CABINET
10 FEBRUARY 2016

Subject Heading:	**HRA Budget for 2016/2017 and HRA Major Works Capital Programme 2016/17 – 2018/19**
Cabinet Member	**Councillor Damian White** **Councillor Roger Ramsey**
CMT Lead:	**Isobel Cattermole**, Deputy Chief Executive of Children, Adults and Housing **Andrew Blake-Herbert**, Deputy Chief Executive - Communities and Resources.
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Policy context:	HRA Policy and budgets
Financial summary:	To agree rents and other charges, the HRA revenue spend budget as detailed in Appendix 1, and a HRA Major Works Capital programme, detailed in Appendix 2
Is this a Key Decision?	**Yes**
Is this a Strategic Decision?	**Yes**
When should this matter be reviewed?	September 2016
Reviewing OSC	Towns and Communities

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[X]
People will be safe, in their homes and in the community	[X]
Residents will be proud to live in Havering	[X]

SUMMARY

This report sets a budget for the Council's Housing Revenue Account (HRA) and HRA Major Works Programme. An update to the 10 year HRA Business Plan is also provided.

The HRA remains a ring-fenced account that is used to manage the Council's own housing stock. The proposed budget will enable the Council to manage the stock to a reasonable standard and to maintain the stock to the Decent Homes standard. It further sets rents, service charges and other charges for Council tenants for the year 2016/17.

In the HRA rent setting report for last year the following paragraph explained the rent setting strategy for 2015/16 onwards and the rules that applied, at that time, that Local Authorities had built their HRA business plans on:

> *The Housing Revenue Account is sound and is able to invest in its stock, and develop new homes over the coming three years. However, due to a recent change in the Government's rules on rent increases, the former system of rent restructuring is being abolished in 2015/16 and future rent increases are designed to be limited to no more than the Consumer Price Index (CPI) + 1%. The Council plans to move to the new system in 2016/17, but has to take the opportunity which remains in this year, to move its rents to target rents immediately. This will remove the inequality between properties that currently exists. At present it is possible for identical properties to have different rents, because of the transitional nature of the rent restructuring plan. By moving immediately, in one year, to target rents, this inequality will be eliminated. All rents will be at target rents; additional rental income will be available to invest in the housing stock, and in new homes, and future rent increase for the next 10 years will be in line with inflation pressures as expressed by the CPI. In addition, if the Council did not move its rents to target rents, this opportunity would be lost and a regime of CPI + 1%, if applied immediately would have lost the Council's Business Plan £100m over the life of the Plan.*

Despite this level of rent increase, Havering's rents remained in the lowest quartile in London, during the year 2015/16.

After the General Election in May 2015, the new Government made various financial decisions that were focussed on maintaining the austerity measures to reduce the public sector borrowing figures and in particular to reduce welfare benefits expenditure. In June 2015, Government announced that, in order to help reduce welfare benefit expenditure by £1.45bn, it was changing the way social housing rents were charged. They announced that, rather than allowing any increase as stated in the paragraph above, social housing rents would reduce by 1% per year for the four years from 2016/17. More recently, within the last few days, the government has announced that supported housing, including sheltered housing, is to be exempt from the rent reduction for one year.

The technical detail regarding the reduction and how local authorities are to effect the change are currently passing through Parliament. This means that, unusually, officers do not have the prescribed calculation method. Officers are also assuming that the calculation method for the increase in rent for supported housing will be the original CPI +1% calculation. The CPI figure used for this calculation is the preceding September

figure. As the CPI for September 2015 was -0.1%, the rent rise figure is 0.9%. This report is therefore presented to Cabinet with the best information available.

In order to change any HRA rent liability, the Local Authority must notify tenants and give 28 days' notice of any change, after the authority has made a properly constituted decision of that change. This means that, following the Cabinet decision on rent levels to be charged in any year, the Local Authority must write to all tenants to advise them of the new rent liability for the following 12 months. In order to achieve this and, make the new charge effective from the first week of April 2016, notification must be sent out to tenants the first week of March 2016.

It is for the reasons above that this report therefore differs from previous years in the recommendations it is seeking approval for from Cabinet. As the precise calculation is as yet unknown, this report provides indicative levels of rent following a 1% reduction and the CPI + 1% rise for supported housing. It seeks approval to delegate the final decision on the exact amounts charged to the Cabinet Member for Housing and the Deputy Chief Executive - Communities and Resources. This will enable the Cabinet to make a decision on the 2016/17 rent levels whilst enabling the precise amounts to be amended once the final calculation methods are announced, without referral back to Cabinet.

RECOMMENDATIONS

That Cabinet:

1. **Approve** the Housing Revenue Account Budget as detailed in **Appendix 1**.

2. **Agree** that the average rents chargeable for tenants in general needs Council properties owned by the London Borough of Havering be decreased by 1% from the w/c 4 April 2016 in line with the indicative figures contained in paragraph 2.1.6 of this report.

3. **Agree** that the average rents chargeable for tenants in supported housing Council properties, such as sheltered housing and hostels, owned by the London Borough of Havering, be increased by 0.9% from the w/c 4 April 2016 in line with the indicative figures contained in paragraph 2.1.6 and 2.1.7 of this report.

4. **Delegate** agreement of the exact amounts chargeable to the Cabinet Member for Housing and the Deputy Chief Executive - Communities and Resources, following publication by Government of the rent calculation formula.

5. **Confirm** the four rent free weeks for 2016/17 as being: w/c 22 August 2016, the two weeks commencing 19 and 26 December 2016, and the week commencing 27 March 2017.

6. **Confirm** that service charges and heating and hot water charges for 2016/17 remain the same as in 2015/16 as detailed in paragraph 2.2.2.

7. **Confirm** that the service charge for homeless households accommodated in the Council's hostels should remain unchanged for 2016/17 as detailed in paragraph 2.2.3 of the report.

8. **Confirm** that charges for garages should remain unchanged for 2016/17 as detailed in paragraph 2.3.1 of the report.

9. **Confirm** that the service charge for the provision of security and support in sheltered housing (first introduced in 2015/16) shall remain unchanged for 2016/17 as detailed in paragraph 2.4.1 of the report.

10. **Confirm** that the Careline support charge will remain unchanged for 2016/17 as detailed in paragraph 2.5.1 of the report.

11. **Confirm** that the Telecare support charges shall remain unchanged for 2016/17 as detailed in paragraph 2.5.1 of the report.

12 **Confirm** that £0.5m identified in the budget for 2015/16 to fund the replacement of the Housing Management system will be carried forward to 2016/17.

13 **Agree** the HRA Major Works Capital Programme, detailed in **Appendix 2** of this report and **refer it to full Council** for final ratification.

14 **Delegate** authority to agree individual environmental improvement works in the Capital Programme to the Cabinet Member for Housing and the Deputy Chief Executive of Communities and Resources following recommendation from the Head of Housing Services and the identification of appropriate funding.

15 **Agree** that a further report is presented back to Cabinet in September 2016 with an amended HRA Business Plan.

REPORT DETAIL

1. BACKGROUND

1.1 The Localism Act 2011 changed the financial system for the management of council housing. The old system, with its notional income and expenditure accounts, and its distribution of housing subsidy across the country has gone. In its place, Government has provided freedom and independence for the management of council housing finance, in return for a one off payment of the national housing subsidy debt (and a premium for the treasury).

1.2 The new system started in April 2012, and so the Housing Revenue Account (HRA) budget now looks very different from budgets in previous years. The business plan is designed to provide long term management of the Council's housing assets. We have more freedom to direct our resources to the best and most cost effective management of the Council's housing stock. However, we do not have complete freedom – some aspects remain centrally controlled, such as the use of capital receipts and rent setting - as highlighted by the 1% reduction in rent detailed later in this report.

1.3 This report sets out what HRA income the Council has available to spend on housing, sets out the current HRA financial position and proposed spending plans for 2016/17.

1.4 The central driving aims of the Council is to maintain the Decent Homes Standard for its existing stock, improve the quality of the housing service and maximise the number of new homes built for local residents thus replacing some of the properties lost through Right to Buy.

1.5 The Council recognises that there is a need for good quality affordable homes, especially for elderly residents and first time buyers, and has set out its ambition to meet these needs by using resources generated through the Council's Housing Revenue Account Business Plan. The Council also has ambition to use HRA new build development resources to facilitate and kick start regeneration of Havering.

1.6 However, the latest negative impact has been the 1% reduction in rent levels against July 2015 levels. This reduces the rental income available to the HRA over the four years of the reduction by just below £8m. This reduces the income into the business plan model by £68m over 10 years and is thus a significant change.

1.7 A major impact on income levels may arise from further Government welfare reform and social housing rent restrictions. If the policy continues to place restrictions on rent rises at the expiry of the current four year reductions rather than revert back to the previously agreed CPI plus 1% rise, then the HRA business plan will be placed under considerable financial pressure.

1.8 A further report will be presented to Cabinet in September 2016. It is anticipated that Government rent and welfare reform measures will be fully know by that time. The HRA Business Plan will be fully reworked and re-presented along with any subsequent changes to expenditure levels that are required to produce a balanced Business Plan.

2. INCOME

2.1 Rents

2.1.1 The Council's main source of income to manage its housing stock is tenants' rents. Up until this year, the Government has influenced rents by applying a formula called "rent restructuring". While the new regime has devolved much decision-making to local authorities, the Government has retained much control over rents so as to have an influence on the national housing benefit bill.

2.1.2 The Government has now reviewed its original proposals for rents, which allowed rents to be increased by a maximum of CPI + 1% annually from 2015/16. This assumption was used to develop the HRA Business Plan for 2015/16 onwards, as reported to Cabinet in February 2015

2.1.3 However, this year, if Havering wish the Housing Benefit subsidy to be met in full we are required to reduce the general needs housing rents charged in July 2015 by 1%. The statutory instrument that identifies the calculation needed is currently passing through parliament. In order to complete this report, officers have therefore merely reduced rent levels by 1%, compared to the levels charge in July 2015, for all General Needs properties and increased supported housing rents (sheltered housing and hostels) by 0.9% (CPI +1%). The small increase in supported housing rents will go some way to maintaining services required by those occupying this type of housing. The values in the tables below are therefore indicative amounts and will need to be reworked once the formula is announced by Government.

2.1.4 The HRA is taking advantage of the Government rent reduction exemption for supported housing in 2016/17. This is because the level of support provided to residents living in supported housing is higher and the maintenance and investment costs for the buildings are higher. Last year, in the HRA budget report, the HRA took on the funding of supported housing services, following the withdrawal of the Supporting People Grant from Government, in the region of £200k. Increasing the rents therefore enables the council to protect the levels of service to the more vulnerable residents living in them. These services provide vital support to those in the community who most need it.

2.1.5 In 2015/16, the average rent including all rented units in Havering is £99.00. Applying the 1% reduction to all General Needs properties and a 0.9% increase to Sheltered Housing in April 2016 gives an average decrease of £0.86 per week. The average rent in 2016/17 will be £98.14 per week. This will mean that average rents are as set out in the table below:

	Rents 2015/16 52 weeks	**Rents 2016/17 52 weeks**	**Decrease (£)**	**% Decrease**
Bedsit	78.75	78.47	0.28	0.4%
1 Bed	85.68	85.18	0.50	0.6%
2 Bed	97.06	96.11	0.95	1%
3 Bed	115.73	114.57	1.16	1%
4 Bed	134.49	133.15	1.34	1%
5 Bed	150.46	148.96	1.50	1%
Average Rent	**£99.00**	**£98.14**	**0.86**	**0.9%**

2.1.6 This can be further broken down to show the impact on rents within general needs housing and sheltered housing accommodation as follows:

General Needs Housing 1% reduction:

	Rents 2015/16 52 weeks	**Rents 2016/17 52 weeks**	**Decrease (£)**	**% Decrease**
Bedsit	78.23	77.44	0.79	1%
1 Bed	86.25	85.38	0.87	1%
2 Bed	97.01	96.04	0.97	1%
3 Bed	115.73	114.57	1.16	1%
4 Bed	134.49	133.15	1.34	1%
5 Bed	150.46	148.96	1.50	1%
Average Rent	**100.38**	**99.38**	**1.00**	**1%**

Sheltered Housing Accommodation 0.9% increase:

	Rents 2015/16 52 weeks	Rents 2016/17 52 weeks	Increase (£)	% Increase
Bedsit	79.80	80.52	0.72	0.9%
1 Bed	83.73	84.48	0.75	0.9%
2 Bed	104.11	105.04	0.93	0.9%
Average Rent	**83.72**	**84.47**	**0.75**	**0.9%**

The above tables show the average rent levels. Within those averages there are wide bands within the maximum and minimum rent levels. This is because of the following reasons:

- The rent calculation takes into account the value of the property and floor area,
- There are affordable rent and social housing rents within the average for the general needs properties.

2.1.7 The rent charged to hostel residents will increase by 0.9%.

2.1.8 Applying the rent changes for 2016/17, there is an annual reduction in rental income to the HRA of just below £2m. By the fourth year of applying a 1% reduction to General Needs housing rents, the HRA business plan loses £7.9m of annual income compared with the assumptions made and reported to Cabinet in February 2015. In order to mitigate the impact of this reduction significant steps have been taken to reduce costs and improve the efficiency of the service:

- Restructuring across the Housing Service reducing salary costs by just under 20%,
- Reduced void numbers and void property turn around times to well above the London top performance levels, thus reducing void losses by £600K per year.
- Reducing levels of costs with the repairs service.
- Realigning the capital investment programme away from planned expenditure to a ‘just in time’ approach, allowing an annual reduction in £2.5m on capital works whilst still maintaining standards of property.
- Improved efficiency levels in general across the housing service by improved ways of working, lean design and reduced waste and duplication.

2.1.9 The decreased income from the rent reduction will be offset by these measures. The HRA will therefore be able to maintain the condition of the stock and continue to provide services that meet the needs of the residents. The level to which the HRA is now able to support new build is however under review due to the reduced income available. A full report will be provided to Cabinet in September as detailed in Section 5 of this report.

2.2 Service charges

2.2.1 The aim of the Council, in respect of service charges, is to ensure that those receiving the service are paying for them. We are now in a position where the cost of each service can be fully recovered from the service charges raised. Work has also been done to improve the value-for-money of some services, either by reviewing the staffing and costs of the service, or by renegotiation of contracts with some service providers. There will continue to be a regular programme of reviews of services, in order to ensure that we remain aware of the views of tenants on the levels of services that they wish to pay for. For example, as the impact of the restructuring is apportioned across the services, the service charge levels identified within this report will be reviewed and any savings passed onto the residents.

2.2.2 It is proposed that there will be no increase in service charges for 2016/17. It is unlawful to over recover costs via service charges and any reductions will be passed on via in-year adjustments to actual costs. The service charges and heating and hot water charges for 2016/7 are detailed in the following paragraph:

Service Charges	**2015/16 Weekly charge – 48 weeks**	**2016/17 Weekly charge – 48 weeks**
Caretaking	3.78	3.78
Internal Block Cleaning	1.56	1.56
Bulk Refuse Collection	0.48	0.48
CCTV - Mobile Service	0.46	0.46
CCTV - Static Service	1.40	1.40
Community Wardens	0.95	0.95
Door Entry	0.25	0.25
Ground Maintenance	3.53	3.53
Sheltered Cleaning	3.58	3.58
TV access	1.49	1.49
Heating	6.27	6.27
Heating and Hot Water	9.57	9.57

2.2.3 It is proposed that service charges for hostel residents will remain unchanged at £25.14 per week. Service charges in hostels cover the maintenance of the hostel communal areas, as well as 24 hour staffing.

2.3 Garages

2.3.1 It is proposed to keep the level of charges for garages the same as in 2015/16. There are currently a range of charges for garages within the high, medium and low demand bands. Keeping the charges the same means that the average charge for a high demand garage will be £12.53 per week, £11.65 per week for a medium demand garage and £9.09 per week for a low demand garage.

2.4 Support charges – mobile support

2.4.1 The mobile support service visits residents in their homes and was formerly funded by a Supporting People grant, which met the charges for elderly residents. The Housing Service has now implemented the new service funded through a mix of HRA funding and service charges that tenants opted for following consultation. The service charge for this service will remain unchanged and will be £6.57 per week (52 weeks) for 2016/17.

2.5 **Service charges – Careline and Telecare support**

2.5.1 It is proposed that the Careline and Telecare service charges will remain unchanged for 2016/17 as detailed below:

Service	Weekly support charge in 2015/16 – 52 weeks	Weekly support charge in 2016/17 – 52 weeks
Careline – sheltered tenants	4.44	4.44
Careline – community users	4.74	4.74

Service	Weekly support charge in 2015/16 – 52 weeks	Weekly support charge in 2016/17 – 52 weeks
Telecare – base unit plus two sensors	6.89	6.89
Additional Telecare sensor	1.14	1.14

3. THE HRA BUDGET 2016/17

3.1 Attached at **Appendix 1** is the proposed HRA budget for 2016/17. A summary of the main movement from the 2015/16 budget is as follows:-

Revised Expenditure Budget 2015/16	**£57,097,290**
Pay award	£89,580
Contract Inflation	£13,890
Increase in CSSA (Support Charges)	£230,160
Interest Payment increase	£930
Other net Budget movements	(£2,083,290)
On-going Growth Items	155,040
One off Growth Items	£500,000
2016/17 Original Expenditure Budget	**£56,003,600**
Revised Income Budget 2015/16	**(£57,389,970)**
Rent decrease	£600,800
Service Charges decrease	£293,520
Other income reduced	£48,000
2016/17 Original Income Budget	**(£56,447,650)**
Net Budget	**(£444,050)**
Difference in capital financing requirement between years	£5,326,000
Other Adjustments	(£250,000)
Net Budget after Adjustments	**£4,631,950**
Decrease in Capital funded by revenue	(£14,325,943)
Gross Budget	**(£9,693,993)**

3.2 *Reasons for variation – growth and additional cost items*

3.2.1 Provision has been made for a 1% pay award, at a cost of £89,580. This is in line with the corporate position.

3.2.2 A one off provision of £500k has been carried forward from 2015/2016 for the implementation of the new integrated housing computer system.

3.2.3 It is proposed to create a temporary resource of 10 full time equivalents (FTEs) in the Internal Fraud Team to refocus on dealing with all forms of housing fraud. It is expected that this will facilitate the return of illegally sub-let properties, identify potential fraudulent RTB applications and reduce homeless fraud. A provision of £300k has been made for this.

3.2.4 Increased funding has been made of £100k for the provision of Youth Services associated with council tenancies.

3.2.5 A one off sum of £55k has been made for the purchase of Mobysoft, a computer package to improve rental income collection rates.

3.2.6 Contract inflation has been allowed for to the sum of £14k.

3.2.7 Central Services recharges have increased by £230k.

3.2.8 A one off provision of £1m has been made for the effects of the restructuring.

3.3 *Reasons for variations – lost and reduced income*

3.3.1 The rental from shops has now been moved to the General Fund. This has reduced the income to the HRA by £48k.

3.3.2 A provision has been made for the loss of income (rent and service charges) from properties sold under RTB. For 2016/17 this loss is expected to be £38k.

3.3.3 The reduction in service charge income of £199k is a technical adjustment. This reflects the change to the support service to sheltered residents introduced last year. This reduction in income was not accounted for in the 15/16 budget.

3.3.4 There is a further technical adjustment, having a neutral effect on the overall Business Plan, relating to the removal of the capital fee income. This is now directly charged as a revenue cost to salaries and amounts to £974k

3.4 *Reasons for Variation – savings items*.

3.4.1 Efficiencies have been identified in the Housing Services Team, which will yield £1.6m in reduced salary costs.

3.4.2 In year efficiencies have achieved a further £1.5m reduction in expenditure across the HRA. This included additional income through reduced void losses of £600k per year.

3.4.3 The move to the "Just in Time" method of programming investment in existing stock has resulted in the reduction of costs by an average £2.5m per year.

3.4.4 Removal of the Supporting People budget has reduced costs by £91k.

4. MAJOR WORKS BUDGET – HRA 2016/17 – 2018/19 major works resources and proposed spend

4.1 With the introduction of Self Financing in 2012, and as reported to Cabinet in the 2015/16 HRA Budget setting report, it was anticipated that it would be possible to plan major works expenditure beyond one year at a time with certainty. However, as described elsewhere in this report, the 1% reduction in rent for four years has impacted on the ability to do this.

4.2 In order to reduce spend on capital programme items that were unnecessary e.g. the renewal of roofs that still had a serviceable life, the Asset Management Strategy has been reviewed and the investment strategy has moved from a planned and preventative basis to a “Just in Time” basis. In other words, components are only renewed just on the point of failure. This reduces waste but continues to ensure investment in items that maintain health and safety standards and maintain the stock to maximise rental income. This has reduced capital expenditure by over £80m across the 30 year Business Plan life, or around £2.5m per year.

4.3 A provision of £2.5m has been made in the programme to complete improvements to the “non-traditional houses”, identified in the survey of 2008, and owned by the HRA. These improvements relate to improved thermal efficiency and improved wind and weather proofing.

4.4 The decent homes programme and previous investment has rightly focused on internal works and key building elements such as windows and roofs. This has resulted in under investment in environmental works to improve the estates. Works of this nature, such as that recently completed on the Highfield Estate, has greatly improved the way the community view the look and feel of the estate. Whilst no specific provision has been allowed for in the proposed programme, there are other areas of the portfolio where similar works may be needed. There is a recommendation that, should this become apparent during the year, the Head of Housing Services will identify the works and potential funding to the Cabinet Member for Housing and the Deputy Chief Executive - Communities and Resources for agreement.

4.5 The main source of funds for investment in the existing stock stems from tenants’ rents. Surpluses in rental income net of day-to-day management and maintenance of the stock and meeting the costs of borrowing can be converted to investment in major projects.

4.6 These HRA resources can also be used to fund new build. HRA Business Plan resources for this purpose can be augmented by right-to-buy receipts as the Council has struck an agreement with the GLA to use 100% of the usable element of right-to-buy receipts on the building of new social housing within three years of their generation. Failure to use right-to-buy receipts in this way would see the Council having to pay the receipts over to the GLA with additional interest. Some council housing new build schemes have also attracted grant from the GLA.

4.7 The full proposed Major Works programme – covering investment in the existing council housing stock and building of new properties – for the three years 2016/17 to 2018/19 is included in **Appendix 2**.

5. 30 year Business Plan 2016/17 to 2046/47

5.1 Attached at **Appendix 3a and 3b** are extracts from the reworked HRA Business Plan financial model. Years 1 to 10 have been included. Year 1 of the business plan is based on the 2016/17 proposed budget.

5.2 The plan for the HRA is based on keeping a minimum of £2m in working balances and using current reserves above this figure to invest in the major works programme. It has been assumed that all available resources over and above those required for revenue spend, payment of interest on debt and maintaining reserves at £2m are available for major works, for as long as the stock condition survey need to spend exists, and new development.

5.3 It can be seen from **Appendix 3b** that such a need remains until 2019/20. (It should be noted that the investment gap shown is against the stock condition survey need to invest which is at a higher level than decent homes).

5.4 There have been a number of changes to the Business Plan since it was first approved in February 2012. In particular, the Government changes to Right to Buy have increased the number of sales completed above that originally anticipated. In addition, now that the majority of borrowing (self-financing debt) has been fixed at 3.26% for the next 12 years this has stabilised the long term interest charges in the Business Plan at a very low level. There is a significant beneficial impact caused by the Council's proposals to move directly to formula rents in 2015/16. However, the latest negative impact has been the 1% reduction in rent levels against July 2015 levels. This reduces the rental income available to the HRA over the four years of the reduction by just below £8m. This reduces the income into the business plan model by £68m over 10 years and is thus a significant change.

5.5 A major impact on income levels may arise from further Government welfare reform and social housing rent restrictions. If the policy continues to place restrictions on rent rises at the expiry of the current four year reductions rather than revert back to the previously agreed CPI plus 1% rise, then the HRA business plan will be placed under considerable financial pressure.

5.6 A further report will be presented to Cabinet in September 2016. It is anticipated that Government rent and welfare reform measures will be fully know by that time. The HRA Business Plan will be fully reworked and re-presented along with any subsequent changes to expenditure levels that are required to produce a balance Business Plan.

6. CONCLUSION

6.1 The Self Financing Business Plan extracts (**Appendix 3a and 3b**) show that the Council is able to maintain and improve its stock and provide good quality housing services over the next 4 years. The Housing Revenue Account budget which is set out in this report is a prudent budget, designed to maintain a good level of service, and inject further resources into a programme of major investment in the housing stock that will maintain the Decent Homes standard for our housing stock and carry out additional much needed investment. However, as detailed within the body of this report, the longer term financial position and level to which the HRA is able to invest in new build on HRA land is to be the subject of a separate report to Cabinet in September 2016.

REASONS AND OPTIONS

Reasons and Options

Reasons for the Decision

The Council is required to set the housing rent, service charges and a budget in accordance with the Local Government and Housing Act 1989.

Alternative Options Considered

There are no alternative options in so far as setting a budget is concerned. However, there are options in respect of the various elements of the budget. These are considered in preparing the budget and cover such things as the rent and service charge increase, budget growth and major works programme proposals.

IMPLICATIONS AND RISKS

Financial implications and risks:

HRA Revenue

This report largely concerns the financial implications and risks concerning the setting of the HRA budget for 2016/17 and the revision of the figures for the 30 year Self Financing Business Plan. The HRA is sufficiently healthy to generate working balance reserves of an estimated £2m at the end of 2016/17 and for the 3 years beyond this until 2019/20.

There are risks associated with any HRA budget, but it is felt these can be managed. The council has reviewed its resource requirement for 2016/17. On repairs, there are unbudgeted volume risks, but these can be managed by ensuring the HRA working balance is maintained at a minimum of £2m. The bad debt provision contribution has been set based on an allowance for increasing arrears for the possible consequences of welfare reform. An assumption has been made in the business plan projections for this amount to increase in future years.

In addition to £2m reserves on the HRA, the following estimated provisions / reserves are predicted as at 31 March 2016:-

- Bad and doubtful debt provision of £2.295m (including leaseholder major works) - calculated according to best practice
- Leaseholder Major Works Reserve of £1.505m – this is the balance remaining on the reserve. £0.2m is generated from this reserve each year as a contribution to the HRA Investment programme.

The underlying assumptions concerning rent levels underpinning the HRA Business Plan however, have been materially changed with the introduction of the Government's announcement that social housing rents would be reduced by 1% a year for the next four years. This is set out in detail in the main body of this report.

The financial effect of the change is a 4% reduction from levels previously assumed in the model; moving from CPI plus 1% (assumed to be 3% in total) to -1%. In cash terms this amounts to just under £1.9m a year and around £7.9m a year by the end of the 4 year freeze period. This equates to around £68m after 10 years.

This assumption is the principal reason that the Business Plan now shows a significant financial pressure from 2020/21.

Action has already been undertaken to partially mitigate this pressure and is set out in section 2.1.8 above.

Officers are in the process of a further review of the Business Plan, to determine the most appropriate strategy to meet the forecast shortfall. To some extent this is dependent on the final details of the rent reduction legislation, which is still being considered by Parliament. A further report will be presented in September 2016, fully updating the Business Plan assumptions and recommended course of action.

HRA Investment Capital Budget

Appendix 2 sets out the Major Works Programme 2016-19. This is funded from resources available for housing expenditure:-

- HRA resources/revenue surpluses
- Right-to-buy receipts subject to the Council's agreement with the DCLG to use them to fund new housing.

Commitments will not be entered into that effect the longer term viability of the HRA until the Business Plan review is complete.

Legal implications and risks:

Under Part V1 of the Local Government and Housing Act 1989 any local authority that owns housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statute. It is a ring fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA. The Council is required to prepare proposals in January and February each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and should be designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations.

Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities: (a) to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) to take all reasonably practicable steps to avoid an end-of-year deficit. The proposed HRA budget fulfils these requirements.

The report seeks approval for major investment estimates in relation to a variety of schemes. In compliance with Section 151 of the Local Government Act 1972, the Council has in place Financial Regulations and Financial Procedures which provide appropriate arrangements for the approval of major works estimates. The various major works schemes must be capable of being carried out within the Council's statutory powers. To the extent that the details of the schemes appear from the body of the report, it does appear that the proposed works meet this requirement. In particular the maintenance and repaid of dwellings may be considered consistent with the Council's repairing obligation under Section 11 of the Landlord and Tenant Act 1985.

To comply with central government's requirements, the report also seeks a 1% reduction in rent levels for general needs housing. Supported housing is, following a recent announcement, now excepted from the above requirement for a period of one year. This means that the council can choose to increase the rent for supported housing in April 2016 if circumstances require this. Havering's tenancy agreement requires at least 4 weeks notice of a variation in rent. This requirement is the same whether the rent is going up or down.

Human Resources implications and risks:

None specific.

Equalities implications and risks:

An equalities impact assessment has been carried out. Of note, rent levels are influenced by central government. Furthermore, best practice and guidance dictates that service charges should be set at a level which covers the cost of providing the service to which the charge relates. Therefore, the Council cannot operate in an unfettered way within regard to the rents and service charges it sets. That said, the Council has examined the proposals in this report from an equalities perspective.

71% of council tenants are in receipt of Housing Benefit. The proposed rents and service charges eligible for housing benefit are within the housing benefit caps for Havering, therefore those in most financial hardship, which can include particular minority groups, will be protected

The major works programme makes available resources to bring forward works to make the remaining sheltered bedsits with shared bathrooms / showers fully self-contained. This will advantage this section of the community who are people over the age of 55.

BACKGROUND PAPERS

There are none.

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APPENDIX 1 – HRA budget 2016/17

	2015-16 Final Budget	2016-17 Final Budget	Variance
Income and Expenditure	**£**	**£**	**£**
Income			
Dwelling rents	(49,152,660)	(48,551,860)	600,800
Garages	(400,710)	(400,710)	0
Charges for services and facilities - Tenants	(5,589,580)	(5,296,060)	293,520
Charges for services and facilities – Leaseholders	(1,574,340)	(1,574,340)	0
Shared ownership	(113,980)	(113,980)	0
Other	(493,890)	(445,890)	48,000
Total Income	**(57,325,160)**	**(56,382,840)**	**942,320**
Expenditure			
Repairs and maintenance	7,348,120	6,238,120	(1,110,000)
Supervision and management plus recharges	22,580,980	22,344,510	(236,470)
Depreciation and impairment	14,184,490	16,590,400	2,405,910
Debt management costs	47,820	49,670	1,850
Bad debt	665,000	665,000	0
Total Expenditure	**44,826,410**	**45,887,700**	**1,061,290**
Net cost of HRA services	**(12,498,750)**	**(10,495,140)**	**2,003,610**
Interest payable and similar charges	5,852,370	5,853,300	930
Interest and investment income	(64,810)	(64,810)	0
Surplus or deficit for the year on HRA services	**(6,711,190)**	**(4,706,650)**	**2,004,540**
Statement on movement of HRA balances			
Surplus or deficit for the year on HRA services	**(6,711,190)**	**(4,706,650)**	**2,004,540**
Major works expenditure funded by the HRA	25,679,000	11,353,057	(14,325,943)
Transfer to or from Major Repairs Reserve (MRR)	(13,934,490)	(16,340,400)	(2,405,910)
Net (income)/Expenditure	**5,033,320**	**(9,693,993)**	**(14,727,313)**
HRA balance brought forward	(5,310,044)	(2,652,308)	2,657,736
Net (income)/Expenditure	**5,033,320**	**(9,693,993)**	**(14,727,313)**
In year Surplus 14-15	(1,620,000)	(2,000,000)	(380,000)
RTB receipts (Debt Element)	(755,584)	(1,385,238)	(629,654)
HRA balance carried forward	**(2,652,308)**	**(15,731,539)**	**(13,079,231)**

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Appendix 2 – Funded 2016/17 – 2018/19 HRA Major Works Capital Programme

Major Works Programme 2016-19

		16/17	17/18	18/19	3yr Totals
New Build Programme and pre commitments in 2016/17					
New Build Programme		£ 13,323,987	£ 8,947,129	£ -	£ 22,271,116
Additional New Build Units Cabinet approval Sept 2015		£ 5,935,258	£ 12,893,766	£ 15,470,976	£ 34,300,000
Programme Delivery Fees		£ -	£ -	£ -	£ -
Total		**£ 19,259,245**	**£ 21,840,895**	**£ 15,470,976**	**£ 56,571,116**
Total Less Fees		£ 19,259,245	£ 21,840,895	£ 15,470,976	£ 56,571,116
Stock Upkeep works to maintain standards including Major Repairs					
Major Voids		£ 500,000	£ 600,000	£ 300,000	£ 1,400,000
Structural		£ 50,000	£ 50,000	£ 50,000	£ 150,000
Electrical Upgrade/Mains Supplies		£ 150,000	£ 150,000	£ 150,000	£ 450,000
Legionella		£ 170,000	£ 170,000	£ 170,000	£ 510,000
Fencing / Boundary Walls		£ 50,000	£ 50,000	£ 50,000	£ 150,000
Drainage/Sewers		£ 50,000	£ 50,000	£ 50,000	£ 150,000
Asbestos Removal/Management		£ 120,000	£ 120,000	£ 120,000	£ 360,000
External Redecorations		£ -	£ 1,100,000	£ 1,100,000	£ 2,200,000
DDA Fire Protection/Means of Escape		£ 50,000	£ 50,000	£ 50,000	£ 150,000
Careline equipment		£ 50,000	£ 50,000	£ 50,000	£ 150,000
Stock condition surveys 10%		£ -	£ -	£ -	£ -
Aids and Adaptations		£ 350,000	£ 350,000	£ 350,000	£ 1,050,000
Preliminaries Costs		£ 52,160	£ 80,458	£ 156,095	£ 288,713
Programme Delivery Fees		£ 102,600	£ 102,600	£ 102,600	£ 307,800
Total		**£ 1,694,760**	**£ 2,820,458**	**£ 2,596,095**	**£ 7,111,313**
Total Less Fees		£ 1,592,160	£ 2,717,858	£ 2,493,495	£ 6,803,513
Stock Reinvestment to improve conditions including maintaining the Decent Homes Standard					
Stock Investment "Replacements"		£ 2,228,225	£ 3,658,670	£ 5,737,560	£ 11,624,455
Non Trad Houses/Flats System Build		£ 2,500,000	£ -	£ -	£ 2,500,000
Kitchen/Bathrooms at Void stage		£ 600,000	£ 850,000	£ 300,000	£ 1,750,000
Preliminaries Costs		£ 156,480	£ 392,822	£ 468,285	£ 1,017,587
Programme Delivery Fees		£ 923,400	£ 923,400	£ 923,400	£ 2,770,200
Total		**£ 6,408,105**	**£ 5,824,893**	**£ 7,429,245**	**£ 19,662,243**
Total Less Fees		£ 5,484,705	£ 4,901,493	£ 6,505,845	£ 16,892,043
Stock Remodelling					
Bedsit Remodelling		£ 90,000	£ 500,000	£ 100,000	£ 690,000
Preliminaries Costs		£ -	£ -	£ -	£ -
Programme Delivery Fees					£ -
Total		**£ 90,000**	**£ 500,000**	**£ 100,000**	**£ 690,000**
Total Less Fees		£ 90,000	£ 500,000	£ 100,000	£ 690,000
Future Investment					
Major Improvements		£ -	£ -	£ -	£ -
Environmental Improvements (Minor)		£ -	£ -	£ -	£ -
Preliminaries Costs		£ -	£ -	£ -	£ -
Programme Delivery Fees		£ -	£ -	£ -	£ -
		£ -	**£ -**	**£ -**	**£ -**
Total Less Fees		£ -	£ -	£ -	£ -

		16/17	17/18	18/19	3yr Totals
Programme Totals		**£ 27,452,110**	**£ 30,986,245**	**£ 25,596,316**	**£ 84,034,671**
	works	£ 26,426,110	£ 29,960,245	£ 24,570,316	£ 80,956,671
	fees	£ 1,026,000	£ 1,026,000	£ 1,026,000	£ 3,078,000

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Appendix 3a: HRA Projections from Business Plan - Years 1-10

Year	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26
	1	2	3	4	5	6	7	8	9	10
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
INCOME:										
Rental Income	49,295	49,000	49,765	50,385	51,277	52,045	52,823	53,611	54,409	55,218
Void Losses	(743)	(976)	(974)	(971)	(986)	(1,001)	(1,015)	(1,030)	(1,045)	(1,061)
Service Charges	6,870	7,008	7,148	7,291	7,437	7,585	7,737	7,892	8,050	8,211
Non-Dwelling Income	401	409	417	425	434	442	451	460	469	479
Grants & Other Income	560	571	582	594	606	618	631	643	656	669
RTB Debt Adjustment	1,385	1,385	1,385	1,385	735	735	735	735	735	714
Total Income	**57,768**	**57,396**	**58,323**	**59,110**	**59,502**	**60,425**	**61,361**	**62,310**	**63,273**	**64,230**
EXPENDITURE:										
General Management	(22,345)	(22,536)	(22,987)	(23,447)	(23,916)	(24,394)	(24,882)	(25,380)	(25,887)	(26,405)
Bad Debt Provision	(665)	(979)	(1,112)	(1,239)	(1,378)	(1,519)	(1,542)	(1,565)	(1,588)	(1,611)
Responsive & Cyclical Repairs	(6,238)	(6,394)	(6,656)	(6,864)	(6,974)	(7,077)	(7,182)	(7,288)	(7,395)	(7,504)
Total Revenue Expenditure	**(29,248)**	**(29,910)**	**(30,755)**	**(31,549)**	**(32,268)**	**(32,990)**	**(33,606)**	**(34,232)**	**(34,870)**	**(35,520)**
Interest Paid & Administration	(5,903)	(5,805)	(6,135)	(6,532)	(6,765)	(6,765)	(6,765)	(6,765)	(6,765)	(9,454)
Interest Received	65	84	84	53	20	11	11	11	11	11
Impairment	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Net Operating Income	**22,432**	**21,517**	**21,266**	**20,832**	**20,239**	**20,430**	**20,751**	**21,074**	**21,399**	**19,016**
APPROPRIATIONS:										
Revenue Contribution to Capital	(11,353)	(19,411)	(23,631)	(30,584)	(23,968)	(20,420)	(20,751)	(21,074)	(21,399)	(19,016)
Total Appropriations	**(11,353)**	**(19,411)**	**(23,631)**	**(30,584)**	**(23,968)**	**(20,420)**	**(20,751)**	**(21,074)**	**(21,399)**	**(19,016)**
ANNUAL CASHFLOW	**11,079**	**2,105**	**(2,365)**	**(9,752)**	**(3,729)**	**9**	**(0)**	**0**	**(0)**	**0**
Opening Balance	2,652	15,732	17,837	15,472	5,720	1,991	2,001	2,001	2,001	2,001
	-	-	-	-	-	-	-	-	-	-
Closing Balance	**13,732**	**17,837**	**15,472**	**5,720**	**1,991**	**2,001**	**2,001**	**2,001**	**2,001**	**2,001**

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Appendix 3b: HRA Capital Investment Requirement Projection from Business Plan

Year	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26
	1	2	3	4	5	6	7	8	9	10
	£	£	£	£	£	£	£	£	£	£
EXPENDITURE:										
Planned Variable Expenditure	(8,913,836)	(11,904,733)	(13,273,883)	(27,108,368)	(21,384,167)	(14,583,739)	(14,868,309)	(15,157,993)	(15,452,868)	(15,753,014)
Planned Fixed Expenditure	-	-	-	-	-	-	-	-	-	-
Disabled Adaptations	-	-	-	-	-	-	-	-	-	-
Other Capital Expenditure	-	-	-	-	-	-	-	-	-	-
Procurement Fees	(713,107)	(952,379)	(1,061,911)	(2,168,669)	(1,710,733)	(1,166,699)	(1,189,465)	(1,212,639)	(1,236,229)	(1,260,241)
Previous Year's Overall Shortfall	-	-	-	-	-	(10,742,874)	(18,098,063)	(14,310,684)	(10,432,476)	(6,465,081)
New Build - net cost	(3,726,114)	(16,554,006)	(19,295,688)	(15,306,538)	(11,353,906)	(11,583,632)	(556,395)	(570,305)	(584,562)	(599,176)
Total Capital Expenditure	**(13,353,057)**	**(29,411,118)**	**(33,631,482)**	**(44,583,576)**	**(34,448,806)**	**(38,076,944)**	**(34,712,232)**	**(31,251,621)**	**(27,706,136)**	**(24,077,512)**
FUNDING:										
Major Repairs Reserve	2,000,000	-	-	-	-	-	-	-	-	-
Right to Buy Receipts	-	-	-	-	-	-	-	-	-	-
Supported Borrowing	-	-	-	-	-	-	-	-	-	-
Unsupported Borrowing	-	10,000,000	10,000,000	14,000,000	-	-	-	-	-	-
Other Receipts	-	-	-	-	-	-	-	-	-	-
Other Reserves	-	-	-	-	-	-	-	-	-	-
Revenue Contributions	11,353,057	19,411,118	23,631,482	30,583,576	23,967,954	20,420,297	20,750,588	21,073,596	21,398,740	19,015,685
Total Capital Funding	**13,353,057**	**29,411,118**	**33,631,482**	**44,583,576**	**23,967,954**	**20,420,297**	**20,750,588**	**21,073,596**	**21,398,740**	**19,015,685**
In Year Net Cashflow	**-**	**-**	**-**	**-**	**(10,480,853)**	**(17,656,647)**	**(13,961,643)**	**(10,178,026)**	**(6,307,396)**	**(5,061,828)**