

CABINET

18 February 2014

Title: Housing Revenue Account Estimates and Review of Rents and Other Charges 2014/15	
Report of the Cabinet Members for Housing and Finance	
Open Report	For Decision: Yes
Wards Affected: All	Key Decision: Yes
Report Author: Ken Jones Divisional Director Housing Strategy	Contact Details: Tel: 020 227 5703 E-mail: ken.jones@lbbd.gov.uk
Accountable Divisional Director: Ken Jones, Divisional Director Housing Strategy	
Accountable Directors: Darren Henaghan, Corporate Director of Housing and Environment and Jon Bunt, Chief Finance Officer	
Summary: <p>The Council has a statutory responsibility to manage the HRA as a ring fenced landlord account providing housing services to the Council's tenants and leaseholders. In line with the investment and service delivery objectives set out in the HRA business plan this report makes recommendations on the setting of rents, tenants' service charges and other charges for 2014/15, along with required reductions in expenditure, to set a balanced revenue budget and maintain prudent reserves.</p> <p>In arriving at setting the level of rents for 2014/15 there has been a clear focus on the following objectives:</p> <ul style="list-style-type: none">• produce a below inflation increase in Council rents with the aim of achieving the lowest average council rents in London• maintain investment levels to improve housing conditions, regenerate communities and deliver new build homes• deliver good value for money services <p>In framing the HRA budget for 2014/15 there will also be a substantial reduction in tenant service charges, which on average produces a £3.49 per week saving for tenants of flats.</p> <p>The current HRA Business Plan is predicated on rents increasing annually throughout the 30 year period at a rate of RPI + 0.5%, any deviation from this resulting in a lower increase will require that either the resources available for investment in the housing stock will be reduced or savings will need to be made in budgeted spend within the HRA.</p> <p>The Government announced that from 2015/16 social rent increases will be limited to CPI+1% and that the policy of convergence will cease.</p> <p>The revised Housing Investment Programme was approved by Cabinet in December 2013. This sets out the investment needs and proposed resourcing for the Council's housing investment programme for the following investment themes:</p>	

- Decent Homes Investment Programme
- Estate renewal programme
- New build programme

The proposed budget is designed to maintain the HRA investment programme and wider HRA Business Plan service objectives, with particular emphasis being given to affordability including tackling fuel poverty and the need to improve existing homes and increase the Council's new-build housing provision.

Recommendation(s)

The Cabinet is recommended to agree:

- (i) The HRA estimates for 2014/15 as detailed in Appendix 6, subject to agreement of saving proposals which will be reported to Cabinet separately;
- (ii) That HRA balances will be used where savings are not fully delivered in 2014/15 in order to achieve a balanced budget;
- (iii) An overall average Council dwelling rent increase of 1.9%, which is equivalent to £1.69 per week and comprises the following:
 - New build and acquired Council homes - rents set at 50% of local market rents or at affordable rents above this (65%) – 3.7% average increase, consistent with Government policy of RPI+0.5% as per Affordable Homes Programme.
 - Other houses – 2.3% average increase.
 - Other flats – 1.4% average increase.
- (iv) A decrease to tenant service charges of 13% (£3.49 per week);
- (v) An additional provision for communal heating and hot water charges of 9% (£1.32 per week) which is the anticipated rise in energy costs to the Council for these services;
- (vi) To set a single, standard charge of £11 per week for garages and further review of parking spaces;
- (vii) That rents for commercial properties increase in line with lease agreements; and
- (viii) The above changes taking effect from 1 April 2014.

Reason(s)

The Council must prepare proposals each year relating to income from rent and other charges, and expenditure in relation to management and maintenance of its housing stock. A decision is required with regard to rents and service charges in February in order that statutory notice can be given to tenants prior to the 1 April 2014 implementation.

1. Introduction and Background

- 1.1 The Council has a statutory responsibility through the Local Government and Housing Act 1989 to manage the HRA as a ring-fenced landlord account providing

housing services to the Council's tenants and leaseholders. This report makes recommendations on the setting of rents and other charges for 2014/15 in accordance with the Council's statutory responsibility.

- 1.2 Section 74 Part VI of the 1989 Act specifies the major items that must be included in the HRA. Section 66(4) of the Act specifies that the HRA must be produced in accordance with approved Accounting Code of Practice.
- 1.3 The Localism Act 2011 introduced a new system of financial arrangements for council housing, replacing the former national HRA and subsidy system with local self-financing of council housing. In return for re-allocating the national aggregate council housing debt, councils now retain all of their locally generated income from council housing but have no further recourse to Central Government in the management of its housing finances – the HRA now operates effectively as a standalone business within the Council.
- 1.4 The Cabinet can determine to increase rents at a level higher or lower than national guidelines. It should be noted that any rent increase below that assumed in the business plan would reduce the council's ability to fund the future housing capital programme. Increases above national rent policy however are restricted due to Housing Benefit rent limits.

2. HRA Forecast 2013/14

- 2.1 The HRA ended the 2012/13 financial year with a surplus of £0.2m giving balances of £8.5m. The table below shows the latest 2013/14 forecast (November 2013) which indicates that the HRA is on target to breakeven and maintain balances at the current level.

HOUSING REVENUE ACCOUNT - 2013/14 FORECAST			
	Budget £000	Forecast £000	Variance £000
INCOME			
Rents of dwelling	(86,627)	(86,526)	101
Non Dwelling rents	(2,503)	(2,365)	138
Charges for services and facilities	(17,644)	(17,604)	40
Interest and investment income	(336)	(336)	-
TOTAL INCOME	(107,110)	(106,831)	279
EXPENDITURE			
Repairs and maintenance	19,000	19,027	27
Supervision and management	39,229	38,827	(402)
Rent, rates, taxes and other charges	1,511	1,511	-
Provision for bad debts	3,159	3,159	-
Interest charges payable	9,759	9,759	-
TOTAL EXPENDITURE	72,658	72,283	(375)
Revenue Investment in capital	34,453	34,549	96

(Table 1)

3. HRA Budget Setting 2014/15

- 3.1 The HRA Business Plan must secure the financial viability of the HRA over the whole business plan period. This requires robust financial management to ensure that a balanced HRA budget can be set each year and to ensure that prudent HRA working balances are maintained as a contingency against unforeseen circumstances and to support the delivery of quality services to residents in line with stakeholders' expectations and appropriate capital investment.
- 3.2 The Business Plan currently assumes annual rental increases of RPI + 0.5% with RPI assumed at 3%. In determining the 2014/15 rent increase, options were considered in terms of additional income generated, impact on the business plan and investment requirements.
- 3.3 An increase consistent with existing business plan assumptions using September 2013 RPI would result in a 3.7% increase and additional income of £1.8m. A higher rental increase in line with convergence would yield additional income of £2.6m for investment. However, an increase of 1.9% generates additional income of £302k. In each instance, existing HRA pressures would need to be managed, however, the higher the increase, the greater the available funding for investment in HRA services, capital investment or debt repayment. Freezing rents would result in a £1.2m loss of income due the loss of stock through the estate renewal decant programme.
- 3.4 The lower the rent increase, the higher the saving requirement in order to maintain capital investment levels and the integrity of the Business Plan. Freezing rents would require savings of £9m, whereas an increase in line with convergence would result in £1.7m savings required. An increase of 1.9% requires savings of £6.1m to be delivered.
- 3.5 In arriving at setting the budget and level of rents for 2014/15 there has been a clear focus on the following objectives:
- Produce a below inflation increase in Council rents with the aim of achieving the lowest average council rents in London
 - maintain investment levels to improve housing conditions, regenerate communities and deliver new build homes
 - Deliver good value for money services
- 3.6 In order to deliver the objectives of a below inflation rent increase for 2014/15, which is a departure from the HRA Business Plan assumed increase of RPI + 0.5%, and maintain the levels of housing investment, it is essential that efficiencies and additional income generation measures of £6.1m are delivered.

3.7 The proposed HRA budget for 2014/15 is set out below:

HOUSING REVENUE ACCOUNT - SUMMARY FORMAT				
	2013-14 £000	2014-15 £000	Change £000	% Increase
INCOME				
Rents of dwelling	(86,627)	(86,929)	(302)	0.3
Non Dwelling rents	(2,503)	(2,503)	0	0
Charges for services and facilities	(17,644)	(16,250)	1,394	(7.9)
Interest and investment income	(336)	(336)	0	0
	(107,110)	(106,018)	1,092	(1.0)
EXPENDITURE				
Repairs and maintenance	19,000	19,385	385	2.0
Supervision and management	40,040	41,695	1,655	4.1
Rent, rates, taxes and other charges	700	700	0	0
Provision for bad debts	3,159	3,159	0	0
Interest charges payable	9,759	9,759	0	0
TOTAL EXPENDITURE	72,658	74,698	2,040	2.8
Saving Requirement	0	(6,133)	(6,133)	-
Pension Contribution	0	2,000	2,000	-
Revenue Investment in capital	34,453	35,453	1,000	2.9

(Table 2)

3.8 The Business Plan considers income and expenditure over a 30 year period including capital investment. The extract below includes a 1.9% increase and corresponding saving requirement in order to protect the level of revenue investment in capital. Existing capital reserves support the capital programme in years 2013/14 to 2015/16. However, later years are funded primarily through in year revenue contributions.

£m	10 yr	2013/14	2014/15	2015/16	2016-2023
Rent	988.7	86.6	87.0	90.0	725.1
Management & Maintenance	(472.5)	(42.4)	(41.8)	(45.4)	(342.9)
Interest Payable	(99.5)	(9.8)	(9.8)	(10.0)	(70.0)
Revenue investment in capital	416.7	34.5	35.5	34.7	312.0
Grant and new borrowing	129.4	33.1	42.4	8.4	45.6
Total capital resources	546.1	67.6	77.8	43.1	357.6
Total investment in existing stock	(310.0)	(38.6)	(29.8)	(30.8)	(210.7)
Total New Builds	(118.4)	(29.1)	(55.9)	(20.9)	(12.5)
Estate renewal	(34.3)	(13.5)	(6.7)	(4.9)	(9.2)
Total capital spend	(462.6)	(81.2)	(92.3)	(56.6)	(232.5)

(Table 3)

4. HRA Strategy

The strategic vision for Council housing in the borough is to:-

- Provide high quality homes and services that are affordable for local people
- Enhance existing communities and create new thriving communities and places where people choose to live
- Increase the prosperity of our tenants, their families and local businesses
- Improve the quality of life for people in and around our developments
- Create attractive and sustainable places that promote pride and a sense of belonging
- Strengthen the economic and financial resilience of tenants
- Provide increased opportunities for local people in employment to access Council homes at rent levels above the standard social rent levels.

In delivering these objectives a significant contribution will be made to the Council's and borough's vision to encourage growth and unlock the potential of Barking and Dagenham and its residents

(i) Step up Programme

Given the potential negative impact of Welfare Reform in terms of the risk to rent income collection to the HRA as well as the overall social and economic benefits to assisting tenants into employment, it is proposed that within the HRA provision be made to fund a service targeted at Council tenants to assist them into employment. It is proposed that this service be branded as "Step up" and will be operated by Employment and Skills team within Regeneration.

(ii) Garage Strategy

In 2012, Cabinet agreed an approach to garages aimed at developing site specific responses to underused garages. This includes demolition, conversion into car parking, consideration for alternative use or investing in sites. This programme continues in 2014/15 and is supported by proposals for a standardised charging policy. The HRA also manages a number of car parking spaces which will be reviewed to ensure appropriate use and charging mechanisms are put in place.

(iii) Water Commission

The council collects water and sewerage charges on behalf of Essex and Suffolk water (also known as Northumbrian Water Group) as part of its rent collection. This was a 3 year contract agreed in 2009/10 where a commission level, inclusive of void risk, of 13%, was agreed from a previous level of only 6.5%. This is now due for agreement again and officers are in active negotiation. The HRA budget assumes this arrangement continues as one years notice of termination is required. However a higher commission level is currently being sought to reflect the cost of collection.

(iv) Repairs & Maintenance Contract

The contract with Enterprise expired in May 2013 and LBBB has put in place new arrangements for the future delivery of repairs and maintenance. Since May 2013/14 this has been delivered, primarily through an in-house service, with a Repairs help centre provided from Pondfield House in partnership with Elevate. As part of the TUPE transfer of staff, a one-off pension contribution of £6m is required to equalise transferred staff within the Councils pension fund. Provision was initially

made as part of the project budget, however, confirmation of the amount has now been received through actuarial valuation. It is proposed to fund this over a 3 year period with a £2m contribution per year starting in 2013/14.

(v) Service Improvement & Efficiency

The Corporate Director of Housing & Environment is leading a review of the delivery of housing management and related services, to improve efficiency and effectiveness. It seeks to identify best working practice in recognition of the changing stock requirements, as well as the wider public sector financial climate. It is intended that this will enable delivery of £6.1m savings in 2014/15 and facilitate a below inflationary increase in average rents.

(vi) Estate Regeneration

The Council is committed to a regeneration programme comprising Gascoigne, Goresbrook Village, the Leys and Althorne Way to redevelop uneconomic and obsolete properties and estates and to provide new affordable housing better suited to meet the needs of the community. Current projections indicate £13.5m investment in 2013/14 and £34.3m over 10 years. There are substantial financial impacts to the HRA in terms of loss of rental income from estate renewal and significant implications for the Council's ability to house people from the waiting lists and homelessness due to the decanting pressures.

(vii) Tackling fuel poverty

The Council has successfully negotiated with British Gas under the Energy Company Obligations arrangements a maximum investment of £35 million into improving the energy efficiency of the housing stock in the borough. This investment will be dovetailed with the Council's own significant investment in capital works to the existing stock of Council housing which will assist with reducing energy bills for tenants of Council housing.

(viii) Council new build homes

The programme of new build Council housing will include a proportion of homes that will be let specifically to local people who are in employment. These properties will be let at rents above standard Council rents, but in all instances below 80% of local market rent levels (in most instances the rents will be set at 65% of market). To ensure affordability for tenants an assessment of household income will be made.

5. Consultation

- 5.1 Proposals have been discussed with the Cabinet Member for Housing and members have been briefed informally. A Member Panel was convened on 10th December 2013 to consider saving proposals with a further meeting held on 8th January 2014.

6. Financial Implications

Completed by: Carl Tomlinson, Group Finance Manager, Housing & Environment

The statutory format of the Housing Revenue Account is included at Appendix 6. The analysis below refers to the summary format in Table 2 in Section 3 of the report, as this is easier to understand and presents key issues for Members and tenants more clearly.

6.1 HRA Efficiency Programme

6.1.1 The Housing Service is undertaking a review of expenditure to identify efficiency savings in 2014/15. Delivery of £6.1m savings will facilitate a below inflation rent increase whilst maintaining the integrity of the business plan and investment in the capital programme. It is essential that these savings are delivered in 2014/15 to ensure a balanced budget. HRA balances will be used where full year savings are not realised.

6.2 Tenant Dwelling Rents

6.2.1 Under the previous subsidy system the Government, through the rent restructuring policy, determined annual increases in rent levels. The purpose of that policy was to charge tenants fair and affordable rents but to bring these closer to Registered provider rents over time – convergence to a formula rent.

6.2.2 This policy was superseded by the removal of the subsidy regime, but the Government continued with the aim of securing convergence of rents over time. However, as part of the 2013 Spending Round, the Government announced that from 2015/16 social rent increases will be limited to CPI+1% and that the policy of convergence will cease. Therefore, 2014/15 is the last year where rent convergence policy applies and the Government are not minded to extend this.

6.2.3 Under convergence, rental increases are guided by the following assumptions: increase by a maximum of the retail price index (RPI) as at September 2013 (3.2%) + 0.5% + £2 to close the gap to convergence. The Business Plan currently assumes annual rental increases of RPI + 0.5% with RPI assumed at 3%.

6.2.4 An increase consistent with existing business plan assumptions using September 2013 RPI would result in a 3.7% increase and additional income of £1.8m. A higher rental increase in line with convergence would yield additional income of £2.6m for investment. However, an increase of 1.9% generates additional income of £302k. In each instance, existing HRA pressures would need to be managed, however, the higher the increase, the greater the available funding for investment in HRA services, capital investment or debt repayment. Freezing rents would result in a £1.2m loss of income due the loss of stock through the estate renewal decant programme.

6.2.5 The report proposes to increase dwelling rents by an average of 1.9%, which equates to an average increase of £1.69. The composition of the overall increase is:

- New build and acquired Council homes - rents set at 50% of local market rents or at affordable rents above this (65%) – 3.7% average increase, consistent with Government policy of RPI+0.5% as per Affordable Homes Programme.
- Other houses – average rents increase by 2.3%
- Other flats – average rents increase by 1.4%

6.2.6 There are number of properties within the HRA which are being used (and will continue to be used) as part of the Temporary Accommodation Strategy. The rent levels have been set at a higher amount than the current average levels, in order to cover the additional costs related to this type of placement. The expected number

of these placements (c.1%) is a small proportion of the overall housing stock and utilises properties decanted as part of the Estate Renewal programme. Overall there is a small surplus to the HRA as per the table below.

Temporary Accommodation	£'000
Rental Income	(1,955)
Associated Cost	1,600
Redecoration and Repairs	100
Net surplus to HRA	(255)

(Table 4)

- 6.2.7 As part of the Estate Renewal Programme, the HRA is also losing a significant number of properties, which have been earmarked for demolition. In 2014/15 the rental loss is estimated to be in the region of £1.6m.
- 6.2.8 Changes to Right to Buy legislation came into effect in April 2012. This has resulted in an increase in the number of sales within the borough. Current estimates suggest sales of 180 units in 2013/14 compared to initial estimates of 100 units. Similar levels are expected within 2014/15.
- 6.2.9 The table below shows the net expected rental income from the above changes:

Rental Income	£'000
2013/14 Budget	(86,627)
Rent increase 1.90%	(1,672)
Rent loss due to Estate Renewal	1,569
Right to Buy Sales	430
Additional New Build	(630)
Street Purchases	(70)
2014/15 Budget	(87,000)

(Table 5)

6.3 Non Dwelling Rents

- 6.3.1 Commercial property – rents are based on the contractual agreement in place at the start of the commercial let. The contracts determine the annual increase in the rental charge. Where a contract comes up for renewal or is a new contract then these charges are determined based on market conditions. There is a budgeted income of £1.56m in 2014/15.
- 6.3.2 Garage rents – in 2013/14, charges were set in accordance with the Housing Garage Site report agreed by Cabinet in May 2012. The report agreed a strategy for improving garage management and enhancing parking facilities.
- 6.3.3 The anticipated increase in use, particularly from non-borough users, has not occurred and the level of empty garages has increased from 41.8% to 48.3%. This has resulted in lower income generation than expected.
- 6.3.4 Due to the complexity of the current pricing structure, it is proposed to introduce a single, standard charge of £11 per week.

6.4 Charges for services and facilities

6.4.1 Tenant service charges are split into two: firstly, an estimated service charge in respect of grounds maintenance, caretaking, TV aerials, security charges and concierge; secondly a recovery for combined heat and light costs which are charged by the energy suppliers.

Service charge proposals equate to:

- Service charge: a reduction of 13%, or an average of £3.49 per week;
- Combined Heat and Light: an increase of 9%, or an average of £1.32 per week, in line with anticipated charges from utility companies.

6.4.2 The reduction in service charges is primarily due to removal of some charges within grounds maintenance and the removal of the charge for TV aerials. The charge for concierge has been reviewed and applied on a standardised basis.

6.4.3 Leasehold charges are based on actual costs incurred for the above services as directed by the Tenant and Leasehold Act 1985 and in accordance with the terms of the lease.

6.4.4 The HRA charges and collects water rates to tenants on behalf of the Essex and Suffolk (Water) Board (ESB). The ESB in return pay the HRA a fee for the management and collection of water rates under a 3-year agreement. The current agreement ends at March 2014 and the Council are in the process of negotiating new terms. The ESB also determine the annual increase in charges and these increases are applied to tenants by the Council. The ESB's proposed increase in 2014/15 is still to be agreed and so the Council has not been notified of the proposed increase to date.

6.5 Interest and investment income

6.5.1 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 is expected to be consistent with 2013/14.

6.6 Repairs & Maintenance

6.6.1 The HRA provides a repairs and maintenance service to tenants as part of its duty as a social landlord. The service was brought in-house in May 2013 with a net revenue budget of £19m. The outcome of the HRA efficiency programme will confirm the service budget for 2014/15, however, for budgetary purposes, it is assumed it will increase to £19.4m due to growth of £385k to support the employment of apprentices.

6.6.2 As part of the TUPE transfer of staff, a one-off pension contribution of £6m is required to equalise transferred staff within the Councils pension fund. It is proposed to fund this over a 3 year period with a £2m contribution per year starting

in 2013/14. This will be funded by the bad debt provision top up postponed due to welfare reform delays.

6.7 Supervision & Management

- 6.7.1 The budget consists of both direct expenditure and recharged spend from services provided by departments outside of the HRA. The outcome of the HRA efficiency programme will confirm the service budget for 2014/15, however, for budgetary purposes, it is assumed it will increase by £1.6m from £40.0m to £41.7m.
- 6.7.2 Growth items include £400k to support environmental schemes at a local level providing flexibility and responsiveness to resident and Member priorities; £255k to fund additional resource dedicated to providing welfare reform advice, information and support to householders and a job brokerage providing employment support to aid tenants returning to work; £250k to support sheltered housing schemes following a reduction in General Fund funding; £200k to fund the 1% pay award agreed for staff in 2013/14 and £150k to provide support to the delivery of the £35m British Gas funded ECO scheme.
- 6.7.3 The HRA will maintain a transformation fund of £1m to facilitate the delivery of efficiencies, income generation initiatives and to mitigate any delayed delivery of proposed savings.
- 6.7.4 Recharges to the HRA are for services provided to HRA tenants and leaseholders by internal Council services. These range from central service functions (such as Payroll, Finance and IT), to front line delivery services such as refuse collection, grounds maintenance and building cleaning. The level of recharge increased in 2013/14 due to the R&M service being brought back in-house and the restructuring of the Localities service.

6.8 Rents rates & other charges

- 6.8.1 This includes the budget for council tax on empty properties, property insurance and rent of office premises. In view of the changes relating to technical Council Tax changes, such as a shorter empty period before tax is payable, a review of this budget was conducted in 2013/14.

6.9 Provision for bad debt

- 6.9.1 Significant changes to welfare benefits, including Housing Benefit, are being implemented on a phased basis across the country. Initial studies indicate that this will affect many Council tenants principally through the introduction of a cap on benefits, occupancy criteria and introduction of Universal Credit including direct payments of benefits to claimants.
- 6.9.2 As part of the 2013/14 budget setting process, the Council increased the budgeted provision for bad debt to 3% of income raised in 2013/14 and by a further 2% in 2014/15. This was in response to the introduction of the national Welfare Reform changes and the significant risk posed to the Council's ability to collect income. The increase in budgeted provision was to offset against non-collection and debt write-off risk.

- 6.9.3 The introduction of Welfare Reform has not progressed as expected. Changes to occupancy criteria was introduced in April 2013 and the benefit cap in August 2013, however, broad adoption of Universal Credit and direct payment has been delayed and there is uncertainty over eventual timescales.
- 6.9.4 To date there has not been a significant impact on income collection, however, it is anticipated that Universal Credit and direct payment pose the most significant risk to collection. Similarly, the benefit cap was only recently introduced and tenants are currently able to apply for limited financial support through Discretionary Housing Payments.
- 6.9.5 Whilst work is ongoing to determine the changing magnitude of this risk, it is proposed to postpone the further increase of 2%. The changing circumstances of tenants and revised Government timescales will be monitored to ensure a prudent provision is made.
- 6.9.6 The impact of these changes will significantly increase the risk of reduced income collection rates. Accordingly, as part of the HRA's comprehensive and proactive approach to risk management, this risk is subject to ongoing scrutiny and a dedicated work programme to ensure tenants are aware of the changes, the impact on them and available support.

6.10 Interest charges payable

- 6.10.1 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 HRA Budget therefore includes budget of £9.7m to fund the ongoing borrowing costs of the £267m HRA debt. 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.

6.11 Housing Investment Programme

- 6.11.1 In 2010/11 LBBB commissioned Savills to carry out a detailed stock condition survey which highlighted the need to invest £1.2bn (over 30 years) in the Council's existing housing stock. This has formed the basis of a 30-year business plan to utilise HRA revenue to support this investment need.
- 6.11.2 The investment programme is funded primarily through revenue contributions to capital and supported by grant funding where available. As a result, it is essential that investment decisions are considered when setting future rent levels. The Council has minimal capacity to fund investment through additional borrowing due to the self-financing settlement requiring the authority to undertake additional borrowing of £267m. The settlement fixed the Council's debt cap at £277m. The business plan assumes additional borrowing of £9.9m in 2014/15 to fund the capital programme. This will bring borrowing up to the current debt cap.
- 6.11.3 The HRA income and expenditure projections within the HRA Business Plan provide sufficient resources, under current assumptions, over the 30-year business plan period, to fund the Council's housing investment programme. The basic investment themes are:

- a) Estate renewal (£34m over the next 10 years)
- b) New build Council homes (£118m over the next 10 years);
- c) Investment in existing stock (£310m over the next 10 years)

The table below is an extract from the latest HRA Business plan in respect of capital investment.

£m	10 yr	2013/14	2014/15	2015/16	2016-2023
Revenue investment in capital	416.7	34.5	35.5	34.7	312.0
Grant and new borrowing	129.4	33.1	42.4	8.4	45.6
Total capital resources	546.1	67.6	77.8	43.1	357.6
Total investment in existing stock	(310.0)	(38.6)	(29.8)	(30.8)	(210.7)
Total New Builds	(118.4)	(29.1)	(55.9)	(20.9)	(12.5)
Estate renewal	(34.3)	(13.5)	(6.7)	(4.9)	(9.2)
Total capital spend	(462.6)	(81.2)	(92.3)	(56.6)	(232.5)

(Table 6)

- 6.11.4 The HRA will also be providing a full management and maintenance service to Barking & Dagenham Reside, and potentially other similar projects, in return for a management fee. It will be appropriate for the HRA to manage this service within a separate account in the HRA to ensure transparency of costs in delivering this service. Such an approach will also enable the true costs and relative efficiency of service delivery to be analysed which will help drive bottom line efficiency savings within the HRA as indicated above.
- 6.11.5 In respect of Right to Buy, the Government announced on 3 January 2014 the intention to increase the caps in line with the Consumer Price Index rate of inflation. The announcement sets out plans to increase the maximum percentage discount for houses, and to ensure that the cash cap rises with inflation. These changes will require amendments to the legislation and the aim is for this to be undertaken by May 2014, subject to Parliamentary process.
- 6.11.6 Further proposals are that the maximum Right to Buy percentage discount for eligible social tenants in houses will increase to 70 per cent – in line with the maximum discount for flats. The minimum percentage discount for houses (35 per cent after five years tenancy) and the rate of increase year-on-year (1 per cent each additional year after five years) remain the same.

7. Legal Implications

Implications completed by: Alison Stuart, Principal Solicitor, Housing and Regeneration

- 7.1 The Local Government and Housing Act 1989 places on the Council as a Housing Authority a duty to manage a ring fenced HRA. In addition there is a requirement that the HRA maintains prudent revenue balances.

- 7.2 On 3 January 2014, the Government announced proposed legislative changes with an increase on the maximum caps with an aim for this to be in place by May 2014 subject to parliamentary process.

8. Other Implications

The Cabinet can determine to increase rents higher or lower than national guidelines but any rent increase below that assumed in the business plan would put at risk the council's ability to fund the future housing capital programme. Increases above national rent policy however are restricted due to Housing Benefit rent limits.

- 8.1 **Risk Management** - The single biggest risk to the HRA budgets and its ability to meet its landlord duty as well as fulfilling its aims of investment in current and new council stock, will be the potential adverse consequences of the new Welfare Reforms. Cumulatively, these changes will create a significant risk to the Council's ability to collect all of its income. The provision for bad debts has therefore been reviewed in line with current assumptions.

The remainder of this section covers the risks that are more usually associated with this report, and more easily quantified.

Failure to approve recommendations in this report would mean that the Council would not have sufficient resources to meet its proposed capital investment strategy: build over 300 new Council homes; continue the estate renewal programme; and carry out refurbishments /improvements to the existing housing stock.

Within the budget setting process there is a degree of estimation and the adoption of assumptions which may or may not prove accurate. Any key assumptions are stated where necessary within this report.

As part of the 2013 Spending Round, the Government announced that from 2015/16 social rent increases will be limited to CPI+1% and that the policy of convergence will cease. Therefore, 2014/15 is the last year where rent convergence policy applies and the Government are not minded to extend this. Not applying convergence in 2014/15 will result in an ongoing gap between rent and formula rent.

The debt settlement figure has incorporated the decanting costs of the properties contained within the Estate Renewal programme. However, a condition of the housing orders which enable the decanting is that for them to be effective the Council must decant these properties within five years. If there should be slippage in the programme costs would escalate.

Similarly, the New Build programme, and Decent Homes programme are part funded through grant, in return for delivering an agreed number of affordable homes and making number of current council properties decent. Failure to deliver on those may mean a reduction of the grant allocation leading to a bigger contribution from HRA revenue to meet the shortfall or a smaller programme.

- 8.2 **Staffing Issues** - There are potential staffing implications arising from the savings required to deliver the efficiencies needed, to enable the rent increase proposed within this report to be achieved. It is estimated that a number of posts will need to

be cut from the establishment. Discussions with Trade Unions on specific proposals will be undertaken. Once the proposals are agreed for each individual savings proposal where there is an impact on staff, consultation will take place with those affected. Appropriate HR policies and procedures around implementing change will be followed. The Council remains committed to minimising redundancies where possible. Where there are reductions in posts this frequently means that smaller numbers of staff are required to carry out the same volume of work. The process of implementation of savings will need to be handled with care to mitigate risks in relation to this.

- 8.3 **Customer Impact** - The below inflation rent increase and cut in tenant service charges are designed to minimise the financial impact on tenants. Consideration has been given to the extent of any adverse impact on tenants from the individual savings items. Consultation has taken place with tenants' groups and front line services have been protected as far as possible, but some cuts to these services have been unavoidable.

Public Background Papers Used in the Preparation of the Report:

- Housing Revenue Account Manual
- 2013 Spending Round
- Service Plan for Housing Services

List of appendices:

1	HRA Working Balances
2	Rental Income Analysis
3	Average Rent Analysis
4	Rental Income Debtor Account
5	Budget Assumptions
6	HRA Estimate 2014/15 Statutory format