

CABINET

12 February 2020

Subject Heading:

**HRA Budget for 2020/2021 and HRA
Major Works Capital Programme
2020/21 – 2024/25**

Cabinet Member

**Councillor Joshua Chapman – Lead
Member for Housing**

SLT Lead:

Patrick Odling-Smee, Director of Housing

Report Author and contact details:

Patrick Odling-Smee, Director of Housing
Patrick.Odling-Smee@haverling.gov.uk

Rita Bacheta
Strategic Finance Business Partner
Regeneration and Housing
01708 432924
rita.bacheta@onesource.co.uk

Martin Fahy
Interim HRA Accountant
01708 432651
martin.fahy@haverling.gov.uk

John Price
Finance Business Partner
01708 433595
j.price@haverling.gov.uk

Policy context:

This report presents the HRA Budget recommendations for agreement by Cabinet and recommendation on to Council for consideration and approval.

Financial summary:

The Council is required to set an annual HRA Revenue Budget for 2020/21. This report includes recommendations to agree the HRA revenue spend budget, the rents and other charges, the HRA Major Works Capital programme, detailed in Appendix 1a and the Business Plan projections as outlined in Appendix 2a and 2b.

Is this a Key Decision?

Yes

Is this a Strategic Decision?

Yes

When should this matter be reviewed?

September 2020

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

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

Cabinet should note that during 2019/20 the Housing department became a new directorate reporting directly to the Chief Executive of the Council, led by a newly created Director of Housing and newly appointed senior management team.

The HRA remains a ring-fenced account that is used to manage and maintain the Council's own housing stock. The proposed budget will enable the Council to manage the stock to a good standard, maintain the existing stock to a decent standard and provide funding for a significant acquisition, new build and estate regeneration programme. It further sets rents, service charges and other charges for Council tenants and leaseholders for the year 2020/21.

As part of the new regulatory framework for local government housing services, following the Housing Green paper, councils are now subject to the Regulator of Social Housing's (RSH) Rent Standard. This has ended the annual 1% reduction that has applied for the past 4 years and re-established the CPI + 1% increase.

In order to change any HRA rent liability, the local authority must notify tenants and give 28 days' notice of any change after the authority has made a properly constituted decision of that change. This means that, following a Cabinet decision on rent levels to be charged in any year, the local authority must write to all tenants to advise them of the new rent liability for the following 12 months.

Should the Cabinet adopt the recommendations, a notification will be sent to tenants in the first week of March 2020, in order to make the new charge effective from the first week of April 2020.

RECOMMENDATIONS

That Cabinet:

1. **Approve** the Housing Revenue Account Budget as detailed in paragraph 3.6.
2. **Agree** that the rents chargeable for tenants in general needs Council properties owned by the London Borough of Havering be increased by 2.7% from the week commencing 6th April 2020.

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3. **Agree** that the rents chargeable for tenants in supported housing Council properties, such as sheltered housing and hostels, owned by the London Borough of Havering, are increased by 2.7% from the week commencing 6th April 2020
4. **Agree** the four rent-free weeks for 2020/21 as being: week commencing 19th August 2020, the two weeks commencing 14th and 21st December 2020, and the week commencing 29th March 2021.
5. **Agree** that service charges and heating and hot water charges for 2020/21 are as detailed in paragraph 2.4.2 of this report.
6. **Agree** that the service charges for homeless households accommodated in the Council's hostels in 2020/21 are as detailed in paragraph 2.6.1 of this report.
7. **Agree** that charges for Houses in Multiple Occupation (HMO) leased and managed by the Council (General Fund) are set at the LHA Single Room Rate Applicable on the 6th April 2020. See para 2.3.2.
8. **Agree** that charges for garages should be increased by 2.7% in 2020/21 as detailed in paragraph 2.2.1 of this report.
9. **Agree** that the service charge for the provision of intensive housing management support in sheltered housing for 2020/21 shall be as detailed in paragraph 2.5.1 of this report.
10. **Agree** that the Careline support charge should be increased by 2.7% for 2020/21 as detailed in paragraph 2.5.4 of this report.
12. **Agree** that the Telecare support charges should be increased by 2.7% for 2020/21 as detailed in paragraph 2.5.4 of this report.
13. **Approve** the HRA Major Works Capital Programme, detailed in **Appendix 1a** of this report and refer it to full Council for final ratification.
14. **Approve** the HRA Capital expenditure and financing for the 12 Sites Joint Venture and other acquisition and regeneration opportunities detailed in paragraphs 3.5.1 to 3.5.21 and **Appendix 1b** of this report and refer it to full Council for final ratification.

REPORT DETAIL

1. BACKGROUND

- 1.1 As reported previously to Cabinet, the Localism Act 2011 changed the financial system for the management of council housing. The new system has provided freedom and independence for the local management of council housing finance by comparison to the previous national subsidy system.
- 1.2 The new system started in April 2012, and the Housing Revenue Account (HRA) business plan is designed to provide long-term management of the Council's housing assets. The Council has freedom to direct our resources to the best and most cost effective management of the Council's housing stock. However, we do not have complete freedom – some aspects remain centrally controlled, such as the

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use of capital receipts and rent setting - as highlighted by the mandated 1% reduction in rent that has been in place for the last 4 years.

- 1.3 This report sets out what HRA income the Council has available to spend on housing, the current HRA financial position and the proposed spending plans for 2021/22.
- 1.4 The regulation of the social housing has changed as a result of the Grenfell Tower disaster and the Housing Green Paper of 2019. The Government has instructed the Regulator of Social Housing to take a more proactive role in the implementation of the standards and quality of management of council housing. In particular, they are consulting on a new Home Standard that will specify the quality and safety of local authority housing. They have also implemented a new rent standard for all social housing and issued guidance to local authorities on the implementation of this standard.
- 1.5 The Council recognises that there is a need for good quality affordable homes, especially for vulnerable residents such as the elderly, those on low income and first time buyers, and has set out its ambition to meet these needs by using resources generated through the Housing Revenue Account Business Plan. The formula for setting social rent should enable registered providers, including councils, to set rents at a level that allows them to meet their obligations to their tenants, maintain their stock (to at least Decent Homes Standard) and continue to function as financially viable organisations.
- 1.6 However, there are many influences on the resources available to the HRA. These are all identified and quantified within the HRA Business Plan (HRA BP). The Business Plan is composed of various income and expenditure lines. Some of the lines are under the complete control of the Council, whilst some are affected by market conditions, government policy and legislation.

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

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

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

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

- 1.7 The first part of the enquiry into the Grenfell Fire was released in October and the recommendations have been incorporated into the council new fire safety strategy. While it is still not clear which of these recommendations will be implemented by the government the potential costs of implementing these recommendations have been included with the capital and revenue budgets for 2020/21 and into the business plan for future years as a precaution and to ensure that we fulfil our obligations as a good landlord to maintain the safety of tenants and leaseholders.

2. INCOME

2.1 Rents

- 2.1.1 The previous Government required Councils to reduce rents by 1% against July 2015 levels for four years. This reduced the rental income available to the HRA over the four years of the reduction by just below £8m. This significantly reduced the income in the business plan model by £68m over 10 years and this loss can never be recovered. From 2020/21, the HRA will revert to the original rent setting formula of up to CPI +1% for 5 years. CPI for September 2019 was 1.7% so the rent increase for 2020/21 will be 2.7%. The council does have discretion to set a lower rent however, given the increase comes after 4 years of rent cuts, it is recommended to implement the maximum increase allowed. This provides certainty for rents in council housing up to 2025.
- 2.1.2 Following the implementation of Universal Credit new social housing rents caps at LHA levels was introduced in 2019/20 to replace "limit rents". In Havering, the LHA levels for each bedroom size is above the levels of the 2020/21 social rents and so there is no impact on the HRA BP. The LHA levels have been frozen for many years, until this year, however this will also have no financial impact on the HRA BP as council rents are below existing LHA levels. Future announcements on LHA levels may have a future impact and this will be kept under review and reported annually as part of the rent setting report.
- 2.1.3 The 2020/21 average weekly rent, applying the 2.7% increase to all General Needs properties and Sheltered Housing units is £98.51. Individually, the average weekly rent for the General Needs properties is £99.61 and £84.43 for the Sheltered Housing units.
- 2.1.4 The rent charged to hostel residents will be increased in line with new general needs rents for 2020/21 – 2.7%.

2.2 Garages

- 2.2.1 It is proposed to increase the level of charges for garages in 2020/21 by 2.7%. There are currently a range of charges for garages within the high, medium and low demand bands. Currently over one third of our garages have low rates of occupancy. This is due to a combination of poor condition and low marketability. There is significant investment needed to bring the buildings and sites up to a good standard that will enable better utilisation of these assets and increase revenue whilst at the same time improving the amenities for residents. The increased charges will enable revenue to be raised to carry out a number of much needed improvements and support a review of the garages and parking arrangements. This issue is one of our tenants' key priorities. The increase means that the average charge for a high-demand garage will be £15.34 per week (£14.94 in 2019/20), £14.29 per week £13.92 in 2019/20), for a medium demand garage and £11.12 per week (£10.83 in 2019/20) for a low-demand garage.
- 2.2.2 These charges compare favourably with charges in the private market which range from £15.63 per week to £31.25 per week depending on location, size and condition.

2.3. Temporary Accommodation Rents and Charges

2.3.1 Shared HMO Properties. The charges for HMO properties leased and managed by the council has been historically set at the one bedroom LHA (£149) rates however since the implementation of Universal Credit residents have only been able to claim the single room rate (£79.72). This has meant many residents are not able to afford to pay the charge. It is therefore recommended that the single room rate is charged from 6th April 2020.

2.4 Service charges

2.4.1 The aim of the Council is to recover the costs of providing a service. We also ensure that the services they receive are value for money. There will continue to be a regular programme of reviews of services to make sure we deliver value to tenants and leaseholders.

2.4.2 The basis for calculation of service charges to ensure full recovery of the cost of the service is accepted practice where landlords are able to fully justify the cost base and calculation method and conforms to our legal requirements. It also maintains equality of charging between leaseholders and tenants. As a result of the restructuring that took place in 2019/20 there have been a review of management overheads on service costs. This has resulted in an increase for some services however, so in order to ensure any increased are affordable to tenants, a limit of 25% has been applied to the increases on each service charge line which has followed the practice adopted in the previous five years. On that basis, the service charges and heating and hot water charges for 2020/21 are detailed in the following table:

Service Charges	2019/20 Weekly charge (£)	2020/21 weekly charge (£)
Caretaking	4.86	4.97
Internal Block Cleaning	2.85	2.74
Bulk Refuse Collection	0.60	0.71
CCTV - Mobile Service	0.76	0.76
CCTV - Static Service	1.70	1.70
Community Wardens	1.12	
HRA Enforcement Services (replacing community wardens)		1.12
Door Entry	0.35	0.32
Grounds Maintenance	4.38	4.64
TV access	1.88	1.82
Heating	6.39	5.60
Heating and Hot Water	9.89	8.99

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2.4.3 The Heating Service Charge has reduced slightly, due to the cost of fuel being lower.

2.4.4 The Council has recently undertaken consultation on changes to a new enforcement service, replacing the former community warden service. Residents have been advised that the charge will remain on the same as the previous cost as a result of the reorganisation and the service they receive from the new service will be enhanced.

2.5 Sheltered Intensive Housing Management Charge

2.5.1 The sheltered housing service directly engages with residents in schemes and in their homes. Following the modernisation programme over the last 2 years, the sheltered schemes are provided with direct intensive services and well-designed communal facilities. A recent review of service charges has shown that the service charge needs to reflect the full cost of providing the service. Therefore, charges in relation to Sheltered Intensive Housing Management service will increase from £8.83 to £11.04. This has been capped so the increase does not exceed 25% in line with previous commitments.

Service Charges	2019/20 Weekly charge (£)	2020/21 weekly charge without the 25% cap (£)	2020/21 weekly charge with the 25% cap. (£)
Sheltered Cleaning	7.00	9.81	8.75
Sheltered Intensive Housing Management	8.83	15.84	11.04

2.5.2 There are individual charges for sheltered schemes which will be levied separately so that residents will pay for services they use directly. This includes mobile scooter storage, which are lockable containers. There are several residents who do not use mobile scooters. A laundry token system will be introduced which will charge according to actual usage. Laundry facilities are based on commercial laundry equipment with renewal and replacement programmed each year.

2.5.3 Service charges – Careline and Telecare support

2.5.4 It is proposed that the Careline and Telecare service charges will be increased by 2.7% for 2020/21 as detailed below:

Service	2019/20 Weekly charge (£)	2020/2021 Weekly charge (£)
Careline – sheltered tenants	4.87	5.00
Careline – community users	5.20	5.35

Service	2019/20 Weekly charge (£)	2020/21 Weekly charge (£)
Telecare – base unit plus two sensors	7.56	7.76
Additional Telecare sensor	1.25	1.28

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2.6 Hostels in the HRA

- 2.6.1 There are two hostels in the housing revenue account. Following a review of service charges there is a need to increase the charges to ensure full cost recovery. The service incurs significant costs due to security and facilities costs across 24-hour coverage. It is proposed to limit the increase to no more than 25%.

Additional Hostel Support

Service	2019/20 Weekly charge (£)	2020/21 Weekly charge (£)
Hostels - Additional Staffing Support (ASS)	13.28	16.60
Hostels – Service Charges (HSC)	26.68	34.47

3. THE HRA BUDGET 2020/21

- 3.1 The major expenditure from the HRA Business Plan is the investment in existing stock or the capital programme. The level of expenditure is controlled by each local authority and is dependent on the investment levels in the Asset Management Strategy (AMS). During 2020/21, the council will carry out a new stock condition survey, the results of which will inform investment decisions as part of a new Asset Management Strategy.
- 3.2 As detailed in the AMS, this level of expenditure allows decent homes levels to be maintained and all health and safety requirements to be met. In order to meet the decent homes target, planned expenditure on new kitchens, bathrooms and electrical systems remain at previous levels.
- 3.3 As the main level of income to the HRA BP comes from rents, it is imperative that the number of rental properties is maximised. The current HRA BP expects to lose 65 properties per year through RTB and other stock due to regeneration. This reduces rental income by around £0.168m per year, assuming a full year loss of income per property. Rent loss will also be incurred from the loss of properties through the regeneration programme. These losses have been factored into the business plan income projections.
- 3.4 Capital funded by revenue, has reduced from £5.0m to £1.917m, in line with the Business Plan requirements.
- 3.5 It is anticipated that an additional interest payment of £0.813m will be required, to cover the borrowing level necessary to fund the 2020/21 capital investment.

3.6 Draft HRA Budget 2020/21

	2019-20 Final Budget	2020-21 Final Budget	Variance
Income and Expenditure		£	£
Income			
Dwelling rents	(45,125,040)	(46,099,240)	(974,200)
Garages	(326,280)	(326,280)	0
Charges for services and facilities - Tenants	(6,042,560)	(5,816,040)	226,520
Charges for services and facilities - Leaseholders	(1,574,340)	(1,574,340)	0
Shared ownership	(142,530)	(142,530)	0
Other	(578,080)	(859,670)	(281,590)
Total Income	(53,788,830)	(54,818,100)	(1,029,270)
Expenditure			
Repairs and maintenance	7,304,380	7,216,180	(88,200)
Supervision and management plus recharges	24,869,680	24,844,330	(25,350)
Depreciation and impairment	16,590,400	16,590,400	0
Debt management costs	47,820	47,820	0
Bad debt	665,000	665,000	0
Total Expenditure	49,477,280	49,363,730	(113,550)
Net cost of HRA services	(4,311,550)	(5,454,370)	(1,142,820)
Interest payable and similar charges	6,262,090	7,075,000	812,910
Interest and investment income	(64,810)	(64,810)	0
Surplus or deficit for the year on HRA services	1,885,730	1,555,820	(329,910)
Statement on movement of HRA balances			
Surplus or deficit for the year on HRA services	1,885,730	1,555,820	(329,910)
Capital expenditure funded by the HRA	5,000,000	1,917,000	(3,083,000)
Reversal of impairment charge	(7,285,720)	(7,285,720)	
Net (income)/Expenditure	(399,990)	(3,812,900)	(3,412,910)

3.7 Capital programme

3.7.1 12 Sites Joint Venture Funding

The remaining provisions for expenditure below relate to the 12 sites joint venture proposals. A report on the revised Havering and Wates Regeneration Joint Venture (HWR JVLLP) Business Plan and Budget 2020/2021, is presented elsewhere on this Cabinet agenda. One of the recommendations on this report is:

That Cabinet agree:

Agree and Endorse the inclusion of a budget of £121.6m equity for the scheme together with a budget of £76.4m for potential land acquisition/CPO costs within

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the proposed HRA capital programme that will be considered by Cabinet in February 2020 in the annual rent setting and Capital Strategy and Programme report and this is recommended to Council for final approval in February 2020.

- 3.7.2 The update of the HWR JVLLP business plan has significant financial implications for the Housing Revenue Account and Capital Programme.
- 3.7.3 The following summarises the potential key changes that have been incorporated into the latest refresh of the HWR JVLLP Business Plan and Opportunity Site Assessments.
- 3.7.4 **Delta Estate**
It is proposed that the development of the Delta Red Line site is withdrawn from the scope of the 12 Estates programme. The scheme was earmarked to deliver 198 units of affordable housing at a cost of £19.0m, with a gross equity requirement of £14.7m and vacant possession costs of £5.9m.
- 3.7.5 **New sites**
It is proposed that HWR JVLLP formally adopt the Napier New Plymouth Blue Line site, with a gross equity requirement of £9.0m and vacant possession costs of £19.6m to deliver 125 units of affordable housing at a cost of £19.0m.
- 3.7.6 Napier & New Plymouth House (NNP) would require the Council to fund £14.9m. This would be in the form of a grant from the HRA to HWR JVLLP. Cabinet set an allocation of £12.3m aside in February 2019. Therefore, a further uplift of £2.6m is required.
- Solar, Serena and Sunrise Estates (SSS) would require the Council to fund the value of the site £15.9m. This would be in the form of a grant from the HRA to HWR JVLLP.
- Waterloo Estates (WQS) would require the Council to fund the value of the site £14.6m. This would be in the form of a grant from the HRA to HWR JVLLP.
- It is proposed that the Council enter into contract with HWR for the demolition of Waterloo Estate, prior to meeting the Conditions Precedent as set out in the Development Agreement. The anticipated costs of demolition is up to £8.0m. This is in addition to the £4.1m set aside by Cabinet in February 2019 to bring forward the demolition of the Napier New Plymouth and Solar Serena Sunrise estates.
- 3.7.7 The current proposals for the 12 Sites require £121.6m to meet the Council contribution to the HWR JVLLP. Part of the equity would be in the form of HRA land, the net value of which is currently estimated at £4.7m (all 12 sites plus Chippenham Road), with the remaining £116.9m as cash funding. Cabinet approved an allocation of £117.9m in February 2019.
- 3.7.8 It should be noted that the Council is committed to achieving vacant possession for all 12 sites. Cabinet set an allocation of £79.9m aside in February 2019, including £20.0m for the acquisition of the land interests on the NNP blue line site.
- 3.7.9 As outlined above, an allocation of £287.7m should be set aside for the cost of acquiring the affordable housing developed by the HWR JVLLP (1,310 rented

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units). Cabinet set an allocation of £235.5m aside in February 2019, therefore an uplift of £52.2m is required.

- 3.7.10 The Council has secured £30.3m of GLA grant funding for phase 1 (the first four sites) and a further allocation of £11.4m to fund the development of Chippenham Road. On Work Packages 2, 3 and 4, it is currently assumed that grant funding would be secured on Royal Jubilee Court, Brunswick Court and Dell Court, with no assumption for grant on the remaining red line sites due to the GLA requirement for a successful tenant ballot on regeneration sites.
- 3.7.11 Grant is assumed for the blue line sites at the rates specified in the recent GLA Building Council Homes for Londoners funding prospectus.
- 3.7.12 The HWR JVLLP will develop 314 shared ownership units, with an assumption of buyers taking a 40% interest, with the exception of Solar, Serena, Sunrise, where it is forecast that HWR would yield an average receipt of 70% OMV. The Council, as freeholder, will take the residual interest at no direct cost. In effect, this value has been deducted from the valuation of the sites, when granting the build licence/lease to the HWR JVLLP.
- 3.7.13 It is intended that the HRA will purchase the shared ownership and social rent properties built by the HWR JVLLP. This will require a payment to the HWR JVLLP from the HRA of £287.7m which will be met within the HRA Revenue Budget, Capital Programme and associated business plan. It will also be necessary to make provision of £2.7m to cover the potential Stamp Duty Land Tax liabilities. In addition, the revised Solar, Serena, Sunrise proposal makes provision for 41 units of open market sale, yielding £15.2m to HWR. Given the nature of older person housing, and the relatively slow level of sales, it will be necessary to provide a longstop arrangement with HWR aside for the Council (HRA) to acquire any open market units remaining unsold after the agreed longstop date.
- 3.7.14 Bridge Close Joint Venture – Acquisition of Affordable Dwellings**
- 3.7.15 It is intended that the HRA will purchase the shared ownership and social rent properties built by the Joint Venture. This will be subject to review of the HRA Business Plan and any necessary approvals by Cabinet and/or Council of the revised Housing Capital Programme. The units will be purchased on completion. This will require a payment to the Joint Venture from the HRA of £94.7m which can be met within the HRA business plan, along with estimated SDLT costs of £4.7m. This contribution will be reflected in the updated HRA Business Plan, subject to progression of this scheme.
- 3.7.16 Regulations applying to RTB receipts allow the use of right-to-buy (RTB) receipts to fund the provision of affordable rented units – these will be used to help meet the HRA's acquisition costs in respect of this project, £6.7m. The RTB agreement with the Secretary of State allows the HRA to fund up to 30% of the costs of acquisition of social units from these receipts. In the regulations, "social" means that the units are for rental at a discount to the market rent. RTB receipts cannot be used in conjunction with GLA grant. Therefore, any units purchased with the help of RTB receipts cannot have had GLA grant used to part fund their build.

3.7.17 Acquisition of Affordable Dwellings

- 3.7.18 It is proposed that the HRA will purchase the shared ownership and social rent properties built by the North West Romford Development Vehicle (NWRDP). This will be subject to review of the HRA Business Plan and any necessary approvals by Cabinet and/or Council of the revised Housing Capital Programme. The units will be purchased on completion. This will require a payment to NWRDP from the HRA of £145.9m which will be paid from the within the HRA business plan, along with estimated SDLT costs of £5.9m. This contribution will be reflected in the updated HRA Business Plan, subject to progression of this scheme.

Grant is assumed for the blue line sites at the rates specified in the recent GLA Building Council Homes for Londoners funding prospectus. In addition, the shared ownership housing will be marketed to qualifying households. Receipts yielded from the initial disposal will augment grant funding secured to minimise the overall borrowing requirement.

3.7.19 Crow Lane Development

It is intended that the HRA will purchase 38 large family affordable homes from Hollybrook Ltd at the site at Crow Lane/Sandgate Close, Romford. The total cost of the 38 units is £15.356m, the use of right to buy receipts will reduce the cost of borrowing required for the scheme to and therefore, the net payment to Hollybrook Ltd from the HRA is £10.749m. The cost to the General Fund is £14.285m, for the remaining 44 units.

- 3.7.20 £26m over the next two years has been provided for additional acquisition opportunities that present good value for money for the HRA in the provision of affordable housing. These will each be subject to a detailed business case and formal approval.

- 3.7.21 Following the success of the scheme, with the purchase 33 properties in 2019/20, £13m has been provided for the buy-back of former council properties for use as social housing. This includes the contribution of right to buy receipts.

- 3.7.22 £13.9m over three years has been provided for to develop a new high quality welcome and assessment centre for homeless families subject to a detailed business case.

4. Major Works Budget – HRA 2020/21 – 2024/25 major works resources and proposed spend.

- 4.1 There has been considerable work carried out in the Property & Land Service to ensure that the current budget provision is sufficient to maintain the stock on an ongoing, timely basis and fulfil the Council's landlord obligations, particularly around health and safety.
- 4.2 For this year's budget setting, we have included an allocation of £0.75m for a one-off asset survey exercise to update and validate 25% of the housing stock condition data. This will enable more precise targeting of future financial investment and inform the 30-year business plan. This will also include an assessment of the need for future investment in estate and other environmental improvements.

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- 4.3 The planned maintenance programme has also taken account of the need for additional investment in the Council's plant to ensure that replacements are programmed well in advance of components such as lifts and communal boilers reaching the end of their useful life. Overall, the planned maintenance replacement programme consists of £1.018m additional re-profiled expenditure.
- 4.4 Property and Land Services are also responsible for the direct delivery of new Council housing where the Council oversees the development and building of new council homes on land owned by the HRA. A new project identified to increase unit numbers on an existing block by utilising unused loft space is included for 2020/21. £0.85m build costs with the remaining £0.1m being on-costs for surveys and professional fees
- 4.5 As well as the direct delivery of new council homes, the HRA must make an ongoing capital contribution to ensure the timely maintenance of existing council housing and fulfil landlord obligations around the health and safety of residents. Primary amongst these considerations is an effective fire safety management regime, particularly in light of the tragic Grenfell Tower fire and the requirement to meet the Homes Standard.
- 4.6 The Council has reviewed its fire risk management strategy that is supported by an ongoing rolling programme of type 4 fire risk assessments. A budget of £2.235m has been allocated for works associated with fire risk such as upgrading fire doors, door surveys and fire prevention works. This funding will support the officer resources required to carry out the rolling programme of FRAs.
- 4.7 A review of the Council's asbestos programme has identified an additional requirement for asbestos surveys to be carried out in both communal areas and individual properties to ensure that the Council's asbestos register is kept up to date. This is an additional budget requirement of £0.35m that covers removal works and surveys to support the year's capital programme.
- 4.8 Additional budget of £1.5m has been allocated for improved inspection and works for communal electrical maintenance, emergency lighting, fire alarm & lightning protection installations and upgrades to ensure we are compliance with the latest guidance and the Regulator of Social Housing's Home Standard.
- 4.9 An additional provision of £0.03m has been requested for a new vehicle for the telecare service, on top of the usual £0.05m allocation for HRA equipment upgrades.
- 4.10 An additional £0.3m for upgrades of equipment associated with Door Entry, CCTV & communal electronic doors.
- 4.11 An additional £0.45m to complete the replacement of wooden balconies to the Hitchin & Sevenoaks Close estate.
- 5. 30 year Business Plan 2018/19 to 2047/48**
- 5.1 Attached at Appendix 2a and 2b are extracts from the reworked HRA 30-year Business Plan financial model. Year 1 of the business plan is based on the 2020/21 budget.

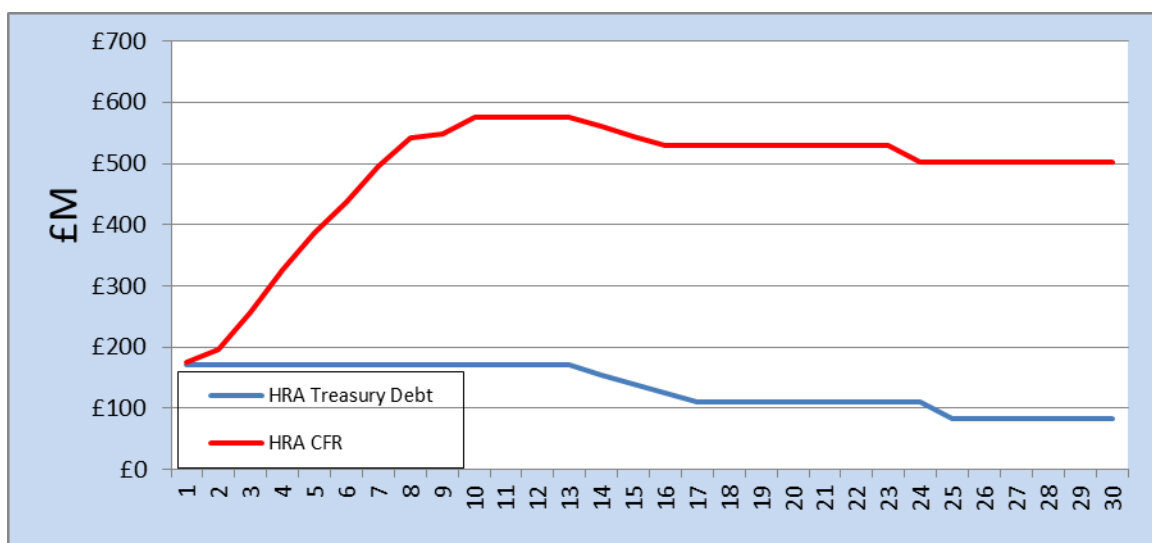
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- 5.2 The plan for the HRA is based on keeping a minimum of £10m in working balances and using current reserves above this figure to invest in the major works programme. It has been assumed that all available resources over and above those required for revenue spend, payment of interest on debt and maintaining reserves at £10m, are available for major works, for as long as the stock condition survey requires it.
- 5.3 The Business Plan projections are based on the following assumptions:
- Right to Buy of sales completed above that originally anticipated and is projected at 65 in 2020/21 reducing to 50 per year from 2021/22.
 - Majority of borrowing (self-financing debt) fixed at 3.26%
 - Rental income is based on CPI +1 for the next 5 years then CPI onwards.
 - Stock numbers based on the losses and increases according to the Regeneration programme.
 - No repayment of debt with the 30-year business plan period.
- 5.4 In October 2018 the Government announced the immediate removal of the HRA borrowing cap (from 29th October 2018). This means the Council can borrow against the HRA assets to fund new development as long as the prudential borrowing rules are followed. The Business Plan assumes borrowing of £400m over and above the current £176m treasury debt. The borrowing is against the following projects, some of which is funded by HRA reserves, land and reinvestment of capital receipts.

<u>Scheme</u>	<u>Capital £m</u>
12 Estates	336
Bridge Close	105
NW Romford	154
HRA Acquisitions Fund	20
Reactive Acquisition Fund	26
Hostel Reprovision	14
Borough (South) Development Opportunities	8
Total	663

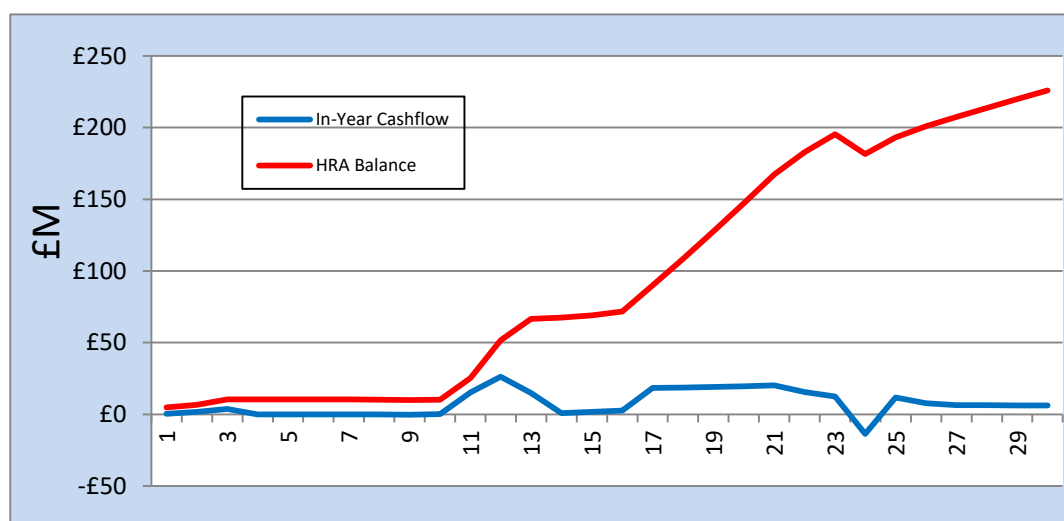
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- 5.5 The HRA continues to increase borrowing until 2027/28, at which point the debt peaks at £576m with total additional borrowing of £400m.



CFR = Capital Finance Requirement

- 5.6 From 2041/42, the HRA debt remains at £502m and the annual cost of servicing this debt is £16m against a rental income of £82m. This is because the debt is made up of long-term loans that are not repaid until after the 30-year plan. There is enough income to cover the cost of debt but to note gross debt levels are over four times the total income levels. However, it also assumed that the value of stock does exceed the value of debt with the current Red Book valuation of approximately £555m.
- 5.7 The Business Plan makes provision for the repayment of some of treasury debt to leave an outstanding balance of £82m from 2043/44. It would be prudent, in future Business Plans, once projects have been completed, to make provision to reduce debt levels. This level of debt needs to be sustainable in the long term and supported through the Council's Treasury Management policy.



- 5.8 As the graph above demonstrates the balances recover from year 11 (2028/29) and therefore it is proposed to implement a HRA debt management strategy from 2028/29 that will ensure the debt is maintained at sustainable level to deliver on-

going investment in the existing stock and the new build. The stock condition survey referred to in paragraph 4.4 will form the basis of a long term asset management strategy that will inform the investment needs of the stock in the new business plan period. Specialist business planning advice will be sought and a report brought back to Cabinet with recommendations in 2020/21.

6. CONCLUSION

- 6.1 The Self-Financing Business Plan extracts (Appendix 2a and 2b) show that the Council is able to maintain and improve its stock and provide good quality housing services over the next 5 years. The Housing Revenue Account budget, which is set out in this report is designed to maintain a good level of service, and inject further resources into a programme of major investment in the housing stock that will maintain the Homes Standard of existing housing stock and provide significant funding for wide-ranging estate regeneration programmes. The long-term implications of this investment needs to be assessed when considering the viability and affordability of future investments.

REASONS AND OPTIONS

Reasons for the Decision

The Council is required to set the housing rent, service charges and a budget in accordance with the Local Government and Housing Act 1989 and set a budget that is not in deficit.

Alternative Options Considered

There are no alternative options in so far as setting a budget is concerned. However, there are options in respect of the various elements of the budget. These are considered in preparing the budget and cover such things as the rent and service charge increases, budget growth and major works programme proposals. The rationale for the levels of investment and levels of charges are contained within the body of this report.

IMPLICATIONS AND RISKS

Financial implications and risks:

HRA Revenue

This report largely concerns the financial implications and risks concerning the setting of the HRA budget for 2020/21 and the revision of the figures for the 30-year Business Plan. The HRA is sufficiently robust to generate a minimum estimated annual working balance reserve of £10m at the end of 2020/21 and for the following 3 years.

In addition to £10m reserves on the HRA, there is a bad and doubtful debt provision of £3.328m.

HRA Investment Capital Budget

Appendix 1a sets out the Major Works Programme 2020-21. This is funded from resources available for housing expenditure, which is summarised in the table below: -

	20/21	21/22	22/23	23/24	24/25	5 yr totals
Funded By	£m	£m	£m	£m	£m	£m
Major Repairs Reserve	9.235	9.235	9.235	9.420	9.608	46.733
Right to Buy Receipts	1.460	1.460	1.053	1.053	1.053	6.079
Borrowing	41.759	68.121	60.192	52.046	57.663	279.781
Other receipts and grants	33.488	23.026	36.266	41.837	26.080	160.698
HRA Reserves	9.345	4.330	1.950	4.541	6.297	26.462
RCCO	1.917	7.424	7.527	10.685	18.033	45.586
	97.204	113.596	116.223	119.581	118.734	565.339

The capital programme incorporates the HRA capital funding requirements for the 12 Estates HWR JVLLP and sets aside sufficient capital resources to fund the acquisition of 321 affordable dwellings (30% affordable) from the Bridge Close HWR JVLLP. These commitments will require the Council (HRA) to borrow an additional £356m by the close of 2024/25.

Risks

Legal implications and risks:

Under Part VI of the Local Government and Housing Act 1989, any local authority that owns more than 200 units of housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statuteⁱ. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA.

By section 76 of the Local Government and Housing Act 1989, the Council is required in January and February each year to prepare, and make available for public inspection, proposals relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and should be designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations.

Section 76 also places a duty on local housing authorities: (a) to ensure that the annual budget for their HRA avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) if it seems that an end-of-year deficit may occur, to take all reasonably practicable steps to avoid it. The proposed HRA budget fulfils these requirements.

The report seeks approval for major investment estimates in relation to a variety of schemes. In compliance with Section 151 of the Local Government Act 1972, the Council has in place Financial Regulations and Financial Procedures that provide appropriate arrangements for the approval of major works estimates. The various major works

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schemes must be capable of being carried out within the Council's statutory powers. To the extent that the details of the schemes appear from the body of the report, it does appear that the proposed works meet this requirement. In particular the maintenance and repair of dwellings may be considered consistent with the Council's repairing obligations under Sections 9Aⁱⁱ and 11 of the Landlord and Tenant Act 1985.

The regulator may under section 194(2A) of the Housing and Regeneration Act 2008 set standards for registered providers requiring them to comply with specified rules about their levels of rent (and the rules may, in particular, include provision for minimum or maximum levels of rent or levels of increase or decrease of rent).

The Equality Act 2010 requires the Council to have due regard to the public sector equality duty when carrying out its functions and have due regard to the need to eliminate discrimination and advance equality of opportunity. They must also show they have carried out an Equality Impact Assessment in reaching such decisions as introducing charges *to tenants*.

Human Resources implications and risks:

There are no HR implications arising from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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

60% of council tenants are in receipt of Housing Benefit. The proposed rents and service charges eligible for housing benefit are within the housing benefit caps for Havering,

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therefore those in most financial hardship, which can include particular minority groups, will be protected.

The investment in new homes through the HRA will benefit those in housing need in the borough and will therefore have a positive impact on households with protected characteristics.

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

BACKGROUND PAPERS

1. *Policy statement on rents for social housing*, MHCLG 2019

Available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/781746/Policy_Statement.pdf

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Appendix 1a – Draft 2020/21 – 2024/25 HRA Major Works Capital

	20/21	21/22	22/23	23/24	24/25	5 yr totals
New Build Programme	£M	£M	£M	£M	£M	£M
New Build Programme already funded	3.708		0	0	0	3.708
Total	3.708	0	0	0	0	3.708
	20/21	21/22	22/23	23/24	24/25	5 yr totals
Stock Upkeep works to maintain standards including Major Repairs	£M	£M	£M	£M	£M	£M
Major Voids	0.450	0.450	0.450	0.450	0.450	2.250
Major Voids (Regen Moves)	0.300	0.300	0.300	0.300	0.300	1.500
Structural	0.150	0.500	0.500	0.500	0.500	2.150
Laterals & electrical risers	0.500	0.100	0.100	0.100	0.100	0.900
Emergency Lighting, Fire Alarms Upgrades, Lightning Protection	1.000	1.000	1.000	0.250	0.250	3.500
Commercial Communal Electrical Testing & Upgrades	0.060	0.060	0.060	0.060	0.060	0.300
Legionella	0.170	0.170	0.170	0.170	0.170	0.850
Fencing / Boundary Walls	0.060	0.060	0.060	0.060	0.060	0.300
Drainage/Sewers	0.050	0.050	0.051	0.052	0.050	0.253
Asbestos Work	0.650	0.650	0.650	0.650	0.650	3.250
External Redecorations	0.818	0.818	0.818	0.818	0.818	4.090
Careline equipment	0.080	0.050	0.050	0.050	0.050	0.280
Stock Condition Surveys	0.750	0.000	0.000	0.000	0.000	0.750
Aids and Adaptations	0.550	0.550	0.561	0.572	0.550	2.783
Door Entry, Satellite TV, CCTV & Automatic Doors	0.300	0.300	0.300	0.300	0.300	1.500
Total	5.888	5.058	5.07	4.332	4.308	24.656

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	20/21	21/22	22/23	23/24	24/25	5 yr totals
Stock Upkeep works to maintain standards including Major Repairs	£M	£M	£M	£M	£M	£M
Bathrooms	0.880	0.880	0.880	0.880	0.880	4.400
Kitchens	0.379	0.379	0.379	0.379	0.379	1.895
Roof Replacements	1.250	1.650	1.650	1.650	1.650	7.850
Boiler Replacements (Domestic)	1.500	1.500	1.500	1.500	1.500	7.500
Boiler Plant Upgrades (Communal)	1.200	1.200	1.200	1.200	1.200	6.000
Windows (Domestic)	0.500	0.375	0.375	0.375	0.375	2.000
Windows (Communal)	0.275	0.275	0.275	0.275	0.275	1.375
Electrical Testing & Assoc. Upgrades (Domestic)	0.800	0.800	0.800	0.800	0.800	4.000
Passenger Lift Upgrades	0.500	0.000	0.250	0.900	0.000	1.650
Kitchen/Bathrooms at Void stage (Routine)	0.270	0.270	0.270	0.270	0.270	1.350
Kitchen/Bathrooms at Void stage (Decant Voids)	0.210	0.210	0.000	0.000	0.000	0.420
Sheltered Housing Refurbishments	0.120	0.000	0.000	0.000	0.000	0.120
Total	7.884	7.539	7.579	8.229	7.329	38.56
	20/21	21/22	22/23	23/24	24/25	5 yr totals
	£M	£M	£M	£M	£M	£M
Contingency for Fire and Compliance Work	3.275	4.015	3.425	3.425	3.665	17.805
Total	3.275	4.015	3.425	3.425	3.665	17.805
TOTALS	20.755	16.612	16.074	15.986	15.302	84.729

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Appendix 1b - 2020/21 – 2024/25 HRA Regeneration and Acquisition Programme.

	20/21	21/22	22/23	23/24	24/25	5 yr totals
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<u>12 Estates</u>						
Affordable Housing (inc SDLT)	10.059	31.792	42.457	41.179	40.558	166.045
Partner Loan (Land)	0.000	0.590	1.208	0.479	0.616	2.893
Partner Loan (Cash)	10.651	22.010	16.573	7.125	11.643	68.002
NNP Gap Funding	10.695	16.034	9.746	4.262	0.000	40.738
Vacant Possession	10.812	4.219	1.677	7.841	12.086	36.635
Tenant Compensation	0.825	0.767	0.725	0.725	0.725	3.767
Demolition (NNP and SSR)	7.800	0.000	0.000	0.000	0.000	7.800
<u>Bridge Close</u>						
Affordable Housing (inc SDLT)	0.000	0.000	13.900	22.918	22.922	59.739
Acquisitions (Residential Properties)	0.000	3.009	0.000	0.000	0.000	3.009
<u>North West Romford</u>						
Affordable Housing (inc SDLT)	0.000	0.000	4.000	15.180	14.882	34.061
<u>HRA Acquisitions Fund</u>						
Affordable Housing (inc SDLT)	10.000	0.000	0.000	0.000		10.000
<u>Reactive Acquisition Fund</u>						
Affordable Housing (inc SDLT)	14.607	11.540	0.000	0.000	0.000	26.147
<u>Hostel Reprovision</u>						
Hostel reprovision	1.000	7.021	5.900	0.000	0.000	13.921
<u>Rainham Opportunity Site</u>						
Affordable Housing (inc SDLT)	<u>0.000</u>	<u>0.000</u>	<u>3.965</u>	<u>3.887</u>	<u>0.000</u>	<u>7.852</u>
Proposed Capital Programme (Including New Build and Funded Schemes)	76.449	96.982	100.150	103.596	103.432	480.609
	20/21	21/22	22/23	23/24	24/25	5 yr totals
<u>Funded By</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Major Repairs Reserve	9.235	9.235	9.235	9.420	9.608	46.733
Right to Buy Receipts	1.460	1.460	1.053	1.053	1.053	6.079
Borrowing	41.759	68.121	60.192	52.046	57.663	279.781
Other receipts and grants	33.488	23.026	36.266	41.837	26.080	160.698
HRA Reserves	9.345	4.330	1.950	4.541	6.297	26.462
RCCO	1.917	7.424	7.527	10.685	18.033	45.586
	97.204	113.596	116.223	119.581	118.734	565.339

Appendix 2a: Draft HRA Projections from Business Plan - Years 1-10, 20 and 30.

Year	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2040.41	2050.51
£'000													
INCOME:													
Rental Income	47,355	49,352	51,995	53,412	56,825	58,364	60,674	62,721	65,022	68,014	70,380	81,998	95,009
Void Losses	-1,058	-1,026	-998	-1,030	-1,098	-1,133	-1,180	-1,225	-1,272	-1,333	-1,381	-1,624	-1,900
Service Charges	8,042	8,179	8,342	8,509	8,679	8,853	9,030	9,210	9,395	9,583	9,774	11,915	14,524
Non-Dwelling Income	333	458	1,380	2,164	2,750	3,210	3,868	4,244	5,118	5,439	5,667	5,701	5,530
Grants & Other Income	381	2,223	1,343	4,905	11,184	2,581	15,524	6,977	5,295	13,749	462	564	687
Total Income	55,052	59,187	62,062	67,960	78,339	71,875	87,916	81,928	83,557	95,452	84,903	98,554	113,850
EXPENDITURE:													
General Management	-25,381	-25,817	-26,473	-27,088	-27,806	-28,486	-29,138	-29,913	-30,610	-31,434	-32,180	-39,237	-47,810
Special Management	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Management	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	-130	-134	-138	-142	-146	-149	-152	-155	-158	-161	-164	-200	-244
Bad Debt Provision*	-674	-698	-730	-744	-783	-797	-823	-841	-867	-899	-926	-1,073	-1,237
Responsive & Cyclical Repairs	-7,341	-7,430	-7,546	-7,665	-7,831	-7,982	-8,233	-8,434	-8,739	-8,995	-9,221	-11,415	-13,358
Total Revenue Expenditure	-33,525	-34,079	-34,886	-35,638	-36,566	-37,413	-38,346	-39,344	-40,373	-41,490	-42,491	-51,925	-62,648
Interest Paid	-7,075	-8,975	-10,957	-12,702	-14,305	-15,933	-16,987	-17,239	-17,830	-17,805	-17,773	-16,328	-15,359
Finance Administration	-49	-50	-51	-52	-53	-54	-56	-61	-63	-63	-65	-72	-88
Interest Received	521	584	503	450	242	176	140	121	161	343	511	1,131	1,522
Depreciation	-9,235	-9,235	-9,235	-9,420	-9,608	-9,800	-9,996	-10,196	-10,196	-10,196	-10,196	-10,196	-10,196
Net Operating Income	5,690	7,432	7,436	10,598	18,048	8,851	22,671	15,209	15,257	26,240	14,890	21,164	27,080
APPROPRIATIONS:													
FRS 17 /Other HRA Reserve Adj	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0	0	0	-463
Revenue Contribution to Capital	-1,917	-7,424	-7,527	-10,685	-18,033	-8,964	-22,891	-15,028	0	0	0	-8,715	-15,131
Total Appropriations	-1,917	-7,424	-7,527	-10,685	-18,033	-8,964	-22,891	-15,028	0	0	0	-8,715	-15,594
ANNUAL CASHFLOW	3,773	8	-91	-87	16	-113	-220	181	15,257	26,240	14,890	12,449	11,486
Opening Balance	6,685	10,458	10,466	10,375	10,288	10,304	10,191	9,971	10,152	25,408	51,648	182,899	248,721
Closing Balance	10,458	10,466	10,375	10,288	10,304	10,191	9,971	10,152	25,408	51,648	66,538	195,348	260,207

Appendix 2b: Draft HRA Capital Investment Requirement Projection from Business Plan

Year	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2040.41	2050.51
£'000													
EXPENDITURE:													
Planned Variable Expenditure	0	0	0	0	-93	-150	-406	-558	-913	-1,168	-1,358	-2,917	-3,462
Planned Fixed Expenditure	-28,735	-35,964	-31,155	-20,890	-24,854	-19,668	-25,907	-21,026	-8,895	-10,038	-10,611	-11,915	-16,663
Disabled Adaptations	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Capital Expenditure	-25,680	-20,049	-13,171	-7,687	-3,738	-3,813	-3,889	-3,967	-4,046	-4,127	-4,210	-5,132	-6,256
New Build Expenditure	-63,087	-57,582	-71,897	-91,005	-90,048	-75,750	-56,027	-48,481	-38,637	-17,254	-15,745	0	0
Procurement Fees	0	0	0	0	0	0	0	0	0	0	0	0	0
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	-117,502	-113,595	-116,223	-119,581	-118,733	-99,382	-86,229	-74,032	-52,492	-32,587	-31,924	-19,964	-26,380
FUNDING:													
Major Repairs Reserve	9,235	9,235	9,235	9,420	9,608	9,800	9,996	10,196	-8,136	9,262	-4,017	10,196	10,196
Right to Buy Receipts	1,460	1,460	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053
HRA CFR Borrowing	62,057	68,121	60,192	52,046	57,663	45,403	6,489	27,616	0	0	0	0	0
Other Receipts/Grants	33,488	23,026	36,266	41,837	26,080	30,549	44,249	19,540	59,172	22,178	34,888	0	0
HRA Reserves	9,345	4,330	1,950	4,541	6,297	3,612	1,552	599	403	95	0	0	0
Revenue Contributions	1,917	7,424	7,527	10,685	18,033	8,964	22,891	15,028	0	0	0	8,715	15,131
Total Capital Funding	117,502	113,595	116,223	119,581	118,733	99,382	86,229	74,032	52,492	32,587	31,924	19,964	26,380