

Taunton Deane Borough Council

Executive – 14 January 2015

Review of HRA Business Plan 2012-2042

Report of the Director of Housing and Communities- James Barrah

(This matter is the responsibility of Executive Councillor Jean Adkins)

1.0 Executive Summary

Following the HRA Self Financing settlement a 30 year HRA Business Plan 2012-2042 was agreed from the 1 April 2012. At this time a regular review process was agreed. Since the last review process a number of significant changes and issues have arisen that impact on the Business Plan, consequently a further review has been undertaken.

The purpose of this report is to consider and agree the aspects of the HRA Business Plan 2012-42 under review, and refresh the financial aspects of the plan to ensure they remain current and robust.

2.0 Background

2.1 It was agreed by the Council that the HRA Business Plan would be subject to a formal annual review involving member scrutiny and agreement as part of the budget setting timetable each year.

2.2 The context in which Housing Services operates continues to change rapidly. As a result a review of the business plan has now been undertaken and these issues and their impact are outlined in this report.

3.0 Business Plan - Income

3.1 Inflation Assumptions

From 2015/16 Dwelling Rent income is to be uplifted annually by the Consumer Price Index (CPI) + 1% (revised from the Retail Price Index (RPI) + ½%) in accordance with national rent guidance.

CPI for September 2014 was 1.2%. This is the lowest inflationary uplift in 5 years, and significantly lower than the expectation in the Business Plan of 2% (which is based on the Government target for CPI). Although a rent increase of 2.2% (CPI of 1.2% + 1%) is good news for tenants, it has created a pressure in the 2015/16 budget of £176k due to reduced income expectations. This reduction in income over the remaining 26 years of the Business Plan equates to £10.5m.

Had the rent formula remained at RPI + ½%, although rents would still be lower than assumed in the Business Plan, the inflationary increase for 2015/16 would be 2.8% (RPI of 2.3% + 0.5%). This would have reduced the deficit in 2015/16 to £44k.

4 Business Plan - Expenditure

4.1 Apprentice Scheme

The Housing Service has long held an ambition to provide work placements for individuals from within our communities to allow them to gain vital skills and experience that will enhance their life opportunities and in particular employment potential. The Housing service is a large and complex business so apprentices would be able to experience a wide range of housing related activities whilst also gaining general workplace experience.

Officers have been working on an outline proposal which will come forward as a detailed report for member approval in due course with the intention of such a scheme starting in September 2015. The broad outline of the scheme is to provide three types of placements all of which would provide a range of general skills but would then specialise in the areas of Estate Management, Property Services and Development, and lastly Business Administration and Support. It is intended that the scheme will be ring fenced to benefit tenants and their families. The issue is raised in this report as it is proposed to make a financial provision of £24k per annum in the Business Plan to support the costs of the project.

4.2 Welfare Reform

The Housing Service is taking a range of measures to prepare for and to mitigate the impact of Welfare reform in our communities and on the HRA Business Plan. Key to this work has been the provision of a temporary post filled via secondment of a Welfare Reform Project Officer post. The roll out of welfare reform is ongoing and in particular Universal Credit will be deployed imminently. It is therefore proposed to extend the provision of this post by a further two years to provide the necessary capacity. The additional cost this post is £33k per year.

4.3 Capital Investment

Members will be aware that a significant element of expenditure over the life of the Business Plan relates to investment in improvements to our homes. This takes the form of component replacement (windows, doors roofs etc) in accordance with cyclical lifetime periods. Since the business plan was established we have been addressing known backlog of works and this is combined with a high level of cyclical replacement due in the earlier years of the plan has created higher level of expenditure in the earlier years which reduces significantly in around seven years' time. We are currently in the process of procuring new contracts which will run for a number of years, as some key contracts have now come to the end of their life.

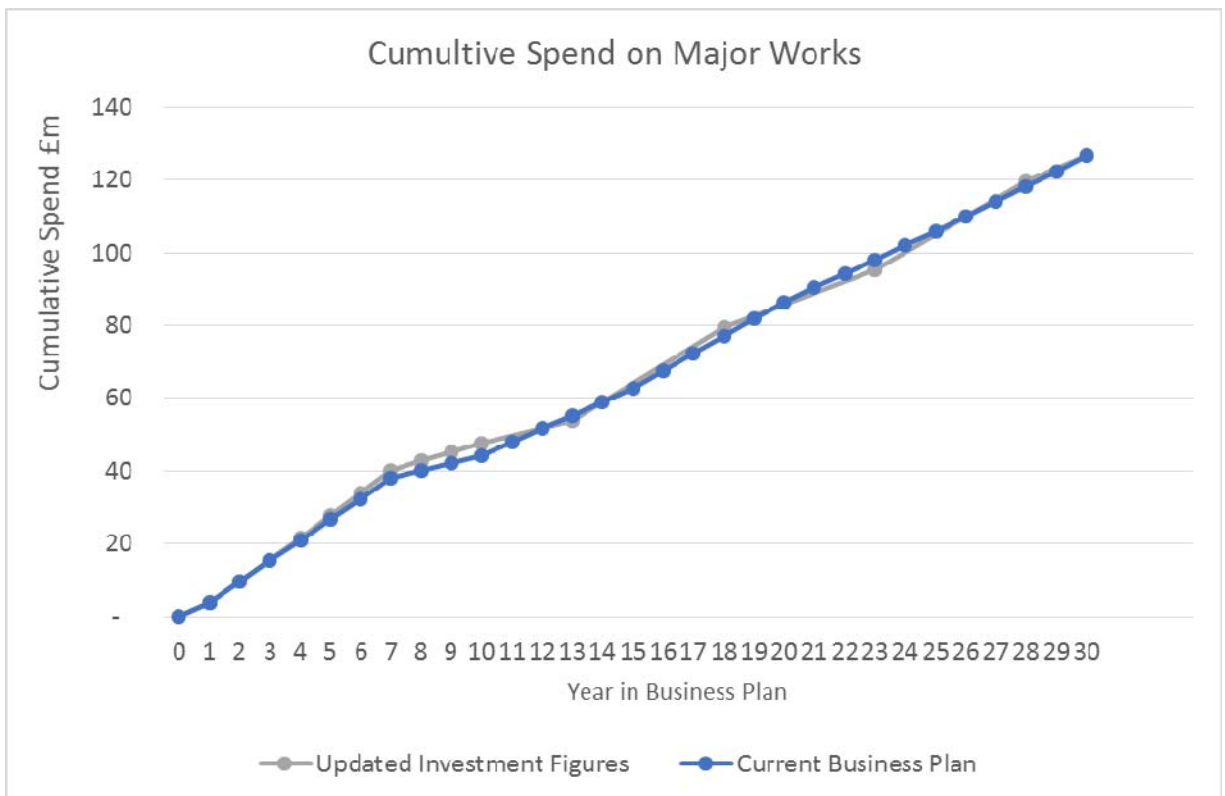
We have undertaken a review of the profile of spend required in the next few years and although the spend over 30 years remains the same, the investment needed in the medium term is approximately £3.3m more than is currently provided in the Business Plan. The following years then require lower spend on major works than has been previously included and so this additional funding for these years can be reinvested.

The original criteria for the assessment of building attributes within the HRA 30 year Business Plan were various, such as the Decent Homes Standards, general condition and life expectancy. This wasn't an ideal situation as far as monitoring and planning were concerned as it delivered too broad a spread of possible financial results. Coupling this with quite a large volume of backlog works and limited data quality showed a lack of robustness in the figures.

As more survey results were collated the quality of the data held improved but this was still measured against too wide a spread of criteria to give the most accurate picture of the financial situation so the decision was made to streamline the criteria and use the age of the attribute or element of the building as the main criterion wherever possible. This would give us a more accurate picture of the projected forecast but would have the effect of showing failure of an attribute earlier than "just in time". This effective early failure showed a worse financial scenario as life spans had been shortened and subsequently there would need to be more replacements over the 30 year period. A refresh and update of the Codeman database has confirmed this to be the case.

There has been slower spend than planned in some elements such as bathrooms and kitchens and faster spend in others such as roofing and external doors. This has had the effect of skewing the perceived failure rate when compared to anticipated failure and as the last few years have progressed the backlog appears to have grown as attributes reach their time limits. However, improvement works and major works are progressing all the time and although the actual spend profile is not exactly as planned, the overall position is an improving one that still shows the 30 year Plan to be on target overall.

Our database quality has improved again this 3rd year and we have again refreshed and updated it, albeit a more lightweight exercise but still using age as the main criterion. So that we can better meet the expectations of our tenants regarding home security and thermal comfort the volume of work within Major Works has increased. This and the further items mentioned earlier has led to us identifying a shortfall in the budget over the next five years or so. A desktop exercise has demonstrated that even with only completing what we would consider high priority major works there is still a budget shortfall. We would plan to bolster the budget with finance from other areas within HRA that do not carry such a high priority.



It is therefore necessary to make some adjustments to some non essential expenditure lines to ensure the necessary cash flow is in place to support the major works capital programme, these are outline below:-

Extensions

The Business Plan currently contains a budget of £160K per year for undertaking individual extension projects. Since this budget was established experience has shown that delivering such projects takes considerable staff time to identify suitable properties and households and to procure works for individual jobs. It is

considered that this time would be more effectively deployed at new build development projects. In addition the relative cost for extensions to improve an existing property is higher in comparison to new build to provide an entirely new home. New build will include the provision of homes of all sizes to meet the known housing need in a particular location. It is therefore proposed to discontinue this budgetary provision from 2015/16 onwards. Two extension projects have been identified and work is underway to submit a planning application for each project. The anticipated spend is in the region of £55,000 per project, with an anticipated build and completion within 2015/16. Any remaining funds from the 2014/15 budget of £160K will remain for further extension works. There are a further three enquiries for extensions to be assessed.

Environmental Improvements

At the start of the Business Plan a provision of £150K per year was made to support environmental improvements that had previously been unaffordable. In practice and when work has commenced to utilise these budgets, based on feedback from residents, two key areas of projects have come forward. These are additional car parking and provision for mobility scooter storage.

There are a range of projects completed and under consideration. Scooter charging points and associated parking bays have been successfully completed at Lodge Close, Wellington and two pilot scooter stores have been installed at Tauntonfield Close and Lyngford Place in Taunton. There are two proposals for further scooter storage/charging points under consideration. There are also a number of proposals being progressed to address the parking issues experienced within the Councils housing estates. Any remaining budget will be set aside for further environmental improvement works in future years.

It is therefore proposed that in order to ensure essential major works are funded that the profile of this expenditure will be adjusted, this will result in the annual budget decreasing from £155K (£150K plus inflationary uplift) to £50K for the next seven years.

Sustainable Energy Fund

At the start of the Business Plan provision of £6.6m (£220K per year), was made to support initiatives to improve the thermal performance of our properties and to assist residents with the cost of heating homes. Initially this budget was established to support the provision of Air Source Heat Pumps into our properties when heating replacement was due. Subsequent to this the provision of air source is now fully integrated into our capital programme with expectations of £670k per year to be spent on such heating provision. Similarly projects are underway for significant investment in Solar PV and some External Wall insulation provision.

It is therefore proposed that in order to ensure essential major works are funded that the profile of this expenditure will be adjusted, this will result in the annual budget decreasing from £227K (£220K plus inflationary uplifts) to £100K for the next seven years.

It is important to note that at the current time the above proposals for Environmental Improvements and Sustainable Energy Fund do not reduce the overall expenditure on these elements over the whole life of the business plan, the above adjustments result in a re profiling of the spend. This will of course reduce the scope for such work in the earlier years but there will remain significant budgets of £50K and £100K respectively to continue work programmes and projects.

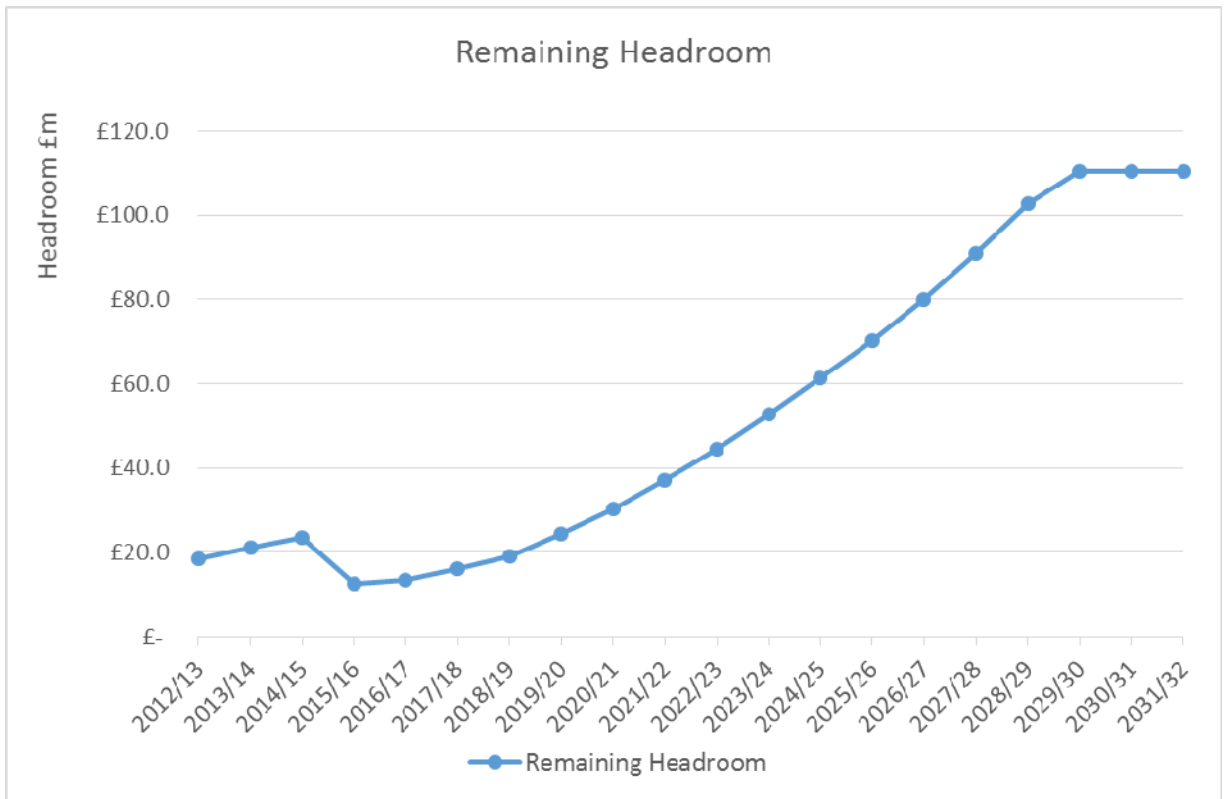
In summary, the total capital investment in the business plan has not changed. What is proposed, is an adjustment of the profile of specific expenditure lines to ensure the early years major works capital expenditure expectations are affordable.

5. Development Programme and Borrowing Headroom

As members will be aware the Council's new build programme is now well established with a number of schemes on site, and a further project in Rockwell Green, Wellington recently receiving budgetary approval. Work progresses on an ongoing pipeline of schemes. New build projects are planned to be revenue cost neutral to the HRA Business Plan in that the new rental income offsets the interest costs of funding schemes by borrowing over a 30 year period. However in order to ensure borrowing costs do not exceed income, affordable housing will always require subsidy. This is a basic principle of affordable housing provision. The subsidy used in TDBC schemes is created from capital receipts and in particular additional Right to Buy receipts and contributions from the Social Housing Development fund. This is a provision of £1M per year set aside in the business plan for the provision of new affordable housing.

Where borrowing is required the HRA is currently subject to a borrowing cap, the Council is not allowed to exceed this cap. However our current borrowing is still significantly lower than the cap so we still have "borrowing headroom". The recent approval of the Rockwell Green Scheme and the Solar PV project have further reduced this headroom. However the HRA is still able to potentially borrow a further £13.5M currently. As we continue to pay off our self financing debt, the headroom will continue to grow over future years.

The graph below illustrates our current headroom projections.



6 Voluntary code for a self-financed Housing Revenue Account

The introduction of HRA self-financing has given local authorities the freedom to develop and deliver a more positive, less constrained, vision for council housing. In order to support local authorities in assessing and developing, a voluntary code of practice has been developed by the Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing. The principles and provisions of the code will:

- Assist housing authorities in ensuring effective governance, finance and business planning;
- Provide transparency to tenants, members and officers on how the housing business is being managed. The code will give tenants and members a framework against which to hold the authority to account;
- Allow housing authorities to assess where they may need further support and assistance.

The principles included within the code are included under the following headings: Co-regulation; Financial viability; Communications and governance; Risk management; Asset management; Financial and treasury management.

The Council formally adopted this code last year and we have since completed a self-assessment against these principles. Following which a report has been produced with some associated actions, and recently this has been reported to the Councils Corporate Governance Committee.

Generally the self assessment outcomes were positive in that we have good controls in place to manage the significant risks associated with the self-financed HRA. However we have identified a number of areas where further work and review is required to ensure our approach continues to be robust, these actions include:-

- Ongoing utilisation of scenario modelling on key risk factors impacting on the Business Plan (See finance section of this report regarding Inflation risk)
- Review and refresh of internal control measures (standing orders, financial regulations etc)
- Further investment in risk management systems.
- Greater access to benchmarking information.

A high level summary of the actions is contained at Appendix 2, these actions will be refined and built into our ongoing work programme.

7 Finance Comments

A number of factors have affected the financial position of the Business Plan since the introduction of Self Financing and the original Business Plan. Some influences have come from Government policy such as the change in Right to Buy discounts, welfare reform and rent policy. Others have been based on local plans, reflecting asset management and maintenance changes and staffing restructures. Economic factors, for example inflation rates, have also affected the position.

As such the Business Plan has been updated to reflect these changes and continues to show that the move to self-financing is financially beneficial over the long term.

Summary of changes to the Business Plan:-

Item	Annual Impact £000s	Impact on Business Plan Reserve at 2041/42 £000s	Business Plan Reserve at 2041/42 £000s
Reserve Balance on previous Business Plan			167,064.2
Dwelling Rent Income	(176.1)	(10,548.3)	
Apprentice Scheme	(24.0)	(853.4)	
Welfare Reform	(32.7)	(66.5)	
Capital Investment	0.0	0.0	
Extensions	160.0	4,558.0	
Other changes		(506.4)	
Final Balance			159,647.6

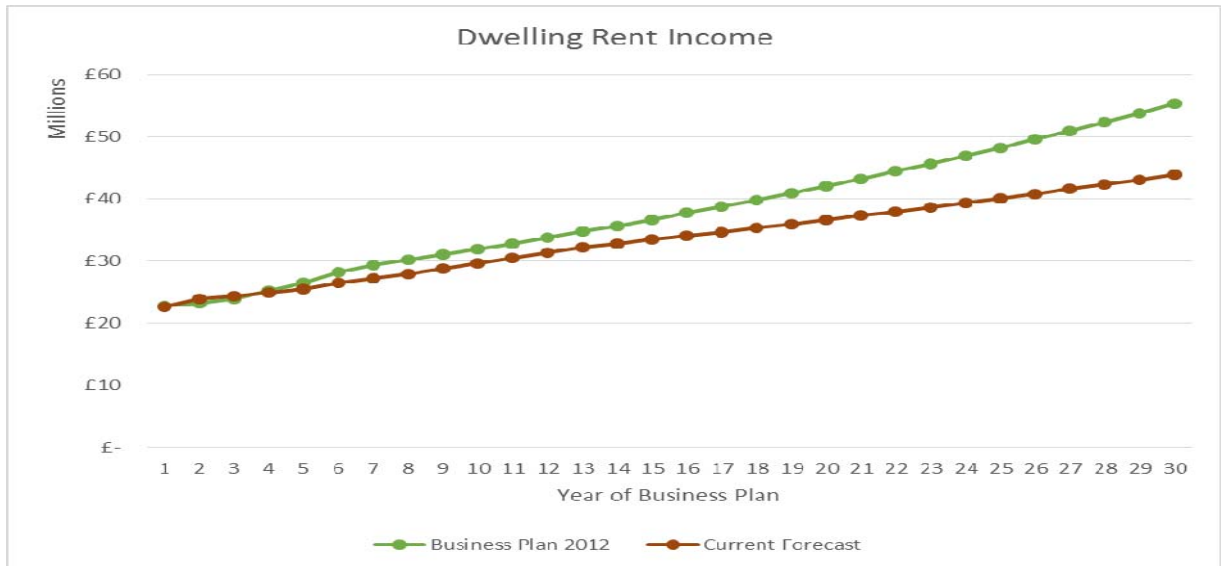
The overall impact of the changes contained within this report is a forecasted change in projected reserves balances in 2042 from £167.1m to £159.6m – a reduction of £7.5m. Although the figure overall is only a variation of 4.5%, the changes have a significant effect on cashflow due to reduced income in the early years. This has put pressure on the ability to repay the self-financing borrowing within 18 years. There is a temporary budget gap of £230k in year 7 (2014/2015 is year 3 of the 30 year Business Plan). This relatively small deficit can be managed through the one-off use of reserves (whilst still maintaining the minimum HRA balance of £1.8m), and reserves could be reinstated the following year from revenue funds if necessary.

Dwelling Rent Income and Inflation

Dwelling Rent assumptions have changed significantly since the start of the 30 year Business Plan with the major changes being:

- Increase in Right to Buy (RTB) discounts leading to additional dwellings being lost.
- Change in national rent policy changing the annual uplift from RPI +½% to CPI +1% for 10 years
- Loss of rent convergence to target rent
- Lower inflation rates

A graph showing the rental income assumed at the start of self financing compared to current assumptions:



Over the 30 years of the Business Plan this equates to a reduction in income of £133.1m. The ability to repay the borrowing taken out for self-financing within 18 years was based on the higher level of income. Although some changes such as the lower interest rates (reported in a previous Business Plan Review), have mitigated this, it is still a very significant reduction in income.

With Dwelling Rents accounting for over 92% of the income received in the HRA, and rents inflated annually by CPI (+1% for 10 years) the Business Plan is heavily dependent on CPI. As such inflationary changes pose a big risk to the HRA. Current forecasts for CPI in the Business Plan are based on those of the Office for Budget Responsibility. Any variations from these rates could greatly impact on the position of the Business Plan and cannot be accurately predicted. Each 1% change in inflation equates to approximately £250k pa increase/decrease in income.

Below is a graph showing the effect of a 1% year on year change in inflation



Any further adverse changes could cause a potential cash flow management requirement in the medium term. There would be a number of options available to manage the HRA budget:

- Defer or reduce spending on revenue and/or capital maintenance
- Defer or reduce investment in the Social Housing Development Fund
- Undertake further capital borrowing to support capital investment instead of using HRA Revenue resources

Any future issues for managing the cashflow and debt position for the HRA would need to be discussed with Arlingclose, our treasury management advisors, to determine the most effective and efficient course of action for the HRA.

Conclusion

Overall the 30 year Business Plan continues to forecast a healthy financial position over the long term. The current spending plans create a small budget pressure in the medium term, which will need to be managed in order to produce an affordable budget forecast for the HRA MTFP.

8 Legal Comments

There are no significant legal issues to arise from this report.

9 Links to Corporate Aims

The corporate priorities have influenced the Business Plan; including recognising how changes in national housing finance and policy will impact on the Council's priorities for the housing service. The business plan aims to support the delivery of the Council's corporate priorities and wider housing and community objectives.

The business plan is structured around four housing strategic objectives:

1. Securing a long term future for our housing service.

- This means continuing to invest in the management of the housing stock to ensure it meets the needs of tenants, who should be at the heart of decision making.

2. Tackling deprivation and sustainable community development

- This means taking action so that disadvantaged communities will have better access to local housing services, training and employment, continuing our support for a range of vulnerable people.

3. Investing in our housing stock, regeneration and affordable housing

- This means investing in our existing stock to deliver a standard that meets the needs of the stock and local aspirations. It also means planning and successfully managing the regeneration of our housing estates and communities, providing homes that cater for the needs of an expanding and diverse population within communities that people are proud of.

4. Climate change

- This means taking action to reduce carbon emissions across our housing stock through our investment planning, service delivery, partnership and community action to address climate change and reduce fuel poverty.

10 Environmental Implications

Climate change is a strategic priority for Housing Services and our Business Plan has been created to have positive implications for the environment. Housing Services aims to take action to reduce carbon emissions across the housing stock through investment planning, service delivery, partnership and community action.

11 Community Safety Implications

Community safety is incorporated in the strategic priority for Housing Services and our Business Plan has been created to have positive implications for community safety. Housing Services aims to take action so that disadvantaged communities will have better access to local housing services, training and employment. Housing Services also aims to continue its support for a range of vulnerable people and to tackle crime and fear of crime through reducing anti-social behaviour.

12 Equalities Impact

An Equalities Impact Assessment is attached as Appendix 1. There are no significant impacts arising from this report.

13 Risk Management

As a matter of course advice is sought from Arlingclose, Council's treasury management advisors, on cashflow and debt management issues.

14 Consultation

This report was considered by the Tenant Services Management Board in outline on 15 December 2014. The board were supportive of the changes to the Business Plan and understood and accepted the revised position. The detailed report will be considered by the board at its January meeting.

15 Recommendations

To approve the proposed changes to the Housing Revenue Account Business Plan.

Contact:	Officer Name	James Barrah- Director Housing and Communities
	Direct Dial No	01823 358 699
	e-mail address	j.barrah@tauntondeane.gov.uk

Review of HRA Business Plan 2012-2042 dated December 2014

Appendix 1

Equality Impact Assessment

Responsible person	<i>James Barrah</i>	Job Title: Director Housing and Communities
Why are you completing the Equality Impact Assessment? (Please mark as appropriate)	Proposed new policy/service	
	Change to Policy/service	√
	Budget/Financial decision – MTFP	√
	Part of timetable	
What are you completing the Equality Impact Assessment on (which, service, MTFP proposal)	Taunton Deane Borough Council (TDBC) Review of Housing Revenue Account (HRA) Business Plan 2012 – 42	
Section One – Scope of the assessment		
What are the main purposes/aims of the policy/decision/service?	<p>The strategic objectives of the business plan are to:</p> <ol style="list-style-type: none"> 1. Securing a long term future for our housing service; <ul style="list-style-type: none"> • This means continuing to invest in the management of the housing stock to ensure it meets tenants’ needs, who should be at the heart of decision making. 2. Tackling deprivation and sustainable community development; <ul style="list-style-type: none"> • This means taking action so that disadvantaged communities will have better access to local housing services, training and employment, continuing our support for a range of vulnerable people. 3. Investing in our housing stock, regeneration and affordable housing; and <ul style="list-style-type: none"> • This means investing in our existing stock to deliver a standard that meets the needs of the stock and local aspirations. It also means planning and successfully managing the regeneration of our housing estates and communities, providing homes that cater for the 	

	<p>needs of an expanding and diverse population within communities that people are proud of.</p> <p>4. Climate change.</p> <ul style="list-style-type: none"> • This means taking action to reduce carbon emissions across our housing stock through our investment planning, service delivery, partnership and community action
<p>Which protected groups are targeted by the policy/decision/service?</p>	<p>Taunton Deane Borough Council's HRA housing stock comprises of approximately 6,000 rented homes, with a further 372 leasehold properties. In addition, the Council also manages two private leasehold schemes for the elderly. Housing services are designed to ensure they meet the needs of wide ranging customer base. As such the HRA Business Plan 2012 – 2042 is targeted at all the protected groups including: Age; Disability; Gender Reassignment; Pregnancy and Maternity; Race; Religion or belief; Sex; and Sexual Orientation; Marriage and civil partnerships.</p>

<p>What evidence has been used in the assessment - data, engagement undertaken – please list each source that has been used The information can be found on....</p>	<p>Data:</p> <ol style="list-style-type: none"> 1. Major changes in national housing finance, welfare benefits reform, housing policy and proposals for change to national rent policy – 2011;2012; and 2014; and 2. Values and priorities reflected in the Council’s Corporate Business Plan 2013-2016. <p>Engagement:</p> <ol style="list-style-type: none"> 1. Consultation with tenants and stakeholders which included regular meetings with the Tenant Services Management Board during 2014.
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Section two – Conclusion drawn about the impact of service/policy/function/change on different groups highlighting negative impact, unequal outcomes or missed opportunities for promoting equality

The proposed variances identified in the reviewed HRA Business Plan 2012- 2042 will apply to all existing and new tenants and as such no potential discrimination amongst the protected groups has been identified.

I have concluded that there is/should be:

No major change - no adverse equality impact identified	No major change, as there is no specific equality impact on the protected groups.
Adjust the policy/decision/service	
Continue with the policy/decision/service	
Stop and remove the policy/decision/service	

Reasons and documentation to support conclusions

Section four – Implementation – timescale for implementation

The reviewed Housing Revenue Account Business Plan 2012 -2042 will be effective from April 2015.	
Section Five – Sign off	
Responsible officer: James Barrah Date	Management Team Date
Section six – Publication and monitoring	
Published on	
Next review date	Date logged on Covalent

Appendix 2

Voluntary Code for a self-financed Housing Revenue Account Activities Plan at 2014/15

Principle	Provision/Activity	By when	Lead Officer	Status/comments
Financial Viability	<ul style="list-style-type: none"> As part of the work the service currently undertakes in reviewing its business plan, consideration will need to be given to modelling a range of detailed options scenarios for the 30 year plan. 	2015/2016	Kerry Prisco Lucy Clothier	
Communications and Governance	<ul style="list-style-type: none"> Undertake a review of internal control procedures (standing orders; financial regulations; contract procedures) and implement any recommended changes. 	2015/2016	Bruce Lang	
Risk Management	<ul style="list-style-type: none"> The service to undertake a review of its resourcing of risk management, processes and protocols. 	2015/2016	James Barrah	
Asset Management	<ul style="list-style-type: none"> The service to continue in its work to develop an asset management framework that supports the delivery of effective housing asset management planning. 	2015/2016 ongoing	Tim Child	
Treasury and	<ul style="list-style-type: none"> The service to undertake a review 	2015/2016	Stephen Boland	

Financial Management	<p>of its service charges to ensure that they cover the cost of services.</p> <ul style="list-style-type: none"> The service needs to continue its work in moving towards using a componentised basis for depreciation in its accounting systems 	2016/2017	Lucy Clothier Sue Williamson	
Value for Money	<ul style="list-style-type: none"> The service needs to ensure it has good practices in place to cost benchmark its performance across all service areas and engage tenants in 'Value for Money' issues. 	2015/2016	Sharri Hallet Martin Price	