

CABINET

19 January 2016

Title: Housing Revenue Account Estimates and Review of Rents and Other Charges 2016/17	
Report of the Cabinet Members for Housing and Finance	
Open Report	For Decision: Yes
Wards Affected: All	Key Decision: Yes
Report Author: Thomas Hart, Group Manager Carl Tomlinson, Group Finance Manager	Contact Details: Tel: 0208 227 5726 E-mail: Thomas.Hart@lbdd.gov.uk
Accountable Divisional Director: Hakeem Osinaike, Divisional Director of Housing Management	
Accountable Directors: Claire Symonds, Strategic Director Customer, Commercial & Service Delivery	
Summary: <p>The Council has a statutory responsibility to manage the HRA as a ring fenced landlord account providing housing services to the Council's tenants and leaseholders. The report makes recommendations on the setting of rents, tenants' service charges and other charges for 2016/17, to set a balanced revenue budget and maintain prudent reserves.</p> <p>The government announced in the Summer budget that funding for Council housing in the form of tenants' rents is to be reduced by 1% from April 2016 and for the next four years. The impact of this rent reduction upon Barking and Dagenham is more acute than for other Boroughs as a consequence of decisions taken in previous years to adopt comparatively low rent levels which were well below "formula rent" or the agreed standard rent for the social housing sector.</p> <p>Over the next four years the Council will lose £33.6 million compared to what it had expected to receive, and a loss of £3m in 2016/17. This means that the Council has to find other ways to fund the services that tenants and residents receive and this report sets out how we propose to do this.</p> <p>As part of the 2015/16 rent report, as agreed by Cabinet in February 2015, a five-year rent policy was introduced enabling convergence with formula rent by 2019/20 and for service charges to recover the full cost of providing the service over the same period. However, in July 2015, as part of the Summer Budget, the Government announced that social rents would reduce by 1% year on year from April 2016 for four years. In addition to this, it was announced that from April 2017 households in London earning over £40,000 per annum and living in social housing would have to pay market rent and that high value council voids will need to be sold to fund the extension of the Right to Buy to Registered Social Landlords.</p> <p>The introduction of these central government policy changes means that the rent policy, as agreed by Cabinet in February 2015, can no longer go forward. The impact on income is</p>	

significant - the 1% rent reduction results in a loss of income of £33.6m over four years with a £3m loss in 2016/17. To ensure that the HRA remains affordable and sustainable, a fundamental review of the business plan is required.

As a result, the approach for 2016/17 is to identify measures to manage the shortfall in income with a full business plan review to take place over the course of 2016/17 to inform the position for 2017/18.

The 1% reduction to rents in 2016/17 equates to an average reduction of 96p per week. Continuation of the service charge policy to recover the full cost of service provision equates to an average increase of £2.84 per week. The net impact is an increase of £1.88 per week.

The Business Plan continues to focus on an investment programme, which ensures our homes are brought up to a decent standard by 2018/19 and maintaining standards over the long term through ongoing investment, as well as the provision of new build property to replace homes sold through Right to Buy.

Recommendation(s)

The Cabinet is recommended to agree:

- (i) The Housing Revenue Account estimates for 2016/17 as detailed in Appendix 6 to the report;
- (ii) An overall average Council dwelling rent reduction of 1.0%, equivalent to £0.96 per week, to apply to all council stock including affordable rent properties;
- (iii) To increase tenant service charges by an average of £2.84 per week;
- (iv) To review service charges in respect of properties benefiting from amenity green space;
- (v) To maintain communal heating and hot water charges at the current rate (in line with static energy prices) and to introduce a new tariff based on actual costs incurred during the course of 2016/17;
- (vi) To increase garage rents by £3 per week (£12 to £15 per week) for garages which have been refurbished to an appropriate standard and to apply the new charge following refurbishment works throughout the year;
- (vii) To review estate located parking spaces/bays as part of council parking review;
- (viii) To extend the Safer Neighbourhood charge (50p per week) to all Council tenants benefiting from the service; and
- (ix) That the above changes take effect from 4 April 2016.

Reason(s)

The Council must prepare proposals each year relating to income from rent and other charges, and expenditure in relation to management and maintenance of its housing stock. A decision is required with regard to rents and service charges in order that statutory notice can be given to tenants prior to the April 2016 implementation.

1. Introduction and Background

- 1.1 The Council has a statutory responsibility through the Local Government and Housing Act 1989 to manage the HRA as a ring-fenced landlord account providing housing services to the Council's tenants and leaseholders. This report makes recommendations on the setting of rents and other charges for 2016/17 in accordance with the Council's statutory responsibility.
- 1.2 The Local Government and Housing Act 1989 Section 74 Part VI specifies the major items that must be included in the HRA. Section 66(4) of the Act specifies that the HRA must be produced in accordance with approved Accounting Code of Practice
- 1.3 The Localism Act 2011 introduced self financing arrangements for council housing. All locally generated income from council housing is ring fenced to fund the provision of council housing within the borough. The HRA operates effectively as a standalone business within the Council. The HRA Business Plan must secure the financial viability of the HRA over the whole business plan period. This requires robust financial management to ensure that a balanced HRA budget can be set each year and to ensure that prudent HRA working balances are maintained as a contingency against unforeseen circumstances and to support the delivery of quality services to residents in line with stakeholders' expectations and appropriate capital investment.
- 1.4 The Council is required by law to avoid budgeting for a deficit on the HRA (Local Government & Housing Act 1989, section 76). This means that the budget must not be based on total HRA revenue reserves falling below zero. In practice the Council is expected to maintain a reasonable balance of reserves: a minimum of 5% of turnover is good practice and this provides a contingency against unforeseen events and known risks. The external auditor will review the level of reserves in forming a view on the overall standard of financial management in the Council.

2. Rent and Budget Setting Approach

- 2.1 In February 2015, Cabinet agreed a five year rent policy, which set the HRA on a path to achieving three major things: continued investment to ensure all our homes achieve decent homes standard by 2018/19, enable convergence with formula rent by 2019/20 and for service charges to recover the full cost of providing the service over the same period. However, in July 2015, as part of the Summer Budget, the Government announced that social rents would reduce by 1% year on year from April 2016 for 4 years. This forms part of the Welfare Reform and Work Bill 2015/16 which is currently progressing through Parliament.
- 2.2 The Housing and Planning Bill 2015/16 is also progressing through Parliament and includes provisions in respect of compulsory 'pay to stay' and the forced sale of high value voids, both of which are expected to apply from April 2017. The 'pay to stay' scheme will require households in London earning over £40k pa and living in social housing to pay close to market rent. Local Authorities will be expected to repay the additional rental income to the Exchequer. The sale of high value Council voids is to fund the extension of Right to Buy to Registered Social Landlords with upfront payment from Local Authorities based on estimated sales.

- 2.3 The introduction of these policy changes means that the policy agreed by Cabinet in February 2015, is no longer sustainable. The impact of these policies on HRA income is significant - the 1% rent reduction results in a loss of income of £33.6m over 4 years with a £3m loss in 2016/17 alone. This equates to a loss of income in the region of £450m over the 30 year business plan. In addition to this, it is expected that stock numbers will reduce through the sale of voids and increased Right to Buy with increasing pressure on rent collection and potentially higher arrears. To get the HRA back on course, a fundamental review of the Business Plan is required in order to ensure it remains affordable and sustainable.
- 2.4 Housing recently embarked on a transformation programme, which will deliver changes and efficiencies in the business. However, the benefits to be derived from this programme will not be realised immediately. As a result, this report is recommending measures to manage the shortfall in income in 2016/17, with a full business plan review to take place over the course of the financial year. This review, along with outputs from Ambition 2020 and the Housing Transformation Programme, will identify further savings to be made from 2017/18. The main measures to mitigate the shortfall include accelerating the policy of full cost recovery for service charges, generating additional income from the use of decanted properties for temporary accommodation and reviewing the level of bad debt provision.
- 2.5 The proposed HRA budget for 2016/17 is set out below:

HOUSING REVENUE ACCOUNT - SUMMARY FORMAT				
	2015-16 £000	2016-17 £000	Change £000	% Change
INCOME				
Rents of dwelling	(90,512)	(90,538)	(26)	0.03%
Non Dwelling rents	(737)	(807)	(70)	9.50%
Charges for services and facilities	(16,921)	(19,285)	(2,364)	13.97%
Interest and investment income	(336)	(336)	0	0.00%
	(108,506)	(110,966)	(2,460)	2.27%
EXPENDITURE				
Repairs and maintenance	17,205	17,093	(112)	-0.65%
Supervision and management	39,752	43,257	3,505	8.82%
Rent, rates, taxes and other charges	700	700	0	0.00%
Provision for bad debts	2,659	2,772	113	4.26%
Interest charges payable	10,059	10,059	0	0.00%
TOTAL EXPENDITURE	70,375	73,881	3,506	4.98%
Pension Contribution	1,000	0	(1,000)	-100.00%
Revenue Investment in capital	37,131	37,085	(46)	0.12%

2.6 The Business Plan considers income and expenditure over a 30 year period including capital investment. The extract below summarises the 10 year position.

£m	10 yr	2016/17	2017/18	2018/19	2019-2026
Rent	1118.21	110.97	108.47	105.97	325.40
Management & Maintenance	(632.58)	(63.82)	(59.90)	(58.86)	450.00)
Interest Payable	(100.59)	(10.06)	(10.06)	(10.06)	(70.41)
Revenue investment	385.03	37.09	38.51	37.05	(272.39)
Receipts, Grant and new borrowing	238.88	32.21	22.96	22.96	160.74
Total capital resources	623.91	69.30	61.47	60.01	433.13
Investment in existing stock	335.19	39.75	41.00	41.38	213.06
New Builds	198.60	33.22	10.73	15.75	138.90
Housing Transformation	1.75	1.75	0.00	0.00	0.00
Estate renewal	56.67	4.34	4.34	6.00	42.00
Total capital spend	592.22	79.06	56.07	63.13	393.96
Capital Reserve b/f		20.86	11.10	16.50	13.38
Movement on Reserve		(9.76)	5.40	(3.12)	39.17
Capital Reserve c/f		11.10	16.50	13.38	52.56

3. Housing Offer and HRA Strategy

- 3.1 The London Borough of Barking and Dagenham is committed to improving the range, quality and choice of its homes as well as improving the quality of information and services to its tenants and leaseholders.
- 3.2 The Barking and Dagenham Housing Offer supports this commitment. The Offer sets out what standards tenants and leaseholders can expect from the council on key issues affecting their home and the area around it.
- 3.3 The Offer is configured around 3 elements:
- Inside the Home
 - The Block, Estate or Street
 - The Neighbourhood
- 3.4 The Offer encompasses such things as improvements to the home, health and safety checks, block cleaning, tackling ASB

- 3.5 Since May 2012 The Council has had a metropolitan neighbourhood police team. Team consisting of 2 Sergeants and 20 Police Constables jointly funded (50/50) from the Housing Revenue Account and the Metropolitan Police, to deliver proactive policing in partnership with the local authority with a particular emphasis on anti social behaviour (ASB) and ASB related crime on Council estates. They are not subject to normal police withdrawals, except in extreme emergency cases. In addition the Police deliver a dedicated Sergeant and Inspector responsible for the team and also have developed a thriving Police Cadet Corps from youngsters identified as potential beneficiaries on the estates.
- 3.5.1 The team is primarily tasked by officers in Housing, based on information gathered from tenants' and members' complaints and issues raised. In addition, there is a borough tasking structure in place to augment the work of the team. This is done through fortnightly Tactical Tasking Coordination Group (TTCG) and also the Daily Police Management Meeting where community safety is represented and officers take housing concerns, so that tasking of this team and other Safer Neighbourhood Teams is prioritised.
- 3.5.2 Through the work of this team, we have seen significant arrests and activity from the Police over the last three years in those areas. As part of the contract the Police make an overnight and weekly return which is submitted to all members on a weekly basis. The neighbourhood police team have regularly patrolled housing estates in all wards in the borough, having an immediate and sustained impact on the perceived and actual safety of communities and the residents within these communities.
- 3.5.3 With the introduction of the weekly charge the above can be extended to the whole borough and not just Housing Estates. There is sound justification for this and includes the following, being the achievements of the team in 2014/15:
- 478 Intelligence Reports (gathered from Housing Officers and tenants)
 - 485 Crime Reports
 - 574 Stop and Search and Account
 - 460 Arrests

The Metropolitan Police recently carried out a survey of reports of Anti Social Behaviour and Barking and Dagenham had the greatest reduction in reports of ASB compared to any other borough in London. This is also reflected in the figures reported in the Corporate Delivery Plan which shows a 30% reduction in reports of ASB across Barking and Dagenham compared to last year.

Although it is impossible to put a financial figure on the work of the Estates Team and their effect on the residents of Barking and Dagenham, we can report with confidence that we get exceptional value for money from the service provided and the main reasons being:

- Never before have we been able to respond immediately to reports of ASB by sending a dedicated police team;
- Greater security and reassurance;
- High visibility assurance to residents;
- Increased community engagement from dedicated police team;
- Sharing of intelligence to improve the safety and security for residents;
- Injunctions and Behaviour Orders served promptly and enforced immediately

where necessary;

- Increased detection and prosecution for cannabis factories and drug dealing.

The proposal therefore is to charge each tenant/leaseholder a fee of 50p per week to enable the above to continue and to extend the patrols borough-wide.

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

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

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

3.8 It is important that we achieve best value for money in all our spending. We recognise that VFM is not achieved simply by providing low cost outputs but by delivering decent neighbourhoods for our residents in the long term.

3.9 Achieving this requires not just effective cost management but also taking a long term approach in our asset management strategy which understands the value of our assets and the relationship between our homes and the services we provide.

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

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

Asset Management

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

Investment in existing stock

3.13 Our programme sets out to bring our homes up to a decent standard by 2018/19. This programme is currently working across all wards in the borough, taking a 'worst first' approach. Comprehensive surveying has taken place to establish the works required to each property and investment need. This year 2803 properties

have been made decent. The proposed business plan enables funding to deliver a decent standard by 2018/19 and ongoing investment to maintain our homes at this standard over the long term. Officers are preparing a model of stock condition for each Ward and it is intended that this will provide the evidence base for the five year housing investment programme. This will include garages, energy considerations, roads and the communal areas of estates and blocks.

Estate Renewal

- 3.14 In 2011, we established a programme of estate renewal which tackled our most challenging stock, where repair to the homes would have been unviable and where there were wider social and economic benefits to demolishing. A further report was approved by cabinet in 2012 to further extend this programme of work in Gascoigne ward. Vacation and clearing of the original sites is well underway and some sites have since been redeveloped and let, such as Goresbrook village. Redevelopment works have begun on Gascoigne East and The Leys and a delivery arrangement has been agreed for Althorne Way. Cabinet have separately agreed to a variety of delivery arrangements for the remaining sites which will enable quality new council rented homes and new tenures such as shared ownership

New Build

- 3.15 The programme aims to provide quality new build properties at affordable rent levels and opportunities for shared ownership. The objectives of this programme are to increase the overall supply of affordable homes in the borough, to improve the quality of homes in the borough, replace homes sold through Right to Buy and to address the housing demand and need within the borough. Therefore, across the programme we will consider the most appropriate size and tenure for new homes. This year a total of 199 homes for Council rent have been delivered

4. Housing Transformation Programme

- 4.1 The programme has been established to transform the capability, performance and cost base of the Housing Service. It is a programme of change that will complement the income generation and regeneration strategies that will be delivered as part of the Council's Growth Commission and Ambition 2020. A significant amount of work has been undertaken to identify the budgetary, organisational, staff, process and technology issues that currently constrain the Housing Service and the programme has been built to address these.
- 4.2 This programme is intended to generate annual savings in the order of £5.9m, following one-off investment over the next two financial years of £6m (£3.5m capital and revenue and a £2.5m provision for redundancy over the life of the programme) and in addition to these financial savings the programme will deliver:
- Operational changes to functions to reduce cost in providing the service and Improve customer service, processes and productivity
 - Determine the shape of the Service and opportunities for commercialization
 - Introduce better ways of working for staff and ensure performance is measured and transparent and Improve the use of resources
 - Improve data quality held in respect of customers, tenants, assets and stock which will enable development of a long term strategy and use of Housing assets.

4.3 Tables showing investment and savings.

One off investment:

(£m)	Revenue	Capital	Total
Programme Resources	1.539	-	1.539
ICT	0.280	1.750	2.030
Total	1.819	1.750	3.569
Redundancy Provision	2.500	-	2.500
Total	4.319	1.750	6.069

Net Saving:

(£m)	2016/17	2017/18	2018/19	2019/20	2020/21
In year	2.148	2.253	1.484	0.030	-
Cumulative	2.148	4.401	5.885	5.915	5.915

5. Consultation

There has been extensive consultation with residents of the borough throughout October and November regarding the changes being introduced nationally and options in respect of recovering the full cost of service charges. The consultation was launched at the tenant conference in October with an in-depth presentation to over 100 tenants. This was followed up with further presentations to the two housing forums, attended by tenants, leaseholders and other residents. Face to face consultation was supplemented by an article in the Council's e-news letter, which is sent to 50,000 residents, and a link to the online consultation. The online consultation was open for two weeks to all residents. The majority of views from the feedback received, support the proposals in this report.

6. Financial Implications

Completed by: Carl Tomlinson, Group Finance Manager

The analysis below refers to the summary format in paragraph 2.5

6.1 Tenant Dwelling Rents

- 6.1.1 The report proposes to reduce social rents by 1% in line with Government policy. This applies to all council stock, including affordable rent properties, and equates to an average reduction of £0.96. The impact of the existing business plan is a loss of income of £33.6m over 4 years with a £3m loss in 2016/17. This equates to a loss of income in the region of £450m over the 30 year business plan.
- 6.1.2 There are a number of 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 in order to cover the additional costs related to this type of placement. The rental income budget previously provided for 194 units, however, as the number of units being used has increased the budget has

been increased by £1m to reflect the use of 290 units. 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.

6.1.3 The number of Right to Buy sales has increased in recent years with 220 in 2014/15 and a similar level expected in 2015/16 and 2016/17. With the introduction of 'pay to stay' in April 2017 it is likely that Right to Buy sales will increase further. The combination of this and the required sale of high value void properties is expected to further reduce stock levels.

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

Rental Income	£'000
2015/16 budget	(90,512)
Rent decrease	905
Decant income	(1,000)
Right to Buy Sales	537
New Build	(468)
2016/17 Budget	(90,538)

6.2 Non Dwelling Rents

6.2.1 It is proposed to increase Garage rents by £3 per week for those units that have been refurbished to a decent let-able standard. This will bring the charge to £15 per week with the increase only applying following completion of the work. Otherwise charges will remain at £12 per week. As a result, the income budget has been increased by £70k.

6.2.2 Arrangements for parking spaces will be reviewed as part of the councils wider Parking Strategy.

6.3 Charges for services and facilities

6.3.1 Authorities are expected to set a reasonable charge for the provision of additional services which reflects the cost of providing the service. As part of the policy agreed by Cabinet in February 2015 it was agreed that service charges would recover the full cost of providing the service by 2019/20.

6.3.2 As part of this year's consultation it was proposed to accelerate the policy of full cost recovery. This position was broadly supported with an acceleration of between 1 and 2 years. This is reflected in the revised charges as well as a clearer breakdown of the charges.

6.3.3 Specific charges are set out in Appendix 5, however, service charge proposals equate to an average increase of £2.84 per week. It should be noted that the impact on individuals will vary dependant on the services received. The Safer Neighbourhood charge is being introduced in 2016/17 to part fund the service.

6.3.4 A review of the Amenity green charge is planned for 2016/17. This review will identify all of the parcels of land that are maintained by the Housing service and which tenants should pay for the service. Currently, only tenants in estates

contribute to this charge. The review will consider if this should be extended to Council rented street properties and freehold properties that benefit from the service. Any changes made to charges could be introduced in year.

- 6.3.5 Leasehold charges are based on actual costs incurred for the above services as directed by the Tenant and Leasehold Act 1985 and in accordance with the terms of the lease.
- 6.3.6 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 negotiated commission of 13% with a 2% void figure under a 3-year agreement ending in 2016/17. Charges for 2016/17 have not yet been announced, however, the budget has been increased in line with current activity. A corresponding increase has been applied under Supervision and Management in respect of the payment to Essex and Suffolk Water Board.
- 6.3.7 The income budget has been increased to reflect the income expected from the provision of housing management and maintenance services provided to Barking and Dagenham Reside by the council.
- 6.3.8 LBBD currently has a number of buildings which receive heating and hot water via a communal boiler or district heating system. Due to a recent change in legislation, providers of heating and hot water need to charge residents on a monthly basis for their actual consumption rather than an apportioned share of the total heating cost. LBBD currently provide this service to Reside tenants in Abbey Road and a tariff has been set and agreed. A tariff consisting of a standing charge and energy use needs to be developed and agreed for Council Tenants, this will be implemented in year.

6.4 Interest and investment income

- 6.4.1 The HRA treasury management function will form a key component of the business plan and HRA budgets. The two main aspects of this will be to ensure interest payments servicing the final debt allocation are minimised whilst cash flow management allows housing stock investment to progress as required. The budgeted figure for investment returns is expected to be consistent with 2015/16.

6.5 Repairs & Maintenance

- 6.5.1 The HRA provides a repairs and maintenance service to tenants as part of its duty as a social landlord. The revenue budget is to reduce by £112k from £17.2m to £17.1m in 2016/17 primarily due to outcomes deliverable through the Housing Transformation Programme. Other adjustments within this area are due to realigning the allocation of recharges and income received from Barking and Dagenham Reside.
- 6.5.2 As part of the TUPE transfer of staff, a one-off pension contribution of £6m was required to equalise transferred staff within the Councils pension fund. It was agreed to fund this over a 3 year period with a £3m contribution in 2013/14, £2m in 2014/15 and £1m in 2015/16. A budget of £1m was established to fund this, therefore, a budget saving of £1m is realised in 2016/17 as the contribution is now fully paid off.

6.6 Supervision & Management

- 6.6.1 The budget consists of both direct expenditure and recharged spend from services provided by departments outside of the HRA. In 2016/17, the budget will increase by £3.5m from £39.8m to £43.3m.
- 6.6.2 The increase is primarily due to the establishment of a redundancy reserve of £2.5m. The HRA holds a transformation budget of £1m. This will be increased by £270k for 2016/17 and contribute towards funding the transformation programme. The remainder of the increase relates to additional water charges expected, offset by a corresponding increase in income, and £300K in respect of an additional contractual HRA procurement support fee within the Elevate contract..
- 6.6.3 Recharges to the HRA are for services provided to HRA tenants and leaseholders by internal council services. These range from central service functions (such as Payroll, Finance and IT), to front line delivery services such as refuse collection, grounds maintenance and building cleaning. The level of recharge is expected to remain consistent with 2015/16.

6.7 Rents rates & other charges

- 6.7.1 This includes the budget for council tax on empty properties, property insurance and rent of office premises. The budgeted figure is expected to be consistent with 2015/16.

6.8 Provision for bad debt

- 6.8.1 Significant changes to welfare benefits, including Housing Benefit, are being implemented on a phased basis across the country. The introduction of the benefit cap and occupancy criteria, continue to impact many Council tenants. The introduction of Universal Credit, including direct payments of benefits to claimants, is expected to have an even greater impact on income levels.
- 6.8.2 In response to the introduction of the national Welfare Reform changes and the significant risk posed to the Council's ability to collect income, the HRA holds an annual budget of 2.5% of income raised to offset against non-collection and debt write-off risk.
- 6.8.3 The changing circumstances of tenants and revised Government timescales will be monitored to ensure a prudent provision is made within the Business Plan to manage the changing magnitude of the risk.
- 6.8.4 The impact of these changes will significantly increase the risk of reduced income collection rates. Accordingly, this risk is subject to ongoing scrutiny to ensure tenants are aware of the changes, the impact on them and available support.
- 6.8.5 The Business Plan assumed an increase in bad debt provision for 2016/17 on the basis of an increasing rent base and welfare reform changes. On the basis of the now reducing rent base and current arrears position it is proposed to continue to apply 2.5%.

6.9 Interest charges payable

- 6.9.1 The borrowing costs attached to the debt settlement in March 2012 represent a significant cost to the HRA, although the Public Works and Loans Board (PWLB) provided preferential rates for settlement debt. The self-financing settlement required the authority to undertake additional borrowing of £267m within a debt cap of £277k. However, 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.
- 6.9.2 The HRA includes a budget of £10m to fund the ongoing borrowing costs of HRA debt. Current policy is to maintain debt and not reduce the level of borrowing, however, any decision to actively reduce the level of borrowing would place additional pressure on the HRA as repayment is not currently budgeted for. Further borrowing of £9.9m is available which will bring borrowing up to the revised debt cap.

6.10 Housing Investment Programme

- 6.10.1 The investment programme is funded primarily through revenue contributions to capital, supported by grant funding and right to buy receipts where available. As a result, it is essential that investment decisions are considered when setting future rent levels.
- 6.10.2 The HRA business plan is under significant pressure following recent Government announcements requiring a full review in 2016/17 in order to remain affordable and sustainable. As part of this, investment priorities will also need to be considered. Current assumptions include the following themes:
- a) Estate renewal (£56.7m over the next 10 years)
 - b) New build Council homes (198.6m over the next 10 years);
 - c) Investment in existing stock (£335.2m over the next 10 years)
 - d) Housing Transformation (£1.8m in 2016/17)

7. Legal Implications

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

- 7.1 The Local Government and Housing Act 1989 places on the Council as a Housing Authority a duty to manage a ring fenced HRA. In addition there is a requirement that the HRA maintains prudent revenue balances.
- 7.2 On 3 January 2014, the Government announced proposed legislative changes with an increase on the maximum caps with an aim for this to be in place by May 2014 subject to parliamentary process. Under s24 of the Housing Act 1985, the Council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The Council is obliged from time to time to review rents charges and make such changes as circumstances may require but should do so in a balanced way. The Council must comply with s103(4) Housing Act 1985 and the Council's standard tenancy agreement in terms of notice periods for the rent variation.

8. Other Implications

- 8.1 **Risk Management** – the introduction of measures through the Welfare Reform and Work Bill 2015/16 and Housing and Planning Bill 2015/16 provide a significant risk to the affordability and sustainability of the HRA. As both Bills are still progressing through Parliament there is additional uncertainty around actual impact. In addition to this, the ongoing risk in respect of the Welfare Reforms continues with anticipated risk to the Council's ability to collect all of its income. Over the course of 2016/17 the HRA Business Plan will be reviewed and updated in recognition of national policy changes, *Ambition 2020* and the Housing Transformation Programme.

The report makes recommendations on the setting of rents and other charges for 2016/17 in accordance with the Council's statutory responsibility. The risk of not approving the recommendations would mean that the Council would not meet its statutory responsibility and not have sufficient resources available to deliver proposed capital investment, build new Council homes and carry out refurbishments and improvements to the existing housing stock.

- 8.2 **Staffing Issues** - There are no direct staffing implications as a result of this report. The HRA continues to strive for improved value for money and appropriate HR policies and procedures around implementing change will be followed. The Council remains committed to minimising redundancies where possible.

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

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

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

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

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

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

Public Background Papers Used in the Preparation of the Report:

- Housing Revenue Account Manual
- Welfare Reform and Work Bill 2015/16
- Housing and Planning Bill 2015/16

List of appendices:

1	HRA Working Balances
2	Rental Income Analysis
3	Average Rent Analysis
4	Rental Income Debtor Account
5	Budget Assumptions
6	HRA Estimate 2016/17
7	HRA Capital Programme