CABINET
8th FEBRUARY 2017

Subject Heading:	**HRA Budget for 2017/2018 and HRA Major Works Capital Programme 2017/18 – 2019/20**
Cabinet Member	**Councillor Damian White** **Councillor Roger Ramsey**
SLT Lead:	**Neil Stubbings**, Interim Director of Housing and Regeneration
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Policy context:	This report presents the HRA Budget recommendations for agreement by Cabinet and recommendation on to Council for consideration and approval.
Financial summary:	The Council is required to set an annual HRA Revenue Budget 2017/18. This report includes the recommendations to agree the HRA revenue spend budget, rents and other charges as detailed in Appendix 1, the HRA Major Works Capital programme, detailed in Appendix 2 and the Business Plan projections as outlined in Appendix 3a and 3b.
Is this a Key Decision?	**Yes**
Is this a Strategic Decision?	**Yes**
When should this matter be reviewed?	September 2017
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, maintain the existing stock to the Decent Homes standard and provide funding for a significant new build and estate regeneration programme. It further sets rents, service charges and other charges for Council tenants and leaseholders for the year 2017/18.

In the HRA rent setting report for last year it was identified that the previous rent setting rules limiting increases to CPI + 1% had been changed and that Local Authorities and Housings Associations were being required to reduced general rents by 1% for the four years from 2016/17. This budget reduction was part of the Government's austerity measures and was designed to reduce welfare benefit expenditure by £1.45bn. However, rents for supported housing, such as sheltered housing and hostels were exempt from this for one year.

The one per cent reduction last year for 2016/17 was applied to all rent levels in general needs housing charged as at 8th July 2015. A similar reduction is to be applied for 2017/18 to all general needs rents and supported housing.

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 2017, notification must be sent out to tenants the first week of March 2017.

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 3 April 2017 in line with the indicative figures contained in paragraph 2.1.4 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 reduced by 1% from the w/c 3 April 2017 in line with the indicative figures contained in paragraph 2.1.4 and 2.1.5 of this report.

4. **Agree** the four rent-free weeks for 2017/18 as being: w/c 21 August 2017, the two weeks commencing 18 and 25 December 2017, and the week commencing 26 March 2018.

5. **Agree** that service charges and heating and hot water charges for 2017/18 are as detailed in paragraph 2.2.2 of this report.

6. **Agree** that the service charges for homeless households accommodated in the Council's hostels 2017/18 are as detailed in paragraph 2.2.3 of this report.

7. **Agree** that charges for garages should be increased by 7.5% in 2017/18 as detailed in paragraph 2.3.1 of this report.

8. **Agree** that the service charge for the provision of security and support in sheltered housing for 2017/18 shall be as detailed in paragraph 2.4.1 of this report.

9. **Agree** that the Careline support charge should be increased by 2% for 2017/18 as detailed in paragraph 2.5.1 of this report.

10. **Agree** that the Telecare support charges should be increased by 2% for 2017/18 as detailed in paragraph 2.5.1 of this report.

11. **Agree** the funding of the Tenant Incentive Scheme as identified in paragraph 3.2.9 of this report.

12. **Agree** the funding to remove fly tipping on HRA land as detailed in paragraph 3.2.10 of this report.

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

14. **Agree** the funding of additional posts as identified within paragraphs 3.2.2 to 3.2.8 of this report.

15. **Agree** the initial funding requirements for the Estate Regeneration Programme, as identified within paragraphs 3.2.12 to 3.2.15.

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.

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 2017/18.

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 and thus maximising rental and service charge income.

1.5 The Council recognises that there is a need for good quality affordable homes for rent, 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 in areas associated with the two Housing Zones.

1.6 Cabinet has received a series of reports since February 2016 detailing the new build plans and the specific sites and estates identified for regeneration. The last report was considered by Cabinet on the 12 October 2016.

1.7 As reported last year increased negative impacts on income levels may arise from any 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 In addition there are two other Government policy initiatives that will impact on the HRA but where the detail is as yet unknown. The first of these and the one with most impact is the "forced sale of higher value properties" and the second and less worrying is the pay to stay initiative. 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 as soon as detailed proposals are known.

2. INCOME

2.1 Rents

2.1.1 The Council's main source of income to manage its housing stock is tenants' rents. The Government has historically influenced rents by applying a formula called "rent restructuring" with the annual increase being set at CPI +1%.

2.1.2 This year, as last 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 2016 by 1% for all General Needs properties.

2.1.3 In 2016/17, the average rent including all rented units in Havering is £98.08. Applying the 1% reduction to all General Needs properties and to Sheltered Housing in April 2017 gives an average decrease of £0.89 per week. The average rent in 2017/18 will be £97.19 per week. This will mean that average rents are as set out in the table below:

	Rents 2016/17 52 weeks (£)	**Rents 2017/18 52 weeks (£)**	**Decrease (£)**	**Decrease (%)**
Bedsit	78.47	77.86	0.61	1%
1 Bed	85.02	84.23	0.79	1%
2 Bed	96.04	95.30	0.74	1%
3 Bed	114.57	113.43	1.14	1%
4 Bed	133.15	131.66	1.49	1%
5 Bed	148.96	147.47	1.49	1%
Average Rent	**98.08**	**97.19**	**0.89**	**1%**

2.1.4 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 2016/17 52 weeks (£)	**Rents 2017/18 52 weeks (£)**	**Decrease (£)**	**Decrease (%)**
Bedsit	77.44	76.69	0.75	1%
1 Bed	85.38	84.51	0.87	1%
2 Bed	96.04	95.31	0.73	1%
3 Bed	114.57	113.43	1.14	1%
4 Bed	133.15	131.66	1.49	1%
5 Bed	148.96	147.47	1.49	1%
Average Rent	**99.38**	**98.47**	**0.91**	**1%**

Sheltered Housing Accommodation 1% reduction:

	Rents 2016/17 52 weeks (£)	**Rents 2017/18 52 weeks (£)**	**Decrease (£)**	**Decrease (%)**
Bedsit	80.52	80.13	0.39	1%
1 Bed	83.73	83.26	0.47	1%
2 Bed	95.83	95.03	0.80	1%
Average Rent	**83.47**	**83.00**	**0.47**	**1%**

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.

2.1.5 The rent charged to hostel residents will reduce by 1 %.

2.1.6 By applying the rent changes for 2017/18, there is an annual reduction in rental income to the HRA. 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. In December 2016, the number of void properties, including sheltered was 65 and the turn-around time for a void property was 8.6 days.
- Reducing levels of costs with the repairs service though improved efficiency leading to improved customer satisfaction.
- 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. A further reduction of £1.5m per year is being proposed for 2017/18 as detailed in paragraphs 3.4.1 and 4.2 of this report.
- Improved efficiency levels in general across the housing service by improved ways of working, lean design and reduced waste and duplication.

2.1.7 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 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.

2.2.2 The basis for calculation of service charges is to ensure full recovery of the cost of the service. This year, following the completion of the restructure and improvements to services along with corresponding reductions in central support charges, the full cost of services is being calculated to include associated overheads. Overheads have not previously been included in service charges but going forward these will be calculated on an annual basis and included. This is accepted practice where landlords are able to fully justify the cost base and calculation method. In order to cap any increases and mitigate potential financial impact on residents a limit of 25% has been applied to the increase on each service charge line. On that basis the service charges and heating and hot water charges for 2017/18 are detailed in the following table:

Service Charges	2016/17 Weekly charge – 48 weeks (£)	2017/18 Weekly charge – 48 weeks (£)
Caretaking	3.78	4.73
Internal Block Cleaning	1.56	1.95
Bulk Refuse Collection	0.48	0.50
CCTV - Mobile Service	0.46	0.56
CCTV - Static Service	1.40	1.51
Community Wardens	0.95	1.09
Door Entry	0.25	0.30
Ground Maintenance	3.53	4.29
Sheltered Cleaning	3.58	4.48
TV access	1.49	1.71
Heating	6.27	7.29
Heating and Hot Water	9.57	10.69

2.2.3 It is proposed that service charges for hostel residents will increase to £25.65 per week (£25.14 in 2016/17). Service charges in hostels cover the maintenance of the hostel communal areas, as well as 24 hour staffing. The basis for this calculation is also to ensure full cost recovery.

2.3 Garages

2.3.1 It is proposed to increase the level of charges for garages in 2017/18 by 7.5%. There are currently a range of charges for garages within the high, medium and low demand bands. However, there are over 50% of the garages vacant at the present time due to the poor condition of the buildings and sites where garages are situated. There is a significant investment programme needed to bring the buildings and sites up to good standards that will enable better utilisation of this asset and increase revenue whilst at the same time improving the amenities for residents. The increased charges will enable revenue to be raised to carry out the much needed improvements. A review of the garages is currently being completed to identify the costs associated with this improvement plan and expected increased usage. This will be linked to a wider council review of car parking across General Fund sites. The increase means that the average charge for a high demand garage will be £13.44 per week (£12.53 in 2016/17), £12.52 per week (£11.65 in 2016/17) for a medium demand garage and £9.74 per week (£9.09 in 2016/17) 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. When the new service was being designed, the funding was to be derived from an equal contribution from rent and service charges. Good practice, as adopted for general service charges, is that support costs are de-pooled from rent costs. The council is therefore embarking on a programme to ensure this service is paid for via service charges. This will be linked to the Older Persons Housing review outcomes. Over the next couple of years, several sheltered schemes will close and three will be redeveloped. In addition, the remaining sites will have improved scheme manager resources so that they can become community hubs for residents not living in the schemes to help tackle social isolation. The move to cost recovery via service charges will be linked to the modernisation of this service and will be completed over four years. As with the general service charges detailed above, in order to cap any increases and mitigate potential financial impact on residents a limit of 25% has been applied to the increase. It should be remembered that no increase in this service charge was agreed last year whilst the decision of Government on their rent policy for supported housing was awaited. In addition, the rent for sheltered housing is being reduced by 1%. The service charge for 2017/18 will be £8.21 per week (52 weeks) (£6.57 in 2016/17).

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

2.5.1 It is proposed that the Careline and Telecare service charges will be increased by 2% for 2017/18 as detailed below:

Service	Weekly support charge in 2016/17 – 52 weeks (£)	Weekly support charge in 2017/18 – 52 weeks (£)
Careline – sheltered tenants	4.44	4.53
Careline – community users	4.74	4.84

Service	Weekly support charge in 2016/17 – 52 weeks	Weekly support charge in 2017/18 – 52 weeks
Telecare – base unit plus two sensors	6.89	7.03
Additional Telecare sensor	1.14	1.16

3. THE HRA BUDGET 2017/18

3.1 Attached at **Appendix 1** is the proposed HRA budget for 2017/18. A summary of the main movement from the 2016/17 budget is as follows:-

	(£)
Revised Expenditure Budget 2016/17	**56,003,600**
Pay award (para 3.2.1)	100,430
On-going Growth Items (para 3.2.2 – 3.2.10)	1,852,000
Decrease in CSSA (Support Charges) (para 3.5.1)	(390,490)
Reduction in Debt Management Charges	(1,850)
Removal of IAS19 Budgets	20,920
On-going Savings Items	(500,000)
Review of recharges between HRA and GF (para 3.5.2)	810,000
Contract Inflation (para 3.2.11)	156,620
2017/18 Original Expenditure Budget	**58,051,230**
Revised Income Budget 2016/17	**(56,447,650)**
Rent decrease	1,390,560
Increase in Service Charges	(690,650)
2017/18 Original Income Budget	**(55,747,740)**
Net Budget	**2,303,490**
Other Adjustments	(250,000)
Net Budget after Adjustments	**2,053,490**
Decrease in Capital funded by revenue	(615,268)
Gross Budget	**1,438,222**

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 £0.100m. This is in line with the corporate position.

Items 3.2.2 – 3.2.10 are the £1.852m growth items referred to in summary table in 3.1 above

3.2.2 The temporary resource of 10 full time equivalents (FTEs) in the Internal Fraud Team to refocus on dealing with all forms of housing fraud. The work of this team in 2016/17 facilitated the return of 17 (29 over the course of the project) (illegally sub-let properties, stopped 18 (34 over the course of the project) potentially fraudulent RTB applications and resulted in the referral of 6 (25 over the course of the project) HB fraud cases and 3 cases for prosecution for illegal subletting. The combined financial impact of these actions has resulted in a saving of £3.5m to the council. For 2017/18, as well as the work around sub-letting and RTB, there will be a renewed focus on temporary accommodation occupancy and identity fraud associated with homelessness and housing register applications. A provision of £0.400m has been made for this. During the course of the year we will be reviewing the longer term structure of this team.

3.2.3 In order to ensure appropriate levels of support are provided to residents and that we maintain adequate staff cover at our three hostels an additional Hostel Officer will be recruited at a cost of £0.035m. A £0.020m provision has also been made to continue with the counselling service that was introduced in the hostels in 2016-17 which has better equipped residents to sustain their tenancies in the longer term.

3.2.4 Additional funding of £0.130m has been approved for a temporary resource of 4 FTE's to reduce the rent arrears position from 2% to a best in class target of 1.4%. This would bring in additional income of £0.360m per annum.

3.2.5 A provision of £0.045m for a Data Analyst reporting into the corporate Community Safety Team to support the work of the Tasking Enforcement Group has been made

3.2.6 Additional funding of £0.040m for 1fte has been included within the Corporate Project Management Office.

3.2.7 The temporary resource of 2 full time equivalents (FTEs) in the Home Ownership and Leasehold Team to support the delivery of the Estate Regeneration Programme by the re-purchase of leasehold and freehold properties. A provision of £0.070m has been made for this.

3.2.8 An allocation of £0.050m has been made to support the planning processes associated with the Estate Regeneration Programme. This budget will be used to pay for a dedicated resource in the Planning Service as the workload associated with the Estate Regeneration Project will be significant.

3.2.9 Additional funding of £1m has been included in the budget for a Tenants Incentive Scheme. This initiative will offer existing secure tenants a one off payment to surrender their tenancy. Discussions already held as part of the Estate Regeneration Programme has shown that there are a significant number of tenants interested in pursuing this opportunity. This initiative will also be extended to all tenants who express an interest in surrendering their tenancy. External funding opportunities are being explored to assist with the costs e.g. the GLA.

3.2.10 A provision of £0.062m has been allowed to cover the cost of the removal of fly tipping on HRA land. This amount has been assessed as the cost of the service required on the estates and is carried out by the council's waste services team.

3.2.11 Contract inflation has been allowed for to the sum of £0.157m.

Items 3.2.12 to 3.2.15 are capital requirements, which are included in the table in Appendix 2 below.

3.2.12 Increased funding of £2.3m has been allowed for the provision of decanting services associated with the Estate Regeneration Programme. This includes the direct costs relating to statutory home loss payments, disturbance payments and for two FTE posts for specialist Rehousing/Decant Officers. It is expected this provision will be required for a period of four (4) years, being the planned decanting time table.

3.2.13 An additional provision of £0.200m has been allowed for 2017/18 for the costs associated with the provision of a new office to support the DELTA Tenant Management Organisation as required by the agreement with the Council. As well as providing a permanent office for the TMO, this initiative also facilitates the estate regeneration proposals for this estate.

3.2.14 An additional provision of £0.202m has been allowed for 2017/18 for the appointment of a Multi-Disciplinary Team (MDT) to support the procurement process for a development partner to undertake the Estate Regeneration Programme. This figure includes the contract award of £0.172m, plus a contingency sum.

3.2.15 An additional provision of £7.84m has been allowed for the costs associated with the re-purchase of freehold and leasehold properties (Buy Backs) where the Estate Regeneration Programme will be carried out. It is expected this provision will be required for a period of four years, being the expected decanting time table and to achieve full vacant possession of all sites.

3.3 *Reasons for variations – lost and reduced income*

3.3.1 A provision has been made for the loss of income (rent and service charges) from properties sold under RTB. For 2017/18 this loss is expected to be £0.264m.

3.4 *Reasons for Variation – savings items*.

3.4.1 In line with the principles set out in paragraph 4.2. further work associated with validation of the stock condition has continued during the course of the financial year. As a consequence further savings have been identified from the 2016-17 forecasts. This has resulted in an average saving of £1.54m across the next ten years of the business plan.

3.4.2 As a result of the work supported by the Chartered Institute of Housing (CIH), a detailed review of the Repairs Service and associated costs has been completed. The improvements that have been made relate to service delivery, a reduction in demand and improved efficiencies and will all lead to a reduction in costs in 2017/18. An annual saving of £0.500m has been identified and included in this budget.

3.5 *Miscellaneous*

3.5.1 Central Services recharges have decreased by £0.390m. This is the result of a reduction in central costs, in conjunction with the apportionment changes for the staff based recharges, as a result of headcount reductions due to the restructure implemented in April 2016.

3.5.2 The figure of £0.810m, shown in the summary table, in paragraph 3.1 above relates to a review of recharges between the HRA and the General Fund. The total costs of the services involved have been reviewed and a more accurate apportionment made between the HRA and the GF. The specific service areas reviewed include energy strategy, charges associated with adaptations to council houses for council tenants, strategic community safety responsibilities relevant to the HRA. In addition this element also contains a proposal to transfer garage rents from the HRA to the GF following a full review of car parking income within the council and the use of garage sites. Also included is a review of costs associated with the Council CCTV Service.

4. MAJOR WORKS BUDGET – HRA 2017/18 – 2019/20 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. This was reported to and agreed by Cabinet in February 2016. This has reduced capital expenditure by over £80m across the 30 year Business Plan life, or around £2.5m per year. 2016/17 was the first year of the JIT regime. The agreed methodology included a higher rate of validation inspections. These inspections are carried out prior to confirming works to the stock. Surveyors visit and check that the works that have been planned are actually required in order to ensure that only work to defective elements is carried out. Those inspections have enabled further reductions in planned works as they have identified that works expected to be needed are not required. The further reduction in expenditure is identified in paragraph 3.4.1.

4.3 The annual planned maintenance levels as contained within the Asset Management Plan amount to an average annual expenditure figure of £8.1m across the period 2017/18 – 2019/20.

4.4 The provision of £2.5m made in the programme for 2016/17 to complete improvements to the “non-traditional houses”, has now been spent. The improvements relate to improved thermal efficiency and improved wind and weather proofing. All non-traditional houses not ear-marked for demolition have now been improved.

4.5 The decent homes principle continues and the decent homes target of 98% continues to be achieved.

4.6 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.

4.7 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.

4.8 Another element of expenditure on the Housing stock which should be taken into consideration is expenditure on responsive works. These works are for routine repairs and regular servicing of gas appliances and various testing regimes. As part of the CIH Action Plan, work has commenced to establish the value added to the overall stock from these repairs and any compensatory reduction in planned maintenance forecast within the Asset Management Plan. An example of this is to standardise materials and components so that supply chain relationships can be utilised to reduce costs.

4.9 As the review of the repairs service reaps benefits, it is anticipated that improved efficiencies will result leading to a reduction in costs. These reductions in costs will come from fewer repairs required, improved efficiency within the external contractor leading to reduced costs and improved terms in the contract resulting from a recently agreed deed of variation to the original contract. In addition, tenants and leaseholders are being engaged to help drive through efficiencies in the service. The anticipated savings in annual expenditure included in the budget report is £0.500m.

4.10 Contained within this report is a major investment programme for sheltered housing. As part of the regeneration programme and review of older persons housing, the remaining sheltered housing schemes are being improved to ensure that they are fit for purpose and meet the requirements of an aging and frailer community, including making improvements to create dementia friendly schemes. A wide ranging consultation programme with the residents in schemes has informed this investment. The type of work to be included will be the completion of the bedsit conversion works, installations of lifts in all schemes, improvements to CCTV systems and improvements to communal lounges and gardens. This investment programme will see £4.7m invested in the schemes over two years.

4.11 The full proposed Major Works programme – covering investment in the existing council housing stock and building of new properties – for the three years 2017/18 to 2019/20 is included in **Appendix 2**. Appendix 3a, shows a 10 year extract from the Business Plan which identifies surpluses of £96m. This will be used to support the Estate Regeneration Programme.

5. 30 year Business Plan 2017/18 to 2047/48

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 2017/18 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 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 and is currently running at 100 per year. In addition, now that the majority of borrowing (self financing debt) has been fixed at 3.26% for the next 11 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 approximately £7.9m. This reduces the income into the business plan model by £68m over 10 years and is thus a significant change.

5.4 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.

5.5 The Government "high value sales levy" policy has been delayed for at least one year. The impact of this is therefore still unknown. However, the serious risk to the sustainability of this policy change remains a significant if unquantified risk. Once details are known and the impact calculated, it will be fully reworked and re-presented along with any subsequent changes to expenditure levels that are required to produce a balance Business Plan.

5.6 The "pay to stay" regime is now a discretionary policy and the proceeds will no longer be paid over to the Treasury. Instead any addition income can be retained by the Local Authority. This would therefore have a potentially positive impact on the HRA Business Plan if implemented. During 2017/18, officers will review the possibility of implementing such a scheme, linking the rents paid and income levels of residents to the income level of £36k per year contained in the new Allocation Policy. This states that any resident earning more that £36k is unable to join the Housing Register as they are deemed to be able to make their own housing arrangements from a financial perspective. This initiative will be linked to the development of low cost home ownership properties that will be built as part of the Estate Regeneration Programme.

5.7 Reduction in costs associated with salaries, the move to the JIT principle and improved efficiency in the repairs service along with increased income associated with improved rent arrears and reduced voids numbers mean that the pressures identified above have been mitigated and a significant provision in future years has been identified to support the Estate Regeneration Programme that will see up to 3,500 homes built over 10 years.

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 of existing housing stock and provide significant funding for a wide-ranging estate regeneration programme

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 increases, budget growth and major works programme proposals. The rationale for the levels of investment and levels of charges are contained within the body of this report.

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 2017/18 and the revision of the figures for the 30 year Self Financing Business Plan. The HRA is sufficiently healthy to generate a minimum estimated annual working balance reserve of £2m at the end of 2016/17 and for the following 3 years.

In addition to £2m reserves on the HRA, the following estimated provisions / reserves are predicted as at 31 March 2017:-

- Bad and doubtful debt provision of £2.937m (including leaseholder major works) - calculated according to best practice
- Leaseholder Major Works Reserve of £2.055m – this is the balance remaining on the reserve. £0.200m is generated from this reserve each year as a contribution to the HRA Investment programme.

The impact of the second year of the Government's 1% rent reduction will see income levels fall by £1.4m

HRA Investment Capital Budget

Appendix 2 sets out the Major Works Programme 2017-19. 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.

Risks

The introduction of the Governments “higher value sales levy” policy has been delayed and as such the risks, whilst expected to be significant, cannot as yet be quantified.

The Governments intentions after the four’s years of rent reductions are as yet unknown and cannot therefore be quantified.

Legal implications and risks:

Under Part VI 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 in 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 the Welfare Reform and Work Act 2016, the report also seeks Cabinet agreement to a 1% reduction in rent levels for general needs housing. Although Havering’s tenancy agreement requires at least 4 weeks notice of a variation in rent, pursuant to section 28 of the WRWA 2016, a term is implied into the Council’s tenancy agreements enabling the 1% rent reduction without prior notice where the reduction is made for the purpose of complying with the Act. The provisions for variation of the terms of a secure tenancy under the Housing Act 1985 also take effect subject to section 28. However, to the extent that increases will be made to service charges, then the provisions as to notice of variation under the tenancy agreement and the Housing Act 1985 remain applicable.

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.

60% 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.

The Council will monitor the impact of the increase across protected characteristics. We will ensure that anyone affected by the increase has equal access to advice and information in relation to income maximisation should they be unable to meet their rent/service charge liabilities. We will follow the guidelines set out in the income maximisation policy. The EIA will be updated in 6 months with information provided through the monitoring process and if required further activity will be undertaken to mitigate any adverse impact.

BACKGROUND PAPERS

There are none.

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APPENDIX 1 – HRA budget 2017/18

	2016-17 Final Budget	2017-18 Final Budget	Variance
Income and Expenditure	**£**	**£**	**£**
Income			
Dwelling rents	(48,551,860)	(47,143,540)	1,408,320
Garages	(400,710)	(346,870)	53,840
Charges for services and facilities - Tenants	(5,296,060)	(6,058,310)	(762,250)
Charges for services and facilities – Leaseholders	(1,574,340)	(1,574,340)	
Shared ownership	(113,980)	(113,980)	
Other	(445,890)	(445,890)	
Total Income	**(56,382,840)**	**(55,682,930)**	**699,910**
Expenditure			
Repairs and maintenance	6,238,120	6,453,740	215,620
Supervision and management plus recharges	22,344,510	24,178,370	1,833,860
Depreciation and impairment	16,590,400	16,590,400	
Debt management costs	49,670	47,820	(1,850)
Bad debt	665,000	665,000	
Total Expenditure	**45,887,700**	**47,935,330**	**2,047,630**
Net cost of HRA services	**(10,495,140)**	**(7,747,600)**	**2,747,540**
Interest payable and similar charges	5,853,300	5,853,300	
Interest and investment income	(64,810)	(64,810)	
Surplus or deficit for the year on HRA services	**(4,706,650)**	**(1,959,110)**	**2,747,540**
Statement on movement of HRA balances			
Surplus or deficit for the year on HRA services	**(4,706,650)**	**(1,959,110)**	**2,747,540**
Major works expenditure funded by the HRA	11,353,057	19,737,732	8,384,675
Transfer to or from Major Repairs Reserve (MRR)	(16,340,400)	(16,340,400)	
Net (income)/Expenditure	**(9,693,993)**	**1,438,222**	**11,132,215**
HRA balance brought forward		(7,155,580)	
Net (income)/Expenditure		**1,438,222**	
In year Deficit 16-17		1,000,000	
Unallocated 16/17 Capital		(9,302,339)	
RTB receipts (Debt Element)		(1,385,238)	
HRA balance carried forward	**(7,155,580)**	**(15,404,935)**	

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Appendix 2 – Funded 2017/18 – 2019/20 HRA Major Works Capital Programme

Major Works Programme 2017-20					
		17/18	18/19	19/20	3 yr totals
New Build Programme and pre commitments in 2016/17					
New Build Programme (funded).		£16,192,700	£ 7,087,579		£ 23,280,280
Other Capital Schemes (funded).		£ 5,728,529	£ -	£ -	£ 5,728,529
Total		**£21,921,229**	**£ 7,087,579**	**£ -**	**£ 29,008,809**
Stock Upkeep works to maintain standards including Major Repairs					3 yr totals
Major Voids		£ 450,000	£ 270,000	£ 270,000	£ 990,000
Structural		£ 50,000	£ 50,000	£ 50,000	£ 150,000
Electrical Upgrade/Mains Supplies		£ 100,000	£ 100,000	£ 100,000	£ 300,000
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		£ 100,000	£ 100,000	£ 100,000	£ 300,000
External Redecorations		£ 817,500	£ 817,500	£ 817,500	£ 2,452,500
DDA Fire Protection/Means of Escape		£ 35,000	£ 35,000	£ 35,000	£ 105,000
Careline equipment		£ 50,000	£ 50,000	£ 50,000	£ 150,000
Stock condition surveys 10%		£ -	£ -	£ -	£ -
Aids and Adaptations		£ 550,000	£ 550,000	£ 550,000	£ 1,650,000
Total		**£ 2,422,500**	**£ 2,242,500**	**£ 2,242,500**	**£ 6,907,500**
Stock Reinvestment to improve conditions including maintaining the Decent Homes Standard					3 yr totals
Stock Investment "Replacements"		£ 3,256,232	£ 4,277,954	£ 3,234,207	£ 10,768,393
Non Trad Houses/Flats System Build		£ -	£ -	£ -	£ -
Kitchen/Bathrooms at Void stage		£ 665,000	£ 270,000	£ 270,000	£ 1,205,000
Total		**£ 3,921,232**	**£ 4,547,954**	**£ 3,504,207**	**£ 11,973,393**
Stock Remodelling					3 yr totals
Bedsit Remodelling		£ 545,000	£ 109,000	£ 109,000	£ 763,000
Total		**£ 545,000**	**£ 109,000**	**£ 109,000**	**£ 763,000**
Future Investment					3 yr totals
Major Improvements (sheltered housing)		£ 2,507,000	£ 2,289,000	£ -	£ 4,796,000
Environmental Improvements (Minor)		£ -	£ -	£ -	£ -
		£ 2,507,000	**£ 2,289,000**	**£ -**	**£ 4,796,000**
		17/18	18/19	19/20	3 yr totals
Works to existing stock Programme Totals		**£ 9,395,732**	**£ 9,188,454**	**£ 5,855,707**	£ 24,439,893
		Average Annual Investment in existing stock			***£ 8,146,631***
Below the Line Additional Capital Expenditure					
Multi Disciplinary Team for Estates Renewal Programme		£ 202,000	£ -	£ -	£ 202,000
Estates Renewal Programme - Land Assembly "Buy Backs"		£ 7,840,000	£ 7,840,000	£ 7,840,000	£ 23,520,000
Decanting Services		£ 2,300,000	£ 2,300,000	£ 2,300,000	£ 6,900,000
		£10,342,000	**£10,140,000**	**£10,140,000**	**£ 30,622,000**
Proposed Capital Expenditure (exc New Build)		**£19,737,732**	**£19,328,454**	**£15,995,707**	**£ 55,061,893**

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

Year	**2017.18**	**2018.19**	**2019.20**	**2020.21**	**2021.22**	**2022.23**	**2023.24**	**2024.25**	**2025.26**	**2026.27**
£'000	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
INCOME:										
Rental Income	48,002	47,548	46,901	48,299	49,446	50,649	51,879	53,138	54,426	55,744
Void Losses	-1,080	-1,069	-1,054	-1,084	-1,110	-1,137	-1,165	-1,193	-1,222	-1,252
Service Charges	7,633	7,785	7,941	8,100	8,262	8,427	8,596	8,768	8,943	9,122
Non-Dwelling Income	347	354	361	368	375	383	391	398	406	415
Grants & Other Income	560	571	582	594	606	618	631	643	656	669
Total Income	**55,462**	**55,190**	**54,732**	**56,277**	**57,579**	**58,940**	**60,331**	**61,754**	**63,210**	**64,698**
EXPENDITURE:										
General Management	-24,428	-24,917	-25,415	-25,924	-26,442	-26,971	-27,510	-28,061	-28,622	-29,194
Special Management	0	0	0	0	0	0	0	0	0	0
Other Management	0	0	0	0	0	0	0	0	0	0
Rent Rebates	0	0	0	0	0	0	0	0	0	0
Bad Debt Provision*	-665	-657	-647	-665	-681	-698	-715	-732	-750	-768
Responsive & Cyclical Repairs	-6,454	-6,533	-6,630	-6,735	-6,847	-6,980	-7,112	-7,256	-7,377	-7,500
Total Revenue Expenditure	**-31,547**	**-32,107**	**-32,692**	**-33,323**	**-33,970**	**-34,649**	**-35,337**	**-36,048**	**-36,748**	**-37,462**
Interest Paid	-6,059	-6,011	-5,974	-5,937	-5,890	-5,866	-5,845	-5,824	-5,782	-5,694
Finance Administration	-48	-49	-50	-51	-52	-53	-54	-55	-56	-57
Interest Received	151	92	74	101	157	217	279	344	411	473
Depreciation	-7,775	-7,681	-7,618	-7,566	-7,527	-7,637	-7,749	-7,862	-7,977	-8,092
Net Operating Income	**10,184**	**9,434**	**8,472**	**9,501**	**10,297**	**10,952**	**11,625**	**12,309**	**13,057**	**13,865**
APPROPRIATIONS:										
FRS 17 /Other HRA Reserve Adj	0	0	0	0	0	0	0	0	0	0
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0
Revenue Contribution to Capital	0	-10,908	-8,648	0	0	0	0	0	0	0
Total Appropriations	**0**	**-10,908**	**-8,648**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
ANNUAL CASHFLOW	**10,184**	**-1,474**	**-176**	**9,501**	**10,297**	**10,952**	**11,625**	**12,309**	**13,057**	**13,865**
Opening Balance	6,156	16,339	14,865	14,689	24,190	34,486	45,438	57,063	69,372	82,429
Closing Balance	**16,339**	**14,865**	**14,689**	**24,190**	**34,486**	**45,438**	**57,063**	**69,372**	**82,429**	**96,294**

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

Year	**2017.18**	**2018.19**	**2019.20**	**2020.21**	**2021.22**	**2022.23**	**2023.24**	**2024.25**	**2025.26**	**2026.27**
£'000	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
EXPENDITURE:										
Planned Variable Expenditure	-3,758	-3,629	-2,339	-2,369	-2,489	-2,313	-2,948	-2,377	-3,261	-3,778
Planned Fixed Expenditure	-21,708	-15,653	-13,926	-3,654	-3,862	-3,562	-4,537	-3,599	-5,017	-5,867
Disabled Adaptations	0	0	0	0	0	0	0	0	0	0
Other Capital Expenditure	0	0	0	0	0	0	0	0	0	0
New Build Expenditure	-16,193	-7,088	0	0	0	0	0	0	0	0
Procurement Fees	0	0	0	0	0	0	0	0	0	0
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	**-41,659**	**-26,370**	**-16,266**	**-6,023**	**-6,351**	**-5,876**	**-7,485**	**-5,976**	**-8,279**	**-9,645**
FUNDING:										
Major Repairs Reserve	34,854	13,255	7,618	6,023	6,351	5,876	7,485	5,976	8,279	9,645
Right to Buy Receipts	0	0	0	0	0	0	0	0	0	0
HRA CFR Borrowing	0	0	0	0	0	0	0	0	0	0
Other Receipts/Grants	4,690	80	0	0	0	0	0	0	0	0
HRA Reserves	2,115	2,126	0	0	0	0	0	0	0	0
Revenue Contributions	0	10,908	8,648	0	0	0	0	0	0	0
Total Capital Funding	**41,659**	**26,370**	**16,266**	**6,023**	**6,351**	**5,876**	**7,485**	**5,976**	**8,279**	**9,645**