Havering
LONDON BOROUGH

CABINET

17 February 2021

Subject Heading:	**HRA Budget for 2021/2022 and HRA Major Works Capital Programme 2021/22 – 2025/26**
Cabinet Member	Councillor Joshua Chapman – Lead Member for Housing
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Policy context:	This report presents the HRA Budget recommendations for agreement by Cabinet and recommendations on to Council for consideration and approval.
Financial summary:	The Council is required to set an annual HRA Revenue Budget for 2021/22. 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**

Cabinet - 17 February 2021

When should this matter be reviewed?	September 2021
Reviewing OSC	Towns and Communities

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

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

SUMMARY

This report sets a budget for the Council's Housing Revenue Account (HRA) and HRA Major Works and Capital Programme. Cabinet received a full update on the HRA Business Plan on the 16th December 2020 and a summary of the key elements is provided in this report.

The HRA is 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 and maintain the housing to a good 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 2021/22.

As part of the new regulatory framework for local government housing services, 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 2021**,** to make the new charge effective from the first week of April 2021.

RECOMMENDATIONS

That Cabinet:

1 Approve the Housing Revenue Account Budget as detailed in paragraph 3.4.

2 Agree that the rents chargeable for tenants in general needs Council properties owned by the London Borough of Havering be increased by 1.5% from the week commencing 5th April 2021.

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 1.5% from the week commencing 5th April 2021

4 Agree the four rent-free weeks for 2021/22 are: week commencing 23rd August 2021, the two weeks commencing 20th and 27th December 2021, and the week commencing 28th March 2022.

5 Agree that service charges and heating and hot water charges for 2021/22 are as detailed in paragraph 2.10 of this report.

6 Agree that charges for Houses in Multiple Occupation (HMO) leased and managed by the Council (General Fund) are set at the LHA applicable on the 5th April 2021.

7 Agree that charges for garages should be increased by 1.5% in 2021/22 as detailed in paragraph 2.7 of this report.

8 Agree that the service charge for the provision of intensive housing management support in sheltered housing for 2021/22 shall be as detailed in paragraph 2.20 of this report.

9 That Members consider the options for the Supported Housing Charge for HRA Hostels as detailed in paragraph 2.24

10 Agree that the Careline and Telecare support charge should be increased by 1.5% for 2021/22 as detailed in paragraph 2.22 of this report.

11 Approve the HRA Major Works Capital Programme, detailed in Appendix 1a of this report and refer it to full Council for final ratification.

12 Approve the HRA Capital expenditure and financing for the 12 Sites Joint Venture and other acquisition and regeneration opportunities detailed in section 4 and Appendix 1b of this report and refer it to full Council for final ratification.

REPORT DETAIL

1. BACKGROUND

1.1 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.

1.2 The regulation of 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. The Housing White Paper has set out a “Charter for Social Housing Residents” that aims to improve the way that residents engage with their landlords. The Government has also implemented a new rent standard for all social housing and issued guidance to local authorities on the implementation of this standard.

1.3 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.

1.4 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.

1.5 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.

1.6 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 In November 2020 the Government published its long-awaited Housing White paper entitled “Charter for Social Housing Residents”. The key elements of this that will impact on the HRA are:

- Building Safety and maintaining homes:
  - A strengthened role of the existing Regulator of Social Housing (RSH) in consumer regulation and safety with links to the new Building Safety Regulator.
  - Social landlords must identify a nominated person responsible for Health & Safety
  - A consultation is being launched on the fitting of smoke alarms and carbon monoxide alarms to be followed by consultation on improved measures for electrical safety
  - There will be a review of the Decent Homes Standard which may impact on the standard to which we maintain our homes.
- Regulator of Social Housing / Consumer Standards:
  - A new suite of performance indicators are proposed focusing on tenant satisfaction. Tenants must be able to compare their landlord’s performance.
  - Social landlords must also identify a senior person responsible for ensuring compliance with consumer standards
  - The “serious detriment test” will be removed and the existing cap on fines for breaches of regulations will be lifted. There will be a new code of practice on the consumer standards and inspection regime of inspections of landlords by

the Regulator every 4 years to ensure compliance. Whether these inspections will form part of a new in-depth assessment process that will include local authorities for the first time.

2. INCOME

2.1 **Rents**

2.2 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. Since 2020/21, the HRA has reverted to the original rent setting formula of up to CPI +1% for 5 years. CPI for September 2020 was 0.5% so the rent increase for 2021/22 will be 1.5%. 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.

2.3 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 2021/22 social rents and so there is no impact on the HRA BP. 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.

2.4 The 2021/22 average weekly rent, applying the 1.5% increase to all General Needs properties and Sheltered Housing units is £100.49. Individually, the average weekly rent for the General Needs properties is £101.46 and £86.01 for the sheltered housing.

2.5 The rent charged to hostel residents will be increased in line with new general needs rents for 2021/22 - 1.5%.

2.6 **Garages**

2.7 It is proposed to increase the level of charges for garages in 2021/22 by 1.5%. There are currently a range of charges for garages within the high, medium and low demand bands. 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 £15.57 per week (£15.34 in 2020/21), £14.51 per week (£14.29 in 2020/21), for a medium demand garage and £11.29 per week (£11.12 in 2020/21) for a low-demand garage.

2.8 **Service charges**

2.9 The aim of the Council is to recover the costs of providing a service. We also ensure that the services tenants and leaseholders receive deliver 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.

2.10 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. On that basis, the service charges and heating and hot water charges for 2021/22 are detailed in the following table with a comparison with the costs for the current year.

Service Charges	2020/21 Weekly charge (£)	2021/22 Weekly charge (£)
Caretaking	4.97	3.85
Internal Block Cleaning	2.74	3.80
Bulk Refuse Collection	0.71	0.96
CCTV - Mobile Service	0.76	
CCTV - Static Service	1.70	1.70
Housing Enforcement Services (incl. mobile CCTV)	1.12	1.18
Door Entry	0.32	0.32
Grounds Maintenance	4.64	4.64
TV access	1.82	1.86
Heating	5.60	5.74
Heating and Hot Water	8.99	9.28

2.11 **Caretaking, Internal Block Cleaning & Bulk Refuse Collection**

2.12 The realignment of the work of Estates and Resident Services budgets has increased the weekly rate chargeable for Internal Block Cleaning and Bulk Refuse Collection, whilst reducing Caretaking costs. This equates to a 2% increase in the weekly charge for these three combined services.

2.13 **Enforcement Services**

2.14 Housing service has completed a service level agreement with the Enforcement Service, which is subject to an annual review and will ensure that housing residents receive an enhanced service and good value for money. The proposed increase of 5% represents the first increase in three years and enables the council to achieve full cost recovery of service delivery cost.

2.15 **Communal Electricity**

2.16 From 2021/22 this charge will be applied to tenants in the same way that it has been applied to leaseholders. Charges are based on the usage and cost per block. It is estimated that the average weekly charge for tenants will be £1.36 per week.

2.17 **Sheltered Intensive Housing Management Charge**

2.18 The sheltered housing service directly supports residents in schemes and in their homes. 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 £11.04 to £13.80. This has been capped so the increase does not exceed 25% in line with previous commitments.

Service Charges	2020/21 Weekly charge (£)	2021/22 weekly charge without the 25% cap (£)	2021/22 weekly charge capped @ 20% (SC) & 25% (SIHM). (£)
Sheltered Cleaning	8.75	10.48	10.48
Sheltered Intensive Housing Management	11.04	16.00	13.80

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

2.20 It is proposed that the Careline and Telecare service charges will be increased by 1.5% for 2021/22 as detailed below:

Service	2020/2021 Weekly charge (£)	2021/2022 Weekly charge (£)
Careline – sheltered tenants	5.00	5.08
Careline – community users	5.35	5.43

Service	2020/2021 Weekly charge (£)	2021/22 Weekly charge (£)
Telecare – base unit plus two sensors	7.76	7.88
Additional Telecare sensor	1.28	1.30

2.21 These charge compare favourably with other boroughs who provide a comparable service as shown in the table below.

Borough	Careline Charge (£)
Croydon	13.70
Islington	8.54
Portsmouth	8.79

2.22 **Hostels in the HRA**

2.23 There are two hostels in the housing revenue account. Following a review of service charges we have moved to ensure that the charges meet the full recovery of costs. The service provides security and facilities across 24-hour coverage.

Additional Hostel Support

Service	2020/21 Weekly charge (£)	Full cost recovery 2021/22 Weekly charge (£)
Hostels - Additional Staffing Support (ASS)	16.60	24.90
Hostels – Service Charges (HSC)	34.47	51.70

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 carried out a new stock condition survey, the results of which have informed investment decisions in the 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 £0.172m 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 Proposed HRA Budget 2021/22

	2020-21 Final Budget	2021-22 Final Budget	Variance
Income and Expenditure		£	£
Income			
Dwelling rents	(46,149,190)	(46,480,130)	(330,940)
Garages	(326,280)	(332,080)	(5,800)
Charges for services and facilities - Tenants	(5,803,830)	(6,243,160)	(439,330)
Charges for services and facilities - Leaseholders	(1,574,340)	(1,597,960)	(23,620)
Shared ownership	(142,530)	(267,670)	(125,140)
Other	(844,140)	(844,140)	-
Total Income	**(54,840,310)**	**(55,765,140)**	**(924,830)**
Expenditure			
Repairs and maintenance	7,216,180	8,229,960	1,013,780
Supervision and management plus recharges	24,630,010	24,812,600	182,590
Depreciation and impairment	16,590,400	16,590,400	-
Debt management costs	47,820	47,820	-
Bad debt	665,000	665,080	80
Total Expenditure	**49,149,410**	**50,345,860**	**1,196,450**
Net cost of HRA services	**(5,690,900)**	**(5,419,280)**	**271,620**
Interest payable and similar charges	7,075,000	7,756,350	681,350
Interest and investment income	(64,810)	(64,810)	-
Surplus or deficit for the year on HRA services	**1,319,290**	**2,272,260**	**952,970**
Statement on movement of HRA balances			
Surplus or deficit for the year on HRA services	**1,319,290**	**2,272,260**	**952,970**
Capital expenditure funded by the HRA	1,917,000	8,000,000	6,083,000
Reversal of impairment charge	(7,285,720)	(7,285,720)	-
Net (income)/Expenditure	**(4,049,430)**	**2,986,540**	**7,035,970**
HRA balance brought forward	(9,832,421)	(13,695,608)	
Business Plan estimate of 2020/21 surplus	(3,863,187)		
Net (income)/Expenditure		**2,986,540**	
HRA balance carried forward	**(13,695,608)**	**(10,709,068)**	

3.5 Depreciation & Impairment

3.6 Depreciation is the decline in the value of assets over time due to wear and tear. The Housing Revenue Account receives an annual charge, but an adjustment is also made for the same amount to the Major Repairs Reserve. This can be used to fund capital expenditure, or to pay off debt.

3.7 Impairments are reductions/increases in the book value of capital assets, compared with their market value. In accounting for these annual entries, the Housing Revenue Account is allowed to reverse these amounts out to the Capital Adjustment Account, removing the impact on the HRA. The impairment is only realised if the asset is sold.

4. Capital programme

4.1 Sites Joint Venture Funding

4.2 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 2021/2022, is to be presented to Cabinet on 17th March 2021. One of the provisional recommendations on this report is:

That Cabinet agree:

Agree and Endorse the inclusion of a budget of £102.2m equity for the scheme together with a budget of £58.7m for potential land acquisition/CPO costs within the proposed HRA capital programme that will be considered by Cabinet in February 2021 in the annual rent setting and Capital Strategy and Programme report and this is recommended to Council for final approval in February 2021

4.3 The update of the HWR JVLLP business plan has significant financial implications for the Housing Revenue Account and Capital Programme. The gross capital requirement for the scheme is £512.3 million to deliver 1,552 units of affordable housing. HRA Borrowing for the scheme is set to peak at £304.757 million. At scheme completion, scheme borrowing is projected to fall to £269.678 million.

4.4 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.

4.5 Napier New Plymouth

4.6 In response to the adverse impact on viability linked to the first COVID 19 lockdown, Cabinet approved on 5 August 2020, the recommendation to progress the development of Napier New Plymouth as a 100 per cent Council scheme, at a cost of £57.370 million, an increase of £20.812 million over the original budget set aside for the scheme.

4.7 The 71 units earmarked for private sale by HWR LLP, are to be taken under Council ownership. These units have been provisioned for disposal as shared ownership to qualifying households, thereby increasing the affordable housing from 126 to 197 units on the scheme.

4.8 The gross budget will be funded by a combination of initial disposal receipts, grant, equity repayments from HWR LLP and borrowing. The scheme falls within the existing GLA 16-21 Affordable Housing Programme.

4.9 Farnham Hilldene, Chippenham Road, Hostel & Medical Centre

4.10 A review of the approach to regeneration in the Harold Hill area was undertaken. The review encompassed the regeneration of Farnham, Hilldene and Chippenham Road, along with the delivery of a new Hostel and Medical Centre in the area. A report detailing the outcome of the review is presented elsewhere on this Cabinet agenda.

4.11 Farnham and Hilldene, and the Hostel are to be progressed under a Council led option. Farnham and Hilldene was originally earmarked for delivery by the 12 Estates joint venture with Wates. However, following a review, including consideration of the Reprovision of the commercial offering on the site, it was determined a Council led option would present the most viable option.

4.12 A HRA capital budget of £192.817 million was approved to progress the Council led elements, Farnham & Hilldene and the Hostel, including £28.3 million to assemble the site. The medical centre would be funded from General Fund capital resources.

4.13 The review also concluded to maintain the delivery of the Chippenham Road site under the existing joint venture arrangements with Wates. A HRA capital budget of £45.139 million has been set aside to progress the development, within the dedicated HWR budgets.

4.14 The gross budget will be funded by a combination of sale receipts, grant, equity repayments from HWR LLP and borrowing. HRA Borrowing for the overall scheme is set to peak at £105.406 million. Grant is provisionally assumed for the Farnham Hilldene and Chippenham Road sites at the rates specified in existing 16-21 GLA Affordable Homes programme. However, the scheme is likely to fall within scope of the new GLA 2021-26 Affordable Housing Programme and could be subject to change.

4.15 Bridge Close – Council Direct Delivery

4.16 Cabinet approved the recommendation to acquire the interests of the private sector partner, FB BCR LLP on 16 September 2020. Cabinet subsequently approved the future delivery arrangements of the scheme on 16 December 2020. Under the approved arrangements, the Council would fund and deliver all phases of the regeneration of Bridge Close, funded via the appropriate use of the Housing Revenue Account.

4.17 The arrangements would maintain the existing plans for the scheme, which would deliver 1,070 new homes, of which up 50 per cent would be affordable. In addition, the scheme would deliver a school, health hub both of which would be funded from General Fund resources, along with commercial/retail space. The scheme would deliver up to 535 HRA affordable homes, with 106 affordable rented units, utilising 1-4-1 RTB funding. The remaining 429 units are earmarked for low-cost home ownership.

4.18 Cabinet approved the provision of a gross HRA capital budget of £431.676 million to progress the scheme, to fund site assembly, construction, and the repurposing of the existing Council investment in BCR LLP.

4.19 The gross budget will be funded by a combination of sale receipts, grant, equity repayments from BCR LLP and borrowing. HRA Borrowing for the scheme is set to peak at £234.485 million, including £11.454 million of existing borrowing transferred from the General Fund. At scheme completion, scheme borrowing is projected to fall to £110.202 million.

4.20 Next Phase Development

4.21 It is proposed that the HRA will purchase the shared ownership and social rent properties in later years. 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. A provisional sum of £152m has been reflected in the business plan in anticipation of progression of such schemes.

4.22 St Georges and Quarles

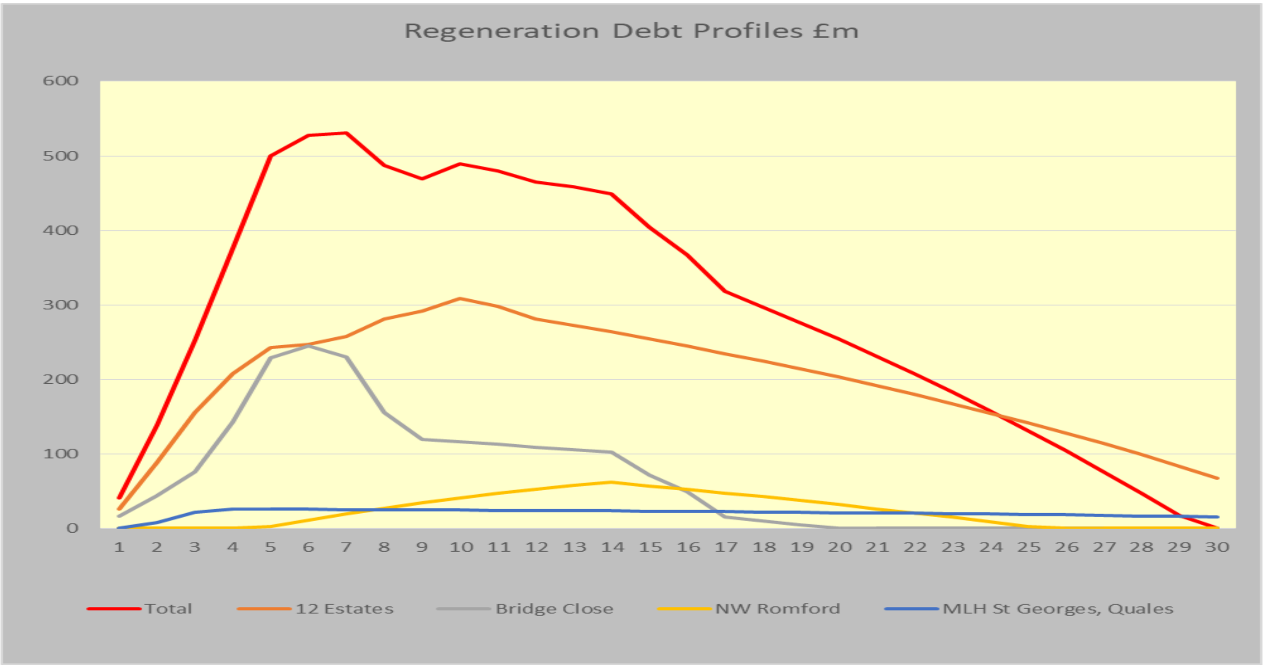
4.23 Cabinet approved the acquisition of land and properties on the St Georges Hospital site. The development would provide 36 units of affordable housing (14 affordable rent, 22 shared ownership). A gross HRA capital budget of £9.928 million has been set aside, including fees and Stamp Duty Land Tax. The gross budget will be funded by a combination of initial disposal receipts, GLA grant, and HRA borrowing.

4.24 A further £13.040 million, including SDLT has been set aside to progress the acquisition of 34 units of affordable housing on the Quarles development. The scheme would be led by Mercury Land Holdings and is incorporated in its current Business Plan. The gross budget will be funded by a combination of initial disposal receipts, GLA grant, and HRA borrowing.

4.25 Grant is provisionally assumed for the Quarles site at the rates specified in existing 16-21 GLA Affordable Homes programme. However, the scheme is likely fall within scope of the new GLA 2021-26 Affordable Housing Programme and could be subject to change.

Scheme Name	Years of deliver	No. of units	Total HRA borrowing requirements
Napier New Plymouth	2020-2023	197	£48m
Solar Serena Sunrise	2021-2023	134	£27m
Waterloo Estate	2022-2030	556	£91M
Council Buy-back scheme including regen	2020-2030		£43M
Farnham & Chippenham Road including the new Family Welcome & Assessment Centre	2022-2331	685	£105M
Bridge Close	2020-2028	535	£110M
St Georges Hospital Quarles	2020- 2024	87	£28M

4.26 The graph below shows specifically the financial impact of the various schemes to the HRA, if long-term borrowing is assumed at 2%.



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

5.1 The council has carried out a stock condition survey during 2020 to assess the investment needs of the current housing stock. This has been based on surveys of a sample of properties and the analysis of the data held on the council's asset management system. Appendix 1a sets out proposed the investment needs for the stock over the next 30 years. In principle, the investment in existing stock should be funded through revenue contributions to capital rather than borrowing as the investment maintains the value of the asset rather than creating an asset**.**

5.2 This initial 30-year plan will be used to as the basis on which to support and develop our new Asset Management strategy which will include our continued approach to Decent Homes and the impending Decent Homes 2, our approach to assessing the performance of our stock and investment decisions and the need to digitalise and future proof our properties.

It will also importantly determine our ongoing approach and commitment to providing the safest homes possible and the most energy efficient and start us on the journey to a net carbon zero housing portfolio.

5.3 The table shows spend broken down by some core themes including our statutory requirements in maintaining the Decent Homes standard for both internal elements (kitchens, bathrooms, heating etc.) and external elements (roofs, wall finished, and windows and doors), this level of spend will maintain our near 100 decent home compliance position.

5.4 Total expenditure in the stock over the 30-year plan period is £509m and this includes £18m for fire related works and £75m to reduce the carbon emissions from the stock, significant further work is continuing to determine the scope, extent and types of works are required in these areas.

5.5 We have included monies for the refurbishment of our garage sites, which will help address void issues and bring sites back into use. These monies will be used to improve the access where possible, refurbish the hard standings and improve lighting and security where possible.

5.6 We acknowledge that our housing stock does not always match the demand profile of our residents, especially in regard to larger family properties. As part of the asset management strategy being developed, we will consider how we can better match the need through active asset management and have therefore included monies to undertake extensions, infills, rooftop development or loft conversions where possible.

5.7 We have also included monies to support the refurbishment of properties to support residents moving from regeneration sites, this will support the enabling approach of the 12 sites programme.

5.8 Also included are the ongoing projects such as the estate improvement works and Hitchin Close balconies project which are all on site and will be concluded during 21/22. This includes the final phase of the sheltered housing refurbishments which will add a number of lifts to these properties, both improving accessibility for residents and improving desirability to support lettings.

6.0 Repairs, Maintenance and Compliance Budgets

6.1 We have undertaken a comprehensive review of our repairs, voids, maintenance and compliance budgets to ensure they adequately reflect current and future needs. This shows an increase in budget requirement from previous years, the growth being a reflection of changing requirements, under budgeting in previous years and programmes moving from capital to revenue.

6.2 We have included sufficient monies to continue to address our compliance regimes, both to support our current approaches and to address the future requirements flowing from the Building Safety Bill and Regulatory Reform (Fire Safety) Order, including the likely need for a bi-annual check of all fire doors and improved building safety information.

6.3 We have also included specific budgets for other compliance areas, over and above the core six areas which will help ensure we meet all of our statutory duties as a landlord and comply with the Regulator of Social Housing consumer standards. Included is the budget required for a full asbestos survey of our domestic properties which will help us with improved risk management of homes. Additionally, monies are allocated to provide third party assurance on compliance going forward.

6.4 The ongoing requirement for risk assessments, principally around fire and legionella has been included in our revenue budgets, previously these had been capitalised as they drove the initial capital works programmes to bring our properties up to the relevant requirements, going forward the required resurveys should only identify day to day repair issues.

6.5 Budgets have been included the provision of additional cyclical programmes of work, including gutter and drain clearance and cyclical decorating programmes. These programmes will allow us to proactively manage our stock and move from a predominantly responsive service to a more planned approach, which will improve the service for our customers, and provide better long-term value for money.

6.6 The addition of pro-active cyclical programmes will also ensure we minimise legal disrepair claims, reduce the cost of both managing the claims and any compensation and helping to reduce some of the inherent issues which arise when these programmes are stopped, such as leaks from guttering and damp issue, This in turn will help to reduce complaints from our customers.

6.7 We are also in the process of procuring our new repairs and maintenance contracts, which will start in late 2021. Tender prices have increased over the life of the previous contract and with the additional Covid-19 risk it is likely that we will see increased prices for the delivery of the service and this is reflected in the revised budgets.

6.8 The build-up of repairs and maintenance costs is comparable to costs of other organisation as provided by Savills and does include reasonable contingencies to reflect market uncertainties and potential legislation changes in the future.

7.0 30-year Business Plan 2020/21 to 2049/50

7.1 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.

7.2 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.

7.3 The Business Plan projections are based on the following assumptions:

- Voids and bad debts
  The assumptions of void losses at 2% and bad debts at 1.41% are consistent throughout the plan and in line with other authorities.

- Inflation
  Management, maintenance, service costs and charges are all inflated at 2% pa at the assumed CPI rate and therefore aligned with rent increases in the medium to longer-term.

- Operating costs
  Operating costs cover such items as staffing costs and responsive repairs. Havering’s costs are below average however an assumption has been made of a growth 0.5% in year 20/21 and then CPI per year with an adjustment for stock numbers.

- Stock Numbers
  As at 31st March 2020, the stock numbers were 9,128 tenanted properties. Stock loss is assumed Right to Buys losses of 65 in 20/21 and 50 pa thereafter plus 580 properties lost due to regeneration schemes. Increase in stock due to regeneration and acquisitions are based on the numbers set out in paragraph 4.25.

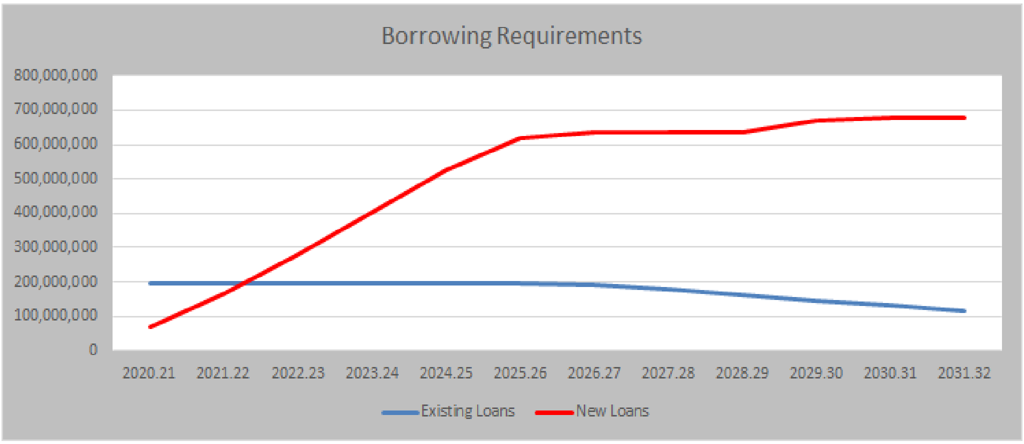
- Interest rates
  All new borrowing for development and refinancing of existing loans if they cannot be fully repaid within the plan has been set at 2.0%. At the time of writing, LBH anticipate being able to access borrowing at lower rates following the recent government consultation which proposed discounted levels if borrowing for the purposes of housing and regeneration.

- Minimum Reserve Balance
  The minimum balance for the HRA needs to be determined and the existing level of £10 million has been applied in this model.

7.4 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 £500m over and above the current £196m treasury debt. The borrowing is against the following projects, some of which is funded by HRA reserves, land and reinvestment of capital receipts.

Scheme	**Capital £m**
12 Estates	336
Bridge Close	345
Next Phase Development	20
HRA Acquisitions Fund	10
Welcome Centre	16
Total	**727**

7.5 The HRA continues to increase borrowing until 2033/34, at which point the debt peaks at £847m with total additional borrowing of £625m.



CFR = Capital Finance Requirement

7.6 From 2030/31, the HRA debt remains at £679m and the annual cost of servicing this debt is £17m against a rental income of £89m. 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 seven times the total income levels.

7.7 The Business Plan makes provision for the repayment of some of treasury debt. 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.

8 CONCLUSION

8.1 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 £3.326m.

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: -

Year	1	2	3	4	5	6
Financial Year	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26
HRA CAPITAL PROGRAMME						
Financed by...						
Major Repairs Reserve	-31,034,664	-9,304,680	-9,304,680	-9,480,294	-9,659,419	-9,842,128
RTB receipts (Allowable Debt)	-1,459,779	-1,065,039	-1,072,644	-1,080,265	-1,073,930	-1,067,468
1-4-1 receipts	-10,290,122	-5,289,929	-6,886,501	-5,938,864	-6,015,002	-4,374,861
Other receipts and grants	-45,364,338	-4,828,727	-35,208,266	-26,660,604	-62,705,592	-66,844,871
Revenue contributions	-1,917,000	-8,796,247	-3,223,267	-5,104,068	-1,874,826	-14,466,470
HRA borrowing	-68,728,849	-113,684,883	-119,044,516	-119,385,315	-123,763,767	-89,398,398
Capital financing	**-158,794,752**	**-142,969,505**	**-174,739,874**	**-167,649,409**	**-205,092,537**	**-185,994,195**

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 £523m 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 statute[i]. 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 schemes must be capable of being carried out within the Council's statutory powers. To the extent that the details of the schemes appear from the body of the report, it does appear that the proposed works meet this requirement. In particular the maintenance and repaid of dwellings may be considered consistent with the Council's repairing obligations under Sections 9A[ii] 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, 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

Cabinet - 17 February 2021

APPENDICES

Appendix 1a – Draft 2021/22 – 2025/26 HRA Major Works Capital

Works	2021/22	2022/23	2023/2024	2024/25	2025/26	Total
Decent Homes Works - Internals	£4,045,667	£4,045,667	£4,045,667	£4,045,667	£4,045,667	**£20,228,335**
Decent Homes Works - External	£3,443,299	£3,966,699	£3,390,567	£3,414,912	£3,439,744	**£17,655,220**
Environment Improvement Works	£3,094,291	£2,754,291	£2,801,291	£2,308,431	£2,315,714	**£13,274,020**
Energy Saving works	£3,025,280	£2,025,280	£4,000,280	£6,000,280	£10,000,280	**£25,051,400**
Garages and garage site Work	£1,184,142	£634,142	£634,142	£634,142	£634,142	**£3,720,710**
Residents Safety Related Works	£7,427,600	£7,598,716	£7,712,850	£7,121,459	£7,413,113	**£37,273,738**
Stock alignment	£1,217,400	£1,162,500	£1,162,750	£1,163,005	£1,150,000	**£5,855,655**
Professional Support Services	£1,075,000	£1,045,000	£1,015,000	£921,500	£921,500	**£4,978,000**
Unidentified Asset Works	£200,000	£200,000	£200,000	£200,000	£200,000	**£1,000,000**
Regeneration void costs	£500,000	£500,000	£500,000	£500,000	£500,000	**£2,500,000**
Capitalisation of Salaries	£717,000	£717,000	£717,000	£717,000	£717,000	**£3,585,000**
Leaseholder Works	£873,260	£873,260	£873,260	£873,260	£3,069,158	**£6,562,198**
Multi-Disciplinary Team	£450,000	£450,000	£450,000	£450,000		**£1,800,000**
Total	**£27,252,939**	**£25,972,555**	**£27,502,808**	**£28,349,657**	**£34,406,318**	**£143,484,276**

Appendix 1b - 202122 – 2025/26 HRA Regeneration and Acquisition Programme.

	2021.22	2022.23	2023.24	2024.25	2025.26
	£m	**£m**	**£m**	**£m**	**£m**
12 Estates Budgets					
Partner Loan (Cash)	2.796	11.601	7.614	3.927	6.293
Partner Loan (Land)	0.000	4.867	0.753	0.168	0.047
12 Estates / 10k Shared Own	9.990	6.660	0.116	0.401	0.000
12 Estates / 10k Rented	22.078	37.968	32.313	31.004	19.860
Forward Funding 12 Estates	11.256	20.889	14.603	18.047	21.367
12 Estate - Other					
Regeneration Acq (Buy Backs 12 Ests)	4.219	1.677	2.131	1.823	4.245
Tenant Compensation (12 Estates)	0.767	0.725	0.725	0.725	0.302
Demolition 12 Estates	5.403	2.451	0.000	0.000	0.000
Bridge Close					
Partner Loans (B) Cash (Bridge Close / 10k)	17.130	0.000	0.000	0.000	0.000
Forward Funding Bridge Close	5.265	27.650	74.214	115.221	81.714
Bridge Close Acquistions	7.464	16.669	0.000	0.000	0.000
Other Schemes					
HRA New Build Programme	2.986	1.150	0.000	0.000	0.000
Next Phase Development	0.000	0.000	0.000	4.068	11.416
St Georges, Quarles	3.925	6.282	2.650	0.000	0.000
Welcome Centre	2.439	8.928	4.783	0.000	0.000
HRA Acquisitions	20.000	0.000	0.000	0.000	0.000
Total HRA Regeneration Schemes	**115.717**	**147.517**	**139.902**	**175.384**	**145.244**

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Appendix 2a: Draft HRA Projections from Business Plan - Years 1-10.

Year	1	2	3	4	5	6	7	8	9	10
Financial Year	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30
HRA 30 YEAR SUMMARY										
Dwelling rents	45,699,668	46,749,905	47,169,856	48,922,770	50,936,309	55,419,977	57,513,599	60,946,930	62,982,481	64,658,749
Non-dwelling rents	326,280	332,080	338,722	345,496	352,406	359,454	366,643	373,976	381,456	389,085
Service charge income	7,390,380	7,841,120	7,997,942	8,157,901	8,321,059	8,487,480	8,657,230	8,830,375	9,006,982	9,187,122
Other income and contributions	1,002,200	1,111,810	1,727,250	5,575,589	3,296,075	15,896,539	6,877,440	8,033,070	10,780,730	14,071,041
Total income	**54,418,528**	**56,034,915**	**57,233,769**	**63,001,755**	**62,905,849**	**80,163,450**	**73,414,913**	**78,184,350**	**83,151,649**	**88,305,997**
Repairs & maintenance	7,242,350	8,540,060	8,908,277	9,554,511	9,278,878	10,150,797	10,424,529	10,735,304	10,968,243	11,185,562
Management (incl RRT)	24,861,760	25,072,100	25,622,094	26,222,450	26,953,381	27,916,069	28,731,370	29,603,230	30,339,422	31,044,342
Bad debts	656,911	665,082	471,906	489,667	506,525	552,095	569,229	603,910	624,321	641,059
Dwelling Depreciation	9,304,000	9,304,680	9,304,680	9,480,294	9,659,419	9,842,128	10,038,970	10,239,750	10,444,545	10,653,436
Debt management	47,820	47,820	48,776	49,752	50,747	51,762	52,797	53,853	54,930	56,029
Total costs	**42,112,841**	**43,629,742**	**44,355,734**	**45,796,673**	**46,448,951**	**48,512,851**	**49,816,895**	**51,236,048**	**52,431,461**	**53,580,427**
Net income from services	**12,305,686**	**12,405,174**	**12,878,036**	**17,205,083**	**16,456,898**	**31,650,599**	**23,598,018**	**26,948,303**	**30,720,187**	**34,725,570**
Interest payable	-6,994,185	-7,782,466	-10,059,352	-12,444,990	-14,838,485	-17,260,812	-18,905,337	-18,773,910	-17,921,568	-17,477,274
Interest income	468,686	528,681	605,583	548,996	465,533	289,985	437,900	449,268	570,549	466,376
Net income/expenditure before appropri	**5,780,187**	**5,151,388**	**3,424,267**	**5,309,088**	**2,083,947**	**14,679,773**	**5,130,581**	**8,623,661**	**13,369,169**	**17,714,672**
Set aside for debt repayment	0	0	0	0	0	0	0	-8,224,992	-12,311,303	0
Revenue contributions to capital	-1,917,000	-8,796,247	-3,223,267	-5,104,068	-1,874,826	-14,466,470	-4,913,012	0	0	-18,492,043
Net HRA Surplus/Deficit	**3,863,187**	**-3,644,858**	**201,000**	**205,020**	**209,120**	**213,303**	**217,569**	**398,669**	**1,057,865**	**-777,370**
HRA Balance brought forward	**9,831,671**	**13,694,858**	**10,050,000**	**10,251,000**	**10,456,020**	**10,665,140**	**10,878,443**	**11,096,012**	**11,494,681**	**12,552,547**
HRA surplus/(deficit)	3,863,187	-3,644,858	201,000	205,020	209,120	213,303	217,569	398,669	1,057,865	-777,370
HRA Balance carried forward	**13,694,858**	**10,050,000**	**10,251,000**	**10,456,020**	**10,665,140**	**10,878,443**	**11,096,012**	**11,494,681**	**12,552,547**	**11,775,177**

Havering
LONDON BOROUGH

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

Year	1	2	3	4	5	6	7	8	9	10
Financial Year	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30
HRA CAPITAL PROGRAMME										
Stock capital investment	28,935,932	27,252,939	25,873,982	27,747,598	29,709,010	36,420,664	30,222,937	30,768,440	31,394,602	32,427,128
Other Improvements	0	0	0	0	0	0	0	0	0	0
Development/Acquisition	83,060,041	73,866,511	80,058,116	42,717,995	38,020,554	40,152,502	35,606,379	39,867,601	45,297,652	45,128,624
Demolition	19,495,000	21,923,770	52,010,622	88,817,068	133,268,278	103,081,529	77,783,888	25,750,033	23,507,366	22,675,768
Other Regeneration	27,303,778	19,926,285	16,797,154	8,366,748	4,094,694	6,339,500	12,635,787	12,185,661	15,409,299	6,548,029
Capital programme	**158,794,752**	**142,969,505**	**174,739,874**	**167,649,409**	**205,092,537**	**185,994,195**	**156,248,991**	**108,571,735**	**115,608,918**	**106,779,550**
Scheduled Debt Repayment	0	0	0	0	0	0	0	0	0	0
Financed by...										
Major Repairs Reserve	-31,034,664	-9,304,680	-9,304,680	-9,480,294	-9,659,419	-9,842,128	-10,038,970	15,481,173	-6,716,790	-10,653,436
RTB receipts (Allowable Debt)	-1,459,779	-1,065,039	-1,072,644	-1,080,265	-1,073,930	-1,067,468	-1,060,876	-1,054,153	-1,047,295	-1,040,301
1-4-1 receipts	-10,290,122	-5,289,929	-6,886,501	-5,938,864	-6,015,002	-4,374,861	-2,081,962	-413,661	-432,328	-214,640
Other receipts and grants	-45,364,338	-4,828,727	-35,208,266	-26,660,604	-62,705,592	-66,844,871	-121,508,539	-122,585,094	-107,412,505	-46,108,602
Revenue contributions	-1,917,000	-8,796,247	-3,223,267	-5,104,068	-1,874,826	-14,466,470	-4,913,012	0	0	-18,492,043
HRA borrowing	-68,728,849	-113,684,883	-119,044,516	-119,385,315	-123,763,767	-89,398,398	-16,645,631	0	0	-30,270,529
Capital financing	**-158,794,752**	**-142,969,505**	**-174,739,874**	**-167,649,409**	**-205,092,537**	**-185,994,195**	**-156,248,991**	**-108,571,735**	**-115,608,918**	**-106,779,550**