AGENDA ITEM: 9

SUMMARY

Report for:	**Cabinet**
Date of meeting:	**24th November 2015**
Part:	**I & II (appendices)**
If Part II, reason:	The Part II appendix to the report and Appendix f of the HRA business Plan contains information relating to the financial or business affairs of the Council and private companies. Local Government Act 1972, Schedule 12A, Part 1, paragraph 3

Title of report:	Annual Review of Housing Revenue Account Business Plan 2015/16
Contact:	Cllr Margaret Griffiths, Portfolio Holder for Housing Author/Responsible Officer – Elliott Brooks, Assistant Director - Housing
Purpose of report:	To update Cabinet on the Annual Review of the Council's Housing Revenue Account Business Plan
Recommendations	1. That Cabinet recommends Council to approve the updated HRA Business Plan. 2. That Cabinet recommends Council to approve the revised development programme budgets as set out in the Part II appendix to this report.
Corporate Objectives:	Affordable Housing
Implications: 'Value For Money Implications'	Financial Regular review of the Council's HRA Business Plan is essential to ensure short, medium and long term viability of the plan. Value for Money All contracts and services are tendered in line with the Council's procurement procedures to ensure VFM. The Landlord Service also compares costs annually with other social landlords through 'Housemark' benchmarking data.

Risk Implications	Monitoring of the HRA Business Plan has been identified as a Key Risk of the Housing Service and is reported to the Council's Housing & Communities Overview & Scrutiny Committee on a quarterly basis
Community Impact Assessment	The Housing Revenue Account is a 'ring fenced' account for the income and expenditure solely related to the Council's housing stock, tenants and leaseholders.
Health And Safety Implications	Health & Safety is identified as a Key Service Risk for Housing and therefore reported to the Council's Housing & Community Overview & Scrutiny Committee on a quarterly basis
Monitoring Officer/S.151 Officer Comments	**Deputy Monitoring Officer:** No comments to add to the report. **Deputy S.151 Officer** The impact of 1% per annum rent reductions for the next four years is set out at section 4.2. Further government proposals pertaining to pay to stay and high value voids will be analysed once details have been determined. The risks of increasing development costs and inflation risk will be monitored and taken into account in updates. The profiling has not factored in the common causes of programme slippage which can increase the build period of a programme of this scale. If the programme is delayed for any reason then the level and duration of borrowing required, income accruing and capital receipt will differ to the profiling set out. All of these external factors require a more dynamic review and monitoring of the business plan to ensure that it retains its viability. The actions taken to limit the new build programme and to retain slightly increased reserves maintain a sufficiently prudent working balance.
Consultees:	Mark Gaynor – Corporate Director, Housing & Regeneration James Deane – Corporate Director Corporate Director (Finance & Operations) David Skinner – Assistant Director – Finance & Resources Fiona Williamson – Group Manager Property & Place Andy Vincent – Group Manager Tenants & Leaseholders Julia Hedger – Group Manager Housing Development Richard Baker – Group Manager Financial Services DBC Tenants & Leaseholders Committee DBC Housing & Communities Overview & Scrutiny Committee
Background papers:	n/a
Glossary of	HRA – Housing Revenue Account

acronyms and any other abbreviations used in this report:	BP – Business Plan TLC – Tenants & Leaseholders Committee RTB – Right to Buy

1. Background

1.1 In April 2012 the Council agreed its first 30 year Housing Revenue Account (HRA) Business Plan. It was a requirement following the introduction of Self Financing (replacing the HRA Housing Subsidy System).

1.2 This report details the third annual review of the HRA Business Plan and explains the issues and assumptions which have needed to be considered or re-visited.

2. Housing Revenue Account Business Plan

2.1 The resources available following the move to Self Financing gave the Council the opportunity 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 of the 2014/15 Business Plan

3.1 As would be expected within such a complex budget as the Housing Revenue Account there were various areas of overspend and underspend throughout 2014/15. These were regularly reported to the Council's Corporate Management Team and its Cabinet and Scrutiny Committees on a quarterly basis. The Council's TLC was also given budget updates at the mid-year point and end of year.

- There was an underspend in the Repairs & Maintenance budget of £1.3m. The underspend was predominantly down to savings being made against the Osborne contract through the open book audit.
- A saving of £1.2m in the Improvement Programme on existing stock, again due to savings being made against the Osborne contract through the open book audit which has been re-allocated to new schemes for 2015/16.
  RTB sales continued to remain at a high with 104 sales completed in 14/15 generating a capital receipt of £11.7m (only a proportion of this available to HRA) The Council is receiving significant sums of 141 RTB receipt, depleting the stock, and yet increasingly unable to make use of this money through a combination of lost rental income as a result of the social rent changes, and receipts being too high to match fund at the required rate.

- As a result, the Council will seek to contribute to the delivery of affordable housing across the Borough through grant funding of local HAs.

3.2 In terms of tangible outcomes that benefit our tenants directly the table below demonstrates how the Council has been able to improve the homes in which tenants live since the introduction of the Business Plan.

Improvement Works	2011/12	2012/2013	2013/2014	2014/15
Kitchen Renewal	196	456	721	433
Bathroom Renewal	192	426	529	327
Re-Wire	250	605	784	411
New Doors (front/rear)	532	1935	3480	2568

Note: 2014/15 capital works programme was a 9 month programme due to the Osborne Total Asset Management Contract starting July 1st 2014 (and the 2013/14 programme used 15 months worth of funding). The previous capital works programmed ceased March 2014.

3.4 The Council has also been able to continue its programme to build new homes in the borough for the first time in over 20 years.

3.5 During 2014/15 34 new homes have completed and allocated to local residents in the borough. The New Build Programme is subject to a report on the agenda of the Council's Cabinet November 2015.

4. Considerations for year 3 HRA Business Plan Review

4.1 Government Policy & Proposals.

4.1.1 In the recent Budget and both the Welfare Reform & Housing Bills there have been a number of proposals and statements which will have a significant impact on the Council's Housing Revenue Account, both immediately and in the longer term.

4.1.2 Whilst much of the detail and legislation is not yet finalised, officers have been working to try and estimate some of the impact on the Business Plan and what actions are needed in terms of mitigation and reviewing assumptions within the Business Plan.

4.2 Social Rent Reductions

4.2.1 All social rents are to be reduced by 1% each year for 4 years starting in April 2016. The Council's current policy is that rents increase each year by CPI + 1%. There will be no ability to apply any additional increase for those tenants currently below target rent levels.

4.2.2 It is expected that Council rents not yet at target will also be subject to the annual 1% reduction. The table below demonstrates the potential impact on the rental income for Dacorum Borough Council's HRA:

Year	Rent roll if current policy in place	Rent roll with 1% annual reduction	Variance
	£'000	£'000	£'000
2016/17	59,159	55,785	3,374
2017/18	61,660	54,998	6,662

2018/19 2019/20	64,659 67,371	54,686 54,381	9, 973 12,990
Total – 4 Year	252,850	219,850	33,000
30 Year	3,109,977	2,339,184	770,793

4.2.3 The 4 year impact is a reduction in rental income of approximately £33m.

4.2.4 Rental income assumptions within the Council's 2015/16 Business Plan reflect the figures above. From years 5 to 30 rental income has been assumed with the policy reverting to CPI +1% without convergence.

4.3 Fairer Rents in Social Housing: Pay to Stay

4.3.1 Social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England will be required to pay a level of rent either at market level or close to. It is proposed that data is provided by HMRC to social landlords for the purpose of determining income. Local Authorities will be required to pay any additional rental income to the Treasury based on an estimate number, with a deduction for any administration costs incurred. This policy is currently subject to consultation and the Council will be responding. It is essential that the Council demonstrate the administrative complications and associated costs of managing the policy. Government has proposed that this would start 2017/18.

4.3.2 It is difficult to predict the impact of this policy. The Chartered Institute of Housing predict an increase in RTB's and surrenders of tenancies. The result of an increase in surrenders would be more empty homes which cost the Council lost income and maintenance costs. A further increase in RTB's obviously reduces stock and rental income in the long term

4.4 Sale of High Value Council Voids

4.4.1 The RTB is to be introduced to Housing Association tenants. It was announced recently that Housing Associations will voluntarily extend the RTB to their tenants through the National Housing Federation's agreement with the Government.

4.4.2 It is proposed that this is funded by the sale of high value Council housing stock.

4.4.3 This will not be a local system. Receipts will be collected centrally and then flow out again. Whilst the principles were set out in the Housing Bill, operational detail will follow through secondary legislation.

4.4.4 There are two options currently under consideration:

- Actual sale of high value homes or
- A formula approach.

4.4.5 A formula approach would effectively be a tax on voids anticipated throughout the year. An amount would be calculated and paid annually to government based upon a formula that included property values, number of bedrooms, churn rate etc.

4.4.6 Until more detail is known regarding the expected receipt from Dacorum Borough Council it is difficult to make accurate assumptions. The most likely outcome would be the sale of a number of void properties for a defined period resulting in less rental income going forward (and a reduction in the ability to meet housing need). It is unclear whether there will be any receipt retained by the Council, or the amount required reduced to reflect the outstanding debt on each property.

4.5 Increased Development Costs

4.5.1 Original assumptions within the HRA Business Plan made provision for future new build costs at the then market costs. These build costs have increased as a result of the backdrop of a rising market. Information collated from the market and from the Council's recent tenders have resulted in the assumptions for future schemes increasing. The new proposed development programme with estimated costs can be found in Part 2 of this report.

4.6 Service Priorities

4.6.1 Social Housing is changing. The service is having to deal with more complex tenancy issues and these often require intense resources both in terms of officer time and investment in the stock to solve.

4.6.2 The Housing Service will need to be able to adapt and divert resources where they are needed dependant on a number of external factors. Two areas identified as a growing priority are Tenancy Sustainment & Homelessness.

4.6.3 Tenancy Sustainment

4.6.3i It has been recognised that the success or failure of a tenancy, particularly of a vulnerable person, can often be heavily influenced by the property they live in and the support that the landlord can give. This was recognised by the Council and approximately a year ago a Tenancy sustainment team was created. It was mainly from existing resources pulled from other teams (income / repairs / tenancy management).

4.6.3ii This has allowed a relatively small number of tenants to receive intense work from the housing team in order to successfully sustain their tenancy. A failed tenancy costs the Council several thousands of pounds so the success of this team will ultimately save money for re-investment in the housing stock.

4.6.4 Challenges relating to homelessness

4.6.4i The Council is seeing increasing numbers of people both seeking general housing advice and those presenting themselves as homeless. Using September 2015 as reference point both numbers have more than doubled and the housing register increases at a rate of approximately 50 per month. (current figure over 5500 active applicants). Whilst this area of the service is strictly a General Fund function rather than that of the HRA there is a direct impact on the housing stock. More of the stock is being used for temporary accommodation and therefore can restrict transfers or movement within the stock for tenants to ensure families are living in appropriate sized accommodation.

5. 2015/2016 Housing Revenue Account Business Plan

5.1 The draft 2015/2016 HRA Business Plan can be found in Appendix 1 of this report. All areas of the plan have been reviewed in consultation with officers in the finance team as well as those across the Housing Service.

5.2 Appendix A of the Business Plan details a variety of assumptions which have been made with the knowledge and certainty currently available. They require constant review and if needed are altered mid year in advance of the formal annual review.

5.3 As explained in Section 4.2 the Government's proposed new 4 year rent policy will have a significant impact on the Business Plan. Measures have had to be taken in terms of the capital programme and new build programme as well as the option of additional borrowing.

5.4 Some of the main changes applied during the review are as follows:

- Rent policy altered to reflect 4 year rent reductions of 1% on all tenancies. Policy then reverts to CPI +1% (no convergence)
- It is proposed that over the first 5 years of the Business Plan the Council will borrow the cumulative back up to the HRA debt cap - £9.8m
- There has been only a slight reduction in the proposed Housing Development Programme up to 2020. There is a strong desire to continue to deliver new Council homes in the borough for local people in housing need. There are no New Build assumptions post 2020 currently, however, officers will explore opportunities throughout 15/16 in terms of funding and methods of generating resources to expand the programme. The proposed Housing Development programme can be found in the part two appendix of the HRA Business Plan, Appendix a of this report.
- Bad Debt provision increases five fold to take account of new HB restrictions and potential impact of Universal Credit

6. Recommendation

6.1 That the 2015/16 HRA Business Plan is approved including changes detailed in Section 5 and the assumptions within Appendix A of the Business Plan along with the proposed development programme appendix in Part 2.