Dudley Metropolitan Borough Council

Agenda Item No. 7

Meeting of the Cabinet – 26th October 2017

Joint Report of the Strategic Director Place and the Chief Officer Finance and Legal Services

Review of Housing Finance

Purpose

1. To propose revisions to the Housing Revenue Account (HRA) budgets for 2017/18 to reflect latest financial forecasts, to be recommended to Council.

2. To consider:

   - rents for council homes with effect from 2 April 2018.
   - charges for sundry services with effect from April 2018.
   - a draft HRA budget for 2018/19 in the light of the latest government announcements on housing finance and our latest spending and resource assumptions.
   - a revised Public Sector Housing capital programme for 2018/19 to 2020/21
   - the HRA's 30 Year Business Plan.

3. Cabinet is not being asked to make final decisions in relation to paragraph 2. The proposals in this report will be considered by the Place Scrutiny Committee before returning to Cabinet on 8 February 2018 and where relevant Council on 19 February 2018.

Recommendations

4. That Cabinet:

   a. recommend that Council approve the revised HRA budget for 2017/18 (paragraphs 6 - 7 and Appendix 1);
   b. recommend that Council approve the revised Public Sector Housing capital programme for 2017/18 (Appendix 2);
   c. approve the other proposals outlined in this report as a basis for scrutiny (paragraph 2).

Background

5. The HRA is a ring-fenced revenue account and deals with landlord functions associated with public sector housing. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

HRA Revised Budget

6. The current budget for 2017/18 approved by Cabinet on 8th February 2017, shows a surplus on the HRA of £0.633m at 31st March 2018. There are now a number of variations to the original budget.

7. The original 2017/18 budget and the proposed revised 2017/18 budget are shown in Appendix 1. The proposed revised budget shows a surplus on the HRA of £1.037m at 31st March 2018.

8. Overall, forecast income has increased by £496,000 compared to the original budget. Rental income is expected to be higher than originally budgeted as rent loss from Right to Buy sales is lower than estimated. Income from non-dwelling rents (e.g. shops and garages) is expected to be better than originally predicted, and an additional £206,000 is now forecast in miscellaneous income which contributes to expenditure, for example income from Telecare charges and aerial rental.

9. The revised budget for Management is lower than originally budgeted, mainly owing to the transfer of corporate and democratic core charges from Management to Other Expenditure, for clearer reporting.

10. The costs have been shown separately for homeloss and disturbance payments for tenants and leaseholders in Arley, Compton, Wells and Manor Courts as these blocks are vacated prior to demolition, and of disturbance payments to tenants at Margaret Vine and Holloway Courts during the decant period. For accounting purposes, these costs are categorised as revenue (housing management) costs.

11. The increased expected resources resulting from higher income, lower housing management costs and a higher balance brought forward from 2016/17 (as reported in June) have largely been directed to Revenue Contributions to Capital Expenditure, to support future improvement and major repair works.

12. Other Expenditure comprises council tax paid on empty properties, buildings insurance for council homes, and, as noted in paragraph 9 above, the HRA contribution to the corporate and democratic core costs of the local authority.

Rent Decrease

13. The self-financing system introduced in April 2012 for Housing assumed that rent increases would be in line with government guidance at the time relating to social housing rents. However, the Chancellor announced in his July 2015 budget that social landlords' rents would be reduced by 1% annually for the next 4 years (2016/17 through to 2019/20) and would then revert to the rent increase formula of September CPI plus 1%. It is therefore proposed that the next rent year will start on 2nd April 2018 and that rents will be reduced by 1% compared to 2017/18 levels. The HRA budget for 2018/19 and the 30 year long-term financial forecast for the HRA take into account these rent reductions.

14. The average weekly rent will be £76.95 from April 2018, compared to a current average weekly rent of £77.73.

Service Charges

15. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of items such as furniture and garden maintenance. It is proposed that these service charges be increased by 2.7% in line with inflation (average CPI from April 2017 to August 2017).

16. We also currently apply management charges for temporary accommodation for homeless people. These properties were funded by the General Fund until April 2017, when they transferred into the HRA. It is proposed that these charges be removed with effect from April 2018, in order to be consistent with the treatment of management charges across the HRA, and also in preparation for changes expected in relation to supported housing costs from April 2019.

17. We also apply service charges to 344 properties in our eleven sheltered housing schemes in respect of heating and lighting. These charges vary according to the scheme and the size of the properties and may be offset against the winter fuel payment received by tenants, plus any cold weather payments. Housing Benefit will also cover these charges where applicable. For six of the schemes (Church View, Joe Jones Court, The Gables, Jack Newell Court, Nene Close, Woodhouse Court), the current level of charge is expected to cover heating and lighting costs, so no increase is proposed. For Holloway Court and Margaret Vine Court, where refurbishment work has been taking place, including the installation of a new and more efficient heating system, charges will be set at £10.72 per week, which is the current lowest charge applying for these schemes. For the other three schemes (Beulah Court, Grange Court, Netherton Lodge), it is proposed to increase charges by 10% in order to reflect cost increases and the move towards cost recovery. The average increase across all the schemes is 1% and the average weekly charge will be £14.92 over 52 weeks.

18. The Council offers laundry tokens for sale for the use of tenants at five high rise blocks (two in Brierley Hill and three in Dudley). It is proposed that charges be increased to £2.50 per token.

19. It is proposed that pitch licences at Oak Lane be reduced by 1%, in line with the proposal for general rents, and that weekly charging for water be increased by 2.7% in line with inflation to £6.49 per week.

20. The Council currently charges an administration fee of £2 per week to its leaseholders, to cover the costs of managing the properties. It is proposed that there is no increase in the overall level of the fee.

21. It is proposed that the charge of £50 (plus VAT) per leasehold information pack, introduced from 1 January 2015 to cover the costs of compiling information relating to the sale of council flats, be maintained at the current level.

22. The Council currently charges private residents who are in receipt of Telecare services (provision of an alarm service, and also standalone equipment such as pill dispensing service and GPS tracking watches) £13.70 per month, and also charges Housing Association tenants varying amounts for this service. It is proposed to increase these charges by 2.9% to £14.10 per month from 1 April 2018. Income generated will be used to increase investment in and development of the service.

Garage rents, garage plots and access agreements

23. It was agreed by Cabinet in February 2008 that inflationary increases for garages, garage plots and access agreements be made every three years, with the next increase to take effect from 2020/21.

Proposed HRA budget 2018/19

24. The proposed HRA budget for 2018/19 is also shown in Appendix 1. This budget is based on recent trends and our latest assessment of government policy on housing finance.

25. The key elements of the self-financing system that now operates in relation to local authority housing are:
- Abolition of the HRA Subsidy system and retention of all rental income.
- A one-off allocation of housing debt based on an affordability calculation.
- A cap on new borrowing above a set maximum level.
- Transfer of investment, borrowing and inflation risks to housing authorities.
- Continued compliance with central government rent policy.

26. The proposed HRA budget for 2018/19 takes account of the proposed rent reduction of 1% on the 2nd April 2018 (paragraphs 2, 13 and 14).

27. Recent pay awards for local government have been settled at low levels in line with the public sector pay cap, with larger increases on the lower pay points to comply with the National Living Wage. Our current estimates allow for a 1.4% average increase in 2018/19, consistent with a continuation of those recent trends. However, it should be noted that there is emerging pressure on the public sector cap as well as increasing pressure for a more fundamental review of pay scales in light of the National Living Wage and its impact on differentials between pay points. There is therefore a risk that a higher allowance for pay inflation will be required and if necessary this will be reflected in the final budget report in February. We have also accounted for employer pension contributions from 2017/18 to 2019/20 reflecting the final outcome of the triennial valuation in 2016. There remains no provision for general price increases on non-pay budgets, and to ensure that the challenge is met, we have reviewed authorisation levels and use of purchase cards and continue to promote an "every penny counts" approach with and for all budget managers. We will continue to contribute to the Apprenticeship Levy at a rate of 0.5% of payroll. The impact on the HRA is around £0.1m per year and this has been built into our forecasts.

28. The proposed HRA budget for 2017/18 includes a budget for housing management of £17.5m. This covers the day to day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management.

29. Since 2014/15, the HRA has topped up the Discretionary Housing Payments (DHP) allocation received from central government. This allows for discretionary additional benefit payments to meet housing needs, mainly where a tenant has had housing benefit reduced as a result of underoccupancy penalties or the benefit cap. Around 75% of awards relate to council housing tenants, although awards are also made to tenants of housing associations or tenants in the private rented sector. The proposed budget for 2018/19 includes a contribution of £550,000, which will be added to the grant from central government.

30. The proposed HRA budget for 2018/19 includes a budget for repairs and maintenance of £22.7m. This reflects:
- Undertaking responsive repairs and routine void works;
- Undertaking all required cyclical statutory responsibilities such as annual servicing of gas appliances, electrical inspections and maintenance on specialist electrical systems, warden call equipment and alarms, lift servicing, repairs and inspections, and periodic testing of water hygiene;
- Cyclical maintenance such as painting of communal areas, social decorations for vulnerable residents.

31. The proposed HRA budget for 2018/19 includes a budget for interest payments of £17.6m. This covers the payments that are due on the debt taken on as part of the self-financing settlement and additional borrowing under the Local Growth Fund.

Public Sector Housing Capital Programme

32. In February 2017, a 5 year housing public sector capital programme was agreed. A revised capital programme reflecting latest forecasts is shown at Appendix 2.

33. The capital programme follows the principles approved in February 2017 and reflects the priorities of the Council Plan and the views of members and residents as expressed via the Housing Board, DFTRA and wider consultation events. The impact of the rent reduction for 2016/17 to 2019/20 has been addressed predominantly through reviewing and reducing the amount of unplanned ad-hoc expenditure in empty homes, with a more strategic, planned approach increasing resources to deliver planned programmes for key building elements in a more efficient way when they are affordable. Strategic, planned investment therefore continues to target the following key priorities:

- Strategic investment and de-investment programmes in accordance with the ongoing strategic stock sustainability and appraisal work.
- Planned programmes of expenditure to keep homes in good order by addressing investment in key building components such as roofs, electrics, kitchens and bathrooms;
- Improving fuel poverty, energy efficiency and combating climate change;

- Providing investment at affordable levels for communal facilities in flatted developments, improving community safety and delivering environmental improvements;
- Delivering social care programmes which increase the ability for residents to live independently in their own homes;
- Providing new affordable social housing within the borough;
- Ensuring that as many of the Council's homes as possible are available for occupation.

34. The proposed capital programme represents a continuation of the existing programme to maintain current standards and improvements. An updated programme will be presented to Cabinet in February which will take into account the outcomes of the next phase of our strategic investment and de-investment programme and of the scrutiny process.

<u>HRA Business Plan</u>

35. The financial strategy for landlord housing is the subject of a continuing consultation process that includes tenants and residents.

The key elements of this financial strategy, which presents an overall 30 Year Business Plan and covers a rolling five year period in more detail, include:

- maintain the Decent Homes Standard;
- improve the energy efficiency of the housing stock and address fuel poverty;
- invest in housing stock and minimise the number of void properties;
- review the suitability of the housing stock and explore the feasibility of new build to increase stock and / or replace properties that are in poor condition or that do not meet modern requirements;
- support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
- identify ongoing savings and efficiency gains, through the use of partnerships where appropriate;
- continue to undertake prudent management of reserves and other balances;
- set rents having regard to government rent policy for social housing and our investment needs.

The HRA Business Plan is shown at Appendix 3. Clearly, the government's decision to impose a 1% reduction in social landlords' rents for the next four years represented a significant change to our original forecasts for 2016/17 onwards, which were based on the government's rent policy (CPI plus 1% rent increases).

Finance

36. Section 76 of the Local Government and Housing Act places a duty on the Council to ensure that no action will be taken that may cause a deficit to arise on the HRA at 31 March 2018. A duty is also placed on the Council to review the financial prospects of the HRA from time to time. Reviews and regular monitoring carried out confirm that the HRA will be in surplus at 31 March 2018 and therefore complies with the requirements of the Act.

Law

37. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing. The Welfare Reform and Work Act 2016, Sections 23 to 33, introduced the requirement in each relevant year for providers of social housing to secure that the rent payable by a tenant of their social housing is at least 1% less than the amount payable in the preceding 12 months. Schedule 2 provides for the application of formula rent where there is a new tenancy.

Equality Impact

38. The proposals take into account the Council's Policy on Equality and Diversity.

39. This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve quality of life for protected groups.

Human Resources / Transformation

40. The proposals in this report do not have any direct Human Resources / Transformation implications.

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List of Background Papers - none

Appendix 1

HRA Revised Budget 2017/18 and Draft Budget 2018/19

	Original Budget 2017/18 £000s	Proposed Revised Budget 2017/18 £000s	Variance 2017/18 £000s	Proposed Draft Original Budget 2018/19 £000s
Income				
Dwelling rents	-86,556	-86,745	-189	-85,205
Non-dwelling rents	-707	-814	-107	-830
Charges for services and facilities	-241	-241	0	-241
Contributions towards expenditure	-810	-1,016	-206	-1,026
Interest on balances	-28	-22	6	-22
Total income	**-88,342**	**-88,838**	**-496**	**-87,324**
Expenditure				
Management	17,000	16,464	-536	17,516
Management –homeloss and disturbance	0	1,275	1,275	0
Responsive and cyclical repairs	22,488	22,490	2	22,751
Transfer to Major Repairs Reserve	23,030	23,040	10	23,107
Acquisition / Disposal of Land / Properties	303	303	0	0
Interest payable	17,589	17,620	31	17,561
Revenue contribution to capital expenditure	6,000	7,000	1,000	4,720
Discretionary Housing Payments	550	550	0	550
Other expenditure	1,391	1,696	305	1,713
Total expenditure	**88,351**	**90,438**	**2,087**	**87,918**
Surplus / Deficit in year	**9**	**1,600**	**1,591**	**594**
Surplus brought forward	**-642**	**-2,637**	**-1,995**	**-1,037**
Surplus carried forward	**-633**	**-1,037**	**-404**	**-443**

Appendix 2

Proposed capital programme 2017/18 to 2020/21

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Adaptations	2,646	2,408	2,434	2,401
Central heating	3,910	2,801	2,808	2,626
Community Safety and Environmental Improvements	564	1,529	1,378	1,563
Electrical Installations	602	1,031	634	784
External Improvement Programme	8,997	7,492	9,574	9,639
Insulation and Energy Efficiency	467	326	162	63
Minor Works	8,385	5,102	2,661	1,967
Internal Improvement Programme	3,468	2,495	4,489	4,784
New Council Housing	8,992	8,687	5,180	4,390
Accommodation and Property	36	0	0	0
Void Property Improvements	6,378	7,616	7,199	7,458
Grand Total	**44,445**	**39,487**	**36,519**	**35,675**

Resources

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Borrowing	0	0	0	0
Major repairs reserve	23,040	23,107	23,451	23,920
Revenue contribution to capital	7,000	4,720	2,500	2,800
Usable capital receipts	13,006	8,521	10,161	8,955
Less usable capital receipts transferred to support private sector housing capital	0	0	0	0
Other (grants)	1,399	3,139	407	0
Grand Total	**44,445**	**39,487**	**36,519**	**35,675**

Appendix 3

HRA Business Plan - Thirty Year Business Planning Strategy for Landlord Housing

Purpose

1. The Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) has set out how the Council plans to balance spending pressures and available resources over the medium term, taking into account risks and uncertainties. It relates specifically to the Housing Revenue Account (HRA) and the capital programme for improvement of the Council's own housing stock.

2. The MTFS(LH) should be read in conjunction with the Council's overall Medium Term Financial Strategy (MTFS). The underlying principles set out in the overall document apply equally to the MTFS(LH).

3. In the context of the introduction of Self-Financing for public sector housing, the abolition of the HRA subsidy system, the increased autonomy and flexibility that housing authorities will have to manage their stock and, in Dudley's case, the increased debt taken on, a Thirty Year Business Plan has been developed. This takes into account issues including investment need, treasury management strategy, financial projections and tenants' engagement.

Background

4. The financial strategy for landlord housing takes into account the delivery of the Decent Homes Standard and the new opportunities and challenges arising from the introduction of the self-financing system. This is the subject of an ongoing consultation process that includes tenants and residents. The key elements of this new financial strategy, which will cover a rolling five year period, are:

   - maintain the Decent Homes Standard;
   - Improve the energy efficiency of the housing stock and address fuel poverty;
   - invest in housing stock and minimise the number of void properties;
   - review the suitability of the housing stock and explore the feasibility of new build to increase stock and de-invest in and / or replace properties that are in poor condition, low demand or that do not meet modern requirements;
   - support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
   - identify ongoing savings and efficiency gains, through the use of partnerships where appropriate;
   - continue to undertake prudent management of reserves and other balances;
   - set rents having regard to government rent policy for social housing and our investment needs.

The proposed budget and the MTFS(LH)

6. Ongoing resources are required to maintain the Decent Homes standard, and deal with properties where the age of the fittings mean that a replacement is required, and non-decent properties as they become void. The rolling five-year capital programme includes resources to maintain the Decent Homes Standard.

7. A stock validation survey was commissioned and undertaken during late 2013 to externally validate and support existing stock investment information for the housing stock. The detailed output of this is now embedded within the 30 year investment cost plan, which is continually updated to reflect investment undertaken and newly arising investment need. A strategic stock investment appraisal was commissioned in 2015 through i.s.4 housing & regeneration (IS4) to enhance and accelerate previous in-house work on sustainability modelling and 30 year planning. The IS4 stock appraisal assessed the net present value of property management, maintenance and investment need against rental income, and property ‘prospects and performance’ (essentially current and future demand) and the report provides an overview of the relative performance of the Council’s housing stock at a point in time, providing a strategic steer on the some key triggers for action. Further investigative work is now ongoing at a detailed area and property level to determine specific mitigations and/or interventions required. The report and the supporting analysis will assist in the production of a detailed asset management strategy for Dudley’s housing stock and to inform future investment and de-investment strategies for the short, medium and longer term.

Part of IS4’s strategic asset management process was to “traffic light” the stock using red, amber and green benchmarks. The assessment of Dudley’s housing stock found :

- In the overall assessment the majority (16,234 units or 72%) of Dudley’s stock is assessed as green, meaning that it is core stock for investment purposes and which, other things being equal, Dudley will continue to invest in over the longer term. There are 3,270 units (15%) which are assessed as amber and 2,967 units (13%) which are assessed as red and these units require some further detailed consideration.

- In the financial assessment, there are 5% more units assessed as green (77% or 17,323 units), 2,749 units (or 12%) which have been assessed as amber and 2,399 units (which is 11%) which are assessed as red.

- In the performance and prospects assessment fewer units are assessed as green (9,571 units or 43%) and considerably more are assessed as amber (9,252 units or 41%) and the remaining 3,648 units (16%) are assessed as red.

However, in addition to the ‘bricks and mortar’ investment needs we also need to consider additional wider community council and housing priorities. This includes addressing priorities such as new build housing, de-investment and conversions, facilitating independent living for vulnerable people with disabilities by adapting properties, and estate based community improvements to provide sustainable communities for the future.

8. The forecast has been based on recent financial trends and our current assessment of the Government’s housing finance policy and, like any forecast, should be regarded with caution (risks to the forecast are considered later). In view of our commitment to stock retention and maintenance of the Decent Homes Standard, it is proposed that we continue when necessary to give consideration to the following:

- ongoing review of spending and resource forecasts;
- further efficiency and other savings, including those achievable from use of partnerships;
- review of the existing housing stock provision to consider de-investment options and re-configuration of high investment need and low demand homes;
- addition to and replacement of the housing stock via new build programmes;
- the level of housing debt;
- service charges[1].

9. Whilst in some areas the volume of smaller responsive repairs has generally decreased due to recent investment, particularly around central heating, there is an emerging trend of increasing investment need to deliver major improvements to homes and to maintain decent homes, which was only ever a minimum tolerable standard, to a housing stock that is, on average, 63 years old. Delivering planned programmes of improvements in cyclical, strategic programmes (such as the current planned boiler and double glazing programmes) is the optimal solution to delivering value for money through efficient procurement and planned works delivery

10. A proposed rolling capital programme has been developed as a continuation of the existing programme to maintain current standards and improvements following the achievement of the Decent Homes standard.

11. Resources have been identified for a new build programme which will meet our current Right to Buy Replacement targets and also fund the schemes for which we have Local Growth Fund approval. Resources have been allocated to future years assuming that government rules will continue as they are currently.

<u>Risks to the financial forecast</u>

12. The main risks to the financial forecast are considered below:

Risk	**Impact**
Inflation higher than forecast	While increased inflation has an impact on costs, in the case of the HRA, it also affects resources, through the rent increase (or decrease) applied. If cost inflation is lower than general inflation as used to determine rent levels, this will have a positive budgetary impact. However, if cost inflation is higher than general inflation as used to determine rent levels, this will have a negative budgetary impact. With the government's new policy of rent

[1] Government subsidy calculations assume charges over and above the rent for special services to flats and for supported housing – the HRA is financially disadvantaged as a result of not applying these charges.

	decreases for social landlords for 4 years from 2016/17, this risk of increased inflation becomes even more significant.
Income levels not achieved	<u>Rent loss from void properties</u> We have seen over recent years an increase in void properties owing mainly to greater tenant mobility and this has resulted in an increased rent loss of up to 3% of total rent available. We have seen an increase in the number of hard-to-let properties, for instance two-bedroom flats, particularly in high rise blocks, and some three-bedroom houses. We have allowed in our forecasts for a rent loss of 2.5% of total rent available in 2017/18, reducing to 2.2% in 2018/19. This reflects our new approach to works on void properties and the expected reduction in re-let time. The cost for each 1% void loss is around £1m per annum. <u>Rent loss from non-payment of arrears</u> As part of the Government's proposed welfare reforms, many tenants will in future start to receive Universal Credit direct and will therefore be responsible for paying their own rent. Currently, tenants in receipt of housing benefit have their rent paid as a transfer from Benefits. This is likely to lead to an increase in arrears and potentially in bad debts. The long-term impact of Universal Credit on rent collection rates is difficult to assess at this stage, but initial estimates from the pilot projects suggest that the collection rate may fall from the current 98% to 80% - 90%. The management cost of collecting rents is also expected to rise as more payments are made direct by tenants rather than via transfer from the Benefits system. Dudley was in the first tranche of the national roll-out of Universal Credit to new, single claimants nationally, which started in March 2015. Numbers were fairly low, although managing this caseload has proved very intensive in terms of staff time and we are seeing higher arrears for this group (average 80% of Universal Credit claimants are in arrears, compared to around 26% of all

	tenants). All new claimants and many existing claimants who have changes in circumstances will move to Universal Credit in Dudley from July 2017. We are working actively to mitigate the risk of loss of income, including tenant profiling, pre-tenancy training, support for tenants experiencing financial difficulties, increased automation and other efficiencies in the income recovery process, and partnership working across the council and with DWP, CAB and other agencies. Since July, we have seen numbers on Universal Credit increase significantly, from an average of 4 new tenants a week moving to Universal Credit previously to over 30 a week since the full roll-out in July. In addition to Universal Credit, tenants may also be affected by underoccupancy charges (since April 2013) and the reduced Benefit Cap (since November 2016).
Change in rent policy	The government has superseded the national formula for a maximum rent increase for social landlords of September CPI plus 1%. Social landlords are now required to reduce their rents by 1% annually from April 2016 for four years. This will have a significant impact on future budgets and has required us to revise our HRA Business Plan to reflect this lost income. Compared to our forecasts for 2015/16 original budgets, this ongoing, cumulative rent reduction represents a loss of income of almost £28m by 2019/20.
Changes to other Government housing policies	It is expected that mandatory fixed term tenancies will be introduced, which will increase administration costs and is also likely to result in higher tenancy turnover. This may also have an adverse impact on property condition, if tenants do not maintain their homes as well as they did when they had a lifetime tenancy. The Government has also proposed a levy on higher value social housing. At this point, we do not have any indication of the likely value of this

	levy but, if introduced, this will have an impact on the HRA budget.
Interest rates higher than forecast	Our debt on housing properties is around £470m following the introduction of self-financing. Hence, interest rate risk is much more significant than it was under the subsidy system. Risk will be mitigated by borrowing at fixed rates and spreading repayment dates to minimise refinancing risk.
Reduction in property values in the borough	Any reduction in property values will reduce the value of usable capital receipts.
Reduction in land sales and capital receipts	We have seen as a result of the general economic situation a diminution in the value received for sale of housing land. We also recognise that with a new council house building programme we are likely to be disposing of fewer housing sites.
Reinvigoration of Right to Buy	The Government has increased the cap on Right to Buy (RTB) discount from £26,000 to £78,600 per property, and in future years this will continue to increase by inflation annually. The maximum discount for houses has also been increased during 2014/15 from 60% to 70%, and in May 2015 the requirement to have been a council tenant for 5 years before exercising right to buy has been reduced to 3 years. The changes have resulted in increased sales from the last quarter of 2012/13 onwards, although sales have been fairly consistent at around 180 – 200 per year from 2013/14 onwards. However, because the value of the maximum discount has increased and there has been a reduction in the average value of the properties sold, increased sales will not necessarily result in a proportionally greater value of capital receipt income. New regulations have replaced the capital receipts pooling arrangements and require councils to build replacement homes for all extra homes sold under Right to Buy.

Suitability of stock	Some of our stock is old and not particularly suited to modern styles of living. In addition, changes to the benefit system mean that some of our properties are less attractive than they were previously (e.g. two-bed high rise flats or three-bed maisonettes). We are already experiencing difficulty in letting such properties, which leads to a loss in rental income and also potentially an increase in security costs and an increase in anti-social behaviour. Work is ongoing to assess the sustainability of the housing stock addressing the net present value of housing investment needs and rental income against demand, resulting in an assessment of the housing stock at an individual unit level, and potentially leading to proposals for stock remodelling, disposal and or demolition.
Availability of borrowing	The HRA is currently at the government's borrowing cap, so all capital expenditure on housing stock must be funded from annual revenue (mainly dwelling rent income) or capital receipts from house or land sales. Our strategy is to invest our annual rental income into maintaining and improving our stock, and building new homes as resources permit. In the short to medium term we are not planning to repay any debt, as our priority is improving and extending our stock. However, this restricts the size of any redevelopment / new build scheme as we are not able under current rules to borrow on the strength of future rental income. We were successful in our bid under the Local Growth Fund to increase our borrowing cap by £1.5m in 2015/16 and a further £4.7m in 2016/17, which has contributed to our new build programme.
Unforeseen costs or costs greater than estimated	Any unbudgeted costs would have to be met from economies or reductions in planned spending in the year in which they arise or from any balances available in that year. Calculations indicate that any costs to the HRA arising from Single Status can be met within proposed budgets. We anticipate that any Equal Pay settlement costs would be capitalised through a government dispensation.

Partnerships

14. Housing Services is continuing to deliver on its partnership working and currently has a number of such arrangements, for example:

    - A strategic partner for delivery of new council housing under a framework arrangement to 2020;
    - Strategic partnerships that are being delivered in accordance with the principles of Sir John Egan's report 'Rethinking Construction'. Through innovative payment mechanisms, incentivising good performance and modern methods of collaborative working, partnerships are delivering improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock.

15. Funding partnerships have also been forged with the Homes and Communities Agency (HCA) to support new council housing and historically with energy service providers to increase resources for reducing carbon emissions under the Government's ECO (Energy Company Obligations).

16. Procurement consortia are also used (e.g. the LHC Framework, Procurement for Housing) and other partnership arrangements will also continue to be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.