

Report of Directors of City Development and Environment & Neighbourhoods

Report to Executive Board

Date: 15 February 2013

Subject: Housing Revenue Account Business Plan Update 2013

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

The Housing Revenue Account (HRA) became self-financing in April 2012, which gave local authorities greater freedoms to plan services and investment in Council Housing in the long term. However, it also transferred the risk of managing the HRA business away from central government to the local authority. It is therefore more critical than ever that Leeds has a robust HRA Business Plan which outlines how strategic priorities for Council Housing investment will be delivered in the long term. The Council has embraced the self-financing regime, making strategic decisions to use HRA resources to fund a Council new build programme and support regeneration projects. However, HRA resources are limited and these strategic decisions must be made whilst also considering existing pressures on the HRA, such as the backlog in investment needed to non traditional housing stock and the risks posed by Welfare Reform. This report outlines the main strategic priorities and progress that has been made in developing the HRA Business Plan.

Recommendations

Executive Board is recommended to:

- i) Note the progress made in delivering the self-financing Housing Revenue Account (HRA) Business Plan and the future strategic priorities for managing the future Council Housing service.
- ii) Agree the strategic priority to increase the supply of affordable housing in Leeds via:

- Local authority new build.
- Working in partnership with private Registered Providers to release HRA sites to develop and deliver new build.
- Disposal of HRA land to the private sector and the use of capital receipts to develop affordable housing.
- Bringing local authority empty properties back into use.
- Acquiring private properties into the HRA.

iii) Note that during the course of the year future reports setting out future years strategies and modelling will be brought forward.

1 Purpose of this report

1.1 The HRA Business Plan is a tool which encourages the Council to look strategically at its council housing service and plan the future direction of the service based on assessed priorities. The strategic priorities for Council Housing are identified below along with progress made in 2012/13 to achieve these and plans for 2013/14 and beyond.

2 Background information

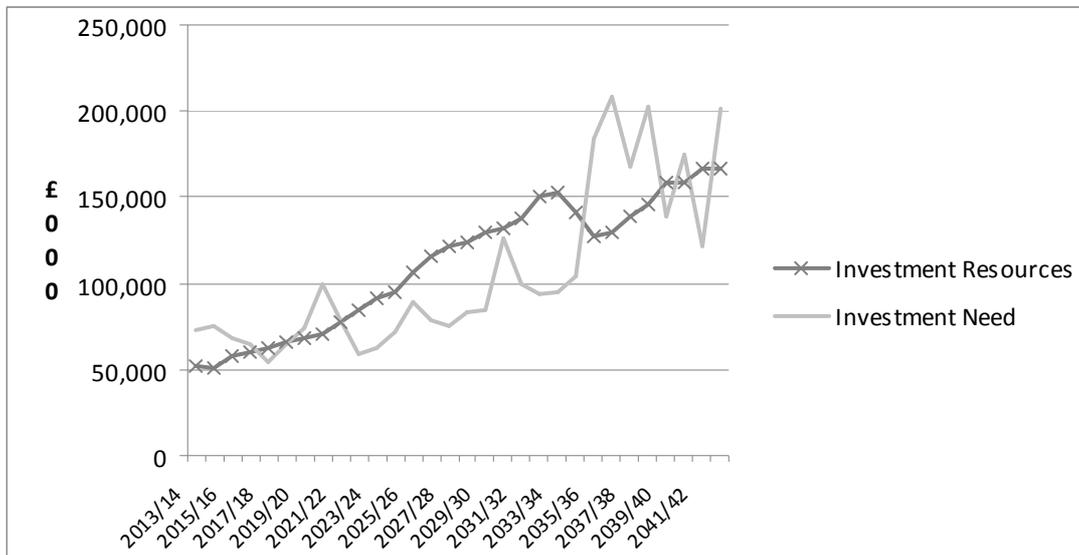
2.1 The HRA is the financial account used by the local authority for council housing income and expenditure, and is ring fenced to income and expenditure on council homes and services to council tenants. Until March 2012 a subsidy system was in operation whereby central government determined HRA resources available to the local authority on an annual basis. This made it difficult to plan for the HRA business in the long term.

2.2 As part of the Localism Act, in April 2012 the HRA became self financing. Central government made a one off determination of Leeds's housing debt and from this Leeds is now responsible for the financing of this debt, and is able to retain all rental income after debt payments. Leeds City Council's (LCC) first HRA Business Plan under the self financing arrangements was approved by Executive Board in February 2012. This Business Plan established the starting point for how HRA resources would be generated, managed and used to support the Council's strategic housing priorities. An essential principle of the Plan was to consolidate financial control, asset management and service improvement over the first 3 years, in order to establish a strong foundation from which to develop the future Council Housing service.

2.3 The current HRA Financial Plan projects an income of £10.2 billion over the 30 year business plan to manage all aspects of the council housing service. After funding housing debt payments of £1 billion, it is projected that £4.2 billion will be spent on management activity and £5 billion specifically on building maintenance and investment activity to council housing stock and estates over the 30 years.

2.4 While current projections indicate that there are sufficient resources within the HRA Financial Plan to deliver capital investment to council housing over the 30 year

business plan period, there are insufficient resources in the early years to meet the full investment need. As outlined in the below graph, it is not until 2022/23 that resources available for investment exceed investment need.



- 2.5 While 96% of council housing stock meets the decent homes standard there is an essential investment need backlog of £57 million. This is made up of works where tenants have previously refused improvement work and investment needed in non traditional housing stock. It is therefore critical that resources in the HRA business are spent effectively, particularly in the early years to maximise the sustainability of the business.

3 Main issues

3.1 Strategic Priorities for Council Housing

3.1.1 There is currently inadequate supply of affordable housing in Leeds. The draft Core Strategy estimates that 1,158 new affordable homes each year are required to meet the predicted need. It is therefore a strategic priority of the Council to increase the supply of affordable housing in Leeds, via a number of routes, including:

- local authority new build.
- working in partnership with private Registered Providers to release HRA sites to develop and deliver new build.
- disposal of HRA land to the private sector and use capital receipts to develop affordable housing.
- bringing local authority empty properties back into use.
- Acquiring private properties into the HRA.

3.1.2 There is currently inadequate supply of smaller units of accommodation in Leeds to meet demand. 58% of current applicants on the Leeds Homes Register require 1 bedroom but only 27% of Council Housing homes have 1 bedroom. It is projected that the demand for smaller units will increase further once the under-occupation housing benefit assessment is implemented as part of welfare reforms in April 2013. It is therefore a strategic priority of the HRA to increase the supply of smaller units of accommodation available as council homes.

- 3.1.3 Leeds currently has 117 multi storey blocks (MSFs) within the HRA portfolio. Many of these face a number of issues which affect their long term sustainability, particularly structural issues, poor thermal efficiency, low demand and management issues. The impacts of welfare reform are also likely to be greater in MSFs. It is a priority of the HRA to undertake a full review of all MSFs in order to inform future investment and management decisions which will make blocks sustainable in the long term.
- 3.1.4 Leeds has a large portfolio of system built housing which has poor thermal efficiency due to limited insulation. It is a priority of the Council to increase the energy efficiency of housing in Leeds. While some Council Housing system built stock has been subject to insulation works, there is still significant investment needed to bring sustainable stock up to an appropriate standard.
- 3.1.5 Over the next 30 years, Leeds has a £3.2 billion investment need in its Council stock. It is essential that investment is targeted at housing stock which is sustainable in the long term using an asset management approach. It is a priority for the HRA to develop an asset management strategy which provides clear direction for investment and disinvestment in the stock profile.
- 3.1.6 While overall demand for Council Housing is high, there are some estates and stock types where there are low demand and management issues. It is a priority for the HRA to consider the future management and investment requirements of more difficult areas in order to influence future investment plans to make stock more sustainable and desirable in the long term. This will inevitably mean targeted investment on difficult estates, but may influence strategic decisions to disinvest and consider remodelling or redevelopment.
- 3.1.7 Welfare reforms represent a significant risk to the HRA business plan, particularly the introduction of the housing benefit under-occupancy rules and Universal Credit. It is a priority of the HRA to minimise the potential impacts of welfare reforms through effective income management, and changes in management procedures. A reduction in income collected of 1% equates to an income reduction of £2m pa. This would impact on the Council's ability to provide Council Housing services and essential investment.

3.2 What We Have Done in 2012/13 to Deliver the Council Housing Strategic Priorities

- 3.2.1 The Council Housing capital programme for 2012/13 is projected to deliver £58m of capital investment into Council Housing, to maintain properties at the decent homes standard and to improve the energy efficiency of housing stock. Key elements of the 2012/13 capital programme are outlined below:

Windows and Doors	£1.7m
Heating Installations and Replacements	£10m
Electrical Rewires	£1.3m
Roofing	£1.9m
Kitchens and Bathrooms	£6.7m
Adaptations	£5.5m
Improvements to Non Traditional Stock	£5.6m
Multi Storey Flat Lift Replacement	£2.6m

Capitalised Responsive Repairs	£9.2m
Capitalised Void Repairs	£6.8m
Other areas including environmental works, community safety, sheltered housing remodelling	£6.7m

A capital programme of £59m is currently being developed for 2013/14 which will continue to deliver against these priorities.

- 3.2.2 The HRA made a commitment during 2012/13 to support the delivery of the Little London and Beeston Hill Private Finance Initiative scheme when funding arrangements changed, by contributing £9.5m to the scheme over 3 years. It has also made a commitment to deliver £1.3m investment over the next 2 years to support the Nevilles and Cross Green Sustainable Communities Investment Programme.
- 3.2.3 There are some local authority empty homes which have received previous approvals for demolition and redevelopment as part of regeneration schemes and due to changes in funding availability the scope of regeneration plans have changed leaving these homes outside regeneration schemes. During 2012/13 such properties have been reviewed and agreement has been achieved to bring a number of properties back into use for Council Housing, such as properties excluded from the Beeston Hill Private Finance Initiative. These properties alone will bring 87 units of council housing back into management.
- 3.2.4 A Council wide group and operational housing group have been established to support the implementation of welfare reform and these groups have worked throughout 2012/13 to co-ordinate communications with tenants and changes to management policies and procedures to minimise the impacts on tenants and the HRA.
- 3.3 Future Plans to Deliver the Strategic Priorities for Council Housing
- 3.3.1 In the first 5 years of the HRA Business Plan period there are a number of competing priorities on the HRA budget at a time when there are insufficient resources to deliver essential investment to Council Housing. The Council therefore needs to balance the need to meet these strategic priorities alongside delivering essential investment to Council Housing stock and embracing the current HRA Business Plan priority to consolidate financial control, asset management and service improvement in the first 3 years of the plan.
- 3.3.2 Executive Board has approved a Council House new build programme of nearly £11m over the next 3 years, funded from the HRA. A programme is currently being developed which will deliver approximately £3m investment per year from 2013/14 to 2015/16 and deliver new council homes. Phase 1 of the programme to be delivered in 2013/14 will focus on the West Leeds area, with programmes in South and East Leeds being delivered in 2014/15 and 2015/16. The programme will focus on developing 1 bedroom properties, in accordance with demand priorities.
- 3.3.3 A review is currently underway to assess the structural condition and investment requirements of Multi Storey Flats (MSFs) and to review the management

arrangements of blocks. From this Leeds will develop a clear plan for MSFs which will target investment in those blocks which are sustainable in the long term and modify management arrangements to meet the particular requirements of high rise accommodation.

- 3.3.4 A Strategic Option Appraisal is currently underway of Council Sheltered Housing to consider the long term viability of sheltered housing schemes, linked to the Older Persons Housing and Care Project. The first stages of the appraisal has focused sheltered bedsit accommodation and plans are being developed and implemented to remodel units where appropriate, or dispose of sites for the redevelopment of older persons housing. A bid has been made for Department of Health funding to support the redevelopment of some sheltered schemes into modern sheltered accommodation.
- 3.3.5 While HRA self-financing gives local authorities greater freedoms to manage the HRA business and deliver strategic investment priorities, financial constraints remain which limit the Council's ability to generate income to the HRA. A debt cap has been set by government, which limits the amount of additional borrowing into the HRA. Also, once rent convergence is achieved, rent increases are limited to RPI + a half per cent.
- 3.3.6 Statutory Housing will continue throughout 2013 to further develop proposals of how the HRA Business Plan can support the many competing priorities. Progress in achieving this will be incorporated into an updated HRA Business Plan later in 2013. This review will take into account the outcome of the Housing Management Review and a full assessment of borrowing opportunities.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Consultation took place in determining the priorities identified in the current HRA Business Plan approved the Executive Board in February 2012. This included discussions with senior elected members of the Council, including consideration by the Safer and Stronger Communities Board and ALMO Chief Executives and Boards. A governance structure has been established for the ongoing management and monitoring of the Business Plan.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 An Equality Impact Assessment was completed of the current HRA Business Plan approved by Executive Board in February 2012. Due regard has been given to equality in further developing the HRA business, and the completion of the screening form. The main outcome of the screening is that the HRA Business Plan priorities will have a positive impact on economically disadvantaged groups, and older people. A full Equality Impact Assessment will be completed as part of the development of the Council Housing Asset Management Strategy in 2013.

4.3 Council Policies and City Priorities

- 4.3.1 The HRA priorities support the priorities in the City Priority Plan as follows:

- Increase the number of affordable houses built each year.
- Increase the number of long term empty properties brought back into use.
- Increase the number of properties improved with energy efficiency measures.
- Increase the number of properties which achieved the decency standard.

4.4 Resources and Value for Money

4.4.1 The current HRA Financial Plan projects an income of £10.2 billion over the 30 year business plan to manage all aspects of the council housing service. After funding housing debt payments of £1 billion, it is projected that £4.2 billion will be spent on management activity, and £5 billion will be spent on building maintenance and investment activity to council housing stock and estates. While current projections indicate that there are sufficient resources within the HRA Financial Plan to deliver capital investment to council housing over the 30 year business plan period, there are insufficient resources in the early years to meet the full investment need. Effective management of the HRA Business Plan is therefore critical to ensuring that value for money is achieved in delivering the Council Housing service. This report outlines how value for money will be achieved.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no specific legal implications associated with this report.

5 Risk Management

5.1 Business Plan risks are incorporated into the HRA Business Plan monitoring arrangements, and any corporate risks reported through the corporate risk management policy. Key risks to the HRA Business Plan are as follows:

- Inflationary increases above those assumed in the plan.
- Impacts of Welfare Reform on rent collected.
- Increase in borrowing costs above those assumed in the plan.
- Increase in Right to Buy sales above those assumed in the plan.
- Essential investment cannot be achieved.

8 Conclusion

8.1 HRA self-financing is a positive step for Leeds as it provides the Council with control of the HRA Business Plan without relying on annual funding determinations from central government. Leeds achieved a good settlement in the move to self-financing which will enable us to fund investment need, although there will be pressures in the early years when the levels of investment need will exceed income. This is likely to be further compounded by the impacts of Welfare Reform on rent collection levels.

8.2 Since the HRA became self-financing, the Council has embraced the ability to set the strategic direction for its Council Housing service, making strategic decisions to begin a Council new build programme and invest in regeneration programmes. The current HRA Business Plan and the impact of strategic decisions since the plan was established are outlined below.

HRA Business Plan	2012/13 (£000)	2013/14 (£000)	2014/15 (£000)	2015/16 (£000)	2016/17 (£000)
Capital Resources	53,075	55,237	56,808	58,593	60,708
Rent smoothing reserves to fund capital		3,767	3,767	3,767	
Commitments made since approved plan*:					
• Local authority new build programme		3,000	3,000	3,500	
• Little London / Beeston Hill PFI		3,000	5,800	700	
• Nevilles / Cross Green Programme			1,300		
Revised Capital Resources	53,075	53,004	50,475	58160	60,708

* Does not include HRA resources required to support DoH bids, as currently unapproved.

8.3 All such strategic investments need to be considered and prioritised alongside the delivery of essential investment and services, and the availability of resources in the HRA. If not, investment decisions made in the early years of the Business Plan could jeopardise the viability of the Business Plan in the long term.

8.4 During 2013, 2 key projects will influence the future direction of the Council Housing service. Firstly, the Housing Management Review will be completed which will influence how services are provided to tenants. Secondly, a Housing Asset Management Strategy will be developed co-ordinating the priorities for the investment and management of HRA stock in the future. It will be timely on completion of these projects to complete a full HRA Business Plan with Financial Plan.

9 Recommendations

Executive Board is recommended to:

- i) Note the progress made in delivering the self-financing HRA Business Plan and the priorities identified for managing the future Council Housing service priorities.
- ii) Agree the strategic priority to increase the supply of affordable housing in Leeds via:
 - Local authority new build.
 - Working in partnership with private Registered Providers to release HRA sites to develop and deliver new build.
 - Disposal of HRA land to the private sector and the use of capital receipts to develop affordable housing.
 - Bringing local authority empty properties back into use.
 - Acquiring private properties into the HRA.

- iii) Note that during the course of the year future reports setting out future years strategies and modelling will be brought forward.

10 Background Papers

None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.