

Public Report
Cabinet

Committee Name and Date of Committee Meeting

Cabinet – 23 December 2019

Report Title

Housing Revenue Account Business Plan 2020-21

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

Anne Marie Lubanski, Strategic Director of Adult Care, Housing and Public Health

Report Author(s)

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Ward(s) Affected

Borough-Wide

Report Summary

The Housing Revenue Account (HRA) records all expenditure and income relating to the provision of council housing and related services, and the Council is required to produce a HRA Business Plan setting out its investment priorities over a 30 year period.

Following the introduction in 2012 of HRA self-financing, the Council was awarded control over its HRA in return for taking on a proportion of national housing debt.

Since the last update there have been no significant government policy changes that affect the business plan. That said there are still some policies that have impacted on the plan:

- Roll out of full service Universal Credit to all remaining working age tenants in Rotherham since July 2018 onwards.
- Ongoing Right to Buy eligibility.
- Updated Guidance on Social rents permitting increases of CPI + 1% from 2020-21 onwards.

The Business Plan recognises the importance of continuing investment in new affordable homes, focuses on the next five years and will continue to be amended and reported annually. Given the economic uncertainty the overall position remains challenging, but given the level of reserves and the previous decision to defer some investment in stock until later in the plan the ability to divert resources to fund housing growth and contribute to the Council Plan remains.

Over the short to medium term forecast, the Business Plan shows a sustainable level of cash flow and balances; however over the longer term there is a significant squeeze on resources due to inflationary pressures. The key risks in the Business Plan are increased Right to Buy sales above those planned for, interest rate rises above those planned and inflation. These risks are monitored continuously and mitigated by the Housing Service with support from financial services.

This report provides a detailed technical overview of the current position and the reason for changes to the Business Plan. This report is to be considered alongside the proposed 2020-21 rents, service charges and budgets.

Recommendations

That Cabinet resolve to recommends to Council:

1. That the proposed 2020-21 Base Case Option 3 for the Housing Revenue Account Business Plan be approved.
2. That the plan be reviewed annually to provide an updated financial position.

List of Appendices Included

Appendix 1 HRA Operating Statement
Appendix 2 Summary of Modelled Business Plan Scenarios
Appendix 3 Equalities Assessment

Background Papers

HRA Business Plan 2019-20
DCLG Guidance on Rents for Social Housing

Consideration by any other Council Committee, Scrutiny or Advisory Panel
Overview and Scrutiny Management Board – 20 December 2019

Council Approval Required

Yes

Exempt from the Press and Public

No

HRA Business Plan 2020-21

1. Background

- 1.1 This report sets out the proposals for the HRA Business Plan for 2020-21 onwards and as in previous years provides information on the positioning of the HRA Business Plan as a driver of housing growth to assist in meeting the Council's housing objectives. In essence the overall approach is to make savings where it is feasible to do, so these can be invested in future new affordable housing and to position the housing service so it is best placed to respond to future challenges that arise.
- 1.2 Since the last update there have been no significant government policy changes that affect the business plan. That said there are still some policies that have an impact on the plan:
- Roll out of full service Universal Credit to all remaining working age tenants in Rotherham since July 2018 onwards.
 - Ongoing Right to Buy eligibility.
 - Updated Guidance on Social rents permitting increases of CPI + 1% from 2020-21 onwards.
- 1.3 The overall position remains challenging, but given the level of reserves and the previous decision to defer some investment in stock until later in the plan there continues to be the ability to divert resources to fund housing growth and contribute to the Council Plan.
- 1.4 Performance remains strong in key areas of the business resulting in increased income collection and improved value for money for our tenants. Over the short to medium term forecast, the Business Plan shows a sustainable level of cash flow and balances; however over the longer term there is a significant squeeze on resources due to inflationary pressures.
- 1.5 The policy of Right to Buy and lifting the debt cap are somewhat contradictory as it means there is the potential for an ongoing reduction in cash flow to fund a potential increase in debt. This means the underlying business has to continue to become more efficient and new build housing schemes have to at least break even over the long term. This will ensure there are sufficient resources to service the debt to ensure long term viability of the business plan. The overarching strategy for the Business Plan is to promote growth rather than manage decline.

2. Key Issues

- 2.1 The Council currently owns circa 20,200 homes, 544 leasehold homes and 3,375 garages with a turnover from rents and other sources approaching £82m per annum (excluding the sale of new properties).

2.2 The overall financial strategy for the HRA is focused on:

- Supporting more new affordable housing (circa £100m including grant income has / will be invested, subject to Cabinet approval of remaining projects).
- Increasing rents in line with Government guidance of CPI + 1% i.e. 2.7%
- Supporting delivery of the Council Plan.
- Maintaining a sufficient level of balances, both as a contingency against risks and to ensure that investment can be sustained over the period of the business plan.
- Achieving and maintaining the decent homes standard.
- Keeping tenants safe through robust management of landlord compliance.
- Tackling fuel poverty.
- Providing a customer focused and effective repairs service.
- Supporting housing and neighbourhood management.
- The long-term viability of the HRA Business Plan is maintained.
- No early repayment of debt is made.

2.3 Financial Position of the HRA

The HRA currently has a healthy financial position with a general reserve balance forecast to be £16.4m, a forecast major repair reserve of £18.9m and a One for One receipt balance of £1.0m as at 1 April 2020. A summary of the proposed income and expenditure for 2020-21 is below:

<i>Housing Revenue Account</i>	<i>Proposed Budget 2020/21 £'000</i>
Expenditure	80,183
Income (including service charges)	-83,947
Net Cost of Service	-3,764
Interest Received	-300
Net Operating Expenditure	-4,064
Revenue Contribution to Capital Outlay	13,388
Transfer from Reserves	-9,324
Surplus/Deficit for the Year	0

2.4 The £4.064m operating surplus is being used to fund part of the Housing Capital Programme via a Revenue Contribution to Capital Outlay (RCCO) together with a transfer from reserves of £9.324m.

2.5 Supporting Housing Growth

The Council in recent years has been very successful in using HRA land and finances to build and acquire new council homes. Rother Living is the Council's brand for these new homes, and this has become well known and trusted name for building high quality homes for affordable rent, shared ownership and outright sale.

Going forward the financial position of the HRA improves due to the return of rent increases following four years of reductions.

The housing growth programme is modelled in phases;

Phase 1 is made up of homes currently being delivered with circa 348 homes planned for completion by 2021;

Phase 2 schemes include 171 homes that have recently been approved for town centre sites at a cost of circa £34.3m and a remaining pipeline of circa 100 homes, subject to approval by Cabinet, at a cost of circa £13.5m. These have been included in Base Case Option 2 alongside committed investment.

There is the potential to fund Phase 3 schemes totalling a further 395 units at a cost of circa £52m. The impact of this is modelled as Base Case Option 3 (preferred) at Appendix 2.

- 2.6 Three scenarios have been modelled in arriving at the recommended base case. The difference between the options is that Option 1 only models approved schemes, Option 2 includes town centre sites and unapproved pipeline schemes of £13.5m, Option 3 (preferred) models all the Phases 1-3 approved and pipeline schemes, totalling c1,015 new homes in the plan.

2020-21 Base Option 1

This assumes:

- Rent will increase by 2.7% for 2020-21 and then increase by CPI + 1% for four years (in line with government rent formula) then CPI only for the remainder of the plan.
- Service charges will increase by 2% in 2020-21 and then CPI for the rest of the plan.
- CPI has been refreshed to the latest forecasts by the Office for Budgetary Responsibility.
- £65m will be invested in housing growth creating c.519 new homes.
- Right to Buy sales reduce over the life of the plan. These reductions are staged as below:

Year	Number of Right to Buy's
1 to 5	175
5 to 10	100
10 to 15	50
15 to 30	25

- Previously RTB sales assumptions remained at 200 for the life of the plan. Consequently there will be a net reduction in stock as RTB's are forecast to continue after the end of the current housing growth plan.
- To accommodate the reduction in income as a result of RTB forecasts 50% of supervision and management expenditure has been flexed along with 75% percent of repairs and maintenance expenditure (excluding disabled adaptations and garages) in proportion to RTB sales.
- Repairs and maintenance revenue expenditure will reduce by 10% for a period of five years from 2020-21 onwards.
- Investment in Capital works (excluding housing growth) will be relatively unchanged at £744m following an increase of £157m over the life of the plan previously.
- Ongoing investment of £1.6m per year will be made enhancing Housing support services contained in the General Fund.
- Reduced bad debt provision from 1.4% to 1.2% per annum.
- Reduced void loss and allowance from 1.4% to 1.3%.

2020-21 Base Option 2

All assumptions are as in Base Option 1 but with further investment of £13.5m in pipeline housing growth schemes delivering c101 new homes which is affordable within the Business Plan. There will be an additional borrowing requirement of £2.7m over the life of the Business Plan commencing in year 25, 2043/44.

2020-21 Base Option 3 (preferred)

All assumptions are as in Base Option 1 but with further investment of £65.2m in housing growth which will deliver circa 496 additional homes. Total housing growth expenditure in this plan is £130.7m. Borrowing of circa £35m would be required from Year 3, 2020-21.

- 2.7 The recommended Base Case Option 3 results in an Operating Surplus at Year 30 of £12.9m.
- 2.8 The proposed 2020-21 Base Case Option 3 results in a decrease in forecast surpluses over 30 years of circa £19.3m when compared to the previous approved plan. However, the 30 year balance increases by £7m from £5.9m to £12.9m. The assumptions ensure expenditure is affordable throughout the life of the business plan.

2.9 Base Case Option 3 has been chosen because it provides opportunities to contribute to the housing growth agenda through deferring stock investment and reducing repairs and maintenance expenditure where it is sensible to do so. Furthermore it sets out the Council's ambition to build over a thousand new homes and in doing so creates a long term new homes programme allowing for longer term planning and greater buying power. Whilst the 2020-21 Business Plan only provides for a housing growth programme for the next five years it is intended to explore further opportunities to extend the housing growth programme post 2025 in future iterations of plan.

Key assumptions include:

- There is a borrowing requirement of £35m.
- Debt will not be repaid over the life of the plan.
- Ongoing investment of £1.6m per year will be made enhancing Housing support services contained in the General Fund.
- Expenditure is reduced proportionately to stock size, so mitigating the effect of increasing Right to Buys. There will be a net reduction in stock as RTB's are forecast to continue after the end of the current housing growth plan.
- Rent increases are kept in line with CPI following expiry of the government's new social rent formula for five years from 2020-21 to increase rents by CPI + 1%.

2.10 Impact on the Housing Growth agenda

The 2020-21 review of the Business Plan continues to focus on the housing growth agenda. Resources are focused on construction and acquisition of new council homes for the next five years. The Business Plan supports delivery of multiple housing schemes throughout the borough across a variety of tenures as detailed below:

Council Led Phased Delivery	Delivery Period	New Homes	Social Rent	Affordable Rent	Shared Ownership	Market Sale	Estimated Cost
Option 1 (Current Approved)	2016-21	519	31	257	117	114	£65,518,900
Option 2 (Active Projects)	2020-22	101	60	41	0	0	£13,523,484
Option 3 (Planning)	2023-25	395	258	137	0	0	£51,694,813
		1,015	349	435	117	114	£130,737,197

Continuing investment in new housing will contribute to the Council Local Plan target of 900 new homes per year. The benefits of the Council developing and enabling new housing include:

- Generation of income to the General Fund via Council tax.
- Ensuring new homes meet changing local needs, particularly the needs of older people, people with support needs and single person households.
- Regenerating neighbourhoods.
- Wider economic benefits including employment and training opportunities.

- Access to grant funding from Homes England and the Sheffield City Region.
- Replacement of Council homes sold through the Right to Buy.
- Improved quality and energy efficiency of housing stock, which improves health and wellbeing and reduces fuel poverty.

The priorities in the housing growth programme over the next five years are:

- Developing 171 new homes in the town centre.
- Piloting modern methods of construction in order to ascertain the potential to build homes at an increased pace and lower cost.
- Delivering more shared ownership homes to enable first time buyers and older people wishing to downsize, to own an affordable home.
- Continuing to build bungalows and other accessible accommodation to enable older people and people with support needs to live independently.
- Releasing HRA owned sites for development by the private sector and housing associations.

The government announced in the autumn of 2018 Budget that the HRA Borrowing Cap would be removed with immediate effect. This offers further potential to support housing growth into the future and both option 2 and 3 presumes further borrowing over the life of the business plan.

2.11 Impact on Revenue Repairs and Maintenance

Given the level of historic investment in existing stock, circa £110m over the past five years, that the stock is overwhelmingly traditional build and its condition is at or beyond the decent homes standard, a decision was taken in 2018-19 to reallocate investment from this area to further increase the Council new build programme. This meant that additional housing assets could be created, generating greater rental income and meeting housing need in the borough.

Given the re-procurement of repairs and maintenance contract in 2019, initial modelling of new pricing suggests the previous budget savings target of 10% will be achieved as a result the previous budget reductions to repairs and maintenance have been retained in the updated 2020-21 Business Plan.

Year	Repairs and Maintenance	Repairs and Maintenance Budget	Change vs Prior year plan
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	Budget 2019/20 BP	2020/21 BP Option 2	
	SAVINGS INCLUDED		
	£'000s	£'000s	£'000s
2019-20	20,543	20,854	311
2020-21	19,003	18,714	(289)
2021-22	19,436	19,288	(148)
2022-23	19,724	19,747	23
2023-24	20,015	20,185	170
2024-25	20,308	20,662	354
Total	119,029	119,450	421

2.12 Impact on Capital Investment

During 2018-19 there was a comprehensive review of the capital investment programme to determine the work needed in our stock over the next 30 years. This resulted in an increasing capital investment from £577m to £734m over the life of the plan, as a result no further review of the long term investment plan has been undertaken for the 2020-21 Business Plan. The short-term investment has been reviewed and matched to the approved 3-year capital programme, resulting in an increase to £744m. The same principles have been used where peaks in demand in some years as meant smoothing of the programme by delaying some stock investment and replacements to later years as necessary. This will not affect the ability to meet the Decent Homes standard.

2.13 Supporting tenants with Financial Pressures

A key priority is the ongoing work mitigating the impact of welfare reform and general financial pressures tenants face. The Council is committed to minimising any effects of welfare reform on tenants and to do this through continuing early intervention and arrears prevention. Our efforts will continue to be in supporting tenants to continue to pay their rent; by offering additional support to vulnerable tenants to help with money, benefits and debt advice; this is being done through our Financial Inclusion team. The past year has seen the Advocacy and Appeals service transfer into the Financial Inclusion team and as such funding for Money Advice Officers to support tenants in rent arrears manage priority debts continues.

Universal Credit roll out continues throughout Rotherham which has seen over 3,000 tenants now receiving Universal Credit with over 900 tenants in receipt of an Alternate Payment Arrangement where housing costs are paid direct to the Council.

The impact on rent arrears is now starting to become evident at individual account level, with the average arrears for a tenant on Universal Credit being £566 compared to £256 for other tenants. This presents a significant risk to income collection. To mitigate this risk all new tenants who are eligible for Universal Credit have to make a claim and set up either a Direct Debit or a recurring card payment for rent prior to being issued with the keys for their new home.

2.14 Investment in other Council Housing Services

An ongoing investment of £1.6m per year will be made enhancing Housing support services contained in the General Fund over the period. In addition it is proposed to work in partnership with Adult Care to help customers to maintain independence within their own home for as long as possible.

2.15 Impact of the proposed scenario

The impact of the changes to the Business Plan are summarised below:

- There will be a further £130m spent on housing growth over the next five years This will result in c1,015 new properties being built or acquired
- There will be an additional borrowing requirement of £35.5m over the next 30 years, commencing in year 3, 2021/22.
- The year 30 annual Cost of Capital will increase by £1m to £14.5m as a result of additional borrowing.
- The General Fund will receive continued funding for HRA support services of £1.6m per year for the life of the plan.
- The 10% reduction to day to day repairs over the next five years is retained as per the 2019/20 plan.
- There will be surpluses of £12.9m by year 30.

3. Options considered and recommended proposal

- 3.1 A series of options were considered as part of scenario modelling, these are detailed at Appendix 2 of the report. Details of the HRA Business Plan Base Case Option 3 (preferred) are set out in the main body of the report. This will result in the HRA having an Operating Surplus of £12.9m by year 30 and provide support to the housing growth agenda and the Council's General Fund position.

4. Consultation on proposal

- 4.1 The Council has a strong track record for tenant engagement and has recently been recognised by the Tenant Participation and Accreditation Service for the excellent framework that is in place to consult and work with tenants on how services are developed and improved. The Housing Involvement Panel is made up of Area Tenant Panel Chairs and was consulted on 24th September 2019.

4.2 The Housing Service undertook a survey of tenant's views in 2018, referred to as the Star (Standard Tenant Assessment Response) Survey which supports how resources are targeted and allows the Council to benchmark satisfaction with other social housing providers. The most recent survey found:

- 80% of tenants are satisfied with the overall service provided.
- 80% of tenants are satisfied with the quality of their home.
- 78% of tenants believe their rent provides value for money.
- 48% of tenants were satisfied that their views were listened to and acted upon.
- Satisfaction with grounds maintenance and estate services were varied across the borough.

The HRA Business Plan has responded to some of the above concerns by increasing investment in Tenant Involvement Services and increasing capacity in the housing management teams.

4.3 Members have been consulted on various aspects of the Housing Revenue Account Business Plan. Seminars and Workshops have been held on Housing Growth, Repairs and Maintenance, Universal Credit and Housing Policy updates. This has helped inform the proposed Business Plan.

4.4 The HRA Business Plan also supports housing growth, the targets which were set following The Rotherham Strategic Housing Market Assessment (SHMA) which was completed in 2019; and consisted of a large scale resident survey, targeted focus groups and detailed analysis of housing market, population and demographic data. The study contains a calculation which takes into account delivery of new housing against newly forming households to highlight any shortfall. The Rotherham SHMA concluded that 900 new homes are required per year to meet housing needs in the borough, a quarter of which should be 'affordable'. The data from the study has been used to develop Housing Profiles for each ward which considers specific housing needs, and sets out opportunities for housing growth at a local level.

5. **Timetable and Accountability for Implementing this Decision**

5.1 The table below shows the approval timeline:

Date	Meeting
20/12/19	Overview and Scrutiny Management Board Meeting
23/12/19	Cabinet decision making meeting
22/01/20	Council

6. **Financial and Procurement Advice and Implications**

6.1 In developing the HRA Business Plan the CIPFA / CIH code of practice for a self- financed housing revenue account; the Financial Viability principle has been taken into account which states that:

- The housing authority has arrangements in place to monitor the viability of the housing business and take appropriate actions to maintain viability.

- 6.2 The HRA Business Plan is reviewed and updated annually to take account of changes to all income streams and the revenue and capital costs of managing and maintaining HRA properties and tenancies. It also considers Capital investment in new build and housing acquisitions for affordability.
- 6.3 The HRA Business Plan includes assumptions on rent levels as dictated by legislation, with 2019/20 being the fifth and final year of 1% rent cuts. In line with current legislation the HRA BP assumes that rents will be increased by CPI plus 1% for five years from April 2020 and increases by CPI thereafter. In 2020/21 the rent increase is anticipated to be 2.7%. As the HRA is self-financing, the rental income stream makes up the majority of the funding available to the HRA.
- 6.4 The capital repairs and investment assumptions were completely refreshed in the prior year plan and as a result no further review of the long term investment has been undertaken for the 2020-21 Business Plan. The short-term investment has been reviewed and matched to the approved 3-year capital programme, resulting in an increase of £10m to £744m. Peaks in demand in some years has meant delaying some stock investment and replacements to later years as necessary. This smoothing will not affect the ability to meet the Decent Homes standard.
- 6.5 Reductions to revenue repairs/maintenance costs of £10.4m have been incorporated into the HRA Business Plan from 2020/21 to 2024/25 as noted at 2.11. It is anticipated that these savings can be achieved from 2020, when the existing repairs/maintenance contracts end and contracts based on revised service standards are initiated.
- 6.6 Significant investment in property developments and acquisitions of £130m has been built into the base plan over the next five years. On current assumptions the Business Plan indicates that this is fundable with additional borrowing. Affordability is reliant upon borrowing of £35m and £50.5m of funding which has been built into the plan: £17.2m of HCA and Sheffield City Region grant funding, £3.9m of unallocated capital receipts, £3.5m GF contribution and sales income of £25.9m from properties built for sale and shared ownership.
- 6.7 CPI and RPI assumptions in the HRA Business Plan are based on Office of Budgetary Responsibility forecasts for the first four years. From year 5 onwards RPI has been set at a rate lower than the forecast in order to balance the plan. This is reviewed annually.

7. Legal Advice and Implications

- 7.1 The Legal Implications, where known, are covered in the main body of this report.
- 7.2 There are no direct procurement implications arising from this report.

8. Human Resources Advice and Implications

8.1 There are no immediate human resource implications.

9. Implications for Children and Young People and Vulnerable Adults

9.1 There are no implications for CYPS or Vulnerable Adults.

10. Equalities and Human Rights Advice and Implications

10.1 The local authority is aware of its duties under the Equality Act 2010 to promote equality, diversity, cohesion and integration and has ensured that the HRA Business Plan is compliant with that duty. An initial equalities screening has been carried out to assess the impact of these proposals and due to the scale of investment and nature of households affected the Council will need put in place an Equality Impact Assessment for this plan. This will ensure the Council continues to promote positive impact and reduce or remove negative impact as a result of the proposed investments. An Equalities Analysis is attached at Appendix 3.

11. Implications for Partners

11.1 This proposal is about making effective use of Council assets and managing them to best effect. It contributes to the sustainable neighbourhoods agenda by addressing future investment needs and will help deliver a better quality of affordable housing to the community.

12. Risks and Mitigation

12.1 Self-financing involved a significant transfer of risk from Central Government to the Council. Variables such as interest rates, cost inflation, number of homes owned etc. are all risks managed by the Council.

12.2 Any adverse changes in rental income (for example as a result of welfare reform or changes in the number of Right to Buy sales) must be managed locally.

12.3 The risks associated with the HRA Business Plan demand a smarter approach to risk management. The Council will closely monitor the viability of the HRA Business Plan; by building a HRA Business Plan monitoring report to monitor key variables such as:

- Number of homes
- Rental income
- Rent arrears and bad debts
- Voids and void rent loss
- Debt levels and repayment
- Reserve levels, and
- Maintenance backlog

- 12.4 The risk management plan follows the Council's risk management methodology and approach. It includes a clear description of the risk, an assessment of probability and impact of the risk, a summary of controls and information on when the risk will be reviewed. Risks are monitored monthly at Housing Senior Management Team (SMT) meetings.
- 12.5 Significant risks will be placed on the Corporate Risk Register and risk issues will be escalated through the Council to Directorate Leadership Team and Senior Leadership Team as necessary.
- 12.6 The Council has risk based reserves to ensure that HRA reserves are maintained at the appropriate level. The reserves will be maintained at the appropriate level to fund potential future financial pressures from risks such as welfare reform and investment requirements.

13. Accountable Officers

Anne Marie Lubanski, Strategic Director for Adult Care and Housing
Tom Bell, Assistant Director of Housing

Approvals obtained on behalf of Statutory Officers:-

	Named Officer	Date
Chief Executive	Sharon Kemp	09/12/19
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	04/12/19
Head of Legal Services (Monitoring Officer)	Bal Nahal	04/12/19

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