

London Borough of Hammersmith & Fulham

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

**Date:** 25<sup>th</sup> 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	<p>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.</p> <p>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.</p>
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 CO2 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)
<b>Housing Income</b>	<b>(79,527)</b>	<b>(84)</b>	<b>(82,144)</b>
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
<b>Expenditure</b>	<b>86,714</b>	<b>(899)</b>	<b>89,820</b>
<b>Annual Deficit</b>	<b>7,187</b>	<b>(983)</b>	<b>7,676</b>
Unidentified savings	-	-	(3,434)
Pipeline savings	-	-	(191)
<b>Annual Deficit before drawdown from reserve</b>	<b>7,187</b>	<b>(983)</b>	<b>4,050</b>
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
<b>Closing Balance on HRA General Reserve</b>	<b>(10,375)</b>	<b>(11,358)</b>	<b>(7,308)</b>

### 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 2021/221 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.

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<sup>1</sup> 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

	Units	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	£000
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Capital Expenditure</b>															
Development Schemes including Major Works (note 3)	900	9,305	10,989	53,599	93,780	43,211	67,840	44,011	29,121	16,058	80	75	77	80	388,207
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
<b>Total Capital Expenditure</b>		<b>64,872</b>	<b>80,776</b>	<b>130,641</b>	<b>184,476</b>	<b>108,598</b>	<b>147,452</b>	<b>126,620</b>	<b>99,513</b>	<b>84,955</b>	<b>72,604</b>	<b>59,620</b>	<b>61,587</b>	<b>57,611</b>	1,279,324
Appropriation to HRA (note 4)		-	-	-	28,700	64,455	-	16,700	-	-	-	-	-	-	109,855
Repayment of Internal Borrowing		-	-	-	109,670	-	-	-	-	-	-	-	-	-	109,670
<b>Cost to HRA</b>		<b>64,872</b>	<b>80,776</b>	<b>130,641</b>	<b>322,847</b>	<b>173,053</b>	<b>147,452</b>	<b>143,319</b>	<b>99,513</b>	<b>84,955</b>	<b>72,604</b>	<b>59,620</b>	<b>61,587</b>	<b>57,611</b>	1,498,850
<b>Financing</b>															
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 RTB Receipts (usable for any capital purpose held by H&F)		766	1,663	1,432	1,508	-	1,662	492	-	-	-	-	-	-	4,195
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	956	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	18,148	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
<b>Total Financing</b>		<b>64,872</b>	<b>80,776</b>	<b>130,641</b>	<b>322,847</b>	<b>173,053</b>	<b>147,452</b>	<b>143,319</b>	<b>99,513</b>	<b>84,955</b>	<b>72,604</b>	<b>59,620</b>	<b>61,587</b>	<b>57,611</b>	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	
<b>Debt</b>															
		Opening													Closing
		£000													£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
<b>Total (HRA CFR)</b>		<b>248,519</b>	<b>282,599</b>	<b>326,683</b>	<b>419,953</b>	<b>584,803</b>	<b>649,258</b>	<b>669,509</b>	<b>767,480</b>	<b>823,079</b>	<b>862,790</b>	<b>892,159</b>	<b>916,540</b>	<b>939,655</b>	<b>958,875</b>



### 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)
<b>Firm Savings</b>		<b>(577)</b>	<b>(652)</b>	<b>(1,068)</b>	<b>(1,068)</b>
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)
<b>Pipeline Savings</b>		<b>(190)</b>	<b>(1,970)</b>	<b>(2,310)</b>	<b>(2,310)</b>
<b>Unidentified Savings</b>		<b>(3,453)</b>	<b>(4,848)</b>	<b>(4,892)</b>	<b>(4,992)</b>
<b>Total Savings</b>		<b>(4,220)</b>	<b>(7,470)</b>	<b>(8,270)</b>	<b>(8,370)</b>
Property & Compliance, Voids and Repairs, DLO	Investment in the long term repairs model	370	370	370	370
<b>Growth required</b>		<b>370</b>	<b>370</b>	<b>370</b>	<b>370</b>
<b>Net Growth / (Savings)</b>		<b>(3,850)</b>	<b>(7,100)</b>	<b>(7,900)</b>	<b>(8,000)</b>
<b>Savings requirement</b>		<b>3,850</b>	<b>7,100</b>	<b>7,900</b>	<b>8,000</b>

## Appendix 4

<b>Housing Revenue Account: Key Risks 2022/23</b>	<b>Lower Limit £000s</b>	<b>Upper Limit £000s</b>
<b>Quantifiable Risks</b>		
<p><b>Welfare reform</b> - 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.</p> <p>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.</p>	3,000	5,900
<p><b>Right to Buy (RTB) disposals</b> - 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.</p>	0	550
<b>Total Quantifiable Risks</b>	<b>3,000</b>	<b>6,450</b>

## 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<sup>2</sup> emissions and free permits for fully electric vehicles.

### Car space rentals

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.

### Leasehold after sale – Home Buy fees

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

### Advertising income

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.

### Rents on shops

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.