

MUNICIPAL YEAR 2017/2018 REPORT NO. 146

MEETING TITLE AND DATE:

Cabinet 14th February 2018
Council 21st February 2018

REPORT OF:

Chief Executive and Executive Director
of Finance Resources and Customer
Services

Agenda – Part: 1

Item: 7

Subject:

Housing Revenue Account (HRA)
Business Plan Budget 18/19, Rent Setting and
Service Charges

Wards: All

Key Decision No: 4586

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1. EXECUTIVE SUMMARY

- 1.1 This report sets out the proposed HRA 30-Year Business Plan, the detailed HRA Revenue Budget for 2018/19, the five-year Capital Programme and Right to Buy (RTB) One for One Receipts programme (2018/19 to 2022/23).
- 1.2 It also presents the levels of rents, service charges and heating charges to be operative with effect from 2nd April 2018 for HRA Council Tenants and Leaseholders.

2. RECOMMENDATIONS

- 2.1
 - a) Cabinet approve and recommend to full Council the HRA 30-Year Business Plan
 - b) To approve the detailed HRA Revenue Budget for 2018/19
 - c) To approve the HRA Capital Programme and RTB One for One receipts programme 2018/19 to 2022/23
 - d) To note the social and affordable rent levels for 2018/19 for HRA.
 - e) To approve the level of service charges for 2018/19 for those properties receiving the services
 - f) To note the heating charges for 2018/19 for those properties on communal heating systems and the change in procuring the Landlord electric contract
 - g) To approve the proposals for increases in garages and parking bay rents

3. BACKGROUND

3.1 This report is presented to Cabinet on annual basis for the following reasons

- a) To ensure that a balanced 30-Year HRA Business Plan is approved by Council
- b) To ensure that the HRA Budget is set by the Council and that this budget does not put the HRA into deficit
- c) To set the affordable and social rent and service charge levels for HRA properties. This decision must be taken early enough for the tenants to be advised of the change at least 4 weeks prior to the date of that change.

3.2 In 2015 the Government announced a change to Social Rent policy. 2018/19 will be the third year of the 1% rent reduction which was agreed over four years and its impact has been factored into the 30-Year Business Plan and budget setting.

3.3 In October 2017 the Government announced that from April 2020 local authorities would be allowed to increase rents by CPI+1%. The impact of this announcement has been included in the Business Plan assumptions and sensitivities.

3.4 Below are the key points for Housing following the 2017 autumn budget announcements:

- HRA caps can be lifted in areas of high demand to get councils building. Local authorities will be invited to bid for increases in their caps from 2019-20, up to a total of £1 billion by the end of 2021-22.
- An additional £15.3bn of new financial support will be made available in total from the policies below for housing, creating a total of at least £44bn of capital funding over the next five years
- The Budget confirms the extra £2bn promised by the Prime Minister in October for the Affordable Homes Programme.
- An additional £1.5bn will be put forward for the Home Building Fund to support SME builders.
- £630m small sites fund – to unlock 40,000 homes through investment in infrastructure and remediation.
- £400m of loan funding will be made available for estate regeneration

The full details haven't yet been published so at present it's not clear what funding if any will be available for Enfield. These developments will be kept under review during 2018-19.

3.5 In the Governments November 2016 Autumn Statement, it was announced that two of the provisions in the Housing & Planning Bill, which would have a direct impact on the HRA 30-year Business Plan would not happen in 2017/18. A subsequent announcement confirmed that the 'Pay-to Stay' policy would no longer proceed but that the requirement for local authorities

to sell Higher Value Assets would be deferred and further details announced in 2018/19. This remains a high risk to the Business Plan.

Enfield's response to Grenfell Tower

Since the Grenfell Tower disaster in June 2017, Enfield has been working closely with London Councils and the London Fire Brigade (LFB) to ensure minimal fire risk to the residents in the borough. The following actions have been taken:

- The Council has decided to install sprinkler systems in all high rise stock. £8.4m has been built into the Capital programme and installation will be complete in all high rise blocks within the next two years.
- Dry risers will be installed in 13 blocks that don't have this facility, to assist the LFB in the event of a fire
- A programme has been developed to install emergency lighting on stairwells where previously there has been none. A 5 year programme is in place to install this lighting, as an interim, photoluminescence escape lighting is being installed and is already in place in more than half of the blocks. The LFB are content with this solution
- The Council has written to the DCLG to seek additional funding for the above measures and is awaiting a response
- A review of the Fire Safety policy has been carried out to focus on refuse chutes and security grilles. London Fire Brigade has recommended that security grilles in our blocks are removed and chutes are closed.
- Structural Integrity Works have been carried out in high rise blocks with a Gas supply. This work was recommended following the collapse of Ronan Point in Newham in 1968 but it was found recently that some London boroughs had not undertaken the works. Enfield was believed to have carried out the works at the time of the recommendation but records are inconclusive. Inspections by structural engineers to confirm this are being undertaken and have so far confirmed the completed works in 28 out of 30 blocks. Checks are being completed on the remaining two blocks.
- Installation of new modern fire alarms is being completed which will enable the Council to remotely check alarms.

These additional works have cost £1.3m in 2017-18, with future costs estimated to be £8.5m. The major works programme has been re-profiled to enable Enfield to fund these works. This has had a significant impact on the Business plan which is currently close to the debt cap and reserves at a minimum. No additional funding has been received from Government.

4. HRA 30-YEAR BUSINESS PLAN

4.1 The overarching assumptions in the HRA Business Plan are as follows:

ASSUMPTIONS

Item	Assumption	Information
Inflation on supplies and services	3% Consumer Prices Index (CPI) increase per annum	In line with rent increases
Salaries	3% Pay Award	In consultation period
Rent – Existing council housing tenants	Reduced by 1% for a further two years (18-19 & 19-20) and then (CPI) plus 1% assumed from 2020/21	CPI is assumed at 3%
Rents - Council new build affordable homes	Reduced by 1% for a further two years (18-19 & 19-20) and then (CPI) plus 1% from 2020/21	Affordable Rent Policy approved at Cabinet dated 19.10.16
Repairs & Maintenance cost increases	3% Building Cost Index (BCI) increase per annum	
Capital Programme – Major Works	Annual amounts based on the updated estimated cost of replacing components, kitchens, roofs, windows, bathrooms etc. in the year that they fall due for replacement	From 19-20 budgets will be set based on the updated Asset Management Strategy
Fire Safety Works	Based on estimated costs of additional fire safety works including installation of sprinklers in all high rise blocks	All costs budgeted for included in the capital programme
Capital Programme – Estate Renewal	Costs of current Estate Renewals included in the Business Plan based on the latest capital monitoring information.	
RTB Sales	150 for 2018/19 100 from 2019/20 to 2021/22 then 60 from 2022/23 onwards	In the 2017/18 Rent Setting Report it was assumed that sales would reduce due to market prices rendering the RTB less affordable. This is not the case and sales have increased. The RTB sale assumptions in the Business Plan have been revised
Operation of the Governments RTB One for One Replacement scheme.	The Council will operate the scheme without returning receipts to the Government. The RTB receipts are currently match funded by the HRA on a 30/70 basis. In 2017/18 £1.2m was match funded by a registered provider who received grant from the Council to provide new affordable housing.	It is assumed that once the Registered Provider, Red Lion, is established by the local authority future receipts will be allocated for development of new homes in exchange for nomination rights in perpetuity

Interest rate on borrowing	5.5% on existing debt 3.48% on self -financing debt 3.5% on new debt	Reflects actual debt costs and estimates from Treasury Management
Interest rate on balances	0.2%	Estimated 7-Day London Inter Bank Bid (LIBID) rate
Repayment of Debt	The loan principal will be paid back in full when it falls due. Interest is charged annually over the life of the loan.	Previous Business Plans paid back a loan principal within the 30 -year plan. Due to interest premiums charged by PWLB it is more beneficial to wait for the maturity date.

4.2 SENSITIVITIES

The potential changes (sensitivities) which have the biggest impact on the HRA 30-Year Business Plan are; Rent levels, RTB Sales and increasing the debt cap. The following scenarios have been modelled:

The Government has agreed that rents will increase from 2020-21 by CPI +1%. The current CPI projection from 20-21 is 2% which over 30 year assumes £2,481m rental income. If CPI increased by 1% this would create additional income of £397m for the life of the business plan. If CPI was to reduce by 1% it would reduce rental income by £331m.

The current projection for RTB sales shows 150 predicted sales in 18-19 – if RTB sales were to increase further to 200 sales in 18-19 this would decrease the expected rental income (revenue balance) by £587k and increase the contribution to provide funding to Registered Providers by £19.5m. There are currently no available HRA resources to match fund RTB receipts from Q2 18-19.

Raising the Debt Cap by 10% - will give the HRA headroom £19.8m. This could be used in a variety of ways, for example, match fund RTB receipts, new estate renewal schemes or increase capital programme. Alternatively this could also assist in reducing the borrowing requirement and reduce interest payments.

As part of the service charge review it has been identified that the HRA is subsidising some services for tenants and leaseholders. The under-recovery is c. £1.2m. If service charges were fully recovered this would create headroom of £6.4m in the next 5 years and £48m for the life of the plan.

5. 2018/19 BASE BUDGET

5.1 The table below sets out the base budget for 2018/19 compared to 2017/18 figures.

Category	2017-18 Budget £000's	2018-19 Proposed Budget £000's	Reason for difference
Bad Debt Provision	964	1,392	The provision has been increased to reflect the expected increase in debt due to the implementation of Universal Credit
Corporate & Democratic Core	319	319	
Cost of Capital	8,492	8,495	
Depreciation	13,730	13,311	The amount set aside for depreciation is expected to reduce due to the reduction in property numbers held in the HRA
Interest on Balances	-147	-114	The amount of interest receivable is expected to reduce due to a reduction in interest rates
Rent Rates and other Charges	529	554	Increase in council tax on void shops
Rents Dwellings	-56,597	-56,339	The income from rents has reduced by £582k as a result of the 1% rent reduction and loss of properties through RTB. This has been partially offset by an increase in service charge income from tenants arising from the service charge review
Rents Shops/Commercial	-2,401	-2,276	Decrease in shop rental income due to voids
Repairs and Maintenance	12,894	12,930	Increase due to pay award
S&M General & Special	18,182	19,424	Increase due to additional IT costs (one off in 18-19), additional recharge costs, pay award and a provision for redundancy costs. These increases have been partially offset by efficiency savings from a review of Communal Services
Service Charges	-4,302	-4,555	Increase in service charge income from leaseholders arising from the service charge review
Self Financing Contribution	9,136	7,829	Balance the Housing Revenue Account
Non Dwelling Rents	-797	-969	Private garages for hire charges have increased resulting in additional income
Grand Total	0	0	

5.2 EFFICIENCY SAVINGS

Following a review of Communal Services, efficiencies have been identified which has resulted in a budget reduction of £333k.

Efficiency reviews are being undertaken within other departments in Housing and it is envisaged that more savings will be identified as a result.

6. CAPITAL FINANCE AND PRUDENTIAL CODE

- 6.1 The Prudential Code for Capital Finance requires the authority to have regard to affordability, prudence and sustainability when considering its capital investment plans and to set and keep under review a range of prudential indicators. In December 2017 the prudential code changed and It is recognised that indicators of affordability are best determined in the light of local constraints around precepts and ring-fenced and statutory funds such as the HRA and Police Fund. Authorities are encouraged to use local indicators that reflect how capital finance is permitted to be financed locally. For example for those authorities with a HRA, the ratio of financing costs to revenue budget should be calculated within the HRA ring-fence and an impact on rents calculated.
- 6.2 The General Fund Budget report for 2018/19 elsewhere on the agenda sets out the background to the prudential code and shows the indicators for the HRA and the General Fund.
- 6.3 As part of the self-financing determination, the government imposed a cap on HRA borrowing. This relates to the valuation calculation as determined by the self-financing model. The cap for this Council is £198.015m. Actual borrowing at the end of 2017/18 is estimated to be £157.728m.
- 6.4 In order to balance the Business Plan, it has been assumed that £32m of borrowing will be required over the next two years. This will take the HRA borrowing requirement to £190m, leaving £8m headroom. Increasing borrowing to this level will be subject to review.

7. CAPITAL PROGRAMME

- 7.1 The table below sets out the overall capital expenditure planned for the next five years. The programme is broken down into four areas detailed below.

HRA 5-YEAR CAPITAL PROGRAMME

	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's
Major works to the stock	33,652	18,799	20,253	18,357	18,752	109,813
Estate renewal Schemes	32,158	22,756	6,108	4,339	1,746	67,107
Non-Estate RTB projects match funded with HRA resources	9,802	2,600	0	0	0	12,402
RTB Projects match funded outside of the HRA	4,195	8,672	15,623	12,019	7,703	48,212
TOTAL	79,807	52,827	41,984	34,715	28,201	237,534

- 7.2 The 5 year capital programme totalling £237m will be funded as follows:

Funding	£000
Major Repairs	67,490
Grants	1,698
RTB One for One Receipts	52,311
Capital Receipts	39,046
Revenue	44,032
S106	957
Borrowing	32,000
Total	237,534

7.3 The most recent monitor (Quarter 3) shows that the total capital expenditure for 2017/18 is estimated to be £76.8m.

7.4 Major works to the Stock

The table below shows the programme across the five years. The level of ongoing investment is significantly lower than in previous years, because a catch-up programme to replace components which were overdue for replacement has now been completed. This means that there is less backlog and better information about individual assets and investment requirements. In addition, replacing components with better quality materials will prolong the useful life and save money in the long term.

Programme	2018-19	2019-20	2020-21	2021-22	2022-23	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Osward Newdales	2,239					2,239
Cheshire Shropshire		5,942				5,942
Chiltern			2,373			2,373
Enfield Rd	841					841
Merryhills				402		402
Lyndhurst Ermine Beverley				885		885
Rendle Tenniswood				421		421
Small Blocks				415		415
Ordnance					792	792
Beale Siver Strand					1,290	1,290
Small blocks and kenwood					194	194
St Marys Dawson					353	353
Outborough			5,240	4,722		9,962
House, & Flat Internals	9,255	7,876	7,450	8,259	12,540	45,380
Lifts	540	0	283	872	1,191	2,886
Sprinklers	3,093	2,589	2,472	0	0	8,154
Cfwd existing schemes	14,859					14,859
Total	30,828	16,407	17,818	15,977	16,362	97,392
Staff Capitalisation @ 3%	925	492	535	479	491	2,922
Minor works	1,900	1,900	1,900	1,900	1,900	9,500
Total Budget	33,652	18,799	20,253	18,357	18,752	109,813

7.5 Estate Renewal Programme

In addition to works to the stock it is anticipated that £67.1m will be spent on the estate renewal programme over the next 5 years. This figure is reflected in the Business Plan and a list of schemes and budgets is shown below:

Scheme	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Alma	17,959	19,891	3,492	4,038	1,491	46,870
Ladderswood	230	360	2,282	0	0	2,872
New Avenue	2,766	2,505	333	301	255	6,161
Small Sites 1	10,019	0	0	0	0	10,019
Perrymead, Padstow and Hedgehill	1,184	0	0	0	0	1,184
Total	32,158	22,756	6,108	4,339	1,746	67,107

These figures represent gross expenditure as included in the latest housing capital monitor. If there are any underspend on the projects in 2017-18, these resources will be carried forward to 2018-19.

7.6 RTB One for One Replacement Receipts and Expenditure

A number of estate renewal schemes have used some of the RTB One for One Replacement Scheme receipts as part of their funding. This has enabled the Council to retain the receipts.

In the next 5 years the receipts will be used to fund estate renewal schemes, buying properties to add to our current stock and funding Registered Providers to assist in either developing sites or acquiring properties. The benefit of funding Registered Providers is that there is no obligation for the HRA to match fund and avoids repayment of receipts plus interest.

Additionally, the Council is in the process of establishing a Registered Provider known as Red Lion Homes who will develop new projects with an option of utilising RTB One for One receipts.

The table below sets out the RTB programme for the next 5 years:

Scheme	2018-19	2019-20	2020-21	2021-22	2022-23	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Buying Properties (within borough)	9,802	2,600	0	0	0	12,402
Non Estate Renewal Projects Match funded from the HRA	9,802	2,600	0	0	0	12,402
Payments to Registered Providers	950	950	0	0	0	1,900
Payment to Red Lion Homes RP	3,245	7,722	15,623	12,019	7,703	46,312
Projects Match funded outside the HRA	4,195	8,672	15,623	12,019	7,703	48,212
Total	13,997	11,272	15,623	12,019	7,703	60,614

8. Red Lion Housing - Registered Provider

- 8.1 In March 2015 Cabinet approved a report setting out a number of options that the Council had for delivery of the Government's Right to Buy (RTB) One for One Replacement Scheme. One of the options that Cabinet approved was to seek advice from consultants on alternative Registered Provider (RP) models or consortiums that would enable a quick delivery model for affordable housing.
- 8.2 Funding under the scheme can be used to fund 30% of scheme costs for properties that are either acquired or developed. This applies whether it is the Council or an RP undertaking the role. The financial difference between the two approaches is that if the Council undertakes the development then it has to provide the 70% 'match funding' from HRA resources whereas an RP would be providing this itself (for these initial scenarios this will likely be from loan or investment funders).
- 8.3 The RP route therefore saves the HRA costs through not having to provide the match funding. The HRA does not receive rental income itself as all properties developed will be within RP's portfolio. Red Lion Housing was registered with Companies House in May 2017.
- 8.4 A report to future Cabinet is being prepared and sets out proposals for the identification of potential sites mainly within the HRA that can be sold to RLH to help it achieve its development target. In addition to this the Council will support RLH as an acceptable body to receive S.106 funding.
- 8.5 RLH will provide the Council with 100% lettings in perpetuity, allowing for management transfers. Allocations will be via the Council's CBL system. Tenants will not have the right to buy and will be granted five-year fixed term, renewal tenancies.
- 8.6 It is proposed that Red Lion Homes will develop schemes which will contain a mix of units, these will include both affordable and private units. This approach is in line with the development strategy of the Council and Registered Providers. It is intended that the RP will charge affordable rents. This may be subject to approval by the GLA as without it is expected that RPs charge social rent levels. The Council will seek a legal agreement with Red Lion Homes that affordable rents, where applied, will be set at the same levels as those in Enfield Council's Affordable Rent Policy.

9. HRA Balances

- 9.1 The estimated position on balances is set out below:

HRA BALANCES

	Balance at 31/03/2017 £m	Movement in 2017/18 £m	Estimated balance as at 31/03/18 £m
HRA General Balances	9.13	-0.24	8.89
Repairs Fund	6.77	0.05	6.82
Major Repairs Reserve	14.71	-0.50	14.21
Capital Reserve	13.90	-6.00	7.90
RTB one for One Receipts	25.01	-8.07	16.94
RTB Usable Receipts	-2.31	2.31	0.00
Non RTB Receipts	1.78	0.50	2.28
Total	69.00	-11.95	57.05

9.2 It is considered prudent to retain at least £6m in general balances given the risks and uncertainties associated with running a business of this size.

9.3 In addition to the above reserves, a bad debt provision of £1.4m is assumed at 31st March 2018. This has been increased in 18-19 to reflect anticipated increase in arrears due to the introduction of Universal Credit. The adequacy of this amount will be reassessed at the end of the financial year to reflect the level of rent arrears.

10. PROPOSED RENT CHARGES FOR HRA PROPERTIES FOR 2018/19

10.1 Following the Welfare Reform and Work Bill in 2015 the council are required by law to reduce rents by 1% per annum for four years commencing in 2016/17.

The table below shows examples of the rents for 2018-19 for different types and sizes across the borough. It should be noted that these will vary for each tenant. The new rents will be operative from 2nd April 2018 (the first Monday in the month)

Property Type	Average Rent 2017-18	Average Rent 2018-19	£ Decrease	% Decrease
Bedsit	82.39	81.56	0.82	1.01%
1 Bed Flat	87.33	86.46	0.87	1.01%
1 Bed House	98.84	97.86	0.99	1.01%
2 Bed Flat	96.48	95.51	0.96	1.01%
2 Bed House	109.94	108.84	1.10	1.01%
3 Bed Flat	106.83	105.76	1.07	1.01%
3 Bed House	120.44	119.24	1.20	1.01%
4 Bed Flat	113.37	112.24	1.13	1.01%
4 Bed House	125.56	124.30	1.26	1.01%
5 Bed House	138.02	136.64	1.38	1.01%
6 Bed House	159.75	158.15	1.60	1.01%
Average	100.85	99.84	1.01	1.01%

*Average rent is adjusted to reflect the removal of properties under RTB

10.2 In the 2015-16 Rent Setting report it was agreed that all future void properties will be re-let at target rent. This enables the HRA to maximise rental income.

10.3 In October 2016, Cabinet agreed affordable rent levels to apply to all New Homes built or acquired by the Council.

The rents are based on Local Housing Allowance (LHA) rates and median income in Enfield.

These rents have been reduced by 1% as follows:

Bedroom size	2017-18	2018-19
1 bed	160.00	158.40
2 bed	194.00	192.06
3 bed	211.00	208.89
4 bed	226.00	223.74

*The rent charges are inclusive of service charges

11. PROPOSED SERVICE CHARGES 2018/19

11.1 It is recommended that the following service charges are made to those tenants in receipt of the services below

PROPOSED SERVICE CHARGES – TENANTS

Service	2017/18 £	Proposed 2018/19 £	Change £	Reason for change
Concierge	11.23	11.56	0.33	Contract inflation - contract under review
CCTV Internal Cameras	1.40	Average 1.20	-0.20	A review of cameras has being undertaken as part of the service charge review. Costs are allocated based on camera location
CCTV External Cameras	0.84	Average 0.76	-0.08	
Grounds Maintenance	1.89	1.89	0.00	Under review
Caretaking – Non Residents	3.88	Average 4.39	0.51	A review of the caretaking service has resulted in a change in methodology - the charge is now based on a block by block basis
Caretaking – Residents	5.93	Average 4.50	-1.43	
Sheltered Caretaking	From 1.52 to 3.33	From 1.53 to 3.36	From 0.01 to 0.03	Increase by CPI
Sheltered Cleaning – Level 1 *	0.83	0.86	0.03	Increase by CPI
Sheltered Cleaning – Level 2 *	1.93	1.99	0.06	
Sheltered Cleaning – Level 3 *	2.75	2.83	0.08	
Landlord Communal Service Charge	From 0.25 to 3.05	From 0.26 to 3.14	From 0.01 to 0.09	Increase by CPI

* Sheltered Cleaning has three different charges based on a combination of the number of weekly cleaning hours and the number of properties within a block.

11.2 The costs off CCTV will be apportioned according to the location and usage of cameras on HRA estates. Cameras have been assessed to review what they capture and categorised according to their purpose. Cameras on HRA land will be classified as either; Serving the estate, Dual purpose (estate and other purpose) and Other.

Where cameras serve the estate only the full costs will be allocated to service charges. Where cameras serve the estate and fulfil other purposes, for example; Highways, Parks, Commercial Premises and Schools, a proportion of the cameras costs is allocated to service charges. Where cameras are located on HRA land but do not serve the estate the costs will not be allocated to service charges.

11.3 The costs of cleaning and caretaking will be apportioned according to the time and resource required to fulfil the cleaning and caretaking service to each block/estate. Charges are specific to each block and take into consideration the status of staff (resident or mobile) and the time spent delivering the service to each block.

11.2 The Council's Housing Board and Customer Voice have been consulted on these proposals and consider that the new charges are acceptable.

11.3 In addition to the above service charges, water and sewerage charges will continue to be collected through the rents on behalf of the water authorities.

11.4 The garages which are let to Council tenants, leaseholders and private tenants are standard lock-up.

11.5 A non-Council tenant premium' is also charged on all lets to private tenants, and any Council tenant or leaseholder who rents more than 2 garages. The proposed charges for 2018/19 are:

	2017/18 Weekly Rent per week £	2018/19 Proposed Rent per week £
Standard lock-up Garages	11.00	12.00
Private Garage Rental	13.71	25.00
Parking Bay	6.00	7.00

11.6 A policy change has been agreed to enable void garages to be let for the use of storage. This enables the HRA to increase rental income and avoid void charges on the current empty garages. The charge for the use of garages for storage will be £16.67 per week.

12. LEASEHOLDER SERVICE CHARGES

- 12.1 The administration and management charge is a flat rate added to the cost of services to cover the preparation of estimates and actual costs, billing consultation on repairs and improvement works and estate management.
- 12.2 It is estimated that by 31 March 2018 a total of 4891 properties will have been sold under leasehold arrangements.
- 12.3 At the end of each financial year, the actual cost is determined and an appropriate adjustment made to the charge.
- 12.4 The cost of administration and management for 2018/19 is estimated at £1.002m and it is therefore recommended that the charge for 2018/19 is set at £204.90 per leasehold unit. This compares with the 2017/18 charge of £197.47 per leaseholder unit.
- 12.5 The charges below are estimates for 2018/19. Adjustments will be made mid-year to reflect actual charges.

ADMINISTRATION/MANAGEMENT/SERVICE CHARGES FOR LEASEHOLD UNITS

	Charge per week 2017-18 £	Charge per week 2018-19 £
Administration & Management Charge	3.80	3.64
Caretaking level (1) – non-resident	3.88	Average 4.39
Caretaking level (2) –resident	5.93	Average 4.50
Communal Electricity	From 0.25 to 3.05	From 0.26 to 3.14
Concierge	11.23	11.56
CCTV Internal Cameras	1.40	Average 1.20
CCTV External Cameras	0.84	Average 0.76
Grounds Maintenance	1.89	1.89
Paladin Bins	1.85	0.56
<i>INSURANCE</i>		
1 Bed	1.89	4.01
2 Bed	2.14	4.72
3 Bed	2.44	5.70
4 beds	2.72	6.19
Flat Repairs (Annual Charge)	0.02	0.02
Ground Rent (Annual Charge)	0.19	0.19
Estate Charge (Annual Charge)	0.25	0.25

13. HEATING CHARGES

- 13.1 The Council has some 1800 properties in 65 blocks of flats serviced by communal heating systems.

13.2 Electricity Charges

The advice that LASER (the Council's energy advisors) have provided shows that the non-commodity element (standing charge) of the electricity price is likely to increase by 15.7% in October 2018. The non-commodity charges cover the cost of delivering electricity, balancing the grid, all network costs including maintenance and development and Government taxes and levies. This element represents 50% of the total electricity price. In addition to this, the commodity price has also risen giving an overall increase of 23%. As the Housing contracts run from October 1st – September 30th, the impact of this will be for 6 months of 18/19. The overall increase in electricity will be 6% in 18/19.

The energy market is very volatile and the current way we procure carries great risk. To manage the risk of increases in electricity rates it is proposed that Landlord electric units with average consumption over 10,000 kwh will move to the longer term flexible corporate electricity contract. It's unlikely that procuring in this way will secure a better price but it reduces the risk of excessive increases

13.3 Gas Charges

The Gas charges will increase by an average of 3% in 18-19. Estimates are calculated using the average annual consumption for each block.

13.4 Other Charges

The gas standing charge will rise in line with the Gas increase of 3% for 18-19, and fuel oil will increase by 2%

13.5 Work Undertaken by the Council to Reduce Heat Loss and Bills and Make Billing Fairer

Major Works

Over the past five years, the Council has sought to reduce heat loss and tackle fuel poverty issues in its blocks of flats by undertaking the following works:

- a) Replacing single-glazed windows with double-glazing
- b) Upgrading gas boilers with newer energy efficient models.
- c) Negotiating eco-works with Energy Companies such as British Gas and EDF though this funding is becoming increasingly difficult to secure, we will continue to explore any additional moneys that can be used for energy efficiency projects
- d) A new district heating system currently being installed in the Channel Islands estate will significantly reduce fuel bills for those residents.

Estate Renewal

All new properties built by the Council through the Estate Renewal Programme will be built to a much higher energy efficient level than current accommodation.

Larger schemes will be connected to the Lea Valley Heat Network. A heat network is a system of highly insulated pipes that move energy in the form of hot water from low carbon, low cost heat sources where it is produced, to where it is needed, much like an electricity network.

The Lee Valley Heat Network will initially use heat from the Energy from Waste facility at the Edmonton EcoPark. This facility already generates enough heat which can be used to kick-start a strategic network.

The network will also connect additional heat sources elsewhere in the Lee Valley, including local gas-fired Combined Heat and Power schemes, with the intention to use renewable fuels in the future.

Ladderswood is the first scheme to have built the appropriate CHP (Combined Heat Power) system.

14. ALTERNATIVE OPTIONS CONSIDERED

Since the Government implemented the Social Housing Policy which implemented a rent reduction of 1% the Councils income has considerably reduced. This created a shortfall in the business plan and other income sources have been maximised where possible. A number of different options have been considered around budget levels required both for 2018/19 and in the medium term.

Efficiency savings of 3% have been implemented across various departments to ensure a healthy level of balances are held. A service charge review is currently being undertaken to ensure full cost recovery and the service is value for money. Other areas for review could be to review the capital programme requirements and review funding of future estate renewal schemes.

15. REASONS FOR RECOMMENDATIONS

- 15.1 The Council must comply with the law in setting its rents for Council tenants. Setting an annual budget, capital programme and balanced HRA 30-Year Business Plan are also legal requirements. Increasing service charges will allow the Council to provide new and better services to tenants, and the charges set out in this report are supported by the Council's Housing Board and Customer Voice (the Tenant and Leaseholder representative body).
- 15.2 Cabinet is also requested to delegate authority to the Cabinet member for Housing and the Chief Executive to approve tenders for Major Works in order that contracts can be let and works carried out more efficiently. This delegation has been in place for several years.

16. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

16.1 Financial Implications

The Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of proposed financial reserves. The 2018/19 HRA estimates have been prepared taking into account the following:

- The estimated impact of inflationary pressures. Allowance has been made for cost increases over and above the general rate of inflation where these are known;
- The estimated impact of increasing demands on resources where these are unavoidable;
- The estimated impact of underlying costs pressures, evidence by financial monitoring reports in the current year; and
- An assessment of key risks and uncertainties.

It is therefore the view of the Executive Director of Finance and Corporate Resources that the HRA budget is robust and that the balances held are prudent.

16.2 Legal Implications

Section 111 of the Local Government Act 1972 (“LGA”) gives a local authority power to do anything which is calculated to facilitate, or is conducive or incidental to the discharge of any of its functions.

Section 21 of the Housing Act 1985 provides the Council with powers for the general management, regulation and control of its dwelling stock.

Section 24 of the Housing Act 1985 allows the Local Authority to set their own rents, and to review these rents periodically and make necessary changes if circumstances allow.

The HRA consists of expenditure on Council-owned housing and there is a statutory requirement whereby the Council is obliged to keep its HRA separate from other housing activities in accordance with Part VI and Schedule 4 of the Local Government and Housing Act 1989. This schedule 4 prescribes all the income and expenditure items that are to be included in the HRA. In addition, there is a requirement not to allow cross-subsidy to or from, the Council’s General Fund resources.

The Council is required to prepare proposals in January/February of each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property (Local Government and Housing Act 1989 S76). The Council has to secure that the HRA for any year does not show a debit balance except in unforeseen circumstances. Therefore, any debit

balance must be carried forward within the ring-fenced HRA to the following year.

The [Welfare Reform and Work Act 2016](#) and [amendment regulations](#) require registered providers of social housing in England to reduce social housing rents by 1% a year for 4 years from a frozen 2015 to 2016 baseline and to comply with maximum rent requirements for new tenancies. The policy applies from 1 April 2016. If a tenancy starts or ends during the year, the reduction would be on a pro-rata basis.

For social rent properties, the reduction applies to the rent element and not to service charges. For most Affordable Rent properties, the reduction applies to the total amount, inclusive of service charges. Where the social rent is used as a rent 'floor' for an Affordable Rent property, the reduction applies to the rent element only.

The requirements set out by the Welfare Reform and work Act 2016 do not apply to temporary accommodation, the social landlord has the power to review the rent, so long as notice is given, the authority will therefore not need to decrease the rent by 1% for the next 2 years.

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

16.3 **Property Implications**

Whilst Strategic Property Services supports the HRA Rent Setting Report and its objectives, the range of underlying assumptions and their sensitivities means that it is impractical at this stage to speculate on the likely property implications arising from each and every possible scenario. It would be prudent therefore to re-visit the impact on the HRA arising from specific changes, impacts or initiatives at the appropriate time as and when they occur.

17. **KEY RISKS**

HRA 30-Year Business Plan and self-financing

The reform of the HRA has had a major impact on the operation of the Housing Revenue Account from 2012/13. The freedoms and flexibilities for the HRA have been in operation for five years and are a major change for the plan. Recent Government Initiatives such as the sale of High Value Voids and the disaster at Grenfell House has meant that there is a greater impact on the HRA's finances and the services

Benefit Changes

The implementation of benefit changes is likely to have a significant impact on the HRA during 18/19 following the roll out of Universal Credit in

November 2017. The change to the method of payment and cap on benefit is likely to affect the tenant's ability to pay their rent and potentially increase the level of arrears which will impact significantly on the services. The bad debt provision has been increased in 18/19.

Right to Buy

It is assumed that the number of Right to Buy sales will continue at the current pace of 150 in 18-19 with a reduction in 19-20 to 100. The service has seen little reduction in the number of applications being processed. There is still a risk and sensitivity testing is used to understand the likely impact on the business plan in the event of any increases to these figures.

Additional Health & Safety Works

Following the tragedy of the Grenfell Fire a number of health and safety recommendations are being considered by the council to ensure our blocks remain safe. Additionally, once the outcome of the inquiry is known further fire safety measures may be a government requirement which could impact on the major works budget and the plan.

Estate Renewals

As outlined in the report, there is a predicted spend of £67.1m on estate renewal projects over the next five years. They are factored into the HRA Business Plan and assumptions regularly updated as the schemes progress, but any additional costs or loss of receipts can have a significant effect on the business plan. Detailed monitoring is key and, if there are any potential changes to a scheme's finances, scenario planning must be used to see what short, medium and long term effects there are, both to the scheme and to the HRA Business Plan.

Economic Uncertainty

There are risks associated with the Brexit decision and the world economy at present which may lead to increased inflation or a change in interest rates. The current 3% CPI inflation rate included in the Business Plan is deemed to be reasonable, but this will be kept under constant review during 2018/19. The HRA will need to borrow £32m over the next 2 years for the Business Plan to balance. There is a risk of further strain on the Business Plan if interest rates rise during this period.

Sale of "High Value" Void Properties

This Government policy could have a significant impact on the Council's HRA business from 2018/19, but the size of the impact is still unknown. It is hoped that the Government will make its intentions clearer in the near future.

Other Government Policies

There is always a risk that at any point during the 30-year Business Plan the Government proposes a plan of action it intends to take which could have an effect on the HRA balance. It is imperative that, at the point where there is reliable knowledge that a change is likely to occur, a full review must be taken to allow mitigation against all of the potential risks.

18. IMPACT ON COUNCIL PRIORITIES

Fairness for All

The budgets and charges proposed in this report are designed to allow the Council to continue to provide high quality, clean estates

Growth and Sustainability

The recommendation in this report will ensure that there is a sustainable HRA. The proposals promote positive investment in the housing stock and ensure we can deliver the Council's Landlord function.

Strong Communities

Setting fair charges, investing in the Council's housing stock and effective management are some areas of this report that will have a positive effect on the local community.

Equalities Impact Implications

The HRA 30-Year Business Plan supports the delivery of high quality services that promote equality and values diversity.

19. PERFORMANCE MANAGEMENT IMPLICATIONS

Setting a balanced budget for 2018/19 should enable the HRA performance targets to be met. Sound medium term financial plans are essential to support the delivery of excellent services and efficient use of resources. The budget proposals will ensure that limited resources are targeted at key priorities.

20. HEALTH AND SAFETY IMPLICATIONS

Noted within the report about fire safety to include safety works and installation of sprinklers in all high rise blocks. The risk of a fire in any structure is something serious to consider, but even more so when your entire business and livelihood is on the line. Firefighters can only do so much after a blaze has already been ignited, which is why it's so important to have some form of fire protection service already installed. Commercial fire sprinkler systems are one of the best methods of fire prevention out there today

21. PUBLIC HEALTH IMPLICATIONS

Good quality housing plays an essential role in improving public health and wellbeing

Background Papers

None

Housing 30 Year Capital Programme – Business Plan

	2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2038	2039-2043	2044-2047
	£000's									
CAPITAL PROGRAMME										
HRA Planned Renewals	-31,752	-16,899	-18,353	-16,457	-16,852	-62,421	-59,910	-71,113	-88,964	-168,628
New Build Properties - Eligible	-9,833	-2,631	-33	-33	-33	0	0	0	0	0
New Build Properties - Non-Eligible	-32,127	-22,725	-6,075	-4,307	-1,713	-58,091	-48,928	-67,947	-62,034	-91,960
Receipts Used For Replacement Homes Non HRA	-4,195	-8,672	-15,623	-12,019	-7,703	-25,770	-2,727	-4,046	-5,759	-11,801
Non Dwelling Assets	-1,900	-1,900	-1,900	-1,900	-1,900	-9,500	-9,500	-9,500	-9,500	-17,100
Total Capital Programme	-79,807	-52,827	-41,984	-34,714	-28,201	-155,782	-121,066	-152,606	-166,256	-289,488
CAPITAL RESOURCES										
HRA Use Of Major Repairs Reserve	13,311	13,479	13,524	13,667	13,830	72,316	78,861	86,556	94,693	176,686
Borrowing	20,000	12,000	0	0	0	0	0	12,000	0	0
Grant Funding	1,698	0	0	0	0	0	0	0	0	0
Useable One-to-One RTB Receipts	3,296	785	7	6	5	0	0	0	0	0
Other RTB Useable Capital Receipts	3,498	2,473	2,531	1,660	1,697	5,919	4,345	4,801	5,310	9,966
Receipts Used For Replacement Homes Non HRA	4,195	8,672	15,623	12,019	7,703	25,770	2,727	4,046	5,759	11,801
Other Sources Of Finance	14,176	6,520	2,878	2,378	2,192	35,203	11,602	18,257	14,694	28,726
Revenue Contributions To Capital Total	19,634	8,898	7,419	4,985	2,773	16,574	23,531	26,947	45,801	62,311
Total Capital Resources Detail	79,807	52,827	41,984	34,714	28,201	155,782	121,066	152,606	166,256	289,488

Housing Revenue Account 30-year Plan - Business Plan

	2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2038	2039-2043	2044-2047
	£000's									
Dwelling Rents	53,358	52,705	53,492	54,932	56,480	312,181	371,456	442,521	528,448	1,022,874
Service Charges Tenants	3,508	3,809	3,837	3,873	3,918	20,391	22,173	24,149	26,298	49,007
Service Charges Leaseholders	4,566	4,680	4,774	4,869	4,967	26,364	29,108	32,138	35,483	66,511
Voids	-563	-559	-567	-582	-597	-3,290	-3,895	-4,618	-5,491	-10,611
Non Dwelling Rents	3,306	3,388	3,456	3,525	3,596	19,087	21,073	23,266	25,688	48,150
RTB Administration Income	428	285	285	171	171	513	285	285	285	513
Total Income	64,603	64,309	65,277	66,789	68,534	375,246	440,200	517,741	610,710	1,176,443
Responsive Repairs	13,116	13,877	14,135	14,468	14,797	79,505	89,282	100,716	113,294	213,904
Supervision And Management	13,144	11,411	11,134	10,929	10,724	51,156	47,708	45,821	44,863	80,724
Special Services	7,028	7,420	7,569	7,720	7,874	41,797	46,148	50,951	56,254	105,444
Rents Rates Taxes & Other Charges	428	335	335	335	335	1,673	1,673	1,673	1,673	2,729
Bad Debt	1,392	1,376	1,395	1,425	1,459	7,902	9,141	10,600	12,311	23,570
Depreciation of Fixed Assets	13,311	13,479	13,524	13,667	13,830	72,316	78,861	86,556	94,693	176,686
Total Expenditure	-48,419	47,897	48,091	48,543	49,019	-254,350	-272,813	-296,317	-323,088	-603,057
Net (Cost) Of Services	16,184	16,412	17,185	18,246	19,515	120,897	167,387	221,425	287,623	573,386
Loan Interest	-8,495	-8,464	-8,674	-8,637	-8,586	-42,931	-40,149	-37,742	-38,582	-68,276
Interest Income	102	109	99	81	68	250	155	165	177	330
Notional Cash Interest	49	25	24	27	37	544	1,220	2,370	4,190	9,207
Mortgage Interest										
Capital Account Adjustments	-8,344	-8,330	-8,551	-8,530	-8,481	-42,137	-38,774	-35,207	-34,214	-58,740
Net Operating Income / (Expenditure)	7,839	8,083	8,634	9,716	11,034	78,759	128,613	186,218	253,408	514,647
Revenue Contributions To Capital Total	19,634	8,898	7,419	4,985	2,773	16,574	23,531	26,947	45,801	62,311
HRA Surplus/Deficit	-11,795	-815	1,215	4,731	8,261	4,197	27,039	29,565	52,109	75,988
BALANCE BROUGHT FORWARD	20,553	8,758	7,943	9,158	13,888	80,139	162,380	319,124	504,187	725,037
BALANCE CARRIED FORWARD	8,758	7,943	9,158	13,888	22,150	84,335	189,418	348,689	556,296	801,025