


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">CABINET</p> <p style="text-align: center;">5 February 2018</p>	
<p>FINANCIAL PLAN FOR COUNCIL HOMES: THE HOUSING REVENUE ACCOUNT FINANCIAL STRATEGY, 2018/19 HOUSING REVENUE ACCOUNT BUDGET AND 2018/19 RENT REDUCTION</p>	
<p>Report of the Cabinet Member for Housing – Councillor Lisa Homan</p>	
<p>Open Report</p>	
<p>Classification - For Decision Key Decision: Yes</p>	
<p>Other services consulted: N/A</p>	
<p>Wards Affected: All</p>	
<p>Accountable Director: Kathleen Corbett, Director of Finance and Resources (Regeneration, Planning & Housing Services)</p>	
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1. EXECUTIVE SUMMARY

- 1.1 This report covers the 2018/19 budget for the Council's homes (also known as the annual Housing Revenue Account (HRA) budget). This includes a reduction in rents for Council homes of 1% for 2018/19.
- 1.2 The 2018/19 budget also takes account of the Council's £20m Fire Safety Plus Programme capital works to make fire safety improvements to the Council's housing stock above and beyond current legal minimum standards. The Council has allocated £14m of HRA reserves to help fund this and it's been incorporated within a balanced 40 year financial plan for the Council's homes. We now expect reserves levels to drop to £4.7m in 2024/25 and HRA borrowing to peak in 2019/20.

2. RECOMMENDATIONS

- 2.1 To endorse the revised long term 40 Year Financial Plan for Council Homes as set out in paragraphs 4.19 – 4.22 of this report.
- 2.2 To approve the Housing Revenue Account 2018/19 budget for Council homes as set out in Appendix 1.
- 2.3 To note the 1% reduction in rents.
- 2.4 To approve an increase to equity share rents, which fall outside the Government's requirement to reduce social housing rents by 1% each year, of CPI (3.0% as at September 2017).
- 2.5 To approve an increase in tenant service charges of CPI (3.0% as at September 2017).
- 2.6 To endorse the HRA Medium Term Financial Strategy which plans to deliver further on-going annual revenue savings of £0.70million per annum from 2019/20, rising to £0.8million per annum by 2021/22, with savings coming principally from better stock condition and better customer service.
- 2.7 To note that Thames Water Authority is not due to confirm the increase in tenants' water charges until the end of January 2018, and therefore to delegate authority to the Director of Finance & Resources (Regeneration, Planning & Housing Services) in conjunction with the Cabinet Member for Housing to agree the average increase in water charges.
- 2.8 To approve a freeze in the communal heating charges.
- 2.9 To freeze the rates for parking charges on council estates.
- 2.10 To freeze garage charges for council tenants and resident leaseholders and to increase them for others in line with inflation (3.9% in line with the August 2017 retail price index).
- 2.11 To note the risks outlined in Appendix 6: Key Risks, 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.

4. PROPOSAL

Background

- 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 while lower rents may appear to benefit tenants in the short term, there is a lot less money available to pay for the maintenance of Council homes.
- 4.2. In July, the Council announced the introduction of the Fire Safety Plus Programme to make sure the Council's homes and other properties meet higher standards. This has an estimated cost in the region of £20m. Although these are mainly capital costs, the programme has resulted in revenue growth in the HRA of £0.606m¹ (of which £0.499m is temporary). In addition, the HRA will be making a revenue contribution of £14m to fund capital investment costs². This will mainly be funded from the HRA general reserve.
- 4.3. It is not possible to fund the loss of rent or the additional costs by additional borrowing, as the Council is not permitted to borrow above the level of the debt cap.
- 4.4. The Council has therefore looked for other ways to offset the impact of the 1% rent cut on repairs, the increase in the costs of providing the housing management and maintenance service and the additional costs of the Fire Safety Plus Programme to help safeguard Council homes for the future and ensure the long term financial sustainability of the HRA.

Opportunities for Additional Income and Savings

- 4.5. Officers continue to look for opportunities to generate additional income and savings on both the revenue and capital budgets. A detailed analysis and review of the budgets has again been conducted.
- 4.6. For example the council is expecting increased income of £89k because of better management of commercial property, this has included reducing the expected void rent loss on commercial property from 11% to 3%. The council is also expecting £520k of income from advertising hoardings located on Housing land and has improved the management of garages which has resulted in more garages being let and reduced the void rent loss expected next year to 16% as compared to 35% in October 2015 and 22.5% as at December 17.
- 4.7. The opportunity to get more money in is restricted as most of the income received in the HRA is from tenants' rents and rent reductions for the next two years are set by legislation.

¹ Includes concierge service growth

² Movements in the phasing of other elements of the housing capital programme means that the revenue contributions to the housing capital programme are now in 2018/19 and 2019/20

- 4.8. Cumulative on-going annual savings to meet financial pressures in the HRA and ensure a balanced budget and business plan delivered in the seven years to 31st March 2018 in the HRA were £12.4m. The current savings programme is already set to deliver on-going additional savings in the HRA of £0.7m from 2019/20 rising to £0.8m by 2021/22 (i.e. £13.2m 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 additional opportunities, including through the contract management initiative approved by cabinet earlier in the current financial year.
- 4.9. It has been possible to generate other income in the HRA for 2018/19. The budgeted income for 2018/19 from commercial rents and garages is currently forecast at £2.41m. This is £170,000 (7.0%) higher than for 2017/18 and is mostly due to the garage refurbishment programme and better management of void units.
- 4.10. Managers have focussed on controlling inflationary pressures, identifying mitigating actions to prevent budget growth where possible and identifying savings through zero-based budgeting and identifying additional income and savings opportunities. This has resulted in savings of £0.374m for 2018/19, partially offsetting the total growth of £2.548m. The net growth of £2.174m is mainly due to the additional costs arising from the Fire Safety Plus Programme of £0.606m, additional staffing costs of £0.533m following a reorganisation of the service and additional services provided through the Council's repairs and maintenance and caretaking contracts of £1.142m. The growth and savings are listed in detail in Appendix 5

Risks

- 4.11. The Government's programme of Welfare Reform is expected to have a significant impact on the Council's ability to collect rental income and will result in increased bad debt charges to the HRA. All new benefit claims are subject to Universal Credit and it is anticipated that from 2019 the Government will begin migrating all remaining existing benefit claimants to the Universal Credit. 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 2018/19 budget. A bad debt charge of £1.0m has been included for 2018/19 plus an additional allowance of £1.7m 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 £2.7m. There is a small risk that the migration of tenants to Universal Credit moves at a faster pace than initially expected.
- 4.12. 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. Government have been largely silent on when the Council may have to make any payment for high value void sales and have not yet published the detailed regulations so we do not know the

size of the payments we may have to make. They have however recently announced there will be no payment for the 2018/19 financial year. Therefore, given the uncertainty, the long term HRA financial plan still excludes the impact of the high value voids policy; this Government policy represents a significant risk to the HRA financial plan.

- 4.13. In addition to this, there are several other financial risks and these are set out in detail in Appendix 6.

Reserves

- 4.14. The risks facing the HRA must be viewed in conjunction with the level of HRA general reserves held. 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 £1.1billion³.
- 4.15. As shown in the table below 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 2018 projected to stand at £19.2m before drawdowns to pay for the fire safety plus programme.

HRA General Reserves as at 31st March	
2010	£3.2m
2011	£3.1m
2012	£5.0m
2013	£4.3m
2014	£7.5m
2015	£13.1m
2016	£18.5m
2017	£20.1m
2018 (predicted)	£19.2m

- 4.16. Ideally, this level of reserves would be maintained to provide sufficient cover against unanticipated events such as those that might arise from the risks noted above. However, sometimes it's necessary to draw on reserves for specific programmes; the Fire Safety Plus Programme will draw up to £14m from HRA general reserves during 2018/19 and 2019/20

Asset Management

- 4.17. The £20m Fire Safety Plus programme has been incorporated within the HRA capital programme for the four years from 2018/19 to 2021/22 inclusive. It's been possible to do this and still produce a balanced financial plan mainly because the Council has allocated funding of £14m from HRA reserves.

³ Based on the CIPFA methodology and not on a rental stream basis which would yield a considerably lower Existing Use Valuation

- 4.18. However, the HRA asset management strategy is being updated to ensure the emerging fire safety and compliance priorities are incorporated into the HRA capital programme to protect tenants' and residents' homes. Although it is expected that where possible, existing capital investment plans can be delivered to a higher safety standard, there is a risk that any additional works or requirements arising from ongoing fire risk assessments and the outcome of the Grenfell Public Enquiry may not be absorbed within the existing planned budget envelope. This could result in the need to delay or change the specification of other works and projects within the capital programme.
- 4.19. The financial plan includes funding to enable the delivery of new affordable housing. This will allow the Council to house more people and contribute to keeping people out of temporary accommodation where possible and contribute to the much-needed containment of costs in the Council's General Fund.

Financial Strategy

- 4.20. The strategic financial objectives for the HRA are as follows:
- to enable the financing of a viable on-going repairs programme that focusses ensuring that all health and safety requirements are met and on maintaining the basic fabric of the Council's homes. 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 (£186.4m as at 1st April 2017);
 - to continue to seek opportunities to raise additional income and to find further efficiencies which do not impact on service delivery;
 - to ensure tenants only receive affordable increases in rent and other charges that are lower than those included in the February 2014 HRA Business Plan;
 - to rebuild HRA reserves balance to protect against future shocks or unanticipated events to £15m by 2029/30;
 - to continue to endeavour to free resources for investment in new initiatives including new housing supply whilst improving service standards.
- 4.21. 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 (44%) of the Council's current housing debt is not due for repayment until after 30 years with 3% of the Council's current housing debt not being due for repayment for over 40 years.

- 4.22. 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.
- 4.23. 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.

Rents

- 4.24. The rent reduction will result in average rents being nearly £17.67 less 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 £107.67⁴ per week is already lower than that of most other central London boroughs (see Appendix 9 for a comparison of average rents in other central London boroughs).
- 4.25. The draft budget for Council homes for 2018/19 shown in Appendix 1 assumes that tenant rents reduce in line with the enforced rent reduction of 1% and that tenant service charges increase by CPI (at September 2017) as most of our contract costs increase each year by CPI. The combined effect will be a decrease in average tenants rent and service charges of 0.75%. Together with a few adjustments, this will reduce gross rental income in the HRA by £0.4m in 2018/19.

Capital Charges

- 4.26. 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. Further detail is contained within Appendix 10.

Fees, Charges and Other Income

- 4.27 The changes to charges for communal heating schemes, garage and parking space rents, water and sewerage charges, and income from advertising hoardings and commercial properties are set out in Appendix 11.

5. Consultation

- 5.1 Tenants and residents were consulted on the plans at the Economic Regeneration, Housing and the Arts Policy & Accountability Committee on 16th January 2018 in order that the committee could comment on the implications in advance of any formal decision being taken by Cabinet on 5th February 2018.

⁴ 2017/18 budgeted average rent is £107.65 per week for Hammersmith & Fulham

6. Equality Implications

- 6.1 The Equalities Impact Assessment (EIA) shows that the rent reduction is expected to be positive or neutral for protected groups. But some groups are over represented in Council homes so proportionately they will be more impacted. 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 the Fire Safety Plus programme. The former is largely outside of the Council's control. The latter will benefit all groups of tenants.
- 6.2 It is not possible for the Council to fully 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.
- 6.3 Implications verified by Peter Smith, Head of Policy and Strategy, tel. 020 8753 2206.

7. Legal Implications

- 7.1. 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.
- 7.2. 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.
- 7.3. 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.
- 7.4. 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.

- 7.5. 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.
- 7.6. Other legal implications have been referred to within the report including the need to comply with OFWAT regulations in relation to the supply of water.
- 7.7. In implementing the Fire Safety Plus programme which advocates the reduction in service charges or not charging for works completed in the council's leasehold properties. The council has and should also continue to consider its fiduciary duty to recover all service charges from leaseholders save for the exceptions as set out in the discretionary directions of 1997 and Social Landlords Discretionary Reduction of Service Charges (England) Directions 2014 which allow the council to consider reducing any service charge in respect of works of repair, maintenance, or improvement by an amount which they consider reasonable or to waive it altogether.
- 7.8. Implications completed by: Angus Everett, Principal Solicitor (Housing Litigation), Finance & Corporate Services.

8. Financial Implications

- 8.1. Comments are contained within the body of the report.
- 8.2. Implications completed by: Hitesh Jolapara, Strategic Finance Director, 020 8753 2501.

9. Commercial Implications

- 9.1 This report formulates the annual budget for the Housing Revenue Account (HRA) which includes a reduction in rents for Council homes of 1% for 2018/19.
- 9.2. The 1% rent reduction is a statutory requirement. While this leads to less money available for the maintenance of Council homes, it is not commercially feasible to fund the loss in rent by additional borrowing.
- 9.3. The report highlights the increase in the commercial rents such as garages. This could be used to offset the reduction in Council homes rents.
- 9.4. It is recommended that the Council continues to create opportunities to generate additional income and savings on both revenue and capital budget.
- 9.5. Implications completed by: Andra Ulianov, Procurement Consultant, 020 8753 2284

10. Risk Management

- 10.1. The principal risks are detailed in section 4 of this report and in appendix 6. These are included in the departmental risk register.
- 10.2. Implications completed by: Michael Sloniowski.

11. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix 1 Housing Revenue Account 2018/19 budget
Appendix 2 5 Year Business Plan
Appendix 3 5 Year Savings Plan
Appendix 4 Efficiencies & Income Movements
Appendix 5 Growth & Savings from changes to service delivery
Appendix 6 Key Risks
Appendix 7 Housing Authorities General Reserves
Appendix 8 Borrowing Plans
Appendix 9 Local Housing Authorities Weekly Rents
Appendix 10 Capital Charges
Appendix 11 Fees, Charges & Other Income

**Appendix 1:
2018/19 Draft Housing Revenue Account Budget**

Division	2017/18 Revised Budget	2017/18 Forecast Outturn¹	2018/19 Proposed Budget
	£000s	£000s	£000s
Housing Income	(76,284)	(76,700)	(76,846)
Housing Services	11,161	10,853	11,100
Safer Neighbourhoods	622	622	622
Adult Social Care	48	48	48
Voids & Repairs	13,769	15,022	14,820
Property Services	2,005	2,960	2,932
Development & Regeneration	355	551	362
Housing Solutions	114	233	250
Finance & Resources	8,645	8,302	9,351
Housing Strategy	256	256	264
Business & Programme Management	2,964	2,964	2,629
Corporate Service Level Agreement Charges	6,307	6,307	6,384
Capital Charges	29,248	29,441	29,919
(Contribution to)/ Appropriation from HRA General Reserve	(790)	859	1,835
Opening Balance on HRA General Reserve	(20,129)	(20,129)	(19,270)
Closing Balance on HRA General Reserve	(20,919)	(19,270)	(17,435)

¹As per Corporate Revenue Monitor for month 7

Appendix 2

5 Year Business Plan for Housing Revenue Account 2018/19 - 2022/23

HRA revenue projections	2018/19 Projection £000s	2019/20 Projection £000s	2020/21 Projection £000s	2021/22 Projection £000s	2022/23 Projection £000s
Income	(76,846)	(79,240)	(80,134)	(82,292)	(84,699)
Expenditure before savings and growth	71,944	72,333	73,002	73,858	74,907
Base HRA (surplus) / deficit for the year	(4,902)	(6,907)	(7,132)	(8,434)	(9,792)
Efficiencies*	(374)	(712)	(829)	(844)	(860)
Growth	2,548	2,097	2,139	2,180	2,221
(Surplus) / deficit before additional capital programme contribution	(2,728)	(5,522)	(5,822)	(7,098)	(8,431)
Revenue Contribution to Capital Outlay	4,563	9,700	12,862	5,000	9,623
(Surplus) / deficit for the year after additional capital programme contribution	1,835	4,178	7,040	(2,098)	1,192
HRA balance at year end	(17,435)	(13,257)	(6,217)	(8,315)	(7,123)

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

Appendix 3:					
Housing Revenue Account 5 year Savings Plan	Risk to Delivery	18/19	19/20	20/21	21/22
		£000s	£000s	£000s	£000s
Additional savings programme focused primarily on reducing corporate overheads for IT and premises.		0	200	300	300
Additional savings on core costs resulting from better stock condition and better customer service.		0	500	500	500
Base savings programme		0	700	800	800

Appendix 4: Income Movements

Item	Housing Income £
2017/18 Base Budget	(76,284)
Other Adjustments	
Decrease in dwelling rents	520
Additional garages income	(180)
Additional commercial properties income	(89)
Increase in Leaseholder Service Charges (Equivalent increase in cost)	(462)
Increase in Tenant's Service Charges	(132)
Other Adjustments	(235)
2018/19 Base Budget	(76,862)

NB: Leaseholders can only be charged for costs actually incurred.

Appendix 5: Growth & Savings from changes to service delivery

Growth		
Division	Description	Amount £000s
Property Services	Fire Safety Programme (Temporary)	419
		419
Business & Prog Mgmt	Fire Safety Programme (Temporary)	80
		80
Housing Repairs	MITIE Contract	621
		621
Housing Services	Concierge Service	107
	Pinnacle Caretaking Contract	521
		628
Housing Solutions	Realignment of Housing Assessments staff between General Fund and HRA	54
		54
Finance & Resources	Increase in Corporate Service Level Agreement charges	267
		267
All	RPHS Temporary Structure	479
		479
Total Growth		2,548
Less: Savings from changes in service delivery		
Division	Description	Amount £000s
Finance & Resources	Reduction in Past Pension Deficit Contribution	93
		93
Housing Services	Reduction in Estate Parking project costs	100
	Reduced take up of downsizing incentives	131
	Reduction in decant costs	50
		281
Total Savings from changes in service delivery		374
Net Growth		2,174

Appendix 6: Key Risks 2017/18	Lower Limit £000s	Upper Limit £000s	Worst Case £000s	Future Risk £000s
Quantifiable Risks				
<p>Welfare Reform - the budgeted bad debt provision provides some protection against the impact on rent collection rates as a result of the various strands of the Government’s Welfare Reform programme. However, there remains some risk.</p> <p>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 £1.6m and £6.5m per annum for 2018/19, 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 £30.7m (31st March 2017, £33.6m). In terms of mitigation the Council continues to actively promote payment by direct debit/ standing order to tenants and has achieved “trusted partner” status with the Department of Work & Pensions (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 “trusted partner” scheme, the Council can apply directly to the DWP for “alternative payment arrangements” (APAs) for individual tenants before they fall into significant arrears. The APA means that benefits for housing costs can be paid directly to the Council.</p>	0	6,500	30,700	?
<p>Right to Buy Disposals - a level of Right to Buy disposals (40 per annum from 2018/19 for four years and then falling back to 20 per annum from 2021/22) has been assumed within the business plan. 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 (168) all progress to RTB sales. The future risk assumes that there are 80 or more additional RTB sales each year.</p>	0	666	666	416
Total Quantifiable Risks	0	7,166	31,366	?

Appendix 6: Key Risks 2017/18

Unquantifiable Risks

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 resulting from changes in the property market that cannot be funded by revaluation reserves will be an actual charge to the HRA bottom line. The current level of revaluation reserves of £199m represents 15.3% of the current stock valuation of £1,304m, so an impairment / revaluation loss of 15.3% would have to be suffered on an individual asset before the HRA would be affected. The Government is currently consulting on implementing changes that may remove this risk.

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. The HRA general reserves provide a financial provision that mitigate against this risk.

Appendix 6: Key Risks 2017/18

Unquantifiable Risks

Continuation of social housing rent reductions beyond 2025 – There is a risk that the Government will set requirements for rent levels that are different from those assumed in the 40 year plan.

Service Level Agreements - any review of corporate SLA costs may impact adversely on the HRA particularly if contracts are retained in house resulting in higher than expected FTE⁵ numbers. There is a risk that corporate services may not pass on savings as the proportion charged to the HRA changes because of changes elsewhere in the Council. For example: increases in FTE's in the HRA and decreases in General Fund FTE's would mean the HRA attracts a higher portion of central costs or; legislative burdens could increase costs.

Market Risk on Re-Procurement and Recruitment – There is a risk especially under better economic conditions that it will become harder to re-procure contracts or recruit staff at the predicted rates

⁵ Full time equivalents

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.

Additional Fire Safety Costs - following the fire at the Grenfell housing tower block in Kensington and Chelsea, the Council has put in place the Fire Safety Plus Programme to make fire safety improvements to the housing stock above and beyond the current legal minimum standards. There remains a risk that more work may be needed following the outcome of the Grenfell Public Enquiry.

Additional compliance costs and other repairs risks such as uninsured events

Forced Sale of High Value Voids - 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, simply because a home is lost and it normally takes a few years to build a new one which might not be in the HRA. 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 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 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.

Depreciation - a risk that the depreciation charge could change as a result of CIPFA's current review of the regulations governing componentisation of HRA assets. While any increase in the depreciation charge would provide more ringfenced funding for the capital programme it would result in lower revenue reserves. Revenue reserves can be used to cover revenue or capital risks so any movement in funds from revenue to capital restricts flexibility.

Appendix 7			
London Local Housing Authorities			
General Reserves as a % of Turnover			
Local Housing Authority	Turnover 2016/17	General Reserve at 31st March 2017	General Reserve as a % of Turnover
	£m	£m	%
H&F	82.6	20.1	24%
London Local Housing Authorities			
RBKC	58.6	21.4	37%
Westminster	112.8	53.9	48%
Brent	54.7	4.7	9%
Ealing	68	4.9	7%
Harrow	32.4	6.9	21%
Hounslow	83.7	35.3	42%
Hillingdon	62	45.8	74%
Wandsworth	141.1	130.9	93%
Barking & Dagenham	113.3	10.7	9%
Camden	203.7	38.3	19%
Croydon	93.6	12.5	13%
Enfield	64.4	9.1	14%
Greenwich	121.6	12	10%
Hackney	140.3	10.2	7%
Haringey	111.5	39.3	35%
Islington	190.6	17.5	9%
Lambeth	176.2	10.7	6%
Lewisham	87.9	57.1	65%
Newham	110.3	55.7	50%
Redbridge	28.1	7.3	26%
Southwark	299.1	14.3	5%
Waltham Forest	64.7	4.7	7%
Barnet	63.2	12.4	20%
Kingston upon Thames	31.7	5.4	17%
Sutton	38.4	1.8	5%
Tower Hamlets	92.7	39	42%
Major Metropolitan Housing Authorities			
Manchester	65.2	100	153%
Birmingham	298.8	4.7	2%
Sheffield	157.8	9.1	6%
Newcastle Upon Tyne	113.6	8.9	8%
Leeds	228.2	28.1	12%
Average of Neighbouring Authorities			
Average of all 27 London Local Housing Authorities			39%
Average of all 27 London Local Housing Authorities			26%
Average of all 27 London Local Housing Authorities and all Major Metropolitan Housing Authorities			28%

**Appendix 8:
Housing Revenue Account Borrowing Plans 2017/18 -2022/23**

Year	Borrowing Opening Balance £000s pa	Debt Repayments £000s pa	Additional Required Borrowing £000s pa	Borrowing Bal/Cfwd £000s pa	Housing Capital Financing Requirement £000s pa	Internal Borrowing £000s pa
1 2017.18	186,416	6,150	0	180,267	216,020	35,754
2 2018.19	180,267	3,784	0	176,482	235,155	58,673
3 2019.20	176,482	8,042	0	168,440	251,068	82,628
4 2020.21	168,440	9,461	0	158,979	244,184	85,205
5 2021.22	158,979	0	0	158,979	247,667	88,688
6 2022.23	158,979	9,623	0	149,355	238,015	88,659

Appendix 9:	
Central London Local Housing Authorities	
Weekly Rents: 2017/18	
Local Housing Authority	Weekly Rent 2017/18
Lewisham	96.61
Southwark	99.48
Hackney	100.54
Greenwich	102.44
Hammersmith & Fulham	107.67
Lambeth	108.47
Islington	109.56
Tower Hamlets	110.26
Kensington & Chelsea	121.78
Westminster	122.78
Wandsworth	126.82
Average	109.67

Appendix 10 Capital Charges

Interest Payable

In line with the latest revised 40 year HRA business plan, it is planned to repay £3.8m of debt due to mature in 2018/19. This reduction in debt means that the annual interest cost in 2018/19 will reduce to £8.7m (from £8.9m in 2017/18). The level of borrowing proposed within the Financial Plan for Council Homes is predicted to remain close to the debt cap for the next four years before falling back over the term of the business plan. The plan for the next 10 years' borrowing is set out in Appendix 8.

Depreciation

The Council's policy has previously been to use the Major Repairs Allowance (MRA) as a proxy for depreciation in the HRA for housing properties. CLG's Settlement Payments Determination includes a five-year transitional period during which time Councils may use the uplifted MRA. The Council subscribed to the transitional period which ended in 2016/17.

The Council now charges actual depreciation to the HRA. This has resulted in a reduction in the depreciation charge for dwellings in 2018/19 of £1.8m to £16.2m.

There is a risk that the depreciation charge in the HRA could increase depending on the outcome of a review of CIPFA's regulations governing componentisation of HRA assets and this is included in the risks schedule in Appendix 6.

The charge for non-dwellings depreciation for 2018/19 is £0.2m has not changed significantly since 2017/18.

Appendix 11 – Fees, Charges & Other Income

Heating Charges

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.

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.

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 Utilities management 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 2017/18.

Garage Rents

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 to customers who live in Hammersmith and Fulham. Customers who do not live in Hammersmith and Fulham pay £50 per week. Residents in Council blocks with secure underground parking spaces pay £3.07 per week, where these are let to customers who do not live in the block the charge is £23.08 per week. There are a number of concessionary charges available to local residents.

It is proposed to freeze garage charges for council tenants and resident leaseholders and to increase them for others in line with inflation (3.9% in line with the August 2017 retail price index).

The level of charges among other neighbouring London Councils vary. For example, equivalent weekly charges for garages are between £19 and £57 in Kensington and Chelsea, £12 and £36 in Camden, £22 in Wandsworth. Prices for garages rented privately within Hammersmith & Fulham range from £1,800 to £2,500 per annum.

Parking Permits

Parking permits are issued at a flat rate of £119 per year. There are also concessionary rates for second or low emission cars.

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 estate residents, Traffic Management Orders have been implemented on a number of estates. This process is ongoing and is expected to conclude in 2018/19. The level of income assumed for parking charges for 2018/19 takes account of the changes in law and on-going review of parking.

It is proposed to freeze this £119 flat rate for vehicles on council estates that opt for a Traffic Management Order. Any concessions that reduce this rate on streets outside council estates for low emission cars will also be applied in estates covered by Traffic Management Orders. No fees or surcharges above this flat rate are proposed for vehicles in estates.

Water Charges

The Council collects income from tenants on behalf of Thames Water.

The annual review of charges involves comparing the amount paid to the Council by tenants for water and sewerage during the previous financial year with the amount the Council paid to Thames Water. For communally metered homes this involves working closely with Thames Water to ensure that the charges are in line with the actual water used.

The increase advised by Thames Water for 2018/19 will need to be overlaid on top of the adjusted charges. It is expected that Thames Water will confirm the agreed changes to water and sewerage service charges for 2018/19 in January 2018. It is therefore proposed that any change to the water charges be agreed following Thames Water's confirmation in January 2018 and it is recommended that, as in previous years, authority be delegated to the Director of Finance & Resources to approve the increase in water charges. This will ensure that the Council fulfils its legal obligation to recover the water charges.

Advertising Income

The budget for income generated from advertising hoardings located on Housing land has been reduced by £318k to £520k. This is due to contracts not yielding the expected returns during 2017/18 partly due to lower demand and the current economic climate. Opportunities for identifying new hoardings sites are being investigated on an on-going phased basis.

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

Rents on Shops

The budget for commercial property rents for 2018/19 has been increased to £1.472m, an increase of £89k. The increase in income is due to improvements in void management and better maintenance of the property portfolio. The budget set for HRA commercial property incorporates a forecast void rate of 3%, based on informed assumptions from the Council's Valuation & Property Services team, to allow for economic conditions. Additionally, the budgeted charge for the bad debt provision has been set at £98k for 2018/19.