h&f the low tax borough	**London Borough of Hammersmith & Fulham** **CABINET** **3 FEBRUARY 2014**
HOUSING REVENUE ACCOUNT - FINANCIAL STRATEGY AND RENT INCREASE 2014/15	
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. EXECUTIVE SUMMARY

1.1. This report deals with:

- management of the Housing Revenue Account (HRA) following the return of the housing stock to direct Council control in April 2011 and post HRA reform;
- the HRA Financial Strategy, the HRA Medium Term Financial Strategy (MTFS) for the five years 2014/15 – 2018/19, and the HRA Revenue Budget for the year 2014/15;
- the proposed increase in dwelling rents for 2014/15 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. To note that the targeted on-going annual revenue savings of £4 million per annum by 2014/15 identified in the HRA Transformation Programme approved by Cabinet on 21st May 2012 have been achieved, and that during the course of the 2013/14 Financial Year £9.582m of HRA debt was repaid.

2.2. That the HRA financial strategy as set out in section 8 of this report be endorsed.

2.3. That approval be given to the HRA 2014/15 budget as set out in Appendix 1.

2.4. That approval be given to a rent increase for 2014/15, based on application of the Government's rent restructuring formulae for dwellings up to 3 bedrooms of 5.69%, and the Council rent policy (introduced in 2013/14) for dwellings of 4 bedrooms and above, of 7.11%, which is equivalent to an average increase of 5.79%.

2.5. That approval be given to a rent increase of 5.29% based on application of the Government's rent restructuring formulae for properties under licence and hostels as referred to in paragraph 10.6.

2.6. That an increase in tenant service charges for 2014/15 of 3.7% as set out in section 11 of this report be approved.

2.7. That in order to recover the cost of water rates and metered water costs, approval be given to an average increase in water charges of 0.1%, equating to an average rise of less than one penny per week, noting that some households may see a reduction of £2.97 and other an increase of £2.23 per week, as set out in section 15 of this report.

2.8. That a freeze in the communal heating charge at 2013/14 rates as set out in section 15 of this report be approved.

2.9. That a freeze in garage and parking charges as set out in section 15 of this report be approved.

2.10. That in line with the strategic financial objective of repaying debt as it becomes due, £2.414 million of HRA debt is repaid in 2014/15.

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

2.12. That incentive payments to under-occupying tenants downsizing be increased to £2,000 per room as set out in paragraph 10.11.

3. REASONS FOR DECISION

3.1. Section 76 (1)-(4) of the Local Government & Housing Act 1989 requires that the Council formulates the annual budget for the Housing Revenue Account during the months of January and February immediately preceding the year the budget is for. This budget must not result in a debit balance on the Council's HRA.

4. INTRODUCTION AND BACKGROUND

4.1 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).

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

4.3 The management of the borough's housing stock returned to the Council from the ALMO on 1st April 2011 with the aim of improving cost efficiency and service quality.

4.4 On 28th March 2012, HRA reform was implemented which did away with the complex system of annual transfer payments between central and local government to be replaced by a system of "self-financing" where local authorities 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.

4.5 This left the Council with an on-going interest cost of £12.2m in 2012/13, which needed to be funded from the gross rent roll (which for 2012/13 was £60.8m) before any other costs are funded. Following the adoption in 2012/13 of the strategic financial objective to repay the HRA debt as it becomes due, £9.7 million of debt will have been repaid by 31st March 2014 and the annual interest cost in 2014/15 will have reduced to £11.2m.

4.6 There are a number of other financial pressures on the HRA. Historically the Council, both prior to the establishment of and under the ALMO, 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 or public realm. Therefore there remains much work to do; £48m of investment in stock via capital maintenance programme is planned for 2014/15 alone.

4.7 Revenue from rents does not cover the combined costs of management, repairs and effective maintenance of the stock. LBHF rents are considerably lower than those of Tri-Borough partners and Wandsworth (2013/14 LBHF average rent is £99.48 per week compared to £111.45 - £123.71 per week in other central West London boroughs, see Appendix 7).

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

- the impact of welfare reform on income and bad debts, specifically the removal of the spare bedroom subsidy for under-occupancy, benefit caps and direct payments to tenants when they move to Universal Credit;

- the impact of the pledge made on 26th June 2013 as part of the Spending Round 2013 that social rents will increase by a maximum of the Consumer Prices Index (CPI) plus 1% a year from 2015-16 to 2024-25;

- 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 Asset Based Limited Voids Disposals programme which currently partially funds capital works and on the HRA balances where 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;

- a general market risk on re-procurement and recruitment that contract prices might come in higher than expected, this risk is higher in better economic conditions;

4.9 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 fallen 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 2014 are predicted to have doubled to £6.0m since the return of management to the Council, however they will only be equivalent to 7.7% of turnover, compared with the Royal Borough of Kensington & Chelsea (RBKC) at 31%, Westminster City Council at 85% and the London Borough of Wandsworth at 78%. This level of reserves provides insufficient cover against unanticipated events such as those that might arise from the risks noted above.

4.10 These pressures have led to a reliance on sales under the Asset Based Limited Voids Disposals policy to contribute to the necessary expenditure on stock maintenance and other related activity.[2]

4.11 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.

4.12 The 2012/13 HRA financial strategy agreed a target increase in the HRA reserves balance to protect against future shocks or unanticipated events to circa £35 million[3] by 2022. This report reaffirms this target, together with the need to partially fund the capital programme using sales under the Asset Based Limited Voids Disposals policy to enable both the reserves balance to build and the elements of the capital programme not covered by decent homes to be addressed. Once the target reserves balance has been achieved then the report proposes that the reserves target is indexed annually by RPI which will leave a balance of funds available for investment.

4.13 Investment was made in 2012/13 and 2013/14 to drive forward an extensive programme of service improvements and savings, with a target to achieve on-going annual efficiencies in the three years to 31st March 2015 of £4m, this has been achieved, efficiencies have also been delivered in other areas. The actual cumulative on-going annual efficiencies delivered by this budget in the three

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[1] At their peak HRA reserves were £10 million during the period of ALMO management. They declined swiftly after this point to £3.1m at the end of the ALMO's managerial period.
[2] Borrowing to finance the capital programme would result in the reserves balance not being built up and there would be no protection against unexpected financial shocks.
[3] 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

years to 31st March 2015 are £5.7m (see paragraphs 8.15 to 8.22). This exceeds the target and has enabled some revenue investment in capital projects (see Appendix 3 and 4).

4.14 More still remains to be done. Savings alone are not enough to fund repairs and maintenance without recourse to asset sales, rents will need to continue to increase as a minimum in line with the Council's rent policy and the use of the assets within the HRA business plan needs to be maximised.

5. STATUTORY CONTEXT

5.1 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.

5.2 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 act specifies 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.

5.3 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.

6. ASSET MANAGEMENT

6.1 HRA reform sought 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 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.

6.2 A new HRA Asset Management Plan, which included an update of the stock condition survey, was endorsed by Cabinet on 8th April 2013, this has formed the basis of the HRA business plan included in this report.

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

6.4 The inherited legacy of housing management at the London Borough of Hammersmith and Fulham (LBHF) is mixed. The Decent Homes programme has been 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 £3.5 billion there is an entirely inadequate level of reserves of £6 million (predicted as at 1st April 2014), equivalent to less than 5 weeks rent.

6.5 This not only provides insufficient cover against unanticipated events as noted in paragraph 4.9 but also encourages short term decision making rather than well planned and pro-active asset management. A further period of time will be required to rebuild the balances held from the currently predicted figure of circa £6 million as at 1st April 2014 to a level which can provide a secure basis for sustained and effective planned investment in the stock that should lead to higher levels of customer satisfaction.

6.6 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.

6.7 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 combined 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.

7. BUDGET SETTING CONTEXT

7.1 A detailed analysis and review of the budgets has again been conducted and a zero-based approach taken to setting all budgets for 2014/15.

8. FINANCIAL STRATEGY

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

- finance both the annual interest and repayments of the principal debt (£207.7m as at 1st April 2014) as it becomes due[4];

[4] 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 approximately £49million, equivalent to 24% of the debt repaid.

- achieve a viable on-going maintenance programme that maintains the stock in good repair, working towards reducing the reliance on asset sales to fund the maintenance of existing stock;

- increase the HRA reserves balance to protect against future shocks or unanticipated events to about £35 million[5] by 2022, with the target thereafter increasing in line with RPI;

- free resources for investment in new initiatives including new housing supply whilst improving service standards.

8.2 A 30 year business plan has been produced based on existing data, this gives an indication of the likely levels of the reserves balance dependent on how the Council's approach to rent policy may be restricted following the pledge made regarding future rent increases as part of the 2013 spending review. The 26th June 2013 Spending Round included a pledge that social rents will increase by the Consumer Prices Index (CPI) plus 1% per annum from 2015/16 to 2024/25. The Department for Communities and Local Government is currently concluding a consultation exercise on this pledge.

8.3 Three scenarios have therefore been modelled to demonstrate the potential impact on the Housing Revenue Account of the proposed change to the calculation of rents:

1. applying the Council rent policy for each of the 30 years of the business plan based on RPI of 3.2% for 2014/15 (in accordance with September's RPI) followed by an RPI assumption of 2.8% for the remaining term of the business plan;

2. applying the new Council Rent policy for 2014/15 followed by an increase to each dwelling rent of CPI + 1% for 2015/16 onward. This is based on a CPI assumption of 2%, i.e. a differential between CPI and RPI of 0.8% which is based on the lower end of the Office for Budget Responsibility's (OBR) currently predicted long term divergence between RPI and CPI the range for which is 0.8% to 1.3%. It should be noted that this is a best case assumption and that a differential of 1.3% would result in a lower reserves level, as shown by option 3 below;

3. applying the new Council Rent policy for 2014/15 followed by an increase to each dwelling rent of CPI + 1% for 2015/16 onward. This is based on a CPI assumption of 1.5%, i.e. a differential between CPI and RPI of 1.3% which is based on the higher end of the Office for Budget Responsibility's (OBR) currently predicted long term divergence between RPI and CPI;

8.4 This is illustrated in the following graph, where the difference between the reserves target and each line shows the amount available for additional investment under each scenario.

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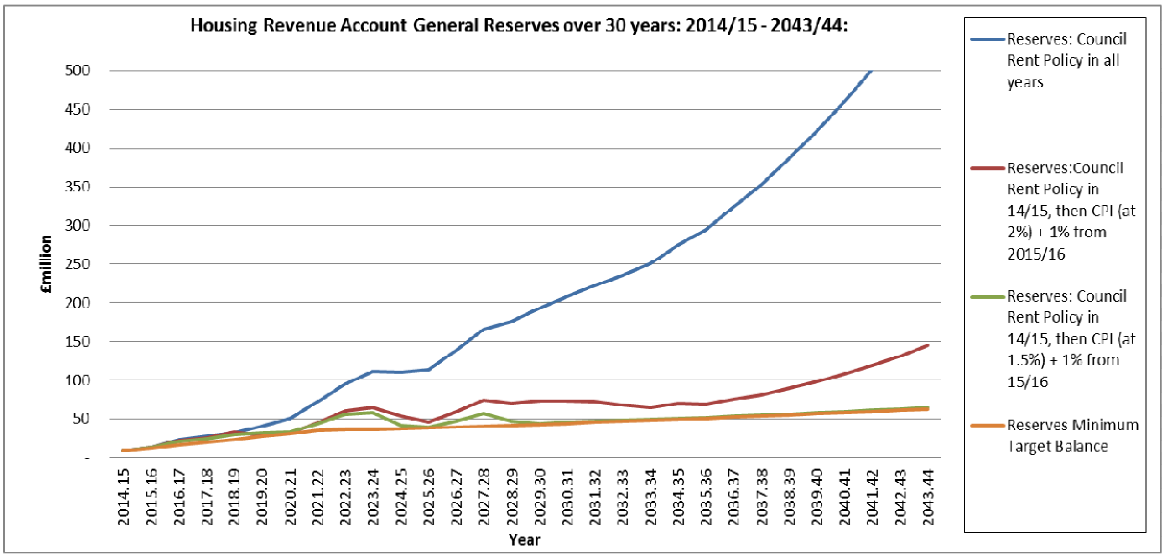
[5] The profile for the initial years is shown in Appendix 2, reserves do not build up evenly, the level at which they build increases over time.



8.5 The key assumptions have not changed since the plan was presented as part of last year's HRA Financial Strategy & Rent Increase (2013/14) approved by Cabinet on 11th February 2013 save for:

- investment in existing stock has been updated to reflect the stock condition survey information which underpins the new HRA Asset Management Plan and amended business plan as approved by Cabinet on 8th April 2013. These numbers will continue to be reviewed on an on-going basis to ensure the plan remains up to date and that where possible peaks in the demand for funds are smoothed;

- the backlog of works identified during the stock condition survey validation is assumed to be caught up by the end of 2017/18;

- the income from and costs associated with the Housing Development Programme Business Plan 2013-2017 have been allowed for as is the impact of the Earls Court Regeneration Programme;

- rents are increased in line with the rent restructuring formula for properties containing up to and including 3 bedrooms. For properties with 4 or more bedrooms, it has been assumed that rents increase in line with the rent formula as set out in the Housing Revenue Account Financial Strategy and Rent Increase (2013/14) report which went to Cabinet on 11th February 2013. Should all rents be increased in line with rent restructuring only (i.e. the additional increase is not applied to 4 bed and larger properties) the loss to the business plan under scenario 1 over 30 years would be £142m.

- Scenarios 2 and 3 have been modelled showing the potential impact of the 2013 spending review pledge on Social Housing rent increases if no compensatory action is taken.

- 370 expensive void sales were required to fund the maintenance of the existing stock and repay debt as it falls due in the February 2013 business plan. The core version of the revised plan (scenario 1) now requires 295 sales to cover the net effect of the above changes. As with the previous plan, the bulk of the void sales occur in the early years, and these are phased as shown below:

No. of Expensive Void sales assumed			
Year	Scenario 1: New Council rent policy for each year of the business plan	Scenario 2: New Council rent policy for 2014/15 followed by an increase of CPI (at 2%) + 1%	Scenario 3: New Council rent policy for 2014/15 followed by an increase of CPI (at 1.5%) + 1%
2014/15	91	91	91
2015/16	106	106	106
2016/17	56	56	56
2017/18	42	42	43
Later years		1	212
Total	**295**	**296**	**508**

8.6 If instead of selling void properties, the money required to maintain the stock was raised by additional rent increases, rents would theoretically need to be more than doubled to enable the backlog of works identified by the stock condition survey to be caught up by 2017/18 even if borrowing is not repaid as it becomes due.

8.7 In summary, all of the options modelled above result in the Council's overall reserves target being met. However, it is unlikely that the level of void sales required under scenario 3 could be achieved due to the Council's low level of dwelling stock turnover, even allowing for increased turnover as fixed term tenancies expire. This would potentially result in both additional borrowing, curtail the ability to build up reserves and severely impact on LBHF's ability to maintain the Council Housing stock in a lettable condition. Ultimately this loss of funds would potentially result in LBHF's Council housing stock falling into disrepair and the Council would then be at risk of not being able to effectively fulfil its obligations as a local housing authority.

8.8 Scenario 1 is therefore the recommended approach, although regard will have to be had in future years to Government Guidance which may emerge on rent increases. Should options 2 or 3 emerge as fact then further consideration will need to be given to income and debt policies.

Asset-based Limited HRA Voids Disposal Policy

8.9 The business plan confirms the need to dispose of 295 expensive voids in order to maintain adequate levels of investment in the Council's housing stock, consistent with the Council's HRA Asset Management Plan adopted by Cabinet on 8th April 2013. Officers have reviewed the Council's asset-based limited HRA voids disposal policy. It is considered that given the business plan's requirements as set out above and in section 9 below, that the policy is still required.

8.10 However, the capital receipt thresholds above which a vacant property is considered for disposal requires review and a piece of work is currently being commissioned to undertake this.

Debt repayment and funding

8.11 The potential for repayment of debt is limited in the initial years despite contributions from asset sales, with debt only being repaid as it becomes due (see Appendix 9 for a list of the debt which is due for repayment in the next ten years). The reasons for this are set out below::

- All loans are from the Public Works Loan Board, 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 approximately £49million, equivalent to 24% of the debt repaid.

- the Housing Capital Maintenance Programme requiring an investment of an average of £21million per annum in addition to major repair allowances (funded by revenue via depreciation) and leaseholder contributions to ensure that the backlog of works identified by the stock condition survey validation is caught up by the end of 2017/18;

8.12 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

8.13 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 asset sales would still be required to prevent additional borrowing.

8.14 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, central government changes to rent policy as proposed in the 2013 Spending Review, and welfare reform.

The HRA MTFS savings programme

8.15 Following £6 million of savings in management costs within the HRA achieved between 2008 and 2010, the HRA MTFS Transformation Programme was approved by Cabinet on 21st May 2012. The programme included a target of producing ongoing annual revenue savings of £4 million per annum from 2014/15 onwards and provided for the re-procurement of repairs and maintenance contracts as well as the market testing of a range of housing management functions.

8.16 As part of this savings programme on 8th April 2013 Cabinet delegated authority to the Cabinet Member for Housing in conjunction with the Executive Director of Housing and Regeneration to award a borough wide sole supply contract for

Housing Repairs and Maintenance to MITIE Property Service (UK) Ltd), to Pinnacle Housing Ltd for borough wide Estate Services and to Pinnacle Housing Services Ltd for Housing Management Service for the south of the borough.

8.17 The table below sets out the level of savings achieved by this programme. The savings for 2012/13 and 2013/14 have been reported in previous HRA Financial Strategy and Rent Increase annual reports:

HRA MTFS Transformation Programme - Cumulative Efficiencies				
Division	**Description**	**2012/13 £000s**	**2013/14 £000s**	**2014/15 [6]£000s**
Property Services	New Repairs Contract	29	535	1,583
Housing Management	Estate Services Contract	143	464	948
Estate Services	Housing Management Contract	511	1,361	1,538
Total Revenue Efficiencies		**683**	**2,360**	**4,069**
Property Services	New Repairs Contract	0	365	877
Capital Efficiencies		**0**	**365**	**877**
Total Efficiencies		**683**	**2,725**	**4,946**

8.18 Headcount[7] within the HRA has also reduced as shown below:

	1st April 2011 Budgeted	**1st April 2012 Budgeted**	**31st March 2013 Budgeted**	**31st March 2014 Budgeted**	**31st March 2015 Forecast**
Full Time Equivalent Staff numbers	432	416	354	195	193

8.19 Further efficiencies of £1,590k, additional to the HRA MTFS Transformation Programme will be delivered in 2014/15 and these, together with the MTFS Transformation Programme efficiencies for 2014/15 totalling £3.3m are set out in Appendix 3.

8.20 The total of efficiencies made for 2014/15 equate to a 5.8% saving on controllable budgets including corporate recharges and bring the cumulative on-going annual level of efficiencies delivered in the three years to 31st March 2015 to £5,659k.

8.21 These are offset by £1.1m of revenue investment to enable capital projects and £0.9m of growth, consisting of:

- £370k of permanent growth, primarily due to proposed increased incentive payments (£250k) to encourage under occupying tenants to downsize (see paragraph 10.10) and;
- £533k of temporary growth to enable the planned review of the parking on Housing Estates and the next phase of MTFS savings.

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6 Note Appendix 3 shows in year efficiencies only
7 All numbers are full time equivalents

8.22 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. Appendix 2 summarises the on-going HRA MTFS savings programme, with the primary focus over the next three years being on service improvement.

9. COUNCIL RENT POLICY

9.1 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[8] 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.

9.2 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, Cabinet approved (via the HRA Financial Strategy and Rent Increase 2013/14 report on 11th February 2013) the implementation of a new Council rent policy from 1st April 2013.

9.3 This policy uses the rent restructuring formula to increase the rents for properties with 3 or fewer bedrooms. For those properties of 4 bedrooms and more, rents increase by bringing the ratio of rental values between dwellings of different bedroom size towards those in existence in the private rented market for similar properties. The rationale for the Council's current rent policy is set out in the following paragraphs.

9.4 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 major repairs allowances have been uplifted when calculating the settlement, the uplift[9] 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.

9.5 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 £48m for

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[8] 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 (formula 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. LBHF historic rents were so low that the majority of our properties do not achieve rent convergence until 2025.

[9] LBHF's major repairs allowance was uplifted by £2.5m per annum as at 2012/13 when HRA reform was implemented

2014/15 with an on-going annual investment requirement of circa £40m over the following 4 years.

9.6 Therefore the Housing Capital Programme requires an investment of circa £21 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.

9.7 The current business plan requires sales under the Asset Based Limited Voids Disposals policy of 91 units in the first year and an average of 68 units per year for the following four 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. This is based on assuming rents are increased in line with the rent policy implemented on 1st April 2013. As noted in paragraph 8.6, if no void sales were made and borrowing was not repaid but held static, then rents would need to be more than doubled to enable the backlog of works identified by the stock condition survey to be caught up by 2017/18.

9.8 Therefore, from a cash flow perspective it will be necessary in the first four years of the plan to continue to partially fund routine maintenance investment required in the stock using sales under the Asset Based Limited Voids Disposals policy. At the same time income must be maximised to ensure that the HRA ultimately moves to a position in five 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.

9.9 The results of benchmarking current Council rents against those charged in other neighbouring boroughs also demonstrate that the Council's rents remain considerably lower than our neighbours:

- the average 2013/14 weekly rent for other central West London boroughs is between £111.45 and £123.71 per week (see Appendix 7); significantly higher than the average for the Council of £99.48,
- the lowest average rent among the other central West London boroughs in 2013/14 is Kensington and Chelsea's which is £111.45 per week,
- Kensington and Chelsea are proposing to raise rents for 2014/15 by 6.26%, therefore LBHF's proposed 5.79% increase would still result in rents considerably below all the other central West London boroughs.

9.10 Implementation of the Council's rent policy will result in an average increase for all dwellings of 5.79%, which means an average increase of £5.73 to £105.21 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 but based on comparable differentials in the private rental market for similar properties.

Property Size	Average Weekly Rent 2013/14	Average of Weekly Rent Increase	Average of Weekly Rent Increase	Average Weekly Rent 2014/15	Number of Dwellings
	£	£	%	£	
Dwellings of 4 bedrooms or more	134.13	9.49	7.11%	143.63	879
Dwellings of 3 bedrooms or less	96.85	5.44	5.69%	102.29	11,576
All Dwellings	**99.48**	**5.73**	**5.79%**	**105.21**	**12,455**

9.11 As noted previously in this report, should all rents be increased in line with rent restructuring only (i.e. the additional increase is not applied to 4 bed and larger properties) the loss to the business plan under scenario 1 over 30 years would be £142m. This loss would have to be made up from either an increased number of void sales and/or reduced debt repayments / increased borrowing.

9.12 The Housing Benefit Limit Rent acts as a constraint on the level of rents Councils can charge. 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.

9.13 For example based on an assumption that 60%[10] of the Council's tenants are claiming Housing Benefit, a £1 increase in average actual rents above the Housing Benefit limit rent would be likely to result in a requirement to reimburse Central Government with the additional rent of circa £348k per annum derived from tenants claiming Housing Benefit. However, there would be a net gain to the HRA due to additional net income of circa.£193k derived from those tenants not claiming Housing Benefit. The impact on the HRA would depend on the percentage of tenants claiming Housing Benefit and the balance between those tenants in receipt of full Housing Benefit and those on partial Housing Benefit. Currently 35% of our tenants receive full Housing Benefit and 24% receive partial Housing Benefit.

9.14 For 2014/15 the Housing Benefit Limit Rent for the Council is £115.26 per week, therefore the proposed rent increase will not breach the benefit cap.

10. RENTAL INCOME

Rents

10.1 The draft HRA budget for 2014/15 shown in Appendix 1 assumes tenant rents increase in line with the rent policy agreed by Cabinet on 11th February 2013. This incorporates the Government's rent restructuring system for all dwellings of 3 bedrooms or less, with a freeze on the Sheltered element of the charge for properties designated as Sheltered Housing, 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 2014/15 leads to an average rental increase of 5.79%, consisting of an average increase of

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[10] Assumes all tenants who receive Housing Benefit are impacted, currently circa 35% of HRA tenants are on full Housing Benefit and 24% on partial Housing Benefit

5.69% for properties with three bedrooms or fewer and an average of 7.11% for properties with four or more bedrooms.

10.2 The recommended rental increase of 5.79%, in line with the Council's revised rent policy, will increase rental income in the HRA by £3.331m in 2014/15. The changes are shown in the following table:

Table 3: Summary of Rent Budget Movements

Description	With a 5.79% increase
	£000s
Original Net Rent Budget 2013/14	(63,237)
Rent Increase	(3,828)
Adjustment for disposals	404
Adjustment for voids	93
Net Rent Budget 2014/15	**(66,568)**

10.3 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.

10.4 A 5.79% average increase in rents equates to an average weekly rental increase for tenants of £5.73, consisting of an average increase of £5.44 per week for dwellings with three bedrooms or fewer and an average increase of £9.49 per week for dwellings with four bedrooms or more. An analysis of the weekly increase across all tenants is shown in the following table:

Rent Increase per week (£)	Number
Less than £3	9
Between £3 and £5	2,781
Between £5.01 and £7	8,758
Between £7.01 and £9	363
Between £9.01 and £12.70	544
Total	**12,455**

10.5 Under the new rents policy 93% of tenants will see an increase of less than £7.01, and no tenant will see an increase greater than £12.70 per week.

10.6 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 5.29%. 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.

Bad Debts, Voids and Welfare Reform

Voids

10.7 In line with 2013/14, voids have been budgeted for in 2014/15 at 2% of the gross rent roll (£1.358m) as the impact of the new fixed term tenancies is not anticipated to have an effect on void rates until 2015/16.

Welfare Reform

10.8 The response of individual households to the Government's programme of Welfare Reform may impact on the Council's ability to collect rental income and will therefore result in increased bad debt charges in the HRA. The three strands which will ultimately affect the HRA are:

- the removal of the spare bedroom subsidy - reductions in housing benefit for under-occupying Council tenants from April 2013;
- the effect of the overall 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 as part of Universal Credit which may result in an increase in rent arrears.

The Spare Room Subsidy – Reduction in Housing Benefit in the event of Under Occupation

10.9 As a result of welfare reform, tenants of properties which are under occupied by one bedroom have received a 14% reduction in Housing Benefit and properties which are under occupied by 2 or more bedrooms have received 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 exempt from these reductions.

10.10 The Council's records currently show the size criteria are affecting approximately 712 HRA properties. These properties have an annual rent roll of £4.6m, approximately £780k per annum of which is at risk. A provision of 60% of the income at risk (£467k) has been included within the 14/15 budget as the loss of income is being mitigated by 2 officers (covering the financial years 2013/14 and 2014/15), dealing specifically with under-occupation.

10.11 This has and is expected to continue to result in some tenants choosing to downsize and in some tenants making up the difference from other income. Since 1st April 2013, 173 requests for downsizing have been received by the Council and of these; moves to more appropriately sized accommodation have been enabled for 37 tenancies.[11] The Council currently provides incentive payments of £500 per room given up to under-occupiers who downsize. A benchmarking exercise (see Appendix 10) shows that this is now well below the level provided by neighbouring social landlords. Given the overall financial benefit to the Council of securing larger accommodation, it is proposed to increase the payments to £2,000 per room given up. This would be available whether or not a tenant was subject to reductions in the spare bedroom subsidy.

10.12 The level of bad debt provision has been made in line with and following consultation with tri-borough officers. The remaining 40% of the rent at risk is included as a risk in section 12 below.

[11] figures correct as at 6th December 2013

The Household Benefit Cap

10.13 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 fully 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.

10.14 Current data indicates that 27 households in the HRA are at risk of not being able to pay some or all of their rent following on from the implementation of the benefit cap. The total annual rent due from these 27 tenancies is approximately £187k per annum, of which £69k is expected to be deducted from housing benefit. A provision of 100% of the income at risk is proposed to be included within the 2014/15 budget.

Direct Payments

10.15 Direct Payments will be implemented when tenants move on to Universal Credit. The Council is one of the ten pathfinder areas for Universal Credit, the initial pilot implementation which commenced on 28th October 2013 was only for a limited number of claimants and excluded those who were previously in receipt of housing benefit.

10.16 DWP announced on 5th December 2013 a plan to develop further functionality within the pathfinder areas for Universal Credit so that claims for Universal Credit for couples are rolled out from Summer 2014 and for families, from Autumn 2014. DWP currently expects Universal Credit will be fully rolled out during 2016, having closed down new claims to the legacy benefits it replaced, with the majority of the remaining legacy caseload moving to Universal Credit during 2016 and 2017. This means that in 2014/15 some new claimants will be entitled to benefit to cover their housing costs which may potentially impact on rent collection rates.

10.17 It is difficult to quantify the final potential impact; however, both an allowance for an additional bad debt provision and a risk is included in the 2014/15 budget. A bad debt charge of £303K has been included in 2014/15. There is a risk that the migration of tenants to Universal Credit moves at a faster pace than initially expected – this risk for 2014/15 has been included in the HRA key financial risks set out in Appendix 5.

11. SERVICE CHARGES

11.1 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.

11.2 The draft HRA budget for 2014/15 shown in Appendix 1 currently assumes tenant service charges will be increased to allow for predicted inflation at 3.7%. 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.

11.3 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 2014.

12 RISKS

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

12.2 Welfare Reform

As explained in section 10, an increase has been made in the bad debt provision to provide for the potential impact on rent collection rates as a result of how individual households may respond to the various strands of the Government's Welfare Reform programme. However, there remains some risk because:

- 40% of rents not paid by Housing Benefit as a result of the removal of the spare room subsidy 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 would bring more people inside 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 likely that the majority of this increase in arrears would be uncollectable and the annual exposure is estimated in the region of between £605k and £2m per annum for 2014/15, 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 £42.8m. In terms of mitigation the Council is actively promoting payment by direct debit/ standing order to tenants as part of a detailed rent collection strategy;

12.3 Government Social Rent Policy

The impact of the pledge made on the 26th June 2013 as part of the Spending Round 2013 that social rents will increase by the Consumer Prices Index (CPI) plus 1% a year from 2015-16 to 2024-25 has been modelled within the HRA business plan. Although the exact implications of the pledge are unknown at this stage, two scenarios have been modelled with the following implications:

a) Rent restructuring ceases to apply and rent increases for all tenancies are constrained to CPI+1% from April 2015 onwards

This is set out in section 8. The scenario incorporates a CPI assumption of 1.5%, i.e. a differential between CPI and RPI of 1.3% which is based on the higher end of the Office for Budget Responsibility's (OBR) currently predicted long term divergence between RPI and CPI which is in the range 0.8% to 1.3%.

This would result in a loss of income over the 30 years of the business plan of £575m and result in an additional 213 void sales being required to fund the capital maintenance programme. It is unlikely that this level of void sales could be achieved due to the relatively low level of stock turnover, even allowing for increased turnover as fixed term tenancies expire.

Failure to achieve the required level of void sales would potentially result in additional borrowing, curtail the ability to build up reserves and severely impact on LBHF's ability to maintain the Council Housing stock in a lettable condition. Ultimately this loss of funds would potentially result in LBHF's Council housing stock falling into disrepair and the Council would then be at risk of not being able to effectively fulfil its obligations as a local housing authority.

Regard will have to be had to Government Guidance on rent increases, the Council's Housing Strategy and Local Lettings plans, however one possible mitigation measure maybe for a proportion of relets to be at affordable rents.

- The CPI+1% increase is applied only to the Housing Benefit limit rent, allowing the retention of an element of flexibility across the LBHF portfolio

  This would result in no loss of income over the 30 years of the business plan and result in no additional void sales being required to fund the capital maintenance programme due to the gap between the limit rent and the actual average rent.

Other risks

12.4 There are also a number of risks, 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 sales under the Asset Based Limited Voids Disposals policy which currently partially fund capital works and, on the HRA balances where 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, that prices might come in higher than expected, the risk of which is higher in better economic

conditions. This includes corporate contracts which are recharged to the HRA via service level agreements;

- reopening the HRA reform settlement, the legislation allows this to be done;
- The Council has received a challenge from Wilmot Dixon Partnerships to a procurement process. In September 2013, the stay which had prevented the Council from signing the proposed new Repairs and Maintenance contract with MITIE was lifted and this contract is now signed, securing the MTFS savings included in Appendix 3. However, the challenge to the procurement process remains, and should this continue to court the outcome is not expected to be decided sooner than July 2014.
- short term loss of income due to increased levels of Right To Buys, in the longer term it is possible to adjust costs but there is a short term impact;

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 Following the adoption in 2012/13 of the strategic financial objective to finance repayments of HRA debt as it becomes due, the annual interest cost in 2014/15 will have reduced to £11.2m.

13.3 As referred to in section 4, HRA debt was reduced by £197.4 million to £217.4 million on 28th March 2012 following a payment from Government under HRA reform. In line with the Council's strategic financial objective for the HRA to repay housing debt as it matures, the level of debt on which interest was payable following the settlement will have been reduced from £217.4m to £207.7m by 31st March 2014, following the repayment of £9.7m of debt during 2012/13 and 2013/14. A further £2.4m of debt will be repaid during 2014/15, bringing the total value of HRA debt repaid since HRA reform was implemented to £12.1m. As a result, debt levels will fall to £205.3m and debt-servicing payments are expected to reduce from £12.0m in 2013/14 to £11.2m in 2014/15.

13.4 The Council's policy has been to use the Major Repairs Allowance (MRA) as a proxy for depreciation in the HRA for housing properties and this practice will not change for 2014/15. 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 2014/15 will be the third year of operation. The increase in the depreciation charge for dwellings for 2014/15 is £0.5million taking the budget required to £16.2 million.

13.5 The transitional arrangements exclude non-dwellings depreciation which under previous accounting rules had no net effect on the HRA bottom line. This was accounted for as a real charge of £385k as a growth item in last year's budget process. For 2014/15, this charge is budgeted as £389k.

13.6 The transitional arrangements also exclude protection from a change in accounting regulations which means that impairment and revaluation losses on non-dwellings hit the bottom line if not contained within the revaluation reserve. This has been included in the risks schedule and is further elaborated on in section 12 above and in Appendix 5.

14 INFLATION

14.1 All inflationary pressures have been accommodated within the existing envelope of resources.

15. FEES, CHARGES, AND OTHER INCOME

Heating Charges

15.1 Tenants and leaseholders who receive communal heating (around 2,025 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 2014, an estimate has been prepared in consultation with the Council's Estate Services function who have provided an indication 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, no increase in charges is proposed for 2014/15.

Garage and Parking Space Rents

15.4 A new charging policy for garages was approved by Cabinet on 24th June 2013. Garages are currently let on a monthly basis at a flat rate of £100 for a garage and £75 for a motorcycle garage. Each 1% increase in charges would raise £7.6k. No increase in charges is proposed for 2014/15.

15.5 These charges remain below those of other neighbouring London boroughs and those in the private sector. For example, Kensington and Chelsea Tenant Management Organisation charge between £30-£60 for a garage per week (£130 to £260 per month) and in Wandsworth charges are zoned but in key locations garages are advertised commercially at up to £60 a week. Prices for garages rented privately in the area vary from £1,800 to £2,500 per annum.

15.6 Parking charges vary depending on whether the 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 tenant is £2.72.

15.7 The introduction of new ticketing arrangements for parking on HRA Housing Estates was originally planned for May 2013 in response to a change in legislation which limited the Council's contractors' ability to enforce parking controls on housing estates. However this was delayed pending a detailed review. As a result budgeted income from parking permit sales for spaces has fallen.

15.8 On 6th January 2014, Cabinet are recommended to approve the commissioning of a consultant to conduct a detailed review and design for parking enforcement on the Council's 91 housing estates with parking facilities together with the procurement of interim enforcement arrangements. The interim enforcement arrangements are expected to commence in June 2014. Following on from the consultation, the findings and recommendations of the review will be presented to Cabinet during 2014 and any changes to charges will be agreed as part of that report. Pending the outcome of this review, no change in parking charges is being recommended as part of this report.

Water Charges

15.9 The Council collects income from and pays charges on behalf of tenants and leaseholders. The Council has reviewed the approach to calculating the price at which water and sewerage services are resold to tenants to ensure that the amounts billed to tenants and leaseholders are in accordance with OFWAT's (the Water Services Regulation Authority) guidelines. In summary, OFWAT requires that "anybody reselling water or sewerage services should charge no more than the amount they are charged by the company", the guidelines allow an administration charge to be added.

15.10 The review has resulted in the recalculation of water charges for all 12,495 properties receiving a water charge. However, further work is needed to investigate the billing at 2,643 properties for which the water bills appear incommensurate with expected usage based on recent meter readings. In order to protect tenants and leaseholders from incorrect changes to their water charges pending the results of further investigations, the recalculated water charges for these accounts have been capped. The Council is committed to ensuring that tenants and leaseholders are being charged in accordance with regulatory guidelines, and these further investigations will be completed prior to April 2014.

15.11 OFWAT have stated that they expect any increase by Thames Water for 2014/15 to be limited to RPI (November 2013 + 1.4%). Based on the latest published data (the September 2013 RPI was 3.2%), this equates to an increase of 4.6%. However, the actual average increase for tenants and leaseholders for 2014/15 is only 0.1%. This is due to the combined effect of OFWAT's published increase and the recalculations made by the Council.

15.12 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 on average by 0.1%. This equates to an average increase in the water charge for each tenant and leaseholder of less than a penny per week.

15.13 12,495 tenants and leaseholders will be impacted by this with changes to charges ranging from a reduction of £2.97 per week to an increase of £2.23 per week.

15.14 1,461 tenants are affected by both heating and water charges, the net impact on this group will be a reduction of 2.8% or 45 pence per week. Within this, the changes to charges range from a reduction of £2.72 per week to an increase of 48 pence per week.

15.15 It should be noted that Thames Water are challenging the limit on the increase stated by OFWAT and have indicated they wish to increase water rates by RPI + 8.0% in 2014/15. This challenge relates in part to the increased costs associated with the "super sewer". It is likely that a final decision on the increase in charges will be made in January 2014.

Advertising Income

15.16 The Council currently generates income from advertising hoardings located on HRA land, and an additional potential net income stream of £97k has been budgeted for 2014/15 following the identification of three new hoardings sites in the previous year. 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

15.17 The budget for commercial property rents for 2014/15 has been reduced by £186k to £1.322m. This is explained by an increase of £55k in respect of the likely level of lettings achievable in the current climate in accordance with the terms of the associated leases and informed assumptions from Valuation & Property Services. Offsetting this increase is a reduction in the budget of £241k in respect of anticipated disposals during 2014/15. The budget set for HRA commercial property incorporates a forecast void rate of 8.2%, based on the valuers views, to allow for economic conditions. Additionally, the budgeted bad debt provision has been increased by £50k to £0.3m for 2014/15 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 21st January 2014 in order that the committee can comment on the budget proposals in advance of any formal decision being taken by Cabinet.

17. EQUALITY IMPLICATIONS

17.1 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.

17.2 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, there is access to Discretionary Housing Payments for cases which are particularly impacted by the rent increase and as part of this report the Council has substantially increased the incentive payments it makes to tenants who chose to down size.

18 LEGAL IMPLICATIONS

18.1 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.

18.2 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.

18.3 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.

18.4 Implications verified/completed by: Janette Mullins, Head of Litigation, Finance & Corporate Services,

19. FINANCIAL AND RESOURCES IMPLICATIONS

18.5 Comments are contained within the body of the report.

18.6 Implications verified/completed by: Kathleen Corbett, Director of Finance & Resources, Housing & Regeneration, 020 8753 3031

20. RISK MANAGEMENT

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

20.3 Implications verified/completed by: Kathleen Corbett, Director of Finance & Resources, Housing & Regeneration, 020 8753 3031

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	HRD Business Plan	Kathleen Corbett Ext 3031	Housing and Regeneration Department, 3rd Floor Town Hall Extension, King Street, W6 9JU

Appendix 1

Appendix 1: 2014/15 Draft Housing Revenue Account Budget

Division	2013/14 Budget	2013/14 Forecast Outturn	2014/15 Proposed Budget
	£000s	**£000s**	**£000s**
Housing Income	(73,605)	(73,407)	(75,698)
Housing Services	10,557	10,485	9,945
Commissioning & Quality Assurance	2,564	2,437	3,237
Safer Neighbourhoods	575	575	578
Adult Social Care	48	48	48
Housing Repairs	14,147	14,472	13,359
Property Services	2,587	2,635	2,058
Regeneration	264	264	331
Housing Options	632	460	402
Finance & Resources	6,708	6,560	9,633
Corporate Service Level Agreement Charges	6,117	6,117	5,321
Capital Charges	27,659	27,597	27,864
(Contribution to)/ Appropriation from HRA General Reserve	**(1,747)**	**(1,757)**	**(2,922)**
Opening Balance on HRA General Reserve	**(4,263)**	**(4,263)**	**(6,020)**
Closing Balance on HRA General Reserve	**(6,010)**	**(6,020)**	**(8,942)**

Appendix 2: 5 Year Business Plan for Housing Revenue Account 2014/15 - 2018/19

HRA revenue projections	2014/15 Proposed Budget £'000	2015/16 Projection £'000	2016/17 Projection £'000	2017/18 Projection £'000	2018/19 Projection £'000
Income	(75,698)	(78,273)	(83,087)	(86,677)	(90,182)
Expenditure before savings and growth	73,974	76,345	82,139	83,597	83,077
Base HRA surplus for the year	**(1,724)**	**(1,928)**	**(948)**	**(3,080)**	**(7,105)**
Target savings from market testing / efficiencies	(3,319)	(5,065)	(5,782)	(5,929)	(6,093)
Growth	355	368	381	393	405
Invest to save	533	552	572	590	608
Contribution to capital projects	1,120	1,157	1,194	1,228	1,262
Surplus before additional capital programme contribution	**(3,035)**	**(4,916)**	**(4,583)**	**(6,798)**	**(10,923)**
Available for Revenue Contribution to Capital Outlay or growth	113	761	553	2,773	6,697
Surplus for the year after additional capital programme contribution	**(2,922)**	**(4,155)**	**(4,030)**	**(4,025)**	**(4,226)**
HRA balance at year end	**(8,942)**	**(13,097)**	**(17,127)**	**(21,152)**	**(25,378)**

Appendix 3: Efficiencies & Income Movements

Efficiencies

Division	Description	Amount £000s
Housing Repairs	New Repairs Contract	1,048
		1,048
Housing Services	Estate Services Contract	484
Housing Services	Housing Management Contract	177
Housing Services	Estate Services Client Team restructure	50
Housing Services	Neighbourhood Services - minor reorganisation	37
		748
Finance & Resources	Early achievement of reduction in cost of Corporate Service Level Agreements (target for 14/15 £250k)	776
Finance & Resources	Reduced interest payable following debt reduction	727
		1,503
Total		**3,299**

Item	Housing Income £
2013/14 Base Budget	(73,602,900)
Other Adjustments	
Increase in commercial income due to likely level of lettings	(55,500)
Increase in Hoardings income	(97,100)
Reduction in parking space rents forecast	352,600
Increase in bad debt provision and allowance for Welfare Reform	854,100
Reduction in Leaseholder Service Charges	99,700
Increase in net dwelling rental income	(3,331,000)
Increase in net tenants service charge income	(169,300)
Decrease in commercial income due to predicted sales of shops	241,318
Other minor adjustments	10,200
2014/15 Base Budget	**(75,697,882)**

Appendix 4: Growth including Revenue Contributions to Capital Projects and non capitalisable costs relating to capital projects

Revenue Growth		
Division	**Description**	**Amount £000s**
Housing Services	Incentive Payments for tenants who downsize	250
Housing Services	Parking Review	176
Housing Services	Financial Accounting Training for Residents' Associations	40
Housing Services	Audit of Residents' Associations	30
Housing Services	Residents' Satisfaction Survey	35
		531
Finance & Resources	Reversal of temporary growth for Northgate contract	(593)
Finance & Resources	Temporary growth for MITIE contract	500
Finance & Resources	Temporary one year growth: project resource for the next phase of Medium Term Financial Strategy Savings	250
Finance & Resources	Changes to Leasehold Management Systems	200
Finance & Resources	Leaseholders' Satisfaction Survey	15
		372
Total Growth		**903**

Contribution to capital projects / Allowance for revenue elements of capital projects	
EU Life Plus contribution	192
Earls Court Regeneration	113
Strategic Regeneration & Housing Development	300
Housing Development Programme, non Capitalisable pre planning costs	500
Total Other Growth	**1,105**

Appendix 5: Key Risks 2014/15	**Lower Limit**	**Upper Limit**	**Worst Case**	**Future Risk**
	£000s	**£000s**	**£000s**	**£000s**
Quantifiable Risks				
Welfare Reform - an increase has been made in the bad debt provision to provide some protection against the potential impact on rent collection rates as a result of the three main strands of the Government's Welfare Reform programme. However, there remains some risk as follows:				
- a bad debt provision for the impact of the removal of the spare room subsidy has been budgeted for at the rate of 60% 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 14/15;	0	311	311	311
- 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.	0	605	42,800	2,000
Welfare Reform & CPI - in future under universal credit, benefits will be inflated by CPI which does not include housing costs therefore rents will get increasingly out of synchrony with the benefit cap. Both rent restructuring and the Governments Spending review announcement would both mean that more people will get caught by the cap each year and will increase our risk as the years go by.	0	195	390	410+
Right to Buy Disposals - a level of Right to Buy disposals (20 per annum) has been assumed within the budget. However given that the impact of the increased level of discount on RTB disposal levels is not yet completely 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 (300) all progress to RTB sales. The future risk assumes that there are 60 or more RTB sales each year.	0	1,500	1,500	200

Pension opt-in - this relates to the risk of all staff opting to join the local government employer pension scheme.	0	20	20	20
Total Quantifiable Risks	**0**	**2,631**	**45,021**	**2,531**
Unquantifiable Risks				
Government pledge on limiting Social Rent Increases to CPI plus 1% - the impact of the pledge made on the 26th June 2013 as part of the Spending Round 2013 that social rents will increase by the Consumer Prices Index (CPI) plus 1% a year from 2015-16 to 2024-25. It is not yet clear if this increase for local authorities will be applied solely to the Housing Benefit limit rent or if it will apply to each individual tenancy. If the increase is applied to each individual tenancy then this would potentially result in a loss of income over the 30 years of the business plan of £575m and result in an additional 213 void sales being required to fund the capital maintenance programme. This risk is further expanded upon in Section 13.				
Limit Rent - this determines the maximum average actual rent level at which housing benefit would continue to be paid. The current 13/14 average rent is below the limit rent, and the proposed rent for 14/15 is more than £10 per week lower than the limit rent in 14/15 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 and that costs may emerge at a later date.				
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 £72m represents 7.6% of the current stock valuation of £948m, so an impairment / revaluation loss of 7.6% would have to be suffered before the HRA would be affected.				
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 receipts 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.				

Housing Repairs - unpredicted events may result in some additional expenditure (for example, following new health and safety directives, legislation, potential insurance claims from storm damage) on housing repairs, and financial provision has been made to mitigate against this risk.
Market Risk on Re-Procurement and Recruitment - There is a risk especially under better economic conditions that it will become harder to reprocure contracts or recruit staff at the predicted rates
Challenge from Wilmot Dixon Partnerships to a procurement process. In September 2013, the stay which had prevented the Council from signing the proposed new Repairs and Maintenance contract with MITIE was lifted and this contract is now signed, securing the MTFS savings included in Appendix 3. However, the challenge to the procurement process remains, and should this continue to court the outcome is not expected to be decided sooner than July 2014.
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 2015/16 onwards.
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
General Reserves as a % of Turnover

Local Housing Authority	Turnover 2012/13	General Reserve at 31st March 2013	General Reserve as a % of Turnover
	£m	£m	%
H&F	**80**	**4.2**	**5%**
Neighbouring & Partner London Housing Authorities			
RBKC	51.9	16	31%
Westminster	109.7	93.1	85%
Wandsworth	133.5	103.6	78%
Ealing	68.4	6.1	9%
Hillingdon	60.9	20.9	34%
Harrow	29.2	3.2	11%
Hounslow	77.4	19.5	25%
Other London Local Housing Authorities			
Southwark	257.6	31.8	12%
Lambeth	172.5	10	6%
Islington	280.8	12.8	5%
Camden	160.8	47.1	29%
Hackney	131.7	10.2	8%
Lewisham	83.2	22.9	28%
Sutton	36.3	2.9	8%
Brent	70.6	2.6	4%
Barnet	61.6	16.1	26%
Waltham Forest	55.8	2.6	5%
Redbridge	26.6	3.9	15%
Barking and Dagenham	106.9	8.5	8%
Tower Hamlets	84.2	15.2	18%
Kingston Upon Thames	29.6	3.2	11%
Croydon	83.9	9.4	11%
Greenwich	115.9	19	16%
Newham	97.2	6.5	7%

Average of Neighbouring & Partner London LHAs as listed above	39%
Average of 24 London LHAs	20%
Average of RBKC, Westminster & Wandsworth	64%
Average of RBKC, Westminster, Wandsworth & LBHF	50%

Appendix 7 - Rent Benchmarking 2013-14 rents: Inner London Local Housing Authorities[12]

	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 2013-14	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	104.12	76.77	101.70	93.26	113.43	106.57	118.93	127.02	132.73	148.72	150.52
Greenwich											
Hackney											
Hammersmith & Fulham[13]	**99.48**	**76.37**	**103.48**	**92.14**	**114.32**	**95.31**	**106.98**	**127.48**	**132.79**	**146.00**	**147.11**
Islington	105.60	88.55	97.52	92.37	118.41	107.48	113.44	131.52	137.01	154.20	177.73
Kensington & Chelsea	111.45	83.66	112.47	99.58	130.67	117.68	128.70	131.52	143.81	158.66	0.00
Lewisham											
Tower Hamlets	103.55	79.11	98.33	91.85	123.51	103.60	114.86	TBC	131.63	146.47	153.80
Wandsworth	123.71										
Westminster	116.81	92.97	108.66		122.64		135.93		150.66	163.87	165.68

NB: For Wandsworth council, the only average rent figure is available under cabinet report.

[12] CIPFA Benchmarking Club – figures are provisional only.
[13] These figures have been updated to incorporate the merging of the Sheltered Accommodation charge into the basic rent. The aggregation of the Sheltered Accommodation charge with basic rents was approved as part of the Housing Revenue Account Financial Strategy and Rent Increase 2013/14.

Appendix 8
Rent Benchmarking
2013-14 private sector rents in Hammersmith and Fulham at 23/10/2013 (source: Rightmove.co.uk)

Property size	Average rent per week	LBHF	%
Studio Flats	280	75.46	27%
1 Bed Flats	291	87.30	30%
2 Bed Flats	425	95.37	22%
3 Bed Flats	636	106.97	17%
4 Bed Flats	1,329	121.49	9%
5 Bed Flats	2,500	141.20	6%
6 Bed Flats	N/A	140.02	
1 Bed Houses	N/A	103.48	
2 Bed Houses	549	114.21	21%
3 Bed Houses	760	127.52	17%
4 Bed Houses	1,055	140.38	13%
5 Bed Houses	1,328	148.57	11%
6 Bed Houses	N/A	150.66	

Rent Benchmarking: Registered Providers Rents extracted from the HCA Statistical Data Return 2013 showing rents as at 31st March 2013[14]

	Average Rent per week	Target Rent
Notting Hill		
Bedsit	100.27	111.37
1 Bed	107.27	123.66
2 Bed	117.61	134.29
3 Bed	126.24	142.31
4 Bed	136.91	149.87
5Bed	143.52	157.57
All Bed Sizes	115.61	131.81
Shepherds Bush		
Bedsit	81.96	78.9
1 Bed	103.61	107.11
2 Bed	118.39	120.05
3 Bed	122.44	126.7
4 Bed	138.73	132.77
5Bed	132.57	139.97
All bed sizes	112.29	114.62

[14] Note the data does not distinguish between flats and houses

Appendix 9
HRA Debt due for repayment in the next ten years.

AMOUNT	% RATE	START DATE	END DATE
329,776.03	9.00	24-Feb-89	24-Aug-14
192,369.35	9.25	31-Mar-89	30-Sep-14
1,892,244.40	9.125	27-Mar-86	28-Feb-15
720,214.87	9.75	31-Oct-89	30-Apr-15
4,730,611.00	9.375	25-Jul-89	25-Jun-15
4,730,611.00	9.375	25-Jul-89	25-Dec-15
2,838,366.60	9.125	1-Apr-86	31-Jan-16
2,365,305.50	7.75	15-Nov-93	30-Jun-16
1,371,877.19	7.875	28-Oct-93	30-Sep-16
2,128,774.95	9.00	6-Apr-86	30-Nov-16
3,784,488.80	8.875	13-Apr-86	30-Apr-17
2,365,305.50	10.625	30-Mar-92	30-Sep-17
3,784,488.80	8.875	11-Apr-86	28-Feb-19
3,311,427.70	3.95	20-Nov-09	21-Jan-20
4,730,611.00	9.00	30-Mar-95	20-Mar-20
9,461,222.00	4.04	20-Nov-09	21-Jan-21
3,547,958.25	6.625	9-Dec-97	09-Jun-23

Appendix 10
Benchmark of incentives for downsizing

Organisation	**Incentive per Room (£)**	**Other Incentives**
Kensington & Chelsea	1500	Removals; disconnection
Westminster	3000	Removals; Decorations
Wandsworth	1500	N/A
Richmond	2500 (cap 7500)	Decoration
Ealing	1000	Removals
Brent	1000	N/A
Hounslow	1000	
Harrow	1000	Removals
Family Mosaic	500	Removals
NHHG	1000 (cap 2000	Removals; disconnection
SBHA	Nil	N/A
Genesis	Nil	N/A
Network Stadium	2000	Removals; utility transfer