

## Appendix A - HRA Business Plan – January 2018

### 1. Introduction

The council's Housing Revenue Account (HRA) is funded through rents and service charges received from council tenants and leaseholders, and meets the costs associated with maintaining and managing the council's housing stock, and can also be used for funding the development or acquisition of new council homes and other related capital projects.

Since 2012, the HRA has been self-financing, although there have been restrictions on borrowing in the form of a debt cap and the amount of income that can be raised through rents.

The government removed the debt cap in October 2018 and borrowing in the HRA is now subject to the same prudential guidelines as the General Fund, providing opportunities for increasing affordable housing supply supported by the HRA.

This report sets out progress that has been made since 2017, when the Council's last HRA Business Plan was agreed and priorities for the next period through until 2025.

### 2. Executive Summary

Good progress has been made on implementing the HRA Business Plan since 2015, with the completion of 40 new council homes for rent, and the commencement of building work on a new 53-unit extra care scheme at Moreton Close, as well as the acquisition of a number of properties in London to let at affordable rent to homeless applicants.

In addition, the council has continued to invest in existing council homes which continue to be maintained to the Decent Homes standard.

The council and Barnet Homes have always taken fire safety very seriously, and ensuring the safety of residents was already a top priority for our investment programme. Following the Grenfell Tower fire earlier this year, the council has committed to going beyond its statutory obligations to meet best practise in fire safety measures, and a priority for the HRA business plan going forward will be to deliver this commitment.

Other projects to be supported by the HRA Business Plan include 2 additional extra care schemes, providing 125 new homes, and a project to provide an additional 20 council flats by adding a floor to existing buildings.

### 3. National Policy Framework

The introduction of HRA self-financing in 2012 included a debt cap to restrict the amount of borrowing that councils could carry out against their HRAs. In October 2018, the

government removed the debt cap and HRA borrowing is now subject to the same prudential borrowing guidelines as the General Fund. This means in effect that borrowing is now determined by the ability of the HRA's ability to meet the costs of borrowing including interest and repayment, providing an opportunity to invest in increasing the supply of affordable housing.

The Welfare Reform and Work Act 2016 introduced a 4-year requirement for social landlords to reduce their rents by 1% each year from April 2016, which has reduced the revenue available to the HRA. In October 2017, the government announced that it intends to allow registered providers and local authorities to increase rents by the Consumer Price Index (CPI) plus 1% for at least five years from April 2020. The government has recently consulted on its' proposals<sup>1</sup> for social housing rents and the outcome of this is expected in due course.

The roll out of Universal Credit for new applicants and where there is a change in circumstances for existing claims is now underway in Barnet, and the impact of this on from rent collection and associated bad debt is being closely monitored.

The Planning and Housing Act 2016 introduced a requirement for local authorities with housing stock to consider selling higher value homes as they become vacant and make payments to the Treasury in respect of the expected amounts raised. This policy has now been abandoned by the government.

## Corporate Priorities

The council has produced a new draft Corporate Plan Barnet 2024 which sets the vision and strategy for the next five years which focuses on three main outcomes:

- A pleasant, well maintained borough that we protect and invest in
- Our residents live happy, healthy, independent lives with the most vulnerable protected
- Safe and strong communities where people get along well

In addition, the council is consulting on a revised draft Housing Strategy which sets out the plans to meet housing need in the borough with a focus on the following priorities:

- Raising standards in the private rented sector
- Delivering more homes that people can afford
- Safe and Secure Homes
- Promoting independence
- Tackling homelessness and rough sleeping in Barnet

The HRA Business Plan contributes to the Housing Strategy in a number of ways, including:

<sup>1</sup> <https://www.gov.uk/government/consultations/rents-for-social-housing-from-2020-to-2021>

- Maintaining the quality and safety of the existing supply of council housing
- Investing in the delivery of new affordable homes for rent
- Increasing the supply of housing to help tackle homelessness
- Investing in new homes for vulnerable people, including wheelchair users and older people
- Ensuring that housing services funded through the HRA are efficient and effective.

#### 4. Maintaining the quality and safety of the existing supply of council housing

The council’s housing stock is managed and maintained by Barnet Homes, an Arm’s Length Management Organisation (ALMO) which was established in 2004 to improve services and deliver a programme of investment to bring the stock up to the Decent Homes standard.

Barnet Homes completed the Decent Homes programme in 2011, and now have a 30-year asset management strategy in place to deliver the following objectives:

- Ensure properties are maintained in a manner which provides a safe living environment and one that is not detrimental to residents and others health.
- Ensure operators maintaining the buildings are able to carry out works in a safe manner and without detriment to health.
- Identify the assets to be maintained
- Establish the basis for future investment in the assets
- Establish a basis for possible alternative use of the assets
- Provide an outline vision for new build dwellings
- Establish a mechanism for review of the strategy
- Seek residents’ views on the objectives of the strategy to inform the development and updating of the strategy
- Achieve value for money
- Inform the 30 year HRA business plan

Following the Grenfell Tower disaster in June 2017, the council has responded by developing a £33m investment programme to improve fire safety in its high rise housing stock, including the replacement of Aluminium Composite Material (ACM) on blocks at Granville Road, and the installation of sprinklers. Proposals are also being considered for lower rise flatted stock, and the potential cost of replacing unsatisfactory fire doors which will increase this investment further to approximately £47m<sup>2</sup>.

The following table shows investment plans for the council’s housing stock through to 2025:

Financial Year	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25
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<sup>2</sup> This figure is net of £5m received from the government towards the cost of recladding work at Granville Road

<b>£'000</b>							
Major Works	£5,670	£3,334	£5,470	£7,993	£8,505	£7,062	8,444
Regeneration	£1,200	£ 990	£ 525	£ 787	£ 644	£ 274	217
Misc - Repairs	£2,785	£2,204	£2,314	£2,324	£2,315	£2,315	2,315
M&E/ GAS	£5,715	£6,395	£6,225	£6,015	£3,940	£2,440	3,140
Voids and Lettings	£3,605	£4,005	£4,055	£3,905	£3,655	£3,505	3,605
Fire safety programme	£1,150	£14,622	£16,935	£5,442	£2,900	£1,780	
<b>Totals</b>	<b>£20,125</b>	<b>£31,550</b>	<b>£35,524</b>	<b>£26,466</b>	<b>£21,959</b>	<b>£17,376</b>	<b>17,721</b>

To ensure that our investment plans going forward are based on a robust and accurate assessment of the stock, Barnet Homes will commission a stock condition survey during to be carried out during the summer 2019.

## 5. Investment in the delivery of new affordable homes for rent

### New Build Programme

The council's draft Housing Strategy 2019-2024 sets out the need for more affordable homes in the borough, and identifies the opportunity for the use of local authority land, including land held in the HRA, to provide sites for new housing, including new affordable properties to rent and for low cost home ownership.

Barnet Homes delivered the first tranche of 40 new council homes, which were completed in summer 2016, and have recently been awarded a grant of £8.7m by the Greater London Authority to support the building of 87 new council homes by adding an additional floor to several council blocks.

Barnet Homes have established a Registered Provider OpenDoor Homes, which is delivering more than 350 new affordable homes for rent on council land, primarily in the HRA. This approach means that whilst the HRA supports the developments by providing land at nil cost, the development costs of the new homes are funded by a loan to Open Door Homes from the council.

Further work is being carried out on the capacity of HRA sites to deliver additional homes, and early indications are that a further 400 homes could be developed.

The removal of the HRA debt cap provides an opportunity to invest more HRA resources in the building of new council homes, and the council will work with Barnet Homes to identify opportunities which complement the existing programme already in place with Open Door Homes.

### Acquisitions Programme

In addition, to make effective use of the council's Right- to-Buy receipts, HRA funding has already been used to support the purchase 21 properties across London which have been let at affordable rents via the council's Housing Allocations Scheme.

The removal of the HRA debt cap provides scope for increased investment in the acquisition of properties through the HRA, and proposals will be brought forward for a programme of up to 100 acquisitions from 2019, at a cost of approximately £30m with a focus on section 106 opportunities and ex Right to Buy stock within the borough. The purchase of these properties will be supported by a contribution from Right to Buy receipts and will be let at affordable rents in line with the council's rent setting policy.

The council's Housing Strategy has identified the need to maintain a supply of larger affordable units, and will ensure that some of the units acquired units have three or more bedrooms.

## **6. Increasing the supply of housing to help tackle homelessness**

The delivery of new affordable homes for rent, as described above, will help to reduce homelessness by providing an alternative to expensive temporary accommodation. At present the average net annual cost of providing temporary accommodation is £1,900 per household, and this cost is set to increase due to continuing inflationary pressures in the housing market associated with population growth and a limited supply of housing.

This means that each additional 100 new affordable homes built or acquired will save the council at least £190,000 a year in temporary accommodation costs which fall on the General Fund, as well as providing a better outcome for households facing homelessness.

## **7. Investment in new homes for vulnerable people**

The council has identified a need for additional supported housing for older people and wheelchair users, including additional extra care housing for older people and homes for wheelchair users.

### **Extra Care housing**

As well as providing better outcomes for users, additional supported housing will provide a more cost-effective alternative to expensive residential care. It is estimated that around 35% of people admitted to residential accommodation by the council would have a better quality of life in extra care housing. This equates to approximately 90 clients every year.

Each client placed in extra care housing provides a saving of £10,000 a year compared to the cost of residential care. Building work is now close to completion on the first new 53-unit extra care sheltered housing scheme in Ansell Court (formerly Moreton Close), with the first residents due to move into their new homes in January 2019.

In addition, the council and Barnet Homes are progressing plans to provide a further 50-unit extra care scheme at Stag House in Edgware, and another 75-unit scheme as part of community lead development plans for the Upper and Lower Fosters estate in Hendon, both of which will be funded through the HRA.

### Wheelchair housing

The council has identified a number people currently in residential care, who would benefit from wheelchair adapted housing. It is estimated that for each person rehoused will generate a General Fund saving of up to £50,000 a year. Barnet Homes have already built four wheelchair adapted homes as part of the 40 new council homes completed in 2016. Additional wheelchair adapted homes will be provided as part of the on-going programme of building affordable homes described in section six above, in line with the local plan requirement that at least 10% of new homes should be wheelchair accessible.

## 8. Efficient and Effective Services

The majority of services funded from the HRA are provided by the council’s ALMO, Barnet Homes, including the management and maintenance of council housing and the provision of housing needs services, for example assessments of eligibility for rehousing against the council’s Housing Allocations Scheme.

During 2015, the council reviewed the services provided by Barnet Homes through a series of challenge sessions to ensure that the services are of a satisfactory standard and provide good value for money. This led to the development of a new ten-year management agreement, effective from 1<sup>st</sup> April 2016 and agreed budget savings worth £2.85 million over the first four years of the agreement. This 10% budget reduction has been assessed as being a realistic target and will have a minimal impact on the effectiveness of services, whilst freeing up resources for investment in further new homes.

Savings target	Savings achieved through:
£1.839 million	<ul style="list-style-type: none"> <li>• Management and repairs savings due to forecast stock losses through estate regeneration and Right to Buy sales,</li> <li>• Value for money service reviews.</li> </ul>
£0.937 million	<ul style="list-style-type: none"> <li>• Procurement and enhancing the value of existing contract arrangements</li> <li>• Reduced accommodation costs due to less floor space at Barnet House</li> <li>• New ways of working through more effective use of IT.</li> </ul>
£0.77 million	<ul style="list-style-type: none"> <li>• Stopping some of the ‘non-essential’ works provided by Barnet Homes,</li> <li>• Re-prioritisation of certain types of non-urgent repairs.</li> </ul>

<b>£2.853 million total</b>	
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Following a slower reduction in stock than was originally forecast, the total savings amount has subsequently been adjusted to £2.148 million and Barnet Homes is on track to deliver these savings.

Further discussions will be undertaken with Barnet Homes to agree a mechanism that takes account of changes in stock and the need for a reduction in revenue expenditure of approximately £1 million in 2020/21 required to maintain a minimum reserve in the HRA of £3m.

### **Trickle Transfer**

The council's General Fund budget is also under significant pressure, with savings of £52m required by 2024, which do not take account of existing pressures, such as those associated with the provision of temporary accommodation for homeless people.

As part of our plans to reduce General Fund budgets, a proposal has been developed to transfer some council homes to OpenDoor Homes as they become empty through routine causes, such as tenants transferring to more suitable accommodation, or properties recovered because of tenancy fraud or because of anti-social behaviour. The council would receive a capital receipt from OpenDoor Homes, who would then let the property to a housing applicant selected via the council's housing allocations scheme. OpenDoor would charge an affordable rent of 65% of local market rents or local housing allowance, whichever is lower, which would enable payment of an annual premium of £2000 per year for each property transferred.

Approximately 950 properties a year would be transferred to OpenDoor Homes over a 4-year period, providing scope for reducing General Fund budgets by £2m a year.

It is recognised that more work is needed to develop this proposal in more detail, but initial modelling suggests that the impact on the HRA would be largely neutral.

A more detailed proposal will be presented to the Housing Committee in Summer 2019.

## **9. Right to Buy Receipts**

The Right-to-Buy was reinvigorated in 2012 through the introduction of more generous discounts for tenants wishing to buy their council home. As part of this, local authorities have been permitted to keep a larger proportion of the receipts generated from Right-to-Buy sales on condition that these are spent on providing new affordable homes within 3 years. The council has so far made use of Right-to-Buy receipts to support the building and acquisitions programme described in section six above, including 44 newly built council homes and 20 homes acquired on the open market for affordable rent. In addition, new

extra care schemes at Ansell Court and Stag House, and approximately 350 new homes being delivered by Open Door homes are being supported.

The council will continue to use its available Right-to-Buy receipts to support the building of new council homes, additional extra care homes, Open Door Homes new build programme, and the acquisition of homes for affordable rent through the HRA.

There is always a risk that slippage in our programmes could result in Right-to-Buy receipts not being spent within three years, which would result in unspent amounts being returned to the government, and passed to the Greater London Authority (GLA) to supplement their affordable housing programme. To insure against this, the council will enter into an agreement with the GLA which is available to all London Boroughs, which will provide access to any receipts returned to the government for a further 3 years.

## **10.HRA 30 Year Business Plan**

The council uses a model to project the HRA over a 30 -year period, taking into account changes in stock, capital programme requirements, and expected policy changes.

A baseline position, shown in Appendix A has been established which takes into account the current capital programme, the losses of stock expected through estate regeneration and sales, and the latest government advice on rent setting. The capital programme in the baseline also includes £30m investment in fire safety already agreed by the council and the building of 87 new homes through the top hatting programme supported by GLA grant. The baseline plan assumes that revenue costs will need to reduce by approximately £1.3m in 2020/21 in order to maintain a reserve of £3m in the HRA, the minimum amount that is considered prudent.

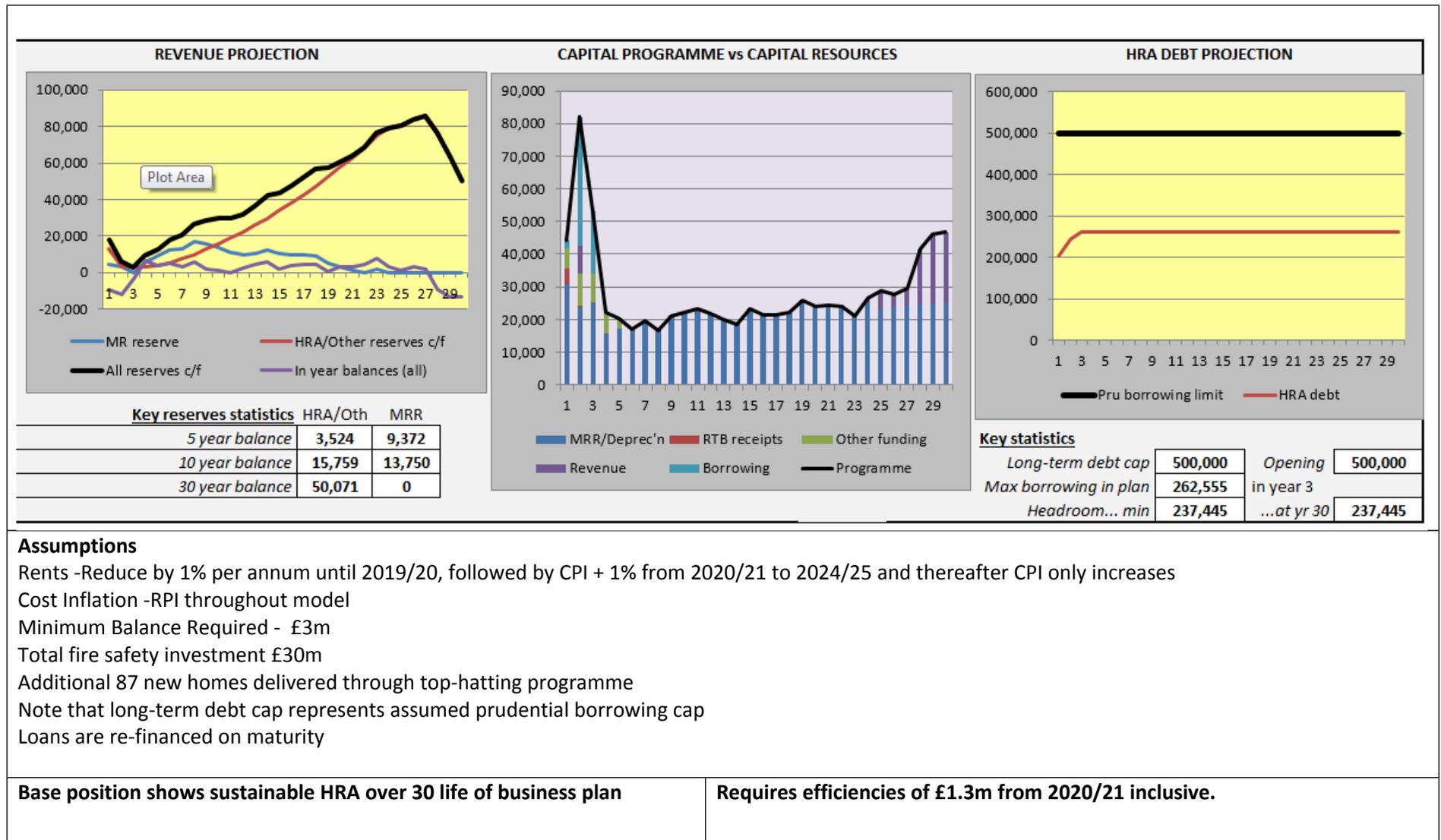
A second scenario shown in Appendix B, shows the impact of acquiring 100 homes for affordable rent, and a new build programme of 200 properties over the next four years. In addition, capital expenditure on fire safety measures is increased to £47m. This shows that these proposals would improve outcomes for the HRA over the 30-year life of the business plan, and that a smaller reduction in revenue costs in 2020/21 of approximately £1m would be required.

A third scenario, which builds on scenario two and shown in Appendix C, incorporates proposals to transfer 950 properties to Opendoor Homes from the HRA as they become void. In this scenario, the HRA continues to be sustainable over the 30-year life of the business plan, albeit with the need to reduce revenue costs in 2020/21 by approximately £1m.

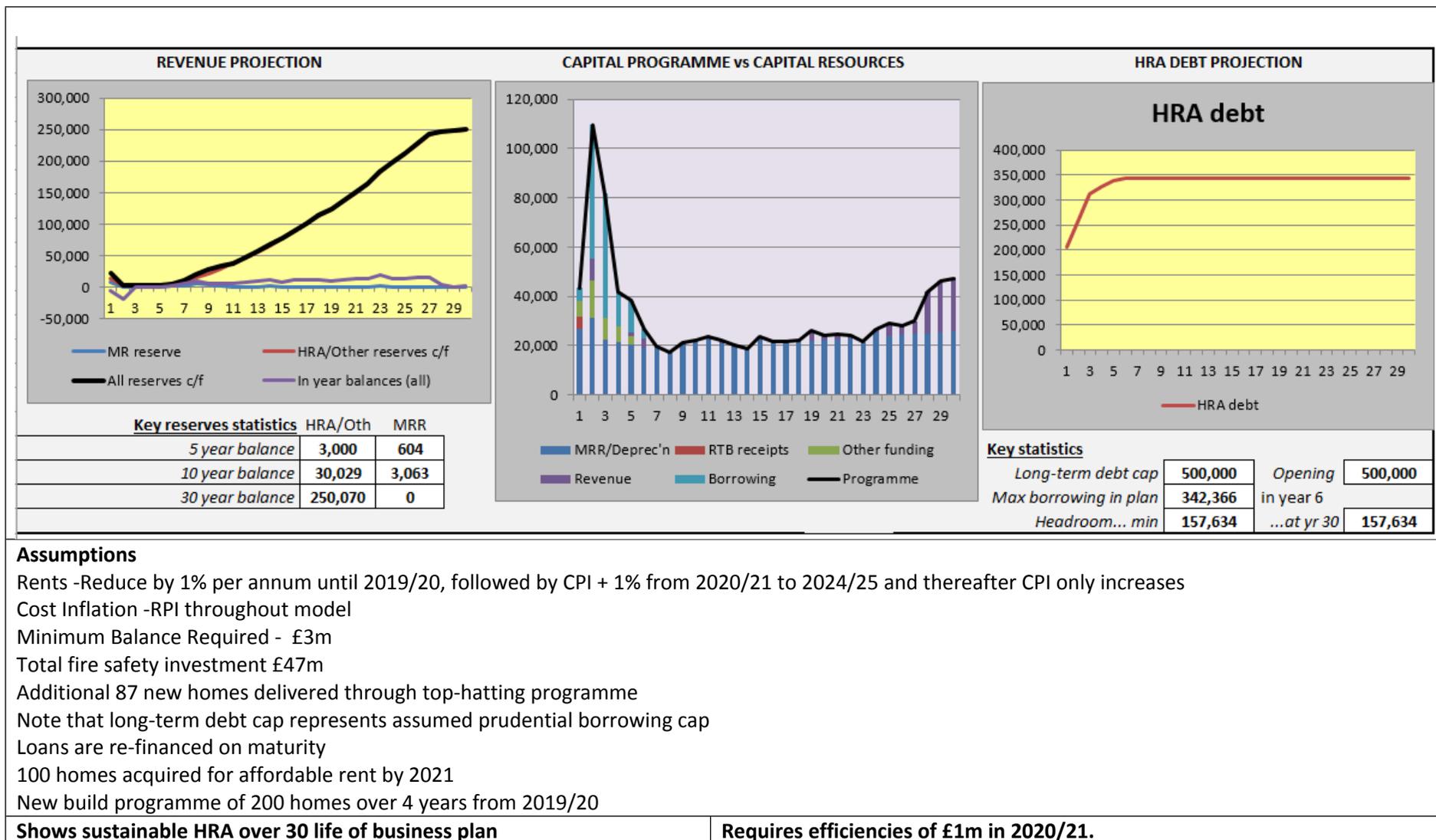
It is recommended that the council proceeds with developing plans for implementation of scenario three.

A summary of the proposed Capital programme is included at Appendix D, and the draft HRA budget for 2019/20 is included at Appendix E.

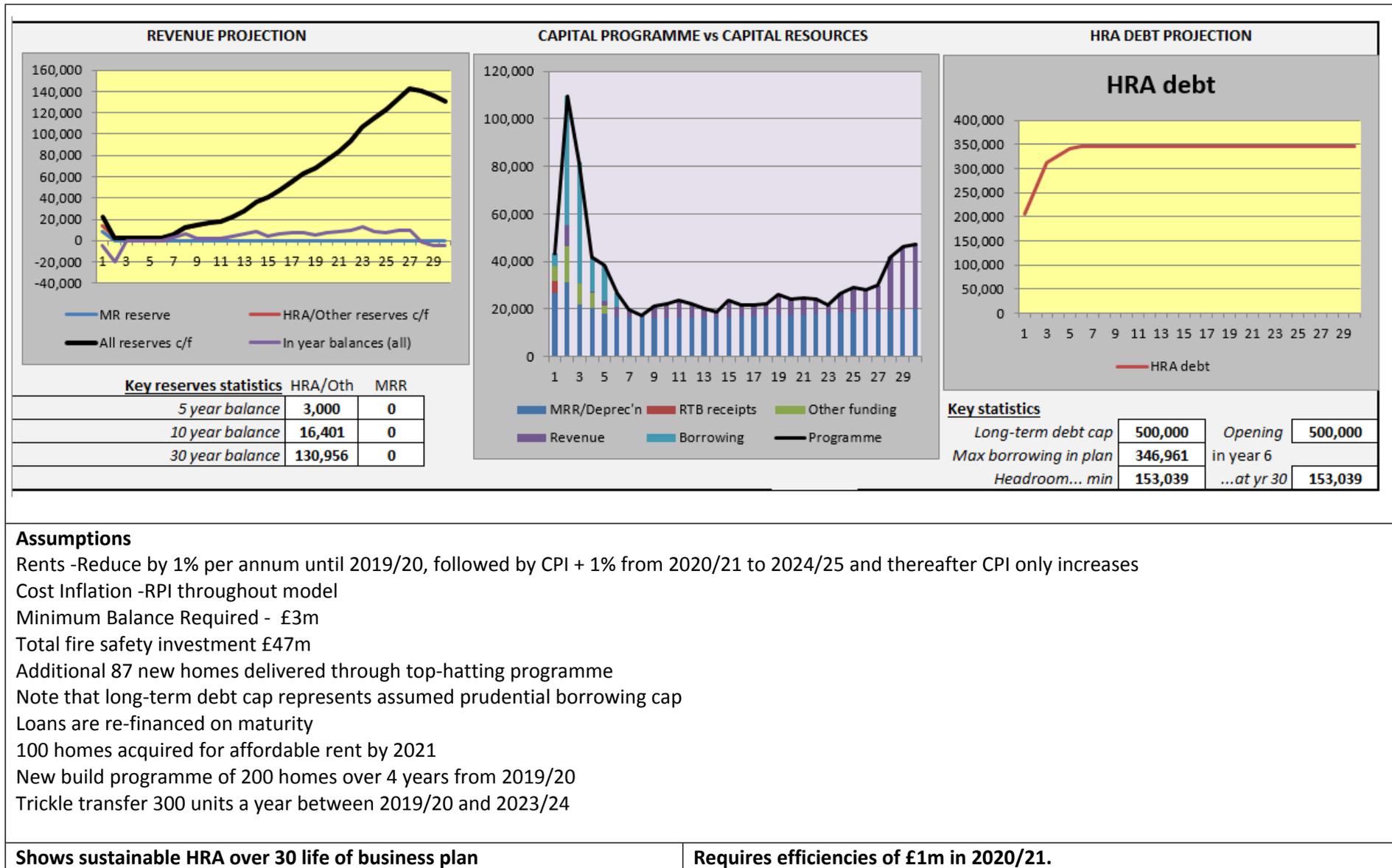
## Appendix A - HRA Business Plan – Baseline Model



**Appendix B- Scenario two – Baseline Model plus acquisitions and additional new build and £47m total fire safety expenditure**



**Appendix C - Scenario three– Baseline Model + £47m total fire safety expenditure and trickle transfer, acquisitions and additional new build**



Appendix D- Proposed HRA Capital Programme to 2024

Year	1	2	3	4	5	6	7
Financial Year £'000	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25
<b>STOCK CAPITAL INVESTMENT</b>							
Major Works	£ 5,670	£ 3,334	£ 5,470	£ 7,993	£ 8,505	£ 7,062	£ 8,444
Regeneration	£ 1,200	£ 990	£ 525	£ 787	£ 644	£ 274	£ 217
Misc - Repairs	£ 2,785	£ 2,204	£ 2,314	£ 2,324	£ 2,315	£ 2,315	£ 2,315
M&E/ GAS	£ 5,715	£ 6,395	£ 6,225	£ 6,015	£ 3,940	£ 2,440	£ 3,140
Voids and Lettings	£ 3,605	£ 4,005	£ 4,055	£ 3,905	£ 3,655	£ 3,505	£ 3,605
Fire safety programme	£ 1,150	£ 14,622	£ 16,935	£ 5,442	£ 2,900	£ 1,780	£ -
<b>Total Investment in Stock</b>	<b>£ 20,125</b>	<b>£ 31,550</b>	<b>£ 35,524</b>	<b>£ 26,466</b>	<b>£ 21,959</b>	<b>£ 17,376</b>	<b>£ 17,721</b>
<b>INVESTMENT IN NEW SUPPLY</b>							
Ansell Court	£ 5,914	£ -	£ -	£ -	£ -	£ -	£ -
Cheshire House	£ -	£ 16,265	£ -	£ -	£ -	£ -	£ -
Stag House	£ 50	£ 16,430	£ -	£ -	£ -	£ -	£ -
Burnt Oak Broadway	£ 1,435	£ 3,547	£ -	£ -	£ -	£ -	£ -
Top Hatting 87 units	£ -	£ 16,487	£ 16,870	£ -	£ -	£ -	£ -
Acquisitions (100 units)	£ 3,000	£ 15,000	£ 12,240	£ -	£ -	£ -	£ -
New Build (200 units)	£ -	£ 6,500	£ 13,000	£ 13,260	£ 13,525	£ 6,898	£ -
<b>Total Investment New Supply</b>	<b>£ 10,399</b>	<b>£ 74,229</b>	<b>£ 42,110</b>	<b>£ 13,260</b>	<b>£ 13,525</b>	<b>£ 6,898</b>	<b>£ -</b>

## Appendix E – Revised HRA Budget 2018/19 and draft HRA Budget 2019/20

<b>HOUSING REVENUE ACCOUNT</b>	<b>2018/19 Revised Budget £'000</b>	<b>2019/20 Budget £'000</b>
<b>Income</b>		
Dwelling rents	(49,784,776)	(48,608,860)
Non-dwelling rents	(1,641,193)	(1,410,266)
Tenants Charges for services and facilities	(4,280,304)	(4,275,043)
Leaseholder Charges for services and facilities	(3,211,572)	(3,211,572)
<b>Total Income</b>	<b>(58,917,845)</b>	<b>(57,505,741)</b>
<b>Expenditure</b>		
Repairs and Maintenance	7,570,000	7,570,000
General	15,164,070	15,262,576
Special	5,878,179	5,878,179
Rent, Rates, Taxes and other charges	144,484	144,484
Depreciation and impairment of fixed assets	23,219,151	22,563,842
Debt Management Expenses	7,540,376	7,570,000
Revenue Contribution to Capital	0	9,074,000
Increase in bad debt provision	250,000	250,000
<b>Total Expenditure</b>	<b>59,766,260</b>	<b>68,313,081</b>
<b>Net Cost of HRA Services</b>	<b>848,415</b>	<b>10,807,340</b>
Interest and investment income	(94,744)	(94,744)
<b>(Surplus) or deficit</b>	<b>753,671</b>	<b>10,712,596</b>