WARWICK DISTRICT COUNCIL	**Executive – 5th April 2017**	**Agenda Item No.** **6**

Title:	Housing Revenue Account Business Plan Review
For further information about this report please contact	Bill Hunt Deputy Chief Executive bill.hunt@warwickdc.gov.uk 01926 456403 Andrew Rollins Principal Accountant andrew.rollins@warwickdc.gov.uk 01926 456803 Russell Marsden Assets Manager Russell.marsden@warwickdc.gov.uk 01926 456038
Service Area	Housing Services
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	Executive March 9th, 2016 , Minute 117
Background Papers	HRA Business Plan Review 16/17-61/62, Executive, 9/3/16, HRA Business Plan Review, Executive 11/3/15, new HRA Business Plan, Executive, 11/12/13, HRA Draft Business Plan 2012-2062, Executive 6/3/12 Working papers on assumptions, income and expenditure

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes (Ref 775)
Equality & Sustainability Impact Assessment Undertaken	n/a

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Deputy Chief Executive		Bill Hunt
Head of Service		Vacant
CMT	14/7/17	

Section 151 Officer	14/7/17	Mike Snow
Monitoring Officer	14/7/17	Andy Jones
Finance	10/7/17	Andrew Rollins
Portfolio Holder(s)	20/7/17	Peter Phillips
Consultation & Community Engagement -		
n/a		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below):		

1. Summary

1.1 The Housing Futures programme undertaken by the former Housing & Property Services service area comprised of two separate work-streams. The first of these was a review of the Housing & Homelessness Strategies, presented to Executive in March. The second, a fundamental review of the Housing Revenue Account (HRA) Business Plan (BP) is presented in this report.

1.2 The HRA BP covers a rolling 50 year period. This latest review has reviewed all the underpinning assumptions and considered any updates required to reflect past performance. This work has confirmed that the revised HRA BP for the period 2017/18 – 2061/62 remains viable, allowing the Council to manage and maintain its housing stock, service the debt created by the HRA becoming self-financing and provide financial headroom to re-model the existing stock or build/acquire new homes.

1.3 The HRA BP will continue to be reviewed on a regular basis as the underpinning assumptions may require further revisions when the provisions contained within the Housing and Planning Act 2016, which have the potential to significantly alter the existing financial regime that exists for publically-owned housing, are finalised for implementation. Unfortunately there is still significant uncertainty as to when these changes might be implemented, the breadth of their scope and their likely impact.

2 Recommendations

2.1 That the Executive approves the revised Housing Revenue Account Business Plan (HRA BP) assumptions, as set out at Appendix One, and the revised HRA BP for the period 2017/18 to 2061/62, based on these assumptions, as set out at Appendix Two.

2.2 That the Executive notes that, on current projections, the HRA BP will allow the surplus on the Capital Investment Reserve to be increased annually until 2051/52 allowing debt repayments to commence from 2052/53 and, by the end of 2061/62, for the £136.2m debt to have been cleared in and a surplus of £117.1m to remain.

2.3 That the Executive notes that investment of the projected closing surplus of £117.1m during the HRA BP period could enable c570 new homes to be provided, for which appropriate business cases will be brought forward to Executive to consider as opportunities arise.

2.4 That the Executive notes that the next phase of the Housing Futures programme will consist of a thorough financial and legal appraisal and a cost/benefit examination of a range of potential options, as set out at paragraph 3.8, to increase the HRA stock and that a further report on the outcome of this work will be presented to Executive later this financial year.

2.5 That the Executive notes the significant improvements made to the quality of the stock condition information held by the Council and the headline outcome of the recent stock condition survey work that the HRA housing stock is in a relatively good condition and has benefitted from prudent investment that has ensured remains 'fit for purpose' and has maintained its value.

2.6 That the Executive agrees that, as part of the careful management and monitoring of the HRA BP, an annual review of the underpinning assumptions will be undertaken and any changes required to the Plan as a result, along with any divergences in income or expenditure, will be reported to Executive as part of the annual budget setting process.

2.7 That Executive notes that there are provisions within the Housing and Planning Act 2016 that have yet to be finalised or implemented by Government and that these may require an in-year review of the HRA BP assumptions and potentially the agreed Plan itself.

3 Reasons for the Recommendations

3.1 In April 2012 the national Housing Revenue Account Subsidy System (HRASS) was replaced and Council's operating a HRA were required to do so on a 'self-financing' basis. This required each such council to make a payment to Government to secure release from the HRASS, each individually calculated and based on an assessment of the assumed payments that would otherwise have been made into the HRASS had it continued to operate for a further 30 years. In WDC's case this required a one-off payment of £136.2m which was loan financed. On 6th March 2012 Executive approved a HRA BP for the period 2012/13 – 2061/62 which, based on the assumptions made at the time, ensured the Council would have a viable Plan that provided for the loan to be repaid under the terms arranged, for the investment and management needs of the housing stock to be met and which provided financial headroom, through the accumulation of revenue surpluses that could be used to secure additional HRA homes.

3.2 The performance of the HRA BP is closely monitored and annual reports have been submitted to Executive since 2012. As part of the Housing Futures project, and in recognition of the staffing changes within the former Housing & Property Services' and the Finance service areas, a more fundamental review of the HRA BP and all of its underpinning assumptions has now been undertaken and is presented in this report.

3.3 The underpinning assumptions are set out at **Appendix One**, with exploratory notes documenting all changes from the previous iteration of the HRA BP. These changes have then applied to the HRA BP which has been revised from the start of the current financial year through to 2061/62. The revised Plan is set out at **Appendix Two**. A summary of the changes between the previously approved 2016/17 iteration of the HRA BP and the revised Plan for 2017/18, is set out at **Appendix Three**.

3.4 The HRA BP remains robust, resilient and viable even with the adjustments required by the 1% annual rent reduction for HRA tenancies, imposed by Government for the four year period 2016/17 to 2019/20, and the impact of projected increases in Right to Buy sales. The revised HRA BP provides for a minimum balance of £1.4m, increased annually for inflation, to be maintained on the HRA and for a revenue surplus to be achieved annually for transfer to the Capital Investment Reserve (CIR). As shown at Appendix Two, the balance of the CIR at the start of the current financial year was £20.7m and, based on current projections, this will be capable of being increased annually until 2051/52 when a peak CIR balance of £194.2m is projected. For a period of 10 years between 2052/53 and 2061/62 the CIR balance will be reduced annually to facilitate the repayment of the £136.2m loan financed debt but, even allowing for these reductions, projections demonstrate that there will be a healthy balance of £117.1m in the CIR at the end of this period, by which time the debt will have been cleared in full.

3.5 The projected CIR surplus of £117.1m at the end of the current HRA BP period has reduced by £72m as a result of the revised assumptions. However, even with the reduction the revised HRA BP demonstrates that the Council will be able to maintain existing service provision, fully meet the responsive and cyclical repair needs of the HRA stock and continue to invest in refurbishment and improvement work to maintain the Decent Homes Standard. In addition, the projected surpluses in the CIR also ensure that the Council's ability to invest in new homes is retained.

3.6 Assuming that the £117m surplus was invested prior to the end of the HRA BP period, and the Council supplements this source of capital funding with judicious use of the 'one-for-one' receipts from Right to Buy sales the latest projections demonstrate that the Council could build a minimum of c570 new homes.

3.7 However, an increase in new homes at this level would still be insufficient to offset the projected reduction in the HRA stock resulting from the revised assumption of increased Right to Buy sales, as shown in the table below:

New Build potential			
	New Build Homes	Right to Buy Sales	Net HRA stock reduction
2017/18 to 2061/62	570*	1,505	935

* Assumes new build costs based on £160k per home (2016 projection) inflated by 2.5% per annum from 2017/18

3.8 The next phase of Housing Futures will be to examine the financing, and undertake a cost/benefit analysis, of a range of potential options to eliminate this projected reduction in the HRA stock. During the coming year officers will examine a range of options including:

- Acquisition of existing homes
- Acquisition of s106 affordable homes
- Redevelopment of existing HRA homes (as was done at Featherstone Court to create the new Sayer Court development)
- New build on Council owned land, including garage sites
- New build on acquired land
- Joint venture options
- Council owned Housing Company

3.9 A significantly increased level of confidence in the revised HRA BP projections can be derived from the improvements made to the HRA stock condition information during the last financial year. As part of the Housing Futures project 2 separate stock condition surveys were commissioned with a specialist housing consultancy, Michael Dyson Associates Ltd. The first, completed in the 3rd quarter of 2016/17 provided information of the main elements, known as stock attributes, of every HRA home. This new survey information, complementing existing legacy information and information from our in-house team of surveyors, has enabled us to build up a comprehensive picture of the current state of, and consequently the future investment needs, of a range of stock attributes such as kitchens, bathrooms, roof coverings, windows, doors, rainwater goods, etc.

3.10 The headline outcome of this first survey is that the overall stock is in a better condition that could have been expected, having benefitted from prudent and timely investment over a period of years. Stock condition surveys of this nature generally show that c20% of any given stock attribute is in poor condition at any given time but the position for the WDC stock is c12%. Detailed analysis of the survey results is now underway and this will inform a full revision of the profile of the future Housing Investment Programme (HIP) to ensure that all the poor condition attributes are remedied as quickly as possible and a tailored investment programme is put in place to replace items on a timely basis. The revised programme will be reported to Executive as part of the 2018/19 HRA base budget setting process. In the meantime the existing 2017/18 HIP budget allocation will be directed to meet the most pressing needs.

3.11 The second survey, completed in the final quarter of 2016/17, was a structural survey of the multi-storey blocks and those homes of 'non-traditional' construction. Again, the headline outcome is that there are no blocks or types of homes that are in poor condition or problematic. Detailed analysis of this survey is now also underway and will, again, inform future investment priorities.

3.12 The surveys undertaken to date allow us to fix a baseline position for the entire HRA stock which, in turn, allows for the maintenance needs to be costed for the lifetime of the revised HRA BP. This baseline will continue to be refined in coming years through a combination of in-house surveying and data analysis and, where appropriate, further specialist surveys e.g. for lifts or fire detection systems. Current projections are that we will need to invest an average of £2.9m per annum in the stock throughout the HRA BP period, slightly increased from the previous projection of c£2.2m per annum.

3.13 This long term maintenance programme is funded by the Major Repairs Reserve (MRR), which is forecast to have an opening balance of £4.6m at the start of the current financial year. The balance of the MRR is increased annually by the amount of the annual depreciation charge to the HRA stock, which for 2017/18 is an estimated £6.4m. This provides considerable headroom to accommodate the proposed £2.9m annual expenditure, albeit the surplus on the MRR will reduce slightly from £13.8m to 11.7m at the end of 2020/21. In simple terms the level of depreciation is such that the balance of the MRR will remain sufficient to fund the required level of improvements necessary to offset the reduction in the value of the stock were the improvements not to be undertaken. The stock itself is re-valued annually and further confidence in the viability of the HRA BP can be derived from the current valuation (£283.2m based on the Existing Use Valuation methodology for social housing or £826.5m based on an unrestricted use valuation) being significantly higher than the outstanding self-financing debt.

3.14 The HRA BP will continue to be carefully monitored, the stock condition information maintained and improved and an annual review of the underpinning assumptions undertaken to allow any further revisions to be reported to Executive as part of the HRA budget setting process. However, members will note that there is still a considerable level of uncertainty in respect of the detail around certain provisions contained within the Housing and Planning Act 2016 and the timing of their implementation. The continuing absence of detailed regulations from the Government setting out how these proposals will be taken forward means that, although they could have a significant impact on the HRA BP, it has not been possible to make definitive assumptions about the scale of that impact. These issues are explored further in section 6 but, at this stage, the only option is to monitor development closely and, if necessary, undertake and report on an in-year review of the current HRA BP.

4 Policy Framework

4.1 The HRA BP contributes to the Fit for the Future transformation programme and assists the Council to deliver its Vision and supports the priorities set out in the Sustainable Community Strategy, particularly the Housing and Health & Well-being strands by:

- Ensuring the Council operates a financially viable HRA that allows for the provision of effective services to HRA tenants and investment in the housing stock to provide tenants with a safe, secure and well maintained home within which they can thrive.
- Supporting the overall capacity of the Council to operate as an effective public service organisation with the capability to influence housing investment within the district
- Providing the financial capacity to allow investment in new affordable housing within the district
- Ensuring that financial capacity is maintained to continue the provision of specialist support services for older residents such as the Council's sheltered housing schemes and the cross-tenure Lifeline service

5 Budgetary Framework

5.1 Effective monitoring and forecasting of expenditure and income is a fundamental part of the proper financial management of the Council, enshrined within the Code of Financial Practice and the monthly Budget Review process.

5.2 Under the 'Self Financing' regime the Council took on £136.2m of debt in return for the ability to locally determine decisions on future investment in the housing stock, management services and building the financial capacity to provide new homes. The HRA BP is predicated on debt repayments commencing in 2052/53 so it is essential to project income and expenditure over the full 50 year plan rather than the 5 year period used for the Medium Term Financial Strategy, although actual investment programmes will continue to be managed and monitored on shorter 5 year periods.

5.3 A series of informed assumptions underpin the income and expenditure projections and changes to these provide the basis for revisions to the HRA BP. For example, the Council currently owns over 5,500 socially rented homes and sixteen shared ownership properties. Sale of properties impacts on both income and expenditure – there is a marginal reduction in maintenance and improvement costs, which fluctuate through the plan period, and a more significant one in terms of lost rental income which is fixed throughout the plan period and projected to increase annually. A revised assumption has been made on the level of Right to Buy (RTB) sales based upon current trends. Sale levels are influenced by the discounts available to tenants, the availability of mortgage finance and the prevailing market prices of homes in the district. If any of these factors change the assumption will require further review, hence the need for careful and continual monitoring of the HRA BP's underpinning assumptions.

5.4 The revised HRA BP set out at Appendix Two shows that the Council will suffer a net loss of properties through RTB even if the potential new build numbers, referred to in paragraphs 3.6 and 3.7 and themselves dependent on a range of financial viability considerations and the availability of suitable development sites, are achieved. However, the viability of the HRA BP is not compromised by this potential net reduction in stock levels and, as options to replace the RTB losses are worked up, there will be a further revision to the BP.

5.5 The Major Repairs Reserve (MRR) is used to fund capital repairs of the HRA stock. The contributions to the reserve are based on depreciation calculations.

6 Risks

6.1 A revised HRA BP Risk Register is attached at **Appendix Four**.

6.2 The HRA BP will continue to be regularly monitored and an annual update provided to Executive as part of the HRA budget setting process.

6.3 There are still significant, but at this stage unquantifiable risks associated with the full implementation of the provisions within the Housing and Planning Act 2016:

- The Right-to-Buy (RTB) is to be extended to tenants of housing associations, with the cost of funding the discounts given to the associations' tenants to be covered by local housing authorities, potentially requiring payments to be made from the HRA. Local authorities will have a duty to consider (but not an obligation to proceed with) the sale of 'high value' properties as a way of helping them to find the necessary funds to make these payments. The Government has chosen not to implement this provision and, instead, a pilot scheme will be run elsewhere in the country during 2017/18 to assess the feasibility of future national implementation and allowing for more detailed consideration of the portability of discounts between sectors and the treatment of 'one for one' capital receipts. It is, therefore, still not clear when, or if, this provision will be implemented or, when it is, the contribution each council with a HRA would need to contribute towards this policy. The emerging intelligence around this issue will continue to be closely monitored.
- One provision of the Act, the mandatory 'Pay to Stay' provision, has now been scrapped. This was a policy whereby social housing tenants with a combined income for the two highest earning members of the household exceeded £30,000 would be required to pay an increased rent up to the market rent for a similar property. The council landlord would then be required to collect the difference between this and the existing rent and pay it over to Government. Councils are instead being offered the opportunity to introduce this provision on a discretionary basis. Given the uncertainties

over the number of tenants affected, the cost of assessing income, collecting the monies and monitoring the operation of the system and the additional management costs these requirements would create this is not a recommended approach.

- The proposed introduction of short term tenancies of between two and five years does, however, remain as an unimplemented provision of the Act. Currently the Council currently offers unrestricted secure tenancies to support commitment and investment by residents in their homes and their community. The future introduction of short term fixed tenancies for new tenants would increase management costs within the HRA BP as a regular review of a household's income would be required, this being the proposed determinant as to whether the fixed term tenancy should be extended. There would also be costs associated with devising a suitable Tenancy Agreement and, potentially an increase in legal fees were the Council to have to evict anyone no longer meeting the Government's criteria. A prudent estimate is for an annual cost of not less than £85,000 if this provision is implemented in 2018/19 as currently envisaged. Again this will be kept under careful review and any changes to the current position reported to members.

6.4 The external fact that presents a potential significant risk to the HRA BP is around the continuing changes to the social security system. One known issue relates to the implementation, from April 2018, of the Local Housing Allowance (LHA), currently used as a cap for Housing Benefits payments for private sector tenancies, to the social rented sector for all tenancies that commenced after April 2016. The current intention of Government is to further limit the Housing Benefit payable to those aged 35 or under, whether in work or not, by linking their LHA threshold to a rate equivalent to the cost of a shared room in a single household rather than the actual cost of their tenancy. This poses a risk to the maintenance of assumed income streams within the HRA BP as, although all council rents are below LHA levels, the proposed level of the threshold for a tenant aged 35 or below is less than the cost of a one bedroom flat. This raises the risk that people of this age group will be excluded from the Council's homes, potentially placing pressure on General Fund budgets, or, if they do attempt to maintain a HRA tenancy, increasing the risk of rent arrears.

6.5 Another potential risk to the HRA BP is around the continuing introduction of Universal Credit. This is expected to be fully implemented by Summer 2018. Current feedback from the introduction of Universal Credit nationwide has indicted that the number of council tenants in arrears has increased, as well as the average level of arrears, in comparison to tenants who do not receive Universal Credit.

6.6 In response to the risks highlighted in paragraphs 6.4 and 6.5 the bad debt provision within the HR BP has been increased to 2% from 2018/19, as set out in Appendix One.

7 Alternative Options Considered

7.1 The assumptions underpinning the HRA BP could be left unchanged from those that underpinned the version approved by Executive in 2016. This has been rejected as it would result in the BP not reflecting the most up to date policies, strategies and research on the conditions of the local housing and land markets. Changes to the forecast number of RTB's, and the 1% rent reduction for

Designated, Sheltered and Very Sheltered dwellings are significant changes and should be reflected within the HRA BP. The plan would therefore not be able to deliver services in a way that is viable, maintain services and service the debts taken on by the Council.

7.2 Members could choose to vary the assumptions within the HRA BP or agree alternative policies, service standards and investment options. If these alternative options were financially viable and deliverable, the HRA BP could be amended. However, officers consider that, given the uncertainties around what will ultimately emerge into legislation from the Housing and Planning Act, it would be prudent to retain the current assumptions and policy positions that underpin the HRA BP at this stage.