



To: Executive Councillor for Housing: Councillor Kevin Price

Report by: Liz Bisset, Director of Customer & Community Services

Relevant scrutiny committee: Housing 14/1/2015  
Scrutiny Committee

Wards affected: Abbey Arbury Castle Cherry Hinton Coleridge  
East Chesterton King's Hedges Market Newnham  
Petersfield Queen Edith's Romsey Trumpington  
West Chesterton

## **FUNDAMENTAL REVIEW OF THE HOUSING REVENUE ACCOUNT (HRA) Key Decision**

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### **1. Executive summary**

1.1 We are in the third year of self-financing for the Housing Revenue Account (HRA), whereby we manage a ring-fenced account entirely self-financed through income from rents, sales and investments, borrowing and grants. In 2014 the HRA revenue budget for expenditure on services, at the mid-year review was £15.33m and the HRA capital budget was £38.8 for the same year. Underlying these figures is a financial model that informs a 30 year business plan. This report sets out the scope and process for taking a fundamental review of the HRA, taking into account spend profiles, past and future spending pressures, and emergent priorities.

### **2. Recommendations**

The Executive Councillor is recommended:

- a) To agree to the scope of the review set out in section 5 of the report.
- b) To agree to the timetable set out in section 10.

### **3. Background**

3.1 The move to self-financing required us to draw up a 30 year business plan, based on financial modelling which took into account the profile of activity, income and expenditure current at the time. The financial modelling made a number of assumptions about future activity, income and expenditure, based on the facts or best estimates at the time. At the point of self-financing we, along with other stock retained authorities who were net contributors to the Treasury, bought ourselves out of the subsidy system, incurring a debt of £213.6m.

3.2 The Business Plan identified five priorities for expenditure:

- Spend on landlord services (housing management, responsive and void repairs)
- Investment in new affordable housing
- Investing in the existing housing stock
- Investment in new initiatives and income generating activities
- Spend on discretionary services (ie support)

3.3 The business plan has been reviewed and updated at the mid-year review and budget setting stage in each year since its inception. Adjustments have been made to the budget profiles that underpin the business plan at these review points. These have accommodated budget pressures, underspends and opportunities as they occurred. Looked at cumulatively the level of change over a relatively short period of time has been significant. Major variables over this time include:

- The development of an ambitious council owned and managed affordable housing programme.
- New funding opportunities for the delivery of affordable housing through the decision to use a proportion of the revenue surpluses 'set aside' for debt repayment; use of higher than anticipated Right to Buy receipts; potential opportunities to increase the borrowing cap; partnership opportunities through City Deal and other alliances.
- An asset management programme that has increased exponentially in the move from decent homes to an investment standard, that has struggled to spend to the profile.
- The first stages of introduction of welfare reform, putting pressure on housing management, and risk to income streams.
- HRA revenue saving, with an average target over the last 3 years of 2.2% and savings delivered at an average of 1.76%, equivalent to £135,830 per annum.

Other pressures arise from changes in assumptions from the original model:

- Inflation rates remaining lower than anticipated, requiring commensurate savings.
- Build costs rising further above inflation than anticipated.

3.4 It is therefore timely to consider whether investment in our key priorities needs to be rebalanced to better reflect the actual spend patterns over the last few years, and new opportunities that have arisen, particularly for affordable housing. Alongside that, consideration needs to be given to the likely level of long-term savings needed to maintain the HRA in balance, and where these will come from.

## **4. General Fund**

4.1 The General Fund (GF) pays for some housing services, alongside other non-housing activities. Essentially general fund housing services are pre-tenancy or relate to private sector housing and include housing options and homelessness services, temporary or emergency housing, community safety and some anti-social behaviour cases, strategic planning of housing services and enabling new affordable housing. Different elements of some activities are supported by both the HRA and GF, for example the enabling of new affordable housing is GF and the delivery can be funded through HRA Capital.

4.2 Housing GF activity needs to be considered alongside the HRA for several reasons. The GF is under considerable pressure to make savings of £6 million over the next 5 years, and opportunities to reduce housing expenditure need to be considered as part of a council-wide approach. Also the HRA and GF are not entirely independent of each, and the interrelationship between HRA and GF needs to be understood in terms of how activities are funded and any knock on impact to making changes in either fund for housing related services.

## **5. Scope of the Review**

5.1 The aim of the review is:

- To identify past and future spending profiles to inform future decisions on expenditure.
- To anticipate future funding pressures and what will drive these.
- To rebalance HRA expenditure so that it more accurately reflects activity and pressures in the budget.
- To identify areas for savings in HRA revenue and capital and housing general fund.

- To consider redirection of resources to existing and future priorities, where these do not need to be taken to achieve a balanced budget.
- To agree areas for review in subsequent financial years to generate further savings, using where appropriate zero based budgeting.

## **6. Spend Profiles**

6.1 The review needs to start with a high level summary expenditure over the last 5 years to examine general trends. Although self-financing started in 2012/13 it is nonetheless informative to look at trends over a longer time period to consider what other influences there might be on patterns of expenditure. The review will consider HRA revenue and capital, GF revenue, and the interrelations between the various funds. Examining trends should act as a 'can opener' to asking whether allocations to various activities need to be reduced or increased. In both the revenue and capital budgets there are some areas which have consistent patterns of underspend over the previous 5 years, indicating that budgets should be reduced to better align with actual expenditure patterns. In the HRA revenue budget variables tend to be smaller, but where they are consistent they should be considered for saving, if they haven't previously been identified as part of the annual budget processes. The HRA capital programme shows very significant underspends, and these have increased with self-financing and the resultant increases in funding available. Although there are explanations for this such as slippage of programmes and the poor performance of contractors, it is not acceptable to have such major variations year on year, and corrective action needs to be taken. Consideration will include:

- Whether the size of some programmes needs to be reduced to reflect capacity to deliver, particularly in the decent homes programme.
- Where there is underutilised budget in areas which are emerging political priorities such as communal areas and the Cambridge standard, and how to accelerate programmes in targeted areas.
- Whether budget profiling for refurbishments and new build is over optimistic in terms of delivery timeframes.
- Where and how capacity to deliver can be improved, where budgets are retained in areas of underspend.

## **7. New Funding Opportunities**

7.1 The area of greatest pressure, but also opportunity, in the capital programme, is the delivery of the new affordable housing programme. The funding landscape is becoming increasingly complex as new funding streams, particularly, but not exclusively, for affordable

housing come on stream. Funding that is needed to deliver the agreed programme will come from a number of sources including Right to Buy receipts, use of debt-repayment set aside; borrowing from existing and potentially new borrowing capacity; use of HCA grant; and revenue contributions to capital. Work is currently underway to determine the most advantageous mix of funding opportunities to fund the new affordable housing programme. This has to be balanced with the need to fund other priorities, which can be funded from only some of these funding streams.

- 7.2 The review needs to present different options for the delivery of the new affordable housing programme. The key variables to consider will be developing viable models that provide an agreed mix of tenure; the impact of any realignment of the capital programme on the delivery of other priorities; and the impact on the business plan of payback periods.

## **8. Budget Pressures**

- 8.1 The General Fund pressures have been well documented, most recently in the Mid-Year Financial Review. The HRA is not under such immediate pressure, but the introduction of welfare reforms, particularly the introduction of direct payment of housing benefit to tenants, is predicted to lead to a big increase in rent arrears. There are other budget pressures, shared with the general fund, such as inflation rates, where the reduction in the anticipated CPI rate this year, coupled with an increase in the building inflation indices, significantly reduced future investment capacity in the business plan, reducing the number of new homes anticipated to be deliverable over 30 years for 1,910 to 1,200.

- 8.2 In the general fund we are using the need to take savings as a catalyst to make transformational changes to services guided by four themes:

- Can we develop the way we interface with our customers and service users to deliver savings?
- Are there alternative models of service delivery to be considered such as shared services, or arm's length arrangements?
- Do we make the best use of our assets such as office and depot space?
- How are we ensuring that changes protect the most vulnerable and address social and economic inclusion?

- 8.3 In this review we will identify areas for future exploration at the first stage, with more detailed reviews or work on the feasibility of

alternative delivery models to follow. A initial programme of all the specific area has been identified in section 10.

## **9. Emerging Priorities**

- 9.1 The review of housing finance will need take on board the priorities for housing set out in the Annual Statement 2014. There will be opportunities to consider whether existing allocations can be redirected to meet new priorities, for example retargeted towards an estate based environmental improvement programme.
- 9.2 The Annual Statement has a strong theme of sharing prosperity and tackling poverty. There will be opportunities to build on our landlord services to provide what are sometimes called “landlord plus” services, which recognize that many of the poorest and most vulnerable members of the community live in social housing and can benefit from add-on services as money advice and the availability of less costly everyday goods and services.
- 9.3 The recent STAR survey of tenants and leaseholders provides very useful indicators of priorities for residents, what they think we do well, and where we could improve. This will be used to inform future priorities.
- 9.4 In the area of private sector housing extending the scope of licencing of HMOs, bringing more empty homes back into use are being explored.
- 9.5 Finally, recognition of the links between housing, health and social care is informing future strategies on health care and support, and how public agencies can work more effectively together to deliver better outcomes.

## **10. Programme Management**

- 10.1 This review fits within the Council’s overall programme management of transformational change. The review will be managed by a project board, chaired by the Director of Customer and Community Services, with the Business Manager and Heads of Service and the Head of Finance forming the project board. This board will meet monthly.
- 10.2 The review will be in 2 stages.

Stage 1: October – November 2014

1. A top level review of spending profiles to determine whether any immediate changes should be incorporated into the 2015/16 Budget Setting reports for the HRA and GF. This work is already underway and recommendations will be incorporated in to both BSRs. This will include the recommendation to redirect £1m from asset management towards other priorities.

Stage 2: October 2014 – October 2015

2. Identifying a service of reviews to be carried out in 2015/16, the conclusions of which to be incorporated into the 2016/17 BSR. Areas identified include:

- Decent Homes Programme and other planned works
- Response repairs, voids and cyclical maintenance
- Right to Buy / leasehold and shared ownership support
- City Homes Estate Improvement Programme (Cambridge Standard)
- General Fund housing and general HRA services
- Special services
- Housing plus opportunities
- How to address emerging priorities

This is not an exhaustive list and capacity to carry out reviews and timeframes need to be agreed in the new year.

## **4. Implications**

### **(a) Financial Implications**

- Financial – to improve financial discipline so that the available budget is utilized to best effect. Budgets reflect activity and priorities, underspends are minimized, savings are generated.
- Services – the reviews, although financially driven, will provide opportunities to improve service delivery by tackling areas of underperformance or redirecting resources where they can be better utilised.

### **(b) Staffing Implications** (if not covered in Consultations Section)

At this stage of the review there are no staffing implications. If any of the reviews of specific areas lead to proposals that impact on staffing levels these will be considered as part of the Council's management of change process.

**(c) Equality and Poverty Implications**

An initial EQIA has been carried out, which recognises that the review is likely to make proposals for services used or received by vulnerable members of the community who are our tenants. The conclusions of the reviews will be included in a more detailed EQIA when the impact of any proposals can be evaluated.

**(d) Environmental Implications**

The activities underpinning the review, particularly relating to New Build and maintenance of existing stock as part of the Capital programme have a high environmental impact, where build standards are at least to code level 4 and the decent homes programme aims to reduced carbon footprint through measures such as improved thermal efficiency.

Other areas of HRA activity, such as housing management, do not have an impact on climate change.

**(e) Procurement**

No new procurement. A number of services within the HRA are already procured particularly those relating to planned maintenance.

**(f) Consultation and communication**

The proposals at Stage 1 will come to Housing Scrutiny Committee in January 2015 as part of the budget proposals set out in the BSR and will be largely informed by a review of spend profiles to date. The conclusions of Stage 2 of the review will be brought back to the September/October 2015 cycle, to inform the 2015/16 BSR.

Thought will need to be given as to how to most effectively involve tenants and leaseholders in the Stage 2 reviews, which may vary depending on the nature of the review. We have good mechanisms for involving active tenants, but we may also want to gauge wider views in some cases and in others use data we already have, for example from the STAR survey.

**(g) Community Safety**

None

**5. Background papers**

These background papers were used in the preparation of this report:  
- Housing Revenue Account Budget Setting Account 2014/15



[https://www.cambridge.gov.uk/sites/www.cambridge.gov.uk/files/documents/HRA\\_BSR\\_2014-15\\_Final.pdf](https://www.cambridge.gov.uk/sites/www.cambridge.gov.uk/files/documents/HRA_BSR_2014-15_Final.pdf)

- HRA Mid Year Financial Review 2014

<https://www.cambridge.gov.uk/sites/www.cambridge.gov.uk/files/documents/HRA-MFR-Sep-2014.pdf>

## **6. Appendices**

None

## **7. Inspection of papers**

To inspect the background papers or if you have a query on the report please contact:

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