Cabinet Decision 26 July 2016	TOWER HAMLETS
Report of: Aman Dalvi, Corporate Director Development & Renewal	**Classification:** Unrestricted
Housing Revenue Account: **Outline Business Plan and Medium Term Financial Outlook**	

Lead Member	**Councillor David Edgar, Cabinet Member for Resources**
Originating Officers	Chris Holme, Service Head, Resources Paul Leeson, Finance Business Partner Katherine Ball, Senior Accountant (HRA & Capital)
Wards affected	All
Community Plan Theme	**One Tower Hamlets**
Key Decision?	Yes

Executive Summary

This report outlines the current position in respect of the Housing Revenue Account (HRA) Medium Term Financial Plan, which will be further developed as part of the strategic and resource planning process for 2017/18 onwards, the overall aim of which is to provide sufficient flexibility to deal with the risks faced by the HRA over the medium-term period.

Initial long-term business model assumptions indicate that resources will be extremely tight for the foreseeable future, with little scope for mitigating additional financial risk and insufficient resources to re-pay debt at the end of the business plan period. The report therefore recommends a number of measures to improve medium and longer-term financial resilience.

This report also requests the incorporation of capital budgets in relation to a number of new-build schemes that will deliver new Council housing that are being proposed to be let at a mixture of social and 'Living' rents, and the report requests that the principle of acquiring s106 affordable units be approved. These will add to Council housing supply and ensure the Council re-invests its available Right to Buy receipts locally rather than paying them over to central government.

Going forward, the report highlights work being undertaken in assessing the potential for alternative delivery vehicles, both to mitigate the impacts of the Housing and Planning Act and utilise future Right to Buy receipts locally.

Recommendations

The Mayor in Cabinet is recommended to:-

1. Note the updated HRA financial outlook and 30 year business plan base case as set out in section 5, and note the resulting medium-term projections detailed in Appendix 1, including the assumptions regarding new-build and the capital requirements relating to maintaining the existing stock.

2. Note that, as outlined in section 6, and detailed in Appendix 2, although the Housing and Planning Act has been enacted, the financial impact on the HRA of the High Value Void levy and Pay to Stay is not known, although some assumptions have been made for modelling purposes. A further review of the business plan will be brought back to Cabinet for consideration when full details have been published

3. Agree the HRA medium-term financial plan net savings target of £1 million per annum over the period of the medium-term plan period, in addition to the £2 million of savings already assumed in 2017/18.

4. Note the financial impact on the HRA of developing new housing and letting at social rent, as outlined in paragraphs 9.18 to 9.22, and agree the appropriate mix of social and 'Living' rents as set out at 9.34.

5. Agree a disposal programme of up to five HRA properties per year as an initial response to the requirement to sell vacant higher value Council stock, as set out in paragraphs 9.30 to 9.33.

6. Agree to incorporate a capital budget of £89.92m (inclusive of fees, on costs and a level of contingencies) into the capital programme for the new build construction at the Hereford, Locksley, Baroness, Jubilee, Tent Street and Arnold Road sites to deliver 270 new homes as set out in section 9. This replaces the total budgets of £48.157m that were previously agreed for Hereford, Locksley, Baroness and Jubilee and for preliminary works at Tent Street and Arnold Road.

7. Agree that approval to proceed to award contracts be delegated to the Corporate Director, Development & Renewal and the Corporate Director, Law Probity & Governance, subject to the tenders being within the capital estimate amount. In addition, note that, in relation to the Arnold Road site, additional relocation costs are likely to be incurred, to be determined, to be funded from General Fund resources.

8. Note that, in relation to the Hereford scheme, the scheme is still subject to final sign off following consultation with residents on the final scheme layout and number of units.

9. Approve the principle of acquiring Section 106 affordable units from developers, and authorise officers to negotiate with both Registered Providers and the

developers on a potential acquisition in relation to the two sites outlined in 9.12 to 9.17.

10. Note that a future report will be submitted to Cabinet regarding the setting up of a housing company or companies to help deliver the Authority's strategic objectives, as detailed in section 10.

11. Note that as part of the review to identify savings within the HRA, the Accommodation SLA will be examined, there is a likelihood that the General Fund will be affected, as highlighted at 11.3.

1. REASONS FOR THE DECISIONS

1.1 The Authority is under a duty to set a balanced HRA and sustainable budget over the 30 year business plan period, and needs to plan the use of resources in such a way that it can deliver its statutory responsibilities as well as meeting local people's aspirations for services. A Medium Term Financial Plan is required to enable financial pressures and risks to be planned and to avoid having to make unforeseen decisions which are more likely not to offer value for money. This is especially true in times of diminishing resources, when the Authority must ensure it plans for necessary savings and needs to be particularly careful that it does not enter into unaffordable spending commitments.

2. ALTERNATIVE OPTIONS

2.1 The Authority has no practical alternative other than to consider forecasts for available resources and spending pressures in order to optimise use of resources. The Authority can take alternative approaches to how it sets about the process, for example of finding savings or providing in the budget for possible risks. This report highlights the risks facing the HRA over the next few years, particularly in relation to the revised rent legislation within the Welfare Reform and Work Act, and policies included in the Housing and Planning Act.

3. BACKGROUND

3.1 The HRA relates to the activities of the Council as landlord of its dwelling stock, and the items to be credited and debited to the HRA are prescribed by statute. Income is primarily derived from tenants' rents and service charges, and expenditure includes repairs and maintenance and the provision of services to manage the Council's housing stock.

3.2 Since 1990 the HRA has been "ring-fenced"; this was introduced as part IV of the Local Government & Housing Act 1989 and was designed to ensure that rents paid by local authority tenants reflect the associated cost of services. This means that the HRA cannot subsidise nor be subsidised by Council Tax i.e. any deficits or surpluses that arise cannot be met from or transferred to the General Fund. However, un-ringfenced grants, such as New Homes Bonus, can be used within the HRA. In addition, the HRA must remain in balance.

3.3 In April 2012, HRA Self-Financing was introduced to replace the national HRA subsidy system. Under Self-Financing, local authorities retain all income but are responsible for all expenditure relating to their housing stock; the principle underpinning Self-Financing was that local authorities would be able to make decisions about their stock and engage in long-term planning. Recent policies and legislation introduced by the government have substantially reduced the discretion that local authorities are able to exercise, for example in relation to the management of their assets, rent setting and tenancy types.

3.4 At its meeting on 5th January 2016, the Mayor in Cabinet considered the 'Housing Revenue Account and Rent Setting report' which noted that a 1% rent decrease will apply each year for four years, starting in April 2016. Modelling indicated that four years of 1% rent reductions would lead to a reduction in rental income of £24 million over the four year period, and in excess of £400 million over a 30 year period, (including inflation) compared to previous modelling assumptions.

3.5 At its meeting on 2nd February 2016, the Mayor in Cabinet agreed the 2016/17 HRA budget, including the management fee payable to Tower Hamlets Homes, as well as a number of HRA capital estimates.

4. HRA OUTTURN 2015/16

4.1 A report elsewhere on this agenda, ''Corporate Revenue and Capital Budget Outturn Q4 2015/16', outlines the HRA's outturn position of an 'underspend' of £10.4 million.

4.2 As outlined in that report the main reasons for this variance were that the outturn incorporated an RCCO (Revenue Contribution to Capital Outlay) of £3.7 million towards the funding of the HRA capital programme compared to a budgeted figure of just under £10 million. As part of the strategic resource management, the decision was taken to apply other specific HRA capital resources and use a lower level of revenue resources; in this way, resources that are more flexible were retained; however the overall impact on the HRA is neutral.

4.3 In addition, the required contribution to the bad debt provision was substantially lower than budgeted (£2.5 million lower) due to delays in the implementation of the government's Welfare Reforms, energy costs were lower than budgeted due to energy prices being lower than anticipated when the budget was set, and leasehold service charge income was higher than budgeted due to the increase in the number of leaseholders.

4.4 However there were also a number of overspends, the principal ones being lower than budgeted dwelling rental income due to the high number of Right to Buy sales that took place in 2015/16, and higher than budgeted pension costs.

4.5 The 2015/16 surplus has increased HRA balances, but these will be required to fund the 2015/16 capital slippage, in addition to future capital expenditure, as HRA borrowing is subject to a statutory cap (the 'HRA debt cap.'). This increased level of balances has been reflected in the HRA modelling carried out in May 2016.

5. HRA 30 YEAR FINANCIAL MODEL – OVERALL POSITION

5.1 Modelling carried out previously indicated that the Authority had sufficient resources to fund the anticipated capital work investment needed over the 30 year period, as well as its agreed programme of new builds. In addition, although projections showed a position where there would be annual surpluses within the HRA and the level of reserves would increase to a substantial level over the 30 year period, this assumed that no debt would be repaid.

5.2 However, a number of policies have led to a deterioration in the overall financial position of the HRA, and this updated financial outlook has been modelled over 30 years, and is summarised in paragraphs 5.8 to 5.22. The assumptions that are in this HRA 'base case' scenario are outlined in paragraph 5.23.

5.3 Paragraphs 9.28 to 9.34 reflect HRA modelling undertaken which reflects three additional assumptions (£5m of additional HRA savings, the sale of up to five HRA properties each year, and alternative rent levels). If these assumptions are agreed then the overall HRA position forecast over the 30 year period is shown in Graphs 4 to 6 (at 9.34.)

5.4 As referred to in paragraph 5.2 above, the recent changes that have adversely affected the HRA are summarised below:

- Right to Buy: the changes made to the scheme have led to:
    - 600 Right to Buy sales, reducing the Council's rented stock;
    - pressure to spend Right to Buy receipts on replacement social housing within three years and with a 70% Council or partner contribution towards the cost. In addition there are other restrictions, such as not being able to use one for one receipts in conjunction with GLA grant

- Rent reduction: the changes made to national social rent policy has led to:
    - four years of rent cuts (minus 1% each year) leading to a substantial loss of HRA resources

5.5 The recently enacted Housing and Planning Act 2016 contains a number of new policies that will further affect the financial viability of the HRA, in particular the High Value Voids levy and Pay to Stay scheme. These are summarised later in the report, and detailed in Appendix 2, although at the time of writing no detail has been released by the Government and therefore the financial impact is not currently quantifiable, therefore assumptions have been used in the HRA modelling.

High Value vacant stock levy:

5.6 Stock-owning Local Authorities will pay an annual levy to the Government representing the estimated market value of their ‘higher-value’ stock that is projected to become vacant that year. The intention is that the receipts will be used to fund the extension of the Right to Buy scheme to housing association tenants.

Pay to Stay:

5.7 ‘High income’ households will pay a higher level of rent, with the additional rental income paid over to the Government. The implementation of this policy will be mandatory for local authorities but voluntary for housing associations, who will also be able to keep any additional rent collected.

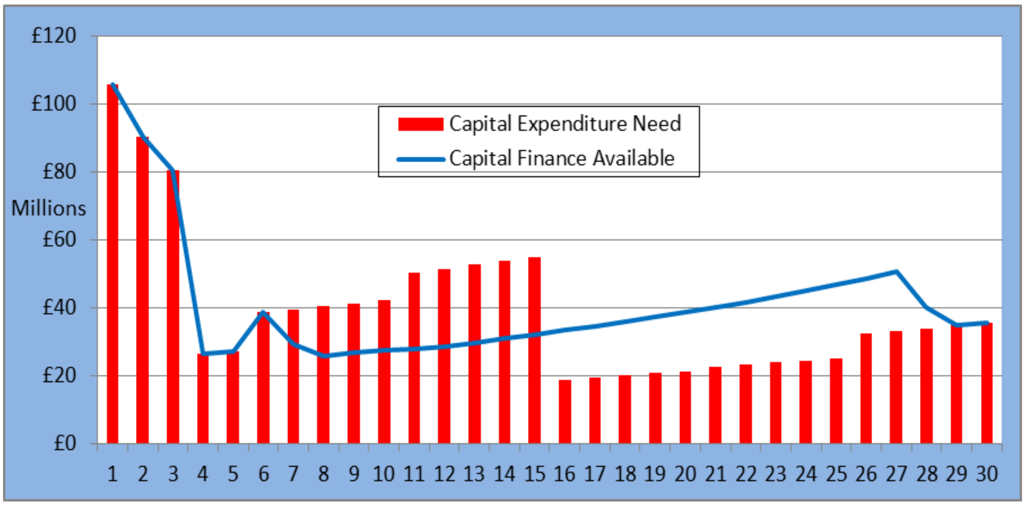
HRA ‘Base case’ position

5.8 Our current updated modelling of the HRA carried out in May 2016 indicates that in the long-term, the HRA is viable insofar as:

- the HRA remains above the minimum £5million balance, modelled to take account of inflation;
- the capital programme can be financed over the 30 years, but will require significant re-profiling of some £190 million of capital spend;
- the HRA does not breach its debt cap – though it cannot reduce the overall level of borrowing by repaying any debt;
- capital finances will be extremely tight for the foreseeable future, but should improve during the second half of the 30 year period.

Financing the Capital Programme

5.9 Graph 1 below demonstrates the capital forecast expenditure (bars) for capital works needed on the existing stock, as well as the projected new build programme (with inflation applied.) Also shown in Graph 1 is the level of resources projected to be available to fund the capital expenditure (solid line.)



Graph 1 - Capital Expenditure Forecasts v Resources Available

5.10 The graph shows that in years 7 to 15, expenditure exceeds the financial resources available (which includes HRA borrowing). In years 16 to 28 when the forecast capital expenditure reduces, the plan is able to over-fund these works, which in effect is catching up for the works that are unfinanced in earlier years.

5.11 Therefore, if works from years 7 to 15 were re-profiled to later years then they could be fully financed. It is estimated, that including inflation, a maximum of £187.2million of works would need to be delayed.

Capital Needs projections - existing stock

5.12 The financial modelling reflects the latest projections of the capital works that will need to be carried out on the Authority's existing housing stock between 2017/18 and 2046/47.

5.13 These projections are based on the most recent information available i.e. stock condition surveys. However, some of the capital work projections derive from assumptions made in the asset management database about the life-cycles of various elements, Therefore, although the projections provide an indication of when works may be required, it may be the case that, upon inspection, an element does not need to be replaced at that point in time. Alternatively, some works may need to be done at an earlier point in time than originally forecast.

5.14 It should also be noted that the capital needs projections have been prepared on the basis of the stock being maintained at current standards. In reality, given the finite resources available to the HRA, a view will need to be taken as to the appropriate level of resources that should be allocated for the maintenance of the existing stock, compared to the resources that should be allocated to support the Authority's new-build aspirations. The assumptions used for the HRA modelling are that the capital works on the existing stock detailed in Table 1 below are required, and that sufficient spend on new-supply takes place in order to use the Right to Buy one for one receipts held as at the end of March 2016.

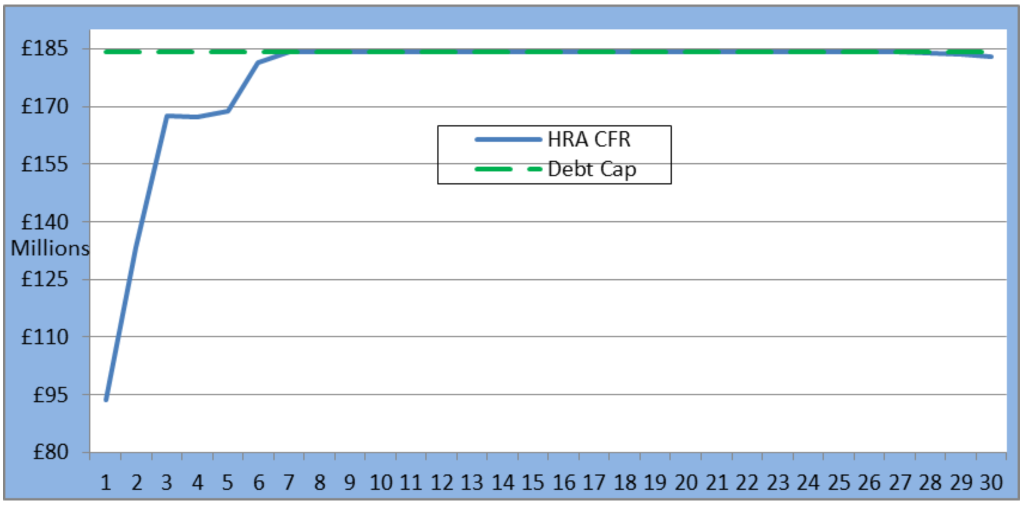
5.15 Based on the latest stock condition data, it is forecast that over £1 billion (at today's prices) will need to be spent on maintaining the Authority's existing stock – Table 1 shows a summary.

2017/18 – 2020/21 £	2021/22-2025/26 £	2026/27-2030/31 £	2031/32 -2035/36 £	2036/37-2040/41 £	2041/42-2045/46 £	TOTAL £
£159 m	£262 m	£290 m	£95 m	£106 m	£131 m	£1.047 bn

Table 1 – Projected capital needs of the existing stock

5.16 These figures are in addition to the Authority's approved 2016/17 capital programme of £54 million.

Forecast Debt Position

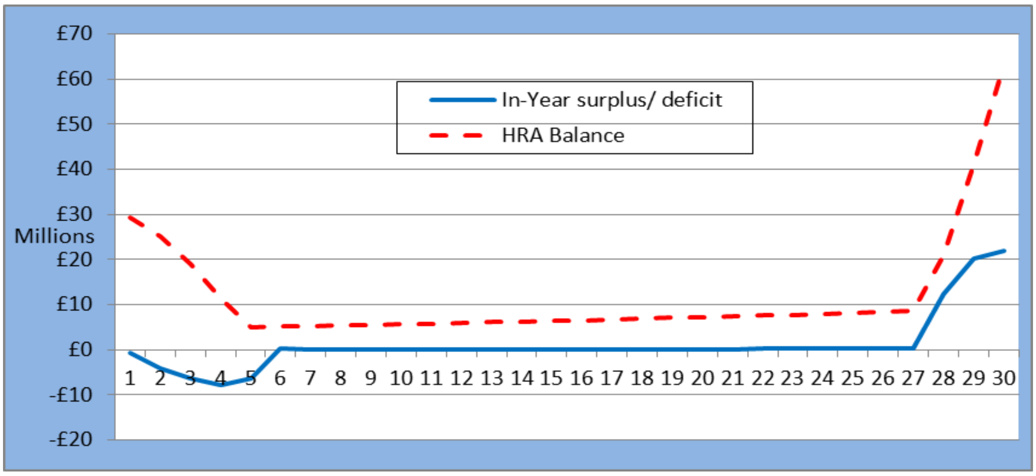


Graph 2 – Forecast HRA debt compared to the HRA Debt Cap

5.17 Graph 2 above shows the forecast HRA borrowing (solid line) against the HRA debt cap (dotted line). It can be seen that, where possible, in order to fully fund the capital expenditure, borrowing is taken out and remains at the debt cap level for the duration of the plan; in reality, some reserves may be used to reduce the need for borrowing, but this will be dependent on the prevailing market conditions.

Forecast HRA Balances and Future Resources Available

5.18 The parameters in the HRA model have been set so that the HRA reserve maintains a minimum balance of £5 million, allowing for inflation. Graph 3 below shows the HRA reserve balance, it can be seen that the HRA balances only begin to accrue within the HRA when the shortfalls in capital expenditure have been caught up – in year 28. It should be noted that whilst the HRA reserve is forecast to be increasing, the HRA would remain at the debt cap (see Graph 2 above) therefore the Authority may in fact choose to repay debt when surplus resources are available.



Graph 3 - Forecast HRA Balance and in-year revenue cashflow

5.19 The modelling assumes that the high-value void levy will be £8.4 million, and will be in place for five years and that no sales take place in order to mitigate the impact on the HRA. If the levy is higher than has been assumed, and/ or lasts for more than five years then this will cause additional pressures within the HRA.

5.20 The key assumptions contained within the financial model are outlined at paragraph 5.23.

5.21 Appendix 1 shows the detailed budget projections over the medium-term period 2017/18 to 2021/22.

Limitations

5.22 It should be noted that the modelling has been carried out on the basis of the following assumptions:

- Right to Buy one for one receipts
  - Whilst it is assumed the currently held one for one receipts will be used (i.e. the £49.7 million held at the end of March 2016), no provision has been made for a 70% contribution towards any expenditure needed to spend future one for one receipts.

- High Value voids levy

    - There is - as yet - no detail about the size of the levy, when it will begin, or how long it will last for. Both the medium term financial plan and the HRA business plan will need to be revised when the detail of this policy is published in secondary legislation or Regulations.

- Pay to Stay

    - There is - as yet - no detail about how this policy will work.
    - The financial modelling has assumed that there will be no impact on the HRA, although this assumption may need to be revised once the details are known.

SENSITIVITY MODELLING

5.23 The assumptions used in the updated modelling are outlined below.

Key Assumptions

1. All rents decrease by 1% for 4 years commencing 2016/17
2. Rents increasing by CPI plus 1% from 2020/21 onwards
3. 6% of tenancies (on a reducing balance) moving to formula rent
4. Void levels 2% throughout
5. Bad Debts Provision to match budgets then increase to 1%
6. Right to Buy levels at 280 per year for the next two years then reduce
7. Un-pooled Right to Buy Receipts used by the HRA
8. 100% of the Allowable Debt element of the RTB receipt will be used to fund capital works
9. New Build programme delivered over years 1 to 3 (inclusive of s106 properties) and 78 Buy Backs
10. Service Charge income increasing by Retail Price Index (RPI)
11. Non Dwelling Rents increasing by RPI
12. Contributions from the General Fund increasing by RPI
13. Management Costs increasing by RPI
14. £2million saving assumed in 2016/17
15. Repair costs increasing by RPI
16. Capital improvement costs increasing by RPI
17. Base rate for variable interest calculations increasing from 0.5% to 2.0% by year 5
18. An assumed higher value levy of £8.4 million p.a. has been assumed for five years

Alternative Scenarios

5.24 A number of alternative scenarios were modelled, as sensitivity analysis, to compare to the base case outlined above, such as changing the rent level assumptions, making additional resources available for use within the HRA, identifying additional HRA savings, and disposing of more than five properties per year.

6. HOUSING & PLANNING ACT 2016

6.1 The Housing & Planning Act 2016 received Royal Assent on May 12th 2016. The main areas which will impact on the HRA (High Value vacant stock levy and Pay to Stay) are outlined below and detailed in Appendix 2. Notwithstanding the impact that these policies may have, much of the detail is not contained in the Act but will instead follow at a later date in the form of Regulations and Statutory Instruments.

Sale of Higher Value vacant stock

6.2 In essence local authorities will be required to make a payment to the government based on the market value of the authority's higher value housing stock that is likely to become vacant during that year.

Possible Impact on the HRA

6.3 As outlined in previous Cabinet reports, initial indications suggested that 'high-value' would be determined by reference to market values; Table 2 shows London thresholds as set out in a Conservative Party April 2015 press release.

Bed Size	1	2	3	4	5+
Market Value Threshold	£340,000	£400,000	£490,000	£790,000	£1,205,000

Table 2 – Possible market value thresholds in London

6.4 As outlined in the *'Housing Revenue Account – Budget Report 2016/17 and Adoption of Housing Revenue Account Capital Estimates'*, for budget planning purposes an assumption was made that the annual amount to be paid to the government would be £8.4 million. This assumed that 10% (1,200) of the Authority's stock would be classed as 'high value', and an annual void rate of 2% would mean that the Authority would need to consider selling 24 properties at an assumed market value of £350k – see Table 3 below.

% of stock considered 'High Value'	No. of stock units affected	Annual no. of high-value void units (2% void rate assumed)	Amount of assumed annual receipts (£350k per property assumed)
10%	1,200	24	£ 8.4 m
15%	1,800	36	£12.6 m
20%	2,400	48	£16.8 m
25%	3,000	60	£21.0 m
30%	3,600	72	£25.2 m
35%	4,200	84	£29.4 m

Table 3 – Possible impact of sale of high-value void policy

6.5 During its passage through Parliament, the term ‘high-value’ properties was amended to ‘higher-value’ properties, and some commentators were of the opinion that this could lead to more local authority housing being included within the definition. Therefore the payment could be higher than is currently being assumed.

6.6 Shelter published a research note in May 2016 entitled *“‘Higher value’ council homes – how could the government make £4.5 bn?’.* As part of this analysis, it was assumed that the government would seek to raise £4.5 billion on an annual basis. Shelter’s figures suggested that a possible payment of £21 million could be required from Tower Hamlets on an annual basis; the assumption being that 48 properties would need to be considered for disposal each year.

6.7 Whilst it can be useful to model different scenarios to give an indication of what the possible impact may be, it must be stressed that until the government publishes details of the size of the levy, broken down for each local authority, any projections about the size of the levy is based on guesswork only.

6.8 It is not clear at the moment how much the government intends to raise from this policy, nor what period of time it will apply for. Pilot schemes run by a number of housing associations indicate that the take-up of Right to Buy from housing association tenants is low, not least because the eligibility criteria have been set – at least initially – to be much more restrictive than for local authority tenants. Therefore it is possible that the government will be seeking to raise a much smaller sum than £4.5 billion, or it is possible that there could be a tapered approach, and that the amount to be raised will start at a lower level and increase over time. It is understood that the government will publish a consultation document in the near future, and the Authority will take the opportunity to respond in detail.

6.9 It is not clear if any payment will be due in 2016/17; the Act makes allowance for the levy coming into effect part-way through a year but this is not yet certain. If a payment is due in 2016/17 then it would presumably be calculated on a pro-rata basis.

6.10 Whilst it has been assumed in the budget that the payment to be made is revenue in nature, it is probably more likely to be capital in nature as it is a levy based on the receipts arising from (assumed) asset sales, although, again, this is also not yet known.

6.11 As outlined in paragraph 6.6, the Housing and Planning Act allows London boroughs to reduce the levy paid to the government if they build two new affordable homes for each high-value one deemed to be sold. There is no detail about how this would operate in practice, but if such an agreement were set out in a similar way to the Right to Buy Agreement, then it could prove to be very restrictive in terms of the deadlines imposed, and the restrictions relating to funding the new-build. If so, with current build cost assumptions, it is difficult to see how the Authority could commit to replacing sold stock on a two for one basis unless it is able to retain all the capital receipts from property sales, and possibly not even in that case, if the receipt from each sale is less than £600,000.

Response to the levy: Disposal of HRA stock

6.12 The latest financial modelling indicates that the HRA is viable in the long-term without any stock sales to mitigate against the assumed £8.4 million levy. However, the levy could be much higher than this, and modelling indicates that the HRA will be operating with only minimal levels of reserves in years 5 – 27 and with an annual revenue break-even position in years 6 – 27; in other words, current projections indicate that the HRA revenue position will be very tight, with no scope within the HRA to absorb any other costs or to deal with any other risks.

6.13 The size of the annual levy is not yet known, but it is prudent to assume that, given the other pressures, the HRA will be unable to sustain an annual levy payment unless a programme of stock disposals is carried out, and/ or alternative income is identified.

6.14 Implementing a policy of targeted disposals will partially or completely offset the cost of the annual levy and provide additional resources to the HRA.

6.15 Section 76 of the Housing and Planning Act 2016 imposes a duty on a local housing authority to consider selling its interest in any higher value housing that has become vacant. Information from the last three years shows that each year, in the region of 500 - 600 HRA tenanted properties become void for a variety of reasons. Therefore, the Authority will need a policy on how it wants to treat the sale of vacant properties.

6.16 Certain HRA properties are expensive to maintain and may also require significant ongoing investment, therefore, voids falling into this category could be targeted for disposal.

6.17 There are currently a number of restrictions on local authorities disposing of HRA dwellings, in that Secretary of State consent must be sought in some instances. It seems likely that the rules governing the disposal of HRA properties will need to be relaxed in future to enable local authorities to carry out a high number of sales.

6.18 The Authority is currently looking at a range of options, which may include the use of an alternative delivery vehicle; more detail is set out in Section 10 of this report.

Pay to Stay

6.19 Part 4, Chapter 3 of the Act (Rents for High Income Social Tenants) sets out that local authorities must charge a high income local authority tenant a higher level of rent, and make payments to the Secretary of State in respect of any estimated increases in income.

6.20 Further details are set out in Appendix 2.

Impact on the HRA

6.21 Until more detail is provided, the impact on the Authority will not be certain, either in terms of the size of the upfront payment(s) that will be payable to the government, or the cost of administering the scheme.

6.22 The Pay to Stay scheme may increase the number of Right to Buy applications from households facing a significant rent increase. This would increase the one for one receipts retained by the Authority, leading to extra pressure on the HRA to contribute 70% of the funding of new-build schemes needed in order to spend those receipts.

6.23 The Pay to Stay policy is planned to come into effect in 2017/18, therefore, it was considered prudent to include an annual sum in the HRA Medium Term Financial Plan to represent the gap between what the Authority may pay to the government, and what it will collect. This gap was forecast to arise (1) if the government assumed a higher level of additional rent being due than is actually the case, and/ or (2) because the Authority was not able to collect all of the additional rent levied.

6.24 However, the government has since said that in the first year of operation local authorities will only make a payment to the government based on the additional rent actually collected, rather than based on a formula, therefore there should be no financial impact in 2017/18. Due to the current uncertainty about how this policy will work, the latest HRA financial modelling does not reflect any impact on the HRA in future years, although this may need to be revised once more is known about how it will work in practice.

6.25 The bad debt provision within the HRA will need to be re-examined to take account of the additional risk that this scheme may bring with it.

6.26 Table 4 below shows the possible impact on households affected by the policy; however it should be noted that it is not currently known how the 15p taper will operate and at what household income levels it will apply.

Annual household income	Income over threshold	15p levy (annual)	Weekly rent increase
£42,500	£2,500	£375	£7.21
£45,000	£5,000	£750	£14.42
£47,500	£7,500	£1,125	£21.63
£50,000	£10,000	£1,500	£28.85
£52,500	£12,500	£1,875	£36.06
£55,000	£15,000	£2,250	£43.27
£57,500	£17,500	£2,625	£50.48

Table 4 – Possible impact of Pay to Stay on rent levels

6.27 It should be noted that households earning less than £60,000 per annum are benefitting from a 1% rent reduction in 2016/17, as opposed to the previous rent policy which prescribed a CPI + 1% increase, and that therefore any future rent increases under the Pay to Stay policy are somewhat mitigated.

7. HRA RESOURCES

7.1 Table 5 below shows the resources that have been assumed to be available for use within the HRA, and these have been factored into the HRA model projections.

Funding Source	Amount £'000	Comment
HRA Reserve	30,000	
Major Repairs Reserve	9,175	Only to be used on existing stock
Major Works Cash receipts	13,147	
GLA grant (£7.9m)	6,162	
New Homes Bonus	11,000	Ear marked to fund Decent Homes
New Homes Bonus – additional	7,500	
Affordable Housing (former LPP)	3,043	Ear marked for new supply
RTB receipts (non 1-4-1)	15,000	
Preserved RTB receipts	3,600	
s106 - Affordable Housing	1,860	For new build
GLA grant (Watts Grove)	1,700	To be received on Practical Completion
RTB 1-4-1 receipts	47,873	To be used to fund 30% of the costs of replacement social housing
TOTAL HRA RESOURCES	**150,060**	

Table 5 – Current HRA resources factored into the financial modelling

HRA Borrowing

7.2 The HRA debt cap is fixed at £184.4 million. As the current level of HRA borrowing is just under £70 million, the current HRA borrowing headroom is just under £98.5 million. This takes into account the effect of the Poplar Baths/ Dame Colet lease agreements which affect the HRA capital financing requirement (CFR).

7.3 Although there is a substantial amount of HRA borrowing headroom available, there is a correspondnig revenue impact when borrowing is undertaken as the interest costs are a charge to the HRA revenue account

HRA Major Works cash

7.4 Any reduction in the amount of Major Works cash receipts collected compared to the modelled assumptions will have an impact on the level of future resources available within the HRA.

Use of HRA Resources in the model

7.5 The latest modelling indicates that virtually all the resources in Table 6 above will need to be used to fund the projected capital programme . In addition, funding the capital programme will require the use of the assumed major works cash that is factored into the financial model, and it is projected that all the HRA borrowing headroom will be used within the next seven years.

7.6 The HRA financial model does not apply specific resources to specific capital schemes, apart from the various capital schemes that will be undertaken in order to use the Right to Buy one for one receipts as (up to) 30% of the funding.

7.7 In reality, it is probable that the Authority would seek to use HRA borrowing as a last resort due to the associated revenue costs, therefore, if new resources become available to the HRA over and above what is currently assumed then borrowing could be delayed to a later date.

Possible Future HRA resources

7.8 Whilst the model currently reflects a prudent view and (apart from assumed major works cash) only takes account of currently held resources, there are a number of income streams that may add to the resources available to the HRA in future years, and these are detailed below.

New Homes Bonus

7.9 At its meeting on July 28th 2015, as part of the 'Strategic and Resource Planning 2016-17 to 2018-19' report, the Mayor in Cabinet agreed to note that £7.5m uncommitted New Homes Bonus has been set aside to fund replacement of social housing, and this is reflected in Table 6 above.

7.10 At the same meeting, the Mayor in Cabinet agreed to consider options to set aside additional New Homes Bonus to fund more affordable homes; the report suggested that top slicing £5 million each year in 2016/17, 2017/18 and 2018/19 could be accommodated within the Medium Term Financial Plan and allow the Council to maintain general reserves above the prudential minimum.

7.11 As part of the 'General Fund Revenue and Capital Budgets, Medium Term Financial Plan 2016-20' report considered by the Mayor in Cabinet on 2nd February 2016, it was observed that "*any amounts of New Homes Bonus over and above the amounts identified in the MTFP will be set aside to be used to support the council's capital programme for affordable housing and infrastructure.*" Therefore it is possible that additional sums of New Homes Bonus could be agreed for use on the delivery of more affordable homes.

Affordable Housing Planning Agreements (s106 resources)

7.12 Section 106 resources arise from planning agreements with developers; these are commonly used to secure affordable housing, and to secure financial contributions to provide infrastructure or affordable housing.

7.13 There are a number of current signed s106 agreements that may lead to in the region of up to £70 million of s106 resources relating to the provision of affordable housing being received by the Authority. This does not take account of s106 agreements that are yet to be signed. Any future s106 affordable housing provision will be significantly impacted by the Housing and Planning Act, and the government's policy on Starter Homes.

Preserved Right to Buy receipts

7.14 As part of the stock transfers that took place between 2004/05 and 2009/10, the registered social landlords (RSLs) have an obligation to share an element of the Right to Buy receipts received from the sale of housing stock that was transferred to them from the Council.

7.15 £3.6 million of such receipts has been received to date. In addition, these sharing agreements last for between 20 and 26 years, meaning that there should be receipts due to the HRA on an ongoing basis until the last sharing agreement expires in 2037.

Other HRA capital receipts

7.16 The Council is currently updating the Capital Strategy which will provide a route map for the allocation of capital resources. Although non Right to Buy HRA capital receipts are available for use within either the HRA or General Fund, a decision could be made to ring-fence such receipts for use within the HRA so as to provide more resources for the provision of affordable housing.

7.17 It should be noted however that the Right to Buy agreement does not allow these receipts to be used to contribute towards the 70% funding needed to spend the one for one receipts.

7.18 As has been detailed in a number of previous reports to Cabinet, the Government's re-invigoration of the Right to Buy scheme in April 2012 has had a profound impact on the HRA.

Right to Buy receipts (non 'one for one' elements)

7.19 As part of the calculation of the one for one receipts element, the Council deducts certain sums from the net Right to Buy receipt, i.e. for allowable debt, administrative costs, buy back allowance and the Local Authority's share. Whilst these capital receipts can be used for any purpose, the financial modelling undertaken has assumed that all receipts arising from Right to Buy sales are used within the HRA.

7.20 The first deduction from the Right to Buy receipts is the allowable (or attributable) debt which the authority keeps. These receipts can either be distributed to the HRA or the General Fund, and there is currently a balance of £9.1 million relating to this element.

7.21 The Authority is also allowed to retain £2,850 per property sold to cover administration costs; and approximately £1.7 million has accrued so far. One of Tower Hamlets Homes' proposed 2017/18 savings is to account for £700,000 of future receipts received under this heading within HRA revenue budgets, to offset the costs of administering the RTB scheme. It should be noted that this would lead to a corresponding reduction in HRA capital resources, and that the impact on the HRA overall is neutral.

7.22 Before HRA self-financing, local authorities were able to retain 25% of net right to buy receipts with the remaining balance returned to Government. This is now called the 'Local Authority share' and is based on a pre-determined value by the Government. The Authority has in the region of £2.5 million retained to date.

7.23 The next deduction from the Right to Buy receipts is the amount that the Council can retain to assist funding RTB 'buy-backs' that were originally purchased within 10 years of the RTB sale. The formula allows 50% of the amount that was spent by authorities on these 'buy-backs'. To date the Authority Tower Hamlets has approximately £2.8 million retained on account of this adjustment.

7.24 Finally, if a balance remains after the sums detailed in 7.18 to 7.22 above have been deducted, this is the amount that the Authority retains as one for one receipts.

7.25 In addition to the sums above, the Authority also keeps all the receipts arising from right to buy sales which are excluded from the Right to Buy agreement; i.e. the 79 properties that were bought back between 2009 and 2010, and any new-build properties that are sold. To date the Authority has retained £0.4 million from the sale of such properties.

7.26 These receipts are not currently reflected in the Authority's General Fund capital resourcing assumptions – aside from a sum of £1 million which has been ear-marked to contribute towards the new Civic Centre - therefore agreeing to ring-fence these receipts for use within the HRA will not lead to reduced resources within the Authority's General Fund capital programme.

7.27 Under the terms of the Right to Buy agreement these receipts can be used to contribute towards the 70% funding needed to spend the one for one receipts.

7.28 As detailed in Table 5 at 7.1, the sum of £15 million of non one for one receipts has been assumed within the updated HRA financial modelling.

8. RIGHT TO BUY

Future Right to Buy Sales

8.1 The updated HRA financial modelling has assumed that there will be 280 sales in 2016/17 and 2017/18, and that sales will then reduce to 80 a year for the next five years, then gradually reduce to 10 a year by the end of the 30 year period.

8.2 As at the end of Q4 of 2015/16, the Authority has £49.7 million of one for one retained receipts. On October 6th 2015 the Mayor in Cabinet agreed a strategy for using one for one receipts, which is reflected in the current HRA modelling. Indications are that the Authority should be able to spend the amount of one for receipts that are currently being held although this is subject to assumptions having been made about projected new-build timescales and costs.

8.3 As has been highlighted in paragraph 5.19, the financial modelling has assumed that the currently held £49.7 million of one for one receipts will be used, but no provision has been made for a 70% contribution towards any spend needed to use any future levels of one for one receipts.

8.4 It is anticipated that the primary source for the 70% funding that the Authority must contribute will be HRA borrowing, however, once the Authority's HRA borrowing headroom has been depleted, the Authority will have very limited resources available to fund its 70% contribution for replacement social housing. In that case the Authority will need to consider one or more of the following options:

a) alternative delivery models that could use the receipts
b) to pass the one for one receipts to a third party
c) to return the one for one receipts immediately (to avoid interest charges)

8.5 The level of receipts will be kept under review as well as the options for employing innovative ways of delivering housing.

9. NEW HOUSING SUPPLY

Locksley & Hereford Street sites

9.1 The Council was successful in securing GLA grant funding of £3.960 million towards the costs of two new build schemes on the Locksley St and Hereford St sites comprising 132 units. These are both infill sites on existing housing estates.

9.2 Capital estimates totalling £26.868 million were adopted for these two schemes by the Mayor in Cabinet. The Council was allocated £3.960 million of grant under the London Mayor's Housing Covenant, with the residual cost of £22.908 million assumed to be funded from HRA borrowing from within its HRA headroom. Under the terms of the grant award, the use of one for one receipts was specifically excluded from the funding sources that were permitted to finance these projects.

9.3 At its meeting on October 6th 2015 the Mayor in Cabinet agreed to return the GLA grant element that applied to these schemes, and further work has been completed and cost estimates received from the cost consultants. It should be noted that these schemes are subject to the planning process

Baroness Road and Jubilee Street sites

9.4 The Council was awarded additional HRA borrowing headroom of £8.225 million to deliver 48 units on the Baroness Road and Jubilee Street sites. The Baroness Road scheme is an infill site on an existing housing estate, and the Jubilee Street proposal is to build on a disused hard standing area previously used as a car park.

9.5 Capital estimates totalling £11.290 million were adopted for these schemes by the Mayor in Cabinet. Under the terms of the borrowing approval, the use of one for one receipts was specifically excluded from the funding sources that were permitted to finance these projects.

9.6 At its meeting on October 6th 2015 the Mayor in Cabinet agreed to return the additional HRA borrowing awarded to these schemes. Further work has now been completed on these new-build schemes and cost estimates received from the cost consultants. It should be noted that these schemes are subject to the planning process.

Tent St and Arnold Rd sites

9.7 Following the decision of the Mayor in Cabinet on October 6th 2015, the costing analysis to develop 134 units on the Tent St and Arnold Rd sites has now been completed.

9.8 The Mayor in Cabinet is asked to agree that a revised capital budget of £89.920million be incorporated with the capital programme in order to deliver 270 units on these six new-build sites. This estimate will supersede the existing budgetary approvals for these sites. It should be noted that these schemes are subject to the planning process.

9.9 Table 6 below shows a summary of the Council's new-build programme.

Scheme	Units	Comment
Poplar Baths/Dame Colet House	100	Completed
Bradwell Street	12	Completed
Watts Grove	148	On site
Jubilee Street	24	
Baroness Road	22	
Hereford Street	37	
Locksley Estate	54	
Tent St	72	
Arnold Rd	62	
TOTAL	**531**	

Table 6 – HRA New-Build schemes

Purchase of s106 units

9.10 The Council is currently holding substantial levels of Right to Buy receipts, which must be used for replacement social housing. If the receipts are not used within three years, they must be paid to the Government with significant interest penalties. The Council's Development programme is not planned to deliver to the same timeline as the RTB receipts expire, due to the development process of new-build schemes, and this is also true for schemes being developed by Registered Providers (RPs) – these are generally Housing Associations - under the RP Grant Scheme. It is therefore proposed that in addition to these schemes, the Council acquires affordable housing units where these do not have an affordable housing provider appointed.

9.11 Developers are required to sell to RPs the units at a discount. The Council is aware of some schemes where planning has required affordable housing units to be built but no provider has come forward. The outcome in that scenario would be for the units to be lost to the affordable housing supply as the developers negotiate a commuted sum or deliver units off-site. By intervening and negotiating directly with the developer, the Council can do one of two things:

a) purchase the affordable units provided under the Section 106 Agreement with Planning, funding the acquisition through 30% RTB one for one replacement receipts and 70% from the council's other resources including Section 106 funds already paid into the Council for the provision of affordable housing - subject to the presentation of a full business case.

b) partner with an RP to purchase the units with the Council providing the 30% grant under the RP Grant programme already set up.

9.12 An opportunity has arisen for the Authority to purchase a number of s106 units that are to be constructed on a new-build development site within the borough. The scheme is the offsite affordable element of a development which was granted planning consent in 2013. The unit mix is shown in Table 7 below:

Bed sizes	Unit type	Shared ownership units	Total units
1-bedroom	8% (affordable rented units	9	20
2-bedroom	15% (affordable rented units)	18	40
3-bedroom	51% (social rented units)	4	77
4-bedroom	18% (social rented units)	0	26
5-bedroom	8% (social rented units)	0	10
	142	**31**	**173**

Table 7 – Unit mix on s106 site

9.13 Under the option to purchase the rented units outright, the Council would need to find a partner for the shared ownership units. It would also need to find an RP partner to acquire all 173 units if it were minded to add them to the RP Grant programme. The site will need to be valued by an external valuer.

9.14 Another opportunity presents itself at another site in the borough which achieved planning in 2012 and counts a total of 36 units of which 12 are affordable. The unit mix is as follows: 2 x 1 bed, 1 x 2 bed for Affordable Rent plus 5 x 3 bed/ 5 person for Social Rent, 4 Intermediate units 1 x 1 bed, 2 x 2 bed, 1 x 3 bed, and a further 24 for sale units.

9.15 Although an RP showed interest in these units at one time, they did not pursue it and the scheme currently has no identified affordable housing provider. The opportunity presents itself to the Council to purchase the units, especially as they include 5 large family units at social rent. The site will need to be valued by an external valuer.

9.16 Provision will need to be made in the Authority's capital programme and this will take place following a report to full Council.

9.17 The Mayor in Cabinet is asked to approve the principle of acquiring Section 106 affordable units from developers and authorises officers to investigate RP interest and negotiate with both RPs and the developers on a potential acquisition of either of these two sites. The schemes will require Cabinet to approve that the capital budgets be added to the capital programme, once the values are agreed and subject to the satisfactory outcome of the negotiations.

Developing New-Build at social rent levels

9.18 At its meeting on 10th May 2016, the Mayor in Cabinet agreed to consider the recommendations of the Affordability Commission, one of which was:

"To deliver 100% rented housing combining social target rents and homes at 'living rent' (set at a proportion of median incomes at or below Local Housing Allowance levels) that is affordable without recourse to benefits for households with median incomes. These would cross-subsidise the social target rented homes.

To investigate letting the higher rent homes through a separate waiting list and potentially developed by a Council owned Housing Company.

Recognise that this model would not be sustainable in the long term as the high levels of Housing Revenue Account (HRA) resources required to offset the negative impact on the HRA will not be available in the current fiscal climate. Explore other models which could include cross subsidy through market sale of homes on sites it owns, borrowing against General Fund reserves, and use of commuted sums.

9.19 Modelling has been undertaken to determine the impact of building Council housing and then letting at social rent levels. General assumptions used are as follows:

- 30% of the cost is covered by Right to Buy one for one receipts;
- the remaining 70% of the cost is covered by HRA borrowing.

9.20 Using these assumptions, financial modelling indicates that each new-build property let at social rent levels causes a financial pressure in the HRA of just under £10,000 each year. This amount reflects the gap between the rental income and the expenditure associated with the property, such as management and maintenance costs, as well as the cost of repaying the borrowing (both principal and interest) undertaken in order to build the unit.

9.21 If the assumptions are changed so that additional council resources are used to reduce the reliance on borrowing to 50% of the costs, then the annual financial pressure on the HRA reduces to approximately £6,000 for each new-build property.

9.22 However, the HRA resources currently held as shown in Table 5 are limited, and some of the capital resources are restricted as to how they can be applied, or are already ear-marked for use on certain schemes, therefore, additional subsidy by means of HRA resources other than borrowing is not a feasible long-term option on current projections.

Developing New-Build at market rent levels

9.23 Modelling has been undertaken to determine the impact of building Council housing and letting it at market rent levels. General assumptions used are as follows:

- 30% of the cost is covered by Right to Buy one for one receipts;
- the remaining 70% of the cost is covered by HRA borrowing.

9.24 Using these assumptions, financial modelling indicates that each new-build property let at market levels results in each property generating an annual surplus of approximately £8,900. If the borrowing is reduced to contribute 50% of the funding then there is an annual net surplus of approximately £12,500 per property.

Developing New-Build at Local Housing Allowance rent levels

9.25 Modelling has been undertaken of the impact of building Council housing and then letting at Local Housing Allowance (LHA) rent levels. General assumptions used are as follows:

- 30% of the cost is covered by Right to Buy one for one receipts;
- the remaining 70% of the cost is covered by HRA borrowing.

9.26 Using these assumptions, financial modelling indicates that each new-build property let at LHA levels results in a – more or less – neutral impact on the HRA. If the borrowing is reduced to contribute 50% of the funding then there is an annual net surplus of approximately £4,000.

9.27 If the modelling is re-run with rents charged at 90% of LHA levels, then each new-build property results in a financial pressure of roughly £1,000 on the HRA. If the borrowing is reduced to contribute 50% of the funding then there is an annual net surplus of approximately £2,500 per property.

Developing New-Build at Living Rent levels

9.28 Modelling has been carried out assuming that a different 'Living Rent' is charged on new supply, as well as a number of other assumptions, which are outlined below, with the overall position on the HRA shown in Graphs 4 to 6:

Scenario modelled

(i) Additional savings of £1 million a year for five years

9.29 Benchmarking of THH costs indicates that there is some scope for additional efficiencies to be identified; in addition, the stock numbers are reducing due to the high number of Right to Buy sales that are taking place. A sum of £1 million of savings has been assumed each year for five years.

(ii) Sell 5 properties a year

9.30 The sale of five HRA properties per year to a housing company has been modelled, with a receipt of £0.250million per unit (current rules allow five disposals a year.) Potentially these properties could be used for temporary accommodation.

9.31 There are some types of property that the Authority may wish to consider disposing of, such as higher value properties (which will tend to include street properties, ground floor properties, and homes with gardens) and properties that are expensive to maintain or which require significant ongoing investment.

9.32 Alternatively, some properties are harder to let than others, such as bedsits and properties in blocks affected by anti-social behaviour.

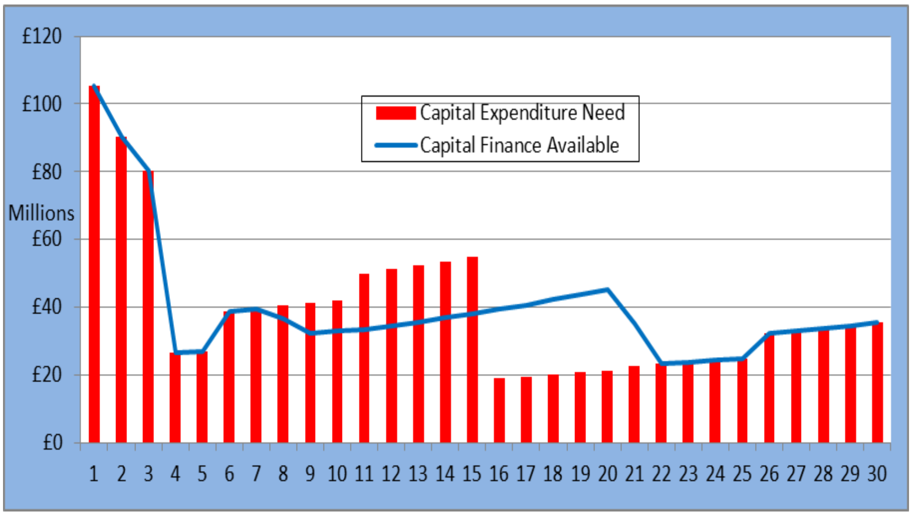
9.33 As tenanted stock numbers will continue to reduce as a consequence of Right to Buy sales, many individual blocks have high proportions of leaseholders; voids arising in such blocks could be targeted for disposal.

(iii) All new supply to be let at 50% 'Living Rent' and 50% social rent

9.34 The following rent levels have been assumed:

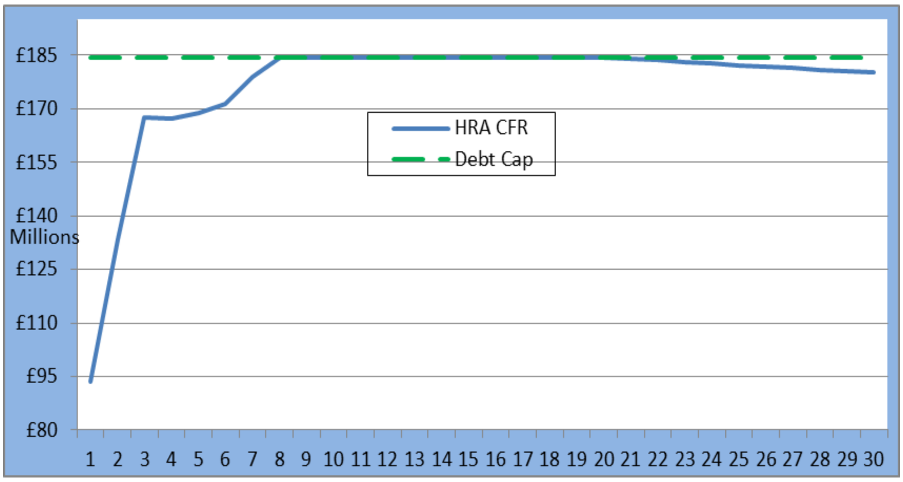
1 bedroom	2 bedroom	3 bedroom	4 bedroom
£200	**£225**	**£250**	**£275**

Table 8 – Assumed 'Living Rent' levels



Graph 4- Capital Expenditure v Resources Available

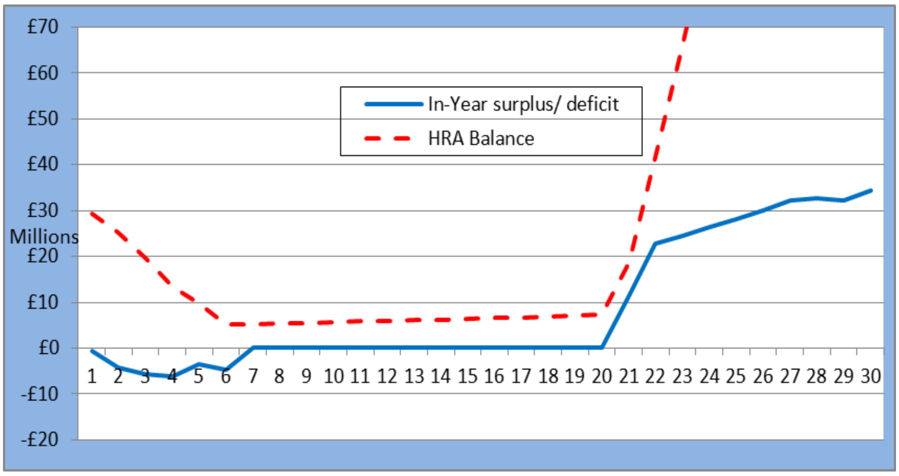
Capital shortfall of £116 million in year 16 with catch up achieved in year 21.



Graph 5 – HRA debt compared to the HRA Debt Cap

The debt cap is reached in year 8.

Minimal debt repayment possible towards the end of the 30 year period.



Projected HRA balance allows for the repayent of all HRA debt by year 30

Graph 6 - Forecast HRA Balance and in-year cashflow

9.35 Table 9 below sets out the average rent levels within Tower Hamlets.

	1 Bed	2 Bed	3 Bed	4 Bed
2016/17 LBTH Social Rents	£98	£111	£125	£140
Living Rent	£200	£225	£250	£275
2015/16 POD Affordable rent levels	£215	£232	£265	£287
2016/17 Local Housing Allowance	£259	£302	£354	£417
2016/17 80% Market rents	£264	£328	£408	£520
2016/17 Market rents	£330	£410	£510	£650

Table 9 – Comparison of weekly rents in Tower Hamlets

10. ESTABLISHING ALTERNATIVE DELIVERY MODELS

10.1 As outlined throughout this report, the environment in which the HRA is now operating has changed substantially since HRA Self-Financing began in April 2012.

10.2 In effect, stock-owning local authorities have lost control and discretion over their rent policies for four years, at huge cost to their HRAs compared to their previous assumptions of above inflation rent increases (as set out in previous rent policies), and it is not clear what rent policy will be put in place after four years of rent cuts end in 2019/20.

10.3 In addition, the ability of local authorities to manage their HRA assets has been severely undermined, firstly, due to the re-invigorated Right to Buy scheme which has led to a huge increase in applications and sales, thereby reducing the housing stock. Although most of the capital receipts from these sales are retained in one form or another, the government has put in place a number of restrictions attached to their use, meaning that in practice, it is very challenging to spend these within the timescales imposed by the government.

10.4 The Housing and Planning Act will add to these pressures, by imposing a mandatary rent increase on households earning over £40,000. Although details are not yet known, the administration of this policy within local authorities is likely to be complex and time-consuming, with no financial benefit to the HRA, as any additional rent collected is to be paid to the government.

10.5 The levy payable by local authorities to reflect the assumed disposal of their vacant higher value council stock will deplete HRA resources if sales do not occur to cover the levy. If sales do take place in order to fund the levy, then local stock-owning authorities will see a further reduction in their housing stock, and it is as yet unclear how the government's intention that these properties be replaced on a two for one basis in London will work in practice.

10.6 An outline business case that is currently being explored is the option to set up a company – either wholly or partly owned by the Authority, which could be financed by way of a loan from the Council's General Fund. The company could purchase the Authority's vacant stock and use the units to provide temporary accommodation in order to alleviate the pressures on the General Fund homelessness budgets in light of rising demand and a severe shortage of temporary accommodation. In this way, the impact of the high-value void policy could be mitigated. This would be part of a wider overall Council investment strategy.

10.7 The advantages of this arrangement are that it would allow the council to set rents at the level of Local Housing Allowance, to offer more stable tenancies to vulnerable people, and to adjust rents when tenants' circumstances change.

10.8 As discussed in section 6, the Council could sell HRA vacant properties to alternative buyers including open market sales. However, these sales will deplete the current housing stock and make it more difficult to find accommodation for homeless families.

10.9 It is therefore proposed that the options around setting up a housing company are explored and a report brought back to a future Cabinet meeting.

New supply

10.10 Work is also ongoing in relation to alternative models that could be set up in order to use Right to Buy one for one receipts

10.11 There are advantages in delivering new housing in this way, such as gaining more control over house-building. Without relying on grant funding, such companies have more control over setting below-market rents, are able to use revenues outside the HRA, and can maintain full control of a property portfolio that is not subject to Right to Buy. The structure can also give local authorities greater flexibility, in that they can work alone or with partners, build for sale or rent (Private Rented Sector or social), and expand or contract to meet demand.

11. HRA BUDGET PROCESS 2017/18

2017/18 Savings

11.1 The HRA Budget report agreed by Cabinet in February 2016 suggested a saving of £2 million would be required in the HRA in 2017/18. As part of the Council's budget process any HRA savings put forward will be subject to discussion and scrutiny.

11.2 A list of possible HRA savings identified by Tower Hamlets Homes (THH) is being considered as part of the budget process outlined in Appendix 3.

11.3 It should also be noted that expenditure on Service Level Agreements (SLAs) representing services provided to THH by the Council's General Fund will be examined for potential savings, as this constitutes a sizeable amount of the management fee. In particular, the accommodation SLA will be scrutinised to examine the possibilities for achieving savings to the HRA, although this will have an impact on the Council's General Fund.

2018/19 onwards

11.4 It is likely that substantial HRA savings will be needed from 2018/19 onwards in order to mitigate the impact of the policy changes outlined above, and to avoid annual deficits in the HRA that will deplete HRA reserves. There are no such savings currently assumed.

11.5 Until details are published about the Sale of Higher Value Voids levy and Pay to Stay in particular, it is not possible to form an accurate view about the level of savings that will be necessary, although they are likely to be of a scale requiring service re-design.

11.6 Therefore it should be presumed that transformational change will be needed from 2018/19 onwards and steps taken to begin this process.

11.7 Another area where savings will be presumed is within the management fee to reflect the reducing size of THH's element of the capital budget as the Decent Homes programme ends.

Risks

Apprenticeship Levy

11.8 From April 2017, an apprenticeship levy will be payable by organisations whose pay bill is more than £3 million. The levy could cost THH in the region of £100,000 in total. In addition to this, the company will be subject to the public sector workforce target in terms of the number of apprentices employed to be equivalent to 2.3% of headcount.

Staff Costs

11.9 It is anticipated that there may be pressures on employee cost budgets as a result of the revaluation of the Local Government Pension Scheme undertaken in March 2016.

12. COMMENTS OF THE CHIEF FINANCE OFFICER

12.1 This report provides a summary of the current position of the Housing Revenue Account (HRA) Medium Term Financial Plan, together with an assessment of the outline 30-year HRA Business Plan.

12.2 As outlined in the report, the Housing Revenue Account is currently facing significant pressures arising from the need to balance the provision of new housing supply with the impact arising from changes in Government legislation, particularly those due to the 1% per annum reduction in social rent levels and the uncertainties arising from the recently adopted Housing and Planning Act. These pressures have to be considered in conjunction with the need for the Council to utilise the significant levels of retained ‘one for one’ right to buy receipts that it currently holds.

12.3 The report includes an assessment of the Housing Revenue Account over a 30-year period. This is detailed in section 5, with a summary of the assumptions used included in paragraph 5.23. Over the period the modelling indicates that the HRA is viable, however this will require reprofiling of projected capital works between years seven and fifteen (2023 to 2031) in line with available resources. The resulting Medium Term Financial Plan for the five year period from 2017-18 is shown in Appendix 1.

12.4 It is important to note that although the Housing and Planning Act received Royal Assent in May, the specific detail on various aspects of the legislation has not yet been released. This is of particular concern in relation to two major areas – the Sale of Higher Value void stock, outlined in section 6 and detailed in Appendix 2). Although provision has been included within the HRA budget and the medium term financial plan for the assumed impact of these policies, the lack of specific details means that there is a significant risk that the assumptions may be incorrect. On publication of the detailed regulations, the implications for the Council will be reviewed and any reassessment of the financial impact will be incorporated into the HRA medium term financial plan and 30 year HRA business plan which will form the basis of future budgetary reports to Cabinet.

12.5 As referred to in paragraph 5.24, modelling of other scenarios has been undertaken using differing assumptions in relation to the supply of new housing, including future rent levels and assumed resource availability.

12.6 The report seeks approval for the allocation of capital budgets to enable the development programme for new housing supply to proceed (paragraphs 9.1 to 9.8).

12.7 In light of the need to utilise the significant retained ‘one for one’ receipts that the Council holds from its Right to Buy proceeds, on 6th October 2015 the Mayor in Cabinet considered a report on Housing Capital Delivery. This reassessed the various funding sources approved for specific schemes (Locksley Estate, Hereford Street, Baroness Road and Jubilee Street - totalling £38.157 million), and also approved a capital budget of £10 million to enable the appointment of professional services, including technical advisors, architects, employer’s agents and surveyors, in order to allow schemes to be developed up to RIBA stage 3 level.

12.8 The 2016-17 budget report that was subsequently approved by Council on 24th February 2016 included a further provision of £84.22 million for the supply of new housing in order that the retained ‘one for one’ receipts can be utilised in accordance with Government conditions. These resources were set aside subject to a reassessment of the availability of funding as the schemes were submitted for approval.

12.9 Following the review of the costings for the Locksley Estate, Hereford Street, Baroness Road and Jubilee Street projects, together with the incorporation of new schemes at Tent Street and 3-5 Arnold Road, this report seeks approval for a total capital budget of £89.92 million in order that these schemes can progress. £48.157 million has already been approved towards the financing of the enhanced development programme (paragraph 12.7), meaning that approval is now sought for an allocation of £41.763 million of the £84.22 million to increase the total capital budget for delivery of these specific schemes to the required £89.92 million. These resources are included within the analysis in table 5 (paragraph 7.1).

12.10 If any of the schemes do not proceed, any expenditure already incurred on the specific project will be abortive and therefore must be charged to revenue. If so, the costs will be financed from revenue resources earmarked to finance a Revenue Contribution to Capital expenditure.

12.11 It should be noted that the Tent Street and 3-5 Arnold Road sites are held for General Fund purposes. If these sites are ultimately developed for Local Authority housing, it will be necessary to appropriate the land into the HRA for the purpose of delivering council homes. The implications of this will be included in the assessment of potential projects in future Cabinet reports.

12.12 A key element of the on-going viability of the HRA is the need to generate revenue savings. The HRA MTFP currently assumes that savings of £2 million will be achieved in 2017-18, with a further £5 million required over the period of the MTFP. The identification of savings in conjunction with Tower Hamlets Homes will form a key element of the process for setting the 2017-18 Housing Revenue Account budget, a timetable for which is shown in Appendix 3. This is consistent with the schedule that has been adopted for the General Fund.

13. LEGAL COMMENTS

13.1 The Council is subject to an obligation under Part VI of the Local Government and Housing Act 1989 to maintain a Housing Revenue Account (HRA). The HRA records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing related services from this account.

13.2 The Council has a HRA Business Plan and which is its strategic plan for managing and maintaining its housing stock. It sets out the council's short-to-medium term plans and priorities for its housing management services and provides a long term (30 year) perspective on stock investment and financial planning (i.e. to ensure that the Council's Housing stock maintains the Decent Homes Standard). The Business Plan is a living document which will be reviewed at least annually to reflect changing circumstances.

13.3 The Council is under a duty to set a balanced HRA and a sustainable budget over the 30 year business plan period, and needs to plan the use of resources in such a way that it can deliver its statutory responsibilities as well as meeting local people's aspirations for services. A Medium Term Financial Plan is required to enable financial pressures and risks to be planned and to avoid having to make unforeseen decisions which are more likely not to offer value for money

13.4 The report outlines the current position in respect of the HRA Medium Term Financial Plan and advises as to risks faced by the HRA over the medium-term period. It advises that the HRA Medium Term Financial Plan will be further developed as part of the strategic and resource planning process for 2017/18 onwards with the overall aim to provide sufficient flexibility to deal with the risks faced by the HRA over the medium-term period.

13.5 The report makes reference to the Housing & Planning Bill which received Royal Assent on 12th May 2016 and is now enacted. The Act was published on 23rd May 2016 and contains a number of impacts for local authorities including provisions on new homes (including starter homes); landlords and property agents; abandoned premises; social housing (including extending the Right to Buy to housing association tenants, sale of local authority assets, 'pay-to-stay', and secure tenancies), planning; compulsory purchase; and public land (duty to dispose). This report concentrates on those that impact on the HRA and which are outlined in section 6 and detailed in Appendix 2 of the Report.

13.6 The various capital 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 Council is empowered by section 9 of the Housing Act 1985 both to build homes to meet housing need in the borough but also to alter, enlarge, repair or improve its housing stock.

13.7 It will be for officers to ensure that individual commitments are carried out in accordance with legal requirements. The terms of specific grant funding must be complied with, as must the terms of any section 106 agreement under which funding is to be made available. Any procurement associated with works or projects must be carried out in accordance with the Council's procurement procedures and the requirements of the Public Contract Regulations 2006. If the costs of works are to be recharged to leaseholders must comply with the statutory consultation requirements.

13.8 With regard to the proposal to sell off a minimum of 5 HRA properties a year, the Council's procedure for disposals and lettings adopted at Cabinet on 8th April 2015, specifies that disposals may be by one of the following means: (a) informal tender; (b) formal tender; (c) auction; and (d) sale by negotiation. The procedures provide that the Service Head, Corporate Property and Capital Delivery will determine the most appropriate method of disposal, based on the type and location of the property and the prevailing property market and subject to the Council meeting its legal requirement.

13.9 Further, whenever a local authority disposes of HRA properties it has to have regard to section 32 of the Housing Act 1985 and which provides that a local authority may not dispose of any land held by them without the consent of the Secretary of State. In order to facilitate the disposal of land held for housing purposes the Secretary of State has issued a series of general consents, which permit the disposal of land held for housing purposes without the need to obtain express consent. The consents are collectively known as The General Housing Consents 2013. In accordance with paragraph A2.2 of the General Housing Consents a disposal includes the grant of a lease of any duration. Paragraph A3.1.1 of the General Housing Consents provides that a local authority may dispose of land for a consideration equal to its market value.

13.10 Also regarding disposal of HRA properties, the Council is currently subject to the following Direction by the Minister on 17th December 2014 requires the Council, until 31st March 2017, to "….. *obtain the prior written agreement of the Commissioners* ***before*** [emphasis added] *entering into any commitment to dispose of, or otherwise transfer to third parties, any real property other than existing single dwellings for the purposes of residential occupation.*" Therefore any planned disposal of HRA property prior to 31st March 2017 will require written approval from the Commissioners unless the sale is of an existing single dwelling for the purpose of residential accommodation.

13.11 The Council is required as a best value authority under section 3 of the Local Government Act 1999 to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Before agreeing any of the recommendations in the report, the information provided in the report particularly the finance comments must be considered with a view to whether they proposals relevantly reflect value for money.

13.12 Before agreeing any of the report's recommendations, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). Information relevant to these considerations is contained in section 14 of the report.

14. ONE TOWER HAMLETS CONSIDERATIONS

14.1 The budget and Medium Term Financial Plan is one of the main instruments through which the Council delivers its Strategic Plan, including its objective to promote One Tower Hamlets. It is important that decisions taken as part of the budget process take account of equalities and diversity issues.

15. BEST VALUE (BV) IMPLICATIONS

15.1 The efficiency and value for money implications of individual budget proposals will be set out as part of the budget process as it progresses.

15.2 Savings will be identified throughout the budget process and incorporated into the draft 2017/18 budget in order to ensure that the HRA remains in balance. Projects will be undertaken in partnership with Tower Hamlets Homes to identify further ongoing efficiency savings to ensure that the HRA remains sustainable in the longer term.

16. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

16.1 There are no specific implications arising from the recommendations in this report.

17. RISK MANAGEMENT IMPLICATIONS

17.1 Since the introduction of Self-Financing, the London Borough of Tower Hamlets is responsible for running its HRA as a viable business, using HRA income in order to fund all HRA expenditure, including the capital works necessary to maintain and improve the housing stock, and the funding of the Decent Homes programme.

17.2 Various areas of risk and uncertainty are highlighted in section 6. Over the next few months, it will be essential to review and update the HRA medium-term financial plan to reflect economic conditions and policy changes.

18. CRIME AND DISORDER REDUCTION IMPLICATIONS

18.1 There are no significant implications arising from these specific recommendations.

19. SAFEGUARDING STATEMENT

19.1 There are no significant implications arising from these specific recommendations.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix 1 – HRA MTFP projections 2017/18 to 2021/22
- Appendix 2 – Housing and Planning Act 2016 – detail on Sale of Higher Value vacant stock and Pay to Stay
- Appendix 3 – HRA Budget Setting timetable

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

- n/a

Originating Officers and Contact Details

Name	Title	Contact for information
Katherine Ball	Senior Accountant (HRA)	020 7364 0997

APPENDIX 1

MEDIUM TERM FINANCIAL PLAN 2017/18 – 2021/22

(BASED ON THE 'BASE CASE' FINANCIAL MODELLING OUTLINED IN PARAGRAPHS 5.8 TO 5.23)

Housing Revenue Account	2017/18	2018/19	2019/20	2020/21	2021/22
	Draft Budget £'000	**Draft Budget £'000**	**Draft Budget £'000**	**Draft Budget £'000**	**Draft Budget £'000**
INCOME					
Dwelling & non dwelling rents	(70,680)	(71,541)	(72,618)	(74,167)	(76,002)
Tenant & Leaseholder service charges	(20,146)	(20,650)	(21,166)	(21,695)	(22,238)
Investment Income received	(415)	(687)	(868)	(1,046)	(969)
General Fund contributions	(115)	(115)	(115)	(115)	(115)
GROSS INCOME	(91,356)	(92,993)	(94,768)	(97,023)	(99,323)
EXPENDITURE					
Repairs & Maintenance	23,115	23,693	24,286	24,893	25,667
Supervision & Management	21,815	22,360	22,919	23,492	24,080
Special Services, Rents rates & taxes	15,815	16,210	16,615	17,031	17,456
Increased/(Decrease) provision for bad debts	668	672	681	695	712
Capital Financing charges	20,657	22,896	24,630	25,055	25,959
Sale of High Value Voids levy	8,400	8,400	8,400	8,400	-
GROSS EXPENDITURE	90,471	94,233	97,531	99,566	93,875
NET COST OF HRA SERVICES	(886)	1,240	2,764	2,542	(5,448)
Appropriations					
Revenue Contribution to Capital Outlay (RCCO)	5,000	5,000	5,000	3,800	5,198
NET POSITION	4,114	6,240	7,764	6,342	(251)
HRA Reserve					
Opening balance	(31,973)	(27,859)	(21,619)	(13,855)	(7,513)
(Surplus/ Deficit on HRA	4,114	6,240	7,764	6,342	(251)
Closing balance	(27,859)	(21,619)	(13,855)	(7,513)	(7,763)

APPENDIX 2

HOUSING AND PLANNING ACT 2016

SALE OF HIGHER VALUE VACANT STOCK

Part 4, Chapter 2 of the Act (Vacant Higher Value Local Authority Housing) sets out that local authorities will make annual payments to the government based on the assumed capital receipts from higher value Council properties that are projected to become void. The government made a manifesto commitment to extend the Right to Buy to housing association tenants, and the sums raised through this levy are intended to fund the cost of these Right to Buy discounts.

Section 69 of the Act provides for the Secretary of State to:

"make a determination requiring a local housing authority to make a payment in respect of a financial year."

This payment will be an estimate of:

"the market value of the authority's interest in any higher value housing that is likely to become vacant during the year, less any costs or other deductions of a kind described in the determination.

Payment Required

Section 69 of the Act also permits the Secretary of State to make a determination, which:

- must set out the method for calculating the payment amount;
- may provide for all/ part of the amount to be calculated using a formula;
- may use assumptions, whether or not the assumptions are, or are likely to be, borne out by events.

"Higher Value" housing

The Secretary of State must by Regulations define "higher value". Such Regulations may:

- define "higher value" in different ways for different types of housing, different local housing authorities or different areas;
- use any category of housing as a comparator;
- take into account any other factors that the Secretary of State considers appropriate;
- exclude some categories of housing

Determinations

Section 72 provides that Determinations:
- may be varied or revoked;

HOUSING AND PLANNING ACT 2016

- may relate to more than one financial year;
- may make provision for how and when a payment is to be made;
- may provide for interest to be charged in the case of late payment;
- must be made in advance of the financial year to which they relate, unless section 69 comes into force part-way through a financial year, in which case a Determination may be made at any time (Section 73).

Reducing the Payment by Agreement

Section 74 provides that the Secretary of State and a local housing authority may enter into an agreement to reduce the amount that the authority is required to pay. Such an agreement will include:

- the amount of the reduction;
- any terms and conditions, such as:
  - the requirement for the authority to provide at least one new affordable homes for each old dwelling (outside Greater London) or
  - the requirement for the authority to provide at least two new affordable homes for each old dwelling (Greater London)

In relation to this section, "new affordable home" is defined as:

" a new dwelling in England that –

(a) is to be made available for people whose needs are not adequately served by the commercial housing market, or
(b) is a starter home (as defined by section 2)

"new dwelling" means a building or part of a building that –

(a) has been constructed for use as a single dwelling and has not previously been occupied, or
(b) has been adapted for use as a single dwelling and has not been occupied since its adaptation

Section 74 (9) provides that the Secretary of State can change the meaning of "affordable home".

Duty to consider selling vacant higher value housing

Section 76 requires local housing authorities to consider selling its interest in any higher value housing that has become vacant, and to have regard to any guidance given by the Secretary of State.

As outlined above, the Secretary of State can exclude certain types of housing from this duty.

APPENDIX 2

HOUSING AND PLANNING ACT 2016

PAY TO STAY

Part 4, Chapter 3 of the Act (Rents for High Income Social Tenants) sets out that local authorities must charge a high income local authority tenant a higher level of rent, and make payments to the Secretary of State in respect of any estimated increases in income.

This policy is compulsory for local authorities and the government has assumed that additional rent of £125 million will be generated and used to contribute towards deficit reduction. The policy will be voluntary for housing associations, who will also be able to retain any additional rent collected.

Rent Regulations

Section 80 (a) sets out that future regulations may provide for the rent payable:

- to be equal to the market rate
- to be a proportion of the market rate, or
- to be determined by reference to other factors

Meaning of “high income”

Section 81 state that regulations will also define ‘high income’, and set out how a person’s income is to be calculated.

Information about income

Section 82 provides that local authorities can require a tenant to declare their income, and that if they fail to do so, they may be charged full market rent.

HMRC information

Section 83 allows HMRC to disclose information to local authorities so that they can validate income information provided by tenants.

Additional Information

During the Housing and Planning Act’s passage through Parliament the government committed to the following aspects of the scheme:

Income Thresholds

The minimum thresholds with be £31,000 outside of London, and £40,000 in London; and a commitment was made to allow for the thresholds to be reviewed and uprated annually in line with the Consumer Price Index (CPI).

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HOUSING AND PLANNING ACT 2016

“Income”

Income will be defined as “taxable income”, which will take account of employment earnings, pension income and investment income but not Child Benefit, Disability Living Allowance or Tax Credits.

No households in receipt of Universal Credit or Housing Benefit will be subject to the policy, and the government confirmed that this covers people who become eligible for housing benefit because of the higher rent, as well as existing claimants.

Taper

A taper of 15% will apply above minimum income thresholds, therefore, where the taper applies, for every additional £1 a household receives in income above the threshold they will pay an additional 15p per week in rent.

Household

“Household” will be defined as the tenant, any joint tenants and their spouses, partners or civil partners and only the incomes of the two highest earners will count. The incomes of non-dependent children will not count unless they are one of the two highest earners. There did not seem to be a commitment from the government to exempt people over the age of 65.

Payments by local authority to the Secretary of State

As with the vacant higher value local authority housing, Section 86 provides for local authorities to make a payment/s to the Secretary of State in respect of any estimated increase in rental income because of the regulations. Again, the regulations may provide for assumptions to be made, whether or not those assumptions are, or are likely to be borne out by events.

Section 86 states that regulations may provide for deductions to be made to reflect the administrative costs of local authorities in implementing the regulations. Due to the likely complexity of administering this scheme, it is anticipated that there will be significant additional costs to local authorities.

APPENDIX 3

HRA 2017/18 BUDGET SETTING TIMETABLE

Date	Meeting	Action
End of July	Cabinet	Consider 'HRA Outline 30 Year Business Plan and Medium Term Financial Outlook' report
January 10^{th} 2017	Cabinet	Consider the 'HRA Rent Setting report 2017/18'
February 7th 2017	Cabinet	Consider the 'HRA Budget Report 2017/18 and Adoption of HRA Capital Estimates' report