



<b>Report for:</b>	<b>Cabinet</b>
<b>Date of meeting:</b>	<b>30<sup>th</sup> April 2013</b>
<b>PART:</b>	<b>1</b>
If Part II, reason:	Housing Revenue Account Business Plan Update

<b>Title of report:</b>	
Contact:	<p>Cllr Margaret Griffiths, Portfolio Holder for Housing</p> <p>Author – Elliott Brooks, Assistant Director (Housing Landlord)</p> <p>Contributors:</p> <p>Mark Gaynor – Corporate Director (Housing &amp; Regeneration)          James Deane – Assistant Director (Finance &amp; Resources)          Aaron Keyte – Housing Revenue Account Accountant          Fiona Williamson – Group Manager (Property &amp; Place)          Julia Hedger – Group Manager (Strategic Housing)          Jack Burnham – Housing Development Manager</p>
Purpose of report:	<p>To Update Cabinet on the 1<sup>st</sup> Yr Review of the Housing Revenue Account Business Plan.</p> <p>To Update Cabinet on the Progress of the Council House New Build Programme.</p> <p>To agree the revised HRA 13/14.</p>
Recommendations	<ol style="list-style-type: none"> <li>1. To agree the Housing Revenue Account Business Plan;</li> <li>2. To agree Phase 2 of the Council House New Build Programme and to agree in principle Phase 3 for financial planning purposes, as set out in section 3 of the report;</li> <li>3. To agree that the Council charge a rent level of ‘target social rent’ for all new build Council owned properties;</li> <li>4. To recommend to Council the following supplementary estimates to the HRA capital programme, to be funded through revenue surpluses in the business plan:             <ul style="list-style-type: none"> <li>o Estate Improvements, £750k per annum from 2013/14 -</li> </ul> </li> </ol>

	<p>2016/17;</p> <ul style="list-style-type: none"> <li>○ Structural Balcony Repairs, £1m per annum 2013/2014 &amp; 2014/2015;</li> <li>○ Strategic Acquisition Fund, £5m, to be financed from HRA reserves to be created as part of the 2012/13 year-end process subject to outturn and Council approval;</li> <li>○ £675k increase to the budget for Phase 1 of the Council House New Build Programme to cover the amount of HCA grant funding forgone by the decision to charge social rent rather than the Affordable Rent level stipulated by the HCA as a condition of grant;</li> </ul> <p>5. To recommend to Council the approval of an appropriation of land at London Road, Apsley from the General Fund to the HRA together with an adjustment of £1.8m between the General Fund and HRA Capital Financing Requirements.</p>
Corporate objectives:	<ul style="list-style-type: none"> <li>● Affordable Housing</li> <li>● Dacorum Delivers</li> <li>● Regeneration</li> </ul>
Implications:	<p><u>Financial</u></p> <p>Included in the body of the report.</p>
'Value For Money Implications'	<p><u>Value for Money</u></p> <p>Close monitoring on a monthly and quarterly basis of the HRA Business Plan jointly by Finance and Housing officers and an annual review ensures that value for money is derived from the HRA's available resources.</p>
Risk Implications	<p>The Housing Risk Register is reviewed quarterly and considered by the Housing &amp; Communities Overview &amp; Scrutiny Committee</p>
Equalities Implications	<p>Equality Impact Assessment reviewed/carried out*</p> <p>N/A</p>
Health And Safety Implications	<p>none</p>
Monitoring Officer/S.151 Officer Comments	<p><b>Deputy Monitoring Officer:</b></p> <p>The HRA business plan sets out the Council's 30 year financial model of income, expenditure and debt which is required as a result of the self-financing system introduced by the Localism Act 2011. This year 1 review is an essential part of the required monitoring and updating of the plan.</p> <p><b>S.151 Officer</b></p> <p>The HRA business plan is sufficiently resourced to finance the above recommendations, whilst retaining the target balance of at least 5% of annual turnover.</p>

	<p>The financing of the Strategic Acquisition Fund within the capital programme is planned to be financed by a transfer from the HRA reserve as approved within the revised estimate. Creation of this reserve is subject to Member approval and the availability of sufficient revenue surpluses generated in 2012/13, which will be determined and recommended to Members as part of the current year-end process. The revised budget, approved by Members in February 2013, forecasts that there will be sufficient surplus to create a reserve of £12m.</p> <p>The HRA has sufficient borrowing headroom to enable the increase of £1.8m to its Capital Financing Requirement in order to appropriate the land at London Road from the General Fund.</p>
<p>Consultees:</p>	<p>Dacorum Borough Council Tenants &amp; Leaseholders Committee</p> <p>Dacorum Borough Council Housing Maintenance &amp; Environment Committee</p>
<p>Background papers:</p>	<p>27<sup>th</sup> March 2012 Cabinet - The Self Financing Loan Portfolio</p> <p>23<sup>rd</sup> October 2012 Cabinet – Council New Build Programme</p> <p>12<sup>th</sup> February 2013 Cabinet – The 2013/14 Budget Papers</p> <p>26<sup>TH</sup> March 2013 Cabinet – Draft Housing Strategy</p>
<p>Glossary of acronyms and any other abbreviations used in this report:</p>	<p>HRA – Housing Revenue Account</p> <p>HRA BP – Housing Revenue Account Business Plan</p> <p>NAHP – National Affordable Homes Programme</p> <p>HCA – Homes &amp; Communities Agency</p> <p>DCLG – Department of Communities &amp; Local Government</p>

## **1. BACKGROUND**

- 1.1 In April 2012 the Council agreed its 30 year Housing Revenue Account (HRA) Business Plan. It was a requirement following the introduction of Self Financing (replacing the HRA Housing Subsidy System) for Local Authorities with housing stock to have such a plan.
- 1.2 The 2012/2013 HRA Business Plan and its key assumptions were agreed over several months following consultation with members of the Council's Cabinet, Housing & Communities Overview & Scrutiny Committee, a sub-group of the Tenants & Leaseholders Committee and taking external advice from the Chartered Institute of Housing & Sector.
- 1.3 This report details the first year review of the HRA Business Plan and recommendations coming from that review as well as providing an update on progress of the Council's New Build Programme Phase 1 which was agreed in October 2012.

## **2. DACORUM BOROUGH COUNCIL HOUSING REVENUE ACCOUNT BUSINESS PLAN**

- 2.1 The resources available following the move to Self Financing in April 2012 created the opportunity for the Council to be strategic in its approach to its housing stock for the first time. It was possible, and essential, to not only consider the existing housing stock, but also wider issues such as community development, improving the environment and the potential to build new Council homes to address the increasing demand for affordable housing.
- 2.2 The Business Plan not only concentrates on the financial related strategy and objectives, but also the service priorities of the Council's Landlord function to its tenants and leaseholders. The longer term perspective is crucial to ensure that the service and its primary assets, the housing stock, are fit for purpose for the whole period and beyond.

## **3. PERFORMANCE 2012/2013 & YEAR 1 REVIEW – DACORUM BOROUGH COUNCIL HRA BUSINESS PLAN**

### **3.1 HRA Business Plan Performance 2012/2013**

- 3.1.1 In terms of income generation and ability to improve our tenants' & leaseholders' homes (as well as maintaining the Council's assets) the HRA Business Plan performed well in its first year 2012/13.
- 3.1.2 The forecast HRA balance at the end of 2012/13 is £3.2m. This was approved by Council as part of a revised budget in February 2013, subject to year-end adjustments. This is broadly in line with the £3.1m original budget approved in February 2012.
- 3.1.3 It should be noted that the revised budget includes a £12m transfer to reserves that was not part of the original budget. This £12m represents additional funding that has become available to the HRA over the course of the last year, which will be transferred to reserves

to finance future investment as part of closure of accounts for 2012/13.

3.1.4 The additional £12m arose from the favourable outcome of a number of issues which were finalised as part of the year-end process and the transition to Self Financing, both of which occurred after the original budget had been approved. The key contributors were:

- £4.3m arising from reduced annual interest payments on the Self Financing loan of £354m. Interest rates were not available in advance of the borrowing profile being finalised. The average borrowing rate was 3.3%, less than the prudent assumption of 4.5% in the original budget;
- £3.9m reduction in the Revenue Contribution to Capital arising from auditors' confirmation, following work undertaken by officers, that an historical £8.1m of capital funds would be available to the HRA for capital expenditure under the Self Financing regime;
- £3.2m reduction in the depreciation charge reflecting year-end adjustments to the book value of the Council's housing stock;
- £816k higher opening balance on the HRA after all the final accounts adjustments had been completed.

3.1.5 It is proposed that this reserve is increased when in-year revenue surpluses allow, and is used to finance the Council's new build programmes. In particular, it is important that the Council has funds clearly identified in advance that will enable it to make strategic land acquisitions when suitable development land becomes available. More detail on the Council's new build aspirations is included in paragraph 3.2.4 of this report, and in the HRA Business Plan at Appendix 1.

3.1.6 An additional favourable consequence of the transition to Self Financing is that by strategically planning the financing of the debt, more resources were immediately available to the Council to invest in its housing stock. During 2012/2013 the Property & Place Team have worked with our contractors to ensure that maximum efficiency was gained from these resources resulting in a huge increase in the volume of improvement works carried out compared to 2011/2012.

Improvement Works	2011/2012	2012/2013
Kitchen Renewal	196	456
Bathroom Renewal	192	426
Re-Wire	250	605
Front Doors	532	1935

## 3.2 HRA Business Plan Year 1 Review

3.2.1 Rather than a single end of year review of the Business Plan there have been a series of meetings held throughout the year with members of the Council's Cabinet, Corporate Directors of Finance &

Governance and Housing & Regeneration as well as senior officers from both Housing & Finance.

3.2.2 Officers have also met with members of the Tenants & Leaseholder Committee to discuss all issues highlighted in the meetings with the Council's Cabinet members.

3.2.3 During the ongoing process of review there have been a numbers of issues that have come to light that have had an impact on the Business Plan and will continue to going forward. Some of these issues are for noting, whilst others require amendments to the Business Plan, the 2013/2014 HRA, or both.

### **3.2.4 Rent Levels – Dacorum Borough Council New Build Council Homes**

(i) When the Council bid for grant in early 2011 from the NAHP 11-15 programme certain assumptions were made, and the HCA had certain criteria which the Council had to commit to at that point in time. One key point included within the NAHP prospectus was the level of rents which the Council were expected to charge for any new properties which was set at "up to" 80% of market rents – this would then be known as a new tenure "Affordable Rent". There was also a requirement to convert a certain number of existing stock rents to the new affordable rent levels.

(ii) The Council was successful with the bid to build 45 new homes using £15k of HCA grant per property, linked with the requirement to convert 45 existing Council homes to the new affordable rent. (Total grant for the 45 new homes was £675,000.) As the phase 1 New Build programme developed the HCA and the Council entered into a contract which confirmed the intent of delivering 45 new homes with "up to" 80% of market rents. However, during the latter part of 2012 the HCA confirmed any new homes delivered using grant needed to have rent levels set at 80% of market rents (not 'up to'). To illustrate, rents on a three bed house at 80% of market rent would be approximately £800 per calendar month in Hemel Hempstead and £880 in Berkhamsted, with current Council rents at around £465 for a similar property.

(iii) Following discussions with Cabinet members and tenant representatives it was clear that 80% of market rent in the Dacorum area was considered far from affordable, and therefore the Business Plan was looked at in detail to determine the impact of lower rents, and building the new homes without the HCA grant. Whilst there was an impact financially, this was considered favourable to the alternative of charging a rent deemed not to be affordable in the Borough. The HRA Business Plan in Appendix 1 therefore assumes that new homes will be delivered at 'target social rent' which is considered far more affordable for new tenants in the Dacorum area.

### **3.2.5 Amendments to HRA Capital Programme**

- (i) During the final quarter of 2012/13 two significant issues came to light which have an impact on the short and medium term Housing Capital Programme.

#### **Accelerated Estate Improvements**

- (ii) Much work has taken place to improve the housing stock in Dacorum over previous years and as highlighted in the earlier summary (Section 3.1) this has had significant benefit to our tenants and their homes. There has however continued to be a concentration towards internal works to homes rather than the communal areas or general appearance of the areas in which the Council's tenants and leaseholders live.
- (iii) Many of these areas are looking tired due to lack of maintenance and investment needs have not been fully responded to. To address this it is proposed that for a 4 year period 2013/14 – 2016/17, an additional £750k per year is allocated. A programme would be agreed using asset information and tenant & leaseholder priorities.

#### **Balcony / Walkway Repairs**

- (iv) Following the collapse of a balcony access walkway to a block of flats in Blackpool, it was decided to carry out some checks on access walkways of similar design in the Council's housing stock. The walkways were scanned to establish exactly what reinforcement was present in the walkways and where it was positioned. This latter point was important because the main cause of the balcony collapse in Blackpool was because the reinforcement had been placed in the wrong part of the slab and was therefore giving inadequate support.
- (v) Unfortunately, a range of the balcony access walkways have been constructed with the same incorrect placement of the reinforcement. Housing staff brought this to the attention of the Council's Building Control department who advised the need to provide temporary support to these balconies while future options are considered. All balconies identified as risk have been reinforced with props. To put into context the situation in Dacorum does not compare with the situation in Blackpool, with the bulk of these walkways being at first storey level only as access to bedsits above garages, though there are some on flat blocks. The action taken means that there is no immediate risk to tenants and residents.

- (vi) Remedial works will start in 2013/14. Whilst only an estimate of the financial implication could be made, it is proposed to add an additional £1million to the Housing Capital Programme for both 2013/14 & 2014/15 for these works.

### **3.2.6 Welfare Reform & HRA Bad Debt Provision**

- (i) A number of changes to the benefits system were implemented in April 2013 and others are planned for later in the year as a result of the Government's Welfare Reform programme. Some of these could have a significant impact on the Housing Service in terms of income and therefore the performance of the HRA Business Plan
- (ii) The change which is expected to have the biggest impact on the HRA is the introduction of the Social Sector Size criteria (commonly referred to as 'the bedroom tax') which affects approximately 900 tenants in Dacorum. Many of these same tenants will also be affected by the replacement of the national council tax benefit scheme by a local council tax support scheme. Those affected by this measure will lose an average of £138 a year due to the impact of losing benefit on a 'surplus' bedroom.
- (iii) Personal Independence Payment will replace Disability Living Allowance for eligible working age people aged 16 to 64. There are further reforms on the horizon with the introduction of a Benefits cap (£350/wk for single people and £500/wk for families) to be introduced before October when we will see the introduction, on a phased basis, of Universal Credit and with it the payment of benefit for housing costs direct to the tenant.
- (iv) The Housing Service has plans in place to mitigate these various threats as follows:
- All tenants known or believed to be affected by the bedroom benefits changes were contacted in advance by means of a telephone call or personal visit. The Housing Officer discussed the various options (move, budgeting help, lodger, DHP etc) with the tenants and ensured that they understood the implications of the changes.
  - The Council has reviewed its Allocations Policy and introduced new measures to assist tenants who wish to move to a smaller home.
  - Housing took part in the 'Task Force' – a helpline/drop-in to offer advice and information on the changes. Due to the intensive work already



undertaken with tenants (see above) the number of housing related queries has been very small.

- We are working with Hertsavers Credit Union to offer various accounts to our tenants, including 'jamjar' or budgeting accounts to assist with managing payments.
- Two Officers will be working full time on financial inclusion initiatives including training for tenants and the provision of support
- We are already working with other organisations such as Turning Point and Druglink to offer additional support to tenants who have had changes in their benefit,
- We are liaising with the Court User Group to obtain the views of Judges on any necessary changes to policy and procedure

- (v) It is expected, even with all the initiatives detailed above taking place that there will be a negative impact on a number tenant's ability to pay their rent. Whilst the level of financial impact is unknown, a significant amendment to the 'Bad Debt' provision has been made in the Business Plan, rising from 0.4% to 2% in 2014/2015.

### **3.2.7 DBC Council Homes New Build Phases 2 & 3**

- (i) Due to the ongoing availability of resources it has been the intention of the Council that the building of new homes should be a long term strategy rather than a 'one off'.
- (ii) The original HRA Business Plan agreed in 2012 made provision for 15 new homes per year until year 10 and then 30 per year thereafter.
- (iii) During the review process it has become evident that the HRA resources enable this to be accelerated. Various scenarios were modelled for within the Business Plan with regard given to other priorities, capacity and the availability of suitable land.
- (iv) The following proposals were arrived at for Phases 2 & 3 of the Council's New Build Programme:

#### **Phase 2**

100 new homes

Cost	Approximately £15million
Development Phase	2013/14 – 2015/16
Delivery	2016/17 – 2017/18

#### **Phase 3**

100 new homes

Development Phase	2018/19 – 2019/20
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(For Business Planning purposes the new build assumptions then revert to 30 per year for the remainder of the Business Plan until further review.)

- (v) It should be noted that the phased approach to delivery allows the Council to respond relatively quickly to changed circumstances and, should it be required, the 'tap' could be turned off if financial pressures occur elsewhere in the business plan.

### **3.2.8 Right to Buy Receipts**

- (i) Changes to government legislation on Right to Buy mean that, from 2012/13 onwards, all receipts must be retained within the HRA, whereas previously the receipts were also available to fund regeneration programmes within the General Fund. Exclusive access to these funds has the effect of increasing the resources available to the HRA, around £500k in 2012/13.
- (ii) In addition, the Council has received extra income from the 'one-for-one' replacement scheme introduced by government as part of the Reinvigorating Right to Buy campaign, which increased the maximum discount available to applicants. In a departure from the previous RTB scheme which required the Council to surrender roughly 75% of all RTB receipts to DCLG, 'one-for-one' replacement enables the Council to retain 100% of the RTB receipts in excess of the amount that had been forecast to DCLG before the higher level of discount had been introduced.
- (iii) As DCLG intended, higher discounts have resulted in more units being sold by the Council over 2012/13, which has generated an additional £1.5m of available funding in the business plan. The Council is contractually obliged to use this receipt as a contribution to its new build programmes.

## **4. DACORUM BOROUGH COUNCIL NEW BUILD COUNCIL HOMES UPDATE – PHASE 1**

### **4.1 Cabinet October 2012**

- 4.1.1 At the Council's Cabinet meeting on October 23<sup>rd</sup> 2012 approval was given to proceed with the Council's programme to build its first new Council homes for over 25 years. Phase 1 consists of 71 New Homes over 3 sites, with a mixture of 1 & 2 bedroom properties and some 3 bedroom houses. The 71 new homes are funded fully from the Housing Revenue Account.

4.1.2 Approval was also given for the development of a 33 bedroom homeless hostel for single people which is being funded by the General Fund therefore not detailed within the HRA Business Plan. The Council is receiving a grant of approximately £841,500 from the HCA for the development of the hostel, which would be unaffected by the decision not to accept the £675k HCA grant for the development of the Phase 1 residential programme.

## **4.2 Site Updates**

### **4.2.1 THE ELMS HOMELESS HOSTEL, HEMEL HEMPSTEAD (General Fund)**

- (i) Chambers Goodwin & Partners have been appointed as the Architects for the development. Most of the site investigations have concluded, with no sufficient barriers to development identified. The Ground Investigation Report identified the low risk issue of slightly elevated lead levels on part of the site; however this can be mitigated by isolating the contamination under hard cover.
- (ii) A planning application is currently being prepared and the development team & architects have undertaken several visits to exemplar hostels across London & the Eastern region as part of the information gathering process. A full planning application will be submitted in May 2013, following consultation with the public.
- (iii) Key dates:
  - MAY 2013 – Planning application submitted
  - NOVEMBER 2013 – Start on Site
  - MARCH 2015 – Completion of the development

### **4.2.2 FARM PLACE, BERKHAMSTED**

- (i) The planning permission and intellectual rights were purchased from Aldwyck in January 2013. The Council has appointed an Employers Agent to assist in transposing the technical work to date into a format which the Council can use. The site has full planning permission and a new sign board has been erected to state that 26 new Council homes will be completed in 2015.
- (ii) The tender process to find a main contractor has started, and is expected to conclude in July 2013. The site will shortly be re-boarded with sufficient hoarding to last the duration of the redevelopment. This development will be built to the Code for Sustainable Homes Level 4 standard, and will be amongst the highest environmentally efficient developments in the Borough.

- (iii) Key dates:
- AUGUST 2013 – Start on Site
  - JANUARY 2015 – Completion of the development

#### **4.2.3 GALLEY HILL, GADEBRIDGE**

- (i) Planning permission was successfully obtained for the development of 9 Passivhaus flats at Galley Hill, Gadebridge in January 2013. Architects and Engineers have been appointed to complete the further design work, and undertake detailed studies regarding the site, such as the ground condition (which is favourable for development).
- (ii) The first stage of the procurement process (Pre-Qualification) has completed for the main contractor, with the second stage closing in July 2013. This development is being built to the Passivhaus standard, providing very high levels of thermal efficiency to keep gas heating bills to around £100 per annum per property. Further information on Passivhaus is available at [www.passivhaus.org.uk](http://www.passivhaus.org.uk)
- (iii) Key dates:
- SEPTEMBER 2013 – Start on Site
  - JANUARY 2015 – Completion of the development

#### **4.2.4 LONDON ROAD, APSLEY**

- (i) The whole site has been acquired by the Council, and has been secured with hoarding and gates.
- (ii) The land is currently owned by the General Fund and approval to appropriate the site as a whole to the Housing Revenue Account's ownership for the price of £1.8million is needed. This would be funded from the HRA reserve described in paragraph 3.1.
- (iii) Several site investigations have been concluded and an ecology report has confirmed that there are no habitat/ecology concerns with regard to developing homes on this site. The Council has been working with RG+P Architects towards the submission of a planning application in April 2013. The planning application will take around 3-4 months to conclude (including the s106).
- (iv) The tender for a main contractor will begin after the planning application has been submitted. The first stage of the tender (the Pre-Qualification Questionnaire) will take around 6-8 weeks to complete, and the total procurement process (including selection, interview and authorisation to appoint) will take 3-5 months.

(v) Key dates:

APRIL 2013 – Planning application

DECEMBER 2013 – Start on site

MARCH 2015 – Practical Completion

5. **DACORUM BOROUGH COUNCIL HOUSING REVENUE ACCOUNT BUSINESS PLAN**

Appendix 1 HRA Business Plan 2013/2014