WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 29/11/2016

Title:

HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN REVIEW

[Portfolio Holder: Cllr Carole King]
[Wards Affected: All]

Summary and purpose:

The purpose of this report is to set out the principles for the Housing Revenue Account Business Plan following the work undertaken by the Member and Officer Group to review the plan in response to the statutory and funding changes and challenges.

How this report relates to the Council's Corporate Priorities:

The report relates to Community Wellbeing, Customer Service and Value for Money.

Financial Implications:

The review of the business plan is due to create a significant change of which is detailed below. By supporting the principles set out below a balanced budget can be achieved in the medium term.

Legal Implications:

The Council has a statutory duty to approve a balanced Housing Revenue Account each year. There are no other direct legal implications.

Introduction

1. The HRA Business Plan is a thirty year model for delivering the housing landlord service. Tenants' rents finance the majority of the plan with some contributions from sales, grants and commissions.

2. The HRA Business Plan was developed in 2012 when the Council became self financing at the end the national housing subsidy regime. The Council agred that any surplus following the management and maintenance (running costs of the service) would be divided between affordable homes, stock improvements and debt repayment.

3. The plan was created on the assumption of RPI + 0.5% rent increase per year. For the first time in many years the Council was able to identify funds for new council homes and major home improvement projects.

4. In the July 2015 Chancellor's budget the Government announced that all social housing providers must reduce their rents by 1% each year for a four year period commencing 1 April 2016. The change was intended to reduce the national benefit bill and the Government challenged all social housing providers

to become more efficient and inventive. The rent reduction results in a £12.4m loss to the projected income for the business plan over the four year period with a cumulative impact of £167m loss over the remainder of the 30 year Business Plan period..

5. In addition to the loss of projected income a range of other initiatives and factors will influence the Business Plan. The Council in February 2016 agreed a balanced budget for 2016/17 but identified the need to find £13m savings over the following three years plus significant scaling back of capital spending to meet the reduced funding from the Business Plan.

6. The Housing and Planning Act 2016 introduced the High Value Vacant Asset Levy and Pay to Stay initiative. Under the levy local authorities with council homes will be required to sell a proportion of high value homes as they become vacant and return receipts to the Treasury. Approximately 250 homes become vacant a year and potentially 20% of Waverley's homes could be classed as high value.

7. Pay to Stay will require social housing tenants with a joint taxable income of £31,000 per annum to pay additional rent on a sliding scale to market rents. Currently 55% of tenants meet their rent in full. Additional rent collected will have to be returned to the Treasury after administration costs are deducted.

8. The service is further challenged financially by reductions in grants and commissions. The future of Housing Related Support funding from Surrey County Council is unknown and Waverley is expected to loose commission from Thames Water and be liable for tenant refunds.

9. The service is due to reconsider the repair and maintenance contracts in 2019. A financial provision will be required for these negotiations and potential tendering.

10. The 2012 business plan projections on the number of new homes delivered and therefore rent projections was optimistic (in hindsight) and needs to be recalculated to reflect the true delivery.

11. A Member and Officer group was created to consider these challenges to the business plan and develop a revised plan.

<u>Review of the HRA Business Plan</u>

12. The Group agreed four key principles to work to when reviewing the HRA business plan:
    - to maximise net income
    - to provide good quality homes and maintain the value of the Council's asset
    - to contribute to increasing the supply of affordable housing for Waverley residents, and
    - to drive down operating costs and identify efficiencies

13. These principles were used in exploring options for the main areas of spend:
    - Capital works

- New homes delivery
- Stock improvements
- Staffing
- Debt repayment

Core Capital Works

14. The 2012 business plan assumed a significant Capital works budget (average £7m per annum) to improve the condition and facilities within council homes to achieve the Council enhanced Decent Homes standard by 2015 and maintain it in the future.

15. Proposed reductions to the funding of the capital budget (to £4m per annum for external costs) for the next three years will enable Waverley to protect the "envelope" of homes thus keeping them safe and watertight but internal improvement programmes such as kitchens and bathrooms may be suspended to help balance the budget. This will have an impact on tenant satisfaction and result in a gradual decrease in the number of homes meeting the Government's Decent Homes Standard. In addition the kitchen and bathroom contract would need to be varied or terminated. An initial assessment of the impact of ending the contract has commenced.

16. The group also acknowledged the increase in demand for responsive repairs over recent years. The responsive repairs budget is expected to increase due to the lack of capital preventative works and valid ongoing increased tenant expectations. A proposed additional £1m per annum has been added.

New homes delivery

17. The 2012 business plan allocated half the surpluses for the first five years and a third of the surpluses for the next four to a new affordable homes fund. This has proven a successful with many new council homes delivered.

18. The group considered the current commitment to new affordable homes. Reviewing the programme of those on site and those with planning permission and agreed to complete the current programme of homes on site.

19. Over the last four years here has been a significant budget accrued as projects take time to realise. These balances and illustrative budget will fund the current agreed delivery programme and potentially one additional Ockford Ridge site.

20. Proposals to reduce the allocation (to £3m per annum) to help balance the HRA budget have sparked other suggested models to provide affordable homes. Partnership working with Housing Associations and private developers is being explored to maximise the number of affordable homes from any money allocated.

Stock Improvements

21. The 2012 business plan allocated half the surpluses for the first five years and a third of the surpluses for the next four to a stock improvement fund. This money

has been allocated for the remodelling of Rolston House and regeneration of Ockford Ridge.

22. The stock improvement fund was joined with the new homes fund in 2016/17 to maximise new homes.

23. Future remodelling or regeneration schemes will be placed on hold with essential works been met by the capital work programme eg pre 1945 envelope works.

Staffing cost

24. The budget allows approximately £4m per annum to fund the staffing required for the management and maintenance of homes.

25. The established staffing structure has been reviewed to identify potential savings and future efficiencies. The group noted the time taken to recruit specialist staff and commited to retain capacity and robust teams to deliver the service. The housing service has successfully significahtly reduced its use of agency staff over the last 12 months.

26. Over the next three years every vacant post will be reviewed and consideration given to the necessity of the post and potential restructuring of the team.

Debt repayment

27. In 2012 the Council was forced to take on £189m of debt to pay the Government and become self financing (Waverley already had £3m HRA debt). The 2012 business plan modelled interest only payments for the first five years of the plan. From year six (2017/18) a third of the surplus was scheduled for debt repayment. Waverley is subject to a statutory debt cap of £192m.

28. The Council has a corporate debt management strategy. The Finance team and Portfolio Holder for Finance are reviewing this strategy to develop the most prudent way to repay or reschedule the housing debt. It is proposed to adhere to the current debt repayment schedule for the next three years whilst the rent restriction is in place and this will be reviewed when the Government's plans for future years are known.

Challenges to income

29. The group also recognised the challenges to income and the potential impact to the service delivery.

30. The Rent Account team collected 98.67% of the rent due in 2015/16 and have a strong track record in rent collection. Changes in the welfare system have currently been managed with support and signposting ensuring rent is the priority payment.

31. The Pay to Stay initiative will add pressure to tenants' budgeting. There is a potential increase in rent arrears and risk of increased right to buy applications.

Any additional rent collected cannot be kept by Waverley. The initial administration and IT costs will be met by DCLG.

32. The High Value Vacant Asset Levy is currently unknown. In addition to the levy it should be noted that there will be a loss in future rent that had originally been included in the plan. Officers have been advised that following a consultation process the levy may be announced in January 2017. This will result in a further review of the HRA business plan at that time.

33. Surrey County Council has indicated the loss of housing related support funding. The funding for the Floating Support Officers and the EasyMove Officer will end March 2017. In addition there has been no commitment to continue the support funding at sheltered schemes, currently £176k. Any change in funding will impact the service and a phased reduction in service would need to be agreed.

34. The housing service currently receives £80k commission from Thames Water for collecting water rates from 2577 tenants. This is under review following the Southwark High Court Case which held that this arrangement was the “resale” of water and financial limitations must apply. It is anticipated that the arrangement can not continue under the current terms and there will be a liability to refund/pass on savings to some tenants (estimated £400k).

35. The group explored potential income raising initiatives: eg sale of unviable homes and land sales in addition to seeking efficiencies in service delivery.

HRA capital spending

36. The review group developed principles that should be applied to all HRA capital spending:

- Net Present Value (NPV) analysis is to be conducted on all new projects prior to them being presented to the Housing Delivery Board (HDB) and Executive.
- The core capital programme to be set an annual target for a 5 year period, with the amount to be determined as part of the mid-year budget review.
- No further capital commitments to new buildings or refurbishment projects are to be made unless a sound financial business case is agreed.

37. The Executive agreed these principles in September 2016.

Conclusion

38. Clear principles have been created for the development of the revised HRA service plan with a commitment to maintaining the asset (homes) and contributing to increasing the supply of affordable homes.

39. The reduction in income challenges the service to maximise and seek new areas of income in addition to spending prudently and working in partnership to achieve value for money.

40. Illustrative net £13m savings and 2017-2020 budgets have been developed for Member's consideration and approval, and Annexe 1 refers. These proposals provide for a total of £3m contribution to a contingency over the next 3 years to meet the impact of the uncertainty in Government legislation and unexpected costs and/or loss of income.

41. These proposals were presented to the Housing Improvement Corporate Overview and Scrutiny Sub-Committee on 7 November and the Corporate Overview and Scrutiny Committee on 22 November. The Sub Committee noted the impact of the projected rent loss and supported the illustrative reductions acknowledging the need to stop the kitchen and bathroom programme and the commitment to new affordable homes. The comments from the Corporate Overview and Scrutiny Committee will be circulated separately.

42. The detailed budgets and capital programmes will be presented to Council in February and will reflect the reduced funding necessary to balance the budget in the medium term.

43. The review is based on a number of assumptions due to the unpredictable future of funds and impact of government initiatives. There will need to be ongoing reviews and updates every three to four months as the government announce the guidance for new initiatives and future funding streams are confirmed or concluded. This will be reported through the budget management report process.

Recommendation

It is recommended that the Executive recommends to Council:

1. to agree the measures set out in the report to balance the HRA Business Plan over the next 3 financial years;

2. to agree draft headline budget figures noting that final figures will be presented to Council in February for approval

3. to delegate authority to the Director of Operations and Director of Finance and Resources , in consultation with the Portfolio Holder for Housing and Portfolio Holder for Finance, to vary or terminate the kitchen and bathroom contract.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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