

Report for:	Cabinet
Date of meeting:	14th January 2020
Part:	Part I
If Part II, reason:	

Title of report:	Housing Revenue Account Business Plan Annual Review 2019/20
Contact:	Margaret Griffiths, Portfolio Holder Housing Fiona Williamson, Assistant Director Housing
Purpose of report:	To update Cabinet on the Annual Review of the Council's Housing Revenue Account Business Plan
Recommendations	<ol style="list-style-type: none"> 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 8.3.
Corporate Objectives:	Delivering Affordable Housing
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
'Value For Money Implications'	<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. Community Impact Assessments are produced for all policies that relate to the

	delivery of housing services and these are reflected in the Business Plan.
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	<p>Monitoring Officer:</p> <p>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.</p> <p>Deputy S.151 Officer:</p> <p>There are a number of inflationary assumptions inherent within the Business Plan which are liable to change over the planning period, and which could therefore pose a risk to delivery. These assumptions are kept under constant review, and this report is an update on the October Cabinet report, with all variances summarised in section 9.</p> <p>The way in which the Council structures its borrowing will influence the amount of funding available in future years. Borrowing options, together with any implications for the future programme, will be presented to Members in advance.</p> <p>There is the possibility of unanticipated government interventions that could impact on the HRA business plan in particular the current projections of annual rent increases which are set at is CPI +1% for next 5 years</p>
Consultees:	<p>Mark Gaynor, Corporate Director of Housing & Regeneration</p> <p>James Deane, Corporate Director Finance & Operations</p> <p>Nigel Howcutt, Assistant Director Finance</p> <p>Fiona Jump – Group Manager Financial Services</p> <p>David Barrett – Group Manager Housing Development</p>
Background papers or appendices	Appendix A Business Plan 2017-2021 – revised to contain updates
Glossary of acronyms and any other abbreviations used in this report:	<p>HRA - Housing Revenue Account</p> <p>TAM - Total Asset Management</p> <p>RTB – Right to Buy</p> <p>UC - Universal Credit</p> <p>TA – Temporary Accommodation</p> <p>PWLB – Public Works Loan Board</p>

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 sixth annual review of the HRA Business Plan and explains the issues and assumptions, which have needed to be considered or re-visited. This report is to update Cabinet members to reflect the minor changes in some of the financial parameters and other assumptions in the model and the ongoing development pipeline and delivery timetable.

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 Business Plan

- 3.1 The complex nature of the Housing revenue account, is such that performance against budget was subject to various areas of over and underspend throughout the year. These were regularly reported to the Council's Corporate Management Team and its Cabinet and Scrutiny Committees on a quarterly basis.
- 3.2 The table below provides details of the delivery of the main improvement works that are undertaken to individual tenants homes since the introduction of the HRA Business Plan. In addition there has been investment in roof renewals to sheltered schemes and flat blocks, external wall insulation projects and estate improvements, as well as resources to enable the delivery of the new build programme. Specific estate wide projects, including the refurbishment of 3 blocks at Summer Court, to incorporate a biomass boiler and the refurbishment of the block at Longlands, which included thermal upgrading and the addition of 6 new flats as a rooftop development, have been delivered under self-financing.

Improvement Works	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Kitchen Renewal	456	721	433	351	246	437
Bathroom Renewal	426	529	327	235	210	328
Re-Wire	605	784	411	252	14	210
New Doors	1935	3480	2568	1284	907	1044
Boilers	770	963	782	782	916	1065

- 3.3 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 not been improved in the last 20 years or 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, the Council have been able to target investment to prevent homes becoming non-decent.

- 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 The total number of new homes completed and allocated to local people since the first HRA Business Plan is 176, with a further 130 homes in approved schemes, either on site (97 homes) or contracts being procured. In addition the Elms hostile, completed in 2015, provides 41 temporary accommodation units. 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 that were outlined in the last business plan report in March 2018.

4. Considerations for year 6 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 The Regulator of Social Housing's Rent Standard, whereby increases will be limited to the Consumer Price Index (CPI) rate of inflation plus 1%, will be implemented from 2020/21, and reflects the Government's Policy Statement on rents. Both of these frameworks set rents for existing tenants and no longer have any provision for a move to convergence (target rent).

- 4.1.3 In October 2018 Government approved the lifting of the Debt Cap, which has provided the Council with the opportunity through prudential borrowing to consider the impact of increasing the new build programme or additional investment in the existing stock.
- 4.1.4 The government is currently considering the future of the decent homes standard, which was last reviewed in 2006 in respect of the minimum standards acceptable for social housing. Whilst full details of the new standard have not been agreed, it is likely that improved building safety and thermal performance will be key elements within the requirement.
- 4.1.5 Additionally upgrading the existing stock to adapt to a changing climate and zero carbon targets by 2050 will have some impact on the business plan. Dacorum has already invested significantly in upgrading the thermal performance of the existing stock, but further work will be required to meet carbon reduction targets and is part of our ongoing work in this area. The current plan includes provision for some of these elements and once full details are available the impact will be modelled in future iterations of the model.

4.2 Impact of Social Rent Reductions

- 4.2.1 Social Rents have reduced by a further 1% this year, which includes those Council rents not yet at 'target'. Rents for Sheltered Housing are also subject to the 1% decrease. As detailed in previous years' 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.
- 4.2.2 The return to an increase in rents from 2020-21 to CPI + 1% for the next five years, and CPI for the remainder years of the plan, have been included in the financial model. These assumptions within the Business Plan will continue to be reviewed annually.

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, has been subject to a pilot scheme. The uptake was considerably lower than anticipated but has not been completely discounted at this stage.
- 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 2019/20 the Business Plan will be reviewed and presented to the Council's Cabinet for approval.

4.4 Universal Credit

- 4.4.1 As of November 2018, there were almost 1.26 Million residents nationally in receipt of Universal Credit (UC.) Full UC service started operating in all job centre areas from December 2018 so all new working age claims and those with a significant change in circumstances will be made for UC. This means the number of households receiving UC are increasing steadily over time.

Evidence from other areas is that approximately 1/3 of all Housing Benefit claimants have naturally moved to UC two years after full service was implemented.

- 4.4.2 There are still a number of exceptions, mainly linked to the ongoing development of the UC software and regulations. These include:
- Families with three or more children, who will not be able to make a claim for UC until January 2019.
 - People who are severely disabled, for whom no date has yet been given for when they will be able to apply for UC.
 - A number of categories of rent costs which will continue to be paid by HB, even though the tenants will also be claiming UC - examples are temporary accommodation and specialist supported accommodation.
- 4.4.3 From December 2018, the final job centre went live with UC in Dacorum. It was predicted that there would be a gradual increase in the number of UC claims as and when residents' circumstances change. While it was estimated by April 2019 an additional 750 residents in private and housing association accommodation and 250 DBC tenants will have moved to UC, this figure is actually much higher with 517 DBC tenants receiving UC.
- 4.4.4 A significant challenge is being able to accurately identify the long term impact on the Council. One of the biggest risks is that tenants directly receive the housing element of UC, whereas Housing Benefit is awarded as a direct credit to the rent account. When managed migration has completed this will affect about 2,900 council tenants.
- 4.4.5 The roll out in Dacorum has started in small pockets and will continue over the next two years. From the information currently available in respect of arrears levels for those in receipt of UC, the Business Plan has a provision for irrecoverable debts to £975,000 to manage this change.

4.5 Right to Buy

- 4.5.1 Following the re-invigoration of the Right to Buy Policy, (RTB) 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 sold in 2017/18 53 reducing further to 29 in 2018/19. Year to date completed RTB sales as at December 2019 were 28.
- 4.5.2 The assumptions in the current Business Plan have been updated to reflect this and the projection is 726 sales over the 30 year plan – circa 24 annually.

5.0 Increased Development Costs

- 5.1 Over the six 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). The impact of Brexit has been reflected in some material costs that have increased as a result of the fall in the value of sterling and there is further uncertainty regarding the availability of skilled labour. This has caused

problems with determining budget forecasts and prudent assumptions have been made, based upon the information currently available.

- 5.2 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. It will be necessary for the impact of these changes to be constantly monitored and reviewed, so as to ensure the plan remains viable.
- 5.3 The year 6 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.

6. Additional Resources & Future Development proposals

- 6.1 During the review of the variables affecting the income levels in the business plan, additional resources were identified, mainly arising from the previous high levels of RTB sales and selective disposals achieving higher market sales values than originally modelled.
- 6.2 These funds were earmarked to extend the development programme, which had been affected by the 1% rent reductions, rather than continue to grant fund Housing Associations. Work has taken place this year to identify the next wave of schemes and suitable sites to progress.

7. Opportunities for Additional Borrowing

- 7.1 The lifting of the debt cap has provided the Council with the opportunity to increase the level of borrowing, which can be achieved through the Public Loan Works Board, or through internal loans through the general fund.
- 7.2 The borrowing must follow the rules of prudential borrowing and ensure that the borrowing provides additional income or improvements to the existing stock, to enable the debt to be managed within the assumptions made in the financial business plan.

8. 2019/2020 Housing Revenue Account Business Plan

- 8.1 The revised draft of the Business Plan, can be found in Appendix A. 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 6 review, the 2019/20 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 final year of a 4 year national policy.
- The Council's disposal strategy will continue. An assumption of £1.5m of income in 2019/20 and £1m income per year each year thereafter has been made.
- An increase in the assumed level of RTB sales based on the current level of sales from the previously approved business plan (October 2019). Close monitoring on a quarterly basis will be required to ensure that receipts generated are in line with financial assumptions and it aligns with the 1-4-1 reinvestment.
- 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 annual budget setting process. The forecast for the next five years is detailed within the table below. Each year would be subject to review and budget approval.

2019/20 Current year	2020/21	2021/22	2022/23	2023/24	2024/25
£19.543m	£17.859m	£17.773m	£18.051m	£17.850m	£15.818m

- Investment in the Council's New Build programme, over the same period is detailed in the table below:

2019/20 Current year	2020/21	2021/22	2022/23	2023/24	2024/25
£20.924m	£9.355m	£22.900m	£30.450m	£30.650m	£18.432m

9.0 Variances since October 2019 Business Plan

- 9.1 188 units have been delivered as detailed in the table below. These schemes are not considered as new build in the updated plan.

Scheme	Tenure	No. of units	Completion	Site source
Longlands	Social Rent	6	2016	Council
Farm Place	Social rent	26	2015	Council
St Peters	Social rent	9	2015	Private
Aspen Court	Social rent	36	2016	Private
Queen Street	Social rent	6	2016	Council
Able House	Social rent	14	2017	Private
Kylina Court	Social Rent	79	2019	Private
Corn Mill Court	Social Rent	12	2019	Private
TOTAL		188		

- 9.2 The October 2019 approved Business Plan identified the delivery of 444 units, of which 164 (including Martindale and Stationers Place) were included in the previous Business Plan, approved March 2018. Therefore 280 new units were identified for delivery in the October 2019 plan. This figure is unchanged in the refreshed plan. Year 1 in both plans is 2019/20.
- 9.3 Forecast RTB sales are 726 over 30 years, an increase of 126 properties, since the October 2019 update, whereby the forecast was 600. This increase reflects an increase in RTB sales seen during 2019/20 over and above the expectations of the October 2019 plan.
- 9.4 Shortly before the approval of the October 2019 plan, the PWLB announced an increase of 100 basis points (1%) to the interest rates applicable to new loans issued to local authorities. Short term borrowing rates have increased accordingly but this has not impacted on the current business plan as there is not a need to borrow in the short term. Longer term borrowing rates are unchanged from the October 2019 plan, having already been modelled at a prudent level.
- 9.5 The current business plan has a peak debt of £403.0m in 2024/25, which incorporates the additional borrowing requirement to deliver the additional units and retain a level of investment in the existing stock. The October 2019 Business Plan had a peak debt of £403.7m in 2024/25.
- 9.6 Residual debt is forecast at £69.6m at the end of 30 years, previously at £67.1m in the October 2019 plan. The HRA is forecast to be debt free at the end of 34 years, previously 33 years in the October 2019 plan.

10. Recommendations

- 10.1 That Cabinet recommends the updated HRA Business Plan 2019/2020, as set out in Appendix A.
- 10.2 That Cabinet recommends the revised development programme budgets, as set out in section 8.3 of this report.