h&f putting residents first	**London Borough of Hammersmith & Fulham** **CABINET** **11 FEBRUARY 2013**

HOUSING REVENUE ACCOUNT FINANCIAL STRATEGY AND RENT INCREASE 2013/14	
Report of the Cabinet Member for Housing – Councillor Andrew Johnson	
Open Report.	
Classification - For Decision **Key Decision:** Yes	
Wards Affected: All	
Accountable Executive Director: Melbourne Barrett, Executive Director of Housing and Regeneration	
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1. BACKGROUND

1.1 This report deals with:

- management of the Housing Revenue Account (HRA) post HRA reform;
- the HRA Financial Strategy, the HRA MTFS for the five years 2013/14 – 2017/18, and the HRA Revenue Budget for the year 2013/14;
- the proposed increase in dwelling rents for 2013/14 having regard to national government guidance for council rents and the maintenance requirements of the housing stock owned by the borough, and the related fees and charges covering parking and garages, water rates and communal energy charges where levied.

2. RECOMMENDATIONS

2.1 That the HRA financial strategy as set out in section 7 of this report be endorsed.

2.2 That approval be given to the Housing Revenue Account 2013/14 budget as set out in Appendix 1.

2.3 That approval be given to a rent increase for 2013/14, based on application of the Government's rent restructuring formulae for dwellings of 3 bedrooms and below, and a new Council rent policy for dwellings of 4 bedrooms and above, of 5.42% and also that approval be given to the simplification of the presentation of Sheltered Accommodation rents as referred to in paragraph 9.7.

2.4 That approval be given to a rent increase of 3.73% based on application of the Government's rent restructuring formulae for properties under licence and hostels as referred to in paragraph 9.6.

2.5 That in order to move towards full recovery of Water Rates approval be given to an increase in water rate charges equating to an average rise of 58 pence per week as set out in paragraph 15.7 of this report.

2.6 That a reduction in the communal heating charge of 5% as set out in paragraph 15.3 of this report be approved.

2.7 That an increase in service charges for 2013/14 of 3.1% as set out in section 10 of this report be approved.

2.8 That approval be given to an increase in garage and parking rents of 3.1% as set out in paragraphs 15.4 and 15.5 of this report and that Cabinet note that a review of garage and parking operations is currently being conducted by officers in consultation with residents which is likely to result in further changes.

2.9 That in line with the strategic financial objective of repaying debt as it becomes due £ 9.582 million of HRA debt is repaid in 13/14.

2. 10 That the risks outlined in section 12 and in Appendix 5 of this report be noted.

3. SUMMARY

3.1 Between June 2004 and 31st March 2011 management of the borough's housing stock was in the hands of H&F Homes Ltd, a fourth round Arms Length Management Organisation (ALMO).

3.2 The creation of the ALMO was a condition for accessing debt funding for the previous government's Decent Homes initiative. The ALMO undertook an ambitious £215 million programme of works under this initiative. This programme was largely funded by an increase in the

HRA debt of £201 million which took total HRA debt to £415 million immediately prior to HRA reform.

3.3 The management of the borough's housing stock returned to the Council from the ALMO on 1st April 2011. On 28th March 2012 HRA reform was implemented. This means that local authorities have become "self financing" and have to manage their housing assets to ensure their HRA stock can be supported and maintained from their HRA income. Under HRA reform the Council received a debt repayment of £197.4m resulting in a reduction in annual interest costs of £10.2m. In exchange, the Council gave up its entitlement to Housing Subsidy from Government. This income stream was worth £10.4m in 2011/12. This left the Council with an on-going interest cost of £12.2m in 2012/13, which needs to be funded from the gross rent roll (which for 2012/13 was £60.8m) before any other costs are funded.

3.4 There are a number of other financial pressures on the HRA. Historically the Council, prior to the establishment of the ALMO and under it under invested in periodic and regular maintenance of the Council's housing stock. The Decent Homes programme brought welcome "catch up" investment in repairs and improvements. However, this only covered certain property elements and significantly did not cover lifts nor public realm and therefore there remains much work to do. Additionally, revenue from rents does not cover the costs of management, repairs and maintenance of the stock. It should be noted that LBHF rents are considerably lower than those of Tri-Borough partners and Wandsworth (2012/13 LBHF average rent is £92.73 per week compared to between £106.42 - £120.27 per week in other central West London boroughs), which has led to a reliance on the disposal of expensive voids to fund current expenditure.

3.5 There are also a number of key financial risks to the HRA. These include:

- the impact of welfare reform, specifically the introduction of size criteria on underoccupancy, benefit caps and direct payments to tenants, on income and bad debts;
- the impact of higher void rates in future years on income, maintenance, and management as a result of fixed term tenancies turning over;
- a general property market risk both in regard to the expensive voids sale programme which currently partially funds capital works and, on the HRA balances where changes in accounting rules for impairment and revaluation losses / gains mean that any adverse movements may result in a charge to the HRA if there are insufficient revaluation reserves held;
- additional Health and Safety requirements;
- loss of income due to high levels of Right To Buys, in the longer term it is possible to adjust costs but there is a short term impact;
- a general market risk on re-procurement and recruitment which is higher in better economic conditions. This includes the risk associated with the current MTFS savings programme.

3.6 These risks have to be viewed in the context of the level of HRA general reserves held. During the period of the ALMO's management, HRA reserves had reduced to £3.1m as at 31st March 2011, having been £6.4m at 31st March 2004[1] prior to peaking at £10m. HRA reserves as at 31st March 2013 are predicted to be £4.2m, equivalent to 5.7% of turnover, compared with the Royal Borough of Kensington & Chelsea (RBKC) at 27.7%, Westminster City Council at 63% and the London Borough of Wandsworth at 82.1%. The 2012/13 HRA financial strategy proposed an increase in the HRA reserves balance to protect against future shocks or unanticipated events to circa £35 million[2] by 2022.

3.7 It is therefore clear that over time revenues need to be increased and the cost base contained to build a more secure financial base, in order to move to a position where repairs and maintenance are wholly funded from rents and service charges without recourse to asset sales and to manage the risk of running an unlawful deficit on HRA reserves. Following on from the investment made in 2012/13 to drive forward an extensive programme of service improvements and savings, the proposed 2013/14 budget starts to address this issue.

3.8 More remains to be done. The HRA MTFS programme is predicting an ongoing revenue saving of £4m per annum by 2014/15, rents will need to continue to increase as a minimum in line with the rent restructuring formula and the use of the assets within the HRA business plan needs to be maximised.

4. STATUTORY CONTEXT

4.1 The HRA was established by statute to ensure that council tax payers can not subsidise council rents and nor can council rents subsidise council tax. Failure to adhere to this statutory guidance can render the council's annual report and accounts subject to challenge and/ or qualification by the District Auditor.

4.2 The HRA ring-fence was introduced in Part IV of the Local Government and Housing Act 1989, and was designed to ensure that rents paid by local authority tenants accurately reflect the cost of associated services. This specified that expenditure and income relating to property listed in section 74 of the Local Government and Housing Act 1989 (that is houses and buildings provided for the provision of accommodation including the land on which they sit, excluding leases taken out for less than 10 years to provide temporary accommodation) must be accounted for in the HRA. Schedule 4 of the Act (as amended by section 127 of the Leasehold Reform, Housing and Urban Development Act 1993) specifies the allowable debits and credits. The Housing (Welfare Services) Order 1994 further specifies more detail on the welfare services which must be accounted for outside the HRA.

[1] At their peak HRA reserves were £10 million during the period of ALMO management. They declined swiftly after this point.

[2] The profile for the initial years is shown in Appendix 2, reserves do not build up evenly, the level at which they build increases over time. £35m would at 2022 predicted prices be equivalent to circa 37% of turnover

4.3 The Local Government and Housing Act 1989 also specified that it is unlawful to approve a budget which will result in a debit position on HRA reserves.

5. ASSET MANAGEMENT

5.1 HRA reform seeks to achieve the management of housing stock being supported by the income produced by that stock rather than annual transfers between central and local government. It therefore has provided the opportunity for the council to adopt a pro-active asset management approach to creating a 30 year investment plan, including allowing for future investment needs, remodelling, rationalising and reinvestment of assets. This is in contrast to previous HRA business plans under Decent Homes that typically considered the programming and sequencing of building component replacement such as kitchens, windows and bathrooms but did not consider the wider opportunity for estate renewal and replacement as part of a strategic approach. A new HRA Asset Management Plan is currently under development; this will be reported to Cabinet in Spring 2013.

5.2 HRA reform also brings with it more local accountability for determining rent levels and the maintenance of stock as councils will no longer be able to refer to funding decisions made by central government in the event of local dissatisfaction with rent levels or the maintenance of stock.

5.3 The inherited legacy of housing management at the London Borough of Hammersmith and Fulham (LBHF) is mixed. The Decent Homes programme has been substantially completed. However in the context of a “business” managing 18,000 properties with an existing use value of circa £1 billion and an unrestricted open market value in excess of £3 billion there is an entirely inadequate level of reserves of £4.2 million (predicted as at 1st April 2013), equivalent to less than 4 weeks rent. This not only provides insufficient cover against unanticipated events as noted in paragraph 2.6 but also encourages short term decision making rather than well planned and pro-active asset management.

5.4 Reserves have increased from the £3m inherited from the ALMO’s management, however a further period of time will be required to rebuild the balances held from the current figure of circa £4.2 million which can then provide a secure basis for sustained and effective planned investment in the stock which should lead to higher levels of customer satisfaction.

5.5 In order to achieve a sustainable HRA ideally the costs of managing and maintaining the housing stock should be funded from rents and service charges, with disposals used to fund strategic initiatives and to reduce debt, thereby reducing the interest burden on the HRA, rather than routine maintenance expenditure. Rents currently charged by LBHF are significantly below rents charged in RBKC, Westminster and Wandsworth, as shown in Appendix 7. Current revenues, including rents, do not adequately cover the costs of management, repairs and maintenance and this has led historically to under investment in the stock, increased borrowing under Decent Homes to fund "catch up" repairs and improvements and a reliance on the disposal of expensive voids to fund current expenditure. It is therefore clear that over time revenues need to be increased and costs contained to build a more secure financial base, in order to move to a position where repairs and maintenance are wholly funded from rents and service charges without recourse to asset sales.

6. BUDGET SETTING CONTEXT

6.1 A detailed analysis and review of the budgets has again been conducted and a zero-based approach taken to setting all budgets for 2013/14.

7. FINANCIAL STRATEGY

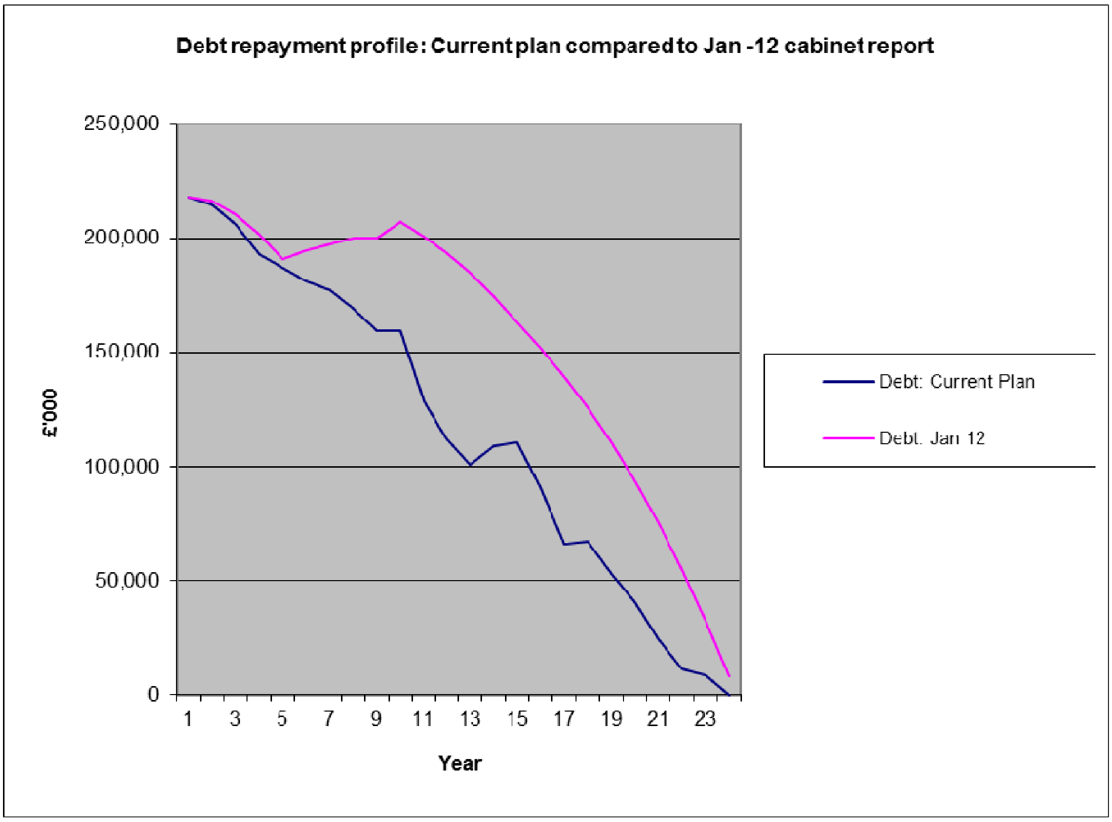
7.1 The overall strategic financial objectives for the HRA are to:

- finance both the annual interest and repayments of the principal debt (£217.4m after HRA reform) as it becomes due[3];
- achieve a viable ongoing maintenance programme that maintains the stock in good repair;
- increase the HRA reserves balance to protect against future shocks or unanticipated events to circa £35 million[4] by 2022;
- free resources for investment in new initiatives including new housing supply;
- to repay debt as it becomes due.

7.2 An initial indicative 30 year business plan has been produced based on existing data, this currently predicts that the debt remaining with the Council following HRA reform will be repaid as shown in the graph below. The predicted year of repayment is 2034/35 (year 23 of the business plan)

[3] All loans are from the Public Works Loan Board. It should be noted that early repayment of debt results in a substantial penalty charge at a punitive rate. Unless the debt is repaid as part of a debt restructuring exercise where it would generally be replaced by other loans this results in a substantial charge to revenue which the HRA cannot support. For example the penalty charge for repaying all the current debt would be over £70million, equivalent to 32% of the debt repaid.

[4] The profile for the initial years is shown in Appendix 2, reserves do not build up evenly, the level at which they build increases over time.



7.3 The key assumptions made are:

- no new development is included in the current 30 year business plan. New development is currently assumed to occur via the Local Housing Company;
- the income from and costs associated with the Conditional Land Sale Agreement for Gibbs Green and West Kensington Estates has been allowed for;
- existing properties are maintained to the minimum level required for letting as based on the current Housing Capital Programme and stock condition survey;
- save for void sales required to cash flow the maintenance of the existing stock and to ensure the repayment of debt as it becomes due, no other asset rationalisation has been assumed. The scope for further asset management strategies is currently being explored by the Housing and Regeneration Department and a report will be bought to Cabinet in Spring 2013;
- a prudent approach has been taken to rents which are increased based on the basic rent restructuring formulae;
- HRA MTFS savings revenue savings are achieved of £2.7 million in 2013/14 and an ongoing annual revenue saving of £4 million per annum from 2014/15 onwards is generated by the HRA MTFS Transformation Programme;
- the stock condition survey used in the current business plan was produced in 2009; a new stock condition survey is in progress. The output of this will be available in Spring 2013 and will be used to inform our ongoing asset management strategy;
- expensive void sales required to cash flow the maintenance of the existing stock and repay debt as it falls due are included as follows:

Year	Number of Expensive Void sales assumed
2013/14	65
2014/15	55
2015/16	50
2016/17	50
2017/18	50
2018/19	50
2019/20	50

7.4 As noted above, the business plan does not currently include any new development save for the conditional land sale agreement on the West Kensington and Gibbs Green Estates and it is anticipated there will be additional expensive void sales over and above the numbers assumed to fund this.

Debt repayment and funding

7.5 Debt repays slowly in the initial years despite contributions from Expensive Void sales due to:

- the Housing Capital Maintenance Programme requiring an investment of circa £9 million per annum in addition to major repair allowances (funded by revenue via depreciation) and leaseholder contributions;

- the low rent levels charged to Council tenants compared to other West London boroughs (see Appendix 7 which demonstrates that the Council's rents at 2012/13 levels average £92.73 per week, compared to an average between £106.42 and £120.27 per week in other central West London boroughs).

7.6 Debt continues to repay quickly after the cessation of the void sales programme. This is primarily because over time inflation erodes the value of the debt and enables rent to fully fund the maintenance programme.

Income and Expenditure Account and Reserves

7.7 The 5 year Income and Expenditure account presented in Appendix 2 currently assumes that capital receipts are used to partially fund the Housing Capital Programme. The level of reserves held could theoretically be reduced by increasing the charge made to the income and expenditure account for capital repairs however in practice the additional cash generated by the expensive void sales would still be required to prevent additional borrowing. The approach used in Appendix 2 is recommended as general HRA reserves can be used for any HRA purpose. As noted previously, it is important to build the level of general reserves held by the HRA to enable a sufficient cushion to be held against emerging risks especially those associated with Health and Safety regulation, with direct payment of housing benefit and with other welfare reform.

The HRA MTFS savings programme

7.8 Following £6 million of savings in management costs within the HRA achieved between 2008 and 2010, the business plan includes an invest to save proposal which produces HRA MTFS net revenue savings of £2.7 million in 2013/14 and an ongoing annual revenue saving of £4 million per annum from 2014/15 onwards. To achieve these savings a new approach is needed to the way in which services are delivered and current contracts are procured. This should bring about a sustainable improvement in service, while at the same time reducing costs following the return of the management of Council Housing to the Council from H&F Homes Ltd on 1st April 2011.

7.9 There are three areas of service within the Housing and Regeneration department that are being reviewed as part of this particular programme. They are:

- Repairs & Maintenance (including all related contracts)
- Estate Services (including cleaning and caretaking)
- Housing Management (including rent accounting)

7.10 The department commissioned a high level review of these areas which has revealed that there is potential to maintain and/or increase the level of service to residents whilst at the same time realising net revenue savings noted above.

7.11 These savings are to be achieved through a combination of re-procurement, market testing and transforming the way teams and services are delivered.

8. RENT RESTRUCTURING

8.1 The Government's rent restructuring regime was designed to achieve a coherent structure nationally for social rents and was adopted by local government in 2001. Accordingly, LBHF HRA dwelling rent increases have generally been calculated in line with rent restructuring[5] since this date. However, there is no statutory requirement to adhere to rent restructuring and a number of councils operate a different approach to setting rents. The Council's ability to increase rents over and above the rent restructuring formulae needs to be viewed in the context of the pressures on the HRA. The rationale for reviewing the Council's current rent policy is set out in the following paragraphs.

8.2 In arriving at the debt settlement figure under HRA reform, Government made a number of assumptions, one of the most significant of which is the level of investment required to maintain HRA properties. Although

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[5] The rent restructuring formula increases the rent by the lower of RPI + ½% + £2 (known as the "upper limit"), the rent cap, and the difference between the (formulae rent and current rent) / number of years to 2016. The formula rent for a property is calculated based on a number of variables including the 1999 property valuation.

major repairs allowances have been uplifted when calculating the settlement, the uplift[6] is insufficient to fund the ongoing housing capital programme required to adequately maintain the Council's HRA housing stock to the level required to ensure the Council can both fulfil its obligations as a Local Housing Authority and to ensure the stock continues to generate an income stream to fund the debt as part of maintaining a viable HRA.

8.3 The Housing Capital Programme looks to build on the achievements of the Decent Homes programme, maintaining the standard whilst addressing the residual backlog of works that were not covered by that programme. The projects and works proposed in this programme have been the subject of a rigorous prioritisation exercise and represent broadly the minimum level of investment required to fulfil statutory obligations, to protect the health, safety and wellbeing of residents and to preserve the integrity of the housing stock. This programme identified an investment requirement for the stock of £37m for 2013/14 with an on-going annual investment requirement of circa £31m over the following 5 years. Therefore the Housing Capital Programme requires an investment of circa £9 million per annum in addition to major repair allowances (funded by revenue via depreciation) and leaseholder contributions. This can only be funded by further reducing expenditure either on maintenance or other services or by increasing income.

8.4 The current business plan requires expensive void sales of 65 units in the first year and 50-55 units per year for the following six years of the plan in order to fund maintenance investment required within the existing stock without additional borrowing and to repay debt as it becomes due.

8.5 Therefore, from a cash flow perspective it will be necessary in the first seven years of the plan to continue to partially fund routine maintenance investment required in the stock using sales under the expensive void sales programme. At the same time income must be maximised to ensure that the HRA ultimately moves to a position in 8 years time where the maintenance programme is fully funded by rental income as well as ensuring that the number of sales required to fund maintenance in the intervening years is minimised.

8.6 The results of benchmarking Council rents against those charged in other neighbouring boroughs demonstrates that Council rents are considerably lower:

- the average 2012/13 weekly rent for other central West London boroughs is between £106.42 and £120.27 per week (see Appendix 7); significantly higher than the average for the Council of £92.73,
- the lowest average rent among the other central West London boroughs in 2012/13 is Kensington and Chelsea's which is £106.42 per week,
- Kensington and Chelsea have indicated that they are expecting to raise rents for 2013/14 by 4.5%, therefore LBHF's proposed

[6] LBHF's major repairs allowance has been increased from £15.2 million to £15.7 million an uplift of £2.5m

5.42% increase would still result in rents considerably below all the other central West London boroughs.

8.7 Further benchmarking against market rates reveals that current Council rents are approximately on average one fifth of the prevailing market rents in the borough. In particular, the benchmarking has identified that current rent levels disadvantage tenants who live in smaller properties. Appendix 8 illustrates the degree of disadvantage by demonstrating that there is a positive correlation between the size of the disparity between Council and market rents, and the number of bedrooms a tenancy occupies. For example, the average rent for a one bedroom private rented sector flat in the borough is £335.31 per week, yet an average one bedroom council flat is currently let at £82.77 per week, which is equivalent to 25% of the prevailing market rate, representing a subsidy of 75%, whilst an average four bedroom council house is currently let at £131.78 per week which is equivalent to only 14% of the prevailing market rate, which represents a subsidy of 86%.

8.8 Therefore, given the historic low rent level charged in Hammersmith & Fulham, the need to build revenues to achieve a sustainable HRA, and the fact that current rent levels disadvantage tenants who live in smaller properties; it is proposed to raise rents for properties with 4 or more bedrooms[7] by marginally more than the rent restructuring formulae under a revised rents policy. This will have the effect over a number of years (the new formula currently assumes a 5 year convergence period) of addressing the inequality that currently exists between tenants of dwellings with different numbers of bedrooms. It will also generate the additional revenue required to address the routine repairs back log and to ensure our rents are more comparable with those charged by other central West London boroughs. Further, it is expected that an additional advantage will be that it incentivises a reduction in levels of under-occupation.

8.9 The proposed rent policy focuses on increasing rents for properties of 4 bedrooms and more above the level that is produced by the rent restructuring formulae by bringing the ratio of rental values between dwellings of different bedroom size towards those in existence in the general rented market.

8.10 For example in the North of the borough, the rent charged for a 4 bedroom privately let ex-Council property is 1.94 times the rent charged for a one bedroom privately let ex-Council property; for Council properties a 4 bedroom property is only 1.15 times more expensive than a one bedroom property. The new rent formula multiplies the private rent ratio for properties by bedroom size for 4 bed and large properties by the formula rent (target rent) for a one bed property. The difference between this and the current rent is then taken and assuming a 5 year convergence period is divided by 5. Adding this to the current rent gives the new rent. If the resultant increase is over 7.5% the increase is capped at this rate. For example:

[7] LBHF currently has 889 properties with 4 or more bedrooms, this represents 7% of the stock.

Example of New Rent Policy 2013/14 calculation of weekly rent using anonymised 4 bedroom Council dwelling	
	£
Formula (target) weekly rent for 1 bed Council dwelling 2013/14	95.65
multiplied by private rent ratio (4 bed : 1 bed) of 1.77	
Equals	169.30
Less: current 2012/13 weekly rent	120.89
	48.41
Divided by years to convergence	5
	9.68
Add: current 2012/13 weekly rent	120.89
New rent policy 2013/14 weekly rent before cap applied	**130.57**
Current 2012/13 weekly rent	120.89
Add: cap limiting increase to 7.5% of current year rent	9.07
Cap	**129.95**
2013/14 weekly rent (lower of new rent policy calculation before cap and 7.5% cap)	**129.95**
Increase above 12/13 rent (£)	9.07
Increase above 12/13 rent (%)	7.5%
Increase above rent produced using rent restructuring for 2013/14 (£)	3.32

8.11 The 5 year convergence period and a rent cap prevent large increases.

8.12 For all properties containing up to and including 3 bedrooms, the standard rent restructuring policy will continue to apply unchanged, so tenants in these properties will see an increase in rents no different from what would apply if the policy had not changed.

8.13 The implementation of the additional rent increase over and above the rent restructuring formulae considers the Housing Benefit limit rent, and is intended to be balanced with affordability for tenants who are not on full housing benefit, ensuring there are sufficient incentives for tenants to work and improvements to the service that tenants receive.

8.14 Implementation of the new rent policy will result in an average increase for all dwellings of 5.42%, which means an average increase of £5.03 to £97.76 per week. The table below shows how this increase is applied between properties of three bedrooms or less, which are subject to rent restructuring alone; and those properties of four bedrooms or more, which are subject to an increase above the increase that would have applied under rent restructuring.

Property Size	Average Weekly Rent 2012-13	Average of Weekly Rent Increase	Average of Weekly Rent Increase	Average Weekly Rent 2013/14
	£	£	%	£
Dwellings of 3 bedrooms or less	90.23	4.76	5.34%	94.99
Dwellings of 4 bedrooms or more	125.68	8.55	6.86%	134.23
All Dwellings	**92.73**	**5.03**	**5.42%**	**97.76**

8.15 For 2013/14 the Housing Benefit Limit Rent for the Council is £109.91 [8]per week, therefore the proposed rent increase will not breach the benefit cap. Rents are in fact constrained by a limit (the limit rent) placed on councils by Housing Benefit. This limit is lower than that used for Housing Benefit payments for the private sector. If that level is breached the Council would have to fund the difference between this limit and our actual rents for tenants on housing benefit. This would be likely to result in a net loss to the HRA based on our current level of housing benefit claimants.

8.16 For example based on an assumption that 60%[9] of the Council's tenants are claiming Housing Benefit, a £1 increase in average actual rents above the Housing Benefit limit rent is likely to result in a requirement to reimburse Central Government c£366k per annum. This would be offset by additional income of c.£185k derived from those tenants not claiming Housing Benefit leading to a net annual loss of c.£181k. The impact on the HRA would depend on the percentage of tenants claiming Housing Benefit with a net benefit likely to arise if around 45% of tenants were on Housing Benefit. Currently 40% of our tenants receive full Housing Benefit and 20% are on partial Housing Benefit.

9. RENTAL INCOME

Rents

9.1 The draft HRA budget for 2013/14 shown in Appendix 1 assumes tenant rents increase in line with the new rents policy. This incorporates the Government's rent restructuring system for all dwellings of 3 bedrooms or less, and applies a higher rate of increase for all dwellings of 4 bedrooms or more. The application of the Council's revised rent policy in Hammersmith and Fulham for 2013/14 leads to an average rental increase of 5.42%. This will be reflected in the actual rents charged to tenants.

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[8] Currently estimated on the basis used from previous increases, awaiting confirmation from CLG

[9] Assumes all tenants who receive Housing Benefit are impacted, currently circa 40% of HRA tenants are on full Housing Benefit and 20% on partial Housing Benefit

9.2 The recommended rental increase of 5.42%, in line with the Council's revised rent policy, will increase rental income in the HRA by £2.637m in 2013/14. The changes are shown in the following table:

Table 3: Summary of Rent Budget Movements

Description	**With a 5.42% increase £000**
Original net Rent Budget 2012/13	(59,549)
Rent Increase	(4,772)
Adjustment for disposals	870
Adjustment for voids	1,265
Net Rent Budget 2013/14	**(62,186)**

9.3 Negative adjustments to the net rental budget are made for an assumed loss of rent on properties disposed of, and rent irrecoverable during the year.

9.4 A 5.42% increase in rents equates to an average weekly rental increase for tenants of £5.03. An analysis of the weekly increase across all tenants is shown in the following table:

Rent increase per week	**Number**
Less than £3.00	2
£3.00 to £5.00	8,456
£5.01 to £7.00	3,389
£7.01 to £9	423
£9.01 to £11	339
£11.01 to £13	10
Total	**12,619**

9.5 Under the new rents policy 94% of tenants will see an increase of less than £7.01, and no tenant will see an increase greater than £13.00 per week.

9.6 The rent and service charges for properties under licence and hostels are also subject to rent restructuring, the net average increase in these charges is 3.73%. This is marginally lower than the average for tenants as the rent level for some of these properties previously exceeded the level applicable under the rent restructuring system.

9.7 Additionally this year we will simplify the way we express Sheltered Housing rents. Sheltered Housing tenants currently receive a Sheltered Accommodation charge in addition to their rent and service charges. This is effectively part of the basic rent but causes confusion; we will therefore simplify this by merging the Sheltered Accommodation Charge into basic rent enabling tenants to understand what they are paying for from each element of their rent.

Bad Debts, Voids and Welfare Reform

9.8 In line with 2012/13, voids have been budgeted for at 2% of the gross rent roll (£1.265m).

9.9 The Governments Welfare Reform policy impacts on the Council's ability to collect rental income and will therefore result in increased bad debts charges in the HRA. The three strands which will ultimately affect the HRA are:

- the introduction of size criteria - reductions in housing benefit for under-occupying Council tenants from April 2013;
- the household benefit cap - restricts the total value of packages of benefits to tenants and which may affect their ability to pay rents;
- direct payments of benefits to social housing tenants which may result in an increase in rent arrears.

The Introduction of Size Criteria – Reduction in Housing Benefit in the event of Under Occupation

9.10 As a result of welfare reform tenants of properties which are under occupied by one bedroom will receive a 14% reduction in Housing Benefit and properties which are under occupied by 2 or more bedrooms will receive a 25% reduction in housing benefit from April 2013. The reductions impact on tenants who are on partial as well as those on full housing benefit. Tenants who are over 60 are exempted from these reductions.

9.11 The Councils records currently show the size criteria will impact on approximately 834 HRA properties. These properties have an annual rent roll of £4.7m, approximately £815k per annum of which is at risk. A provision of 50% of the income at risk (£407k) has been included within the 13/14 budget as it is proposed to recruit 2 additional officers[10] to deal specifically with under-occupation. This is expected to result in some tenants choosing to downsize and in some tenants making up the difference from other income. This level of provision has been made in line with and following consultation with tri-borough officers. The remaining 50% of the rent at risk is included as a risk in section 11 below

The Household Benefit Cap

9.12 The household benefit cap places a limit on the total benefits any one working-age household can receive. The limits are currently £500 per week for couples and lone parents and of £350 per week for single people without children. Until Universal Credit is rolled out, the deductions to the level of the cap will be taken from Housing Benefit directly. Therefore in cases where the current benefits package exceeds the new cap there is a significant risk that part of the rent will not be paid.

[10] See Income Summary in Appendix 3

9.13 The Department of Work and Pensions (DWP) have recently announced that the cap will be phased in from April 2013, starting with Bromley, Croydon, Enfield and Haringey. There will then be a national rollout over the summer and as such all households identified as being appropriate to be capped will, in line with DWP's existing plans, have been capped by the end of September 2013. DWP have said that a decision on the precise date at which national rollout will commence will be made in the New Year. As the date of implementation is currently uncertain a prudent approach has been taken and the budget assumes that the benefit cap is implemented in LBHF in May 2013. Current data indicates that 67 households are at risk of not being able to pay some or all of their rent from the implementation of the benefit cap. The total annual rent due from these 67 is £396k per annum, of which £186k is expected to be deducted from housing benefit assuming the benefit cap is implemented in May 2013. It is proposed that a bad debt provision equal to 100% of the income at risk is budgeted for.

Direct Payments

9.14 The results of the Welfare Reform pilots have not at the time of writing been published nor currently has Central Government published a date for the role out of this policy. Based on the assumption that implementation is at the earliest likely to be towards the end of 2013/14, and that direct payments will be implemented when tenants move on to Universal Credit, the main concern surrounding the impact of this element of Welfare Reform relates to the financial years from 14/15 onwards. Allowance has been made for this in the business plan and this is included on the risk register.

10. SERVICE CHARGES

10.1 Fixed service charges were implemented and de-pooled from rents in April 2012. This approach has the advantage of giving tenants a high level of transparency regarding the service they can expect whilst minimising the administrative burden and resultant costs that would be generated by moving directly to a variable service charge. The adoption of fixed service charges rather than variable also ensures that tenants do not receive any unexpected bills making it easier for them to budget. This charge is then inflated as part of the annual rent setting process.

10.2 The draft HRA budget for 2013/14 shown in Appendix 1 currently assumes tenant service charges will be increased to allow for predicted inflation at 3.1%. This increase is in accordance with the Cabinet report introducing de-pooling of service charges and previously approved on 5th September 2011. It should be noted that the savings delivered by the current MTFS programme were allowed for when calculating the service charge de-pooling in April 2012.

10.3 Only those services which Housing Benefit will contribute to in addition to rent are levied. Tenants will receive notification of their service charges as part of their rent increase letter in February 2013.

11. EFFICIENCIES AND GROWTH

11.1 Between 2008 and 2010 the ALMO delivered £6 million of efficiencies. The HRD Business Plan addresses the financial strategy for the HRA and assumes the delivery of further significant annual efficiencies from 2013/14 onwards of £2.7 million rising to £4 million by 2014/15. These savings will be delivered through the development of alternative service delivery models with a focus on improving the quality of services to council residents as well as more efficient procurement and contract management arrangements. Total efficiencies in 2013/14 therefore equate to a 5.6% saving on controllable budgets including corporate recharges.

11.2 These are offset by £2.2m of growth, primarily due to increases in corporate recharges, changes in accounting rules regarding the treatment of non-dwellings depreciation, a reduction in income due to Right to Buys and an additional budget for fixed wiring electrical testing, which is a Health and Safety requirement.

11.3 These items are itemised in full in Appendices 3 and 4, Appendix 3 also summarises the main movements in income including those on the bad debt charge.

12 RISKS

12.1 Appendix 5 summarises the risk to the HRA, the key risks are discussed below. All significant risks are included on the risk register. The following risks can be specifically quantified and a judgement has been made when determining the numbers used in the HRA budget.

Right To Buys

12.2 The impact of the increased level of discount on RTB disposal levels is not yet clear, there is a risk that the number of RTB disposals assumed in the budget is too low which would reduce net income. In the longer term, if there are significant numbers the cost base can be adjusted but there would be a short term impact especially in 2012/13 as the new "normal" rate of RTB sales becomes clear.

Welfare Reform

12.3 As explained in section 8, an increase has been made in the bad debt provision to provide for the impact on rent collection rates as a result of the various strands of the Government's Welfare Reform programme. However, there remains some risk because:

- 50% of rents not paid by Housing Benefit as a result of the introduction of size criteria have not been provided for on the basis that management action will mitigate the remaining potential loss of income;
- the impact of the household benefit cap has been budgeted for, however the cap levels are only provisional and it is likely that in

future years benefits will rise by less than rents which will result in more people being impacted by the cap;

- it is very difficult to quantify the level of risk for direct payments but it appears inevitable arrears will increase as a result. Given that the households involved are on very low income levels it is unlikely that the majority of this increase in arrears would be uncollectable and the annual exposure is estimated in the region of between £400k and £2m per annum, assuming mitigating actions are in place. The maximum level of exposure is far higher; the total annual rent paid directly to the Council for HRA properties by Housing Benefit is approximately £36.5m. In terms of mitigation the Council is actively promoting payment by direct debit/ standing order to tenants;
- CLG and DWP have indicated that the limit rent will in some form remain but no clarity has been issued yet in respect of this. Should this result in a recalculation of the limit rent this might reduce the headroom the Council has available for rent increases.

HRA MTFS Transformation Programme

12.4 Budgetary provision has been made for redundancy costs arising from the MTFS Transformation programme, and management will proactively endeavour to minimise redundancies and to engineer mutually agreeable outcomes for both the Council and staff where possible. There is potential for the redundancy costs to exceed budget.

12.5 The scale and scope of the MTFS Transformation Programme also carries with it risks associated with, but not limited to the market's ability to deliver the contract at budgeted cost, possible slippage due to unforeseen complexities, costs of winding up the old housing repairs contract and mobilisation costs.

Other risks

12.6 There are also a number of risks that it has not been possible to specifically quantify, some of which apply more to future years. Again, these are detailed in Appendix 5, with a brief summary below:

- the impact of higher void rates in future years on income, maintenance, and management as a result of fixed term tenancies turning over;
- a general property market risk both in regard to the expensive voids sale programme which currently partially funds capital works and, on the HRA balances where changes in accounting rules for impairment and revaluation losses / gains mean that any adverse movements may result in a charge to the HRA if there are insufficient revaluation reserves held;
- additional Health and Safety requirements and the impact of failing to comply on insurance cover;
- other maintenance risks including the risk of a large uninsured incident;
- a general market risk on re-procurement and recruitment which is higher in better economic conditions, including on corporate

- contracts which are recharged to the HRA via service level agreements;
- reopening the HRA reform settlement, the legislation allows this to be done.

13 CAPITAL CHARGES

13.1 The two main components of capital charges are the cost to the HRA of borrowing that has taken place to fund the capital programme, including the Decent Homes Programme, and the cost to the HRA of depreciation charges.

13.2 As referred to in paragraph 2.3, HRA debt was reduced by £197.4 million on 28th March 2012 following a payment from Government under HRA reform. In line with the Council's policy to repay housing debt as it matures, the level of debt on which interest was payable following the settlement will reduce from £217.4m to £207.7m by 31st March 2014, following the anticipated repayment of £9.582m of debt during the year. As a result, debt servicing payments are expected to reduce from £12.2m in 2012/13 to £11.9m in 2013/14.

13.3 The Council's policy has been to use the Major Repairs Allowance as a proxy for depreciation in the HRA for housing properties and this practice will not change for 2013/14. CLG's Settlement Payments Determination includes a five-year transitional period during which time Councils may use the uplifted MRA. The Council has subscribed to the transitional period and 2013/14 will be the second year of operation. The increase in the depreciation charge for housing properties for 2013/14 is £0.5million taking the budget required to £15.7 million.

13.4 The transitional arrangements exclude non-dwellings depreciation which under previous accounting rules had no net effect on the HRA bottom line. However, this now needs to be accounted for as a real charge of £385k and is listed as a growth item in Appendix 4.

13.5 The transitional arrangements also exclude protection from a change in accounting regulations which means that impairment and revaluation losses on non-dwellings should hit the bottom line from 1 April 2012 if not contained within the revaluation reserve. This has been included in the risks schedule and is further elaborated on in section 11 above and Appendix 5.

14 INFLATION

14.1 Inflation of £418k[11] has been applied to utilities and other contracts where unavoidable. All other inflationary pressures have been accommodated within the existing envelope of resources.

[11] This is lower than previous years as only 6 months of repairs inflation has been allowed for on the basis that the new contract will commence in October 2013

15. FEES, CHARGES, AND OTHER INCOME

Heating Charges

15.1 Tenants and leaseholders who receive communal heating (around 1,950 properties in total) 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.

15.2 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.

15.3 As the new energy contract rates are not expected to be received until January 2013, an estimate has been prepared in consultation with the Council's facilities management function. This is based on the need to balance the heating account, whilst taking account of estimated new energy contract rates applicable next year. It is proposed to reduce the heating charge for 2013/14 by 5%.

Garage and Parking Space Rents

15.4 The rate charged varies depending on whether the garage or parking space is located in a high or low demand area and on whether the licensee / tenant is a Council tenant, a Right to Buy leaseholder or a non-Right to Buy leaseholder. The current average weekly rent for a parking space let to a Council resident is £2.64 and for a garage let to a Council resident is £13.28. Current council rents for garages and parking spaces are lower than comparable private sector garages and spaces. It should be noted that prices for garages rented privately in the area vary from £1,800 to £2,500 per annum, per space, and are substantially in excess of our current charges.

15.5 A review of garage and parking operations and charges is currently being conducted by officers in consultation with residents. Pending the outcome of this review an increase of 3.1% to cover inflation is being recommended as part of this report. Following on from the consultation, the findings and recommendations of the review will be presented to Cabinet in April 2013 and any changes to charges will be agreed as part of that report.

Water Charges

15.6 The Council collects income from and pays charges on behalf of tenants and leaseholders. They are charged according to the rateable value of their dwelling, so in most cases the Council will recover the full cost. Currently we under-recover on water charges, in 2012/13 this is currently forecast to cost the HRA up to £0.561m. In addition Thames Water has indicated they are likely to be increasing water rates by 5.73% in 2013/14.

15.7 Therefore in order to ensure that the Council fulfils its legal obligation to recover the water charges in full, it is recommended that water charges are increased by 9.0% to move towards full cost recovery. This equates to an average increase in the water charge for each tenant and leaseholder of 58 pence per week. 6,223 tenants will be fully impacted by this with increases varying between £0.25 and £1.67 per week. 6,456 tenants are affected by both heating and water charges, the net impact on this group will be an increase of 7.22% or 55 pence per week.

Advertising Income

15.8 The Council currently generates income from advertising hoardings located on HRA land, and an additional potential income stream of £150k has been identified for 2013/14. Legal and accounting advice has confirmed that the income and expenditure associated with advertising hoardings on HRA land should be accounted for within the HRA. This is also in line with the treatment applied to this type of income by the Council's Tri-borough partners.

Rents on Shops

15.9 The budget for commercial property rents has been increased by £0.2m to £1.5m for 2013/14 in accordance with the terms of the associated leases and informed assumptions from Valuation & Property Services regarding the likely level of lettings achievable in the current climate. The budget set for HRA commercial property incorporates a forecast void rate of 9.08%, based on the valuers views, to allow for economic conditions. Additionally, the budgeted bad debt provision has been increased by £50k to £0.25m for 2013/14 again in order to prudently allow for economic conditions.

16. CONSULTATION

16.1 This report is being presented to the Housing, Health and Adult Social Care Select Committee on 22nd January 2013 in order that the committee can comment on the budget proposals in advance of any formal decision being taken by Cabinet.

17. RISK MANAGEMENT

16.1 The principal risks are detailed in section 12 of this report, these are included in the departmental risk register

18. EQUALITY IMPLICATIONS

18.1 The Equalities Impact Assessment (EIA) shows that rent increase and other increases in charges may impact disproportionately on groups who have a lower income level especially those who may be disproportionately represented in council stock. However, these do not unlawfully discriminate and the council considers the reduction of debt and the need to increase its reserves to be a legitimate aim. As part of reaching this aim, the council considers that increasing the rent for larger properties, which are proportionately far less expensive than smaller properties, is a legitimate way of helping to reaching this aim.

87.2 It is not possible for the Council to mitigate the effects by subsidising the extra amount payable where there is a disproportionate impact as the council needs to reduce its debt and build its reserves (as at set out in the report). However, the Council will have two dedicated housing officers on hand to help tenants and their households.

19. FINANCE AND RESOURCES IMPLICATIONS

19.1. Comments are contained within the body of the report.

20. LEGAL IMPLICATIONS

20.1 The principal statutory provision governing the fixing of rent for Council property is contained in Section 24 of the Housing Act 1985. Sub-section (1) provides that authorities may "…make such reasonable charges…. as they may determine". However, this section has to be considered in the light of Section 76 of the Local Government and Housing Act 1989 which imposed a duty on local housing authorities to prevent a debit balance arising in their Housing Revenue Account ("HRA") and which also imposes "ring-fencing" arrangements in respect of such account. It is not possible for a local housing authority to subsidise rents from its General Fund.

20.2 As set out in section 7.1 of the report, there is no statutory requirement for the Council to set rents in line with the rent restructuring regime. The Government's rental policy statements have the status of non-statutory guidance and the Council has the flexibility to set rents at another level, or using another basis, if that appears more appropriate to local circumstances.

20.3 There is no legal barrier to there being differentials in the rent increase between different types of property. In setting rents, Members should consider all relevant matters including:

-the cost to the Council of providing accommodation and the cost of its management;-the effect of inflation; and

-the extent and numbers of tenants qualifying for Housing Benefit.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	HRD business plan	Kathleen Corbett	HRD
CONTACT OFFICER:		**NAME: Kathleen Corbett EXT. 3031**	

Appendix 1: 2013/14 Draft Housing Revenue Account Budget

Division	2012/13 Budget	2012/13 Forecast Outturn	2013/14 Proposed Budget
	£000s	**£000s**	**£000s**
Housing Income	(71,138)	(71,181)	(73,603)
Housing Services	12,719	12,650	11,778
Commissioning & Quality Assurance	1,380	1,378	1,319
Safer Neighbourhoods	725	725	565
Adult Social Care	48	48	48
Housing Repairs	13,172	13,172	14,006
Property Services	2,740	2,803	2,544
Regeneration	751	681	260
Housing Options	714	680	622
Finance & Resources	5,829	5,690	5,771
Corporate Service Level Agreement Charges	6,655	6,655	6,916
Capital Charges	27,309	27,535	28,028
Invest to save withdrawal from HRA General Reserve	(1,128)	(1,128)	(1,498)
(Contribution to)/ Appropriation from HRA General Reserve	**(224)**	**(292)**	**(3,244)**
Opening Balance on HRA General Reserve	**(5,029)**	**(5,029)**	**(4,193)**
Less: Invest to save withdrawal from HRA General Reserve	1,128	1,128	1,498
Closing Balance on HRA General Reserve	**(4,125)**	**(4,193)**	**(5,939)**

Appendix 2: 5 Year Business Plan for Housing Revenue Account 2013/14 - 2017/18

	2013/14 Proposed Budget £'000	2014/15 Projection £'000	2015/16 Projection £'000	2016/17 Projection £'000	2017/18 Projection £'000
Income	73,603	75,956	78,375	80,760	83,005
Expenditure before savings plans	(73,099)	(75,936)	(78,009)	(79,007)	(80,965)
Base HRA surplus for the year	504	20	366	1,753	2,040
Target savings from market testing / efficiencies	2,740	4,000	4,560	5,160	5,760
Invest to save	(1,498)	(51)			
Surplus before additional capital programme contribution	**1,746**	**3,969**	**4,926**	**6,913**	**7,800**
HRA balance	**5,939**	**9,908**	**14,834**	**21,747**	**29,547**
FTEs as at 1st April	**375**	**210**	**210**	**210**	**210**

Appendix 3: Efficiencies

Efficiencies

Division	Description	Amount £000s
Housing Services	Caretaking Market Testing - MTFS	263
Housing Services	Concierge - MTFS	81
Housing Services	Estate Services Client Team restructure	-23
Housing Services	Income Team	275
Housing Services	Reception	172
Housing Services	Sheltered Reorganisation	138
Housing Services	Neighbourhood Services South - MTFS	113
Housing Services	Housing Management - MTFS	25
		1,044
Finance & Resources	Reorganisation of Rents Income team	127
Finance & Resources: Capital Charges	Reduced interest payable following debt reduction	310
Finance & Resources	Restructure of Finance Team	195
		632
Housing Services	Reversal of 12/13 MTFS Growth for Transformational Support - Estate Services	50
Property Services	Reversal of 12/13 MTFS Growth for Transformational Support - Stock Condition Survey & Asset Management	200
Property Services	Reversal of 12/13 MTFS Growth for Transformational Support - Property Services Staff Cover	148
		398
Safer Neighbourhoods	Staffing restructure	**160**
Property Services	Repairs contract - MTFS	**506**
Total		**2,740**

Income movements

Division	Description	Amount £000s
Income	Additional Advertising Hoarding Income	150
Income	Parking Income	50
Income	Increase in bad debt provision due to Welfare Reform (equivalent to 1.1% of gross rent roll)	(593)
Income	Additional bad debt provision for service charges	(125)
Income	Reduction in rental income due to Right to Buy sales (equivalent to 0.3% of gross rent roll)	(200)
Income	Rent increase	2,837
Income	Commercial Rents	158
Income	Service Charges	317
Income	Other	(129)
		2,465

Appendix 4: Growth

Division	Description	Amount £000s
Housing Repairs	Fixed Wiring Electrical Testing	800
Housing Repairs	Health & Safety works	50
Housing Repairs	Mobilisation of new Housing Repairs contract - temporary single year growth	300
		1,150
Housing Services	Under-occupation / Welfare reform Officers and Tenancy Fraud post - temporary 2 years growth	125
Housing Services	Client team	111
		236
Finance & Resources	Support for MTFS Transformation Programme, temporary 1 year growth	97
Finance & Resources	Removal of exemptions on void property Council Tax charges[1]	55
Finance & Resources	Changes in accounting rules on non-dwellings depreciation	385
Finance & Resources	Additional legal charges for Leasehold Services income recovery - temporary single year growth	20
		557
Corporate Recharges	ELRS	32
Corporate Recharges	TTS (the additional income to TTS is conditional upon TTS achieving the additional advertising income for the HRA of £150k (see Efficiency & Additional Income table above))	170
Corporate Recharges	FCS	55
Corporate Recharges	HFBP	22
		279
Total		**2,222**

[1]assumes as per advice from FCS Revenues & Benefits, that Watermeadow Court and Edith Summerskill House are designated as exempt from the charge due to their status as vacant for regeneration purposes.

Appendix 5: Key Risks 2013/14	Lower Limit £000s	Upper Limit £000s	Worst Case £000s	Future Risk £000s
Quantifiable Risks				
Welfare Reform - an increase has been made in the bad debt provision to provide some protection against the impact on rent collection rates as a result of the various strands of the Government's Welfare Reform programme. However, there remains some risk as follows:				
- the impact of the introduction of size criteria has been budgeted for at the rate of 50% of the total rent at risk, on the assumption that management action will be sufficient to mitigate the remaining potential loss of income. The risks relating to the resolution of under-occupation are primarily in 13/14 & 14/15;	0	407	407	407
- the impact of the household benefit cap has also been budgeted for, though an indicative level by which benefit packages might further exceed rents has been included as a risk;	0	177	177 36,500	193+ 2,000
- it is not possible at this stage to quantify the exact level of risk for direct payments as this depends on the rate of migration to the new system.	unlikely to impact on 13/14	unlikely to impact on 13/14		
Welfare Reform & CPI - in future under universal credit, benefits will be inflated by CPI which doesn't include housing costs therefore rents will get increasingly out of sync with the benefit cap. Especially given rent restructuring this means that even more people will get caught by the cap each year and will increase our risk as the years go by.	0	195	390	410+
Redundancy - a provision has been made for redundancy costs arising from the MTFS Transformation programme. This currently provides for 24 redundancies, but	0	3,075	3,075	0

the eventual position may be higher (on average £19k per FTE is budgeted). The £3m risk assumes a worst case scenario where all staff on the TUPE list are made redundant.				
MTFS Transformation Market Risk - the scale and scope of the MTFS Transformation Programme also carries with it risks associated with the market's ability to deliver the contract at budgeted cost and with possible slippage due to unforeseen complexities.	0	1,325	1,325	3,516
Right to Buy Disposals - a level of Right to Buy disposals (20 per annum) has been assumed within the budget, though given that the impact of the increased level of discount on RTB disposal levels is not yet clear, there is a risk that unbudgeted levels beyond the Council's control could impact on the net income due to the HRA. The upper limit and worst case risks set out here are based on an assumption that the level of applications currently projected (347) all progress to RTB sales. The future risk assumes that there are 60 or more RTB sales each year.	0	1,735	1,735	200+
Pension opt-in - this relates to the risk of all staff opting to join the local government employer pension scheme.	0	147	147	147
Salaries Inflation – this relates to the risk of salaries being uplifted by 1% for 2013/14.	0	152	152	153
Total Quantifiable Risks	**0**	**7,213**	**43,908**	**7,026**
Unquantifiable Risks				
Limit Rent - this determines the maximum average actual rent level at which housing benefit would continue to be paid. The current 12/13 average rent is below the limit rent, and the proposed rent for 13/14 is more than £10 per week lower than the limit rent in 13/14 based on the modelling carried out. However, the limit rent mechanism is being re-examined under Welfare Reform and therefore, there is a risk that a proportion of the rent roll will no longer be funded by Housing Benefit. The Government's plans are awaited.				
Housing Repairs Ending of Current Contractual Arrangements – provision has been made within the existing budgets to cover potential additional costs associated with the winding up of the old contracts, though there is a risk that costs may exceed this provision.				

Earls Court Judicial Review - the risk of judicial review on the Earls Court programme could affect the contract; it is intended that the revenue impact of any changes will be accommodated within the £5m receipt but it is possible that legal fees incurred may exceed the budget available.
Accounting for impairment and revaluation losses / gains - changes in accounting rules following self-financing regarding impairment and revaluation losses / gains mean that any adverse movements that cannot be funded by revaluation reserves will be an actual charge to the HRA bottom line. The current level of revaluation reserves of £78m represents 8% of the current stock valuation of £966m, so an impairment / revaluation loss of 8% would have to be suffered before the HRA would be affected.
Housing Repairs - unpredicted events may result in some additional expenditure (for example, following new health and safety directives, legislation) on housing repairs, and financial provision has been made to mitigate against this risk.
Increase in void levels – this is likely to result from the new policy of fixed term tenancies and from management action taken to reduce under-occupation. The risks attributable to fixed term tenancies will not crystallise until 15/16 onwards.
Stock Investment - the business plan is exposed to the risk arising from a downturn in the property market and the resultant slowing down or cessation of expensive voids sales causing a lack of funds available for investment in the housing stock. This is mitigated through careful monitoring of likely results to be realised before entering into significant capital expenditure commitments, and through the longer term plan to reduce reliance on sales to maintain the stock.
Service Level Agreements - any mid-year review of corporate SLA costs may impact adversely on the HRA particularly if contracts are retained in house resulting in higher than expected FTE numbers. In particular, in future years there is a risk that the shared services procurement may not deliver savings and that legislative burdens could increase costs.

Appendix 6: London Local Housing Authorities
Working Balance Reserves as a % of Turnover

	Turnover	General Reserve at 31st March 2012 (2013 for LBHF)	Working Balance Reserve as a % of Turnover
	£m	£m	%
H&F	**73**	**4.2**	**5.7%**
Neighbouring & Partner London Housing Authorities			
RBKC	48.8	13.5	27.66%
Westminster	145.6	91.8	63.05%
Wandsworth	126.3	103.8	82.19%
Ealing	66.2	8	12.08%
Hillingdon	57.8	13.8	23.88%
Harrow	27.6	2.8	10.14%
Hounslow	73.8	17.2	23.31%
Other London Local Housing Authorities			
Southwark	243.6	27.5	11.29%
Lambeth	164.5	5.6	3.40%
Islington	194.6	11.7	6.01%
Camden	150.2	59.4	39.55%
Hackney	123.7	10.2	8.25%
Lewisham	81.1	17.2	21.21%
Sutton	34	1.8	5.29%
Brent	94.7	2.3	2.43%
Barnet	57.5	7.8	13.57%
Waltham Forest	52.8	2.8	5.30%
Redbridge	24.8	3.4	13.71%
Barking and Dagenham	97.7	8.3	8.50%
Tower Hamlets	79.2	13.6	17.17%
Kingston Upon Thames	29	3.1	10.69%
Croydon	80.1	7.2	8.99%
Greenwich	109.3	6.1	5.58%
Newham	-		

Average of Neighbouring & Partner London LHAs as listed above	34.62%
Average of 24 London LHAs	18.40%
Average of RBKC, Westminster & Wandsworth	57.63%
Average of RBKC, Westminster, Wandsworth & H&F	44.95%

Appendix 7 - Rent Benchmarking 2012-13 rents: Inner London Local Housing Authorities

	Budgeted	Bedsits	1 bed house and bungalows	1 bed flats and maisonettes	2 bed house and bungalows	2 bed flats and maisonettes	3 bed flats and maisonettes	3 bed house and bungalows	4 bed dwellings	5 bed dwellings	6 bed dwellings
Local Authority	Average Rent in 2012-13	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent	Average Weekly:- Net Rent
	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p	£ : p
INNER LONDON											
Camden	99.29	72.74	97.85	88.74	108.48	101.61	101.61	113.56	126.84	141.20	147.14
Greenwich	93.39	73.62	87.99	80.84	101.32	89.07	89.07	97.08	116.29	129.41	137.45
Hackney	90.96	71.73	94.75	81.40	108.04	88.91	88.91	97.60	117.93	136.25	144.99
Hammersmith & Fulham	**92.73**	**71.41**	**98.66**	**82.77**	**109.24**	**90.56**	**101.81**	**121.94**	**124.32**	**137.37**	**137.63**
Islington	100.00	76.06	91.69	87.46	113.25	102.12	102.12	107.66	130.57	144.57	169.73
Kensington & Chelsea	106.42	79.36	109.24	94.72	125.15	112.57	112.57	123.09	138.07	152.98	0.00
Lewisham	87.48	64.92	86.68	77.31	92.26	86.60	86.60	95.77	112.13	126.97	133.30
Tower Hamlets	99.17	75.36	95.00	87.81	119.17	99.27	99.27	110.07	126.38	140.80	148.11
Wandsworth	120.27	65.81	108.76	90.16	134.86	114.12	114.12	148.02	181.72	226.39	285.51
Westminster	111.44	88.39	98.77	103.34	121.24	116.32	116.32	129.80	146.41	160.36	181.34

NB: Southwark and Lambeth did not supply rent information to the CIPFA Benchmarking Club.

Appendix 8
Rent Benchmarking
2012-13 private sector rents in Hammersmith and Fulham (W6, W12,W14 and SW6) (source: Zoopla, Foxtons)

Property size	Average rent per week	LBHF	%
Studio Flats	245.00	71.41	29%
1 Bed Flats	335.31	82.77	25%
2 Bed Flats	467.08	90.56	19%
3 Bed Flats	662.31	101.81	15%
4 Bed Flats	747.00	113.03	15%
5 Bed Flats	952.15	131.47	14%
6 Bed Flats	-	130.25	-
1 Bed Houses	303.23	98.66	33%
2 Bed Houses	525.23	109.24	21%
3 Bed Houses	770.08	121.94	16%
4 Bed Houses	934.62	131.78	14%
5 Bed Houses	1,355.31	140.15	10%
6 Bed Houses	-	141.32	-

Rent Benchmarking: Registered Providers Rents extracted from the HCA Statistical Data Return 2012 showing rents as at 31st March 2012

	Average Rent per week	Target Rent
Notting Hill		
Bedsit	96.65	106.97
1 Bed	101.25	116.81
2 Bed	111.55	126.3
3 Bed	120.24	133.58
4 Bed	130.06	140.6
5Bed	134.26	147.81
All Bed Sizes	N/A	123.95
Shepherds Bush		
Bedsit	78.58	80.92
1 Bed	95.82	112.15
2 Bed	109.43	125.47
3 Bed	114.37	133.74
4 Bed	129.72	140.78
5Bed	124.79	147.81
All bed sizes	N/A	120.12