

Addendum to HRA Budget Report 2016/17

- 1.0 As referred to in sections 4.8 and 4.9 of the draft budget report approved by Cabinet on 8 December 2015, further examination of the changes to the future rent increase assumption (from 2.5% to 1.5%) have been tested and modelled since the production of the initial report. This has the impact of reducing the level of income the Council can expect to receive from 2020/21 onwards.
- 1.1 A number of amendments are therefore proposed to the draft budget figures contained in the original report, to address future shortfalls in income, as detailed below:

2.0 Capital programme

The capital programme can be adjusted by either generating additional income from disposal of poorly performing assets (properties or land), or reducing/re-profiling the expenditure planned over the lifetime of the Business Plan. Our proposals are detailed below:

- 2.1 **Sale of sites and empty properties** – in addition to the level of sales already proposed in the existing draft budget, it is recommended that an additional £500k is raised through disposing of properties or sites in 2016/17, rising to an additional £750k from property / site sales from 2017/18 onwards. The properties will be selected based on their Net Present Value (NPV), which measures the financial value of a property over a period of time by comparing rental income with investment needs. High performing properties need little investment and generate an excess of rental income, whilst low performing properties require significant improvement work and, by comparison, generate insufficient rental income. We propose to sell those empty homes with the lowest NPV, and target 3 bedroom properties, of which we have a disproportionately high number compared to 1 and 2 bedroom properties. The latter are the type of properties for which there is the highest demand from home-seekers on the waiting list.
- 2.2 **Re-profiling of capital improvements expenditure 2018/19 to 2024/25** – the current uneven profile of improvement expenditure shown in the draft budget reflects the predicted level of expenditure required to maintain all homes at or above the Decent Homes standard in future, and to carry out other improvements. For historic reasons there is a peak of expenditure required in 2021/22 and 2022/23, which coincides with other significant budget pressure to re-pay two loans of £10m and £3m in March 2022. By re-profiling some of the capital expenditure back from these two initial years, and spreading it over the subsequent 3 year period, we can ensure the business plan has a smoother expenditure profile, and also has capacity to repay the two loans in full. As a result, a number of properties may fail to meet the Decent Homes standard for a short period of time, due to key components not being replaced as promptly as the standard requires. The improvement programme for the period in question will be constructed to ensure that any failures are minimised, and 100% decency status is re-gained as promptly as possible.

For non-decency improvements (i.e. parking schemes, paths, walls / fencing, outbuildings) a similar re-profiling exercise will take place, so existing peaks of expenditure are pushed back over a longer period.

- 2.3 **Programme Delivery Costs** – a provision is made within the capital programme to fund the staff responsible for delivering the programme. Previously, the budget

assumed one full time post would be required to support our new build programme, after the successful completion of the three pilot schemes. In view of the future need to dispose of sites, the future new build programme may now be less ambitious than originally envisaged. Furthermore, any future new build schemes would require us to borrow funds, although there is available headroom within the Housing Revenue Account to do so. Therefore, the costs associated with new build delivery have been reduced to 0.5 of a full time post.

- 2.4 Aids and Adaptations budget** – significant investment was made through the Decent Homes programme in installing level access showers instead of like for like bathroom replacements in many ground floor flats and bungalows. It is therefore projected that the budget requirement for this work will reduce over time. Furthermore, as more properties have received adaptations in recent years as part of this programme, more efficient utilisation of these properties by existing and future tenants will reduce the need to carry out new works. We have therefore reduced the projected budget allocation for future years.

3.0 Revenue budget

- 3.1 Bad Debt Provision** – in preparation for the impact of Welfare Reform, it was considered prudent to increase our bad debt provision to its current level of £171k. Experience to date has been that this additional provision has not been required, as rent arrears and associated write-off levels have not yet increased. This may partly be due to delays in the introduction of Universal Credit, but we propose a reduction in bad debt provision to £125k, whilst continuing to monitor the situation closely as more welfare reform changes are implemented in future.
- 3.2 Gifted units** – at one development site, following consultation with the developer, the Council has been able to negotiate the delivery of a number of gifted units as part of the section 106 planning agreement. Please see Cabinet report of 22 September 2015 on Emerging Issues Affecting Affordable Housing Delivery. This will allow the Council to assume ownership of a reduced number of units at a peppercorn value to be managed as rented accommodation within the HRA. This provides a significant financial advantage to the housing business plan as a long term rental income stream is obtained for nil cost. In order to further boost the HRA balance sheet going forward, it is proposed that the Council investigates negotiating similar arrangements with developers on other sites.
- 3.3 Repairs Value for Money Study**

Housing Quality Network were commissioned to carry out a value for money review of the responsive repairs service in December 2015, and we are currently awaiting the final report. The study looked at how the service is delivered; how well the service performs, including costs and outcomes, compared to other organisations; and how can the service best improve so it can explore taking on more work. Whilst the remit of the study was as outlined, the aspiration is to use the findings to deliver a more efficient and effective repairs service that can deliver greater productivity and generate additional outcome, so there may be subsequent changes to our ways of working that can have a beneficial impact on the business plan.