Report to:	Housing, Economy and Business Committee	**Date:**	26 September 2017
Report title:	Housing Revenue Account Business Plan 2017/18 to 2046/47 - Revised Version		
Report from:	Mary Morrissey - Strategic Director, Environment, Housing and Regeneration		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Jayne McCoy		
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Corporate Plan Priorities:	● An Open Council ● A Fair Council ● A Green Council ● A Smart Council		
Open/Exempt:	Open		
Signed:		**Date:**	14 September 2017

1. Summary

1.1 This report seeks the Committee's approval of a revision to the Housing Revenue Account (HRA) Business Plan 2017/18 to 2046/47, which was approved in March 2017. The revision is essentially to take into account the proposed programme of property acquisitions, which was approved by the Committee at its meeting in June, to be funded from Right-to-Buy net receipts and HRA revenue, and to address the need to invest in additional fire safety works in the wake of the Grenfell Tower tragedy.

2. Recommendations

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

2.1 Comments on and approves for publication the revised Housing Revenue Account (HRA) Business Plan 2017/18 to 2046/47.

Sutton

3. Background

3.1 The latest HRA Business Plan, covering the 30 year period 2017/18 to 2046/47, was approved by the Housing, Economy and Business Committee in March 2017. It was subsequently published on the Council's web site.

3.2 At its meeting in June 2017 the Committee agreed that a revised version of the Business Plan be produced, to take account of the proposed programme of property acquisitions in part to be funded from a combination of Right-to-Buy net receipts and HRA revenue. The proposed revised 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 revising the HRA Business Plan the opportunity has been take to update the 30 year stock investment requirement (Appendix B to the Plan) and to review the assumption made regarding building cost inflation in light of the latest industry intelligence. This has had the effect of reducing the total cost over 30 year from £348.5m to £334.1m.

4.2 The outline five year programme of major works, set out in Appendix I, has been revised to (i) allow funding to be diverted to property acquisitions, as agreed by the Committee at its meeting in June, and (ii) to take into account the need to provide additional funding for certain fire safety measures, including retrofitting sprinklers at Balaam House, in the early years. As a consequence of these measures, spend in other areas has been re-profiled. In regard to (ii), £1.9m over Years 1 to 3 has been built into the programme. Further details of these works are set out in the report on fire safety elsewhere on the agenda.

4.3 Projected 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. This is now predicting lower sales numbers (and thus receipts) than had previously been envisaged over both the short and longer term.

4.4 As before, the HRA Business Plan Base Model's first priority 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 that it took on as part of the reform of council housing finance) when this becomes due to be repaid. Accordingly resources are included within the modelling, commencing in Year 7, and running through to Year 25 (2041/42) which accrue to match the debt in full. The updated modelling also continues to assume that in Year 4 there will be a rent freeze after which annual rent increases will re-commence at the Consumer Price Index (CPI). As before, no assumptions are made within the Base Model about the sale of high value vacant stock.

4.5 The Base Model incorporates the latest financial modelling of the HRA new build programme (summarised in Appendix E to the Plan), funded via a combination of existing 'headroom' borrowing, additional borrowing capacity from the Government's Local Growth Fund, the use of anticipated net or re-investable RTB receipts, some funding arising from 's106' agreements, the reinvestment of income from shared ownership sales and a small amount of HRA revenue contributions. Due to costs being greater than originally envisaged it is now anticipated that at least 11 of the 93 homes due to be built will be sold on to Sutton Living in order to ensure the programme's financial viability.

4.6 The Base Model also takes into account the funding to be applied to the proposed acquisition programme. It assumes that over the next 30 years some £112m is invested in property acquisitions, funded through RTB net receipts (£34m) and revenue contributions (£78m). Resources are to an extent front loaded, the benefit of which is to maximise rental income over the Business Plan period. Over the first five years, funding of around £30m is applied to the programme, which on an assumed average total acquisition cost per unit of £315k would yield approximately 96 acquisitions (19 p.a). This is significantly more than was previously assumed to be achievable within the HRA but is considered realistic.

4.7 Appendix D to the Business Plan shows that, on the current sales assumptions, further net receipts are set to accrue. These will therefore be available to fund acquisitions in the General Fund, but could also be be applied to help fund the Council's proposed modular construction programme.

4.8 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 and outputs are summarised in chapter 3. The revenue summary shows an 'investment reserve' of £67m 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.

4.9 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 there is a shortfall from Year 1 to Year 6 but that this is eliminated by Year 7. To accommodate this, certain elements of investment in the existing stock of a lower priority (e.g boundary walls, footpath renewal etc) and some works where there has been historic over-provision of budget, have been re-profiled to later years.

4.10 A variation to the Base Model has again been produced for illustrative purposes in which (i) an assumed level of sales of 'high value' vacant stock occurs to support the Government's proposed policy of extending the Right-to Buy to housing association tenants, and (ii) a higher figure for building cost inflation is used (4.5% instead of 3.5%), creating a significantly more pessimistic scenario. In this case, the HRA Business Plan effectively becomes unviable from the outset, with a revenue deficit of over £93m building up by Year 25 and a shortfall in resources for capital investment of £90m at the end of the period.

4.11 An indicative outline programme of major works covering the five year period from 2017/18 to 2021/22, predicated on the funding assumed within the Base Model, is discussed in chapter 4 and set out in Appendix I to the Plan. This includes funding for the additional fire safety works and the re-profiling of certain works to accommodate the resource position. That said, the proposed programme for the first five years (totalling £46.7m) almost matches the required investment during that period (£48.8m). Importantly, the Business Plan re-confirms that 100% non-decency will be reached by the end of this year.

4.12 As before, chapter 4 goes on to look at some property-specific issues, which have been updated where applicable. These include addressing the heating needs of properties off of the gas main, door entry systems, and the specific needs of the system built homes at Clockhouse. A brief summary of the position on existing and potential regeneration programmes is also provided.

4.13 Chapter 5 sets out in more detail the latest position, at the time of writing, on the HRA new build programme and also provides details of the acquisition programme. Regarding the latter, which is now getting underway, a report on progress will be submitted to the January meeting of the Committee. Currently, the Committee has given approval for the acquisition of 36 properties (18 in the current year and 18 in 2018/19). Finally, chapter 6 discusses the overall strategic position of the HRA while 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 funding applied respectively to investment in the existing stock and to property acquisitions. Ultimately a balance has been struck between the two whereby all essential works to the stock are undertaken when they need to be but some elements are re-profiled to later years in order to allow for a significant amount of resources to be applied to acquisitions. The rationale for this is that in doing the latter both the viability of the HRA, through the generation of new income, is ensured and, at the same time, the costs to the General Fund of temporary accommodation are reduced as far as possible.

5.2 If the assumptions around the Government's high value asset sales policy were to come about the viability of the HRA could be seriously undermined, and it is likely that there would be insufficient funds to adequately maintain the stock into the future. One way of mitigating the situation would be to not set aside amounts, or to reduce the set aside amounts, to repay the self-financing debt by the time the loan becomes due, which would mean that the debt would need to be wholly or partially refinanced at Year 25. However, this is not considered to be financially prudent. In future years therefore it may be necessary to reconsider the balance to be struck between investment in the existing stock and acquisitions and the amounts to be spent on day to day management, and how further revenue savings might be made.

6. Impacts and Implications

<u>Financial</u>

6.1 The Housing Revenue Account Business Plan agreed by Committee in March 2017 has been revised largely for the inclusion of a planned programme of property acquisitions for use as temporary accommodation and for additional fire safety works to existing stock.

6.2 As part of the review of the Business Plan the level of investment required in existing stock has been reviewed and revised which has resulted in revenue funding being released to support the property acquisition programme. The reduction in the investment requirement arises from a change to the assumption for building cost inflation from 4% to 3.5% and a switch from applying standard assumptions regarding component replacement to more individual tailored assessments. Planned savings on the SHP management fee also contribute to the available revenue resources for the programme.

6.3 The Business Plan includes planned expenditure of £112.4m over the 30 year period on property acquisitions. This is funded by revenue contributions of £78.5m and net right to buy receipts of £33.7m. Additional income from these property acquisitions over 30 years is estimated to total just under £90m and significantly improves the overall viability of the HRA whilst also benefiting the general fund in terms of reducing the cost of temporary accommodation.

6.4 The current business plan allows for both resources for property acquisitions but also for the set aside of £141m for the repayment of the subsidy loan by 2041/42 when it is due to mature. As part of the HRA business planning process the profile for debt set aside will be kept under close review to ensure that there there is sufficient certainty that the council can repay the subsidy loan.

Legal

6.5 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 Housing Revenue Account each year and to produce a business plan at intervals. 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. Detailed legal advice might be needed when delivering the plan.

7. Appendices and Background Documents

Appendix	Title
A	Housing Revenue Account Business Plan 2017/18 - 2046/47 (Revised September 2017)
B	Integrated Impact Assessment

Background Documents
None

Audit Trail		
Version:	Final	Date: 14 September 2017
Consultation with other officers		
Finance	Yes	Lyndsey Gamble
Legal	Yes	Robert Baxendale
Integrated Impact Assessment required?	Yes	See Appendix B