CABINET

16 February 2015

Title: Housing Revenue Account Estimates and Review of Rents and Other Charges 2015/16	
Report of the Cabinet Members for Housing and Finance	
Open Report	**For Decision:** Yes
Wards Affected: All	**Key Decision:** Yes
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Accountable Directors: Steven Tucker, Director of Housing, and Jonathan Bunt, Chief Finance Officer	

Summary:

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 2015/16, to set a balanced revenue budget and maintain prudent reserves.

In arriving at setting the level of rents for 2015/16 there has been a clear focus on the following objectives:

- Agree clear rent policy over the medium term
- Maintain investment levels to improve housing conditions, regenerate communities and deliver new build homes
- Deliver good value for money services

The proposed increase for 2015/16 is an average increase of 4.0%, equivalent to £3.67 per week. Establishing the 5 year rent policy enables additional investment in our homes whilst limiting the impact on tenants. It provides a clear path for social rents within the borough as well as providing a degree of certainty around the funding of investment need.

The proposal supports the Housing investment programme which is focussed on bringing homes up to a decent standard by 2018/19 and maintaining standards over the long term through ongoing investment. In addition, we are entering into a new commitment with residents for the first time, on the service offer they should expect for their money. The offer sets out what we will deliver:

- Inside their homes i.e. new kitchens and bathrooms, rewiring, prompt and enduring repairs, etc.
- Their blocks, estate or street i.e. cyclical maintenance, environmental improvements, good quality caretaking, etc.
- Their neighbourhoods i.e. preventing and tackling anti social behaviour and

improving the general well being of the area to make it a place of choice.

The offer includes an expectation from residents to look after their homes and pay their rent on time and a commitment to support those that have challenges in doing this and tackle those choose not to.

The extra income to be generated from the increase, will allow us to improve the quality of our services, our interaction with residents and most importantly, the quality of their homes and environment.

Recommendation(s)

The Cabinet is recommended to agree:

(i) The Housing Revenue Account estimates for 2015/16 as detailed in Appendix 6 to the report;

(ii) An overall average Council dwelling rent increase of 4.0%, equivalent to £3.67 per week, and affordable rents to increase by 2.2% consistent with Government policy of CPI+1% as per the Affordable Homes Programme;

(iii) A five-year rent policy enabling convergence with formula rent by 2019/20;

(iv) An increase to tenant service charges of 5.8% (£1.93 per week);

(v) An additional provision for communal heating and hot water charges of 1.2% (£0.32 per week) based upon an inflationary uplift;

(vi) An increase to garage rents of £1, from £11 to £12 per week, and the establishment of a repairs and maintenance programme;

(vii) To initiate a review of estate located parking spaces/bays;

(viii) That rents for commercial properties increase in line with lease agreements; and

(ix) That the above changes take effect from 6 April 2015.

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 April 2015 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 2015/16 in accordance with the Councils statutory responsibility.

1.2 The Local Government and Housing Act 1989 Section 74 Part VI 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 Council is required by law to avoid budgeting for a deficit on the HRA (Local Government & Housing Act 1989, section 76). This means that the budget must not be based on total HRA revenue reserves falling below zero. In practice the Council is expected to maintain a reasonable balance of reserves: a minimum of 5% of turnover is good practice and this provides a contingency against unforeseen events and known risks. The external auditor will review the level of reserves in forming a view on the overall standard of financial management in the Council.

1.5 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. Rent Setting Approach

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.

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. This was based upon an annual increase of RPI+0.5%+£2.

2.3 In May 2014, the Government issued updated guidance setting out its rent policy for ten years from 2015/16. The guidance states that social rents should increase by up to CPI+1% annually, with September CPI used. The move from RPI to CPI followed an announcement in 2013 by the Office for National Statistics stating that RPI does not meet international standards.

2.4 The updated guidance assumes that rents have converged with formula rent. Rents in Barking and Dagenham, however, have not converged.

2.5 In determining the level of rents for 2015/16 there has been a clear focus on the following objectives:

- Agree clear rent policy over the medium term

- Maintain investment levels to improve housing conditions, regenerate communities and deliver new build homes
- Deliver good value for money services

2.6 In consideration of these factors, the following options were identified:

- Converge rents with formula rent in 1 year (2015/16)
- Converge rents with formula rent in 3 years (2017/18)
- Converge rents with formula rent in 5 years (2019/20)
- Increase rents by CPI+1%

3. HRA Forecast 2014/15

3.1 The HRA ended the 2013/14 financial year with a surplus of £0.2m giving balances of £8.7m. The table below shows the November 2014 forecast position which indicates that the HRA is on target to breakeven and maintain balances at the current level. The 2014/15 position includes savings delivery of £6.1m which were agreed as part of budget setting. Current projections indicate under achievement of the savings target by £1.5m, however, this is being mitigated in year to deliver a breakeven position.

HOUSING REVENUE ACCOUNT - 2014/15 FORECAST	Budget £000	Forecast £000	Variance £000
INCOME			
Rents of dwelling	(87,000)	(87,000)	0
Non Dwelling rents	(2,503)	(2,308)	195
Charges for services and facilities	(16,401)	(16,650)	(249)
Interest and investment income	(336)	(700)	(364)
TOTAL INCOME	**(106,240)**	**(106,658)**	**(418)**
EXPENDITURE			
Repairs and maintenance	17,205	17,916	711
Supervision and management	38,464	38,563	99
Rent, rates, taxes and other charges	700	600	(100)
Provision for bad debts	2,659	2,467	(192)
Interest charges payable	9,759	9,659	(100)
Pension Contribution	2,000	2,000	0
TOTAL EXPENDITURE	**70,787**	**71,205**	**418**
Revenue Investment in capital	**35,453**	**35,453**	**0**

(Table 1)

4. HRA Budget Setting 2015/16

4.1 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.

4.2 In determining the 2015/16 rent increase, options were considered in terms of additional income generated, impact on the business plan, investment requirements and the impact on tenants.

4.3 The option to converge with formula rent over 5 years was identified as the preferred choice. It is consistent with wider business plan objectives and was supported by tenants through the consultation process.

4.4 The proposed HRA budget for 2015/16 is set out below:

HOUSING REVENUE ACCOUNT - SUMMARY FORMAT				
	2014-15 £000	**2015-16 £000**	**Change £000**	**% Increase**
INCOME				
Rents of dwelling	(87,000)	(90,512)	(3,512)	4.0
Non Dwelling rents	(2,503)	(737)	1,766	(70.5)
Charges for services and facilities	(16,401)	(16,921)	(520)	3.2
Interest and investment income	(336)	(336)	0	0.0
	(106,240)	**(108,506)**	**(2,266)**	**2.1**
EXPENDITURE				
Repairs and maintenance	17,205	17,205	0	0.0
Supervision and management	38,464	39,752	1,288	3.4
Rent, rates, taxes and other charges	700	700	0	0.0
Provision for bad debts	2,659	2,659	0	0.0
Interest charges payable	9,759	10,059	300	3.1
TOTAL EXPENDITURE	**68,787**	**70,375**	**1,588**	**2.3**
Pension Contribution	**2,000**	**1,000**	**(1,000)**	**(50.0)**
Revenue Investment in capital	**35,453**	**37,131**	**1,678**	**4.7**

(Table 2)

4.5 The Business Plan considers income and expenditure over a 30 year period including capital investment. The extract below includes a 4.0% increase in 2015/16 and convergence with formula rent by 2019/20. Thereafter, rents increase by CPI+1%. This enables ongoing funding of the capital investment programme, primarily through a revenue contribution to capital.

£m	10 yr	*2015/16*	*2016/17*	*2017/18*	*2018-2025*
Rent	**999.50**	90.51	92.47	95.24	721.28
Management & Maintenance	**(492.40)**	(43.32)	(43.86)	(46.46)	(358.76)
Interest Payable	**(100.60)**	(10.06)	(10.06)	(10.06)	(70.42)
Revenue investment	**406.50**	**37.13**	**38.56**	**38.72**	**292.09**
Grant and new borrowing	**190.60**	38.38	29.58	15.33	107.31
Total capital resources	**597.10**	**75.51**	**68.14**	**54.05**	**399.40**
Investment in existing stock	**347.10**	38.62	41.30	41.00	226.18
New Builds	**198.30**	36.02	17.63	10.00	134.65
Estate renewal	**60.40**	6.40	6.00	6.00	42.00
Total capital spend	**605.80**	**81.04**	**64.93**	**57.00**	**402.83**

(Table 3)

5. Housing Offer and HRA Strategy

5.1 The London Borough of Barking and Dagenham is committed to improving the range, quality and choice of its homes as well as improving the quality of information and services to its tenants and leaseholders.

5.2 As part of this commitment we are introducing for the first time, the Barking and Dagenham Housing Offer. The offer sets out what standards tenants and leaseholders can expect from the council on key issues affecting their home and the area around it.

5.3 The offer will be configured around 3 elements:

- Inside the Home
- The Block, Estate or Street
- The Neighbourhood

5.4 It will encompass such things as improvements to the home, health and safety checks, block cleaning, tackling ASB.

5.5 Alongside the Offer, the Councils Housing Strategy aims to deliver the following objectives:

- Build new homes in a range of tenures to give choice and create thriving communities
- Good quality well maintained homes that people are proud to live in
- Improved Health and wellbeing
- Prevent/tackle homelessness and provide best available options
- Engaging and empowering residents to have a say in how their homes and estates are managed

5.6 The council intends to bring all our homes up to a Decent Standard by 2018/19, to maintain our homes at a Decent Standard and to maintain a programme of new development to meet housing need and demand and replace homes that are sold through Right to Buy.

5.7 While we have significant resources in place, it remains important that we achieve best value for money in all our spending. We recognise that VFM is not achieved simply by providing low cost outputs but by delivering decent neighbourhoods for our residents in the long term.

5.8 Achieving this requires not just reducing our construction and service costs but also taking a long term approach in our asset management strategy which understands the value of our assets and the relationship between our homes and the services we provide.

5.9 Our goal is to reduce our responsive repairs workload as the quality of our homes improves. This approach incorporates major investment in stock and an active new build programme with regular cyclical maintenance.

5.10 There is long term value for money for our tenants if we improve the energy efficiency of homes. This would be through their own domestic bills and any additional revenue generated from renewable sources.

5.11 **Asset Management**

Our overarching strategy is to maintain and increase our own Council stock, financed within the HRA, alongside a programme of Estate Renewal which may draw in alternative finance. Three investment strands were established to deliver this approach: Investment in existing stock; development of new homes; estate renewal. Across each of these strands we are now investigating the potential to improve the energy efficiency of our stock.

5.12 **Investment in existing stock**

Our programme sets out to bring our homes up to a Decent Standard by 2018/19. This programme is currently working across all wards in the borough, taking a 'worst first' approach. Comprehensive surveying has taken place to establish the works required to each property and investment need. The proposed business plan enables funding to deliver a decent standard by 2018/19 and ongoing investment to maintain our homes at this standard over the long term. Officers are preparing a model of stock condition for each Ward and it is intended that this will provide the evidence base for the five year housing investment programme. This will include garages, energy considerations, roads and the communal areas of estates and blocks.

In addition to the evidence that the stock condition information provides, observations on investment priorities will also be invited from housing management and from Ward Councillors so that any neighbourhood management challenges that are evident can also be addressed through the investment plan. For example, the outputs being generated from the weekly Ward walkabouts will be considered under this process

5.13 **Estate Renewal**

In 2011, we established a programme of estate renewal which tackled our most challenging stock, where repair to the homes would have been unviable and where there were wider social and economic benefits to demolishing. The proposed business plan includes further provision to continue the estate renewal programme with an additional 356 homes planned for redevelopment. This will enable quality new council rented homes and new tenures such as shared ownersip.

5.14 **New Build**
The programme aims to provide quality new build properties at affordable rent levels and opportunities for shared ownership. During our consultation with tenants on our medium term rent strategy, they identified developing new homes as one of their top 3 priorities. We are forecasting to invest £198m in New Build homes over the next 10 years and we aim to replace homes that are sold through the Right to Buy. The objectives of this programme are to increase the overall supply of affordable homes in the borough; to improve the quality of homes in the borough and to address the housing demand and need within the borough. Therefore, across the programme we will consider the most appropriate size and tenure for new homes.

6. Consultation

6.1 The proposed changes to rents and service charges were discussed with tenants across four sessions held during December 2014 and January 2015, which were very well attended. Consultation with tenants has previously been limited, however, it was felt that it would be beneficial to consult with involved tenants to obtain their view on rent levels, service charge's and funding priorities. Tenant representatives from across the borough, including local Tenant and Resident Associations and Housing Fora, attended and there was broad support for the preferred option that is being recommended.

Separate consultation was undertaken with those tenants who benefit from concierge services and from the surveillance alarm monitoring systems as set out in paragraph 7.3.3 below. The proposed rent and service charge policy and investment programme address the top three priorities identified, which were:

- Estate security measures
- Investment in the fabric of their homes
- Investment in building new homes

7. Financial Implications

Completed by: Carl Tomlinson, Group Finance Manager

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 4 of the report, as this is easier to understand and presents key issues for Members and tenants more clearly.

7.1 Tenant Dwelling Rents

7.1.1 The report proposes to increase dwelling rents by an average of 4.0% in 2015/16, which equates to an average increase of £3.67. New build and acquired Council homes let on affordable rents will increase by 2.2% which is consistent with Government policy of CPI+1% and the Affordable Homes Programme.

7.1.2 The Governments updated rent guidance of CPI+1% assumes that rents have converged with formula rent. Rents in Barking and Dagenham have not yet converged. The report proposes to increase rents over a 5 year period with rents being consistent with formula rents by 2019/20. After this, an annual increase of CPI+1% will apply. The proposed rent policy requires average annual increases over and above the Government guidance.

7.1.3 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	(2,185)
Associated Cost	1,600
Redecoration and Repairs	300
Net surplus to HRA	**(255)**

(Table 4)

7.1.4 As part of the Estate Renewal Programme, the HRA is also losing a significant number of properties, which have been earmarked for demolition.

7.1.5 A number of changes to Right to Buy legislation have come into effect. This has resulted in an increase in the number of sales within the borough. Current estimates suggest sales of 220 units in 2014/15 compared to initial estimates of 180 units. Similar levels are expected within 2015/16 and future years.

7.1.6 The table below shows the net expected rental income from the above changes:

Rental Income	**£'000**
2014/15 Budget	**(87,000)**
Rent increase	(3,480)
Right to Buy Sales	540
New Build	(572)
2015/16 Budget	**(90,512)**

(Table 5)

7.2 Non Dwelling Rents

7.2.1 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. The HRA holds an income budget of £1.5m and expenditure budget of £0.5m. Management of the commercial portfolio is under review with the anticipated transfer of assets to the General Fund in 2015/16. Financial implications are to be fully determined as part of the process and reflected in the HRA. The aforementioned income and expenditure budgets have been reduced in 2015/16 in order to mitigate exposure to in-year income pressure whilst arrangements are finalised.

7.2.2 Garage rents – an increase of £1 per week will be applied bringing the charge to £12 per week. A dedicated repairs and maintenance programme will be established in 2015/16 to improve quality. Due to movements in stock numbers, primarily through the estate renewal programme, the income budget has reduced by £200k.

7.2.3 Parking spaces – there is inconsistency in charges for parking spaces. A review of estate located parking spaces/bays will be undertaken with the outcome introduced in 2015/16.

7.3 **Charges for services and facilities**

7.3.1 Authorities are expected to set a reasonable charge for the provision of additional services which reflects the cost of providing the service. For services where the full cost of the service isn't currently being recovered, increases will be phased over a 5 year period.

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

Specific charges are set out in Appendix 5, however, service charge proposals equate to:

- Service charge: an increase of 5.8%, or an average of £1.93 per week;

- Combined Heat and Light: an increase of 1.2%, or an average of £0.32 per week, based upon on the September 2014 CPI.

7.3.3 Consultation was undertaken in August 2014 in respect of concierge services and December 2014 in respect of the surveillance alarm monitoring system. The outcome of both consultations has informed the charges and corresponding level of service for 2015/16.

7.3.4 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.

7.3.5 The council collects water and sewerage charges to tenants on behalf of the Essex and Suffolk (Water) Board (ESB). The ESB in return pay the council a fee for the management and collection of water rates under a 3-year agreement. 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 2015/16 is still to be agreed and so the Council has not been notified of the proposed increase to date. The council has negotiated commission of 13% with a 2% void figure.

7.4 **Interest and investment income**

7.4.1 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 for investment returns is expected to be consistent with 2014/15.

7.5 **Repairs and Maintenance**

7.5.1 The HRA provides a repairs and maintenance service to tenants as part of its duty as a social landlord. The revenue budget is to remain at £17.2m in 2015/16 with inflationary increases and the impact of pay awards managed within the service through improved operational efficiency. The profile of spend between reactive and planned maintenance will be reviewed in year to assess opportunities to improve value for money and more effective asset management.

7.5.2 As part of the TUPE transfer of staff, a one-off pension contribution of £6m was required to equalise transferred staff within the Councils pension fund. It was agreed to fund this over a 3 year period with a £3m contribution in 2013/14, £2m in 2014/15 and £1m in 2015/16. A budget of £2m was established to fund this, therefore, realises a budget saving of £1m in 2015/16.

7.6 **Supervision and Management**

7.6.1 The budget consists of both direct expenditure and recharged spend from services provided by departments outside of the HRA. In 2015/16, the budget will increase by £1.3m from £38.5m to £39.8m.

7.6.2 Growth items include £800k to fund the return of the Caretaking service to the Housing Department; £500k to fund additional tenancy sustainment resource dedicated to providing welfare reform advice, information and support to householders; £300k contribution towards sheltered housing provision following reductions in general fund funding; £120k to support the reshaping of the Housing management structure and £60k to facilitate the effective marketing of new build properties. Inflationary uplifts and the impact of pay awards will be managed within existing budgets.

7.6.3 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 is expected to reduce in 2015/16 by £285k following the delivery of wider council savings of £527k, predominantly due to savings within the Elevate contract, offset by additional recharges as agreed at December Cabinet. This includes £150k for bin rental, £55k for innovation and funding support, £40k for employment and skills services to support tenants returning to work and £25k for capital programme management. The cost of the Caretaking service will be a direct cost in 2015/16 instead of a recharge following the return of the service to Housing in January 2015.

7.6.4 A Ward revenue budget of £360k will be established in 2015/16 and replace the existing capital improvement scheme. This will ensure wider application of the funding by not limiting to works of a capital nature. Funding will be prioritised by ward and resident need.

7.6.5 As mentioned in paragraph 7.2, management of the commercial portfolio is under review. A transfer would result in a £0.5m expenditure saving. The HRA will maintain a transformation fund of £1m to facilitate the delivery of efficiencies, income generation initiatives and to mitigate the delayed delivery of 2014/15 savings.

7.7 **Rents rates and Other Charges**

7.7.1 This includes the budget for council tax on empty properties, property insurance and rent of office premises. The budgeted figure is expected to be consistent with 2014/15.

7.8 **Provision for bad debt**

7.8.1 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.

7.8.2 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 HRA holds an annual budget of 2.5% of income raised to offset against non-collection and debt write-off risk.

7.8.3 The changing circumstances of tenants and revised Government timescales will be monitored to ensure a prudent provision is made within the business plan to manage the changing magnitude of the risk.

7.8.4 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.

7.9 **Interest charges payable**

7.9.1 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.

7.9.2 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 to fund additional new build. In order to fund the additional borrowing, the budget has been increased by £300k.

7.10 **Housing Investment Programme**

7.10.1 In 2010/11 LBBD 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.

7.10.2 The investment programme is funded primarily though 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 Councils debt cap at £277m, although recent increase's to the cap have been agreed. The business plan assumes additional borrowing of £3.2m in 2015/16 and a further £10.75m in 2016/17 to fund the capital programme. Further borrowing of £9.9m is available which will bring borrowing up to the revised debt cap.

7.10.3 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 (£60.4m over the next 10 years)
b) New build Council homes (198.3m over the next 10 years);
c) Investment in existing stock (£347.1m 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**	***2015/16***	***2016/17***	***2017/18***	***2018-2025***
Revenue investment in capital	**406.50**	**37.13**	**38.56**	**38.72**	**292.09**
Grant and new borrowing	**190.60**	38.38	29.58	15.33	107.31
Total capital resources	**597.10**	**75.51**	**68.14**	**54.05**	**399.40**
Investment in existing stock	**347.10**	38.62	41.30	41.00	226.18
New Build	**198.30**	36.02	17.63	10.00	134.65
Estate renewal	**60.40**	6.40	6.00	6.00	42.00
Total capital spend	**605.80**	**81.04**	**64.93**	**57.00**	**402.83**

(Table 6)

8. Legal Implications

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

8.1 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.

8.2 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. Under s24 of the Housing Act 1985, the Council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The Council is obliged from time to time to review rents charges and make such changes as circumstances may require but should do so in a balanced way. The Council must comply with s103(4) Housing Act 1985 and the Council's standard tenancy agreement in terms of notice periods for the rent variation.

9. Other Implications

9.1 **Risk Management -** 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.

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 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.

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.

9.2 **Staffing Issues -** There are no direct staffing implications as a result of this report. The HRA continues to strive for improved value for money and the delayed delivery of staffing restructures initiated in 2014/15 continues. Appropriate HR policies and procedures around implementing change are being followed. The Council remains committed to minimising redundancies where possible.

9.3 **Corporate Policy-** Investment in building new homes and improving existing housing stock is a key part of the council's priorities. The 'Growing the borough' priority specifically focuses on the following:

- Support investment in housing, leisure, the creative industries and public spaces to enhance our environment
- Work with London partners to deliver homes and jobs across our growth hubs
- Enhance the borough's image to attract investment and business growth
- Build high quality homes and a sustainable community

9.4 **Resident Impact** – The proposed changes in this report have been considered in light of the organisations Public Sector Equality Duty to have due regard to the impact on protected groups. Currently 70% of our Council tenants are claiming some level of Housing Benefit (a benefit for people on a low income to help them pay their rent). Of those tenants claiming Housing Benefit 60% are receiving full benefit which means that almost all of their rent is covered by the benefit. Any rental increase will therefore have little or no impact on these tenants.

Those tenants that are vulnerable, on benefits or very low income will tend to be claiming some level of Housing Benefit therefore any negative impact of the proposed rent increase will be reduced for such tenants. The tenants that could be most affected by the proposed rent increase will be those marginally below the benefit level.

The Housing Service does not hold information on the income levels of our Council tenants; however the current average annual pay for full-time employees in the borough (2014) was £23,301 and using a formula that considers monthly housing costs to be affordable if they are 1/3 household disposable income suggest that £647 would be an affordable monthly housing cost.

The average private sector rent for a three bedroom property in Barking and Dagenham is £1,300 per month compared to £481 for a Council property. The proposed increase still leaves the Council rented property significantly cheaper than private rented properties and using the average household income very affordable to those households not on Housing Benefit.

Consideration has also 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
- Guidance on Rents for Social Housing - May 2014

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 2015/16
7	HRA Capital Programme
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