

<p style="text-align: center;"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p style="text-align: center;"><b>ECONOMIC REGENERATION, HOUSING AND THE ARTS POLICY &amp; ACCOUNTABILITY COMMITTEE</b></p> <p style="text-align: center;"><b>13<sup>TH</sup> DECEMBER 2016</b></p>	
<p><b>FINANCIAL PLAN FOR COUNCIL HOMES 2017/18</b></p>	
<p><b>Report of the Cabinet Member for Housing</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification</b> - For Policy &amp; Advisory Review &amp; Comment</p>	
<p><b>Key Decision:</b> No</p>	
<p><b>Wards Affected:</b> All</p>	
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## **1. EXECUTIVE SUMMARY**

### **1.1 This report deals with:**

- the second year of a 1% decrease in rents for Council Homes which was forced on the Council by central Government for four years from 2016/17;
- how, although initially this looked like good news for tenants, this has a significant impact on the ability of the Council to carry out repairs and improvements on Council homes.

## **2. RECOMMENDATIONS**

### **2.1 The PAC is invited to comment on the report.**

## **3. INTRODUCTION AND BACKGROUND**

- 3.1. 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 currently raise further funds to improve homes through asset sales and borrowing money (as long as this borrowing stays within a limit set by Government).
- 3.2. Council homes are accounted for in the Housing Revenue Account (HRA). 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 HRA 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.
- 3.3. 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 that 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%.

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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.

- 3.4. Prior to May 2014, the Council sold vacant 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 of the Consumer Price Index (CPI)<sup>3</sup>+1% with an additional £1 rent increase for tenants who pay less than target rent (previous Council policy was for a £2 rent increase) and for tenants' service charges to be increased in line with CPI only.
- 3.5. On 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. This is enforced by an Act of Parliament. The decision results in much lower rent levels than those used by Government to calculate the debt reduction they gave the Council in 2012. As rent levels determine how much money is available to pay for the management and maintenance of Council Homes, it means there is a lot less money available to pay for this.
- 3.6. The Housing and Planning Act 2016 which enforced the rent decrease also provided for the enforced sale of high value voids with the sale proceeds being paid over to central Government.
- 3.7. Government have recently confirmed the Council will not have to make any payment for high value void sales in 2017/18 as the full roll out of Right to Buy to Housing Associations will not happen until after April 2018. But as Government have not yet published the detailed regulations we do not know the size of the payments we may have to make in future years. Therefore, the financial plan still excludes the impact of the high value voids policy, this Government policy represents a significant risk to the HRA financial plan.

#### **4. PROPOSAL AND ISSUES**

- 4.1 The rent reduction imposed on the Council by central Government will result in average rents reducing by £17 per week over the four year period. On the face of it this is good news for tenants but in practice it means that the Council has a lot less money to spend on managing and maintaining tenants' homes especially as the average rent for our Council Homes of £108.73 per week is already lower than that of most other central London Boroughs:

- Southwark £100.24
- Lambeth £109.21
- Tower Hamlets £110.26
- Islington £111.77

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<sup>3</sup> 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.

- Camden £112.90
- Kensington and Chelsea £122.77
- Westminster £123.81
- Wandsworth £125.43

- 4.2 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 three years are set by legislation. We continue to work of getting in additional income where possible. Other income in the HRA for 2017/18 from commercial rents, advertising income and garages is currently forecast at £3.25m, £200,000 (6.5%) higher than for 2016/17 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. The current savings programme has delivered a further £0.9m of on-going additional savings in 2016/17 and this is set to rise 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.
- 4.4 Therefore, the Council is continuing with the approach adopted this year, agreed by Cabinet on 8<sup>th</sup> February 2016, which is to re-phase necessary major works to a later period to produce a balanced long term financial plan. It is also planned to create a small amount of financial headroom within the financial plan to enable new affordable housing development to provide much needed homes.
- 4.5 The long term 40 year financial plan has been updated and incorporates the effect of the Government imposed 1% rent reduction and the revised plan for major works which includes the postponement of some major works.
- 4.6 The Cabinet intends to consider the Financial Plan for Council Homes for 2017/18 on 6<sup>th</sup> February 2017. The PAC's view will inform the Cabinet's decision.

## **5. BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

None