

Agenda Item 10

Neighbourhoods Scrutiny Commission – Friday 16th October 2015

Housing Revenue Account Business Plan & Housing Management Board

Purpose of Report

This report aims to provide a brief summary of the role of the city council as a landlord and the funding of council housing within the Housing Revenue Account (HRA) – including the rules that affect the HRA and the financial planning undertaken through the use of a 30-year business plan. The report also outlines the service improvement plans currently reflected in our landlord strategy & 30-year business plan. Finally, the report highlights potential threats to the HRA business plan from the recent Budget, welfare benefit and changes and other governments housing policy proposals

The report is set out as presentation together with explanatory notes.

Summary

There are over 27,000 Council homes in Bristol. Homes are let to those in the most need on Secure Tenancies at affordable Social rents.

The finances for council housing sit within the HRA, a legally separate account within the council's General Fund (GF). It is a 'landlord account' – for the provision, management & maintenance of council housing.

Governance for the HRA and review of the HRA business plan includes the Housing Management Board. The board was established in 2007 and brings together councilor and tenant members to help develop and deliver the strategy for council housing

In 2012 the introduction of Self-Financing put the HRA on a much better financial footing with better local control. However, some key government controls remain relating to rent levels, borrowing in the HRA and the use of many capital receipts.

The sources of income and types of expenditure are set out in detail in the report. The vast majority of income to the HRA is from the rents of existing tenants and primarily is to be spent on homes (repair & investment of existing or provision of new) & services to tenants.

A long-term Business Plan for the HRA is required to help manage peaks and troughs in expenditure needs and to reflect the long-term nature of housing assets. Prior to the recent Budget announcements, the HRA business plan was viable and was able to support a range of service improvements for council housing. These improvements focused on standards in existing homes and enhanced services to tenants as well as building new council housing. However, those plans (and the provision of basic services) are now under severe threat largely to the government's proposal to reduce social rents by 1% per year for the next 4 years.

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■ Agenda Item 10 - Presentation

Housing Revenue Account Business Plan

Neighbourhoods Scrutiny

16th October 2015

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This presentation provides an overview of the Council's Housing Revenue Account and the HRA 30-year Business Plan

The HRA can often be overlooked in the Council's budgets because it is self-funding and has a zero net budget. However, with an annual gross budget / turnover of £130m+ - including significant funding contributions to many General Fund services - the HRA involves substantial spending and activity within the council's finances



Contents

- BCC's role as a social landlord
- The basic rules around the HRA
- HRA strategy & Housing Management Board
- The HRA budget 2015/16
- The 30-year HRA BP / key assumptions
- Opportunities / Threats to the BP



BCC's landlord role

- BCC is a 'stock retained' council
- 27,300 rented / 1,300 leasehold homes
- 15% of housing stock in City
- Affordable: Social rents avg. £82 p.w.
- Meet need: 1,500 homes relet/exchanged 14/15
- Quality homes: 96% Decent, 80% satisfaction with home, 91k repairs 14/15
- Tenants: 70% on HB, 2,500 ASB complaints, 15k tenants consider they have a support need

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The council is the largest social landlord in the city (and the SW), making up a significant proportion of all homes in the city - and having a major influence in most neighbourhoods across the city

Council housing is the most affordable housing in the city, with rents at below 50% of market levels

We house, through Home Choice Bristol, those in the highest housing need letting around 1,500 each year

Homes must meet the government's basic Decent Homes standard but we aim for much higher standards. A major spending demand is day to day repairs in response to tenants request – over 90k requests each year.

There are many demands to meet the needs of existing tenants – supporting those on low income, dealing with ASB & breaches of tenancy conditions and providing support to help tenants to sustain their tenancies

The Housing Revenue Account

- Separate account for income & expenditure for the Council's landlord functions
- Self-financed, largely from tenants' rents, nil net budget
- Ring-fenced i.e. no cross subsidy between GF and HRA activities
- Government still largely control rent levels
- Government set debt cap on borrowing in the HRA
- Restrictions on use of Capital receipts
- Long-term assets = long-term planning: HRA 30 year Business Plan

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The HRA is legally separate from the General Fund (GF) and is a 'landlord account' – for the provision, management & maintenance of council housing.

The statutory origin of the HRA ring-fence is Section 74 of the Local Government and Housing Act 1989 . This legislation in brief aims to prevent the subsidising of the HRA from the GF and vice versa, it is possible for payments between the accounts if it is for valid purposes (e.g. the HRA can pay the GF for services it provides for council tenants and the GF can pay the HRA for services it provides on behalf of the whole community).

Although self-financing in 2012 put council housing on a better financial footing, there are still 3 key constraints on the HRA:

Government rent policy determines rent levels and rent increases

Borrowing on the HRA is tightly controlled with a borrowing cap imposed to prevent more borrowing

A proportion of capital receipts still has to be paid to government and there are controls on how capital receipts can be used locally

These constraints limit flexibility in the HRA and our ability to deal with peaks in spending needs, which makes long-term business planning more important

HRA strategy / role of HMB

- Self-funded business with long-term business plan - emphasises need for clear strategy / governance
- Housing Management Board
 - Assistant Mayor / lead from 3 x parties
 - 4 x tenant/leaseholder representatives
 - Advise on development/delivery of landlord strategy
 - Review the draft BP / associated Capital & Revenue Budgets
 - Review high level performance
 - Review risk and risk management arrangements
 - Overview of the development of tenant participation
 - Review draft reports on key decisions to be taken by the Cabinet or Council

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The size of the landlord business (both in terms of the multi-million pound finances involved, and the number of homes and their impact on the lives of a significant proportion of the population of Bristol) together with the need for the business to have a long-term, viable business plan; emphasis the need for a clear & robust strategy for the HRA / council housing.

To help with this and provide greater focus/scrutiny on Housing, the HMB was introduced in 2007. Whilst it is not, within the council's constitution, a decision making body; the HMB is a strong influence on the HRA strategy resulting BP.

HRA budget 2015/16

Income	£m	Spending	£m
Gross Rent	117.7	Capital investment	53.6
Gross Service charges	7.9	Revenue repairs	34.2
Voids	-1.9	Management costs	27.3
Useable Capital receipts	6.9	Service costs	8.3
Other revenue income	1.5	Debt costs	11.8
Total	132.1	Bad debts	2.9
		Other	1.4
		Total	139.5
		Annual surplus/(Deficit)	(7.4)

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HRA Income

- Rents – rents are set using a Target rent for each home based on a government formula. Annual increase (or decreases) are also linked to government policy
- Service charges – charges for specific services such as caretaking, laundries, CCTV
- Voids – the loss of rental income due to periods when homes are empty between tenancies
- Capital receipts – largely from Right To Buy sales – many restrictions

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Rents – A Target or formula rent is calculated for every social housing home - based on factors like no. of bedrooms and value – with the aim of ensuring that similar homes in similar areas should have similar rents. The annual Target rent increase is set by government and is currently CPI + 1% (NB proposal to reduce rents by 1% p.a. 2016-20). The average council rent in 2015/16 is £81.95 p.w. Around 70% of tenants are on either full or partial Housing Benefit and 56% of overall rent income is received in HB.

Service charges are charged for specific 'separate' services only received by some tenants, e.g. caretaking, and the charge for these can only cover costs (i.e. there cannot be a 'profit' on service charges)

Voids - Some potential income is lost when homes are empty during change over of tenancies

Capital Receipts - The forecast is that 145 homes p.a. will be sold through the Right To Buy in 2015/16 . Depending on length of tenancy, the tenant buying receives a % discount on the value of the property up to 70%. Also, a percentage of the receipt the council receives has to be paid to government, however the proportion of the receipt we can retain and re-use is increased if we re-invest receipts to new council homes (but there are strict rules about how they can be used and it can only be 30% of the cost of a new home)

HRA Expenditure

- Capital – investment in existing and new homes
- Revenue Repairs – responsive repairs, cyclical maintenance, servicing and re-letting homes
- Providing services (management & service costs) – direct staffing, overheads and support service costs
- Debt costs – interest payments on the £245m debt
- Bad debts – provision for rent arrears unlikely to be paid

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Capital / Revenue repairs - The majority of spend on the HRA is direct spending on the repair, maintenance and improvement of existing homes (and building new homes where there is sufficient income 'spare' to fund this, after our 'duty' to ensure that the homes and services for existing tenants are funded).

Management and service costs are the next biggest area of spend – the cost of providing services to tenants and their homes including tenancy management, rent and debt advice, caretaking, etc.

Debt costs - The interest payments on the debt of £145m on the HRA are a relatively low, but absolutely essential cost to the HRA. Money could be spent on paying off some debt (and therefore lowering future interest payments) but most loans to the HRA are long-term loans at low fixed rates so this is not our current business approach.

Bad debts - Provision is made for bad debt – income we do not expect to receive and is 'written off'. This is 'old' current tenants arrears where the chances of the tenants paying are very low or old former tenants arrears.

Spending in & out of HRA

- **Housing Delivery services (25%)**
 - Response repairs (some), Planned Programmes (commissioning), Estate Management, Strategy Planning & Governance
- **Council / General Fund services ‘bought in’ (25%)**
 - Specific: Housing Needs (HomeChoiceBristol), Rent management, Caretaking, ASB, Adaptations, Tenancy Support, Community Development, Grounds Maintenance
 - General: Customer Services, ICT, Finance, HR, Legal
- **External (50%)**
 - Repairs & capital investment, debt costs

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Whilst housing is still ‘in-house’ much of the spending on council housing is not directly in the HRA.

Around a quarter of spending is on services provided within Housing Delivery but a further quarter of spending is on services that are delivered by other parts of the council and paid for from the HRA. This is legitimate funding of the GF from the HRA as it is paying for services that are provided to tenants GF

Many services (especially investment in new & existing homes) is bought in from external providers / contractors

30 year Business Plan Assumptions

- Dwellings at start = 27k, minus RTB, plus new build
- Average Rent (2015/16) = £82 p.w., annual rent increase of CPI + 1%
- HRA debt at 01/04/15 £245m / borrowing cap £257m
- Consolidated borrowing rate – 4.7%
- Repairs/maintenance & management/service costs remain relatively constant (inflationary rises)
- 30 year capital investment of £1.9bn – some peaks & troughs
- ‘Surplus’ income used to fund 2,000 new builds over the period

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The HRA business plan involves inputting year 1 figures (as per the agreed budget) for key issues like stock figures, inflation, rents, spending requirements, Right To Buy sales, etc. and then forecasting these over 30-years (according to known government policy, spending needs, service improvement plans, etc.) .

The HRA business plan also allows scenarios to be tested – “what if” questions – e.g. what if inflation rises, what if Right To Buy sales increase, what if arrears increase? Testing these allows us to understand risks to the HRA business and to better plan for these and ensure the HRA remains viable.

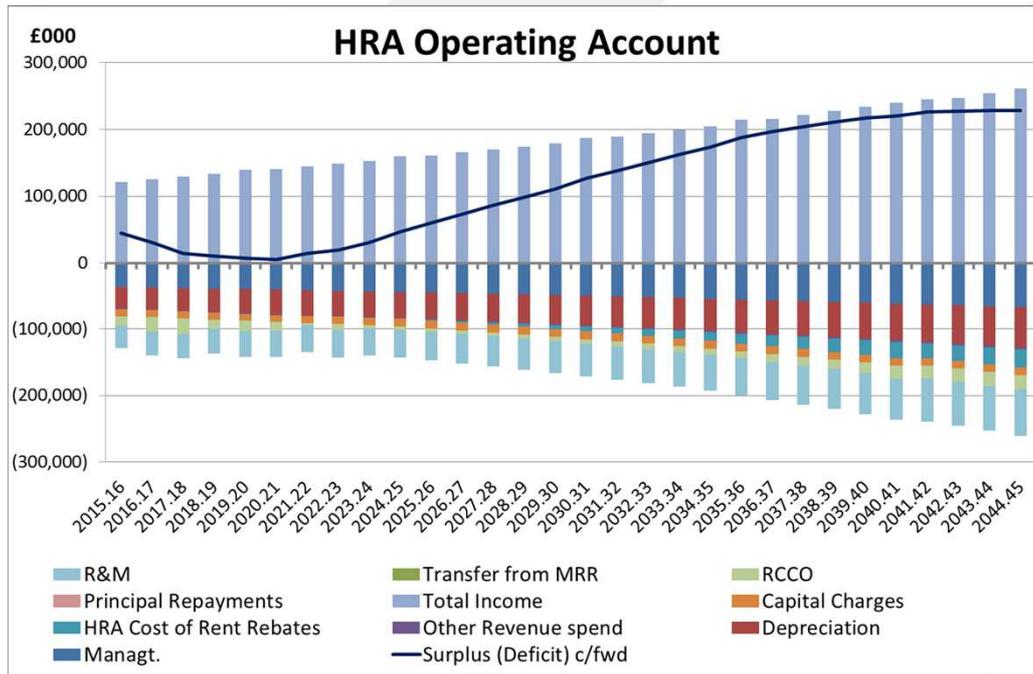
The figures above show the impact of the debt cap – the current debt on the HRA is £244m and the absolute debt cap on the HRA is £257m – that means that we can only borrow a further £13m until we have hit our cap and can borrow no more.

Current rent increases in the HRA business plan are based on government policy which links annual rent increases to inflation as measured by the Consumer Price Index. This is now a high risk area.

Most spending stays relatively steady, generally rising by inflation. However, there are peaks in capital investment needed relating to the age and condition of homes.

All surplus income in the earlier years of the plan is assumed to fund new homes

HRA BP 2014 - 44



The graph shows the operating, or revenue account in the HRA.

Rent income above the axis and spending categories below the axis

The dark blue line shows the surplus (or deficit) on the HRA – in early years no surplus is generated as spending plans use up any growth in income. In the longer-term a surplus is forecast to grow, in reality if this were to happen then spending plans would be increased and more new homes would be built. However, we have not committed to this at this stage as longer term forecasts in the BP are less certain / higher risk

Service improvements in BP

- To deliver: Housing Strategy Outcomes & shared BCC strategic aims (e.g. Green Capital objectives)
- Improve homes - Bristol Homes Standard
 - Heating & insulation, kitchens/bathrooms, security, Fire safety
- New homes programme / Making best use of existing stock
- Improving the Tenant Experience
 - Better start to tenancies, improved processes, increased staff to manage /support tenancies, ICT to support web access
- Mitigating impact of Welfare reform / sustaining tenancies



The BP includes HRA service improvement plans developed in consultation with tenants and members.

The HRA service plans aim to help deliver the objectives in our BCC housing strategy: My Home is my springboard for life . The HRA service plans also help deliver the Mayor's priorities / our Corporate plan.

HRA plans will help achieve shared BCC outcomes e.g.: successful tenancies /successful citizens, financial inclusion, warm secure homes/healthy households, support/advice to the most vulnerable, digital inclusion/self-service

Threats – budget/government policy

- Social Rents to reduce by 1% p.a. for 4 years (2016 – 2020)
 - Previous ‘guarantee’ of CPI + 1% p.a. for 10 years
- Welfare reform / risk to rent income & tenancy sustainment
 - Specific issues: Benefit Cap / General issue: Universal Credit
- Sale of high value homes when empty / receipts to government
- Requirement to pay back additional RTB receipts plus interest if fail to deliver new build programme

TOTAL ESTIMATED LOSS = £255m over 10 years

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The Welfare Bill proposes that Social (and Affordable) rents will reduce by 1% p.a. for 4 years (2016 – 2020). Previously the government’s social rent policy was a ‘guaranteed’ annual rise of CPI + 1% for 10 years from 2015. The current average weekly rent for Bristol’s council housing is £82.11, our business plan based on government policy forecasts that rent in 10-years would be £109.10 per week. The rent in year 10 with 1% reductions 2016-20 would be £87.08 per week (assuming that rents go up by inflation only after 2020). This rent gap equates to a potential rent income loss over 10 years of £188m.

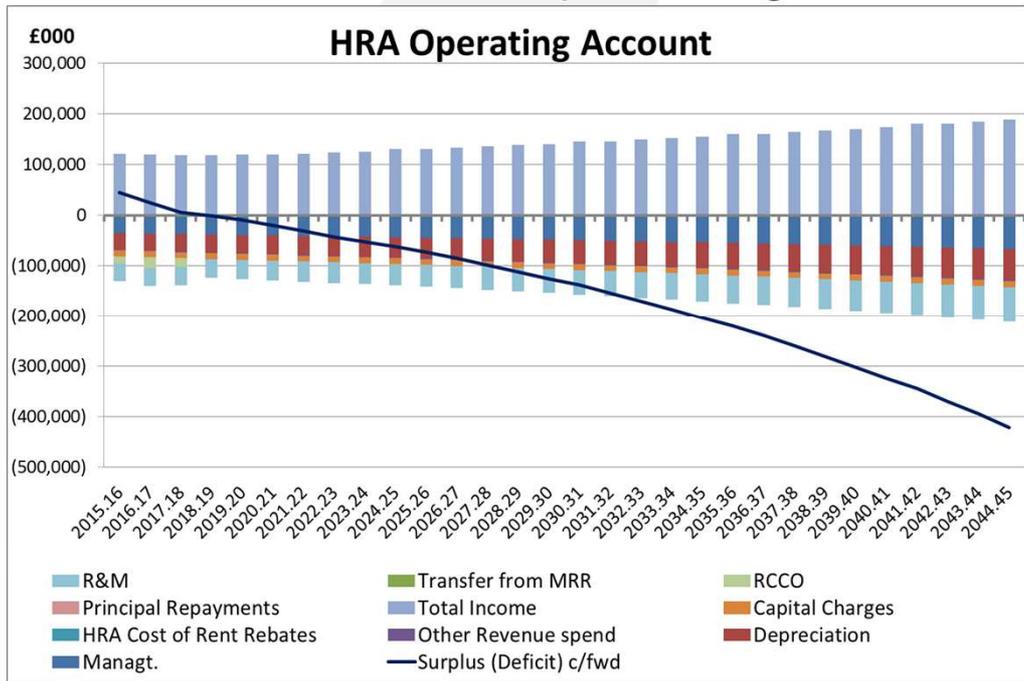
The Benefit Cap will mean any cut in benefits will be taken from housing benefit (HB). It is estimated that the £20k cap will affect 500+ BCC tenants and put at risk £1.7m+ of rent income p.a. Longer-term Universal Credit paid to an estimated 11k tenants monthly rather than directly to BCC, will put ‘secure’ rent income at high risk

The government also proposes that when high value council homes become empty they should be sold and the receipts should not be kept by the council but should go to government. The definition of “high value” depends on region but for the south west means for a 1 bed home £135k, and for a 2 bed home £260k. Our current financial forecast already include that we do sell some high value / high repair cost ‘acquired’ homes and re-invest these receipts.

Additional receipts (i.e. from sales above the level of sales anticipated prior to government measures to encourage more tenants to buy) can be reinvested by councils to cover up to 30% of the cost of new homes. However, if we do not have sufficient revenue surpluses (due to the other issues set out above) to deliver the required level of new build they would need to be paid back to government along with interest.



Potential BP – post budget



The graph shows the impact of these proposals on our BP – the HRA would go into overall deficit (bankruptcy) in year 3 – which is not possible - unless major cuts are made

Our response?

- Consider different demands on us as a landlord
 - Affordability - benefits / debt advice alone not enough
 - Our role in financial / digital inclusion
- Consult / consider 'balancing' options
 - New Build (£10-20m p.a.) – e.g. 60% cut in new homes
 - Capital Investment (£40-50m p.a.) – e.g. cut by 25% (reduce cladding, heating upgrades, kitchens replacements)
 - Revenue repairs & maintenance (£30-35m p.a.) – e.g. cut by 10% (reduce external maintenance, relets standard, etc.)
 - Management/service costs (£35 – 40m p.a.) likely to be the last area to cut (due to need to sustain tenancies post WBR) but efficiencies would be sought
- Impact / actions to be considered as part of Scrutiny Housing Inquiry

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The Welfare changes will ask very different questions of us as a landlord. Even council housing will no longer be affordable for some households on benefits (hit by the cap or a four year freeze in benefits). So our previous approach of helping to ensure tenants claim all of the benefits they are entitled to and providing debt & budgeting advice will no longer be sufficient. We will need to consider our role in helping to provide more long-term solutions – i.e. supporting tenants into employment and ensuring tenants can access services / benefits on-line

We will also need to start preparing for the worst case scenario and begin consulting stakeholders on where cuts should be made to our spending plans. One area of spending, Debt costs (paying the interest on our debt), cannot be reduced so the savings would have to come from other the areas of spend. The total spend in each area p.a. is shown, together with examples of the levels of cuts / impact that might be required

The impacts of the Budget and Welfare Benefit Reform., and the council's response to these on the HRA business plan are part of the remit of the Scrutiny Housing Inquiry