**CABINET**

**THURSDAY, 27TH SEPTEMBER 2018**

**REPORT OF THE PORTFOLIO HOLDER FOR HOUSING & NEIGHBOURHOOD SERVICES**

# HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN

## EXEMPT INFORMATION
N/A

## PURPOSE

The report details progress on preparations for the Housing Revenue Account Business Plan (2018-2048) and the scope is to:-

- Identify a base line financial position on which to build and maximise opportunities for future investment in the councils housing stock.
- Set out the investment priorities in order to ensure compliance with the Decent Homes standard
- Outline the strategic framework and priorities to inform the HRA business plan once members have endorsed the financial profile
- Detail the future HRA business planning approach by using an appropriate financial modelling tool as part of the budget setting and medium term financial planning process

## RECOMMENDATIONS

Cabinet are recommended to:-

- Support the HRA Business Plan ‘challenge and review’ together with the options appraisal detailed in Annex One

- Recognise and accept the base line assumptions built into the revised HRA business plan illustrated in the attachments, particularly Annex five

- Authorise the £298m detailed in the investment plan shown in Annex 5 to be considered as part of the budget setting process for 2019/2020 to 2024/2025; noting updates to the stock condition modelling and other financial HRA impacts can be assessed through that process and the financial position adjusted accordingly

- Support that the Corporate Scrutiny and Tenant Consultative Group’s (TCG) recommendations to create a ‘neighbourhood fund’ up to £250k per annum be considered as part of the budget setting process for 2019/2020 to 2024/2025; by accepting proposals to revise electrical testing and rewiring to fund a place based approach to neighbourhood planning

- Approve the HRA business planning priorities informed by TCG and Corporate Scrutiny as detailed in the report

- Delegate authority to the Executive Director of Communities in consultation with the Portfolio Holder for Housing & Neighbourhoods to approve the final narrative for the

HRA business plan by April 2019 and to formalise the draft equality impact assessment

- Approve a financial waiver to appoint Housing Finance Associates to adapt the business modelling tool provided for £3,000 for 1 year starting from 6/9/18 to 6/9/19 to ensure sufficient business continuity and familiarity with the business modelling already undertaken. Thereafter delegating authority to the Executive Director Finance to determine whether further support is required.

**EXECUTIVE SUMMARY**

Production of a viable, innovative and robust Housing Revenue Account (HRA) Business plan is fundamental to the successful delivery of the Councils stock retained housing service, in particular the contribution it makes to its Communities and its wider impact on Neighbourhoods. The HRA business plan is a statutory requirement, the management and accounting for which is laid down in a plethora of legislation, regulations and directions; detailed elsewhere in the report.

In the last few days the Government has announced its "new deal for social housing" as part of its Housing Green paper[1]. As officers' seek to understand those challenges it is clear that the Governments vision for social housing is grounded in ensuring a *safe and decent home* and *empowerment of tenants' in holding landlords to account*. The HRA business plan is one such example of how tenants have and should influence, shape and scrutinise core housing services. The development of the HRA business plan (and the base line assumptions recommended to Cabinet) seeks to balance those tenant centric values and aspirations with not only ensuring continued Decent Homes compliance but also about maximising commercial opportunities and ensuring a neighbourhood focus going forward.

Over the last 6 months, officers supported by independent consultants, have reviewed the HRA business plan, initially produced in 2012 and updated in 2013, 2014 and 2016. Cabinet should note that the full suite of documents[i] (summarised at the end of the report with relevant information) has also been shared with the Councils constituted Tenant Consultative Group (TCG) and Corporate Scrutiny and their recommendations and feedback incorporated. The communications planning and draft equality impact statement have also been part of those wider stakeholder discussions.

As part of Council Housing reform and following self-financing in 2012, the HRA Business plan at that time was based on assumptions underpinning its settlement and stock condition data from 2009. As part of the 2012 financial forecast surpluses were predicted over the 30 years in excess of £180m. The challenges since then are well documented; but in summary there has been a reduction of c£180m within the HRA business plan as a combined result of Government policy; particularly the 4-year 1% rent reduction; increases in estimated RTBs and limited changes to reducing fixed management costs. The detailed report shown at Annex one highlights the considerable achievements despite the budget pressures, landlord performance is routinely captured in the annual report reported to Cabinet.

Given the changing landscape and in order to continue to deliver on tenants' and leaseholders' ambitions a full review of the HRA Business plan has been undertaken and the key headlines from the revised HRA business plan forecasts are now:-

[1] https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

| Headline | £m |
| --- | --- |
| Opening debt (at 1 April 2018) | £68.0m |
| Closing debt (at 31 March 2048) | £72.2m |
| Debt Ceiling | £79.4m |
| Borrowing Headroom | £5.6m |

MHCLG announced its prospectus in June 2018 on additional borrowing, effectively lifting the HRA cap[2]. Tamworth were not listed and therefore not invited to bid for additional borrowing. That said, should Tamworth have unfunded proposals seeking to increase the supply of affordable housing then this does now present an opportunity for the future.

Before the HRA business plan can be finalised it is necessary to establish a financial profile so that ambitions and appropriate funding solutions can be identified, so at this stage stakeholders have been involved in the development of strategic ambitions and priorities and Cabinet are recommended to approve these as the basis for future development:-

1. Invest in the delivery of new social and affordable housing exploring innovative approaches to strategic partnering and wider RP development
2. Support Town centre regeneration
3. Continue to ensure all council owned homes meet Tamworth's Decent Homes Standard
4. Develop a 'place based' approach to neighbourhood management based around early help and preventative based strategies
5. Review and deliver services to agreed standards agreed with tenants' & leaseholders focused on maximising customer involvement & empowerment
6. Deliver housing based solutions tailored to specific client groups that ensures people maintain their independence and resilience within communities
7. Ensure collaborative and partnership investment is tailored to support agile and improved neighbourhood solutions
8. Ensure a continued focus on improving the delivery of council housing core landlord functions by benchmarking with those 'best in class'

Whilst the changing nature of financial and government social and economic policies are complex and fluid, it is important to establish a set of base line assumptions. On that basis Cabinet are being asked to note the following:-

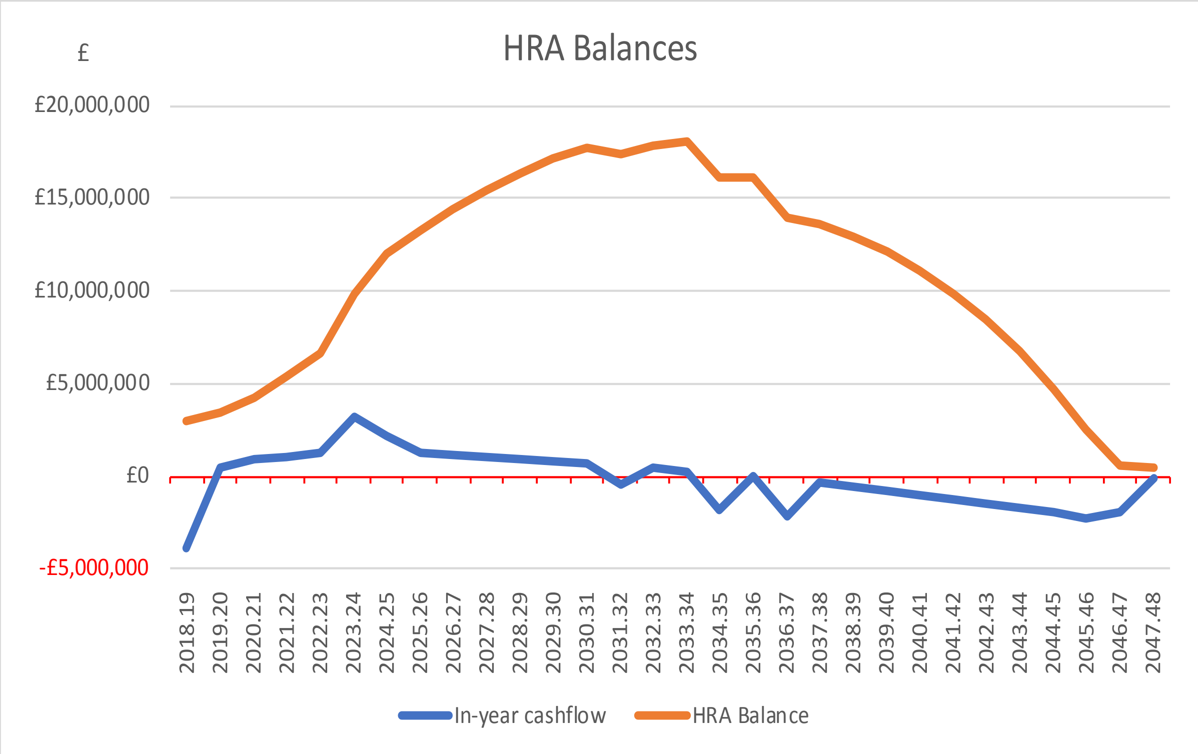
- Year 1 of the forecast assumes the stock investment in line with the capital programme for 2018/19. Thereafter, they reflect 29/30ths[3] of the draft investment programme outlined in annex five & pending the results of the stock condition survey
- £298m investment (Annex 5) based on theoretical assumptions around ensuring continued compliance with the Governments current Decent Homes Standard and pending the up-to-date stock condition survey
- Management costs remain in line with the previously agreed MTFS (2018)
- Retention of Garage sites - £384k budget in 2018/19
- Strode House Car park - £530k in 2018/19
- Tinkers Green - c£13m during 2018/19
- Kerria - £6.8m during 2018/19
- Re-development of garage sites - £7.4m from 2018/19 to 2022/23
- Other Acquisitions - £2.41m from 2018/19

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719194/180625_Prospectus_based_on_HRA_at_50pw_Final.pdf

[3] This represents the 30 year investment profile divided by the remaining 29 years, noting year 1 is already based on the existing MTFS

On the attached detailed investment profile (annex five) the £298m represents the investment required over the life of the plan to meet our statutory repairing obligations and maintaining decency. Included within this, is the responsive repairs, void works, compliance works, as well as planned investment and renewal works such as kitchens, bathrooms, heating and more major projects.

The chart below shows that the HRA is in a healthy position for the first half of the forecast, when it generates additional balances. However, in the second half of the forecast these balances reduce, until the HRA reaches its minimum balance position at the end of the period. This is consistent with underlying increases in costs, which are greater than the increases in income.




Members should note that by continuing to use the HRA business planning tool recommended, financial assumptions and consequences of key strategic decisions can be assessed as part of the budget setting process. Equally the business planning ambitions around HRA regeneration, HRA delivery of social and affordable housing as well as service development & improvement this will require innovative funding vehicles and/or efficiencies within the HRA if they are to continue. As outside of the £298m identified there is no additional financial capacity without additional income &/or other funding sources. Achieving and exploring this is implicit in the Council operating model around sustainability, commercialisation and reducing waste and excess demand.

If Cabinet approve the base line position then the next steps will involve:-

| **Activity** | **Timescale** |
|---|---|
| Business Planning model adopted and latest financial figures fed in as part of the Councils routine Budget Setting process | Commences September 2018 |
| Investment Profile refined and agreed | As part of the budget setting process |
| Produce Final HRA business plan and 3 year delivery plan incorporating 'unfunded' ambitions | March 2019 |
| Annual update on HRA business plan built | Annually |

| | |
|---|---|
| into governance and budget setting processes | |

**OPTIONS CONSIDERED**

HRA Business Planning Opportunities

The baseline position indicates a sustainable position for the HRA, on current assumptions. However, the Consultants were asked to prepare a scenario analysis which is shown below and that highlights that this situation comes under threat if costs rise at a faster rate than has been assumed, or if income generation falls.

The scenarios also show how the revenue position of the HRA, the scale of the capital programme and the need to borrow are all interconnected. In particular, any weakening of the HRA revenue position (whether through increased costs or reduced income) reduces the authority’s long term capacity to deliver investment, and could make the HRA unsustainable.

It is important that the authority identifies ways in which it can minimise costs while optimising income generated by the HRA. Options for doing this might include:

- Investigating the scope for generating additional income, particularly in respect of services where costs are not covered by service charges
- Implementing a long term programme for reducing costs by improving efficiency. This could take the form of annual efficiency targets, scaling of budgets so that they reflect any reductions in stock numbers as a result of the right to buy, reviewing service standards or exploring alternative service delivery models.

| Scenario | Closing Revenue Balances | | | | Capital Shortfall | | | | HRA CFR | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year 5 £m | Year 10 £m | Year 20 £m | Year 30 £m | Year 5 £m | Year 10 £m | Year 20 £m | Year 30 £m | Year 5 £m | Year 10 £m | Year 20 £m | Year 30 £m |
| Baseline | 6.6 | 15.5 | 13.6 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 73.8 | 73.8 | 68.8 | 72.2 |
| A - Reprofiled works | 6.6 | 3.5 | 13.5 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 73.8 | 73.8 | 68.8 | 72.3 |
| B - RPI investment cost inflation | 6.6 | 11.3 | 0.5 | 0.6 | 0.0 | 0.0 | -1.6 | -70.8 | 74.3 | 74.3 | 79.4 | 79.4 |
| C - Higher inflation overall (+0.5%pa) | 7.0 | 16.3 | 16.5 | 1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 74.0 | 74.0 | 69.0 | 69.0 |
| D - No rent increase in 2020/21 (year 3) | 4.9 | 10.6 | 0.7 | 0.5 | 0.0 | 0.0 | 0.0 | -18.3 | 73.8 | 73.8 | 68.8 | 79.4 |
| E - Additional Income (+50k pa for 5 years) | 7.1 | 17.4 | 19.3 | 8.2 | 0.0 | 0.0 | 0.0 | 0.0 | 73.8 | 73.8 | 68.8 | 68.8 |
| F - Efficiency gains (2% pa for 5 years) | 7.4 | 18.6 | 22.7 | 14.7 | 0.0 | 0.0 | 0.0 | 0.0 | 73.8 | 73.8 | 68.8 | 68.8 |
| G - Additional bad debts | 5.8 | 13.5 | 8.8 | 0.5 | 0.0 | 0.0 | 0.0 | -1.9 | 73.8 | 73.8 | 68.8 | 79.4 |
| H - Scenarios B, E, F & G, combined | 7.1 | 14.5 | 0.6 | 0.6 | 0.0 | 0.0 | 0.0 | -48.1 | 74.3 | 74.3 | 70.5 | 79.4 |

Importantly members should note that the base line position does not take account of any additional income &/or efficiencies generated going forward hence the need to routinely use the business model to assess financial consequences of decisions. Therefore the future ambitions, specifically those listed below are unfunded and would require innovative and/or alternative funding models:-

- Future regeneration schemes
- Continued delivery of social and affordable housing
- Self-funding of project based schemes through service charging
- Investment in early help and preventative based strategies

Base Line HRA Business Planning options

By adopting the Investment Programme detailed at **Annex five** there remains a number of options based on costs staying within an envelope of £298m. These include:-

| Option | Effect on Business Plan over 30 years |
|---|---|
| **Establishing a 'Neighbourhood' Locally determined priority budget for Member and Tenant priorities @£250k per annum** | **+£7.5m** |
| **Change window replacement multiplier to 1 (or lifecycle to 30 years) as programme has been completed recently** | **-£1.738m** |
| **Change external door lifecycle to 30 years and multiplier to 1 to align with windows** | **-£1.507m** |
| **Provide for sprinkler renewal in next business plan (lifecycle > 30 years )** | **-£1.3m** |
| **Replace rewire programme with Upgrade programme (50% saving on unit rates)** | **-£5.43m** |
| **Revise Periodic Electrical Testing Frequency after first 5 year period and extend interval based on risk assessment** | **-£4.595m** |
| **Align internal and external painting programme with interval of 10 years** | **-£64.2k** |
| **Halve Garage Improvements budget based on rationalisation and disposal of sites** | **-£3.25m** |
| **Halve Environmental Improvements and Communal Area Improvements budget** | **-£4.25m** |
| **Halve Thermal Comfort Budget based on works to low SAP properties only and advice on condensation etc.** | **-£1.05m** |
| **Charge Leaseholders fully for Sprinklers** | **-£100k** |
| **Omit Cavity Wall and Loft Insulation renewal** | **-£0.537m** |

If the Council adopted the Investment Programme set out at **Annex five** or one similar to it, there would be scope to introduce a Locally Determined Budget to meet Member and Tenant Priorities. This would assist in 'solidifying' the remaining elements of the Investment Programme which would become relatively fixed and therefore predictable between revisions following stock condition surveys (every 5 years). This would provide greater certainty to contractors and to tenants who would be able to know with increased certainty when improvement works to their homes are scheduled.

Clearly the Council could also choose to implement reductions to the core Investment Programme to meet costs arising from future regeneration activities. This would need to be carefully balanced against the requirements to meet statutory obligations (in respect of disrepair and safety), compliance with the Decent Homes Standard, the Regulator's Home Standard and any ambition to improve customer satisfaction with the repairs and maintenance service.

Both the Councils constituted Tenants Consultative Group (TCG) and Corporate Scrutiny have been part of wider workshops to inform this options appraisal and the feedback and recommendations for cabinet to note are:-

- Support for a Neighbourhood Fund financed through reductions as set out in the electrical testing programmes and regime. As the combined electrical investment is nearly £10m, a revised and risk assessed approach would provide for the establishment of a 'neighbourhood fund'. This would not undermine the Councils compliance with the current Decent Homes standard but would facilitate a more targeted and risk based approach to electrical testing that allows for funding to be used to support a more focused 'place based' approach to neighbourhood planning

- Maximising opportunities for cross subsidy and alternative funding models to realise wider ambitions supporting the council's corporate agenda.

**RESOURCE IMPLICATIONS**

The financial implications are significant and this revision to the HRA business plan represents a base line position from which the council can assess future ambition. The financial implications are as detailed throughout the report.

**LEGAL/RISK IMPLICATIONS BACKGROUND**

The keeping of the HRA is governed by a range of legislation. Schedule 4 of the Local Government & Housing Act 1989 lists all the credit and debits ,much of that schedule has now been superseded by the self-financial regime, but are still an important mechanism for Government intervention and management. The Council must also follow 'proper practices' as defined in section 21 of the Local Government Act 2003 and as detailed in associated regulations. The HRA (Accounting Practices) Direction 2016 made under section 78 and 87 of the 1989 Act – took effect from 1st April 2016. They set out the statutory disclosures for the HRA, namely

- Balance sheet values of land, houses and other property
- Capital expenditure broken down according to sourced funding
- Charges for depreciation for property and assets
- Impairment charges
- Any charge in respect of revenue expenditure funded from capital

Alongside the HRA business planning a detailed risk assessment has been prepared and is attached at annex four. Business planning is a risk management exercise in its own right as the accounting, financing and management of commercial ambition is about analysing and preparing for opportunity and threats. With that in mind head line risks scoring the highest include:-

| Risks | Mitigation |
|---|---|
| Absence of current accurate stock condition survey data for component replacement on which to base the projected investment need. | Pending new stock condition survey, alternative method for estimating investment need is required and is detailed around theoretical component replacement |
| Over optimistic assumptions in the initial BP – e.g. RTB sales of only 5 per year (& The Government have implemented significant changes to RTB system since 2012) | New Business Plan has more conservative assumptions |
| Inflation is greater than expected on | Risk remains same after modelling but can |

| | |
|---|---|
| expenditure | be partially mitigated through a programme of VFM activity to control costs |
| The HRA Business Plan currently proposed provides for balances at the end of each year, based on the assumptions detailed. However at the end of the 30 year forecast, balances reduce until the HRA reaches it minimum and therefore ambitions not detailed in the investment profile are unfunded | Having a base line position for the HRA allows for future financial assessments to be made and opportunities for innovative and alternative funding to be sourced |
| Future changes to Government policy and the impact of other local factors can materially affect the position plan | The 30-year forecast represents a direction of travel and is based on current and known factors, the proposal to use a financial business modelling tool will allow for modifications and testing as part the Council's budget setting process. |

**REPORT AUTHOR**

Tina Mustafa – Assistant Director of Neighbourhoods ext. 467

**APPENDICES**

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| Annex | Relevance |
|---|---|
| Annex One<br>HRA Business Plan Report<br>May 2018 | Setting out the review of the HRA Business plan investment requirements, key challenges and details around compliance with the Decent Homes Standard |
| Annex Two<br>Communications Framework | Communications plan supporting the detailed review of the HRA Business plan |
| Annex Three<br>Equality Impact Assessment (DRAFT for continued consultation) | Equality impact assessment developed and shared with key stakeholders forming part of the overall impact assessment of adoption of the base line assumptions in the plan and as recommended |
| Annex Four<br>HRA Business Plan risk assessment | HRA business plan risk assessment coded accordingly based on themes and levels of risk |
| Annex Five<br>Investment Schedule | Within the £298m investment envelope detail on assumptions made to ensure compliance with Decent Homes, along with costs of housing management and special services |
| Annex Six<br>Briefing workshop to the Tenant Consultative Group (TCG) with representation from Corporate Scrutiny (Councillor Ford) 14th June 2018 | Presentation and work-shop shared with TCG |
| Annex Seven<br>Corporate Scrutiny presentation and work-shop 11th July 2018 | Presentation and work-shop held with Corporate Scrutiny |