Wards Affected:
All Wards

ITEM 8(a)

THE HOUSING REVENUE ACCOUNT BUSINESS PLAN

Responsible Cabinet Member:	Councillor Long, Cabinet Member for Housing and Regeneration
Report Sponsor:	Michael Kelleher, Service Director Housing & Regeneration
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Executive Summary:

A Housing Revenue Account Business Plan (HRA BP) is a document setting out how the council proposes to manage its housing stock to deliver the objectives set out within the Council Plan and Housing Strategy. It should be supported by a Housing Revenue Account Business Plan Model (HRA BPM) setting out the financial implications of delivering the HRA BP and providing assurance that the HRA will remain financially viable.

The HRA BPM is a key part of the council's long term financial planning, and will set out how we will deliver and finance services to tenants, and investment in their homes, over a 30-year period. These services and investment plans are informed by the Council Plan, our Housing Strategy, and by the expectations and wishes of our tenants.

In common with most other local authorities, our HRA BPM is constrained by the resources available; a combination of tenants' rents and service charges, capital receipts, and prudent levels of debt finance. Although self-financing (i.e., with no subsidy from government or council tax) the HRA BPM is also constrained by government policy (e.g., on rent levels and borrowing caps) which limits the scope and timing of our investments.

This report updates Cabinet on the progress toward finalising an HRA BPM and sets out a range of issues on which we propose to consult tenants in order to better reflect their expectations and wishes.

A further report will be brought to Cabinet in November to provide the results of the proposed tenant consultation, update the HRA BPM to reflect these results, and propose a 5-year Investment Programme to cost-effectively plan and deliver investment in the housing stock in the medium term as part of the budget-setting process for 2019/20.

Councillor Nigel Long,

Cabinet Member for Housing

1. Recommendation(s)

1.1 That the progress toward finalising a 30-year HRA Business Plan as summarised in paragraph 3 and detailed in the Annex be noted.

1.2 That a 12 week consultation with tenants on options and priorities for Housing Revenue Account investment, to inform a finalised HRA Business Plan, as summarised in paragraph 4 be approved

2. **Background**

2.1 The HRA is a statutory account (a subset of the General Fund) in which the council is required by the Local Government and Housing Act 1989 to account for all (and only) its costs as a landlord of council housing provided under Part II of the Housing Act 1985, and to ensure that the HRA balances expenditure and income “year on year”.

2.2 Since 1 April 2012, the Housing Revenue Account (HRA) has been operating under ‘self-financing’ arrangements. The HRA took on £170m of debt and the costs of financing that debt, in return for buying itself out of negative housing subsidy payments. To provide assurance on the affordability of this borrowing, HRA BPs have been developed across the sector to model future income and expenditure and demonstrate the financial viability of the HRA across a 30-year planning period.

2.3 Financial viability requires that HRA expenditure (including all investment required to maintain the housing stock and other assets to a level sufficient that they continue to be income-generating) can be covered by the expected level of HRA income over the business planning period.

3. **Progress on the HRA BPM**

3.1 The HRA BPM is currently being updated to take account of various changes in national and local circumstances, including the identified need for regeneration in seven priority areas, updated stock condition survey data and consequent investment requirements, and the impact of the four-year rent reductions in the Work & Welfare Reform Act 2016 and the government’s announcement of a subsequent return to a “CPI+1%” rent increase policy.

3.2 A draft HRA BPM, along with the underlying assumptions, is set out in more detail in the Annex.

3.3 The key messages emerging from the initial analysis to are:

(a) There is a backlog of repairs as at 1 April 2018 in the region of £75m.

(b) 23% of the Council’s housing stock is classed as non-decent. The English House Survey 2016/17, published by the Ministry of Housing, Communities and Local Government in January 2018, states the average level of non-decency in social housing in England is 13%

(c) The current investment programme allows for little to no improvement in the condition of the public realm on council estates and there is no specific allowance within the HRA to fund the regeneration of the Council’s priority estates

(d) A full 30-year investment programme maintaining the stock at a "decent" level (i.e. which maintains the structure and lettability of tenants' homes) and delivering some new council housing can be provided within the available resources; the proposed consultation will inform the allocation of resources over these and other priorities.

3.4 In summary, the HRA is not able to invest in delivering all our priorities of maintaining the condition of our existing stock, building significant numbers of new homes and regenerate our estates; a balance needs to be found which is financially and operationally sustainable.

3.5 There are options available which would allow differing levels of investment through which the HRA can be maintained financially viable. These include:

(a) Reducing intervals between updating kitchens and bathrooms. A long lifecycle would do nothing to improve the level of decent homes and would be likely to result in a growing backlog of repairs as items are left longer between replacement, and begin to fail over time; tenant satisfaction would also be likely to fall.

(b) Increasing the number of new council homes built or acquired. Low levels of new stock would be likely to make it harder for local residents to access affordable housing.

(c) Increasing estate maintenance beyond the current minimum. Low levels of investment are likely to have an impact on the health and safety of residents and visitors, whilst making estates less visually attractive as well as attracting vermin.

(d) Increasing the number of staff in the housing service. We currently provide a cost effective management service, but in some areas, additional resources are needed to safeguard services, for example investment in the client and strategic asset management functions.

3.6 The investment needs of stock in the seven priority areas, while not the sole rationale for their prioritisation, are a material factor in the viability of the HRA. The financial impact of the deliverability of regeneration in these areas, which cannot be quantified until regeneration schemes are brought forward for each area, will be critical to the viability of the HRA and the extent to which the other investment priorities can be met.

3.7 Further work will be done on the HRA BPM to incorporate the outcome of the proposed consultation with tenants on their expectations and priorities, in order to be able to set out comprehensive and affordable long term investment programmes within a viable HRA.

3.8 It is anticipated that this finalised HRA BP and HRA BPM will be brought back to Cabinet in the autumn of 2018, to inform the 2019/20 revenue and capital budget-setting process. The HRA BPM will subsequently be updated annually as part of the budget process.

4. Consultation with tenants and leaseholders

4.1 A key aspect of self-financing and the Regulator of Social Housing's Regulatory Framework is to consult with tenants on the priorities for the housing service, including standards and investment programmes.

4.2 The HRA BPM looks to balance the income received against expenditure – this expenditure should be informed by the condition of the stock, priorities of the Council and the needs and priorities of tenants.

4.3 In line with the options at para 3.5, there are four broad areas on which tenants should be consulted:

(a) Priorities for investment: Should the Council prioritise investment in existing stock over the provision of new council housing? By investing more of the HRA on acquiring and building new properties, there will less to spend on the maintenance of existing stock (and vice versa).

(b) Property/maintenance standards: What standards should existing stock be maintained to and how frequent should items (kitchens, bathrooms, windows etc.) be replaced? The higher the standard and the more frequent that replacements are carried out, the more expensive it is likely to be with less money available to spend on other areas.

(c) Estate standards: What standards should common areas of estates be maintained to and are tenants and leaseholders willing to pay more for a higher standard?

(d) Service standards: What standards of service delivery do tenants want? A highly intensive estate management service will cost more than a less intensive service. However, higher levels of investment on areas such as tenancy sustainment, income management and void management can result in additional income and lower expenditure overall.

4.4 It is proposed that a 12 week consultation be carried out to include:

(a) Individual questionnaires to all tenants and leaseholders;
(b) Meetings with recognised tenant and resident groups;
(c) A series of roadshows across estates to give residents the opportunity to discuss their priorities with senior officers of the housing service.

4.5 The results of the consultation will be discussed with the Residents' Network and an agreed set of recommendations to Cabinet prepared. It should be noted that the Council is not obliged to follow the outcome of the consultation and will need to exercise its judgement with regards how it balances expenditure to maintain a viable HRA.

5. A 5-year Investment Programme

5.1 The HRA BPM informs the development of programmes of work within available resources. To ensure the efficient use of council and contractors' resources, to maintain capacity for delivery, and to maximise value for money through economies of scale and otherwise, a multi-year plan is accepted good practice.

5.2 It is proposed that an updated 5-year Investment Programme is brought to Cabinet in November, alongside an updated 30-Year HRA BPM, consistent with the outcomes of the tenant consultation that will also be reported.

5.3 The draft 5-year Investment Programme should include provision for work outside the Stock Condition (plus internals and externals) package, and separate schemes will be brought forward for exceptional projects such as:

- Kilkenny House
- Buckland Lodge
- Harrier Court
- The Gables
- Mellish Court

6. Options

(a) Do nothing

Not to approve the recommendations of this report would result in an HRA BP and BPM not properly informed by tenants' expectations, and therefore likely to deliver housing services and investments that do not fully satisfy tenants. The lack of a 5-year Investment Programme would mean that investment in planned maintenance and improvement of the housing stock would be determined annually, which would be likely to result in disjointed delivery and a failure to maximise value for money through strategic procurement. **This option is not recommended.**

(b) Approve the recommendations

To approve the recommendations of this report would result in an HRA BP and BPM properly informed by tenants' expectations, and therefore likely to deliver housing services and investments that satisfy tenants to the extent that resources allow. A 5-year Investment Programme would mean that investment in planned maintenance and improvement of the housing stock would be determined across the medium term, which would allow planned and coordinated delivery and maximise opportunities for enhancing value for money through strategic procurement. **This option is recommended.**

7. Implications

7.1 Policy

This report, and the HRA BPM itself, addresses the Council Plan Key Priority for Housing - supporting work on a progressive Plan:MK focussed on affordable housing, economic growth, investment and future prosperity of Milton Keynes for everyone and more strongly implementing the current 30% affordable housing requirement for new homes and to review that percentage in line with current needs.

The recommendations advance progress on and support our achievement of commitments 1.2, 1.3, 1.4, 2.1, 2.3 and 14.1 in the Council Plan.

The recommendations also respond to the actions proposed in the Housing Strategy, specifically those under Priority 3 “Provide high quality local authority landlord services” *(see separate report on this agenda).*

7.2 Resources and Risk

7.2.1 The draft HRA BPM set out in the Annex and summarised in paragraph 3 incorporates forecasts of expenditure and income consistent with current revenue budgets and resources. The assumptions underlying the financial modelling are set out within the Annex. The outputs will be subjected to sensitivity testing, e.g., to model the impact of higher and lower rates of inflation, and the impact of these assessed to ensure that they are containable within the range of options proposed.

7.2.2 The robustness of the HRA BPM may be adversely affected by changes in government policy, for example the imposition of levies on Higher Value Voids to resource discounted Right To Buy sales in housing association properties, and macro-economic factors such as reductions in lending capacity.

7.2.3 The HRA BPM does not currently provide for changes in income and expenditure as a result of delivery of the RegenerationMK programme. As options for regeneration of each estate are developed and appropriate funding solutions brought forward, the HRA BPM will be used to assess the impact of the options on the HRA, in order that they do not unduly impair the viability of the HRA as a whole.

7.2.4 Costs of the proposed tenant consultation will be met from existing budgets, as supplemented by any additional budget approved in line with the recommendations of the RegenerationMK report.

7.2.5 The proposed 5-year Investment Programme would be funded from capital receipts, revenue contributions, and HRA borrowing; if approved, appropriate capital resource allocations and spend approvals will be sought through the usual processes. The draft HRA BPM will provide assurance that the programme is affordable in the medium term, and will inform the preparation and delivery of future Investment Programmes containable within anticipated resources.

7.2.6 As it stands, the HRA BPM set out in the Annex does not constitute a prudent base for a viable HRA. Despite the long-term financial viability, this scenario has issues which need addressing:

1. The potential inadequacy of provision for protection of the condition of the structural elements of the stock leading to potential rent income losses;
2. The likelihood of additional capital spend needing to be provided for to remedy the lack of this planned investment;
3. The likelihood of increased responsive repairs costs as a result of the long component lifecycles;
4. The large size of the revenue balance which may give rise to unrealistic expectations and/or to significant additional non-stock commitments (e.g., regeneration, new build) which would prevent additional capital spend being provided for to remedy the lack of planned investment.

7.2.7 Overall there is a high risk that this scenario would not be deliverable as a BP. The consultation with tenants will need to include options for additional investment which would resolve these issues.

✓	Capital	✓	Revenue		Accommodation
	IT	✓	Medium Term Plan	✓	Asset Management

7.3 Carbon and Energy Management

The 5-year Investment Programme and other resource allocation as set out in the HRA BPM support the Council's Carbon and Energy Management Policy. Investments will be targeted to maximise energy efficiency and carbon reduction in Council dwellings and housing infrastructure and to allow use of the most sustainable or renewable energy sources.

7.4 Legal

Consultation as proposed in the report will meet with statutory requirements.

7.5 Other Implications

The proposed consultation will be designed to seek and incorporate views of tenants and leaseholders with due regard to equalities and diversity issues. Other stakeholders will also be consulted and their views considered.

The HRA BP and BPM will ensure the physical and financial sustainability of the Council's housing stock and estates.

✓	Equalities/Diversity	✓	Sustainability		Human Rights
	E-Government	✓	Stakeholders		Crime and Disorder

Background Papers: The Council Plan [5 June 2018 Milton Keynes Council Plan]

Housing Strategy [Milton Keynes Council - Housing Strategy]

Annex: Draft Housing Revenue Account Business Plan

ITEM **8(b)**

ANNEX

THE DRAFT HOUSING REVENUE ACCOUNT BUSINESS PLAN MODEL

Purpose

The purpose of this paper is to set out a draft HRA Business Plan model (HRA BPM) which sets out a financial envelope in which the HRA demonstrates financial and operational viability over the 30-year business planning period.

The draft HRA BPM will then inform tenant consultation on priorities and standards, and provide a framework for balancing changes in these factors in order to maintain viability. The outcomes of tenant consultation would be incorporated into a written Business Plan which would set out the agreed standards and priorities, and how the Housing & Regeneration service would seek to deliver them.

The draft HRA BPM will also inform the content of a draft 5-Year Investment Programme (5YIP), in which programmes of work can be planned to maximise outputs and efficiencies, within the financial envelope set by the HRA BPM.

The draft HRA BPM does not determine what the 5YIP (and subsequent programmes) contains; only the financial envelope within which it should be contained in order to maintain a viable HRA.

The draft HRA BPM does not include provision for regeneration of the priority estates; it assumes no different treatment from the stock as a whole. Where the priority designation is based upon physical (rather than economic or demographic) issues, the HRA costs of regeneration or other proposals will need to be met from the HRA surpluses identified in the HRA BPM. The timing of availability of resources for this additional capital spend is a significant output of the HRA BPM.

Financial viability requires that HRA expenditure (including all investment required to maintain the housing stock and other assets to a level sufficient that they continue to be income-generating) can be covered by the expected level of HRA income over the business planning period. The capacity for debt to be repaid within the period is an additional indicator of financial viability – though whether resources are used to repay debt or to finance additional investment is a decision for the Council. The scenario shown includes both “debt repayment” and “no debt repayment” models.

Scenarios in which the HRA becomes financially non-viable (with or without repayment of HRA debt) have been modelled and discounted.

HRA BPM Scenario – Revised Stock Condition Survey investment without additional or external elements

This is a revised ‘base position’ using Keystone data and outturn figures for 2017/18. In this scenario, all key component life cycles reflect industry ‘norms’ and the minimum requirement to achieve and maintain ‘Decent Homes’. Disabled Adaptation investment is limited. The scenario does not provide for significant investment in non-Decent Homes elements, e.g., externals and communal areas, structures and balconies, which would result in the condition of these elements degrading over time.

It is likely that because of this structural degradation, properties would not remain lettable and income-producing, though the BPM does not take into account any loss of this rent income or the likely increase in responsive repair costs resulting from the lengthy component lifecycles.

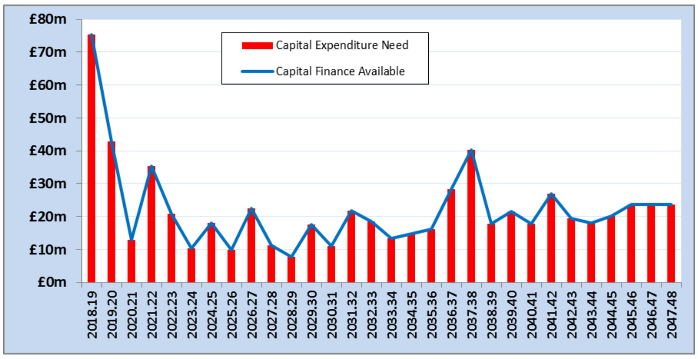

Chart 1.1: Investment required & resources available

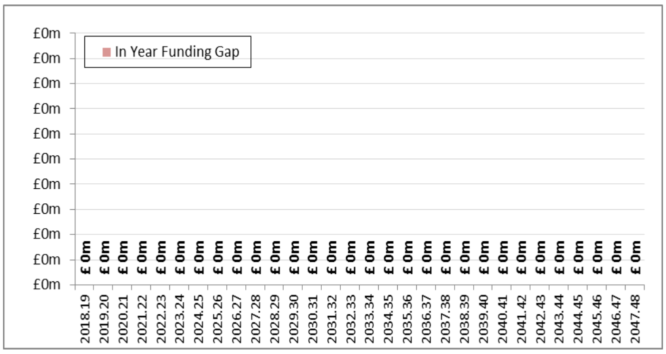

Chart 1.2: Resource Shortfalls

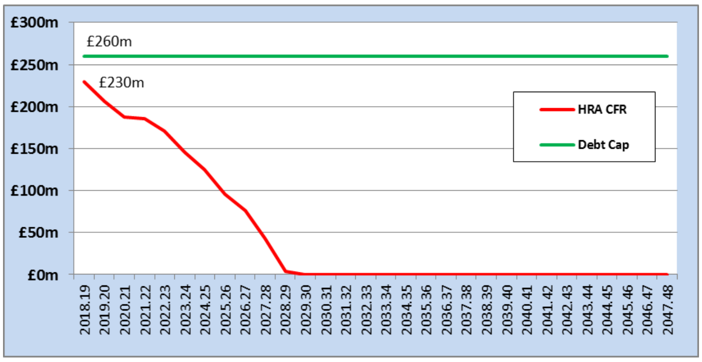

Chart 1.3: HRA Debt Levels (with debt repayment)

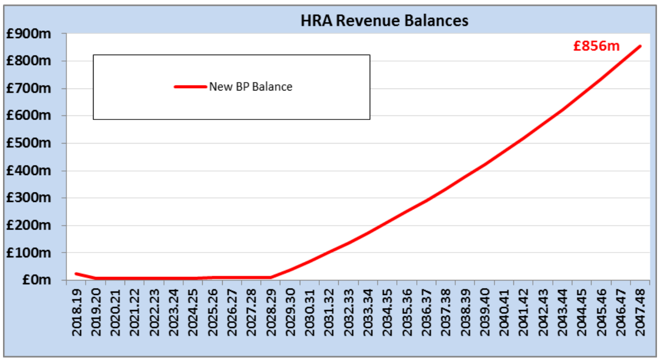

Chart 1.4: HRA Revenue Balances (with debt repayment)

<u>Analysis</u>

- There is no resource shortfall – capital programmes could be delivered unconstrained by funding gaps.
- Funds are available immediately for other capital purposes, e.g., additional investment in externals and communal areas, shorter component lifecycles, regeneration, new build, etc.
- Debt can be paid off fully within the planning period, with no additional borrowing up to the level of the cap.
- The HRA would be £856m in surplus at the end of the planning period, if there is no further revenue or capital expenditure (though the impact of potential rent losses and increased responsive repair costs are not included).

If debt is not repaid, the impact on revenue balances would be as shown in the charts below:

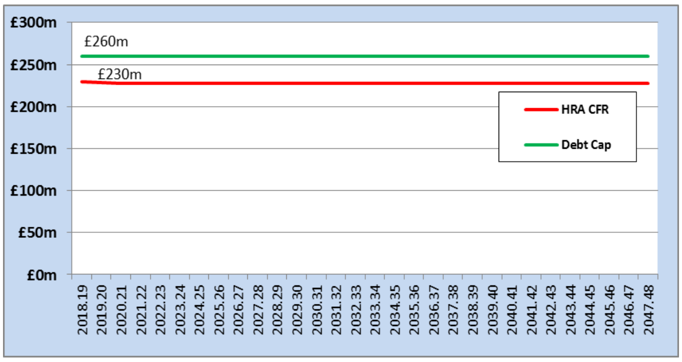

Chart 1.5: HRA Debt Levels (without debt repayment)

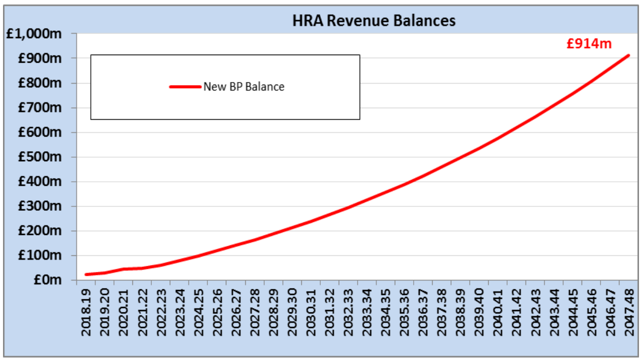

Chart 1.6: HRA Revenue Balances (without debt repayment)

- The HRA would be £914m in surplus at the end of the planning period, if there is no further revenue or capital expenditure (though the impact of potential rent losses and increased responsive repair costs are not included).

The following chart illustrates planned capital investment and financing in each year.

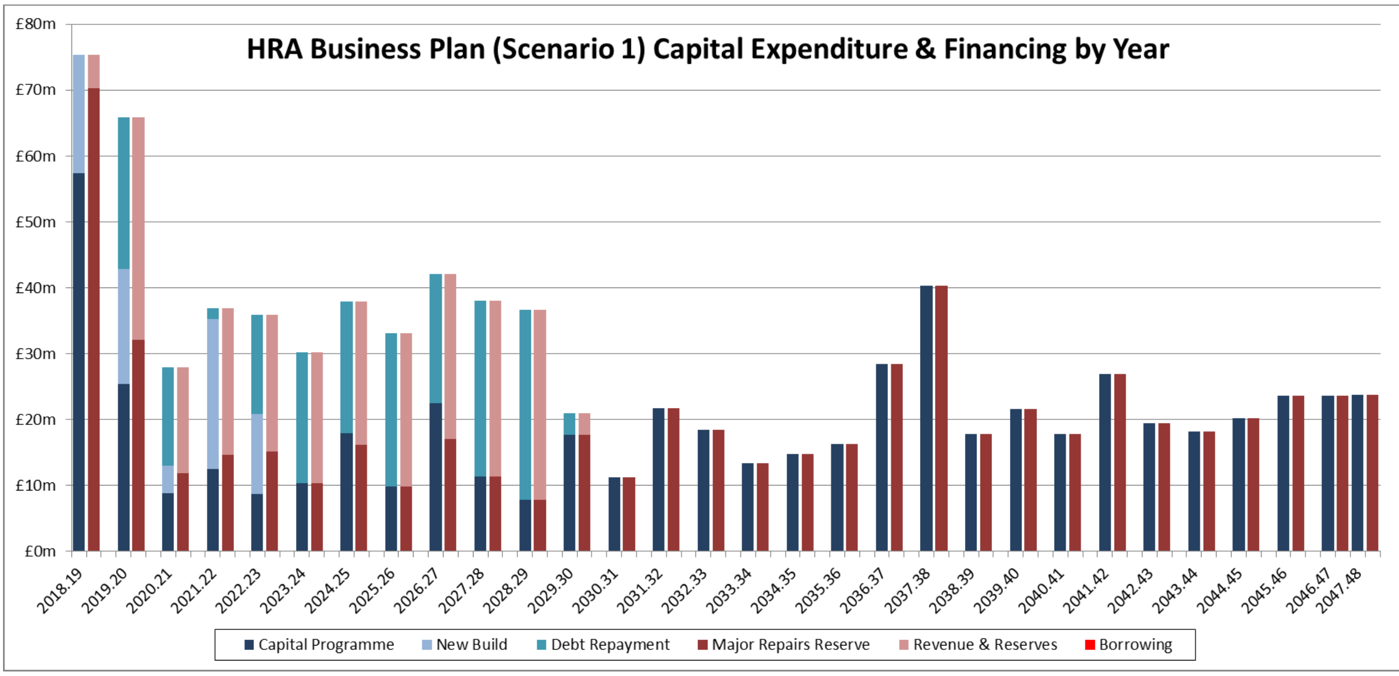

Chart 1.7: Capital Expenditure & Financing

Assumptions underlying HRA BPM

1) Council housing stock of 11,150.
2) Costs of works covering leasehold properties not included (will be incurred and recharged).
3) Revenue costs as per 2018/19 approved budgets
4) Inflation at estimated RPI of 3%
5) Rent increase of CPI + 1% as per government policy, long term CPI forecast 2%
6) Prelims, Overheads, Profits, Professional Fees assumed at 25% of works as per Savills advice.
7) RTB sales assumed for financial years 2018/19 – 2022/23 are 68, 55, 45, 45, and 20 respectively, zero thereafter. No provision for Higher Value Void sales or levy.
8) New Build/Acquisition programme fully utilising 1-4-1 receipts anticipated for years 2018/19-2022/23: £17m (90 units), £16m (90), £4m (21), £20m (109), and £10m (56). No other new build or acquisition provision included.
9) Capital Contingencies provided as a percentage (2.5%) of capital works costs, and so reflective of potential cost increases rather than likelihood of calls on contingency.

10) Investment needs as per Keystone informed by Stock Condition Survey. No additional expenditure on environmental improvements.

11) HRA borrowing being repaid as resources allow (including re-borrowing as necessary); interest costs continuing at the Council's current Consolidated Rate of Interest

12) No costs or income relating to regeneration programme included (will be applied as schemes and "funding solution" for each Priority Area is developed).

Component Life Cycles

Life Cycles	As used in HRA BPM	Current Decent Homes Standard
Central Heating Boiler	15	11
Heating Distribution System	30	20
Bathroom	30	15
Kitchen	20	15
Roof	70	40-60 yrs
Windows UPVC	30	25

Capital Investment included in HRA BPM

Elements	£ in HRA BPM	Comments on investment included in HRA BPM
Kitchens	68,663,700	As per Stock Condition Survey and above lifecycles
Bathroom	18,985,600	As per Stock Condition Survey and above lifecycles
Boilers	37,972,900	As per Stock Condition Survey and above lifecycles
District Heating	17,868,800	As per Stock Condition Survey and above lifecycles
Electrics	11,168,000	As per Stock Condition Survey and above lifecycles
Roof	67,008,000	As per Stock Condition Survey and above lifecycles
Windows	31,270,400	As per Stock Condition Survey and above lifecycles
Doors	11,168,000	As per Stock Condition Survey and above lifecycles
Walls	11,168,000	As per Stock Condition Survey and above lifecycles
External works	16,752,000	Estimated minimum level as advised by Savills
Common Areas	11,000,000	Estimated minimum level as advised by Savills
Scaffolding	13,401,000	Estimated minimum level as advised by Savills
Disabled Adaptations	16,200,000	As per 2017/18 budget provision
Asbestos	8,000,000	Estimated minimum level as advised by Savills
Garages/carports/other	-	No provision included
Cyclical allowance extra over Stock Condition Survey	60,605,080	As advised by YourMK
Repairs allowance extra over Stock Condition Survey	9,090,762	As advised by YourMK
Overheads	68,663,700	Estimated at 25% of works costs
Contingency	18,985,600	Estimated at 2.5% of works costs
Capital Investment Total	**410,322,242**	**Average annual capital investment £13.667m**
Unit costs	*36,800*	*Average annual capital investment £1,227/unit*