London Borough of Hammersmith & Fulham **CABINET** **8 FEBRUARY 2016**	
FINANCIAL PLAN FOR COUNCIL HOMES: THE HOUSING REVENUE ACCOUNT FINANCIAL STRATEGY, 2016/17 HOUSING REVENUE ACCOUNT BUDGET AND 2016/17 RENT REDUCTION	
Report of the Cabinet Member for Housing – Councillor Lisa Homan	
Open Report	
Classification - For Decision **Key Decision: Yes**	
Wards Affected: All Wards	
Accountable Lead Director: Kathleen Corbett, Joint Lead Director for Housing & Director of Finance and Resources (Housing & Regeneration)	
Report Author: Kathleen Corbett, Director of Finance and Resources (Housing & Regeneration)	**Contact Details:** Tel: 020 8753 3031 E-mail: kathleen.corbett@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report covers the 2016/17 budget for the Council's homes (also known as the annual Housing Revenue Account (HRA) budget) including a reduction in rents for Council homes of 1% for 2016/17.

The Council uses all of the money from rents and other income it receives from council 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.

1.2. Council homes are accounted for in the HRA. This covers services provided to tenants and leaseholders in properties owned[1] 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 HRA

[1] Includes properties held on a long lease

was established by an Act of Parliament[2] 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.

1.3. In April 2012, the Government abolished the 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 in 2012. This debt reduction was based on a calculation carried out by Government to work out the amount of debt the rent the Council received from tenants would be able to repay over 30 years, after allowing for the cost of managing and maintaining the homes. This calculation assumed there would be rent increases every year linked to a measure of inflation known as the Retail Price Index (RPI) + ½%.

1.4. Prior to May 2014, the Council sold council homes to fund a significant part of the HRA's financial plan. This practice ended with the change of Administration and a new Financial Plan for Council Homes was approved in January 2015. This plan covered a 40-year period and maintained the same level of proposed investment in council homes over the four years 2015/16 – 2018/19 as the previous HRA business plan approved by Cabinet in February 2014, but without relying on the disposal of homes that became vacant when a tenant moved (known as voids). In order to enable this level of investment, tenants agreed to a rent increase linked to a measure of inflation known as the Consumer Price Index (CPI)[3]+1% with an additional £1 rent increase for tenants who pay less than target rent and for tenants' service charges to be increased in line with CPI only. The previous administration's policy was for a higher rent increase of RPI[4]+1/2%+£2 which at historic RPI / CPI differentials is approximately the same as a CPI+1%+£2 rent increase.

1.5. However in the Summer Budget statement of 8th July 2015, the Chancellor of the Exchequer announced that social housing rents will be reduced by 1% each year for four years from April 2016. The unfunded Government decision will result in lower rent levels than those used by Government to calculate the debt reduction they gave the Council in 2012. Average rents will be £18 per week lower than previously predicted by 2019/20. No additional funding was provided by Government to compensate the HRA for this change in rent, and the Council is also unable to subsidise the HRA.

1.6. While lower rents might be good news for tenants in the short term, due to the fact that rent levels determine how much money is available to pay for the management and maintenance of Council Homes and no replacement funding is being made available by the Government, it means there is a lot less money available to pay for maintenance. Even though further savings and additional commercial income are included in the plan, if the level of planned repairs and

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[2] 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.

[3] The rent increase for April 2015 was based on the Consumer Prices Index as at September 2014 (1.2%). CPI is another measure of inflation that is calculated each month by Government. It is normally lower than RPI.

[4] RPI is another measure of inflation which historically generally runs at between ½% and 1% higher than CPI

maintenance in Council homes approved in January 2015 is maintained, this would result in a shortfall in the long term financial plan for Council homes of £76m over the next ten years if council stock is not transferred to a Registered Provider (see paragraphs 1.8 and 1.9 below) It would also leave no head room in the debt cap severely restricting the Councils ability to develop new homes on its estates. Officers continue to look for additional income and savings on both the revenue and capital budgets to cover the gap; however, the scale of the shortfall in the first ten years (equivalent to finding an additional £7.6m per year) is such that this is unlikely to cover the shortfall.

1.7. This report therefore sets out the Council's plans to re-phase necessary major works in order to produce a balanced 40 year long term financial plan for Council homes, while maintaining the already promised level of planned repairs for 2016/17. This will enable the Council to continue to manage Council homes without compromising the condition of the homes in the immediate future while continuing to seek a long-term solution to the problem.

1.8. This report needs to be considered in conjunction with the report approved by Cabinet on 7th December 2015, which accepted in full the Residents' Commission recommendations and resolved to formally pursue the transfer of the Council's housing stock to a resident-led Registered Provider which is constituted on the Community Gateway model. The Residents' Commission also concluded that: "It is clear from the stock condition survey and financial modelling that meeting the investment needs of the housing stock, especially if there is to be any prospect of raising standards and keeping pace with lifestyle aspirations over the next generation, cannot be achieved without finding extra resources. If the Council retains ownership, the debt cap is a dead hand on the standard of its accommodation; if access to private borrowing is to be secured through a stock transfer, the problem of the outstanding debt on the HRA needs to be resolved".

1.9. The Cabinet's agreement to progress plans to transfer the Council's homes to a new organisation would potentially, if achieved, enable the investment required to repair and improve the Council's homes without re-phasing over the term of the business plan.

1.10. This report considers what the financial position would be if transfer did not happen.

2. RECOMMENDATIONS

2.1. To endorse the revised 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 2016/17 budget for Council homes as set out in Appendix 1.

2.3. To note the 1% reduction in rents for each of the four years commencing in April 2016 the potential £76 million reduction in planned repairs required over the next 10 years as a result of this if the housing stock is not transferred to a Registered Provider.

2.4. To approve a freeze in tenant service charges at 2015/16 levels as set out in section 9 of this report.

2.5. To endorse the HRA Medium Term Financial Strategy which plans to deliver further on-going annual revenue savings of £0.9million per annum by 2016/17, rising to £2.4million per annum by 2020/21, with savings coming principally from back office costs.

2.6. To note that £5.9m of housing debt is due to mature in 2016/17 and to approve the refinancing of £5.5m during 2016/17, 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 the combined effect of recent changes in central Government social housing policy and the latest stock condition survey.

2.7. To note that the water regulator OFWAT is not due to confirm the increase in tenants' water charges until January 2016, and therefore to delegate authority to the Lead Director of Housing (Director of Finance & Resources (Housing & Regeneration) to agree the average increase in water charges as set out in section 14.

2.8. To approve a freeze in the communal heating charge at 2015/16 rates as set out in section 14 of this report.

2.9. To approve a freeze in parking charges as set out in section 14 of this report.

2.10. To approve a freeze in garage charges as set out in section 14 of this report.

2.11. 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. This budget is based on the financial business plan.

4. INTRODUCTION

4.1. The decision by the Chancellor of the Exchequer to reduce social housing rents by 1% each year for four years from April 2016, without any accompanying compensation to the HRA, means that the current approved Financial Plan for Council Homes is no longer viable and the Council's approved investment plans can no longer be realised under the current financial strategy. Based on the level of planned repairs and investment in current Council homes approved in January 2015 and taking account of the investment requirements from a recently completed stock condition survey, after allowing for further savings and additional income, the Council would need to take out additional borrowing of more than £76million during the next 10 years over and above the existing debt cap[5] of £255m. However, the Council is unable to borrow above the level of the debt cap.

4.2. Unless the stock is transferred to a Registered Provider, the opportunity to get more money in is restricted as the majority of the income received in the HRA is from tenants' rents, tenants' service charges and leaseholder service charges. Tenants' and leaseholder service charges are linked to costs incurred and rent reductions for the next four years are set by legislation. Other income in the HRA for 2016/17 from commercial rents, advertising income and garages is currently forecast at £3m, £250,000 (9%) higher than for 2015/16 mostly due to additional advertising income.

4.3. Cumulative on-going annual savings delivered in the five years to 31st March 2016 were £10.9m and a future savings programme is already set to deliver on-going additional savings of £0.9m from 2016/17 rising to £2.4m by 2019/20 (i.e. £13.3m cumulative annual savings since the return of management to the Council in 2011). This means there is little scope for further savings without compromising service delivery, although the Council will of course continue to seek opportunities for additional savings.

4.4. Therefore, after discussion with the Housing Representatives Forum and following comments received at the Economic Regeneration, Housing and The Arts Policy & Accountability Committee on 1st December 2015, the Council is proposing to re-phase necessary major works to a much later period to produce a balanced 40 year long term financial plan for Council homes. This would mean that if there is not a stock transfer we will continue to have a significant repairs backlog and that this backlog starts to grow. It means that there is a risk that, not only will the condition of the Council's homes deteriorate, but that the day to day repair costs will start to increase.

4.5. The revised plan for major works in the event of their not being a stock transfer postpones the equivalent of window and door replacements to 4,400 homes, roof renewals for 2,650 homes, 4,400 new heating systems, 1,750 electrical rewires, 1,750 new kitchens and 1,100 new bathrooms.

4.6. The detailed revised plan for major works for the next ten years at estate level will be presented to tenants at the Housing Representatives Forum in January 2016 and to individual Tenants' and Residents' Associations. This plan will set out in detail the work we will be able to do on each estate and what work we have had to postpone. The plan will as far as possible take into account the views expressed by tenants. The plan will also be subject over time to changes as a result of emerging issues, including any further Government policy changes.

4.7. In addition to the risk that the condition of the Council's homes will deteriorate and that the day to day repair costs will start to increase, there are a number of other financial risks including:

[5] The HRA debt cap is the Government-restricted borrowing limit. This is £255m for the Council.

- that in 2021 rents continue to be enforced by statute and that the Council is unable to return to the rent policy agreed last year with tenants of CPI plus 1% plus £1. This would lead to further reductions in planned repairs over the next fifteen years;

- the impact of Welfare Reform on income and bad debts, specifically the additional reduction in the benefit caps, the reduction in housing benefit for single tenants in social housing who are under 35, 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 if the Government was to force the Council to use fixed term tenancies for all new tenants;

- 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

- the current HRA business plan is sensitive to fluctuations in the income and costs associated with the Land Sale Agreement for the West Kensington and Gibbs Green Estates.

4.8 There were two other announcements made by Government last Summer which are also likely to result in additional significant long-term financial risks to both the HRA and the General fund. However, the detailed regulations are not available at the time of writing and it has not been possible to incorporate the likely impact of them fully into the Long Term Financial Plan for Council Homes. They are:

- the Government's plan to force the sale of high value empty council homes with the proceeds being paid over to central Government. This is likely to have an adverse impact on the availability of social housing in the borough putting pressure on the General Fund budgets even if a one for one affordable rented replacement is provided in borough. The loss of stock will reduce economies of scale in the HRA and, depending on the exact nature of the regulations and the properties sold, result in a net loss and constrain proper asset management within the HRA.

- the requirement to charge market or near market rents to tenants where the household income is more than £40,000 in London (also known as "Pay to Stay"). The Council will have to pay this money over to central Government. Risks include:
    - administrative costs not covered by any allowance made by Government.

- increased bad debt costs where households are unable to pay the higher rents, especially because of other pre-existing financial commitments.
- increased voids as tenants who have to pay higher rents choose to move away.
- loss of social tenancies as a result of Right to Buy’s increasing the cost of temporary accommodation in the General Fund.
- a disincentive for tenants of Council homes to work.

4.9 These risks have to be viewed in conjunction with 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. HRA reserves had fallen to £3.1m as at 31st March 2011, but following the implementation of the HRA financial strategy in January 2012, significant progress has been made with HRA reserves as at 31st March 2016 now predicted to have increased to £16.6m. However, they will only be equivalent to 21% of turnover, compared with the average for London Housing Authorities of 23%[6]. This level of reserves provides insufficient cover against unanticipated events such as those that might arise from the risks noted above but represents good progress towards our current target reserves level of £20million by 2022.

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 ensure the costs of managing housing stock were supported by the income produced by that stock rather than annual transfers

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[6] Based on turnover for the financial year 2014/15, see Appendix 7.

between central and local government. It therefore 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 in assets.

6.2 In January 2015, the Council approved a Financial Plan for Council Homes which included annual rent increases that were more affordable to tenants than those in the previous Administration's business plan. Despite lower planned rent increases than under the previous policy, when coupled with a savings programme and a prudential approach to borrowing this plan enabled the Council to catch up the repairs backlog and maintain the Council's homes to a good standard without selling any of the Council's homes.

6.3 However, the Chancellor's decision to reduce rents in the social housing sector by 1% every year for four years from April 2016 without providing any compensation to the HRA has meant that the programme of planned works and catch-up of the repairs backlog included in the last approved Long term Financial Plan for Council Homes can no longer be delivered unless the stock is transferred to a Registered Provider. Financial modelling of the effect of the Chancellor's decision shows that, after allowing for additional income and some further savings as set out elsewhere in this report, the Council would need additional borrowing of more than £76million during the next 10 years over and above the existing debt cap of £255m. Officers continue to look for additional income and savings on both the revenue and capital budgets to cover the gap, however the scale of the shortfall in the first ten years (equivalent to £7.6m per year) is such that this is unlikely to fully cover the shortfall.

6.4 As the Council is not permitted to borrow above the debt cap, the financial plan re-phases necessary major works to a much later period to produce a balanced 40 year long term financial plan for Council homes and severely restricts the Councils ability to develop. Therefore, it would mean that if the stock is not transferred to a Registered Provider there would be a significant repairs backlog and that this backlog starts to grow. It means that there is a risk that, not only will the condition of homes deteriorate, but that the day to day repair costs will start to increase. This will require careful management and prioritisation.

6.5 This revised plan maintains a level of investment for 2016/17 in line with the investment plans approved by Cabinet in January 2015 in the "Financial Plan for Council Homes". This allows the condition of the homes to be maintained while the Council continues to seek other solutions. In future years, however, if there is not a stock transfer the revised financial plan requires a postponement in planned work originally scheduled to take place within the first ten years (2015/16 – 2024/25) equivalent to postponing window and door replacements to 4,400 homes, roof renewals for 2,650 homes, 4,400 new heating systems, 1,750 electrical rewires, 1,750 new kitchens and 1,100 new bathrooms.

6.6 The revised detailed plan for major works for the next ten years will be presented to tenants at the Housing Representatives Forum in January 2016. Estate plans for their area will be presented to each Tenants' and Residents' Associations. The plan will set out in detail the work we will be able to do on each estate and what work we have had to postpone. The plan will as far as possible take into account the views expressed by tenants and will also be subject over time to changes as a result of emerging issues, including any further Government policy changes.

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 2016/17.

8. FINANCIAL STRATEGY

8.1 The overall strategic financial objectives for the HRA approved by Cabinet in January 2015 were:

- 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 1st April 2015) over 40 years[7];

- 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.

- to 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 by 2022.

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

8.2 The 1% rent reduction every year for four years from April 2016 without compensation to the HRA means that the above strategic financial objectives cannot be fully achieved unless there was a stock transfer to a Registered Provider. The Council would need additional borrowing of more than £76million during the next 10-15 years over and above the existing debt cap. Therefore, after allowing for additional income and some further savings as set out elsewhere in this report, some major works have been re-phased to a much later period to produce a balanced 40 year long term financial plan for Council homes which does not depend on the sale of empty Council homes.

[7] 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.

8.3 The Council does not propose reducing the level of general reserves or the general reserves target as in the context of a “business” managing 17,000 properties with an existing use value of circa £1.1 billion and an unrestricted open market value in excess of £4 billion there remains an inadequate level of reserves of circa £16.6 million (predicted as at 1st April 2016), equivalent to less than 12 weeks rent.

8.4 This not only provides insufficient cover against unanticipated events, 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 £16.6 million as at 1st April 2016 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.

8.5 Accordingly, it is proposed to revise the strategic financial objectives for the HRA as follows:

- to enable the financing of a viable on-going repairs programme that focusses on maintaining the basic fabric of the Council’s homes and ensuring that all health and safety requirements are met. The repairs programme will be prioritised to provide safe and weather-proof homes.

- 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 (£192.3m as at 1st April 2016) over 40 years[8];

- to continue to seek opportunities to raise additional income and to find further efficiencies which do not impact on service delivery to bridge the gap in the planned works programme;

- 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;

- to 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 23% by 2027. This will mean reserves increase to at least £21.5 million[9] by 2027;

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

[8] 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.

[9] The profile for the initial years is shown in Appendix 2, reserves do not build up evenly, the level at which they build increases after 2022.

8.6 The 40 year time span is used because the Council borrows from the Public Works Loans Board for up to 50 years and a substantial proportion (41%) of the Council's current housing debt is not due for repayment until after 30 years with 9% of the Council's current housing debt not being due for repayment for over 40 years.

8.7 The business plan is sensitive to both the differential between CPI and RPI and to increases in both indices and to fluctuations in the income and costs associated with the Land Sale Agreement for the West Kensington and Gibbs Green Estates.

8.8 The effect of the revised financial strategy including the 1% decrease in rents for Council Homes can be seen in the 5 year Income and Expenditure account presented at Appendix 2.

9. BENCHMARKING

9.1 The rent reduction will result in average rents being lower by nearly £17.67 per week after four years (from 2019/20) than the average rent predicted in the financial plan approved in January 2015. The average rent for our Council Homes of £109.02[10] per week is already lower than that of most other central London Boroughs:

Local Housing Authority	Weekly Rent 2015/16
	£
Southwark	101.99
Lambeth	110.31
Tower Hamlets	111.38
Camden	114.04
Islington	115.89
Kensington & Chelsea	123.81
Westminster	124.95
Wandsworth	126.70

9.2 Further, only 6% of the Council's homes have currently converged to target rent.

10. RENTAL INCOME

Rents & Tenant Service Charges

<u>Rents</u>

10.1 The draft Budget for Council Homes for 2016/17 shown in Appendix 1 assumes tenant rents reduce in line with the new rent reduction of 1%. The application of

[10] 2015/16 budgeted average rent is £109.02 per week for Hammersmith & Fulham

this requirement leads to an average rental reduction of 1.00% and an average combined reduction in rent and tenants' service charges of 0.93%.

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[11] thereby making it easier for tenants to budget.

10.3 The tenant service charge is normally inflated as part of the annual rent setting process. For 2015/16 it these charges will be frozen.

10.4 Tenants will receive notification of their service charges as part of their rent increase letter in February 2016.

Combined Impact

10.5 The combined effect of the above rent and tenants' service charge proposals will reduce the average rent and tenants' service charge by 0.93%. Together with a number of adjustments, this will reduce rental income in the HRA by £1.013m in 2016/17.

10.7 It should be noted that no allowance has been made within the net rental budget for the potential sales arising from the Government's proposal to force the sale of council houses in high-value areas to finance a new right to buy for housing association tenants. This has been identified as a risk (see section 11).

10.8 An analysis of the weekly reduction across all tenants is shown in the following table:

Rent & Tenant Service Charges Reduction per week (£)	Number of Dwellings
Up to £1	5,165
Between £1.01 and £2	7,068
Between £2.01 and £3	4
Between £3.01 and £4	1
Total	**12,238**

10.9 The rent and service charges for properties under licence and hostels are also subject to the rent reduction, the net average reduction in these charges is

[11] 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

0.71%. This net average reduction represents the combined effect of an average rent decrease of 1% and a freeze on service charges.

Bad Debts, Voids and Welfare Reform

<u>Voids</u>

10.10 In line with current performance, voids have been budgeted for in 2016/17 at 1.8% of the gross rent roll.

<u>Welfare Reform</u>

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, the Government's plans to reduce the overall benefit cap in London to £23,000 per annum, the restriction of housing benefit for single people who are under 35 to the shared accommodation rate for social housing tenants and the freezing of working age benefits and tax credits are all 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 28th October 2013 was only for a limited number of claimants (newly unemployed single people) and excluded those who were previously in receipt of housing benefit.

10.13 In June 2014, the Department for Work and Pensions (DWP) expanded the cohort of eligible claimants for Universal Credit to include couples without children and included some categories of claimants previously in receipt of housing benefit. Currently, all singles, couples with or without children, or lone parents making new claims for subsistence benefit or those who have had a break in their previous claim are eligible for Universal Credit. Although the programme set out by DWP is subject to regular change, it is anticipated that during 2016 all new benefit claimants across the country will claim Universal Credit instead of the legacy benefits it replaces. Further, the majority of the remaining legacy caseload is expected to be moved over to Universal Credit during 2016 and 2017. This means that in 2016/17 some 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 2016/17 budget. A bad debt charge of £900k has been included for 2016/17 plus an additional allowance of £1,800k to provide for the financial impact of the Government's plans under Welfare Reform as outlined above. This gives a total budgetary provision for bad debt of £2.70m. There is a risk that the migration of tenants to Universal Credit moves at a faster pace than initially expected – this risk for 2016/17 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 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 £5.3m and £8.8m per annum for 2016/17, 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 £41.6m. In terms of mitigation the Council is actively promoting payment by direct debit/ standing order to tenants and is working towards gaining "trusted partner" status with the DWP as part of a detailed rent collection strategy, as well as having in place arrangements to support tenants in managing their money. Under the proposed "trusted partner" 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.

Right to Buy Disposals

11.4 The business plan currently assumes that Council homes will be sold under the Right to Buy at the rate of 40 homes per annum from 2016/17 and then falling back to 20 homes per annum from 2017/18 onwards. This takes account of the current level of discount available, though there is a risk that unbudgeted levels beyond the Council's control could impact on the net income due to the HRA. The annual exposure is estimated at £1.1m and is based on an assumption that the level of applications currently projected (250) all progress to RTB sales.

Pay to Stay

11.5 Government plans to require councils to charge market or near market rents to tenants where the household income is more than £40,000 in London. This policy is known as "Pay to Stay". The Council will have to pay this money over to central Government. The risks include:

- o administrative costs not covered by any allowance made by Government;
- o increased bad debt costs where households are unable to pay the higher rents, especially because of other pre-existing financial commitments;
- o increased voids as tenants who have to pay higher rents choose to move away;
- o loss of social tenancies as a result of Right to Buy's increasing the cost of temporary accommodation in the General Fund.
- o a disincentive to work.

11.6 The full details of this have not been published by Government at the time of writing. The Council has estimated the potential financial risk to be £6.5m with an ongoing annual risk of £2.4m.

<u>Other risks</u>

11.7 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:

- that in 2021 rents continue to be enforced by statute and the Council will continue to have no local choice in rent setting and be unable to return to the rent policy agreed with tenants last year. This would lead to further reductions in planned repairs over the next ten to fifteen years resulting in a deterioration of the Council's homes and higher repairs and maintenance costs;
- the Government's plan to force the sale of high value empty council homes with the proceeds being paid over to central Government. This is likely to have a significant adverse impact on the availability of social housing in the borough putting pressure on the General Fund budgets, reducing economies of scale in the HRA and, depending on the exact nature of the regulations and the properties sold, result in a net loss and constrain proper asset management within the HRA. The full details of this have not been published by Government at the time of writing.
- the impact of higher void rates in future years on income, maintenance, and management if the Government was to force the Council to use fixed term tenancies for all new tenants;
- 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;
- other changes in central Government policy towards social housing;
- 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;

- the current HRA business plan is sensitive to fluctuations in the income and costs associated with the Land Sale Agreement for the West Kensington and Gibbs Green Estates.
- the implementation of Managed Services and its impact on service delivery, most notably in terms of risks to income collection, arrears management and the associated bad debt risk, financial and management reporting, systems assurance and reconciliation reporting, the time taken to resolve payment issues, the delay in implementing the system for leaseholder service charges, the opportunity cost of officer time in managing issues arising and other factors;
- a risk to future savings expected to be delivered in accordance with the HRA five year savings plan, especially in relation to savings focussed on reducing corporate overheads for IT and premises;
- any mid-year review of corporate service level agreement costs may impact adversely on the HRA particularly if contracts are retained in-house resulting in higher than expected FTE numbers.

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 £5.9m of debt due to mature in 2016/17 and to refinance £5.5m of debt during 2016/17. Due to a favourable difference in the rate of interest payable between the debt repaid and the refinanced debt, the effect of this net reduction in debt is expected to result in the annual interest cost in 2016/17 reducing to £9.7m (from £10.7m in 2015/16). The level of borrowing proposed within the Financial Plan for Council Homes is predicted to increase until 2025/26 before falling back over the term of the business plan. The plan for the next 10 years borrowing is set out in Appendix 8.

12.3 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 2016/17. 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 2016/17 will be the final year of operation. The increase in the depreciation charge for dwellings for 2016/17 is £0.6million taking the budget required to £17.4million.

12.4 The transitional arrangements exclude non-dwellings depreciation which under previous accounting rules had no net effect on the HRA bottom line. For 2016/17, this charge has reduced by £31k resulting in a budget of £231k.

12.5 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 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[12] prior to the beginning of the financial year in question. CPI as at September 2015 is negative, at -0.1%. Therefore, the budgets for these contracts have been reduced accordingly by a total of £16k.

13.2 However, inflation of £76k has been provided for a number of other contracts, mostly relating to energy procurement. All other inflationary pressures have been 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 after this report is published, 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 2016/17.

Garage and Parking Space Rents

14.4 Garages are currently let on a weekly basis at a flat rate of £23.08 for a car garage and £17.31 for a motorcycle garage. No changes to charges are proposed.

14.5 The level of charges among other neighbouring London Councils vary. For example, equivalent weekly charges for garages are between £12.93 and £76.26 in Kensington and Chelsea, £11.00 and £60.00 in Camden, £6.61 and £132.25 in Westminster and £14.29 and £34.80 in Wandsworth. Prices for garages rented privately within Hammersmith & Fulham range from £1,800 to £2,500 per annum.

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[12] Consumer Prices Index

14.6 Parking charges vary depending on whether the licensee 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 residents of seven estates, Cabinet in November 2015, approved the introduction of Traffic Management Orders on five of these estates, four of which are planned to be implemented on a phased basis before the end of March 2016. A further phase of consultations with residents from housing estates will commence from January 2016 and the findings and recommendations arising will be presented to Cabinet during 2016. Therefore no change in parking charges are being recommended as part of this report. It should also be noted that the level of income assumed for parking charges for 2016/17 takes 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 calculates 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 annual review of charges involves comparing the amount the Council charged tenants for water and sewerage during the previous financial year with the amount the Council was charged by Thames Water plus an administration charge. This involves working closely with Thames Water in ensuring that the charges made to the Council for metered properties are in line with the actual water used.

14.10 Following completion of the review of water charges for 2014/15 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 2016/17 is applied (as advised by OFWAT) is 0.4%. Within this, 10,041 tenants will see an average increase of 6.0% and 2,429 tenants will receive an average reduction of 19.5%.

14.11 The increase advised by OFWAT for 2016/17 will need to be overlaid on top of the above adjustment. Thames Water have advised that OFWAT are expected to confirm the agreed changes to water and sewerage service charges for 2016/17 in January 2016. It is therefore proposed that any change to the water charges be agreed following OFWAT's approval in January 2016 and it is recommended that authority be delegated to the Lead Director of Housing (Director of Finance & Resources) to approve the increase in water charges in line with the increase set out in 14.10 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 Although OFWAT have not provided any information on the maximum acceptable increase for 2016/17, they have previously advised that any increase for 2014/15 would be limited to the previous November's RPI plus 1.4%. The latest published data confirms that at October 2015 RPI was 0.7%. Assuming a cap above RPI of 1.4% is applied, this would limit any increase for tenants to 2.1%, in addition to the adjustment before any annual increase outlined above. Based on this scenario, the average increase for tenants would be 2.5%. Within this, 10,236 tenants will see an average increase of 7.4% and 2,138 tenants will receive an average reduction of 25%.

Advertising Income

14.13 The budget for income generated from advertising hoardings located on Housing land has been increased by £173k to £631k. This increase has resulted from the implementation of a strategy to identify opportunities for new hoarding sites (expected to generate additional income of £200k) offset by an increase in management fees of £27k. Opportunities for identifying new hoardings sites are being investigated on an on-going phased basis.

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

Rents on Shops

14.15 The budget for commercial property rents for 2016/17 has been increased by £40k to £1.383m. This increase is 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. 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 2016/17.

15. CONSULTATION

15.1 Tenants and residents have been consulted on the significant impact on the Council's financial plans for the HRA of the 1% reduction in rents for each of the next four years via the Borough Forum on 13th October 2015 and via the Housing Representatives Forum on 20th October 2015 and 17th November 2015.

15.2 Tenants and residents were also consulted on the plans at the Economic Regeneration, Housing and the Arts Policy & Accountability Committee on 1st December 2015 in order that the committee could comment on the implications in advance of any formal decision being taken by Cabinet on 11th January 2016.

16. EQUALITY IMPLICATIONS

16.1 The Equalities Impact Assessment (EIA) shows that the rent reduction is expected to be positive or neutral for protected groups. However, the postponement of major works may impact disproportionately on groups whose homes are more adversely affected by the postponement of major works, especially those who may be disproportionately represented in council stock. However, the Council considers that the main driver of the change in the plan for major works is due to the reduction in rents and largely outside of the Council's control.

16.2 It is not possible for the Council to mitigate the effects by funding the shortfall in rental income from other resources as the Council needs to maintain a viable financial plan. However, the Council plans to take into account the views expressed by tenants on detailed estate plans of major works for their area. Officers will also be on hand to help tenants and their households in ensuring that tenants' homes are safe, warm and weather-proof.

17. LEGAL IMPLICATIONS

17.1 The Local Government and Housing Act 1989 requires the Council to maintain a Housing Revenue Account (HRA). Section 76 of this Act imposes "ring-fencing" arrangements in respect of a the HRA and places a duty on the Council to prevent a debit balance arising in HRA. The sums which can be debited from and credited to the HRA are prescribed by law. It is not possible for a local housing authority to subsidise rents from its General Fund.

17.2 As set out in the report the Welfare Reform and Work Bill requires that registered providers of social housing must reduce the amount of rent payable by a tenant of social housing by at least 1% per annum over 4 years, commencing in 2016. This statutory provision will restrict the ability of the Council to set rents.

17.3 Implications verified/completed by: Janette Mullins, Principal Solicitor (Housing 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.

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.	Housing Representatives Forum papers, 17th November 2015 - published	Kathleen Corbett Ext 3031	Housing and Regeneration Department, 3rd Floor Town Hall Extension, King Street, W6 9JU
2.	HRA Financial Plan for Council Homes, Economic Regeneration, Housing & The Arts Public Accountability Committee, 1st December 2015 - published	Kathleen Corbett Ext 3031	Housing and Regeneration Department, 3rd Floor Town Hall Extension, King Street, W6 9JU

Appendix 1

2016/17 Draft Housing Revenue Account Budget

Division	2015/16 Revised Budget	2015/16 Forecast Outturn[1]	2016/17 Proposed Budget
	£000s	£000s	£000s
Housing Income	(77,484)	(77,984)	(76,571)
Housing Services	9,578	9,578	11,417
Commissioning & Quality Assurance	3,119	3,119	1,638
Safer Neighbourhoods	578	578	578
Adult Social Care	48	48	48
Housing Repairs	13,748	13,748	13,869
Property Services	2,163	2,163	2,404
Regeneration	267	267	237
Housing Options	369	349	343
Finance & Resources	9,661	9,436	9,188
Corporate Service Level Agreement Charges	5,503	5,503	5,963
Capital Charges	29,976	29,821	29,825
(Contribution to)/ Appropriation from HRA General Reserve	**(2,474)**	**(3,374)**	**(1,061)**
Opening Balance on HRA General Reserve	**(13,165)**	**(13,165)**	**(16,539)**
Closing Balance on HRA General Reserve	**(15,639)**	**(16,539)**	**(17,600)**

[1]As per Corporate Revenue Monitor for month 7, due to be presented to Cabinet on 11th January 2016

Appendix 2

5 Year Business Plan for Housing Revenue Account 2016/17 - 2020/21					
HRA revenue projections	**2016/17 Proposed Budget £000s**	**2017/18 Projection £000s**	**2018/19 Projection £000s**	**2019/20 Projection £000s**	**2020/21 Projection £000s**
Income	(76,571)	(75,777)	(75,294)	(76,101)	(76,985)
Expenditure before savings and growth	72,365	75,434	76,888	78,070	79,040
Base HRA surplus for the year	**(4,206)**	**(343)**	**1,594**	**1,969**	**2,055**
Efficiencies*	(922)	(1,685)	(1,987)	(2,535)	(2,595)
Growth	1,019	1,127	1,146	1,165	1,185
Surplus before additional capital programme contribution	**(4,109)**	**(901)**	**753**	**599**	**645**
Available for Revenue Contribution to Capital Outlay or growth	3,048	0	0	0	0
Surplus for the year after additional capital programme contribution	**(1,061)**	**(901)**	**753**	**599**	**645**
HRA balance at year end	**(17,600)**	**(18,501)**	**(17,748)**	**(17,149)**	**(16,504)**

* Note that all figures including efficiencies are inflated in line with business planning assumptions
NB: the increase in income in 2019/20 is due to a 53 week rent year

Appendix 3

HRA MTFS Saving Plan

Housing Revenue Account 5 year Savings Plan	Risk to Delivery	16/17	17/18	18/19	19/20	20/21
		£000s	£000s	£000s	£000s	£000s
Original Efficiency Plan: additional reduction across all divisions		60	60	60	60	60
Additional savings programme focused primarily on reducing corporate overheads for IT and premises.		0	750	1000	1000	1000
Additional savings on core costs resulting from better stock condition and better customer service.		0	0	0	500	500
Remove temporary growth for MTFS		250	250	250	250	250
Remove temporary growth for MITIE		500	500	500	500	500
Removal of Executive Director post		112	112	112	112	112
Base savings programme		**922**	**1,672**	**1,922**	**2,422**	**2,422**

Appendix 4
Efficiencies & Income Movements

Efficiencies		
Division	**Description**	**Amount £000s**
Housing Services	Original Efficiency Plan: additional reduction across all divisions	60
		60
Finance & Resources	Deletion of senior management post	112
Finance & Resources	Remove temporary growth for MTFS	250
Finance & Resources	Remove temporary growth for MITIE	500
		862
Total		**922**

Item	Housing Income £
2015/16 Base Budget	(77,485)
Other Adjustments	
Decrease in dwelling rents and tenant service charges	1,013
Increase in allowance for bad debts	531
Additional Advertising Income	(202)
Increase in Leaseholder Service Charges	(143)
Additional income to recoverincreased Leaseholder insurance charge	(76)
Increase due to new parking and garage initiatives	(201)
Net adjustments for other figures	(8)
2016/17 Base Budget	**(76,571)**

NB: Leaseholders can only be charged for costs actually incurred

Appendix 5
Growth

Division	Description	Amount £000s
	Staffing	250
	Income from recharging leaseholders	(116)
	Asbestos surveys and works	110
	Garages repairs	25
	MITIE contract	7
Property Services		**276**
	Garages - additional resourcing funded by additional lettings income	79 / (79)
	Estate Services - minor reorganisation	24
Housing Services		**24**
	Finance - minor reorganisation	98
	Leaseholder Services - minor reorganisation	22
	Utilities Officer	49
	H&F InTouch - temporary growth (one year)	35
Finance & Resources		**204**
	Resourcing Residents' Commission recommendations	100
	Increases in employers' national insurance	182
	Increases in Corporate Service Level Agreement charges	232
Corporate Services		**514**
Total Growth		**1,018**

The Enforcement team is being expanded to ensure improved service delivery to leaseholders and other external customers. The budget for asbestos surveys and works is being aligned with expected activity levels required to comply with regulations.

The Garages team within Housing Services is being supported to achieve additional income from garage lettings.

The Finance & Resources team is being strengthened to ensure that a responsive and high quality service can be maintained as volumes of work increase, this is especially important as finances tighten as a result of the 1% rent decreases.

Additional funding is requested to support the implementation of the Residents' Commission recommendations, this is set out in detail in the 7th December 2015 report to Cabinet. Further, there is a need to fund the requirement for employers to pay a higher level of national insurance contributions following changes to state pensions. Finally, the cost of corporate service level agreement charges has increased due to the combined effect of an increase in the number of FTEs in the HRA and an increase in IT costs.

Appendix 6: Key Risks 2016/17	Lower Limit £000s	Upper Limit £000s	Worst Case £000s	Future Risk £000s
Quantifiable Risks				
Welfare Reform - an increase has been made in the bad debt provision to provide some protection against the impact on rent collection rates as a result of the additional reduction in the benefit caps as part 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	15,900	41,600	?
Right to Buy Disposals - a level of Right to Buy disposals (40 per annum from 2016/17 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 (250) all progress to RTB sales. The future risk assumes that there are 80 or more RTB sales each year.	0	1,092	1,092	416
Costs of administering "Pay to Stay" - the Government is proposing that housing authorities will be required to charge market or near market rents to tenants where the household income is in excess of £40,000 in London. The Council faces a risk in terms of the additional administrative costs;	809	3,237	6,474	2,434
Pension opt-in - this relates to the risk of all staff opting to join the local government employer pension scheme.	0	14	14	14
Total Quantifiable Risks	**809**	**20,243**	**49,180**	**?**

Appendix 6: Key Risks 2016/17

Unquantifiable Risks

Continuation of social housing rent reductions beyond the four year period - this relates to the risk that in 2021 rents continue to be enforced by statute and that the Council is unable to return to the rent policy agreed last year with tenants of CPI plus 1% plus £1. This would lead to further reductions in planned repairs over the next ten to fifteen years resulting in a deterioration of the Council's homes and higher repairs and maintenance costs.

Sales of council houses in high-value areas - the Government's plan to force the sale of high value empty council homes with the proceeds being paid over to central Government. This is likely to have a significant adverse impact on the availability of social housing in the borough putting pressure on the General Fund budgets, reducing economies of scale in the HRA and, depending on the exact nature of the regulations and the properties sold, result in a net loss and constrain proper asset management within the HRA. The full details of this have not been published by Government at the time of writing.

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 £138m represents 10.8% of the current stock valuation of £1,277m, so an impairment / revaluation loss of 10.8% 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

Appendix 6: Key Risks 2016/17

Unquantifiable Risks

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, there is a risk that the shared services procurement may not deliver savings and that legislative burdens could increase costs.

Other changes in central Government policy towards social housing

Land Sale Agreement for the West Kensington and Gibbs Green Estates - the current HRA business plan is very sensitive to fluctuations in the income and costs associated with the Land Sale Agreement for the West Kensington and Gibbs Green Estates. This includes the timing of land transfers as income cannot be realised in accounting terms until land is transferred. Previously the business plan had sufficient headroom to be able to accommodate this but recent movements in both this project and Edith Summerskill House mean that this headroom has been utilised.

The implementation of Managed Services and its impact on service delivery - most notably in terms of risks to income collection, arrears management and the associated bad debt risk, financial and management reporting, systems assurance and reconciliation reporting, the time taken to resolve payment issues, the delay in implementing the system for leaseholder service charges, the opportunity cost of officer time in managing issues arising and other factors

Medium Term Financial Strategy - a risk to future savings expected to be delivered in accordance with the HRA five year savings plan, especially in relation to savings focussed on reducing corporate overheads for IT and premises.

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

Local Housing Authority	Turnover 2014/15	General Reserve at 31st March 2015	General Reserve as a % of Turnover
	£m	£m	%
H&F	80.7	13.2	16%
Shared Services London Housing Authorities			
RBKC	57.4	21.5	37%
Westminster	92.6	50.0	54%
Other Neighbouring London Housing Authorities			
Brent	56.6	4.4	8%
Ealing	68.4	4.9	7%
Harrow	31.9	4.6	14%
Hounslow	82.9	31.8	38%
Hillingdon	63.3	30.6	48%
Wandsworth	137.8	114.1	83%
Other London Local Housing Authorities			
Barking & Dagenham	106.8	8.7	8%
Camden	169.5	41.0	21%
Croydon	93.2	15.3	16%
Enfield	66.5	13.5	20%
Greenwich	120.2	18.1	15%
Hackney	139.5	10.2	7%
Haringey	111.1	38.6	35%
Islington	180.1	13.5	7%
Lambeth	186.1	10.0	5%
Lewisham	88.9	35.9	40%
Newham	115.1	20.1	17%
Redbridge	29.1	5.9	20%
Southwark	290.2	29.5	10%
Waltham Forest	59.8	3.9	7%
Barnet	62.7	14.9	24%
Kingston upon Thames	32.1	3.3	10%
Sutton	38.3	6.4	17%
Tower Hamlets	89.1	20.1	23%
Average of Shared Service Authorities			36%
Average of Shared Services & Other Neighbouring Authorities			34%
Average of all 27 London Local Housing Authorities			23%

Appendix 8

Housing Revenue Account Borrowing Plans 2015/16 - 2025/26

	Year	Borrowing Opening Balance	Debt Repayments	Additional Required Borrowing	Borrowing Bal/Cfwd	Housing Capital Financing Requirement	Internal Borrowing
		£000s pa	£000s pa	£000s pa	£000s pa	£000s pa	£000s pa
1	2015.16	205,302	13,020	0	192,282	207,182	14,900
2	2016.17	192,282	5,866	5,488	191,904	221,944	30,040
3	2017.18	191,904	6,150	8,711	194,465	235,607	41,141
4	2018.19	194,465	3,784	12,268	202,949	254,617	51,668
5	2019.20	202,949	8,042	4,293	199,201	254,617	55,416
6	2020.21	199,201	9,461	7,695	197,434	252,851	55,416
7	2021.22	197,434	-	5,141	202,575	239,532	36,956
8	2022.23	202,575	-	0	202,575	239,532	36,956
9	2023.24	202,575	3,548	22,151	221,178	248,600	27,422
10	2024.25	221,178	13,009	19,026	227,195	254,617	27,422
11	2025.26	227,195	-	0	227,195	240,612	13,417

Note: the HRA’s total borrowings are restricted by the Government-imposed debt cap which is set at £254,617,000.

Appendix 9: Central London Local Housing Authorities Weekly Rents: 2015/16

Local Housing Authority	Weekly Rent 2015/16
	£
Lewisham	98.42
Southwark	101.99
Hackney	102.63
Greenwich	104.59
Hammersmith & Fulham	109.02
Lambeth	110.31
Tower Hamlets	111.38
Camden	114.04
Islington	115.89
Kensington & Chelsea	123.81
Westminster	124.95
Wandsworth	126.70
Average	**111.98**

Source: directly sourced from Councils