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|  Executive 11th March 2015 | | Agenda Item No. 7 |
| Title: | HRA Business Plan Review for 2015/16 to 2061/62 | |
| For further information about this report please contact | Andy Thompson, Head of Housing and Property Services | |
| Service Area | Housing and Property 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| Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006 | No |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 Meeting December 11 th , 2013 | |
| Background Papers | | |

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| 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) | |
| Equality & Sustainability Impact Assessment Undertaken | |

| Officer/Councillor Approval | | |
|--|----------|----------------|
| Officer Approval | Date | Name |
| Chief Executive/Deputy Chief Executive | 25.02.15 | Bill Hunt |
| Head of Service | 20.02.15 | Andy Thompson |
| CMT | 25.02.15 | Bill Hunt |
| Section 151 Officer | 25.02.15 | Mike Snow |
| Monitoring Officer | 25.02.15 | Andrew Jones |
| Finance | 20.02.15 | Mark Smith |
| Portfolio Holder(s) | 24.02.15 | Norman Vincett |
| Consultation & Community Engagement | | |
| None | | |
| Final Decision? | | Yes |
| Suggested next steps (if not final decision please set out below): | | |
| | | |

1 Summary

- 1.1 The Housing Revenue Account Business Plan (HRA BP) has been updated to reflect the most recent changes in performance and business assumptions. This report sets the significant changes in assumptions and demonstrates how the Business Plan can service its debt, build more homes and remain viable.
- 1.2 The revisions have over the full period of the HRA BP allowed the HRA BP to remain viable with increases in one area balanced by savings in another area.

2 Recommendation

- 2.1 That Executive approves the revised Housing Revenue Account Business Plan 2015/16 to 2062/63.
- 2.2 That Executive notes performance of the Housing Revenue Account Business Plan will be continuously monitored and managed and any divergence from the agreed programme will be reported to Executive annually.
- 2.3 That the Executive adopts a standard maximum payback period for new developments of sixty years as a benchmark.
- 2.4 That the Executive approves a budget of £120,000 for a full structural stock condition survey of the Council's seven tower blocks and circa 450 homes of non-traditional construction.

3 Reasons for the Recommendations

- 3.1 In April 2012 the Housing Revenue Account subsidy system was replaced with the Self Financing System. This required the Council to take on a loan of £136.2m to pay the Governments settlement figure. On the 6th March 2012 Executive approved the HRA BP 2012/13 to 2061/62 which, based on the assumptions made at that time on income and expenditure, and the debt arrangements made by the Council, allowed the Council to maintain a viable role as a social landlord.
- 3.2 Performance of the HRA BP has since then been reviewed on a regular basis with reports being submitted on a six monthly basis to the Finance and Audit Scrutiny Committee. A revised Business Plan was approved by Executive in December 2013.
- 3.3 The assumptions underpinning the HRA BP have been reviewed to make sure that the Business Plan can be effectively managed to remain viable. As a result of this, changes have been made to the Business Plan to maintain the viability of the Council's landlord service.
- 3.4 The revised HRA BP, attached at Appendix One, projects a sustainable position for the HRA which allows for existing refurbishment and service standards to be maintained and for the Council to develop additional Council-owned homes. The minimum balance of the HRA at all times remains at £1.3m, increased annually in line with inflation, and interest on debt and scheduled debt repayments remain affordable.

- 3.5 After allowing for all necessary expenditure to maintain the current standard of services and repairs and maintenance, the latest changes to the staffing structure of the service including the Asset Management team (which is covered by a separate report elsewhere on this agenda) the HRA BP projects that over the remaining 47 years of the 50 year plan, there is a potential surplus of £560m to invest in new homes. This is a reduction of £159m from the surplus projected in the December 2013 HRA BP. A reduction of £203m at 2061/62 was reported in the Business Plan Financial Framework report to the Finance and Audit Scrutiny Committee in January 2015, primarily due to reversing most of the ambitious savings targets on repairs and management costs built into the December 2013 HRA BP; the figure at 2061/62 was £193m. A review of the assumptions on medium term inflation and interest rates, and changes in capital and revenue projections within the budgets presented to Executive and Council in February 2015 have reduced this effect to £169m.
- 3.6 The assumptions made in the original HRA BP on the cost of developing new homes figures have now been revised to take account of up to date knowledge of land and construction costs as they apply to Warwick District and the impact of the Council's preference to levy social rents for municipally provided homes which affects the income available to cover the costs of development and service any debt necessary to provide the homes. Costs of development have increased.
- 3.7 The net result is that the ability of the Council to develop additional affordable homes from 2015/16 until 2061/62 (the end of the current 50 Year Business Plan and the date when the Council is due to fully repay HRA debt) is now 2,288 homes. This represents an increase over the 1,459 forecast in the base Business Plan approved in 2012 for the period 2012/13 to 2061/62. The latest projected capacity of the HRA to provide new homes is detailed below.

| Warwick District Council Home Building Potential as at March 11 th , 2015 | | | |
|--|-----------------|--------------------|---------------|
| Period | New Build Homes | Right to Buy Sales | Net New Homes |
| 2015/16 to 2041/42 (Year 30 – HRA Business Plan) | 1,253 | 715 | 538 |
| 2015/16 to 2061/62 (Year 50 – HRA Business Plan) | 2,288 | 1,216 | 1072 |

- 3.8 To provide scrutiny and oversight over the management of the HRA Business Plan, and to allow for any discrepancies or variations to be managed in a timely and proactive way, the HRA Business Plan will be continuously monitored and managed. This will include, reporting any divergence from the agreed programme to Executive annually to make sure that the long term viability of the HRA Business Plan remains. Performance of the Plan will also be monitored through reporting to the Housing Advisory Group on an annual basis and to the Finance and Audit Scrutiny Committee on a bi-annual basis.
- 3.9 The normal pay-back period adopted by housing associations for new affordable housing development is 30 years. However, as the Council has adopted an HRA Rent Policy that has lower rents than would be the case for a housing association, it is not unreasonable to consider a longer payback period. Applying the Council's social rent to the average cost of developing a typical new three bedroomed home, including land and construction costs, gives a payback period of circa 70 years for a three bedroom house. This is not

considered to be prudent because the life cycle of a property is assumed to be sixty years before major works are needed. It is considered sensible to have paid for a property in full before the need for major works – which may include redevelopment or ‘back-to-brick’ refurbishment are needed to allow for the costs of these works to be readily financed.

- 3.10 A payback period of 60 years would therefore allow for the Council to both develop new homes but also take a long term view to how its homes can still be used and maintained in the future.
- 3.11 When a new scheme is being proposed the Executive will receive a report detailing the financing and the pay-back period. If any particular scheme falls outside the 60 years the report would consider whether or not the Council may wish to adopt a different policy for the scheme, the extent to which surpluses and balances would be needed to support the project and to what extent the use of surpluses and balance or a change from the current approach to rents is or is not justified to allow the scheme to progress.
- 3.12 One of the major factors impacting on the viability of the Council’s HRA Business Plan is the condition of the existing housing stock. The Council last conducted a Stock Condition Survey in 2010. It is good practice to update such surveys once every five years, to allow the landlord to shape its investment programmes to reflect the maintenance needs of the housing stock. The Council has already started work on a new Stock Condition Survey to be completed in 2015. This work will be undertaken by the Council’s Asset management team to make sure that local knowledge is captured and that those responsible on a day-to-day basis for looking after the condition of the Council’s homes have as much first-hand knowledge as possible of the stock’s condition.
- 3.13 However, the Council owns seven tower blocks and circa 450 properties of non-traditional construction. The nature of the way these properties were built means that it is necessary at regular intervals to undertake a full structural survey to understand the underlying stability and robustness of the buildings. These properties are those most at risk of serious and fundamental condition problems. In the case of the tower blocks, such a survey was last conducted in 1997.
- 3.14 The cost of completing a structural survey of these properties is estimated to be £120,000. Commissioning and completing this work during the first half of 2015/16 will be essential to allow for the next revision of the HRA Business Plan for 2015/16 onwards to fully reflect the investment needed to manage these properties.

4 Policy Framework

- 4.1 The Housing Business Plan contributes to Fit for the Future and meeting the Vision and Objectives of the Council as set out in the Sustainable Community Strategy by:
- Supporting the capacity of the Council to operate as an effective public service by having the capability to influence directly housing investment and the management of rented homes
 - By operating a financially viable HRA, the Council is able to demonstrate its ability to provide effective service management

- 4.2 The effective management and development of an updated HRA Business Plan will meet housing and well-being needs of the district's residents by
- Maintaining a viable locally managed and owned social landlord service
 - Providing a financially sound vehicle to invest in additional affordable homes
 - Allows for the existing social housing owned by the Council to continue to meet the Decent Homes Standard
 - Supporting local employment via the repairs and maintenance partnership contracts which have so far delivered two apprenticeships exclusively for Warwick District residents.

5 Risks

- 5.1 The latest and current HRA BP Risk Register is attached at Appendix Two.

6 Budgetary Framework

- 6.1 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 monthly Budget Review process.
- 6.2 Under 'Self Financing' the HRA has taken on £136.2m of debt, but gained the locally determined capacity to provide new homes and invest in the service. Therefore it is essential to project HRA Business Plan income and expenditure over the full 50 year term of the Plan rather than adopt a short to medium term (up to 5 year) approach.

7 Alternative Options Considered

- 7.1 The Housing Business Plan could remain as agreed by Executive in 2013. This would result in the plan not reflecting the most up to date policies, strategies and up-to-date research on the conditions of the local housing and land markets. 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 The Council may wish to agree alternative policies, service standards and investment options as part of agreeing this Business Plan. Provided these options are financially viable and deliverable, the Business Plan would be updated as a result.

8 Background

- 8.1 Looking ahead, there are a number of substantial actions that will have a major impact on the Housing Business Plan. These cannot as yet be quantified but are considered below.
- Completion of the Stock Condition Survey (September 2015) and development from that data of an improved Planned and Preventative Maintenance Programme (December 2015).
 - Local Authority New Build delivery options – including a possible Council Development Company (CDC) – to be firmed up during 2015/16. The report 'Establishing a Council Development Company for Warwick District' elsewhere on this agenda sets out the option for the Council to establish an independent delivery vehicle that could operate outside of the HRA BP

to provide additional homes and so allow the HRA BP to better focus on its core role of providing social rented properties.

- The Council has two major investment opportunities that will require consideration in 2015/16. The impact of these two initiatives have not been included in the revised HRA BP covered in this report as no decision has been taken on whether or not to take one or both of these initiatives forward. Once these matters have been considered by the Council and further details are known of the extent to which these may require investment from the HRA, the investments suggested will be tested against the capacity of the HRA to support such expenditure. The outcome of this assessment will inform further recommendations to the Executive relating to the projects themselves and will in turn inform the next review of the HRA Business Plan for 2016/17 onwards, which will be presented to the Executive in the final quarter of 2015/16.