


Cabinet Decision 5 February 2014	 TOWER HAMLETS
Report of: Aman Dalvi – Corporate Director Development & Renewal	Classification: Unrestricted
Housing Revenue Account – Budget Report 2014/15 Adoption of Housing Revenue Account Capital Estimates Adoption of Housing General Fund Capital Estimates	

Lead Member	Councillor Rabina Khan, Cabinet Member for Housing
Originating Officer(s)	Katherine Ball, Senior Accountant (HRA), D&R Finance Paul Leeson, Finance Manager, D&R Finance
Wards affected	All
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

Executive Summary

This is the second report on the Housing Revenue Account (HRA) for 2014/15, and follows decisions of the Mayor in Cabinet on 8th January 2014 regarding rents and tenant service charges. This report seeks Mayoral approval of the draft HRA budget for 2014/15 as set out in Appendix 1, and of the Management Fee payable to Tower Hamlets Homes.

This report also seeks Mayoral approval for the adoption of various housing capital estimates.

Recommendations

The Mayor in Cabinet is recommended to:-

Revenue

1. Approve the draft 2014/15 Housing Revenue Account budget as set out in Appendix 1.
2. Approve the draft 2014/15 Management Fee payable to Tower Hamlets Homes (THH) of £33.633 million as set out in Table 2 in section 7.16.

3. Subject to 2 above, note that under the Management Agreement between the Council and THH, THH will manage delegated income budgets of £88.034 million and delegated expenditure budgets of £24.381 million on behalf of the Council in 2014/15.
4. Note that, as referred to in paragraph 7.9, a sum of £0.205 million is being held within the HRA to provide for an assumed 1% pay award for 2014/15, and agree that the Management Fee will be adjusted – if necessary - to reflect the pay award when it is finalised.
5. Note that, as detailed in paragraph 7.10, a sum of £1.3 million is being held within the HRA to provide for a possible increase in Employer Pension contributions in 2014/15, and agree that the Management Fee will be adjusted – if necessary - to reflect this increase as and when it is finalised.
6. Note the HRA Medium Term Financial Plan (2014-17) outlined in Appendix 2.

Capital

7. Adopt a capital estimate of £6.7 million in relation to Mechanical and Electrical schemes, as outlined in paragraph 9.7 and Table 4.
8. Adopt a capital estimate of £3.5 million in relation to external works on non-Decent Homes blocks, as outlined in paragraphs 9.8 and 9.9.
9. Adopt a capital estimate of £1 million to fund Overcrowding Reduction Initiatives as outlined in paragraph 9.10.
10. Adopt capital estimates for the Aids and Adaptations programme (£750,000), the Capitalisation of Voids (£1.5 million) and the Capitalisation of Fees and Salaries (£650,000) as outlined in paragraph 9.11.
11. Adopt a capital estimate of £250,000 in order to maintain a contingency for urgent works of £1 million, as outlined in paragraph 9.12.
12. Adopt a capital estimate of £3.610 million in respect of the Extensions element of the GLA Pipeline scheme, and note that the Council will receive £1.020 million of GLA funding for this scheme (paragraphs 9.15 to 9.18).
13. Adopt a capital estimate of £995,000 for the award of Disabled Facilities Grants, as outlined in paragraph 10.1, subject to funding being confirmed from within the Department of Health Personal Social Services capital grant.
14. Adopt a capital estimate of £550,000 in respect of Private Sector Improvement Grants, including Empty Property Grants, for 2014/15, to be financed from ring-fenced resources received from the East London Renewal Partnership (paragraph 10.2).

1 REASONS FOR THE DECISIONS

- 1.1 The Mayor is required by the Local Government and Housing Act 1989 to determine a balanced Housing Revenue Account budget prior to the start of the new financial year. The Council must also approve the Management Fee payable to Tower Hamlets Homes so that it can fulfil its obligations under the Management Agreement to manage the housing stock on behalf of the Council.
- 1.2 In accordance with Financial Regulations, capital schemes must be included within the Council's capital programme, and capital estimates adopted prior to any expenditure being incurred. This report seeks the adoption of the necessary capital estimates for various schemes in order that they can be progressed.

2. ALTERNATIVE OPTIONS

- 2.1 The Council has a statutory duty to set a balanced HRA and provide Tower Hamlets Homes with the resources to fulfil its obligations under the Management Agreement. Whilst there may be other ways of delivering a balanced HRA, the proposals contained in this report are considered the most effective, having regard to the matters set out in the report.

3. BACKGROUND

- 3.1 The Housing Revenue Account (HRA) relates to the activities of the Council as landlord of its dwelling stock, and the items to be credited to the HRA are prescribed by statute. Income is primarily derived from tenants' rents and service charges, and expenditure includes repairs and maintenance and the provision of services to manage the Council's housing stock.
- 3.2 Since 1990 the HRA has been "ring-fenced"; this was introduced as part IV of the Local Government & Housing Act 1989 and was designed to ensure that rents paid by local authority tenants reflect the associated cost of services; this means that the HRA cannot subsidise nor be subsidised by Council Tax i.e. any deficits or surpluses that arise on the HRA cannot be met from or transferred to the General Fund. In addition, the HRA must remain in balance.
- 3.3 At its meeting on 8th January 2014, the Mayor in Cabinet considered the Housing Revenue Account and Rent Setting report which recommended an average weekly rent increase of £5.04 from April 2014. This rent increase has been incorporated into the 2014/15 HRA budget set out in Appendix 1.
- 3.4 This report is also seeking capital estimates for various Housing General Fund elements of the capital programme.
- 3.5 The Council's Housing Strategy includes the following objectives:
 - Delivering and maintaining decent homes

- Place making and sustainable communities
- Managing demand, reducing overcrowding
- New housing supply

The investment programme addresses these aims where appropriate.

4. HRA 30 YEAR FINANCIAL MODEL

- 4.1 Under HRA Self-Financing each Authority is required to develop and maintain a 30 Year HRA Financial Model showing the anticipated income and expenditure each year, the anticipated capital programme over 30 years, and the funding available to finance the capital programme.
- 4.2 Current modelling indicates that annual revenue surpluses will be generated over the first 10-15 years which will subsequently be needed to fund the capital programme over the remaining part of the 30 year plan as the Authority will have reached its debt cap by that point, and will therefore be unable to borrow any further to finance the capital programme. This will enable the anticipated required capital works to be delivered over the life of the Business Plan - including the delivery of the enhanced Decent Homes programme over the early years of the model.

5. PROJECTED OUTTURN 2013/14

- 5.1 Appendix 1 shows the agreed 2013/14 HRA budget. On 8th January 2014, the Mayor in Cabinet considered the Performance and Corporate Budget Monitoring Report (Quarter 2), which reported that the HRA was forecast to underspend by £0.57m; this will be used for future capital investment, as outlined in paragraph 4.2.

6. RISKS

- 6.1 A number of recent Cabinet decisions relate to the HRA and will affect the viability of the 30 Year Financial Model. In addition the previously identified two main risks to the HRA of Right to Buy and Welfare Reform are still relevant and there have been some further developments in these areas, which are discussed below.

Welfare Reform

- 6.2 There are a number of changes being made to the benefits system that will lead to budget pressures within the HRA. The main changes that will affect Council tenants are set out below.

Benefit Cap

- 6.3 The benefit cap came into effect in Tower Hamlets on August 12th 2013. Under the new rules:
- No family household will receive more than £500 per week
 - No single person household will receive more than £350 per week

Universal Credit and Direct Payments

- 6.4 Universal Credit will be introduced to replace income-based Job Seekers' Allowance, income-related Employment & Support Allowance, Income Support (including Support for Mortgage Interest), Working Tax Credits, Child Tax Credits and Housing Benefit.
- 6.5 Direct Payments will be made to claimants' bank accounts on a monthly basis, starting with new claimants and people with a change of circumstances, and gradually extended to all claimants by the end of 2017. The implementation of this element of Welfare Reform has been delayed and it is currently anticipated that this will not affect Tower Hamlets before 2015.

Impact on Tower Hamlets tenants

Benefit Cap

- 6.6 The Authority's Housing Benefit records indicate that 700 households in the borough are affected by the benefits cap, but only a small percentage of those are Council tenants. Prior to the implementation of the cap, it was estimated that it would affect 106 (approximately 1%) of LBTH tenants; as at October 2013 the actual number of households affected was 52 (0.4% of Council tenants), the majority of which are currently in receipt of Discretionary Housing Payments.

Universal Credit and Direct Payments

- 6.7 The first results from the demonstration projects were published on December 17th 2012 and showed rent collection rates ranging from 88% to 97%, with an average collection rate of 92%. Landlords regard rent arrears at these levels as unsustainable in the longer term, and hoped that collection rates would improve as the new systems and approaches began to bed in.
- 6.8 Further data was published in May 2013 and some improvement in collection rates was recorded, with collection rates varying from 91% to 97%, and an average collection rate of 94%.

Impact of Welfare Reform changes on the HRA

- 6.9 The impact on the HRA will not be known until the reforms are in place in Tower Hamlets, however for planning purposes, provision was made in the

2013/14 budget to reflect an assumed increase in bad debts equivalent to 3% of the 2013/14 rental income budget, with the level of bad debts reducing in 2014/15 and returning to historic levels in 2015/16. Due to the delays in implementing the various reforms, it is not now anticipated that the budgeted level of provision will not be fully needed in 2013/14, although an elevated level of provision has been retained in the 2014/15 HRA budget (Appendix 1) and in 2015/16 as part of the HRA MTFP (Appendix 2). The level of bad debt provision may need to be reviewed once all the welfare reforms have been implemented.

- 6.10 The extent to which budget pressures caused by welfare changes prove to be temporary in nature will depend on the Council's response to rent arrears; if tenants are unable to pay their rent in full, there will be an ongoing budget pressure in the HRA, and as rent constitutes the main source of income for the HRA, this could have a significant impact on the future viability of the HRA.

Right to Buy

Current Right to Buy Policy

- 6.11 The maximum Right to Buy discount offered to tenants in London is now £100,000. Local Authorities have been allowed to enter into an agreement with the Secretary of State whereby they are allowed to retain part of the receipt from Right to Buy sales, providing that the retained receipts are spent on the re-provision of social housing within three years, and limited to a maximum of 30% of the cost of the re-provision.
- 6.12 Tower Hamlets has signed this agreement but to date there have been no receipts retained by the Authority for the re-provision of social housing. It is anticipated that if sales continue to take place at a similar rate as is currently the case, then there will shortly be some retained receipts available to the Authority, but until sales take place, the exact level is uncertain. Further information will be reported to Members at the end of this financial year.
- 6.13 The Authority is able to terminate the agreement with the Secretary of State, in that case the retained receipts would no longer be kept by the Authority and would be payable to the government.

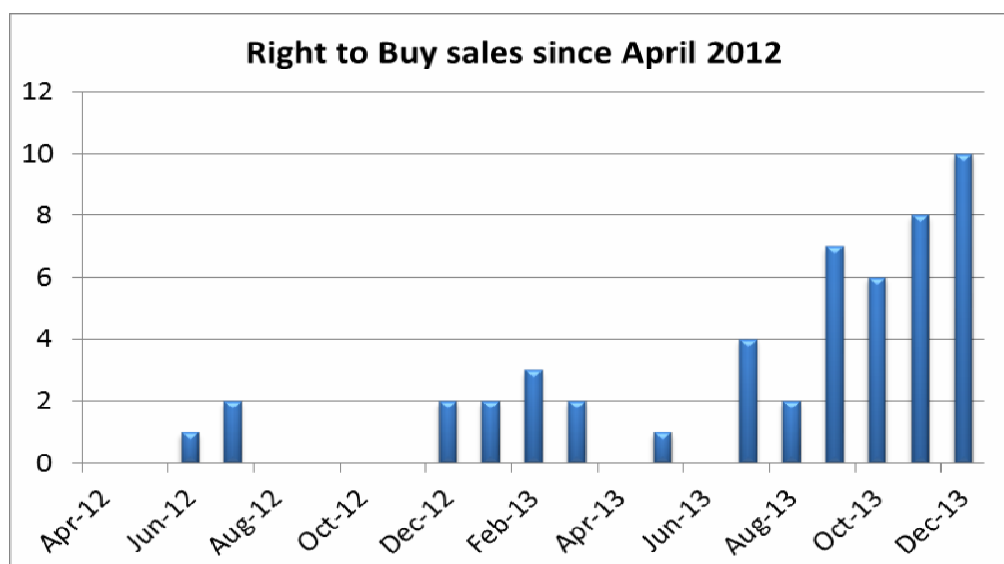
Further Changes to the Right to Buy scheme

- 6.14 On January 3rd 2014 the government announced that in addition to the changes made to the Right to Buy scheme since April 2012, further steps will be taken to reinvigorate the Right to Buy in 2014 by:
- amending the qualifying period for Right to Buy from five years to three;
 - increasing the maximum Right to Buy percentage discount for eligible social tenants in houses to 70 per cent – in line with the maximum discount for flats;

- increasing the maximum cash cap in line with CPI (the current maximum cash cap in London is £100,000);
- introducing Right to Buy Agents to offer tenants a free advice and support service to help guide tenants through the application process;
- establishing a £100m fund to improve applicants' access to mortgage finance – the fund will be available from 2015/16 and be split over two years.

Right to Buy Sales to Date

6.15 Since April 2012, over 1,000 Right to Buy applications have been received, and as at the end of December 2013, 50 Right to Buy sales have taken place, with many receiving the maximum discount. Graph 1 below shows the number of sales each month; on average, successful applications take between nine and 15 months to complete, and this time lag is clear on the graph. Given the large number of live applications it is anticipated that there will be a steady stream of sales over the coming months.



Graph 1 – Monthly Right to Buy sales between April 2012 and December 2013

6.16 In 2012/13 the average receipt received by the Council was £105,000 and the average discount was £75,000, so far in 2013/14 the average receipt received by the Council was just over £103,000, and the average discount received was over £93,000. The increase in the average discount received reflects the fact that the maximum discount in London was increased from £75,000 to £100,000 on March 25th 2013.

Future Right to Buy Sales

6.17 Modelling the number and timing of future sales is difficult; the current unfavourable economic conditions may mean that the number of sales could be relatively low, and in addition, some tenants may not fully appreciate the

responsibilities arising from being a leaseholder, and once aware, may decide not to continue with their application.

- 6.18 However, the increased discount is substantial and as discussed at 6.14, the government has recently announced further changes to the Right to Buy scheme that aim to further re-invigorate it. For budget planning purposes, it is currently estimated that there will be 50 RTB sales in 2013/14, 100 in 2014/15 and 20 in 2015/16 and 2016/17, although these assumptions may need to be revisited if the government's proposed changes lead to an increase in applications.

Leaseholder Recovery

- 6.19 Leaseholders represent 40% of the total HRA stock, and leaseholder numbers are increasing with each Right to Buy sale that takes place. Where capital works carried out on stock are of an external or communal nature, leaseholders are required to contribute to their share of the costs.
- 6.20 The Tower Hamlets HRA 30 Year Financial Model assumes full recovery of leaseholder major works over a period of seven years, however, this profiling means that a high level of leaseholder major works "forward funding" is required, and it is therefore crucial that leasehold major works debt is pursued in a robust manner as failure to do so will result in an HRA budget pressure.

Proposed Capping of Leasehold Major Works

- 6.21 The government recently issued a consultation entitled '*Protecting Local Authority Leaseholders from Unreasonable Charges*', which proposed a cap of £15,000 for leaseholders in London where the local authority has received assistance for works of repair, maintenance or improvement, provided by the Secretary of State or the Homes and Communities Agency.
- 6.22 The consultation stated that the proposed cap is not intended to affect any funding already confirmed, but would affect any allocation made from the (future) 2013 Spending Round Decent Homes funding. Therefore, although there would be no impact on the Authority in relation to our current Decent Homes funding (ending in 2014/15), if the Authority were to bid for the next round of Decent Homes Funding, the impact of the £15,000 cap would need to be taken into consideration.

Interest Rates and Debt

- 6.23 Over the next few years, the Authority will need to prudentially borrow in order to finance the capital programme. Although interest rates remain at the historically low 0.5%, as and when interest rates rise, the HRA will be exposed to interest rate risks as its current loan portfolio mainly consists of market loans at variable rates.
- 6.24 In August the governor of the Bank of England announced that the Bank would not consider raising interest rates until the unemployment rate fell below 7%.

At that time it did not expect this to happen until 2016, however, many analysts believe that the Bank will have to act sooner than that - possibly in 2015 - given the increasing strength of the UK's economy.

7. DRAFT BUDGET 2014/15

Inflation

- 7.1 September 2013's inflation indices were as follows; the Retail Price Index (RPI) - on which the following year's rent increase is based - was 3.2% and the Consumer Price Index (CPI) was 2.7%. CPI has dropped since September, with the latest reported figure being 2%.

2014/15 Rent Increase

- 7.2 The HRA Settlement assumed that local authorities would aim to achieve rent convergence in 2015/16 in line with the government's rent restructuring policy, and then implement subsequent annual rent increases of RPI + 0.5% each year thereafter.
- 7.3 On January 8th 2014 the Mayor in Cabinet agreed an average 2014/15 rent increase of 4.9% - equating to £5.04 per week - and this level of rent increase has been incorporated into the 2014/15 budget figures at Appendix 1.

'Rents for Social Housing from 2015/16' Consultation

- 7.4 On 2nd July 2013, the Department of Communities and Local Government (DCLG) stated in a letter sent to housing bodies that:

"Having considered the issue carefully, we are minded not to extend rent convergence beyond 2014/15.....' We expect most landlords to have achieved rent convergence by 2015. By that point, rent convergence policy will have been in place for almost 15 years - this is a significant period of time for landlords to make full use of the rent flexibilities the government has provided, and most have done so."

- 7.5 A consultation entitled '*Rents for Social Housing from 2015/16*' setting out the proposed changes to come into effect from April 2015 closed on December 24th 2013. The proposed changes are summarised below:

- moving from rent increases of RPI + 0.5% to increases of CPI + 1%;
- removing (from April 1st 2015) the flexibility to increase the weekly social rents by an additional £2 – i.e. ending rent convergence a year early;
- clarifying that the proposed rent policy does not apply to social tenant households with an income in excess of £60,000.

- 7.6 Modelling has been carried out of the effect of the proposed changes; the indicative impact over the 10 years of the proposed policy of an early end to rent convergence is a potential loss (inclusive of inflation) in the region of £18m. Once the responses to the consultation are published and further details are known about what changes the government is proposing to make, the HRA Financial Model will be updated to reflect the anticipated effects, and savings may need to be identified as part of next year's budget process in response.
- 7.7 As detailed in the '*Housing Revenue Account First Budget and Rent Setting report*' considered by Cabinet on January 8th 2014, we are awaiting details of how the Limit Rent will be calculated in future. Limit Rent is used to control the amount of Housing Benefit grant paid to us by the Government; any benefit paid in respect of Local Authority rents that exceed the Limit Rent is a charge to the HRA. The Government has stated that the calculation of the Limit Rent will change if rent convergence ends early, but we have not yet been informed what the Limit Rent will be for Tower Hamlets for 2014/15. Due to the changes that are being made to the welfare system - and in particular the introduction of Direct Payments – it is also unclear how this control mechanism will operate in future.

Tenant Service Charges

- 7.8 On January 8th 2014 the Mayor in Cabinet agreed an average 2014/15 increase in tenant service charges of £0.36 per week. This level of tenant service charges is reflected in the 2014/15 budget figures at Appendix 1.

2014/15 Inflation - salaries

- 7.9 The General Fund medium term financial plan anticipates that staffing costs will increase by 1% in each of the three years of the plan. The management fee calculation in table 3 does not reflect this inflationary uplift as the 2014/15 pay award is not yet finalised, but provision has been made in the HRA budget for an assumed 1% pay award. The Mayor in Cabinet is asked to agree that once a pay award has been agreed, the 2014/15 management fee will be adjusted – if necessary - to reflect this. As salaries constitute approximately £20m of the management fee, a 1% increase is estimated to be £0.205m. If no pay award is agreed then no adjustment will be made to the management fee.

2014/15 Employer's Pension Contributions

- 7.10 It is anticipated that the Council's actuaries will recommend an increase in the percentage rate that the Council, and THH contributes towards employee pensions in order to ensure the viability of the Pension Scheme. Current estimations are that this may be in the region of £1.3m, but the management fee calculation in table 3 does not reflect this as no final decision has been made. The Mayor in Cabinet is asked to agree that once a final decision has been made about the 2014/15 level of employer contribution, the 2014/15

management fee will be adjusted. If no increase is agreed then no adjustment will be made to the management fee.

2014/15 Inflation - energy

7.11 No inflation has been applied to the energy budgets for 2014/15 as we estimate that there is currently scope within this budget to absorb what is forecast to be only a minor increase in our 2014/15 energy prices. Current forecasts for 2014/15 energy contract prices are shown in Table 1 below.

Gas & Power	Forecast increase / decrease for 2014/15
Gas*	-1.28%
Half Hourly Electricity**	+2.43%
Non Half hourly Electricity***	+1.76%
Unmetered supply****	+2.47%

Table 1 – Forecast 2014/15 energy prices

Notes - due to the nature of our procurement strategy (variable purchase of commodities over a 12 month period on the wholesale market) the following applies:

**48% of our gas has been already been purchased for 2014/15*

***55% of the Half Hourly electricity has already been purchased for 2014/15*

****this purchasing strategy varies as the commodity is less volatile than the two above*

*****60% of the unmetered supply has been purchased, this is the least volatile of all and increases / decreases tend to be less significant.*

2014/15 Savings

7.12 A review has been carried out of overheads, and as a result, the 2014/15 HRA budget incorporates savings of £0.838m.

2014/15 Leasehold Service Charge Savings

7.13 An ongoing review is being carried out to identify savings, and so far approximately £0.5m of savings have been identified relating to services that leaseholder receive and are recharged for. As part of this review, front-line service delivery has been protected.

7.14 As a result of the savings review, leaseholders will see an average reduction in their 2014/15 service charge estimates of 4.6% compared to the 2012/13 leaseholder service charge actuals; this equates to an average reduction of £55 for each leaseholder.

Management Fee

7.15 In February 2013, The Mayor in Cabinet approved the 2013/14 Management Fee payable to THH for services provided to the Council. At £32.429 million, the Management Fee represented the largest single expenditure element of the HRA 2013/14 budget.

7.16 Table 2 below shows the calculation of the 2014/15 Management Fee payable to Tower Hamlets Homes.

Description	Total Fee £'000
Base Budget 2013/14	32,429
Horticulture Budget (transferred from delegated budget)	828
Right to Buy valuations (transferred to delegated budget)	-59
Revised Base Budget 2013/14	33,198
2014/15 savings	-838
Fee to reflect increased capital programme in 2014/15*	1,187
Funding of Ocean Estate Warden	34
Inflation on repairs element of management fee	52
Indicative Management Fee 2014/15	33,633

Table 2 – Calculation of the 2014/15 Management Fee

**For the purposes of the management fee, a 2014/15 capital programme of £77m has been assumed compared to a £53m capital programme in 2013/14. This is a reflection of the increased size of the Decent Homes programme in 2014/15.*

8. MEDIUM TERM FINANCIAL PLAN

8.1 Appendix 2 shows the HRA Medium Term Financial Plan (MTFP) for the period 2014-2017.

8.2 The MTFP incorporates various income and expenditure assumptions and includes known changes that will affect the budget, including the effects of changes to stock numbers due to assumed right to buy sales and the impact of agreed regeneration schemes. As can be seen, the HRA is balanced over the three year period of the MTFP, with the current planning assumption being that anticipated revenue surpluses will contribute to the financing of the HRA capital programme.

8.3 As referred to in paragraph 6.9, the MTFP currently assumes that the level of bad debts will increase in 2013/14, then reduce in 2014/15 and ultimately return to historic levels in 2015/16. However, as the cumulative impact of the various Welfare Reforms take effect, this assumption will be kept under review, and the budgeted provision may need to be increased.

8.4 As highlighted in paragraph 6.18, assumptions in the MTFP about the number of future Right to Buy sales will be kept under review. If sales are higher than currently assumed, compensatory savings will need to be made in order to offset the loss of the income to the HRA.

- 8.5 As referred to in paragraphs 7.5 and 7.7, we are awaiting details of the government's future rent policy, and in particular, how the Limit Rent mechanism will operate in future. Depending on how rent policy changes, future savings may be needed in order to offset the loss of HRA rental income.

Regeneration Schemes

- 8.6 The Council is currently in the process of assessing various regeneration projects, in addition to those already approved.
- 8.7 Going forward, the HRA 30 Year Financial Plan provides the possibility for limited new supply development. Any future regeneration schemes will need to be assessed in the context of competing demands from other projects.

Poplar Baths & Dame Colet House

- 8.8 This scheme was approved at Cabinet on January 9th 2013, and a capital estimate to the value of £36m for the development of the Poplar Baths and Dame Colet sites was adopted (£16m is the HRA element). The HRA MTFP includes indicative figures to reflect the anticipated annual revenue income and expenditure associated with the scheme.

GLA Pipeline Bids

- 8.9 The Council was successful in its bid for grant funding from the GLA's Building the Pipeline Supply Fund in respect of two sites, Bradwell Street and Ashington East, and has now secured funding towards an Extensions programme. Further details are provided at paragraphs 9.14 to 9.18.

Blackwall Reach

- 8.10 In July 2009, Cabinet agreed that £13 million be allocated to fund the costs of land assembly and decants in respect of the Blackwall Reach Development and the Woolmore Street Medical Centre. This was in addition to the £1.5 million capital receipt that had already been recycled into the scheme under the conditions of the disposal of the St Mathias site to the Homes and Communities Agency (HCA).
- 8.11 The Council is working in partnership with the Greater London Authority (GLA), which has taken over the responsibilities of the Homes and Communities Agency, and Swan Housing Group on the Blackwall Reach project.
- 8.12 As the major landholder, the Council is currently undergoing a Compulsory Purchase Order (CPO) process to acquire all land within the proposed development area. It is anticipated that resources will be set aside to finance any potential shortfall in ear-marked resources prior to the receipt of the overage that will be generated on the private sales required to cross-subsidise the public sector regeneration element within the area. These higher than

anticipated sales proceeds will be recycled into the scheme and would mitigate any risk involved in the project costs.

9. HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

9.1 The Council's projected three year capital programme is included with the 'General Fund Revenue and Capital' report elsewhere on this agenda. This incorporates indicative funding of £200 million for the Housing Revenue Account element of the capital programme over the three year period from 2014/15 to 2016/17, which is summarised in Table 3 below, and detailed in Appendix 3.

	2014/15 £m	2015/16 £m	2016/17 £m
Indicative HRA Programme	109.40	75.59	15.00

Table 3 – Summary HRA Capital Programme 2014/15 to 2016/17

Mainstream HRA Capital Programme - Non Decent Homes

9.2 Although Members have already approved certain elements of the programme, including the Decent Homes works, capital estimates need to be adopted for the remainder of the programme. The HRA Business Plan identifies £15.933m of available resources earmarked for 2014/15 to fund the non Decent Homes element of the HRA capital programme. This report seeks the approval of various capital estimates so that the non Decent Homes element of the HRA capital programme can be progressed.

9.3 Resources to fully fund these capital works have been incorporated within the viable HRA Business Plan model. There is however, risk involved in entering a new financial regime, so expenditure and resources will continue to be closely monitored to ensure that the projects continue to be viable.

2014/15 Prioritised Investment Programme (Planned Maintenance Programme)

9.4 Tower Hamlets Homes has assessed the onward capital investment need of the stock and determined likely need for 2014/15. The approach taken for prioritisation has considered the following investment strands:-

- Replacement/Renewal of mechanical and electrical infrastructure which is at the end of its life and incurring both high responsive costs and increased disruption to residents, eg lifts and door entry.
- A coherent/holistic approach to improve homes which have already benefited from internal works, in particular the need to provide residents with showers. This will be achieved through spending on individual heating and boosted water pumps.

- Environmental improvements to communal heating through enabling smart metering and to estate lighting through LED installation.
- Prioritising external works to blocks currently not featuring in the mainstream Decent Homes Programme particularly those with increasing maintenance costs.

9.5 It is proposed that capital estimates are adopted at asset type level, with the schemes being developed by Tower Hamlets Homes based on a prioritisation methodology matrix which gives a priority rating based on age, condition, obsolescent components and repair frequency. This will be used to determine blocks/schemes in most urgent need of renewal.

9.6 The proposed blocks will be submitted to the Council's Officer Major Projects Board for review and ratification, prior to being agreed individually by the Corporate Director, after consultation with the Mayor.

Mechanical and Electrical Schemes - £6.7 million

9.7 The proposed programme estimates by asset type for Mechanical and Electrical schemes are set out in Table 4 below.

Asset Type	Capital Estimate (£)
Door Entry Renewal	1,030,000
Communal Heating	1,080,000
Water Tanks	280,000
Lift Renewal	1,870,000
Boosted Water	1,200,000
Smart metering	140,000
Planned Domestic Heating	310,000
Emergency Domestic Boiler Failures	90,000
Landlords Risers & Laterals	140,000
Communal Play Areas	50,000
Estate & Balcony Lighting	300,000
TV Aerials	210,000
TOTAL	6,700,000

Table 4 – Mechanical and Electrical 2014/15 capital estimates

External works - non-Decent Homes Blocks - £3.5 million

9.8 Approximately 350 of the Council's housing blocks are deemed to be decent and therefore are not included in any of the future Decent Homes programme years. However in some cases there is a need to undertake works to the external fabric of blocks, similar to those included in the current Decent Homes External Programme.

- 9.9 At this stage it is proposed that a capital estimate for £3.5 million is adopted to include a programme for these works in the programme. A further report will be submitted to Cabinet to approve the specific works to be undertaken. Again, Tower Hamlets Homes will prioritise blocks based on an assessment of responsive maintenance need and will use a detailed scoping/validation survey similar to that being used to validate the current Decent Homes Programme to provide accurate costs and scope of works.

Overcrowding Reduction Initiatives

- 9.10 Members are asked to formally approve a capital estimate of £1,000,000 for the inclusion within the programme of various overcrowding initiatives. This will include funding of the Cash Incentive Scheme and the Knock-through programmes, as well as providing funding for other initiatives designed to release or create family sized accommodation to relieve overcrowding.

Aids and Adaptations, Capitalisation of Voids, Capitalisation of Fees and Salaries

- 9.11 Members are asked to formally approve capital estimates for the inclusion within the programme of the Aids and Adaptations budget (£750,000), the capitalisation of the major costs involved in bringing void properties back into use (£1,500,000), and the capitalisation from the Housing Revenue Account of fees and salaries associated with the delivery of the Capital programme (£650,000).

Contingency

- 9.12 The programme for 2013/14 incorporated a contingency of £1 million to be allocated towards urgent works. It is anticipated that approximately £250,000 of this contingency will be utilised during the year, with the remaining provision of £750,000 being carried forward into 2014/15. It is suggested that the total contingency available for 2014/15 remains at £1 million, and in order to do this a capital estimate of £250,000 is sought. The utilisation of this contingency will be subject to the approval of the Corporate Director, Development and Renewal.
- 9.13 Approvals are sought for schemes totalling £10.2 million to be adopted, plus the suggested £0.250 million contingency (paragraph 9.10) and the £3.9 million of expenditure in respect of Overcrowding Reduction Initiatives, Aids and Adaptations, Capitalisation of Voids and the Capitalisation of Fees and Salaries (paragraphs 9.10 and 9.11) as detailed in Appendix 3. In total, approvals of £14.350 million are sought.

GLA Pipeline Bid - £3.610 million

- 9.14 Members have previously been notified that the Council was successful in bidding for grant from the GLA's Building the Pipeline Supply Fund in respect of two sites, Bradwell Street and Ashington East, and has been awarded

£30,000 per new home delivered. The Council needs to provide the remainder of the scheme costs. Cabinet on 6th November 2013 approved the Bradwell Street Scheme and a report on Ashington East is scheduled for the April 2014 Cabinet meeting.

Extensions

- 9.15 The Council has now been informed that it was successful in its bid for funding to support a programme of Extensions during 2014/15. To secure the funding the Council must provide at least 45 additional bedrooms from 34 homes, with works to be completed by March 2015.
- 9.16 Officers are currently finalising an assessment of potential properties for inclusion in this programme. It is proposed that a capital estimate is adopted to incorporate this scheme within the capital programme, with Tower Hamlets Homes' recommendations for the individual properties concerned to be considered by the Council's officer Major Projects Board, prior to approval by the Corporate Director – Development and Renewal.
- 9.17 The estimated development costs and funding requirements of the scheme are shown in Table 5 below:

Description	Extensions £,000
<u>CAPITAL EXPENDITURE</u>	
Estimated Capital Cost	3,610
GLA - Pipeline Supply Grant	(1,020)
LBTH Financing Requirement	2,590

Table 5 – GLA Pipeline Programme funding

- 9.18 It is proposed that the Council's contribution of £2.590 million is funded from within the resources of £9.89m Revenue Contribution to Capital (RCCO), set aside within the 2014/15 Housing Revenue Account budget, (as shown in Appendix 1.) The remainder of the 2014/15 RCCO is needed to fund Decent Homes capital commitments in 2014/15.

10. ADOPTION OF HOUSING GENERAL FUND CAPITAL ESTIMATES

Disabled Facilities Grants

- 10.1 Mayoral approval is sought to formally adopt a capital estimate of £995,000 for the inclusion of the Private Sector Disabled Facilities Grant (DFG) programme within the General Fund element of the housing capital programme. The Council has recently been advised that its allocation of Department of Communities and Local Government (DCLG) DFG funding for 2014/15 is £744,462. The remaining funding is subject to confirmation from the Department of Health, and subsequent Cabinet approval as part of the

Education, Social Care and Wellbeing Capital Programme report to be considered later in the year.

Private Sector Renewal Grant

- 10.2 Mayoral approval is sought to formally adopt a capital estimate of £550,000 for the inclusion of the Private Sector Renewal Grant programme within the General Fund element of the housing capital programme. These resources will support the aims and objectives of the Council's Private Sector Housing and Empty Properties Framework, including Home Repairs Grants for minor aids and adaptations, energy efficiency, minor repairs, home security, hazard removal and relocation assistance; Empty Property Grants and Discretionary Disabled Facilities Grants. The scheme will be financed from residual ring-fenced resources received from the East London Renewal Partnership.

11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 11.1 This report sets out the proposed budget for the Housing Revenue Account for 2014/15 and also asks Members to approve the draft management fee payable to Tower Hamlets Homes to manage the dwelling stock on behalf of the Authority.
- 11.2 The budgets have been prepared by the Authority in conjunction with Tower Hamlets Homes, in accordance with the terms of the management agreement. Section 7 of the report outlines the efficiency and other savings that have been incorporated across delegated budgets, and within the management fee.
- 11.3 The Council is required to maintain a reasonable level of reserves in the HRA to mitigate possible financial risks. Since April 2012 the Authority has been responsible for the financing of all HRA expenditure, including the capital works necessary to maintain and improve the housing stock, including completion of the Decent Homes programme. All future capital work will be funded through a combination of, primarily, borrowing (within the constraints of HRA Business plan viability and the HRA's debt cap), contributions from reserves, leaseholder contributions and grants.
- 11.4 Although the 2014/15 budget incorporates significant savings, it is essential that the process is continued in conjunction with Tower Hamlets Homes, to identify and generate further efficiencies and savings within this and future years' budgets, to ensure that the Council complies with its statutory requirement to maintain a balanced Housing Revenue Account, and that the capital investment programme is fully financed.
- 11.5 This report outlines the indicative HRA Housing Investment Programme for 2014/15 to 2016/17 (Appendix 3). The programme will be financed through available resources identified within the Authority's HRA 30 Year Financial Model. The capital estimates for the main elements of the Decent Homes programme are already in place, with this report seeking the adoption of capital estimates for Prioritised Investment Programme schemes, as detailed

in paragraphs 9.4 to 9.13. The schemes are anticipated to fully spend by the end of 2014/15, however, any slippage arising will be a first call against the Council's housing capital resources for later financial years.

- 11.6 This report also seeks a capital estimate for the Extensions Programme, which is partly funded through the Mayor of London's Housing Covenant – Building the Pipeline scheme.
- 11.7 The Authority was allocated £1,020,000 of funding towards the total scheme costs of £3,610,000, leaving a residual cost of £2,590,000 to be funded from the Council's own resources as shown in Table 5 at paragraph 9.17. This Council contribution will be funded from a Revenue Contribution to Capital (RCCO) as detailed in paragraph 9.18.
- 11.8 In order to receive the grant income it is essential that the GLA grant conditions are met, including the specific delivery deadlines. It should be noted that the scheme costs that were incorporated in the GLA bid were compiled in conjunction with external advisors. The projects will be subject to a tendering process and it should be noted that the Council will be liable for any additional costs if the contract values returned are higher than were anticipated in the bid.
- 11.9 The GLA grant is payable on completion and delivery of the full projects. The Council will therefore need to forward fund the costs until the grant can be claimed at the end of the scheme.
- 11.10 The indicative capital programme proposed in this report will be undertaken over the same time period as the currently ongoing substantial Decent Homes programme. In a capital programme of this size over a long period, there will inevitably be changes to the scope and timing of some schemes as they are worked up and detailed consultation takes place. It is therefore important that sufficient flexibility exists within the programme to ensure that schemes can be managed in line with available resources, and to ensure that, in particular, the Authority maximises its external year-specific financing, e.g. Decent Homes backlog funding.
- 11.11 The capital programme will continue to be managed robustly in line with resources available, with commitments only being entered into if they remain affordable within the HRA 30 Year Financial Model.
- 11.12 It should be noted that a significant element of the costs of the capital programme will be chargeable to leaseholders, and although the Authority will be required to finance the works initially, it is vital that all costs are appropriately recharged in accordance with the terms of the lease.
- 11.13 The report seeks the formal adoption of a capital estimate of £995,000 to fund the Authority's Disabled Facilities Grant regime. As outlined in paragraph 10.1, the resources to fund this programme are assumed to consist of the anticipated DCLG grant funding of £744,462, plus £250,000 from within the Department of Health Personal Social Services capital grant. Confirmation of

this funding is awaited, and if the external funding is not at the level anticipated, the programme will have to be adjusted in line with the specific resources allocated.

- 11.14 The report also seeks the formal adoption of a capital estimate of £550,000 to fund the Private Sector Improvement Grants. As outlined in paragraph 10.2, this programme is fully funded from ring-fenced resources received from the East London Renewal Partnership.

12. LEGAL COMMENTS

- 12.1 The report proposes that the Mayor approves the HRA budget for 2014/15. The Council is subject to an obligation under Part VI of the Local Government and Housing Act 1989 to maintain a housing revenue account (HRA). The Council is required to prepare proposals in January and February each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be based on the best assumptions and estimates available and should be designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations.
- 12.2 The Mayor is asked to agree the management fee for Tower Hamlets Homes Ltd ("THH"). Schedule 6 of the management agreement with THH provides the method for calculation of the management fee. The report proposes that the management fee reflect specified savings and it is understood that the proposed management fee is put forward as an amount that it would be reasonable for the Council to pay for the services provided by THH.
- 12.3 The report seeks approval for capital estimates in relation to a variety of schemes. In compliance with section 151 of the Local Government Act 1972, the Council has in place Financial Regulations and Financial Procedures. The Financial Regulations set a threshold of £250,000, above for which Cabinet approval is required for a capital estimate. The Financial Procedures supplement this requirement. The various capital schemes must be capable of being carried out within the Council's statutory powers. To the extent that the details of the schemes appear from the body of the report, it does appear that the proposed works meet this requirement. In particular the maintenance and repair of dwellings may be considered consistent with the Council's repairing obligation under section 11 of the Landlord and Tenant Act 1985.
- 12.4 The Council administers the disabled facilities grant scheme under Part 1 of the Housing Grants, Construction and Regeneration Act 1996. The Secretary of State makes a contribution to the expenditure incurred, but there is no barrier to a further allocation being made by the Council if the cost of the scheme exceeds the government contribution. The Council has obligations to provide aids and adaptations under a variety of legislation.

- 12.5 It will be for officers to ensure that individual commitments are carried out in accordance with legal requirements. The terms of specific grant funding must be complied with, as must the terms of any section 106 agreement under which funding is to be made available. Any procurement associated with works or projects must be carried out in accordance with the Council's procurement procedures and the requirements of the Public Contract Regulations 2006. If the costs of works are to be recharged to leaseholders must comply with the statutory consultation requirements.
- 12.6 Before agreeing any of the report's recommendations, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Information relevant to these considerations is contained in section 16 of the report.

13. ONE TOWER HAMLETS CONSIDERATIONS

- 13.1 The Council is required to agree a balanced housing revenue account, which means striking a balance between maximising resources available to the Council for social housing purposes and avoiding undue additional hardship to vulnerable tenants. In conjunction with Officers from Tower Hamlets Homes, an Equalities Impact Assessment has been undertaken in relation to the proposed rent increases. The analysis was provided to the Mayor in Cabinet in January 2014 and is appended to this report for further consideration. The analysis of THH tenants has provided a detailed understanding of the most vulnerable tenants, and the action plan set out in the Equalities Impact Assessment has identified a number of mitigating actions which, once implemented, would ensure that the most vulnerable tenants are supported. Actions include enhancing the provision of advice and guidance for the most vulnerable tenants, ensuring that there is continuous analysis of the impacts on tenants, particularly the non-housing benefit claimants as well as continuous analysis and assessment of the Welfare Reforms once the proposals are implemented in earnest post 2013. The Action Plan will be continuously monitored to ensure that these actions are being progressed.
- 13.2 The savings expected from Tower Hamlets Homes, which are reflected in the proposed management fee, and the reduction in leasehold service charges will have to be implemented by Tower Hamlets Homes in a manner consistent with the Equality Act 2010. Some equality analysis has already been carried out by Tower Hamlets Homes as part of the implementation process.

14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 14.1 There are no specific implications arising from the recommendations in this report.

15. RISK MANAGEMENT IMPLICATIONS

- 15.1 Since the introduction of Self-Financing, Tower Hamlets is responsible for running its HRA as a viable business, using HRA income in order to fund all HRA expenditure, including the capital works necessary to maintain and improve the housing stock, and the Decent Homes programme.
- 15.2 Various areas of risk and uncertainty are highlighted in section 8. Over the next few months, it will be essential to review and update the HRA medium-term financial strategy to reflect economic conditions and policy changes.

16. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 16.1 There are no significant implications arising from these specific recommendations.

17. EFFICIENCY STATEMENT

- 17.1 Efficiency savings have been incorporated into the draft budget in order to ensure that the HRA remains in balance. Projects will be undertaken in partnership with Tower Hamlets Homes to identify further ongoing efficiency savings to ensure that the HRA remains sustainable in the longer term.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix 1 – HRA Draft Budget 2014/15
- Appendix 2 – HRA Medium Term Financial Plan projections 2014-2017
- Appendix 3 – Indicative HRA Capital Programme – 2014/15 to 2016/17
- Appendix 4 – Equality Impact Assessment - Rent Review 2014/15

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

- n/a

Originating Officers and Contact Details

Name	Title	Contact for information
Katherine Ball	Senior Accountant (HRA)	020 7364 0997

HOUSING REVENUE ACCOUNT

DRAFT BUDGET 2014/15

Housing Revenue Account	2013/14	2013/14	2014/15
	Budget	Projected Outturn	Draft Budget
	£'000	£'000	£'000
INCOME			
Dwelling Rents	(65,300)	(65,950)	(69,000)
Non-dwelling Rents	(3,653)	(3,433)	(3,438)
Tenant Charges for Services & Facilities	(6,749)	(6,895)	(6,591)
Leaseholder Charges for Services & Facilities	(10,500)	(10,501)	(11,310)
Contributions towards expenditure	(115)	(115)	(115)
HRA Subsidy Receivable	-	-	-
GROSS INCOME	(86,317)	(86,894)	(90,453)
EXPENDITURE			
Repair & Maintenance	21,795	21,930	22,388
Supervision & Management	23,458	22,910	22,003
Special Services	13,023	12,753	12,701
Rents, Rates, Taxes and other charges	3,049	3,269	3,044
Provision for Bad Debts	1,900	1,900	1,400
Interest Payable - Item 8	3,105	3,121	3,597
Depreciation - HRA Dwellings	14,086	14,085	14,045
Depreciation - Non Dwellings	1,552	1,552	1,552
Debt Management Costs	76	76	78
GROSS EXPENDITURE	82,044	81,597	80,807
NET COST OF HRA SERVICES	(4,272)	(5,297)	(9,646)
Amortisation of Premiums & Discounts	(78)	(78)	(78)
Interest & Investment Income	(160)	(158)	(168)
(SURPLUS)/ DEFICIT ON HRA	(4,510)	(5,533)	(9,982)
Appropriations			
Revenue Contribution to Capital Expenditure	6,062	4,962	9,892
NET POSITION	1,552	(571)	-
Contribution from Major Repairs Reserve	(1,552)	-	-
NET POSITION AFTER RESERVE DRAWDOWN	-	(571)	-
Balances			
Opening balance	(15,003)	(16,234)	(16,805)
Net (Surplus)/ Deficit on HRA	-	(571)	-
Closing balance	(15,003)	(16,805)	(16,805)

MEDIUM-TERM FINANCIAL PLAN 2014/15 – 2016/17

INDICATIVE HRA BUDGETS

Housing Revenue Account	2014/15	2015/16	2016/17
	Draft Budget £'000	Draft Budget £'000	Draft Budget £'000
INCOME			
Dwelling & non dwelling rents	(72,438)	(72,996)	(74,683)
Tenant & Leaseholder service charges	(17,901)	(17,787)	(17,685)
Investment Income received	(168)	(184)	(210)
General Fund contributions	(115)	(115)	(115)
GROSS INCOME	(90,621)	(91,082)	(92,693)
EXPENDITURE			
Repairs & Maintenance	22,388	22,961	23,568
Supervision & Management	22,003	20,477	20,316
Special Services, Rents rates & taxes	15,745	16,267	16,809
Increased provision for bad debts	1,400	900	900
Capital Financing charges	19,193	19,828	21,261
GROSS EXPENDITURE	80,729	80,434	82,853
NET COST OF HRA SERVICES	(9,892)	(10,649)	(9,840)
Appropriations			
Revenue Contribution to Capital Outlay (RCCO)	9,892	10,649	9,840
NET POSITION	-	-	-
Balances			
Opening balance (Surplus)/ Deficit on HRA	(16,805)	(16,805)	(16,805)
Closing balance	(16,805)	(16,805)	(16,805)

**INDICATIVE HRA CAPITAL PROGRAMME
2014/15 – 2016/17**

	2014-15 £m	2015-16 £m	2016-17 £m	Total £m
<u>Anticipated Expenditure</u>				
<u>Capital Estimates already in place:</u>				
Decent Homes Backlog Programme	70.47	22.99	-	93.46
Malmesbury Estate Decent Homes Programme	3.55	-	-	3.55
GLA Pipeline Programme - Bradwell Street	2.21	-	-	2.21
Dame Colet House / Poplar Baths (HRA Element)	-	16.00	-	16.00
	76.23	38.99	-	115.22
<u>Capital Estimates sought in this report</u>				
Prioritised Investment Programme	14.35			
GLA Pipeline Programme - Extensions	3.61			3.61
	17.96	-	-	17.96
<u>Schemes under Development:</u>				
Non Decent Homes Schemes	1.58	15.00	15.00	31.58
Watts Grove	-	22.00	-	22.00
GLA Pipeline Programme - Ashington House	10.63	-	-	10.63
Indicative Provision to fund New Housing Supply	3.00	-	-	3.00
Indicative HRA Capital Programme	109.40	75.99	15.00	200.39
<u>Summarised Assumed Financing</u>				
Decent Homes Grant Backlog Funding	46.00	-	-	46.00
Major Repairs Reserve	15.93	15.00	15.00	45.93
GLA Pipeline Grant	2.97	-	-	2.97
Net Use of HRA and other Balances / Unsupported Borrowing	41.50	22.99	-	64.49
Capital Receipts	3.00	-	-	3.00
Credit Approvals	-	38.00	-	38.00
	109.40	75.99	15.00	200.39

Equality Analysis (EA)

Section 1 – General Information

Name of the proposal including aims, objectives and purpose:

2014/15 Rent Review

An average weekly increase of £5.04 in Council rents is being proposed from 1st April 2014. In the current economic environment any rent increase can be considered to have an adverse effect on social tenants, however, the proposed amount is in line with the government's policy that all social landlords (local authorities and housing associations) should offer similar rents for similar properties, whilst maintaining substantial discounts to market rents.

The proposed rent increase is at a level that will sustain the Council's obligations under the HRA (Housing Revenue Account) self-financing regulations and meets the requirements of current rent policy.

Under HRA Self-Financing, the Council is responsible for financing all council housing expenditure from its HRA income streams. The proposed rent increase is needed to fund the expenditure necessary to manage, maintain and improve the Council's housing stock, including the capital investment programme that will bring the Council's stock up to the Decent Homes standard and maintain that standard over a 30-year period.

Even with the proposed increase, the social rents charged by the Council for its housing stock will still be the lowest in Tower Hamlets.

The rent increase is required in order to adhere to the assumptions contained within the Self-Financing Final Determination, published in February 2012. This valued Tower Hamlets' HRA business over 30 years, and assumed that the Authority would continue with rent restructuring with the aim of achieving rent convergence in 2015/16. The government is currently consulting on changes to future social rent policy, and is proposing to end rent convergence a year early in 2014/15 and link future rent increases to CPI (consumer price index) rather than RPI (retail price index); any changes will take effect from April 2015.

We estimate that the proposal to end rent convergence a year early in 2014/15 will cause a shortfall in our rental income of approximately £18m (including inflation) over the 10 years of the policy, therefore it is important that we continue to follow current rent policy so as to maximise our rental income base prior to any changes to rent policy being introduced. As rent is the major component of HRA income, a lower increase would also be problematic as regards the self-financing settlement as this assumed rent income at the government set guideline level, and any shortfall is embedded in the calculation of the debt settlement. This would mean a higher level of debt to be financed with a lower level of rental income in future years.

This would also require an equivalent level of savings in order to ensure that the HRA remains in balance, as legally it must do. This could mean reductions to the provision of HRA services and/or to the capital investment programme. This could severely impact on our ability to achieve decent homes as well as services supporting vulnerable residents.

Notes:

Under **HRA Self Financing**, there has been a substantial change in the way in which Tower Hamlets' HRA is financed. The annual HRA subsidy system has been abolished, and the Council now retains all

HRA income but is responsible for financing all HRA expenditure. Therefore, implementation of a 2014/15 rent increase consistent with that assumed in the Self-Financing Draft Determination is crucial in contributing to the long-term viability of the HRA.

Rent Convergence Under the original proposals announced in 2000, similar properties would be charged similar rents by 2012 (the date was subsequently moved to 2015), regardless of whether the property was owned by the local authority or a social housing provider; this is known as rent convergence. Under the HRA Subsidy system each year, the Department of Communities and Local Government issued a “guideline” rent level to which councils should move their present rents in order to help them reach rent convergence in 2015/16. The HRA Self-Financing Final Settlement assumed that Authorities would continue with rent restructuring, and then implement rent increases of RPI (retail price index) + 0.5% each year after that.

The formula for calculating rent increases in order to follow rent restructuring for local authorities is RPI + 0.5% plus £2 per week. The reference point for RPI is the September in the year preceding the start of the financial year to 31 March – for the 2014/15 rent increase, the applicable RPI figure is 3.2%.

The government is currently consulting on changes to future social rent policy, and is proposing to end rent convergence one year earlier than previously anticipated - in 2014/15 rather than in 2015/16 - and link future rent increases to CPI (consumer price index) rather than RPI.

Who is expected to benefit from the proposal?

The rent increase will directly benefit all tenants in properties to which the rent increase is applied. (i.e. council tenants), as all rental income is used to fund housing management services and the Housing Capital Programme. The Housing Capital Programme is the means by which the housing stock is bought up to, and maintained at a Decent Homes standard.

The rental income is “ring-fenced” to the Housing Revenue Account, ensuring that it is used for no other purpose.

Is this a policy or function?	Policy <input type="checkbox"/>	Function <input type="checkbox"/>
Is this a new or existing policy or function?	New <input type="checkbox"/>	Existing <input type="checkbox"/>
Is the policy or function strategic, developmental or operational/functional?		
Strategic <input type="checkbox"/>	Developmental <input type="checkbox"/>	Operational/Functional <input type="checkbox"/>

Date when the original policy/function was initiated: Council housing, for which tenants paid a lower market rent, was developed as early as 1919 when council homes were built to meet general needs.

Date on which the policy/function is to be reviewed: Rent levels are reviewed on an annual basis. The last rent review was approved by Cabinet in February 2013.

Names and roles of the people carrying out the Equality Analysis:

Dyana Browne – Directorate Equalities Lead
 Katherine Ball – Senior Accountant
 Aman Berhanu – Resources and Business Support Analyst, Tower Hamlets Homes
 Beverley Greenidge – Head of Rents, Tower Hamlets Homes
 James Caspell – Customer Insight Officer, Diversity, Tower Hamlets Homes

Section 2 – Evidence**Key Findings**

From the perspective of the tenant, the rent increase will be viewed as having an adverse impact. The Equalities Assessment is undertaken from this perspective and has been assessed as not having a disproportion adverse effect on any specific group.

An average weekly rent increase of £5.04 in Council rents is being proposed from 1st April 2014.

Increases for 2014/15 have been calculated in accordance with the rent restructuring formula as per government guidelines aiming for target rent convergence by 2015/16. The formula rent is based on September 2013 RPI of 3.2% + 0.5%

This will make the average weekly rent in the borough £108.60.

The actual amount of increase as a proportion on current rent will vary across property sizes. Smaller properties tend to have a greater rent increase than larger units e.g. (studio and one bed units). (See Annex A: Table 10 – Average Increase per dwelling - by bedsize).

The rent increase is applied to all Council dwellings. The increase is applied to the property in that it has no bearing on the profile of the tenants, age, race gender etc. The rent increase does not target or disproportionately affect any group of people based any of the protected characteristics

Whilst the rent increase does not target any specific group, the increase will have more of an impact on households on lower incomes.

There are 12,455 LBTH dwellings, managed by Tower Hamlets Homes (ALMO). The profile of Council tenants is set out in Annex A: to this document.

In 2013 the median gross income of Tower Hamlets residents was £30,850. (Source: Median household income CACI Paycheck data).

Tenants on low income are able to obtain Housing Benefit to assist with rent payments. 70% of tenants are on Housing Benefit: 34% are on Full HB and 36% are on partial HB.

Recent welfare reforms mean that benefits will be capped. The benefit cap was implemented from April 2013 in four local authorities in London, with the remaining local authorities implemented the cap from the 15 July 2013.

Prior to its implementation, it was estimated that this would affect 106 (approximately 1%) of tenants. As at October 2013 the actual number of households affected was 52 (0.4% of Council tenants).

LBTH Housing Benefit records indicate that 700 households are affected across the borough by the benefits caps. Only a small percentage of those are LBTH tenants.

Tenants aged over 65 who are reliant on state benefit can expect a pension increase in April 2014 of approx. 2.7%.

Evidence Base

The following evidence was considered to help us to think about the impacts or likely impacts on service users.

Tenant Profiles

- Tenant profile by Ethnicity
- Tenant profile by Gender
- Tenant profile by Age
- Tenant profile by Disability
- Tenant profile by Religion & Belief
- Tenant profile by Sexual Orientation
- Tenant profile by Gender Re-assignment
- Tenant profile by Marriage/Civil Partnership
- Pregnancy & Maternity

Rent Analysis

- Average Increase per dwelling - by bedsize (14/15)
- Social Rent Cap Levels (Registered Social Landlords)
- Comparison of Average Rent & Social Rent Cap Levels 2013/14
- HB/ Welfare Reform figures as of 2013
- Rent Charge Comparison (2014-15)
- Average actual rent /average rent charge (14/15)

Housing Benefit Analysis

- Nos. & % Tenants claiming Housing Benefit
- Tenants on Full Housing Benefit
- Partial Housing Benefit.
- Tenant on HB aged 65+

Property & Tenant Profile Analysis

- Stock Profile by bedsize
- Gender & Property Bed Size
- Age & Property Bed Size

Community and Population Data (Tower Hamlets, 2011 Census)

- Population by ethnic group
- Population by Religion
- Gender Proportions

**Section 3 – Consideration of data and research
Identifying Differential / Adverse Impacts**

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	Impact – Positive or Adverse	Reason(s) <ul style="list-style-type: none"> • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
Race	A	The rent increase does not have a disproportionately adverse effect on tenants on the grounds of race. People of Asian Origin make up the largest percentage of tenants at 39%, people of white ethnicity making up the second largest group at 21% and White British & Irish people make up 19.36% of tenants. This is reflective of the general make-up of the wider Tower Hamlets population, which comprises of Bangladeshi as the largest group at 32% and White British as the second largest ethnic group at 31%. Whilst all households are affected. Those in smaller properties 0-1 bed sized properties are likely to face a slightly larger increase. Families of Bangladeshi descent tend to occupy larger family sized accommodation where the percentage increase in likely to be lower than for studios & one bedroom properties.
Disability	A	The rent increase does not have a disproportionately adverse effect tenants on the ground of disability. Records indicate that approximately 17.65% of residents have a disability. Whilst the rent is

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	Impact – Positive or Adverse	Reason(s) <ul style="list-style-type: none"> • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
		calculated on the property properties, no additional charges are levied to take account of and disabled adaptations. This is indicated by the fact that if an abled bodied person was to occupy the flat, the rent charge would be the same.
Gender	A	<p>The rent increase does not have a disproportionately adverse effect on tenants on the ground of gender.</p> <p>Females make up 54.9% of tenancy holders. Gender is not a consideration in the way the rent increase is applied. Whilst women comprise the greater proportion of those impacted by the rent increase this is because women make up more than half of the tenancy holders,</p> <p>It is noted that the rent increase is proportionately larger for occupants of bedsit and one bedroom properties. These tend to be occupied by young males. The proportion of male:females occupying bedsits is 69.96% male: 30.04% female</p> <p>It is noted that the male:female ratio of tenancy holders is the reverse of the wider population, in that the population of Tower Hamlets is 51.5 % men and 48.5 % women - a gender ratio of 106 male residents per 100 female residents. (Census 2011).</p>
Gender Reassignment	A	<p>The rent increase does not have a disproportionately adverse effect on tenants based on gender re-assignment.</p> <p>The collection of data in continually improving in this area, however a large percentage of tenants</p>

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	Impact – Positive or Adverse	Reason(s) <ul style="list-style-type: none"> • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
		still prefer not to provide this information. Of the data collected 0.9% have declared a re-assignment of gender. On the basis that the increased rent charge applied to the property, not the occupant, i.e. it applies to the tenant regardless of gender; the increase is not considered to have a disproportionately disadvantage effect on the ground of gender re-assignment.
Sexual Orientation	A	The rent increase does not have a disproportionately adverse effect on tenants of a specific sexual orientation. 52.61% of tenants indicate a sexual orientation of heterosexual; with a large percentage (29.24%) preferring not to say, however, sexual orientation has bearing of the application of the rent increase.
Religion or Belief	A	The rent increase does not have a disproportionately adverse effect on tenants based on their Religion or Belief. The 2011 Census revealed that 35% of LBTH citizens are of the Muslim faith, with the second largest faith in LBTH as Christian (27%). The tenant profile information confirms this trend is similar although the percentages differ, with 46.90% of tenants of a Muslim faith and 15.17% of Christian faith. The faith of approx. 37% of tenants is unknown as a number chose not to disclose this information.
Age	A	The rent increase does not disproportionately disadvantage tenants based on their age.

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	Impact – Positive or Adverse	Reason(s) <ul style="list-style-type: none"> • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
		<p>The profile of our tenants shows that the largest proportions of tenants are in the following age bands: over 65 = 22.55%, between 30-39 = 22.51% , between 40-49 = 21.13%.</p> <p>Older people who rely on state pensions are not expected to be more disadvantaged than those in work or on other benefits as it is estimated that (under the terms of the Triple Guarantee) the basic state pension is likely to increase by 2.7% . This compares favourable when considered alongside the ONS data (December 2013) that reported “The median weekly income for full-time employee shows a rise of 2.2%”.</p>
Socio-economic	A	<p>Social Housing is generally the preferred option for people on lower incomes. This is reflected in the fact that approx. 70% of tenants are in receipt of some Housing Benefit.</p> <p>The Benefits Cap is now being applied and those tenants who will be affected have already been identified and are being supported to explore a suitable options.</p> <p>Research shows that Somali tenants in receipt of housing benefit are 10 times more likely to be impacted by the Housing Benefit cap than other groups. Work to support this group is already underway.</p> <p>Since 2010 rent arrears by this group has fallen by 6% demonstrating that the support to assist this group in meeting their rent payment is effective. This work will continue alongside other mainstream support.</p>

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	Impact – Positive or Adverse	Reason(s) <ul style="list-style-type: none"> • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
Marriage and Civil Partnerships.	A	The rent increase does not have a disproportionately adverse effect on those tenants in a marriage or civil partnership.
Pregnancy and Maternity	A	The rent increase does not have a disproportionately adverse on tenants with regards to pregnancy or maternity status. The application of the rent increase cannot be affected by the tenant's situation regarding pregnancy or maternity responsibilities.

Section 4 – Conclusions and Recommendations

From the analysis and interpretation of evidence in Section 2 and 3 – Is there any evidence of or view that suggests that different equality or other target groups have a disproportionately high/low take up of the service/function?

Yes? No?

Section 5 – Action Plan and Monitoring Systems

Recommendation	Key activity	Progress milestones including target dates for either completion or progress	Officer responsible	Progress
Inform all tenants of Rent increase in February.	Mandatory notice February		THH Rent Teams	
Inform tenants in March what they need to pay taking into account their new housing benefit entitlement from April	Work with Housing Benefit to identify new awards. Have all letters checked and ready to be posted prior to the increase to ensure tenants know what to pay from April.		THH Rent Teams	
Provide tenants with explanation of the rent increase with the offer of support.	Design and prepare insert to be sent out with the mandatory notice in February and with the notice in March. Leaflet to offer support where tenants feel they will struggle with the increase.		THH Rent Teams	
Provide adequate staffing levels when notices are sent out in order to deal increased contact generated.	Create customized rota and reduce annual leave for the selected period to ensure adequate staffing levels.		THH Rent Teams	
Inform front line staff from other departments of the increases in order to manage enquiries.	Provide front line Staff with FAQ's in order to respond to queries and sign post tenants to the relevant department.		THH Rent Teams	

Recommendation	Key activity	Progress milestones including target dates for either completion or progress	Officer responsible	Progress
Identify new impacted cases early as possible to provide advice to tenants on benefits on potential on entitlements	Work with Housing Benefit to identify cases as and when they are impacted and not when they fall into arrears. Hold 'Welfare Reform surgeries' 3 times a week. Book appointments with tenants		THH Rent Teams	
Revisit and monitor all cases affected by BC and BT, provide help, support and advice	<ul style="list-style-type: none"> - Assess if any exemption apply. - Help tenants register to downsize. - Help tenants to apply for DHP where. Applicable. - Make referrals to partner advice agencies for budgeting, income maximisation and debt advice. 		THH Rent Teams	

Have monitoring systems been put in place to check the implementation of the policy/function and recommendations?

Yes? No?

How will the monitoring systems further assess the impact on the equality target groups?

The above activities will be reviewed alongside measures that are in place to monitor the effectiveness of the rents pilot and impact on target groups.

Name: (signed off by)	
Position:	
Date signed off: (approved)	

Section 7 Appendix – FOR OFFICE USE ONLY

Policy Hyperlink :

Equality Strand	Evidence
Race	
Disability	
Gender	
Sexual Orientation	
Religion and Belief	
Age	
Socio-Economic	
Other	

Link to original EQIA	Link to original EQIA
EQIAID (Team/Service/Year)	

Annex A - Tenant Profile by Protected Characteristics

Table 1 - Tenant profile by Ethnicity

Ethnicity	% of Tenants
Any Other Ethnic Group	0.56%
Asian Or Asian British:Bangladeshi	42.96%
Asian Or Asian British:Chinese	0.61%
Asian Or Asian British:Indian	0.63%
Asian Or Asian British:Other Asian	1.25%
Asian Or Asian British:Pakistani	0.45%
Asian Or Asian British:Unknown	2.70%
Asian Or Asian British:Vietnamese	0.66%
Black Or Black British:African	2.07%
Black Or Black British:Caribbean	2.64%
Black Or Black British:Other African	0.45%
Black Or Black British:Other Black	1.28%
Black Or Black British:Somali	2.84%
Black Or Black British:Unknown	0.17%
Dual:Asian & White	0.13%
Dual:Asian and Black	0.00%
Dual:Black African & White	0.50%
Dual:Black Caribbean & White	0.24%
Dual:Other	0.28%
Dual:Unknown	0.04%
Prefer Not to Say	8.58%
Unknown	1.05%
White: Any Other White Background	4.24%
White:British	20.86%
White:Irish	1.50%
White:Other White	0.17%
White:Unknown	3.14%
Total	100.00%

Table 2 - Tenant profile by Gender

Gender	% of Residents	% of Tenants
Female	49.92%	54.90%
Male	49.05%	44.96%
Unknown	1.02%	0.13%
Total	100.00%	100.00%

Table 3 - Tenant profile by Age

Age Group	% of Tenants
Under 16	0.30%
16-19	0.16%
20 -29	9.08%
30-39	22.51%
40-49	21.13%
50-59	16.76%
60-69	11.60%
70+	17.28%
Prefer Not to Say	0.69%
Unknown	0.49%
Total	100.00%
*Over 65	22.55%

Table 4 - Tenant profile by Disability

Disability	% of Residents	% of Tenants
No Disability	79.74%	77.46%
Unknown	8.62%	4.89%
Disabled	11.64%	17.65%
Total	100.00%	100.00%

Table 5 - Tenant profile by Religion & Belief

Religion & Belief	% of Residents	% of Tenants
Buddhist	0.26%	0.35%
Christian	12.75%	15.17%
Hindu	0.34%	0.16%
Jewish	0.53%	0.48%
Muslim	41.55%	46.49%
No Religion	6.50%	5.89%
Other	0.30%	0.30%
Prefer Not to Say	24.47%	18.75%
Sikh	0.12%	0.13%
Unknown	13.17%	12.28%
Total	100.00%	100.00%

Table 6 - Tenant profile by Sexual Orientation

Sexual Orientation	% of Tenants
Bisexual	0.31%
Gay	0.32%
Heterosexual	52.61%
Lesbian	0.07%
Other	0.03%
Prefer Not to Say	29.24%
Unknown	17.43%
Total	100.00%

Table 7 - Tenant profile by Gender Re-assignment

Gender Reassignment	% of Tenants
Gender Reassigned	0.09%
Prefer Not to Say	12.56%
Unknown	69.17%
Gender Identity Same as that at Birth	18.19%
Total	100.00%

Table 8 - Tenant profile by Marriage /Civil Partnership

Marriage & Civil Partnership	% of Tenants
Co-Habiting	0.08%
Divorced	0.13%
Married	21.93%
Prefer Not to Say	0.15%
Same-Sex Registered Civil Partnership	0.01%
Separated Marriage/Civil Partnership	0.27%
Single	1.44%
Unknown	75.74%
Widowed	0.24%
Total	100.00%

Table 9 – Maternity & Pregnancy

Pregnancy & Maternity	% of Tenants
Baby Expected	0.21%
Unknown	99.79%
Total	100.00%

Annex B – Rent Analysis

Table 10 - Average Increase per dwelling - by bedroom size 2014/15

Bedsize	Average of Actual Rent 13/14	Average of RENT CHARGE 14/15	Average of % Increase 14/15	Average of £ Increase 14/15
0	£79.11	£83.36	5.37%	£4.25
1	£92.08	£96.76	5.08%	£4.68
2	£104.37	£109.36	4.78%	£4.99
3	£117.23	£122.79	4.75%	£5.56
4	£131.63	£137.77	4.66%	£6.13
5	£146.03	£152.90	4.70%	£6.87
6	£149.49	£156.48	4.68%	£6.99
7	£156.15	£162.83	4.27%	£6.68
8	£184.44	£189.13	2.54%	£4.69

Table 11 - Social Rent Cap Levels (Registered Social Landlords)

Bedsize	Rent Cap in 2013-14	Rent Cap in 2012-13	Rent Cap in 2011-12	Rent Cap in 2009-10	Rent Cap in 2009-10
	£	£	£	£	£
Bedsit & One Bed	132.16	127.57	119.67	113.32	113.78
2 Bed	139.92	135.06	126.70	119.98	120.46
3 Bed	147.70	142.57	133.74	126.65	127.16
4 Bed	155.47	150.07	140.78	133.31	133.85
5 Bed	163.24	157.57	147.81	139.97	140.53
6 Bed and above	171.01	165.07	154.85	146.64	147.23

Source: HCA Guideline rent limit for private registered providers 2013-14 (Dec 12)

Table 12 - Comparison of Average Rent & Social Rent Cap Levels 2013/14

Bedsize	LBTH Average of Actual Rent 2013/14	Rent Cap in Levels 2013-14
	£	£
0	79.11	132.16
1	92.08	
2	104.37	139.92
3	117.23	147.70
4	131.63	155.47
5	146.03	163.24
6	149.49	171.01
7	156.15	
8	184.44	

Table 13 - HB/ Welfare Reform figures as of 2013

HB/ Welfare Reform figures as of 2013		
Total Number of Tenants	12,035	
	No.	%
Tenants on HB	8,450	70%
Tenants on Full HB	4,131	34%
Partial HB	4,319	36%
Tenant on HB aged 65+	2,317	19%
Benefit Cap (as of October 2013)	52	0.4%

Table 17 - Stock Profile by Bedsize

Bed Size	Social Housing	Council
Beds 0	820	6.6%
Beds 1	3,390	27.1%
Beds 2	5,006	40.1%
Beds 3	2,682	21.5%
Beds 4	503	4.0%
Beds 5	78	0.6%
Beds 6	9	0.1%
Beds 7	4	0.0%
Beds 8	2	0.0%
Total	12,494	100%

Annex D - Community & Population Data

Figure 2 Population by ethnic group, Tower Hamlets, 2011 Census

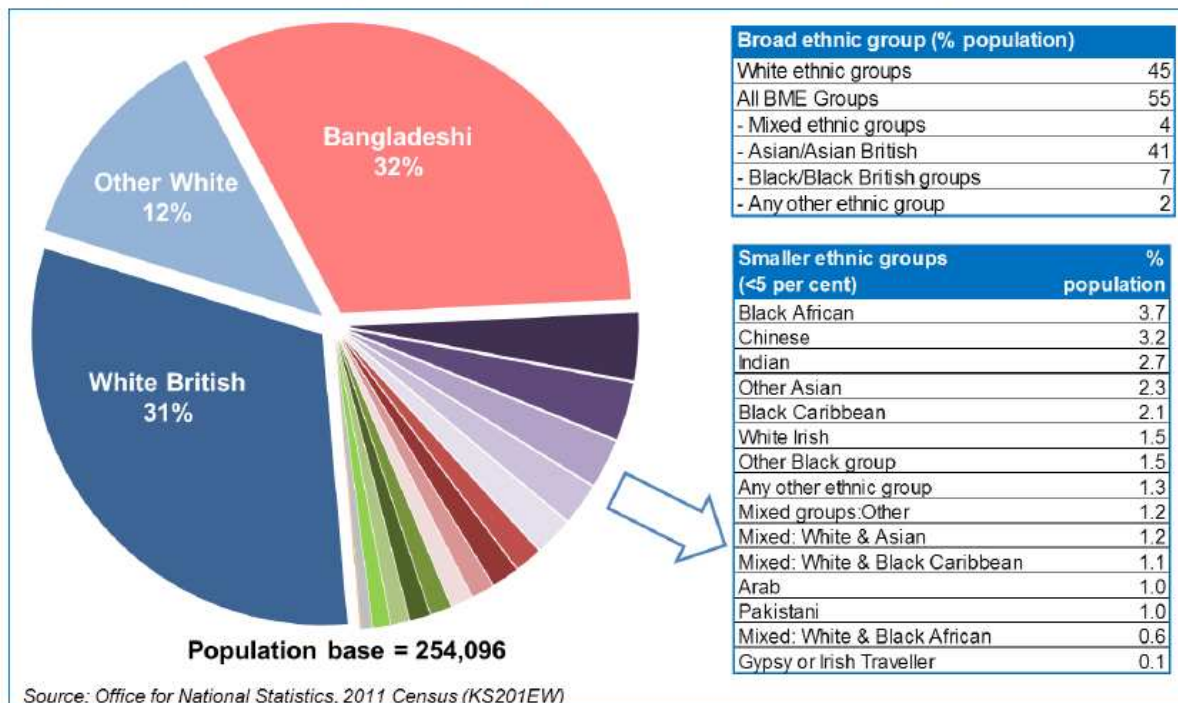


Figure 1 Population by religion, Tower Hamlets, 2011

What is your religion?

This question is voluntary

No religion

Christian (including Church of England, Catholic, Protestant and all other Christian denominations)

Buddhist

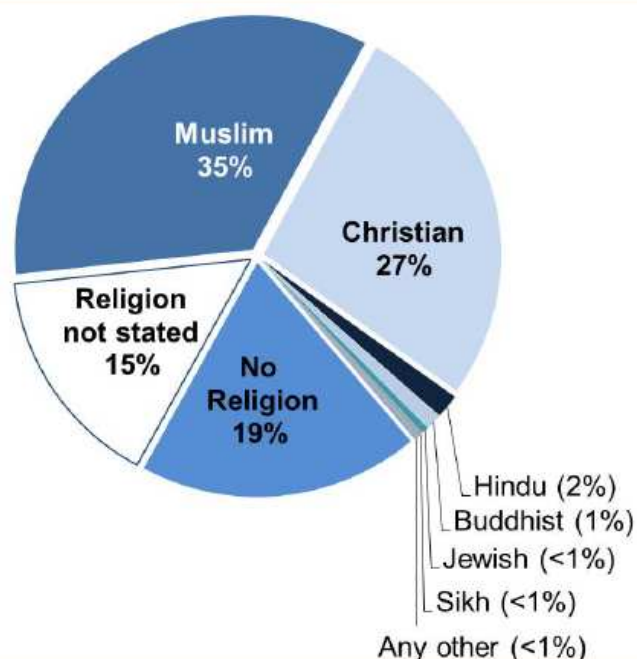
Hindu

Jewish

Muslim

Sikh

Any other religion, write in



Source: Office for National Statistics, Census 2011 (KS209).