LBBD Housing Service

Business Plan 2012/13
Creating better places to live

LB Barking & Dagenham

Part A – Our Operating Environment

1.0 Strategic Context

1.1 Corporate and operational context

The Borough's Council Plan sets out the overarching strategic objectives that underpin the business objectives for Council housing in Barking & Dagenham. The provision of good quality housing underpins the achievement of the Council's Priorities. It is therefore important that the borough has - operating exclusively within its boundaries - an effective, flexible and efficiently run housing organisation which is able to meet the evolving housing aspirations and needs of residents and their families – the provision of quality affordable housing is essential to delivering the Council's long term objectives of a creating a safe, healthy and prosperous borough.

From next April the Council will:

- operate a fully funded 30 year housing business plan with a 30 year turnover of c£3.9bn for the existing stock
- plan long-term to provide cost effective housing management services
- embark on a £1.3bn investment programme to refurbish council housing
- deliver a substantial estate regeneration programme
- generate a new build affordable Council housing programme with our development partners
- provide a wider range of intermediate tenures by being able to operate the HCAs new affordable rent model and access grant for new homes

This business plan sets out the route to enable the Council to develop a housing business that is able to enhance the services it offers together with wider housing tenure options that better meets the needs of local people within the context of changing market conditions at the local, sub-regional and regional level. The Borough's housing landlord and housing asset investment undertakings will be delivered through a ring-fenced business unit within the Council's Housing & Environment Department. Underpinning delivery of the business plan and the strategy to invest in new Council homes and major improvements to tenants' living conditions is the assumption that overall the rental income will rise by RPI plus 0.5% for the next 30 years,

The Council is, in addition to building new Council homes, also working with partners such as the Borough's Building Schools for Future Local Education Partnership (BSF LEP) to develop new affordable rented housing on Council owned sites. These homes will be managed and maintained by the Council's Housing service and will revert to outright ownership by the Council on expiry of the lease. This approach demonstrates the determination of the Council to find innovative solutions to meeting housing need and address housing aspiration in the local community.

1.2 Council Plan Priorities

The four Community Themes in the Barking & Dagenham Partnership's Council Plan strategy are:

Priority 1 – Better Together	'We want our Borough to be a place we can be proud of. Pride too in being good neighbours and in respect we show to others. A real community, where local people have the confidence to be involved in the decisions that affect their lives, their street, their neighbourhood, theory Borough. For that, people need to feel safe and to have confidence that the authorities are on their side. Building pride can't be done by the Council alone – we need to work with all our partners and with the voluntary sector and community groups to create a community everyone can take pride in.'
Priority 2 – Better Home	'More people want to live in our Borough. That means we need a range of housing options, including both quality affordable/ social housing and aspirational housing, for now and the future. But home is about more than just a house, and we want streets, parks and estates to reflect people's pride in where they live. We have a vision for housing, for estates and better parks, that we want local people to share. With local residents' help we will make Barking &Dagenham somewhere people can raise their family – knowing that their Council is working hard to make the Borough somewhere they can call home.'
Priority 3 – Better Health & Well-being	'With the Olympics on the horizon we want our Borough to be a healthier, fitter place. Where people can get help to stop smoking, get the advice they need to lose weight and can exercise in pleasant surroundings. For the most vulnerable, and those less able, we believe in giving independence and choice – and we will continue to deliver quality social care to those who need it.'
Priority 4 – Better Future	'we want a Borough that believes in opportunity –one that recognises and champions success, where people can look to the future with confidence, assured that their Council will do what it can to provide the educational, academic and vocational opportunities they need. A Borough of rising, not falling, incomes. A working Borough –where business and entrepreneurship is given the help it needs. A place where hard work is rewarded and where effort and determination are encouraged.'

To help guide the Council's activities in delivering the Council Plan Priorities a Policy Framework - 'Building a Better Life for All' - has been approved. This sets out three policy priorities which guide the development and implementation of the borough's major investment and regeneration activities:

- Raising household incomes
- School and post-16 education
- Housing and Estate Renewal

These priorities frame the business planning, strategic objectives and operational activities of the Council's Housing service.

1.3 Housing Revenue Account Self-financing

From the 1 April 2012 the national council housing subsidy system will be dismantled. Local Authorities will be expected to operate their housing revenue account functions as a stand-alone business and to provide housing that meets the community's and market's needs. This offers the council the opportunity to completely recast how it delivers housing services and widen housing choice to make a major contribution to delivering the Council's corporate priorities.

Under the new system, each local authority will be required to pay to the Department for Communities and Local Government (DCLG) an amount equivalent to the notional housing debt that is held by central government for each local authority. In the case of LBBD, this will involve the HRA borrowing approximately £265.9m, which will be paid to DCLG.

The net result of the new system is that authorities will retain all their rents and will be responsible for funding the long-term maintenance of their stock. The available resources and capital investment requirement to address the investment needs of the housing stock for the first ten years after implementation of self-financing have been identified.

To deliver the investment opportunities under HRA self-financing, a new 30-year Housing Asset Management Strategy (AMS) has been prepared and will be implemented along with this business plan. The new AMS is based on the resource position under the self-financing settlement, and on the findings of a new stock condition survey, carried out by Savills, that underpin the 30-year investment strategy. The HRA BP and AMS are based on a rent policy that total rental income increases by RPI plus 0.5% each year. It should be noted that the assumed level of increase in the CLG Housing Self – Financing settlement mirrors this, with the exception that for the years leading up to 2015/16 there would also be convergence to local formula rent levels.

Any deviation from this would mean the Council cannot deliver the levels of investment in new build, major works and estate renewal

The stock condition survey (2011) has identified that the 30-year Decent Homes investment programme amounts to approximately £1.31bn and a 30-year revenue repairs programme of £470m. The Council's strategy to address the investment needs of the stock is to adopt the following three investment streams:

Major works and Decent Homes programme	Currently c33.6% of the Council's homes are classified as non decent. A detailed 10-year investment programme has been developed and profiled to align with available resources and to address the decent homes backlog within an 8-year period.
Estate renewal programme	A fundamental element of the investment strategy is to demolish and redevelop c1715 flats on largely mono tenure estates that are deemed uneconomic in which to invest and that exhibit high levels of deprivation and worklessness. The intention is to decant and demolish these properties over a 10 year period, which will free resources for investment in the remaining stock. Resources of £7.1m from the General Fund and c£16m from within the HRA (c0£23m in total) have been released to fund decant and demolition costs for the first phase of the programme on the leys, Goresbrook Village and the first phase at Gascoigne Estate. The remaining regeneration of Gascoigne estate requires a further c£23m to be secured and a range of options are being considered, including utilising resources within the HRA and innovative joint venture and funding arrangements. The estate renewal programme seeks to change areas which are failing and to create in their place thriving communities with a range of tenures and a mix of household incomes.
New build programme	The intention is for a programme of new Council homes construction to be funded from within the HRA and the application of grant secured from the Homes & Communities Agency's Affordable Housing Programme 2011/15. . A key aspect to the Council new build programme is to produce a proportion of the new homes at rent levels that whilst being above traditional Council social rent level are nevertheless affordable for households earning above modest incomes

The investment streams above are interrelated themes. Successful delivery of our new build and estate renewal programmes are fundamental to bringing the existing stock up to modern standards. This is because a proportion of the stock needs to be demolished and redeveloped and the new build homes provide essential decant units for the estate renewal programme. Without this order of investment priority then a disproportionate amount of resources will be absorbed by maintaining homes that are beyond their economic life and would not represent best value.

1.4 Regeneration in Barking & Dagenham

Barking & Dagenham has embarked on the most ambitious and far-reaching regeneration programme the Borough has witnessed in the 90 years since the construction of the Becontree Estate and the Housing service will be integral to delivering this programme.

Located at the heart of the Thames Gateway Growth Zone, the strategy is a combination of both 'city building' and 'urban repair' approaches to physical regeneration. It is anticipated that a range of different joint venture vehicles will be required to meet and take advantage of the regeneration opportunities in Barking & Dagenham.

Given the scale and ambition of the Council's Regeneration Strategy, partnership working with public, private and voluntary sector stakeholders is crucial to efficient and effective delivery. For example the Council intentionally procured its Building Schools for Future joint venture widely so that it could undertake regeneration activities in addition to the provision of new schools. The BSF joint venture has been successful in attracting private sector investment to support its regeneration proposals without recourse to public sector funding. The Council will continue to explore the possibility of establishing similar project finance based solutions vehicles to meet the wide range of regeneration and housing challenges in the borough.

The Borough's regeneration strategy is underpinned by cross-cutting themes of tackling social and economic equality and addressing the challenges and opportunities of climate change. Central to delivering these outcomes is the regeneration of the housing stock to help diversify the demographic base by taking advantage of the areas advantageous spatial characteristics - particularly excellent transport infrastructure and close proximity to the City, Docklands and other important sub-regional areas

Over the next ten years, subject to market conditions, the Council aims to secure the delivery of over 15,000 well designed, high quality new homes at all levels of affordability. The aim is to increase socio-economic diversity to support and underpin economic development of the area. The majority of the new housing will be concentrated in two major growth areas: Barking Riverside and Barking Town Centre.

Redevelopment of the borough's major regeneration sites is key to contributing to the Council's broad regeneration objectives for the two identified growth areas in very challenging economic circumstances.

1.4.1 Widening housing choice

It is expected that regeneration schemes will include homes at 'social' or Council house equivalent rent to satisfy the housing needs of the vast majority of households on the Council's waiting list. However, it is possible that the majority of affordable homes proposed on redevelopment schemes (on a site by site basis) will need to be above standard Council, or social rents, at 50%, 65% or 80% of market rents. Although technically classified as 'affordable housing' under the revised Planning Policy Statement PS3 – these homes will, nevertheless, be on short-hold tenancies and are aimed at meeting the needs of households that are in employment but not the traditional priority cases on the Council's waiting list. The development model for such sites could be a hybrid one, including private sale and a mix of new affordable rent model tenures. This model and tenure structure allows for the schemes to be adapted to meet changing tenure demands over time.

1.4.2 Immediacy of delivery

Development of such models is considered to offer the prospect of deliverability under current adverse market conditions and can be adapted to a range of development sites with different development characteristics. Several sites have been through several years of decanting, leasehold buy-backs, demolition, master planning and failed attempts to secure development constrained by adverse market conditions and low land values. In their vacant states, none are contributing to increasing the vitality of the local economy – indeed keeping the sites in their vacant state is regarded by the Council as a disincentive to attracting wider private investment in the Borough. Fundamentally, redevelopment will help raise land values in the area thereby enabling further regeneration and private sector funded development.

1.4.3 Overcoming economic barriers

Barking & Dagenham has some of the lowest housing and land values in the capital but with London construction costs. Economic viability of development sites is fragile at best. In current market conditions, the market for new owner occupied housing is particularly weak, not least due to lending conditions of banks and building societies. Development of alternative delivery models would secure development and occupation by a broad range of households thereby bucking economic and perception constraints. One of the outcomes of the successful implementation of both the Housing Business Plan and the Council's Housing strategy will be an increase in land values over time.

1.4.4 Diversifying the housing stock

For Barking Town Centre the development of regeneration sites would meet the overall objectives in the Economic Development Strategy to diversify the tenure of housing in the Town Centre (dominated by a concentration of public housing on social/council rents). The diversification (including households on 65% and 80% of market values) will bring new spending power to the Town Centre and serve to stimulate demand for a broader retail offer that hopefully the market will respond to thereby increasing the vitality of the Town Centre

2.0 Council Housing service – mission, strategic vision, strategic objectives and branding

2.1 Mission

The mission of the Council's Housing service is very clear. All of our activities will be focused on improving the lives of residents, delivering quality services that are value for money and extending the range of housing options available for our residents.

2.2 Strategic Vision

The strategic vision of the Housing service is to:

1. Provide high quality homes and services at a price local people can afford
2. Enhance existing communities and create new thriving communities and places where people choose to live
3. Increase the prosperity of our residents and business community
4. Improve the quality of life for people in and around our developments
5. Create attractive and sustainable places that promote pride and a sense of belonging

2.3 Strategic Objectives

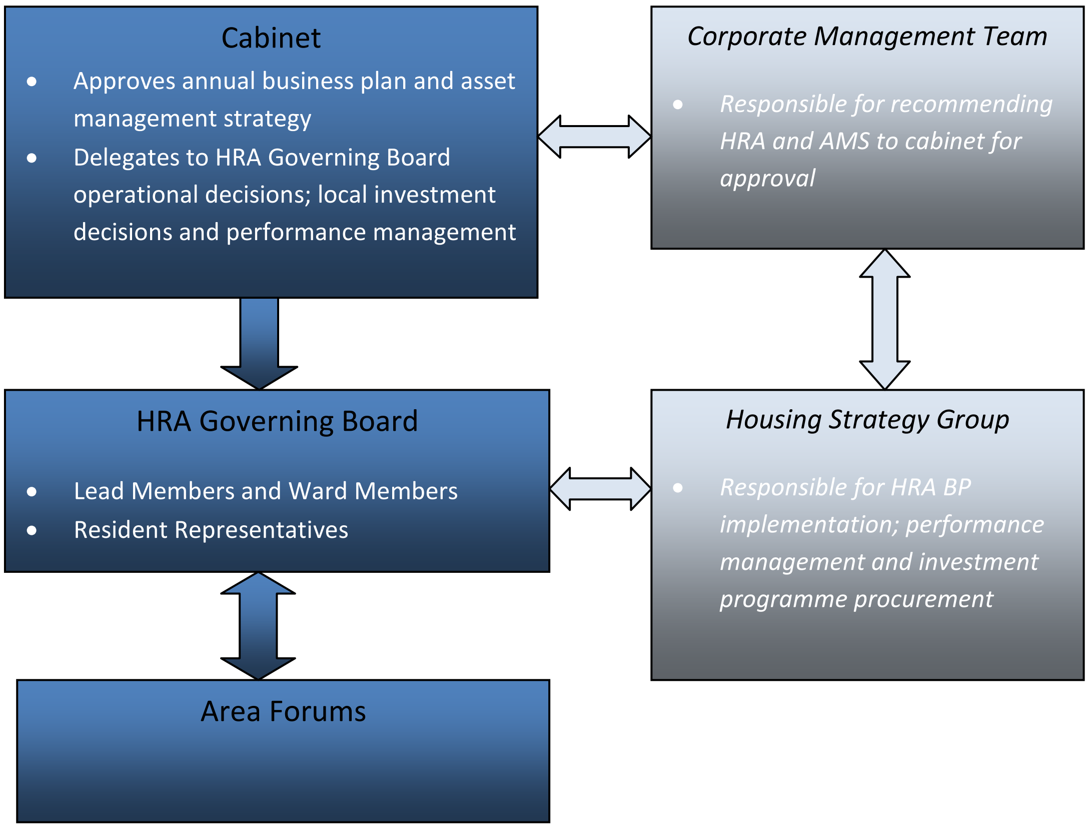
The business objectives to deliver the strategic vision are:

1. Continually improve our services to offer the best value to our residents
2. Continually improve the quality of the retained housing stock and provide a suitable range of supported housing
3. retain and increase the amount and quality of affordable housing, including both social rent and multiple forms of intermediate tenure in the Borough through active asset management and partnership working
4. seek to reduce fuel poverty by using more innovative and sustainable energy solutions and design and refurbish homes that require the consumption of less energy during construction and in use
5. undertake any activity consistent with assisting the Council to deliver its responsibilities arising from its Council Plan, but always consistent with good financial management and the requirement to maintain a balanced HRA budget
6. undertake social regeneration activities aimed at helping households gain greater financial security and choice in accessing a range of housing tenures
7. Lead in the development of sustainable communities, neighbourhood management and community cohesion
8. operate as a social enterprise with an objective to maintain, enhance and develop the Council's housing assets to meet the housing requirements of today's and tomorrow's residents as agreed by Cabinet and the future board of the Council's Housing service (HRA Board)

3.0 Governance

3.1 Governance structure

The following governance structure is to be established as follows:



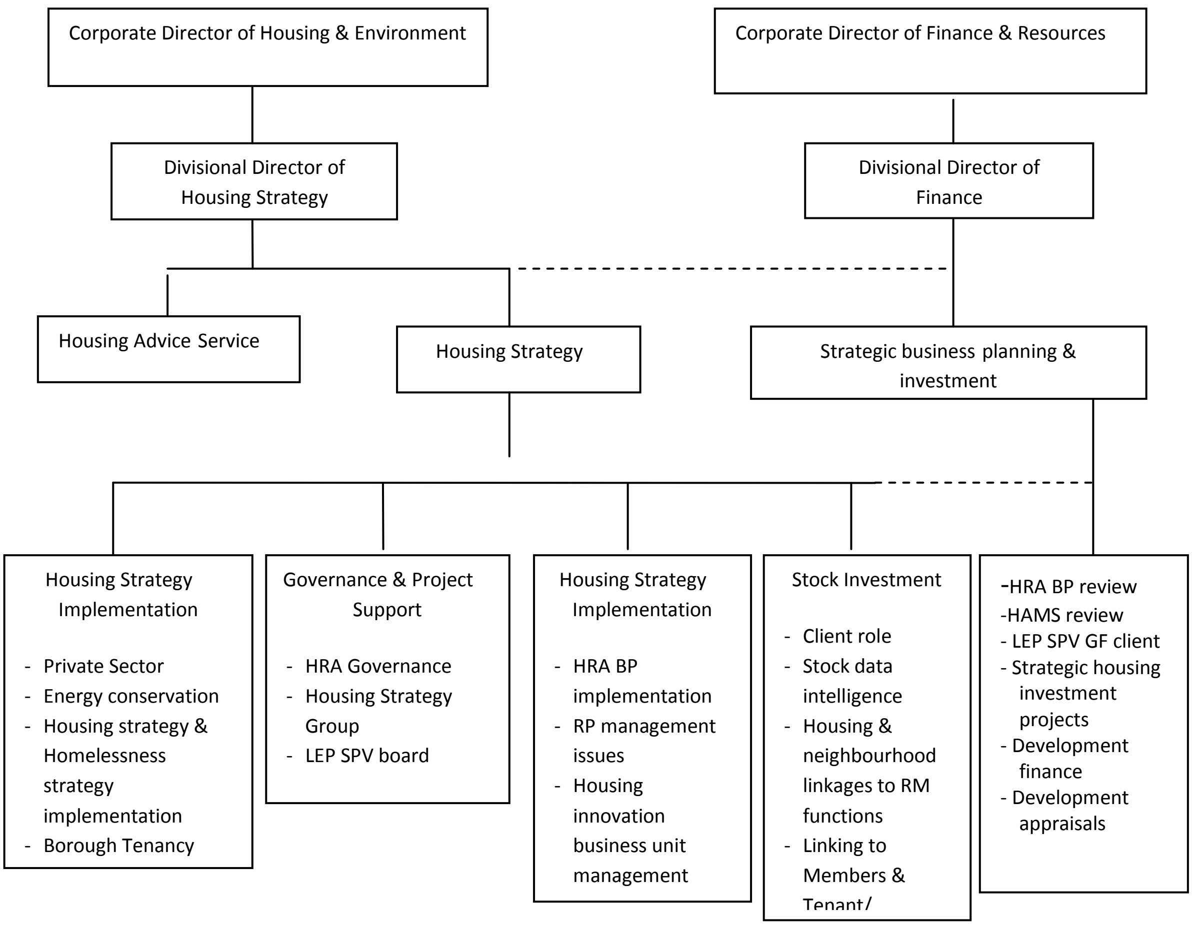
The structure above operates as follows:

Governance	Cabinet	Supported by Corporate Management Team to: • Approve HRA BP and AMS • Annual review of HRA BP and AMS and set rent levels and other charges
	HRA Governing Board	Supported by Strategic Housing Group to: • operationally deliver the HRA BP and AMS • representing the views and interests of residents • review performance management of Housing Service and investment programme delivery
	Area Forums	• responsible for representing the interests and views of specific geographical areas

		• responsible for participating in detailed investment scheme development and project/ contract meetings
Officer support to Governance structure	Corporate Management Team	• responsible for oversight of proposed housing investment programme in line with B&Ds corporate objectives • responsible with Cabinet Member for recommending the housing investment and estate renewal strategy to Cabinet • responsible for high level monitoring of the investment programme
	Strategic Housing group	• responsible for developing decent homes and estate renewal investment strategies in consultation with HRA Board • responsible for recommending to the Council's Corporate Management Team and Executive the investment strategy • responsible for procuring and implementing the investment programme in consultation with HRA Board

3.2 Executive Management

The organisational chart below shows the core structure and functions for delivering the HRA Business Plan.



The executive management team is accountable for delivery of strategies and key action plans and for reporting progress to Cabinet and the Board.

3.3 New Tenant Services Agency Standards

To support delivery of the business plan and key action plans, in line with the new TSA standards, the following work stream project managers will report to a Member, resident and senior staff steering group:

Workstream	Details
Tenant involvement & empowerment standard	• customer service & choice • involvement & empowerment • equality and diversity • tenants with additional a support needs • complaints
Home standard	• repairs and maintenance • quality of accommodation • new build affordable homes
Tenancy standard	• allocations • rent • tenure
Neighbourhood and community standard	• neighbourhood management • local area co-operation • anti-social behaviour
Value for money standard	• cost effective, quality services and homes
Governance and financial viability standard	• governance structures capable of delivering aims and objectives • resource management to ensure viability

4.0 Operational Environment

4.1 Business environment

LBBD overview

Population	176,000 (projected to increase to 227,00 by 2031; 28% increase over next 21 years) Highest rates of growth expect in 0-14 and 25-44 age groups
Age structure	0-16 26% 17-24 62% 65+ 12%
BME Groups	1991 6.8% 2001 15% Current estimate 33%
Poverty	11th of 352 Las Index of Multiple Deprivation Second lowest weekly average earnings in London
Household	73,700 in 2010 to 97,700 in 2031 – an additional 1,142 households per year
Education	No qualifications 23.2% (twice London average) Degree 22.37% (almost half London average of 39.7%)
Life expectancy	1.5 years lower than national average
Unemployment	20.5% of working age (15% London average)

Total housing stock	71,000 dwellings
Council rented stock	19,200 (27% of total; 3 times national average)
Owner occupied	53% (70% national average)
Private rented sector	15% (slightly larger than 12% national average)
RSL	5% (8% national average)
Property affordability	• Average house price £208,927 • 2 bed rent £884 pm • Average property costs over 6.5 times average house hold income for borough of £32,200 • Housing Strategy funding is that increasing number of households cannot access owner occupied housing and also access to private rented section for 2 bed plus properties is also not affordable.

4.2 LBBD Housing Strategy 2012-2017

The LBBD Housing Strategy 2012 – 2017 sets out the key housing issues that need to be addressed to meet the borough's strategic housing objectives:

- Provide a variety of quality housing types for a rapidly growing and changing population
- Provide sufficient housing to meet the anticipated high demand for housing

- Formulate development structures that can deliver viable re-development solutions within the context of high development and regeneration costs
- Provide a range of tenures that meet the high affordability gap for access to owner occupation and private rented units
- Address the significant investment requirements in both public and private rented stock
- Tackle rising energy costs and significant pockets of fuel poverty

4.3 National & Regional Housing Policy

Against the backdrop of increasing demand and the Government's objective to reduce the national debt the following key national housing policy changes will affect the operations of Barking & Dagenham Homes:

Policy Change	Effect	Impact
HRA Self-Financing	• Dismantling of national subsidy system • HRA ring fenced income and debt from 1 April 12	Opportunity to run HRA as a standalone business and adopt a funded 30 year business and asset management plan to meet the housing aspirations of local people
Affordable Rent Model	• Introduction of new grant and intermediate rent model	HRA can now directly operate the new rent model and access HCA affordable housing programme grant to help develop new housing
Welfare & Benefit reforms	• Introduction of Universal Credit will replace the current system of benefits • Will cap amount of benefits allowable for housing costs	• May increase incidence of rent arrears • LBBDs level of market rents means that proposed HB caps will not affect LBBD Local Housing Allowances used for the calculation of benefits
Localism Act	• Implements the Governments localism agenda • Allow LAs to offer fixed term tenancies and restrict priority for social housing • Allows discharge of homeless responsibility by housing households in private lettings	• LBBDs proposed governance arrangement for the Housing service will put member and residents at the heart of governance
GLA London Housing Strategy	Objectives: • Build partnership with boroughs	Self-financing allows the Council to further enhance the leadership role that it has undertaken in

	• Increasing supply • Raising standards • Enhancing mobility & choice • Tackling need	meeting the GLAs objectives.
East London Housing Strategy	Objectives • Increasing supply • Ensuring homes are affordable • Quality and sustainability • Mobility • Inclusive housing	As above
TSA new regulatory framework	Introduction of new standards for affordable housing landlords (see 3.2 above)	Will require the Housing service to review the delivery of its services to tenants

4.4 Market conditions and the impact on Barking & Dagenham

4.4.1 Changing structure of residential markets

At the end of 2010, UK national house prices remained 11.3% below their 2007 peak according to the Nationwide quarterly index. The mainstream housing market recovery stalled in 2010 and is continuing to stall in 2011/12. Annual transactions for the last three years have been at less than 55% of their 2006 peak. Against this national backdrop there are significant local variations: for example the London boroughs of Islington and Camden in 2010 had transaction levels within 10% of the pre-credit crunch norm, whilst boroughs such as Barking & Dagenham and Newham had transaction levels down by over 55%

These are highly significant indicators and are fundamental to indicating the kind of market demand that the Council will need to address in the future The figures show continued weakened confidence among those able to buy and also indicate increasing structural changes within the housing market. According to research by Savills, households have to increasingly wait until later in life before entering the home ownership market. This is due to:

- increased real house prices
- lack of mortgage finance availability
- lack of deposit finance
- lack of home equity in the under 35 age groups (currently only 5% of housing equity is held by this group)

The financial drivers of home ownership began to change as early as 2000 when the need for higher deposits began to impact upon people's ability to enter the home ownership market. The withdrawal of high loan to value mortgages has greatly exacerbated this problem and is likely to continue at least until the end of the current financial crisis. Consequently, the average age of unassisted first time buyers has risen to age 37. The average Loan to Value ratio is now 73% rather 80% typical in 2006/07 and the 20 year average of 85%. These factors have reduced the numbers of single and young family household able to enter the home ownership market with home ownership increasingly driven by existing owners with equity or by households with access to sufficient deposits either through earnings or from family sources; the proportion of cash buyers in the first three months of 2011 increased to 36% showing that the market is being increasingly driven only by households with sufficient equity to purchase.

The amount of equity that first time buyers have to find in order to access the mortgage market is close to 100% of annual income - even if loan-to value ratios for first time buyers returned to their 25 year average of 91% then average deposits would still be equivalent to around 40% of a year's earnings. The current mortgage market is almost entirely equity reliant with c25% of the property's value now funded by the buyer. These factors have meant that demand for private renting has been increasing for the last 20 years with the proportion of private rented stock increasing from 7% in 1988 to 14% in 2008. This has increased the number of people renting on Assured Shorthold Tenancies has risen from 945k in 1995 to 1.86m in 2007.

Furthermore, the English House Condition Survey shows that of 298,000 households formed in 2009/10, 70% of them moved into the private rented sector whereas the average between 1999/2000 to 2007/08 was 45.9%.

Another indicator in the changing structure of the housing market is that despite falling capital values in the owner occupied sector the capital value of private rented units fell just -3% in 2008 and actually grew by 13% in London in 2010 – the financial viability for investment in the private rented stock has increased.

4.4.2 Housing sub-markets and the role of LBBD

The housing market is a series of inter-related sub-markets between areas and across all housing tenures. Research by Savills characterise the residential market into:

Grade	Investment tiers			LBBD's position
	Tertiary	Secondary	Prime	
A	semi – detached homes near industrial estate	Quality central London conversions	Large detached home in leafy suburb	LBBD is over-represented in the tertiary forms or accommodation
B	1930's semi close to major road/ airport	estate house in secondary location	family homes in high demand area	LBBD is over-represented in the tertiary and Secondary forms of accommodation
C	Poor condition private housing	studio flat in lower demand areas	Ex council properties in poor flatted estates	LBBD occupies an economic and spatial position where it can provide wider affordable tenures directly and in partnership with other organisations

4.4.3 Demand and supply

Barking & Dagenham's Housing Needs Study 2011and Housing Strategy 2012 -2017 show a high demand for affordable housing in the Borough. This trend has been confirmed by a 70% increase in the Council's combined housing register and transfer waiting list in the period between March 2005 and February 2011 – the current list contains 11,800, an increase of 447% since 2001. This trend can be expected to be further confirmed as a result of increased homelessness as a result of the current economic downturn. The 2011 study identified significant need for affordable housing of all sizes on new developments in LBBD, particularly 3 and 4 bedroom properties in both social and intermediate tenures.

LBBD has determined in its 2012 – 2017 housing strategy the following housing size allocation:

- 1 bedroom units - 30%
- 2 bedroom units - 20%
- 3 bedroom units - 35%
- 4 bedroom units - 15%

The Wilcox Report (2005) identified a potential intermediate market of between 6,000 and 11,000 working households in Barking & Dagenham (Affordability and the Intermediate Housing Market, Steve Wilcox, JRF 2005). More recent studies have shown that half of Barking &Dagenham's working households cannot afford to buy market priced homes in the lowest quartile of price levels in either the Borough or the surrounding area (Review of Intermediate Housing in London, Wilcox and Williams, GLA 2007). Beyond the Borough boundaries, the Department of Communities and Local Government identified a need for up to 160,000 well-designed homes in mixed communities across the Thames Gateway between 2001 and 2016. Approximately 60,000 of those homes are anticipated to be affordable.

4.4.4 What this means for Council housing in Barking & Dagenham

The structural changes in the residential market and the market characterisation above have the following implications for the activities of the Council Housing service:

1. Increasing long-term demand for a wide range of affordable tenures at different price points
2. An increase in demand from single persons and family households for intermediate rent and shared ownership tenures
3. A local property market in the borough where property values are increasingly determined by a combination of capitalised rental values (already the case for public sector housing) and owner occupied market values
4. Opportunity to take advantage of underlying regeneration value uplift due to locational and transport advantages in relation to the City of London, Docklands and other major development areas in adjacent borough's
5. A probable increased level of demand for investment rental properties in the borough due to relatively low capital values but strong income streams
6. Increased risk (and conversely opportunities that this brings) that investor demand will increase the proportion of and demand for rental properties in the borough which may help redevelopment become increasingly viable

7. Increasing concentration of housing equity towards private landlords and owner occupied sector away from other income groups
8. Increased opportunities to develop joint venture structures to access institutional/ private equity investment through schemes harnessing rising private rental sector capital values to subsidise social rented activities and make more creative use of new affordable rent model and fixed-term tenancies to take advantage of relatively low owner occupied values in LBBD
9. Increased opportunities for LBBD to operate a private sector management function

5.0 Increasing housing choice for our residents

The long-term structural changes that are occurring in the residential market have profound implications for the types of housing options that need to be provided in Barking & Dagenham. The Council's Housing service is in a favourable position to directly provide and develop these housing options and also in partnership with our private sector partners where this makes financial and economic sense.

5.1 Market Demand

The growing number of households in the borough, faced with the financial barriers to access home ownership, will need access to a wider range of affordable housing options.

The Council is developing housing options for the following:

- Social rent
- Wider range of temporary accommodation
- Developing a housing management and asset management service for private affordable housing schemes developed in the borough and funded by institutional investment
- Consideration can also be given to looking at the provision of 65% and 80% of private market rents within new developments

5.2 Meeting Market Demand

The Council has considerable land assets which it will use to help regenerate the borough through housing led regeneration schemes as set out below.

Active asset management	The Council has embarked on a detailed 30 year asset management strategy which includes: • Investing in the existing stock up to renew all major building elements to an as new standard • Redevelopment or disposal of obsolescent/ uneconomic stock • infill development within existing developments
New Build affordable housing	The council is actively operating the Homes and Communities Agency's new affordable rent model to support a programme of new build affordable housing within the HRA on Council owned sites which range from social rent to 80% local market rent levels
Housing management and asset management service on trading account basis	Operating a ring-fenced housing management and asset management function to provide cost effective services for joint venture redevelopment and private sector led developments

Part B – How we will deliver

6.0 Asset Management and new Housing Investment

6.1 Stock Investment Overview

The Housing Strategy (2007-2010) included the following objectives:

- Bring 16,300 rented homes up to the Government's Decent Homes Standard by 2010 and Decent Homes Plus Standard by March 2016.
- Redevelop 3,000 units under an Estates Renewal Programme
- Redevelop/ refurbish 1,300 units through the Private Finance Initiative

Although some £104m was invested in improving the Borough's public stock, the amount of funding available for the improvement programme was approximately £30m below levels originally anticipated. This was due to falling right to buy receipts; limited available capital receipts; higher than expected costs in reaching decent homes standards and higher than anticipated build cost inflation rates. In addition the cost of reaching Decent Homes rose further due to delays in the Estates Renewal programme and the refusal of PFI credits. This has meant that 4,300 additional properties investment requirements have been incorporated within the HRA investment programme to be delivered under self-financing.

In line with good practice, and in preparation for HRA Self-Financing, a new stock condition survey has been undertaken to review the investment needs and inform the Council's new Housing Asset Management Strategy.

6.2 Investment Requirements

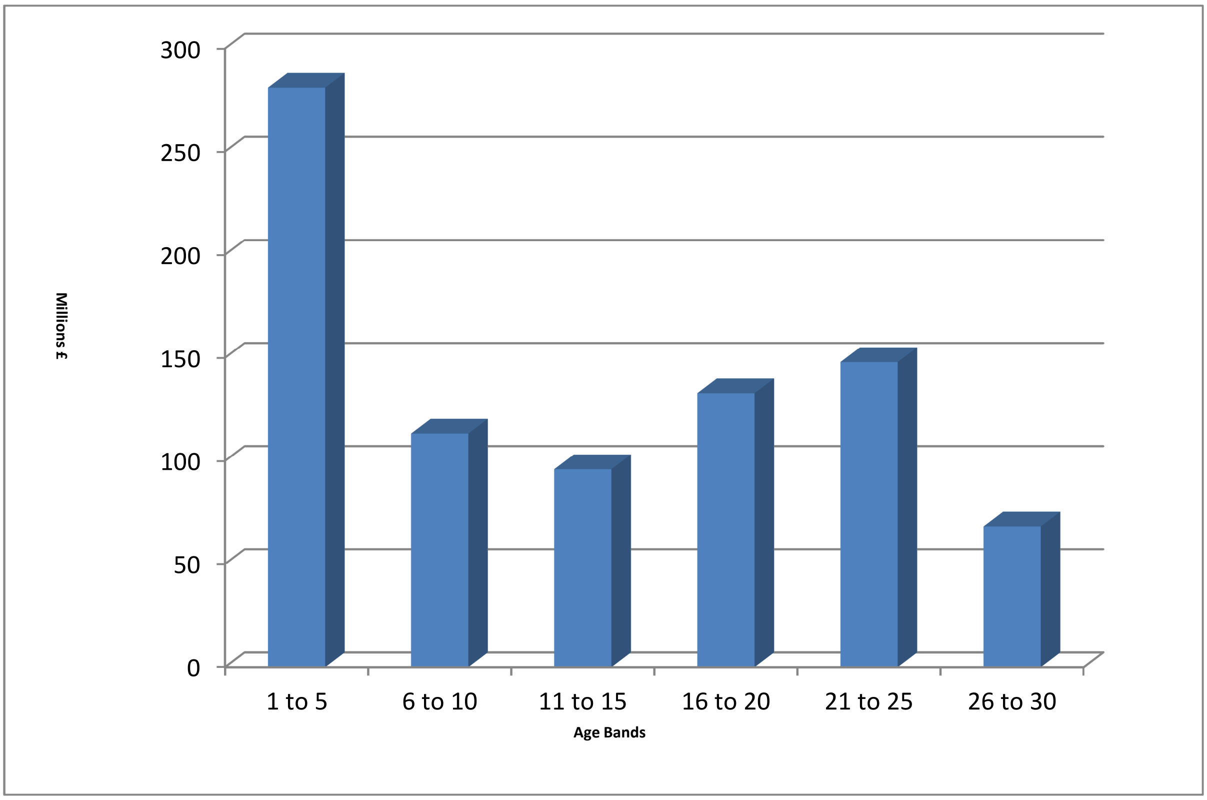
6.2.1 Retained housing stock

In summary the findings of the stock condition survey show that there has been significant past capital expenditure to the external 'wind and weather tight elements such as windows, doors and roofs. In contrast however, there was far less evidence of past capital investment for internal elements and consequently a greater proportion of the stock requires significant investment in the short term to renew elements such as kitchens, bathrooms, electrical and heating systems etc.

The total forecast expenditure to address the investment backlog and maintain the stock including revenue expenditure is £1.309bn over the next 30 years (excluding fees and the impact of inflation).

6.2.2 Investment need time profile

The graph below shows that significant backlog investment is required in the stock in the next five years. This reflects that insufficient resources were available for investment under the previous subsidy based system. Once the initial backlog investment programme is complete then the expenditure required to maintain the stock will follow a life-cycle replacement programme and, provided that rents increase as forecast in the financial model, the stock can be maintained to an 'as new' standard as all major building elements will be renewed according to their life-expectancy.



6.2.3 The Decent Homes Standard

As the Council is adopting a life-cycle replacement approach to maintaining the stock then, after the initial; backlog investment is complete, the Government's Decent Homes Standard and the Council's Decent Homes plus Standard become largely irrelevant. These are minimum standards that do not account for life-cycle replacement of building elements; by adopting such an approach once a dwelling has been through its first cycle of building element renewal it will thereafter be maintained to a level higher that the Decent Homes Standard.

The current level of homes that are non-decent is estimated at 33.6%. The Council's intention is to address this backlog through the backlog investment programme and it is anticipated that the backlog will be dealt with bby 2019/20.

6.2.4 Our approach to housing investment

During 2011/12 we embarked on a comprehensive review of the way in which we will deliver our housing investment programme. Under our new Housing Asset Management Strategy we will provide residents with a higher standard of elemental renewal that goes beyond the minimum Decent Homes standard. This programme will seek to renew all major building elements and thereafter homes will be maintained according to a life-cycle basis.

Within the housing investment programme to our existing stock tackling fuel poverty and providing affordable warmth will be a central theme.

6.2.5 Strategic Investment Themes

The strategic investment themes are as follows:

Decent Homes investment programme	A detailed 10 year investment programme is being developed and profiled to align with available resources and to address the decent homes backlog within a 5-8 year period. The rolling programme contained in this report enables progress to be maintained in addressing the stock's investment backlog.
Estate renewal programme	A fundamental element of the investment strategy is to demolish and redevelop c1715 flats on estates that are deemed uneconomic in which to invest to produce mixed income and tenure communities. The intention is to decant these flats over a 5 year period (in line with the HRA self financing settlement): this will free resources for investment in the remaining stock. Under self-financing LAs will be expected to undertake an active asset management strategy to ensure that uneconomic and obsolete properties are reconfigured or redeveloped. Consequently, over the course of the 30 year business plan there is likely to be further estate renewal schemes; such proposals will be subject to a full options appraisal and business case to ensure that there is no adverse impact of the viability of the retained stock
New build programme	Subject to the availability of grant from HCA a programme of new Council homes will be funded from within the HRA which will support delivery of the estate renewal programme.

The investment streams above are interrelated themes. Successful delivery of our new build and estate renewal programme are fundamental to bringing the existing stock up to modern standards. This is because a proportion of the stock needs to be demolished and redeveloped and the new build homes provide essential decant units for the estate renewal programme. Without this order of investment priority then a disproportionate amount of resources will be absorbed by maintaining homes that are beyond their economic life and would not represent best value.

To deliver the investment programme we will establish a rolling programme of schemes that will be delivered across a five year period. Establishing such a programme will provide the flexibility required to move resources between investment streams as the programme is implemented and will provide flexibility to deal with unforeseen factors and to take advantage of new opportunities as they arise.

6.3 Resources & Affordability

6.3.1 Resources and Affordability

The table below sets out the Council's investment programme for the next 10 years.

For the purposes of this business plan the focus has been on the first 10 years of

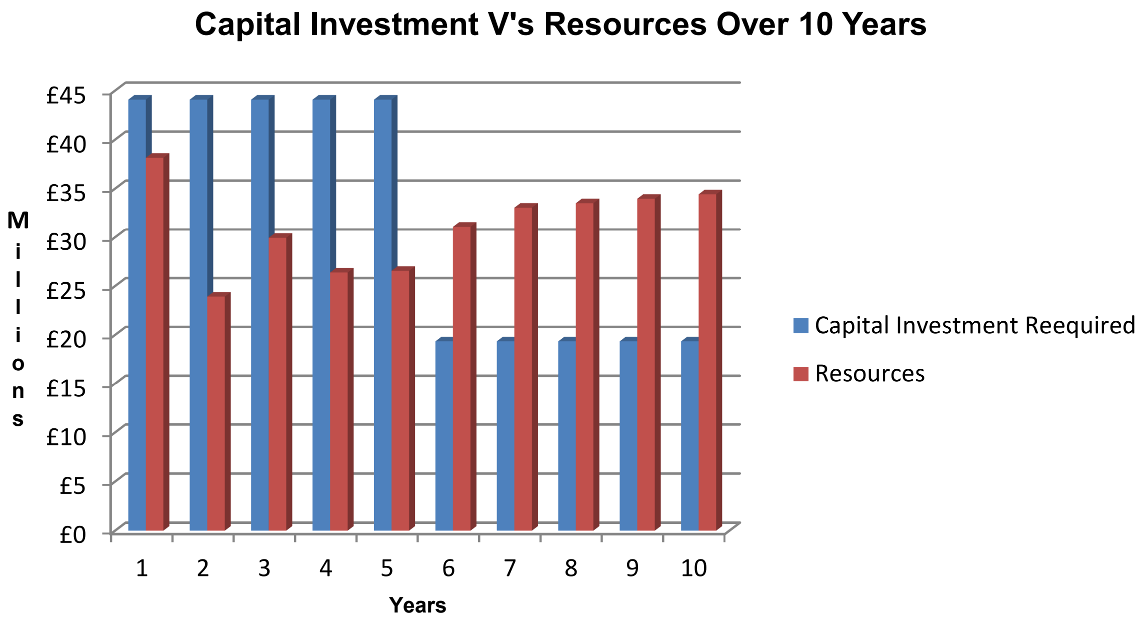
Capital investment requirements identified from the recent stock condition survey. Allowance within the investment budget has been made for areas of investment outside the scope of the survey such as Contingencies, exceptional extensive, disabled adaptations, fire risk assessments etc.

The following table and chart illustrates the total capital investment required over the next 10 years compared to the net available resources. Due to insufficient resources to meet all of the strategic investment themes it has been necessary to profile backlog works to the existing stock over the first ten years. This allows the higher priorities of estate redevelopment and new build to proceed as planned whilst embarking of an increasing level of investment to the existing stock as resources are released as uneconomic stock is redeveloped.

Years	1	2	3	4	5	6	7	8	9	10	Total
Capital investment required	43.81	43.81	43.81	43.81	43.81	19.34	19.34	19.34	19.34	19.34	**315.22**
Resources (excluding revenue)	38.15	23.92	29.94	26.38	26.56	31.10	33.05	33.51	33.97	34.42	**311.00**

Note: In line with common practices, the capital resources identified by PwCs financial modelling, include a variety of assumptions relating to inflation and fees, which can make a direct comparison with the Savills stock condition survey results figures problematic as these items are not included. To allow an "apples with apples" comparison the PwC figures have been amended by removing the compound inflation (2.5%) assumption and fees (8%) etc which is why the resources available in the table above show a 10-year resources total of £311m compared to £389m identified in the financial plan on page 30. It should be noted that the table above assumes that the whole of the investment contingency will be used for capital investment in existing stock. Therefore, if the investment contingency is used for one of the alternative investment streams there will be greater shortfall in resources than the £4m identified in the table above.

In addition it is also assumed that the stock identified for regeneration is excluded from the survey results. However, it should be noted that the investment resources do allow a small sum of £500 per property for the regeneration stock in the short term to allow minimum "tick over" investment until demolition.



As can be seen from the above graph there are sufficient resources to meet the investment needs of the retained stock, including addressing the Decent Homes backlog, over the first 10 years of the HAMS. However, this does mean that due to the need to invest heavily in the stock over the first five years there is a mismatch in the available resources for that period. This means there is a need to reprofile the investment programme to match available resources over the first 10 years. In essence approximately £74.13m has been deferred to years 6-10. This has necessitated a view being taken regarding the priority of investment which is set-out in the next section.

The table below shows the timetable to which the Council is working to address the 33.6% non-decent home backlog. However, it is anticipated that this timetable will be brought forward following the Council's adoption of a higher standard whole house renewal investment programme. The AMS will set out the revised programme in detail.

This profile is will be subject to regular reviews.

	2012	**2014**	**2016**	**2018**	**2020**
Non-decent dwellings – Backlog bid programme	7118	5400	3600	1800	0

6.3.2 Stock remodelling and redevelopment

After deferral of investment in the retained stock in years 6-10 and funding of the estate renewal and new build programme any other investment resources that arise which will be allocated to a rolling programme of infill development, further estate renewal, HRA new build and stock remodelling and replacement of technically and socially obsolescent stock.

6.3.3 Aligning the investment programme with resources

1	Future Major Works	• External Roofing Elements: Defer 30% from year 1-5 to 6-10 • External Windows and Doors: Defer 10% • External Stores and Fences etc: Defer 60% from 1-5 to 6-10 • External Walls: Defer 40% from 1-5 to 6-10 • Internal Elements Defer 15% - 20% from 1-5 to 6-10 • Common Areas Defer 30% from 1-5 to 6-10
2	Related Assets	• All related Assets: Defer 60% from 1-5 to 6-10
3	Improvement	• Concierge Defer from 1-5 to 6-10
4	Contingencies	• All Contingencies: Defer £1m from 1-5 to 6-10
5	Exceptional Extensive	• Tower Block M&E: Defer 50% from 1-5 to 6-10 • *Contaminated Land: Defer from 1-5 to 6-10* • *Flood Risk Allowance: Defer from 1-5 to 6-10* • *Gas installations to the Tower Blocks: Defer from 1-5 to 6-10* • *Recycling Facilities: Defer from 1-5 to 6-10* • *Renewable Energy Schemes: Defer from 1-5 to 6-10*
6	Environmental works	• All Work: Defer 1-5 to 6-10
7	Area budget	• For allocation by Area Investment Panels
8	All other categories	• Not altered

This approach seeks to balance the need to invest heavily whilst also ensuring that wind & weather tightness is preserved. In addition all landlord obligations relating to DDA, asbestos, fire risk assessment etc have been ring fenced and are not affected by the investment programme reprofiling. In progressing this programme there will be a concerted focus on tackling fuel poverty

This investment scenario in the table above defers a total of £74.13m from years 1-5 to years 6-1- and in so doing balances the investment need to the availability of forecast financial resources within the business plan.

6.4 Supported housing needs

The investment programme will explicitly promote independence, ensuring that people can remain in their homes within the community for as long as possible and for long as they wish. These will be delivered through:

- Ensuring the major works investment programme addresses life-time homes requirements where possible
- That HRA new build homes are built to life-time homes with a proportion of wheelchair units within each new development
- That a range of specialist housing options is provided –e.g. sheltered and extra care housing

The HAMS will set out in detail the supported housing investment programme

6.5 Investment Programme Formulation

Whilst the above investment scenario ensures the expenditure and resources are balanced at the macro (whole stock) level, there are challenges to apply this at the micro (property) level. The HAMS assumes that there needs to be an investment presence within all wards during the first five years and beyond as opposed to simply starting in the East and moving to the West over a five year period. In line with common practice a detailed 5 year investment programme has been created which is reviewed on a rolling programme basis each year.

6.5.1 Putting the programme together

To develop a detailed micro level investment programme the following approach has been adopted. The investment programme will be subject to annual approval by Cabinet.

<table>
<tr><td>1</td><td colspan="2">Analysis of the SCS survey results at macro (stock) level to ascertain overall stock investment need and strategic approach to investment (as set out in table above)</td></tr>
<tr><td>2</td><td>Strategic investment priority categories</td><td>The macro level stock investment requirements will be delivered through the following investment priorities according to the availability of resources.
<table>
<tr><th>Category</th><th>Details</th></tr>
<tr><td>Health & Safety</td><td>Works essential to meet Health & Safety obligations</td></tr>
<tr><td>Wind & Weather tight</td><td>Works to protect the fabric of flats and houses</td></tr>
<tr><td>Internal</td><td>Decent home related works and major improvements to internal major elements to bring homes up to an ‘as new’ condition</td></tr>
<tr><td>Environmental</td><td>Works to external areas within the cartilage of dwellings/ flatted estates e.g. paths and fences; improvements to common areas</td></tr>
<tr><td>Adaptations</td><td>Independent living works</td></tr>
<tr><td>Locally determined</td><td>Works reflecting locally determined improvements</td></tr>
</table></td></tr>
<tr><td>3</td><td>Assessment of Ward level investment need</td><td>An investment need and programme analysis matrix –has been constructed to provide an ongoing understanding of the level of investment need required within each Ward and ward sub-areas. This approach enables an investment overview to be taken per key elements at Ward level to underpin programme formulation within across wards to deliver the investment strategy detailed above for the next the next 5 -10 years. This is fully set out in the AMS.</td></tr>
<tr><td>4</td><td>Agreement of investment programme between Wards</td><td>This will be determined by the Housing Board Investment Sub-Committee in consultation with Area Forums</td></tr>
</table>

5	Construct programme at property/elemental level – undertake additional 100% surveys to ensure best value procurement	Once the general principles of the running order of the wards and the likely volume of elemental replacements per ward is decided in principle, additional surveys will be undertaken. These surveys are intended to follow the same collection process as the previous but will also include a digital image of the key elements so the ultimate decision of producing a programme of work at property level will rest with the Council.
6	Procurement of the works	Once this information is available the Assets team will collate the programme together at property/ward level, and apply appropriate costs. This approach will also ensure that the team can keep a running total on affordability which in turn will prevent over specifying of work to the detriment of other wards that may require work etc. Once this process is complete a published 5 year plan will be in place at property/elemental level which in turn will be procured with the full control of the Council, as the Council will be "telling" the contractor what work in each property will be undertaken, giving a far greater level of control not only for the programme as a whole but also regarding expenditure, As the programme is delivered out turn costs will be inserted per element and any under/over expenditure identified early, giving the Council sufficient time to adjust the programme to prevent over spend etc.
7	Affordability and VFM check process of tendered prices	
8	Place investment contracts	

6.6 Maximising jobs, skills and business opportunities for local people

There are high levels of worklessness concentrated on some of the Council's estates, the service will consider how it can best contribute to the overall task for the Council to tackle unemployment, increase skills levels and household incomes.

In addition to this, the investment programmes arising from the HRA Business Plan will generate significant job and business opportunities for local people.

7.0 Financial

7.1 HRA financial plan and resources

A 30 year HRA financial plan has been developed following the implementation of HRA self-financing. The current draft reflects most recent estimates, but the underlying assumptions will need to be monitored and refreshed in the run up the start of self-financing, and thereafter maintained as a living financial plan to support strategic decision making and operational management.

7.1.1 Summary financial plan April 2012 - March 2022

The table below shows the major elements in the HRA from 1 April 2012. It shows:

- HRA rents and operation income under HRA self-financing (rental income less revenue and interest costs)
- Forecast savings to recharges and on-going savings in M&M costs
- Decent Homes backlog grant, Affordable Housing programme grant and additional borrowing to the debt cap
- The allocation of investment resources across the Strategic Investment Categories described in the preceding section
- A top-sliced investment budget of £20m will be established to ensure that resources can be moved between the strategic investment themes in the table below to enable the Council to respond to unforeseen circumstances opportunities as they arise throughout the initial 3 year investment programme. This will be allocated to either investment schemes in the current stock or, subject to a full options analysis and business case, investment in newbuild schemes or further estate renewal schemes.

Barking HRA 8 February											
Stock		18,697	18,462	18,243	18,064	17,850	17,663	17,622	17,622	17,622	17,622
£m	**10 yr**	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***
Rent & other income	**917.8**	83.2	84.8	86.4	88.2	89.8	91.6	94.1	97.0	99.9	102.9
Man & maint	**-453.0**	-41.4	-42.1	-42.9	-43.7	-44.5	-45.4	-46.5	-47.6	-48.8	-50.1
HRA recharges	**25.0**	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
M&M Savings	**20.0**	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Net rent	**509.7**	46.4	47.1	48.0	49.0	49.8	50.7	52.2	53.8	55.5	57.3
Interest	**-97.2**	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7
HRA resources	**412.6**	36.7	37.4	38.3	39.2	40.1	41.0	42.4	44.1	45.8	47.6
Grant and new borrowing											
New borrowing	**6.7**	6.7									
HCA new build grant	**18.4**	8.4	0.0	10.0							
Backlog funding	**40.0**	9.5	15.0	15.5							
	65.1	24.6	15.0	25.5							
Total capital resources	**477.7**	**61.3**	**52.4**	**63.8**	**39.2**	**40.1**	**41.0**	**42.4**	**44.1**	**45.8**	**47.6**
Capital works	**-369.2**	-33.0	-22.7	-30.3	-31.7	-32.6	-39.0	-42.4	-44.1	-45.8	-47.6
Investment contingency	**-20.0**	-10.0	-5.0	-5.0							
New build	**-50.1**	-11.9	-17.2	-21.0							
Estate renewal	**-38.4**	-6.4	-7.5	-7.5	-7.5	-7.5	-2.0				
Total capital spend	**-477.7**	-61.3	-52.4	-63.8	-39.2	-40.1	-41.0	-42.4	-44.1	-45.8	-47.6
Debt		**277.6**	**277.6**	**277.6**	**277.6**	**277.6**	**277.6**	**277.6**	**277.6**	**277.6**	**277.6**

7.1.2 Summarised financial plans for 10-20 and 21-30 years

Financial forecasts have been rolled forward beyond the first 10 years to show the following position over the first 30 years of self-financing:

Barking HRA 8 February								
Stock			18,263	17,630	17,622	17,622	17,622	17,622
£m	**30 yr**	**10 yr**	***2012-16***	***2017-21***	***2022-26***	***2027-31***	***2032-36***	***2037-41***
Rent & other income	**3,764.7**	**917.8**	432.4	485.4	562.5	652.1	756.0	876.4
Man & maint	**-1,763.7**	**-453.0**	-214.6	-238.4	-269.7	-305.1	-345.2	-390.6
HRA recharges	**75.0**	**25.0**	12.5	12.5	12.5	12.5	12.5	12.5
M&M Savings	**60.0**	**20.0**	10.0	10.0	10.0	10.0	10.0	10.0
Net rent	**2,136.0**	**509.7**	240.3	269.5	315.3	369.5	433.2	508.3
Interest	**-291.5**	**-97.2**	-48.6	-48.6	-48.6	-48.6	-48.6	-48.6
HRA resources	**1,844.5**	**412.6**	191.7	220.9	266.7	320.9	384.6	459.7
Grant and new borrowing								
New borrowing	**6.7**	**6.7**	6.7					
HCA new build grant	**18.4**	**18.4**	18.4					
Backlog funding	**40.0**	**40.0**	40.0					
	65.1	**65.1**	65.1					
Total capital resources	**1,909.6**	**477.7**	**256.8**	**220.9**	**266.7**	**320.9**	**384.6**	**459.7**
Capital works	**-1,801.1**	**-369.2**	-150.3	-218.9	-266.7	-320.9	-384.6	-459.7
Investment contingency	**-20.0**	**-20.0**	-20.0					
New build	**-50.1**	**-50.1**	-50.1					
Estate renewal	**-38.4**	**-38.4**	-36.4	-2.0				
Total capital spend	**-1,909.6**	**-477.7**	-256.8	-220.9	-266.7	-320.9	-384.6	-459.7
Debt			**277.6**	**277.6**	**277.6**	**277.6**	**277.6**	**277.6**

Note 1: The forecasts are based on a continuation of the assumptions used in the 10 year forecasts for the full 30 years.
Note 2: Appendix 1 contains the financial modelling assumptions and sensitivity analysis

7.2 Rent policy

The delivery of the business plan and the Council's ambitions to invest in new Council homes, progressing the estate renewal programme and significantly step up its major capital works to improve the life chances of tenants and their families are dependent upon securing an income stream based upon an aggregate rent increase of RPI + 0.5% per annum throughout the 30 year life of the business plan

The Government's HRA self financing model was based upon the assumptions set out above and for the period up to 2015/16, convergence to formula rent levels.

Within the overall rent increase it is planned to have differential rates of increase, as set out below:-

- new build Council homes will have rents based on between 50 – 55% of the appropriate Local Housing Allowance
- rents for existing Council houses will be increased at a higher rate than that for existing flats
- rents for existing homes will be increased to bring them to formula level when major refurbishment works have been undertaken

The justification for this approach is that new homes and fully refurbished homes will enjoy significantly reduced heating and energy bills, in addition to the fact that these homes will be more desirable. It is also the case that houses are generally more sought after than flats. The impact of the policy is that the rents for less attractive flats which have yet to benefit from the major investment programme will increase at a lower rate than that for houses and refurbished flats.

There is also a commitment to work to rebalance the current system of service charges for Council tenants and leaseholders to ensure a fairer distribution on estates where currently only tenants and leaseholders of flats pay charges for services that tenants of houses in that estate also receive.

7.3 Financial model: sensitivity analysis

The table below sets out the key financial risk categories that have been identified in relation to the HRA financial business plan. The impact of these has been modelled to determine the impact on the business of changes to the expected assumptions. A regular monitoring and reporting process has been established and is set out in the following section.

No	Category	Scenarios tested	Impact
1	Rental Income	i. Speed of convergence of rents to formula rent - will it be in line with Government policy? Two main scenarios have been modelled: separately or combined: a. Convergence by 2015/15 b. Convergence by 2019/20 Future scenario testing as part of developing the HRA's detailed risk management system: ii. Rent collection rates (bad debts) in the light of benefit changes. E.g. will introduction of universal credit and/or direct payment to tenants reduce collection rates. Increase in bad debt rates by 5% and 10% on current rates. iii. The baseline financial plan uses social rents increasing in line with Government policy (0.5% above inflation) for all properties. Whilst this is a fundamental principle underlying HRA self-financing, greater variation in rents	See Appendix 2.

		and tenures could flow through in future years a. Impact of base inflation assumption varying by plus/ minus 5% to: i. 2.625% plus 0.5% ii. 2.375% plus 0.5%	
2	Inflation rates	i. Variations on the central assumption of a general inflation rate of 2.5% - though the linkage between inflation and interest rates over the medium term need to be borne in mind – sensitivities have been evaluated assuming underlying inflation rates as follows: a. Inflation rate for entire 30 years reduced by 1% to 1.5% b. Inflation rate for entire 30 years increased by 1% to 3.5% Future scenario testing as part of developing the HRA's detailed risk management system will take the following into account: ii. Real cost inflation (i.e. over and above general inflation is not included), and over time there is an argument that it will not be there. Though short term increases are possible, particularly for build cost inflation. a. Real build cost inflation has been evaluated as follows: i. Years 1-5 0% real ii. Years 6-10 5% and 10% real iii. Years 11 onwards current UK 30 year benchmark gilt yields used iii. Different interest rates for different elements in the HRA cost base need to be modelled e.g. different inflation rates for staff costs and M&M costs. Due to the current adverse economic circumstances a differential variable inflation impact assessment will be undertaken for the next version of the HRA BP.	As above
3	**Interest rates**	Starting from a base of no debt, then interest rates will largely reflect borrowing decisions taken for self-financing. Though to the extent that we take on relatively short term debt, there may be a need to refinance at uncertain future interest rates; this will be picked up in detail in the development of the HRA Treasury management policies a) Interest rate for entire 30 years increased by 0.5% from 3.5% to 4.0% b) Inflation rate for entire 30 years increased by 1% from 3.5% to 4.5%	As above
4	**Estate regeneration and new build**	(i). Estate renewal This is an important area. The central assumption is that the money set aside for estate renewal enabling will lead to	As above

		successful delivery of the estate renewal and new build schemes in the anticipated timescale. There are a number of risks here - essentially around delay. Analysis has will be undertaken on the basis of a slower and faster estate renewal programme as follows: a) Plus three years b) Minus 3 years (ii). New build Similarly for the new build programme, the assumption is that the enabling costs and associated HRA borrowing deliver the new HRA properties (with the benefit of grant and cross subsidy). Again delay, change in scheme scale/nature and future financial call on the Council are potential risks. A detailed development strategy has been prepared as part of the AMS which sets out detailed schemes analysis. On a programme basis the adverse impact of a longer programme periods will be modelled: (iii). Active asset management Under self-financing LAs will be expected to undertake an active asset management strategy to ensure that uneconomic and obsolete properties are reconfigured or redeveloped. Consequently, over the course of the 30 year business plan there is likely to be further estate renewal schemes; such proposals will be subject to a full options appraisal and business case to ensure that there is no adverse impact of the viability of the retained stock.	
5	**Maintenance and life cycle capital needs of existing housing**	Over time there is a risk of additional landlord obligations falling on the Council that would lead to increased costs over and above current estimates. A detailed scenario testing matrix is being developed to assess the likely impact of future policy changes in this area	As above
6	**Right to buy**	Future loss of property through right to buy will lead to a loss of an asset that generates income to support HRA debt. Uncertainty around future changes in the RTB regime leads to the prospect of the Council not being able to keep sufficient amount of the receipt to compensate for the loss of future rent income. The Government is consulting on the future of the RTB scheme and the impact of this on the HRA will be kept under review. In headline terms as long as the net capital receipt from a RTB is available to the HRA then the impact of likely to be broadly neutral. Subject to future changes to the RTB system it is assumed that the receipt from RTB is ring fenced to the HRA capital programme.	As above

7.4 Treasury Management

7.4.1 Self-financing implications

The PWLB have announced that the lending rate for self-financing only will be reduced to pre-spending review rates (i.e. approximately 13 basis points over gilts) which on a mark-to- market basis is below the cost of finance available in the commercial markets and below the general PWLB rates. At this time therefore it is expected that funding for the HRA under self-financing will be initially be sourced from the PWLB. However, in the medium to long-term this is likely to change and the Council will need to develop and maintain a treasury management function that continually monitors and meets the financing needs of the business as it develops over time.

For borrowing authorities, such a Barking & Dagenham, the PWLB will continue to offer early repayment flexibility via the variable rate loan for borrowing authorities. Both the variable rate and the lower rate will be available until the 26 March 2012. Although the PWLB have confirmed that it does not have any long-term concerns that the European debt crisis will have an impact on their ability to lend (because the self-financing borrowing and repayment are within the public sector and therefore has no external impact) the Council will continue to monitor the situation in case the situation does change.

The PWLB has confirmed that it will not split debt between the General Fund and HRA. However, CIPFA recommends that a book exercise is undertaken by authorities who wish to split their debt between the HRA and GF. Barking & Dagenham has decided that it will manage and account for the HRA debt separately from GF activities. This will ensure that the HRA can be operated as standalone business within the Council. This also follows DCLGs policy in this area who have confirmed that the ring fence between the HRA and General Fund will continue after the introduction of self-financing.

The importance of good treasury management under self-financing will be needed to support achievement of business objectives and to conform to the requirements of the debt cap. Although, no specific sanctions have yet been announced if the debt-cap is breached DCLG have confirmed that the Section 151 officer and the Council as a whole would be in breach of the law. Furthermore, DCLG have confirmed that once the debt cap is set it will not be reduced for individual councils; however, in the event that forecasts on which the limit is based are wrong then DCLG will review the limit and issue a revised determination where necessary.

Good treasury management is essential to the operation of the HRA under self-financing and the following section sets out the Treasury Management principles that the Housing Service will adopt.

7.4.2 Treasury management objectives

The aim of the treasury function is to contribute to the maximisation and release of resources to deliver improved front line services and to ensure that sufficient liquidity is maintained to meet the HRA's business requirements. Although the primary focus is cash management (due to the likelihood that the majority of HRA debt will be sourced through the PWLB) there will be an ongoing need to monitor the terms of funding from the PWLB to ensure that those terms remain on market. It is also likely that the debt requirements of the HRA will be funded from a mixture of short and long-term PWLB funds and private debt over time; the Council's treasury management function will be essential to ensuring the business is funded on the most favourable terms.

7.4.2.1 Funding the self-financing payment to Government

Background

The Government announced on 18th September 2011 that the 'buy out' of the current HRA system would be able to be funded at lower PWLB rates than previously expected. The announcement follows an increase of 0.83 percentage points in the rate of loans from the PWLB to 1% above government gilt rates.

This means margins will be lower and currently makes PWLB the cheapest form of borrowing for fixed rate borrowing.

Generally the housing revenue account has a bias towards fixed rate borrowing as it matches the certainty required in the business plan. However, whether to take fixed rate borrowing or not, is a Treasury Management decision which should reflect the funding needs of the business.

Generally however, if interest rates are low, there is a bias towards taking fixed rate funding over a longer period. When interest rates are high there is bias towards taking shorter fixed rate funding or even variable rate funding until rates fall and taking longer term loans when it is seen to be cheaper.

At present, interest rates appear to be relatively attractive and when the margin is removed for housing authorities actual borrowing rates could be the some of the lowest rates historically available to local authorities.

However, whilst rates look historically low, it is also important to take into consideration the outlook for interest rates. The latest forecast from the Council's Treasury advisors is that interest rates are likely to increase over time as the economy recovers. The lower margin which will be made available on 26 March 2012 will disappear.

On balance, it is therefore likely to be beneficial to take full advantage of the lower margins and borrow the maximum available, commensurate with the associated risks. This strategy may also be useful if combined with the future needs of the General Fund.

The funding proposal

1. The opening CFR (and debt) for the HRA will be as follows:
    a. Settlement amount £265.9m (automatic CFR adjustment 28 March 2012)
    b. Projected HRA CFR as at 31 March 2012(£5.0m)
    c. Borrowing to the HRA Debt Cap £6.7m (this will be reflected in the CFR when the expenditure is incurred)
    d. Totalling £277.6m (CLG Debt Cap)

2. Years 1 to 10 of the cash flow model, whilst reflecting a total cash flow positive position of £412.6m, does not show that this resource is planned to be invested in the stock leaving no cash flow resource to pay off debt during this period.

3. There is a strong possibility that from years 11 onwards, some of the net cash surplus will be reinvested in new build and further estates regeneration which has not been factored into the financial forecasts (business plan) at this stage.

4. This leaves the borrowing options as follows:

	Possibility	Fixed / Variable	Availability
Cash	Insufficient cash resources to fund initial borrowing requirement of £277.6m.	n/a	n/a
EIP loan	No cash resource to meet debt redemptions in years 1 to 10 so would create future refinancing risk at forecast higher interest rates. Cash resources from year 11 onwards may be low due to other spending priorities.	n/a	n/a
Annuity loan	No cash resource to meet debt redemptions in years 1 to 10 so would create future refinancing risk at forecast higher interest rates. Cash resources from year 11 onwards may be low due to other spending priorities.	n/a	n/a
Maturity loan	Deb repayment could be tied in with periods which were cash positive. Would also suit a strategy where greater certainty of funding costs were required and there was upside risk, on balance, to interest rates. The actual loan repayment in real terms, assuming 2.5% annual inflation, will be lower the longer the loan period chosen.	Fixed (up to 50 years) and variable (up to 10 years) available	PWLB at a small margin over UK Government borrowing rates. Corporate loan up to £20m on a LOBO basis up to 15 years only
Maturity loan for first 10 years and then Annuity or EIP loan repayment from 11 years onwards	May create refinancing risk from year 11 onwards if net cash flows are not sufficient to cover debt repayment.	n/a	This structure is not available from the PWLB. A PWLB Maturity loan could be part or fully repaid at any time after the first year and as long as the loan has at least 1 year to maturity. Corporate loan up to £20m on a LOBO basis up to 15 years only.

The cashflow forecast for the HRA would support taking a maturity loan for a long period to optimise the ‘one-off’ benefit of a reduced margin over the UK Government Gilt for fixed rate borrowing on the 28th March 2012. The amendment reflects that the cash surpluses in the first 10 years are required to support the HRA Investment programme and there is a view that from years 11 onwards, some of the net cash surplus will be reinvested in new build and further estates regeneration. This aspirational expenditure will ultimately determine the period of the borrowing but there remains the opportunity to repay debt prematurely (in part or in full) under the current PWLB rules which raises the possibility, in an interest and margin increasing environment, that loans may be paid at a discount in the future and would support longer-term borrowing.

7.4.3 Scope of treasury management

In relation to the primary objective of maximising future operating net cash flow ass et out above the scope of the treasury management function is set out in the table below:

Financial strategy & policy	Will need to address: 1. Define types of risks covered in reflecting economic, financial and operational risks 2. Attitude of the Council in relation to operational activities, investment and development risks e.g. the extent to which JV risk sharing will be accepted 3. Which techniques, markets and instruments for management of risks are acceptable 4. Performance measures to be used in the management of risk 5. Board risk reporting and risk management	This will need to be drafted and submitted to Cabinet for approval
Financial governance & operations	Adoption of best practice model based on a cascade of responsibility as follows: 1. Board (Cabinet)– agreement of objectives and risk appetite 2. Finance sub-committee – approval of detailed strategies 3. Chief Executive –executive oversight of treasury management/ risk function and reporting responsibility 4. Finance director/ finance team – responsible for implementation of delegated functions 5. Treasury function - transactional functions 6. Internal Audit - review of control and delegation processes	As above
Financial and operational risk management	1. Liquidity, cash management and investment risk • Essentially cash management to met operational business requirements and ensure compliance with loan facility terms 2. Funding and refinancing risk • Inability to refinance or to fund new capital expenditure on acceptable terms; involves market monitoring in relation to exiting loan portfolio and new funding	As the HRA cannot perfectly hedge against all theses exposures there will be a mis-matched risks incurred relative to income that needs to be understood, modelled and managed and appropriate treasury management policies adopted.

	requirements 3. Interest rate risk • Related to HRA debt and interest rate assumptions assumed in the HRA financial model 4. Counterparty credit risk • Related to direct Treasury management activities and default risk attached to HRA investment and development partners 5. Operational risk	A detailed operational analysis of the HRA business.

7.4.4 Treasury Management Framework

A treasury management framework will be developed and adopted to address the following issues:

Liquidity, cash management and investment	Objectives: manage liquidity risk and maximise returns from investment of cash flow surpluses • Cash management: liquidity management and cash transmission • Short-term working capital • Long-term planning (investment and new development) • Cash forecasting: long-term 30 years; medium term 1 year and short term, up to 3 months • Cash pooling: zero balancing cash sweeping • Cash surplus investing • Funds transmission: costs effective income collection and payments systems
Refinancing and funding	Objectives: maintenance of adequate supply of financing for continued operation of the business • Financing structuring and advisors • Long-term cash flow forecasts • Defined financing requirements • Funding method selection • Loan administration • Funding facilities monitoring • Lender relationships
Interest rate risk	Objectives: management of interest rate risk inherent in funding structures as market rates change and inherent mismatch between sources of income and associated financing costs • Basis risk: element of interest rate risk arising from differential movement in actual interest rates in business plan and financing components • Interest rate exposure and management to reduce cash flow volatility
Counterparty credit risk	Objectives: risk management in relation to counterparty risk (credit risk) in financing transactions and operational transactions • Potential for loss modelling • Assessment of credit worthiness • Counterparty limit setting • Counterparty exposure

Control and operational risk	Objectives: introduction of best practice controls to reduce possibility adverse impact from that treasury management actions • Control framework: policies, procedures, limits & mandates, segregation of duties, documentation, management and reporting

7.4.5 General Risk Management

In addition to the financial risk management discussed above a new risk management framework is being established for identifying and reporting risks that is understood by all staff. Furthermore framework aligns staff with clear delegated responsibilities for addressing and mitigating risks.

The objectives of the risk management framework are to:

- Support the governance structure
- Support the management of risk that threaten our ability to meet the strategic objectives
- Assign responsibility to appropriate staff
- Provide information to Housing Strategy Group and Board members on risks to enable appropriate prioritisations and risk mitigations to be put in place
- Enable staff at all levels to understand and manage risk

The purpose of the risk management framework is not to remove risk but to understand and manage the risks inherent in each of our activities.

Appendix 1: Financial Modelling Assumptions

Stock numbers	Assumed that the current housing stock numbers will change as a result of: • Reductions as the Gascoigne estate regeneration project is implemented • Increases through the Councils new build projects At this stage, the impact of future right to buys has been ignored, pending clarification of potential changes to the regime recently announced by Government.
HRA self-financing debt level	Current working assumptions on self-financing debt: • £265.9mpayment to DCLG on 28 March 2012, combined with £5m HRA CFR leading to starting HRA debt of £270.9m. • Borrowing headroom of £6.7m – assumed that this will be drawn down immediately, leading to HRA debt of £265.9m • There will be no changes to this debt level in the first 10 years Final debt level will be based on a shadow HRA subsidy determination issued in November, and will not be confirmed until January 2012.
Interest rates	To fund the one-off self-financing payment of £265.9m to DCLG, the Council will be able to access preferential rate funding from the Public Works Loan Board. On average this will be at a rate of gilts plus 13 basis points. Whilst rates may change between now and 26 March 2012, based on today's interest rates this would be 2.32% for an interest only loan repaid in 10 years, or 3.22% for an interest only loan repaid in 20 years. There will also be an opportunity to borrow for a longer term to lock in historically low interest rates to meet the investment needs of the business. With this background, financial modelling assumes a 3.5% interest cost.
Inflation	The general rate of inflation assumed after April 2012 is 2.5% pa. It has been assumed that all costs rise in line with this inflation rate, and that rent increases are also based on this rate (see below).
Rent increases	Rent increases are based on current Government policy of RPI plus 0.5%. Future rent increase decisions will be made annually in the context of the financial needs of the HRA. For social rents this is: • Formula/target rents will increase at inflation + 0.5% pa The 2012/13 starting rent levels is set at the agreed aggregate increase of 6.8%. For now, all rents are assumed to be social rents and no (higher) affordable rents have been included.
Management & maintenance	Future costs of management and maintenance are based on: • Current cost base, increasing by inflation

	• Reduction of £2.5m pa relating to reductions in general fund recharges • Reduction of £2m pa relating to other future cost savings In addition, the modelling factors in changes in management and maintenance costs arising from changes in stock levels. For management costs it is assumed that 75% of costs are fixed and the other 25% vary with stock levels. For maintenance costs, 20% are assumed to be fixed with 80% variable.
New build & regeneration	• £38.4m of HRA resources is spent on regeneration enabling works • £31.7m is combined with HCA grant funding to support delivery of new Council housing in Goresbrook and the Leys. • The LEP development will not have any direct financial impact on the HRA as this is a General Fund scheme

Appendix 2: Financial Model Sensitivity Analysis and Scenario testing evaluation results

Resources available for capital works to existing housing stock £m	30 yr	10 yr	2012	2013	2014	2015	2016
Base case	**1,821**	**389**	**43**	**28**	**35**	**32**	**33**
Interest rates							
Interest rates for entire 30 years increased by 0.5% from 3.5% to 4.0%	**1,779**	**375**	42	26	34	30	31
Interest rates for entire 30 years increased by 1.0% from 3.5% to 4.5%	**1,738**	**361**	40	25	32	29	30
Inflation							
Inflation rate for entire 30 years reduced by 1.0% from 2.5% to 1.5%	**1,522**	**368**	43	27	34	30	31
Inflation rate for entire 30 years increased by 1.0% from 2.5% to 3.5%	**2,184**	**411**	43	28	36	33	34
Revenue costs resulting from additional landlord obligations							
2.5% increase in revenue cost base	**1,779**	**379**	43	27	34	31	31
	This sensitivity assumes that the base budget of the HRA increases to reflect additional, higher cost landlord obligations that are unknown at this time. The impact of such changes will be kept under regular review.						
Rental income							
Government convergence by 2015/16	**2,112**	**450**	43	30	40	39	40
Delayed convergence by 2019/20	**2,098**	**435**	43	29	37	35	37
Estate renewal & new build							
Estate renewal programme changes	0	0	0	0	0	0	0
Current new build programme changes	0	0	0	0	0	0	0

	Changes to the anticipated programmes of the estate renewal and new build programmes do not affect the overall resource position of the HRA. Any such changes will be managed by switching resources between the strategic investment themes to take account of unforeseen changes in each investment theme.