For publication

Housing Revenue Account Business Plan 2017/18 onwards (HC000)

Meeting:	Cabinet
Date:	19 December 2017
Cabinet portfolio:	Cabinet Member for Homes and Customers
Report by:	Assistant Director – Housing

For publication

1.0 Purpose of report

1.1 To advise Members of the current financial position within the Housing Revenue Account, following a series of strategy, financial and policy changes aimed at improving its long term viability.

1.2 To advise Members of the content of the recent council Housing Stock Condition Survey Report and the impact that this has had on the Housing Revenue Account Business Plan.

1.3 To propose a financial strategy for the Housing Revenue Account subject to further discussion during spring 2018 as part of the production of the 2018/19 onwards HRA Business Plan.

2.0 Recommendations

2.1 That Members note the current financial position of the Housing Revenue Account.

2.2 That the Stock Condition Survey report be received.

2.3 That Members note the potential changes to investment arising from the stock condition survey and the emerging areas of work to reshape the financial strategy, outlined at section 3.5, and agree to further work being done on the strategy ahead of further Cabinet decisions in February 2018.

2.4 That the Housing Revenue Account Steering Group continue to monitor the Housing Revenue Account and that further reports are brought to Members on an annual basis or as a result of changes in national housing policy.

3.0 **Report details**

3.1 Background

3.1.1 On 3 May 2016, Cabinet approved a series of strategy and policy changes to mitigate the impact of national housing policy on the long term viability of the Housing Revenue Account Business Plan, including the 1% rent reduction for 4 years from April 2016 to 2020.

3.1.2 These changes included;

- Taking any additional borrowing required to deliver the housing capital budgets
- Assuming inflation to contracts at CPI instead of RPI
- Reducing the new build housing programme within the overall Housing Capital Programme
- Undertaking a review of the way in which future maintenance programmes to the housing stock are carried out, including undertaking a new stock condition survey of the council housing stock; reviewing the asset performance of land and stock to ascertain whether it is income generating or running at a loss
- Reducing the annual responsive repairs budget
- Passing the true costs of delivering services on to tenants and increasing service charges to ensure that services are breakeven
- Disposing of HRA land at Linacre
- Stopping setting aside to repay debt

- Establishing a Steering group of Officers, Members and Tenants to oversee these reviews and to make recommendations on further efficiencies and other changes to policy.

3.1.3 A Steering Group was established in July 2016 and comprised of cross party elected members, officers and tenants.

3.1.4 In December 2016, they recommended to the Corporate Cabinet and Corporate Management Team a series of recommendations to mitigate the worsening financial position within the HRA which included;

- A £500,000 reduction in the annual responsive repairs budget in 2017/18 and each of the following two financial years, after which the reduced budget will be increased thereafter annually by inflation (CPI). This was approved by Cabinet on 21 February 2017.
- A reduced and re-phased capital programme. This was approved by Cabinet on 21 February 2017.
- Moving from collecting rent on a 48 week basis to a 52 week basis and that consultation on this and other changes to the tenancy agreement takes place during 2017/18. This was approved by Cabinet on 24 January 2017.
- Mitigating income loss through bad debts (rent arrears) and having properties stood empty (voids).

3.2 <u>Current Position</u>

3.2.1 In order to deliver the recommendations outlined above at 3.1.4, a series of tenant, officer and elected member working groups were established in April 2017 to consider how these savings could be achieved in more detail, including:

- Reviewing tenant repairing obligations e.g. tenants taking more responsibility for their own repairs and damage;
- Reviewing repair response times;
- Reviewing void standards and undertaking some work after a property has been re-let as part of the Housing Capital Programme;
- Adopting a standard approach to the removal of the previous tenants' fixtures and fittings.

3.2.2 As any material change to services to tenants and / or the tenancy agreement requires consultation with all secure and introductory tenants, in accordance with the 1985 Housing Act, the working groups also took the opportunity to consider whether there were any other changes that are required to the Tenancy Agreement to ensure that it remains current and fit for purpose.

3.2.3 Cabinet approved a series of proposed changes to the Tenancy Agreement and the repairing obligations of tenants on 12 September 2017. This included approval to carry out a consultation programme with tenants on these proposals which commenced on 16 October 2017 and ended on 3 December 2017. A report setting out the results of this consultation will be presented to Cabinet on 30 January 2018.

3.3 Stock Condition Survey

3.3.1 The Stock Condition Survey was procured through the Professional Services Hub (a Public Sector Procurement Framework), of which Chesterfield Borough Council are members, in February 2017 and the survey of 960 properties (10% of the Council's Housing Stock) was carried out during the spring of 2017.

3.3.2 The Survey was carried out by Savills, a well-respected expert company in this field. There was no requirement for Savills to produce a sample framework as the Council already has 100% data in respect of its stock condition and therefore the dwellings selected were amongst those that had not received a survey in excess of 4 years.

3.3.3 Whenever possible the unit costs used in the Stock Condition Survey are based on our actual costs in 2017 and others used are industry norms. No allowance has been made for inflation or professional fees in the survey, but is included in the business plan assumptions.

3.3.4 The summary 'repair' categories contained in the Stock Condition Survey are those required by Government and match those used in the HRA Business Plan.

3.3.5 Savills' report is attached at **Appendix 1**. It includes an assessment of all the works required to maintain the housing stock to a good condition, in accordance with our legal responsibilities as a Landlord and also an assessment of the properties against the Decent Homes Standard.

3.3.6 The primary purpose of the survey was to assess the cost of work to repair and maintain the stock for the next 30 years, assess the requirements to bring all properties to a decent standard and to maintain them at that standard thereafter. The survey provides an annual profile of the estimated cost of works required over 30 years taking into account replacement lifecycles of elements, rather than an average annual sum. This ensures that the resources are available at the right time in the business plan. The survey confirms that 100% of the stock fully complies with the Decent Homes Standard, which compares against a national average of approximately 14% failure.

3.3.7 For the second time since 2007, when Savills undertook Chesterfield's first independent stock condition survey, the report has not identified any 'catch up or backlog repairs'. This puts Chesterfield in an enviable position. Many other social landlords, despite having met the Decent Homes Standard still have a backlog of works to elements not required under the Decent Homes Standard.

3.3.8 The spread of costs for 'future major works' or those which will keep the property in a lettable condition is split over the 30 year forecast period with £158,759million (61%) at 2017/18 prices required for internal works and £102,154milllion (39%) for external / communal works. However within the next ten years over 53% of predicted expenditure is for external works. This is reflective of the type of work that has already been carried out to the stock and the general age profile of the stock.

3.3.9 In overall terms the profile compares favourably to many local authorities, with the capacity to smooth out peaks and troughs in spend over the next five years. This will enable the council to plan and procure works over a longer period and develop a proactive approach to elemental renewals.

3.3.10 The 30 year cost of the required investment to maintain the stock to the Decent Homes Standard, alone is £580,419,283 (at 2017/18 prices) or an average of £19,347,309 per annum (including responsive repairs, voids and cyclical works which are funded from revenue). These costs also include the works to the remaining non-traditional housing stock that have not yet received work following the 2014 Non Traditional Housing Stock Condition Survey. This work is included in the first five years of the Stock Condition Survey.

3.3.11 The survey has identified that less work is required to the Wimpey No-Fines within the Non Traditional Housing Stock than previously identified, and as such over £20million less expenditure is required in the short term, as there has been less deterioration than had previously been assumed. It is proposed that consideration is given to undertaking a further detailed survey of the non-traditional stock when the next Stock Condition Survey is carried out in 3 years' time. This will determine a more accurate understanding of when this work will be required over the medium to long term.

3.3.12 The contents of the Stock Condition Survey have been loaded in the council's 'Keystone' Asset Management database and transferred into a revised 2017/18 onwards Housing Revenue Account Business Plan, as detailed in this report.

3.4 Housing Revenue Account Business Plan

3.4.1 The council is required to produce a 30 year HRA Business Plan. This plan, whilst required for the last 16 years, became even more relevant to the continued management and maintenance of the council's housing stock under the self-financing arrangements in 2012. One of the key drivers of the HRA Business Plan is an independent stock condition survey, which should be reviewed every three years.

3.4.2 As will be seen, the new stock condition survey and the revised HRA Business Plan are showing that the condition of the housing stock has improved since the last survey in 2014. The investment put into the stock has been directed into the right areas with significant investment being made in relation to typical decent homes works such as kitchens, bathrooms, electrical installations, heating and external doors.

3.4.3 A revised version of the HRA Business Plan model, taking into account all of the above, has been prepared for 2017/18 onwards (**Appendix 2**) as a comparator to the 2016/17 model (**Appendix 3**) which was discussed with Corporate Cabinet and the Corporate Management Team in December 2016.

3.4.4 In addition to the new stock condition survey, amendments have been made to the base assumptions of the revised 2017/18 model to reflect changes in national economic and housing policy as follows:

- RPI at 3.30% (rate for July 2017) for 2018/19, reducing to 2.0% by 2021/22.

- CPI at 2.50% (rate at July 2017) for 2018/19, reducing to 2.0% by 2021/22.

- Void provision decreasing from 3% in 2017/18 to 2.0% by 2020/21. This provision is made on the assumption that remodelling will continue within the sheltered housing stock, including the phasing out of a further scheme and that the surplus 1 and 2 bed flats will continue in the short term, pending the positive impact of marketing through 'Rightmove'.

- Bad debt assumed losses (rent arrears) increasing from 6% in 2017/18 to 8% in 2018/19 as a result of Universal Credit, but being brought under control and reducing annually by 2021/22 back to 4%.

- Rent decreases of 1% in 2018/19 and 2019/20 with rent increase assumptions for the remainder of the Plan at CPI only.

  It should be noted that on the 4 October 2017 DCLG announced that from 2020/21 rents could increase by CPI plus 1% for 5 years pending a review of National Social Rent Policy. These increases have not yet been modelled within the Plan pending the detail being released about this announcement; the reason for this is that rent increases may be linked to the provision of more new homes.

The effect of applying this announcement would be an increase of £54 million on the working balance at year 30 of the Plan.

- Stock lost to RTB – 100 in 2017/18, 70 in 2018/19 and 60 in 2019/20, reducing to 25 (self-financing figure) from 2021/22 onwards.

- Stock lost through other disposals / demolition – 47 in 2017/18, and 24 in 2020/21, allowing for the loss of a further sheltered housing scheme.

- Stock Investment (Decent Homes Standard) as per the Stock Condition Survey set out in section 3.3 with the actual capital programme for 2017/18.

- New Build / Strategic Aquisitions of 14 units in 2017/18 with provision for a further 86 units over the next 5 years.

- No allowance has been included in the projections for any income from the sale of land at Linacre, at this time.

3.4.5 As a result of these changes and as can be seen on the HRA Business Plan Operating Account at **Appendix 2a** the working balance is showing surpluses throughout the life of the Business Plan (30 years), These surpluses never dip below £6 million, which are above our minimum working balance of £3million.

3.4.6 At the end of the 30 year period, it is currently estimated that there will be a balance of **£92 million** within the HRA. This balance would increase to £153.5 million if we assumed the CPI plus 1% increase on rents for 5 years from 2020/21 as detailed at 3.4.4 above

3.4.7 At the same time the Self Financing assumptions at **Appendix 2b** show that there will be no shortfall on the proposed capital programme throughout the life of the plan, there are currently no requirements for additional borrowing and the outstanding HRA debt at the end of the 30 year period will be **£85 million**.

3.4.8 This means that the HRA will be able to repay its outstanding debt at this point if required to do so and that the HRA Business Plan remains in a financially viable position.

3.5 Financial Strategy

3.5.1 The financial strategy for the HRA is to deliver a balanced and sustainable budget which is self-financing in the longer term and which reflects both the requirements of tenants and the strategic vision and priorities of the Council. It **cannot** run at an overall deficit.

3.5.2 The current financial position is clearly improved following the substantial amount of work that has taken place over the last twelve months, including officers, members and tenants.

3.5.3 As many of the strategic, financial and policy changes that have been recommended and approved to date are yet to be fully implemented, (with the intention to do so from April 2018), the efficiencies or savings forecast are not yet being realised. However, the greatly reduced needs for investment in the housing stock in the short term together with the Government's very recent announcement that rents can be increased for 5 years from April 2020 have significantly improved the financial position of the HRA. This has allowed assumptions to be built into the plan to mitigate against an increased loss of income due to rent arrears, arising out of the roll out of Universal Credit from 30 November 2017 in Chesterfield.

3.5.4 Despite these positive changes, there are however still significant national housing and economic policies that we do not yet know what the impact will be on the HRA, including:

- disposal of high value assets
- the introduction of flexible tenancies
- National Social Rent Policy after 2025 assuming that there are no 'strings attached' to the rent increase announcement at 3.4.4 above
- Brexit and rising inflation
- Housing policy changes contained in the Autumn Statement

3.5.5 It is therefore recommended that the approved financial strategy continues (subject to the outcome of tenant consultation) in respect of the reduced responsive repairs budget, which includes changes to tenants repairing obligations and response times, disposal of underperforming land and property assets, rent recovery and maximising income through marketing void properties.

3.5.6 **Existing Stock** - Whilst the housing stock fully meets the Decent Homes Standard, there is still a significant amount of investment required to ensure that it maintains this standard throughout the life of the Business Plan. Therefore this investment should continue to be undertaken in accordance with the profile set out in the new stock condition survey. By ensuring that work is planned and procured in accordance with this survey, (allowing for some 'smoothing' of individual programmes on a no more than 5 year rolling period), the unit prices identified within the survey, should be achievable and not pose any substantial risk of increase in prices due to rising building cost inflation. This will also ensure that sufficient capacity within the workforce, both internal (Commercial Services) and external contractors, is available and maintained. The Housing Capital Investment Programme for 2018/19 to 2022/23 will be reported to Council on 20 February 2018.

3.5.7 **New Provision** - The Council's ambition to commence a reasonable programme of new build affordable housing within the HRA has become viable, utilising both the surpluses within the HRA and the borrowing headroom. This will also ensure that the Government's expectation that local authorities are doing more to deliver more new homes is addressed, which is likely to be reinforced in the Autumn Statement. This will also ensure that the retained 1-4-1 Right to Buy Receipts are not at risk of being paid back to the Treasury with 4.5% interest, as these receipts must be used within 3 years.

3.5.8 Therefore the new build / acquisition programme within the HRA can commence with the initial ambition to deliver up to 100 new homes in the next 5 years. These assumptions are already included in the Business Plan. Further modelling of additional units that may be deliverable will be undertaken following any announcement in the Autumn Statement and subject to further discussion with Members during spring 2018. The type and tenure of this development should take place in areas to complement the existing provision and provide an element of choice e.g. rented in the west of the Borough, where there is little provision of affordable rent and intermediate products in the east of the Borough to diversify the existing tenure mix.

3.5.9 This programme will include a combination of direct development / acquisition and/or passing 1-4-1 receipts onto a Registered Provider to build on council HRA land in exchange for nomination rights. To ensure sufficient capacity to deliver this development at pace, this work will be undertaken by both a developer partner, on larger sites and the Council's Commercial Service on smaller sites.

This development programme will be included in the Housing Capital Investment Programme due to be reported to Council on 20 February 2018.

3.5.10 **Estate Regeneration** – The concentration in recent years on investment to ensure that the Decent Homes Standard is met, has meant that the estate environment has suffered through a converse lack of investment. Our predominately flatted estates and communal areas are therefore showing signs of deterioration, meaning they are no longer fit for purpose, attract anti-social behaviour and make these estates increasingly unpopular and as a consequence, harder to let.

3.5.11 £34 million is already included in the stock condition survey which includes work to the estate environment. Therefore, in addition to the provision of new stock, any remaining surpluses within the HRA and the borrowing headroom can also be utilised to commence a programme of estate regeneration, building on that due to commence in Barrow Hill in January 2018. This investment will further mitigate against a loss of rent through voids. This will be included in any revised HRA Business Plan model following the Autumn Statement and subject to further discussion with elected Members.

This programme will be included in the Housing Capital Investment Programme due to be reported to Council on 20 February 2018.

4.0 Human resources/people management implications

4.1 There are no direct human resource implications associated with this report. However the surpluses within the HRA mean that should it wish to do so, and subject to Member approval, investment could be made within the staffing resource in areas of demand or to deliver new services to tenants e.g. Tenancy Sustainment or Housing Development.

4.2 Whilst the future major works element of the stock condition survey indicates a reduced expenditure requirement on the existing stock, the proposed increased expenditure on new build housing and estate regeneration will mitigate against a substantial reduction in work, which may have a negative impact on the council's internal workforce.

4.3 In order to further mitigate this impact and in response to reduced Capital Programmes in future years, an increased proportion of work can be retained internally at the detriment of external contractors, subject to value for money.

5.0 Financial implications

5.1 The financial implications are in intrinsic element of this report.

6.0 Risk management

Description of Risk	Likelihood	Impact	Mitigating Action	Resultant Likelihood	Resultant Impact
Increased rent arrears from Universal Credit	High	High	An increased allowance for 8% bad debts has been built into the Business Plan for 2018/19. Business Plan to be reviewed and updated on a regular basis.	Medium	Medium
Inability to replace stock which is sold either through the RTB or	High	High	Using a combination of the reserves and borrowing headroom,	Medium	Medium

disposal of high value properties			increase the programme of new build and strategic acquisitions in order to retain 1-4-1 Right to Buy Receipts or pass on to a Registered Provider in exchange for nomination rights		
Inability to maintain the Decent Homes Standard / invest in stock in a timely manner	Medium	High	Ensure that future capital programmes are planned and programmed in accordance with the stock condition survey. Continue to undertake an independent stock condition survey on a three yearly cycle to inform the Business Plan	Low	Medium
Increased levels of homelessness and poverty due to a lack of affordable housing and welfare reform changes	High	High	Work with other Registered Providers to ensure a pipeline of new affordable housing Direct staffing resources towards sustainment of tenancy sustainment and homeless prevention	Medium	Medium
Risk of being required to repay retained Right to Buy 1-4-1 receipts to Government	Medium	High	Maintain a sufficient programme of new build and strategic acquisitions in order to retain 1-4-1 Right to Buy Receipts or pass on to a Registered	Low	Medium

			Provider in exchange for nomination rights		
Risk of being required to dispose of high value assets or pay a levy to the Treasury for high value assets becoming vacant	Medium	High	Continue to monitor and respond to national housing policy Prudently use reserves and borrowing to allow sufficient reserves remain to meet this policy requirement Review and update the HRA Business Plan on at least an annual basis	Medium	Medium

7.0 Legal and data protection implications

7.1 There are no legal or data protection implications associated with this report.

8.0 Equalities Impact Assessment (EIA)

8.1 A preliminary Equalities Impact Assessment is attached at **Appendix 4**.

9.0 Recommendations

9.1 That Members note the current financial position of the Housing Revenue Account.

9.2 That the Stock Condition Survey report be received.

9.3 That Members note the potential changes to investment arising from the stock condition survey and the emerging areas of work to reshape the financial strategy, outlined at section 3.5, and agree to further work being done on the strategy ahead of further Cabinet decisions in February 2018.

9.4 That the Housing Revenue Account Steering Group continue to monitor the Housing Revenue Account and that further reports are brought to Members on an annual basis or as a result of changes in national housing policy.

10. 0 Reasons for recommendations

10.1 To deliver a balanced and sustainable Housing Revenue Account, which is self-financing in the longer term.

10.2 To support the Council's Vision and Priorities within the Council Plan.

Glossary of Terms *(delete table if not relevant)*	
e.g. HRA	*Housing Revenue Account*

<u>Decision information</u>

Key decision number	**739**
Wards affected	ALL
Links to Council Plan priorities	'To improve the quality of life for local people' and 'To provide value for money services'

<u>Document information</u>

Report author	**Contact number/email**
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Background documents	
Appendices to the report	
Appendix 1	Stock Condition Survey Report September 2017 (Savills)
Appendix 2a	2017/18 HRA Business Plan Operating Account
Appendix 2b	2017/18 HRA Business Plan Self Financing
Appendix 3a	2016/17 HRA Business Plan Operating Account
Appendix 3b	2016/17 HRA Business Plan Self Financing
Appendix 4	Preliminary Equalities Impact Assessment