

CABINET

18 February 2019

Title: Housing Revenue Account: Estimates and Review of Rents and Other Charges 2019/20 and 30 Year Business Plan	
Report of the Cabinet Member for Regeneration and Social Housing	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
Report Author: Sue Witherspoon HRA Business Plan Manager	Contact Details: Tel: 0208 227 3428 E-mail: sue.witherspoon@lbbd.gov.uk
Accountable Strategic Leadership Director: Graeme Cooke, Director of Inclusive Growth	
Summary	
The Annual Budget	
<p>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.</p>	
<p>This is the fourth 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:</p>	
<ul style="list-style-type: none">• 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 34% 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 accordance 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.	
<p>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. The average rent of the housing stock will reduce by an average of £0.95p per week. There is no requirement to reduce the rents on temporary accommodation which are set in accordance with a different formula.</p>	
<p>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.</p>	

The report considers the available resources, and how to maintain its commitments to investing in the housing stock in the most effective way, and 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 own 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 is under pressure this year. This is due to the reduction in income due to the Government's rent reduction programme, and the anticipated sales from the Right to Buy. There has also been the non-achievement of anticipated savings in the Repairs and Maintenance Budget. On the expenditure side, there has been a significant increase in the anticipated spend on the Council's housing regeneration programme, and finally there is new information about the need for investment in the Council's housing stock.

However, this pressure on the Council's Housing Revenue Account is a short-term issue: once rents begin to increase again in 2020/21 the Council's balances on the HRA begin to increase once more from 2021/22; but it is important to take measures this year to ensure that the Council is able to fulfil its financial obligations over the next two – three years.

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 £94.47 per week to £93.52 per week;
- (ii) Agree the following service charges for tenants:

Service	Weekly Charge 2019/20	Increase / reduction
Grounds Maintenance	£2.93	-
Caretaking	£7.65	-
Cleaning	£3.68	-
Estate Lighting	£3.85	£1.54
Concierge	£10.06	-
CCTV (SAMS)	£6.17	-
Safer Neighbourhood Charge	£0.50	-
TV aerials	£0.60	-£0.08

- (iii) Agree that charges for heating and hot water increase by the Consumer Price Index (CPI) (September 2018) as follows:

Property size	Weekly Charge 2019/20
Bedsit	13.12
1 Bedroom	13.92
2 Bedroom	16.71
3 Bedroom	17.02
4 Bedroom	17.46

- (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 that the above charges take effect from 1 April 2019;
- (vi) Agree the proposed HRA Capital Programme for 2019/20 as set out in Appendix 6 to the report;
- (vii) Approve the HRA Business Plan for 2019/20 as set out in Appendix 7 and the financial implications set out in Appendix 8 to the report; and
- (viii) Note the assumptions underpinning the HRA Business Plan which shall be reviewed annually.

Reason(s)

To assist the Council in achieving its vision of “No-One Left behind” and the priorities of “A New Kind of Council”, Empowering People”, and “Inclusive Growth” 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 these areas since the introduction of the Self-Financing policy, such as the level of Right to Buy discount, 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. These measures: Mandatory Fixed Term tenancies; higher rents for high income tenants, and the requirement to pay a levy that represents higher value empty homes all have been abandoned. In its place, the Government has published a Green Paper on social housing which had a range of proposals for improving consultation and management of social housing, including the publication of performance measures. [*A new deal for social housing tenants*]. There were also consultation papers on the regulation of rents published, and on the treatment of Right to Buy (RTB) receipts. All these consultations have closed, and no firm proposals have been forthcoming yet. Any work to respond to these will need to be programmed in 2019/20.
- 1.5 During 2018, the Council consulted on a project to improve the availability of good quality affordable local rental properties for the residents of Barking and Dagenham by leasing 750 empty Council homes in poor condition to Reside, the council's wholly-owned housing company, over a period of three years in order to improve the quality and availability of local affordable housing. The Consultation closed on 12th September 2018 and there were a range of views expressed by the public. Following further investigation and analysis, a decision has been taken not to proceed with the project due to financial and practical difficulties.

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. 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.
- 2.2 Currently, average local actual rents for the Council's 17,148 tenancies (including secure, affordable and temporary) are only 34% of local market rents. The actual loss from the reduction in the income between 2018/19 to 2019/20 is £0.844m. The

Council also suffers from a reduction in income as a result of the loss of stock through the Right to Buy amounting to £1.075m. The total reduction in the rental income budget between 2018/19 and 2019/20 therefore is £1.919m.

- 2.3 The rules of the current rent policy allow Councils to re-set rents at target rents, when a property becomes empty. The Council adopted this approach from February 2017.
- 2.4 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 219 sales in 2017/18. As a result of increased borrowing and the reduction in the stock, the average debt per property is now £16,070.
- 2.5 Last year there were an average of 300 properties throughout the year which were in Regeneration Schemes and therefore due to be demolished, 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. In 2019/20 it is estimated that the number of properties coming through the decanting and demolition programme will fall to 200. As the rents charged for TA are higher than secure rents, the additional income is a benefit to the HRA and is paid to Community Solutions as a management fee for managing the temporary accommodation for homeless households. The reduction of income due to the removal of these units from the temporary accommodation portfolio amounts to £258,700 and this reduction in income will be met by a reduction in the Community Solutions Budget. As the properties are not being returned to normal use but being demolished the total reduction in rental income will be £750,000.
- 2.6 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 has not charged the full cost of these services in the past to the individual tenants who receive them. The current and proposed charges are set out below:

Service	Charge for 2018/19	Proposed charge for 2019/20	Increase/reduction
Grounds Maintenance	£2.93	£2.93	£0
Caretaking	£7.65	£7.65	£0
Cleaning	£3.68	£3.68	£0
Estate Lighting	£2.31	£3.85	£1.54
Concierge	£10.06	£10.06	£0.00
CCTV (SAMS)	£6.17	£6.17	£0

Safer Neighbourhood Charge	£0.50	£0.50	£0
TV aerials	£0.68	£0.60	-£0.08

- 2.7 It is proposed to raise the charge for Estate Lighting to full cost recovery. However, it is proposed to freeze the remaining charges pending further improvements in the quality of the service.
- 2.8 The Safer Neighbourhood charge is subject to review. This charge pays a contribution towards the cost of additional policing on Council estates. However, the agreement between the Mayor and the Metropolitan Police by which the Council pays for one police officer and gets two on patrol, is coming to an end in March 2019, and it is not yet clear what is replacing it. This means that the agreement may not continue beyond the end of March 2019. If this is the case, the costs and the charges will be removed from the budget. The impact on the budget will be cost neutral, and the impact on tenants is the removal of both the charge and the service.
- 2.9 Not all tenants pay service charges. Around 10,000 do not pay service charges at all, due to the type of property that they occupy. On the basis of full cost recovery for estate lighting around 5,600 tenants will pay an additional £1.54 pw. Moving to full cost recovery for estate lighting charges will generate additional income of £0.45m in 2019/20.
- 2.10 The charges for heating and hot water are already based on full cost recovery, and these will rise by inflation of 2.2% (Consumer Price Index (CPI) at September 2018) as follows:

Property size	2018/19 Charges (£pw)	2019/20 Charges (£pw)
Bedsit	12.84	13.12
1 BR	13.62	13.92
2 BR	16.35	16.71
3 BR	16.64	17.02
4 BR	17.08	17.46

- 2.11 Garage income will continue to increase, as more garages are refurbished. The current policy is to charge £12.00 pw for garages that are not yet refurbished, and £15.00 for refurbished ones. This policy will continue in 2019/20. The current level of income forecast from the let garages is £734,000. The forecast income from garages in 2019/20 is £750,000 based on the programme of garage refurbishment, an increase of £16,000.
- 2.12 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.
- 2.13 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 2019/20 from interest on balances will be £350,000.

- 2.14 The collection of rent in 2018/19 ended the year at 97.01%. There was also a low level of write offs (£394,027) during the year and therefore the Bad Debt has risen to £2.652m against a provision last year of £5.3m. 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. A recent dispute between tenants and Southwark Council has led to a court case in which the legitimacy of the way in which the commission the Council received for collecting the water charge has been called into question. Barking & Dagenham had, until recently, the same arrangement as the disputed contract in the Southwark case. Where there is uncertainty as to 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.
- 2.15 A new contract has been signed between Thames Water and the Council which regularises the arrangement but the final appeal hearing about whether the water commission sums collected under the old contract needs to be repaid to tenants, has not yet been heard. This case is due to be decided in the summer of 2019. Should this have financial implications, these will be considered at the time.
- 2.16 In March 2018 Universal Credit was rolled out in Barking and Dagenham. It is too early days to assess what the impact is in Barking & Dagenham, as only new claims are affected at this time. The level of Housing benefit continues to decline, with only 46.45% of rental income covered by Housing benefit in 2017/18. 13 Council tenants are affected by the overall Benefit cap; and a further 158 affected by the Spare Room Subsidy (bedroom tax). It is therefore proposed that the level of Bad Debt should be set at £3.309m, a reduction from last year of £1.998m. This represents a one-off saving in 2019/20, which will be reviewed in next year's budget.
- 2.17 Leasehold Service Charge collection ended in the financial year 2017/18 at 99.76%, a total sum of £4.529m. The Major works collection in year was £853,590, only 1.29% of the debt. A review of the leasehold service charge fund is underway, and a decision is anticipated on the way in which this will be managed in the future.

3. Expenditure - Management and Maintenance costs

- 3.1 The Management and Maintenance of the Council's housing stock is now split between a number of service delivery agents. My Place manage the assets, and a budget of £20.837m enables them to undertake this work. Other functions, such as the Housing Register, and tenancy support is managed by Community Solutions, and a budget of £2.868m is paid to Community Solutions in order to enable them to do this. The Repairs and Maintenance budget is spent by B&D Services but managed and supervised by My Place. This budget was £15.178m in 2018/19 but is projected to overspend in 2018/19 because of the non-achievement of savings. The budget was also forecast to fall in 2019/20 to £14.078m as a result of a further round of savings.

3.2 Other rent, rates and other taxes relates to anticipated expenditure on Council Tax where properties remain empty. It is not anticipated that this item will change.

3.3 In the Transformation Programme the following savings from Repairs and Maintenance were planned and are proposed:

	2018/19	2019/20	2020/21	Total
A2020 HRA Savings	(not achieved)	(planned)	(planned)	(£m)
Budget Savings	£1.3	£1.1m	£1.0	£3.4m

3.4 The savings were due to be achieved through the re-negotiation of terms and conditions. These negotiations have not proceeded as initially planned, but the savings in Years 2 (2019/20) and 3 (2020/21) are still due to be delivered.

3.5 The first part of the Inquiry into the Grenfell Fire has finished, but the interim report from this part of the Inquiry has not yet been published. There are some initial recommendations. The second part may not start for another 12 months. Some interim work has been done to ensure that the early lessons are taken into account in the work of Fire Protection. This has included installing sprinklers into three sheltered blocks, with the support and assistance of the Fire Brigade. It is worth noting that there has been a high refusal rate where tenants have been offered sprinklers within their homes. The wholesale installation of sprinklers is not yet (and may never be) part of the recommendations from the Grenfell Inquiry.

3.6 The second area which is progressing is the fire door issue. Fire doors at Grenfell Tower were found not to provide the necessary 30 minutes' fire resistance and, therefore, a number of fire doors on the market have lost their certification. The Borough has 450 of these doors which are no longer certificated and a programme of replacement is planned. We are currently awaiting, along with colleagues in other London Boroughs, for Government to complete their testing regime on a range of other manufacturers and this is expected in the next few months. Once this has been received, we will work with the London wide fire safety forum to source the appropriate doors and commence the program of replacement. £3.8m has been set aside in the coming year's Capital Programme for the replacement of Fire Doors. To mitigate this risk additional measures have been taken, such as increasing the frequency of our Fire Risk assessments on all high rise properties from annually to every 3 months.

3.7 Most Energy Efficiency measures are incorporated into the other parts of the capital programmes, such as internal works. A specific sum of £0.5m has been set aside for some specialist energy efficiency measures such as photovoltaic solar panels.

3.8 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 £18.1m in 2018/19 to £5.7m in 2019/20 and rise to £7.32m in 2021/22. This is just within the recommended safe level of £5.3m. 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 2019/2020 base are set out below:

	2018/19	2019/20	Change	%
	£000	£000	£000	Change
INCOME				
Rents of dwelling	-86,186	-83,339	2,847	-3.30%
Non-Dwelling rents	-712	-750	-38	5.34%
Charges for services and facilities	-19,588	-20,470	-882	4.50%
Interest and investment income	-300	-350	-50	16.67%
TOTAL INCOME	-106,786	-104,909	1,877	-1.76%
EXPENDITURE				
Repairs and maintenance	15,178	14,104	-1,074	-7.08%
Supervision and management	43,963	44,844	881	2.00%
Rent, rates, taxes and other charges	350	350	0	0%
Provision for bad debts	5,309	3,309	-2,000	-37.67%
Interest charges payable	10,059	9,692	-367	-3.65%
Corporate and Democratic core	685	685	0	0%
TOTAL EXPENDITURE	75,544	72,984	-2,560	-3.39%
Revenue Investment in capital	-31,242	-31,925	-683	2.19%

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 final agreed capital budget of £53.9m for the 2018/19 Stock Investment Programme was the first year that My Place (having been created in Oct 2017) had management and monitoring responsibilities. The programme was split across the three main delivery agents created by the 'New Kind of Council' approach (Be First – Construction Management Team, BDMS (part of the Traded Services Partnership) and the My Place Capital Works Team) and largely based on the list of projected outlined to Cabinet in February 2018.
- 5.3 Whilst the final spend figure will not be available until April 2019, current reports are indicating a level of spend of around 98% of budget with a large proportion of the spend targeted to achieve internal decency and reflected in the overall reported decency figures. At the start of 2018/19, the number of dwellings that were non-decent (internally and externally), were recorded as 17% and upon completion of the 2018/19 this is expected to drop to 9.6% from a previous high of 48% published in 2015/16. Whilst the programme continues to deliver a range of general improvement through the upgrading and replacing of major components, one area where the investment has made a significant contribution to energy efficiency is the 'Box Bathroom' project which has seen a large number of ground floor bathrooms which were added as extensions several years ago, benefit from additional insulation and improvements to the energy efficiency of these structures that largely comprise external walls.

- 5.4 2018 saw the completion of a new Stock Condition Survey, which set out to carry out external surveys to 100% of the stock and internal surveys for 20% of the stock. This approach was a significant shift in the previous stock condition surveys (undertaken in 2010/11) in that data was collected on a larger proportion of the stock, there was an increase in the number of components surveyed and less reliance on 'cloning data' (i.e. - using data collected on a small sample to indicate the condition of a larger proportion of the stock) thus ensuring greater accuracy.
- 5.5 A new approach to the stock investment programme will see the Programme consolidated into 5 groups -
1. Internals (kitchens, bathrooms, boilers and rewire etc)
 2. Externals (roofs, windows, doors, rainwater goods etc)
 3. Communal / Compliance (fire doors, lifts, communal boilers, lateral mains, water tank replacement, asbestos removal, door entry systems etc)
 4. Landlord Works (disabled adaptations, capital voids, energy efficiency)
 5. Estate Environmental Works (road surfaces, footpaths, garages etc)
- 5.6 The 2019/20 (and subsequent) programme will reflect this approach whilst reflecting the results of the 30-year Stock Condition Survey, any new legislation (that might arise for instance from the Grenfell Fire enquiry) and any in-year priorities.
- 5.7 In addition to the above, a pilot project is also being undertaken to review the specification of the works undertaken so that it aligns with the specifications being produced for the Councils new build stock and ensure an equal approach to future stock investment works. The 2019/20 and future programmes will also target areas where works can significantly improve energy efficiency, thus reducing energy bills for tenants and improving the thermal comfort of homes. It assumes an approved capital budget of £37.68m as outlined in the 2019/20 HRA Business Plan.
- 5.8 Whilst the replacement boilers and new roofs programme undertaken as part of the works carried out in 2018/19 have helped with energy efficiency, the 2019/20 programme has significant investment associated with the external fabric both houses and flats within blocks including new roofs, windows and doors. Whilst planning these works, consideration will also be given to the installation of photo voltaic (PV) cells that will contribute to the generation of power that will contribute to the power requirements of the blocks receiving work. In addition, the Council continues to seek additional grant funding (via various Government initiatives) that will supplement the capital investment in energy efficient schemes across the entire stock.

6. Estate Regeneration and New Build programme

- 6.1 The Estate Regeneration Programme funds mainly the costs of tenants and leaseholders' home loss and disturbance payments for those tenants and leaseholders who have to move as a result of the demolition of their homes. In addition, it funds the buy back of homes from leaseholders where these homes are going to be demolished. It has also funded the actual costs of demolition in some locations.
- 6.2 The budget for 2018/19 has been spend on purchases at Gascoigne estate and the demolition costs at Greatfields. The budget has funded the costs of security in the

empty blocks pending demolition and £30,000 has been spent on a new study to review the need for further estate regeneration beyond the current programme.

- 6.3 In 2019/20 the budget is needed to support the further regeneration programme at Roxwell Road, Oxlow Lane, Rainham Road South, Stour Road, Phases 2 & 3a of the Gascoigne Estate and the Royal British Legion. Estimated spend on leaseholder Buy Backs and tenant and leaseholder home loss and disturbance payments will amount of £11.5m.
- 6.4 The New Build programme in 2018/19 funded a number of schemes within the Housing Revenue Account: The Leys (rented and shared ownership properties) Ilchester Road, North Street and Burford Road. These schemes are currently being completed and let. However, there is more work to be done on the proposed new build programme to be funded from RTB receipts for 2019/20. This is because of the opportunity that arose in September 2018 to bid for GLA grant which would be timing substituted for the RTBs at a more generous rate than is currently permitted the RTB receipts. Specific funding will be aligned to the relevant projects when the exercise of reviewing the new build programme has been completed and reported to a future capital monitoring report. No details of spend on the new build programme for 2019/20 are therefore available at this time.
- 6.5 There are proposals to develop an Extra Care scheme within the HRA; as well improvements in the supply of adapted properties for households with mobility problems on the current Housing Register. These projects require more work before they are ready to submit to the Mayor's Care and Support Fund, and therefore although they will require additional borrowing there is not sufficient detail as to sums and timing to add these assumptions into the Business Plan.
- 6.6 The Housing Capital 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 new Stock condition survey commissioned in 2017 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 in the long term.

- 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 £104.9m of rent and other income at 2019/20, which will start to rise from next year. The Government has issued a Consultation paper in which it proposes rent increases of CPI + 1% for a period of five years. Although the Consultation period has closed, the Government have not announced a firm policy as yet. Inflation has not been built into management and maintenance for next year. Services are expected to absorb inflation costs, and there are target savings for the Repairs and Maintenance budget. This generates a net revenue surplus, which after meeting interest costs of £9.6m a year for the life of the Plan can fund the current stock investment, estate renewal and new build requirements. This however does take the balances on the HRA down to a minimum acceptable level next year.
- 7.4 The Business Plan assumes that there is no additional borrowing at present but also assumes that there is no provision for reduction of debt. It is assumed at present that no external grant is received, either for stock investment or for new build. Provision for stock investment is set at £37.68m for 2019/20, and then falls to £32.7m a year in 2020/2021, after the completion of the Decent Homes Programme for a period of nine years. This deals with all the work required in the first ten years recommended by the new stock condition survey. It is recommended that this level of investment is revisited in two years' time when there may be opportunities to bring forward further stock investment work. A programme of new build is funded from the HRA for the life of the plan; it is estimated at £20m a year from 2019/20 onwards. As this new build programme is funded almost entirely from restricted capital receipts, there is no point in reducing this programme as the money is restricted to use in new build programmes. This is a source of financial pressure however, as RTB capital can only be used to fund 30% of the build costs. The remaining 70% must be found from either, additional borrowing or cash balances. At the present time, the plan assumes that sales (and therefore capital receipts) continue at the same level for the life of the Plan. This assumption will need to be re-visited if sales begin to fall. There is active ongoing discussion about the use of Right to Buy receipts, compared with the benefit of taking Affordable Housing grant from the GLA programme, but decisions on this need to be taken soon. Restricted capital receipts not spent have to be returned to Government with interest.
- 7.5 Estate Regeneration is also funded in the HRA Business Plan at an indicative level of £11.5m in 2019/20 and £6m a year thereafter. The difficulty with this programme is that the forecasts have not been accurate to date, and the indicative level of spend has been exceeded in the last two years. Whilst this has not caused a difficulty when balances were healthy, in times of more financial constraint this level of unpredictability would cause serious risks to the Plan.
- 7.6 With this level of expenditure, cash balances remain just 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 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.

- 7.7 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 kept under review, once the data is loaded into the new Open Asset IT system. It is likely that this will be available early in 2019. In the meantime, the level of stock investment provided for within the HRA Business Plan has been set with the new data, whilst work continues to understand the components of the recommended work.
- 7.8 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 £11.5m in 2019/20 and for £6.0m a year from 2020/21 onwards.
- 7.9 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 £20m a year 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.

8 Conclusion

- 8.1 2019/20 will be a challenging year. There are major savings built into the budgets. Universal Credit will continue to be rolled out in full in Barking and Dagenham despite the well-rehearsed difficulties with the new system. Experience from other Boroughs indicate that this has caused low income households to struggle financially and rent arrears have risen. Finally, the lessons from the fire at Grenfell Tower in Kensington and Chelsea have not yet been fully published; but it is likely that further investment in fire protection will be required.
- 8.2 It is important that we respond to any new proposals brought forward by the Government following the three consultation papers: A new deal for social housing tenants, the additional flexibility in the use of RTB receipts and the Consultation on rents in the social housing sector.
- 8.3 The Borough's policy however is not to be diverted from its overall commitments to improving the quality of the housing stock, and ensuring that a supply of new homes, at a range of different price points, become available for the residents of Barking and Dagenham.

9. Consultation

- 9.1 Consultation on the proposals in this report has taken place with the Leader, the Cabinet member for Regeneration and Social Housing, and the Cabinet Member for Finance and Growth. The proposal in this report were considered by Corporate Strategy Group on 17th January 2019.

10. Financial Implications

Implications completed by: Katherine Heffernan, Group Manager for Service Finance

- 10.1 The statutory format of the Housing Revenue Account is included at Appendix 5. The analysis below refers to the summary format in paragraph 4.1, as this is easier to understand and presents key issues for Members and tenants more clearly.

Tenant Dwelling Rents

- 10.2 The report proposes to reduce social housing rents by 1% in line with Government policy. This applies to all council stock, including affordable rent properties, and equates to an average reduction for social housing tenants of £0.95 per week. The impact on the original business plan was a loss of income of £33.6m over 4 years, with a £844m loss in 2019/20. This would have equated to a loss of income in the region of £450m over the 30-year business plan. As part of budget setting a review has enabled some of this loss to be mitigated, although further work is required to ensure the HRA continues to be sustainable over the longer term.
- 10.3 There are over 300 properties within the HRA that have been decanted as part of the ongoing estate renewal programme which are being used within the temporary accommodation portfolio. The rent levels have been set at a higher amount than the current average levels to cover the additional costs related to this type of placement. As the estate renewal and new build programme progress, the number of decant units available for temporary accommodation will reduce. As a result, this income is not sustainable over the long term but provides a short-term benefit to the HRA.
- 10.4 The number of Right to Buy sales has increased in recent years with 219 in 2017/18, and around 220 a year forecast from 2019/20 onwards. With the abolition of the “Pay to stay” scheme and the proposal for required sales of high value void properties, the reduction in stock levels will be lower than previously anticipated.
- 10.5 The table below shows the net expected rental income from the above changes:

Rental Income	£'000
2018/19 Budget	-86,186.000
Rent decrease	844.000
Right to Buy Sales reduction	1,819.000
New Build Income increase	-566.000
Temporary Accommodation income reduction	750.000
2019/20 Budget	-83,339.000

Non-Dwelling Rents

- 10.6 It is proposed to maintain Garage rents at £15 per week for those units that have been refurbished to a decent let-able standard and the remaining garages at £12 per week.

Charges for services and facilities

- 10.7 Authorities are expected to set a reasonable charge for the provision of additional services which reflects the cost of providing the service. It is currently proposed to move to full cost recovery for estate services, but the cost of other services is not fully recovered. This is pending a further review of the cost and value of the services. This has resulted in a budgeted increase of income to the HRA of £453k.
- 10.8 The council collects water and sewerage charges to tenants on behalf of the Essex and Suffolk Water Board in return for a commission. The council currently receives commission of 13% plus a 2% void allowance. The current contract was revised in December 2017 and the change to note is that VAT is now chargeable on the commission received from the water company following the Southwark case as the council is deemed to be a reseller.

Interest and investment income

- 10.9 The HRA treasury management function will form a key component of the business plan and HRA budgets. The two main aspects of this will be to ensure interest payments servicing the final debt allocation are minimised whilst cash flow management allows housing stock investment to progress as required. The budgeted figure for investment returns is £0.350m, in accordance with the current cash flow.

Repairs & Maintenance

- 10.10 The HRA provides a repairs and maintenance service to tenants as part of its duty as a social landlord. The revenue budget is to reduce by £1.123m in 2019/20 primarily due to savings expected to be delivered through the A2020 programme.

Rents rates & other charges

- 10.11 This includes the budget for council tax on empty properties, property insurance and rent of office premises. The cost of this item is £0.350m and is included in the 2019/20 budget.

Provision for bad debt

- 10.12 Significant changes to welfare benefits, including Housing Benefit, are being implemented on a phased basis across the country. The introduction of the benefit cap and occupancy criteria continue to impact many Council tenants. The introduction of Universal Credit, including direct payments of benefits to claimants, is expected to have an even greater impact on income levels.

- 10.13 Currently the impact on the HRA has been lower than previously anticipated therefore the budget level of revenue contribution to the budget debt provision will be set at a lower level in 2019/20, a reduction of £2m.
- 10.14 The changing circumstances of tenants and revised Government timescales will continue to be monitored to ensure a prudent provision is made within the Business Plan to manage the changing magnitude of the risk.

Interest charges payable

- 10.15 The borrowing costs attached to the debt settlement in March 2012 represent a significant cost to the HRA, although the Public Works and Loans Board (PWLB) provided preferential rates for settlement debt. The self-financing settlement required the authority to undertake additional borrowing of £267m.
- 10.16 The Council was successful in applying for an increase to the debt cap of £3.2m in 2015/16 and a further £10.75m in 2016/17 increasing the overall cap to £291m. The additional borrowing was agreed specifically to fund additional new build but delays in these new build schemes means this borrowing will be drawn down later. However, in October 2018, the debt cap was removed.
- 10.17 The HRA includes a budget of £9.6m to fund the ongoing borrowing costs of HRA debt. As part of a wider Treasury management strategy the additional borrowing headroom has been drawn down in 2016/17, the interest charges against this borrowing are containable within the existing budget provision.
- 10.18 Current policy is to maintain debt and not reduce the level of borrowing, however, any decision to actively reduce the level of borrowing would place additional pressure on the HRA as repayment is not currently budgeted for.

Revenue Contribution to Capital

- 10.19 The level of Revenue resources available for partial funding of HRA capital expenditure is £683k higher than the 2018-19 budget this is primarily due to reductions in the Bad Debt Provision in-year contributions and the removal of one-off budget provisions (e.g. Voluntary Redundancy).

HRA Capital Programme

- 10.20 The 2019/20 HRA capital programme has been set at £69.227m, this includes budget provisions for Investment in Stock (£37.727m), Estate Renewal (£11.5m) and New Build (£20m). The funding of this expenditure is from revenue contributions, HRA borrowing, Right to Buy and other capital receipts.

Business Plan

- 10.21 The HRA Business Plan outlined in this report draws its financial base from the Annual Housing Revenue Account Estimates contained within this report.
- 10.22 The HRA Business Plan outlines the surpluses generated from in-year operational activities together with a broad outline of how those surpluses will be allocated to

meet the Council's investment needs, both in terms of maintaining its existing stock and the provision of new build units.

10.23 At the core of the HRA Business Plan is a series of 30-year financial projections. The key financial issues are dealt within the body of this report.

10.24 There are several variables and assumptions in the current projections which may be subject to change. The business plan will be updated accordingly as further information and clarification is provided.

11. Legal Implications

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

11.1 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 the Welfare and Work Reform Act 2016 gives the Government the power to require that a rent deduction of 1% by social landlords is to take place as they did last year.

11.2 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.

11.3 Finally as observed in the body of this report the proposals that were made following the Housing and Planning Act 2016 have not turned into fruition ensuring some stability, nevertheless in due course there may be 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.

12. Other Implications

12.1 **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:

12.1.1 Changes to Government Policy 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.

12.1.2 Stock condition data: A significant item of expenditure within the budget and Business Plan is the maintenance of the stock in a reasonable condition. A Stock condition survey has been carried out recently, and proposals to invest in the stock in line with the findings of that survey are contained within this report.

12.1.3 Financial savings: 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.

- 12.2 **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.
- 12.3 **Corporate Policy and Equalities 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.

There are positive benefits in these proposals for older people, and people with mobility problems. The proposals in this report include £1m investment in adaptations for households where a member has a mobility difficulty; and investment in energy efficiency which will benefit older people, who make up 25% of the occupants of social housing, and who are more likely to spend more time in the home.

It is not considered necessary to carry out a full EIA in view of the fact that although there are some differential impacts on older people and disabled people in this report, these are positive benefits. Otherwise there are no differential impacts as the investment in the housing stock is based on objective criteria such as the condition of the stock itself.

- 12.4 **Safeguarding Adults and Children** - Housing is critical to the needs to children and vulnerable adults. The Business Plan aims to provide investment to ensure that our homes are safe, in good condition and that they are improved where necessary.
- 12.5 **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.
- 12.6 **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.

12.7 **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 Average rent analysis
- 3 Rental Income Debtor Account
- 4 Budget assumptions
- 5 HRA Budget Summary 2019/20
- 6 HRA Capital Programme 2019/20 – 2021/22
- 7 Housing Revenue Account 30 Year Business Plan narrative
- 8 Housing Revenue Account 10-year financial extract