Report to:	Housing, Economy and Business Committee	**Date:**	19 March 2019
Report title:	Housing Revenue Account Business Plan 2019/20 to 2048/49		
Report from:	David Moore - Interim Strategic Director, Environment, Housing and Regeneration		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Jayne McCoy		
Author(s)/Contact Number(s):	Trevor Hart, Housing Strategy and Commissioning Manager 020 8770 5844		
Corporate Plan Priorities:	● Being Active ● Making Informed Choices ● Living Well Independently ● Keeping People Safe ● Smarter Ways of Working		
Open/Exempt:	Open		
Signed:		**Date:**	6 March 2019

1. Summary

1.1 This report seeks the Committee's approval of a new Housing Revenue Account (HRA) Business Plan covering the years 2019/20 to 2048/49.

2. Recommendations

It is recommended that the Housing, Economy and Business Committee:

2.1 Agree for publication the Housing Revenue Account (HRA) Business Plan 2019/20 to 2048/49, as set out at Appendix A.

2.2 Agree that further work be undertaken on the possibility of running a Phase 3 new build programme.

2.3 Agree the proposed HRA expenditure within the financial modelling on property acquisitions, subject to meeting prudential borrowing rules.

2.4 Agree that a flexible approach be adopted to directing resources between the acquisition and future new build programmes as potential new build sites are identified and assessed.

2.5 Agree the policy proposals and approach to asset management, as set out in chapter 4 of the HRA Business Plan.

3. Background

3.1 The HRA Business Plan sets out the Council's plans for maintaining and investing in its housing stock over the longer term. The housing stock now comprises almost 6,000 rented and over 1,440 leasehold properties. The Business Plan's fundamental purpose is to ensure the efficient use of the Authority's housing assets. The previous version of the Business Plan was considered and approved by the Committee at its meeting in September 2018. In future, it is intended that reiterations of the Business Plan be better aligned with the Council's budget process and be brought to the December meeting of the Committee.

3.2 The proposed new HRA Business Plan is included at Appendix A and, as before, comprises a main document and appendices A to I. Key elements of the revised Plan and issues arising are summarised briefly in the next section, with options for consideration addressed in section 5.

4. Issues

4.1 In the new HRA Business Plan, the 30 year stock investment requirement (Appendix B to the Business Plan) has been updated and the assumptions made regarding building cost inflation in light of the latest industry intelligence have also been reviewed. This has increased the total cost of investment over 30 years to £385.9m. The projected Right to Buy (RTB) sales and income (Appendix D to the Business Plan) have also been updated, based on the current pipeline of applications and latest trend analysis.

4.3 The first priority in the Business Plan's Base Model is to set aside sufficient funding to pay off the £141.126m self-financing debt settlement (the Council's proportion of the national HRA debt from 2012, taken on as part of the reform of council housing finance) when this becomes due to be repaid. Resources are set aside in the modelling from Year 1 to Year 23 (2041/42) which accrue to match the debt in full. The Year 1 figure also aggregates amounts set aside from 2018/19, whereas from Year 24 onwards, amounts are set aside to pay back the borrowing taken out to fund new build and property acquisitions.

4.4 The updated modelling reflects the latest Government policy on social rent levels, so that after the four year -1% p.a. reduction period ends in 2019/20, rents increase by the Consumer Price Index (CPI) + 1% for the next five years. It then adopts a reasonably cautious approach by assuming that rents increase by CPI only each year thereafter. The approach to the funding of the new build and acquisition programmes takes into account the lifting of the cap on HRA borrowing announced last year.

4.5 The Base Model incorporates the latest financial modelling of the current (Phase 1) HRA new build programme, which is funded via a combination of HRA borrowing, additional borrowing capacity from the Government's Local Growth Fund, the use of net or re-investable RTB receipts, some funding arising from 's106' agreements and a significant amount of HRA revenue contributions made in 2018/19. The programme is set to produce 93 new homes, all to be let on Affordable Rent, set at approximately 65% of the local market rent.

4.6 The Base Model further incorporates the new build Phase 2 programme, which was approved by the Committee at its meeting in January. This is funded via £6.5m of GLA grant from the Mayor's Building Homes for Londoners Programme, HRA borrowing and net RTB receipts. This new programme is set to produce 81 units over the years 2019/20 to 2021/22, although this number could be increased subject to resources being available.

4.7 The Base Model also applies HRA funding to the property acquisition programme, which has been running for the past 18 months. Given the availability of funding it assumes that the programme of acquisitions will run throughout the 30 year period, funded from a combination of RTB net receipts and HRA borrowing over the first 10 years, with revenue contributions and RTB net receipts used thereafter. Currently RTB net receipts can only fund up to 30% of the cost of development or acquisition; however, this restriction may be relaxed depending on the outcome of a recent government consultation on the application of receipts.

4.8 It is anticipated that by the end of 2018/19 there will have been a total of around 80 completed acquisitions, since the programme began in August 2017. The average net cost to the Council of placing a household in temporary accommodation equates to approximately £2,700 p.a. Over time, the rent collected from tenants of the acquired properties, which are let at Local Housing Allowance rent levels, more than covers the cost of acquisition and ongoing management and maintenance. On that basis, and even without any further acquisitions coming on stream, the saving to the General Fund in 2019/20 will amount to £216,000 (80 x £2,700).

4.9 The revenue and capital summaries of the Base Model (Appendices F (i) and F (ii) to the Business Plan) show income/resources available set against revenue and capital expenditure. The assumptions are set out in Appendix G and outputs are summarised in chapter 3.

4.10 The revenue summary shows an 'investment reserve' of £93.6m building up by Year 30, which means that over time there is more than sufficient revenue to cover all expenditure, including the amounts that need to be set aside to repay the HRA self-financing debt as well as a significant ongoing acquisition programme. This is, however, substantially lower than the amount in the last iteration of the Business Plan largely due to a much increased stock investment requirement resulting from the higher level of assumed building cost inflation.

4.11 The capital summary shows the investment requirement in the existing stock as well as the cost of property acquisitions over the 30 year Business Plan period. The various sources of funding are then set out, resulting in in-year and cumulative shortfalls/surpluses. It can be seen that apart from a small shortfall in Year 4, which is made up in full the following year, a Major Repairs Reserve surplus gradually builds up, reaching £16.0m in Year 30.

4.12 An alternative to the Base Model, referred to as the "Additional New Build Model", has been produced, based on running a further programme of HRA new build (Phase 3). This assumes a further 120 units will be brought forward at a total cost of £42m (£350k per unit to allow for potential land acquisition costs), developed over the years to 2024/25 and funded entirely through HRA borrowing facilitated by the lifting of the borrowing cap.

4.13 The Additional New Build Model revenue and capital summaries are set out in Appendices H (i) and H (ii) of the Business Plan and show the impact of this programme. Under this scenario, sufficient resources remain to fully pay off the self-financing loan when it becomes due, investment in the existing stock remains fully funded over the Business Plan period and the Phases 1 and 2 new build and acquisition programmes remain as per the Base Model. The investment reserve at Year 30 does, however, reduce to £80.3m in view of the additional cost of borrowing.

4.14 An indicative outline programme of major works covering the five year period from 2019/20 to 2023/24, predicated on the funding assumed within the Base Model, is discussed in chapter 4 and set out in Appendix I to the Business Plan. This totals £46.7m and includes £23.4m of major repairs and £8.9m of improvements, and allocates a further £6.6m to cover additional fire safety related works.

4.15 Chapter 4 goes on to look at some property-specific issues, which have been updated where applicable since last year. These include addressing the heating needs of properties off the gas main, door entry systems, the specific needs of the system-built homes at Clockhouse, significant investment required at Rosehill Court and the need to demolish battery garages. It concludes with a brief summary position on the estate regeneration programmes, although they are all still at a relatively early stage so it is not possible to model the financial impact on the HRA at this point in time.

4.16 Chapter 5 sets out in more detail the latest position on the HRA new build programmes and also provides details of the acquisition programme. In addition, it discusses the potential for a Phase 3 of further HRA new build, including assumptions made regarding potential funding.

4.17 Chapter 6 concludes with a summary of the overall strategic position of the HRA, noting that even under the Additional New Build Model, the Year 30 investment reserve reaches a healthy £80.3m, giving options for future HRA investment in years to come. Finally, the process of monitoring and reviewing the Business Plan is described in chapter 7.

5. Options Considered

5.1 The key strategic option considered within the Business Plan is the balance of revenue and RTB net receipt funding applied respectively to investment in the existing stock, to new build programmes and to property acquisitions. Ultimately, a balance has been struck between these but as a priority, all essential works to the stock are now undertaken when they need to be. The rationale for resourcing acquisitions is primarily that they reduce costs to the General Fund of temporary accommodation but they also improve the viability of the HRA through the generation of additional income.

5.2 The resulting surplus or investment reserve accruing by Year 30, in both the Base Model and the Additional New Build Model, gives the Council scope for further HRA investment in later years. This could be in improvements to the existing stock, more new build or an extension of the acquisition programme. Such options will be the subject of future iterations of the Business Plan. Reference is also made to the further flexibility that the HRA could benefit from if the funding of the acquisition programme were to be switched to General Fund borrowing. Again, this can be explored in future iterations.

6. Impacts and Implications

Financial

6.1 The capital summary is currently showing a break-even position in the first five years of the plan, with a growing surplus position from year 6 onwards. Current capital plans include required investment in stock, continuing the property acquisition programme and phases 1 and 2 of the new build programme. From Year 6 onwards this is achieved whilst also building a healthy surplus. In addition, historical trends show that the actual spend requirement on stock is never as high as programmed as the budgeted investment need is driven on a formulaic approach whilst in practice, housing components often have a longer life. Taking this into account the position may improve. This will be reviewed annually as part of the business plan process.

6.2 A priority within the business plan has been the set aside of £141m for the repayment of the self-financing subsidy loan by 2041/42 when it is due to mature. This will be kept under close review to ensure that there is sufficient certainty that the Council can repay the subsidy loan.

6.3 The Business Plan includes planned expenditure of £360.7m over the 30 year period on property acquisitions. This is on top of £5.417m spent in previous years and £17.375m forecast to spend in 2018/19. The property acquisition programme is funded by revenue contributions of £236.6m, RTB net receipts of £63.9m and borrowing of £60.2m. Additional income from these property acquisitions over 30 years is estimated to total just under £97.3m, and this amount should allow for the additional cost of borrowing and significantly improve the overall viability of the HRA whilst also benefiting the General Fund in terms of reducing the cost of temporary accommodation.

6.4 There is also expenditure planned on the completion of the current Phase 1 new build programme for 93 local authority owned units. A further sum is now included for Phase 2 new build projects that was recently agreed by the Mayor for a further 81 local authority owned units. The budgeted expenditure for this area is £25.657m funded by borrowing of £17.468m, GLA Grant of £6.5m and RTB net receipts of £1.689m.

6.5 As part of Budget 2018, Government announced plans to remove the HRA borrowing cap. This was subsequently implemented through revisions to capital regulations brought in during October 2018. Officers have now reviewed plans for the HRA in light of this significant change which has allowed all acquisitions to be met by HRA resources and removed the need for borrowing from the General Fund to support the programme.

6.6 The current HRA business plan includes some revisions to the timing of spend to the capital budget profile for 2019/23, as agreed by Council on 25 February. These changes will be reflected in the 2019/23 budget as part of reporting the first quarter Performance and Finance report in 2019/20 that is agreed by the Strategy and Resources Committee.

6.7 A variation on the Base Model (summarised in Appendices H (i) and (ii)) has been produced to outline the impact of implementing further new build activity. The model shows the impact of building a further 120 units at a notional cost of £42m. The additional rental income from these units will cover for the capital financing costs for these proposals and officers are currently looking at plans for how this will be funded.

Legal

6.8 Under Part IV of the Local Government and Housing Act 1989 any local authority that owns housing stock is obliged to maintain a Housing Revenue Account (HRA). The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock.

6.9 The items to be credited and debited to the HRA are prescribed by statute. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA.

6.10 The Localism Act 2011 reformed the way that council housing is financed in England & Wales. The national HRA subsidy system ended in April 2012 and was replaced by self-financing. The Council has a statutory duty to approve a balanced HRA each year and to produce a business plan at intervals.

6.11 Section 76 of the Local Government and Housing Act 1989 places a duty on local housing authorities to: (a) produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; (b) review and, if necessary, revise that budget from time to time; and (c) take all reasonably practicable steps to avoid an end of year deficit.

6.12 There is no specific legal impact or implications arising from this report on the basis that the Council has in place and acts in accordance with an appropriate Business Plan.

6.13 In respect of the delivery of capital projects which may have an implication on the HRA, these will be subject to separate governance decisions and monitoring of the impact on the HRA.

Equality Impact Assessment

6.14 An equality impact assessment is set out in Appendix B.

7. Appendices and Background Documents

Appendix letter	**Title**
A	Housing Revenue Account Business Plan 2019/20 - 2048/49
B	Equality Impact Assessment

Background Documents
None

Audit Trail		
Version:	Final	Date: 6 March 2019
Consultation with other officers		
Finance	Yes	Lyndsey Gamble/Steve Watts
Legal	Yes	Byron Brittan
Equality Impact Assessment required?	Yes	See Appendix B

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