

Executive

11 February 2016

Report of the Assistant Director of Housing and Community Safety

Portfolio of the Executive Member for Housing & Safer Neighbourhoods

Review Housing Revenue Account Business Plan 2015 to 2045

Summary

1. This report provides an overview of the revised 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 investment fund to support the delivery of more affordable new homes.

Recommendations

2. Executive are asked to:

- a) Agree Option One to adopt the HRA Business Plan and finance projection as set out in Annex's A and B

Reason: The plan sets out the priorities for the housing revenue account for the next 5 years and gives clear messages as to the commitment to continue to invest in the council's existing stock, the local communities and, if still viable, to build new much needed social rented housing.

Background

3. 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 document, which determines how the council will meet the needs of present and future tenants whilst ensuring the long-term viability of the stock.
4. In April 2012, the funding regime for local authority social housing changed radically. The abolition of the national (HRA) subsidy system, a national system for redistributing housing resources, was 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 £122m.

5. The Business Plan needs to be read in conjunction with the HRA Strategic Asset Plan, which 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 Strategic Asset Plan.
6. Following the general election in May 2015 there has been a need to fundamentally review the plan to take account of the local impact of changes announced at a national level. These are outlined below:
 - a) The announcement in the July 2015 budget statement that social housing rents will reduce by 1% a year for the next 4 years which will result in a reduction in income over the 4 year period of £12.8m and of approximately £240m over the lifetime of the business plan.
 - b) The new Housing Bill published in October 2015 which includes:
 - The extension of the right to buy to Registered Providers (Housing Associations) tenants and cross subsidised by Local Authorities selling their high value stock to compensate the Registered Providers for the discounts. There are still a lot of unknowns associated with the high value sales and therefore what the impact of this will be in the business plan.

Currently the national proposals are that the property valuations and classification of what is deemed as high value is determined on a regional basis, Yorkshire & the Humber. If introduced as currently proposed York will be disproportionately impacted upon given that, in residential valuation terms, York is a high value area within a low value region. Current estimates assess the financial impact to be in the region of £100m on a best case scenario and £214m on a worst case scenario;

- The introduction of 'pay to stay' whereby households who are earning more than £30k will be required to pay a market rent.

The government are still developing the details of how this proposal will work and what taper will be used to move from payment of social rent to full market rent. However, the proposals as they currently stand set out that any money collected by local authorities through increased rents will need to be returned to the exchequer to contribute to deficit

reduction. It is likely, dependant upon the income threshold and the taper used to determine the transition from social rent to full market rent that tenants who fall into this bracket may decide to exercise their right to buy and purchase their council home with, subject to qualification, a maximum discount under the current RTB regulations of £77,900.

- The potential end to lifetime tenancies for new social housing tenants.

c) The impact of further welfare reform on the income management of the HRA.

7. The combined impacts of these changes mean that the revenue income to the authority will significantly reduce from that projected in the last iteration of the business plan. It is likely that over the life of the business plan that income will, at best be reduced by £340m, and at worst £455m.
8. This will mean that significant savings will need to be made to ensure that the business plan can balance in future years. At a minimum £1.5m will need to be saved out of current revenue expenditure over the next 4 years. To ensure the plan can balance, future capital expenditure will also have to be reviewed and reduced. It is likely that any future building programme for new council homes will need to be significantly reduced or ended completely.

Consultation

9. 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
10. The revised business plan and the impact of the national changes have been discussed with the Federation of tenants and resident associations.
11. The new building programme has been subject to extensive consultation with local residents through the planning process. Much of the capital programme also includes consultation with tenants.

Options

12. Option one – To adopt the revised plan and finance projection set out at Annex's A and B.
13. Option two – To ask officers to revise the document.

Analysis

14. **Option one** - This Business Plan covers seven key 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 of the Investment Fund. The key areas are:

New build

15. York is a city with a growing population with the number of people living in the city increasing from 177,100 in 1999 to 198,000 at the time of the 2011 Census. Key issues are:
 - Demand for housing, and housing costs are high for both homeownership and the private rented sector;
 - Welfare reforms will exacerbate the problems of affordability within the private rented sector;
 - At April 2015 there were 1,500 households registered for social housing in York;
 - The council averages 500 council lettings per annum;
 - A Strategic Housing Market Assessment has been commissioned and will report in February 2016 on the number of affordable homes that are needed in the city.
 - An average 150 affordable homes per annum have been built over the last 5 years.
16. The existing council house building programme has allowed the council to take a leadership role within the city and support the priority in the Council Plan to create 'a prosperous city for all' . Research by the UK Contractors Group¹ identifies that every £1 spent on construction generates a total of £2.84 in extra economic activity of which a significant element is retained within the local economy. Table 1 below shows the first phase of the council house building programme completed 32 new homes in 2015 with a further 74 homes and a replacement for Ordnance Lane homeless hostel at various stages of development.

¹ National Federation of ALMO's – Lets get building

Table 1. Council Housebuilding Programme

Scheme/site	Number of affordable homes	Status
Lilbourne Drive, Clifton	19	Completed (2012)
Le Tour Way, Acomb	18	Completed 2015
Lindsey Avenue, Acomb	14	Completed 2015
Hewley Avenue, Tang Hall	8	On site
Fenwick St, Clementhorpe	8	On site Jan 16
Pottery Lane, Heworth	6	On site Jan 16
Chaloners Road, Dringhouses	8	On site Jan 16
Glen Lodge Extra Care, Heworth	26	Planning
Ordnance Lane, Homeless Hostel	39	Contractor appointed
Ordnance Lane, general needs	18	Contractor appointed
Total	164	

17. The next challenge, once the full implications of the government proposals are known, is to re-appraise the business case for a continued new build investment programme. If the business case is still robust further opportunities will be identified for investment.

Repairs and maintenance/stock investment

18. The Council's housing stock is well maintained with significant investment over many years through a structured programme of maintenance and upgrading along with a range of ongoing improvement programmes.
19. Over the next 5 years £74.5m will be spent on responsive repairs / maintenance and improvements to the housing stock.
- As at 31st March 2015, there were 7 dwellings considered to be non-decent. Every year a number of homes fall out of decency on a rolling basis and are improved within the financial year that they become non-decent.
 - The average energy SAP rating of the housing stock was 74. This rating is in the top quartile across local authorities.
 - There are 610 non-traditional homes. These are properties whose original construction was not done in the conventional way.
 - The Business Plan sets out a capital improvement budget of £40.7m over the next five years to meet its capital maintenance and improvement programme.

- £35m to be invested in responsive repairs and cyclical maintenance over the next 5 years.

20. During 2014/15 year the Housing Service has:

- Modernised 266 homes to full decency standard (kitchen's, bathrooms, central heating);
- Replaced windows to 259 homes;
- Renewed 45 roofs;
- Replaced 431 doors with high security GRP doors;
- Carried out external Painting to 1100 homes;
- Carried out loft conversions to 7 homes;
- Replaced old boilers with high efficiency gas boilers to 450 homes
- Rewires to 247 properties;
- Carried out major improvements/conversion work to 18 Airey (non-traditional) houses.

21. The current years programme continues to deliver improvements to the housing stock, key priorities are:

- Modernise 280 home's kitchen, bathroom and electrical systems;
- Renew 100 roofs;
- External Painting to 1200 homes;
- Replace 650 boilers and heating systems with higher efficiency systems;
- Installing 19 Air Source Heat Pumps to non-gas homes, lowering our carbon footprint;
- Electrical testing and upgrades to 800 homes;
- Remediation of 80 damp homes;
- Door entry system installations and upgrades to 65 entrances.

22. In addition to the above work is ongoing to develop a plan to move Tenants from private water mains to Yorkshire Water Mains. This will be factored into the financial element of the Business Plan as part of the capital programme development.

Landlord services

23. 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 anti social behaviour functions for the councils housing stock.

24. In 2013/14 the housing management team reviewed its approach to community engagement and with tenant associations, ward councillors and other stakeholders began developing local action plans. A number of local hubs have been developed over the last year reflecting the council's ambitions to provide accessible local services. Further work is being undertaken to develop the offer that these hubs make to the community.
25. To ensure that as a strategic landlord we make best use of our stock work has been focused on tackling over crowding and under occupying, in the coming year we will review the choice based letting process to determine its effectiveness and how efficient it is.
26. As part of the council's priority to develop community capacity the landlord services will continue to take a lead and develop the Local Estate Action Plans (LEAP). The purpose of these plans is to identify those things that are important to residents and local stakeholders and put action plans in place to tackle the issues. It is acknowledged that these are in their infancy and work will be undertaken over the next 12 months to strengthen their development and embed them into the way we work with communities.
27. Proposals are being worked up that will see the frontline housing service become a focused single point of contact for households and a service that is the conduit for addressing the full range of needs of its customers at a household and neighbourhood level. The proposals would see staff working on smaller patches but with a broader responsibility than simply tenancy management.
28. Welfare reform remains a critical issue and over the next twelve months the service will continue to offer support and assistance to those that are affected by the reforms and those that are financially excluded. Preparations will continue in readiness for the wider roll out of universal credit and other welfare reforms. The mitigation measures that the council has put in place have ensured the performance on income recovery has not impacted to the extent that was originally anticipated. However there has been a rise in current rent arrears to just over £500k representing 1.6% of the debit at the end of 2014/15.

Supported housing

29. 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.

30. A supported housing strategy was approved last year to help 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 (20 units)
 - Around 30 per cent of the total population in York is aged 55 or over, this is reflected in the profile of council tenants.
 - Sheltered housing makes up 13% of social housing stock in York
31. Priorities for the next twelve months are to redevelop the Ordnance Lane hostel providing modern new facility and in partnership with Adult Services there will be an extension to Glen Lodge sheltered scheme providing 27 new units as part of the wider older person's accommodation programme.

Adaptations

32. Local authority social housing providers are expected to meet the cost of any adaptation work required by tenants of their social housing stock. Currently approximately 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.
33. Once a property has been adapted the council, 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

34. Tenant involvement is critical to the delivery of an effective and efficient housing service. The authority is in the process of reviewing the approach to customer services. Housing services are part of this transformational review.

35. 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 14 Resident Associations
 - Tenant Scrutiny Panel
 - Tenant Inspectors
 - Annual Tenant and Leaseholder Open Day
 - A range of satisfaction surveys, focus groups and drop-in sessions
36. 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 Executive portfolio holder as a standing member. The Federation's voice influences our policies, priorities and performance

Information systems

37. The Housing Service 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.
38. 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.
39. 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 a reduction in staff time spent interrogating systems that are not integrated. These benefits will feed through to customers as better informed decisions and targeted interventions mean staff time is freed up to deliver frontline services for customers.
40. The development and use of advanced ICT technology and social media will fundamentally change the way we work 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.
41. The HRA plays an important role also in the delivery of Council priorities; this has been evident through recent work on poverty prevention,

strengthening engagement and customer experience. Further work is planned within the plan to ensure alignment with wider priorities is achieved.

42. **Option Two** – The revised plan broadly follows the original business plan any significant changes would require the forecasts to be remodelled and would delay approval.

Council Plan

43. The good management of existing housing and any new build programme to increase the stock supports the Council Plan priority for ‘a prosperous city for all – where local businesses can thrive and residents have good quality jobs, housing and opportunities’. Similarly, the Business Plan supports the council commitment to ‘listen to residents – to ensure it delivers the services they want and works in partnerships with local communities’.

Implications

44. The implications arising from this report are:
 - **Financial** – The national policy changes outlined in the report have required significant changes to the HRA Business Plan. Following the requirement to reduce rents by 1% for the next 4 years and initial estimates of sales of high value properties along with increased levels of Right to Buy sales, income is now forecast to be significantly lower over the life of the plan than in the previous version approved by members in September 2014. In order to ensure a robust and sustainable Business Plan, this reduction in income will require significant savings to be made from operating costs over the coming years. The Business Plan includes savings of £1.5m over the next 4 years, details of the proposed savings for 2016/17 have been included in the budget reports to Members. In addition to this a number of changes have been made to revise inflation assumptions and to update and re-profile future capital expenditure.

As further details of the required sale of high value properties are revealed as well as the charging of market rents to households earning over £30k and the removal of lifetime tenancies, the assumptions in the Business Plan will be revised. This could require significant further changes or additional savings to be made. An updated version will be produced annually however, if significant revisions are needed, more frequent updates will be provided to ensure the HRA remains financially sustainable.

- **Human Resources (HR)** – None
- **Equalities** – Community Impact Assessment has been completed the details are contained in Annex C
- **Legal** – None
- **Crime and Disorder** – None
- **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** – None

Risk Management

45. National policy changes have shown that whilst self financing was heralded as local housing authorities taking on the responsibilities and flexibilities that came through the removal of the subsidy system, the reality is that since we remain in the public sector our financial viability is still subject to national government policy decisions. This creates a risk that further changes could result in the business plan not being viable without significant reductions in services to our tenants
46. The changes contained in the Welfare Reform Act continue to pose a challenge to the authority as the reduced income to some families may result in increased levels of bad debts. The impact of the spare room subsidy has been mitigated by the emphasis placed on preventative work, such as financial inclusion, financial capacity building and measures to prevent households from falling into poverty. This work needs to continue with the pending implementation of universal credit.
47. Following the government changes to the Right to Buy, sales are higher than projected, reducing the overall level of rental income received. The impact of this and the national changes has been built into the Business Plan, and it is essential the savings are achieved in order to have a financially viable plan. Consideration also needs to be given to the potential for further national changes that may have a negative financial impact on the viability of the plan and what contingency can be put in place.

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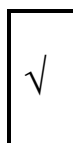
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Report

Approved



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All

Wards Affected: List wards or tick box to indicate all

For further information please contact the author of the report

Annexes

Annex A – The HRA Business Plan.

Annex B – The HRA Business Plan 30 Year Finance Projection

Annex C – Community Impact Assessment

Glossary of Abbreviations used in the report:

GRP – Glass Reinforced Plastic

HRA – Housing Revenue Account

RTB – Right to Buy