



# London Borough of Hammersmith & Fulham

## CABINET

5 JANUARY 2015

### FINANCIAL PLAN FOR COUNCIL HOMES: THE HOUSING REVENUE ACCOUNT FINANCIAL STRATEGY, 2015/16 HOUSING REVENUE ACCOUNT BUDGET AND 2015/16 RENT INCREASE

Report of the Cabinet Member for Housing : Councillor Lisa Homan

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:

- Proposals for a long-term 40 year financial plan for Council homes that do not depend on the sale of empty Council homes to outside property investors
- Plans for the repair and maintenance of Council homes
- Proposals to reduce the rate by which rents and service charges increase for tenants of Council homes each year.
- The 2015/16 budget for Council homes (also known as the Annual Housing Revenue Account (HRA) budget) including the proposed increases in rents and tenants service charges for 2015/16.

1.2. The Council uses all of the money from rents and other income it receives from tenants to pay for the cost of managing and maintaining Council homes and to cover the interest on its housing debt (in the same way someone would pay their mortgage). The Government has said it will not provide any further funding for improving Council homes. The Council can raise further funds to improve homes through the sale of assets and borrowing money (as long as this borrowing stays within a limit set by Government).

- 1.3. Council homes are accounted for in the Housing Revenue Account. This covers services provided to tenants and leaseholders in properties owned<sup>1</sup> by the Council that are paid for by tenants' rent, tenants' service charges, leaseholders' service charges and any other associated income from land held for "housing purposes". The Housing Revenue Account was established by an Act of Parliament<sup>2</sup> to ensure that Council tax payers cannot subsidise Council rents and nor can Council rents subsidise Council tax. Tenants and leaseholders who live in Council-owned properties pay Council tax separately for other Council services.
- 1.4. In April 2012, the government abolished the Housing Revenue Account (HRA) subsidy system. Previously, the government made a payment to the Council to help cover the cost of interest payments on our housing debt and the costs of managing and maintaining Council homes. The government has now stopped this payment. In return, the Council's debt was reduced.
- 1.5. Prior to May 2014, the Council was selling vacant Council homes to fund a significant part of the HRA's financial plan. This practice ended with the change of administration, so there is a need to set out a new financial plan.
- 1.6. The new proposed Financial Plan for Council Homes has been extended from 30 years and now covers a 40-year period. In the shorter term it incorporates a higher level of borrowing, but it budgets for this borrowing to be paid off by the end of the plan's term. The plan maintains the same level of proposed investment for planned maintenance and improvement to Council homes as the previous Housing Revenue Account Business plan approved by Cabinet in February 2014, without relying on the disposal of expensive voids. The 40 year time-frame is consistent with some other social landlords that are investing in their stock. A 30 year time frame is normally employed by Councils with low levels of investment in new stock and improving existing stock. The 40 year plan is judged to be more appropriate for LBHF because:
  - The Council's plan addresses the repairs and maintenance backlog to bring the stock up to a good condition and keep it this way over this time period
  - The Council borrows from the Public Works Loans Board for up to 50 years and much of the Council's debt extends to just before or after 40 years.

## **2. RECOMMENDATIONS**

- 2.1. To endorse the Long Term 40 Year Financial Plan for Council Homes as set out in section 8 of this report.
- 2.2. To approve the Housing Revenue Account 2015/16 budget for Council Homes as set out in Appendix 1.
- 2.3. To endorse the proposed new Council Homes Rent Policy for increases from 2015/16 onwards of Consumer Price Index (CPI)<sup>3</sup>+1% plus an additional £1 per week for tenants not yet paying target / formula rent.

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<sup>1</sup> Includes properties held on a long lease

<sup>2</sup> 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.

<sup>3</sup> The rate used is that for September in the previous year, for example for the April 2015 rent increase, September 2014 CPI of 1.2% would be used

- 2.4. To endorse the proposed new policy to increase tenant service charges by CPI<sup>4</sup> only for 2015/16 onwards in line with the increases in the majority of associated contracts.
- 2.5. To approve an average rent and service charge increase for 2015/16 for Council Tenants based on application of the new Council Homes Rent Policy and new service charge increase policy of 2.89% as set out in section 10 of this report.
- 2.6. To approve an average rent and service charge increase of 2.74% based on application of the Government's rent restructuring formulae for properties under licence and hostels as referred to in paragraph 10.9.
- 2.7. To endorse the HRA Medium Term Financial Strategy which plans to deliver further on-going annual revenue savings of £2.2million per annum by 2015/16, rising to £4.8million per annum by 2021/22, with savings coming principally from back office costs.
- 2.8. To note that £13.0m of Housing debt is due to mature in 2015/16 and to approve the refinancing of £11.5m of this debt during 2015/16, in order to both meet the investment in repairs and improvements to Council Homes, and to balance the gap in the financial plan that is a result of stopping selling empty Council Homes.
- 2.9. To note that the water regulator OFWAT is not due to confirm the increase in tenants' water charges until January 2015, and therefore to delegate authority to the Executive Director of Housing and Regeneration to agree the average increase in water charges as set out in section 14.
- 2.10. To approve a freeze in the communal heating charge at 2014/15 rates as set out in section 14 of this report.
- 2.11. To approve a freeze in parking charges as set out in section 14 of this report.
- 2.12. To approve a freeze in garage charges as set out in section 14 of this report.
- 2.13. To note the risks outlined in section 11 of this report.

### **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.
- 3.2. This budget is based on the financial business plan and this report allows Finance and Delivery Policy and Accountability Committee to comment on the policies that are being applied in the creation of this budget.

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<sup>4</sup> The rate used is that for September in the previous year, for example for the April 2015 rent increase, September 2014 CPI of 1.2% would be used

## 4. INTRODUCTION AND BACKGROUND

- 4.1 Between June 2004 and 31<sup>st</sup> March 2011 management of the borough's housing stock was in the hands of H&F Homes Ltd, a fourth round Arm's 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 1<sup>st</sup> April 2011 with the aim of improving cost efficiency and service quality.
- 4.4 On 28<sup>th</sup> 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 Council Homes can be supported and maintained from the income they receive from them. 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 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 became due, £12.1 million of debt will have been repaid by 31<sup>st</sup> March 2015, leaving the HRA with the ability to borrow an additional £49m to invest, either in existing Council Homes or in the provision of new Council Homes in the future, provided interest and repayment of the principal can be financed from rents.
- 4.5 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.
- 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; £51m of investment in stock via the capital maintenance programme is planned for 2015/16 alone with investment of £185m planned by the end of 2018.
- 4.7 Revenue from rents does not currently cover the combined costs of management, repairs and effective maintenance of the stock. LBHF rents are lower on average than the majority of other central London authorities<sup>5</sup> (2014/15 LBHF budgeted average rent is £105.21 per week compared to £95.64 - £123.80 per week in other central London boroughs, see Appendix 9).

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<sup>5</sup> Islington, Camden and Lambeth

- 4.9 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 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 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

4.10 These risks have to be viewed in the context of the level of HRA general reserves held, where a prudent level of reserves is important to support long term investment planning in the context of a property portfolio of 17,000 properties with an existing use value of £1.1billion. During the period of the ALMO's management, HRA reserves had fallen to £3.1m as at 31<sup>st</sup> March 2011, having been £6.4m at 31<sup>st</sup> March 2004<sup>6</sup> prior to peaking at £10m. HRA reserves as at 31<sup>st</sup> March 2015 are predicted to have increased since the return of management to the Council to £11.7m. However they will only be equivalent to 15% of turnover, compared with the average for London Housing Authorities of 21%<sup>7</sup>. This level of reserves provides insufficient cover against unanticipated events such as those that might arise from the risks noted above.

4.11 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, with a prudential approach to borrowing 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 by 2022. However, recent benchmarking indicates that the average level of reserves held by London authorities as a percentage of turnover is 21%, it is therefore proposed that this target is revised in line with this ratio, to £20m by 2022<sup>8</sup>.

4.13 Cumulative on-going annual efficiencies delivered in the four years to 31<sup>st</sup> March 2015 were £8.7m per annum and a future savings programme is set to deliver additional on-going additional cumulative efficiencies of £2.2m from 2015/16,

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<sup>6</sup> 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.

<sup>7</sup> Based on turnover for the financial year 2013/14, see Appendix 2.

<sup>8</sup> The HRA business plan proposed indicates that a reserves level of £20m by 2022 would be equivalent to 21% of turnover in that year.

rising to £4.8m by 2019/20 ( i.e. £13.5m cumulative annual efficiencies since the return of management to the Council in 2011).

- 4.14 However, savings alone are not enough to fund repairs and maintenance and the proposed rent increase policy is critical to enable the investment required to repair and improve the Council Homes. Provided the rent policy set out in this report is adopted, as a result of the funds already provided by the previous sale of void properties both as direct funding for the planned works programme and to repay debt, it is now possible to fund the remaining works from rents, by utilising some of the borrowing headroom over the life of the 40 year business plan.

## **5. STATUTORY CONTEXT**

- 5.1 The HRA was established by statute to ensure that Council tax payers cannot 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 40 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 8<sup>th</sup> 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 £1.1 billion and an unrestricted open market value in excess of £4 billion there is an entirely inadequate level of reserves of circa £11 million (predicted as at 1<sup>st</sup> April 2015), equivalent to less than 8 weeks rent.
- 6.5 This not only provides insufficient cover against unanticipated events as noted in paragraph 4.10, 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 £11 million as at 1<sup>st</sup> April 2015 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, combined with a prudential approach to borrowing and without reliance on disposals, thereby balancing the interest burden on the HRA whilst supporting the need to invest in the housing stock.
- 6.7 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 and more recently, a reliance on the disposal of the sale of empty Council Homes to fund current expenditure together with a rent policy that has increased rents for properties of 4 bedrooms and more at a significantly higher rate than that expected under the Government’s rent restructuring regime. However, average rents currently charged by LBHF still remain generally below those of other London housing authorities, and significantly below many of these authorities, as shown in Appendix 9.
- 6.8 It is now proposed to revise rent policy in favour of lower rent increases that will be more affordable to tenants (see section 9 below). Recent remodelling of the Financial Plan for Council Homes has demonstrated that despite lower planned rent increases being proposed from 2015/16 onwards than under the previous policy, an affordable series of rent increases coupled with a savings programme and a prudential approach to borrowing will enable revenues to be increased and costs contained over time 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.

## **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 2015/16.

## 8. FINANCIAL STRATEGY

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

- enable the financing of a viable on-going repairs programme that improves and maintains the stock in good repair, catching up the repairs backlog by 2018;
- to fund this by undertaking a programme of prudential borrowing whilst financing both the annual interest of new and existing debt and repayments of the principal debt on maturity (£205.3m as at 1<sup>st</sup> April 2015) over 40 years<sup>9</sup>;
- to ensure tenants only receive affordable increases in rent and other charges that are significantly lower than those included in the February 2014 HRA Business Plan.
- increase the HRA reserves balance to protect against future shocks or unanticipated events to the current average level of reserves held by London authorities as a percentage of turnover of 21% by 2022. This will mean reserves increase to £20 million<sup>10</sup> by 2022.
- free resources for investment in new initiatives including new housing supply whilst improving service standards.

8.2 The new proposed Financial Plan for Council Homes covers a 40-year period and does not depend on the sale of empty Council homes to outside property investors. It contains the same level of repairs to Council homes as the previous Housing Revenue Account Business plan approved by Cabinet in February 2014.

8.3 The 40 year time span is used because:

- The Council plan to address the repairs and maintenance backlog to bring the stock up to a good condition and keep it this way over this time period
- The Council borrows from the Public Works Loans Board for up to 50 years and a substantial proportion (38%) of the Council's current housing debt is not due for repayment until after 30 years with 21% of the Council's current housing debt not being due for repayment for over 40 years.

8.3 The key assumptions in the proposed new Financial Plan for Council Homes are:

- investment in existing stock has been updated to reflect the stock condition survey information and phasing which underpins the current HRA Asset Management Plan

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<sup>9</sup> 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.

<sup>10</sup> 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.



- in accordance with the administration's manifesto pledge, the business plan has been remodelled to remove completely the need to sell Council homes as they become empty
- the income from and costs associated with the Housing Development Programme Business Plan 2013-2017 have been updated as has the impact of the Earls Court Regeneration Programme. No changes have been made to reflect the Administration's ambition to convert a substantial proportion of the Housing Development Programme to Social Rent and the proposed plan still assumes that the previously approved programme continues. However, this is currently under review and the proposed financial plan does contain sufficient debt headroom to enable this to happen;
- the proposed Financial Plan for Council Homes assumes a long term differential between Consumer Price Index (CPI) and Retail Price Index (RPI) of 1.0%. This is based on the middle 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 a differential of 1.3% would result in a lower reserves level and a significant 10% shortfall in capital investment;
- CPI is set at 1.2% for 2015/16 (in accordance with September's CPI) followed by a CPI assumption of 2.5% for 2016/17 and 2% for the remaining term;
- In addition to cumulative on-going annual efficiencies delivered in the four years to 31<sup>st</sup> March 2015 of £8.7million, the business plan includes a future savings programme which is set to deliver additional on-going additional cumulative efficiencies of £2.2m from 2015/16, rising to £4.8m by 2019/20 principally from reductions in back office costs. (i.e. £13.5m cumulative annual efficiencies since the return of management to the Council in 2011). Details of these proposed savings are set out in Appendix 3;
- In addition to being very sensitive to the differential between CPI and RPI as set out in above the plan is also very sensitive to increase in RPI. It is also sensitive to factors which impact on the level of income received, assuming no reduction in the capital repairs programme increases in voids and bad debts make the plan unviable as does a rent increase of CPI plus 1% or additional costs of £500k per annum. Should any one of these sensitivities become reality then without any compensating savings or increases in income, reductions would need to be made to the level of repairs.

8.4 Savings alone are not enough to fund repairs and maintenance, the Financial Plan for Council Homes has been modelled to remove completely the need to sell empty Council Homes and therefore a programme of prudential borrowing together with normal annual rent increases will need to be undertaken. The proposed Financial Plan for Council Homes will required an additional £16m of borrowing with planned borrowing reaching a peak of £221m in 2022/23 before being repaid over the remaining life of the plan<sup>11</sup>.

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<sup>11</sup> Note that at the end of the 40 year business planning term, the level of general reserves held under the base model scenario of £109m would be more than sufficient to repay the outstanding debt of £43m. The reason for the outstanding debt after 40 years is because the Council's HRA debt portfolio includes £43m of borrowing due to mature between April 2054 and March 2058.

8.5 The combined effect of the key assumptions outlined above and the effect on reserves can be seen in the 5 year Income and Expenditure account presented at Appendix 2. 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 to protect against future shocks or unanticipated events.

## **9. FUNDING THE BUSINESS PLAN: COUNCIL HOMES RENT POLICY**

9.1 As part of the Spending Round 2013, Government made a pledge on 26<sup>th</sup> June 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. This is however not a statutory requirement and Councils are able to deviate from this policy if they have a sound reason to do so.

9.2 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 major repairs allowances have been uplifted when calculating the HRA Reform settlement, the uplift<sup>12</sup> is insufficient to fund the on-going housing repairs capital programme required to adequately maintain the Council Homes to the level required to ensure the Council can both fulfil its obligations as a Local Housing Authority and to ensure the Homes continue to generate an income stream to fund the debt interest and repayments due as part of maintaining a viable HRA.

9.3 The Housing Repairs 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. There remains much work to do; £51m of investment in stock via the capital maintenance programme is planned for 2015/16 alone with investment of £185m planned by the end of 2018.

9.4 Therefore, the Housing Capital Programme requires an investment of circa £13 million per annum in addition to major repair allowances (funded by revenue via depreciation) and leaseholder contributions. This can only be funded by a combination of further reducing expenditure either on maintenance / repairs or other services, by increasing income and by accessing new borrowing.

9.5 LBHF rents are lower on average than the majority of other central London authorities<sup>13</sup> (2014/15 LBHF budgeted average rent is £105.21 per week compared to £95.64 - £123.80 per week in other central London boroughs, see Appendix 9) and only 10% of tenants had achieved rent convergence with target rents under the previous rent restructuring regime. This means that tenants in the same type of property pay very different rents.

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<sup>12</sup> LBHF's major repairs allowance was uplifted by £2.5m per annum as at 2012/13 when HRA reform was implemented

<sup>13</sup> Islington, Camden and Lambeth

- 9.6 Therefore, when arriving at the proposed business plan two different possible options for on-going annual rent increases were modelled and presented to tenants at the Tenants and Residents Associations Forum meeting on 23<sup>rd</sup> October 2014:
- CPI+1% with no continued convergence towards target rents
  - CPI+1% with each tenant who does not yet pay target rent paying an additional £1 per week
- 9.7 Rent increases of CPI+1%+£1 result in a Financial Plan for Council Homes where the peak debt is £220.7m in 2022/23. Debt repayment allowing for long term fixed debt<sup>14</sup> occurs in 2052/53, 30 years after the peak debt has been reached.
- 9.8 Rent increases of CPI plus 1% per annum would result in the debt cap being reached halfway through the 40 year term of the business plan, thus curtailing any further capacity to borrow funds to meet the investment required under the asset management strategy. It results in debt never being repaid and in the repairs being unable to be funded.
- 9.9 To achieve a viable business plan with a rent increase of CPI+1% investment into the stock would have to be reduced by more than 6.3% each year. In practice this would mean not catching up the repairs backlog by 2018 and a significant reduction to future planned repairs and lift replacements. A 40-year business plan could not be justified as stock would start to fall into disrepair. It would require some difficult choices to be made which might include:
- Not replacing lifts, the current programme assumes that no lift will be more than 25 years old by 2018/19. The lifts planned for replacement are already well over 30 years old and when breakdowns occur component parts are difficult to source, resulting in prolonged periods out of service. Reducing funding would mean that some lifts would not be replaced until they were over 40 years old.
  - 35 blocks, primarily on the White City and the medium rise blocks on Clem Attlee are expected to receive replacement kitchen and bathrooms over the next 4 years. This would take several years longer if funding were reduced, all tenants would have to wait longer to receive kitchens and bathrooms and as these are not normally a health and safety issue it is likely there would be a number of years when no kitchens or bathrooms were replaced.
  - The current programme assumes all external and communal areas have been repaired and decorated between 2010 and 2018 and that this is then done every 6 to 7 years. Cutting funding would mean delaying the current programme and would mean only doing this on average every 10 years and that less work would be done.
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- <sup>14</sup> Note that at the end of the 40 year business planning term, the level of general reserves held under the base model scenario of £109m would be more than sufficient to repay the outstanding debt of £43m. The reason for the outstanding debt after 40 years is because the Council's HRA debt portfolio includes £43m of borrowing due to mature between April 2054 and March 2058.

- Planned window replacements would not happen, there would be no opportunity to upgrade our street based stock to double glazed windows and windows installed in the early 90's would have to endure well past their expected life. These residents would not benefit from modern double-glazing for a very long time.
- Communal boilers and heating systems coming to the end of their useful life could not be replaced as planned, residents would probably have increasingly long periods without heating or hot water.
- The way the estates look could not be improved and extra facilities such as play areas could not be offered.
- No refurbishment of tenants halls would be possible
- No wide ranging energy efficiency measures such as solid wall insulation would be possible.

- 9.10 For example a 30-year plan with rent increases at CPI plus 1% with the reduced levels of housing repairs required to make the plan balance would mean not doing 20-25 lifts or not double- glazing around 380 properties each year (leaving 90 lifts unrepaired or 1,500 properties not double-glazed over a four-year period)
- 9.10 Ultimately, a rent increase on CPI plus 1% would potentially result in the Council's housing stock falling into disrepair and the Council would then be at risk of not being able to fulfil effectively its obligations as a local housing authority.
- 9.11 Applying a rent increase of CPI plus 1% per annum with an additional £1 per annum for tenants who pay less than target rent will enable both the full investment in housing repairs required by the asset management strategy and the repayment of all debt due to mature before the end of the 40 year term of the business plan, 30 years after peak debt is reached. This is because not only does it result in additional income, but it enables that income to be used to fund additional borrowing which can be repaid over the life of the plan. It will mean that the cuts in investment set out in paragraph 9.9 will not be required.
- 9.12 Tenants were consulted on and accepted the proposed new rent policy for Council Homes at the Tenant and Resident Forum meetings held on 23<sup>rd</sup> October 2014 and at the Economic Regeneration, Housing and the Arts Policy and Accountability Committee meeting on 4<sup>th</sup> December 2014.
- 9.13 Therefore a rent increase of CPI plus 1% per annum with an additional £1 per week for tenants who pay less than target rent is recommended.

## **10. RENTAL INCOME**

### **Rents & Tenant Service Charges**

#### Rents

- 10.1 The draft Budget for Council Homes for 2015/16 shown in Appendix 1 assumes tenant rents increase in line with the new proposed Council Homes Rent Policy

set out above in this report. The application of the Council's revised rent policy in Hammersmith and Fulham for 2015/16 leads to an average rental increase of 3.00% and an average combined increase in rent and service charges of 2.89%.

- 10.2 The Housing Revenue Account financial plan approved under the previous administration in February 2014 foresaw that rents would increase in April 2015 by the Retail Price Index plus 0.5%, plus an additional £2 for tenants who pay less than target rent<sup>15</sup>. This would have meant an average increase in rent and service charges of £5.17 a week, equivalent to a rise of 4.58%. Therefore the proposed 2.89% increase is significantly lower than the increase foreseen in the February 2014 Housing Revenue Account Financial Plan.

### Tenant Service Charges

- 10.2 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 resulting costs that would be generated by operating variable service charges for tenants. The use of fixed service charges rather than variable also ensures that tenants do not receive any unexpected bills for service charges<sup>16</sup> thereby making it easier for tenants to budget.
- 10.3 The tenant service charge is inflated as part of the annual rent setting process. The Cabinet report introducing de-pooling of service charges (approved on 5<sup>th</sup> September 2011) set a policy for an annual increase in tenant service charges of up to RPI plus 0.5% in normal circumstances. However, following the linking of annual contractual inflation to the previous September's CPI to the repairs and maintenance and estate services procurements, it is planned to increase the tenant service charge for 2015/16 by CPI only. Therefore, the draft Budget for Council Homes for 2015/16 shown in Appendix 1 assumes tenant service charges will be increased to allow for inflation at 1.2% (September CPI).
- 10.4 Tenants will receive notification of their service charges as part of their rent increase letter in February 2014.

### Combined Impact

- 10.5 The combined effect of the above rent and tenant service charge proposals will increase the average rent and tenant service charge by 2.89%. Together with a number of adjustments, this will increase rental income in the HRA by £1.453m in 2015/16. The main changes are shown in the following table:

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<sup>15</sup> The target 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.

<sup>16</sup> Unfortunately because of OFWAT regulations this approach is not possible with Water and sewerage charges, these have to be subject to an annual reconciliation process which can result in an additional charge for tenants

**Table 3: Rent & Tenant Service Charge Budget Movements**

Description	With a 2.89% increase
	<b>£000s</b>
Original Net Budget 2014/15	(71,008)
Rent & Tenant Service Charges Increase	(2,071)
Adjustment for disposals due to Right To Buy sales and void sales approved pre-May 2014	747
Adjustment for extra day	(159)
Adjustment for voids	30
<b>Net Budget 2015/16</b>	<b>(72,461)</b>

- 10.6 Negative adjustments to the net rental budget are made for an assumed loss of rent due to stock changes. This relates mainly to 119 properties disposed of or expected to be disposed of under Right to Buy. Adjustments are also made for rent irrecoverable during the year. A positive adjustment is made to account for the additional income receivable as a result of the forthcoming leap year.
- 10.7 A 2.89% average increase in rents and tenant service charges combined equates to an average weekly increase for tenants of £3.26. An analysis of the weekly increase across all tenants is shown in the following table:

Rent & Tenant Service Charges Increase per week (£)	Number of Dwellings
Less than £1	104
Between £1 and £2	76
Between £2.01 and £3	1,853
Between £3.01 and £4	9,420
Between £4.01 and £5	833
<b>Total</b>	<b>12,286</b>

- 10.8 Under the new Council Dwellings rents policy, no tenant will see an increase greater than £4.88 per week.
- 10.9 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 2.74%. This net average increase represents the combined effect of an average rent increase of 3.36% and an average service charge increase of 1.2%.

### **Bad Debts, Voids and Welfare Reform**

#### Voids

- 10.10 In line with 2014/15, voids have been budgeted for in 2015/16 at 2% of the gross rent roll as the impact of the recently introduced fixed term tenancies is not anticipated to have a significant effect on void rates in 2015/16.

## Welfare Reform

- 10.11 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. Direct payments of benefits to social housing tenants as part of Universal Credit are expected to result in an increase in rent arrears.
- 10.12 Direct Payments are being implemented as 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 28<sup>th</sup> October 2013 was only for a limited number of claimants and excluded those who were previously in receipt of housing benefit.
- 10.13 However, DWP have now rolled out Universal Credit for couples and singles for new and existing claimants and are expected to roll out Universal Credit for families from 2015/16 onwards, having closed down new claims to the legacy benefits it replaced. This means that in 2015/16 new and existing claimants will be entitled to benefit to cover their housing costs which may potentially impact on rent collection rates.
- 10.14 It is difficult to quantify the final potential impact; however, the Council is expected to gain "trusted partner" status which will enable the identification of Universal Credit claimants as they arise. Due to the difficulty in estimating the financial impact, both an allowance for an additional bad debt provision and a risk is included in the 2015/16 budget. A bad debt charge of £900k has been included for 2015/16 plus an additional allowance of £1,250k to provide for the financial impact of direct payments under Universal Credit. This gives a total budgetary provision for bad debt of £2.150m. There is a risk that the migration of tenants to Universal Credit moves at a faster pace than initially expected – this risk for 2015/16 has been included in the HRA key financial risks set out in Appendix 6.

## **11. RISKS**

- 11.1 Appendix 6 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.

## Welfare Reform

- 11.2 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.
- 11.3 However, there remains some risk because though the Council has made provision for the inevitability that arrears will increase, it is very difficult to quantify the level of risk for direct payments. 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 £600k and £3.5m per annum for 2015/16, 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 £43.1m. In terms of mitigation the Council is actively promoting payment by direct debit/ standing order to tenants and is expected to gain “trusted partner” status with the DWP in January 2015 as part of a detailed rent collection strategy. Under the proposed scheme, the Council will be able to apply directly to the DWP for “alternative payment arrangements” (APAs) for individual tenants before they fall into significant arrears. The APA would enable benefits for housing costs to be paid directly to the Council.

### Other risks

11.4 There are also a number of risks, some of which apply more to future years. Again, these are detailed in Appendix 4, 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 in regard to 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;
- 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;

## **12 CAPITAL CHARGES**

12.1 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.

12.2 In line with the latest revised 40 year HRA business plan, it is planned to repay £13.0m of debt due to mature in 2015/16 and then refinance £11.5m of this in order to both meet the need for investment in repairs and improvements to Council Homes, and to balance the gap resulting from the reduced reliance on expensive void sales.

12.3 The combined effect of this net reduction in debt is expected to result in the annual interest cost in 2015/16 reducing to £10.7m (from £11.2m in 2014/15). This is because the Council expects to be able to finance new borrowing at a lower interest rate than the debt due to mature in 2015/16. The level of borrowing proposed within the Financial Plan for Council Homes is predicted to increase until 2022/23 before falling back over the term of the business plan. The plan for the next 10 years borrowing is set out in Appendix 8.



- 12.4 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 2015/16. 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 2015/16 will be the penultimate year of operation. The increase in the depreciation charge for dwellings for 2015/16 is £0.6million taking the budget required to £16.8 million.
- 12.5 The transitional arrangements exclude non-dwellings depreciation which under previous accounting rules had no net effect on the HRA bottom line. For 2015/16, this charge has reduced by £93k resulting in a budget of £296k.
- 12.6 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 in Appendix 6.

### **13. INFLATION**

- 13.1 The Council's contracts for repairs and maintenance with MITIE and for housing management and estate services with Pinnacle attract annual inflation. The annual uplift is based on the September CPI<sup>17</sup> prior to the beginning of the financial year in question. CPI as at September 2014 is 1.2%. Therefore additional budgetary provision has been made for repairs and maintenance of £160k and for housing management and estate services of £51k. Additionally, inflation of £17k has been provided for a number of other contracts, with all other inflationary pressures accommodated within the existing envelope of resources.

### **14. FEES, CHARGES, AND OTHER INCOME**

#### Heating Charges

- 14.1 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.
- 14.2 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.
- 14.3 As the new energy contract rates are not expected to be received until January 2015, 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 2015/16.

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<sup>17</sup> Consumer Prices Index

## Garage and Parking Space Rents

- 14.4 A new charging policy for garages was approved by Cabinet on 24<sup>th</sup> 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. It is proposed to freeze the charges for 2015/16 pending a review of garages during 2015/16. Any proposed changes to the level of charging in the future will need to be considered within the context of a sustainable financial plan.
- 14.5 The level of charges among other neighbouring London Councils vary. For example, equivalent monthly charges for garages are between £130-£260 in Kensington and Chelsea, £53-£83 in Lambeth, £38-£127 in Islington, and £29-£236 in Camden. Prices for garages rented privately within Hammersmith & Fulham range from £1,800 to £2,500 per annum.
- 14.6 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.
- 14.7 Following changes in law that limit the Council's powers to enforce parking on housing estates by private contractors, the Council is undertaking a review of parking on all housing estates in the borough with a view to introducing enforceable parking controls. Following a consultation process with all residents of all estates, the findings and recommendations arising will be presented to Cabinet during 2015, 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. It should also be noted that the level of income assumed for parking charges for 2015/16 has been reduced to take account of the changes in law and on-going review of parking.

## Water Charges

- 14.8 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 for an administration charge to be added.
- 14.9 The review involved comparing the amount the Council charged tenants for water and sewerage during 2013/14 with the amount the Council was charged by Thames Water plus an administration charge. This also involved working with Thames Water in ensuring that the charges made to the Council for metered properties were in line with the actual water used. As a result, an adjustment was made to tenants' accounts in respect of 2013/14.
- 14.10 Following completion of the review of water charges for 2013/14 to ensure charges are in line with usage and taking into account the net impact of the actual increase applied last year to tenants charges, compared to the increase

applied by Thames Water, the average increase to tenants' water charges before any annual increase for 2015/16 is applied (as advised by OFWAT) is 0.6%. Within this, 9,779 tenants will see an average increase of 5% and 2,454 tenants will receive an average reduction of 21%.

- 14.11 The increase advised by OFWAT for 2015/16 will need to be overlaid on top of the above adjustment. OFWAT are currently conducting a price review, the outcome of which will be known in January 2015, Thames Water have also confirmed that they will not be issuing their proposed price increases to OFWAT for approval until January 2015. It is therefore proposed that any change to the water charges be agreed following OFWAT's approval in January 2015 and it is recommended that authority be delegated to the Executive Director of Housing and Regeneration to approve the increase in water charges in line with the increase set out in 14.9 above overlaid with OFWAT's decision. This will ensure that the Council fulfils its legal obligation to recover the water charges in full.
- 14.12 It is worth noting that OFWAT advised that that any increase for 2014/15 would be limited to the previous November's RPI plus 1.4%. The 1.4% refers to OFWAT's maximum acceptable increase over and above RPI. The latest published data confirms that at September 2014 RPI was 2.3%. Assuming a cap above RPI of 1.4% is repeated, this would limit any increase for tenants to 3.7%, in addition to the adjustment before any annual increase outlined above. Based on this scenario, the average increase for tenants would be 4.3%. Within this, 10,135 tenants will see an average increase of 9% and 2,098 tenants will receive an average reduction of 21%.

#### Advertising Income

- 14.13 The Council currently generates income from advertising hoardings located on Housing land, and an additional potential net income stream of £37k has been budgeted for 2015/16 as a result of the full year impact of new hoardings sites identified 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

- 14.14 The budget for commercial property rents for 2014/15 has been increased by £21k to £1.343m. This is explained by an increase of £60k 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 £39k in respect of disposals currently in progress to existing tenants expected to be completed during or prior to 2015/16. The budget set for HRA commercial property incorporates a forecast void rate of 11%, based on the valuers views, to allow for economic conditions. Additionally, the budgeted increase in bad debt provision has been set at £92k for 2015/16 in order to prudently allow for economic conditions.

### **15 CONSULTATION**

- 15.1 Tenants and residents have been consulted on the new rent policy via the Tenants & Residents Associations Forums held on 23<sup>rd</sup> October 2014.

- 15.2 Tenants and Residents were also consulted on the new rent policy at the Economic Regeneration, Housing and the Arts Policy & Accountability Committee on 4<sup>th</sup> December 2014 in order that the Committee could comment on the budget proposals in advance of any formal decision being taken by Cabinet on 5<sup>th</sup> January 2016.

## **16. EQUALITY IMPLICATIONS**

- 16.1 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.
- 16.2 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 last year, the Council has substantially increased the incentive payments it makes to tenants who chose to downsize.

## **17 LEGAL IMPLICATIONS**

- 17.1 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.
- 17.2 Implications verified/completed by: Janette Mullins, Head of Litigation, Finance & Corporate Services.

## **18 FINANCIAL AND RESOURCES IMPLICATIONS**

- 18.1 Comments are contained within the body of the report.
- 18.2 Implications verified/completed by: Kathleen Corbett, Director of Finance & Resources, Housing & Regeneration, 020 8753 3031

## 19. RISK MANAGEMENT

19.1 The principal risks are detailed in section 11 of this report, these are included in the departmental risk register.

19.2 Implications verified/completed by:

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

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	TRA Forum papers 23 <sup>rd</sup> October 2014, Agenda item 5; Financial Update	Kathleen Corbett Ext 3031	Housing and Regeneration Department, 3 <sup>rd</sup> Floor Town Hall Extension, King Street, W6 9JU

## Appendix 1

### 2015/16 Draft Housing Revenue Account Budget

Division	2014/15 Revised Budget	2014/15 Forecast Outturn	2015/16 Proposed Budget
	£000s	£000s	£000s
Housing Income	(75,698)	(75,617)	(77,484)
Housing Services	9,929	9,809	9,578
Commissioning & Quality Assurance	3,226	3,123	3,119
Safer Neighbourhoods	578	578	578
Adult Social Care	48	48	48
Housing Repairs	13,359	13,563	13,748
Property Services	2,058	2,052	2,163
Regeneration	331	376	267
Housing Options	399	346	369
Finance & Resources	9,552	8,370	9,661
Corporate Service Level Agreement Charges	5,324	5,324	5,503
Capital Charges	27,864	27,864	29,976
<b>(Contribution to)/ Appropriation from HRA General Reserve</b>	<b>(3,030)</b>	<b>(4,164)</b>	<b>(2,474)</b>
<b>Opening Balance on HRA General Reserve</b>	<b>(7,494)</b>	<b>(7,494)</b>	<b>(11,658)</b>
<b>Closing Balance on HRA General Reserve</b>	<b>(10,524)</b>	<b>(11,658)</b>	<b>(14,132)</b>

## Appendix 2

5 Year Business Plan for Housing Revenue Account 2015/16 - 2019/20					
	2015/16	2016/17	2017/18	2018/19	2019/20
HRA revenue projections	Proposed Budget £000s	Projection £000s	Projection £000s	Projection £000s	Projection £000s
Income	(77,484)	(84,270)	(86,492)	(89,739)	(94,507)
Expenditure before savings and growth	73,729	77,284	77,871	80,087	81,679
<b>Base HRA surplus for the year</b>	<b>(3,755)</b>	<b>(6,986)</b>	<b>(8,621)</b>	<b>(9,652)</b>	<b>(12,828)</b>
Efficiencies*	(2,187)	(3,359)	(4,237)	(4,622)	(5,299)
Growth	1,168	1,284	1,305	1,328	1,351
<b>Surplus before additional capital programme contribution</b>	<b>(4,774)</b>	<b>(9,061)</b>	<b>(11,553)</b>	<b>(12,946)</b>	<b>(16,776)</b>
Available for Revenue Contribution to Capital Outlay or growth	2,300	5,500	11,517	10,452	14,130
<b>Surplus for the year after additional capital programme contribution</b>	<b>(2,474)</b>	<b>(3,561)</b>	<b>(36)</b>	<b>(2,494)</b>	<b>(2,646)</b>
<b>HRA balance at year end</b>	<b>(14,132)</b>	<b>(17,693)</b>	<b>(17,729)</b>	<b>(20,223)</b>	<b>(22,869)</b>

\* Note that all figures including efficiencies are inflated in line with business planning assumptions

## APPENDIX 3 HRA MTFS Saving plan

	Risk to Delivery	15/16	16/17	17/18	18/19	19/20	20/21
Original Efficiency Plan: additional reduction across all divisions		295	355	355	355	355	355
Reversal of procurement contingency		1,000	1,000	1,000	1,000	1,000	1,000
Reduce Contingency re: utilities not needed in future years		500	500	500	500	500	500
Additional savings programme focused primarily on reducing corporate overheads for IT and premises.		200	500	1,250	1,500	1,500	1,500
Additional savings on core costs resulting from better stock condition and better customer service.		0	0	0	0	500	500
Remove EU Life revenue contribution to Capital		192	192	192	192	192	192
Remove temporary growth for MTFS		0	250	250	250	250	250
Remove temporary growth for MITIE		0	500	500	500	500	500
<b>Base savings programme</b>		<b>2,187</b>	<b>3,297</b>	<b>4,047</b>	<b>4,297</b>	<b>4,797</b>	<b>4,797</b>



## Appendix 4 Efficiencies & Income Movements

<b>Efficiencies</b>		
<b>Division</b>	<b>Description</b>	<b>Amount £000s</b>
Housing Services	Original Efficiency Plan: additional reduction across all divisions	295
		<b>295</b>
Finance & Resources	Additional savings programme focused primarily on reducing corporate overheads for IT and premises.	200
Finance & Resources	Reduce Contingency re: utilities not needed in future years	500
Finance & Resources	Remove EU Life revenue contribution to Capital	192
Finance & Resources	Reversal of procurement contingency	1,000
		<b>1,892</b>
<b>Total</b>		<b>2,187</b>

<b>Item</b>	<b>Housing Income £</b>
2014/15 Base Budget	<b>(75,698)</b>
<b>Other Adjustments</b>	
Increase in dwelling rents and tenant service charges	<b>(1,453)</b>
Alignment of Garage and Parking Space rents with forecast income	<b>(162)</b>
Increase in income from advertising hoardings	<b>(37)</b>
Increase in income from Leaseholder Service Charges	<b>(40)</b>
Other minor adjustments	<b>(94)</b>
<b>2015/16 Base Budget</b>	<b>(77,484)</b>

## Appendix 5 Growth

<b>Revenue Growth</b>		
<b>Division</b>	<b>Description</b>	<b>Amount £000s</b>
Finance & Resources	Rent Income and Accounting Team (including service level agreement impact)	983
		<b>983</b>
Housing Repairs	MITIE handling of non-MITIE calls	23
Housing Repairs	Housing Repairs staff in the area offices	77
Housing Repairs	Additional Pension Costs	22
		<b>122</b>
Property Services	Gas Administration Officer	20
Property Services	Apprentice	16
Property Services	National Management Trainee	27
		<b>63</b>
<b>Total Growth</b>		<b>1,168</b>

The return of the Rent Income and Accounting function from FCS to HRD will result in an increase in SLA costs charged by the General Fund. Additionally, the team is being restructured to strengthen support for tenants and improve income collection performance particularly in the light of the switchover to Universal Credit.

The Council's Repairs & Maintenance contractor, MITIE, will expand their call handling service to cover a number of contracts which are not held by MITIE, as this provides better service to residents and a single call handling service for Property Services within HRD.

One member of MITIE's staff will be retained at each of the Council's area housing offices to provide a face to face point of contact for Repairs & Maintenance enquiries as this is highly valued by residents.

A revision to pension costs has resulted from a change in the forecast number of staff who transferred to MITIE as part of the procurement of the new Repairs & Maintenance contract.

The additional posts in Property Services relate to resourcing the enforcement function for access to properties to ensure the Council complies with the requirements of gas safety legislation. Additionally, additional resource is required to support key project work within the Property Services division.

<b>Appendix 6: Key Risks 2015/16</b>	<b>Lower Limit £000s</b>	<b>Upper Limit £000s</b>	<b>Worst Case £000s</b>	<b>Future Risk £000s</b>
<b>Quantifiable Risks</b>				
<b>Welfare Reform</b> - 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 Government's Welfare Reform programme. However, there remains some risk as follows:				
- 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	611	43,100	?
<b>Right to Buy Disposals</b> - a level of Right to Buy disposals (60 per annum from 2015/16 and then falling back to 20 per annum from 2017/18) has been assumed within the business plan. This takes account of the increased level of discount on RTB disposal levels, though 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	1,200	1,200	200
<b>Pension opt-in</b> - this relates to the risk of all staff opting to join the local government employer pension scheme.	0	14	14	14
<b>Total Quantifiable Risks</b>	<b>0</b>	<b>1,825</b>	<b>44,314</b>	<b>214</b>

## Appendix 6: Key Risks 2015/16

### Unquantifiable Risks

**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 £102m represents 8.8% of the current stock valuation of £1,165m, so an impairment / revaluation loss of 8.8% 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, 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

**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 7: London Local Housing Authorities**  
**General Reserves as a % of Turnover**

<b>Local Housing Authority</b>	<b>Turnover 2013/14</b>	<b>General Reserve at 31st March 2014</b>	<b>General Reserve as a % of Turnover</b>
	£m	£m	%
<b>H&amp;F</b>	77.3	7.5	10%
<b>Triborough London Housing Authorities</b>			
Westminster	102.4	93.2	91%
RBKC	54.9	18.9	34%
<b>Other Neighbouring London Housing Authorities</b>			
Wandsworth	138.1	105.8	77%
Brent	120.8	0.9	1%
Hounslow	82.7	27.8	34%
Ealing	68.8	4.7	7%
Hillingdon	61.3	22.8	37%
Harrow	31.5	3.6	11%
<b>Other London Local Housing Authorities</b>			
Southwark	280.5	23.5	8%
Lambeth	172.7	8	5%
Islington	170.7	14.1	8%
Camden	169.6	34.9	21%
Hackney	136.1	10.2	7%
Greenwich	122	23.7	19%
Newham	109.7	12.5	11%
Barking & Dagenham	108.8	8.7	8%
Haringey	108.5	26.6	25%
Tower Hamlets	90.2	17.2	19%
Croydon	87.5	10.8	12%
Lewisham	86.5	26.5	31%
Enfield	63	12.9	20%
Barnet	62.1	14.8	24%
Waltham Forest	58.9	3.3	6%
Sutton	37.6	2.8	7%
Kingston upon Thames	31	3.2	10%
Redbridge	28.5	4.9	17%
Average of Triborough Authorities			45%
Average of Triborough & Other Neighbouring Authorities			34%
Average of all 27 London Local Housing Authorities			21%

**Appendix 8****Housing Revenue Account Borrowing Plans 2014/15 - 2024/25**

Year		Borrowing Opening Balance	Principal Repayments	Debt Repayments	Additional Required Borrowing	Borrowing Bal/Cfwd
		£000s pa	£000s pa	£000s pa	£000s pa	£000s pa
1	2014.15	207,717	2,414	0	0	205,302
2	2015.16	205,302	13,020	0	11,457	203,740
3	2016.17	203,740	5,866	0	3,110	200,983
4	2017.18	200,983	6,150	0	4,219	199,053
5	2018.19	199,053	3,784	0	1,785	197,054
6	2019.20	197,054	8,042	4,018	0	184,993
7	2020.21	184,993	9,461	0	21,598	197,130
8	2021.22	197,130	-	0	2,539	199,670
9	2022.23	199,670	-	0	20,982	220,652
10	2023.24	220,652	3,548	15,542	0	201,562
11	2024.25	201,562	13,009	13,741	0	174,812

**Appendix 9: Central London Local Housing Authorities  
Weekly Rents: 2014/15**

<b>Local Housing Authority</b>	<b>Weekly Rent 2014/15</b>
	<b>£</b>
Lewisham	95.64
Hackney	98.86
Southwark	99.79
Greenwich	102.17
Hammersmith & Fulham	105.21
Lambeth	107.20
Tower Hamlets	108.63
Camden	109.76
Islington	111.38
Kensington & Chelsea	121.18
Westminster	122.15
Wandsworth	123.80
<b>Average</b>	<b>108.81</b>

Source: CIPFA Benchmarking Statistics; Westminster, Lambeth, Wandsworth directly sourced