

## Agenda Item 7

Housing Review Board

10 September 2009

JG



### Housing Revenue Account Review and Service Transformation

#### Summary

This report initiates a review of the Housing Revenue Account (HRA) and extends the service transformation exercise to the landlord activities contained within the ring fenced Housing Revenue Account.

It is timely to commence the review of the HRA and Business Plan as the Government is consulting on freedoms from the restrictive housing finance and subsidy system. Our ability to build council homes with Government grant, the resulting borrowing implications and the need to consider the Carbon Management Plan, Review of Sheltered Housing and other aspirations also prompt a review of our Business Plan. We have run our HRA surplus down close to the minimum recommended level by spending on tenant services and homes. We are at a point where we need to monitor expenditure and commitments closely to maintain the surplus.

We have also been encouraged to consider service transformation issues consistent with the work of the Leaders Service Transformation Group in relation to General Fund activities.

#### Recommendation

**To consider this first stage of a review of the Housing Revenue Account Business Plan, incorporating the findings set out in this report in future budget setting arrangements.**

#### a) Reasons for Recommendation

To ensure that we maintain an up to date Housing Revenue Account that includes the provision for all the management and maintenance requirements for the council's housing stock.

#### b) Alternative Options

Not to review the HRA at this particular time.

#### c) Risk Considerations

Not taking account of recent national policy developments and local pressures risks the Housing Revenue Account being unable or unprepared to finance emerging requirements and maintaining homes in good order.

We need to maintain the minimum recommended balance on the Housing Revenue Account.

#### d) Policy and Budgetary Considerations

These are as set out in the report.

#### e) Date for Review of Decision

Monthly budget monitoring reports are provided to Service managers. The Housing Review Board undertake an annual budget setting review and several reviews within the financial year.

---

## **1 Background**

- 1.1 It is essential that we maintain a Housing Revenue Account that can fund the management and maintenance of the Council's housing stock. Funds from the ring fenced HRA pay for landlord services including repairs, improvements and adaptations to tenant's homes, plus the cost of housing management activities.
- 1.2 Our 30 year HRA Business Plan was finalised in June 2006 as one of the last pieces of work included in the Housing Stock Options Appraisal. The exercise has been an accurate prediction of income and expenditure to date, but housing finance is changing and in order to ensure that we optimise the resources for housing in East Devon, I propose that we initiate a review of our Business Plan.
- 1.3 The Board will recall that at your last meeting you received a report on the HRA outturn for 2008/09 and the 'health check' performed by consultants Tribal. We may wish to invite Tribal to assist us with the updating of the HRA Business Plan once our initial scoping of the work is more advanced.
- 1.4 The Government is proposing major changes to the housing subsidy system and has recently given local authorities access to grants for new build thereby 'levelling the playing field' with Registered Social Landlords in terms of development finance. We have been lobbying for these changes and need to respond positively to the freedoms and flexibilities being offered.
- 1.5 I have reproduced the HRA 2009/10 budget in **annex 1** for reference.

## **2. Building new council homes**

- 2.1 At the end of July we submitted a bid to the Homes and Communities Agency (HCA) for capital funding to build new council homes. We are already building two bungalows in Sidmouth, and if successful in our bid we will have a modest new build programme.
- 2.2 The Government published Building Britain's Future in the summer of 2009 with an extra £1.5 billion of housing funding.
- 2.3 The rules for bidding required us to pass a series of pre-qualification tests, build on council owned land and contribute 50% of the costs. The HCA guidance on local authorities bidding for grant set out the detailed bidding rules.
- 2.4 We bid for four schemes of 17 homes, all rented and all on sites owned by the Council. There is a mix of mainly two and three bedroom homes.
- 2.5 Changes in council housing finance rules mean that we can now keep the full rent receipts on new build properties and the full capital receipt when any of those houses or flats are sold. Building council homes again will require borrowing capital from the Public Work Loans Board. We can borrow at favourable rates and the capital and interest must be repaid from the rental income.
- 2.6 The bids for grant amount to £1,043,500 with grant per property varying from £65,000 - £54,000 per unit. Average grant per unit works out at £61,382.
- 2.7 There is a separate report on this agenda providing more detail on our HCA bids.

## **3. HRA financial pressures**

- 3.1 Over the next few years there are a number of additional expenditure pressures which we need to build into our plans. Despite the anticipated financial freedoms we must continue to

maintain the HRA in a healthy financial position with at least the minimum recommended balance (£245 per property).

3.2 Optimising income is an essential prerequisite of a healthy HRA and with rental income our main source of income it is vital that we collect a high proportion (target 99%) of this income to finance housing services. Our Housing Business Unit has key role to play in this activity.

3.3 We have already considered or are aware of a number of new spending priorities in recent months including:

- New build council homes;
- Carbon management plan improvements;
- Decommissioning/improving sheltered housing;
- Changes to Supporting People contracts;
- Demand for disabled adaptations;
- Extensions and loft conversions;
- Communal cleaning improvements and caretaking services;
- Accelerated major improvement programme;
- How the stock condition survey influences the refreshed Business Plan;
- Staff requirements to deliver an 'excellent service';
- Tenant/customer aspirations.

3.4 To finance these service enhancements will require us to review the HRA Business Plan and ensure that we are delivering value for money services. We need to consider the introduction of service charges for some services to ensure that we comply with government advice on de-pooling of certain costs from rents. We have reached a position where we cannot keep adding financial commitments without identifying precisely how any new expenditure will be financed through reducing other budgets, adjusting priorities, making efficiency savings etc.

3.5 We have benefited from expert advice when constructing the Business Plan and HRA health check, which has been valuable in establishing a robust financial plan and reducing our subsidy payment. At some point in the HRA review I will be recommending that we appoint Tribal consultants to assist in this work. If the freedoms and flexibilities materialise the HRA will get more complex and require a specialist financial resource planner and additional accountancy support.

#### **4. Reform of council housing finance**

4.1 The Government issued a consultation paper at the end of July 2009 on reforming the HRA system. It seems unlikely that changes to the benefit of the Council and our tenants will be put into effect quickly. There is £18 billion of housing debt which the government does not seem to be prepared to 'write off'. Instead the government is inviting the 205 stock owning authorities to 'buy out' the debt.

4.2 As a 'debt free' authority we are being asked to take on other authority's debt as the price for freedom from the existing housing finance regime.

4.3 A separate report on this agenda considers the consultation paper issued by the Department for Communities and Local Government on the Reform of Council housing finance.

#### **5. Service transformation agenda**

5.1 The Leader's Service Transformation Group has looked at all General Fund services delivered by the council in an attempt to identify service efficiencies and improved ways of working.

- 5.2 The approved 2009-10 budgets draw heavily on reserves. To fund the cost of revenue services Members agreed that a sum of £1.8m, with a further £2.0m needed for capital purposes, should be taken from balances. In reaching this decision Members were advised that this is not a sustainable proposition and that they would need to take appropriate action in the course of the financial year to reduce the overall level of the Council's expenditure to that which could be afforded from income.
- 5.3 The revenue overspend of £1.8m can be attributed to three factors: a reduction in income, including that from investments, as a consequence of the credit crunch (£1.1m); the decision to leave the council tax unchanged for 2009-10 (£0.3m); and to an underlying gap between total expenditure and total income.
- 5.4 Whilst it anticipated combined income from car parking, planning, land charges and building control should, in time, recover to something close to previous levels the same cannot be said of interest receipts. Here the planned use of reserves to 'prop up' the revenue and capital programme in 2008-09 and 2009-10 will mean there will be less cash to invest in future. So even if interest rates were to return to levels experienced in the first half of 2008-09 the amount of interest received would be lower.
- 5.5 The objective for the Council is to reduce the overall level of the expenditure to that which could be afforded from income whilst maintaining the delivery of quality services.
- 5.6 In respect of housing services this involved homelessness prevention, housing advice, Home Safeguard, Housing Strategy and enabling.
- 5.7 A methodology has been devised and a template which has been a useful discipline to follow. I have completed the template produced for the exercise in respect of HRA funding. This is provided in **annex 2**. Whilst the same financial pressures are not facing HRA expenditure and the same need to identify savings, we should ensure that we are achieving value for money and spending efficiencies, achieving priorities, tenant aspirations and HRA Business Plan targets. We should also ensure that we maintain the recommended HRA surplus of just over £1 million.
- 5.8 It can be seen from the template that I have identified a number of areas where we can find efficiencies, improved procurement, collaboration and shared services, service realignment and changed priorities. These need to be considered alongside a comprehensive review of the HRA and the changes in HRA accounting that the government may be introducing.
- 5.9 I highlight the important consideration of the balance between housing services (staff costs) and repairs, improvements and adaptations to tenants homes (building costs) and ask if we have still got the balance correct having regard to the condition of the housing stock and tenants aspirations. This is a key consideration at this point both in terms of service transformation and the review of the HRA Business Plan. Put simply under the current financial regime more housing services would mean less works to tenant's homes. We have placed great emphasis on achieving the Decent Homes Standard and directed much of our available funding to modernising the housing stock to a good standard, and whilst we must maintain a significant investment in the stock there is an opportunity for a readjustment of our priorities.

## **6. Conclusions**

- 6.1 It can be seen from the above that the HRA has been carefully managed to a point where we can meet our major expenditure priorities from the income generated. There are new pressures for additional spending and opportunities for efficiencies. In addition, there changes being considered to the HRA regime that may benefit the council and our tenants.

- 6.2 The review of the HRA cannot be undertaken in one session and is a process that needs to be undertaken having regard to the economic pressures and changing financial environment. This paper effectively initiates the HRA review, which will be followed by the 2010/11 budget preparations, the results of the Leaders Service Transformation exercise, the outcome of the bids for grant and the HRA consultation process. Once there is more certainty over these issues we can conclude the review and refresh the HRA Business Plan.

---

### **Legal Implications**

There are no legal implications highlighted with the report.

### **Financial Implications**

The financial pressures facing the Council have been highlighted in the report as has the need to maintain the HRA balance at the recommended level. Financial implications arising from the various changes/reviews mentioned in the report will become clearer once the processes are underway.

### **Consultation on Reports to the Executive**

None.

### **Background Papers**

- ❑ Reform of council housing finance, CLG, July 2009.
- ❑ Housing Revenue Account Business Plan 2006.
- ❑ Agenda papers and reports for the housing submission to the Leaders Service Transformation Group held on 23<sup>rd</sup> July 2009.
- ❑ Local authorities: bidding for Social Housing Grant, HCA.

---

John Golding Ext 2364  
Head of Housing and Social Inclusion

Housing Review Board  
10 September 2009