SCRUTINY COMMISSION – 21 JANUARY 2016

HRA BUSINESS PLAN
REPORT OF DEPUTY CHIEF EXECUTIVE (COMMUNITY DIRECTION)

Hinckley & Bosworth Borough Council
A Borough to be proud of

WARDS AFFECTED: ALL

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1. PURPOSE OF REPORT

1.1 To advise members of the options for managing the impact of the 1% rent reduction and previous rent increase decisions on the Housing Revenue Account (HRA) Business Plan and HRA Investment Strategy.

2. RECOMMENDATION

2.1 The Scrutiny Commission reviews the options for managing the changes necessary to the HRA Business Plan, arising from previous rent decisions and the one percent rent reduction going forward and identify any comments that they would wish to raise to Council.

3. BACKGROUND TO THE REPORT

3.1 In 2013 the financing regime for council housing changed from the subsidy system to one of self financing, where councils could keep rent raised to support services and for reinvestment. The last rent guidance issued by the government in 2013 gave some certainty in terms of rent rises (CPI + 1%) and these rent increases were built into, and underpin, HRA Business Plans and Investment Strategies.

3.2 The Council considered the national consultation on whether Housing authorities wanted to continue with the Housing Subsidy System (which was costing this Council £4.1m per year and would have increased by inflation in future years) or to buy out of the subsidy system. Following specialist external advice from Tribal, Capita and the Chartered Institute of Housing, the Council unanimously agreed to buy out of the Subsidy System. The cost of the one-off buy out was determined by the Government to be £67,652m.

3.3 The HRA Investment Strategy 2013 – 2018 was approved by Council on 16 July 2013 and a detailed financial model was aligned to the Plan, which allowed for investment in stock enhancements, service improvements and council house new build and acquisition. These priorities were agreed by Council following consultation with tenants and the financial model was based on the self financing settlement, which enabled the council to cover the debt borrowed over a 25 year period, whilst also providing a budget for capital investment.

3.4 This financial model assumed that rents would be increased by the guidance figure over the time of the business plan, providing a surplus which formed a regeneration reserve to finance the additional enhancement to properties and the council house new build and acquisition programme.

CURRENT INVESTMENT PROGRAMME.

3.5 Within the current approved capital programme £10.0m has been set aside for affordable housing, £0.062m for additional enhancements to the existing stock and £11.29m for programmed repairs to housing stock between 2015/16 and 2017/18. The additional investment has been used to finance an enhanced kitchen and bathroom programme (£0.62m) and to start the council house new build and acquisition programme (£10m).

3.6 In terms of council house new build and acquisition, work is taking place in the following areas:

Scheme	Units	Indicative cost
Southfield Road, Hinckley	30	£3.2m
Martinshaw Lane, Groby	9	£1.7m
Ambion Court, Market Bosworth	Refurbishment/extension	£1.9m
5 year development plan	Smaller sites providing approximately 60 units	Feasibility currently underway.

GOVERNMENT ANNOUNCEMENTS ON SOCIAL HOUSING RENT INCREASES.

3.7 Contrary to the original commitments and more recent guarantees, the Chancellor announced in his Summer Budget of 2015 that from 2016/17 rent increases for social housing properties would not be allowed and, in addition, social housing landlords would be required to reduce rents by 1% over the following four years.

3.8 A refresh of the HRA Business Plan has been undertaken, therefore, to inform our investment strategy going forward and to incorporate the government announcement of the 1% rent reduction for social rents for four years from 2016/17. The impact of this reduction on the HRA Business Plan is £5.089m over 5 years.

3.9 The HRA Business Plan has also been impacted on by previous rent increase decisions taken by the Council, which have been below the increases included in the Business Plan. The rent increase in 2015/16 was 6.5 per cent. The rent convergence was 9.76 per cent. The amount below rent convergence was 3.26%. After allowing for void losses this equates to £0.389m in 2015/16. If this loss is projected to 2034/35 this equates to £9.218m.

3.10 As a result, the overall impact on the HRA Business Plan of both previous rent increase decisions and the 1% rent reduction from 2015/16 to 2019/20 will be £7.133m.

3.11 The Business Plan has been updated to reflect the latest information available for future revenue and capital repairs to the housing stock. This includes any additional stock enhancements based on the current condition of the Housing Stock following a thorough cleanse and review of the data held, which identified an element of “catch up” work required.

3.12 Decisions now need to be taken on how to manage the reduction in income in the Business Plan resulting from the rent decrease over the next four years and the previous rent increase decisions, both of which have a continuing and cumulative impact over the length of the 30 year Business Plan. The issue will not therefore simply be confined to the next four years.

The options are as follows:

3.13 Option 1 – rescheduling of the debt with the aim of covering the shortfall in income to enable the continuation of the current investment programme.

3.14 Option 2 – Re-borrowing to meet the shortfall in income to enable the continuation of the current investment programme.

3.15 Option 3 – Re-borrowing to continue with current schemes only – This would reduce the council house new build and acquisition programme by £2.235m. This option would mean that all committed schemes are completed, but the balance of the £10m will not be spent. From the original £10.0m the following schemes would be completed.

Southfields Road	£3.2m
Ambion Court	£1.9m
Martinshaw Lane	£1.7m
Dwelling Purchases	£0.55m (complete)
Dragons Lane	£0.41m (complete)
Total	£7.765m

3.16 Option 4 – Continue with current schemes only, with repairs programme reprofiling of £1.8m.
This assumes that the Southfield Road, Martinshaw Lane and Ambion Court schemes continue (as option 3) but also that additional service reductions of £300,000 per year are achieved for six years. The costing assumes that these reductions can be achieved by extending the assumed lifetime of certain components. For example, the lifetime of a kitchen would be extended from 20 to 24 years and roof structures from 70 to 120 years.

This option would impact on decency of the housing stock and furthermore we would be at risk of not being able to satisfy our statutory requirements of the Housing Health and Safety Rating System to ensure that our tenants are safe in and around their homes.

OTHER CONSIDERATIONS

3.17 The plan currently does not allow for the potential costs of having to sell high value void properties. This requirement is contained in the Housing and Planning Bill 2015. Details of both the definition of high value homes and the mechanism by which the government will calculate the amount owed by the council in anticipation of the sale of such voids will be published by the Government in due course. Once the detail and requirement is known, the HRA Business Plan will be refreshed and implications reported in accordance with financial procedure rules.

4. FINANCIAL IMPLICATIONS [IB]

Background

4.1 The rent increase in 2015/16 was 6.5 per cent. The amount below rent convergence was 3.26%. After allowing for void losses this equates to £0.389m in 2015/16. If this loss is projected to 2034/35 the impact is £9.218m.

4.2 Implications arising from the options 1 to 4 are summarised below. Current re-borrowing and interest costs are summarised in Appendix 1. At the time of any re-borrowing (if agreed) officers would ensure that the most cost effective options available at that time are undertaken. Although re-borrowing rates may change the options below are based on current rates and include an assumption of rates increasing in the medium and long term.

Option 1 – Rescheduling the debt

4.3 If the loans were replaced with new loans, this option would still be unaffordable. Having discussed various rescheduling options with Capita (External Treasury advisors), there are two underlying reasons for this:

1: The costs of redemption for existing loans are very high and would outweigh the lower replacement loan costs. For the four oldest loans, redemption costs would be £531,214 per loan.

2: To redeem short term loans we would be using up cash backing up our reserves and may be left with insufficient day to day cash resources.

4.4 Option 2 – Re-borrowing (no reductions)

If the current new build programme was to continue and future programmed repairs and HRA budgets continue, re-borrowing would need to be incurred from 2019/20 onwards. Until 2019/20, reserves would be available to fund the impact of the reductions in rental income, but would not be available beyond that date. Overall, up to 2034/35 the total additional interest cost is estimated at £13.095m.

The key risk for this option would be that there would be no headroom for future growths in expenditure. If further, unforeseen pressures were to arise, compensating savings would need to be realised to ensure the debt cap is not breached.

4.5 Option 3 – Re-borrowing (continue with current schemes only)

This option would mean the reduction in the capital programme of £2.235m from the £10.0m programme. Compared against the 'no reduction' option, this option would reduce the borrowing requirement by £3.537m and would result in an interest reduction of £1.749m up to 2034/35.

This option would also result in £3.5m of headroom for any future pressures.

4.6 Option 4 – Continue with current schemes only, with repairs programme reprofiling of £1.8m

This would mean a short term saving of £300,000 per year for six years, but would have the effect only of shifting the work to subsequent years – the work will still be necessary and may be more costly, because of the delay Compared against the 'no reduction' option this would reduce the borrowing requirement by £5.874m and would result in interest savings of £2.867m up to 2034/35.

This option would also result in £5.8m of headroom for any future pressures.

Other Factors

4.7 If the council house new build programme is reduced, based on current estimates the amount of right to buy receipts from one for one replacements that will need to be returned to the CLG is estimated to be £174,082. Additionally an interest penalty of estimated at £20,890 would also be incurred.

4.8 The estimated New Homes Bonus from 39 units (section 3.6 above) is £43,910. The estimated council tax based on a band B average for 39 dwellings is £3,178. If the dwellings were built the New Homes Bonus and council tax income would be included within the general fund.

4.9 The current business plan does not allow for implications from the sale of high value voids. Once CLG has published its guidance these costs will need to be approved in accordance with financial procedure rules. These costs will also need to be reflected in the HRA Business Plan.

5. LEGAL IMPLICATIONS [MR]

5.1 Set out in the report.

6. CORPORATE PLAN IMPLICATIONS

6.1 This report and its outcomes contribute to all of the corporate aims.

7. CONSULTATION

7.1 None to date. At an appropriate point consultation with Together for Tenants will take place on the HRA Business Plan.

8. RISK IMPLICATIONS

8.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
Sale of High Value Voids and Future changes	Ensure additional service efficiencies are identified to ensure that the future debt cap is not breached	Chief Officer – Housing and Partnerships]/ Chief Officer (Corporate Governance and Housing Repairs)
Changes in Interest and Inflation Rates	Ensure Treasury Advisors are consulted to ensure latest assumptions are built into the Investment Plan. Any changes with corrective actions are reported to members.	Accountancy Manager
Maintaining the decency within the housing stock and ensuring health and safety requirements are met	Continuing stock condition surveys and only extending the life of components not presenting significant risk	Chief Officer (Corporate Governance and Housing Repairs)
Insufficient headroom for future (currently unknown) pressures.	Compensating savings would need to be realised to ensure the debt cap is not breached	Chief Officer – Housing and Partnerships]/ Chief Officer (Corporate Governance and Housing

		Repairs)

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

9.1 All council tenants will be affected by decisions made in relation to the HRA.

10. CORPORATE IMPLICATIONS

10.1 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Human Resources implications
- Planning implications
- Data Protection implications
- Voluntary Sector

Background papers: None

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