

Cabinet

12th February 2013

Report of the Cabinet Member for Health, Housing & Social Services

Housing Revenue Account Business Plan 2013 to 2043

Summary

1. This report provides an overview of the new Housing Revenue Account (HRA) Business plan for the next 30 years and provides detail of the key priorities for the next five years, including the creation of an investment fund to support the delivery of more affordable new homes.

Background

2. The core purpose of the HRA Business Plan is to set out the priorities for the business over the next 30 years and to demonstrate that the council can maintain its housing assets, deliver a quality customer focused service as well as improve its homes and neighbourhoods. It is first and foremost a financial plan, which determines how the council will meet the needs of present and future tenants whilst ensuring the long-term viability of the stock. Key decisions relating to the financial management of the HRA are made jointly between Finance & Housing.
3. In April 2012, the funding regime for local authority social housing changed radically with the abolition of the HRA subsidy system, a national system for redistributing housing resources, and replaced with a locally managed 'self financing' system. Local authorities now retain the rental streams from their housing assets, alongside the responsibility for managing, maintaining and improving the housing stock and supporting an opening level of debt that was allocated to each authority. The level of debt allocated to York was £121.5m.
4. The Business Plan needs to be read in conjunction with the Asset Management Strategy, which covers the 30-year period 2013/14 to 2042/43 and sets out priorities for the physical care and improvement of the housing stock and related housing assets. This Business Plan draws upon the stock condition information and data analysis used in the formulation of the Asset Management Strategy. The capital programme for the HRA is agreed annually as part of the council's wider financial management reports.

5. As a result of the introduction of self financing and the historic prudent management of the HRA, the Business Plan sets out the opportunity to create an investment fund to enable the council to invest in the management, maintenance and the delivery of new council housing. The financial detail of this is set out the Business Plan however, if the plan is approved an investment fund of £20m will be created over the next 4 years. This is in addition to the maintenance of prudent levels of reserves within the HRA.

Rent Restructuring

6. Rent restructuring was introduced in April 2002, with the key aim of converging rents across all social housing providers, whether local authority landlord or other registered provider. This involved a phased change in rents based on a formula for rent setting created by Central Government. This Government 'formula rent' takes account of various factors including the number of bedrooms a property has, property valuation, average earnings and the date at which all rents are expected to converge. This means that rents charged will move towards a Government set target rent.
7. By 2015/16 existing actual rents will converge with their target rent for the majority of council dwellings. The Government expectation in the self financing settlement is that councils will continue to follow rent restructuring policy and the settlement is based on future income levels assuming the policy is implemented as planned. The business plan assumes that York will follow this policy and the expected effect on rent increases over the next 5 years is shown in the below.

| Year | Estimated Average Rent Increase (assuming RPI at 2.5%) | Estimated Average Rent per week | Estimated Average Increase per week |
|---------|--|---------------------------------|-------------------------------------|
| 2013/14 | 4.36% | £75.21 | £3.14 |
| 2014/15 | 4.2% | £78.40 | £3.19 |
| 2015/16 | 4.2% | £81.71 | £3.31 |
| 2016/17 | 3% | £84.17 | £2.46 |
| 2017/18 | 3% | £86.70 | £2.53 |

Consultation

8. The development of the business plan has involved a wide range of staff from within housing services, building maintenance and corporate finance. In developing the plan we have had regard to a number national

issues and local strategies that have informed the key priorities for the service

9. Once approved there will be a need for the service to embark on a significant programme of communicating the significance of the plan to tenants and resident associations.
10. The implication of much of what is contained within the plan will require extensive consultation with residents and community groups through formal processes such as planning and with resident groups.

Options

11. Option one – To adopt the plan set out at Annex A
12. Option two – To ask officers to revise the document

Analysis

Option one

13. This Business Plan covers 7 areas where there are investment issues for the HRA. It also looks at assumptions around performance and treasury management, which have informed the plan, particularly in relation to the development and subsequent use of the Investment Fund. The key areas are:

New build council housing

14. The need for social housing in York has never been as high as it is today. The city has a growing population with the number of people living in the city increasing from 177,100 to 198,800 between 1999 and 2009.
 - Demand for housing, and housing costs are high for both homeownership and the private rented sector placing greater pressure on limited social housing stock.
 - Welfare reforms will exacerbate the problems of affordability within the city.
 - At September 2012 there were 4,674 households registered for social housing in York.
 - The council averages 500 council lettings per annum.
 - The SHMA concludes that 790 additional affordable homes are

required to be built in York each year to meet current need.

- An average 157 affordable homes have been built each year.

15. Building on the success of the Archer Close development of 19 new council houses, the creation of the HRA investment fund combined with the borrowing powers give us a great opportunity to invest in building more council houses and increasing the affordable housing supply in the city. It is therefore proposed to bring forward a phased development programme for building new council houses, with a first phase of approximately 60 new homes.
16. Details of options for bringing forward development of these new homes is being worked up, but will be provided on existing council land. Detailed proposals will be brought back to Cabinet. The cost of building these homes is a capital cost and oversight of the spend associated with this will be via the councils normal capital programme management procedures with regular reports back to members.
17. Building new council homes will also enable the council to take a leadership role within the city and support the priorities set out in the Council Plan, in particular, creating jobs and growing the economy. Research by the UK Contractors Group¹ identifies that every £1 spent on construction generates a total of £2.84 in extra economic activity. Whilst acknowledging not all this would be in York, a council house build program to build 60 new homes would generate over £17m of additional economic activity, a significant element of which would be in the city.

Repairs and maintenance/stock investment

18. The Council's housing stock is well maintained. The stock has been the subject of significant investment over many years with a structured program of maintenance and improvement carried out and with a range of ongoing improvement programmes:
 - The council exceeded the governments decent homes standards;
 - An improvement programme is in place to ensure a proactive approach to stock improvement and ensure all our homes continue to exceed the decent homes standard²;
 - At the end of 201/12 the councils housing stock had an above average energy SAP rating of 74;

¹ National Federation of ALMO's – Lets get building

² Dwellings fall out of decency on a rolling basis and are improved within the financial year that they become non-decent

- The Business Plan sets out a capital improvement budget of £42.5m over the next five years to meet its capital improvement programme and £33m investment in responsive repairs & cyclical maintenance.

19. Following the corporate restructure in 2011, Building Services was integrated into the Housing Service and a rigorous review of working practices and procedures was initiated. As a result of these reviews, the operating costs of the responsive repairs function has been reduced by over £1.3m per annum.

Landlord services

20. The landlord function of the Housing Service deals with the pro-active estate management and community involvement which make our estates vibrant places to live and work. Key functions within this are: income management, tenancy management, letting of properties, Right to Buy administration, resident involvement and low-level tenant ASB functions for the councils housing stock.

21. In 2012 we reviewed our management arrangements and developed 3 estate management teams. Each team has specialist tenancy management and income management staff and in recognition of the challenges that welfare reforms bring additional posts were created with their initial focus offering advice and assistance to the tenants that will be affected by the welfare reform changes. The service delivers specialist functions (Income Management, Anti social Behaviour & Community Development) within three geographically managed teams to ensure that the service that is provided is generic and seamless.

Supported housing

22. Supported housing is defined as housing which is designated for a specific group (such as older people, people with learning disabilities etc.) and in which there is some level of support provided as part of the accommodation offer, this is usually funded through a service charge to residents.

23. A supported housing strategy is currently being developed to address the supported housing needs of the City, and to prioritise resources appropriately:

- The Council directly manages 7 sheltered housing schemes, and a further 4 sheltered housing with extra care schemes;
- Temporary accommodation for statutory homeless households includes Ordnance Lane (currently providing 31 units of various sizes) Holgate Road and Crombie House. It is anticipated that the need for

temporary accommodation will increase as the impact of the Welfare Reforms start to bite;

- Sheltered housing makes up 13% of social housing stock in York.

Adaptations

24. Local authority social housing providers are expected to meet the cost of any adaptation work required by tenants of their social housing stock. Currently 450 council homes are adapted each year to meet the needs of particular households. The investment requirement ranges from the need for minor adaptations, such as grab-rails and ramps, through more major adaptations such as stair lifts, through floor lifts and assisted bathing facilities, up to the need for major structural changes. Costs associate with adapting the councils housing stock is included in the annual capital programme.
25. Once a property has been adapted, the council processes, via the choice based lettings system for managing our housing waiting list and allocations activity, ensures that properties with specific adaptations are prioritised for the use of those with appropriate need.

Tenant involvement

26. Tenant involvement is critical to the delivery of an effective and efficient housing service. **What matters to our customers, matter to us**
27. Working with our customers we have developed a range of involvement activities from which customers choose how they wish to influence services from a wide range of options including:
 - York Resident Federation and 20 Resident Associations;
 - Tenant Scrutiny Panel;
 - Tenant Inspectors;
 - Annual Tenant and Leaseholder Open Day;
 - A range of satisfaction surveys, focus groups and drop-in sessions.
28. The long-standing York Residents' Federation is the umbrella group for York's Residents' Associations. With a formal structure, access to senior staff and the Cabinet portfolio holder as a standing member, the Federation's voice influences our policies, priorities and performance

Information systems

29. The Housing Services relies very heavily on a number of business critical ICT systems, with the Integrated Housing Management Information

System (Northgate SX3) being one of the key applications. This system is currently being upgraded with the existing supplier.

30. There are a number of other key systems, which work alongside or integrate with this application, and a review of a number of these is required to make best use of the IT functionality currently available to support a housing business.
31. The integration of these systems requires significant resources and infrastructure to allow it to be fully operational and effective. Positive outcomes for the business will include the ability to support service delivery with accurate and comprehensive data, a reduction in waste and duplication and reduction in staff time spent interrogating systems that are not integrated. These benefits will feed through to customers as better informed decisions are taken and staff time is freed up to deliver for customers.
32. The development and use of advanced ICT technology and social media will fundamentally change and improve efficiency and coincide with a council wide initiative to work smarter and become less reliant on office accommodation for its field staff. This will help us take services to customers and communities and allow them to actively participate in service delivery and development in a wide variety of convenient ways.

Option Two

33. The proposed plan is based key priorities identified by our customers, stock improvement needs identified from our Asset Management Plan and is set within the context of the financial information following the introduction of self financing. Any significant changes would delay the approval and implementation of the plan. It is proposed that the plan is regularly monitored and reviewed annually.

Council Plan

34. The HRA business plan specifically relates to four of the five priorities with the council plan.
 - Create jobs and grow the economy – with the considerable investment that is proposed in the existing stock and the intention to build new home.
 - Building strong communities – The plan clearly sets out the housing department's intention to develop local services and work to develop community involvement in determining priorities.

- Protect vulnerable people – proposal within the support housing sector and the increased expenditure on adapting home demonstrate how the plan supports this priority.
- Protecting the environment – proposals to continue to invest in energy efficiency measure demonstrate a commitment to reducing the carbon footprint with the city. At the same time as tackling issues around financial inclusion

Implications

35. The implications arising from this report are:

- **Financial** - The Business Plan sets out the financial details for managing the councils housing stock over the next 30 years. Adopting this Business Plan will enable the council to effectively manage its stock in a way that ensures that the HRA is financially sustainable. The report identifies that over the next four years there will be the ability to create an investment fund of some £20m. This is based upon a prudent set of assumptions, and also there is the retention of prudent working reserves.

This report proposes the in principal release of £6m from the investment fund to support a programme of building new council homes. This has been discussed in detail with the Director of Customer & Business Support Services who has confirmed that the release of this money for building new council homes is a valid and appropriate use of the investment fund and does not affect the long term viability of the HRA.

Details of how any future allocations from the investment fund will be subject to separate reports and any specific financial implications arising from subsequent recommendations and their implication on the HRA Business Plan will be considered as part of the specific reports.

- **Human Resources (HR)** - None
- **Equalities** – Community Impact Assessments are carried out in respect of individual service area delivery and policy review. Self-financing is a change in a major financially driven process and therefore it is not appropriate to undertake a CIA in respect of the introduction of the Business Plan in its own right. However, CIAs will be carried out in respect of any potential changes in policy or service delivery that may result from this different financial process
- **Legal** - None

- **Crime and Disorder** - Continued delivery of an effective Housing Management function will support the priorities set out in the Community Safety Plan and the Anti-social Behaviour strategy will be focused on reducing crime within the city.
- **Information Technology (IT)** – Significant investment is proposed for ICT to support the ambitions of the plan. These will be discussed with the ICT team and built into work plans
- **Property** – Approving the Business Plan will result in significant investment in the councils housing stock (£42.5m over the next 5 years). The release of funding to support a new build council homes programme will increase the council's HRA property portfolio.

Risk Management

36. Whilst the self financing regime has created a number opportunities, in particular the option to consider the building of new homes, there are a number of areas of risk that will need to be closely monitored and suitable mitigation identified.
37. The proposals contained in the Welfare Reform Bill could reduce income to some families and may increase the level of bad debts. The impact on lower income households needs to be closely monitored with emphasis placed on preventative work, such as financial inclusion, financial capacity building and measures to prevent households from falling into poverty.
38. Following the government changes to the Right to Buy, sales could be higher than projected, reducing the overall level of rental income received. If this should occur then the capital programme would need to be reduced for a period to compensate. The situation will be kept under review and any material impact reported to members.
39. The Government will continue to set national social rent setting policy and maintaining the rental income stream is essential for the viability of the business plan. Any variation from the national policy is likely to result in a negative financial impact on the business plan and could result in reductions in services to tenants.
40. To mitigate these risks a number of assumptions have been built into the business plan:

Business Plan Assumptions

| Key Area | Assumption | Comment |
|----------------------------------|--------------------|---|
| General Inflation | 2.50% | |
| Rent Increase Inflation | 3.00% | Rent Increases assumed in line with government guidelines of RPI plus 0.5% |
| Rent Convergence | 2015/16 | Convergence with target rent assumed in 2015/16. Small number of properties will not achieve this |
| External Borrowing Interest rate | 2.76% to 3.51% | Portfolio of fixed rate maturity loans with PWLB |
| Minimum HRA Balance | £5,500,000 | Recognise increased risk in self financing environment |
| Right to Buy Sales | 20 to 28 per annum | In line with settlement model assumptions. |
| Void Rate | 1.20% | In line with current position, no significant increase/decrease forecast |
| Bad Debts | 0.4% to 1.5% | Increase assumed to allow for changes under welfare reform |

Recommendations

41. Cabinet are asked to:

- a) Approve the overall HRA Business Plan, in particular the creation of an investment fund of £20m and recommend to Council the adoption of the HRA business plan as set out in Annex A
- b) Agree in principal the release of £6m funding from the investment fund for the first phase of 60 new Council homes. Following detailed work identify the specific sites and construction costs a further report will be brought Cabinet setting out the exact costs of development for Cabinet to consider and recommend to full Council for approval.

Reason: The plan sets out a sustainable financial projection for the next 30 years and the priorities for the housing revenue account for the next 5 years. It gives clear messages as to the commitment to continue to invest in the council's exist stock, the local communities and build new much needed social rented housing

Contact Details

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| | Report Approved | ✓ | Date 28 January 2013 |
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| Wards Affected: List wards or tick box to indicate all | | All | ✓ |

For further information please contact the author of the report

Annexes

- Annex A – Business Plan.

Background /Supporting Information

- HRA Asset Management Plan