Taunton Deane Borough Council

Full Council – 12 July 2016

Housing Revenue Account Business Plan Review

This matter is the responsibility of Executive Councillor Terry Beale

Report Author: Lucy Clothier – Project Manager - Housing Revenue Account Business Plan Review

1 Executive Summary

1.1 The Housing Revenue Account (HRA) Business Plan contains the aims and objectives of the HRA, and includes a financial model of the next 30 years. A number of largely external changes has meant that a full refresh of the Business Plan is necessary. This report identifies the changes and the impact of these changes.

1.2 The updated Business Plan is included with this report, along with a new Asset Strategy and Development Strategy.

1.3 The new Business Plan is more robust than previously with the inclusion of better quality data, in particular around our assets. However, the financial margins are now much tighter with the plan relying on the delivery of savings which will require the imposition of ongoing management vigilance in order to maintain a viable business plan.

2 Recommendations

2.1 Full Council is **recommended** that:-

Business Plan:

1. The Housing Revenue Account Business Plan 2016-2046 is approved

Finance:

2. The policy for voluntary revenue provision for the repayment of capital debt in the HRA is changed to be over the average life of Housing Revenue Account assets (estimated at 60 years)

Development Strategy:

3. The new Housing Revenue Account Development Strategy is adopted

4. A supplementary estimate of £950,000 is added to the Housing Revenue Account Social Housing Development Fund capital programme in 2016/17. This brings the

total development programme to £1,950,000 which represents the 15 units in the new Development Strategy to be delivered in 2017/2018. This would be funded through capital receipts and revenue funding in line with the Business Plan

Asset Strategy:

5. The new Housing Revenue Account Asset Strategy is adopted

3 Background

3.1 In 2012 Taunton Deane moved away from a national subsidy system, which meant an annual payment from the HRA to central government, to be 'self-financing'. As part of the self-financing agreement, a one-off payment of £85.12m was made to government, in return for being able to retain all income locally to manage and maintain the housing stock. The total debt in the HRA at the start of self-financing was £99.7m.

3.2 In order to manage the freedoms gained by the HRA through self-financing, a new 30 year Business Plan (2012-2042) was introduced. This set out the Council's overall aims and objectives for Housing Services, as well as laying out plans to manage the increased risks and opportunities. The HRA Business Plan has been reviewed and updated annually since 2012, but recently there have been many changes in national policies and local aspiration that means a full update of the Business Plan is required rather than an annual review.

3.3 Changes in national housing policy are having widespread impact on all social landlords, with housing associations being affected as well as local authorities. Legislation in the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016 mean that the financial position of the HRA is now less favourable and therefore expenditure needs to be prioritised to ensure the best use of funding for tenants within tighter affordable limits.

4 Achievements

4.1 Since the adoption of the Business Plan in 2012 the Housing Service has evolved to incorporate the greater responsibility of self-financing, in particular establishing the Business Plan at the centre of decision making regarding resources in both the short and longer term. This has given the service a longer perspective when decisions are made to provide a business that remains viable for the longer term to ensure homes and services are secure for our residents.

4.2 Overall the service has continued to improve since 2012. Particular achievements include the establishment of a development team and the delivery of a new build programme, and the changes to our ways of working via the 'One Team' approach which has received national recognition in the way more joined up support is provided to our residents.

5 Consultation

5.1 Consultation has been held with Members, Tenant Services Management Board, Tenants Forum, and all staff members in the Housing and Communities Directorate.

5.2 The conclusion of this consultation is as follows:-

- Our core business should be social rented housing for the most vulnerable in our communities
- The proposed new objectives are appropriate
- Much can be done to improve the customer experience of the housing service
- Subject to certain ongoing commitments regarding repairs and maintenance service standards, on balance it would be acceptable to prioritise new build over some maintenance spend.
- However, understandably tenant groups would not want the standards in our existing housing to fall, and it was felt that more could be done to make better use of the current repairs and maintenance spend in order to free up resource.
- There is an appetite to look at housing products that are closer to the market in order to generate additional income on new build/regeneration schemes
- There is an acceptance and agreement that our current approach to debt repayment would have to be revised, based on treasury management advice, to achieve a viable business plan and protect services.

6 Business Plan

6.1 The Business Plan brings everything together and sets out the aims and objectives of the HRA. It describes:

- the way in which services are delivered
- the housing stock and other assets in the HRA
- the financial resources position

6.2 It details the way in which the HRA will work in the future, including setting out a new operating model that allows tenants, where appropriate, to move into additional services such as shared ownership. This model shows the way in which the HRA will support tenants into and through the housing service.

6.3 This includes new ways of working, for example the use of flexible tenancies as directed within the Housing and Planning Act 2016. It also includes the potential introduction of new products such as affordable rented housing and shared ownership. This could be available for tenants who aspire to move into a new product type.

6.4 The full Business Plan is attached to this report in Appendix A. A revised Action Plan is also included.

7 Business Objectives

7.1 The Business Plan 2016 has the updated strategic objectives for the service:

- **Providing Quality Homes**
  This means we are committed to investing in our existing homes to deliver good quality of life for residents and value for the money spent, and to developing new homes that meet local needs.

- **Supporting the most vulnerable**

This means we are committed to letting homes to people who have the fewest housing options, and will provide additional support that helps people who are older, disabled, or socially excluded to live comfortably in their council-owned home.

- **Better Service**
  This means we are customer and community focused and are committed to improving our services in line with what our residents have said matters to them. Our approach will support people to move through our social housing to cater for their changing needs and aspirations over time.

- **A Stronger Business**
  This means we will prioritise efficiency to support delivery of our social priorities and objectives. It sets out how we will improve our business practices, drive out value for money and pursue new activities.

8 Financial Position

8.1 There are a number of changes, driven by both internal and external factors, that have substantially impacted on the financial position of the Business Plan and we have proposed some corrective action to mitigate these impacts within the updated Plan.

8.2 Rental Income

8.2.1 National rent policy has changed substantially since the implementation of self-financing in 2012. With rent accounting for 92% of income to the HRA any changes in rent policy can significantly impact on the financial position.

8.2.2 At the point of self-financing in 2012, the national rent policy was that rents should increase by the inflationary rate of the Retail Price Index (RPI) plus 0.5%, as well as an annual convergence figure of up to £2 per week, in order to bring rents up to the Target Rent for social housing. This is the rent determined on a national formula, based on the value of the dwelling in 1999, along with local wages, local house prices and the number of bedrooms. Target rents were introduced to ensure that social rented dwellings of similar size and type in any area have similar rents regardless of the landlord.

8.2.3 In April 2015 a new national rent policy was implemented, and annual increases were changed to be linked to the Consumer Price Index (CPI) plus 1%. CPI is usually lower than RPI, but the increase in the amount over inflation from 0.5% to 1% was intended to account for this. However the allowance for ‘convergence’ in order to bring rents up to the Target rents, was removed, and changes above the standard inflationary rent could only be implemented for new tenancies. This policy was implemented as a 10 year policy in order to provide security to landlords.

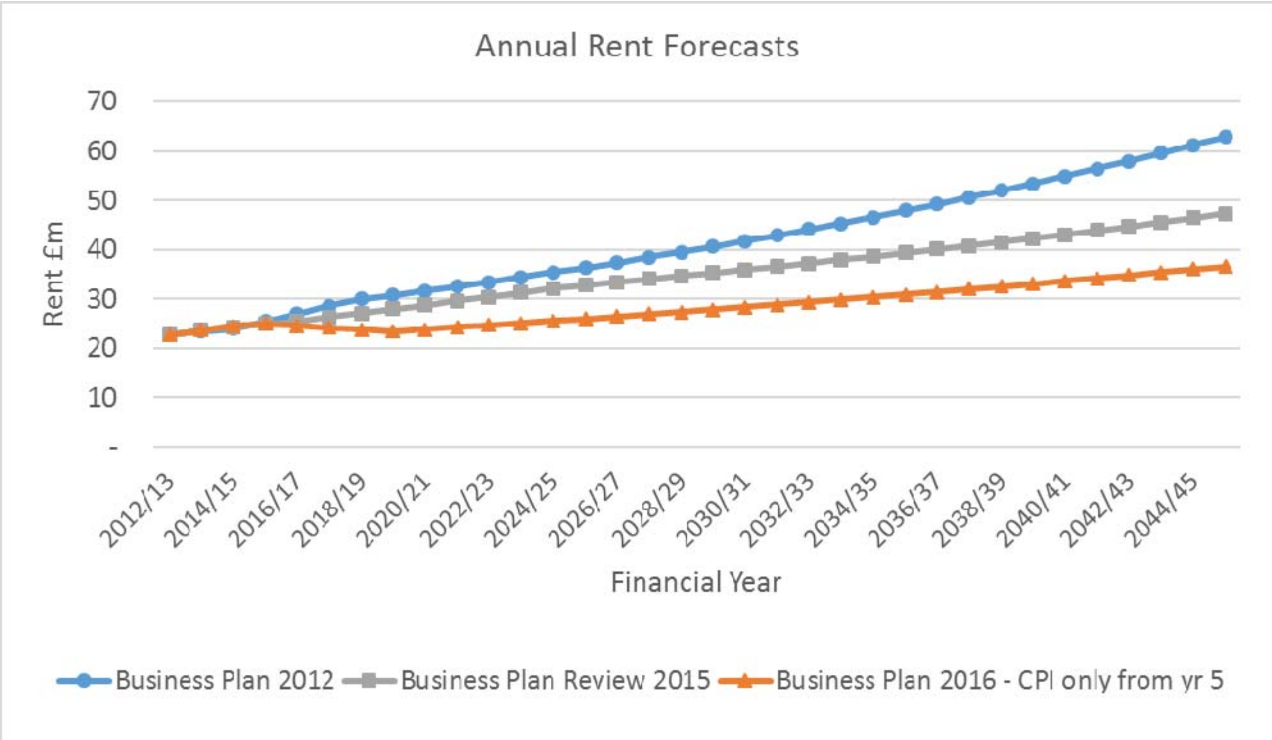
8.2.4 In July 2015 it was announced that affordable housing rents, which includes those at social rents, would reduce by 1% each year for four years from April 2016. This has been included within the Welfare Reform and Work Act 2016. The 1% reduction is actually a higher loss to the business plan than 1%, when compared to the CPI plus

1% increase expected. CPI is currently forecasted at 2% with a total rental increase of 3% (CPI at 2% plus 1%) forecasted, so this is actually a 4% reduction from current business plan expectations. However, CPI at September (from which rental increases are taken) was actually -0.1% and so increases would have been 0.9% (-0.1% plus 1%). Later concessions allowed for a one year exception for supported housing (which accounts for 17% of Taunton Deane stock). It is still unknown what will happen following a Government review of supported housing.

8.2.5 It is unknown what increases, if any, will be allowed under rent policy after this four year period. If rental increases are to be linked to CPI only, the total reduction in rental income expectations over 30 years is £185m. This is a significant reduction and would not be possible to cover from reserves within the existing version of the Business Plan.

8.2.6 Low inflation, reducing stock numbers (as detailed in paragraph 8.6.4), together with these changes in the rent policy have significantly reduced the income expectations over the 30 year period. The below graph shows the difference in rental income forecasts between 2012, 2015 and 2016.

Graph 1: Changes in rent forecasts



8.2.7 The graph shows the reduction in forecasted rental income. The rental income forecast for financial year 2041/42 (year 30 of the Business Plan 2012) has reduced from £56.4m to £34.2m. A substantial reduction of 39%.

8.2.8 Although lower inflation should mean that costs are also lower as well as income, maintenance costs have not reduced fully in line with inflation. There are also some costs, such as fixed interest payments, that are not linked to inflation rates. This has led to reduced overall buying power of the HRA.

8.3 Right to Buy and Pay to Stay

8.3.1 Whilst enquiries on Right to Buys (RTBs) have reduced from levels experienced when RTB discounts were increased in 2012, RTB sales have remained at a higher level.

Table 1: RTB sales

Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Number of RTB sales	9	11	37	47	35	38

Note: 2012 saw the introduction of increased RTB discounts

8.3.2 The Housing and Planning Act 2016 included a section on Rents for high income tenants, known as ‘Pay to Stay’. This legislation means that tenant households of local authorities earning over £31,000 pa must be charged a higher rent, depending on their income, up to market, or near market, rents. The additional rent is set in regulations and is equivalent to approximately £2.88 per week per £1,000 income a year over the £31,000 limit. The additional rental income, less the cost of administration, must be passed back to Government. It is not currently known how many tenants will be affected by this legislation.

8.3.3 It is expected that Pay to Stay will increase the levels of RTB sales over the short term, as those tenants who will have to pay increased rents are those more likely to be able and willing to obtain a mortgage, and so they may choose to exercise their Right to Buy, rather than pay the increased rent charges.

8.3.4 The Business Plan has therefore been updated to include 60 sales for a three year period, followed by a reduction to 30 sales a year. This is an increase from the previous assumption of 20 per year and will reduce the number of dwellings, and so rental income, in the HRA.

8.3.5 Higher levels of Right to Buy would, however, increase capital receipts available for development. The additional ‘one for one’ receipts that are to be used to replace dwellings lost through RTB can only be used for (up to) 30% of the cost of the replacement. The remaining 70% (or more) must come from other funding (either resources already available or additional borrowing).

8.3.6 A second Income Assistant is to be added to the Income Team that administer RTBs in order to the support the Income Officer. This will be funded from the RTB receipts – a proportion of which can be used to cover related administration costs.

8.4 Welfare Reform

8.4.1 Provision has previously been made in the HRA to make an allowance for Welfare Reform, and the expectation that the changes would lead to an increase in non payment of rent and other charges. In the Business Plan 2012 the Provision for Bad

Debt was increased from 0.5% to 2% for a period of three years. It was intended that this would cover the major changes in welfare, however there have been delays in implementation of some policies, particularly Universal Credit.

8.4.2 The Business Plan 2016 includes a new three year period of increase Provision for Bad Debt from 0.5% to 2%. This will cover the roll out of Universal Credit in Taunton Deane, now known to be later in 2016, and is partly funded by the underspend of the Provision for Bad Debt in 2015/16 of £433k which is in an earmarked reserve for this purpose.

8.4.3 This additional provision will be reviewed annually to ensure it continues to be appropriate.

8.5 Stock Condition Survey

8.5.1 The Business Plan Review identified that the data held on the condition of dwellings needed updating and members approved the funding of a large scale stock condition survey. 50% of dwellings, including all communal areas for flats and supported housing, have been surveyed and the results have allowed a fully updated capital programme to be included.

8.5.2 The like for like cost of the capital programme has increased by £25.2m over the 30 year period. This is due to a number of factors – new survey data and areas of works not previously costed, for example lifts, fire alarms and warden call equipment. However the assumptions on reduced dwelling numbers have reduced this to £15.8m since spend on the capital programme is directly linked to the number of homes needing refurbishment.

8.6 Development

8.6.1 The Business Plan has previously included significant annual contributions of £1m (from 2015/16) towards the development of housing schemes.

8.6.2 In line with the introduction of a Development Strategy, the Business Plan 2016 instead includes an average annual addition of 15 dwellings, which would include a combination of new development, redevelopment and acquisitions. These units are fully funded within the Business Plan, partly through capital receipts from RTBs, and partly through revenue resources. This means that unlike for current schemes, where the revenue contribution of only £1m is included, additional capital borrowing should not be needed as it is already taken into account in the Business Plan.

8.6.3 The total budget for development over the full 30 years, including revenue and capital receipt funding, is £77m. This equates to 15 units a year at an average rate of £130k per unit, rising with inflation. The annual capital budget and associated revenue funding will be approved as part of the budget setting process. This is an increase in revenue contribution from the £1m pa Social Housing Development Fund of approximately £21.5m over 30 years.

8.6.4 Even with this increased provision, due to losses through RTB, the total stock numbers will still decline.

Table 2: Forecasted stock numbers

Year	2,016	2,017	2,018	2,019	2,020	2,021	2,022	2,023	…	2,046
Opening	5,785	5,800	5,781	5,736	5,691	5,676	5,661	5,646		5,271
RTB Sales	-30	-60	-60	-60	-30	-30	-30	-30		-30
Development	48	38	15	15	15	15	15	15		15
Closing	5,800	5,781	5,736	5,691	5,676	5,661	5,646	5,631		5,256

Note: this includes new housing at Creechbarrow Road and Weavers Arms. It doesn't include any disposals of stock due to the sale of higher value homes included in the Housing and Planning Act 2016 (paragraph 9.3)

8.6.5 Any additional units over and above the 15 units a year would need to continue to be funded through additional borrowing within the available headroom. Further detail on headroom can be found in paragraph 8.13.9.

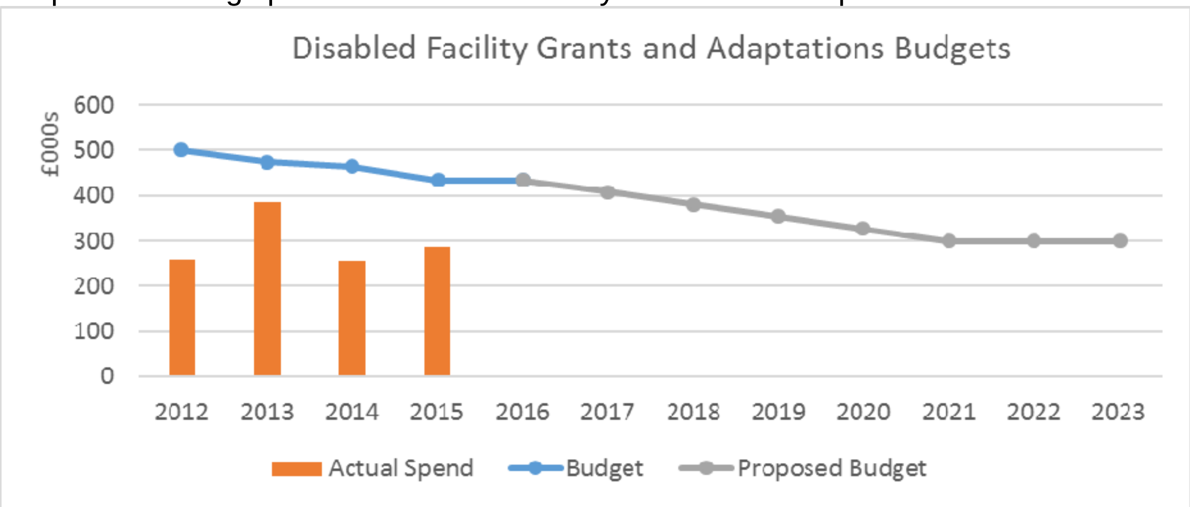
8.6.6 Further details on the Development Strategy can be found in Section 10.

8.7 Disabled Facility Grants and Adaptations

8.7.1 The demand for Disabled Facilities Grants (DFGs) and adaptions in our stock has historically been lower than budget and this has provided us with the opportunity to reduce this budget in the Business Plan. In addition a number of steps are being taken to ensure that this does not impact on front-line services and tenants, including: moving towards more cost effective installations of wet floor shower rooms through a new fixed-price contract; switching from concrete ramps to better value metal modular ramps; and a move toward stairlift loans and recycling, rather than purchases. These measures will ensure that the service stays within reduced budgets without impacting tenants.

8.7.2 The budget will therefore be reduced from £435k pa to £300k pa over a five year period.

Graph 2: showing spend on Disabled Facility Grants and adaptions since 2012



8.8 Capital Improvements

8.8.1 Sustainable Energy

The Business Plan 2012 included an additional budget for Sustainable Energy. This funding was put aside for tackling fuel poverty. This provision has now been 'mainstreamed' into the heating replacement programme and is included within the core capital programme with the installation of energy efficient boilers and Air Source Heat Pumps. This separate budget therefore removed from the Business Plan from 2017/18.

8.8.2 There is a residual balance of £123k from previous years funding which will remain, along with a £100k budget in 2016/17, and will continue to be utilised for sustainable energy initiatives.

8.8.3 Estate Improvements
The Estate Improvement budget has been utilised for the installation of scooter stores. These schemes has been found to have a very long lead in time, and has been very intensive in officer time, with officer time in the Development Team being prioritised in new build. The annual budget for Estate Improvements is currently at £50k pa, but it was intended that this would increase to £150k in 2021/22. The financial constraints facing the HRA mean that this is no longer possible, however it is recognised that features such as parking and scooter stores are very important to tenants and so the ongoing contribution of £50k will remain.

8.8.4 The remaining balance from 2015/16 of £240k will remain in order to fund schemes going forward, along with the continued annual contribution of £50k.

8.9 Repairs and Maintenance

8.9.1 It has been identified that spend on repairs and maintenance is high when benchmarked against other social landlords. Advice indicates that savings of 10% on responsive repairs and 30% on void costs are achievable based on the stock held. This is a substantial saving to be found and equates to approximately £832k pa. This has been included gradually over a five year transitional period, meaning that the full savings have been included by year 2021/22.

8.9.2 This will need to be closely managed and monitored by the Assistant Director – Property and Development to ensure that the savings, which are not yet fully identified, can be found. With a restructure of Property Services and Building Services recently implemented, the new service will be tasked with finding these savings through efficiencies and closer working.

8.9.3 These savings will be incorporated in the corporate transformation work currently being undertaken by iESE regarding failure demands for repairs activities.

8.10 Management Costs

8.10.1 Savings of £253k have been identified from management and service costs. These include £40k savings from the Terms and Conditions review and the loss of subsidy to the Extra Care Housing service due to the change in contract with Somerset County Council from March 2017.

8.10.2 Also included is a reduction in the budget for Transfer Removal Grants (grants given to tenants downsizing) from £50k pa to £35k pa, a reduction in the training budget in the HRA of £40k in line with current spend, and savings in other central management budgets. Based on current forecasts it is not expected that these savings will have a major impact on service delivery, but management will monitor these areas closely.

8.11 Community Provision

8.11.1 In line with the new objective of Supporting the Vulnerable, permanent provision of £140k pa is being included in the Business Plan for schemes currently being covered with temporary funding.

8.11.2 These are:

- Mental Health Support, currently commissioned through Mind - £41k pa
  The three Area Community Managers and One Team Co-ordinators are reporting mental health as an issue within many of our households. 56% of our tenants have a member of their household whose day-to-day activities are limited due to a health problem and we know that Mental Health will be a significant proportion of this. This has been escalated and is one of the three strategic priorities for the One Teams in Taunton Deane. The £41k would be used to bring in support for our tenants and therefore help us to provide a better One Team response to support them in addressing a range of issues that they may have.

- Employment Support, currently commissioned though Inspire to Achieve - £46k pa
  This funding will provide support to tenants to have the skills and confidence to access work. In the long term this will also help protect our rental income by residents being able to more effectively manage tenancies.

- Money Matters Advice, currently commissioned through Citizens Advice Bureau - £35k pa   To provide money matters advice across the three One Team areas to provide advice and support to tenants

- Top up of Community Development budgets to £10k per area, £18k pa
  Current community development budgets are minimal, currently £4k per area, and often unable to support genuine community development activities and groups. This increase will be shared across the three area teams and will help address that.

8.12 Repayment of Borrowing

The loan structure in the Business Plan 2012 means that the borrowing is paid off as soon as the Business Plan allows. This means that the self-financing borrowing of £85.1m is due to be repaid within 18 years (in 2030). There are, however, a number of existing loans from pre 2012 that have a later payment date, the latest being 2077 (70 years from the borrowing date).

8.12.1 The payment of the self-financing borrowing within 18 years was based on affordability in 2012. There have been many changes (as detailed in Section 8) that have affected the affordability of this repayment schedule that make it no longer possible without a major impact on service quality and the number of new homes delivered.

8.12.2 Taunton Deane Minimum Revenue Provision
Where the Council finances capital expenditure in the General Fund (GF) by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP).

8.12.3 In February 2016, Council approved a change in the Taunton Deane General Fund Minimum Revenue Provision Policy, moving to MRP being linked to the asset life. Based on the assets held in the GF, the weighted average asset life approved was 45.57 years. This released annual budget savings for the GF by stretching the debt repayment over a longer period.

8.12.4 If this policy was also adopted in the HRA, a conservative average asset life of 60 years could be used. It can be assumed that the housing stock should last more than 60 years as a full capital maintenance and improvement programme, which is more generous than most privately owned homes, is included within the Business Plan. This, together with the changes in paragraphs 8.2 – 8.11, would allow a balanced Business Plan, without the need for a reduction in service level.

8.12.5 It should be noted that the HRA does not have to make the revenue provisions that are required in the GF, and all provision in the HRA is voluntary. Members could choose to keep the debt in the HRA and continue to make interest payments, indefinitely.

8.12.6 It should also be noted that the current policy is to repay debt as soon as the Business Plan allows. At the point of self-financing this was 18 years, but due largely to external factors this is no longer affordable.

8.12.7 If the current repayment schedule of 18 years from 2012 is to be kept, additional savings of £42.7m would need to be found over the next 14 years. This equates to an average of £3.05m pa. Savings of this level would detrimentally affect the service offered to tenants and investment in our stock over this period.

8.12.8 By extending the period of debt repayment to 60 years, the service to tenants would continue, thereby preventing current tenants from a reduced service in order to repay debt for which the interest payments are affordable.

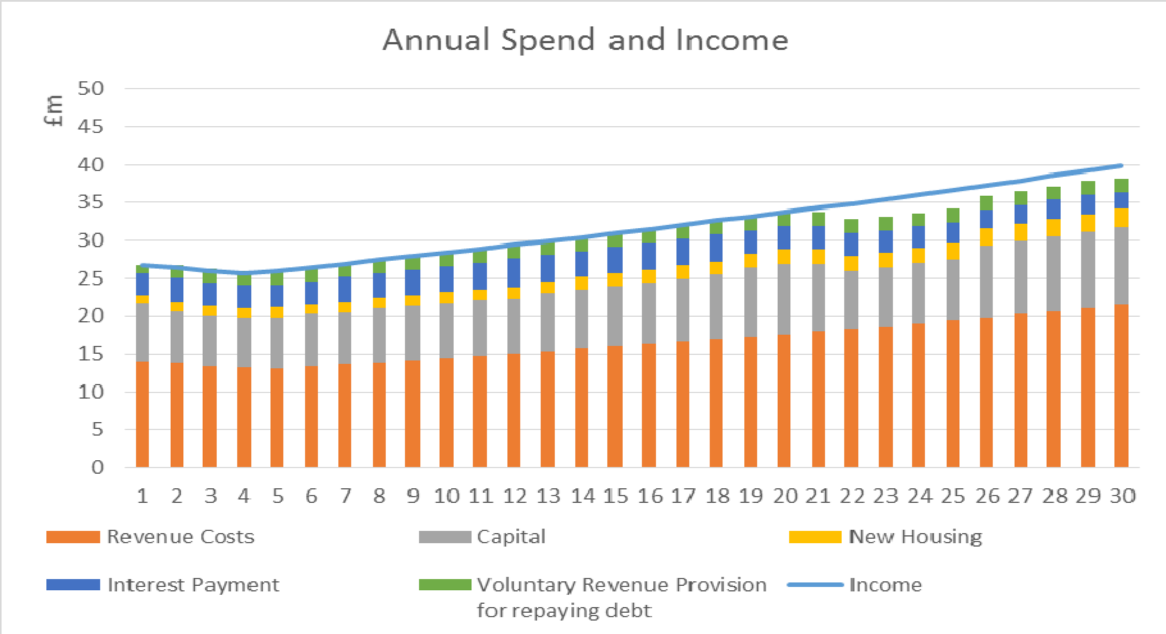
8.12.9 Consultation with tenants and members has shown that there is appetite to extend debt if it is in the best interest of tenants and in consultation with our treasury advisors.

8.13 Financial Appraisal
The Business Plan Review in 2015 forecasted a reserves balance of £160m in 2042 (the 30 year period from 2012). As stated in paragraph 8.2 the expected reduction in rental income alone is £185m, and so this reserves balance would not support a reduction in rent of this magnitude without other changes being made.

8.13.1 Based on all of the amendments listed in paragraphs 8.2 – 8.12, the proposed new HRA Business Plan has a balanced financial position over the 30 year period. The substantial impact of external changes, particularly changes in rental income, have been managed with the minimal impact on services to tenants.

8.13.2 Expenditure and income are closely linked up to year 21 (2036/37) as shown in the below graph which shows the breakdown for the 30 years.

Graph 3: Expenditure and Income within the Business Plan

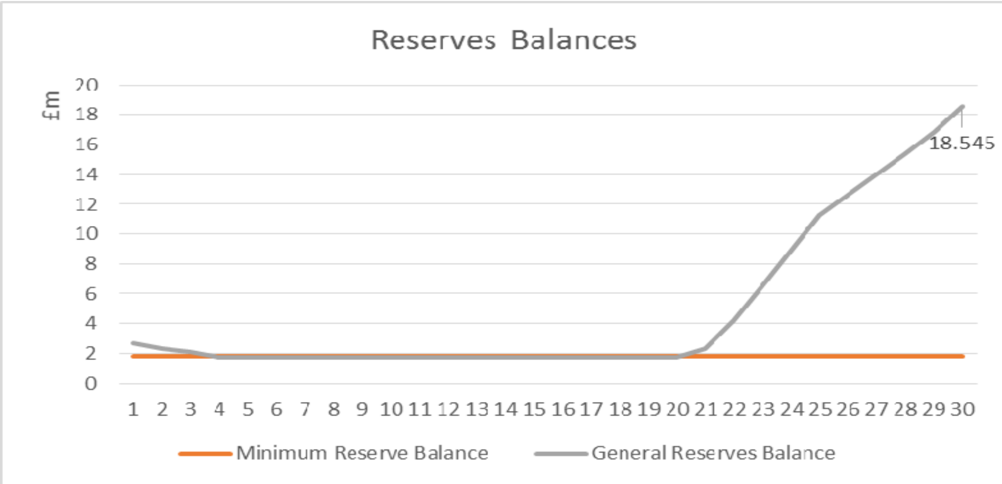


8.13.3 The Business Plan includes a capital programme of £245m over 30 years, and ensures a programme that allows the continued improvement and maintenance of dwellings and related assets in line with industry standards.

8.13.4 In order to maintain general reserves above the minimum recommended balance of £1.8m over the length of the Business Plan, smoothing of capital programme is needed in years 18 – 21. It is a maximum of 6.6% of the annual budget and so it is expected that this can be managed with minimum disruption to the programme.

8.13.5 With these amendments, a forecast of the General Reserves balance is included below.

Graph 4: General Reserves position over 30 years



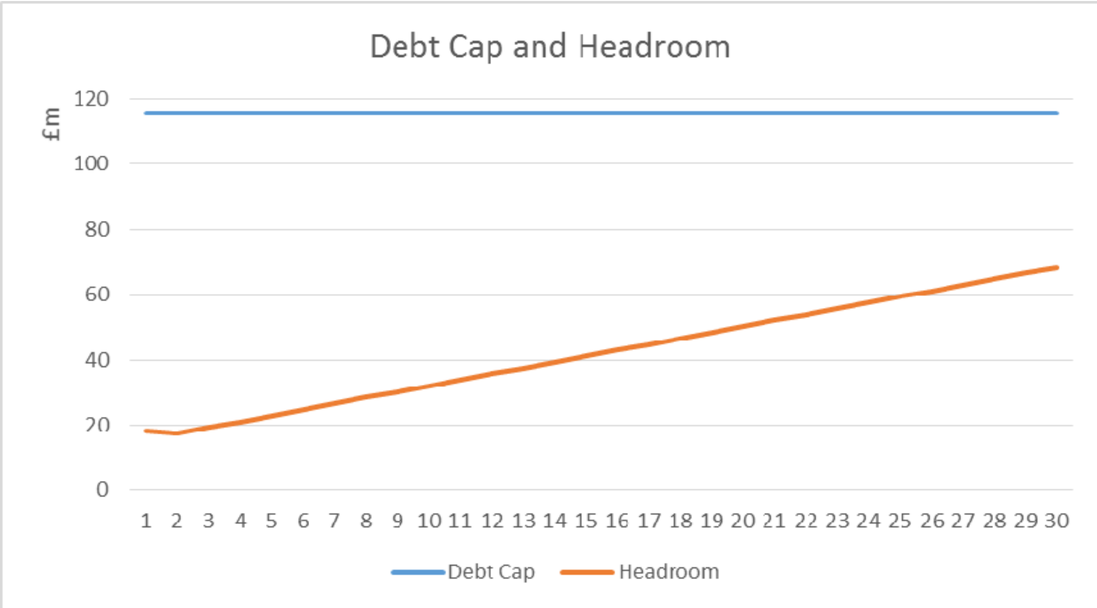
8.13.6 It shows that the general reserves position remains at £1.8m, until 2036/37 (year 21), at which point it starts increasing as income is greater than expenditure. At the end of the 30 year period reserves are expected to be at £18.5m. As with the previous Business Plan this is an indication of the funding available, and it is not expected that the HRA would build up this balance in practice.

8.13.7 Changes to the way in which the HRA makes provision for the repayment of debt will alter the headroom available. The HRA is limited in the amount of debt it is able to sustain by a debt cap of £115.784m, set by Central Government. The headroom is the difference between the borrowing held less and revenue provision made, and the debt cap, and so is the amount of additional borrowing that the HRA could take on at that time.

8.13.8 The change in voluntary revenue provision to allow for the repayment of debt over a 60 year period gives an annual revenue provision of £1.8m. This is the amount that will be included in the HRA budget each year. The budgeted provision in 2016/17 is £1.0m and so a future provision of £1.8m is an increase on the provision in 2016/17. However it was expected that this would increase in line with income rises that are no longer available. The new policy would have a flat rate of £1.8m in each year.

8.13.9 This annual provision of £1.8m means that if there is no further borrowing, the headroom will increase by £1.8m pa, as shown in the below graph.

Graph 5: HRA debt cap and headroom



8.13.10 The availability of headroom shows the amount of additional borrowing that the HRA could take on for new capital investment whilst remaining within the debt cap set by Government, for instance for the development of new housing over and above the 15 units included within the Business Plan.

Recommendation 1: The HRA Business Plan 2016-2046 is approved

Recommendation 2: The policy for voluntary revenue provision for the repayment of capital debt in the HRA is changed to be over the average life of HRA assets (estimated at 60 years)

9 Future Risks and Uncertainties

9.1 The Business Plan faces a number of risks and uncertainties that are not currently quantifiable and so have not been included within the Business Plan finances.

9.2 Pay to Stay – Housing and Planning Act 2016

Local authority landlords will need to charge tenants earning over £31,000 a year an increased rent. The rent will be linked to their income, with an increase for every £1,000 of income over the threshold, up to market rents. It is not yet known how this will be implemented or monitored.

9.2.1 Any income raised is to be transferred to Government, although any administration costs may be deducted. The increased rent may lead to an increase in tenants exercising their Right to Buy. The Business Plan includes an increased provision for Right to Buy as included in paragraph 8.3. In the first year of enforcement it has been announced that the payment will be based on actual income raised, however the legislation allows for a levy to be put in place, based on a formula of expected income. Therefore, in future payments to Government may not be linked to actual income received.

9.3 Higher Value Voids – Housing and Planning Act 2016

Local authorities will be expected to consider selling higher value dwellings as they become void. In reality a formula based system will be put in place, with an annual contribution expected from each authority with housing stock. The formula, yet to be determined, would relate to the properties held, the turnover of tenancies, and the value of the housing within that authority's stock (not all housing within the area). All sales would need to be replaced on a one for one basis either by the Local Authority, or through the Homes and Communities Agency, in the local authority area. It is expected to operate in a similar way to RTBs where only a certain percentage (30% for RTB, but not yet confirmed for Higher Value Voids) can be used towards the replacement, with the remaining funding needing to come from alternative funds. This means that it is unlikely that Taunton Deane will be able to replace all dwellings lost and prejudice whether we could keep the portion of the receipt we are allowed to.

9.3.1 It is intended that the Asset Strategy and accompanying model will allow the best use of existing dwellings, and that decisions can be made to dispose of properties that return the lowest contribution (either financially or non financially), and therefore the impact on the Business Plan would be minimised where possible.

9.4 Local Housing Allowance (LHA) Rates – Announced in the Spending Review and Autumn Statement 2015

Tenants in social housing will in future only be able to claim Housing Benefit up to the LHA rate. This is determined by the Valuation Office Agency and is based on local rents. Currently the LHA rates are only applicable for Housing Benefit claims in private rented stock. From April 2018 (for tenancies starting from April 2017) it has been announced that this will also apply to tenants in social housing.

9.4.1 In Taunton Deane this may have an impact on some of our Supported Housing residents, as the LHA rate includes service charges which are higher in Supported Housing, and single claimants under 35, who will only be eligible for the shared accommodation rate (currently £64.14 per week). Officers will consider what support can be provided to individuals affected, once further details are known. The majority of Taunton Deane housing is within the LHA rates for the area.

9.5 Rent Levels

As stated in paragraph 7.2 it is not currently known what will happen with rent charges after the four year rent reduction within the Welfare Reform and Work Act 2016. The Business Plan prudently includes a CPI only rental increase (rather than the previous policy of CPI plus 1%), however it is possible that rent policy will not include inflationary uplifts after this period. Any additional reductions would further impact on Business Plan as evidenced in the sensitivity analysis completed by Savills in the Business Plan document.

9.6 Universal Credit

Universal Credit, which replaces Housing Benefit, Job Seeker's Allowance and other benefits to support those on low incomes, is due to roll out across Taunton Deane later in 2016. Universal Credit differs from the benefits it replaces as it is a single monthly payment, made directly into the bank account of the recipient. Currently any rent covered by Housing Benefit is transferred direct to Taunton Deane as the landlord, however under Universal Credit this will be paid to the tenant who will be responsible for paying their rent in full. With approximately 48% of all income (£13.1m in 2015/16) currently being paid through Housing Benefits, this greatly increases the risk of reduced income through non payment of rents and charges.

9.7 The HRA has already taken steps in order to try and prevent loss of income where possible. Tenants are now able to pay through direct debits on any day of the month (rather than only three options previously) in order to allow them to make payments on the same day as their Universal Credit payment, salary, pension or other income. There are also currently additional officers working within the One Teams such as a Welfare Reform Officer and an additional Debt and Benefit Advisor in order to support tenants affected by welfare changes.

9.8 If it can be proven that a tenant is unable to manage within the new payment structure it will be possible, after a set period of time, to request that their rent reverts to being paid directly. However, it is expected that there will be a reduction in income in the short term due to these changes, and this is set out in paragraph 8.4.

10 Development Strategy

10.1 The HRA has a well-established development programme. In order to ensure an ongoing and deliverable programme, and the best use of the funding, a Development Strategy has been established.

10.2 The Business Plan has previously included an annual allowance of £1m pa, but has not given an indication as to how this would be used. New schemes are evaluated separately and in isolation. The Development Strategy allows the development pipeline to be appraised together to give an ongoing plan. It gives a framework to underpin future development plans and gives an indication of the number of schemes and units the council should aspire to.

10.3 Savills have prepared a strategy that reviews progress to date, looks at the local housing market and has an analysis of the Taunton Deane pipeline and opportunities over the next five years.

10.4 The full Development Strategy report is attached as an appendix to the Business Plan.

10.5 The development pipeline shows a summary of identified schemes, showing when they can be expected to be delivered. A summary of the estimated pipeline identified in the strategy is shown in the below table.

Table 3: Development Strategy pipeline

	2016/17	2017/18	2018/19	2019/20	2020/21
Pipeline – approved schemes	48	26	0	0	0
Pipeline – uncommitted	0	14	12	24	40

Total	48	40	12	24	40

10.6 The Business Plan includes provision for 15 units a year (on top of existing schemes with approval). In reality this number will fluctuate year on year, but it allows for an average of 15 units. An average cost of £130k per unit has been modelled, which gives a total annual budget of £1,950k, to rise annually with inflation. It would be our intention that the allocation of this would be through an Executive Portfolio Holder decision in conjunction with the Director – Housing and Communities.

10.7 It will be possible for additional units to be built or acquired, but these would require additional funding through borrowing not included within the Business Plan, and would go through the standard approval process.

10.8 The Pipeline identifies the opportunity to build 18 new units for completion in 2017/18 and 2018/19. This comprises of three Phase 2 small site schemes. A summary of these schemes is as follows:

- Laxton Road
  The demolition of 16 garages, and erection of 8 one bed flats

- Moorland Close/Outer Circle
  The conversion of 12 Moorland Close to accommodate the Link Centre, with two one bed flats above. The existing Link Centre in Outer Circle would then be returned to four bedsits

- Oake
  The acquisition of four affordable housing units in Oake, from a developer. This would comprise of two one bed flats, one two bed house, and one three bed house

10.9 In order for these schemes to commence for completion in 2017/18, a supplementary budget of £950k is required in 2016/17 to increase the £1,000k Social Housing Development budget to £1,950k in line with the assumptions set out above. The funding of these schemes would be included from within the Business Plan and would come from capital receipts (Right to Buy receipts) and revenue funding. No additional borrowing over and above that included in the Business Plan would be needed to fund these schemes.

10.10 Future allocations would be approved as part of the annual budget setting process.

Recommendation 3: The HRA Development Strategy is adopted

Recommendation 4: A supplementary estimate of £950,000 is added to the HRA Social Housing Development Fund capital programme in 2016/17 which represents the 15 units in the new Development Strategy to be delivered in 2017/18. This would be funded through capital receipts and revenue funding in line with the Business Plan. This brings the total development programme to £1,950,000

11 Asset Strategy

11.1 The Housing and Planning Act 2016 states that local authorities have a duty to consider selling higher value housing. The capital receipt from the sales are to go to Central Government, although it is possible that an element of the receipt could be kept locally. Full details are anticipated, but it is thought that a formula would be used based on an estimation of higher value voids becoming vacant each year. This would put in place an annual contribution that Taunton Deane would need to make to Central Government, but decisions could be made locally on how it is funded. This would mean that it wouldn't have to be higher value housing, which is likely to be larger family homes, or those in desirable rural areas, that are sold.

11.2 An Asset Strategy has been developed not only so that decisions can be made in order to fund the contribution to Government, but also to start active asset management and stock churn. This is in order to make sure that the housing held is right for both the HRA and tenants.

11.3 The Asset Strategy looks at the investment needed in the housing, largely the capital and maintenance programmes. As well as looking at the financial performance it also looks at non-financial information such as social and economic factors. These include resident satisfaction with the home and area, the number of bids received in the area, health, education and employment data for the area and anti social behaviour.

11.4 An asset management tool has been created that takes all of this data and assesses the housing stock with this information. The asset management tool does not indicate what housing should be sold, it shows which groups should have an options appraisal. For example, where the financial position is positive, but the non financial and social position is poor, this could mean that where possible, additional resources are directed in this area in order to improve the indicators causing the poor position. Each group would be appraised separately.

11.5 Following an appraisal, it is our intention that decisions regarding disposal of vacant dwellings or related assets would be made through an Executive Portfolio Holder decision in conjunction with the Director – Housing and Communities.

11.6 The Asset Strategy is attached as an appendix to the Business Plan.

Recommendation 5: the Asset Strategy is adopted.

12 Links to Corporate Aims / Priorities

12.1 The Business Plan has strong links with the People key theme, particularly with the availability of Council homes and supporting our most vulnerable residents.

13 Finance / Resource Implications

13.1 The new Business Plan has a balanced position over the 30 year period from 2016 – 2046. The position has changed considerably from a forecasted reserves balance of £156m at 2042 (year 30 of the existing Business Plan) to £18m at 2046 (year 30 of the new Business Plan). This is largely due to external changes such as the national rent policy which has greatly reduced income expectations as detailed in paragraph 8.2.

13.2 These changes mean that the HRA is not able to continue the financing of the repayment of the current self-financing loans by year 2030 (year 18 of the Business Plan 2012) without a significant reduction in service quality.

13.3 Arlingclose, our treasury advisors, have been consulted on the revised position. They have confirmed that the HRA will have a shortfall in cash when the loans are repaid. They have reviewed the updated position and have advised that it is not beneficial to refinance the existing loans immediately and replace with new longer term loans – the premiums that would be required for early redemption of the loans is prohibitive. The HRA should instead look to refinance the loans on maturity, and as and when there are cash shortfalls, over the period needed.

13.4 This will mean that where the HRA is unable to support the repayment of existing loans due, on top of the revenue and capital commitments in any year, that additional borrowing will be required. The cost of this borrowing is included within the Business Plan.

13.5 Arlingclose have recommended that Taunton Deane should consider not making voluntary revenue provision (VRP). The prudent inclusion of VRP is, however, included within the Business Plan.

13.6 This report, as detailed in section 8, proposes that the VRP is amended to be over 60 years (based on a conservative estimate of average lifespan). The HRA is not required to make VRP, and, as suggested by Arlingclose, could instead keep the debt ongoing. This would mean that interest payments are made year on year, and do not decrease as debt is repaid. Including VRP over 60 years is currently affordable, and so the prudent provision of VRP, and the repayment of debt over 60 years, has been included.

13.7 Based on the changes in Section 8, the medium term forecast of income and expenditure is as follows,

Table 4: Medium term income and expenditure

Year	2016/17	2017/18	2018/19	2019/20	2020/21
	1	2	3	4	5
	£000s	£000s	£000s	£000s	£000s
Income	(26,698)	(26,429)	(25,999)	(25,607)	(26,002)
Expenditure	26,698	26,775	26,195	25,607	26,002
(Surplus)/Deficit	0	346	196	0	0

13.8 This shows that there are forecasted deficits in 2017/18 and 2018/19 which would need to be covered through budgeted transfers from HRA general reserves. The current expected level of reserves is sufficient to cover this, as shown in the below table.

Table 5: Medium term general reserves forecast

Year	2016/17	2017/18	2018/19	2019/20	2020/21
	1	2	3	4	5
	£000s	£000s	£000s	£000s	£000s
Opening	2,675	2,342	1,996	1,800	1,800
Transfers Requested*	(333)	0	0	0	0
Surplus/(Deficit)	0	(346)	(196)	0	0
Closing Balance	2,342	1,996	1,800	1,800	1,800

*An approval for transfers from HRA general reserves is included within the Financial Outturn 2015/16 report

13.9 The current balance of HRA general reserves is £2,686k, which is £886k over the minimum recommended balance of £1,800k. These forecasted deficits would reduce the HRA general reserves balance to £1.8m in 2018/19. This means that all of the available funding in general reserves (over the minimum balance) is needed over the next two years, and no further allocations would be possible.

13.10 There are a number of risks facing the HRA, as identified in section 9. A number of sensitivity analyses have been carried out and are included within the Business Plan.

14 Legal Implications

14.1 Any changes proposed to tenancies that the Council offers will be fully evaluated for any legal implications.

15 Environmental Impact Implications

15.1 Housing Services aims to take action to reduce carbon emissions across the housing stock through investment planning, service delivery, partnership and community action.

16 Safeguarding and/or Community Safety Implications

16.1 The Business Plan continues 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.

17 Equality and Diversity Implications

18 An equalities impact assessment has been completed to assess any positive and any negative impacts that the decisions in the new business plan may have on our customers and employees. The impact assessment prepared for the HRA business plan is set out as an appendix of the business plan.

19 Social Value Implications (if any)

19.1 There are no social value implications directly linked to this report. The HRA will continue to consider social value in any future procurement exercise.

20 Partnership Implications (if any)

20.1 The HRA will provide ongoing support for key partnerships.

21 Health and Wellbeing Implications

21.1 Housing Services continues to prioritise health and wellbeing and is committed to continuing links between housing, Health and Social Care.

22 Asset Management Implications

22.1 The new Asset Strategy is include with this report that details the way in which assets will be managed. The Housing and Planning Act 2016 includes that local authorities have a responsibility to consider selling higher value housing and this will be taken into account when implementing the strategy.

22.2 The new Development Strategy sets out a framework for the build and/or acquisition of housing to assets to the housing stock.

Democratic Path:

- **Scrutiny – Yes**
- **Executive – Yes**
- **Full Council – Yes**

Reporting Frequency : ☐ **Once only** ☐ **Ad-hoc** ☐ **Quarterly**

☐ **Twice-yearly** ☒ **Annually**

List of Appendices

Appendix A	Housing Revenue Account 30 Year Business Plan 2016-2035 **(Not attached)**

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