AGENDA ITEM:

SUMMARY

Report for:	**Cabinet**
Date of meeting:	**27th March 2018**
Part:	**Part I & Part II (appendix)**
If Part II, reason:	The part II appendix to the report contains information relating to the financial and business affairs of the Council. Local Government Act 1972, Schedule 12A Part 1, paragraph 3

Title of report:	**Housing Revenue Account Business Plan Annual Review 2017/18**
Contact:	Margaret Griffiths, Portfolio Holder for Housing Elliott Brooks, Assistant Director for 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 Housing Revenue Account Business Plan 2. That Cabinet recommends Council to approve the revised development programme budgets as set out in Section 8 and the budget for the Martindale Development in Appendix 2, in part II of this report
Corporate Objectives:	Delivering Affordable Housing
Implications: 'Value For Money Implications'	<u>Financial</u> Regular review of the Council's Housing Revenue Account (HRA) Business Plan is essential to ensure short, medium and long term viability of the Business Plan <u>Value for Money</u> All contracts and services are tendered in line with the Council's procurement procedures to ensure Value for Money. The Council's Housing Landlord service annually compares running costs with other social landlords through 'Housemark' benchmarking data.
Risk Implications	Monitoring of the Housing Revenue Account 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.
Equalities Implications	The Housing Revenue Account is a 'ring fenced' account for 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 risk of the Housing Service and is reported to the Council's Housing & Communities Overview & Scrutiny Committee on a quarterly basis.
Monitoring Officer/S.151 Officer Comments	**Monitoring Officer:** The annual review provides a robust mechanism to monitor the business plan to ensure that it takes account of changes in government policy, law and the economy and therefore meets the Council's statutory requirements. **S.151 Officer:** Over the coming months the Council should focus on the medium-term development opportunities that will arise following MHCLG clarifying their approach to potentially lifting the borrowing cap. This will need to combine the updated trend for RTB sales and the increased scope for internal use of the 141 receipts. The development budgets identified in Appendix 2 represent a reprofiling of previously approved budgets.
Consultees:	Mark Gaynor, Corporate Director of Housing & Regeneration James Deane, Corporate Director Finance & Operations Fiona Jump – Group Manager Financial Services Poonam Mehta – Senior Financial Accountant David Barret – Group Manager Housing Development Fiona Williamson – Group Manager Property & Place
Background papers:	n/a
Glossary of acronyms and any other abbreviations used in this report:	HRA - Housing Revenue Account TAM - Total Asset Management 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). This report details the fifth 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 initially 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 attempt to address the increasing demand yet decreasing supply of social and 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 long 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 2016/17 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 2016/17. These were regularly reported to the Council's Corporate Management Team and its Cabinet and Scrutiny Committees on a quarterly basis.

3.2 In terms of tangible outcomes that benefit the Council's tenants the table below demonstrates how the Council has been able to improve the homes in which tenants live since the introduction of the HRA Business Plan. It should be noted that considerable catch up work has been achieved between 2012-15 and the levels of renewal required has fallen. This has allowed more roofing work and communal elements to be addressed, as well as diverting resources to new build

Improvement Works	2012/13	2013/14	2014/15	2015/16	2016/17
Kitchen Renewal	456	721	433	351	246
Bathroom Renewal	426	529	327	235	210
Re-Wire	605	784	411	252	14
New Doors	1935	3480	2568	1284	907
Boilers	770	963	782	782	916

The Decent Homes Standard was a programme aimed at improving council and housing association homes to bring them all up to a minimum standard.

Examples of how a home could fail the Decent Homes Standard include if:

- there are hazards such as persistent damp or a heating or electrical system that is in poor condition
- the bathroom has not been improved in the last 30 years
- the kitchen has an inadequate layout or not enough space
- it isn't warm because of an inefficient heating system or ineffective insulation

As a measure of success of the Council's Housing Asset Management strategy and investment decisions over the last 5 years, it is worth noting that the Council has a 'decency' figure in excess of 90%.

3.3 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

3.4 The total number of new homes completed and allocated to local people since the first HRA Business Plan is 90, with approximately 200 within approved schemes either on site or contracts being procured. 75 of those will be ready to occupy in the Autumn of 2018 at Kylna Court, Hemel Hempstead. Section 8 details how the Council is proposing to continue its development programme over the next 5 years, with further development planned in excess of those currently in the pipeline.

4. Considerations for year 5 HRA Business Plan Review

4.1 Government Policy & Proposals

4.1.1 Over the past 18 months both the Welfare Reform Act 2016 and Housing & Planning Act 2016 have included a number of changes or proposed changes that have or could have a significant impact on the HRA Business Plan both immediately and in the longer term.

4.1.2 Whilst not all of the detail has yet been provided by the government, Council officers have been working to try and estimate 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 Social Rents will continue to reduce 1% each year for another 2 years. Those Council rents not yet at 'target' will also be subject to the 1% reduction. Rents for Sheltered Housing are also subject to the 1% decrease. The government has announced that after the 4 years of reductions are complete the Council can revert to its previous policy. CPI (2.2%) + 1% (3.2% total) for the next five years, and CPI (2.2%) for the remainder years of the plan. These are the assumptions within the Business Plan that will be reviewed annually.

4.2.2 As detailed during previous year's review of the HRA Business Plan the 1% rent reduction will have a negative impact on the income of approximately £33m over the total 4 year period. This has reduced resources available to build new homes and invest in the current housing stock.

4.3 Sale of High Value Council Homes

4.3.1 This proposal, within the Housing & Planning Act 2016, for Local Authorities to sell its high value homes to in effect fund the Right To Buy (RTB) extension to Housing Associations is still in the planning stages, but a pilot scheme is currently taking place in the Midlands. No specific detail has been provided to other Local Authorities regarding potential start date, or receipts to be generated.

4.3.2 Following professional advice The HRA business plan currently assumes no payment or loss of stock related to this policy. Should detail be issued during 2018/19 the Business Plan will be reviewed and presented to the Council's Cabinet for approval.

4.4 Universal Credit

4.4.1 Universal Credit (UC) is a key part of the Government's welfare reform programme. When the concept was introduced in 2010 it received cross party support with its aim to simplify the benefits system and incentivise employment. It signifies a considerable change to the benefit system, to combine six existing means-tested benefits into a single monthly payment. The benefits being replaced are:

- Income support
- Jobseekers allowance
- Employment & support allowance
- Working tax credit
- Child tax credit
- Housing benefit (HB)

4.4.2 This change intends to reduce complications of the benefit system for applicants and smooth the transition into employment. The DWP estimated that an additional 250,000 people would enter work under UC.

4.4.3 The programme was set in 2013 and was intended to be rolled out to all working age people by 2017. This has since been revised to a target date of March 2022.

4.4.4 A significant challenge is being able to accurately identify the impact on the Council. Regular changes and delays to implementation have affected the ability to predict the impact of UC on local residents and our services. The Council can learn from other authorities and complete modelling to get an estimate of the impact but this doesn't give an accurate assessment of the financial risks.

4.4.5 One of the biggest risks is that Social Housing tenants will directly receive the housing element of UC. For 3000 council tenants this will replace Housing Benefit and they will be responsible for paying the Council directly.

4.4.6 The roll out in Dacorum has started in small pockets and will continue over the next two years. For this reason the provision within the Business Plan for bad debt will rise by £300k in 2018/19 and a further £300k in 2019/20. This will be monitored closely and reviewed annually.

4.5 Right to Buy

4.5.1 Following the re-invigoration of the Right to Buy Policy in 2013 there was an immediate and sustained increase in the number of sales which had an impact on receipts into the Council and rental income from tenancies. For a 3 to 4 year period sales were over 100 per year. This has now significantly reduced with the number in 20117/18 likely to be approximately 50.

4.5.2 The assumptions in the Business Plan have been updated to reflect this and the projection is 55 sales per year for 3 years then reducing to 50 and then to 20.

5.0 Increased Development Costs

5.1 Over the 5 year period of the Business Plan being in place, the costs associated with delivering the new build schemes have gradually increased against the assumptions originally made (due to increases in construction costs and increased tender costs arising due to an overheating construction sector). This has caused a level of uncertainty when forecasting total costs of developments and requesting budget approval. A number of schemes have required additional budget to be approved at the point of contract award, each occasion resulting in the overall Business Plan and development funds being reviewed.

5.2 The year 5 review has again taken this into account and made new assumptions regarding the cost per unit which it is felt has an element of flexibility and contingency. The proposed development programme for current schemes and future allocation of resources can be found in Section 6.3 of this report. The proposed development budget for Martindale site can be found in Appendix 2, part II of the report. (The scheme is currently subject to a tender process)

6. Additional Resources & Future Development proposals

6.1 During last years of the business plan, additional resources were identified, mainly arising from the previous high levels of RTB sales.

6.2 These funds were earmarked to extend the development programme which had been affected by the 1% rent reductions. Work has taken place this year to identify the next wave of schemes and suitable sites to progress. A report will be presented at Cabinet April 2018 to highlight the proposals. For the purpose of this report, those resources are named as New Build General Expenditure in the table within Section 8

7.0 **Opportunities for Additional Borrowing**

7.1 Currently the Council has a strategy to pay off the Self Financing loans gradually over the medium and long term life of the Business Plan.

7.2 Due to repayments made so far, the borrowing headroom currently stands at £7.8million and rises to approximately £22million by the end of year 5 due to the repayment of loans.

7.3 The Government recently announced that there may be flexibility for Council's to borrow in excess of those limits in place currently. Whilst details of how that would happen have not yet been communicated, the Council has contacted the DCLG for initial discussions

8. 2017/2018 Housing Revenue Account Business Plan

8.1 The draft 2017/18 Business Plan can be found in Appendix 1. All areas of the plan have been reviewed by officers in both housing and finance.

8.2 Appendix 1 of the plan itself details a number of financial assumptions which are required to enable a level of future financial planning. They have been made based on past and future trends along with the current knowledge of political and external factors. They are however subject to change and close monitoring throughout the year will ensure that if there is significant change this can be factored in and the impact reported as required depending on the significance.

8.3 As a result of the year 5 review the 2017/18 Business Plan reflects the current 30 year financial forecast for the Housing Revenue account and some of the key issues are as follows:

- Rents are subject to 1% reduction. This is the third year of a 4 year national policy.
- The Council's disposal strategy will continue and an assumption of £750k income per year has been made.
- A reduction in the assumed level of RTB sales based on the current resulted in an increase in resources available for investment. Close monitoring on a quarterly basis will be required to ensure that receipts generated are in line with financial assumptions.
- A decision was taken not to proceed with Shared Ownership at Kylna Ct. The impact on the Business Plan and capital programme going forward is reflected in the current model.
- The capital programme of investment in the current housing stock remains significant. The budgets in this area are to be approved within the Council's overall budget proposal for 2017/18. The forecast for the next five years is detailed within the table below. Each year would be subject to review and budget approval.

2017/18 (current Year)	2018/19	2019/20	2020/21	2021/22	2022/23
17.609m	**17.480m**	**17.746m**	**17.057m**	**17.023m**	**17.066m**

- The Council's New Build programme has been fully reviewed including schemes currently on site, those where a contract has been awarded but not yet started and those not yet awarded.

Scheme	2017/18 £'000	2018/19	2019/20	2020/21	2021/22
Kylna Court / Wood House	5,044	4,416	0	0	0
Martindale *					
Stationers Place	2,350	3,000	3,896	0	0
Swing Gate Lane	1,142	574	0	0	0
Swing Gate Lane (conversion)	822	913	0	0	0
General New Build	4,087	6,000	6,000	6,578	6,000

Expenditure**					
Total					

*Martindale proposed costs in Appendix 2, part II of this report
** General New Build finances available subject to RTB receipts generated

9. Recommendations

9.1 That Cabinet recommends the updated HRA Business Plan 2017/2018

9.2 That Cabinet recommends the revised development programme budgets as set out in Section 8 and Appendix 2, part II of this report