

APPENDIX A

REFUND METHODOLOGY AND FINANCIAL ASSUMPTIONS

Part 1 – Refunds

Previously, a very general assessment was made using relevant budgets to arrive at an average refund figure of £240 – using the initial refund period of 1 April 2010 to 23 July 2013.

A more detailed calculation has now been done, rolling back the start date for refunds from 2010 to April 2001.

- The total water charge raised for individual tenancies for each year from April 2001 to March 2013, and for the first seventeen weeks of 2013/14 (to take the calculation to 28 July (being the end of the rent week containing 23 July 2013));
- Each of these debits has had 22.1% applied to it (being the equivalent of the commission and void allowances granted by Thames Water) to generate a gross refund for each year;
- The administration fee of 1.5p per day permitted under the Water Resale Order 2006 is then applied;
- Interest at twice the average annual the Bank of England Base Rate is then applied to the subsequent total, as prescribed by the Water Resale Order 2006; and finally
- Interest is rolled forward from 29 July 2013 to 30 June 2016 at twice the Bank of England Base Rate over that period (1.0%) to reflect that overpayments have been outstanding from then to the anticipated date of refund.

The table below sets out the total water charge and each of the stages above, separated into current and former tenants.

1 April 2001 – 28 July 2013	Cases	Water Charge £m	Gross Refund £m	Admin. Fee £m	Interest 2001-2013 £m	Interest 2013-2016 £m	Total Credits £m
Current tenants	31,070	70.2	15.5	(1.5)	2.7	0.4	17.1
Former tenants	43,358	46.8	10.3	(1.1)	2.1	0.2	11.5
Total cases	74,428	117.0	25.8	(2.6)	4.8	0.6	28.6

Notes:

1. *Data regarding temporary accommodation cases is not included within this analysis.*
2. *The council does not hold individual tenant details for TMO-managed properties centrally, as a reflection of the local management arrangements, and the refund exercise for individual TMO's will have to be conducted separately as a consequence.*
3. *A number of current tenants form a sub-set of the former tenant dataset, where they have occupied an alternative council property within the refund period before their current one.*

For current tenants, roughly speaking the average refund will be £550. For former tenant cases, the figure is less certain, but is estimated at present to be around £265. This is lower given the greater number of cases in this category and the likelihood of a shorter occupancy period to base the refund upon. It is important to note that an individually calculated refund figure will be dependent on a number of variables, since the water charge itself as supplied to the council by Thames Water is based on rateable values, which gives rise to a greater variety of original debits. The water charge was also updated annually by Thames Water, so the timing of occupancy will also affect the final amount arrived at.

Part 2 – Rent arrears

Where possible, the council intends to offset refunds against arrears, in order to assist tenants in the management of their rent accounts. Not all the aggregate arrears of £15.1 million can be utilised in this way – there must be a matching exercise to allow individual cases to be offset where this is possible. An early estimate of the proportion available to be utilised in this way is £4.6 million, as the table below sets out.

The position regarding current tenant and former tenant accounts is somewhat different, due to the age of some of the data regarding the latter, and historic decisions taken regarding the write-off of arrears. In some cases these write-off decisions will have been taken upwards of ten years ago. It is also the case that current tenants will be more likely to have smaller, much more short-term profile arrears.

As at early May 2016, the rent account position of the cases cited in Part 1 above may be summarised as follows:

	Cases	In credit	Nil balance	In arrears	Arrears £m
Current tenants	31,070	17,103	308	13,659	10.2
Former tenants	43,358	9,837	29,891	3,630	4.9
Total cases	74,428	26,940	30,199	17,289	15.1

Analysis of the individual cases gives the following likely application of refunds as an offset against arrears:

	Arrears £m	Likely offset £m	Arrears remaining £m	Net refunds £m
Current tenants	10.2	3.5	6.7	13.6
Former tenants	4.9	1.1	3.8	10.4
Total cases	15.1	4.6	10.5	24.0

Notes:

1. *Arrears less likely offset = arrears remaining.*
2. *Net credits (in Part 1) less likely offset = net refunds.*

Part 3 – Non-directly managed stock

With regard to TMOs; the basis of refund calculation will be the same across the council's stock. However, as noted in Part 1 above, arrears and occupancy data is the province of the individual TMO.

In terms of temporary accommodation, between 200 – 500 properties per year were made available for short-term lets across various estates in the course of their regeneration. Water charges were raised on these properties as appropriate, and refunds and arrears offset exercises will be completed in due course.

Part 4 – Bad Debts

In terms of the gross rent debit, water charges equate to around 5.5% of the total. However, data on housing benefit for individual tenancies indicates that of the total sum demanded, since the water charge is not benefitable, this element increases to a proportion of 10.8% of the total. This has implications for the calculation of bad debt provisions if water charges are no longer collected by the council. Running the calculation of this provision with an assumed on-going reduction in arrears of 10.8% leads to a one-off reduction of £1.1 million (from £10.7 million to £9.6 million).

Part 5 – Timescales

The physical generation of credits to rent accounts is unaffected by any decision that may be made regarding the future relationship between the council and Thames Water.

First Tranche

Given that current tenants have an on-going relationship with the council, there are few impediments to processing refunds for this set of cases in a timely manner, and therefore the council proposes setting this in train immediately following the first cabinet report (June 2016).

Second Tranche

Over the refund period (1 April 2001 – 28 July 2013), 6,369 properties were sold subject to the right-to-buy (5,955 leasehold, 395 freehold, 19 shared ownership). As part of the conditions for these sales, home owners commence an immediate direct relationship with the water undertaker upon completion. Where these properties have not been sold on to third-parties, the original purchaser/tenant will therefore also have an on-going relationship with the council, and so the council intends to concentrate on these cases as the second tranche of refunds, during summer/autumn 2016.

Third Tranche

Work on generating refunds and identifying recipients for non-directly managed stock (TMO's and temporary accommodation) will be undertaken in parallel to that for home owners. Where the recipient has a live rent account with the relevant tenant management organisation, or with Housing Solutions, then refunds will be processed at the earliest opportunity.

Fourth Tranche

Former tenant cases (i.e. not current tenants in another property, or recent RTB purchasers) present a genuine problem in terms of tracing and processing for refund generation and in a number of instances, the former tenant may be deceased. The council wishes to make every reasonable effort to re-establish the connection with former tenants to facilitate a conclusion to this process, but acknowledges that this may take an extended period of time, and where invitations are made to claim a refund on this basis, reserves the right to seek proof of occupancy from the claimant before making a refund.