CABINET

19 February 2018

Title: Housing Revenue Account: Estimates and Review of Rents and Other Charges 2018/19 and 30 Year Business Plan	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report	**For Decision**
Wards Affected: All	**Key Decision:** Yes
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Summary

The Annual Budget
The Council as a stock owning local authority, has an obligation to maintain a Housing Revenue Account. This is the income and expenditure relating to the management of the Council's housing stock and the Council is obliged to set a balanced budget.

This is the third year in which the Government has imposed a rent reduction of 1% on all the Council's housing stock, both general needs secure tenancies, as well as affordable rented homes. The Council manages three types of housing within the HRA. These are:

- the majority of the stock built before 2012, where the rents are set in accordance with the old rent restructuring formula, and where average rents are low, currently around 32% of market rents.
- Affordable rented homes, which have been built since 2012 where rents are set as a proportion of market rents – between 50% and 80% of market rents;
- Temporary accommodation rents – where the rents are set in accordable with the Housing Benefit subsidy rules for temporary accommodation. The formula is that rents will be set at 90% of the Local Housing Allowance. Local Housing Allowances were initially themselves set at the lower third of market rents but are currently frozen at the 2015 level.

Tenants of general needs and sheltered housing stock, as well as tenants in Affordable rented homes, will therefore benefit from a decrease in their rents of an average of £0.95 per week. There is no requirement to reduce the rents on temporary accommodation which are set in accordable with a different formula.

This has led to a reduction in the Council's anticipated resources. The Council is seeking to address this difficulty through improvements in efficiency, as well as maximising income from other sources.

The report considers the available resources, how to maintain the commitments to investing in the housing stock in the most effective way, how to maintain a programme of renewing the worst estates and building new homes for Barking & Dagenham residents.

The 30 Year Business Plan
Cabinet approved the first HRA Business Plan in March 2012 in preparation for the new financial regime, Self-Financing in April 2012. This report updates the Plan since then. The Housing Revenue Account (HRA) Business Plan is a statement of the Council's income and expenditure over 30 years, in respect of its owned housing stock. It enables the Council to take a long-term view of its assets and plan for housing projects which are funded in part or in whole by the HRA. It considers all the financial indicators that may influence the plan and enables the Council to anticipate and meet all known liabilities.

The current HRA Business Plan ensures that the Council fulfils all its known expenditure plans on stock investment, estate regeneration and new build over the next 30 years adequately. There are some serious challenges over the short term – the next three years. First, there are known difficulties presented by Universal Credit, which makes collecting rental income more difficult. Second, we need to assess the cost of improving the fire protection in our tall buildings. In addition, there are a number of other strategic projects which have a significant impact on the Plan, such as the programme of new build and stock investment. In the long term, resources will be needed to improve both the housing stock, and the housing service which are not yet at the standard that the Council aspires to.

Because of the changes in Government Policy, regulation, the housing market, and local housing conditions, it is important to keep the HRA Business Plan under regular review as it is possible that the current position may change significantly because of developments in the legal, regulatory, market or economic situation.

The current Business Plan is a springboard from which the new emerging housing policies, will be introduced. This includes the proposed new rights: The Right to Rent, the Right to Move, and the Right to Invest.

The report sets out ambitious plans to maintain and improve the housing service and stock; and to build new homes. This report enables the Council to assess the level of resources available, and to plan for major expenditure in the three key areas of investment: its housing stock; its plans for regeneration and for new build. The organisation of Council services has changed – property-based services are now commissioned from the new "My Place" service, which will itself commission some services, such as the Repairs and Maintenance Service, and provide other services directly, such as tenancy management. The Council will deliver new homes and estate regeneration through its arms-length regeneration company, Be First. This will have a profound impact on the organisation of the Council budgets, including the Housing Revenue Account.

Recommendation(s)

The Cabinet is recommended to:

(i) Agree that rents for all general needs secure, affordable and sheltered housing accommodation be reduced by 1% in line with the national rent reduction arrangements, from the current average of £95.09 per week to £94.14 per week;

(ii) Agree the following service charges for tenants:

Service	Weekly Charge 2018/19 £	Increase
Grounds Maintenance	2.93	-
Caretaking	7.65	-
Cleaning	3.68	-
Estate Lighting	2.31	0.44
Concierge (12 hours)	10.06	-
Concierge (24 hours)	20.13	-
CCTV (SAMS)	6.17	-
Safer Neighbourhood Charge	0.50	-
TV aerials	0.68	0.68

(iii) Agree that charges for heating and hot water increase by inflation (2.6%) in 2018/19 as follows;

Property size	Weekly Charge 2018/19
Bedsit	12.84
1 Bedroom	13.62
2 Bedroom	16.35
3 Bedroom	16.64
4 Bedroom	17.08

(iv) Agree that rents for stock used as temporary accommodation continue to be set at 90% of the appropriate Local Housing Allowance (LHA);

(v) Agree the following rent and services charges for hostel accommodation held in the General Fund, as detailed in paragraphs 2.15 – 2.18 of the report;

	Charge 2018/19
Rent – single room	£45.00 per night
Rent – family room	£50.00 per night
Service Charge – single room	£2.00 per night
Service Charge – family room	£2.50 per night

(vi) Note that a Supported Housing Framework shall be developed which would categorise the Council's four hostel accommodation units as 'supported accommodation', thereby minimising the impact of the increases on tenants as a consequence of the Welfare Benefit Cap from April 2018;

(vii) Agree that the above charges take effect from Monday 2 April 2018;

(viii)	Agree the proposed HRA Capital Programme for 2018/19 as set out at Appendix 7 to the report;
(ix)	Approve the HRA Business Plan for 2018/19 as set out at Appendix 8 and the financial assessment set out at Appendix 9 to the report;
(x)	Note the assumptions underpinning the HRA Business Plan which shall be reviewed annually;
(xi)	Approve the proposed commissioning intentions for 2018/19 set out in Annex 1 to the HRA Business Plan.

Reason(s)

To assist the Council in achieving its priorities of "Encouraging civic pride", Enabling social responsibility", "Growing the Borough" and "Well run organisation" through the provision of an efficient and effective housing service to local residents.

The Council annually reviews housing rents and other and must give prior notification to tenants of the charges for be applied from the new financial year.

1. Introduction and Background

1.1 The Local Government and Housing Act 1989 requires the Council to manage its housing stock, and to balance its accounts for the housing stock as a ring-fenced account. This means that the Housing Revenue Account (HRA) does not receive any subsidy from the Government, or from Council Tax, and nor is it allowed to subsidise the General Fund. The legislation sets out those items that can be charged to the HRA.

1.2 The Localism Act 2011 introduced a new method of managing the HRA – called self-financing whereby in return for taking on a share of the national housing debt, local authorities could retain any rental surpluses, and manage their HRAs over a 30- year period.

1.3 The level of debt taken on was calculated in accordance with assumptions about rent, inflation, sales, and stock investment requirements. The Government has made changes in areas of policy, such as the Right to Buy, and rent. These changes adversely affect those assumptions and have an impact on the Council's ability to meet its obligations to maintain the stock, and to repay debt. There are additional threats, which have not yet materialised, which may put the Council's assumptions in greater jeopardy in the future. For this reason, and as a matter of good practice, the Council reviews its Business Plan annually to ensure that the resources needed continue to be available to meet its obligations. This also enables the Council to take timely decisions to ensure that it can fund its plans.

1.4 The Housing and Planning Act 2016 also introduced measures that had an impact on the Housing Revenue Account. Whilst the Government have announced their intention of abandoning the policy of introducing higher rents for higher income households, they appear to have made no decision about the proposal to require the introduction of Fixed Term Tenancies. The option to adopt Fixed Term Tenancies is available to local authorities, but they are not required at this stage to do so. There is no news about the other major piece of legislation contained within that Act, the requirement for local authorities to pay a levy to Central Government, based on the higher value voids which become available during the year. This therefore has not been factored into the Business Plan for this year, either.

2. Rents and Service Charges

2.1 Rents for secure affordable and sheltered housing tenancies are now directly in Government control. In July 2015, the Government introduced a requirement (Welfare Reform and Work Act 2016) for social housing landlords to reduce their rents by 1% a year, for four years.

2.2 In the past, the Government have influenced rents through its financial regimes such as rent restructuring, but this is the first time that the Government have decided to take complete control of social housing rents. This has caused a significant financial loss to Barking and Dagenham, and compared to what it expected to receive under the previous rent policy; this is a loss of £33.6m over the four years of the rent reduction programme, when compared to the anticipated income. This change of rent policy hit Barking and Dagenham particularly hard, as the rents were already low; and were set below the “target” rent for each property, which is the rent calculated under the previous policy which reflected local incomes, and local capital values.

2.3 Currently, average local actual rents for the Council’s 17,555 tenancies (including secure, affordable and temporary) are only 32% of local market rents. The actual loss from the reduction in the income between 2017/18 to 2018/19 is £0.877m. The Council also suffers from a reduction in income as a result of the loss of stock through the Right to Buy; and rent anticipated from new build properties is not now expected to benefit the HRA. The total reduction in the rental income budget between 2017/18 and 2018/19 therefore is £3.084m.

2.4 The rules of the rent policy allow Councils to re-set rents at target rents, when a property becomes empty. The Council adopted this approach from last year.

2.5 The level of income collected from rents is also affected by the number of homes that the Council has. When the initial self-financing settlement was made, the Council had 18,894 homes, which meant that the Council carried an average of £14,074 of debt for each property. However, shortly after the Self-Financing settlement was made, the Government increased the discount on Right to Buy properties, which caused the numbers of sales to rise above expectations. In the year before the change, 97 homes were sold under the RTB in 2012/13 and then after the change, this rose to 226 sales in 2013/14, and sales have continued at this level since that date. There were 192 sales in 2016/17. As a result of increased borrowing and the reduction in the stock, the average debt per property is now £16,992.

2.6 There are an average of 300 properties throughout the year which are in Regeneration Schemes, which are being used as temporary accommodation after the property has been decanted but before it is demolished. Rents for these properties, used as temporary accommodation have rents which are set at the maximum recoverable under the current Temporary Accommodation Subsidy Limit rules – 90% of the Local Housing Allowance.

2.7 Tenant Service Charges are specific charges for services that some tenants receive and others do not. The list of charges which are identified separately are set out below. Landlords may not charge more than the actual cost of the service, plus a reasonable management fee. Barking and Dagenham charges the full cost of services provided in most services, but there are currently four services where the Council does not recover the full cost of the service from those who receive it. These are Grounds Maintenance, Estate Lighting Caretaking, TV aerials and Estate Cleaning. Although the Council does not recover the full cost, the Council has decided to freeze the charges for caretaking and estate cleaning in 2018/19, but to move towards cost recovery for the charges of estate lighting, and for TV aerials. The intention is that all service charges will gradually move towards full cost recovery, as the quality of the services improves.

Service	Charge 2017/18	Proposed charges for 2018/19	Shortfall
Grounds Maintenance	£2.93	£2.93	£1.12
Caretaking	£7.65	£7.65	£0.39
Cleaning	£3.68	£3.68	£2.01
Estate Lighting	£1.87	£2.31	0
Concierge (12 hours)	£10.06	£10.06	0
Concierge (24 hours)	£20.13	£20.13	0
CCTV (SAMS)	£6.17	£6.17	0
Safer Neighbourhood Charge	£0.50	£0.50	0
TV aerials	£0	£0.68	0

2.8 The charges for heating and hot water are already based on full cost recovery, and these will rise by inflation.

Heating and Hot water charge

Property size	**2017/18 Charges**	**2018/19 Charges**
Bedsit	£12.52	12.84
1 BR	£13.27	13.62
2 BR	£15.93	16.35
3 BR	£16.22	16.64
4 BR	£16.65	17.08

2.9 Garage income will continue to increase, as more garages are refurbished. The current policy is to charge £11.00 pw for garages that are not yet refurbished, and £15.00 for refurbished ones. This policy will continue in 2018/19. However, the rate of garage improvements is slow, and no additional income has been built into the budget for 2018/19 to reflect this. This is because it is still proving difficult to let garages, even when refurbished. Only approximately 50% of all garages are currently let.

2.10 Other income increases include Leaseholder Service Charges, where the bills are calculated based on the previous year's costs. The final service charge accounts are calculated later in the year, and the additional income will be fed into next year's budget.

2.11 The costs of water and energy have increased. These will be raised by inflation in 2018/19.

2.12 The Housing Revenue Account receives interest on its balances, and although the interest rate is low. The level of balances is such that the income anticipated in 2018/19 from interest on balances will fall from the current income of £400,000 to £300,000.

2.13 The collection of rent in 2016/17 has worsened and ended the year at 96.73%. There was also a low level of write offs during the year and therefore as a result the Bad Debt has risen to £2.3m against a provision last year of £1.046m. This is in part due to the problem with the Water Commission contract. One of the difficulties collecting the rent due is confusion over whether the water commission is a legitimate cost to tenants. Where there is uncertainty whether the money is due, this may be contested in court possession proceedings. Elevate (the Council's external provider with responsibility for collecting the rent) are currently pursuing the full rent including service charges but excluding the water charge when the case is presented at court. This difficulty will be resolved when a new contract between Thames Water and the Council is agreed. In March Universal Credit will be rolled out in Barking and Dagenham. In view of these difficulties there will need to be an increase in the Bad Debt provision and this has been set at £5.3m for 2018/19.

2.14 Other income relates to anticipated expenditure on Council Tax where properties remain empty. It is not anticipated that this item will change.

2.15 The Council also has a stock of hostel accommodation, which is held in the General Fund. Authorities are expected to set a reasonable charge for the provision of additional services which reflects the cost of providing the service. A recent review of utility costs incurred in hostels revealed that the charge currently being applied to hostel tenants is no longer sufficient to cover the costs attributable to the hostels. As such, a more realistic service charge of £14 a week (or £2.00 a night) and £17.50 a week (or £2.50 a night) is being proposed for single and family rooms respectively.

2.16 It is proposed that the hostels nightly rent charges should be increased to £45.00 a night and £50.00 a night for single and family rooms respectively. The purpose of this increase is also to meet the rising running costs of the hostels including higher costs of staff, security provision, cleaning & grounds maintenance costs. Though these costs have continued to increase over time, this has not yet been reflected in the charge to the tenant. This proposed increase in charges will generate additional rent and service charge income of approximately £350K which will serve to meet the rising cost of the hostel service provision. The table below illustrates the charges that will be required.

2.17 There was a concern that by increasing the rental charges in Hostels, this would unduly penalise households who would otherwise be affected by the Welfare Benefit Cap. To minimise the risk of this occurring, a Supported Housing Framework is being drafted and will be finalised by April 2018, to ensure all four Hostel Units will be categorised as supported accommodation, and therefore those who would be affected by the “Cap”, will be exempt while accommodated in Council Hostels.

2.18 It should further be noted, that while there were concerns about the impact that Universal Credit would have on hostel residents (and the wider temporary accommodation portfolio) in his 2017 Autumn Statement, the Secretary of State announced changes to the payment of housing costs for those in temporary accommodation. Therefore, if someone is claiming UC while living in temporary accommodation, then the housing costs claim will be transferred to Housing Benefit, thus enabling the Local Authority greater support to recover rental payments through Housing Benefit subsidy.

Hostels Rent & Service Charges						
Site	**Daily Rent 17/18**	**Daily Rent 18/19**	**Change in Rent**	**Daily Service Charge 17/18**	**Daily Service Charge 18/19**	**Change in Service Charge**
	£	£	£	£	£	£
Riverside	38.00	50.00	12.00	2.00	2.50	0.50
Butler	38.00	50.00	12.00	2.00	2.50	0.50
Brocklebank	33.00	45.00	12.00	1.43	2.00	0.57
Boundary	33.00	45.00	12.00	1.43	2.00	0.57

3. Expenditure - Management and Maintenance costs

3.1 In October 2017, the Council was re-organised into service blocks. The service block managing the Council’s assets is called My Place, and therefore most of the housing budgets are now included within My Place, alongside the budgets to maintain other assets funded from the General Fund, such as Highways, Parks, Adult Social Care Buildings, offices and commercial properties. Services provided to people are now within the “Community Solutions” delivery unit. Some HRA funding is now included within Community Solutions for services such as antisocial behaviour, tenancy support and resident consultation. Some services provided to tenants are sub-contracted to Traded Services. The most significant of these, for the HRA will be the Repairs and Maintenance Service, which will be commissioned from a new Council company, Home Services. Grounds maintenance and caretaking are sub-contracted to “Clean and Green” and appear as a recharge within the HRA accounts.

3.2 In the budget report for the financial year 2016/17, annual savings were identified over a period of five years, funded by a transformation programme of £6.06m made up of a combination of capital (£1.750m) and revenue (£4.319m).

3.3 The savings for 2017/18 are on track to be delivered. There are further savings anticipated in 2018/19 – in particular £1.1m to be saved from a re-negotiation of the terms and conditions of the Home Services staff, to remove the bonus scheme which is considered excessive in the current labour market. These savings are made up of a combination of revenue savings from Repairs and Maintenance, and savings within the capital programme through improvements in procurement.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
A2020 HRA Savings	(achieved)	(planned)	(planned)	(planned)	(planned)	(planned)	(£m)
Budget Savings	£0.612	£2.884	£2.254	£2.528	£1.781	£1.8	£11.859

3.4 There are a few items identified in the HRA Budget for 2017/18 that should be noted. Last year it was agreed that the Council would undertake a new Stock Condition Survey. The last stock condition survey was carried out in 2011, and there is a need to refresh stock condition information on a regular basis, to ensure that the Council understands the condition of the stock and can plan for expenditure to maintain its assets at its desired standard. £500,000 was set aside for this item, but following a procurement exercise, the best available tender was for a sum of £750,000 and this has therefore cost £250,000 more than budgeted. This has not been fully spent but will be carried forward into 2018/19.

3.5 Initial work to develop a project to improve and diversify the empty homes that become vacant in future years has been undertaken in 2017/18; officers will be consulting with the public on the proposals during 2018. The legal and financial support costs have been added to the programme; this additional item will cost £350,000.

3.6 Since the initial concerns raised following the fire at Grenfell Tower, officers have been assessing the adequacy of the fire prevention measures available at comparable blocks of flats within Barking and Dagenham. The full requirements are not yet known, as the right solution will be developed with the advice of the Fire Brigade and following consultation with tenants. However, it is prudent at this stage to set aside a financial provision (£15m over three years) to meet the needs of the recommendations that emerge.

3.7 The experience of boroughs where Universal Credit has been rolled out either in pilot form, or in full is that tenants struggle to pay their rent, particularly in the early weeks. They also find it difficult to recover once their arrears have risen. Rent collection ended the year well down in Barking and Dagenham already, when Universal Credit has not yet been introduced. However, it will be rolled out for all tenants in Barking & Dagenham in March 2018. It is therefore prudent to raise the level of Bad Debt provision, up to £5.3m to prepare for the dangers of poor rent collection in 2018/19.

3.8 The Borough will start a programme of work to refresh the Housing Strategy in 2018. This will mean that a fresh and up to date evidence base will be required. A Housing Needs Assessment and a Strategic Housing Market Assessment will be required, and this will be tendered in early 2018. This will enable the Borough to have a full survey of available data to identify both the need for new homes, investment in all homes in all sectors, and an assessment of the affordability of homes within Barking and Dagenham for residents in housing need. A sum of £100,000 has been set aside for this purpose.

3.9 The Council is beginning a significant programme of investment in energy efficiency measures through an Energy Company. A sum of £1m a year has been included within the capital programme for three years, to support this work.

3.10 A sum of £800,000 has been included within the budget for the further modernisation of terms of conditions of service. This will lead to long terms savings and improved efficiency in services to tenants.

3.11 These financial requirements will therefore make a difference to the resources within the HRA over the next three years, and balances are likely to fall from £18.6m in 2018/19 to £5.91m in 2021/22. This is at the recommended safe level of £5m. However, once this period of difficulty has been negotiated, balances will begin to rise from that point.

4. Housing Revenue Account Summary

4.1 In the light of these changes, the proposed HRA Budget for 2018/19 and 2017/18 base are set out below:

HOUSING REVENUE ACCOUNT

	2017-18 £000	2018-19 £000	Change £000	% Increase
INCOME				
Rents of dwelling	(89,270)	(86,186)	3,084	-3.45%
Non Dwelling rents	(807)	(712)	95	-11.77%
Charges for services and facilities	(19,624)	(20,015)	(391)	1.99%
Interest and investment income	(400)	(300)	100	-25.00%
	(110,101)	**(107,213)**	**2,888**	-2.62%
EXPENDITURE				
Repairs and maintenance	16,481	15,178	(1,303)	-7.91%
Supervision and management	42,523	44,648	2,125	5.00%
Rent, rates, taxes and other charges	350	350	0	0.00%
Provision for bad debts	1,046	5,309	4,263	407.55%
Interest charges payable	10,059	10,059	0	0.00%
TOTAL EXPENDITURE	**70,459**	**75,544**	**5,085**	7.22%
Revenue Investment in capital	**(39,642)**	**(31,669)**	**7,973**	**-20.11%**

5 Capital Programme

5.1 There are three main programmes of work funded through resources in the HRA. These are the stock investment programme, the Estate Regeneration Programme, and the New Build Programme.

5.2 The Stock investment programme remains focussed on the target of achieving Decent Homes for all the housing stock by 1st April 2019. The Decent Homes work planned include kitchens, bathrooms, rewiring and heating improvements. The Programme has been divided into three areas, with the Central Area Decent Homes Programme being delivered by Small and Medium Sized local contractors, (SME) to encourage and enable local contractors to expand and deliver more of the Council's capital programme. Other significant elements of the Stock Investment Programme will include compliance programmes including water tanks and rewiring.

5.3 The revised capital budget proposed a stock investment programme of £40.7m for 2017/18. The estimated outturn for 2016/17 will be £35.399m. It is proposed to carry forward the underspend of to 2018/19. An additional sum of £15m over three years has been included in the programme for any fire protection work that has been identified following on from the initial findings after the fire at Grenfell Tower. This will mean a total stock investment programme for 2018/19 should be set at £50,716m. This will be targeted at Decent Homes work, and compliance programmes as set out in Appendix 7.

6. Estate Regeneration and New Build programme

6.1 The Estate Regeneration programme started in July 2010. The aims of the programme were to improve the quality of the environment, the economic prosperity of the area, and the quality of life for the residents. Since that date, the Council has demolished 861 homes on the Gascoigne Estate East, Goresbrook Village Althorne Way and The Leys and a further 240 are currently empty awaiting demolition. These homes have either been replaced or are in the process of being replaced by mixed tenure developments of 815 homes. There is a mixture of rented accommodation at a range of different rents, as well as shared ownership homes. In recent years the new homes built on these sites have either been rebuilt retained within the Housing Revenue Account, at a range of rents, or have passed into the ownership of the Council's wholly owned housing company, Reside. In addition, the new build programme overall is delivering 90 homes within the Housing Revenue Account, and 1021 affordable rent homes including a number of Estate Renewal re-provision at Target rents, to be owned and managed by Reside by 2021.

6.2 This highly successful programme is continuing, and with the redevelopment of Gascoigne West, Sebastian Court and Marks Gate will have addressed the major poor-quality estates in the borough. In 2017/18 a budget of £6.123m was established for estate renewal and £41.39m for the new build programme. The estate renewal programme has been accelerated during the year, and the outturn in 2017/18 will be £11.3m. The revised new build programme was set in 2017 at £41.39m but delays in the programme mean that the outturn for 2016/17 will be £28.9m.

6.3 The programme for 2018/19 will continue to deliver major Estate Renewal at the identified sites and will seek Cabinet approval for the addition of two more projects which are adjacent to current sites to bring forward more comprehensive redevelopment. This report will identify the additional expenditure required and propose an increase to the Estate Renewal Budget to cover the costs of Leasehold Buybacks and tenant decants and demolition. The demolition of the 240- properties which are currently empty and mentioned above will facilitate the new Greatfields School development but during the coming year demolition of Sebastian Court, Phase 2b Gascoigne Estate and Phase 1 Gascoigne West are also programmed including 181 properties.

6.4 The Estate Renewal Budget for 2018/19 has therefore been set at £13.250m and the New Build budget at £22.3m

6.5 The Housing Investment Programme will be funded through a combination of capital receipts, Revenue Contributions to Capital Outlay (RCCO), the Leasehold Reserve and borrowing. Not all of these funding sources can be used for all these expenditure items, and the funding will be appropriately profiled to the projects.

7. The 30-year Business Plan

7.1 The Government introduced the new financial regime of Self Financing in 2012, and on 20th March 2012 Cabinet considered the first full HRA Business Plan. This set out the anticipated income and expenditure on the Council's housing stock over the forthcoming thirty years, and this information has been regularly used in the light of changes in Government policy on rents, Right to Buy and other financial metrics as part of the budget setting process. A Stock condition survey commissioned in 2011 supported the development of the stock investment programme which is one of the key items within the overall Business Plan.

7.2 Since 2012, there have been significant developments affecting the Business Plan: changes to Government policy, changes to local market conditions, and local performance on key financial measures such as rent collection and empty homes which have had an impact on the Business Plan. Expenditure plans have also developed and changed: an increased new build and estate regeneration programme has been built into the Business Plan to make the best use of the resources available. This Business Plan is therefore a narrative and financial description of the current position of the Council's housing stock.

7.3 The current HRA Business Plan demonstrates that over the forecast 30 years of the Plan, the HRA can fund its current planned expenditure requirements. This is based upon £107.2m of rent and other income at 2018/19, falling next year and rising after 2019/20 if the Government delivers on its promised rent policy of rent increases of CPI + 1% after the current period of rent reduction. Inflation has been built into management and maintenance for next year, but these rises are not built into the budget for the following three years. After this, the pay and inflation costs are set to rise by 3% thereafter. This generates a net revenue surplus, which after meeting interest costs of £10.06m a year for the life of the Plan can fund the current stock investment, estate renewal and new build requirements. However, it is anticipated that as the stock is not in good condition, future spending plans on the housing stock will absorb the available resources.

7.4 The Business Plan assumes that there is no additional borrowing (as the current level of borrowing is at the Government defined cap) but also assumes that there is no provision for reduction of debt. It is assumed that no external grant is received, either for stock investment or for new build. Provision for stock investment is set at £50.716m for 2018/19, and then falls to £30m a year in 2022, after the completion of the Decent Homes Programme. A programme of new build is funded from the HRA for the life of the plan; it fluctuates in the first year in line with anticipated pipeline schemes, and then is estimated at £20m a year from 2020 onwards. As this new build programme is funded almost entirely from restricted capital receipts, there is no point in reducing this programme. Restricted capital receipts not spent have to be returned to Government with interest. Estate Regeneration is also funded in the HRA Business Plan at an indicative level of £13.25m in 2018/19 and £6m a year thereafter. With this level of expenditure, cash balances remain adequate during the early period of stock investment activity, and when the Decent Homes Programme is complete, start to rise from 2021/22 onwards. There are therefore investment opportunities after 2023. It is anticipated that these resources will be required for future stock investment needs. Some of the resources within the HRA Business Plan are restricted in their use – the RTB receipts that have been generated in line with the Government's agreement on one for one replacement of homes. In addition, consideration should be given to the level of debt which is sustainable, given the regular loss of properties, which are not being replaced within the HRA.

7.5 One of the key purposes of the HRA Business Plan is to enable the authority to plan for its housing expenditure over the medium and long term. The plans for stock investment will be refreshed once the analysis of the new Stock Condition Survey has been obtained; and it is likely that this will be available in March 2018. In the meantime, the level of stock investment provided for within the HRA Business Plan has been set with the previous Stock Condition Survey data in mind, until the completion of the Decent Homes Programme, at which point the stock investment provision falls to a level which is considered sufficient at present to maintain the stock at a reasonable standard, although better information on this point is needed to ensure that the stock is at a good standard.

7.6 The Estate Regeneration programme has been funded from a variety of sources, depending upon the specific estate needs, and the proposed replacement proposals. In the current programme, the HRA has largely funded the compensation packages required for tenants and leaseholders who are displaced because of estate renewal, and also the cost of buying out leasehold interests on those properties which are due to be demolished. The overall package of demolition, and replacement has been funded through a mix of market sales and borrowing within the General Fund. The current HRA Business Plan provides for £13.25m in 2018/19 and for £6.0m a year from 2012/20 onwards.

7.7 The New Build Programme is related to the Estate Regeneration Programme, where there are sites available within estates that can be utilised more effectively. However, there is also a separate new build programme using opportunities that arise outside of the Estate Regeneration Programme. The current Business Plan provides for £22.3m in 2018/19 and £20m a year thereafter supported by the use of Right to Buy receipts in the capital programme. However, whether the HRA will continue to fund the New Build Programme, after 2019/20 needs to be reviewed, since the new homes built will be built and managed on behalf of the arm's length company, Reside and not the HRA. There is currently provision of £20m a year from 2020/21 onwards through the life of the Plan, for this purpose.

7.8 The emerging housing policy framework in Barking and Dagenham, is in the development of three rights: The Right to Rent, the Right to Move, and the Right to Invest. Barking and Dagenham currently has a geographical spread of housing that forms concentrations of different kinds of housing, in different areas. Some areas are virtually all social housing, whilst others are mainly market housing. The Council wants to see more geographically balanced and mixed communities and will be developing homes appropriate to the different areas through its new housing policies.

7.9 The Council further proposes to develop a Right to Move: an incentive scheme for tenants who qualify financially, to enable them to move out of Council housing with the assistance of a substantial deposit and free up much needed social housing. Finally, there is a Right to Invest, which enables tenants should they wish to do so, to part purchase their homes and take on ownership of a share of their home and pay a percentage of the rent on the remainder. This is designed to give low income working households the opportunity of stepping up into home ownership gradually.

8. Consultation

8.1 Consultation with tenants and residents will take place at the next round of Housing Forum Meetings after the Cabinet meeting. This will include presentations on both the budget, and the HRA Business Plan, inviting tenants to participate in discussions about overall priorities for expenditure within the HRA.

9. Financial Implications

Implications completed by: Katherine Heffernan, Group Manager, Finance and Investment, Service Finance Team

9.1 The Housing Revenue Account as included in 4.1 above provides a summary of the revenue income and expenditure budgets for 2017/18, the proposed budget for 2018/19 and the resulting movement between the two years.

9.2 The body of this report and appendices both contain the detailed financial data and implications of the decisions recommended for approval in this report

9.3 There are four HRA revenue budgets classifications significantly impacted in 2018/19 from the decisions recommended in this report:

- Rent Income loss £3.1m due to current Government rent reduction policy, Right to Buy sales and other stock loss as detailed in 2.1 above;

- Increased in year revenue contribution towards potential Bad Debt £4.3m due to current and expected increases in rent arrears and to provide coverage for future any welfare reform implications as outlined in 2.12 above;

- Supervision and Management increased by £2.1m due to inflation, pay and other cost pressures, of which only Heating and Hot Water charges are expected to be recoverable from Tenants and Leaseholder via increases charges in 2018/19;

- Repairs and Maintenance reduced £1.3m from the planned renegotiation of the terms and conditions of staff and other service delivery efficiencies, both of which also form part of the new repairs service business plan.

9.4 The HRA capital programme as shown in Appendix 7 includes additional investment in stock budget provision from 2018/19 for fire protection work and the 2017/18 carried forward Decent Homes programme plus additional Estate Renewal/Decant budget provision, as detailed in section 6 above.

9.5 The HRA business plan extract in Appendix 9 shows a significant reduction in available balances from the pressures faced over the next 3 years and due to all the factors outlined in this report, but ongoing management action and decisions alongside further delivery of savings and efficiencies can all improve the financial position beyond this period.

10. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

10.1 The basis for setting rent is Section 24 of the Housing Act 1985 which provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses, however as set out in paragraph 2.1 above by the utilising the Welfare and Work Reform Act 2016 the Government has required that a rent deduction of 1% by social landlords is to take place.

10.2 Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities to: (i) to produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii) to review and if necessary, revise that budget from time to time and (iii) to take all reasonably practical steps to avoid an end of year deficit.

10.3 Finally as observed in the body of this report the Housing and Planning Act 2016 may bring around further legislative changes and so the HRA Business Plan will need to be kept under review for further Government direction which may emerge in due course.

11. Other Implications

11.1 **Risk Management –** The Council maintains a separate Risk Register detailing those risks posed to the Council's Housing Revenue Account Business Plan and Budget. These risks include:

- <u>Changes to Government Policy</u> This risk is assessed this year as high impact, but unlikely. The Government is fully occupied with legislation and regulation connected with the country's imminent departure from the European Union, and therefore it is considered unlikely that new housing legislation will be brought forward this year.

- <u>Stock condition data:</u> A significant item of expenditure within the budget and Business Plan is the maintenance of the stock in a reasonable condition. There are provisions within the budget to refresh and update the stock condition information to ensure that the financial planning to meet the stock maintenance requirements are realistic.

- <u>Financial savings:</u> A key risk in the budget is that transformation savings are not realised. This would have the impact of meaning that the service would remain high cost, and not competitive. Close monitoring of the savings programmes will be maintained to ensure that anticipated savings are realised.

11.2 **Staffing Issues –** There are no direct staffing implications because of this report. The HRA continues to strive for improved value for money and appropriate HR policies and procedures around implementing change will be followed. The Council remains committed to minimising redundancies where possible.

11.3 **Corporate Policy and Customer Impact –** The Corporate Plan sets out a vision of a well-run Council, including the aspiration to manage our finances effectively, looking for ways to make savings, generate income and be innovative in service delivery. The HRA is an important budget, collecting the rent and service charges of tenants, and re-distributing them in the form of services, and housing investment. It is the aim of the annual budget to ensure that costs are examined, and reduced where possible, and that savings generated are re-investment in cost effective projects that deliver the Council's priorities for housing growth and quality services.

11.4 **Health Issues –** Housing has an important part of play in assisting to provide a healthy environment in which residents can live. The stock investment programme funds the improvement of the housing stock in terms of affordable warmth, through its energy efficiency programme. The Aids and Adaptions Budget enables older and disabled residents to live in greater comfort within their own homes and enables them to retain independence for longer.

11.5 **Crime and Disorder Issues –** The HRA Budget does provide funding for initiatives that support the reduction of crime and antisocial behaviour within areas of Council housing stock. One of these is the Safer Neighbourhood Charge, which provides funding for additional policing staff across the Borough's housing estates. In addition, service charges are levied to pay for the cost of CCTV cameras which contribute to surveillance of areas of potential concern. Physical programmes to reduce poor environmental layout on estates through regeneration programmes also contribute to an overall reduction in crime and antisocial behaviour.

11.6 **Property / Asset Issues -** The HRA Budget is key to ensuring that the Council's assets held within the HRA are managed and maintained well, to ensure that they are available and fit for Barking & Dagenham's current and future residents. The HRA budget also supports the regeneration of council housing, and communities through a programme of estate renewal, and new building.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

1 HRA Working Balances
2 Rent Income Analysis
3 Average rent analysis
4 Rental Income Debtor Account
5 Budget assumptions
6 HRA Estimate 2017/18
7 HRA Capital Programme
8 Housing Revenue Account 30 Year Business Plan narrative
9 Housing Revenue Account 10-year financial extract