London Borough of Havering – HRA Self-financing Business Plan 2015 – 2045

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1. Introduction

The Self Financing regime for Council Housing was introduced in April 2012. It provides for Councils to manage their income and expenditure over a period of 30 years, in exchange for taking on a proportion of national housing debt. It enables Councils to plan their investment in housing over a longer time frame, and to retain their rental surpluses. It gives greater control over investment decisions to local authorities.

However, in the short life of the new financial regime, it can be seen that Councils are also subject to a number of risks and changes which impact on the Plan. The change with the greatest impact is that the Government has introduced new ideas and policies which have a direct impact on the Business Plan. It is up to Councils to deal with all these changes as best they can, although inevitably, Councils will have to amend their plans and programmes as they affected by changes in the economic and legal environment.

2. Vision and mission

2.1 Our Vision

The London Borough of Havering aims to provide good quality accommodation for those unable to meet their housing needs in the private market. The Council will make the best use of the resources available, consulting with tenants about how to raise and how best to use those resources.

Our aim is to provide housing that is:

- Safe
- Warm
- Healthy
- Surrounded by a good environment
- In friendly and harmonious neighbourhoods
- Able to provide a springboard for those who wish to, to move on to owner occupation or other private market options
- Able to contribute to the prosperity of households and the community

2.2 Governance

This HRA Business Plan is owned by the whole Council. It is of primary interest to the Housing Service and its customers, as it is the means by which the vision will be delivered – a safe, secure warm and healthy home in a good environment. However, the obligations that the housing service has been required to take on by the Localism Act 2011 are of such a magnitude that if the Business Plan is not well managed, it will have an impact on the whole Council.

The Business Plan will therefore be reviewed annually by Cabinet and key risks and issues will be reviewed by the Lead Member for Housing on a regular basis. This will be supported by officers who will keep the Plan under review. This will be done by a corporate group of officers, (the HRA Business Plan Project Group) including Legal, Finance and Housing officers twice a year. Housing and Finance officers, will also alert the Corporate Project Group to any key issues more frequently as required.

The Council decided to take the Arms Length Management Organisation (ALMO) back in house in March 2012, and this took place in October 2012. Back office functions have been merged, and the integration of the front office function has also now been implemented, in November 2013. The main responsibility of the Business Plan therefore rests with the Housing Service.

The Council's Resident Involvement Strategy is currently under review. In the light of changes in the way in which tenants are able, and wish to communicate with the Council, it has been decided to review the current method of involving tenants. In the meantime, the Housing Business Plan will be the subject of consultation with tenants, through the Annual Conference.

2.3 Risks and risk management

The main risks associated with the Business Plan itself are:

Improved standards in building works required and additional unforeseen investment requirements
There have been changes to the standards required in buildings from time to time – such as improved standards of electrical and gas safety, legionella, insulation and other issues. These have sometimes been in response to developing technology, such as satellite and digital services; and sometimes in response to incidents which draw attention to the importance of these issues, such as fire risks. Property services officers have to keep abreast of such developments and draw them to the attention of the HRA Business Planning Group; and they will need to be assessed and built into the Business Plan as required.

Communication and involvement of stakeholders
Where there are changes and challenges to the Business Plan which affect our ability to deliver our services and our investment programmes, households will be affected – tenants and residents – who have a right to know what is happening to their service and the improvements that they expect. Leaseholders have to pay a contribution to the cost of major works, and need time to plan for large items of expenditure. It is important that we keep our tenants, leaseholders and key partners, such as construction firms informed of the programme and changes to it, so that they can fully participate in delivering the best possible service. There is a risk to our reputation if we are not able to deliver our entire investment programme as anticipated, especially if we do not keep tenants informed of changes.

Interest rates may rise
The Council has fixed the majority of its loans for between 12 and 28 years, at an average of 3.594%. The risks posed by rises in interest rates therefore in the short term are low. However, if the Council decides to undertake additional borrowing, in order to deliver new projects, then the issue of interest rates will be of importance. We have recently used HRA resources to take on properties belonging to the General Fund, and the debt associated with them has therefore been re-assigned to the HRA. However, as this is part of the Council's overall borrowing, the interest rate remains low.

Build cost inflation may rise
In the first 15 years of the plan, investment in the housing stock is a critical activity. At present Build cost inflation is calculated at 2.5%, half of one per cent above the assumed general rate of inflation (CPI). If this rises then this will have an impact on the Plan. This can be mitigated by longer term procurement contracts, although this may not necessarily be the best course of action to obtain best value in all circumstances.

Right to Buy sales not as predicted
The Government have made a number of changes to the Right to Buy since the introduction of Self Financing. The discount has been increased, twice, and the Government are proposing further changes to promote the Right to Buy. This has had the impact of increasing the Right to Buy sales from our initial predictions of 12 – 15 a year, to 96 completed sales in 2013/4 and an estimated 80 in 2014/15.

The Government have invited local authorities to enter into agreements to share the proceeds of the RTB, as long as they are spent on new build or acquiring new homes, and as long as no more than 30% of the total costs are met by RTB receipts. The rules on the application of RTB receipts have also changed, in that from April 2013 they cannot be matched with GLA funding. This has meant that in order to use the RTB receipts in Havering, we will have to match them with HRA BP resources (including borrowing) in order to deliver more homes.

This business plan is based on 100 sales in 2014/15 reducing to 50 sales per year there after. The HRA is able to retain the equivalent debt per property sold on the HRA and this has been factored in to the overall level of resources available within the plan.

Changes to welfare benefits (and therefore rent collection rates fall)

Elements of the welfare reform package have now been implemented. The Spare Room Subsidy was implemented in April 2013 and the overall Benefit cap in July 2013. The Council has been working closely across all departments to advise tenants of the consequences, and to ensure that they are able to take mitigating actions in preparation.

As a consequence, the rent collection rate has remained remarkably stable. The additional bad debt provision has not been required, so far.

The only part of the Welfare Reform package that has not been implemented is Universal Credit, which includes the proposal to pay benefits directly to claimants. This is likely to have an impact on collection rates. National statistics show that 25% tenants have "switched back" to direct payment of rent in areas where this has been implemented which indicates that there has been a significant problem with arrears of rent as a result of this change.

71.74% of Council tenants are dependent upon Housing Benefit/Local Housing Allowance, and whilst many of these changes have not affected them, especially as 37% of our tenants are over 60, payments of benefits directly to claimants will have an impact on them all.

We still anticipate that the collection of rent will become a more challenging task, and a reduced collection rate from the current 97% will have an impact on the Business Plan. It has therefore been assumed in the plan that the bad debt provision should be increased from the current 1.4% to 2.25% from 2016/17.

We anticipate that Universal Credit will be rolled out in Havering in the summer of 2015.

Empty properties higher than forecast

The Business Plan depends upon the collection of income from 9,995 properties as at 1 April 2012. There is built into the Business Plan the fact that not all these properties will be occupied at any one time, and that properties do become empty when people move, or die. This level of empty properties, called the void rate, is currently set at 2% for 2015/6 and requires careful management. We have had a high turnover of empty properties in 2014/15 because we have been making a concerted effort to enable tenants who are under occupying their properties, to move to smaller homes. This has created a higher than usual level of turnover. There are also a number of empty properties within the housing stock which are hard to let, because they are the less popular bedsits or one bedroom units in Sheltered Housing that cannot be accessed by a lift if above ground floor level. There is an active programme of reviewing and improving some of these sheltered housing schemes, and disposing of others.

There is also the issue of the performance of staff in inspecting, repairing and letting empty homes to ensure that the void time is kept to a minimum. Performance in this area does not currently meet the 2014/5 KPI target. By the end of quarter 3, 2014/15, the cumulative position to date was 40 days against a target of 25 days. This has been affected by strategic voids (properties expected to be part of major programmes) being released for re-letting, which would account for a longer period. Constant attention is needed to ensure that the re-let period is kept low. The risk to the Business Plan is that income anticipated does not materialise, because the number of empty homes rises above the 2.0% assumed throughout the Business Plan.

Impact of depreciation rules
The Government is currently consulting on proposed new changes to the method of calculating depreciation. The Government is proposing to introduce this new methodology over a five-year period, and the impact on the Business Plan of this new piece of work has not yet been assessed.

Higher than anticipated repair costs
One of the areas of spend which is most volatile, is that of repairs. A bad winter, with a higher than usual level of roof repairs or heating breakdowns can cause spend in this area to rise. We have recently retendered the repairs contract, which has provided a significant savings in the repairs budget, and at the end of March 2015 our stock will have reached 98% Decent Homes Standard. We therefore believe that this risk is under control.

The Risk Register will continue to be maintained and reviewed quarterly by the HRA Business Plan Group.

3. Service Delivery

3.1 Stock overview and management structure

At as 1 April 2014, the Council owned 12,070 social housing assets, consisting of 9,734 rented homes and 2,336 leasehold properties. The rented housing stock comprises a range of housing types, the highest proportion (58.4%) of which are flats, 37.8% are houses, and 3.8% are bungalows.

Within the HRA portfolio there are also 1172 garages.

3.2 Establishing the long term demand for stock

3.2.1 Recent housing demand and supply of affordable housing

An independent Housing Needs Study was commissioned by the Council in 2012 to inform its Housing Strategy 2013 - 2015. The study indicated that there is a need for around an additional 1000 additional affordable units each year for the next 10 years.

During the course of the Housing Strategy the Council has worked in partnership with RSLs to deliver new build affordable units in the borough, as set out in table 2 below.

Table 2 - new build affordable housing delivery

Year	Performance target	Performance outturn
2008-11	3-year target 800	910
2011/12	250	426
2012/13	250	487
2013/14	250	366
2014/15	375	377 at December 2014

3.2.2 Future demand for council housing

It is difficult to project the long-term demand for housing in terms of setting a 30-year target. However, we have seen that demand for affordable housing continues to out-strip supply for general needs affordable housing and we expect this to increase given the expected increase in the 15 year+ age group in the borough. Even under current plans, we are not meeting all the newly arising need for housing, and there will be an accumulated shortfall of housing supply over the next three years. Under the HRA Self Financing arrangement and new freedoms, the Council will be able to retain rental surpluses and allow for long-term resource and investment planning. In terms of sheltered housing supply, the Council has delivered the majority of its strategy and will continue to review existing schemes to identify opportunities to that ensure housing stock is fit for its future purpose.

4 Self Financing/Treasury Management

4.1 Rents and Service Charges

4.1.1 Rent Policy
Havering Council has followed the Government's rent restructuring policy to move Council housing rents to a target rent based on a property's affordability (using local average wage), bedroom numbers and property valuation. The aim of this policy was to ensure that rents charged by all social housing providers converge at target rents in 2015/16. However, due to the historic low level of rents in Havering, rents were not able to reach target rents by the Government's formula date. The Government have now abolished the rent restructuring regime, and set in its place a long term ten year formula to enable rents to rise by CPI + 1%.

This would have had a detrimental impact of Havering's Business Plan, but the final document issued by the Government, allowed Councils to complete their rent restructuring programme before moving to the new formula. We have therefore been setting rents at target rents when they become empty, for the last 12 months, and from April 2015 propose to move all tenants of properties, whether occupied or not, to target rents. This will have a beneficial impact on the Business Plan.

4.1.2 Limit Rent

The Government have also announced that the Limit rent will be the Formula rent. As Havering is moving its rents directly to Formula rents, this will have no impact on Havering. Only if we decide in future years, to raise rents above the limit rent, we will be obliged to repay that part of the rent that is over the limit rent back to Government, in proportion to the number of tenants who are on Housing Benefit.

4.1.3 Service Charge Review

The Council has undertaken a review of service charges. The review is based on the aim of fully recovering the *actual* cost of relevant services through service charges. Where relevant, tenants have been consulted on the level of charges and on the quality of the service provided. The review has now been completed, and all service charges are now set on a full cost recovery basis. There is only one charge, sheltered housing cleaning, that is not on a full cost recovery basis. The proposed future policy on service charges is that this will continue, and therefore service charges may go up or down, depending upon the costs of the service in the preceding year. It is proposed that there should be consultation on the level of service every three years.

4.2 Treasury management & debt financing

HRA Business Plan

Each council that owns housing stock is obliged to maintain a HRA. The account is 'ring-fenced' and this means that all income to and expenditure from the account must be held within the account and funds must not be transferred between this and the Council's General Fund.

The key items of income and expenditure on the HRA are detailed below:

<u>Income</u>
Tenants' Rents and Service Charges
Garage rents
Miscellaneous income, such as water commission, Insurance and hire of halls
Interest accrued on council mortgages
Interest accrued on balances

<u>Expenditure</u>
Management and maintenance costs
Provision for bad debts
Interest payments on loans

In April 2012, the Council took on an additional £168m of debt, making the total Housing debt held by Havering Council £173m. This is a mixture of long fixed term loans for the self-financing debt, (the average interest paid is 3.594%) with the residual amount being variable interest rate debt based on the council's consolidated rate of interest currently forecast at 4.82% This means that in effect the annual interest payments for the HRA account remains constant during the first 12 years of the Business Plan at £6m. This would only vary should the Council decide to take on any additional borrowing.

Havering currently has available unused headroom of £34,334,170. This is the gap between the Councils actual borrowing, and its borrowing limit as set by Government. This borrowing capacity could be used for any investment purpose that benefits the Council's Housing Revenue Account. This might include additional investment in the housing stock, or the development of additional homes within the Housing Revenue Account. However, the Council does not propose to undertake any additional borrowing at this stage, and the funding of the current building plans can be managed within existing resources.

5 Investment Challenges

The Council faces an array of significant investment challenges arising from a number of factors including:

- previously inconsistent funding streams, for example Decent Homes funding
- a backlog of expensive repairs to non-traditionally built dwellings
- changing socio-demographics within the borough, notably, the growth in the elderly population in the borough at the same time as rising aspirations leading to, for example, sheltered bedsit with shared facilities being effectively obsolete
- new technologies providing opportunities for investment, for example, more innovative external treatments to tower blocks and improved door entry alarm call systems and improved access to entertainment from commercial providers such as Sky and Virgin
- The need for new affordable homes.

The various investment challenges are discussed in turn below.

5.1 HRA Stock

In terms of social housing as at 19/1/2015 the Council owned 9734 rented properties and 2336 leasehold dwellings. In addition, it is responsible for the management and maintenance of 1172 garage units in the portfolio. There are three tenant management organisations, which provide general environmental and minor repair services to the estates concerned.

Table 4 below provides a breakdown of the portfolio in the standard archetypes used for the HSSA base return[1].

Table 4 - shows the breakdown in property types (19/1/2015)

Stock at 1 April 2013	**Rented homes**
Traditional pre-1945 small (less than 70sqm) terrace houses	189
Traditional pre-1945 semi-detached houses	209
Traditional all other pre-1945 houses	20
Traditional 1945-64 small (less than 70 sqm) terrace houses	627
Traditional 1945-64 large (70 sqm or more) terrace / semi detached / detached houses	1129
Traditional 1965-74 houses	470
Traditional post 1974 houses	234
Non-traditional houses	770
Traditional and non-traditional pre-1945 low rise (1-2 storeys) flat	78
Traditional and non-traditional post-1945 low rise (1-2 storeys) flat	2260
Traditional and non-traditional medium rise (3-5) storey flats	2756
Traditional and non-traditional high rise (6+ storeys) flats	600
Traditional and non-traditional bungalows	392
Traditional multi-occupied dwellings post 1944	0
Total	**9734**

5.1.1 Stock condition

A key proportion of the Council's housing stock was developed during the period 1945-64 with a consequently relatively high percentage of homes built by non-traditional methods. This post war development "boom" was prevalent in the development of social housing and the construction methods and materials used during this period pose particular challenges. A prime example of this is the quantity of asbestos containing materials employed and found in our homes.

Over 40% of our stock is houses, of which in excess of 850 units are non-traditional properties and these require high levels of maintenance and investment. In addition, we have a number of high rise properties (610 units) which also require high levels of maintenance and investment. These properties require extensive works to enhance thermal comfort, as well as making them wind and watertight, reducing high instances of damp and condensation. The design of some of these property types also necessitates the adjustment of internal layouts to accommodate boiler and kitchen replacements. Our non-traditional houses also require extensive structural works in order to address the well-documented structural defects.

5.1.2 Stock investment requirements

The age profile of our housing stock has a material impact on the investment requirements as a large proportion of the stock was constructed in a specific time period.

At 31 March 2015, the level of Decent Homes across the Council's stock is projected to be 98% by 31st March 2015.

[1] Source – Housing Subsidy Base data 2012/13

In excess of 57% of our homes were constructed during the period 1945-64 which means that there is a higher propensity for non-decency failures occurring within a narrow time band. In addition, we have a further 7% of non-traditional properties (Cornish, etc) with extensive investment requirements. This level of investment although high is still viable in comparison with new build replacement. This is further exacerbated by the aspect of elemental failures occurring in specific time periods forming “peaks” which constantly detract from the investment allocated to our homes.

5.1.3 New Build

The Council has in previous years, had limited resources to allocate to a range of housing priorities. Despite over 30% (3,048) of our homes having 3 or more bedrooms, the majority of our lettings are to smaller homes, and even then we only turnover 6% of our properties a year and demand for homes continues to outstrip supply. We support RSLs to develop larger homes and facilitate moves into the private sector. In addition, we have by necessity embarked on a programme of remodelling and/or delivering extensions programmes to our properties in our portfolio. We have successfully bid for funding from both the Mayor’s Housing and Support Fund, and the Mayor’s Pipeline Funding stream to deliver new units of affordable accommodation. The schemes in development in 2014/15 are:-

Project	**Type of housing**	**Number of units**
Albyns Close bungalow scheme	Affordable Rented	9 bungalows
	Shared Ownership for elderly	10 bungalows
Replacement of hard-to-let bedsit bungalows with two bedroom family homes	Affordable Rented	12 houses
New Plymouth and Napier – conversion of pram sheds	Affordable Rented	3 flats
Garrick House bungalows	Affordable Rented	9 bungalows
Holsworthy House bungalows	Affordable Rented	2 bungalows
Ravenscourt Grove bungalows	Affordable Rented	3 bungalows

We have also been successful in gaining grant through the Mayor’s Affordable Housing Programme 2015 – 18The schemes within this programme are:-

Phase 2		
New Plymouth and Napier – infill on land at base on the towers	Affordable Rented	11 houses
	Shared Ownership	8 houses
Briar Road Estate – redevelopment of the centre of the estate	Affordable Rented	36 flats
	Shared Ownership	10 houses
Block Extensions – flats adjacent to existing flatted schemes	Affordable Rented	27 flats
Diana Princess of Wales	Affordable Rented	1 wheelchair adapted bungalow
	Shared Ownership	5 houses
Lexington Way	Affordable Rented	2 flats
	Shared Ownership	10 houses

Kilmartin Way	Affordable Rented	5 houses
Dewsbury Road	Affordable Rented	5 houses
Taplow House, Rainham	Shared Ownership	16 flats

5.1.4 Decent Homes programme delivery

The Decent Homes Programme will substantially complete on 31st March 2015. It is essential therefore to start developing a new asset management strategy for the housing stock, which will maintain the stock at Decent Homes level, and the higher level of a mortgageable condition. In addition, therefore works required above the decent homes programme, as some elements of our stock are not covered by the Decent Homes Programme. This includes elements such as Fire Safety, Lifts, and programmes to upgrade and improve our more out of date stock, such as our sheltered housing.

Green Deal

The funding being made available via this initiative is becoming increasingly challenging for the Council to obtain in regards to its own stock due to the economic demographic of the borough. However, we are continuing to explore opportunities through partnerships with providers, suppliers and other agencies. The issue of fuel poverty is a key driver to reduce demand on Council services and works, supported by specialist advice, is being rolled out across the Housing stock.

5.1.5 Stock condition information

The information required for managing and maintaining all of the properties key elements and the stock condition of our housing portfolio is recorded on “Keystone”, a specialist database. This system provides both detailed storage and reporting facilities on a plethora of investment requirements and decisions. It is also capable of producing detailed investment projections using multi-faceted scenario analysis.

This system has recently been located onto the main council servers and we are now able to securely gain the benefits of the most up-to-date version of this vital tool.

The stock condition survey is updated in two ways. Firstly, a programme of annual inspections is carried out by a dedicated resource within Homes and Housing. In addition to this, as works are completed the database is updated and projections can be re-cast on the basis of the data held.

5.2 Hostels

The Council owns three hostels, providing short-term accommodation for homeless single people and families.

The existing hostels are detailed in table 8 below:

Table 8 – Existing hostels in the borough

Hostel	Number of rooms
Abercrombie House, Harold Hill	37
Will Perrin House	12
Queen Street Villas, Romford	46
Total	95

The current provision of hostel accommodation is regularly at 97%-100% occupancy, and when there is either a spike in applications, or alternatively a dip in move on accommodation for our emergency cases, there have had to be occasional but infrequent use of Bed & Breakfast accommodation. Following a review of our need for temporary accommodation it has been decided that should such unusual fluctuations of supply and demand occur again, that the Council's less desirable permanent accommodation can be used on a temporary, non-secure licence basis. A maximum of 12 households will be accommodated in this way at any one time. This may, in fact, mean using fewer actual properties, for example, if a larger vacant council property can accommodate two or more households in the short term.

5.3 Sheltered and extra-care housing

Havering has the highest proportion (17%) of older people of any London Borough. In addition to the expected housing need among this age group, we also recognise that older people's aspirations are continually rising and this means that the large numbers of bedsits with shared facilities and limited lift access within the current housing stock no longer meets that need.

We recognize that a number of schemes did not meet older people's changing expectations and aspirations, and would not be fit for future purpose. As a consequence, a large number of schemes required upgrading or re-modelling. This has led to the decommissioning of seven schemes, and part of another one.

We now have 19 sheltered schemes. However with the inappropriate type of stock, some 31 are currently void and available to let, and a further, 66 which are virtually impossible to let. Analysis indicates a need for 98 sheltered lets a year which at average relet rate indicates an over-supply of accommodation. Therefore, alternative uses, such as conversion to extra care or other age groups, are being considered.

5.3.1 Sheltered and extra-care housing – funding requirement

The Council has carried out a strategic review of older persons' housing needs. There is an identified need for additional extra care housing, much of which will be provided by the private and housing association sectors.

In relation to HRA housing, there is a recognised need to convert all sheltered bedsits with shared bathrooms into either self-contained bedsits or larger units. There will also need to be lifts installed or upgraded at a number of schemes.

The total cost of these works is anticipated to exceed £5m. During the first three years of the Business Plan, a total of £3.01m has been identified to commence these conversion works. This figure excludes Decent Homes costs.

5.4 High rise properties

The Council owns a number of high rise properties of 6 storeys and above (comprising 610 units). These properties require extensive works to enhance thermal comfort, as well as making them wind and watertight, reducing high instances of damp and condensation and require high levels of maintenance and investment to bring them up to the decent homes standard. The design of some of these property types also necessitates the adjustment of internal layouts to accommodate boiler and kitchen replacements.

5.4.1 High rise properties – funding requirement

There will be a cost of delivering improvements, to beyond the Decent Homes Standard, that will total £13.554m over a 3 year period.

5.5 Garages

The Council currently owns 1172 garages. Many are in low demand. It is therefore necessary for the Council to assess whether better use can be made of these HRA assets. To this end, a number of sites have already been identified for redevelopment for affordable housing. This programme has been largely completed, with 110 homes completed by March 2014.

For those sites which are no longer in demand for garages and are unsuitable for redevelopment for housing, other alternatives are being considered, including creating hardstanding for parking, and landscaping for community use. There will be a need for £0.5m for such works over the period.

5.6 Regeneration

Harold Hill Ambitions is a key project of the Council, the aim of which is to substantially enhance the physical and social infrastructure of the Harold Hill area. Up to 40% of HRA housing stock is located in this part of the borough and so the Harold Hill Ambitions project will have a significant impact on the popularity and sustainability of the district over the lifetime of the Business Plan.

There are key aspects to the Harold Hill Ambitions programme as they relate to the HRA:

- The Housing stock has been improved to Decent Homes, with some additional work above the Decent Homes standards to improve the visual aspect of the area, as well as improving the quality of life for the majority of the residents
- two major redevelopment sites have been created by the decanting, disposal and demolition of two out-of-date bedsit bungalow sheltered schemes. Notting Hill Housing Group and Countryside Developments have been appointed to develop a mixed tenure scheme with an emphasis on affordable accommodation
- the 1970s Briar Road estate in the south west corner of Harold Hill has been identified for regeneration. This part of Harold Hill was built to a Radburn design and has a number of unattractive design features which compromise community safety and visual amenity. Notting Hill Housing Group has been appointed to develop, with HCA grant, a number of infill sites, with the receipt supporting environmental improvements across the estate.
- The central square, including a number of shops, which was included in the original Briar Road redevelopment programme will be completely redeveloped, but as a separate scheme. Funding from the Mayor’s Affordable Housing Programme 2015 – 18 has been obtained to deliver this improvement.

Rainham Compass is the Council's programme to improve the Rainham area in the south of the borough. There are lower levels of HRA stock in this part of the borough, particularly following the transfer of the Mardyke Estate to Old Ford Housing Association in 2008. That aside, the Council owns two tower blocks, New Plymouth and Napier Houses, in the Rainham Compass area. They are both in particularly poor repair and, allied to this, are currently unpopular, harder-to-let and experience management problems. The Council has allocated resources to enhance these two blocks beyond the Decent Homes standard by means of high quality cladding and the innovative addition of large, glass-encased balconies. The contracts for the major external works have been finalised, and works are scheduled for 2015/16 and 2016/17.

Rainham and Beam Park Housing Zone bid. In 2014.15, the Homes and Housing Service worked closely with Economic Regeneration colleagues on a bid to the GLA for Housing Zone status for the south of the borough. The bid was made in September 2014, but the outcome will not be known until Spring 2015 at the earliest, although officers remain in close consultation with the GLA. If successful, the GLA will provide a mix or grant and investment for regeneration of the A1306, a CPO programme to be led by the Council to bring forward residential development sites while removing and/or relocating low quality commercial usage, and resources for affordable housing on key sites in the area.

The bid includes three HRA infill sites for which the Service is bidding for grant to develop 42 units of accommodation. The HRA Business Plan identifies unallocated resources for development, some of which could potentially be used should the bid prove successful, although this would obviate the ability to use these resources to match right-to-buy receipts held (note: these cannot be combined with GLA grant). Alternatively or additionally, a future decision could be made to redirect other anticipated HRA resources towards new build or generate additional resources through extra borrowing.

5.7 Offices

The condition of offices within the Council's portfolio is reasonable and does not impact currently on the HRA Business Plan. There may at some time in the future be a review of the Council's owned assets in the Harold Hill area of the Borough, in order to rationalise the buildings that the Council owns and manages.

In a few cases, residential units have been used as offices. Where these are no longer required, the HRA Business Plan sees deconversion back to residential use as one of the primary options. In 2014/15, a number of flats in sheltered blocks used for some time as officers became available due to the reconfiguration of the older persons' support service. Capital was reallocated within the 2014/15 programme to bring these properties back into residential use.

The Service will remain open to such possibilities in the future.

5.8 Aids and Adaptations

The age profile of the population places increasing demand on investment towards minor adaptations and remodelling in the council's housing stock. We have the highest proportion of people aged 60 and over out of the 33 London boroughs, with as many as 37% of our tenants in this age group and a further 7% being aged between 55 – 60.

5.9 Telecare

The Council launched its Telecare pilot in 2007. It uses new technology to offer a flexible care and support system to promote choice and improve people's independence at home. This service continues to be promoted to both Council and private sector households. Emerging opportunities include the provision of hard-wired Telecare provision within proposed new extra-care housing schemes in the Borough. Currently the cost of the Telecare System is being in part met by the HRA. However, as there is an expansion of users, it is expected that the Telecare service will provide in due course, a revenue stream to the HRA over the 30-year Business Plan.

In conjunction with Adult Social Care, the net number of careline and Telecare continues to increase by around 500 a year. The current funding model includes around £1 per week per client subsidy from the HRA. With a growing client base, it is anticipated that the economies of scale will reduce this level of subsidy. A detailed review of the financial model will be carried out in quarter 1 2015/16 in order to assess the current financial situation, and the need for investment in staff and stock to enable this service to grow further. The Havering Telecare Service has received national recognition for its important contribution to the health and well-being of elderly residents, and is strongly associated with a reduction in hospital admissions and savings to the National Health Service.

6 Funding the Business Plan

In order to be able to achieve the objective of bringing out housing stock up to a decent standard in a good environment, we are going to have to maximise the resources available to us, and to make the best use of resources through effective procurement.

6.1 Revenue

The main source of income for the Housing Revenue Account is our rent; and Chapter 4 set out our proposals in respect of rents. We will be moving all our properties to target rents from 1st April 2015, and raising rents in line with the Government formula of PCI + 1% thereafter.

We must maintain high levels of rent collection, as collection has a direct impact on the resources that can be spent on management and maintenance each year.

6.2 Service Charges

Our policy with respect to service charges is that we aim to recover in full the cost of all the services we provide. We hope over time to be able to provide more detailed accounts of service charges for tenants, and to be able to consult with them on the level of service that they wish to see procured and whether to improve or reduce standards and frequency of service.

6.3 Grant funding

The Grant funding from the Decent Homes programme has been very important to Havering, and should enable us to substantially achieve the Decent Homes standard by March 2015.

The Council has successfully bid for GLA funding towards new homes and £5.4m GLA funding has been provided towards the Service's current development programme of 201 homes over the period 2014/15 to 2017/18. The Council intends to continue to bid for GLA funding in order to continue to deliver important new homes targeted primarily at elderly people, but with some developments targeted at first time buyers.

The Council's only other resources, to achieve its objectives therefore are Revenue Contributions to Capital that the Council is able to make. This is made up of a depreciation charge and any additional amount that the Council wishes to make. The Business Plan currently assumes that spare revenue, after payment of debt, funding of management and maintenance services and ensuring that there is a base balance of £2m, is devoted to capital improvements.

In the past, resources have been split between the Decent Homes Programme and other essential work, such as lifts, legionella, asbestos, or fire risk assessment works. There continues to be a need for both elements to be supported.

6.4 Capital receipts

With capital receipts arising from time-to-time, the Council's position remains as it has for some time that it wishes to maximise local discretion over the use of HRA receipts and will always resolve to spend 100% of any such receipts on housing and/or regeneration purposes. The Council did enter into an agreement with the Department of Local Government (DCLG) on 19th June 2013 to use Right to Buy receipts towards new units of social housing, under agreed conditions. The Business Plan currently provides for match funding to enable these receipts to be used by building within the HRA.

The Council has a series of major regeneration priorities, typically including new affordable housing, and these strategic priorities will remain the focus for receipts in the medium term rather than direct investment in HRA stock unless this is clearly an integral part of the regeneration of a local area.

6.5 Supporting People

We received £518k a year Supporting People funding from Adult Services for supporting tenants in receipt of mobile support for older people and/or the alarm call careline. This funding has been removed from 2015/16 and consultation with residents about the future of this service has now been carried out. An alternative structure will be implemented in March 2015 and service charges of £6.70 a week will part fund this new service.

6.6 How are we going to deliver all this?

Attached to this Business Plan narrative, in Appendix A is our financial modelling of how this is all going to work. The Business Plan Model is a spreadsheet setting out what we anticipate will happen over the next 30 years. It sets out all our anticipated income and expenditure requirements, and builds in a range of assumptions that we have used to establish what we think will happen. These assumptions are set out in Appendix B.

The first three years of the business plan is set out in Table 9 below. It is based on maintaining current service expenditure increased by the base rate of inflation of 2.0%.

Table 9			
Year	**2015.16**	**2016.17**	**2017.18**
	1	**2**	**3**
	£000	**£000**	**£000**
INCOME:			
Rental Income	50,497	52,199	53,903
Void Losses	(1,344)	(1,036)	(1,066)
Service Charges	7,164	6,701	6,835
Non-Dwelling Income	401	410	418
Grants & Other Income	608	843	860
RTB Debt Adjustment	756	756	756
Total Income	**58,081**	**59,872**	**61,706**
EXPENDITURE:			
General Management	(22,571)	(22,836)	(23,064)
Bad Debt Provision	(665)	(1,170)	(1,339)
Responsive & Cyclical Repairs	(7,348)	(7,707)	(7,855)
Total Revenue Expenditure	**(30,584)**	**(31,713)**	**(32,258)**
Interest Paid & Administration	(5,900)	(6,062)	(6,062)
Interest Received	65	22	21
Impairment	(250)	(250)	(250)
Depreciation			
Net Operating Income	**21,411**	**21,869**	**23,157**
APPROPRIATIONS:			
Revenue Contribution to Capital	(25,679)	(22,030)	(23,157)
Total Appropriations	**(25,679)**	**(22,030)**	**(23,157)**
ANNUAL CASHFLOW	**(4,268)**	**(162)**	**1**
Opening Balance	6,430	2,162	2,000
	-	-	-
Closing Balance	**2,162**	**2,000**	**2,001**

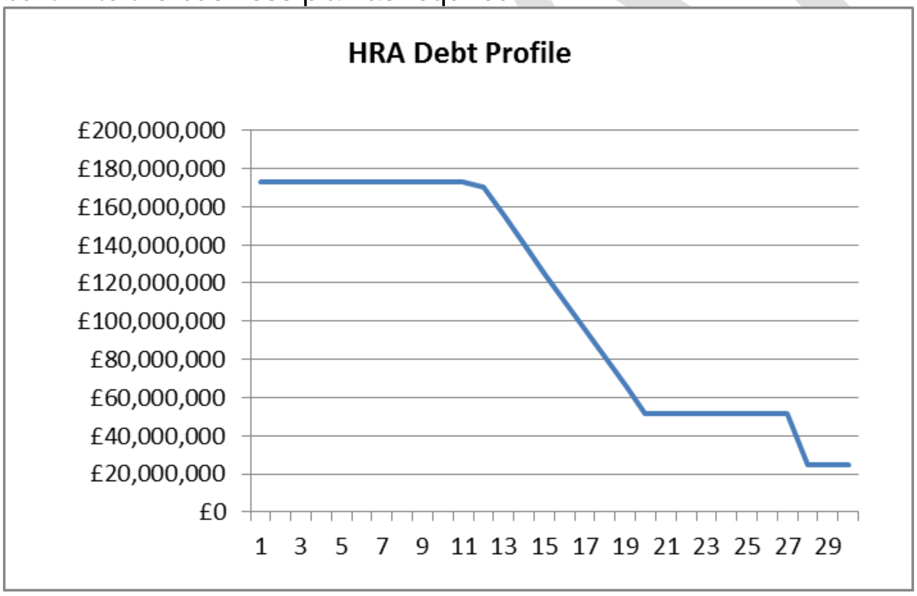
Thirty years is a long time, and it is inevitable that many of these assumptions will change. Indeed, we have seen in the first two years of the plan that many assumptions have had to be amended. There will be further changes in Government legislation and regulation, in the economic environment, in the cost of building work and other key factors. We have therefore also run a number of sensitivity analyses to establish what would happen if any of these assumptions were different from our base model. These enable us to demonstrate that we have a reasonably robust Business Plan that will be able to deliver our ambitions for our housing stock.

Over the 30 year business plan there is an overall investment backlog of 5 years against the stock condition survey level of investment. However it is anticipated that the decent homes backlog will be dealt with by 31st March 2015 as the increased revenue contributions for the HRA feed into the capital programme.

Over the 30 year business plan, there is an overall investment backlog of 5 years, against the stock survey level of investment. The estimated backlog figures are as follows, with the backlog eliminated from 2020/21, year 6 of the plan. With the investment backlog resolved, there are then more fundamental choices on how funds could be used, to include further investment in new stock, service provision or debt repayment. The elimination of the backlog is projected as follows:-

Year	2015.16 1 £000	2016.17 2 £000	2017.18 3 £000	2018.19 4 £000	2019.20 5 £000	2020.21 6 £000
EXPENDITURE:						
Total Capital Expenditure Need	**(49,774)**	**(51,777)**	**(52,505)**	**(42,513)**	**(30,735)**	**(18,131)**
FUNDING:						
Revenue Contributions	25,679	22,030	23,157	24,072	24,819	18,131
Total Capital Funding	**25,679**	**22,030**	**23,157**	**24,072**	**24,819**	**18,131**
Investment Backlog	**(24,094)**	**(29,747)**	**(29,349)**	**(18,440)**	**(5,916)**	**-**

The debt repayment profile is fixed, with a series on fixed term loans. The first loans become repayable in year 12 and continue to year 20. During those years, tranches of loans to the value of £16.5m are scheduled to be paid off each year. A final loan repayment is due in year 28 of the plan. A small residual amount of debt will be left on the plan of £24m, being the initial debt on the plan prior to the introduction of self financing debt. Repayment of the debt profile is built in to the business plan as required.



Sensitivity testing of the model has been carried out using a number of different scenarios; the outcome of this sensitivity testing is included at Appendix C.

Glossary of Abbreviations and Housing Terms

Extra-care housing - These schemes are designed with the needs of frailer, older people in mind and with varying levels of care and support available. People living in extra-care housing have their own self-contained home and this form of housing includes flats, bungalow estates and retirement villages, the properties can be rented, owned or part-owned/part-rented.

Decent Homes Standard – Government definition of Decent Homes was published in 2002. To be defined as a 'decent home' a property must: meet the current statutory minimum for housing; be in a reasonable state of repair; have reasonably modern facilities; and provide a reasonable degree of thermal comfort (effective insulation and heating).

GLA – Greater London Authority which promotes the Mayor of London's Housing Strategy and distributes housing capital resources, in place of the HCA, in London.

HCA – Homes and Communities Agency - the national housing and regeneration agency in England.

HRA - Housing Revenue Account – every local authority that owns housing stock is obliged to maintain a HRA. The account is ring-fenced so that all income and expenditure on managing the stock is held within the account. Councils are not allowed to transfer funds to and the General Fund.

HSSA – Housing Strategy Statistical Appendix – annual statistical return which local housing authorities are required to provide to central government.

KPIs – Key performance indicators

Non-traditional housing – these are prefabricated homes. This method has been used in the UK during periods of high demand such as during the post-war periods. Problems have arisen over the quality of materials used.

PWLB - Public Works Loan Board

RPI – Retail Price Index is a measurement of inflation. Calculated on a monthly basis, it measures the change in the cost of a basket of retail goods and services (including mortgage interest payments, food fuel). It is used as a base rate for calculating increases to social housing rents.

RSL – Registered Social Landlord, also known housing associations or registered providers.

Social housing rents – Social Housing rents (known as target rents) are calculated in accordance with a formula based 70% on local incomes and 30% on capital values. These are reviewed every year. The Government has issued specific guidance on calculating rental increases (this is Consumer Price Index, CPI + 1%).

Supporting People – An integrated policy and funding framework for the commissioning of housing-related support for vulnerable people, introduced in 2003.

More information and background documents

More information

HRA Business Plan

More information can be gained about this Business Plan from Officers detailed in the table below:

Subject area	**Contact details**	
Finance		
Finance and procurement	Conway Mulcahy	01708 432565
Treasury management	Mark White	01708 432164
Business Plan modelling	Conway Mulcahy	01708 432565
Strategic management of housing stock and housing development		
Housing Strategy and Needs, including new build	Jonathan Geall	01708 434606
Stock condition and decent homes programme	Kevin Hazlewood	01708 434091
Overall Business Plan narrative	Sue Witherspoon	01708 433747

Appendix A(i) **Business Plan model – revenue**

Appendix B – Assumptions within the Business Plan

General Inflation (CPI)	2.0%
Rent Inflation (CPI+1%)	3.0%
Capital Inflation (CPI+½%)	2.5%
Right to Buy Sales per annum	50
Void rate	2.0%
Bad Debt	1.3% year 1 to 3% year 5
Interest rate on debt average to year 14	3.48%
Interest Rate on balances	1.0%

2015/16 HRA budget is baseline position
Right to Buy Useable Receipts used by General Fund (1-4-1, used by HRA)
Minimum Working Balances £2m
Rent increases follow formula rents for 2015 and thereafter CPI + 1%

HRA Business Plan

Appendix C Scenario testing

SCENARIO		HRA Surplus Point (>£2m) Year	HRA Balances @ Year 30	SCS Investment Backlog Cleared Year
1	Baseline	6	£609m	5
2	CPI = 3% rather than 2%	6	£780m	5
3	Inflation on capital 1% > CPI	6	£572m	5
4	RTB sales remain at 100 instead of 50 per annum from year 2	6	£493m	4
5	Bad debt provision reaches 5% of debit due to welfare reform	6	£559m	5
6	Real ½% inflation on rents	6	£422m	5
7	No real 1% inflation on rents	7	£252m	6

Conclude: Business Plan is viable on baseline assumptions. Any other variables can be accommodated within the plan.