Havering
LONDON BOROUGH

CABINET

7 February 2018

Subject Heading:	**HRA Budget for 2018/2019 and HRA Major Works Capital Programme 2018/19 – 2020/21**
Cabinet Member	**Councillor Damian White –** Deputy Leader of the Council, Lead Member of Housing
SLT Lead:	Steve Moore, Director of Neighbourhoods
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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 2018/19. 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 2a 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 2018
Reviewing OSC	Towns and Communities

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making 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 HRA Business Plan is also provided. In particular, this report provides Cabinet with the latest assessment on the impact of the provision of new homes via the HRA 12 sites regeneration project and the setting up of the HRA Joint Venture and the identification of a provision in the HRA for affordable housing on other regeneration opportunities in the borough.

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 2018/19.

In the HRA rent setting report for last year it was identified that the former rent setting rules limiting increases to CPI + 1% had been changed and that Local Authorities and Housing Associations are 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. The DCLG has issued further policy statements on rent policy which members should be aware of and note. The current policy of a 1% reduction is applicable to general needs and supported housing in the financial years of 2018/19 and 2019/20. For the fiscal year 2020/21 a new rent policy will be in place and is outlined later in the report.

The one per cent reduction last year for 2017/18 was applied to all rent levels in general needs and supported housing charged. A similar reduction is to be applied for 2018/19 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 2 April 2018 in line with the indicative figures contained in paragraph 2.1.7 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 2 April 2018 in line with the indicative figures contained in paragraph 2.1.8 and 2.1.9 of this report.

4. **Agree** the four rent-free weeks for 2018/19 as being: w/c 20 August 2018, the two weeks commencing 17 and 24 December 2018, and the week commencing 25 March 2019.

5. **Agree** that service charges and heating and hot water charges for 2018/19 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 2018/19 are as detailed in paragraph 2.2.3 of this report.

7. **Agree** that charges for garages should be increased by 7.5% in 2018/19 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 4% for 2018/19 as detailed in paragraph 2.5.1 of this report.

10. **Agree** that the Telecare support charges should be increased by 4% for 2018/19 as detailed in paragraph 2.5.1 of this report.

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

12. **Approve** the HRA Capital expenditure and financing for the 12 Sites Joint Venture, detailed in paragraphs 3.19.1 to 3.19.8 and **Appendix 2a** of this report and **refer it to full Council** for final ratification.

13. **Approve** the HRA Capital expenditure and financing to acquire up to 375 affordable dwellings from the Bridge Close JVLLP, detailed in paragraphs 3.20.1 to 3.20.5 and **Appendix 2a** of this report and **refer it to full Council** for final ratification.

14. **Agree** to delegate to the Lead Member for Housing, after consultation with the Director of Neighbourhoods, the Monitoring Officer and the s151 Officer, authority to finalise agreement on the terms of the acquisition of affordable housing on Bridge Close referred to in recommendation 13.
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15. **Agree** to redirect both the balance in the RTB debt repayment reserve and future RTB attributable debt receipts towards the funding of the Estate Regeneration Programme and associated vacant possession costs.

16. **Agree** to release balances and redirect the proceeds from the disposal of HRA shared ownership properties and other HRA disposals towards the funding of the Estate Regeneration Programme, associated costs of vacant possession and the HRA New Build Programme.

REPORT DETAIL

1. BACKGROUND

1.1 As reported previously to Cabinet, the Localism Act 2011 changed the financial system for the management of council housing. The new system has provided freedom and independence for the local management of council housing finance by comparison to the previous national subsidy system.

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 2018/19.

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 affordable homes built for local residents thus replacing some of the properties lost through Right to Buy and helping to reduce homelessness pressures in the General Fund.

1.5 The Council recognises that there is a need for good quality affordable homes, especially for vulnerable residents such as the elderly, those on low incomes 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 in line with legislation and kick start regeneration of Havering.

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. Cabinet have also received a review of the HRA Business Plan in November 2017 and have approved the award of preferred bidder status for the regeneration of the 12 Estates project.

1.7 However, there are many influences on the resources available to the HRA. These are all identified and quantified within the HRA Business Plan (HRA BP). The Business Plan is composed of various income and expenditure lines. Some of the lines in the HRA BP are under the complete control of the council, whilst some are impacted upon by Government policy and legislation.

The lines in the business plan that have a direct impact on the income into the HRA BP include:

- Any capping of Local Housing Allowance (LHA) levels.
- Rent policy regarding supported housing rents.
- Service charge recovery.

The lines in the business plan which impact on the levels of expenditure in the HRA BP include:

- Planned maintenance to existing stock.
- Responsive repairs costs to existing stock.
- Delivery of new build homes.
- Staffing costs.
- Financing costs of the borrowing in the HRA.
- Losses from bad debts, voids etc.

1.8 There is still uncertainty regarding the Government's proposed higher value sales programme proposed to fund the extension of the Right to Buy system to Housing Association properties. This could have an impact on the resources available in the HRA BP. However, as this is still unknown, the impact has not been included for the purposes of this report. As soon as final proposals are known and modelled for Havering, this will be reported back to Cabinet.

1.9 The tragic events at Grenfell Tower have led to the holding of a public enquiry as to the circumstances which led to the loss of so many lives. The early discussions have also centred on the potential for a detailed and comprehensive review of the current building regulations. The implications for landlords and building owners generally remain very uncertain. This is a key risk for the HRA Business Plan but as implications become clearer this will reported back to Cabinet.

2. INCOME

2.1 Rents

2.1.1 The Council's main source of income to manage its housing stock is tenants' rents. The setting of rents is directed by central government policy. The formula used to develop the HRA Business Plan from 2015/16 onwards, and as reported to Cabinet in February 2015, allowed rents to be increased by a maximum of CPI + 1% annually.

2.1.2 However, the previous Government required Councils to reduce rents by 1% against July 2015 levels for four years as part of on-going austerity measures. This reduces the rental income available to the HRA over the four years of the reduction by just below £8.000m. This reduces the income into the business plan model by £68.000m over 10 years and is a significant reduction. Two 1% annual reductions have been applied to tenant's rents so far. The third is the 2018/19 rent setting process via the Council's constitution.

2.1.3 The Government announcement on the 4th October 2017 has clarified rent setting policy for the medium term. After the four years of 1% reduction, it has been announced that the HRA will revert back to the original rent setting formula of CPI +1% for 5 years from 2020. The announcement was made with the following additional comment:

"As set out in the Housing White Paper, to help encourage more investment in social housing, government will create a stable financial environment by setting a long term rent deal for councils and housing associations in England.

Under the proposal set out today (04/10/17), increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. This will give social tenants, councils and housing associations the security and certainty they need."

This provides certainty for rents in council housing up to 2025. In addition, it was announced that Government would carry out a consultation exercise on rents in 2018. For the purposes of the business plan, it has therefore been assumed that the rent increase guidelines of CPI + 1% will continue. The outcome of any future changes will be factored in to future budget reports provided to Cabinet.

2.1.4 The Government announced a one year exemption from the 1% reduction 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. Government is completing a review into supported housing rent policy and the outcome is awaited. However, for the next two years a 1% rent reduction is also being applied to supported housing rents and is included within the Business Plan with increases of CPI + 1% from 2020.

2.1.5 The capping of new rents at LHA levels is now effective. In Havering, the LHA levels for each bed size is above the levels of the 2017/18 rents and so there is no impact on the HRA BP. However, the LHA levels have been frozen for 4 years. This also has no additional financial impact on the HRA BP over and above the impact of the 1% reduction. Future announcements on LHA levels may have a future impact and this will be kept under scrutiny and reported annually as part of the rent setting report.

2.1.6 The level of rent recovery in Havering is extremely good. The national accepted level of good performance is in the region of 98%. For 2016/17, Havering achieved a level of 98.24%. Nationally this figure is top quartile performance and is the best figure Havering has achieved.

2.1.7 In 2017/18, the average rent including all rented units in Havering is £97.19. Applying the 1% reduction to all General Needs properties and to Sheltered Housing in April 2018 gives an average decrease of £0.97 per week. The average rent in 2018/19 will be £96.22 per week. This will mean that average rents are as set out in the table below:

	Rents 2017/18 52 weeks (£)	Rents 2018/19 52 weeks (£)	Decrease (£)	Decrease (%)
Bedsit	77.89	77.11	0.78	1%
1 Bed	84.46	83.61	0.85	1%
2 Bed	94.94	93.99	0.95	1%
3 Bed	113.43	112.30	1.13	1%
4 Bed	131.66	130.35	1.31	1%
5 Bed	147.47	145.99	1.48	1%
Average Rent	**97.19**	**96.22**	**0.97**	**1%**

2.1.8 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 2017/18 52 weeks (£)	Rents 2018/19 52 weeks	Decrease (£)	Decrease (%)
Bedsit	76.71	75.95	0.76	1%
1 Bed	84.52	83.67	0.85	1%
2 Bed	94.94	93.99	0.95	1%
3 Bed	113.43	112.30	1.13	1%
4 Bed	131.66	130.35	1.31	1%
5 Bed	147.47	145.99	1.48	1%
Average Rent	**98.34**	**97.35**	**0.99**	**1%**

Sheltered Housing Accommodation 1% reduction:

	Rents 2017/18 52 weeks (£)	Rents 2018/19 52 weeks	Decrease (£)	Decrease (%)
Bedsit	80.37	79.57	0.80	1%
1 Bed	84.25	83.41	0.84	1%
2 Bed	95.51	94.55	0.96	1%
Average Rent	**83.88**	**83.04**	**0.84**	**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 the rent calculation takes into account the value of the property and floor area of individual properties.

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

2.1.10 By applying the rent changes for 2018/19, there is a continued 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 November 2017, the number of void properties available to let, including sheltered, was 38 and the turn-around time for a void property was 9.25 calendar days.
- Reducing levels of costs within the repairs service through improved efficiency leading to cost certainty.

- Realigning the capital investment programme away from planned expenditure to a ‘just in time’ approach, allowing an annual reduction of £2.5m on capital works whilst still maintaining standards of property. No further reduction is being proposed for 2018/19.
- Improved efficiency levels in general across the housing service by improved ways of working, lean design and reduced waste and duplication.

2.1.11 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. Continuing on from last 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	2017/18 Weekly charge – 48 weeks (£)	2018/19 Weekly charge – 48 weeks (£)
Caretaking	4.73	5.06
Internal Block Cleaning	1.95	2.44
Bulk Refuse Collection	0.50	0.52
CCTV - Mobile Service	0.56	0.70
CCTV - Static Service	1.51	1.47
Community Wardens	1.09	1.10
Door Entry	0.30	0.32
Ground Maintenance	4.29	3.98
Sheltered Cleaning	4.48	5.60
TV access	1.71	1.83

Heating	7.29	6.44
Heating and Hot Water	10.69	9.82

2.2.3 It is proposed that service charges for hostel residents will increase to £26.68 per week (£25.65 in 2017/18). 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 2018/19 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 and support a review of the garages and parking arrangements. This issue of one of our tenants key priorities and will need to dove tail into a wider borough wide strategy. The increase means that the average charge for a high demand garage will be £14.45 per week (£13.44 in 2017/18), £13.46 per week (£12.52 in 2017/18) for a medium demand garage and £10.47 per week (£9.74 in 2017/18) for a low demand garage.

2.3.2 These charges compare favourably with charges in the private market which range from £31.25 per week to £15.63 per week depending on location, size and condition.

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 previously implemented a 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 three 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. In addition, the rent for sheltered housing is being reduced by 1%. The service charge for 2018/19 will be £8.54 per week (52 weeks) (£8.21 in 2017/18).

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 4% for 2017/18 as detailed below:

Service	Weekly support charge in 2017/18 – 52 weeks (£)	Weekly support charge in 2018/19 – 52 weeks (£)
Careline – sheltered tenants	4.53	4.71
Careline – community users	4.84	5.03

Service	Weekly support charge in 2017/18 – 52 weeks	Weekly support charge in 2018/19 – 52 weeks
Telecare – base unit plus two sensors	7.03	7.31
Additional Telecare sensor	1.16	1.21

3. THE HRA BUDGET 2018/19

3.1 The major expenditure from the HRA BP is the investment in existing stock or the capital programme. The level of expenditure is controlled by each local authority and is dependent on the investment levels in the Asset Management Strategy (AMS). The proposed budget continues the AMS principle for investment in existing stock of "just in time" as reported to Cabinet in October 2016 and February 2017. The impact of this change is to reduce the average annual expenditure from £13.9m to £8.600m, a reduction of £5.300m per year. Over the 30 years of the HRA BP, this amounts to a reduction in spend of £159.000m.

3.2 As detailed in the AMS, this level of expenditure allows the decent homes levels to be maintained and all health and safety requirements to be met. In order to meet the decent homes target planned expenditure on new kitchens, bathrooms and electrical systems remain at previous levels. What reduces is the high level of "hypothetical" investments in building elements that would be unnecessary, such as walls, chimneys and roofs.

3.3 The expected level of expenditure on the repairs service will continue at an average of £6.632m per year. This projects spending of £705 per year per property, a level that is considered good performance for the type of properties Havering owns along-side a robustly-managed repairs contract

3.4 The restructuring of the Housing Service completed in April 2016 reduced the staffing costs to the HRA of £1.700m per year, a reduction of 20%. Across the 30 year HRA BP this reduced the cost by £51.000m. A detailed review has also been completed associated with other associated costs to reduce expenditure whilst maintain services.

3.5 The update to the HRA Business Plan presented to Cabinet in November 2017, made the assumption the HRA will not need to utilise the full level of borrowing permissible under the HRA reform rule. However, this is subject to a number of key assumptions, any change in which may require the HRA to utilise the full level of borrowing. The "borrowing cap" is a tool introduced by Her Majesty's Treasury limiting the borrowing in the HRA. The HRA is not allowed to use prudential borrowing rules where the borrowing level is restricted by its ability to repay the debt through the revenue generated through borrowing. This "cap" therefore restricts the borrowing levels to around half of the amount were prudential borrowing rules applied. The borrowing cap for the Havering HRA is £209.003m. The gap between the actual borrowing and the cap is termed "headroom". The current level of borrowing is £174.669m which leaves headroom in the HRA Business Plan of £34.334m. However, were the Council to agree a move to an accelerated payment methodology to the Bridge Close JVLLP to acquire 375 affordable units, this would require the Council to borrow an additional £17.7m by the close of 2025/26. Under an accelerated payment commitment, the Council would make regular stage payments (in line with the construction programme) in consideration of the grant of head lease interests in shared ownership units. This would bring the total borrowing in the HRA up to £192.4m. The full costs of borrowing are included within the Business Plan.

3.6 It is anticipated that the high level of performance around void properties will be maintained. The vastly improved void loss of £0.700m per year (1.6%) has been included in the proposed budget.

3.7 Despite the implementation of universal credit and payments direct to new applicants, the arrears and losses figures have remained low. The introduction of Universal Credit (UC) for all applicants introduces a significant risk to the levels of arrears in the HRA that will need constant monitoring and attention. The bad debt provision is proposed at £0.665m per annum based on a collection rate of 98.24%.

3.8 As the main level of income to the HRA BP comes from rents, it is imperative that the number of rental properties is maximised. The current HRA BP expects to lose 80 properties per year through RTB. This reduces rental income by around £0.277m per year, assuming a full year loss of income per property.

3.9 As increased demand for properties continues and the number of families presenting as homeless rise, there is a trend for more families to be housed for longer in the hostels and there is a risk that the council will need to resort to the use of expensive B&B emergency accommodation. This is a General Fund cost. More properties available in the HRA mean more properties available for permanent housing and therefore reduced spend on B&B in the GF.

3.10 In addition, changes to the costs of temporary accommodation are adversely impacting on the General Fund. The detail of these pressures was included in the budget report presented to Cabinet in January 2018. The increased costs of procuring temporary accommodation in the private rented sector and reductions in benefit subsidy to pay for temporary accommodation. One way of mitigating these rising pressures is to build new homes that can be accessed by local people who are facing homelessness.

3.11 The HRA BP resources can be used to fund new build and can be augmented by right-to-buy receipts. Failure to use right-to-buy receipts in this way would see the Council having to pay the receipts over to the DCLG with additional interest. Some council housing new build schemes have also attracted grant from the GLA. The Council have been awarded just over £30.296m from the GLA for the affordable housing provision on the first three sites in the HRA 12 sites project. Those sites are Waterloo Estate in Romford, Napier and New Plymouth Houses in Rainham and Solar, Serena, Sunrise sheltered scheme in South Hornchurch.

3.12 The HRA BP presented to Cabinet in November 2017 identified a total of £169.000m available within the HRA BP over the next 10 years that was available for investment in new units of affordable housing to help replenish losses of units through the right to buy and to help local people access affordable housing. This report therefore updates Cabinet on the progress of the land and estates review already in progress. It also updates Cabinet on the financial impact of the HRA new build programme and in particular the impact of the work carried out in relation to the HRA 12 sites project.

3.13 The focus of new build units is to provide general needs rented properties, low cost home ownership and supported housing for Havering residents. This will be achieved by looking to build on unused or derelict land in the HRA, such as garage sites as well as looking to maximise the number of units on existing estates where there are opportunities for estate regeneration or in-fill developments plus opportunities to purchase affordable housing on other regeneration sites in Havering. The additional resource is also to be used to focus on out dated units, such as bedsit sheltered units and those estates where there is a negative or low value to the HRA.

3.14 As previously reported to Cabinet, the council's preferred method to deliver this project is via a Joint Venture so that the council retains the long term ownership of the land and exerts control over the developments carried out. This also enables the council to share in the proceeds of the venture so that additional value can be used to extend the regeneration of estates across the borough in the future. The procurement exercise was carried out via competitive dialogue and the preferred bidder stage approved by Cabinet in January 2018.

3.15 The HRA BP update report presented to cabinet in November 2017 detailed the impact of the 12 Estates project and other regeneration projects across the borough. The basis of this report is the assumptions and proposed budget structure outlined in that report.

3.16 The continued provision of 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.

3.17 Attached at **Appendix 1** is the proposed HRA budget for 2018/19. A summary of the main movement from the 2017/18 budget is as follows:-

	(£)
Revised Expenditure Budget 2017/18	**57,185,960**
Provision for pay award and additional resourcing requirements (para 3.18.1)	521,810
Tenants Insurance Adjustment (para 3.18.2)	184,610
Hostels Security (para 3.18.3)	250,000
Contract Inflation (para 3.18.4)	211,550

Decrease in SERCOP Recharges (Support Charges) (para 3.21.1)	(159,050)
2018/19 Original Expenditure Budget	**58,194,880**
Revised Income Budget 2017/18	**(55,747,740)**
Rent decrease	630,440
Increase in Service Charges	(135,520)
2018/19 Original Income Budget	**(55,252,820)**
Net Budget	**2,942,060**
Decrease in Capital funded by revenue	(8,101,730)
Net Budget after Capital Adjustment	**(5,159,670)**

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

3.18.1 A provision has been made for a 1% pay award, at a cost of £0.110m. The pay negotiations however continue for London authorities and in light of the latest information the pay award is expected to be 2.38% in 2018/19 and this brings an additional pressure of £0.151k. The HRA has historically taken a prudent approach to budgeting for salaries, to cover the maximum impact of the incremental drift and staff reaching the top of grades over the long term. This ensures there is a provision to cover fully funding the structure at the maximum potential cost. In order to achieve this, it is necessary to increase the salary budgets by £0.412m. This will prevent incremental progression arising in future years.

3.18.2 There has been a reduction in the numbers of Tenants wanting to take advantage of the Insurance Scheme offered by Housing. This has resulted in a budget reduction of £0.185m.

3.18.3 A provision of £0.250m has been allowed to cover the costs for providing security and cleaning services to the Hostel accommodation. The provision of these services will be reviewed during 2018/19 to establish the most effective service option.

3.18.4 Contract inflation has been allowed for to the sum of £0.212m.

3.19 12 Sites Joint Venture Funding

The remaining provisions for expenditure in 3.19.1 to 3.19.8 below relate to the 12 sites Joint Venture proposal agreed at Cabinet on the 17th January 2018. One of the recommendations agreed at that Cabinet was:

That Cabinet:

1. ***Approve*** *the inclusion of a budget of £63.3m equity for the scheme together with a budget of £50.5m for potential land acquisition/CPO costs within the proposed HRA capital programme that will be considered by Cabinet in February 2018 in the annual rent setting and capital programme report and this is recommended to Council for final approval in February 2018.*

Items 3.19.3 to 3.19.8 are capital requirements, which are included in the table in Appendix 2a and are the first 5 years funding requirement from the current 15 year programme for the 12 Sites JVLLP .

3.19.1 The capital programme will be required to provide initial equity of £63.3m. Of that, £59.7m is in the form of land value, agreed at the point the land is transferred into the JV with the benefit of planning approval and £3.637m is cash to fund pre-development costs. The impacts of these are both contained within the HRA Business Plan and the expected first five years land transfer value are included in the 5 year capital programme in Appendix 2a. See 3.19.6 and 3.19.7 below

3.19.2 The funding for land acquisition/CPO costs of £50.5m relate to achieving vacant possession of the leasehold, freehold and tenanted properties. The budget requirement identified below is £37m. When added to the £13.5m already agreed by Cabinet for 2017/18, this accounts for the £50.5m. See 3.19.3 and 3.19.4 below.

3.19.3The 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 until the end of the 2019/20 financial year, being the planned decanting time table.

3.19.4 A revised provision of £21.20m 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 for 2018/19. It is expected a provision of £11.20m will be required until the end of the 2019/20 financial year, being the planned site assembly time table.

3.19.5 A provision of £0.50m has been allowed in 2018/19 for the funding of set up costs of the JV LLP to deliver the Estate Regeneration Programme.

3.19.6 A provision of £3.502m has been allowed for 2018/19 and £0.135m for 2020/21(total £3.637m) for the funding of two cash vouchers to the JVLLP to cover pre development costs.

3.19.7 The expected initial five year land value transfers into the JVLLP are detailed in Appendix 2a. They amount to a total value of £29.227m between 2019/20 and 2022/23.

3.19.8 An additional provision of £2.00m has been allowed in 2018/19 for the funding of a contingency allowance for the 3 year period of the programme. This is to mitigate the risks of any increased cash draw down associated with the JV LLP should initial estimates vary to the final agreed programme. This prudent measure is recommended by senior accountants within Finance Services. Should this not be the case the resources would be made available for additional HRA investment projects**.**

3.19.9 The Council is currently in the process of applying for two types of funding from the GLA in connection with the 12 Sites project. The first was reported to Cabinet in January and is for £30.2m of affordable housing grant money to help provide the affordable housing on the first four sites. This is expected to be signed off by the Council and the GLA during February 2018 with the agreement and signing of formal contracts. Until the formal contracts are signed however, this funding is at risk. Not receiving this funding could impact on the level of affordable homes provided on the estates but would not impact severely enough on the financial aspects of the project to put it at risk and would be mitigated by any increase in land values above the prudent level assumed in the 12 Sites financial modelling.

3.19.10 The second offer of assistance is via Housing Zone money originally reported to Cabinet in June 2016. This funding is for £2.7m and is specifically to assist with the purchase of existing land holdings. This is also expected to reach formal approval stage during February 2018. Whilst all amounts of funding is welcomed and would be used to deliver increased affordable housing, the failure to agree the contract on this funding would not be significant in the overall financial modelling.

3.19.11 Both the above funding opportunities will be subject to further formal decisions.

3.20 Bridge Close Joint Venture – Acquisition of Affordable Dwellings

The remaining provisions for expenditure in 3.20.1 to 3.20.5 below relate to the acquisition of affordable housing from the Bridge Close JV LLP proposal. The November HRA Business Plan Update presented at Cabinet on the 15th November 2017 noted;

This report identifies a provision within the HRA BP of £55.000m over 7 years from 2020 to deliver this aspiration whilst adding significantly to the asset base in the HRA. This allocation could provide for a further 300 units subject to how the purchases are negotiated. This will be financed through a combination of 1-4-1 RTB receipts, GLA grant funding where available and HRA capital resources.

3.20.1 This assumption was predicated on delivering a 30% affordable housing solution (320 units, 106 units for rent and 214 low cost home ownership units). The expectation of officers however was to seek to increase this figure to 35% and indeed, this was the challenge referred to when the report was presented to Cabinet in November 2017. The GLA have subsequently offered to increase the level of grant to £13.940m for the provision of 35% affordable housing: 375 units, 106 units for rent and 269 low cost home ownership units.

3.20.2 Increasing the level of affordable housing to 35% will require the capital programme to set aside a provision of £128.3m from 2019-20 to 2026-27 to cover the cost of acquiring the affordable units, including SDLT and make provision for payment of receipts from the disposal of shared ownership interests to the Bridge Close JVLLP. This will require further HRA resources to be made available.

3.20.3 Funding, including the proceeds from the disposal of shared ownership interests, has been identified to reduce the overall net capital commitment from £128.3m to £55.9m, which compares to the net capital commitment of £36.7m (overall commitment of £55m) as reported in the November HRA BP updated presented to Cabinet in November 2017.

3.20.4 As such it is forecast that the Council's current HRA level of borrowing will increase from £174.7m to £192.4m by the close of 2025/26 in order to achieve this additional affordable housing provision.

3.20.5 The detail of the financial impact to increase the affordable housing provision is still under negotiation between the JVLLP and the GLA (in relation to the terms of the grant). Once the final terms are reached there will be a need to delegate to the Lead Member for Housing, after consultation with the Director of Neighbourhoods, the Monitoring Officer and the s151 Officer, authority to finalise the agreement. This is identified in recommendation 14.

3.21 *Reasons for variations – lost and reduced income*

3.21.1 A provision has been made for the loss of income (rent and service charges) from properties sold under RTB. For 2018/19 this loss is expected to be £0.277m.

3.22 *Reasons for Variation – savings items*.

3.22.1 In line with the principles set out in paragraph 4.2., further work associated with validation of the stock condition has continued during the financial year. As a consequence, no further savings have been identified from the 2016-17 forecasts. Notwithstanding this has resulted in an average saving of £1.54m across ten years of the business plan.

3.22.2 As a result of the work, supported by the Chartered Institute of Housing (CIH), a detailed review of the Repairs Service and associated costs was completed. The improvements that have been made relate to service delivery, a reduction in demand and improved efficiencies led to a reduction in costs in 2017/18. An annual saving of £0.500m continues to be reflected in the budget.

3.23 *Miscellaneous*

3.23.1 Central Services recharges have decreased by £0.159m. 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.

4. MAJOR WORKS BUDGET – HRA 2018/19 – 2020/21 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 was reviewed and the investment strategy 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.

4.3 The annual planned maintenance levels as contained within the Asset Management Plan amount to an average annual expenditure figure of £6.6m across the period 2018/19 – 2020/21.

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

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 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 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 continues 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.

4.8 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 culminating in 2018/19.

4.9 The full proposed Major Works programme – covering investment in the existing council housing stock and building of new properties – for the three years 2018/19 to 2020/21 is included in **Appendix 2a**. Appendix 3a, shows a 10 year extract from the Business Plan which identifies surpluses of £15.836m. 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 £2.5m 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 **£2.5m** 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 an average of 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 The Government "high value sales levy" policy has been delayed with no indication on a time table for a decision. 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.

5.5 The "pay to stay" regime is now a discretionary policy and the proceeds will no longer be paid over to the Treasury. Instead any additional 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 reviewed 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. The results of this work identified that the costs of implementation and administration would exceed any income increase received by the HRA. This will be kept under review should there be any changes associated with access to residents earnings become more accessible.

5.6 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 3,200 homes built over 12 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 3 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 2018/19 and the revision of the figures for the 30 year Self Financing Business Plan. The HRA is sufficiently robust to generate a minimum estimated annual working balance reserve of £2.5m at the end of 2017/18 and for the following 3 years.

In addition to £2.5m reserves on the HRA, the following estimated provisions / reserves are predicted as at 31 March 2018:-

- Bad and doubtful debt provision of £3.129m (including leaseholder major works) - calculated according to best practice
- Leaseholder Major Works Reserve of £2.918m – 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 third year of the Government’s 1% rent reduction will see income levels fall by £1.4m.

HRA Investment Capital Budget

Appendix 2a sets out the Major Works Programme 2018-20. This is funded from resources available for housing expenditure, which is summarised in the table below: -

	2018-19	2019-20	2020-21	2021-22	2022-23	5 Years
Capital Requirement	**51.7**	**31.1**	**21.4**	**42.8**	**39.8**	**186.8**
Funding						
Major Repairs Reserve	-10.1	-1.1	0	-1.8	-0.0	-13.0
Shared Ownership Proceeds	-8.0	0	0	-0.5	-5.3	-13.8
Grants	-2.8	-2.2	-8.9	-3.7	-4.8	-22.4
RTB 1-4-1	-7.5	-4.0	-0.9	-0.9	-0.9	-14.2
RTB Allowable Debt Receipts	-11.7	-5.8	-1.9	-1.1	-1.1	-21.6
HRA Resources	-11.6	-12.9	-7.9	-13.9	-26.3	-72.6
Land Receipts	0	-5.1	-1.8	-20.9	-1.4	-29.2
Total Funding	**-51.7**	**-30.1**	**-21.4**	**-42.8**	**-39.8**	**-186.8**

The capital programme incorporates the HRA capital funding requirements for the 12 Estates JV LLP and sets aside sufficient capital resources to fund the acquisition of 375 affordable dwellings (35% affordable) from the Bridge Close JV LLP. These commitments will require the Council (HRA) to borrow an additional £17.7m by the close of 2025/26.

There will however, be a need to refinance certain loans as they mature over the 12 Estates JV LLP development and sale period. This has been factored into the business plan. In the November 2017 cabinet report, approximately £50.5m of loans were scheduled to mature and require refinancing but given the programme is likely to be extended by a further two years; the Council will need to consider refinancing an additional £30.4m. However, current forecasts suggest that the Council should receive sufficient cash returns from the 12 Estates JV LLP to avoid the need to refinance debt beyond 2027-28 thereby reducing the overall refinancing requirement to £19.3m.

It should be noted that it is likely further HRA borrowing cannot be avoided if either current regeneration schemes are expanded in scope or new schemes are approved. Careful consideration will need to be given to finding the right balance between borrowing, revenue resources and cash returns from the 12 Estates JVLLP. Consideration should be given to reviewing the minimum HRA reserve threshold (currently £2.5m) with a view to ensuring adequate funds are in place to service additional debt albeit temporarily.

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 have now been clarified and the assumptions made within the business plan are prudent.

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 and supported 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.

Cabinet, 7 February 2018

APPENDIX 1 – HRA budget 2018/19

	2017-18 Final Budget	2018-19 Final Budget	Variance
Income and Expenditure	**£**	**£**	**£**
Income			
Dwelling rents	(47,143,540)	(46,513,100)	630,440
Garages	(346,870)	(346,870)	
Charges for services and facilities - Tenants	(6,058,310)	(6,193,830)	(135,520)
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	**(55,682,930)**	**(55,188,010)**	**494,920**
Expenditure			
Repairs and maintenance	6,453,740	6,631,830	178,090
Supervision and management plus recharges	24,178,370	25,009,200	830,830
Depreciation and impairment	16,590,400	16,590,400	
Debt management costs	47,820	47,820	
Bad debt	665,000	665,000	
Total Expenditure	**47,935,330**	**48,944,250**	**1,008,920**
Net cost of HRA services	**(7,747,600)**	**(6,243,760)**	**1,503,840**
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	**(1,959,110)**	**(455,270)**	**1,503,840**
Statement on movement of HRA balances			
Surplus or deficit for the year on HRA services	**(1,959,110)**	**(455,270)**	**1,503,840**
Major works expenditure funded by the HRA	19,737,732	11,636,000	8,101,732
Depreciation and impairment Contra)	(16,340,400)	(16,340,400)	
Net (income)/Expenditure	**1,438,222**	**(5,159,670)**	**(6,597,892)**
HRA balance brought forward	(2,830,058)	(10,694,175)	
Net (income)/Expenditure	1,438,222	(5,159,670)	
Unallocated 16/17 Capital	(9,302,339)		
HRA balance carried forward	**(10,694,175)**	**(15,853,845)**	

Cabinet, 7 February 2018

Appendix 2a – Funded 2018/19 – 2022/23 HRA Major Works Capital Programme

Major Works Programme 2018-23

		18/19	19/20	20/21	21/22	22/23	5 yr totals
New Build Programme and pre-commitments in 2016/17		**£M**	**£M**	**£M**			**£M**
New Build Programme (funded)		8.085	1.622	0.000	0.000	0.000	9.707
Other Capital Schemes (funded)		5.300	0.000	0.000	0.000	0.000	5.300
Total		**13.385**	**1.622**	**0.000**	**0.000**	**0.000**	**15.007**
Stock Upkeep works to maintain standards including Major Repairs							5 yr totals
Major Voids		0.270	0.270	0.270	0.275	0.281	1.366
Structural		0.050	0.050	0.050	0.051	0.052	0.253
Electrical Upgrade/Mains Supplies		0.100	0.100	0.100	0.102	0.104	0.506
Legionella		0.170	0.170	0.170	0.173	0.177	0.860
Fencing / Boundary Walls		0.050	0.050	0.050	0.051	0.052	0.253
Drainage/Sewers		0.050	0.050	0.050	0.051	0.052	0.253
Asbestos Removal/Management		0.100	0.100	0.100	0.102	0.104	0.506
External Redecorations		0.818	0.818	0.000	0.833	0.850	3.318
DDA Fire Protection/Means of Escape		0.035	0.035	0.035	0.036	0.036	0.177
Careline equipment		0.050	0.050	0.050	0.051	0.052	0.253
Stock condition surveys 10%		0.000	0.000	0.000	0.000	0.000	0.000
Aids and Adaptations		0.550	0.550	0.550	0.561	0.572	2.783
Total		**2.243**	**2.243**	**1.425**	**2.287**	**2.333**	**10.529**
Stock Reinvestment to improve conditions including maintaining the Decent Homes Standard							5 yr totals
Stock Investment "Replacements"		3.926	3.235	3.510	3.060	2.684	16.416
Non Trad Houses/Flats System Build		0.000	0.000	0.000	0.000	0.000	0.000
Kitchen/Bathrooms at Void stage		0.270	0.270	0.270	0.275	0.281	1.366
Total		**4.196**	**3.505**	**3.780**	**3.335**	**2.965**	**17.782**
Stock Remodelling							5 yr totals
Bedsit Remodelling		0.109	0.109	0.000	0.000	0.000	0.218
Total		**0.109**	**0.109**	**0.000**	**0.000**	**0.000**	**0.218**
Future Investment							5 yr totals
Major Improvements (sheltered housing)		2.289	0.000	0.000	0.000	0.000	2.289
Environmental Improvements (Minor)		0.000	0.000	0.000	0.000	0.000	0.000
		2.289	**0.000**	**0.000**	**0.000**	**0.000**	**2.289**

	18/19	19/20	20/21	21/22	22/23	5 yr totals
Works to existing stock Programme Totals	**8.836**	**5.857**	**5.205**	**5.622**	**5.298**	30.818
	Average Annual Investment in existing stock					***6.164***

Below the Line Additional Capital Expenditure

	18/19	19/20	20/21	21/22	22/23	5 yr totals
Estates Renewal Programme - Land Assembly "Buy Backs"	21.200	11.200	0.000	0.000	0.000	32.400
Decanting costs	2.300	2.300	0.000	0.000	0.000	4.600
12 Estates JV LLP - Setup costs including professional fees	0.500	0.000	0.000	0.000	0.000	0.500
12 Estates JV LLP - Land Voucher	0.000	5.096	1.836	20.869	1.426	29.227
12 Estates JV LLP - Cash Voucher	3.502	0.000	0.135	0.000	0.000	3.637
12 Estates JV LLP - Contingency	2.000	2.000	2.000	0.000	0.000	6.000
Acquisitions - Bridge Close	0.000	3.066	12.266	13.393	14.972	43.697
Acquisitions - 12 Estates	0.000	0.000	0.000	2.894	18.107	21.001
	29.502	**23.662**	**16.237**	**37.156**	**34.505**	**141.062**
Proposed Capital Expenditure (including New Build)	**51.723**	**31.140**	**21.442**	**42.778**	**39.803**	**186.886**

Appendix 2b – Funded 2018/19 – 2022/23 HRA Major Works Capital Programme Funding

Funded from	18/19	19/20	20/21	21/22	22/23	5 yr totals
Major Repair Reserve Balances (use of)	-10.139	-1.140	0.000	-1.808	0.000	-13.087
Shared Ownership Sale Proceeds	-7.996	0.000	0.000	-0.548	-5.291	-13.835
Grants (Housing Zone)	-2.700	0.000	0.000	0.000	0.000	-2.700
Grants (Affordable Housing)	-0.080	-2.215	-8.859	-3.692	-4.841	-19.687
1-4-1 RTB Funding	-7.509	-4.064	-0.889	-0.889	-0.889	-14.240
RTB Allowable Debt Reserve / Receipts	-11.663	-5.789	-1.867	-1.053	-1.053	-21.425
JV LLP - Grant of Licence / Lease Proceeds	0.000	-5.096	-1.836	-20.869	-1.426	-29.227
HRA Resources	-11.636	-12.836	-7.991	-13.919	-26.303	-72.685
Proposed Capital Funding (including New Build)	**-51.723**	**-31.140**	**-21.442**	**-42.778**	**-39.803**	**-186.886**

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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**
£M	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
INCOME:										
Rental Income	(48.006)	(46.585)	(45.049)	(46.604)	(47.390)	(48.558)	(50.062)	(51.845)	(54.204)	(56.588)
Void Losses	0.924	0.749	0.726	0.753	0.767	0.788	0.816	0.850	0.892	0.935
Service Charges	(7.633)	(7.768)	(7.924)	(8.082)	(8.244)	(8.409)	(8.577)	(8.748)	(8.923)	(9.102)
Non-Dwelling Income	(0.347)	(0.347)	(0.354)	(0.361)	(0.401)	(0.559)	(1.110)	(2.019)	(3.058)	(4.007)
Grants & Other Income	(0.560)	(0.560)	(0.571)	(0.582)	(0.594)	(0.606)	(0.618)	(0.631)	(0.643)	(8.493)
Total Income	**(55.621)**	**(54.511)**	**(53.171)**	**(54.876)**	**(55.861)**	**(57.343)**	**(59.551)**	**(62.393)**	**(65.936)**	**(77.255)**
EXPENDITURE:										
General Management	24.428	25.009	25.384	25.891	26.407	26.934	27.471	28.020	28.579	29.149
Bad Debt Provision	0.665	0.642	0.619	0.638	0.648	0.662	0.678	0.698	0.726	0.754
Responsive & Cyclical Repairs	6.478	6.524	6.546	6.657	6.747	6.910	7.081	7.305	7.507	7.761
Total Revenue Expenditure	**31.571**	**32.175**	**32.550**	**33.185**	**33.802**	**34.506**	**35.230**	**36.023**	**36.811**	**37.664**
Interest Paid	5.874	5.874	5.874	5.874	5.870	5.868	5.868	6.108	6.488	6.599
Finance Administration	0.048	0.048	0.049	0.050	0.051	0.052	0.053	0.054	0.055	0.057
Interest Received	(0.149)	(0.103)	(0.092)	(0.113)	(0.134)	(0.113)	(0.056)	(0.018)	(0.013)	(0.034)
Depreciation	9.195	8.838	8.578	8.528	8.419	8.538	8.666	8.846	9.071	9.359
Net Operating Income	**(9.082)**	**(7.679)**	**(6.212)**	**(7.352)**	**(7.854)**	**(8.493)**	**(9.790)**	**(11.380)**	**(13.525)**	**(23.611)**
APPROPRIATIONS:										
Revenue Contribution to Capital	1.240	2.798	4.258	0.000	5.500	17.765	23.058	13.449	13.600	15.068
Total Appropriations	**1.240**	**2.798**	**4.258**	**0.000**	**5.500**	**17.765**	**23.058**	**13.449**	**13.600**	**15.068**
ANNUAL CASHFLOW	**(7.842)**	**(4.881)**	**(1.954)**	**(7.352)**	**(2.354)**	**9.272**	**13.268**	**2.069**	**0.075**	**(8.543)**
Opening Balance	(2.830)	(10.672)	(15.553)	(17.507)	(24.860)	(27.214)	(17.942)	(4.675)	(2.605)	(2.530)
Closing Balance	**(10.672)**	**(15.553)**	**(17.507)**	**(24.860)**	**(27.214)**	**(17.942)**	**(4.675)**	**(2.605)**	**(2.530)**	**(11.073)**

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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
£M	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
EXPENDITURE:										
Planned Variable Expenditure	0.000	0.000	0.000	0.000	0.000	0.074	0.145	0.237	0.255	0.304
Planned Fixed Expenditure	23.527	43.637	23.681	16.643	15.503	15.370	19.667	16.950	15.664	6.738
Disabled Adaptations	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Capital Expenditure	0.000	0.000	5.096	1.836	20.869	4.853	28.547	18.028	11.843	19.211
New Build Expenditure	14.016	8.085	2.362	2.963	6.405	19.506	25.910	41.789	33.288	41.831
Previous Year's B/F Shortfall	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total Capital Expenditure	**37.542**	**51.723**	**31.140**	**21.442**	**42.778**	**39.803**	**74.269**	**77.005**	**61.050**	**68.085**
FUNDING:										
Major Repairs Reserve	(30.178)	(18.976)	(9.718)	(7.991)	(10.227)	(8.539)	(8.666)	(8.846)	(9.071)	(9.359)
Right to Buy Receipts	0.000	(2.409)	(1.867)	(1.867)	(1.053)	(1.053)	(1.053)	(1.053)	(1.053)	(1.053)
HRA CFR Borrowing	0.000	0.000	0.000	0.000	(0.000)	0.000	0.000	(13.333)	(4.409)	0.000
Other Receipts/Grants	(3.674)	(25.581)	(14.594)	(10.696)	(25.109)	(11.557)	(40.603)	(39.434)	(32.251)	(42.605)
HRA Reserves	(2.450)	(1.959)	(0.704)	(0.889)	(0.889)	(0.889)	(0.889)	(0.889)	(0.667)	0.000
Revenue Contributions	(1.240)	(2.798)	(4.258)	0.000	(5.500)	(17.765)	(23.058)	(13.449)	(13.600)	(15.068)
Total Capital Funding	**(37.542)**	**(51.723)**	**(31.140)**	**(21.442)**	**(42.778)**	**(39.803)**	**(74.269)**	**(77.005)**	**(61.050)**	**(68.085)**
In-Year Net Cashflow	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Cumulative Position	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**