



Derby City Council

COUNCIL CABINET
16th March 2016

Report of the Cabinet Member for Urban
Renewal

ITEM 14

Housing Revenue Account Business Plan 2016/46

SUMMARY

- 1.1 The Housing Revenue Account (HRA) has been in a financially robust position due to the financial self funding settlement and rent increases above the level of inflation over the past decade, bringing council rents much closer to Housing Association levels. This has enabled the Council to progress its ambitions to deliver new council housing.
- 1.2 A number of significant impacts have emerged recently which will necessitate some revisions to expenditure assumptions within the Business Plan. In the main, this refers to the 1% reduction in social rent levels over the next four years which will have a considerable impact on revenue streams moving forward. Secondly the sale of high value council housing as compensation payable to private Registered Providers for their losses under the extended Right to Buy is likely to have a further impact moving forward although the impact has not been clarified yet.
- 1.3 This report summarises the HRA Business Plan, details the assumptions supporting the Plan and sets out the proposed changes to planned expenditure.

RECOMMENDATION

- 2.1 To approve the 2016/17 update of the rolling 30 year HRA business plan, as set out at Appendix 2.
- 2.2 To approve the proposed expenditure commitments and revisions set out in 4.11 and 4.12.
- 2.3 To note future risks and potential impacts on the viability of the HRA Business Plan set out within the report, and note the further report proposed at 4.15.

REASONS FOR RECOMMENDATION

- 3.1 Housing is a long-term asset and it is important that a longer term view is taken on asset management. Approval is sought for the proposed 2016/17 update to the rolling 30 year HRA Business Plan that sets a strategy to manage the HRA. This is a statutory requirement.



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Report of the Strategic Director for Communities and Place

SUPPORTING INFORMATION

- 4.1 As background, the Housing Revenue Account (HRA) funds the management, maintenance of the Council's housing stock and related corporate services. Since the HRA self-financing settlement in 2012, financial capacity has been released within the account. The Council has allocated much of this financial capacity to fund the delivery new housing through both new build and acquisition. The new housing programme is further funded by useable Right to Buy receipts. These have been available to the Council through agreement with Government to fund new affordable council housing and new affordable housing provided by private Registered Providers.
- 4.2 Derby Homes are the Council's arm's length management organisation (ALMO) and are responsible for the management and responsive and cyclical maintenance of the housing stock. These operational functions are delegated to Derby Homes under the terms of the Management Agreement. Derby Homes also manages the majority of the Council's HRA capital programme and has authority to act as client on the Council's behalf in respect managing external contracts.
- 4.3 The HRA was placed in a relatively healthy position following the HRA self- funding settlement. The additional financial capacity coupled with Right to Buy capital receipts has been focused toward the delivery of new council housing either though acquisition or forms of new build. The HRA target for new homes had originally been set at around 400 for delivery by 2018/19. Derby Homes will contribute circa 300 dwellings through their own reserves and borrowing. It is now considered however, that the combined target of 700 dwellings will be delivered by 2020/21.
- 4.4 Irrespective of the undoubted benefits of the self funding regime, council housing is public housing and ultimately falls under the statutory and regulatory control of Government. Furthermore as many council tenants are reliant on state benefits including housing benefit, regulatory changes to welfare entitlements can also have an impact on anticipated income and expenditure.
- 4.5 Last year's report highlighted key risk factors of Universal Credit affecting tenants' ability to pay rent and stock losses as a result of Right to Buy reducing gross income. The impact of these risks is assumed within the Business Plan model. The current impact of these risk factors remain within the parameters assumed within the Business Plan and therefore are not affecting the expenditure commitments and aspirations of the Business Plan, including new build and acquisition.

- 4.6 In July's Summer Budget, the Government announced that social rents would decrease by 1% per year for the four year period from 2016/17 to 2019/20. The steps proposed to mitigate this decrease in income are set out in 4.11 and 4.12. The rent reduction is a significant departure from the 2014 Budget statement that rents would increase at a rate of Consumer Price Index (CPI) +1%. The impact of the rent decrease will mean a reduction in rental income of around 13% after the 4 years to the Council's HRA. Furthermore as the current Business Plan has assumed income that was expected to rise by 9% over these 4 years, the net deficit is more significant than the 4% direct loss of rent.
- 4.7 Recent announcements have indicated that Supported Housing will be exempted from the rent decrease for at least one year. However the definition of eligible Supported Housing would appear to be narrow in that it is currently limited to Supported Housing that is already 'excepted' under the Rent Standard. Parties are lobbying for a broader definition of supported housing to be exempt from the imposed rent decrease, but until the Government's final decision is clear and enacted by regulation, it is prudent not to adjust income assumptions in the current HRA Business Plan.
- 4.8 Furthermore, in addition to the rent decrease, it should be noted that there are further implications from Government that are likely to impact the Business Plan moving forward.
- 4.9 First of these is the proposed sale of high value council housing to compensate private Registered Providers for the sale of their properties under the extended Right to Buy. It is not clear how this will be applied but now it appears likely that there will be an effective asset charge on all local authority stock. A more detailed assessment needs to be undertaken when the Government's proposals are clear.
- 4.10 Secondly the proposals to apply local housing allowance rates to social housing provide no current exemption for supported housing. Many supported housing rents are in excess of local housing allowance due to increased management costs and these additional costs are currently met through Housing Benefit. New tenants from April 2016 will be subject to these caps when they subsequently come into effect in 2018. Although exemption is being sought for supported housing, until guidance is clear, the Council may need to consider how the potential shortfall can be addressed.

- 4.11 The Council has considered its options in respect of addressing income shortfalls as a result of the rent decrease as it is not manageable within the 2015 Business Plan assumptions. Therefore this report proposes some expenditure and commitment changes in order to rebalance the Business Plan. To illustrate the nature of the changes, it would be useful to set out the Plan commitments for the last financial year and this year's proposed commitments. Table 1 shows a proposed spend reduction of £1.039m. The impact of the proposed reductions over the course of the Business Plan is set out in 4.12.

Table 1

	2015/16 £'000s	2016/17 £'000s
Management fee	9,841	9,742
Maintenance fee	16,446	16,446
Retained Services	3,785	3,450
Depreciation (Capital programme)	12,224	11,903
Other	1,365	1,081
Total	43,661	42,622

- 4.12 The report proposes the following options to achieve a balanced Business Plan. The revenue deficit over the course of the Plan created by the reduction in rent income is £46m (Col 1). The savings and additional income proposed (Cols 2 to 8) will result in a revised positive revenue balance of £12m (Col 9).

Table 2

Col.	Expenditure/Income	Net impact on BP deficit over 30 years (£'m)
1	<i>Revenue Deficit</i>	(46)
2	Retained HRA reductions	10
3	Increased service charge income	3
4	Capital spend reductions	21
5	Reduction in base management fee	10
6	Reduction in base maintenance fee	8
7	Estates Pride	1
8	Housing Focus Groups	5
9	<i>HRA Revised Balance</i>	12

- 4.13 In effect the report proposes minor savings to ALMO fees and the retained HRA capacity. Commitment to the capital programme has also been reduced because of increasingly competitive supply chain prices achieved by Derby Homes. However this situation will be kept under review as sub-contractor prices within the construction sector continue to harden and furthermore in the event that commodity prices increase we may also see an increase in base component costs. The net savings required have also been offset through increased service charge income and a number of technical adjustments.

- 4.14 The key role of the HRA is to fund the management and maintenance of the Council's housing stock. Although the aspiration may be to deliver as much new housing as possible this has to be realistically balanced against the need to maintain investment stock.
- 4.15 The Council also needs to be aware of the capacity of the HRA new housing programme to absorb the recyclable Right to Buy receipts. This is essential if the Council is to avoid paying back unused receipts to Government. It is proposed that a further report is brought before Cabinet to assess the capacity of the HRA to absorb Right to Buy.

OTHER OPTIONS CONSIDERED

- 5.1 The proposed HRA Business Plan has been the subject of extensive review and constitutes the best advice of officers. Alternative options considered would deviate from this best advice.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Olu Idowu Toni Nash, Head of Finance Liz Moore Ian Fullgar n/a Pete Shillcock
For more information contact: Background papers: List of appendices:	Ian Fullagar Head of Strategic Housing 01332 643405 James Beale, Housing Development Team Leader 01332 640316 None Appendix 1 – Implications Appendix 2 – HRA Business Plan

IMPLICATIONS

Financial and Value for Money

- 1.1 Contained within the report

Legal

- 2.1 The Council is required to set a balanced budget for its Housing Revenue Account and ensure that costs are charged appropriately to either the HRA or to the General Fund.

Personnel

- 3.1 None directly arising.

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- 4.1 None directly arising.

Equalities Impact

- 5.1 Many of the Council's tenants belong to the Council's equality target groups. The revisions to the Business Plan will not adversely affect the quality of the service provided to equality target groups.

Health and Safety

- 6.1 None directly arising.

Environmental Sustainability

- 7.1 Several environmental initiatives are included within the HRA business plan such as improving thermal efficiency, installation of modern energy efficient heating systems and the construction of new homes to modern thermal efficiency standards.

Property and Asset Management

- 8.1 A bespoke Asset Management plan underpins the HRA cyclical maintenance programme.

Risk Management

- 9.1 Risks are managed through a number of Council and Derby Homes governance Boards.

Corporate objectives and priorities for change

- 10.1 The delivery of the HRA Business Plan will assist the Council to achieve its key strategic outcomes set out in the Derby Plan 2011 - 2026 and the Derby City Council Plan 2015/16.