13 December 2016	3 December 2016 ITEM: 7		
Housing Overview and Scrutiny Committee			
HRA Business Plan and Budgets 2017/18 Onwards			
Wards and communities affected:	ards and communities affected: Key Decision:		
All	Key		
Report of: Roger Harris, Corporate Director of Adults, Housing and Health			
Accountable Head of Service: John Knight, Head of Housing			
Accountable Director: Roger Harris, Corporate Director of Adults, Housing and Health			

## **Executive Summary**

This report sets out the current position and progress that has been made in developing a new HRA Business Plan for 2017/18 onwards and in turn the Draft HRA Budgets for 2017/18 onwards. The HRA needs to be financially viable whilst being able to continue to deliver the Council's housing priorities. There is still uncertainty around previously announced government proposals and the Housing White paper due in December should give greater clarity that will allow the HRA Business Plan and budgets to be further developed.

The continuation of the government rent reduction policy reduces the resources available in the HRA and as a result other ways of generating additional resources are being explored. The introduction of service charges for tenants would ensure tenants are contributing correctly for the services they directly receive.

A review of the housing service, including all activities funded by the HRA, is currently underway. It is anticipated that the review will identify areas where efficiencies and improvements can be made in HRA activities thereby freeing resources for reinvestment in the service.

- 1. Recommendation(s) for noting and commenting upon:
- 1.1 That the assumptions included in the Draft HRA Business Plan be noted.
- 1.2 That the Council is waiting for the Housing White paper to be published.
- 1.3 That the HRA New Build programme maximises the use of Right to Buy (RTB) Receipts in place of Homes and Communities Agency funding.
- 1.4 That growth for revenue repairs is noted.

- 1.5 That the New Capital Investment is noted.
- 1.6 That tenants be charged service charges which are currently only levied on leaseholders.
- 1.7 That an inclusive Sheltered Support Charge is noted.
- 1.8 The service review is noted.
- 2. Introduction and Background
- 2.1 The Business Plan sets out how the Council could manage all aspects of its HRA services using the income raised locally through council rents and other sources of HRA income for revenue and capital purposes. The business plan:
  - Sets out how the Council will deliver its housing commitments financially via a Self-Financing HRA
  - Lists the main financial assumptions in the plan
  - Sets out the main risks and how they will be managed

# 2.2 Base Model – Assumptions and Factors

The HRA Business Plan current Base Model reconciles to the 2016/17 HRA budget. The following assumptions are included in the Base Model in order to ensure the Business Plan is relevant and fit for purpose.

## 2.3 Revenue Budgets and Base Position

The current 2016/17 budgets are included as the base year in the plan. These reconcile to the Budget outlined in the Cabinet Report of February 2016.

#### 2.4 Inflation

Inflation has been included at 1% for salaries, 1.5% for repairs linked to contractual uplifts and 0% for all other costs across the life of the Business Plan.

### 2.5 Rents

In line with the governments rent policy a 1% reduction has been applied to all rents for 2017/18 and the following two years (2018/19 and 2019/20) with a 1% increase thereafter. Affordable rents inclusive of service charges being applied to all New Build properties are capped at 70% of market value which was agreed by Cabinet in December 2015 with new lettings post April 2016 limited to Local Housing Allowance levels.

## 2.6 **Tenants Service Charges**

In addition to the general services provided to all tenants and leaseholders councils provide a range of specific services for specific groups of dwellings – high, medium and low rise flats and other dwellings with communal facilities. These services include communal lighting (and in some cases communal heating), door entry systems, lift maintenance and maintenance for the grounds within the curtilage of the block or group of dwellings. Councils are expected to recover the costs of these services from all users but at present we only recover the charges for these services from leaseholders and not from tenants. The wider tenant body therefore subsidises these costs. The costs of providing these services is considerable, over £2m in the current financial year, and the pressures on the HRA, has brought the question of charging tenants into focus. The council should also consider the equity of charging leaseholders to reflect the costs of the service provided but not charging tenants living in the same group of dwellings and getting the same services.

Other Councils charge tenants for the costs of a range of services depending on locally delivered services via the HRA. Basildon, Havering, Barking and Dagenham and Medway all charge their tenants and leaseholders for a range of services in order to recover costs.

Service	Basildon	Havering	B&D	Medway
<b>Existing Service Charges</b>				
Caretaking	Yes	Yes	Yes	Yes
Concierge	No	Yes	Yes	No
Proposed Service Charges				
Lift Maintenance	No	No	No	No
Door Entry	No	Yes	No	No
Communal Electricity	Yes	No	Yes	Yes
Grounds Maintenance	No	Yes	Yes	Yes

The council has two main options; i) continue with the current arrangements and only charge leaseholders the actual costs of the services provided, and ii) introduce service charges for tenants as well. If introducing charges for tenants the council can do so immediately or on a phased cost or time basis.

### Option 1 – continue with the current arrangements

This option perpetuates the differential between leaseholders and tenants and accepts that the wider tenant body subsidises those living in homes with communal facilities. It also removes from the HRA the opportunity to bring in significant additional revenue at a time when the overall level of resources is reducing with the commensurate effect on service delivery.

## Option 2 – introduce service charges for tenants in one go

This option is the most fair and transparent in that all service users will pay the same charge for the same service. Service charges are eligible for the housing element of Universal Credit and those households with limited income and in receipt of benefit will be helped with the additional cost. Applying the services charges to all services users will bring in an £1.9m into the Housing Revenue Account annually to cover cost currently borne by all HRA rents.

## Option 3 – introduce service charges on a phased basis

This option partially addresses the inequity of leaseholders paying for services that tenants do not and depending on the phasing – service to be charged for, amount to be charged, timing or a combination of all three - may be more acceptable to members. It does not, however, address the issue of fairness and there will be justifiable criticism of perpetuating the current unfair system. In addition it will not cover the total costs of the service or help with the reduction in resources to the HRA. Option 3 is the recommended option.

### **Service Charges for 2017/18**

The table below shows the total cost of providing lift maintenance, door entry, communal electricity and grounds maintenance services to tenants and leaseholders in 2016/17. Of the total of just over £2.025m costs this year £60k is recovered from Leaseholders but the remaining £1.9m is not. As outlined above the costs for providing Grounds Maintenance need to be reviewed to establish we're getting value for money but the other costs are an accurate reflection of the expenditure on the service.

Service	2015/16 Actuals	Leaseholder Charges	Residual (Potential Income)
	£	£	£
Lift Maintenance	118,453	4,149	114,304
Door Entry	483,625	5,967	477,658
Communal Electricity	366,796	31,038	335,758
Sub- total	968,874	41,154	927,490
Grounds Maintenance	1,056,811	19,321	1,037,720
Grand Total	2,025,685	60,475	1,965,210

The service charges described above are all currently eligible for the Housing Element of Universal Credit. At the beginning of this financial year 48% of tenants were in receipt of full or partial housing benefit. There are currently 9,800 tenancies.

### **Charging Proposals for Service Charges**

It is suggested that service charges are phased in from 2017/18 and that a reduced service charge of £5.00 be levied on leaseholders and tenants from 2017/18 for grounds maintenance pending the establishment of actual costs. The current recharge from Environmental Services for grounds maintenance, however, is under review to establish accuracy and value for money. It is

anticipated that this review will not be complete by the time the council sets its budget for 2017/18 and therefore it is prudent to introduce this charge at a later date.

In Year 1 by introducing actual costs for three of the proposed service charges will deliver additional income of approximately £600k into the HRA and in Year 2 approximately £1.2m. Based on current costs introducing service charging fully for all the services shown above in Year 3 would bring in additional income to the HRA of circa £1.9m per annum.

### Proposed Charges 2017/18 Year 1

Service	Phased Charge  – Year 1
	£
Lift Maintenance	0.97
Door Entry System	1.11
Communal Electricity	0.71
Sub Total	2.79
Grounds Maintenance	5.00
Total	7.79

In total 3,210 tenants will be affected by the introduction of the first three new service charges shown above in Year 1 with the majority paying for two of the three service charges proposed. Approximately 58% of the 3,210 tenants are on full or partial Housing Benefit. The maximum weekly increase for a tenant not in receipt of Housing Benefit or the Housing element of Universal Credit would be £13.36. An analysis of services (Lift Maintenance, Door Entry System, Communal Electricity) provided by location indicates that there are 634 properties where one charge will apply, 1,816 where two will apply. Work is still ongoing with regard to establishing who should be paying Grounds Maintenance and how much income the interim charge in 2017/18 would generate. Whilst tenants will see an increase in their weekly service charges this will be offset by the 1% rent reduction reducing the overall impact. The average rent for tenants in 2016/17 is £86.48 and the 1% reduction will result in an average reduction in rent of 86p in 2017/18 that will partially offset any additional service charges.

Although S103 of the Housing Act allows the council to vary the rent and any service charges it may apply without formal consultation with service users, the authority, as a responsible landlord, will advise tenants of the proposed changes. It is proposed to write to every tenant in advance of the Cabinet meeting in February to outline the reasons why the council needs to pass on the costs of the services in question to the service user, the fact that these charges are covered by Housing Benefit and the Housing element of Universal Credit and the authority's aim of getting more residents actively involved in the management of their neighbourhoods.

### **Sheltered Service Charges**

The Sheltered Housing Service is focused on the provision of enhanced housing management. We have reconsidered the current charging arrangements that were introduced in 2014. Under the current arrangements a weekly "Sheltered Charge" of £8 is applied only to new sheltered housing tenants.

The current cost of the sheltered housing service is approximately £1.3m per annum. It is proposed to increase the HRA contribution by charging all Sheltered Housing tenants a weekly Support Charge towards the cost of the service. The support charge will fund the Enhanced Housing Management element of the service provision as Housing Management is covered by rent. A charge in the region of approximately £15 per week would cover costs related to delivering the service in the HRA of £900k per annum and allow the HRA to break even. 71% of Sheltered Tenants are on full or partial Housing Benefit.

Other local authorities and Housing Providers charge between £15 and £25 per week for an enhanced Housing Management Service to Sheltered tenants. Basildon Council charge £17.77 per week to all Sheltered Tenants.

It is proposed to introduce a charge to all Sheltered tenants over a phased period of between 3 and 5 years.

## 2.7 Transforming Homes

In 2015/16 the Transforming Homes outturn was £19.59m against the overall budget of £58.4m spread across the remaining 6 years of the programme. A mid-term financial review of the programme has highlighted that additional funding will be required in the region of £10.4m in order to achieve the full internal programme by 2019 and the external programme by 2021. This has been reflected in the Business Plan. There are a number of reasons for this which include:

- A number of high cost properties that have required extensive structural works such as underpinning. An example of this is a terrace of 9 properties carried out in year 1 of the programme at a cost in excess of over £500k. The unit rate for remedial works is varied because they differ significantly in scope. In the current financial year the programme will complete 15 such properties at an average unit cost of circa £21k, Based on this year's trend, we estimate that approximately 53 such properties are likely to require works over the remainder of the programme.
- High level of spend on voids requiring major works to bring them up to a lettable standard. The original budget did not consider the additional cost of voids over a standard transforming homes internal refurbishment. Over the last 3 years of the contract the cost of a void refurbishment over a standard property equates to approximately £7,800 extra for each property completed. Whilst the total spend on voids has been reducing both in terms of the number required and the unit costs, we still envisage a minimum requirement

for these will be required, this has been established as a required additional budget of £4,042,000 over the remainder of the programme to year 8.

- Higher than anticipated spend on combatting damp and mould. A £2m allowance was included for these works over the life of the programme. Following detailed surveys of the properties, the programme has exceeded this allowance by £522k. We are projecting a further £1.3m over the remaining properties, which represents a budget pressure of £1.8m on the whole programme.
- o Funding required for the energy efficiency programme. This expenditure was not originally anticipated in the Transforming homes budget. The programme has so far invested £1.6m alongside the energy company contribution which has seen 342 properties benefit from external wall insulation. Moving forward the programme makes allowance for further investment of £2m across the life of the programme for this type of energy efficiency work.
- Fire Safety Works. Under the Regulatory Reform (Fire Safety) order 2005, fire risk assessments are undertaken of the communal areas of buildings. Improvements arising as a result of these assessments have been undertaken within the Transforming homes programme alongside works for economies of scale. These work were not part of the original programme budget.
- Improvements have been made to the original specification. A number of improvements to the original specification have been made in order to comply with recent changes in electrical regulations, as well as in response to customer feedback and to reduce ongoing maintenance costs.

### 2.8 Future Capital Investment

There a number of Capital requirements outside of the Transforming Homes programme and these have not been considered as part of the £10.4m funding gap detailed above totalling £8.3m.

- Refurbishment of the non-traditional constructed properties on the Flowers Estate. An estimated cost of £4.1m is required in 2019/20) to upgrade these properties that have not previously been included in the programme.
- In addition to the above the council has a further 138 non-traditionally constructed properties which require significant refurbishment to ensure they provide fit for purpose living accommodation for a further 30 years. The estimated total cost for these works is £2.9m which would be spread across 3 years from 2017/18 to 2019/20.
- Extending the scope of works in the Transforming Homes programme to include provision/upgrade of loft insulation for the remaining street properties. Estimated cost £1.3m across the next two financial years 2017/18 and 2018/19. The Housing Investment team is also pursuing options for external funding which if secured would be targeted to retrospectively tackle properties that have not benefitted from this extended scope.

#### 2.9 New Build

There are six HRA funded, affordable Housing schemes within the HRA. Of these three are now complete. Seabrooke Rise. Bruyns Court and Bracelet Close. Three other schemes Calcutta Road, Claudian Way and Tops Club are well advanced with planning applications already submitted for Claudian Way and Tops Club. The original budgets for these have been revised during October 2016 and are included in the HRA Business Plan across three financial years 2016/17 to 2018/19 at a total cost of £27.6m against a budget of £26.8m. It is proposed that in order to reduce costs to the HRA for the remaining three HRA schemes the funding route is changed to use RTB receipts rather than HCA grant. Under this scenario the amount of HRA funding required on each scheme reduces to 60% of the total scheme cost rather than 89% as at present. It also has the benefit of making use of the RTB receipts which if not fully used within three years of receipt under the government's one-for-one replacement arrangements must be paid to the government together with interest at 4% above base rate. Sufficient unallocated RTB receipts are available.

## 2.10 Estate Regeneration

The July 2016 Housing Development Update report to the Housing Overview and Scrutiny Committee set out progress in bringing forward regeneration of housing estates. This would be where the costs of meeting the Transforming Homes standard is very high and where there is potential to bring forward better quality housing alongside enhanced public realm and local services. Work has continued to progress in developing outline proposals and a business case utilising funding and support from the HCA, with the aim of bring forward proposals in 2017. The impact of these proposals on the HRA Business Plan will be incorporated into future reports.

#### 2.11 Stock

Assumptions around the movement in HRA stock numbers are included in the Base Model. The number of RTB sales in 2015/16 was 102. A view has been taken on the level of RTB sales based on recent activity and the trend of high sales is forecast to continue over the next few years. On this basis we have assumed 100 sales from 2016/17 to 2018/19 and then 40 each year thereafter. The stock has also been adjusted to include the new build properties when they are due to be let along with a reduction linked to the sale of high value properties.

## 2.12 Headlines post 2015/16 year end

The HRA general reserves stand at £1.7m as at 1<sup>st</sup> April 2016. The minimum balance included within the Business Plan is £1.7m. There is an earmarked reserve of £634k to be used to fund the New Build capital programme. It is prudent to hold a general HRA balance of between 5% and 10% of HRA Turnover. Based on this the current minimum balance is below this threshold and would need to be £2.7m to £5.4m.

The attributable debt from RTB Sales for the first two quarters of 2016/17 is £838k, in 2015/16 this was £2.6m for the year and was used to fund the overspend on the Transforming Homes Programme. Some of this will be used to fund the completion of a Stock Condition Survey across the HRA Stock.

### 2.13 In year pressures 2016/17

The Housing Monthly Finance Monitor is forecasting a number of revenue pressures, whilst the service continues to try and manage these by way of savings across other service areas there may be an impact on the HRA Business Plan. There is also a potential pressure on Transforming Homes due to the number of Capital Voids.

# 2.14 Issues arising from government proposals

The Base Model has been updated to reflect the continuing impact of the government's rent policy and the potential impact of the proposals of the Sale of High Value voids. This will allow us to shape the HRA Business Plan, Budget and Rent Proposals for 2017/18.

### **Void and Bad Debt Rates**

The void rate used in the Business Plan is 1.5% and Bad Debt Rate is 1.6%. The impact of the benefit changes announced as part of the Welfare Reform and Work Bill, and specifically Universal Credit, will have an impact on the level of debt. Although it is difficult to model the predicted impact absolutely it is anticipated that there will be an increase in tenancy turnover with commensurate void expenditure and higher levels of bad debt as tenants' arrears increase. The HRA does not have any provision set aside to mitigate against loss of income from write-off of bad debt. It is proposed that in 2018/19 that we set aside £230k to mitigate against the fall in collection rates following the introduction of Universal Credit.

### Pay to Stay

On 21<sup>st</sup> November 2016 the Minister of State for Housing announced that the government would not be proceeding with a compulsory approach. Local authorities will have local discretion. Guidance on a local approach is not yet available.

### The impact of the forced sale of high value properties

The Housing Minister wrote to all Councils on Thursday 24<sup>th</sup> November 2016 advising them that the government would not be requesting any high value sales payments in 2017/18. The Council is still waiting for the Consultation Paper on the forced sale of high value voids from the DCLG to be published so we can accurately model the likely impact on Thurrock. Initial modelling

has been carried out based on the draft valuation thresholds and this indicates that Thurrock will have approximately 55 properties that fall into the category of high value and will have to pay a levy on these properties when they fall void. The council will be required to pay an annual levy to the Government regardless of whether it chooses to sell these properties or not. There is no policy in place regarding High Value Void sales and this needs to be considered and reflected in the Business Plan. At present we have assumed an additional levy will be paid from existing HRA Resources.

# 2.15 Growth and Savings

## **Revenue Repairs**

The financial forecast of the Revenue Repairs Team is to require growth in 2017/18 from the current level of expenditure of £950,000 to meet contractual uplift. This expenditure relates to the delivery of the responsive repairs contract with our delivery partner Mears and also the delivery of 65 other smaller contracts ensuring the housing department continues to deliver an efficient service to its residents whilst also complying with the legislative requirements on elements such as asbestos management and legionella monitoring. This base growth is forecast for the next three years to ensure the required level of investment is delivered into the asset in a planned way, this will reduce the reactive works under the responsive repairs contract and deliver value for money as well as an effective service. Inflationary uplift is already included within the HRA Business Plan and some work areas will see budgets reprofiled to meet the needs of service delivery. The table below summarises the areas where additional resources are required over and above existing budget reprofiling and inflationary uplift.

Area	£
External Maintenance	350,000
Exclusions	450,000
Boiler replacements	150,000
Total Growth	950,000

#### **External Maintenance**

One of the major programmes proposed for 2017/18 and the following two years is the delivery a new external maintenance package. Since the development of the Transforming Homes programme in 2013 external works stopped under the planned preventative maintenance delivery work streams. The original scope of the Transforming Homes programme was to include external works year on year across the borough, however with the significant

reduction in resources, whilst some external works have been delivered, this has not been to the level first planned with a majority of external works pushed back to years 7 & 8 of the programme (2020/2022). This has meant elements such as timber soffits and fascia boards with associated rain water goods and front and rear entrance doors have not had basic painting and maintenance for a minimum of 4 years. These elements are now failing and are having to be dealt with under the response repairs contract, by which time they can no longer be repaired and require wholesale replacement at a greater unit cost than if they were programmed., Ensuring our residential dwellings are maintained externally is essential when addressing one of the key drivers in the authority around damp and mould.

#### **Exclusions**

Delays and deferments in the Transforming Homes external programme have had a direct impact on the responsive repairs contract where planned works have now become reactive and as this type of work was not included in the Mears' TPC contract are delivered through the exclusions arrangements. While the overall number of exclusion repairs has reduced year on year the nature of these works has meant the level of expenditure has actually increased, primarily as a result of works requiring scaffolding and high-level access, such as roofing, pointing and flashing and rain-water goods. The planned works that will be delivered in 2017/18 and the following two years will also aid the delivery of the Transforming Homes Capital investment works when the external programme is finally delivered.

#### **Boilers**

The absence of accurate stock condition data has meant that the number of gas boiler replacements was underestimated. The authority must replace defective boilers when identified and the additional cost must be met. The proposed stock condition survey will provide accurate data for future forecasting from next September.

#### 3.0 Overall Outlook and Position

- 3.1 Based on the current assumptions included in the Plan with further items to be considered and modelled over the next few weeks:
  - HRA Balances increase minimally each year (mainly due to no inflation being assumed on general budgets)
  - The HRA Borrowing Capacity in reached in 2018/19
  - The HRA New Build programme ceases in 2018/19
  - Transforming Homes completes in 2020/21

#### 4. Reasons for Recommendations

4.1 The report sets out the implications for the HRA for 2017/18 onwards. The proposals put forward have been calculated and assessed in line with affordability consideration and regard for reserve levels. It is essential that a balanced budget is set for the HRA. This is a legal and operational requirement.

## 5. Implications

#### 5.1 Financial

Implications verified by: Julie Curtis

**HRA** and **Development** Accountant

Financial implications throughout the report.

## 5.2 Legal

Implications verified by: Martin Hall

**Housing Solicitor/Team Leader** 

The Council has a legal requirement to review the Housing Revenue Account and ensure that it does not go into deficit. In addition, determinations made under the Local government and Housing Act 1989 prescribed what can be charged to the HRA and the calculation of those charges.

### 5.3 **Diversity and Equality**

Implications verified by: Rebecca Price

**Community Development Officer** 

The HRA Business Plan and budgets for 2017/18 onwards reflect the Council's policy in relation to the provision of social housing with particular regard to the use of its own stock. In addition to the provision of general housing, it incorporates a number of budgetary provisions aimed at providing assistance to disadvantaged groups. This included adaptations to the stock for residents with disabilities.

## 6. Appendices to the report

• Draft HRA Business Plan Dashboard 2017/18 Onwards

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Corporate Finance