

**Committee: Housing Board**

**Agenda Item**

**Date: 21 September 2015**

**7**

**Title: HRA Business Plan 2015/16 – 2045/46**

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**Key decision: No**

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## Summary

1. The 30 year HRA Business Plan has been reviewed and updated to reflect the current regulatory and economic climate, and builds on the 2015-16 HRA budget and Medium Term Financial Strategy (MTFS)

## Recommendations

2. That the Housing Board notes the report and considers the draft Housing Revenue Account Business Plan before a six week consultation period.

## Financial Implications

3. The Financial implications are contained within the body of the report.

## Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

- HRA Business Plan 2012
- MTFS
- HRA Revenue and Capital programme 2015 - 2045

5.

Communication/Consultation	Members, tenants, all partner agencies and public consultation via the website
Community Safety	N/A
Equalities	Equality impact assessment has been completed on the draft business plan The business plan will again be EIA before it is finalised following the period of public consultation
Health and Safety	N/A
Human Rights/Legal	N/A

Implications	
Sustainability	N/A
Ward-specific impacts	All
Workforce/Workplace	Housing, Planning, Environmental Health

## Situation

6. The updated HRA business plan has been developed from the previous business plan approved in 2012.
7. Major changes have occurred since 2012 in relation to assumptions within the original Business Plan including the most recent announcements in the July Budget Statement.
8. The updated business plan reflects current thinking about areas such as general inflation, national rental policy, Right-to-Buy (RTB) sales, works cost inflation, and interest rates.
9. These have potential to impact the Council's major investment plans, particularly the development of new homes, improvement of its sheltered housing and other planned maintenance programmes. It was originally proposed to update the Business Plan in 2017 however in September 2014 the Housing Board agreed that the document should be updated in 2015 to address these major changes.
10. A summary of the announcements from the July budget and potential impact on the HRA are as follows:
11. **Reductions in social rents** – The budget indicated that the government will reduce rents in social housing by 1% for the next 4 years to reduce their housing benefit expenditure, and that this will apply to local authorities as well as housing associations.
12. The Council's current 30 year business plan for the HRA is predicated on annual income rises of CPI + 1% so this shift could have a potentially large impact on rental income and therefore the ability of the council to continue to invest in stock and projects identified in the HRA business plan. The assumed reduction of 1% on rents for this period will result in a rental base that will be in the region of at least 12% lower in 2019-20 than anticipated.
13. There is currently insufficient detail to model the impact with any certainty. For example it is not clear whether the 1% reduction includes supported housing. If the reduction was applied on all current rents this could have a cumulative impact of at least £1.8m by 2018/19 compared with existing business plan assumptions. Over the life of the business plan losses will amount to £14.9m.

14. **Lifetime tenancies** - The government has again indicated that it will look to review the use of lifetime tenancies. No further information was presented.
15. **Enforced Sales of Voids** - The Housing Bill in May confirmed the Queen's Speech announcement that Right to Buy would be introduced to tenants in Housing Association properties, with replacement housing funded from 'expensive' local authority properties as they fall void. Under proposed regional figures to identify such stock at least 45% of the council's properties will fall into this definition. It seems likely that regional figures may be adjusted and therefore the business plan has not factored in any potential impact of this policy until further details are known.
16. **'Pay to Stay'** – The government announced plans to enforce market or near market rents on tenants with household income above £30k in this area. The additional rent raised by councils will be passed to the government and used towards national deficit reduction. The mechanism for introducing this policy is unclear and the government has said it will consult on the proposals along with setting out the detail. The impact is potentially large. There will be an administrative burden in monitoring incomes. If rents treble for tenants with incomes above £30k in many cases rent will become unaffordable. If they then vacate the property there is the further implication that the property may become void and have to be sold as part of the announcements relating to the expansion of RTB to Housing Associations. The Government estimates that 9% of tenants nationally will be affected – this would be around 250 tenants in Uttlesford.
17. **Other pressures on the HRA Business Plan:** The introduction of further welfare reforms will mean that additional resources are required to provide advice and support to tenants including help with budgeting and access to banking, and help in understanding responsibility for rent payments and other bills.
18. There will be further pressure on the HRA with potential Supporting People funding cuts. Essex CC is proposing to cut support funding for older peoples services over the next 2 years. As a result of these changes, a number of things could happen:
  - Tenants may be willing to make up the shortfall
  - Tenants may be willing to contribute a smaller amount for a reduced service
  - Tenants do not contribute and the service is reduced
  - The council may choose to absorb some or all of the additional cost (this would have large implications on the viability of the HRA)
  - Other funding sources (such as Housing Benefit) could be explored
19. It should be noted that inflation on contracts will continue through the period of rent reductions which places further pressure on the HRA.
20. An updated version of the HRA business plan model has been produced which uses the current budgets for 2015/16 and also the five year medium term forecast for projecting expenditure and income forward whilst adding

general RPI (inflation) increases. It takes into account all estimated investment, repairs and management costs required over the next 30 years, assuming compliance with national rent policy, as mentioned above, and taking account of a continued high level of sales under the Right-to-Buy scheme.

21. The plan also assumes for a modest development programme of 5 units a year. If RTB sales continue to escalate beyond those estimated additional finances will be required to ensure the 1 for 1 replacement programme can be achieved. No allowance has been made in the business plan for larger building or re-furbishing projects beyond year 5 (2017/2018). If members wish to see a continuation of the 1 for 1 replacement programme and progression of re-development projects options to re-finance the loans will need to be explored.

### Summary

22. The business plan provides the framework within which the council would expect future budgets to be set, subject to changes in underlying assumptions and/or government or council policy, and gives an indication of the level of resources likely to be available to deliver new initiatives, build new housing, regenerate estates and potentially repay debt, should this be felt to be an appropriate course of action

23. Based on current financial assumptions the business plan demonstrates that expenditure proposals can be met. These include:

- The management and maintenance of the stock
- Payment of debt
- Investment in the stock
- Delivery of regeneration and new affordable housing
- Re-modelling of sheltered schemes

### Risk Analysis

24.

Risk	Likelihood	Impact	Mitigating actions
HRA Debt Settlement could be re-opened by Government	2 Possibility if council's do not demonstrate that they are delivering improvements	3 less financial resources	The Council has processes in place to manage the demands of local and national housing agendas
Higher construction costs	3 Construction costs	3 Schemes become	Value management to be undertaken

than estimated	escalating in the region	unviable	throughout design process
The Council approves plans which are not sustainable into the future, leading to increasing problems in balancing budgets	3 uncertainty around the continuing rise in contractor/ construction costs	3 schemes become unviable	Officers use medium and long-term modelling (up to 30 years) for HRA, to ensure decisions are made in the knowledge of long-term deliverability issues / implications
Rent and service charge arrears increase and bad debt rises, as a direct result of the Welfare Benefit Reforms	2 Introduction of Universal Credit will have an impact on rent collection	3 Income needs to be maintained to ensure schemes are delivered	Increased resources identified for income management. Performance closely monitored to allow further positive action if required
Enforced sales of voids	2 Government proposal – though it seems likely that regional figures may be adjusted	4 at least 45% of the council's properties will fall into this definition	Lobby Government to adjust regional figures
Introduction of Pay to Stay	2 Government proposal	3 High cost of administration  Increase in arrears  Increase in RTB	Increased resources will need to be identified to administer the scheme
Supporting People Cuts	3 Essex CC consulting on cuts	3 Service may need to be reduced  Financial impact on residents receiving support	Start informing residents of the proposed cuts and options available to them

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

