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HRA Business Plan

Corporate Cabinet / CMT Away Day

6th December 2016

A re-cap…….

15th March 2016 – CMT / Cabinet Away Day

‘Despite the self financing settlement several new policies announced in the Summer Budget impact on the delivery of housing services in Chesterfield and the financial viability of the HRA Business Plan’

What were those policies?

- National Social Rent Policy
  - Reduction in social housing rents by 1% for 4 years from April 2016 (Deferred for supported housing until April 2017)
- Welfare Reforms
  - Freeze on working age benefits, including the Local Housing Allowance
  - Removal of automatic entitlement to housing support for new claims in Universal Credit for 18 – 21 year olds from April 2017
  - Benefit Cap, restricting the total amount of benefits (including Housing Benefit) a household can receive to £20,000 outside of London. Introduced from 7th November 2016
  - Cap the amount of rent that Housing Benefit will cover in the social sector to the relevant Local Housing Allowance, which is the rate paid to private renters, including the Shared Accommodation Rate for single claimants under 35 who do not have dependant children (Deferred in supported housing until April 2017)

Policies continued……

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Extension of RTB to Housing Association Tenants funded by:

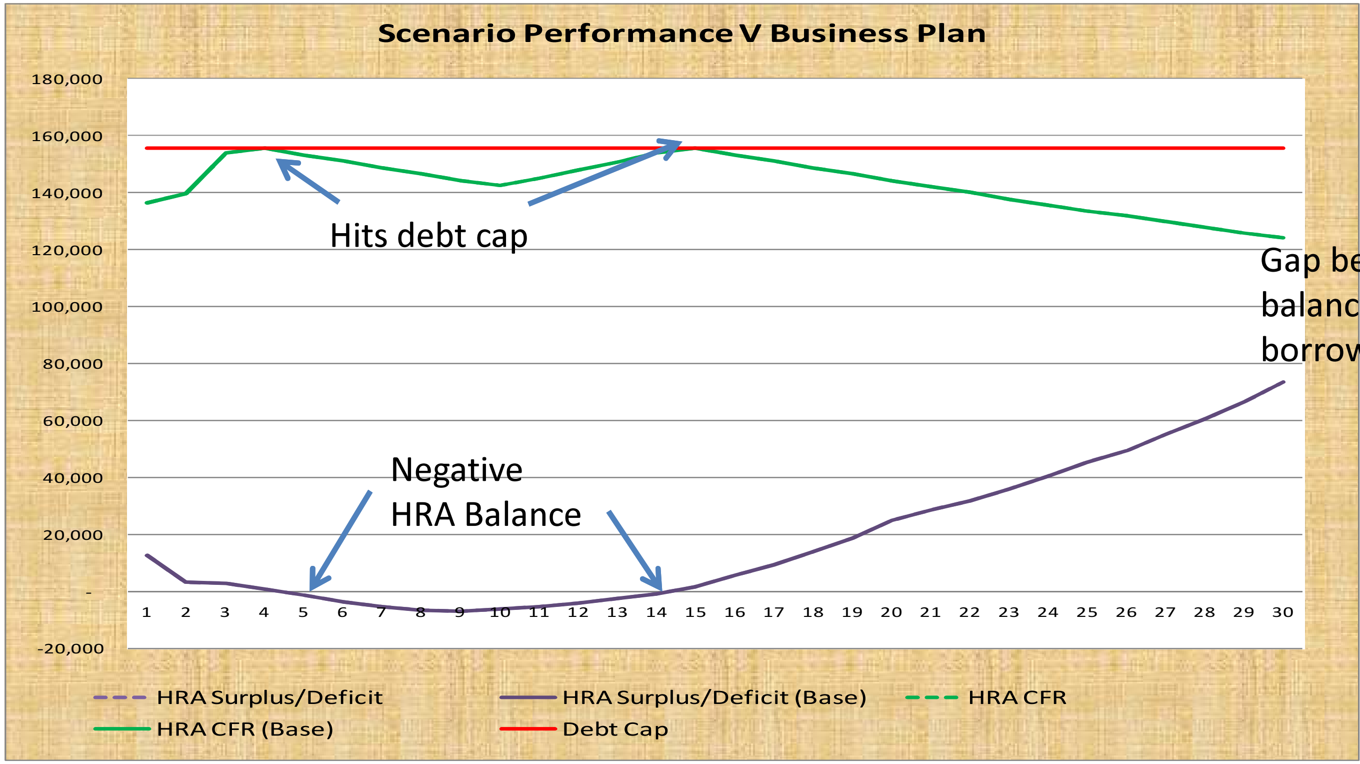
- Disposal of Higher Value Assets
  - Payment to Government for a financial year, reflecting the market value of higher value properties likely to become vacant, whether receipts are realised or not
  - Must consider selling our interest, however contributions could be met in part or solely by other means
- Pay to Stay
  - Households with an income over £31k to pay market or near market rent, with difference to social rent being returned to Treasury.
- Review of lifetime tenancies
  - New tenants to social housing will only be granted a fixed term flexible tenancy of between 2 to 5 years.

……….BREAKING NEWS……….

Impacts on Business Plan at March 2016

Policy effect	Impact on Business Plan
Rent loss in first four years (assuming rent rise by CPI+1% after 2020/21)	• £10m(£172.4m over 30 years)
Maintain service / investment at current (and recommended) levels	• Additional borrowing requirement to debt cap (£155.6m) by 2018/19 • Breach minimum working balance (£3m) in 2017/18 • Shortfall on capital programme £12.671m (2018/19) and £1.991m (2029/30)
Negative HRA balance	• Negative from 2019/20 to 2028/29 (illegal)
Debt at year 30	• £124.05m outstanding with insufficient reserves to repay if required

Business Plan at March 2016



A Financially Viable Business Plan

- Requirement of Self Financing regime introduced in 2012
  - Balanced and sustainable budget which is self financing in the longer term
  - Reflects requirements of tenants
  - Reflects strategic vision and priorities of the Council
  - Cannot run at an overall deficit
- This means;
  - Collect at least 99 % of rents
  - Let at least 99% of properties
  - Maintain 100% Decent Homes
  - Increase the supply and quality of housing in Chesterfield Borough to meet current and future needs (Council Plan Priority)
  - Not going below minimum balance £3m
  - Have resources to pay down debt as required

Self financing only allowed 2% loss overall bad debts and voids

Recommendations to Cabinet May 2016

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Recommendation	Current Position
That any additional borrowing required be undertaken	Facility agreed but not yet needed in 2016/17
Applying inflation to contracts at CPI instead of RPI	Implemented
Deliver a small enough new build / acquisitions programme sufficient enough to retain 1-4-1 receipts or pass them onto a RP to build on our land in exchange for nomination rights	Implemented (4 new build at Rufford Close in 2016/17 and 4 acquisitions. 5 new build at Manor Drive in 2017/18 and 4 acquisitions. Proposed partnership at former Brockwell Court resulting in 11 new build)
Re-phasing of work in the Capital Programme to include both traditional and non-traditional stock. Risk of becoming non-decent.	Completed for 2016/17 programme. Review of Repairs and Maintenance (see below) and new Stock Condition Survey commissioned
Review of the way in which we deliver future maintenance programmes including standards, procurement, structure of repairs service, performance of assets	Commissioned Savills to undertake review, 3 workshops held, 5 year investment plan developed, recommendation to reduce responsive repairs budget in line with benchmarks
Reduction in responsive repairs budget (£200,000)	Complete in 2016/17 further reduction recommended (see above)

Recommendations

Recommendation	Current Position
Review of service charges	Incremental increase to breakeven agreed in 2016/17 will fully breakeven with 2017/18 increases
Disposal of all HRA land at Linacre (£6.60m income over three years)	Marketed with General Land
Give consideration to stopping setting aside to repay debt (£2m per annum)	Consideration given by HRA Business Plan Steering Group
Establish a cross party Member and Officer Steering Group to oversee these reviews and make recommendations to changes in policy and on further efficiencies	Established July 2016 with additional Tenant Steering Group. Training on housing policy, finance and HRA Business Plan complete. Full day workshop involving both groups to develop Business Plan and recommendations
Review of HRA Business Plan and updates on a regular basis	Ongoing

Considerations by Steering Group

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- National rent policy from April 2020 onwards – will this revert to increases at CPI plus 1%?
- Assumptions around bad debts (arrears) given roll out of universal credit, introduction of benefit cap, LHA rate, benefit freeze
- Assumptions around rent loss through voids given changes to welfare benefits, introduction of the financial assessment and residency criteria as part of allocations system impacting on the letting of one bed flats, one bed bungalows, sheltered flats and bedsits
- Areas of high spend e.g Repairs and Maintenance

Recommendations of Steering Group – Key Assumptions

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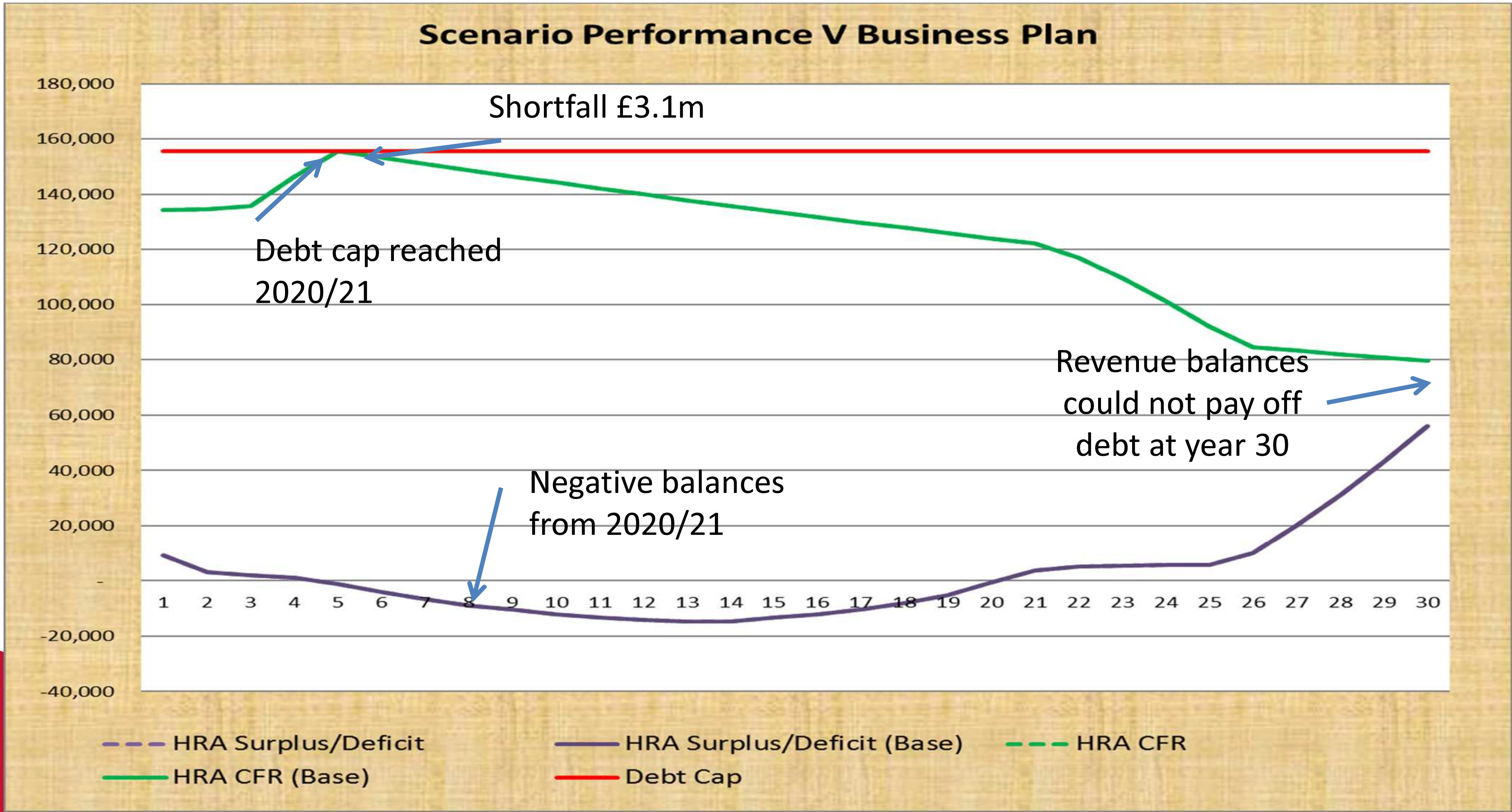
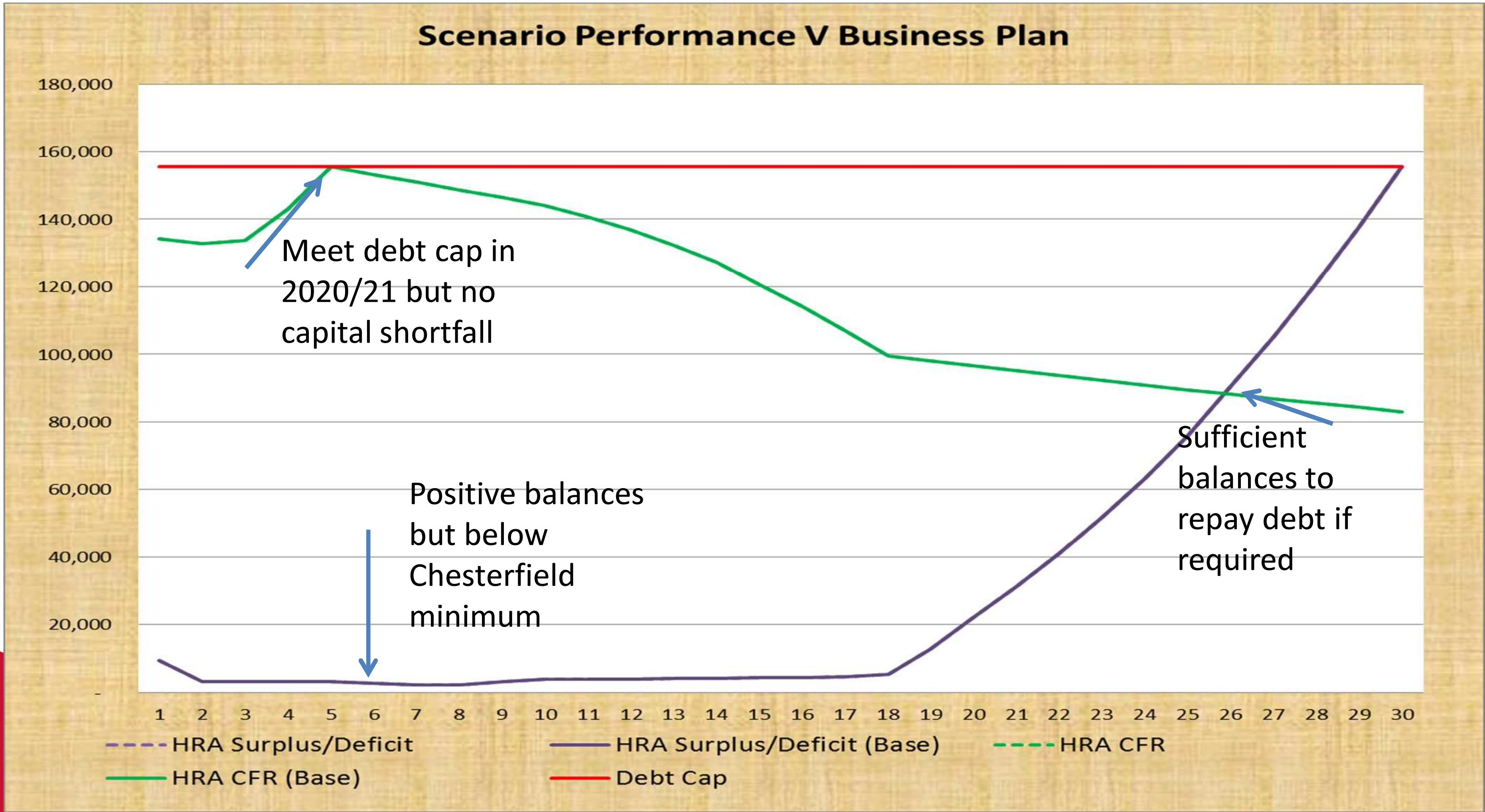
Assumption	Previous	Revised
Rent Increases post 2020/21	Increasing at CPI + 1% for life of plan	Increasing at CPI only for 4 years to 2024/25 then revert to CPI + 1% for remaining life of plan
Voids	4.2% for 3 years reducing to 3% for the life of plan	3.5% for 2 years 3% in 2018/19 2% from 2019/20 onwards
Bad Debts	5% in 2016/17 8% in 2017/18 6% in 2018/19 5% from 2019/20 onwards	5% in 2016/17 6% in 2017/18 5% in 2018/19 4% from 2019/20 onwards
Responsive Repairs and Cyclical Budget	A reduction of £200,000 from 2016/17 base budget in 2017/18 and no inflation until 2021/22 then CPI only	A reduction of £500,000 from 2016/17 base budget in 2017/18 and a further £500,000 from the base budget in 2018/19 and a further £500,000 from the base budget in 2019/20 plus no inflation until 2021/22 then CPI only

Business Plan with rent increase at CPI only for 4 years post 2020/21



Business Plan with Steering Group recommendations



Recommendations of Steering Group – Policy Changes

- Rents and Rent Recovery
  - Move to a 52 week rent year (remove ‘rent free’ weeks) to match universal credit payments and to encourage a regular payment culture. Recently implemented at York.
  - Consideration to taking a bond and rent in advance
  - Changes to recovery process e.g. earlier action, review criteria for action e.g. time limit or value, review of appeals process for Introductory Tenancies and Member Involvement
  - Negotiate increase in rent collection rates with avarto
  - Encourage tenants in receipt of universal credit to arrange direct payment to landlord to prevent them from falling into arrears
  - Get all staff to take responsibility for chasing arrears at any customer contact incl call centre

- # Voids and Lettings
  - Decoration and carpeting of difficult to let properties, instead of decorating vouchers. The cost benefit associated with this will equate to the void loss. Explore working with college decorating students
  - Marketing via Rightmove / Zoopla / Social Media / Voluntary Sector to compete with private rented sector and encourage applications from working tenants who would not previously have considered council housing
  - Use Local Lettings Policies in areas of difficult to let flats to waive the 12 month residency criteria if applicants can afford to pay e.g. Bolsover and Derbyshire Dales
  - Let flats to small families
  - Review and make changes to the Tenants Incentive Scheme to encourage ‘downsizing’ to smaller accommodation

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- Voids and Lettings continued
  - Lease blocks to other local authorities with full maintenance responsibilities e.g. Bolsover and Derbyshire Dales
  - Suspend CBL for certain properties and direct match tenants
  - Review age criteria for former sheltered properties / older persons properties
  - Consider introducing furniture packages with a service charge e.g. fully furnished, part furnished, white goods
  - Flat sharing to assist people affected by LHA caps.
  - Import homeless from areas with high disposable income but no accommodation e.g. London – could afford to commute
  - Invest in estate environment to make difficult to let properties more desirable

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- # Repairs and Maintenance
  - 5 year capital investment plan
  - Reduce investment in related assets e.g. garages to surfacing only to prevent insurance claims
  - Re-phase and delay work to Unity properties to enable another solution to be identified
  - Review tenant repairing obligations e.g. Tenants taking more responsibility for own repairs and damage
  - Review repair response times in line with benchmark / by appointment only
  - Review Void standards e.g. health and safety works only other items via programmes. This also reduces void turnaround times
  - Standard approach to removal of previous tenant's fixtures and fittings
  - Mystery shopping
  - Charge tenants where they fail to keep an appointment for a repair

Summary of Business Plan Positions

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Measure	March 2016	May 2016 (plus rent at CPI only)	November 2016 position (including steering group recommendations)
Debt Cap breached?	Yes ✗	Yes ✗	No (only just!) ✓
Negative HRA Balances	Yes ✗	Yes ✗	No ✓
HRA Balances above minimum (£3m)	No ✗	No ✗	No ✗
Reserves to cover debt in year 30	No ✗	No ✗	Yes ✓

Other options considered to add resilience

It is important to recognise that the Business Plan can only be delivered if all of the recommended assumptions can be realised, otherwise other mitigating measures are required e.g.

- Make rent payable compulsory in rent free weeks for tenants in arrears
- Targeted rent campaigns during rent free weeks
- Reduce minimum working balance from £3m
- Stop setting aside to repay debt
- Redundancies
- Further asset rationalisation e.g. plot garage sites
- Stock Transfer!

Next Steps

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- Discussion CMT / Cabinet Action Day
- Report to Cabinet with recommendations
- Further work on Repairs and Maintenance Review
- Revised Stock Condition Survey against new standards
- Consideration of Disposal of Higher Value Assets when regulations released
- Further revisions to HRA Business Plan on an ongoing and regular basis

Discussion

- In workshops please consider the following;
  - Are we prepared to move to 52 week rent collection?
  - Are we prepared to take a tougher stance on the collection of rental income? If so, which of the recommendations are acceptable?
  - Are we prepared to let our difficult to let properties using methods not tried in Chesterfield before and / or contrary to current policy? If so which recommendations are acceptable?
  - Are we prepared to consider changing our previous 'gold service standards' of repairs and maintenance whilst still meeting our obligations as a landlord, including asking tenants to do more? If so how far do we go?