

Housing Revenue Account

Business Plan 2017/18-2021/22

1. Purpose

The purpose of this document is:

- a) to set out the anticipated legislative changes that will significantly impact on the Housing Revenue Account (HRA) and delivery of the business plan objectives.
- b) to set out the priorities and investment requirements for the Council's housing stock over the next 5 years.
- c) to set out opportunities to regenerate the stock and provide additional units
- d) to set out the potential sources of funding to deliver the Business Plan over the medium term.

2. Introduction

- 2.1 The Business Plan sets out the Council's plans for maintaining and improving the housing stock over the next five years, by setting out the plan for investment of capital and revenue funding.
- 2.2 Following the election of the new Government in June 2015, there have been a number of policy announcements which have significant implications for the HRA.
- 2.3 Local authorities had been anticipating a levy payment being required in 2017/18, linked to the forced sale of high value voids. We have learned recently that no levy payment will be required before April 2018. Whilst welcome, there remains uncertainty regarding the size and timing of payments required in subsequent years.
- 2.4 A Housing White Paper has now been promised which may provide some clarity, but may actually introduce more uncertainty.
- 2.5 It is therefore extremely difficult to predict the medium term financial outlook for the HRA.

- 2.6 The Borough is also considering re-development of a number of its estates; the Business Plan therefore also takes into account the level of funding available to undertake demolition and development of new homes of all tenure types.

3. Financial Context

- 3.1 Self Financing, the regime for funding social housing within the HRA, was introduced in April 2012. This both improved the financial outlook for HRA's and provided more certainty regarding future sources of income.
- 3.2 However, the financial outlook for the HRA will be significantly affected by a number of policy announcements over the last eighteen months.
- 3.3 The key changes are summarised below, although their full impact cannot yet be ascertained as details of how some of these will be implemented are still awaited.

Reduction in Social Rents

- 3.4 The Welfare Reform and Work Act requires registered providers of social housing (including local authorities) to reduce rents for social housing by 1% per annum over 4 years starting in 2016/17. This change surprised the housing sector as in October 2013, a 10 year rent agreement was published setting rents increases at CPI + 1%.
- 3.5 This announcement was particularly harsh for the Royal Borough as we had planned to continue to move individual dwelling rents to Target Rent levels, thereby enabling more resources to be generated for capital expenditure.
- 3.6 There is still no clarity regarding rent levels after the 4-year period. Our financial modelling assumes that rents will start to increase by CPI after this 4-year period, rather than CPI + 1% as had previously been announced. The financial implications are significant, for example the difference between annual increases pegged at CPI or CPI + 1% over a 30-year period amount to £199 m (in cash terms).

Sale of High Value Voids to fund the Extension of Right to Buy

- 3.7 The extension of the Right to Buy regime to tenants in properties owned by Registered Providers has been delayed. A

regional pilot was announced in the Autumn Statement which would enable 3,000 tenants to purchase their homes from housing associations over a 5-year period. This will enable demand for the scheme to be more accurately determined and will enable specific aspects of the scheme to be tested. It is now unclear when and if a full national roll out of this policy will take place.

- 3. 8 Originally, the extension of the regime was to have been funded through the sale of Council's high value voids. It had been assumed that the first payment would be in 2017/18, but a recent announcement confirmed that no levy payment will be required before April 2018.
- 3.9 The Government has acknowledged that an appropriate lead in time will be required to implement the levy. However, to what extent future levy payments are dependent upon the national roll out of the RTB regime is unknown.
- 3.10 The timescale and severity of potential payments therefore remains unclear and may or may not be clarified within the Housing White Paper.

Pay to Stay

- 3.11 At the end of November, the Government announced that the High Income Social Tenants' Policy (better known as Pay to Stay) would now no longer be a mandatory requirement for Councils. Councils had been anticipating an implementation date of April 2017. However, Councils will continue to have local discretion whether to adopt the regime on a voluntary basis, presumably retaining any additional rental income generated.
- 3.12 The policy would have resulted in tenants on higher income being charged higher rents.
- 3.13 The Royal Borough will consider its position during 2017/18. In considering whether there are financial arguments for adopting the scheme, the costs of administering the scheme would need to be compared to the additional rental income that could be generated from the scheme.

Benefits and Universal Credit

- 3.14 The benefit cap has now been reduced to £23,000 for households in London.

- 3.15 This could result in more tenants getting into arrears. Two welfare reform officers are being funded until March 2019 who will provide support and advice, mainly for tenants, regarding the roll out of Universal Credit and the further reduction in the benefit cap. They will also assist tenants, where appropriate, to make claims for Discretionary Housing Payments.

4. Strategic Links

Housing Strategy and Asset Management of the Stock

- 4.1 Set out in Appendix 1 are a number of strategies that provide the framework for the Business Plan. The strategies have remained consistent since the introduction of the first HRA business plan. They are:

- **Housing Strategy** - sets out how the stock will be used to deliver statutory housing functions and deliver high quality accommodation to improve the lives of people who live in the borough.
- **Asset Management Principles** - our approach to enabling high performing stock in terms of investment, yield and resident satisfaction.
- **Asset Management Strategy** - priorities for investment; standards to be achieved; approach to identify poorly performing stock and plans for improving energy efficiency and reducing fuel poverty
- **Investment Standards** - provides the hierarchy of investment and expectation on standards against cost.

Intermediate Rents

- 4.2 The Council is widening its offer to local residents and has agreed an Intermediate Rents policy to meet the needs of residents whose needs are not currently met by the private or social rented sector. The RBKC offer is Assured Shorthold tenancies offered on weekly rents based on 30 percent gross income levels across a range of income brackets between £20,000 and £85,000. There is no differentiation on property size/number of bedrooms. Further details on the rent setting policy can be found in KD04601.

- 4.3 The first unit is in the process of being let following clarification of the processes and responsibilities.

5. Achievements

Hidden Homes

- 5.1 Through the Hidden Homes project the Council continues to work closely with KCTMO to identify redundant or underutilised spaces within the HRA stock that can be redeveloped to deliver new homes for local people.
- 5.2 We have successfully delivered nine new homes through the Grenfell Tower regeneration. This scheme has now completed and the nine new homes have been let to households on the Councils Housing Register. The scheme to reconvert one unit in Holmefield House is also now complete
- 5.3 The project is expected to produce more homes in 2016-18, including:
- Four further schemes have been identified and feasibility work will be undertaken.
 - Eight new homes are to be delivered at Tavistock Crescent. KCTMO will complete the new properties by June 2017.

Investment

- 5.4 Capital investment of £18.64m was delivered in 2015/16, which included expenditure on:

Element	Number of dwellings where works undertaken
Electrical Rewires and Upgrades	46
Roof Covering	0
Doors	391
Kitchens	625
Bathrooms	493
Replacement of boilers	121
Installation of insulation	116
Other	2299
Total (dwellings counted once)	2023

- 5.5 In 2015/16, expenditure on day to day repairs, including most repairs that tenants report to the KCTMO, was £5.9m.
- 5.6 In 2015/16, expenditure on planned repairs for most mechanical and electrical works was £3.882m, and this included responsive works to estate lighting, communal and domestic electrics and boilers; and planned maintenance to properties including lift and boiler servicing, and an external decorations programme.

Commercial Portfolio Development

- 5.7 Closer joint working on management of the HRA commercial portfolio between Housing, Corporate Property and KCTMO has brought considerable improvements in recent years, with the total rental income increasing from £2.8m in 2012/13 to potentially £4 million in 2017/18.
- 5.8 The budget for 2017/18 reflects the decision to charge a market rent to Council services and voluntary organisations. RBKC and KCTMO will continue to work together to improve the performance of the portfolio. This will include keeping arrears level as low as possible, continuing to keep rent reviews and lease renewals on schedule, exploring income generation from new sources, keeping low void levels and improving the quality of existing stock. Joint work will be undertaken on regeneration projects with key stakeholders including developers, health authorities and local community groups to ensure that underutilised spaces are used more effectively and opportunities to create new commercial units are taken up.
- 5.9 Practical examples of this can be found with projects underway to create new office and workspace facilities at Acklam Road (Swinbrook Estate) and Lowerwood Court (Convent Estate) which are expected to jointly generate additional income, plus identifying opportunities for situating new telecommunications installations on estates across the borough. These projects are all at different stages of progression but all will potentially increase the income and size of the portfolio.

6. Disposals and Conversions

- 6.1 This year three properties were sold in accordance with the Housing Revenue Account Assets Disposal and Conversion policy. The properties were assessed as not being financially viable, i.e. the property has a negative or marginal net present

value (NPV) and the investment will not generate sufficient return. A fourth property, comprising of two units was identified but the tenant in the smaller unit was unwilling to move. Options for converting the large void unit to Intermediate rent are being investigated, which will provide a higher return to cover the cost level of investment needed to ensure the unit meets the K&C investment standard.

- 6.2 One other property has been identified as suitable for conversion to Intermediate rent, this is in a tower block which requires significant levels of investment. The intermediate rent will provide a higher return than the current social rent.
- 6.3 The capital receipts arising from the sale of the three properties amounted to £ 5.4m. The proceeds from these disposals will be reinvested in the Council's housing stock on regeneration projects that produce additional housing.
- 6.4 KCTMO and the Housing Department are actively looking at using the Asset Investment Model to identify the level of investment in to homes and identify further opportunities for disposal for non-performing assets.

7. Older People's Housing

- 7.1 The Council continues to explore ways to deliver new housing for older people. The Council's ambitions were set out in the Modernising Older People's Housing and Accommodation with Care Services Strategy in 2013. Further work has included consultation with residents about their aspirations for housing as they age and this is feeding into the Council's analysis of existing stock and projections for future demand.
- 7.2 The Council has identified two sites that have the potential to deliver homes for older people, both with and without on-site care services. Further analysis of options for the sites and interim service provision are required and will make up part of the work stream to deliver new homes that are fit for the Council's older residents. The Council's Housing department is working with the Adult Social Care and Corporate Property departments to develop plans for delivery.

8. Greener Housing

- 8.1 KCTMO has developed an environmental strategy that works alongside the Asset Management Strategy. The strategy has

objectives which include the reduction of climate emissions through the stock, alleviating fuel poverty, and improving the health and wellbeing of residents.

- 8.2 The strategy also sets out the kind of interventions that KCTMO intends to make. These are divided into two main areas: property based interventions and resident behaviour change.
- 8.3 The property based measures have a hierarchy of interventions:
- Be Lean – take passive measures over technological solutions (i.e. a building fabric first approach)
 - Be Clean – produce less emissions in the first place (e.g. through more efficient boilers, individual and communal)
 - Be Green – Use renewable technologies where appropriate.
- 8.4 The strategy also sets out how KCTMO will improve its knowledge of the stock by completing more energy surveys, and identifying sample blocks or properties for the subject of pilot studies which will inform and shape future expenditure.
- 8.5 KCTMO will coordinate programmes for energy improvements alongside mainstream capital programmes ensuring efficiency in procurement and stock improvement, and will embrace RBKC led initiatives for sustainability measures in the community.
- 8.6 For the resident behaviour side, KCTMO is embarking on an energy education programme to enable residents to use their homes in a more energy efficient way, which will save both carbon and money. As an example of this, the new Gas Servicing Contract requires the contractor to explain to residents how to adjust their boiler, radiators and thermostat so that they are using their equipment in the most efficient manner

9. Regeneration

Regeneration and Investment Needs

- 9.1. The Council needs to find ways of delivering more new housing across all tenures, and especially housing that is affordable to households on low-middle incomes. This sits alongside preserving the diversity, creativity and choice provided by our current mixed communities.
- 9.2 Regeneration can also provide solutions to how we pay for the maintenance and improvement of our existing tenants' homes, and to ensure the stock meets the needs and aspirations of our tenants now and into the future.

- 9.3 Regeneration can also deliver opportunities to improve the health, education, employment and community safety outcomes (many of which can be related to housing conditions) in our most deprived areas.
- 9.4 With these objectives in mind, the Cabinet has already agreed that further work on two ambitious schemes be initiated:
- Pembroke Road Estate – this scheme will allow the re-provision of 116 existing homes as well as the development of approximately 150 additional new homes, including a doubling of affordable housing on the site. The redevelopment also provides the opportunity to deliver a new, fit for purpose depot, improve the existing nursery provision and provide new retail and office space for the area. High level feasibility work has been completed and a full design team has now been appointed, a report is timetabled to go to Cabinet in June 2017 on options and next steps.
 - Barlby School/ Treverton – A Cabinet decision in July 2016 concluded that the regeneration of the school should be progressed separately from the estate. The decision asked for a further review of the regeneration options for the estate, whilst the school project is progressed. The options appraisal for the estate should include a continued maintenance strategy, refurbishment/infill development, partial redevelopment and full redevelopment. Adam Architects has been appointed to complete RIBA stage 1 and 2 to develop the masterplan ahead of a final decision. The conclusion of this review should be brought back to Cabinet in the summer of 2017.
- 9.5 In July 2015 the Council announced that a feasibility study was to be commissioned for all of the council owned stock on the Silchester East and West Estates, Bramley House and the surrounding land which is outside the Council's ownership. The feasibility study looked at six high level redevelopment options and concluded that four of these options were potentially viable. This was reported to the Council's Cabinet in May 2016 and permission granted to commence a full Options Appraisal. This is underway and the option of continuing with the current Planned Maintenance programme, the option of a refurbishment scheme funded through infill and a development option are being considered. Consultation with residents is on-going and it is anticipated that this phase of work will complete by September, 2017 when a decision by the Council about which option is to be pursued will be taken.

- 9.6 The Housing Department has established a council owned company (Coco), Kensington and Chelsea Estates Limited, which can be used to take forward regeneration initiatives in appropriate circumstances. In addition, we will use, where appropriate and only when additional affordable homes will be delivered, money collected through commuted sums through planning gain.

Edenham Way

- 9.7 This is a vacant site currently made up in part as a temporary car park on Edenham Way and in part of the site at the base of Trellick Tower (including the unused former garages, ballpark and garden). The site is owned partly by the General Fund (60%) and partly by the Housing Revenue Account (40%).
- 9.8 The Core Strategy states the site will be used for at least 60 new homes.
- 9.9 A Cabinet decision was taken in March 2013 for a housing development made up of 50% affordable housing (of which 70% would be intermediate and 30% would be social rent) and 50% market housing.
- 9.10 An architectural and massing study was completed in 2012 and provided options for the development of the site. A full OJEU procurement exercise was then undertaken to appoint architects Haworth Tompkins who have developed plans in line with the Supplementary Planning Document guidance.
- 9.12 Following a Cabinet decision in November 2016, a Development Partner will now be sought for this site using the Greater London Authority London Development Panel. Subject to approval, it is anticipated that the Development Partner could be in place by September 2017. Subject to planning approval, build out of the site could commence by late 2018 and is projected to take approximately two years.

10. Trellick Tower

- 10.1 Trellick Tower currently has a negative net present value (NPV) of £48,000 per unit over the next 30 years, it therefore continues to present the HRA with a significant financial liability.
- 10.2 The current level of investment planned for essential repairs is £ 7.6m which is programmed to be spent in 2016/17 and 2017/18.

This scheme is being funded from within the HRA Main Programme which is managed by the KCTMO. Following the issue of the Section 20 notification to leaseholders, obtaining planning consent for the scaffolding and issuing the works order, it is proposed that start on site will be in January 2017.

The scope of works includes;

- Concrete repairs to the fabric of the building
- Repairs and restoration of all flat windows and replacement of the communal windows (Crittall windows)
- Repairs to roof coverings to the service tower and lower block roofs
- Decorations to all previously painted surfaces will also be included as part of the scope of works – windows, balcony railings and cedar wood cladding.

10.3 Resident consultation has been detailed with both tenants and leaseholders. Delays to the programme are likely to be costly, impacting on the budget and giving rise to challenges from leaseholders. De-risking is critical to ensuring delays are kept to a minimum.

10.4 Despite the planned investment to tackle the external elements of the building, further investment will still be required and the ongoing maintenance of this building will be a constant drain on the HRA. This means that a disproportionate amount of money will need to be spent on this building compared to the rest of the HRA stock and this is not sustainable or feasible given the wider pressures on the HRA.

11. Leaseholder charging

11.1 The Council has reviewed the payment options offered to leaseholders who are required to contribute towards the cost of major works. The proposed changes, effective from April 2017 (set out in KD04868/16/H/A), are designed to mitigate the likelihood of financial hardship for leaseholders and reduce the level of arrears and therefore the cost of debt recovery action.

11.2 Subject to conditions the new payment options include increasing the repayment period for charges over £7,500, (interest will be applied in years 4 and 5) and a discount of 2.5% for early repayment will be offered.

- 11.3 Although the extension of the repayment periods has cash flow implications for the HRA, it is likely that these changes will avoid administrative costs arising from the pursuance of arrears.

12. Replacement or repair components of the housing stock

- 12.1 A business case has been put forward by the TMO which proposes that it may be more cost effective in some circumstances to replace components of the housing stock rather than repair. The proposal applies to lifts and windows and there are a number of advantages and disadvantages to this approach.
- 12.2 In respect of the lifts, replacing the lifts is the only practical way of ensuring key services are maintained, however the cost may not be recoverable from leaseholders as leases currently contain clauses for repair only.
- 12.3 In respect of the windows, as windows get to the end of their useful life, replacement with new low maintenance windows will reduce the repair and maintenance cost in the long term and reduce the level of investment over the life of the 30 year HRA business plan. Again the current leases only contain clauses for repair and there is a risk relating to the recovery of leaseholder costs relating to replacement.
- 12.4 Following advice from Counsel and consultation with the Housing and Property Scrutiny Committee (report A15 at the 16.11.16 meeting), a business case approach has been agreed for future works to lifts and windows, and work has started on developing new leases for future sales.

13. Fire Safety Requirements

- 13.1 The fire at Adair Tower in October 2015, resulted in the London Fire Brigade (LFB) issuing Enforcement Notices for Adair and Hazlewood Towers. The key recommendations required the installation of self-closing devices on flat entrance doors, Fire Action Notices installed on all floors and works to ensure the staircases will remain safe and smoke free in the event of a fire. In the course of the recent regular audits carried out, the LFB is now issuing Deficiency Notices citing as further actions required the installation of self-closing devices on flat entrance doors and the posting of Fire Actions Notices, as the LFB had expected the Council, through the TMO, to put in place a programme of self-closing devices on flat entrance doors across all the Council's housing stock. The TMO has assessed the cost to complete this

programme over a 3-year period to be £620,000 with a further £2,500 to complete the installation of Fire Action Notices. The LFB also expect there to be regular inspection of the self-closing devices to ensure they remain properly in place and active.

- 13.2 However, it should be noted that there are significant challenges facing the delivery of these works in the context of current leases. Legal advice is being sought to establish the practical implications of completing these works to all homes (tenanted and leasehold) and ensuring that the closers stay in place.

14. Need to Spend/Priorities for Capital Expenditure

Budget Provision

- 14.1 An additional £25 million to enhance the HRA Main Capital Programme was agreed in 2014 as part of the HRA Business Planning process. This funding was profiled over a 5-year period.
- 14.2 The KCTMO is funding the additional works at Trellick (£7.6 million) from the Main Programme.
- 14.3 Each year, the Council sets a 3-year capital programme. The HRA Main Programme for the next 3 years 2017/18 to 2019/20 totals £39.426 million.
- 14.4 The level of funding to be made available in subsequent years is partly dependent upon the size and timing of the High Value Voids levy. Given this uncertainty, we are continuing to assume £10 million will be available annually from 2019/20. This takes the 5 year funding available for the HRA Main Programme to £59.426 million (plus any slippage from 2016/17).
- 14.5 The principles from the Asset Management strategy have been applied to the programme, and works identified are the works required to meet the standard agreed.
- 14.6 Some estates remain essentially unplanned, or planned after this five-year period, while decisions are made about their future. Whilst we will continue with essential repairs and maintenance, there will be no investment in major works until the future of these estates is certain. This includes Treverton Estate and Pembroke Road Estate. Given the exceptional costs involved and changes in government policy, we may have to once again consider the cost of Trellick Tower's future maintenance /investment programme.

- 14.7 Some elements of work are not included in the programme, in particular works and improvements to communal areas and external landscaped areas, parking, and other communal features. This is in line with the Asset Management strategy that priorities other elements of work.

15. Need to Spend and Capital Programme Priorities

- 15.1 A stock condition forecast of investment need has been undertaken. The methodology is based on assumed life cycles for various components and uses a standard schedule of rates. This shows that, over the next 5 years, the level of investment need including fees is £146m. This includes £53m relating to the backlog of work that needs to be undertaken.

- 15.2 The following table provides a high level summary:

5 Year Stock Condition Forecast 2017-22	
Internal Programme	22.5
External Programme	75.2
Major Mechanical and Electrical	33.5
Aids and Adaptations	2.5
Capitalised Voids and Repairs	5.7
Commercial Properties	0.7
Trellick	6.0
	146.1

- 15.3 This total includes the agreed provision for Trellick, some of which may duplicate other elements within the table.
- 15.4 The total spending requirement over the five-year period is estimated to be £146m. However, at this stage only resources of £59m have been identified, leaving a shortfall in the region of £87m. Investment has therefore been prioritised in accordance with the Asset Management strategy.
- 15.5 This level of investment will have a negative impact on the likely level of responsive repair and may also have a negative impact on the level of resident satisfaction with the service. In the short term, it is anticipated that this reduced level of investment will enable the delivery of a standard that will meet health and safety requirements of the stock and keep it weatherproof. However, there will be an increasing challenge to meet this

requirement in the medium and longer term. Some detailed analysis of the implications will be considered in the coming year.

- 15.6 Using the principles established in the Asset Management strategy, KCTMO has developed an investment plan to set out the programme priorities over this period. Details of how resources are to be used over the next 3 years are set out in Appendix 2. The plan will be reviewed on an annual basis to take into account changing levels of resources, any planned regeneration works, updated survey information and feedback from KCTMO departments and resident consultation on where investment priorities should be made.
- 15.7 The plan is based around creating sensible geographic concentrations of work for internal refurbishments, so that programmes can be efficiently managed and delivered from local site set ups. External works have been planned around the seven year cyclical decorations programme, with the intention that where scaffolding is erected for external decorations other key components that require work are also replaced. This will prevent repeated costs of erecting scaffolding. All the works identified have been surveyed, however before any works are instructed validation surveys will be completed to confirm that any works are necessary.
- 15.8 Detailed condition surveys have been completed for mechanical and electrical items such as central plant, lifts and door entry systems. This has enabled KCTMO to plan over the longer term for the replacement of these items.
- 15.9 Surveys will be completed on an ongoing basis so that KCTMO keeps its stock condition information up to date and is able to adjust its planned programme accordingly.
- 15.10 KCTMO is also developing ways of communicating the planned programme with residents. Estates that have been identified as being part of the 2016-18 programme have been visited as part of a programme of "Future Fit" roadshows. At these events, KCTMO presents what work is being considered and asks for residents' feedback on what their priorities are. These have then been factored into the programme planning.
- 15.11 In 2017/18, priority will be given to external repairs and lift renewal.

- 15.12 Replacements of roofs and other external elements continue, alongside the cyclical decorations programme, subject to detailed survey results. In addition, a programme of window replacements will begin, focusing on those areas where existing single glazed windows have reached the end of their useful life.
- 15.13 A major programme of lift replacement commenced in 2016/17 – a number of lifts are becoming increasingly difficult to repair as their parts have become obsolete, and they must now be replaced. This programme will continue in 2017/18.
- 15.14 In a similar vein, a review of communal heating systems is underway. To date a condition survey has been completed and options are being considered for their repair, upgrade or renewal. A key aim will be to improve resident control of the heating within their homes.
- 15.15 As has already been said the scheduled works will be those prioritised in accordance with the Asset Management Strategy. This would leave some works that would be required in the time period outstanding.
- 15.16 The works not prioritised in the Asset Management strategy, and therefore not scheduled to be completed within the five year programme include: insulation to solid wall properties, improvements to internal communal areas, replacement of communal areas windows, improved flooring. In addition to this external improvement to environments such as paving, roads and other landscaping arrangements.

16. Procurement Arrangements

- 16.1 In order to deliver the capital programme KCTMO has procured a bespoke framework of contractors, from which it can call off up to two contractors to complete the works. These frameworks started in April 2015.
- 16.2 The frameworks can deliver all works required under the capital programme, except for complex mechanical and electrical works, which are procured separately. To date the framework has delivered some significant savings in comparison to previous tendered contracts. The overall value for money of the framework is closely monitored in terms of cost and quality. However, KCTMO is under no obligation to use the frameworks should it decide that better value for money can be obtained from outside of the framework.

17. Use of the Procurement Framework

17.1 Following the establishment of the procurement framework in April 2015, the Council and the TMO took the matter to the Upper Tier Tribunal to establish if the framework was a Qualifying Long Term Agreement (QLTA) and whether it meets the requirements in terms of a valid leaseholder consultation (section 20 notices). Following a successful outcome at the Tribunal in June 2015, it was confirmed that the framework is a QLTA and can be used to satisfy leaseholder consultation (section 20 notices) requirements.

18. Revenue Budget – Financial Outlook

18.1 The Self Financing regime for Council housing finance was introduced in April 2012. It both improved the financial outlook for HRA's and provided more certainty regarding future sources of income. However, a number of policy announcements and the anticipated Housing White Paper are resulting in greater uncertainty regarding the financial outlook for the HRA.

18.2 The Royal Borough therefore needs to ensure that robust financial planning is embedded into its processes and is closely aligned with its business planning.

18.3 In July 2015, the Chancellor's budget statement announced that social rents will reduce by 1% in each of the next 4 years (2016/17 to 2019/20).

18.4 The rules regarding rent increases at the end of the 4-year period remain unclear and are unlikely to be clarified in the short term.

18.5 The gross budget for 2017/18 is £ 47.087 million and can be summarised as follows:

	2017/18 Budget £ Million
Management Fee	10.761
Maintenance – planned and responsive	12.719
Capital Charges	9.198
Various Smaller Budgets	14.409

Total HRA Gross budget	47.087
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- 18.6 In addition a contribution of £15.091 million from the working balance is being made to the Major Repairs Reserve in 2017/18 which is being used to fund capital expenditure.
- 18.7 There is a close link between revenue maintenance budgets and the Capital Programme. Spending on revenue through planned and reactive maintenance programmes will extend the life of a property, thus minimising the capital spend on major works. It is anticipated that in future year's revenue maintenance budgets will reduce as revenue and capital budgets are realigned.
- 18.8 Savings have continued to be achieved as maintenance budgets are retendered. Ongoing annual savings arising from tender processes undertaken in recent years amount to approximately £800,000.
- 18.9 Commercial rental income is estimated to be £4m in 2017/18. This is £1.2m more than was received in 2012/13. Work currently taking place on the commercial portfolio is expected to result in further increases in future years, particularly in relation to telecoms site, moving RBKC departmental occupiers to market rent, and leasing of former parking sites for conversion to storage and office use.
- 18.10 The key risks to the HRA revenue budget over the medium term are:
- The implementation of the High Value Voids levy;
 - Further changes in Government policy regarding dwelling rents, in particular rents levels to be set at the end of 19/20;
 - Bad debts arising from the welfare reform changes;
 - Inflation, particularly relating to employee costs (have been very low in recent years) and maintenance contracts and;
 - Interest charges on HRA debt
- 18.11 Based on a number of assumptions (see the HRA Budget report, elsewhere on this agenda), the HRA working balance is estimated to be £42 million at the end of the next 5 years (March 2022). This balance is after transferring £63m million to the Major Repairs Reserve as a contribution to the overall HRA Capital Programme.
- 18.12 There will always need to be a working balance to allow for both known and unknown risks to the HRA (see above). Given the many uncertainties that could impact on the HRA, it would not

be considered prudent to reduce the working balance below £10 million.

- 18.13 Financial modelling has been undertaken to look at the value of the HRA over a 30-year period. Assumptions have been made about inflation and an annual contribution of £10 million to the Capital Programme has been allowed. This modelling does not take into account the requirement to fund any levy payment linked to the sale of high value voids.
- 18.14 Assuming that rents increase by CPI at the end of the 4-year period, then the surplus on the HRA at the end of the 30 years is estimated to be £259m. If rents increase by CPI + 1%, this increases to £458m. These figures are presented in current terms and have not been discounted to cash prices.

19. Capital Resources

- 19.1 The 5 year Main Programme now stands at £59.426 million. This excludes the funding of specific regeneration schemes.
- 19.2 A number of new developments/regeneration projects are anticipated over the next 5 years. Each scheme will be considered separately to determine both the short and long term financial implications that could arise. Any implications for other services e.g. Adult Social Care will need to be determined.
- 19.3 The capital funding arrangements for each scheme will need to be identified prior to any scheme being approved. Funding sources are likely to include:
- Contributions from the revenue budget/working balance (scope is limited)
 - the use of capital receipts
 - S106 contributions (some of which are ring fenced to older people's housing)
 - Use of the Council Owned Company and
 - Borrowing.
- 19.4 The potential sources of funding are considered further below:

a) Contributions from the revenue budget/working balance

An additional £25 million has been made available from the working balance to supplement the Main HRA Capital Programme over a 5-year period. The annual budget is then assumed to be

£10m from 19/20, but will need to be reviewed to ascertain adequacy and affordability.

b) Use of Capital Receipts

- I. The number of Right to Buy sales did significantly increase following the increases in discounts available to tenants, however the number of sales has reduced again in 2016/17. The intention is that the additional capital receipts available to councils are used to replace properties on a one for one basis. However, there are constraints on the usage of these receipts. If appropriate schemes cannot be undertaken in the required timescales, then the receipts plus interest will need to be returned to Central Government. Indeed, in January 2016, receipts totalling £4.4 million were returned to Central Government as schemes meeting the strict criteria could not be identified.
- II. Other capital receipts can arise which may be available for use on HRA assets. For example, receipts arising from lease extensions.
- III. Some authorities sell a number of their properties each year in order to fund capital works to their stock.

The HRA Assets Disposal and Conversion policy was agreed by Cabinet in March 2015. Three properties have been identified as suitable for disposal as they are not considered to be financially viable. Our ability to do this in the future is likely to be reduced, given the requirement to contribute towards the roll out of the RTB regime to Registered Providers.

c) S106 Contributions

As part of Planning considerations, commuted sums are often lodged with the Council in lieu of developing on site affordable housing. Some of these funds can be ring fenced e.g. to Older People's housing. Use of such funds can be determined on a scheme by scheme basis.

d) Borrowing

Despite the aim of HRA's becoming self-financing, local authorities have been set a borrowing cap for their HRA which cannot be exceeded. Authorities can borrow up to their cap provided they can afford to finance the loans.

The Royal Borough's cap is £221m, given our current debt our headroom for borrowing is only £11.4m.

Some of the current external debt is at fairly high rate, the loans were taken out a number of years ago. The penalties arising from early redemption mean that refinancing the loans is not cost effective.

Given, the limited scope for additional borrowing, the intention is to not use it to fund maintenance work but to invest in future regeneration or development of affordable housing.

e) Development of Private Housing Schemes

Opportunities could be taken to develop housing schemes where market or Affordable Rents are charged. The surpluses could then be used to support other HRA capital projects.

f) Council Owned Company

The Council has established a Council Owned Company to support future developments. One of the key advantages from such an arrangement is that a higher level of borrowing could be achieved, as the HRA debt cap would not apply to the Company.

20. Delivery

20.1 Implementation of the Capital Programme Business Plan will be a joint workstream which sits in both the Council's and KCTMO's Business Plans, and features in the on-going Performance Agreements written as part of the governance requirements under the Modular Management Agreement.

20.2 KCTMO's Asset and Regeneration team will work closely with the Housing teams on delivery. Processes and monitoring are in place to ensure:

- the on-going procurement timetable is met
- the Keystone Asset Management system and AIM database are up to date
- monthly review of capital programme spend requirements is undertaken
- quarterly and annual reporting of capital spend is undertaken.

21. Resident Engagement

- 21.1 The Council has undertaken to engage with the community and provide transparency. This extends to providing information on capital programmes and regeneration works associated with HRA estates.
- 21.2 The capital programmes associated with this plan require consultation with residents which the Council would expect KCTMO to lead on.
- 21.3 KCTMO has a hierarchy of involvement structures that move from estate or neighbourhood based residents' associations through to the TMO board itself.
- 21.4 KCTMO will consult with residents on the proposals, including the practicalities of how the works will be delivered.
- 21.5 Where more significant changes to estates are considered, KCTMO will carry out detailed consultation with residents on their aspirations for their home and neighbourhood, before reviewing with residents the best option for their home.

22. Conclusions

Maintaining the Existing Stock to the Required Standard

- 22.1 The estimated cost over the next 5 years of investment need in all the stock is £146 million, while the planned programme for this period is £59 million. This means there is a shortfall in the region of £87 million.
- 22.2 The works that have been scheduled are the works given priority in the Asset Management strategy. This means that during this five-year period a backlog will develop of these works that have not been prioritised.
- 22.3 The cost of not doing these works could be tenant dissatisfaction, increased expenditure on reactive repairs and the risk of failure of items not prioritised.
- 22.4 Including these works in the programme would require additional funding from the working balance, or identification of another funding stream to fund the works.

23. Recommendations

- Maintaining the existing stock to the required standard
- To agree the HRA Business Plan 2017-22, noting it has been prepared during a time of extreme uncertainty

- To allocate capital resources of £39.326m to the Main HRA Programme for the three-year period 2017/18 – 2019/20 to enable us to carry out the necessary works to our stock in line with the Asset Management strategy
- To review the asset management strategy for the Council's stock given the negative changes to the HRA position and
- A business case approach is adopted when considering the replacement or repair of lifts/windows

Strategic Links

1. Housing Strategy

The Royal Borough of Kensington and Chelsea's Housing Strategy 2013-17 sets out how we as a borough want to improve both the quality of accommodation and lives of people who live here by:

- **Resources** - Developing effective asset management and longer term business planning, taking advantage of the new regime for Council Housing finance (Self-Financing).
- **Regeneration and Development** – Regenerating, renewing and developing new affordable housing where opportunities arise.
- **Housing Options** - Providing a service that enables people to make informed decisions about their housing options.
- **Vulnerable Residents** - Supporting people who are vulnerable with appropriate accommodation and advice services.
- **Employment and Training** – Enabling people in social housing to access employment and training opportunities.

The Housing Strategy is complemented by our Tenancy Strategy and Housing Allocation scheme which ensure that we meet housing need, appropriately allocate tenancies, provide tenancy options and promote mobility.

2. Asset Management Principles

The Council has adopted the Housing Revenue Account Asset Management Principles set out in the report to the Housing and Property Scrutiny Committee on 8th January 2014. These principles were agreed with KCTMO in order to provide a framework for ensuring that the stock performs to the highest possible standards:

- **Managing the housing assets** – Assessment of the financial performance of the stock and also other measures of broader neighbourhood sustainability
- **Investing in homes to a local standard** – sets our hierarchy of investment for six categories of work and provide the broad standards associated with each item (see para 4.3)

- **Supporting Regeneration of Estates and Neighbourhoods**
- The Council has ambitions to develop more new housing of all tenures and to improve local neighbourhoods through regeneration

This Business Plan aims to detail what needs to be done to realise our overall objectives and identify how we can maintain our housing assets to an agreed standard and continuously improve people's living environment.

3. Asset Management Strategy

HRA self-financing means that it is ever more important for stock owning councils such as RBKC to understand the performance of its housing assets and the resources available to maintain them. KCTMO in consultation with the Council has developed an Assessment Management Strategy that supports this by setting out:

- the expected standard that the Council's housing should meet.
- how investments will be prioritised within this standard, within agreed budgets.
- A framework for identifying and progressing options for non-performing assets.
- how energy efficiency within the stock will be improved.

The strategy is the framework for a five-year capital investment plan, setting out where the Council intends to invest in the short and medium term.

4. The Kensington and Chelsea Investment Standard

4.1 KCTMO and the Council are developing an Investment Standard that sets out a hierarchy of investment and the broad standards associated with each item. The standards are intended to be aspirational but affordable. The standard also sets out expected lifecycles for each component so residents can understand how the KCTMO plans to replace key items in their homes and buildings.

4.2 KCTMO has consulted widely with residents on the Investment Standard and the priorities for investment. It has done this through their Board; the Assets and Regeneration Panel (a focus group); exhibitions and drop in roadshows at key estates and venues (which is ongoing through the year); and via articles in the residents' magazine the Link.

The proposed standards of investment are based on six categories of work:

- Your health and safety
- Keeping homes wind and weather tight
- Inside your home
- Improvements to communal areas
- Improvements to neighbourhood
- Accessibility.

4.3 The standard will be designed to fit within budgets available in the HRA Business Plan. Where short term resources are insufficient to deliver the standard, works will be prioritised based on cost and deliverability on the following basis:

- Statutory Compliance - Your health and safety
- Physical structure - Keeping your home wind and weather tight
- Modern facilities - Inside Your Home
- Improvements to communal areas and neighbourhoods.

4.4 A specific budget for disabled adaptations will be agreed with the Council to address the accessibility element of the standard.

4.5 Underneath these high level standards are detailed standards that define the specifications that the KCTMO works to when carrying out work. The KCTMO will be publishing a version of this for residents, so they can understand the specific kitchen, bathroom etc. standards.

5. The Profile of the Council's Stock

The total tenanted stock is 6,928 properties with a further 2,548 leasehold properties. This includes 62 hostel places and 176 sheltered units. The stock is predominately flatted, with a small number of houses. The majority are post war construction built during the boom in council housing. The Council's stock has a disproportionate number of studio and one bedroom properties. It also includes 12 listed buildings in KCTMO management, which covers 330 properties, and has almost 1400 properties in conservation areas.

The breakdown of the age of the stock is as follows:

	Tenanted	Leased	Total	
Pre 1919	1054	599	1653	18%
1919-44	516	189	705	7%
1945-64	2068	776	2844	30%
1965-74	1758	518	2276	24%

Post 1974	1467	528	1995	21%
Total	6863	2610	9473	

Appendix 2

DRAFT 2017/18 – 2021/22 BUDGET

2017 Budgets (Draft December 2017)

Programme	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Internal Programme	£ -	£ -	£ 350,000	£ 1,500,000	£ 250,000	£ 2,100,000
External Programme	£ 6,264,000	£ 8,690, 000	£ 5,864,000	£ 4,184,000	£ 3,934,000	£ 28,936,000
Major M+E	£ 2,000,000	£ 3,000,000	£ 2,000,000	£ 2,500,000	£ 4,000,000	£ 13,500,000
Aids and Adaptations	£ 500,000	£ 500,000	£ 500,000	£ 500,000	£ 500,000	£ 2,500,000
Capitalised Voids and Repairs	£ 1,136,000	£ 1,136,000	£ 1,136,000	£ 1,136,000	£ 1,136,000	£ 5,680,000
Commercial Properties	£ 100,000	£ 100,000	£ 150,000	£ 180,000	£ 180,000	£ 710,000
Trellick	£ 6,000,000					£ 6,000,000
Totals	£ 16,000,000	£ 13,426,000	£ 10,000,000	£ 10,000,000	£ 10,000,000	£ 59,426,000