

CABINET

13 February 2017

Title: Housing Revenue Account: Estimates and Review of Rents and Other Charges 2017/18 and 30 Year Business Plan

Report of the Cabinet Member for Finance, Growth and Investment

Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Summary

The Annual Budget

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

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

- the majority of the stock built before 2012, where the rents are set in accordance with the old rent restructuring formula, and where average rents are low, currently around 39% of market rents.
- Affordable rented homes, which have been built since 2012 where rents are set as a proportion of market rents – between 50% and 80% of market rents;
- Temporary accommodation rents – where the rents are set in accordable with the Housing Benefit subsidy rules for temporary accommodation. The formula has changed for 2017/18 and rents will be set at 90% of the Local Housing Allowance. Local Housing Allowances were initially themselves set at the lower third of market rents but are currently frozen at the 2015 level.

Tenants of general needs and sheltered housing stock, as well as tenants in Affordable rented homes will therefore benefit from a decrease in their rents of an average of £1.67p per week. There is no requirement to reduce the rents on temporary accommodation which are set in accordable with a different formula.

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

The Housing Service invited Housing Quality Network (HQN) to do a complete review of the service in 2014, and that report set out concerns about the quality of the housing service. This led to a Housing Transformation programme, which is continuing. The costs and benefits of this are set out in the report.

The report then goes on to consider 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. It is a holding Plan, and does not introduce any new changes of policy but simply summarises where we are now. The Housing Revenue Account (HRA) Business Plan is a statement of the Council's income and expenditure over 30 years, in respect of its owned housing stock. It enables the Council to take a long-term view of its assets and plan for housing projects which are funded in part or in whole by the HRA. It considers all the financial indicators that may influence the plan and enables the Council to anticipate and meet all known contingencies.

The current HRA Business Plan demonstrates that the Council can fulfil all its known expenditure plans on stock investment, estate regeneration and new build over the next 30 years adequately. There are several anticipated threats to the Business Plan, some of which have been built into the Plan, like the four-year reduction of rental income; and some of which cannot yet be quantified, like the proposed financial levy on the value of higher value homes that become empty in the future.

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

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

Recommendation(s)

The Cabinet is recommended to:

- (i) Agree that rents for all general needs secure, affordable and sheltered housing accommodation be reduced in line with the national rent reduction programme, from the average of £98.02 per week to £96.35 per week;
- (ii) Agree that all new lettings, once a property becomes empty, be set at the target rent (minus 1% for each of the years that rents have been reduced by legislation) or the rent paid by the previous tenant, whichever is the higher;
- (iii) Agree that service charges for tenants are frozen at 2016/17 levels;
- (iv) Agree that charges for heating and hot water are frozen at 2016/17

levels;

- (v) Agree that rents for stock used as temporary accommodation be set at 90% of the appropriate Local Housing Allowance (LHA);
- (vi) Agree that service charges for hostels held in the General Fund are increased as set out in paragraph 2.7 of the report;
- (vii) Agree that the above changes take effect on Monday 3 April 2017;
- (viii) Approve the proposed HRA Capital Programme for 2017/18 as set out at Appendix 7 to the report;
- (ix) Approve the HRA Business Plan as set out at Appendix 8 and the financial assessment at Appendix 9 to the report;
- (x) Note the assumptions underpinning the HRA Business Plan which shall be reviewed annually; and
- (xi) Approve the proposed commissioning intentions for 2017/18 as set out in Annex 1 to the HRA Business Plan.

Reason(s)

The Council must set the rents and give notification to tenants of changes to the rent and service charges. The Council has considered a review of the housing service which was carried out by HQN in 2014. It then set ambitious plans to maintain and improve its housing service and stock; and to build new homes. This report enables the Council to assess the level of resources available, and to plan for major expenditure in the three key areas of investment: its housing stock; its plans for regeneration and for new build. The organisation of Council services is also changing – property based services will be commissioned from the new “My Place” service, which will itself commission some services, such as the Repairs and Maintenance Service from “Home Services”, and provide other services directly, such as tenancy management. The Council will deliver new homes and estate regeneration through the Council’s own new Regeneration company, Be First. This will have a profound impact on the organisation of the Council budgets, including the Housing Revenue Account.

Rents and service charges are set, and savings are proposed, that will enable the Council to continue its investment programme and ensure there are sufficient resources now and in the future to meet all known financial obligations.

The HRA Business Plan shows how the HRA assets are managed and maintained over the longer term (30 years) and what action is required in the short and medium term to ensure that the position is improved. The Business Plan enables the Council to plan for future housing policies, and to understand their financial implications.

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 several assumptions about rent, inflation, sales, and stock investment requirements. The Government has made changes in areas of policy, such as the Right to Buy, and rent. These changes adversely affect those assumptions and have an impact on the Council's ability to meet its obligations to maintain the stock, and to repay debt. There are additional threats, which have not yet materialised, which may put the Council's assumptions in greater jeopardy in the future. For this reason, and as a matter of good practice, the Council reviews its Business Plan annually to ensure that the resources needed continue to be available to meet its obligations. This also enables the Council to take timely decisions to ensure that it can fund its plans.
- 1.4 The Housing and Planning Act 2016 also proposes the introduction of measures that will have an impact on the Housing Revenue Account. Whilst the Government have announced their intention of abandoning the policy of introducing higher rents for higher income households, they are continuing to press ahead with the proposal to introduce Fixed Term Tenancies, and they are encouraging local authorities to look at tenants' incomes, when reviewing a Fixed Term Tenancy to ensure that social housing is occupied by those most in need. Fixed Term Tenancies however do not have direct impact on the Council's budget, other than a requirement to ensure that there are sufficient resources in place to undertake reviews of tenancies, when they fall due.
- 1.5 The second major provision that will have an impact when it is implemented, is that local authorities will be required to pay a levy annually, that represents the value of their "higher value" empty homes. The information provided informally by civil servants is that they have been looking at the top third of properties, by value. This could be a very large sum that the Local Authority would be required to pay to Central Government annually, and the impact of the loss of empty homes would also have a very serious impact on the local authority's ability to meet the needs of homeless households and others in housing need.
- 1.6 However, Regulations to clarify these two aspects of the legislation have been seriously delayed – the legislation was passed in May 2016, and no regulations have yet been published. The Government have informed local authorities that they will not be requiring a payment under the Higher Value Voids Levy in 2017/18. The date for the implementation of Fixed Term Tenancies has not yet been set. These delays also mean that it is not necessary to make provision for these measures in the Budget for 2017/18. The Council does not know when they will be introduced,

or exactly what the impact will be. The Budget (and the Council's HRA Business Plan) will be set based on the best available knowledge at the time of writing.

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. Currently, average local actual rents for the Council's 18,120 secure tenants are only 39% of local market rents. The actual reduction in the income between 2016/17 to 2017/18 is £1.267m.
- 2.2 The implementation arrangements for the rent reduction does allow local authorities to re-set rents for empty properties back up to the target rent (and then reduce that rent by 1% for each appropriate year during the four-year rent reduction programme.) Average actual rents in LBBB are around £3.50pw below the target rent; and therefore, re-setting the rents back up to target rent when the property is empty will bring in only a small amount of additional money in year 1 (£118,000) but this will increase exponentially in each subsequent year. For this reason, the Council will take advantage of this option to re-set rents on empty properties back up to target rents in line with this guidance.
- 2.3 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.
- 2.4 There are currently 326 properties which are in Regeneration Schemes, which are being used as temporary accommodation after the property has been decanted but before it is demolished. Rents for these properties, used as temporary accommodation have rents which are set at the maximum recoverable under the current Temporary Accommodation Subsidy Limit rules – 90% of the Local Housing Allowance with an added management charge of £40pw. These rules are being changed in 2017, as the grant for managing temporary accommodation is being removed, and due to be paid to local authorities as a single lump sum; and the only rent payable for temporary accommodation will be the Local Housing Allowance (LHA). Charges for rents on Temporary accommodation will therefore have to be changed in line with the new subsidy regime. This means that the maximum that

the Council will be able to charge, will be 90% of the appropriate LHA rate for the size of property involved. This will generate a loss of income to the Housing Revenue Account in 2017/18 of £687,000.

- 2.5 The Council also has a stock of hostel accommodation, which is held in the General Fund. Authorities are expected to set a reasonable charge for the provision of additional services which reflects the cost of providing the service. A recent review of utility costs incurred in hostels revealed that the £1 a night currently being charged to hostel tenants is no longer sufficient to cover the costs attributable to the hostels. As such, a more realistic service charge of £10 a week (or £1.43 a night) and £14 a week (or £2 a night) is being proposed for single and family rooms respectively.
- 2.6 It is proposed that the hostels nightly rent charges should be increased to £33 a night and £38 a night for single and family rooms respectively. The purpose of this increase is also to meet the rising running costs of the hostels including higher costs of staff and security provision, cleaning and grounds maintenance costs. Though these costs have continued to increase over time, this has not yet been reflected in the charge to the tenant. This proposed increase in charges will generate additional rent and service charge income of approximately £300K which will serve to meet the rising cost of the hostel service provision. The table below illustrates the charges that will be required.

Hostels Rent & Service Charges Increase

Hostels Rent & Service Charges						
Site	Daily Rent 16/17	Daily Rent 17/18	Change in Rent	Daily Service Charge 16/17	Daily Service Charge 17/18	Change in Service Charge
	£	£		£	£	
Riverside	35.00	38.00	3.00	1.00	2.00	1.00
Butler	35.00	38.00	3.00	1.00	2.00	1.00
Brocklebank	27.00	33.00	6.00	1.00	1.43	0.43
Boundary	28.00	33.00	5.00	1.00	1.43	0.43

- 2.7 Tenant Service Charges are specific charges for services that some tenants receive and others do not. The list of charges which are identified separately are set out below. Landlords may not charge more than the actual cost of the service, plus a reasonable management fee. Barking and Dagenham charges the full cost of services provided in most services, but there are three services where the Council does not recover the full cost of the service from those who receive it. These are Grounds Maintenance, Caretaking, and Estate Cleaning. Although the Council does not recover the full cost, the Council has decided to freeze the charges in 2017/18. The re-organisation of the service into the commissioned services, My Place and Community Solutions means that there will be a requirement to specify the standard of service required and to set the quality of service expected. The service charges will not be raised until a further review of organisation, performance and quality of the services is undertaken during the next 12 months.

Service	Current Charge 2016/17	Proposed charges for 2017/18	Shortfall
Grounds Maintenance	£2.93	£2.93	£1.12
Caretaking	£7.65	£7.65	£0.39
Cleaning	£3.68	£3.68	£2.01
Estate Lighting	£1.87	£1.87	0
Concierge (12 hours)	£10.06	£10.06	0
Concierge (24 hours)	£20.13	£20.13	0
CCTV (SAMS)	£6.17	£6.17	0
Safer Neighbourhood Charge	£0.50	£0.50	0

The charges for heating and hot water are already based on full cost recovery, and these are also frozen:

Heating and Hot water charge

Property size	Current Charge 2016/17	Charge 2017/18
Bedsit	£10.50	£10.50
1 BR	£12.79	£12.79
2 BR	£15.91	£15.91
3 BR	£16.26	£16.26
4 BR	£16.65	£16.65

- 2.8 Garage income will continue to increase, as more garages are refurbished. The current policy is to charge £11.00 pw for garages that are not yet refurbished, and £15.00 for refurbished ones. This policy will continue in 2017/18. However, the rate of garage improvements is slow, and no additional income has been built into the budget for 2017/18 to reflect this.
- 2.9 Other income increases include Leaseholder Service Charges, where the bills are calculated based on the previous year's costs, and are forecast to bring in additional income of £0.566m. This is in part due to the increase in the number of leaseholders.
- 2.10 The costs of water and energy have increased, and these are passed on in full to tenants and leaseholders.
- 2.11 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 2017/18 from interest on balances is £64,000 higher than budgeted for 2016/17. The income from interest on balances is estimated to be £400,000 in 2017/18.
- 2.12 There are savings in two budgets: bad debt, and other income. Bad debt provision was increased last year because of expected problems in rent collection following reductions in Welfare Benefits. However, the bad debt write off has not increased as anticipated, and therefore this additional provision is no longer required. The bad debt provision for 2017/18 has been set at £1.046m, a budget reduction of £1.726m. Other income relates to anticipated expenditure on Council Tax where

properties remain empty. This item of expenditure has been lower than anticipated in the budget; and this budget therefore has been reduced by £350,000 for 2017/18.

3. Expenditure - Management and Maintenance costs

- 3.1 In 2014 a major review of the housing service was carried out by HQN. This identified many shortcomings in the housing service performance, and levels of tenant satisfaction. A major Housing Transformation Programme was established, with five work strands: Strategic maintenance, customer management, income and debt collection, workforce management and strategic housing (about the non-HRA services provided, such as housing options, homelessness, and housing advice.) These work strands have subsequently been subsumed into the Council transformation programme, which is leading to a new way of commissioning the housing service and the establishment of My Place, Community Solutions, and the maintenance service, Home Services. The aims of the Transformation Programme are to radically improve the quality and cost effectiveness of the housing service.
- 3.2 In the budget report for the financial year 2016/17, annual savings were identified over a period of five years, funded by a transformation programme of £6.06m made up of a combination of capital (£1.750m) and revenue (£4.319m).
- 3.3 The Transformation Programme has been subsumed into the Ambition 2020 programme, and these savings are due to be delivered by the Council's wider strategy to deliver services, through the "My Place" and "Community Solutions" programmes. Services that deal with the property aspects of housing such as tenancy management will be included within the over-arching new service of property management in "My Place" and services provided for tenants, such as welfare advice, and tenancy support will be included within the new department of "Community Solutions". My Place itself will commission services from other Council companies. The most significant of these, for the HRA will be the Repairs and Maintenance Service, which will be commissioned from a new Council company, Home Services. The spending on the Transformation Programme has slipped, and of the £1.750m capital provision, £1.2m has been spent, and therefore a budget of £0.5m will be carried forward for 2017/18. Additional transformation costs are due to be incurred in 2017/18 and therefore an additional provision of £2.4m has been added to the budget. The savings have also been slower to deliver than anticipated. In effect the savings have been slipped forward one year, but are still on course to deliver. Of the savings anticipated in 2016/17, net savings of £0.7m have been delivered from the Repairs and Maintenance service. Savings in 2017/18 budget amount to £0.612m, and are apportioned between a range of services.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
A2020 HRA Savings	(achieved)	(planned)	(planned)	(planned)	(planned)	(planned)	(planned)	(£m)
Budget Savings	0.7	0.612	2.884	2.254	2.528	1.781	1.8	12.559

- 3.4 There are a few items identified in the HRA Budget for 2017/18 that should be noted. As part of the restructure of the housing service, pending the new My Place arrangements, the new Asset Management structure, has been separated out from the Repairs and Maintenance Service. This is identified as a cost of £1.7m. In addition, the Council proposes to undertake a new Stock Condition Survey. The

last stock condition survey was carried out in 2011, and there is a need to refresh stock condition information on a regular basis, to ensure that the Council understands the condition of the stock, and can plan for expenditure to maintain its assets at its desired standard. £500,000 has therefore been included as a growth item in the Revenue budget for 2017/18 to carry out a stock condition survey. This is a one-off item and should not be required in the following year's budget.

4. Housing Revenue Account Summary

- 4.1 In the light of these changes, the proposed HRA Budget for 2017/18 is set out below:

HOUSING REVENUE ACCOUNT					
	2016-17 £000	2017-18 £000	Change £000	%	Increase
INCOME					
Rents of dwelling	(90,538)	(89,271)	1,267	-1.40%	
Non-Dwelling rents	(807)	(807)	0	0.00%	
Charges for services and facilities	(19,285)	(19,624)	(339)	1.76%	
Interest and investment income	(336)	(400)	(64)	19.05%	
	(110,966)	(110,102)	864		-0.78%
EXPENDITURE					
Repairs and maintenance	17,093	16,481	(612)	-3.58%	
Supervision and management	42,767	42,523	(244)	-0.57%	
Rent, rates, taxes and other charges	700	350	(350)	-50.00%	
Provision for bad debts	2,772	1,046	(1,726)	-62.27%	
Interest charges payable	10,059	10,059	0	0.00%	
TOTAL EXPENDITURE	73,391	70,459	(2,932)		-4.00%
Revenue Investment in capital	(37,575)	(39,643)	(2,068)		(0)

5 Capital Programme

- 5.1 There are three main programmes of work funded through resources in the HRA. These are the stock investment programme, the Estate Regeneration Programme and the New Build Programme.
- 5.2 The Stock investment programme remains focussed on the target of achieving Decent Homes for all the housing stock by 1st April 2020. The Decent Homes work planned include kitchens, bathrooms, rewiring and heating improvements. The Programme has been divided into three areas, with the Central Area Decent Homes Programme being delivered by Small and Medium Sized local contractors, (SME) to encourage and enable local contractors to expand and deliver more of the Council's capital programme. Other significant elements of the Stock Investment Programme will include compliance programmes including water tanks and rewiring.

5.3 The original budget for stock investment set in the Budget report in January 2016, proposed a stock investment programme of £39.7m for 2016/17. The estimated outturn for 2016/17 will be £36.9m. The underspend of £1.75m has been approved to be carried forward to 2017/18. Given the proposal to seek new and better information about stock condition, it is recommended that the new programme for 2017/18 should be set at £38.95m, which with the £1.75m carry forward will make a total stock investment programme for 2017/18 of £40.7m. This will be targeted at Decent Homes work, and compliance programmes as set out in Appendix 7. This will include a budget of £2m in this capital programme, to undertake a specific project “Green Street” to develop an exemplar project that will deliver exceptional energy savings in existing housing.

6. Estate Regeneration and New Build programme

- 6.1 The Estate Regeneration programme started in July 2010. The aims of the programme were to improve the quality of the environment, the economic prosperity of the area, and the quality of life for the residents. Since that date, the Council has demolished 861 homes on the Gascoigne Estate East, Goresbrook Village and The Leys. These homes have either been replaced or are in the process of being replaced by mixed tenure developments of 728 homes. There is a mixture of rented accommodation at a range of different rents, as well as shared ownership homes. Some of these homes have been rebuilt and are retained within the Housing Revenue Account, at a range of rents, and others have been passed into the ownership of the Council’s wholly owned housing company, Reside. In addition, the new build programme overall is delivering 197 homes within the Housing Revenue Account, and 807 homes to be owned and managed by Reside.
- 6.2 This highly successful programme is continuing, and with the redevelopment of Gascoigne West, Sebastian Court and Marks Gate will have addressed the major poor quality estates in the borough. In 2016/17 a budget of £4.335m was established for estate renewal and £33.221m for the new build programme. The estate renewal programme has been accelerated during the year, and the outturn in 2016/17 will be £8.0m. The new build programme was initially set at £33.221m but delays in the programme mean that the outturn for 2016/17 will be £17.2m.
- 6.3 The programme for 2017/18 will address the new projects of Gascoigne West, Sebastian Court and Marks Gate as well as the continuation of projects as set out above. This will involve the demolition of a further 339 homes, and the construction of new homes for rent, and shared ownership to be distributed between the Council’s own ownership, and the Reside Company. Exact numbers are still subject to development financial appraisals. The budgets proposed for 2017/18, set out in Appendix 7 are £8.00m for Estate Renewal, and £39.1m for new build homes.
- 6.4 The Housing Investment Programme will be funded through a combination of capital receipts, Revenue Contributions to Capital Outlay (RCCO), the Leasehold Reserve and borrowing. Not all of these funding sources can be used for all these expenditure items, and the funding will be appropriately profiled to the projects.

7. The 30-year Business Plan

- 7.1 The Government introduced the new financial regime of Self Financing in 2012, and on 20th March 2012 Cabinet considered the first full HRA Business Plan. This set out the anticipated income and expenditure on the Council's housing stock over the forthcoming thirty years, and this information has been regularly used in the light of changes in Government policy on rents, Right to Buy and other financial metrics as part of the budget setting process. A Stock condition survey commissioned in 2011 supported the development of the stock investment programme which is one of the key items within the overall Business Plan.
- 7.2 Since 2012, there have been significant developments affecting the Business Plan: changes to Government policy, changes to local market conditions, and local performance on key financial measures such as rent collection and empty homes which have had an impact on the Business Plan. Expenditure plans have also developed and changed: an increased new build and estate regeneration programme has been built into the Business Plan to make the best use of the resources available. This Business Plan is therefore a narrative and financial description of the current position of the Council's housing stock.
- 7.3 The current HRA Business Plan demonstrates that over the forecast 30 years of the Plan, the HRA can fund its current planned expenditure requirements. This is based upon £110m of rent and other income at 2017/18, falling over the next three years and rising after 2019/20 if the Government delivers on its promised rent policy of rent increases of CPI + 1% after the current period of rent reduction. Management and maintenance costs are set to absorb inflation for the next four years and then rise by 3% thereafter. This generates a healthy net revenue surplus, which after meeting interest costs of £10.06m a year for the life of the Plan can fund the current stock investment, estate renewal and new build requirements.
- 7.4 The Business Plan assumes that there is no additional borrowing (as the current level of borrowing is at the Government defined cap) but also assumes that there is no provision for reduction of debt. It is assumed that no external grant is received, either for stock investment or for new build. Provision for stock investment is set in the region of £40m for the first four years, and then falls to £30m a year, after the completion of the Decent Homes Programme. A programme of new build is funded from the HRA for the life of the plan; it fluctuates in the first four years in line with anticipated pipeline schemes, and then is estimated at £20m a year from 2020 onwards. Estate Regeneration is also funded in the HRA Business Plan at an indicative level of £6m a year from 2018/19. With this level of expenditure, cash balances remain adequate during the early period of stock investment activity, and when the Decent Homes Programme is complete, start to rise from 2023/24 onwards. There are therefore investment opportunities after 2023 which have not been planned for at this stage, although the Government's proposed higher value void levy may reduce this. Some of the resources within the HRA Business Plan are restricted in their use – the RTB receipts that have been generated in line with the Government's agreement on one for one replacement of homes. In addition, consideration should be given to the level of debt which is sustainable, given the regular loss of properties, which are not being replaced within the HRA.
- 7.5 One of the key purposes of the HRA Business Plan is to enable the authority to plan for its housing expenditure over the medium and long term. The plans for stock

investment will be refreshed once the analysis of the new Stock Condition Survey has been obtained; and it is likely that this will be available in October 2017. In the meantime, the level of stock investment provided for within the HRA Business Plan has been set with the previous Stock Condition Survey data in mind, until the completion of the Decent Homes Programme, at which point the stock investment provision falls to a level which is considered sufficient to maintain the stock at a reasonable standard.

- 7.6 The Estate Regeneration programme has been funded from a variety of sources, depending upon the specific estate needs, and the proposed replacement proposals. In the current programme, the HRA has largely funded the compensation packages required for tenants and leaseholders who are displaced because of estate renewal, and also the cost of buying out leasehold interests on those properties which are due to be demolished. The overall package of demolition, and replacement has been funded through a mix of market sales, and borrowing within the General Fund. The current HRA Business Plan provides for £8.0m in 2017/18, £7.0m in 2018/19 and £6.0m a year thereafter, and this will be reviewed during the year, as the development of the forward programme advances.
- 7.7 The New Build Programme is related to the Estate Regeneration Programme, where there are sites available within estates that can be utilised more effectively. However, there is also a separate new build programme using opportunities that arise outside of the Estate Regeneration Programme. The current Business Plan provides for £39.1m in 2017/18 and a further £11.5m in 2018/19 to support the use of Right to Buy receipts in the capital programme. However, whether the HRA will continue to fund the New Build Programme, after 2019/20 needs to be reviewed, since the new homes built will be built and managed on behalf of the arm's length company, Reside and not the HRA. There is currently provision of £20m a year from 2020/21 onwards through the life of the Plan, for this purpose. In view of the decision that new build properties will be owned by the Council's company, Reside this decision may require review.
- 7.8 The emerging housing policy framework in Barking and Dagenham, is in the development of three rights: The Right to Rent, the Right to Move, and the Right to Invest. Barking and Dagenham currently has a geographical spread of housing that forms concentrations of different kinds of housing, in different areas. Some areas are virtually all social housing, whilst others are mainly market housing. The Council wants to see more geographically balanced and mixed communities, and will be developing homes appropriate to the different areas through its new housing policies. In areas where housing concentrations of Council housing currently exist, the Council will be introducing a range of mixed tenure options where housing of different rent levels and ownership types will provide a more mixed community and vice versa. The Right to Rent will be developed in five forms of *infrastructure* housing:
- Social housing rents, for those with the lowest incomes;
 - Homes at the London Living Rent, as promoted by the Mayor of London in his manifesto;
 - Benchmark rents in the mid-market range, housing for the aspiring households who want to move up the housing ladder;
 - Affordable rented housing at 65% market rents and
 - Housing for those on higher incomes, at 80% to 100% of market rents.

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

8 Conclusion

- 8.1 2017/18 will be a transitional year. The Council is embarked upon a major transformation programme, and it is anticipated that the establishment of the two new major departments, My Place and Community Solutions will take place half way through the year. This will necessitate a complete review of all budgets, including recharges to ensure that the right budgets support the right activities in different places. This budget has been set without being able to take account of these changes at this stage; as the detailed work on the assignment of budgets to activities has not yet been completed at the time when the annual budget and rent setting process needs to take place. The new budget in 2018/19 will be adjusted in line with the transformation programme, when this work is complete.
- 8.2 Not just for this reason, 2017/18 will be a challenging year. Government legislation on the statute book does threaten a major change to the resources within the HRA, but delays in Government on the publication of the Regulations mean that these changes cannot yet be fully assessed.
- 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 with tenants and residents will take place at the next round of Housing Forum Meetings after the Cabinet meeting. This will include presentations on both the budget, and the HRA Business Plan, inviting tenants to participate in discussions about overall priorities for expenditure within the HRA.

10. Financial Implications

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

- 10.1 The statutory format of the Housing Revenue Account is included at Appendix 6. 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.

10.2 Tenant Dwelling Rents

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 £0.98 per week, after

also incorporating changes in the stock mix the overall reduction in average rents is £1.67 per week. The impact on the original business plan was a loss of income of £33.6m over 4 years, with a £3m loss in 2016/17. 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.

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.

The number of Right to Buy sales has increased in recent years with 224 in 2015/16 and a similar level expected in 2016/17 and 2017/18. With the abolition of the "Pay to stay" scheme and delays in the introduction of the required sale of high value void properties, the reduction in stock levels will be lower than previously anticipated. The table below shows the net expected rental income from the above changes:

Rental Income	£'000
2016/17 Budget	(90,538)
Rent decrease	905
Right to Buy Sales	551
New Build	(188)
2017/18 Budget	(89,270)

10.3 Non-Dwelling Rents

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.

10.4 Charges for services and facilities

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 maintain service charges at current levels pending a review of all services provided. This has resulted in a budgeted loss of income to the HRA of £0.32m

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. The 2017/18 has therefore used the 2015/16 actuals as the basis for the 2017/18 budget. This has resulted in a budget increase of £0.566m

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 is subject to a

review and will also consider any budget implications of the recent court decision relating to the reselling of water.

10.5 Interest and investment income

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 £0.400m, in accordance with the current cash flow.

10.6 Repairs & Maintenance

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 £0.6m from £17.1m to £16.5m in 2017/18 primarily due to savings expected to be delivered through the A2020 programme.

10.7 Supervision & Management

The budget consists of both direct expenditure and recharged spend from services provided by departments outside of the HRA. In 2017/18, the budget will decrease in 2017/18 primarily due to removal of a one-off budget for Redundancy costs and the staffing budget savings following a staffing restructure. HRA expenditure on A2020 is included in the 2017/18, whilst the associated budget savings expected to be delivered from 2018/19 onwards.

Recharges to the HRA have broadly been maintained at current levels pending a review of services provided and the associated costs. This review will need to be closely linked to the service charge review highlighted above.

10.8 Rents rates & other charges

This includes the budget for council tax on empty properties, property insurance and rent of office premises. A budgeted review has allowed a budget saving £0.350m to be included in the 2017/18 budget.

10.9 Provision for bad debt

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.

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 2017/18, at 1% of collectable in year debt.

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.

10.10 Interest charges payable

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 within a debt cap of £277m.

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.

The HRA includes a budget of £10m 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. 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.

10.11 Revenue Contribution to Capital

The level of Revenue resources available for partial funding of HRA capital expenditure is £2.068m higher than the 2016-17 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).

10.12 HRA Capital Programme

The 2017/18 HRA capital programme has been set at £89.70m, this includes budget provisions for Investment in Stock (£40.75m), Estate Renewal (£8m), New Build (£39.2m) and HRA IT system (£1.75m). The funding of this expenditure is from revenue contributions, HRA borrowing, Right to Buy and other capital receipts.

- 10.13 The HRA Business Plan outlined in this report draws its financial base from the Annual Housing Revenue Account Estimates contained within this report.
- 10.14 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.
- 10.15 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. 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: Martin Hall, Housing Solicitor / Team Leader

- 11.1 Section 24 of the Housing Act 1985 provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Authority must review rents from time to time and make such changes as circumstances require. Within this there is discretion to look at any reasonable option.
- 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 Sections 167 to 175 of the Localism Act 2011 gives the statutory basis for the HRA self-financing arrangements set out in this report.
- 11.4 The provision, maintenance and improvement of social housing by local authorities is authorised by various Housing Acts and other legislation.
- 11.5 The HRA Business Plan will need to be kept under review as further legislative and policy changes are implemented under the Housing and Planning Act 2016.

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:

Changes to Government Policy: This risk is identified as Probable, with a high impact. We already know that legislation to require the local authority to make annual payments to Government reflecting the market value of our higher value empty properties is in place: Regulations are awaited. There are mitigation strategies under consideration but further work on this is on hold, until the Regulations are published. In addition, a White Paper on Housing is promised in January 2017 which may have a further impact on the Council's HRA budget. Early analysis of this will be undertaken to ensure that the Council is fully prepared for any further change.

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

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 Customer Impact** – The Corporate Plan sets out a vision of a well-run Council, including the aspiration to manage our finances effectively, looking for ways to make savings, generate income and be innovative in service delivery. The HRA is an important budget, collecting the rent and service charges of tenants, and re-distributing them in the form of services, and housing investment. It is the aim of the annual budget to ensure that costs are examined, and reduced where possible, and that savings generated are re-investment in cost effective projects that deliver the Council's priorities for housing growth and quality services.
- 12.4 **Health Issues** – Housing has an important part of play in assisting to provide a healthy environment in which residents can live. The stock investment programme funds the improvement of the housing stock in terms of affordable warmth, through its energy efficiency programme. The Aids and Adapations Budget enables older and disabled residents to live in greater comfort within their own homes, and enables them to retain independence for longer.
- 12.5 **Crime and Disorder Issues** – The HRA Budget does provide funding for initiatives that support the reduction of crime and antisocial behaviour within areas of Council housing stock. One of these is the Safer Neighbourhood Charge, which provides funding for additional policing staff across the Borough's housing estates. In addition, service charges are levied to pay for the cost of CCTV cameras which contribute to surveillance of areas of potential concern. Physical programmes to reduce poor environmental layout on estates through regeneration programmes also contribute to an overall reduction in crime and antisocial behaviour.
- 12.6 **Property / Asset Issues** - The HRA Budget is key to ensuring that the Council's assets held within the HRA are managed and maintained well, to ensure that they are available and fit for Barking & Dagenham's current and future residents. The HRA budget also supports the regeneration of council housing, and communities through a programme of estate renewal, and new building.

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

List of appendices:

- 1 HRA Working Balances
- 2 Rent Income Analysis
- 3 Average rent analysis
- 4 Rental Income Debtor Account
- 5 Budget assumptions
- 6 HRA Estimate 2016/17
- 7 HRA Capital Programme
- 8 Housing Revenue Account 30 Year Business Plan narrative
- 9 Housing Revenue Account 10-year financial extract