

Report of:	Head of Finance Head of Housing and Waste Management
Contact Officer:	Bob Kean Nirmal Samrai
Telephone No:	01543 464334 01546 464317
Portfolio Leader:	Housing
Key Decision:	Yes
Report Track:	Cabinet: 10/12/15

**CABINET
10 DECEMBER 2015
INTERIM REVIEW OF HOUSING REVENUE ACCOUNT BUSINESS PLAN**

1 Purpose of Report

- 1.1 To consider an interim review of the agreed Housing Revenue Account Business Plan.

2 Recommendations

- 2.1 That outcome of the interim review of the HRA Business Plan to Year 8 (2019-20) is noted:-:
- (i) the impact of the Government's 1% rent reduction following interim review of the Housing Revenue Account (HRA) Business Plan is an overall cumulative deficit of £5.9 million.
 - (ii) a surplus of £2.4 million existed in the 2018-19 to 2019-20 Business Plan which although potentially earmarked for new house build will now be required to be forfeited, leaving a resultant deficit of £3.4 million.
 - (iii) that additional income pressures results in a net overall cumulative deficit to 2019-20 of £3.8 million
- 2.2 That, in order to mitigate this cumulative deficit; the following changes to the HRA capital Programme Budgets to Year 8 (2019-20) are agreed:-
- (i) Deletion of the uncommitted element of the Council's new build programme Years 5 (2016 -17) & Year 6 (2017-18) to provide an additional 16 Council dwellings. 1,940,000

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|-------|---|--------------------|
| (ii) | Deletion of the capital financing requirement set aside for £2m million of additional borrowing requirement to fund new council houses (2016-17 – 2019-20) of £200,00 per annum | 800,000 |
| (iii) | Capital Programme Contract Works savings <ul style="list-style-type: none"> • Double glazing Year 6 (2017-18) • Kitchens upgrade Year 7 (2018-19) | 250,000
300,000 |
| (iv) | Deferment of planned expenditure arising from stock condition survey pending full Business Case review <ul style="list-style-type: none"> • External Site Works Year 8 (2019-20) • External Fabric Work | 250,000
300,000 |
- 2.3 That in light of a balanced HRA budget to 2019-20 the Managing Director is authorised to award a contract for the Redevelopment of Garage Sites and other Council Land Scheme following the successful conclusion of the tender procurement process.
- 2.4 That further reports are received on:-
- (i) Disposal of Garage Sites and Other Council Owned Land for development.
 - (ii) Housing and Planning Act 2015 and associated regulations.

3 Key Issues and Reasons for Recommendation
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- 3.1 The Chancellor in his Summer Budget announced a 1% reduction in rents for 4 years commencing April 2016 which would result in a loss of £5.9 million in rental income 2019-20 and £2.3 million per annum ongoing thereafter.
- 3.2 The Councils approved HRA Revenue Budget and Capital Programme has been extended to cover the period of the rent reductions and an original surplus of £2.4 million to 31 March 2020 is now forecast to be a deficit of £3.8 million after taking into account revised stock figures and other cost pressures.
- 3.3 A balanced budget can be delivered to 2019-20 however this entails the deletion of 55 new Council houses (70 if borrowing approval was obtained) and includes the £1.94 million included in the 2016-17 to 2017-18 Capital Programme and the £2.5 million earmarked in the HRA Business Plan 2018-19 to 2019-20.
- 3.4 Contract savings are expected to arise in relation to the Double Glazing /Kitchen contracts however in order to address the remaining shortfall savings will need to be made in relation to External Site and Fabric Works from 2019-20 onwards. The savings will be achieved through reductions in service standards for example reducing the amount of work undertaken to each property or by

extending the works programme for example, moving from a 7 year programme to 10 years. Any such changes will be subject to a further report.

- 3.5 The recently published Housing and Planning Bill 2015 included two other changes in relation to Vacant High Value Properties and Pay to Stay which may impact on the HRA Business Plan in future years and will be subject of further review as part of the comprehensive long term HRA Business Plan review..

4 Relationship to Corporate Priorities

4.1 This report supports the Council's Corporate Priorities as follows:

- (i) The Housing Revenue Account is based on a 30 year Business Plan for the management, maintenance and enhancements to the Council's Housing Stock. Any reduction in resources to the current fully funded Business Plan will impact on the Council's ability to:
- Provide for long term investment in the Council's housing stock
 - Enhance the level of planned maintenance beyond the Decent Homes/Statutory minimum
 - To ensure provision is made for housing management in line with current policies and existing levels of service
 - To provide additional council dwellings

5. Report Detail

Interim Review of HRA Business Plan and Capital Budgets to Year 2019-20

- 5.1 Cabinet on 20 November 2014 considered a revised 30 year Housing Revenue Account Business Plan for the continued implementation of the devolved HRA "self financing system". It was reported that the revised plan would provide the financial framework within which the Council's three year HRA revenue and capital programme budgets were to be determined.
- 5.2 As a result Council on 11 February 2015 agreed a three year balanced HRA Capital Programme budget for the period 2015-16 to 2017-18 which included £2,340,000 additional expenditure capacity that:
- £400,000 is allocated to meet the interest and loan repayment charges in respect of up to £2 million of additional borrowing approval.
 - £1.94 million is transferred to the HRA Capital Programme (through a RCCO (revenue contribution to capital) to meet any requirement for matched funding.

These additional resources had the potential to increase our new build programme by 35 dwellings.

- 5.3 However it was announced in the Summer Budget that a 1% reduction in rents for 4 years commencing April 2016 would be included in the Housing and Planning Act 2015 which would result in a loss of £5.9 million to Year 8 (2019-20) and £2.3 million per annum ongoing.
- 5.4 Cabinet received on 24 September 2015 received a Report on Proposed Reduction in Rents in Social Housing in England which recommended that Cabinet note the financial impact of the proposed rent reduction and agreed:-:
- (a) That in the light of the potential loss of HCA Affordable Housing Grant and the impact on the new build programme that the Council proceeds with the procurement exercise for the Redevelopment of Garage Sites and Other Council Owned Land to receipt of tender stage but that no contract award is made until a review of HRA Business Plan and associated Capital Programme is complete.
 - (b) That the current medium term HRA Business Plan be reviewed to identify compensating measures to enable the scheme to proceed including the rescheduling of debt and other measures that mitigate the immediate impact on service provision.
 - (c) That Cabinet agree to defer, pending a comprehensive review of the HRA Business Plan, any further progress on the uncommitted element of the Council's new build programme, in particular, with regard to the proposed use of the £1.94 million of resources to fund an additional 16 Council dwellings.
 - (d) That Cabinet authorise a review of the Council's 30 year Business Plan to:
 - (i) Undertake a full assessment of the implications of the Governments rent reduction proposals
 - (ii) Determine options available to mitigate the impact of the Governments Rent Reduction Proposals.And
 - (iii) Agree to receive a further report on the implications of the Governments Rent Reduction Proposals.
- 5.5 An interim review of the HRA Business Plan has been undertaken in particular to further assess the impact of the proposals on HRA Capital Programme Budgets Years 5 -8 (2016-17 to 2019-20).
- 5.6 The current Approved Revenue Budget and Capital Programme related to the period 2015-16 to 2017-18 and provided a balanced budget. The Business Plan (as reported to Cabinet on 14 November 2014) contained a cumulative surplus of £2.5million for the two years to Year 8 (2019-20) which would have enabled a further estimated 20 homes to be built and a total of an estimated 35 if the additional borrowing approval had been agreed through the Council's New Build Programme.
- 5.7 However, the impact of the proposed full year rent reduction in Year 8 (2019-20) is an annual deficit of £1.5 million in that year (and thereafter) and a cumulative

deficit of £3.4 million as at the 31 March 2020. In addition, based on revisions to assumptions of right to buy sales and other stock changes it is estimated that a further £1.04 million of net income pressures will occur in Year 8 (2019-20).

- 5.8 To mitigate the impact the capital financing charges have been rescheduled to save £200k per annum and a total of £0.6 million to Year 8 (2019-20). This results in an overall net increase in deficit in Year 8 (2019-20) to nearly £3.8 million.
- 5.9 The deficit of £3.8 million is based upon the forfeiting of the capacity to deliver new council houses in 2018-19 and 2019-20 as referred to in paragraph 5.6
- 5.10 In relation to the residual deficit it is proposed that the following action is taken to mitigate the impact and enable the contract award of the Redevelopment of Garage Sites and Other Housing Land Scheme to be made following the conclusion of the tender process.

Proposed changes to Year 8 (2019-20)

	£
(i) Deletion of the uncommitted element of the Council's new build programme Years 5 (2016 -17) & Year 6 (2017-18)	1,940,000
(ii) Deletion of the capital financing requirement set aside for £2m million of additional borrowing requirement to fund new council houses (2016-17 onwards of £200,000 per annum)	800,000
(iii) Capital Programme Contract Works savings	
• Double glazing Year 6 (2017-18)	250,000
• Kitchens upgrade Year 7 (2018-19)	300,000
• External Site Works Year 8 (2019-20)	250,000
• External Fabric Work	300,000
 Total Budget Savings to Year 8 (2019-20)	3,840,000

- 5.11 Given that £3.8 million of budget savings have been identified it is therefore recommended that Cabinet authorise the Managing Director to award a contract for the Redevelopment of garage Sites and other Council Land following the successful conclusion of the tender procurement process which will enable a estimated total of 25 new Council houses to be provided.
- 5.12 In order to achieve the proposed capital programme contract savings a number changes will be required. The savings will be achieved through reductions in service standards for example reducing the amount of work undertaken to each property or by extending the works programme for example, moving from a 7 year programme to 10 years. Any such changes will be subject to a further report.

5.13 A number of potential development sites have been identified for construction of additional Council houses through the new build programme such as vacant and underused garage sites. However, due to the implications set out above these additional Council houses will no longer be provided and the identified sites will be surplus to requirements. It is therefore proposed that these sites, together with other potential development sites are brought forward for disposal in order to generate additional capital receipts generated to offset some of the changes set out in 5.8 (iv) above and that a further report on a programme of proposed sites for disposal is submitted to a future Cabinet meeting.

Future Years

5.14 A full review of the 30-year HRA Business Plan will be undertaken as part of the Council's Budget process. It should however be noted that the interim review has identified mitigating actions to provide a balanced budget to Year 8 (2019-20) the reductions to the contract works i.e. external works and fabrics will be per annum ongoing.

5.15 It should also be noted that the recently published Housing and Planning Bill 2015 included, in addition to the social housing rent reduction, two other changes which may impact on the HRA Business Plan in future years and will be subject of further review.

(i) Vacant High Value Housing – Payments

S62 places a requirement on local housing authorities to make a payment of an amount equivalent to the market value of any high value housing that is likely to come vacant during the year less any costs or deductions. The definition of "high value" will be the subject of regulation.

(ii) High Income Social Tenants: Mandatory Rents (Pay To Stay)

S74 allows the Secretary of State to issue regulations requiring a registered provider of social housing to charge a high income tenant a rent above a social rent and a maximum of a market rent.

A local housing authority will be required to make a payment to the Secretary of State in respect of any estimated increase in rental income because of the regulations.

The full impact of the above changes cannot be assessed until the details of the proposed regulations are issued and will then be subject to further reports.

6 Implications

6.1 Financial

The Financial implications have been referred to throughout the report.

6.2 Legal

Legal implications are addressed throughout the report.

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

This report identifies a number of risks associated with the management of the HRA Business Plan and mitigation is dealt with within the report. Further risk assessment will be undertaken as part of the HRA Business Plan review.

6.8 Equality & Diversity

The review of the HRA Business Plan will be subject to an Equality Impact Assessment.

6.9 Best Value

None

7 Appendices to the Report

Appendix 1	HRA Business Plan approved February 2015
Appendix 2	HRA Revised Business Plan Rent Reduction
Appendix 3	Interim Review of HRA Business Plan
Appendix 4	HRA Capital Programme approved February 2015
Appendix 5	Interim Review of Capital Programme

Previous Consideration

Housing Revenue Account Capital Programmes 2014-15 to 2016-17	Cabinet	30 January 2014 (agreed by Council 12 February 2014)
Housing Revenue Account Capital Programmes 2013-14 and 2014-15	Cabinet	17 July 2014

Rent Setting Policy	Cabinet	21 August 2014
Review of the Housing Revenue Account Capital Programme 2014-15	Cabinet	20 November 2014
Review of the Housing Revenue Account Capital Programme 2014-15	Cabinet	29 January 2015
Right to Buy Social Mobility Fund	Cabinet	23 April 2015
Extension of the Green Lane Housing Scheme	Cabinet	23 April 2015
Housing Revenue Account Capital Programmes 2014-15 And 2015-16	Cabinet	23 July 2015
Housing Revenue Account Provisional Outturn 2014-15	Cabinet	23 July 2015
Proposed Reduction in Rents in Social Housing in England	Cabinet	24 September 2015

Background Papers

Cabinet Office	Queens Speech 2015
HM Treasury	Summer Budget 2015
Parliament	Housing and Planning Bill 2015

Appendix 1**HRA Business Plan 2014-15 to 2019-20**
Approved February 2015

	4	5	6	7	8
	2015.16	2016.17	2017.18	2018.19	2019-20
	£	£	£	£	£
<u>Income</u>					
Dwelling Rents	19,807,610	20,150,900	20,415,800	20,720,440	20,990,160
Other Rents	413,550	419,870	415,460	424,770	428,880
Interest	1,470	1,490	1,500	1,530	1,560
Other	13,080	13,270	13,410	13,680	13,950
General Fund Contribution	46,150	46,610	47,080	48,020	48,980
Total Income	20,281,860	20,632,140	20,893,250	21,208,440	21,483,530
<u>Expenditure</u>					
Disc. Housing Payments	50,000	-			
Repairs	4,190,080	4,193,200	4,213,740	4,280,440	4,348,130
Management	4,348,540	4,434,130	4,533,670	4,680,300	4,828,830
Capital Financing	6,923,180	7,169,010	8,510,310	9,006,800	9,003,840
RCCO	7,072,210	4,807,340	3,489,390	3,169,920	3,281,400
Total Expenditure	22,584,010	20,603,680	20,747,110	21,137,460	21,462,200
Change in Working Balance	2,302,150	-28,450	-146,140	-70,980	-21,330
<u>Capital Resources</u>					
RCCO	7,072,210	4,807,340	3,489,390	3,169,920	3,281,400
Energy Efficiency	137,000				
Major Repairs Allowance	3,223,000	3,272,000	3,296,740	3,343,230	3,390,270
Borrowing		1,015,000	3,022,000		
Debt Repay Receipt	300,000	450,000	450,000	450,000	450,000
S106 Monies	100,000	50,000			
Capital Receipts Bungalows	250,000	178,000			
Transfer from Alarm Reserve	180,000	-	-		
Transfer from IT Reserve	260,000				
Affordable Housing Grant	40,000	316,000	336,000		
Total Capital Resources	11,562,210	10,088,340	10,594,130	6,963,150	7,121,670
Capital Expenditure	12,625,050	11,896,630	10,761,500	5,331,560	6,284,030
Surplus/ (Deficit)	(1,062,840)	(1,808,290)	(167,370)	1,631,590	837,640
Cumulative Surplus	1,954,830	146,540	(20,830)	1,610,760	2,448,400

Amended July 2015
HRA Business Plan 2014-15 to 2019-20 Appendix 2

	4	5	6	7	8
	2015.16	2016.17	2017.18	2018.19	2019-20
	£	£	£	£	£
<u>Income</u>					
Dwelling Rents	19,807,610	19,563,630	19,242,270	18,961,600	18,646,890
Other Rents	413,550	419,870	415,460	424,770	428,880
Interest	1,470	1,490	1,500	1,530	1,560
Other	13,080	13,270	13,410	13,680	13,950
General Fund Contribution	46,150	46,610	47,080	48,020	48,980
Total Income	20,281,860	20,044,870	19,719,720	19,449,600	19,140,260
<u>Expenditure</u>					
Disc. Housing Payments	50,000	-			
Repairs	4,190,080	4,193,200	4,213,740	4,280,440	4,348,130
Management	4,348,540	4,434,130	4,533,670	4,680,300	4,828,830
Capital Financing	6,923,180	7,169,010	8,510,310	9,006,800	9,003,840
RCCO	7,072,210	4,220,070	2,315,860	1,411,080	938,130
Total Expenditure	22,584,010	20,016,410	19,573,580	19,378,620	19,118,930
Change in Working Balance	2,302,150	-28,450	-146,140	-70,980	-21,330
<u>Capital Resources</u>					
RCCO	7,072,210	4,220,070	2,315,860	1,411,080	938,130
Energy Efficiency	137,000				
Major Repairs Allowance	3,223,000	3,272,000	3,296,740	3,343,230	3,390,270
Borrowing		1,015,000	3,022,000		
Debt Repay Receipt	300,000	450,000	450,000	450,000	450,000
S106 Monies	100,000	50,000			
Capital Receipts Bungalows	250,000	178,000			
Transfer from Alarm Reserve	180,000	-	-		
Transfer from IT Reserve	260,000				
Affordable Housing Grant	40,000	316,000	336,000		
Total Capital Resources	11,562,210	9,501,070	9,420,600	5,204,310	4,778,400
Capital Expenditure	12,625,050	11,896,630	10,761,500	5,331,560	6,284,030
Surplus/ (Deficit)	(1,062,840)	(2,395,560)	(1,340,900)	(127,250)	(1,505,630)
Cumulative Surplus	1,954,830	(440,730)	(1,781,630)	(1,908,880)	(3,414,510)

Appendix 3

HRA Business Plan 2014-15 to 2019-20
Interim Review November 2015

	4	5	6	7	8
	2015.16	2016.17	2017.18	2018.19	2019-20
	£	£	£	£	£
Income					
Dwelling Rents	19,678,520	19,380,400	19,176,680	18,887,940	18,571,490
Other Rents	411,030	405,000	398,730	404,590	427,840
Interest	1,470	1,490	1,500	1,530	1,560
Other	13,080	13,270	13,410	13,680	13,950
General Fund Contribution	46,150	46,610	47,080	48,020	48,980
Total Income	20,150,250	19,846,770	19,637,400	19,355,760	19,063,820
Expenditure					
Disc. Housing Payments	50,000	-	-	-	-
Repairs	4,143,350	4,146,000	4,166,070	4,232,300	4,299,500
Management	4,375,370	4,578,200	4,711,150	4,857,780	5,006,310
Capital Financing	6,828,350	6,873,610	8,123,710	8,526,870	8,573,910
RCCO	7,066,810	4,228,890	2,496,150	1,677,210	1,157,820
Total Expenditure	22,463,880	19,826,700	19,497,080	19,294,160	19,037,540
Change in Working Balance	-2,313,620	20,070	140,310	61,600	26,280
Capital Resources					
RCCO	7,066,810	4,228,890	2,496,150	1,677,210	1,157,820
Energy Efficiency	287,010	-	-	-	-
Major Repairs Allowance	3,223,000	3,272,000	3,296,740	3,343,230	3,390,270
Borrowing	-	1,015,000	3,022,000	-	-
Debt Repay Receipt	300,000	450,000	450,000	450,000	450,000
S106 Monies	100,000	50,000	-	-	-
Capital Receipts Bungalows	250,000	178,000	-	-	-
Capital Receipts - Other	55,250	-	-	-	-
Transfer from Alarm Reserve	186,820	-	-	-	-
Transfer from IT Reserve	595,690	-	-	-	-
Right to Buy Social Mobility	200,000	-	-	-	-
Affordable Housing Grant	11,000	316,000	336,000	-	-
Total Capital Resources	12,275,580	9,509,890	9,600,890	5,470,440	4,998,090
Capital Expenditure	13,695,540	10,856,630	9,511,500	5,031,560	5,734,030
Surplus/ (Deficit)	(1,419,960)	(1,346,740)	89,390	438,880	(735,940)
Cumulative Surplus	1,849,430	502,690	592,080	1,030,960	295,020

<u>HOUSING REVENUE ACCOUNT</u>					
<u>CAPITAL PROGRAMME 2015-16 TO 2017-18 RECOMMENDED TO COUNCIL (11 FEBRUARY 2015)</u>					
<u>Scheme</u>	<u>Estimated Expenditure</u>			<u>Business Plan</u>	
	<u>2015-16</u> <u>£000's</u>	<u>2016-17</u> <u>£000's</u>	<u>2017-18</u> <u>£000's</u>	<u>2018-19</u> <u>£000's</u>	<u>2019-20</u> <u>£000's</u>
Demolition of Garages	40	20	20	20	20
Moss Road Peema Flats Redevelopment	2,171	1,638	1,968	142	-
Green Lane New Build	1,980	50	-	-	-
Development of Former Garage Sites	-	1,580	1,580	80	-
Repurchase of vacant former Council Dwellings	177	-	-	-	-
Provision of additional Council Dwellings	-	940	1,000	-	-
Disabled Facilities Works (Council Dwellings)	500	510	520	389	396
Right to Compensation (Tenants Improvements)	5	5	5	5	5
Replacement of Kitchens	367	371	375	736	718
Replacement of Bathrooms	1,315	1,378	679	479	486
Replacement of Central Heating	1,041	1,070	1,082	895	1,313
Void Properties (Decent Homes Works)	512	324	334	344	355
External and Environmental Works	1,473	1,419	1,360	1,461	2,214
Provision of Double Glazing	1,467	1,567	857	-	-
Replacement of Social Alarms	180	-	-	-	-
Upgrading of Electrical Systems	608	574	579	585	575
Asbestos Testing and Removal	100	81	84	86	89
Provision of Dropped Kerbs	70	-	-	-	-
Replacement of Housing Management IT system	260	-	-	-	-
Resurfacing of Drives	100	100	100	-	-
Replacement of Housing Service Vehicles	115	24	110	-	-
Contingency for unforeseen works	106	107	108	110	113
Future Enhancements	38	139	-	-	-
TOTAL:	<u>12,625</u>	<u>11,897</u>	<u>10,761</u>	<u>5,332</u>	<u>6,284</u>

HOUSING REVENUE ACCOUNT					
<u>CAPITAL PROGRAMME 2015-16 TO 2017-18 INTERIM REVIEW NOVEMBER 2015</u>					
<u>Scheme</u>	<u>Estimated Expenditure</u>			<u>Business Plan</u>	
	<u>2015-16</u> <u>£000's</u>	<u>2016-17</u> <u>£000's</u>	<u>2017-18</u> <u>£000's</u>	<u>2018-19</u> <u>£000's</u>	<u>2019-20</u> <u>£000's</u>
Demolition of Garages	40	20	20	20	20
Moss Road Peema Flats Redevelopment	2,093	1,638	1,968	142	-
Green Lane New Build	2,040	-	-	-	-
Development of Former Garage Sites	50	1,530	1,580	80	-
Repurchase of vacant former Council Dwellings	198	-	-	-	-
Provision of additional Council Dwellings	-	-	-	-	-
Disabled Facilities Works (Council Dwellings)	547	510	520	389	396
Right to Compensation (Tenants Improvements)	5	5	5	5	5
Replacement of Kitchens	367	371	375	436	718
Replacement of Bathrooms	1,315	1,378	679	479	486
Replacement of Central Heating	1,050	1,070	1,082	895	1,313
Void Properties (Decent Homes Works)	512	324	334	344	355
External and Environmental Works	1,514	1,419	1,360	1,461	1,664
Provision of Double Glazing	1,526	1,567	607	-	-
Replacement of Social Alarms	162	-	-	-	-
Upgrading of Electrical Systems	608	574	579	585	575
Asbestos Testing and Removal	110	81	84	86	89
Provision of Dropped Kerbs	114	-	-	-	-
Replacement of Fire Alarms (Sheltered)	101	-	-	-	-
Replacement of Housing Management IT system	596	-	-	-	-
Resurfacing of Drives	100	100	100	-	-
Replacement of Housing Service Vehicles	305	24	110	-	-
Contingency for unforeseen works	106	107	108	110	113
Future Enhancements	37	139	-	-	-
Right to Buy Social Mobility Scheme	200	-	-	-	-
TOTAL:	13,696	10,857	9,511	5,032	5,734