	Executive: March 9th 2016	Agenda Item No. **5**

Title:	HRA Business Plan Review for 2016/17 to 2061/62
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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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No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 March 11th, 2015
Background Papers	None

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: 736
Equality & Sustainability Impact Assessment Undertaken	N/A

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	15/2/16	Bill Hunt
Head of Service		Andy Thompson – co-author
CMT	15/2/16	
Section 151 Officer	15/2/16	Mike Snow
Monitoring Officer	15/2/16	Andy Jones
Finance		Kunmi Joseph – co-author
Portfolio Holder(s)	22/2/16	Peter Phillips
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 out the impact of those changes.

1.2 While the report demonstrates that, on current assumptions, the Business Plan remains viable, able to service its debt and provide financial headroom for building new homes, members are asked to note that this report is only an interim statement.

1.3 Further significant changes to the HRA BP are likely to arise from the Housing and Planning Bill, currently before Parliament, which has the potential to substantially alter the financial framework within which the HRA will have to operate. The potential impact of the Bill's changes will require careful consideration and response which will require a thorough review of the HRA BP and an assessment of the impact on the Council's wider Housing Strategy. The Council will be undertaking a thorough review of these issues through a project known as Housing Futures.

2 Recommendations

2.1 That Executive approves the revised Housing Revenue Account Business Plan (HRA BP) 2016/17 to 2061/62, as set out in **Appendix One**.

2.2 That Executive notes that there are a number of significant provisions within the draft Housing and Planning Bill, published in October 2015, that mean that a number of the business assumptions made in this update of HRA BP may need to be revised as the detailed regulations associated with the Bill are agreed by Parliament.

2.3 That Executive notes that a further report on the HRA BP, and any associated impacts on the wider Housing Strategy, will be presented to a future Executive once the impact of the final Housing & Planning Bill provisions has been assessed through the Housing Futures project.

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 secure independence of the HRA from the Government control over rents, notional cost setting and the payment of subsidy. On the 6th March 2012 Executive approved the first, self-financing 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, based on updated financial assumptions was approved by Executive in March 2015.

3.3 The assumptions underpinning the HRA BP have now been reviewed again to reflect recent changes in legislation and a review of staffing and budget projections. Specifically, in July 2015 the Government announced that social housing rents would be required to be reduced by 1% per year, for four years beginning in April 2016. This policy replaces the previous guidance on rents issued in 2013 by the Government, in which rents were to rise by CPI + 1% per year for ten years, starting from April 2015.

3.4 The revised HRA BP, attached at **Appendix One**, uses the same methodology as that previously presented to members, with forward projections over a 50 year period. These projections demonstrate that the Business Plan provides for a sustainable position that allows for existing refurbishment and service standards to be maintained, provides financial headroom to develop new homes and allows for a minimum balance of £1.3m (increased annually in line with inflation) to be maintained and for the projected debt interest and scheduled debt repayments to remain affordable.

3.5 However, it is clear that the 1% reduction in dwelling rents for four years has had a significant impact on the current HRA BP projections. After allowing for all necessary expenditure to maintain the current standard of services, repairs and maintenance, and the expected changes to the staffing structure of the service, the projections show that over the remaining 46 years of the approved 50 year plan, there is a potential surplus of £189m to invest in new homes. This is a reduction of £371m from the surplus projected in the March 2015 HRA BP.

3.6 The assumptions made in the original HRA BP on the cost of developing new homes were revised in March 2015, along with the impact of the Council's preference to levy social rents for municipally provided homes. The latest HRA BP demonstrates that the ability of the Council to develop additional affordable homes from 2016/17 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) has been reduced from 2,288 to 658 homes. The latest projected capacity of the HRA to provide new homes is detailed below:

Warwick District Council Home Building Potential as at January 13th 2016			
Period	New Build Homes	Right to Buy Sales	Net New Homes
2016/17 to 2041/42 (Year 30 – HRA Business Plan)	406	694	(206)
2016/17 to 2061/62 (Year 50 – HRA Business Plan)	658	1,193	(454)

3.7 In October 2015, the Government published the Housing and Planning Bill. This Bill contains proposals, considered further in section six, that have the potential to significantly impact on the HRA BP. In the absence of detailed regulations from the Government setting out how these proposals will be taken forward, it has not been possible to make definitive assumptions about the impact they will have on the HRA BP, hence this review being based solely on known changes to the operating environment for the HRA BP.

3.8 The current proposals in the Housing and Planning Bill, were they to remain unchanged as the Bill progresses through Parliament, have the potential to require the Council to fundamentally review the HRA BP to ensure it remains viable. Officers will therefore be undertaking a significant piece of work, known as the Housing Futures project, during 2016, to review the HRA BP once the Housing & Planning Bill is enacted and also to review the impact on the Council's Housing Strategy, which would, in any case, require review before the current strategy expires in April 2017.

3.9 A further report will be presented with the outcomes of this work as soon as possible. It is currently envisaged that this will require a further revision later this year to the HRA BP recommended for approval at 2.1 and that this might require a fundamental re-appraisal of the methodology used to assess the viability of the HRA BP given that the uncertainties of the validity of the assumptions decreases significantly over a 50 year period.

4 Policy Framework

4.1 The Housing Business Plan contributes to Fit for the Future and to 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

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 monthly Budget Review process.

5.2 Under 'Self Financing' the HRA took 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. A series of informed assumptions are used to inform the income and expenditure projections and any subsequent changes to the HRA BP. These assumptions are presented as **Appendix Three** to this report.

5.3 The Council currently owns 5,450 socially rented HRA homes and sixteen shared ownership properties, against which it has secured the £136.2m of borrowing, the cost of which is covered by the rental income from each property. Sale of properties will reduce the rental income stream and the costs of maintaining and managing the properties. Assumptions have been made on the likely sale of properties as a result of the Right to Buy. These are based upon current trends which are influenced by the discounts available to tenants, availability of mortgage finance and prevailing market prices of homes in the district. If these should change, then it is likely that the take up of Right to Buy and the value of the properties sold will also alter and so impact on the HRA BP.

5.4 The revised HRA BP presented in this report shows that the Council can no longer make good the predicted loss of homes through the Right to Buy and will, over the full term of the BP, suffer a net loss of properties even if the predicted new build numbers, themselves dependent upon viable development opportunities becoming available to the Council, can be achieved in full.

6 Risks

6.1 The current HRA BP Risk Register is attached at **Appendix Two**.

6.2 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 continue to be actively managed and regularly reviewed. This will include reports to Executive on any divergence from the agreed programme or changes to the underpinning assumptions and annual performance monitoring reports to the Housing Advisory Group and to the Finance and Audit Scrutiny Committee on a bi-annual basis.

6.3 However, the Housing and Planning Bill, expected to get Royal Assent in April 2016 and separate changes being introduced to the social security system also present further risks to the HRA BP. The detail of these changes is as yet not clear so any assessment of the risks is, at this time, speculative although a summary of the current proposals and their possible impacts on the Council is set out below.

6.4 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.

6.5 It is not clear how much each council will have to contribute towards this policy as the Government has yet to set out the formula or criteria that will be used for the calculation of the funding due from local authorities (or to define what 'high value' properties will be). It is likely that the criteria for what will in effect be a 'levy' on the HRA will relate in some form to the open market value of each council's housing stock and the turnover of its homes. In the absence of detail, it is therefore difficult to predict what the precise impact will be on Warwick District, which is a high-value housing area within the West Midlands. However, by taking the predicted cost of extending the RTB, estimated at £1.5bn per annum and dividing it by the 1,682,000 council owned homes in England gives a potential 'levy' of £892 per home. When multiplied by the Council's 5,450 homes, the possible levy for Warwick District Council could be £4.9m per year, using this simplistic methodology. However, there is at present no clarity as to whether the potential levy will need to be paid solely from the HRA or could also impact on the General Fund.

6.6 With effect from April 2017, households living in social housing in which the income of the two highest earning residents exceeds £30,000 will be required to pay a rent at or close to the market rent for a similar property. Housing associations will be able to keep the additional income but local authorities will be required to pay all the extra rent collected to the Government. The Housing and Planning Bill allows for the Government to establish a process for taking a sum of money from councils based on a national estimate of Pay-to-Stay income that may not reflect local circumstances or the money actually collected by the Council. In effect, this could mean that Pay-to-Stay becomes another 'levy' on the Council's HRA, the estimated value of which, using the same approach as described in para 6.5, is £785,000 per year.

6.7 The council currently has no way of knowing the precise income of all of its tenants, unless the tenant submits a claim for either housing or council tax benefit. It is therefore difficult to assess how many tenants will be affected by this change and so make it difficult at this time to make informed estimates as to how much of the levy can be collected from high income tenants. The administration of the policy will also add to the costs of managing the landlord service as it will be necessary to keep up to date with and validate incomes of tenants and adjust rent accounts regularly to reflect relevant changes.

6.8 The government has introduced an amendment to the Housing and Planning Bill that will make the use of short term tenancies of between two and five years mandatory for all social landlords. The Council currently uses long term, secure tenancies to support commitment and investment by residents in their homes and the community. The introduction of short term tenancies will increase administrative costs for the HRA by requiring the Council to undertake regular reviews of households to determine whether or not they can stay in their home. It is not clear whether or not the criteria by which tenancies will be renewed or terminated will be subject to guidance from the Government. In addition to the costs of reviews, the Council will also need to meet the costs of evicting those who do not meet the criteria by which they can remain but who challenge any such decision. The total cost of this policy is estimated to be £85,000 per year, for each year after the formal reviews begin which could be as soon as 2018-2019.

6.9 With effect from April 2018 the payment limits that apply to Local Housing Allowance (LHA), which is payable to tenants in the private sector, will apply to all tenants whose social tenancy began after April 2016. The Council's rents are well below current LHA levels so this will not affect many households. However, in the case of those aged below 35 whether working or not, LHA is restricted to the cost of a single room in a shared household. This is less than the cost of a one bedroom council flat. The Government also intends to withdraw Housing Benefit entitlement from some 18-21 year olds from April 2017. The Council will therefore need to consider its approach to these client groups, including how it can manage the operational and financial risks of complying with these policies.

6.10 In addition to the external drivers of changing legislation there are also likely to be locally determined actions that will impact on the HRA BP. Again, their potential impact is, as yet unquantifiable, but will need to be assessed as the Housing Futures work progresses. These issues are:

- Completion of the Stock Condition Survey, scheduled for August 2016 and the subsequent development, using the data provided, of a refined Planned and Preventative Maintenance Programme, scheduled for December 2016.
- Local Authority New Build delivery options, including a possible Council Development Company, which will be explored further during 2016/17.
- Decisions to be taken on major investment opportunities currently being considered as feasibility projects, one for regeneration and one to build

new homes. The potential implications of these studies has not been included in the revised HRA BP covered in this report, as no decisions have yet been taken on whether or not one or both of these initiatives will proceed. The current feasibility work being undertaken for these projects is assessing the extent to which HRA investment may be required and testing 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 future reviews of the HRA BP.

7 Alternative Options Considered

7.1 The Housing Business Plan could remain as agreed by Executive in 2015. However, the 1% rent reduction policy introduced by Government is a significant policy change and should be reflected within the HRA BP. The review also ensures the HRA BP reflects budget movements and assumptions and up-to-date research on the conditions of the local housing and land markets.

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 after the Housing and Planning Bill has progressed through Parliament to enactment, it would be prudent to retain the current assumptions and policy positions that underpin the HRA BP at this stage.