 Executive 11th December 2013		Agenda Item No. 7
Title:	The new HRA Business Plan 2013 – 2062	
For further information about this report please contact	Jameel Malik, 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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	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 23 rd June 2010 Minute 25 Executive Meeting 8 th June 2011 Minute 13 Executive Meeting 11 th January 2012 Minute 112 Executive Meeting 6 th March 2013 Minute 1	
Background Papers		

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 - 559
Equality & Sustainability Impact Assessment Undertaken	Yes

Officer/Councillor Approval		
Officer Approval		
Officer Approval	Date	Name
Chief Executive	19.11.13	Chris Elliot
Deputy Chief Executive	19.11.13	Bill Hunt
Section 151 Officer	19.11.13	Mike Snow
Deputy Chief Executive & Monitoring Officer	19.11.13	Andrew Jones
Portfolio Holder(s)	20.11.13	Councillor Norman Vincett
Consultation Undertaken		
The Interim Housing & Property Board has been consulted. The Board consists of Head of Housing & Property Services, Business Support Manager, Principal Accountant, Portfolio Holder for Housing & Property Services, Shadow Portfolio Holders for Housing & Property Services, the Portfolio Holder for Finance and the Leader of the Council.		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1 SUMMARY

- 1.1 The Housing Business Plan 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.

2 RECOMMENDATION

- 2.1 That Executive approves the revised Housing Business Plan 2013 to 2062.
- 2.2 That Executive approves the new proposed approach for new build properties to be let at social rent rather than affordable rents as recommended in the base Housing Business Plan.
- 2.3 That Executive notes performance of the HRA Business Plan will be continuously monitored and managed and any divergence from the agreed programme will be reported to Executive at least annually and as part of the mid-year estimates.

3 REASONS FOR THE RECOMMENDATION

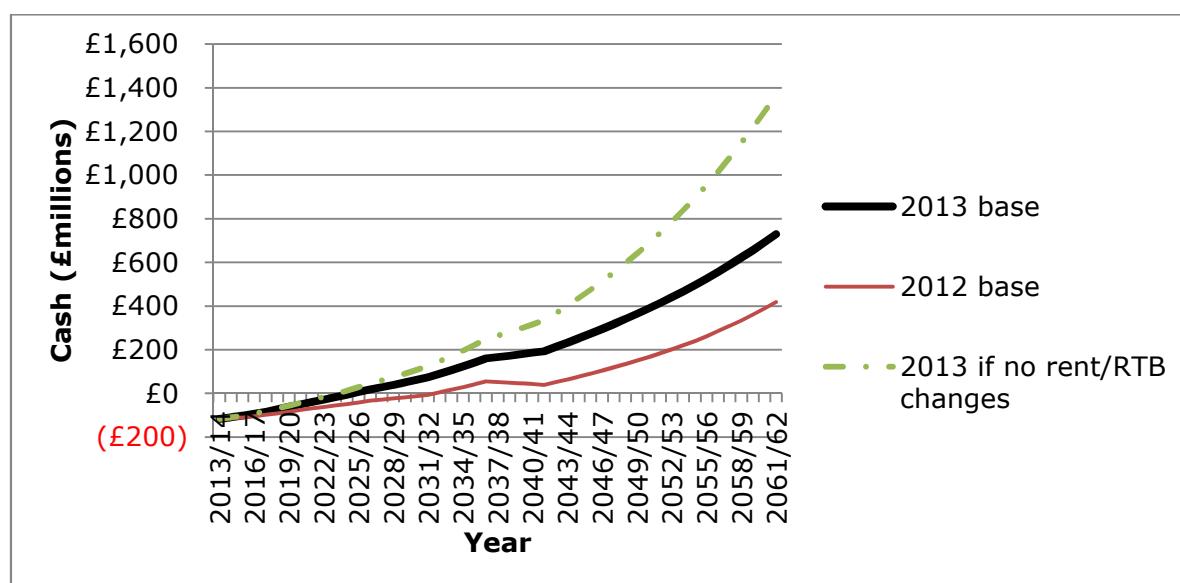
- 3.1 On the 6th March 2012 Executive approved the Housing Business Plan 2012 to 2062. In April 2012 the Housing Revenue Account subsidy system was replaced with the Self Financing System. This required the Council to take on a loan of £136.2m to pay the Governments settlement figure.
- 3.2 Performance of the Housing Business Plan has been reviewed on a regular basis through reports to the Interim Housing and Property Board on a quarterly basis and to the Finance and Audit Scrutiny Committee on a six monthly basis.
- 3.3 The assumptions underpinning the Housing Business Plan have been reviewed to ensure that they reflect the current position so that performance against the Plan can be effectively monitored.
- 3.4 The revised Plan, attached at Appendix 1, projects a healthy and improved position for the Housing Revenue Account (HRA), ensuring that the existing refurbishment and service standards are maintained. The minimum balance of the HRA at all times remains at £1.25m and the debt repayments remain affordable.
- 3.5 The Housing Business Plan Risk Register attached at Appendix 2 has been updated to reflect any changes that have been made and where necessary the score has been amended to reflect the current estimation of likelihood and severity.

- 3.6 Appendix 3 attached details the key assumptions underpinning the new Business Plan and demonstrates how and why they have been amended in line with current policy, strategy and thinking.
- 3.7 There are a number of significant factors which affect the performance of the Business Plan. Some of these are directly within the Council's control and some are outside. Most notably outside of the Council's control is the Government's recent amendments to the Right to Buy Policy and the proposed changes to the social rent formula.
- 3.8 The Government has significantly increased the level of discount available to tenants who wish to purchase their homes up to a maximum of £75,000. This has resulted in the number of homes being sold being significantly higher than anticipated.
- 3.9 Central Government are currently consulting upon a new social rent formula to apply for ten years from 2015/16. Whilst the new formula gives the Plan some medium term stability in relation to income, the proposed new formula is based upon the Consumer Price Index (CPI) rather than Retail Price Index (RPI), leading to lower rent increases.
- 3.10 In addition, the Government proposes abolishing rent convergence which means that the additional increase of up to £2 to enable Council rents and Registered Provider rents to converge to a consistent national social rent formula (target rents) will no longer be available. However it will still be possible to gradually move towards convergence by re-letting properties at target rent, as they become void.
- 3.11 The original Business Plan assumed that all rents would continue to gradually move towards target (formula) social rent according to the existing national formula. However, the Governments recently issued consultation on rent policy for social housing states that "Where a property is not at formula rent by 2014-15, we expect landlords to apply the new limit on rent changes from April 2015. They could then move the rent up to formula rent if the property is re-let at social rent, following vacancy; so the rent need not remain below the formula rent permanently." The new Business Plan therefore proposes that the rents for properties when they are re-let will be at target (formula) social rent levels. The table below demonstrates the different rent increase levels for properties on social rent compared to limit rent.

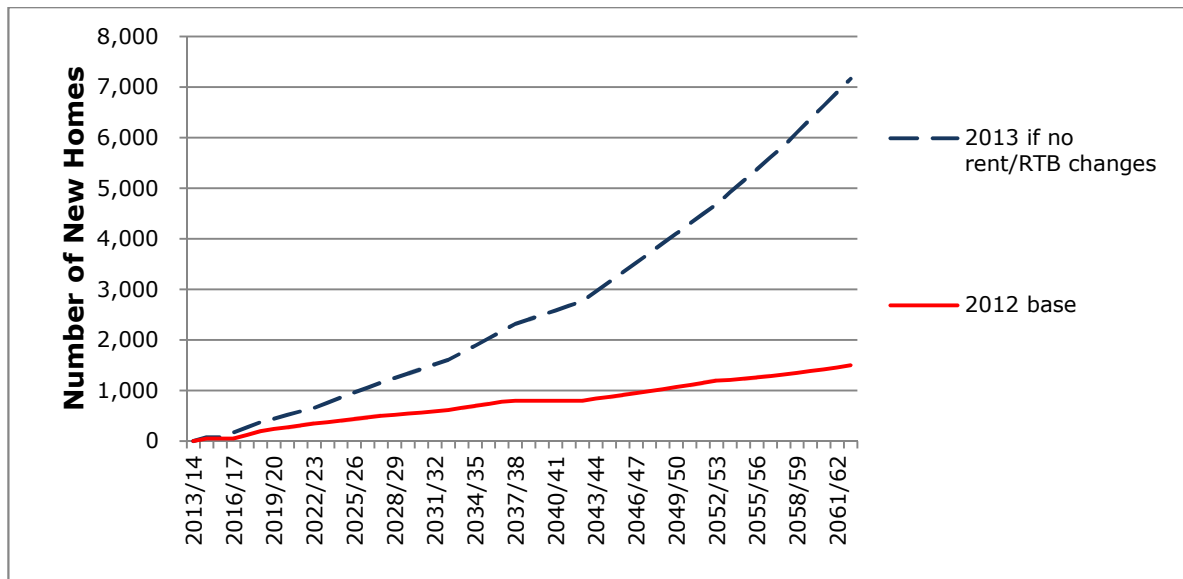
	Actual 2013/14 Rent £	Base 2014/15 Rent £	2014/15 Capped Target Rent £		Normal Increase 2013/14 to 2014/15 %	Increase Vacant Homes 2014/15 Rent to Target %
Bedsits	62.09	66.13	68.65		6.51%	3.80%
1 Bedroom	75.65	80.39	84.07		6.27%	4.57%
2 Bedrooms	83.43	88.46	92.06		6.02%	4.07%
3 Bedrooms	94.15	99.61	105.43		5.79%	5.85%
4 Bedrooms	102.62	108.37	117.70		5.61%	8.61%
5 Bedrooms	115.91	122.20	159.41		5.43%	30.45%
Overall	85.08	90.18	94.66		5.99%	4.97%

3.12 As a result of the Governments proposed social rent policy, the level of rent increase is likely to be lower than the base Business Plan assumed and as a result this reduces income to the plan over 50 years by £639m.

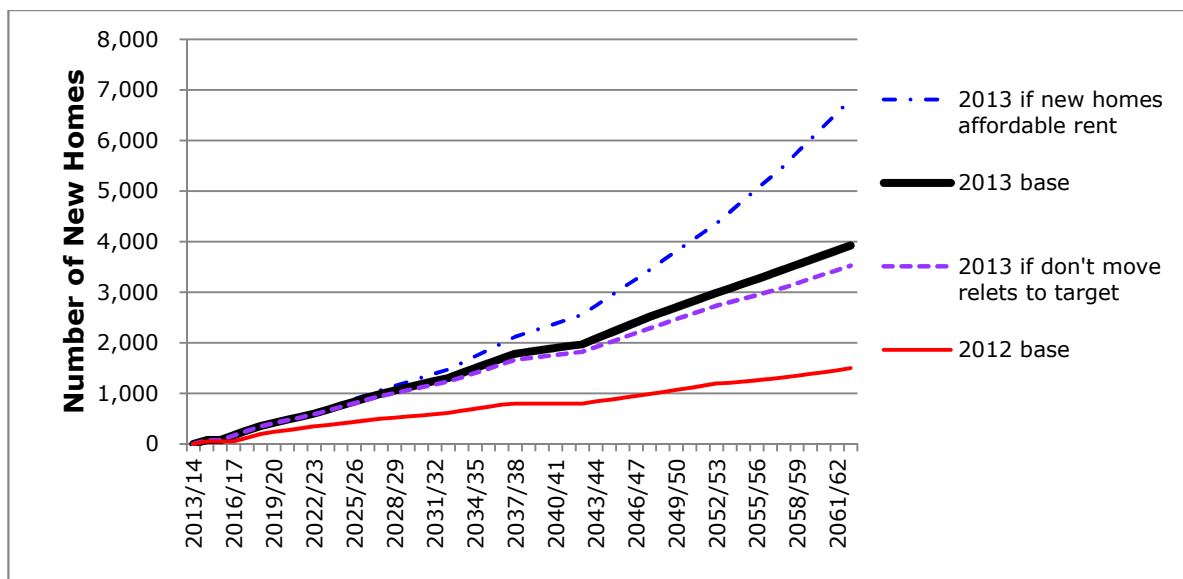
3.13 The graph below shows the net cash generated by the Business Plan should there be no new build carried out, demonstrating its viability. The new business plan projects £729m of cash surpluses after ensuring that all services are maintained. The Plan would have projected cash surpluses of over £1bn had the Government changes to Right to Buy and Rent Policy not taken place.



3.14 The graph below shows the maximum number of new homes that were projected to be built in the base Business Plan approved in 2012 (1,459) compared to the revised Business Plan had the Governments policy on Right to Buy and Social Rent not changed (6,900). The Business Plan would have had the capacity to build up to an additional 5,441 homes.



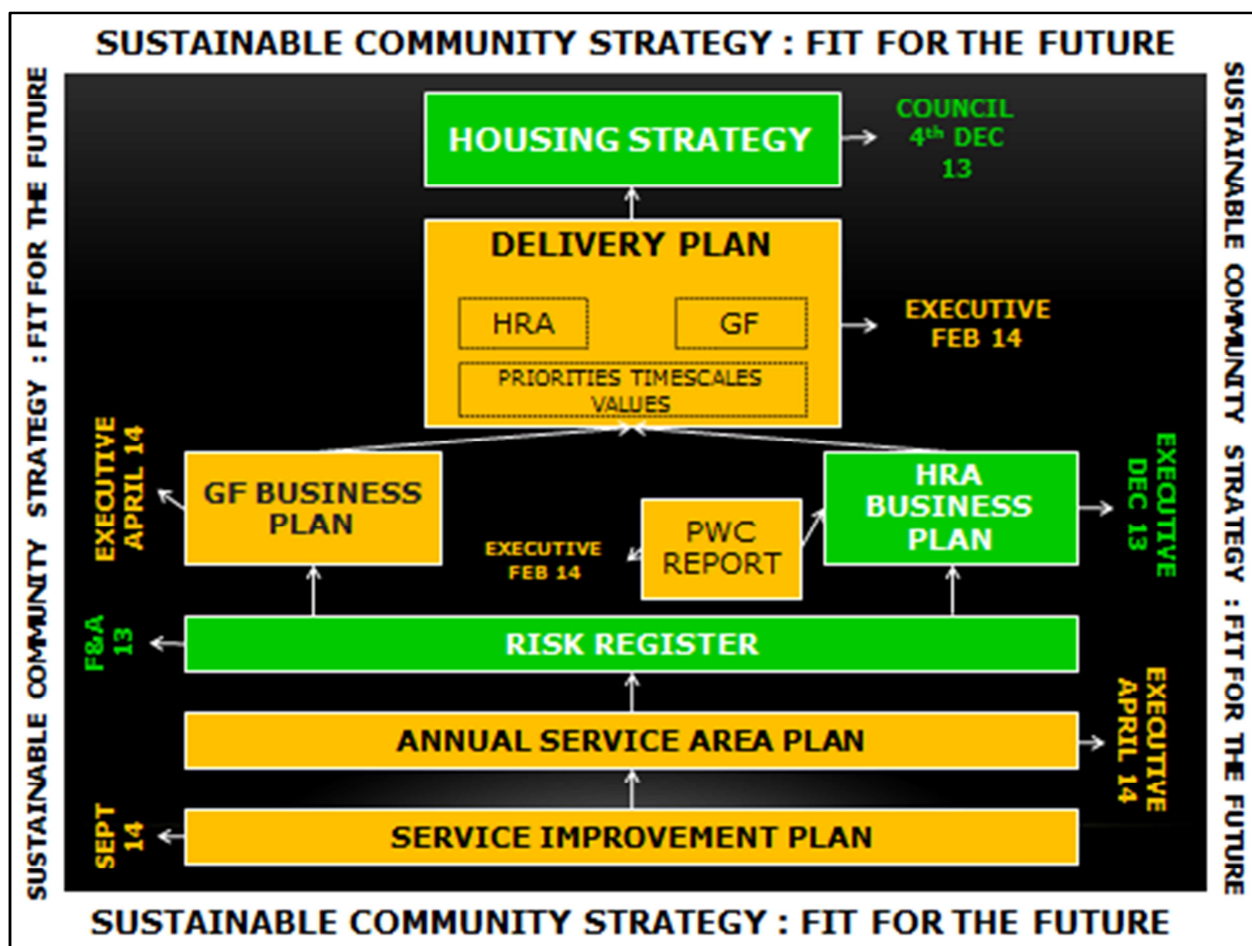
- 3.15 The graph below shows the potential new build capacity of the revised plan, taking into account the Government's changes to Right to Buy Policy and Social Rent formula (3,831) compared to the base Business Plan approved in 2012 (1,459). It also shows the difference in new build capacity if the new affordable homes were let at Affordable Rents (6,546) as opposed to Social Rent (3,831).



- 3.16 Affordable housing is housing to meet the needs of people who do not have sufficient income to pay for open market housing to rent or buy. Usually it is housing provided by Registered Providers (Councils or Housing Associations) that can be rented or purchased at less than market prices.
- 3.17 Social rents (set under the national rent regime introduced in 2002) are calculated using a formula which takes into consideration valuation, number of bedrooms and average regional earnings. The definition of affordable rent is up to 80 percent of gross market rent. Homes and Communities Agency (HCA)

guidance states that affordable rents must be based upon a valuation of market rent in accordance with a Royal Institution of Chartered Surveyors (RICS) recognised method.

- 3.18 Whilst the Right to Buy Policy and the social rent formula which are outside of the Council's control have a significant impact upon the Business Plan, it is projected that this loss can be offset by improvements detailed below.
- 3.19 Improved performance in a number of areas, specifically void relet times and bad debt provision has resulted in additional income being generated within the Business Plan. The Service's rent collection performance has been one of the strongest in recent years even after taking account economic factors and the reform to welfare benefits. This strong performance has given increased confidence in forecasting more challenging rent collection targets for the new Housing Business Plan.
- 3.20 Housing and Property Services have recently carried out a procurement exercise for the majority of its Repairs and Maintenance Contracts. The contracts have been in place since April 2013 and based on the tender results and the first 5 months of performance, it is anticipated that there will be c£61m savings generated through reduced costs over the 50 year Business Plan on expenditure of £1.4bn. This will be closely monitored, with details included within the regular Budget Review reports to Executive.
- 3.21 As a result of the revisions to the Housing Business Plan, there is significant additional capacity. The Plan projects that it generates surpluses of £729m which could potentially build approximately 3,800 new homes over the 50 years period, more than twice the number projected in the base Business Plan approved by Executive in March 2012. The Business Plan surpluses will be spent in accordance with the Housing Strategy approved by Executive in November 2013 and detailed in the Housing Revenue Account elements of the Delivery Plan which will be presented to Executive in March 2013. The overall framework and the strategic context within which this Housing Business Plan is positioned is shown in the diagram below:



- 3.22 Performance of the Plan will continue to be monitored through reporting to the Interim Housing & Property Board on a quarterly basis and to the Finance and Audit Scrutiny Committee on a bi-annual basis.
- 3.23 The revised Business Plan will form the basis of the comparison which the appointed advisors will use when reviewing options against the two objectives of improving the value for money of existing services and accelerating and maximising new affordable housing through the HRA Business Plan. The proposals from these options reviews are due to be reported to the Executive in February 2014.
- 3.24 The Business Plan will need to be reviewed following the outcomes of the Red House Farm and Lillington Potential Project that was reported to Members of the Executive in June 2013.

4 POLICY FRAMEWORK

- 4.1 The proposals directly contribute to Fit for the Future and meeting the Vision and Objectives of the Council as set out in the Sustainable Community Strategy. The effective management and development of an updated HRA Business Plan will meet housing and well-being needs of the District's residents.

- 4.2 The assumption that void homes will be moved to target rent when re-let is a change in the council's current rent policy. This will be the only way rents can move towards the target if, as expected, the new rent formula proposed by Central Government is implemented.
- 4.3 The assumption that void properties will have rents set at target rent levels, and not social rents is a change in the council's current rent policy.

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 has taken on £136.2m of debt, but gained far greater 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 just the short to medium term (up to 5 year) horizon more commonly considered.
- 5.3 The changes proposed to the policy for rent levels will reduce the income to the HRA Business Plan. This change does mean that the potential number of properties to be built within the Business Plan is substantially reduced. However, the Business Plan does show an overall increase in the number of new properties. This is largely driven by reduced costs, notably in relation to repairs and maintenance expenditure, as well as additional income due to improved performance in void re-let times and bad debt provision.

6 ALTERNATIVE OPTIONS CONSIDERED

Do Nothing

- 6.1 The Housing Business Plan could remain as agreed by Executive in 2012. This would result in the plan not reflecting the most up to date policies, strategies, and developments. The plan would therefore not be reflective of the Housing Department thus not being able to demonstrate the ability of the plan to maintain services and service its debt.

Agree an alternative Business Plan

- 6.2 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.