Agenda Item No. 6

Meeting of the Cabinet – 20th June 2013

Joint Report of the Director of Adult, Community and Housing Services and the Treasurer

Review of Housing Finance

Purpose of Report

1. To propose revisions to the Housing Revenue Account (HRA) budgets to reflect latest financial forecasts, to be recommended to Council.

2. To propose revisions to the Public Sector Housing capital programme, to be recommended to Council.

3. To approve the HRA's 30 Year Business Plan.

Background

4. The HRA is a ring-fenced revenue account and deals with landlord functions associated with public sector housing. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

HRA Revised Budget

5. The current budget for 2013-14, approved by Cabinet on 12 February 2013, shows a surplus on the HRA of £0.759m at 31st March 2014. There are now a number of variations to the original budget largely arising from resources brought forward from 2012-13 including earmarked reserves.

6. The proposed revised budget shows a surplus on the HRA of £0.888m at 31st March 2014.

7. The variance between the original and proposed revised budget for dwelling rents reflects a reduction of £0.320m, which is an adjustment to the original estimate taking into account the increase in Right to Buy sales in the last quarter of 2012-13. It is estimated that sales will continue at the current rate.

8. The variances between the original and the proposed revised budgets for contributions to expenditure, management, responsive and cyclical repairs and revenue contribution to capital expenditure relate to earmarked reserves brought forward into 2013-14. These reserves include sums for general housing repairs, improvement works, continuing ICT projects, the costs of implementing welfare

reforms, Housing Management office accommodation moves and agile working.

9. Minor variations to interest on balances and interest payable relate to higher balances and savings on interest rates.

10. The increase in the Transfer to the Major Repairs Reserve reflects changes in accounting practice relating to depreciation on Housing non-dwelling properties.

11. The original 2013-14 budget and the proposed revised 2013-14 budget are shown in Appendix 1.

Public Sector Housing Capital Programme

12. In February 2013, a 5 year housing public sector capital programme was agreed. A revised capital programme is shown at Appendix 2.

13. The proposed capital programme follows the principles approved in the current programme and reflects the priorities of the Council Plan and the views of Area Housing Panels, targeting investment into maintaining the Decent Homes Standard and achieving energy efficiency measures under the Energy Act 2011. The programme addresses the following priorities:
    - Continuing investment to target maintaining decent homes;
    - Improving energy efficiency, combating climate change and reducing fuel poverty;
    - Investing in empty homes to ensure that as many of the Council's homes as possible are available for occupation;
    - Maintaining investment, at affordable levels, in community safety, environmental and social programmes such as adaptations for persons with disabilities.

14. The revised 2013-14 capital programme includes £1.7m carried forward from 2012-13, largely as a result of the adverse weather conditions during January and March which delayed for instance roofing and other external programmes.

15. In addition, an extra £2.75m has been identified as a result of savings in revenue repairs and maintenance. This is in part owing to lower demand for reactive repairs, as a result of the additional investment that has taken place in recent years. It is also attributable to efficiency savings particularly in procurement and contract management.

16. It is proposed to increase the central heating budget for 2013-14 by £0.5m to accelerate the replacement of old and inefficient boilers or other heating systems with modern energy efficient boilers to ensure heating is made as affordable as possible for tenants.

17. It is proposed to increase the budget for new council house building for 2013-14 by £1m. This will fund approximately 10 new homes, and is in addition to the £1.3m in the original budget, contributing to replacing stock sold under the Right to Buy scheme. It is intended that this new build programme will be a long-term commitment, and details of proposed schemes will be brought to future meetings of Cabinet. Our priorities for new build are to provide homes that are energy efficient and suitable for modern living, with a particular focus on 1 and 2

bedroom homes or larger (4 plus) bedroom homes, as we currently have fewer of these than we need, and homes that enable our tenants, including the elderly and those with specific care and support needs, to live independently in the community. Building on infill sites such as former garage sites will also bring vacant land back into use and will reduce the incidence of anti-social behaviour that can become a problem with such sites.

18. A stock condition survey of our housing stock is currently being undertaken, which will inform our future investment needs. The last full survey was undertaken in 2005, and set our priorities for meeting the Decent Homes Standard. It is expected that the current survey will identify investment needs for the next 10 – 15 year period, and therefore, it is proposed to establish a budget of £1.25m in 2013-14 which will start to meet any unexpected and newly arising investment needs that may be identified by the survey.

19. The results of the survey are expected in the autumn, and when these are available, the capital programme will be reviewed to take into account the emerging priorities for investment need identified as a result.

HRA Business Plan

20. A new financial strategy for landlord housing is currently being developed to take into account maintenance of the Decent Homes Standard and the new opportunities and challenges arising from the introduction of the self-financing system. This is the subject of a continuing consultation process that includes tenants and residents.

21. The key elements of this new financial strategy, which presents an overall 30 Year Business Plan and will cover a rolling five year period in more detail, include:

    - maintain the Decent Homes Standard;
    - improve the energy efficiency of the housing stock and address fuel poverty;
    - invest in housing stock and minimise the number of void properties;
    - review the suitability of the housing stock and explore the feasibility of new build to increase stock and / or replace properties that are in poor condition or that do not meet modern requirements;
    - support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
    - identify ongoing savings and efficiency gains, through the use of partnerships where appropriate;
    - continue to undertake prudent management of reserves and other balances;
    - set rents having regard to government rent policy and investment needs.

22. The HRA Business Plan is shown at Appendix 3.

Finance

23. Section 76 of the Local Government and Housing Act places a duty on the Council to ensure that no action will be taken that may cause a deficit to arise on the HRA at 31 March 2014. A duty is also placed on the Council to review the financial prospects of the HRA from time to time. Reviews and regular monitoring carried out confirm that the HRA will be in surplus at 31 March 2014 and therefore complies with the requirements of the Act.

Law

24. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing.

Equality Impact

25. The proposals take into account the Council's Policy on Equality and Diversity.

26.. This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve quality of life for protected groups.

Recommendations

27. That Cabinet:

- recommend that Council approve the revised HRA budget for 2013-14 (para 5-11 and Appendix 1);
- recommend that Council approve the revised Public Sector Housing capital programme for 2013-14 to 2017-18 (para 12-19 and Appendix 2);
- agree the HRA 30 Year Business Plan (para 20-22 and Appendix 3)

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List of Background Papers
PriceWaterhouse Coopers – self-financing 30 year model
HRA Estimates 2013-14 detailed 30 year financial plan

Appendix 1

HRA Revised Budget 2013-14

	Original Budget £m	Proposed Revised Budget £m	Variance £m
Income			
Dwelling rents	-88.893	-88.573	0.320
Non-dwelling rents	-0.696	-0.696	0
Charges for services and facilities	-0.204	-0.204	0
Contributions towards expenditure	-1.013	-0.734	0.279
Interest on balances	-0.007	-0.023	-0.016
Total income	**-90.813**	**-90.230**	**0.583**
Expenditure			
Management	15.295	16.924	1.629
Responsive and cyclical repairs	24.238	24.491	0.253
Negative Subsidy	0	0	0
Transfer to Major Repairs Reserve	21.425	21.812	0.387
Interest payable	18.499	18.471	-0.028
Revenue contribution to capital expenditure	11.210	13.960	2.750
Other expenditure	1.419	1.419	0
Total expenditure	**92.086**	**97.077**	**4.991**
Deficit in year	**1.273**	**6.847**	**5.574**
Surplus brought forward	**-2.032**	**-7.735**	**-5.703**
Surplus carried forward	**-0.759**	**-0.888**	**-0.129**

- The variance between the original and proposed revised budget for dwelling rents reflects an adjustment to the original estimate to take into account the increase in Right to Buy sales, particularly in the last quarter of 2012-13. It is estimated that sales will continue at the current rate.
- The variances between the original and the proposed revised budgets for contributions to expenditure, management, responsive and cyclical repairs and revenue contribution to capital expenditure relate to earmarked reserves brought forward into 2013-14. These reserves include sums for general housing repairs, improvement works, continuing ICT projects, the costs of implementing welfare reforms, Housing Management office accommodation moves and agile working.
- Minor variations to interest on balances and interest payable relate to higher balances and savings on interest rates.
- The increase in the Transfer to the Major Repairs Reserve reflects changes in accounting practice relating to depreciation on Housing non-dwellings.

Appendix 2

Proposed capital programme 2013/14 to 2017/18

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Adaptations	2,770	2,693	2,725	2,752	2,780
Central heating	3,037	1,868	1,890	1,909	1,928
Community Safety and Environmental Improvements	716	281	284	287	290
Electrical Installations	1,587	1,290	907	917	926
External Improvement Programme	9,167	7,134	7,473	7,550	7,626
Insulation	156	164	170	172	174
Minor Works	4,145	4,135	3,785	3,825	3,865
Modernity and Decent Homes	4,178	2,818	3,408	3,443	3,478
New Council Housing	2,291	1,677	1,141	1,152	1,164
Stock Condition Survey	1,250	0	0	0	0
Tenants Association	109	81	82	83	84
Accommodation	125	0	0	0	0
Void Property Improvements (Decency)	11,733	9,489	9,604	9,705	9,808
Grand Total	**41,264**	**31,630**	**31,469**	**31,795**	**32,123**

Appendix 3

HRA Business Plan - Thirty Year Business Planning Strategy for Landlord Housing

Purpose

1. The Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) has set out (Cabinet February 2013) how the Council plans to balance spending pressures and available resources over the medium term, taking into account risks and uncertainties. It relates specifically to the Housing Revenue Account (HRA) and the capital programme for improvement of the Council's own housing stock.

2. The MTFS(LH) should be read in conjunction with the Council's overall Medium Term Financial Strategy (MTFS). The underlying principles set out in the overall document apply equally to the MTFS(LH).

3. In the context of the introduction of Self-Financing for public sector housing, the abolition of the HRA subsidy system, the increased autonomy and flexibility that housing authorities will have to manage their stock and, in Dudley's case, the increased debt taken on, a Thirty Year Business Plan is being developed. This will take into account issues including investment need, treasury management strategy, financial projections and tenants' engagement.

Background

4. The previous financial strategy for landlord housing focussed on the period up to 2010-11 and was determined through the Housing Stock Options Appraisal. This was a year-long consultation process involving a range of stakeholders and culminated in a decision by the Council in April 2005. The key elements of this financial strategy were:

   - delivery of the Government's Decent Homes Standard by 2010 and maintenance of that standard in later years;
   - support to the aims of the Council Plan – promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
   - identifying ongoing savings and efficiency gains, through the use of partnerships where appropriate;
   - the prudent management of reserves and other balances;
   - compliance with government policy on rent restructuring;
   - honouring the outcome of the Housing Stock Options Appraisal and the view of the majority of tenants and other stakeholders that the housing stock should remain under direct council control.

5. This strategy showed that, on the basis of financial trends and government policy known at the time, it would be possible to deliver the Decent Homes Standard and other priorities for council housing by 2010, and this was achieved on time.

6. The new financial strategy for landlord housing takes into account the delivery of the Decent Homes Standard and the new opportunities and challenges arising

from the introduction of the self-financing system. This is the subject of an ongoing consultation process that includes tenants and residents. The key elements of this new financial strategy, which will cover a rolling five year period, are:

- maintain the Decent Homes Standard;
- Improve the energy efficiency of the housing stock and address fuel poverty;
- invest in housing stock and minimise the number of void properties;
- review the suitability of the housing stock and explore the feasibility of new build to increase stock and / or replace properties that are in poor condition or that do not meet modern requirements;
- support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
- identify ongoing savings and efficiency gains, through the use of partnerships where appropriate;
- continue to undertake prudent management of reserves and other balances;
- comply with government policy on rent restructuring.

The proposed budget and the MTFS(LH)

7. The Decent Homes Standard was delivered by the end of 2010. Resources are still required to maintain this standard, and deal with properties where the age of the fittings mean that a replacement is required, and non-decent properties as they become void. The rolling five-year capital programme includes resources to maintain the Decent Homes Standard.

8. A new stock condition survey has been commissioned and the output of this is expected to be available in autumn 2013. This will identify key areas of investment need and will enable prioritisation of improvement works required to maintain our stock in good order.

9. Our forecast has been based on recent financial trends and our current assessment of the Government's housing finance policy and, like any forecast, should be regarded with caution (risks to the forecast are considered later). In view of our commitment to stock retention and maintenance of the Decent Homes Standard, it is proposed that we continue when necessary to give consideration to the following:

   - ongoing review of spending and resource forecasts;
   - further efficiency and other savings, including those achievable from use of partnerships;
   - addition to and replacement of the housing stock via new build programmes;
   - the level of housing debt;
   - service charges[1].

10. Whilst the volume of responsive repairs has increased since the backlog of routine repairs was eliminated over the past few years, efficiencies in the way these repairs have been delivered and also in the way that capital works are

[1] Government subsidy calculations assume charges over and above the rent for special services to flats and for supported housing – the HRA is financially disadvantaged as a result of not applying these charges.

delivered have resulted in significant cost savings. These savings have been redirected to fund major improvement works.

11. A proposed rolling five-year capital programme has been developed (Appendix 2) as a continuation of the existing programme to maintain current standards and improvements following the achievement of the Decent Homes standard. This will be regularly updated to take into account improvement and major repair needs that are identified.

12. Resources have been identified to start a new build programme, with just over £2m identified in 2013/14 and just over £1m in each of the following years.

13. The table below summarises the 30 year financial business plan (based on the PriceWaterhouse Coopers self-financing 30 year model and detailed in the HRA Estimates 2013-14 detailed 30 year financial plan). This is updated annually and will take into account changes in policy. It reflects our current approach of stock retention, maintenance of the Decent Homes Standard, investment in the maintenance and improvement of our stock, and compliance with national rent policy.

	Years 1 - 5 £m	Years 6 – 10 m	Years 11 – 15 £m	Year 16 – 20 £m	Years 21 – 25 £m	Years 26 – 30 £m
Income						
Dwelling Rents	-465,727	-522,628	-583,650	-652,197	-752,052	-876,075
Other Income	-9,627	-10,412	-10,994	-11,599	-12,556	-13,745
Total Income	**-475,354**	**-533,040**	**-594,644**	**-663,796**	**-764,607**	**-889,820**
Expenditure						
Management and maintenance (net of retained surpluses)	203,617	216,259	249,877	275,038	303,181	335,993
Depreciation and transfer to Major Repairs Reserve	113,058	122,290	132,411	143,402	157,571	173,971
Revenue Contributions to Capital Expenditure / Debt Repayment	68,245	104,635	122,500	155,500	214,000	290,000
Interest Payments	90,435	89,855	89,855	89,855	89,855	89,855
Total Expenditure	**475,354**	**533,040**	**594,644**	**663,796**	**764,607**	**889,820**
Balance	0	0	0	0	0	0

Risks to the financial forecast

14. The main risks to the financial forecast are considered below:

Risk	Impact
Inflation higher than forecast	While increased inflation has an impact on costs, in the case of the HRA, it also affects resources, through the rent formula under government guidance. If cost inflation is lower than general inflation as used to determine the rent increase, this will have a positive budgetary impact. However, if cost inflation is higher than general inflation as used to determine the rent increase, this will have a negative budgetary impact.
Income levels not achieved	Rent loss from void properties We have allowed in our forecasts for a rent loss of 2.5% of total rent available. Investment in void property works has been prioritised in the proposed five-year capital programme. The cost for each 1% void loss is around £1m per annum. Rent loss from non-payment of arrears As part of the Government's proposed welfare reforms, it is proposed that many tenants will from 2013-14 onwards start to receive Universal Credit direct and will therefore be responsible for paying their own rent. Currently, tenants in receipt of benefit have their rent paid as a transfer from Benefits. This is likely to lead to an increase in arrears and potentially in bad debts. Around 3,000 tenants of working age in receipt of benefits may also be affected by benefit restrictions from April 2013 as they are deemed to be under-occupying their property. We estimate that around £2.3m rent, which was previously paid directly via Benefits, will now be collectable from tenants as a result of the new underoccupancy rules.

	The impact of Universal Credit on rent collection rates is difficult to assess at this stage, but initial estimates from the pilot projects suggest that the collection rate may fall from the current 98% to 80% - 90%. The management cost of collecting rents is also expected to rise as more payments are made direct by tenants rather than via transfer from the Benefits system.
Change in rent policy	Currently, we follow the national rent formula, which allows for a rent increase of September RPI plus 0.5%, plus a further increase to achieve "convergence" i.e. bringing council house rents in line with other social landlord rents. A rent increase of less than the national formula would mean that our annual resources for management, maintenance, interest payments and improvement / new build works would be lower than forecast. It is possible that the national formula will change following the government's expectation that convergence will be achieved in 2015.
Interest rates higher than forecast	Our debt on housing properties is around £465m following the introduction of self-financing. Hence, interest rate risk is much more significant than it was under the subsidy system. Risk will be mitigated by borrowing at fixed rates and spreading repayment dates to minimise refinancing risk.
Reduction in property values in the borough	A 10% reduction in property values would reduce the value of usable capital receipts and would reduce available resources by around £90k per year.
Reduction in council house and land sales	We have seen as a result of the "credit crunch" and the general economic situation a marked decrease in the number of council house sales (however, see Reinvigoration of Right to Buy, below) and also a diminution in the value received for sale of housing land. A reduction of 100 house sales in a year will lead to a loss of usable capital receipts of £1.8m. This would be partially offset by additional rental income of around £400k, but management and maintenance demands on the properties would continue.
Reinvigoration of Right to Buy	The Government has increased the cap on Right to Buy (RTB) discount from £26,000 to £75,000 per property. This has resulted in increased sales, which may well continue to increase. New regulations have replaced the capital receipts

	pooling arrangements and require councils to build replacement homes for all extra homes sold under Right to Buy. However, because the value of the maximum discount has increased and there has been a reduction in the average value of the properties sold, increased sales will not necessarily result in a greater value of capital receipt income.
Timing and amount of capital receipt	We are expecting a substantial capital receipt for the sale of the North Priory estate to our developer partners. This has been built into our forecasts over the period 2009-10 to 2013-14. Any significant reduction in amount will reduce available resources. Any delay in receiving the funds will adversely affect cashflow and if the receipt is delayed there will be a significant adverse effect on the year-end balance on the HRA. A specific risk applies in relation to £700k of this anticipated receipt which is payable as Kickstart grant by the Homes and Communities Agency (HCA) to our developer partners on the successful completion of Phase 1 of the project. This will then be passed on to the Council. We are actively monitoring our developer partners' progress in claiming this grant.
Suitability of stock	Some of our stock is old and nor particularly suited to modern styles of living. In addition, changes to the benefit system mean that some of our properties are less attractive than they were previously (e.g. two-bed high rise flats or three-bed maisonettes). There is a risk that we will see higher incidence of void properties and difficulty in letting such properties, which would lead to a loss in rental income and also potentially an increase in security costs and an increase in anti-social behaviour.
Availability of borrowing	The HRA is currently at the government's borrowing cap, so all capital expenditure on housing stock must be funded from annual revenue (mainly dwelling rent income) or capital receipts from house or land sales. Our strategy is to invest our annual rental income into maintaining and improving our stock, and building new homes as resources permit. In the short to medium term we are not planning to repay any debt, as our priority is improving and extending our stock. However, this restricts the size of any redevelopment / new build scheme as we are not able under current rules to borrow on the strength of future rental income.
Unforeseen costs or costs	Any unbudgeted costs would have to be met from

greater than estimated	economies or reductions in planned spending in the year in which they arise or from any balances available in that year. Calculations indicate that any costs to the HRA arising from Single Status can be met within proposed budgets. We anticipate that any Equal Pay settlement costs would be capitalised through a government dispensation.

Partnerships

15. Housing Services is continuing to deliver on its partnership working and currently has a number of such arrangements, for example:

- Funding partnerships with energy service providers to increase resources under ECO (Energy Company Obligations) - which replaced CESP from spring 2013 - to deliver energy efficient whole house measures to combat climate change and CO2 emissions in Council Homes.
- Strategic partnerships that are being delivered in accordance with the principles of Sir John Egan's report 'Rethinking Construction'. Through innovative payment mechanisms, incentivising good performance and modern methods of collaborative working, three partnerships (gas servicing, maintenance and repair; electrical rewires and upgrades; external painting) are delivering improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock.

16. Procurement consortia and other partnership arrangements will also be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.