# Appendix 5: London Borough of Havering – DRAFT HRA Self-financing Business Plan 2012 – 2042

## Contents

# 1. Introduction

The system of Council Housing Finance is changing. Since 1989 there has been a centrally controlled national system of housing subsidy which has distributed housing resources between individual local authority Housing Revenue Accounts in accordance with central calculations of income and expenditure. In April 2012 this will come to an end, and Councils will be expected to manage their income and expenditure through a thirty year Business Plan. Certain central controls will remain: in particular rents will still continue to be strongly influenced by the central government regime known as rent restructuring. This was originally introduced to achieve convergence between Housing Association and Local Authority rents. Whilst this policy has been removed for Housing Associations with the introduction of the “Affordable Rent” product from April 2012, the control of local authority rents remains. Central Government pooling of capital resources also remains. Right to Buy receipts are subject to new proposals in the Government’s new Housing Strategy which is currently out to consultation. The total borrowing that a Council may undertake is limited by a centrally imposed borrowing cap.

But there are some important new freedoms in the new Self Financing arrangements which are due to come into force in April 2012. Councils will be able to manage their finances within their available resources, retaining all their rental surpluses. This means the Council will be able to develop resource plans that set out how services and assets will be provided and managed over longer timescales. For example, decisions about cost effective management may release resources for a range of purposes. A financial Business Plan, based upon our knowledge and understanding of the new system has been developed, and this document explains how we have arrived at our conclusions.

The London Borough of Havering welcomes the new financial regime, as we believe that it will be fairer and enable local authorities to make more locally accountable decisions about resources, how they are raised, and what they are spent on. However, it is important to remember that our Business Plan only works if the Government honours their undertakings in the introduction of Self Financing: firstly that the resources promised under the Decent Homes Programme remain in place; and secondly that the settlement agreed at the start of the Self Financing Business Plan is not re-opened. There are already signs that this may not be the case. In particular, the announcements about the changes to Right to Buy and the use of receipts have the power to disrupt the Business Plan significantly. We are taking on an additional £166m of Government debt; and we can only maintain our part of this deal and manage this debt, if the Government does not change the rules and introduce additional risks into our Business Planning.

This Business Plan sets out our aims for the future of the Council’s housing provision, analyses the current position of service delivery, the provision and condition of stock and the available resources that we have identified following the publication of recent Government guidance (as at end November) and our objective to make the best use of those resources to deliver good quality housing for people in Havering. It also sets out the governance framework, the known risks to the plan, and our commitment to keep our Plan under regular review in order to adapt it to any changing circumstances that may threaten our ability to manage and maintain the housing stock and ensure that it is sustainable for future generations of Havering residents.

# 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 and Public Protection on a quarterly 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; with officers from Homes in Havering. London Borough of Havering Housing officers, Homes in Havering staff and Finance officers will also alert the Corporate Project Group to any key issues more frequently as required.

The Council is currently consulting tenants about the future of Homes in Havering, and should a decision be taken in March 2012 to change these arrangements, then clearly the Governance of the Business Plan will also need to be reviewed.

The income for our Business Plan largely comes from tenants' rents and service charges. It is critically important that they understand how the money is raised and how it is spent, and that they are given opportunities to comment on this in a way that influences decision making. However, the Council must also have regard to the overall financial health of the Council and set parameters within which spending must be contained.

If the Council resolves to retain Homes in Havering, following the expressed views of tenants in the test of tenant opinion in January 2012, then clearly tenants on the Board of Homes in Havering will be consulted as part of the Board. In addition, there are four groups of tenants who are currently consulted on aspects of the housing management service. It is proposed that representatives from each of these groups will be invited to review the Business Plan quarterly and provide comments which will be reported to the Officer Project Group.

If the Council decides to re-integrate the housing service back into the Council, then the Council will also establish a new Tenant Consultative Panel, comprising tenants and councillors, and this would become the appropriate body to review the Business Plan on a quarterly basis.

## 2.3 Risks and risk management

The HRA Business Plan Group has maintained two Risk Registers: one for the risks associated with the preparation for Self Financing, and one for those risks which may arise during the Business Planning process. The Preparation Group has met every three weeks since August 2011, and both Risk registers are kept under review.

The Risks associated with the preparation for Business Planning are gradually being closed down, although there remain new initiatives by Government which place new challenges on the Business Plan. This includes changes to the sums that Councils are expected to pay, as a result of changes in inflation, and announcements about the changes to Right to Buy.

The main risks associated with the Business Plan itself are:

**Decent Homes Funding**
The aim of delivering good stock condition standards and ensuring that our stock is fit for the future is dependent upon the Government's Decent Homes Funding. The Council received £9m in 2010/11; was awarded £9m in 2011/12 (including an additional £1m brought forward from the 2012/13 allocation) and is to receive a further £15m in 2012/13. However, the bulk of the funding has been back loaded and the final £38m is due to be received in the last two years of the programme (2013/14 and 2014/15). This funding is not guaranteed. Firstly, it is dependent upon our performance in spending the first three years of funding; and secondly it is dependent upon the state of Government finances. The risk of not receiving this funding can partly be mitigated by us being efficient and effective in delivering the early part of the programme. However, the risks to Government funding as a result of the continuing poor state of Government finances cannot be mitigated by us, and the risks appear currently to be high.

**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 all of our investment programme as anticipated, especially if we do not keep tenants informed of changes.

**Interest rates may rise**
The Business Plan currently assumes that the borrowing required to pay off Government debt may be at 5%; and sensitivity analysis has also reviewed the health of the Business Plan should interest rates rise by a further 1%. It is unlikely at this stage that the Council will have to borrow at this level. The borrowing will not be undertaken until 26th March 2012 when the Government is proposing that the Public Works Loan Board (PWLB) will make a one-off exceptional offer of borrowing for the purpose of completing this transaction.

The risk of further interest rate rises, which are expected over the life of the plan, can be largely mitigated by the borrowing strategy adopted at the beginning. If the Council decides to borrow for as long as expenditure is necessary, and decides to fix interest rates at the opening level, then whatever that rate is, it will be known and managed within the plan. The risk of this borrowing strategy is that the Council may borrow more than it immediately requires, and more than may be required towards the end of the expenditure requirements. If the Council decides to borrow for a shorter period, then the risk of interest rate rises is a real one, and may have an impact on the Business Plan when the initial borrowing period has expired.

**Build cost inflation may rise**
In the first 15 years of the plan, investment in the housing stock is a critical activity. Whilst we have experienced some improvement in tender prices for building work during 2010/11 and 2011/12, partly because of the low level of activity in the private market, this may not continue. At present Build cost inflation is calculated at 3.0%, half of one per cent above the general rate of inflation. 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 recently announced their intention to inject new life into Right to Buy by increasing discounts from their current low level up to 50% in the hope that this will trigger renewed interest in Right to Buy. The Business Plan currently assumes that there will be an increase in sales under Right to Buy each year; 25% of the receipt is retained by the Local Authority, and this is used by the Council to support General Fund capital expenditure.

Whilst we know from sensitivity analysis that the Business Plan can comfortably contain an increase of Right to Buy sales up to 50 a year, if sales increase above this number, then the impact will have to be assessed. In addition, the position about what happens to the retained portion, and the freedom of the Council to use the retained portion has changed. The Government issued a Consultation Paper entitled “Reinvigorating the Right to Buy and one for one replacement” on 22nd December 2011. The Consultation closes on 2 February 2012, and therefore the final position will not be known until then. However, the proposals are that any capital receipt from sales above the original number in the Government’s model Business Plan will be subject to a sharing arrangement. The first call on the receipt is transaction costs (as now) although these will be a flat rate rather than individually calculated. The Government is consulting on whether any improvement costs in the last three years can continue to be deducted from the receipt, on the basis that many improvements carried out in recent years, have been grant funded. After that, the housing debt supportable from the individual property can be redeemed, (in Havering this is £21,085 per property – the government assumed debt) and then the receipt is shared on the basis of Local authority assumed income and Government assumed income being taken out as before, and any surplus to be recycled into new homes. The LA and Government income is set at a standard per property sum. If there are insufficient funds to provide both parties with their assumed income, then the remaining funds are shared between Government and local authority in the proportion of 2.47:1. In these cases of course, there will be no surplus for replacement homes. The business plan assumes that the first call on any receipts over the government assumed average figure of 15.5 RTB sales over the 30 year term is used to pay down outstanding debt on the property.

**Changes to welfare benefits (and therefore rent collection rates fall)**
The Government is proposing a number of significant changes to welfare benefits which will have an impact on council tenants. These include:

- Universal benefit (including housing costs) paid directly to claimants
- An overall cap on benefits so that the benefits for an applicant cannot be greater than the average wage (£500 pw)
- Localising Council Tax support – the Government is proposing to devolve responsibility for Council Tax benefits to Councils, but to reduce the overall pot by 10% which may mean that if the Council passes on the reduction to claimants, they may have less money to meet their outgoings

All these changes risk impacting on lower income households. 71.74% of Council tenants are dependent upon Housing Benefit/Local Housing Allowance, and whilst many of these changes will not affect them, especially as 37% of our tenants are over 60, payments of benefits directly to claimants will have an impact on them all. This will make the collection of rent 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 0.76% to 1.5% over the next 5 years.

**Empty properties higher than forecast**
The Business Plan depends upon the collection of income from 9,995 properties as at 1 April 2012. (It should be noted that the stock total used in the opening debt settlement is slightly lower as some properties earmarked for demolition will still be tenanted at the beginning of 2012/13.) 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 2.0% and requires careful management. There are 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 2011/12 KPI target. In October 2011, the performance outturn was 27.65 days against a target of 20 days. This may have 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. Additionally, the re-letting process has recently been re-engineered with improvements in performance expected as a result. The risk to the Business Plan is that income anticipated does not materialise, because the number of empty homes rises above the 1.5% anticipated by year 5 of 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.

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 2011, the Council owned 12,224 social housing assets, consisting of 10,017 rented homes and 2,207 leasehold properties. The rented housing stock comprises a range of housing types, the highest proportion (58.1%) of which are flats, 37.6% are houses, 3.9% are bungalows and 0.4% are traditional multi-occupied properties.

Within the HRA portfolio there are also 176 retail shop leasehold units and 2,120[1] garages.

All housing stock and garages are managed on the Council's behalf by Homes in Havering, an Arm's Length Management Organisation (ALMO). The shops are managed by the Council's corporate property team.

[1] Homes in Havering stock data as at 22 November 2011

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[2] was commissioned by the Council in 2006 to inform its Housing Strategy 2009-12. The study indicated that some 875 households a year were in need of affordable housing or an appropriate housing solution over the 3-year period.

Following this research, modelling was undertaken to assess the required level of new build accommodation, outlined in Table 1 below.

Table 1 - annual housing need for affordable housing

| | **Annual numbers** |
|---|---|
| ***Housing need*** | |
| Requirement for extra affordable housing, based on Housing Needs Study conducted by Fordham Research in 2006 | 875 |
| ***Meeting housing need*** | |
| Homelessness prevention* | 350 |
| PSL lets on 3-5 year leases** | 185 |
| Net requirement for new homes | 340 |
| ***Additional affordable housing*** | ***300*** |
| Contingency for additional supply / alternative solutions | 40 |
| * Based on the 358 homelessness preventions in 2007/08 – audited BVPI. This includes private sector empty properties brought back into use with Council grant assistance in return for the tenancy being offered as part of the Council's homelessness prevention activity<br>** Based on ongoing availability of PSL properties retained by the Council | |

Table 1 indicates that the Council needs to deliver least 300 of the annual requirement for 875 additional housing solutions by means of new build. This represents around 90% of the need that, arguably, cannot be met by other means, leaving the needs of a contingency of around 10%, 40 households, unaccounted for.

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 | 176 (to date) |

Over the 3-year period 2008-11, the Council exceeded its target by 110 properties and it is on target to achieve the 2011-12 KPI.

Recent demand and supply of sheltered housing
A report to Cabinet in January 2005 outlined the difficulties in letting a number of the Council's sheltered properties. As at 1 July 2006, approx. 200 sheltered homes were standing empty. Research has indicated that each year there will be a need for 98 'traditional' sheltered units while 100 will become available and arguably there is an over-supply of this type of accommodation.

[2] Housing Needs Study was conducted by Fordham Research in 2006

A subsequent review in 2005/06 by the Housing Service established that there was an over-supply of this type of accommodation as it was out-of-date and not fit for future purpose. At its meeting on 12 July 2006, Cabinet members approved a strategy to re-model and/or dispose of 8 sheltered schemes. To date, 7 schemes have been decommissioned and remodelled or improved.

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 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 needs. 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 follows 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 is to ensure that rents charged by all social housing providers converge at target rents in 2015/16. To enable rents to move to the target rent, housing providers will increase rents using the target formula Retail Price Index (RPI) + 0.5%, up to a maximum (limited) increase using the formula RPI + 0.5% + £2 until convergence is achieved; thereafter, rent increases will be restricted to RPI + 0.5%.

Applying the average formula rent for our tenants for 2011/12 is £85.63[3] per week. In 2012/13, this will increase by 6.1% to £90.86 per week. The formula rent is increased by the September Retail Price Index (RPI) figure of 5.6% + 0.5% real increase.

The average *actual* rent for 2011/12 is £74.44. For 2012/13 this will increase to £81.30, an increase of 9.22%. We have needed to apply a percentage higher than RPI +0.5% so that we can move towards converging with the target rent.

The Government is aiming to converge all social housing rents at target rent in 2015/16, but the Council's housing rents will converge after this, because we cannot increase tenants' rent charges by more than RPI + 0.5% + £2. Due to this limit and a national limit on rent charge increases historically, the actual convergence date for Havering Council will be no earlier than 2017/18.

As the Council cannot recover the full level of rent increase due to the limit on rent increase in any one year, we are compensated and receive additional subsidy (caps and limits adjustment) worth £4.71 per week. Under the Self Financing arrangement, this compensation will not be paid (from 2012/13 to 2015/16), but has been allowed for on this basis in the debt settlement calculation. Given that the actual convergence date for Havering Council will not be achieved until 2018/19, in reality the gap between our tenants' rent increases and target rent will remain

[3] Subsidy Determination 2012-13 – Self financing (Base Line Model 2012-13)

between 2012/13 and 2018/19, resulting in a total loss of £1.7m to the business plan over the next 7 years.

In terms of void properties, we currently re-let these at the previous tenant's rent restructuring path, and do not re-let at target rent levels. We currently do not plan at this stage to review this policy. Any change to this would have an impact on rent rebate subsidy limitation. (This is explained further in the sub-section below). Therefore achieving void turnaround time KPIs is vital to reduce the amount of lost rent.

Rent rebate subsidy limitations also apply to properties that are part of the Council's major improvement programmes and they are not re-valued for rent setting purposes. Due to the current arrangements, any additional rent gained would be lost to the subsidy system. As with void re-let rents, any rent increases could impact on rent rebate subsidy limitation. There is one element of major work programmes to which rent rebate subsidy limitation does not apply. This is with regard to extended properties. Once extension works are complete, the *actual* rent is increased to converge with the new target rent.

Limit Rent

In the sub-section above, we referred to the rent limit. Rents will remain under Government control, through the rent restructuring formula and it is proposed that rents will converge at target rents by 2015/16 and rise by RPI + 0.5% thereafter. If the Council's average *actual* rent exceeds this limit then housing benefit subsidy is lost on the amount over and above the limit rent. This is actually a cost borne by the Council's General Fund but is chargeable to the HRA. Currently there is some headroom between the actual average rent and the limit rent but this gap will reduce each year as actual rents converge with the limit rent through rent restructuring.

The scope for varying rents following major improvements and re-letting properties over the medium to long-term is dependent on Government's future policy on the limit rent. It is currently unclear as to the methodology that will be used to set this figure over this 30-year Business Plan. Government policy will be kept under review and any scope to introduce other options will be modelled and consulted upon, in accordance with the governance framework.

### 4.1.2 Service Charge Review

The Council has been undertaking a review of service charges in conjunction with Homes in Havering. The review is based on 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 been divided into two phases. Phase 1 is nearing completion and phase 2 is being progressed. Table 3 below identifies the service and progress to date.

Table 3 sets out the two-phase service charge review

| | **2011/12** | **2012/13** |
|---|---|---|
| **PHASE 1** | Neighbourhood wardens – charges increased to recover the full cost of the service. | Warden charges reduced by 13.65% as cost of service reduced. |
| | Fixed and Mobile CCTV – Fixed camera charges increased to recover the cost for CCTV. Mobile charges frozen in 2011/12 | Both charges frozen |
| | Cleaning of communal areas in block (flats) schemes – Costs frozen in 2011/12, | Charges to be increased over 4 years to recover full service costs now that service standards have improved; 29p increase |

| | | |
|---|---|---|
| | Caretaking – charges increased for full cost of services provided | 1.65% increase |
| | Bulk rubbish collection – charges increased for full cost recovery | 6.1% inflation increase |
| **PHASE 2** | Door entry – already full cost recovery | 29.6% decrease as costs reduced |
| | Grounds maintenance – Under recovery of costs | 1,900 additional tenants that benefit from the service to be charged for this service. Current charges frozen |
| | Heating – already full cost recovery | Current charge frozen |
| | Hot Water - already full cost recovery | Current charge frozen |
| | Cleaning of communal areas in Sheltered housing schemes - already full cost recovery | 6.1% inflation increase |
| | TV Aerials - already full cost recovery | Current charge frozen. Individuals' charges are to be corrected |

By extending the grounds maintenance charges to additional tenants who benefit from the service will increase income to the HRA by £278k per year. However, as this is an existing service, it will need to be de-pooled from the rent and therefore the additional income will be phased in through rent restructuring.

4.2 Treasury management & debt financing

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
Income from council-owned retail shops
Interest accrued on council mortgages
Interest accrued on balances

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

The current HRA subsidy system is the system through which the Government determines the amounts local authorities need to spend on their council housing. The HRA subsidy is the amount paid by the Government to make up any shortfall between income and the determined expenditure. If a local authority's calculated expenditure exceeds its calculated income, it would receive a HRA subsidy from the Government. In Havering Council's case, the Government's calculated income for our borough exceeds its calculated expenditure and the Council has been obliged to pay a subsidy to the Government. This means that subsidies are re-distributed by the Government to local authorities that have large historic debts. Data available from 2009/20 indicates that there was a net surplus of £100m in the system and only five local authorities accounted for 40% of the funds, raising concerns that, without major reform, the undistributed surplus in the system would continue to increase year-on-year.

Under the Localism Act 2011 Housing subsidy system is abolished from April 2012 and being replaced by a Self Financing arrangement. The replacement to the Housing subsidy system is a devolved self financing alternative which will remove the need for redistribution of revenue whilst ensuring that all Councils have sufficient resources. It allows local authorities to buy out of the system, the rental income generated from the housing stock can then be used to finance the debt and improve the housing stock.

We have now been allocated a debt settlement figure of £166.2M to pay to buy ourselves out of the current system.

In order for the Council to be able to make this payment out of its HRA it will need to borrow funds. Our assessment is that the best option for borrowing this sum, will be the Public Works Loan Board (PWLB). A final decision on the borrowing arrangements has been delegated to the Director of Finance and Commerce, in consultation with the Lead Member for Value.

## 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.

The various investment challenges are discussed in turn below.

### 5.1 HRA Stock

In terms of social housing as at 1 April 2011 the Council owned 10,017 rented properties and 2,207 leasehold dwellings. In addition, it is responsible for the management and maintenance of 2,120 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[4].

Table 4 - shows the breakdown in property types

| **Stock at 1 April 2011** | **Rented homes** |
|---|---|
| Traditional pre-1945 small (less than 70sqm) terrace houses | 126 |
| Traditional pre-1945 semi-detached houses | 212 |

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

| | |
|---|---|
| Traditional all other pre-1945 houses | 89 |
| Traditional 1945-64 small (less than 70 sqm) terrace houses | 634 |
| Traditional 1945-64 large (70 sqm or more) terrace / semi detached / detached houses | 1,192 |
| Traditional 1965-74 houses | 480 |
| Traditional post 1974 houses | 244 |
| Non-traditional houses | 785 |
| Traditional and non-traditional pre-1945 low rise (1-2 storeys) flat | 75 |
| Traditional and non-traditional post-1945 low rise (1-2 storeys) flat | 2,315 |
| Traditional and non-traditional medium rise (3-5) storey flats | 2,822 |
| Traditional and non-traditional high rise (6+ storeys) flats | 610 |
| Traditional and non-traditional bungalows | 393 |
| Traditional multi-occupied dwellings post 1944 | 40 |
| **Total** | **10,017** |

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 785 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 2012, the level of Decent Homes across the Council's stock is projected to be 41.1%.

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.

The Council has in previous years, had limited resources to allocate to a range of housing priorities. Despite over 30% (3,069) 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 and we wish, in future years, to consider using capital resources to continue our programme of building extensions funded by the Mayor of London's Targeted Funding Stream.

Overall, we anticipated that the additional resources needed to bring our stock up to the Decent Homes standard in a sustainable way amounts to £68.581m over the next three years.

In order to bridge the gap between the resources we have and those we need, we originally bid for Decent Homes funding under the ALMO programme and were accepted onto Round Six of the programme. Following the Government's Comprehensive Spending Review in November 2010, a revised process for bidding for Decent Homes funding replaced the previous approach. We bid for resources under the new Decent Homes Backlog funding programme. Our bid was successful, albeit not at the level at which we bid, with the Council awarded specific funding over a 4-year period to 2014/15. The amounts awarded are set out in table 5 below.

Table 5 - Decent Homes Backlog funding awarded to Havering Council in February 2011

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Total |
|---|---|---|---|---|---|
| Bid | £12,700,939 | £16,761,765 | £17,759,296 | £20,581,000 | £67,803,000 |
| Award | £8,166,667 | £16,000,000 | £15,000,000 | £23,581,000 | £62,747,667 |
| Difference | £4,534,272 | £761,765 | £2,759,296 | -£3,000,000 | £5,055,333 |
| | 36% | 5% | 16% | -15% | 7% |

These allocations will make a significant contribution towards achieving the Decent Homes standard by 2015. However, it should be noted that awards for 2013/14 and 2014/15 are provisional and will be subject to further central government spending reviews.

In August 2011 the Homes and Communities Agency (HCA) invited councils to bring forward resources from the 2012/13 allocation to progress decent homes works. As a result, the Council brought forward £1m to address the issue of non-traditional homes within the borough. The reprofiling of the HCA Decent Homes funding is set out in table 6 below.

Table 6 – Reprofiling of the HCA Decent Homes funding

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Total |
|---|---|---|---|---|---|
| HCA Decent Homes funding | £9,166,667 | £15,000,000 | £15,000,000 | £23,581,000 | £62,747,667 |

In addition to these resources the bid assumed an element of match-funding from the Council's then Major Repairs Allowance (MRA) to progress the improvement programme to achieve a target of 90% decent homes by 2014/15. The details set out in table 7 show the total expenditure programme.

Table 7 – Total funding for Decent Homes works

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Total |
|---|---|---|---|---|---|
| Award | £9,166,667 | £15,000,000 | £15,000,000 | £23,581,000 | £62,747,667 |
| MRA (replaced by Revenue Funding through self-financing) | £5,000,000 | | | | £5,000,000 |
| Additional Council revenue funding | £0 | £7,756,000 | £8,456,000 | £9,381,000 | £25,593,000 |
| Major Repairs Reserve | £0 | £129,000 | £0 | £0 | £129,000 |
| Leaseholder contribution | £100,000 | £200,000 | £200,000 | £200,000 | £700,000 |
| | **£14,266,667** | **£23,085,000** | **£23,656,000** | **£33,162,000** | **£94,169,667** |

5.1.3 Decent Homes programme delivery

The Council recognises that the Government's Comprehensive Spending Review has changed the landscape for landlords yet to complete their Decent Homes programmes. We have taken account of this and have re-profiled our requirements accordingly. It should be noted that changes will impact negatively on the achievement of decent homes during the early years of the programme and has been a significant challenge.

We have, through considerable work with tenants/residents and contractor partners, established a delivery strategy which started in 2010/11 and is being successfully delivered. This programme represents approximately 10% of the Council's stock. This work, together with the service upgrading achieved through the Improvement Plan (and recognised by accreditation), has delivered further efficiencies which are reflected in the profile. By securing external funding we have been able to deliver efficiencies not previously achievable through lower funding levels.

The improvement programmes over the 4-year period have been fully reviewed to have due regard to tenants' and residents' expectations, contractual obligations and commitments made as part of the Council's comprehensive regeneration schemes in Harold Hill and Rainham.

Our funding profile has been structured to reduce the amount of works being scheduled to complete in year one, with progression in future years. This will culminate in the Council needing to address the final 10% in future years. These works have been or are in the process of being procured for delivery over the forthcoming financial years in anticipation of confirmation of our ongoing funding requirements. The funding profile involves a mixture of elemental, whole house and major contract works packages, for example, for high rise blocks and non traditional houses/blocks. Our primary aim is to deliver high quality homes to tenants and residents and thus reduce non-decency levels, whilst also continuing to deliver value for money through competitive tender pricing, which we have already demonstrated through current contracts. We are also mindful of the expected availability of a construction workforce in 2011/12, following completing of Olympic facilities being completed and wish to secure opportunities given the Borough's close proximity to the Olympic park.

On successful allocation of funding for 2010/11 the Council has implemented the detailed delivery strategy, prepared during the Audit Commission inspection, in anticipation of the award of accreditation and award of funding. This has been successful and we are already delivering a large decent homes programme, following the first tranche of our decent homes funding in 2010/11 and based on the anticipation of the remaining funding being forthcoming. Our consultation, governance and operational arrangements are embedded and are therefore well-placed to continue delivery of this programme over the next few years.

We have developed a “mixed economy” of arrangements to give agility and flexibility to accommodate changes in the macro environment. Our long established partnering arrangement covering both revenue and capital activity is with one of the most stable and respected contractors in the sector. In addition we are time-honoured members of the LHC Framework arrangements. We have been members since 6 May 1983 and in the last twelve months procured £487,000 of services through this framework. This membership allows us to capitalise on support as required to the partnering agreement and capitalise on procurement developments being driven by LHC, for example whole house arrangements and Energy Efficiency measures to meet the Green Deal agenda. In addition, we have secured a number of contracts to deliver some specialist aspects of the programme, notably for non-traditional stock, with recently procured contracts enabling us to derive benefits from the current economic pressures being faced by the construction and building sectors.

Our capital programme is delivered through a number of contractors and this assists with programme delivery and provides us with the flexibility to adjust our investment plans should we identify any emerging changes or deviations that pose a risk to successful programme delivery. This delivery strategy and related policy was informed by specific issues highlighted through customer surveys and our asset management database, and ensured programming of decent homes investment took account of local priorities.

The contractual arrangements set in place are designed to continue for the duration of the 2012/13. Furthermore, we will be executing further supply chain development in readiness for future allocations of funding for the remaining funding periods covered.

### 5.1.4 Stock condition information – updating

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 in Havering. 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 four 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 | 33 |
| Diana Princess of Wales House, Harold Hill | 21 |
| 81-87 Billet Lane, Hornchurch | 15 |
| Queen Street Vilas, Romford | 12 |
| Total | 81 |

The Council has carried out a strategic hostels review. As a result, it has been decided to reprovide the same number of hostel unit across two, rather than four, buildings. To this end, a redundant sheltered scheme in the south of the borough will be converted; planning approval was granted in October 2011 for this. In addition, Abercrombie House in the north of the borough will be maintained, brought up to the Decent Homes standard and reconfigured to meet current and future needs.

### 5.2.1 Hostels improvement – funding requirements

The total costs to convert one building and upgrade the other are £2.75m. These costs are being met from:

- £1.05m s106 commuted sums held by the Council
- £1.7m held in the Major Repairs Reserve at the end of 2011/12 specifically for this purpose.

There is no additional call of the Business Plan within the next three years, although maintenance of the two hostels has been factored in to the Business Plan over its lifetime.

## 5.3 Sheltered and extra-care housing

Havering has the highest proportion 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.

An independent study commissioned in 2006 identified that a number of schemes did not meet older people's changing expectations and aspirations, and would not be fit for future purpose, a large number of schemes requiring 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 145 are currently void[5], a majority of 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.

[5] As at 29 December 2011

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, will total £13.554m in the next 3 years.

### 5.5 Garages

The Council currently owns 2,078[6] 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. The timeline for re-development is phase 1 completion by March 2012, with phase 2 planned to complete by March 2013.

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 2012/13 to 2014/15.

### 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:

- improving the HRA stock to the Decent Homes standard and beyond will be a significant impact in terms of the visual appearance of the area and the quality of life and a sizable minority of 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

[6] Homes in Havering stock data as at 05 January 2012

- 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, will be completely redeveloped. The Decent Homes programme will be an integral part of this regeneration.

The Decent Homes and associated works to support Harold Hill Ambitions are already costed within the Business Plan under the borough-wide Decent Homes and additional capital works lines.

**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 is proposing 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. This will add £1m to the refurbishment works costs during the first three years of the Business Plan.

## 5.7 Shops

Within the Housing Revenue Account (HRA) Portfolio there are 176 retail shop leases. This number can change slightly from time-to-time as some shops are grouped together in one lease and when the lease expires they can as a number of single units.

The shops portfolio is managed by the Council's corporate property team. Arrangement for management of the shops will be kept under review.

The shops are in a reasonable condition and are usually let on a fully repairing and insuring obligation. They are typically in high demand with low void rates.

The exception to this is the parade of shops on the Briar Road estate. Consequently, these shops are subject to regeneration proposals and have been earmarked for demolition, along with the flats above.

## 5.8 Offices

The condition of offices within the Council's portfolio is reasonable and does not impact currently on the HRA Business Plan.

## 5.9 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. Furthermore, in identifying unmet disabled people's needs the Council identified that 3,323 (32.6%) council households contain someone aged 50+ include at least person with a disability.

Research analysis was undertaken using the Census 2001 and Strategic Review of Older People's Housing conducted in 2006. The analysis established that 271 aids and adaptations were required to remedy the backlog over the period 2008/09 – 2010/11, plus an additional 284 number of aids and adaptations over the period to meet new demand. The Council has cleared the backlog of people awaiting aids and adaptations and is now meeting demand through its annual programme.

5.9.1 Adaptations – funding requirement

The average annual funding requirement is £550,000, equating to £1,650,000 over the period 2012/13 to 2014/15.

5.10 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. It is expected that the Telecare service will provide a continual revenue stream to the HRA over the 30-year Business Plan.

# 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 continue to implement the Rent Restructuring regime, but will keep under review policies in respect of whether to adopt target rents for void properties; and whether to revalue properties as they are improved, or whether to review all our existing valuations.

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. We do not have the capacity for this level of service at this stage; but we are improving our balancing of our service charge accounts all the time.

6.3 Grant funding

The main source of funding for our capital programme from 2012 to 2015 will be our Decent Homes funding programme and revenue contributions from the business plan. Decent Homes funding amounts to a further £53m over the first three years of the Self Financing Business Plan. The last two years of the funding is not guaranteed, but will be dependent upon both performance, and Government finances. The achievement of the Council's objectives through this Business Plan is dependent upon this funding; and it cannot be underestimated what the devastating impact would be, should this funding not materialise. It is also important to ensure as far as possible that tenants understand the dynamics of the position; the figures have changed a lot over the years, and there remains some suspicion amongst tenants that they are not receiving all that they are entitled to.

The Council's other resources, to achieve its objectives therefore are the Major Repairs Allowance, including aids and adaptations within the new formula, and any Revenue Contribution to Capital that the Council is able to make. The Business Plan currently assumes that spare revenue, after payment of debt and ensuring that there is a base balance of £2m is devoted to capital improvements. Resources akin to the former Major repairs allowances (MRA) in the new formula have been uplifted by 15.65%.

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, as long as the housing stock is 90% at Decent Homes standard by March 2015. The remaining 10% will be planned and resourced by the Council using MRA, and revenue contributions

### 6.4 Capital receipts

The use of right-to-buy receipts to pay off housing debt has been covered earlier in this Plan. With regard to other 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 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 currently receive £700k 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. The plan makes a prudent assumption that efficiencies required locally and nationally in Adult Social Care budgets will see this contract sum decreasing to £500k within two years.

### 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 2.5%. It is planned to use excess working balances as at 1 April 2012 on a phased basis over the three year period to supplement the capital programme.

Table 9

| Year | 2012.13<br>1<br>£000 | 2013.14<br>2<br>£000 | 2014.15<br>3<br>£000 | 2015.16<br>4<br>£000 | 2016.17<br>5<br>£000 |
|---|---|---|---|---|---|
| **INCOME:** | | | | | |
| Rental Income | 42,326 | 44,465 | 46,655 | 48,989 | 51,386 |
| Void Losses | (804) | (845) | (700) | (735) | (771) |
| Service Charges | 5,489 | 5,626 | 5,767 | 5,911 | 6,059 |
| Non-Dwelling Income | 2,291 | 606 | 621 | 637 | 653 |
| Grants & Other Income | 773 | 675 | 577 | 591 | 606 |
| **Total Income** | **50,076** | **50,528** | **52,921** | **55,393** | **57,933** |
| **EXPENDITURE:** | | | | | |
| General Management | (26,298) | (26,827) | (27,498) | (28,185) | (28,890) |
| Bad Debt Provision | (322) | (391) | (467) | (612) | (771) |
| Responsive & Cyclical Repairs | (65) | - | - | - | - |
| **Total Revenue Expenditure** | **(26,685)** | **(27,218)** | **(27,964)** | **(28,797)** | **(29,660)** |
| Interest Paid & Administration | (9,431) | (8,491) | (8,512) | (8,512) | (8,512) |
| Interest Received | 128 | 122 | 114 | 98 | 81 |
| **Net Operating Income** | **14,088** | **14,940** | **16,558** | **18,182** | **19,841** |
| **APPROPRIATIONS:** | | | | | |
| FRS 17 /Other HRA Reserve Adj | (99) | (102) | (105) | (107) | (110) |
| Revenue Contribution to Capital | (14,303) | (15,577) | (17,250) | (19,153) | (20,737) |
| **Total Appropriations** | **(14,403)** | **(15,679)** | **(17,355)** | **(19,260)** | **(20,847)** |
| | | | | | |
| **ANNUAL CASHFLOW** | **(314)** | **(738)** | **(796)** | **(1,078)** | **(1,006)** |
| Opening Balance | 6,109 | 5,795 | 5,056 | 4,260 | 3,182 |
| **Closing Balance** | **5,795** | **5,056** | **4,260** | **3,182** | **2,176** |

Thirty years is a long time, and it is inevitable that many of these assumptions will be wrong. There will be changes in Government legislation and regulation, in the economic environment and interest rates; 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.

To deliver our stock investment programme, the resources available for the next three years therefore are:

Table 10

| **Funding** | **2012/13<br>£000s** | **2013/14<br>£000s** | **2014/15<br>£000s** |
|---|---|---|---|
| Decent Homes | 15,000 | 15,000 | 23,581 |
| Revenue funded | 14,303 | 15,580 | 17,245 |
| MRR brought forward | 4,712 | 0 | 0 |
| Other grant funding | 123 | 0 | 0 |
| Leaseholder contribution | 200 | 200 | 200 |
| **Total** | **34,338** | **30,780** | **41,026** |

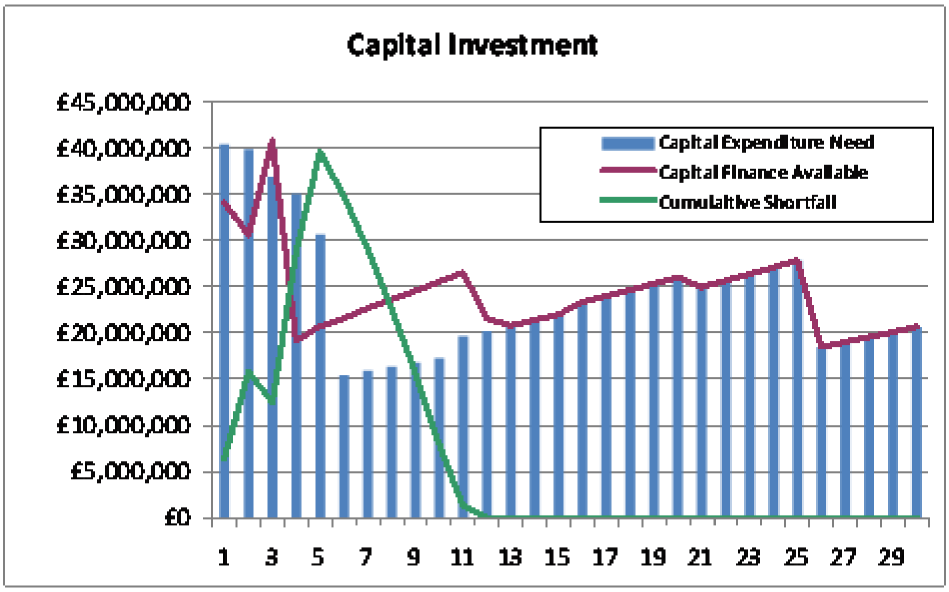
The spend profile, split between Decent Homes and other essential works in the HRA capital programme will be £104.644m over 2012-2015.

Table 11

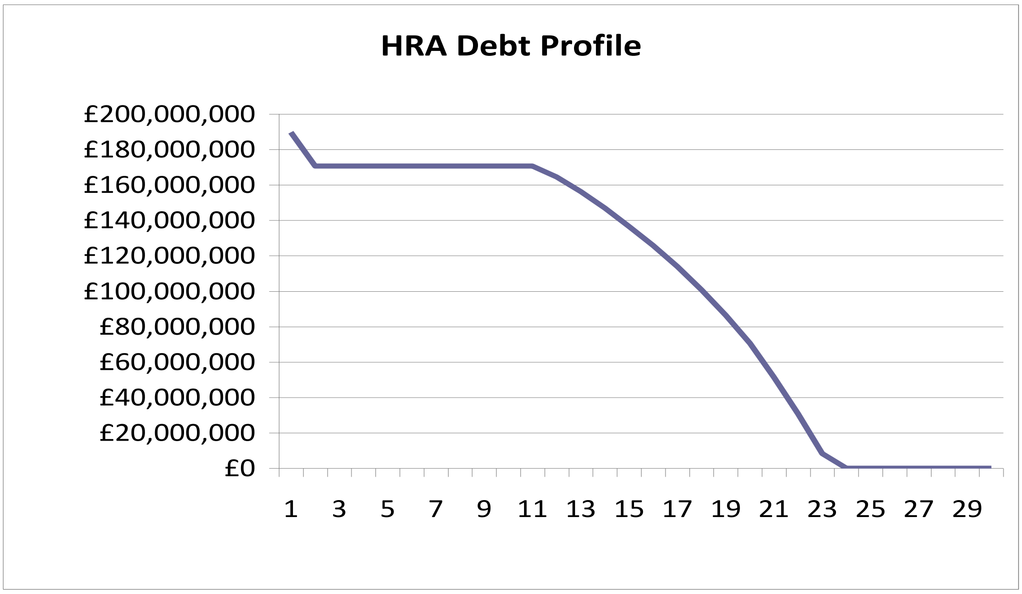
| **Expenditure** Including fees where application | **2012/13 £000s** | **2013/14 £000s** | **2014/15 £000s** |
|---|---|---|---|
| Decent Homes | 24,083 | 23,656 | 33,162 |
| Additional capital works | 4,322 | 2,549 | 3,059 |
| Environmental improvements | 1,105 | 1,125 | 1,210 |
| Planned preventative maintenance | 1,500 | 1,500 | 1,700 |
| Common & sheltered | 2,625 | 1,370 | 1,315 |
| Energy efficiency | 30 | 30 | 30 |
| Aids & adaptations | 550 | 550 | 550 |
| Briar Road renewal programme – project costs | 123 | 0 | 0 |
| Total | **34,338** | **30,780** | **41,026** |

These figures are incorporated into the Business Plan model at Appendix A.

Over the 30 year business plan there is an overall investment backlog of 12 years against the stock condition survey level of investment. However it is anticipated that the decent homes backlog will be dealt with by 2017/18 as the increased revenue contributions for the HRA feed into the capital programme.




Once the investment backlog is eliminated the business plan can start to reduce the level of debt on the HRA through the use of spare resources to either directly redeem debt or to set funds aside to meet future debt repayment. If all spare resources are used to repay debt then the business plan will become debt free by year 24 of the plan.




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).

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

**HiH** - Homes in Havering is an Arms Length Management Organisation that has responsibility for managing and maintaining housing stock owned by Havering Council.

**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

**MRA** – Major Repairs Allowance. This funding is used to bring homes up to meet the Decent Homes Standard and maintain them once backlog repairs are complete. The MRA in Havering is approximately £1,127 per property per year, equating to approximately £33,870 per property over a 30-year life. This is similar to the industry estimate cost of maintaining a property.

**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 RPI + 0.5%).

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

| Subject area | Contact details | |
|---|---|---|
| Finance | | |
| Finance and procurement | Mike Stringer | 01708 432101 |
| Treasury management | Mark White | 01708 432164 |
| Homes in Havering (HiH) | Tony Huff | 01708 434155 |
| Strategic management of housing stock | | |
| Housing Strategy and Needs | Jonathan Geall | 01708 434606 |
| Commercial Property reviews | Jonathan Gregory | 01708 433166 |
| Stock condition and decent homes programme | Kevin Hazlewood | 01708 434091 |

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

| Year | 2012.13 | 2013.14 | 2014.15 | 2015.16 | 2016.17 | 2017.18 | 2018.19 | 2019.20 | 2020.21 | 2021.22 | 2022.23 | 2023.24 | 2024.25 | 2025.26 | 2026.27 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **INCOME:** | | | | | | | | | | | | | | | |
| Rental Income | 42,326 | 44,465 | 46,655 | 48,989 | 51,386 | 53,847 | 55,583 | 57,134 | 58,728 | 60,366 | 62,049 | 63,780 | 65,558 | 67,386 | 69,264 |
| Void Losses | (804) | (845) | (700) | (735) | (771) | (808) | (834) | (857) | (881) | (905) | (931) | (957) | (983) | (1,011) | (1,039) |
| Service Charges | 5,489 | 5,626 | 5,767 | 5,911 | 6,059 | 6,210 | 6,366 | 6,525 | 6,688 | 6,855 | 7,027 | 7,202 | 7,382 | 7,567 | 7,756 |
| Non-Dwelling Income | 2,291 | 606 | 621 | 637 | 653 | 669 | 686 | 703 | 720 | 738 | 757 | 776 | 795 | 815 | 835 |
| Grants & Other Income | 773 | 675 | 577 | 591 | 606 | 621 | 637 | 653 | 669 | 686 | 703 | 721 | 739 | 757 | 776 |
| **Total Income** | **50,076** | **50,528** | **52,921** | **55,393** | **57,933** | **60,540** | **62,437** | **64,157** | **65,924** | **67,740** | **69,605** | **71,522** | **73,491** | **75,514** | **77,592** |
| **EXPENDITURE:** | | | | | | | | | | | | | | | |
| General Management | (26,298) | (26,827) | (27,498) | (28,185) | (28,890) | (29,612) | (30,352) | (31,111) | (31,889) | (32,686) | (33,503) | (34,341) | (35,199) | (36,079) | (36,981) |
| Bad Debt Provision | (322) | (391) | (467) | (612) | (771) | (808) | (834) | (857) | (881) | (905) | (931) | (957) | (983) | (1,011) | (1,039) |
| Responsive & Cyclical Repairs | (65) | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total Revenue Expenditure** | **(26,685)** | **(27,218)** | **(27,964)** | **(28,797)** | **(29,660)** | **(30,420)** | **(31,186)** | **(31,968)** | **(32,770)** | **(33,592)** | **(34,434)** | **(35,297)** | **(36,183)** | **(37,090)** | **(38,020)** |
| Interest Paid & Administration | (9,431) | (8,491) | (8,512) | (8,512) | (8,512) | (8,512) | (8,533) | (8,533) | (8,533) | (8,533) | (8,554) | (14,562) | (16,385) | (16,910) | (17,458) |
| Interest Received | 128 | 122 | 114 | 98 | 81 | 69 | 62 | 55 | 48 | 41 | 35 | 28 | 21 | 21 | 21 |
| **Net Operating Income** | **14,088** | **14,940** | **16,558** | **18,182** | **19,841** | **21,677** | **22,780** | **23,711** | **24,669** | **25,656** | **26,651** | **21,690** | **20,944** | **21,534** | **22,135** |
| FRS 17 /Other HRA Reserve Adj | (99) | (102) | (105) | (107) | (110) | (113) | (115) | (118) | (121) | (124) | (127) | (131) | (134) | (137) | (141) |
| Revenue Contribution to Capital | (14,303) | (15,577) | (17,250) | (19,153) | (20,737) | (21,566) | (22,693) | (23,599) | (24,555) | (25,539) | (26,552) | (21,562) | (20,815) | (21,396) | (21,993) |
| **Total Appropriations** | **(14,403)** | **(15,679)** | **(17,355)** | **(19,260)** | **(20,847)** | **(21,679)** | **(22,808)** | **(23,718)** | **(24,676)** | **(25,663)** | **(26,679)** | **(21,693)** | **(20,949)** | **(21,533)** | **(22,134)** |
| **ANNUAL CASHFLOW** | **(314)** | **(738)** | **(796)** | **(1,078)** | **(1,006)** | **(2)** | **(28)** | **(7)** | **(7)** | **(7)** | **(28)** | **(3)** | **(5)** | **1** | **1** |
| Opening Balance | 6,109 | 5,795 | 5,056 | 4,260 | 3,182 | 2,176 | 2,174 | 2,146 | 2,139 | 2,132 | 2,126 | 2,098 | 2,095 | 2,089 | 2,090 |
| | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Closing Balance** | **5,795** | **5,056** | **4,260** | **3,182** | **2,176** | **2,174** | **2,146** | **2,139** | **2,132** | **2,126** | **2,098** | **2,095** | **2,089** | **2,090** | **2,091** |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2027.28** | **2028.29** | **2029.30** | **2030.31** | **2031.32** | **2032.33** | **2033.34** | **2034.35** | **2035.36** | **2036.37** | **2037.38** | **2038.39** | **2039.40** | **2040.41** | **2041.42** |
| **16** | **17** | **18** | **19** | **20** | **21** | **22** | **23** | **24** | **25** | **26** | **27** | **28** | **29** | **30** |
| **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| 71,194 | 73,178 | 75,217 | 77,312 | 79,465 | 81,678 | 83,952 | 86,289 | 88,691 | 91,159 | 93,696 | 96,302 | 98,981 | 101,734 | 104,562 |
| (1,068) | (1,098) | (1,128) | (1,160) | (1,192) | (1,225) | (1,259) | (1,294) | (1,330) | (1,367) | (1,405) | (1,445) | (1,485) | (1,526) | (1,568) |
| 7,950 | 8,149 | 8,352 | 8,561 | 8,775 | 8,995 | 9,219 | 9,450 | 9,686 | 9,928 | 10,176 | 10,431 | 10,692 | 10,959 | 11,233 |
| 856 | 878 | 900 | 922 | 945 | 969 | 993 | 1,018 | 1,043 | 1,069 | 1,096 | 1,124 | 1,152 | 1,180 | 1,210 |
| 795 | 815 | 836 | 856 | 878 | 900 | 922 | 945 | 969 | 993 | 1,018 | 1,044 | 1,070 | 1,096 | 1,124 |
| **79,728** | **81,922** | **84,176** | **86,492** | **88,872** | **91,316** | **93,828** | **96,408** | **99,059** | **101,783** | **104,581** | **107,456** | **110,409** | **113,443** | **116,561** |
| (37,906) | (38,853) | (39,825) | (40,820) | (41,841) | (42,887) | (43,959) | (45,058) | (46,185) | (47,339) | (48,523) | (49,736) | (50,979) | (52,254) | (53,560) |
| (1,068) | (1,098) | (1,128) | (1,160) | (1,192) | (1,225) | (1,259) | (1,294) | (1,330) | (1,367) | (1,405) | (1,445) | (1,485) | (1,526) | (1,568) |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **(38,974)** | **(39,951)** | **(40,953)** | **(41,980)** | **(43,033)** | **(44,112)** | **(45,218)** | **(46,352)** | **(47,515)** | **(48,707)** | **(49,928)** | **(51,180)** | **(52,464)** | **(53,780)** | **(55,128)** |
| (17,303) | (17,864) | (18,444) | (19,042) | (19,658) | (22,114) | (22,799) | (23,526) | (8,342) | - | - | - | - | - | - |
| 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 100 | 306 | 614 | 985 | 1,372 | 1,773 | 2,191 |
| **23,472** | **24,127** | **24,800** | **25,491** | **26,202** | **25,111** | **25,831** | **26,551** | **43,303** | **53,382** | **55,267** | **57,261** | **59,317** | **61,437** | **63,623** |
| (144) | (148) | (151) | (155) | (159) | (163) | (167) | (171) | (176) | (180) | (184) | (189) | (194) | (199) | (204) |
| (23,328) | (23,979) | (24,648) | (25,335) | (26,042) | (24,967) | (25,663) | (26,378) | (27,114) | (27,869) | (18,504) | (19,020) | (19,550) | (20,095) | (20,655) |
| **(23,472)** | **(24,126)** | **(24,799)** | **(25,490)** | **(26,201)** | **(25,130)** | **(25,830)** | **(26,550)** | **(27,289)** | **(28,049)** | **(18,688)** | **(19,209)** | **(19,744)** | **(20,293)** | **(20,858)** |
| **0** | **1** | **1** | **1** | **1** | **(19)** | **1** | **1** | **16,014** | **25,333** | **36,579** | **38,052** | **39,573** | **41,143** | **42,764** |
| 2,091 | 2,091 | 2,091 | 2,092 | 2,093 | 2,094 | 2,075 | 2,076 | 2,077 | 18,091 | 43,424 | 80,003 | 118,055 | 157,628 | 198,771 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **2,091** | **2,091** | **2,092** | **2,093** | **2,094** | **2,075** | **2,076** | **2,077** | **18,091** | **43,424** | **80,003** | **118,055** | **157,628** | **198,771** | **241,535** |

**Appendix A(ii) Business Plan model – capital**

Notes: (i) Individual figures subject to rounding in contributing tables.
(ii) Capital totals exclude leaseholder contributions which have been included in three projections elsewhere.

| Year | 2012.13 | 2013.14 | 2014.15 | 2015.16 | 2016.17 | 2017.18 | 2018.19 | 2019.20 | 2020.21 | 2021.22 | 2022.23 | 2023.24 | 2024.25 | 2025.26 | 2026.27 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **EXPENDITURE:** | | | | | | | | | | | | | | | |
| Planned Variable Expenditure | (40,464) | (39,915) | (36,951) | (35,129) | (30,729) | (15,496) | (15,929) | (16,374) | (16,832) | (17,302) | (19,700) | (20,250) | (20,815) | (21,396) | (21,993) |
| Previous Year's Overall Shortfall | - | (6,515) | (16,329) | (12,823) | (29,663) | (40,844) | (35,817) | (29,925) | (23,381) | (16,127) | (8,126) | (1,313) | - | - | - |
| **Total Capital Expenditure** | **(40,464)** | **(46,430)** | **(53,280)** | **(47,952)** | **(60,392)** | **(56,340)** | **(51,746)** | **(46,299)** | **(40,212)** | **(33,429)** | **(27,826)** | **(21,562)** | **(20,815)** | **(21,396)** | **(21,993)** |
| **FUNDING:** | | | | | | | | | | | | | | | |
| Major Repairs Reserve | 4,712 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Receipts | 15,000 | 15,000 | 23,581 | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Reserves | 123 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Revenue Contributions | 14,303 | 15,577 | 17,250 | 19,153 | 20,737 | 21,566 | 22,693 | 23,599 | 24,555 | 25,539 | 26,552 | 21,562 | 20,815 | 21,396 | 21,993 |
| **Total Capital Funding** | **34,138** | **30,577** | **40,831** | **19,153** | **20,737** | **21,566** | **22,693** | **23,599** | **24,555** | **25,539** | **26,552** | **21,562** | **20,815** | **21,396** | **21,993** |
| | | | | | | | | | | | | | | | |
| **In Year Net Cashflow** | **(4,818)** | **(15,854)** | **(12,449)** | **(28,799)** | **(39,655)** | **(34,774)** | **(29,053)** | **(22,700)** | **(15,657)** | **(7,890)** | **(1,274)** | **-** | **-** | **-** | **-** |
| | | | | | | | | | | | | | | | |
| **Cumulative Shortfall** | **(6,326)** | **(15,854)** | **(12,449)** | **(28,799)** | **(39,655)** | **(34,774)** | **(29,053)** | **(22,700)** | **(15,657)** | **(7,890)** | **(1,274)** | **-** | **-** | **-** | **-** |

| 2027.28 | 2028.29 | 2029.30 | 2030.31 | 2031.32 | 2032.33 | 2033.34 | 2034.35 | 2035.36 | 2036.37 | 2037.38 | 2038.39 | 2039.40 | 2040.41 | 2041.42 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **16** | **17** | **18** | **19** | **20** | **21** | **22** | **23** | **24** | **25** | **26** | **27** | **28** | **29** | **30** |
| **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| | | | | | | | | | | | | | | |
| (23,328) | (23,979) | (24,648) | (25,335) | (26,042) | (24,967) | (25,663) | (26,378) | (27,114) | (27,869) | (18,504) | (19,020) | (19,550) | (20,095) | (20,655) |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **(23,328)** | **(23,979)** | **(24,648)** | **(25,335)** | **(26,042)** | **(24,967)** | **(25,663)** | **(26,378)** | **(27,114)** | **(27,869)** | **(18,504)** | **(19,020)** | **(19,550)** | **(20,095)** | **(20,655)** |
| | | | | | | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 23,328 | 23,979 | 24,648 | 25,335 | 26,042 | 24,967 | 25,663 | 26,378 | 27,114 | 27,869 | 18,504 | 19,020 | 19,550 | 20,095 | 20,655 |
| **23,328** | **23,979** | **24,648** | **25,335** | **26,042** | **24,967** | **25,663** | **26,378** | **27,114** | **27,869** | **18,504** | **19,020** | **19,550** | **20,095** | **20,655** |
| | | | | | | | | | | | | | | |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | | | | | | | | |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

**Appendix B – Assumptions within the Business Plan**

| | | |
|---|---|---|
| General Inflation (RPI) | | 2.5% |
| Rent Inflation (RPI+½%) | | 3.0% |
| Capital Inflation (RPI+½%) | | 3.0% |
| Right to Buy Sales per annum | | 20 |
| Void rate | | 1.9% year 1-2<br>1.5% onwards |
| Bad Debt | | 0.76% year 1<br>to 1.5% year 5 |
| Interest rate on debt | | 5.0% |
| Interest Rate on balances | | 1.0% |
| Decent Homes Grant | 2012/13 | £15m |
| | 2013/14 | £15m |
| | 2014/15 | £23.581m |

2012/13 HRA budget is baseline position
Right to Buy Useable Receipts used by General Fund
Minimum Working Balances £2m
Rent increases follow government rent restructuring formula
HRA shops transfer to general fund 1 April 2013.

**Appendix C Scenario testing**

| SCENARIO | | HRA Surplus Point (>£2m) Year | SCS Investment Backlog cleared Year | Debt Free Point Year |
|---|---|---|---|---|
| 1 | Baseline | 24 | 12 | 24 |
| 2 | RPI = 4% rather than 2.5% | 21 | 11 | 21 |
| 3 | Inflation on capital 1% > RPI | 28 | 16 | 28 |
| 4 | Inflation on capital 2% > RPI for first 10 years | 29 | 20 | 29 |
| 5 | Interest Rate 7% compared with current assumption of 6% | 27 | 17 | 26 |
| 6 | RTB sales rise to 50 instead of 13 per annum | 27 | 14 | 27 |
| 7 | Right to Buy receipts are applied to the Business Plan | 24 | 11 | 23 |
| 8 | No real ½% inflation on rents | 30 | 18 | 30 |
| 9 | Reduce level of investment to minimum Decent Homes Level | 20 | 7 | 20 |
| 10 | Debt settlement figure £6.25m higher (possible 2012/13 settlement figure) | 25 | 13 | 25 |
| 11 | No real ½% inflation on rents<br>Interest Rate 7% compared with 6% | 30+ | 26 | 30+ |
| 12 | No real ½% inflation on rents<br>Interest Rate 7% compared with 6%<br>Invest Decent Homes Level | 27 | 12 | 27 |
| 13 | No real ½% inflation on rents<br>Inflation on capital 1% > RPI | 30+ | 27 | 30+ |
| 14 | Interest Rate 7% compared with 6%<br>Inflation on capital 1% > RPI | 30 | 23 | 30 |
| 15 | Interest Rate 7% compared with 6%<br>Inflation on capital 1% > RPI;<br>Invest Decent Homes Level | 26 | 11 | 26 |
| 16 | Extra care scheme in year 5 (year 4 of self financing) £800k capital costs<br>Note as per baseline | 24 | 12 | 24 |
| 17 | Fire and smoke alarms upgrade if required by legislation. (£12.1m) Years 6-10 | 25 | 15 | 25 |
| 18 | Off street parking (£8.9m flats only @ £1,500 per property) Years 6-10 | 25 | 14 | 25 |
| 19 | External and noise insulation (£78.3m) Years 11-30 | 29 | 17 | 29 |