding of senior management posts. Reductions in senior management posts have been key to delivering savings to date within the Department.

## Key Service Area - Housing Solutions

31. The proposed budget for the Economy department in 2022/23 reflects the significant and continued challenge of delivering and enhancing front-line services in the face of demand and cost pressures and constraints on income generation. The Housing Solutions Service continues to actively address homelessness by providing a range of housing options to enable an informed decision. Whilst delivering savings, the service has a significant track record of preventing homelessness, maximising income and providing suitable temporary accommodation to enable sustainable opportunities. Working collaboratively with both internal and external partners has enabled a strategic focus and tangible outcomes for residents.

32. Responding to major changes and constraints on income collection continues to be impacted by the Government's programme of Welfare Reform and the Homelessness Reduction Act. While facing this challenge, the service has continued to maximise Temporary Accommodation (TA) income collection to relieve pressure on the bad debt provision. The ongoing uncertainties – continued welfare reform, legislative changes as well as the financial impact of the pandemic – presents a risk in this area.

33. Embedding a long-term model for delivering temporary accommodation that prevents and relieves homelessness whilst protecting the Council's financial position.

34. A separate report that sets out the 2022/23 HRA budget is also included within February's Cabinet agenda. The HRA budget enables the Council to deliver services to resident tenants and leaseholders, maintain safe and secure homes, invest in its stock, and develop new affordable homes.

## Housing Solutions: Risks and Mitigation – Welfare Reform

35. The main risks affecting the Economy Department relate to managing the impact of the Government's programme of Welfare Reform:

- the loss of tenancies in the private sector, leading to a risk of increased homelessness and the greater use of expensive temporary accommodation;
- changes in the TA subsidy system, leading to the loss of existing Council-managed temporary accommodation;
- reduced viability for temporary accommodation supplied and managed by Housing Associations (HAs), and potential knock-on effects for the authority in providing replacement temporary accommodation;
- loss of tenancies in the private sector and/or loss of income in Council managed temporary accommodation arising from the direct payment of benefits to claimants under Universal Credit and the potential risk of increased homelessness;
- inflationary pressures on costs due to increased demand for temporary accommodation across London;
- increase in staffing and procurement costs due to the implementation of the Homeless Reduction Bill which places additional duties on the Council to prevent homelessness.

36. Risks are being mitigated through close and continued monitoring, scenario planning, continuing efforts to better prevent homelessness and management of the local housing market. The potential financial impact can be summarised in the following main areas for Housing Solutions.

**Overall benefit cap, Universal Credit and bad debts**

37. It is anticipated that the risk relating to the Overall Benefit Cap will be up to £0.108m from 2022/23 onwards because of the Government's reduction of the Overall Benefit Cap from a maximum of £23,000 per annum for single parents with children and couples to £15,410 per annum for single adults.

38. Since April 2018, new TA benefit claims are no longer subject to Universal Credit and instead, claimants are subject to Housing Benefit subsidy which is paid directly to the Council. This reduces the Council's risk of not being able to collect rental income.

39. However, reductions in personal income due to Covid-19 place a further risk on income collection and based on reductions in income of 5%, this could result in an income loss of £0.595m next year.

40. There is also a risk that following the end of the Government eviction ban provisions, homelessness applications increase, putting further pressure on budgets of £0.164m.

**Increase in client volumes and homelessness acceptances**

41. Recent years have seen increases in client numbers in TA and this trend is expected to continue. After taking account of the mitigating impact of homelessness prevention activities, numbers in Private Sector Leased (PSL) accommodation are expected to increase in future years. The forecast

number of clients in TA set out below means there is a risk of further net costs of £0.550m in 2022/23 and £1.1m in 2023/24.

| Risk | March 2022 | March 2023 | March 2024 | March 2025 |
|---|---|---|---|---|
| Forecast number of clients with TA | 1,145 | 1,205 | 1,265 | 1,325 |

42. Hammersmith & Fulham's implementation of the Homeless Reduction Bill in April 2018 saw a 137% increase in households approaching the service for housing assistance. Increased staffing resources on prevention meant that the increased volume did not result in increased TA placements. While the TA reduction programme has contributed towards reducing TA households, this is becoming more challenging with numbers stabilising instead of reducing. The full impact of the Homelessness Reduction Act and the subsequent `Duty to Refer` that was implemented in October 2018 has significantly impacted service delivery, however, current data shows that approaches have plateaued since the highest volume in December 2018. Since August 2019, the restructure has enabled the service to manage the consistent high volume of approaches using robust supportive, preventative measures to prevent and facilitate homelessness.

**Loss of Temporary Accommodation (TA) management fee on housing benefit subsidy**

43. The Flexible Homelessness Support Grant provided by central Government is currently cushioning the impact of the removal of the management fee for Temporary Accommodation. This, and other related government grants, will potentially diminish and disappear from 2023/24 as Government has not confirmed allocations beyond next year. Two options, a 20% reduction or 100% cut, are modelled regarding the potential risk of income loss from April 2023 as follows:

| Risk | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|
| Loss of grant (20%) | 0 | 0.945 | 0.945 |
| Loss of grant (100%) | 0 | 4.771 | 4.771 |

**Increases in temporary accommodation procurement costs**

44. There is a risk of inflationary pressures on costs because of increased demand for temporary accommodation across London. The risk is based on an additional 1.5% increase in costs over and above the inflation already budgeted for in 2022/23 and the impact of this additional cost each year is set out below.

| Risk | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|
| Increase in TA costs | 0.3 | 0.6 | 0.9 |

**Keeping families out of Bed & Breakfast accommodation**

45. Since 2015, the Council has successfully managed to protect families from being housed in B&B accommodation. The increasing demand pressures arising from the Government's programme of Welfare Reform mean that there is a risk that the cost of maintaining this policy will increase.

| Risk | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|
| Increase in housing families' costs | 0.1 | 0.1 | 0.2 |

**Homelessness Reduction Act – potential increase in costs**

46. This is anticipated to result in the need to place additional households in temporary accommodation. The risk table below shows the extra costs if we have an extra 70 homelessness acceptances each year.

| Risk | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|
| Cost of additional homelessness acceptances | 0.4 | 0.8 | 1.2 |

**Domestic Abuse Act – potential increase in costs**

47. This is anticipated to result in the need to place additional households in temporary accommodation. The risk table below shows the extra costs if we have an extra 70 homelessness acceptances each year.

| Risk | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|
| Cost of additional homelessness acceptances | 0.4 | 0.8 | 1.2 |

**Rough sleepers and clients needing to self-isolate**

48. As part of the Council's response to the Covid-19 pandemic, there is a risk that costs to place clients in temporary accommodation will continue in future years. Although these costs are partially offset by Housing Benefits and

central Government grant, there is a risk that further costs in excess of budgets will arise next year.

| Risk | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|
| Additional costs | 0.1 | 0.1 | 0.1 |

**Homelessness prevention and risk mitigation**

49. The following activities, that will help mitigate these significant risks, are taking place:

- The service structure now in place was implemented to prepare for the Homelessness Reduction 2017 to ensure a robust response to the new legislation, ensure legal compliance, and greater emphasis on preventing and relieving homelessness. Government New Burdens funding will mitigate against a negative impact on current budgets.

- In light of the current budget pressures in 2022/23, opportunities to invest in a private rented sector portfolio and looking at changing the mix of the current temporary accommodation portfolio away from short term monthly to look for longer term ways to mitigate the cost pressures are being progressed.

- The Property Procurement Service has delivered increased numbers of private rented accommodation as well as more cost-effective TA. The service offers a tenancy relations service to private landlords as well as other landlord services.

- Increasing the supply of social and affordable housing is crucial to the success of any strategic approach to managing the TA process. Low turnover in social housing (in common with all of London) has slowed the TA move on process and resulted in more households in TA for longer period – compounding the need for additional TA units. The Council plans to increase affordable housing, reducing pressure on TA budgets by providing permanent lower cost homes through direct delivery, partnership with housing associations, and working with developers through the planning process.

**Key Service Areas - Planning, Regeneration and Economic Development**

50. The service is operating within a very challenging market and budget growth is required as follows:

51. **Planning fees income (£350,000 permanent plus £300,000 temporary)** - Planning income in recent years has fallen from £3.4m (2018/19) to £2.3m (2019/20) and £2.2m (2020/21). Some of this is due to the impact of Covid-19 but planning activity is also highly sensitive to wider economic cycles, investor confidence, the operation of the development and construction

industries, and in recent years income uncertainty over the economic impact of Brexit and imminent new Planning Act. In addition to this permanent increase of £350,000 to the base budget, temporary growth of £300,000 will be made available to mitigate ongoing service disruption due to Covid-19. These provisions have been made within the context of the wider plan for managing risks set out in paras 56-63.

52. Estimated funding of £150,000 is required regarding **regeneration and development**. The Council's direct delivery programme is expected to deliver 1,094 new homes across 16 sites with a gross development value of £685m. In addition, the partnership development programme is on track to deliver 642 new homes on 6 sites. Completed development schemes are expected to secure significant revenue streams for the General Fund in future years and support transformation priorities across adults and children's social care. Feasibility costs (which cannot be capitalised) are estimated at £150,000.

53. In line with the council's reserves strategy it is proposed to fund these costs from the corporate property reserve.

**Planning, Regeneration and Economic Development Risks – Planning**

54. The inherent volatility of planning income means it is difficult to predict future income due to several factors including:
- Changes to the statutory charging schedule, pre-application fees and Planning Performance Agreement templates
- Economic factors such as impact of economic recession, local and wider market conditions
- Changes in legislation e.g. permitted development rights, use classes order, Planning Performance Agreement regulation. Continued government changes to the planning system creating uncertainty. Continued delays to the publication of the draft Planning Act
- Availability of development sites in the borough
- Developers' behaviour such as by-passing the pre-application process and responding to housing supply
- Cost and supply pressures impacting adversely on the delivery of planning schemes
- Government schemes to encourage house building
- Adverse weather conditions.
- The impact of the Covid-19 pandemic
- Availability of investor finance, developer/investor confidence.

55. The fall in the total number of applications in recent years appears to be levelling off although the complexity of applications has grown, and this is also impacting adversely on projected fee income. This is understood to be most recently due to the impact of Covid-19 but also trends in the wider economy and a deterioration in the buoyancy of the development industry. This trend is likely to continue, resulting in shortfalls in income from planning

fees. The risk based on the latest forecast, after taking account of growth of £0.650m, is £0.810m.

56. Other risks include costs producing Supplementary Planning Documents will exceed the budgets and funding available. In addition, there is a risk of unbudgeted costs arising from future public enquiries and judicial reviews. In recent years, the cost of judicial reviews and major planning appeals and therefore, there is a risk of an overspend against the budget of £0.2m based on the latest forecast.

**Risk mitigation – Planning**

57. The following activities that will help mitigate the risks to Planning, in addition to the £0.65m permanent and temporary growth, have been implemented:

- A full review of planning advice charges has been undertaken and informed by benchmarking across London. Revised and simplified charging rates came into effect in April 2021.
- Large schemes are subject to Planning Performance Agreements negotiated with developers. These are billed in advance on a milestone instalment basis and we have tightened up the debt recovery system. Whilst this has not generated additional income, it has reduced the pressure to increase the bad debt provision in future years and will virtually eliminate bad debt risk.
- Mayoral CIL - under Regulation 61 of the Community Infrastructure Levy (CIL) Regulations 2010 (as amended), the Council as a collecting authority can and is using CIL proceeds to cover administrative expenses incurred in collecting CIL up to specified limits, currently this is 4% of CIL collected in each year by collecting authorities.
- developing a commercial approach to non-statutory planning fees and maximising cost recovery and alternative income sources from developers to help mitigate against reductions in income.

**Planning, Regeneration and Economic Development Risks – Economic Development and Adult Learning**

58. The Economic Development service is responsible for the delivery of key elements of the Council's Economic Growth priorities. Following a staffing restructure implemented last year, further efficiencies (£35,000) have been identified for next year as part of a continuing review of staffing requirements and funding opportunities.

59. The Adult Learning & Skills Service (ALSS) income projection this year has been adversely impacted by Covid-19. The service has managed this reduction through successfully moving to online delivery of a significant number of courses and flexing the use of sessional staff. From 2022/23 onwards, the budget risk, after taking account of mitigations, is expected to be £0.2m.

60. A review of GLA grant funding is expected to impact from the beginning of the 2022/23 academic year. Including a potential clawback relating to course under-delivery in the current academic year, ALSS faces a risk of c£1.0m in 2022/23.

**Risk mitigation - Economic Development and Adult Learning**

61. Economic Development and Adult Learning Services are proactively working to ensure the services offered match available resources. Contingency plans are in place to continue to manage the risks set out.

**Risks and Mitigation – Regeneration & Development**

62. The Development team leads a complex programme of regeneration and development schemes across the borough that aims to build 1,800 homes over the next 10 years. The schemes will provide much needed new housing supply, new community assets, and support long term income to the General Fund and HRA. The assumption is that a significant proportion of the team's staff costs will be capitalised but there is a risk that some costs intended to be funded from capital may fall to revenue where schemes do not proceed or where schemes are still at an early feasibility stage.

63. There is a risk of a potential revenue impact from the Council's strategic regeneration and housing development initiatives, where significant spend has been incurred but schemes are yet to physically start on site. Officers are currently developing approaches to mitigate the risk to minimise any potential abortive costs. One key approach is continued engagement with residents and key interest groups in the borough to ensure they are well informed of proposals and able to co-produce schemes with the Council. Each scheme is subject to pre-application planning advice throughout the design evolution to reduce the risk of non-compliant schemes and all are managed through the development gateway process which ensures projects remain viable and deliverable.

**Key Service Area – Operations**

64. The Civic Campus will be a key area of delivery over the next 12 months. The building work is progressing well on site and activity will focus on maximising the commercial opportunities presented by the Civic Campus and aligning the operational support functions required to deliver these and also how the space at the Town Hall matches the vision of Hello Hybrid Futures and the new ways of working for staff.

65. The General Fund budget for Operations is mainly made up of Facilities Management (FM) and the Commercial Property team. The FM net controllable budget is a fixed at £3m with some internal recharges for specific service requests made across the organisation for often extra cleaning or security services. Throughout the pandemic the FM team have ensured that all corporate buildings are Covid safe and regularly undertaken deep cleans

of buildings following outbreaks, this activity is charged to the Council's Covid-19 costs.

66. The Commercial Property team has income targets at £0.4m to achieve across the commercial portfolio. Additional capacity has been built into the team to review the organisation's property needs and ensure that the estate operates in the most Ruthlessly Financially Efficient way possible and that we have appropriate plans in place to achieve the Council's carbon net zero targets across the estate by 2030.

**Operations – risks and mitigation**

67. The impact of Covid-19 is expected to continue to affect revenue generation within the commercial property portfolio (retail and business estates). The annual income target of £1.8m includes £367,000 from the business units at Sullivan & Townmead estates. So far impact has been limited and managed through the robust management arrangements in place. However, a combination of an ending to government support, new national provisions for pandemic arrears arbitration and continuing impact of the pandemic on the viability of some local businesses means this is an area of high risk.

68. There is a potential additional cost of cleaning should Covid-19 infection rates continue to cause risks to public and staff health. This includes the need for touch point cleaning during office hours, full sanitisation cleans following outbreaks, the cost of disengaging physical controls as the disease recedes and the potential ongoing cost of PPE. The risk is estimated at £500,000 and is factored into our ongoing corporate review and management of pandemic related costs.

69. Funding of the staffing costs relating to the Property Transformation Programme of £214,000 are dependent on the generation of additional rental income from properties within the General Fund property portfolio.

**Equality Implications**

70. A draft Equality Impact Analysis (EIA), which assesses the impacts on equality of the main items in the budget proposals relevant to this PAC, is attached as Appendix 3. A final EIA will be reported to Budget Council.

**LOCAL GOVERNMENT ACT 2000**
**LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

| No. | Description of Background Papers | Name/Ext. of holder of file/copy | Department/ Location |
|---|---|---|---|
| 1. | None | | |

**List of Appendices:**

Appendix 1 – Savings and investment proposals

Appendix 2 – Risks

Appendix 3 – Draft Equality Impact Assessment

# The Economy Department

| Change and Savings Proposals | | | | Budget Change | | | |
|---|---|---|---|---|---|---|---|
| Ref Nos | Service | Title & Theme | Summary | 2022-23 Budget Change Cumulative (£000's) | 2023-24 Budget Change Cumulative (£000's) | 2024-25 Budget Change Cumulative (£000's) | 2025-26 Budget Change Cumulative (£000's) |
| 1 | Housing Solutions | Consolidation of management & workforce and reduction in the use of agency staff | Current implementation of approved restructure will reduce agency staff and enable overall staffing. This is the conclusion of a phased savings delivery programme. | (200) | (200) | (200) | (200) |
| 2 | Economic Development Learning & Skills | Section 106 funding of Economic Development senior management costs | The Economic Development team is largely funded from Section 106 and it is proposed to extend this to cover an appropriate share of senior management costs. | (35) | (35) | (35) | (35) |
| **Total Change and Savings Proposals** | | | | **(235)** | **(235)** | **(235)** | **(235)** |

| Investment and Covid Recovery | | | | Budget Change | | | |
|---|---|---|---|---|---|---|---|
| Ref Nos | Service | Title & Theme | Summary | 2022-23 Budget Change Cumulative (£000's) | 2023-24 Budget Change Cumulative (£000's) | 2024-25 Budget Change Cumulative (£000's) | 2025-26 Budget Change Cumulative (£000's) |
| 1 | Planning | Planning Fee income | Realignment of income target following the Covid-19 pandemic, Brexit and other factors damaging the economy. | 350 | 350 | 350 | 350 |
| 2 | Planning | Planning Fee income - COVID Impact | To mitigate the immediate financial impact of the Covid-19 pandemic | 300 | 0 | 0 | 0 |
| **Total Investment and Covid Recovery** | | | | **650** | **350** | **350** | **350** |

**The Economy Department Risks**

| | | Risk | | | | |
|---|---|---|---|---|---|---|
| **Department & Division** | **Short Description of Risk** | **2022/23 Value (£000s)** | **2023/24 Value (£000s)** | **2024/25 Value (£000s)** | **2025/26 Value (£000s)** | **Mitigation** |
| Economic Development, Learning & Skills | Section 106 funding (risk modelled of 10% reduction) | 250 | 250 | 250 | 250 | Regular review of section 106 funding and review of costs |
| Economic Development, Learning & Skills | Adult Learning & Skills course fees | 214 | TBC | TBC | TBC | Reduction in levels of sessional staffing where appropriate and staffing restructure |
| Economic Development, Learning & Skills | Adult Learning grant | 1,000 | TBC | TBC | TBC | |
| Regeneration & Development | Development Team - non-capitalised General Fund staffing costs | 100 | 100 | 100 | 100 | The timing of recruitment to the new team and consequential delivery of development schemes. |
| Regeneration & Development | Abortive costs for development schemes | TBC | TBC | TBC | TBC | |
| Operations | Property Transformation Programme | 214 | 214 | 214 | 214 | A review of rental income streams potential is in train to ensure funding for the team is available. |
| Operations | Asset Strategy and Portfolio Management - Commercial property rental income | 64 | - | - | - | |
| Operations | Facilities Management - Cleaning costs | 500 | - | - | - | Review of covid funding |
| Operations | Commercial Property Income | TBC | - | - | - | |
| Housing Solutions | Housing solutions - grant income uncertainty (20% loss modelled) | - | 954 | 954 | 954 | |
| Housing Solutions | Provision of accommodation for rough sleepers and other temporary accommodation clients | 139 | 139 | 139 | 139 | No further funding is currently being made available for Covid related costs |
| Housing Solutions | Overall Benefit Cap (OBC) & Discretionary Housing Payments (DHP) | 108 | 108 | 108 | 108 | Support and enable residents to gain exemption from the Benefit Cap or meet the shortfall through:<br>- Training and qualifying employment<br>- Disability/Carers benefit where possible<br>- Resettlement into affordable housing<br>- Personal budgeting |
| Housing Solutions | End of Government eviction ban | 164 | 164 | 164 | 164 | Help new TA tenants (Private Rental Sector evictees) manage rent shortfalls from tapered income (non-BenCap) through:<br>- Personal budgeting<br>- Welfare benefit advice |
| Housing Solutions | Increase in bad debt provision on Temporary Accommodation (Bed & Breakfast and Private Sector Leasing) rent arrears because of reductions in personal income due to Covid-19 | 595 | 595 | 595 | 595 | Robust but sensitive Temporary Accommodation income collection processes post pandemic |
| Housing Solutions | There is a risk of a further increase in the number of households in Temporary Accommodation - based on an additional 100 households this year above the current forecast | 549 | 1,097 | 1,646 | 2,195 | Increase access to private rented accommodation as outlined and agreed in recent changes to Council's Housing Allocation Scheme. Working closely with Capital Letters to increase supply |
| Housing Solutions | Inflationary pressures on Temporary Accommodation landlord costs, based on an extra 1.5% rental inflation above the current forecast | 279 | 563 | 851 | 1,143 | Reducing expensive Temporary Accommodation may mean procuring additional units outside of this borough. Capital Letters collaboration. |
| Housing Solutions | Since 2015, the Council has successfully managed to protect families from being housed in B&B accommodation. The increasing demand pressures arising from the Government's programme of Welfare Reform mean that there is a risk that the cost of maintaining this policy will increase. | 129 | 143 | 156 | 170 | Good management of the procurement of Temporary Accommodation for larger families. |
| Housing Solutions | Homelessness Reduction Bill - increase in households in temporary accommodation - extra 70 households this year above the current forecast | 384 | 768 | 1,152 | 1,536 | Increase access to private rented accommodation as outlined and agreed in recent changes to Council's Housing Allocation Scheme. Working closely with Capital Letters to increase supply. |
| Housing Solutions | Domestic Abuse Act - increase in households in temporary accommodation - extra 70 households this year above the current forecast | 384 | 768 | 1,152 | 1,536 | Increase access to private rented accommodation as outlined and agreed in recent changes to Council's Housing Allocation Scheme. Working closely with Capital Letters to increase supply. |
| Planning | Planning application fees income | 812 | - | - | - | GDP is expected to grow by 6.5% in 2021 returning to pre-pandemic levels by April 2022. Service to continue to pursue opportunities to maximise income through Planning Performance Agreements and reviewing fees and charges. |
| Planning | Planning - Exceptional costs | 200 | | | | |
| **Total** | | **6,085** | **5,863** | **7,481** | **9,104** | |

**Appendix 3**

**Draft Equalities Impact Assessment**

**The Economy Department**

**Proposed savings**

1. Consolidation of management and workforce and reduction in the use of agency staff (Housing Solutions) - £0.2m

This proposal and subsequent restructure will reduce agency staff and enable overall staffing. This is the final year of a phased three-year savings delivery programme.

The proposal has a neutral equalities impact.

2. Review of Section 106 funding of Economic Development workforce costs - £0.035m

This proposal relates to a change in the funding source for part of the Assistant Director post from General Fund to Section 106 in accordance with the duties carried out by this post.

The proposal has a neutral equalities impact.

**Proposed investment and Covid recovery**

1. Planning Fee Income - £0.350m

Funding is provided to offset an underlying shortfall in forecast planning income.

This proposal has a neutral equalities impact.

2. Planning Fee Income – COVID Impact - £0.300m

Funding is provided to offset the potential loss of income arising from the Covid-19 pandemic and economic downturn.

This proposal has a neutral equalities impact.

London Borough of Hammersmith & Fulham

**Report to:** The Economy, Housing and The Arts Policy and Accountability Committee

**Date:** 25th January 2022

**Subject:** **FINANCIAL PLAN FOR COUNCIL HOMES: THE HOUSING REVENUE ACCOUNT (HRA) 2022/23 HRA BUDGET, 2022/23 RENT SETTING AND HRA 40-YEAR FINANCIAL BUSINESS PLAN**

**Report of:** Cabinet Member for Housing, Cllr Lisa Homan
Cabinet Member for Finance and Commercial Services, Cllr Max Schmid

**Responsible Director:** Jon Pickstone, Strategic Director for Economy
Emily Hill, Director of Finance

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## SUMMARY

This report sets out the HRA budget proposals for the financial year 2022/23 including changes to rent levels and other charges and explains the wider financial risks facing the HRA. Recognising the cost of living pressures faced by tenants due to inflation and Government tax increases, it notes that the administration proposes a real-terms reduction in rent.

It also sets out the outcome of the annual review of the 40-year HRA financial plan on which the annual budget is based. The 40-year HRA financial plan is required to ensure the HRA's immediate and longer-term financial sustainability, enable continued capital investment in the Council's homes, and reflect the Council's ambitious new build affordable housing programme. This report summarises the key findings, assumptions and risks identified as a result of the review and consequentially updates the ongoing annual savings requirement.

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## RECOMMENDATIONS

The PAC notes and comments on the Housing Revenue Account 2022/23 budget and the revised 40-year HRA financial plan.

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**Wards Affected*:*** All

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| Our Values | Summary of how this report aligns to the H&F Values |
|---|---|
| Building shared prosperity | The HRA long term financial plan, which is aligned with the HRA budget, provides for a significant step change in the Council's ambitions of delivering more genuinely affordable homes in the HRA. This will be through an increased level of borrowing, capital receipts and government grants to invest over the long term in the delivery of new homes either directly or in partnership. |
| Creating a compassionate council | The HRA long term financial plan, which is aligned with the HRA budget, allows for the ongoing investment in services that directly support residents in living healthy and independent lives. This includes making provision for aids and adaptations to tenanted accommodation. |
| Doing things with local residents, not to them | The HRA long term financial plan, which is aligned with the HRA budget, will enable the continued investment in resident engagement and involvement. The resident involvement strategy sets out the approach that will be adopted.<br>The financial plan allows for more investment in resident liaison with regard to the delivery of capital works and development of new affordable homes. This will ensure that residents are involved and informed about the works that will be taking place. |
| Being ruthlessly financially efficient | The HRA long term financial plan and the HRA budget include investing in the long-term repairs delivery model and the reform of services to better deliver for residents, and the delivery of a significant number of new homes. |
| Taking pride in H&F | A significantly expanded compliance based capital programme is included in the latest HRA long term financial plan. However, some of the works will deliver wider estate improvements, in particular the communal works undertaken by the Direct Labour Organisation – H&F Maintenance. There will also be ongoing investment in caretaking and other estate services which will be focussed on improving the quality of council estates. New homes will be built to the latest compliant standards, ensuring cost-efficient, safe and secure homes for our tenants and residents for the long term. |
| Rising to the challenge of the climate and ecological emergency | A strategy, in conjunction with other areas of the Council, is being formulated that outlines a path to zero carbon emissions. Housing accounts for around 40% of $CO_2$ emissions, primarily from its gas heating systems. Substantial investment is required to target big emitters such as the White City estate. Proposals are being put forward to insulate high emitting estates, and convert gas boilers, where possible, to carbon neutral sources. £6m has already been allocated to roll out LED across estates reducing carbon emissions by 50%. Applications for funding are |

| | |
|---|---|
| | in train for a number of whole household conversions and other grants are being considered. |

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## DETAILED ANALYSIS

### Background

1. The Housing Revenue Account (HRA) contains solely the costs arising from the management and maintenance of the Council's housing stock, funded by income from tenant rents and service charges, leaseholder service charges, commercial property rents and other housing-related activities. It is a ring-fenced account and the Council is required under statute to account separately for local authority housing provision.

### HRA Financial Strategy

2. The HRA's strategic financial objectives are:

- To enable the financing of a repairs programme that ensures health and safety requirements are met and maintains the Council's homes;
- To fund capital expenditure through prudential borrowing, financing both the annual interest of new and existing debt and repayments of the principal debt on maturity;
- To be ruthlessly financially efficient, continue to seek income opportunities and to identify further efficiencies that do not impact on service delivery;
- To build a significant number of new homes in the HRA, providing much needed affordable housing, optimising capital funding sources, including capital receipts, grants, partnership and developer contributions and borrowing;
- To endeavour to free resources for investment in new initiatives, such as climate change, whilst improving service standards;
- To safeguard the ongoing financial sustainability of the HRA including a minimum balance for the HRA general reserve of £4m to manage risk and uncertainty in the short term. The savings plan is necessary to prevent the balance from dropping below this critical level in 2023/24, with an aim to build the minimum balance up to £10m over the next 10 years.

## Budget Overview

3. Recognising the cost of living pressures faced by tenants due to rising inflation and new Government taxes, **the administration proposes a real-terms rent reduction.** Rent and other charges will increase by only 1.5% - well below the Government's social housing rent policy of CPI inflation plus 1%, which would have resulted in a 4.1% rent increase.

4. The HRA 40-year financial plan forms the basis of the HRA 2022/23 budget and has been updated as part of budget setting to take into account several significant pressures which have emerged since the last review of the plan. These pressures have been incorporated into the 2022/23 budget and the longer term financial plan increasing the annual savings requirement:

    a. An increase in the depreciation charge will cost the HRA at least £1m more than assumed within the financial plan from 2022/23 onwards. This is due to a higher than expected annual revaluation of the housing stock and results in a transfer of resource from revenue to the housing capital programme.

    b. A reduction in dwelling rents income due to a higher void rate than assumed within the financial plan results in a rental income loss of c£0.7m in 2022/23. The majority of void homes are currently being prepared for reletting and with improvement plans agreed with the Council's repairs and maintenance contractors, this reduction is expected to be temporary.

    c. Recent increases in Consumer Price Inflation will result in additional cost pressures estimated at £0.6m in 2022/23. The financial plan assumed cost increases based on CPI of 2% but actual CPI has been much higher than this in recent months (September 3.1%, October 3.8%, November 4.6%).

    d. The Government's new Health & Social Care Levy will increase payroll costs by 1.25% (£0.25m). This is in addition to the need to provide for this year's (2021/22) and next year's (2022/23) pay awards (estimated at £1.1m in total).

5. In addition to these new pressures, the decision to make a real-terms rent reduction will require further efficiencies. As a result of pressures including those outlined above, additional net costs (£3.8m in 2022/23, reducing to £3.1m from 2023/24 onwards) are incorporated into revised savings targets.

6. Budget growth is required to support further planned improvements to the repairs and maintenance service in the context of significant price pressures in the construction industry due to Covid-19 and Brexit and high levels of inflation more broadly. Following a detailed review of the costs and identification of offsetting savings, it has been possible to contain the growth in 2022/23 to £0.4m. This is despite many costs rising for the Council at a faster rate than the proposed rent increases with CPI at 4.6% in the year to November 2021.

7. Initial work on the savings plan is expected to yield £0.6m of firm savings (£0.2m net savings after accounting for the growth of £0.4m above) with £0.2m pipeline savings and £3.4m needing to be identified to achieve the 2022/23 savings target of £3.8m through initiatives including the Housing Transformation Programme, income opportunities, and other plans (see Appendix 3) to avoid a further draw on reserves.

Table 1: HRA Budget 2021/22 & 2022/23 and Forecast Variance 2021/22

| Division | Budget 21/22 | Forecast variance 21/22 | Proposed Budget 22/23 |
|---|---|---|---|
| | £000s | £000s | £000s |
| Dwelling Rents | (68,525) | 167 | (69,767) |
| Tenant & Leaseholder Service Charges | (9,085) | 0 | (10,049) |
| Other Income | (1,917) | (251) | (2,328) |
| **Housing Income** | **(79,527)** | **(84)** | **(82,144)** |
| Property & Compliance | 9,246 | (627) | 9,119 |
| Void & Repairs | 10,170 | 374 | 10,307 |
| DLO (H&F Maintenance) | 2,881 | 22 | 3,381 |
| Housing Management | 6,535 | 438 | 6,601 |
| Place | 10,445 | (107) | 10,890 |
| Operations | 4,424 | (54) | 3,895 |
| Regeneration & Development | 1,061 | (304) | 875 |
| Safer Neighbourhoods | 712 | 0 | 717 |
| Finance & Resources | 8,070 | 0 | 10,644 |
| Capital Charges | 25,255 | (641) | 26,205 |
| Corporate Support Service Recharges | 7,915 | 0 | 7,184 |
| **Expenditure** | **86,714** | **(899)** | **89,820** |
| **Annual Deficit** | **7,187** | **(983)** | **7,676** |
| Unidentified savings | - | - | (3,434) |
| Pipeline savings | - | - | (191) |
| **Annual Deficit before drawdown from reserve** | **7,187** | **(983)** | **4,050** |
| Withdrawal from HRA General Reserve | (7,187) | 983 | (4,050) |
| Total net expenditure | 0 | 0 | 0 |
| | | | |
| Opening Balance on HRA General Reserve | (17,562) | (17,562) | (11,358) |
| Withdrawal from HRA General Reserve | 7,187 | 6,204 | 4,050 |
| **Closing Balance on HRA General Reserve** | **(10,375)** | **(11,358)** | **(7,308)** |

## Real terms rent reduction

8. Rents for existing tenants are proposed to increase by 1.5%, a real-terms cut and a significant reduction against the 4.1% increase (CPI + 1%) set out in the Government's rent standard. This is proposed in light of the significant cost of living pressures currently faced by tenants—including inflation and increases in Government taxes.

9. The average rent for our Council homes of £112.20 per week remains lower than the average rent of other neighbouring London boroughs.

10. Tenant service charges are also proposed to increase by 1.5%.

11. The changes to charges for communal heating schemes, garage and parking space rents, water and sewerage charges, home buy and income from advertising hoardings and commercial properties are set out in Appendix 5.

**Review of the 40-year financial plan**

12. The previous 40-year financial plan that was included in last year's budget paper to Cabinet in February 2021 has been updated to reflect:

    a. the HRA's current financial position, including changes in budgets required under the new repairs model;
    b. changes to new affordable housing development schemes including costs, timing and financing;
    c. macro-economic changes (for example, changes to interest rates);
    d. significant compliance and climate change capital spending plans included within the Asset Management Capital Strategy (£729m over 12 years beginning 2022/23).

13. Additionally, a number of emerging pressures identified through the budget setting process have increased the annual savings requirement further.

14. Appendix 1 shows the 40-year projection of income and expenditure and the HRA general reserve balance. This shows that the greatest pressures are faced in the early years when the capital investment's financing impact (external interest costs) is growing and before the benefit of the development programme which brings new homes and rental income on stream.

15. The planned capital investment in compliance and climate change within the Asset Management Capital Strategy of £729m over a 12-year period will involve significant additional revenue financing costs related to the borrowing alongside the increased cost of repairs and maintenance. These are affordable within the current financial plan but require significant additional savings to be made within the HRA of c£3.8 million per annum from 2022/23, rising to £7.1m from 2023/24 and to £7.9m from 2024/25. Table 2 below sets out the minimum savings required to ensure the financial sustainability of the HRA. Earlier progress with the delivery of savings will help to maintain a prudent level of minimum reserves.

    Table 2: First 5 years of base savings required

| | **2021/22** £000s | **2022/23** £000s | **2023/24** £000s | **2024/25** £000s | **2025/26** £000s |
|---|---|---|---|---|---|
| Base minimum savings required | - | (3,830) | (7,100) | (7,900) | (8,000) |

16. The savings (£7.9m over the next three years) are expected to be delivered through initiatives including a review of management costs, the Housing Transformation Programme, income opportunities and other plans.

17. The forecast 2021/22 balance reflects the expected delivery of £3.8m annual revenue savings. The combined annual savings for the HRA from 2025/26 is therefore £11.8m compared to the 2020/21 base budget.

18. Whilst the macro-economic assumptions used in the model are largely outside the Council's control, the key assumption within the Council's control is the new build development programme. This is assumed to deliver positive net rental streams to support the planned compliance programme.

**Key assumptions**

19. The revised financial plan allows for a manageable return to the pre-2021/22 level of general reserves (c.£17m) over a 13-year period by limiting the increase in the minimum balance to an average of £1m each year.

20. **New development:** Only HRA or the HRA elements of mixed schemes (affordable housing and shared ownership) are included in the financial plan. The financial plan assumes 900 units with current schemes those yet to be identified, as shown in Appendix 2. Including appropriations from the General Fund, the gross cost to the HRA over the 13-year period is estimated at nearly £480m.

21. Collectively, these 900 units will contribute £11.5m to the overall operating income in year 13 (an increase of 10.1%) and a net benefit of £1.8m to the same years' operating account. This demonstrates the considerable benefit that the new affordable housing development is expected to bring to the HRA.

22. **Compliance and decarbonisation capital investment:** A significant level of investment (£729m) is required to address compliance issues identified in the 12-year Asset Management Capital Strategy. The level of capital expenditure and financing will put the HRA under considerable pressure which requires a commensurate level of revenue savings.

23. A key driver of the investment programme is the condition of HRA properties and the resulting high levels of routine maintenance. Investment should lead to a levelling off, then a reduction in routine repairs required in the medium term. Whilst it is difficult to estimate future savings from the investment, the financial plan reflects cost savings from year 7 of 1% per annum for 5 years; amounting to c.£1.25m from base costs by year 12. This will continue to be reviewed as capital projects are completed.

24. **Capital financing:** The appraisal models of each development scheme and the financial plan model seek to optimise the financing available. Wherever possible, Right to Buy receipts and grant are used before borrowing. Appendix 2 indicates a total 13-year capital cost of nearly £1.5bn, requiring c.£740m of additional borrowing.

25. **Right to Buy (RtB) receipts:** The model reflects the current arrangements with DLUHC and the GLA. Recent proposed changes will increase the percentage of

eligible expenditure to which these can be applied from 30% to 40% and also the time period for use from 3 to 5 years. The financial plan model optimises the use of RtB receipts and assumes that these are applied in line with the time limits. If there is a material slippage in the development programme this could produce a risk of both repayment and interest charges.

26. **Leaseholder charges:** The Asset Management Capital Strategy assumes recovery of non-fire safety, disabled adaptations and repairs capitalisation (c.£103m). The assumed amount of non-recovery in respect of fire safety work is c.£13.4m.

27. **Savings requirement:** To achieve an ongoing sustainable minimum reserve balance of £4m and to fund the Asset Management Capital Strategy, additional revenue savings are required. In February 2021, Cabinet approved a four-year plan to deliver £5.7m of annual revenue savings by 2024/25. During 2021/22, £3.8m of savings were delivered, leaving £1.9m to be found. The updated 40-year financial plan includes plans to increase the remaining £1.9m annual savings requirement to a new target of annual revenue savings of £3.8 million per annum from 2022/23, rising to £7.1m from 2023/24 and to £7.9m from 2024/25 (when compared to the 2021/22 base budget). These are set out in Appendix 3.

**Sensitivity analysis**

28. By its nature a 40-year financial plan has multiple assumptions and risks associated with the interacting variables used to create it. As such, testing a selection of these shows the strength and resilience of the financial plan to withstand given stresses that may be experienced.

29. The table below shows the results of testing three key assumptions: new development, rent regulation and interest rates with further detail in Appendix 2.

Table 3: Sensitivities - additional savings required

| **Scenario** | **2022/23** | **2023/24** | **2024/25** | **2025/26** |
|---|---|---|---|---|
| **Minimum savings required** (including emerging pressures) | **£000** | **£000** | **£000** | **£000** |
| 1. Base model | 3,832 | 7,107 | 7,907 | 8,007 |
| 2. No development | 3,832 | 7,107 | 8,707 | 8,807 |
| 3. CPI only rent from 2025/26 | 3,832 | 7,107 | 9,107 | 9,207 |
| 4. Interest rates +1.5% from 2023/24 | 3,832 | 7,107 | 14,807 | 14,907 |

30. **New development (scenario 2):** Building additional homes not only provides much needed accommodation for the boroughs' residents, reducing temporary accommodation costs, it is a key determinant of the HRA's future viability. If new build ceases, further savings of £0.8m, in addition to the £8.0m by 2025/26, will be required as the new rental income will not be received.

31. **Rent regulation (scenario 3):** Current government rent standard guidance caps increases in rents to CPI +1% until 2024/25. Beyond this there is no such

guidance and the base financial plan uses CPI +0.5% for the remainder of the 40 years. However, should rent increases be limited to CPI only, an additional £1.2m savings more than the base model savings requirement of £8.0m (£9.2m from 2025/26) would be needed.

32. **Interest rates (scenario 4):** Interest rates are currently extremely low by historical standards. The base financial plan uses borrowing rate assumptions after consultation with treasury advisors earlier in 2021. However, there are growing signs that in reaction to inflation increases, interest rates may rise sooner than expected. The fourth scenario assumes interest rates are increased by 1.5% for each year of the financial plan from year 3 onwards. The result is an additional £6.9m savings being required above the base model savings requirement of £8.0m (an unaffordable £14.9m from 2025/26). Interest rate movements will be monitored and amendments made to the financial plan as necessary to ensure future sustainability.

**Reserves**

33. Two types of reserves are held within the HRA: general reserves and earmarked reserves.

34. **HRA general reserves** should provide sufficient cover against unanticipated events. The risks facing the HRA must be viewed in the context of the level of HRA general reserves. A prudent level of reserves is important to support long term investment planning for 17,000 properties with an existing use value of £1.3 billion. A minimum of £4m is considered to be required.

35. The HRA general reserve as at 31 March 2021 was £17.6m. A further planned drawdown (£6.2m) in 2021/22[1] is expected to reduce the balance to c. £11.4m.

36. **HRA earmarked reserves** are funds set aside to cover specific future plans that are not covered by annual budgets and to protect the HRA from specific risks. HRA cashable earmarked reserves were £5.8m as at 31 March 2021. These include funds set aside for the risk relating to potential revenue, abortive and other write-off costs associated with the Council's affordable housing and regeneration plans (£3.6m) if plans do not progress.

**Risks**

37. Whilst the sensitivity modelling outlined above (paragraphs 28 – 32) has shown that there is a risk of further increases in the savings targets in certain key scenarios, there is also an immediate and increasing risk to delivery of the scale of savings required. It is therefore crucial that the savings targets are met in order to prevent the exhaustion of the HRA general reserve in the short to medium term.

[1] Based on the projection included in the Corporate Revenue Monitor for month 6

38. The Government’s programme of Welfare Reform continues to represent a risk to the Council’s ability to collect rental income and may result in increased bad debt charges to the HRA. All new benefit claims are subject to Universal Credit and all existing claims are currently subject to a migration process to Universal Credit that was delayed as a result of Covid-19 and is now anticipated to be completed by December 2024. There is a risk that the migration of tenants to Universal Credit moves at a faster pace than expected. The increase in bad debt provision for rents has been budgeted for 2022/23 at £1.0m.

39. Whilst the full cost implications of implementing the Council’s HRA 12 year Asset Management Capital Strategy are still being determined (stock condition surveys are being completed over the next few years), there is a risk that costs are in excess of those in the proposed budget for 2022/23 and in the longer term plan.

40. In addition to these risks above, there are several other financial risks. These are set out in detail in Appendix 4.

**Equality Implications**

41. The Equalities Impact Assessment (EIA) shows that the rent increase is not anticipated to have any direct negative impact on groups with protected characteristics. The appended EIA outlines the potential adverse impact and officers are confident that support measures in place will provide mitigation to any potential negative impact encountered by our tenants.

**Risk Management Implications**

42. The principal sensitivities and risks are detailed in paragraphs 28 – 32 and 37-39 respectively and in Appendix 2. These are included in the departmental risk register.

Implications completed by: David Hughes, Director of Audit, Risk and Insurance, 020 7361 2389

**List of Appendices:**

*Appendix 1 HRA financial plan 2021-2061: 40-year operating account*
*Appendix 2 Summary of key assumptions and drivers*
*Appendix 3 Four Year Savings Plan*
*Appendix 4 Key Risks*
*Appendix 5 Fees, Charges & Other Income*

**Appendix 1: HRA financial plan 2021-2061: 40-year operating (income and expenditure) account: base financial plan**

| Year | Year | Total Income £000s | Total expenses £000s | Capital Charges £000s | Annual (Surplus) Deficit £000s | General Reserve b/f £000s | General Reserve c/f £000s |
|---|---|---|---|---|---|---|---|
| 1 | 2021.22 | (82,367) | 80,184 | 8,387 | 6,204 | (17,562) | (11,358) |
| 2 | 2022.23 | (84,503) | 80,178 | 8,375 | 4,050 | (11,358) | (7,308) |
| 3 | 2023.24 | (86,911) | 77,304 | 8,639 | (969) | (7,308) | (8,277) |
| 4 | 2024.25 | (91,137) | 78,296 | 12,474 | (367) | (8,277) | (8,644) |
| 5 | 2025.26 | (94,339) | 80,380 | 16,233 | 2,274 | (8,644) | (6,370) |
| 6 | 2026.27 | (100,764) | 82,063 | 18,056 | (645) | (6,370) | (7,015) |
| 7 | 2027.28 | (104,287) | 84,209 | 18,931 | (1,147) | (7,015) | (8,162) |
| 8 | 2028.29 | (108,868) | 86,573 | 20,723 | (1,572) | (8,162) | (9,734) |
| 9 | 2029.30 | (112,426) | 88,772 | 21,540 | (2,114) | (9,734) | (11,848) |
| 10 | 2030.31 | (117,664) | 90,640 | 24,410 | (2,614) | (11,848) | (14,462) |
| 11 | 2031.32 | (118,547) | 93,329 | 25,043 | (175) | (14,462) | (14,636) |
| 12 | 2032.33 | (121,679) | 94,696 | 25,465 | (1,518) | (14,636) | (16,155) |
| 13 | 2033.34 | (124,526) | 96,751 | 25,747 | (2,028) | (16,155) | (18,183) |
| 14 | 2034.35 | (127,612) | 98,989 | 25,868 | (2,756) | (18,183) | (20,938) |
| 15 | 2035.36 | (132,957) | 101,247 | 25,836 | (5,874) | (20,938) | (26,812) |
| 16 | 2036.37 | (133,852) | 103,551 | 25,779 | (4,521) | (26,812) | (31,334) |
| 17 | 2037.38 | (137,135) | 105,930 | 25,648 | (5,557) | (31,334) | (36,891) |
| 18 | 2038.39 | (140,493) | 108,381 | 25,624 | (6,488) | (36,891) | (43,379) |
| 19 | 2039.40 | (143,903) | 110,892 | 25,624 | (7,388) | (43,379) | (50,767) |
| 20 | 2040.41 | (147,263) | 113,460 | 25,624 | (8,179) | (50,767) | (58,946) |
| 21 | 2041.42 | (153,161) | 117,252 | 25,624 | (10,285) | (58,946) | (69,231) |
| 22 | 2042.43 | (154,097) | 118,949 | 25,624 | (9,524) | (69,231) | (78,756) |
| 23 | 2043.44 | (157,262) | 121,528 | 25,624 | (10,111) | (78,756) | (88,866) |
| 24 | 2044.45 | (160,716) | 124,342 | 25,624 | (10,750) | (88,866) | (99,617) |
| 25 | 2045.46 | (164,495) | 127,223 | 25,624 | (11,648) | (99,617) | (111,265) |
| 26 | 2046.47 | (168,550) | 130,160 | 25,624 | (12,766) | (111,265) | (124,031) |
| 27 | 2047.48 | (175,718) | 133,160 | 25,624 | (16,935) | (124,031) | (140,966) |
| 28 | 2048.49 | (176,987) | 136,242 | 25,624 | (15,121) | (140,966) | (156,087) |
| 29 | 2049.50 | (181,349) | 139,399 | 25,624 | (16,327) | (156,087) | (172,414) |
| 30 | 2050.51 | (185,810) | 142,630 | 25,617 | (17,563) | (172,414) | (189,977) |
| 31 | 2051.52 | (190,325) | 147,425 | 25,604 | (17,295) | (189,977) | (207,272) |
| 32 | 2052.53 | (198,544) | 149,539 | 25,557 | (23,447) | (207,272) | (230,719) |
| 33 | 2053.54 | (199,510) | 152,780 | 25,425 | (21,304) | (230,719) | (252,024) |
| 34 | 2054.55 | (204,251) | 156,322 | 25,304 | (22,624) | (252,024) | (274,648) |
| 35 | 2055.56 | (209,129) | 159,947 | 25,205 | (23,977) | (274,648) | (298,625) |
| 36 | 2056.57 | (214,195) | 163,655 | 25,112 | (25,427) | (298,625) | (324,052) |
| 37 | 2057.58 | (219,458) | 167,450 | 25,089 | (26,919) | (324,052) | (350,971) |
| 38 | 2058.59 | (228,764) | 171,332 | 25,048 | (32,385) | (350,971) | (383,356) |
| 39 | 2059.60 | (230,390) | 175,304 | 25,048 | (30,039) | (383,356) | (413,395) |
| 40 | 2060.61 | (236,048) | 179,369 | 25,048 | (31,631) | (413,395) | (445,026) |

## Appendix 2.1: Summary of key assumptions and drivers

| Capital Expenditure | Units | 2021.22 £000 | 2022.23 £000 | 2023.24 £000 | 2024.25 £000 | 2025.26 £000 | 2026.27 £000 | 2027.28 £000 | 2028.29 £000 | 2029.30 £000 | 2030.31 £000 | 2031.32 £000 | 2032.33 £000 | 2033.34 £000 | £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Development Schemes including Major Works (note 3) | 900 | 9,305 | 10,969 | 53,599 | 93,780 | 43,211 | 67,840 | 44,011 | 29,121 | 16,058 | 80 | 75 | 77 | 80 | 368,207 |
| Compliance Capex (note 1) | | 53,570 | 61,725 | 62,293 | 79,524 | 54,082 | 68,039 | 70,763 | 58,265 | 56,483 | 59,816 | 52,348 | 54,143 | 49,989 | 781,041 |
| Decarbonisation (note 1) | | - | 7,781 | 14,441 | 10,856 | 10,981 | 11,241 | 11,506 | 11,778 | 12,056 | 12,341 | 6,821 | 6,983 | 7,147 | 123,933 |
| Other | | 1,997 | 301 | 308 | 316 | 324 | 332 | 340 | 349 | 357 | 366 | 375 | 385 | 394 | 6,143 |
| **Total Capital Expenditure** | | **64,872** | **80,776** | **130,641** | **184,476** | **108,598** | **147,452** | **126,620** | **99,513** | **84,955** | **72,604** | **59,620** | **61,587** | **57,611** | 1,279,324 |
| Appropriation to HRA (note 4) | | - | - | - | 28,700 | 64,455 | - | 16,700 | - | - | - | - | - | - | 109,855 |
| Repayment of Internal Borrowing | | - | - | - | 109,670 | - | - | - | - | - | - | - | - | - | 109,670 |
| **Cost to HRA** | | **64,872** | **80,776** | **130,641** | **322,847** | **173,053** | **147,452** | **143,319** | **99,513** | **84,955** | **72,604** | **59,620** | **61,587** | **57,611** | 1,498,850 |
| | | | | | | | | | | | | | | | |
| **Financing:** | | | | | | | | | | | | | | | |
| Internal Borrowing | | 34,080 | 46,083 | - | - | - | - | - | - | - | - | - | - | - | 80,164 |
| External Borrowing (note 2) | | - | - | 91,271 | 274,520 | 64,455 | 20,251 | 97,970 | 55,600 | 39,711 | 29,369 | 24,381 | 23,116 | 19,220 | 739,863 |
| Retained 1-4-1 receipts subject to Retention Agreement (3yrs/30 | | 766 - | 1,663 | 1,432 | 1,506 | - | 1,662 | 492 | - | - | - | - | - | - | 4,195 |
| RTB Receipts (usable for any capital purpose held by H&F) | | 794 | 674 | 953 | 971 | 989 | 1,007 | 1,027 | 1,047 | 1,067 | 1,088 | 870 | 878 | 887 | 12,251 |
| GLA Grant | | - | 2,980 | 1,614 | 3,074 | 8,916 | 4,588 | 4,072 | 3,750 | 3,750 | - | - | - | - | 32,744 |
| GLA Receipts (1-4-1 receipts passed to GLA; ringfenced +3 yrs) | | 11 | 164 | 923 | 948 | 131 | - | - | - | - | - | - | - | - | 2,178 |
| New Build Receipts | | - | - | - | 4,165 | 125,192 | 21,795 | 548 | 958 | 3,099 | 4,049 | 4,130 | 4,212 | 4,296 | 172,441 |
| Other Capital Receipts (misc non-scheduled) | | 2,290 | 2,000 | 2,050 | 2,101 | 3,737 | 2,208 | 3,525 | 4,168 | 3,254 | 2,437 - | 218 | 2,580 | 2,624 | 32,737 |
| Leaseholder Contributions (incl for new compliance + decarb) | | 10,714 | 13,917 | 15,385 | 18,146 | 13,080 | 15,960 | 16,584 | 14,138 | 13,853 | 14,604 | 8,674 | 8,754 | 7,994 | 171,804 |
| Major Repairs Reserve | | 16,218 | 16,620 | 17,013 | 17,415 - | 43,447 | 79,980 | 19,102 | 19,854 | 20,220 | 21,058 | 21,783 | 22,067 | 22,590 | 250,475 |
| **Total Financing** | | **64,872** | **80,776** | **130,641** | **322,847** | **173,053** | **147,452** | **143,319** | **99,513** | **84,955** | **72,604** | **59,620** | **61,587** | **57,611** | 1,498,850 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Minimum base savings required | 0 | 3,850 | 7,100 | 7,900 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| HRA General Reserve | 11,358 | 7,308 | 8,277 | 8,644 | 6,370 | 7,015 | 8,162 | 9,734 | 11,847 | 14,461 | 14,636 | 16,154 | 18,182 |
| Assumed Minimum Bal required | 4,080 | 4,162 | 4,245 | 4,500 | 5,000 | 6,000 | 7,000 | 8,000 | 9,000 | 10,000 | 10,200 | 10,404 | 10,612 |

| Debt | Opening £000 | | | | | | | | | | | | | | Closing £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Internal | 29,507 | 34,080 | 46,083 | - | - 109,670 | - | - | - | - | - | - | - | - | - | - |
| External | 219,012 | - | - | 91,271 | 274,520 | 64,455 | 20,251 | 97,970 | 55,600 | 39,711 | 29,369 | 24,381 | 23,116 | 19,220 | 958,875 |
| Total (HRA CFR) | **248,519** | **282,599** | **328,683** | **419,953** | **584,803** | **649,258** | **669,509** | **767,480** | **823,079** | **862,790** | **892,159** | **916,540** | **939,655** | **958,875** | |

# Appendix 2.2: Summary of key assumptions and drivers

**Key Economic Assumptions**

| | 2021.22 | 2022.23 | 2023.24 | 2024.25 | 2025.26 | 2026.27 | 2027.28 | 2028.29 | 2029.30 | 2030.31 | 2031.32 | 2032.33 | 2033.34 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rent inflation | | 3.00% | 3.00% | 3.00% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | | |
| CPI | | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | | |
| Interest Rates external | 2.00% | 2.00% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | | |
| Interest Rates internal | 0.10% | 0.10% | 0.10% | | | | | | | | | | | | |
| RTB Sales | 12 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | | |
| note 1 | | | | | | | | | | | | | | | AMP Total |
| *Compliance Capex only current prices* | *53,570* | *60,290* | *59,440* | *74,130* | *49,250* | *60,530* | *61,500* | *49,470* | *46,850* | *48,470* | *38,370* | *38,770* | *34,970* | 675,610 | *622,040* |
| *Compliance and Decarbonisation current prices* | *53,570* | *67,890* | *73,220* | *84,250* | *59,250* | *70,530* | *71,500* | *59,470* | *56,850* | *58,470* | *43,370* | *43,770* | *39,970* | 782,110 | *728,540* |

note 2

*External borrowing includes repayment of internal debt*

*note 3*

| | Development Schemes including Major Works | Units | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Property Acquisitions | 4 | 770 | 19 | 19 | 20 | 20 | 20 | 20 | 20 | 20 | 19 | 13 | 14 | 14 | 988 |
| 2 | Spring Vale | 10 | 1,252 | - | - | - | - | - | - | - | - | 61 | 62 | 63 | 64 | 1,502 |
| 3 | Barclay Close | 6 | 7 | 7 | 760 | 45 | 1,094 | 1,008 | 0 | - | - | - | - | - | - | 2,923 |
| 4 | Becklow Gardens | 12 | 1,673 | 49 | 50 | 99 | 2,365 | 1,799 | 1 | - | - | - | - | - | - | 6,036 |
| 5 | Commonwealth Avenue | 35 | 76 | 77 | 4,970 | 11,372 | 447 | - | - | - | - | - | - | - | - | 16,942 |
| 6 | Hartopp & Lannoy Point | 113 | 223 | 3,259 | 18,503 | 18,503 | 2,512 | - | - | - | - | - | - | - | - | 43,000 |
| 7 | Old Laundry Yard | 32 | 2,919 | 729 | 14,974 | 7,212 | 59 | 19 | - | - | - | - | - | - | - | 25,912 |
| 8 | White City | 129 | 626 | 5,135 | 12,251 | 46,873 | 14,659 | 37,452 | 2,889 | - | - | - | - | - | - | 119,884 |
| 9 | Education City (note 4) | 119 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 10 | Avonmore School (note 4) | 43 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 11 | Flora Gardens School (note 4) | 52 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12 | Farm Lane (note 4) | 15 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 13 | Lillie Road (note 4) | 24 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Mund Street (note 4) | 50 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 15 | The Grange | 8 | 19 | 19 | 1,105 | 484 | 3,421 | 845 | - | - | - | - | - | - | - | 5,893 |
| 16 | Land Adjacent to Jepson House | 23 | 68 | 1,669 | 523 | 9,023 | 4,877 | 13 | - | - | - | - | - | - | - | 16,173 |
| 17 | Hemlock Garages | 3 | 6 | 6 | 444 | 149 | 1,040 | 224 | - | - | - | - | - | - | - | 1,868 |
| 18 | Homes and Communities Strategy | - | 1,238 | - | - | - | - | - | - | - | - | - | - | - | - | 1,238 |
| 19 | Affordable Housing Delivery | - | 428 | - | - | - | - | - | - | - | - | - | - | - | - | 428 |
| 20 | Yet to be Identified Schemes (all affordable units) | 224 | - | - | - | - | 12,718 | 26,460 | 41,101 | 29,100 | 16,039 | - | - | - | - | 125,417 |
| | Unscheduled 1-4-1 | 5 | - | - | - | - | 857 | 890 | 924 | - | - | - | - | - | - | 2,672 |
| | Unscheduled GLA Grant | 219 | - | - | - | - | 11,861 | 25,570 | 40,176 | 29,100 | 16,039 | - | - | - | - | 122,746 |
| | Total Development | 900 | | | | | | | | | | | | | | 368,207 |

*note 4*

| | Appropriations | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9 | Education City | - | - | - | - | 55,304 | - | - | - | - | - | - | - | - | 55,304 |
| 10 | Avonmore School | - | - | - | 14,040 | - | - | - | - | - | - | - | - | - | 14,040 |
| 11 | Flora Gardens School | - | - | - | 14,660 | - | - | - | - | - | - | - | - | - | 14,660 |
| 12 | Farm Lane | - | - | - | - | 3,846 | - | - | - | - | - | - | - | - | 3,846 |
| 13 | Lillie Road | - | - | - | - | 5,305 | - | - | - | - | - | - | - | - | 5,305 |
| 14 | Mund Street | - | - | - | - | - | - | 16,700 | - | - | - | - | - | - | 16,700 |
| | Total Appropriation Cost | - | - | - | 28,700 | 64,455 | - | 16,700 | - | - | - | - | - | - | 109,855 |
| | Total Development including appropriation | | | | | | | | | | | | | | 478,062 |

## Appendix 3

### Housing Revenue Account: Four-year growth and savings plan 2022/23 – 2025/26

| Division | Description | Budget Change Cumulative (£000s) 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|
| Housing Income | Acceleration of the garages refurbishment programme | (199) | (199) | (199) | (199) |
| Regeneration & Development | Reduction in budget for project feasibility costs | (100) | (100) | (100) | (100) |
| Corporate Support Service Recharges | Review of corporate SLA recharges (£828,000 of which £734,000 was already assumed with the savings plan) | (94) | (94) | (94) | (94) |
| Housing Management | New temporary accommodation at Underwood House | (84) | (84) | (84) | (84) |
| Finance & Resources | Improved income collection through procurement of arrears reporting service | (50) | (100) | (100) | (100) |
| Housing Income | Review of sheds charging policy | (25) | (50) | (50) | (50) |
| Housing Income | Income from telecommunications masts | (25) | (25) | (25) | (25) |
| Place Services | Service insourcing opportunities | 0 | 0 | (100) | (100) |
| Housing Management | Service insourcing opportunities | 0 | 0 | (316) | (316) |
| **Firm Savings** | | **(577)** | **(652)** | **(1,068)** | **(1,068)** |
| Housing Income | Locality and Vacant assets | (150) | (150) | (150) | (150) |
| Place / Finance | Consolidation of income collection functions | (40) | (40) | (40) | (40) |
| All | Housing Transformation Programme - Consolidation | 0 | (1,250) | (1,250) | (1,250) |
| Property & Compliance | Housing Transformation Programme - Channel shift | 0 | (350) | (690) | (690) |
| All | Housing Transformation Programme - Reducing operating costs | 0 | (100) | (100) | (100) |
| Finance | Review of corporate recharges (non-SLA) | 0 | (80) | (80) | (80) |
| **Pipeline Savings** | | **(190)** | **(1,970)** | **(2,310)** | **(2,310)** |
| **Unidentified Savings** | | **(3,453)** | **(4,848)** | **(4,892)** | **(4,992)** |
| **Total Savings** | | **(4,220)** | **(7,470)** | **(8,270)** | **(8,370)** |
| Property & Compliance, Voids and Repairs, DLO | Investment in the long term repairs model | 370 | 370 | 370 | 370 |
| **Growth required** | | **370** | **370** | **370** | **370** |
| **Net Growth / (Savings)** | | **(3,850)** | **(7,100)** | **(7,900)** | **(8,000)** |
| **Savings requirement** | | **3,850** | **7,100** | **7,900** | **8,000** |

**Appendix 4**

| **Housing Revenue Account: Key Risks 2022/23** | **Lower Limit £000s** | **Upper Limit £000s** |
|---|---|---|
| **Quantifiable Risks** | | |
| **Welfare reform** - the budgeted bad debt provision provides some protection against the impact on rent collection rates as a result of the Government's Welfare Reform programme. However, there remains some risk.<br>Given that the households involved are on very low income levels it is likely that any increase in arrears would be uncollectable and the annual exposure is estimated in the region of between £3.0m and £5.9m for 2022/23, assuming mitigating actions are in place. The rental income team works closely with tenants in financial hardship to ensure they have access to benefits to which they are entitled and the Council continues to promote payment by direct debit to tenants. As a "trusted partner", the Council can apply directly to the DWP for "alternative payment arrangements" (APAs) for individual tenants before they fall into significant arrears. The APA means that benefits for housing costs can be paid directly to the Council. | 3,000 | 5,900 |
| **Right to Buy (RTB) disposals** - a level of Right to Buy disposals (16 per annum from 2022/23 onwards) has been assumed within the business plan. There is a risk that unbudgeted levels beyond the Council's control could impact on the net income due to the HRA as rents are no longer due. The upper limit set out here assumes that the level of applications currently projected (110) all progress to RTB sales. | 0 | 550 |
| **Total Quantifiable Risks** | **3,000** | **6,450** |

| Key Risks 2022/23 |
| --- |
| **Unquantifiable Risks** |
| **Covid-19** – although a vaccination programme has been implemented, there remains a risk of increases in residential and commercial rent arrears and voids losses due to the resulting economic downturn and the potential impact of Brexit. The Council could also see additional costs such as claims from contractors, extended preliminaries, storage and inflated material costs. The Government has not provided funding for income losses and additional costs relating to Covid-19 experienced by the HRA. |
| **Housing repairs** – unpredicted events may result in additional expenditure (for example, following new health and safety directives, legislation, insurance claims). Sufficient HRA general reserves are needed to provide a financial provision that mitigate against this risk. |
| The **Building Safety Act and Fire Safety Act** will require H&F, as landlord, to resource significant additional investment, both revenue and capital, to achieve compliance. Revenue costs will include the legal requirement to designate Building Safety Managers to its 68 higher risk buildings (3,500+ households) and undertake additional prescribed maintenance and inspection of its 17,000 fire doors on a quarterly/six monthly cycle. Its 68 higher risk buildings will need continued capital investment in fire and structural safety to fulfil the requirements of the Building Safety Regulator and prescribed Building Assurance Certificate. |
| **Risk to recruitment** – given the shortage of appropriately qualified technical staff available on the market required to develop, scope, specify and procure fire safety capital works due to high demand in a post-Grenfell environment, there is a risk that the delivery of the Council’s compliance-based Asset Management Capital Strategy may be significantly delayed and at an increased cost. |
| **Uncertainty in Government rent policy beyond 2025** |
| **Market risk on re-procurement and recruitment** – there is a risk that it will become harder to re-procure contracts or recruit staff at the predicted rates. This risk is mitigated by the long term repairs contract procurement and the current economic environment has reduced the pressure on labour market costs. |
| **Other changes in central Government policy towards social housing** |
| **Additional fire safety costs** – fire safety improvements to the housing stock above and beyond the current plans (which are already above legal minimum standards) may be required as stock condition surveys and investigations reveal the full cost of implementing the Hackitt recommendations. |
| **Brexit and the state of the UK economy** – this includes the impact on the housing sector on costs of a weakening currency, loss of grants funding opportunities, potential inflationary pressures on contracts and an increase in tenant rent arrears. |

| Key Risks 2022/23 |
|---|
| **Depreciation** – a risk that the depreciation charge could change as a result of changes in housing stock valuations or from changes in the regulations governing HRA assets. While any increase in the depreciation charge would provide more ring-fenced funding for the capital programme, it would result in lower revenue reserves. Revenue reserves can be used to cover revenue or capital risks so any movement in funds from revenue to capital restricts flexibility. |
| **Asbestos management** – as fire safety works are undertaken, asbestos will be encountered and require removal. The costs are unknown as its presence in many circumstances is unforeseeable. |
| **Additional compliance costs and other repairs risks such as uninsured events** |
| **Aging housing and asset stock condition maintenance** – the housing stock requires significant investment to maintain structural safety and upgrade assets including communal boilers, lifts etc to meet current standards and ensure the safety of residents. Historic construction methods reveal deficiencies such as structural weaknesses, which significant numbers of our buildings exhibit. Immediate risks can be addressed but investment is required to halt deterioration to ensure the longevity of the stock. This has been addressed via the Asset Management Capital Strategy but there is a risk that the investment required will exceed the approved resources. |
| **Medium Term Financial Strategy** – there is a risk to future savings expected to be delivered in accordance with the HRA four-year savings plan. |

**Appendix 5**
# Fees, Charges & Other Income

Heating charges

Tenants and leaseholders who receive communal heating (around 1,811 properties) pay a weekly charge towards the energy costs of the scheme. The Council meets the costs of heating in the year, and recharges tenants and leaseholders based on an estimated cost and usage.

The Council is part of the LASER energy procurement group, which purchases energy on behalf of 48 local authorities. A system of flexible procurement is used which should ensure that LASER tenders for new energy contracts on a rolling basis, so that it can purchase when rates are low.

An estimate has been prepared in consultation with the Council's utilities management function of the new contract rate the Council can expect to achieve. Based on this estimate, combined with the need to balance the heating account for the year, and despite recent increases in the cost of energy, no increase in charges is proposed for 2022/23.

Garage rents

There are 1,121 garages in H&F of which 879 occupied units are rented by licence holders.

H&F standard sized garages are currently charged at the weekly prices of £24.46 for Council tenants and leaseholders, £46.24 for private residents of the borough and £66.08 for non-borough residents. The smaller motorcycle garages are charged at a fixed rate of £18.35 per week.

Currently blue badge holders and pensioners are offered discounts at 25% and 10% respectively.

The current garage pricing is competitive with other local authorities and a garage refurbishment programme is enabling voids to become viable again for lettings. H&F's garage lettings strategy varies from many other local authorities in that residents both within and out of the borough can rent garages and licencees can use garages for either vehicles or general storage.

It is proposed to increase garage charges for council tenants, resident leaseholders and for other customers from April 2022 by 1.5%, lower than CPI of 3.1% (as at September 2021).

Parking permits

Permit parking in H&F is in place on estates that have traffic orders. There are 2,800 parking bays across 36 traffic order sites and 1,700 permit holders. Blue badge holders and motorcycle users have access to the bays but are not required to buy a permit.

All estate parking zones use the same rulings and enforcement as on-street parking. On that basis the prices for estate permits are the same as the on-street equivalent and estate residents have option to purchase both permits for the same vehicle.

Currently H&F parking permits are charged at £71 for 6 months or £119 for 12 months for the first vehicle. Second vehicles are charged at £260 for 6 months and £497 for a year. There are concessionary rates of £60 for 12 months for first vehicles that have <100g per km of $CO^2$ emissions and free permits for fully electric vehicles.

<u>Car space rentals</u>

Residents can rent an allocated parking space on the non-traffic order sites which gives them exclusive access to that bay during their licence. This is open both to Council tenants/leaseholders and private residents/companies in the borough. There are 290 car spaces for rent on estates in H&F of which 139 are occupied.

The current charges range for Council tenants and leaseholders per week from £2.85 for uncovered bays to £3.22 for covered bays. Private residents can rent a space on one of the commercial sites for £29.06 per week (inclusive of VAT). There is a concessionary rate of 25% discount for blue badge holders available.

It is proposed to implement a general 1.5% increase in car space charges from April 2022. This is lower than CPI of 3.1% as at September 2021.

<u>Leasehold after sale – Home Buy fees</u>

To move towards recovering the costs of service provision, it is planned to increase the fee by 1.5% from £200 to £203.

<u>Advertising income</u>

The annual budget for income generated from advertising hoardings located on housing land has been reduced by £30,000 to £390,000. This follows a commercial review of all sites based on current market conditions.

Legal and accounting advice previously has confirmed that the income and expenditure associated with advertising hoardings on HRA land should be accounted for within the HRA.

<u>Rents on shops</u>

The budget for commercial property rents for 2022/23 has been increased by £33,800 to £1.474m. The increase in net income is due to an expected reduction in void rates from 10% to 5% to reflect market conditions based on informed assumptions from the Council’s Valuation & Property Services team. Additionally, the budgeted charge for the bad debt provision has been set at £100,000 for 2022/23.