Appendix 1

Housing Revenue Account (HRA) ¼ Business Report
November 2012

Contents

A. HRA Business Plan – high-level progress

1. HRA Vision

“All City of London tenants will have a secure, warm, energy efficient and affordable home to live in within a safe, stable and vibrant community.”

Current position:
The vision for the HRA service remains relevant as energy prices and the cost of living both continue to rise. Key work to help deliver our vision is as follows:

Work is underway to explore options for the investment in the housing stock to improve energy efficiency, which will form a key part of the Asset Management strategy (see strategic objective 1 below).

The revised Allocations Policy will see rents for our existing social housing fixed to the national increase formula we currently use to ensure rents remain affordable, and will also ensure a continuing mix of people allocated to our properties to protect our stable estates.

HRA strategic objectives:

a) *a proactive asset management strategy that delivers annual efficiency (monetary) savings and maximises income from our residential and non-residential stock*

Development of the strategy is concentrating on three key parts: investing in and maintaining the existing housing stock, new housing developments, and commercial properties. An officer group led by Housing Services with representation from other City colleagues agreed the approach and the key officers to lead on different aspects.

Work on the existing housing stock has to date concentrated on reviewing the Decent Homes standard which accounts for significant capital expenditure. A recent resident’s survey with a 12% response rate overwhelmingly reported that our priority should be on improving the energy efficiency of our buildings. No major comments were received with regard to the internal works we carry out (for example replacement kitchen and bathrooms) and thus this part of the current asset management plan will continue as is for 2013-14 financial year. This information will be provided to residents through the next round of newsletters due out before Christmas.

Work to review the efficiency of the responsive repairs and maintenance service has not yet begun. The current contract with Wates (was Linbrook) is due to end in November 2013, and thus the two need to go together, taking into consideration the corporate approach to procurement as well as the need to make savings to the HRA. The new Head of Property Services is also reviewing cyclical maintenance works where savings for all aspects of repairs and maintenance will be identified for 2013/14 financial year onwards.

b) *a clear strategy for reinvesting efficiency savings / additional income into improving our existing stock and housing services*

A large part of the efficiency savings envisaged are to come from the review of asset management practices, as above. The Head of Property Services has this work underway and will report back in the next report on progress, as a staffing restructure is still in process, which must be implemented to fully enable changes to be implemented.

c) an allocations policy that balances meeting housing need with maintaining stable communities for existing tenants

A draft revised Allocations Policy was approved by the Housing sub-committee and is currently out for public consultation, and is due for final Committee approval in December. The policy was developed in consultation with staff, members and tenants and all applicants on the waiting list have been informed of the consultation. The Policy will ensure existing tenants (and sons and daughters) retain priority for transfers but slightly reduced, meaning that those on the waiting list in housing need stand a better chance of being rehoused by us. The new policy therefore aims to balance the needs of existing tenants with applicants ensuring well retain a stable rate of tenancy turn-over on our estates.

d) a strategy for ensuring vulnerable tenants are adequately supported to maximise their wellbeing and maintain their tenancies

Housing Services is included in the DCCS strategic review of Supported Living which aims to explore options for the future of housing and support services for older residents and those with support needs regardless of age. This review will report to the Health and Wellbeing Board. Of particular relevance to Housing is: the future provision (or not) of hostel accommodation, the future supply of housing for older people, and the links between Housing Support workers and the DCCS People Division to ensure all vulnerable tenants are known and adequately supported.

In addition, the new Allocations Policy has clarified and improved the procedures for supporting young people including those leaving care to better ensure they succeed in their tenancies.

In addition, the Welfare Reform officer project group has clear actions to identify all vulnerable tenants affected by housing benefit reductions and put in place appropriate advice and support mechanisms. An update on this work is included in the Welfare Reform paper on December's DCCS Committee agenda.

e) ensure the total number of rented stock is maintained, and where possible increased, to meet housing need.

At April 2012 the HRA owned 1900 properties for rent. The current figure is 1905 which reflects 5 new properties being provided using Section 106 monies since April 2012.

No social housing properties have been sold through the Right to Buy (although applications are at their highest level for several years (currently at 14). No previously sold properties have been bought back since April 2012 using Section 106 monies.

The Section 106 officer group monitors that the monies are spent within timescales and spent efficiently to maximise the provision of social housing, with recommendations for all spend presented to the relevant committees for approval.

B. Risk Management

Identification and mitigation of risks is critical to ensuring the delivery of the HRA business plan. The key risks identified in the business plan all still stand and the following table outlines the relevant updates:

HRA Risks	Update
a) Changing inflation and interest rates (for example higher interest rates may increase the cost of any future borrowing)	There are no major changes to the risks modelled in the original HRA business plan.
b) Impact of welfare reform (potentially affecting the ability of our tenants to keep up with rent payments)	This represents the biggest financial risk to the HRA business plan. Financial modelling has been carried out to better understand the risks posed. Please see Section C for these financial details. Understanding the impact of these reforms is critical. An officer project group has been established to ensure this risk area is managed effectively. At this stage, it is understood that the impact of the Government's welfare reforms will create 'new norms' for the housing sector and for us as a local authority landlord. This will be in the form of higher levels of rent arrears and of bad debt, both of which have been low for many years. For example, the rent that is currently paid direct to us through Housing Benefit (44% of all tenants, £3.9million per annum) will in future be paid to tenants. Thus at the moment we do not have to actively collect this rent and our landlord service is based upon this 'norm'. Having to actively collect this rent in the future (even if it is just for those of working age in receipt of Housing Benefit: 26%) will undoubtedly impact upon how we structure the resources in our landlord service. Welfare reforms will thus remain a business critical risk and further reports will be presented to this committee each quarter given the pace and scale of reforms in this area. The development of a new Housing Strategy will aim to address the strategic implications of welfare reform on the operation of the HRA and on residents.
c) Increasing demand for housing	The demand for rented housing continues to increase in London with average rental prices now over £1200 per month; 46% higher than the rest of the country. The demand for socially rented housing is therefore at increasingly high levels. The revision of our Allocations Policy sees a number of changes which seek to offer eligible people a better chance of securing housing with the City. In addition, our programme of new build

	housing will increase the number of properties available for rent to better meet demand into the future.
d) Potential rise in Right to Buy sales (and therefore the loss of rental income and the costs of building new replacement homes)	At the time of writing we have seen an increase in Right to Buy applications to 14, with none resulting in sales to date. Projections contained within the original HRA business plan continue to be appropriate at this time. We are informing tenants of the changes to the discounts as we are required to do. Government has been promoting the Right to Buy to council housing tenants.
e) Impact of public sector cuts on vulnerable people (potentially increasing the level of support someone needs to maintain their tenancy)	A new Housing Strategy is to be developed to pull together the 'big issues' affecting the delivery of our housing service and the impacts on our residents. The process started at our recent Resident Celebration Day on 20th October where a video was shown highlighting these issues and how we are and wish to tackle these 'big issues' into the future. Residents, staff and members will be involved in this process (with members approving the final strategy) to ensure the City is prepared to deal with the changing times.
f) The continuing recession (potentially affecting tenants, ability to keep up with rent payments)	We are combining this risk with the above into the development of our new Housing Strategy given the inter-linking impacts.

Any new significant risks identified:
There are none identified at this time.

C. Financial Profile

This section presents to members the HRA headline budget position at the time of writing, and also any changes to the HRA financial profile as originally profiled in the business plan.

Headline HRA budget position
The HRA general account (excluding reserves) shows a surplus of £2,800,000 at the end of October 2012, this is in line with the forecast outturn which assumes a surplus of £500,000. This reduction in the surplus between now and the end of the financial year is due to the expenditure on repairs and maintenance and recharges increasing during the second half of the year.

Major impacts upon the 30 year HRA financial profile

For this report we have concentrated upon the impact of the Government's welfare reforms as they are a significant financial factor. The next report will feature the results of financial modelling as a result of our on-going work in relation to developing our asset management strategy.

The Government's programme of welfare reform represents the biggest single financial risk to the HRA at the time of writing. We have modelled the impact of the three largest reforms that are now known (to date) and which have a direct impact upon the HRA:

Bedroom cap from April 2013: this will see all tenants who have one spare bedroom face a Housing Benefit cut of 14% from April 2013, and those with 2 or more spare bedrooms with a cut of 25%. We have 66 households affected by this reform, representing a total of £64,000 in annual rent shortfall. When taken in isolation, this reform has a minimal impact upon the 30 year HRA financial profile. That said, officers are committed to preventing any significant build-up of new arrears, with preventative actions being co-ordinated through the welfare reform project group.

Universal Credit from October 2013:
Any tenant who makes a *new* claim for housing benefit from October 2013 will be put onto the new 'Universal Credit' which replaces many existing work-related welfare benefits, including Housing Benefit. The impact of this reform is complicated as many people come on and off housing benefit in any one year due to their working circumstances, thus it is currently being financially modelled and will be reported in the next report.

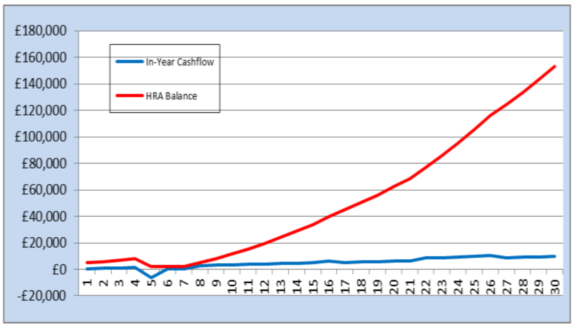
Whilst the impact of the above on the 30 year finances may be minimal, the impact upon individual households may be major, resulting in significant shortages in housing benefit and the increased risk of high level rent arrears cases. This is because households in receipt of Universal Credit will be subject to a total benefit cap of £500 per week for a couple or family or £350 per week for a single adult – and it is the Housing Credits (what Housing Benefit is to be called under Universal Credit) that will be capped if a household reaches this level. Therefore, a larger family on benefits may only receive a very small portion of Housing Credits and thus the risk of significant arrears would become very high, which is why we are taking a very proactive approach to preventing arrears for all tenants affected by this reform

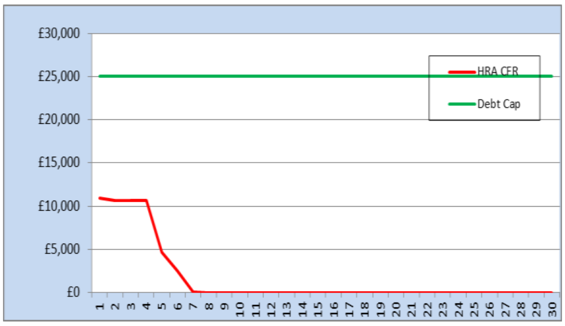
Universal Credit from October 2015:
This represents the biggest single financial risk to the HRA as explained below.
There are two major impacts of Universal Credit on tenants and social landlords. The first is that tenants will have to make a new claim for Universal Credit – they will not be migrated across – and this will have to be done on-line. There is therefore the risk that some tenants may not a) make a new claim or b) not be successful in their new claim. Secondly, 'direct payments' will be abolished. This means that we will no longer receive the housing benefit payments - it will be paid directly to tenants, monthly in arrears. Currently, 26% of our working age tenants get their rent paid for by Housing benefit and we receive this money direct (these reforms do not affect people of pensionable age, which would be a further 18% of our tenants). Members can therefore see the scale of the financial risk with over a quarter of rent at stake.

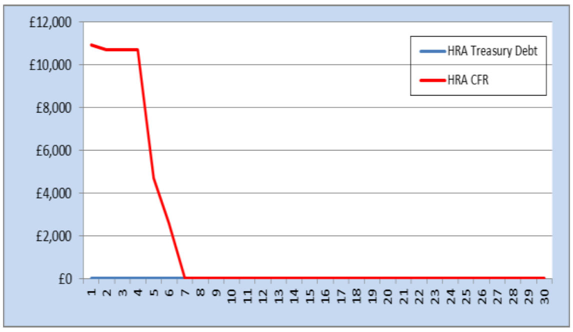
Universal Credit will be administered by Central Government, which means that locally administered Housing Benefit as we know it will end. At the time of writing, the Government has not confirmed which Local Authorities will be subject to Universal Credit first. We are working on the basis of October 2015 for the City of London as it is highly likely that small Local Authorities will be migrated first.

We have modelled 3 different scenarios for the financial impact of Universal Credit which as depicted in the following charts, along with the corresponding rise in bad debt levels. (The % figures (25, 50, and 75) are a % of the 26% of current rent that is paid for through Housing Benefit, not of total rent owed).

Chart 1: base charts 2012-13 for comparison

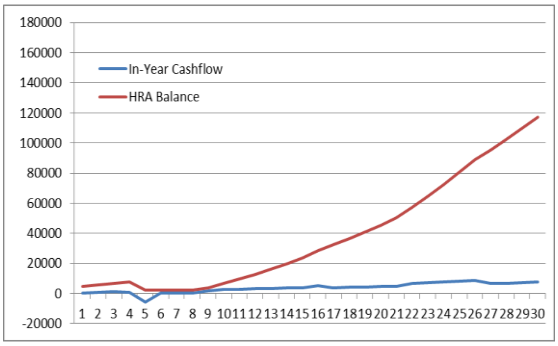


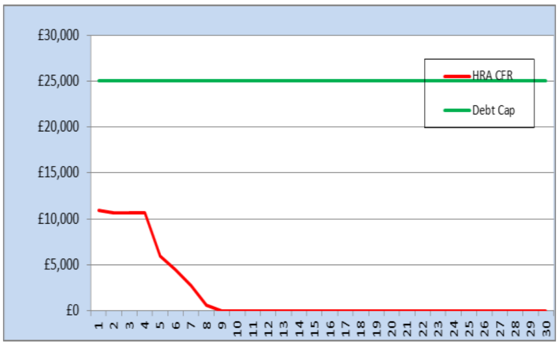




It is important to note that the base position is now based on the actuals, not estimates, as the HRA Business Plan was based on when it was approved in March. The key difference between the two is the dip between years 4-6 which was not evident in the original base charts. This is largely due to the slippage of capital projects.

Chart 2: 25% of housing benefit not recovered:





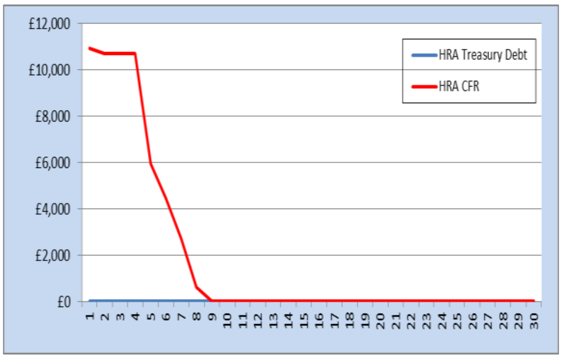
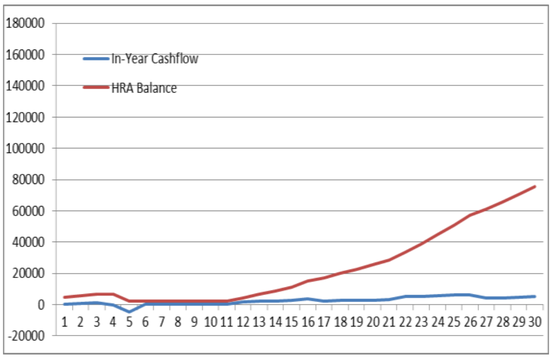
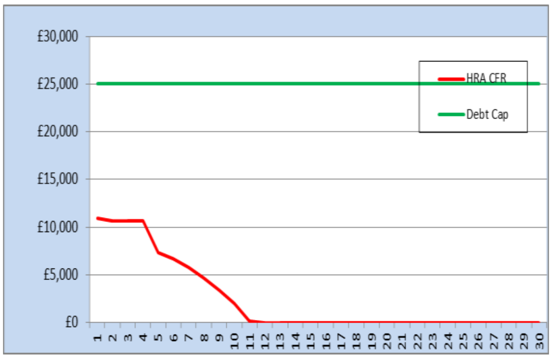


Chart 3: 50% of housing benefit not recovered:





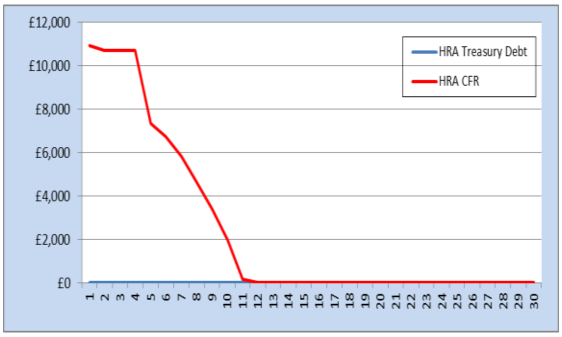
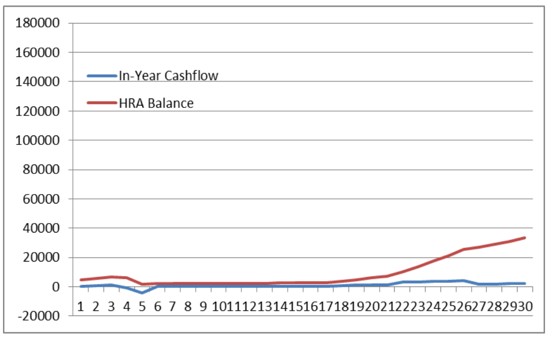
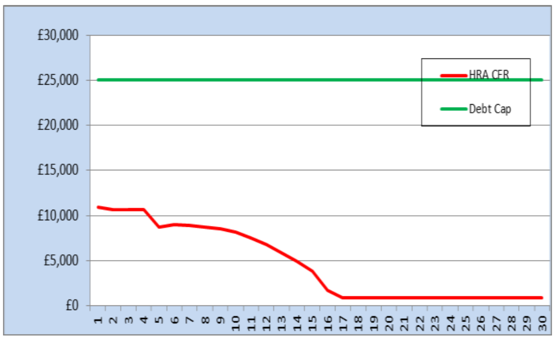


Chart 4: 75% of housing benefit not recovered:





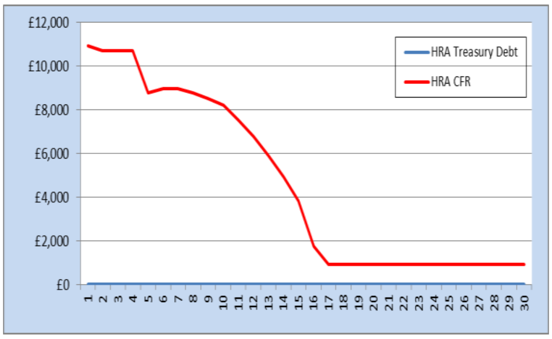


Table 1: Revised bad debt to include non-recovery of housing benefit:

	Base (current level)	**75% not recovered**	**50% not recovered**	**25% not recovered**
	£,000	£,000	£,000	£,000
Annual rental income	10,260	10,260	10,260	10,260
Projected bad debt	103	2,042	1,359	682

As can be seen, the greater the loss of housing benefit recovered, the greater the negative impact upon the HRA finances. All three scenarios see a precarious cash flow period of time (which lengthens as the % of Housing Benefit not recovered increases); therefore it will be critical that the Housing Service has adequate capacity to collect sufficient rent owed when Universal Credit is implemented. This financial position also increases the need for the HRA to explore alternative sources of long-term income as Government subsidy in housing decreases.

Being able to project the impact will enable us to plan for the changes in our rent collection and arrears resources and procedures that will be necessary to minimise the potential drop in rent collected as a result of the switch to Universal Credit. Further reports will be presented outlining the on-going developments relating to welfare reform and future recommended actions to safeguard our rent collection levels.

D. Performance

This section is designed to present the key performance indicators for the Housing Service. The Housing Services team is consulting with the wider Departmental Policy and Performance team as to how best to do this to ensure we avoid duplication with the Departmental performance reporting. Members views on this would be welcome.

E. Customer feedback / satisfaction

This section presents the results of any customer research / consultation that has been carried out in the previous quarter. Given this is the 1st report, results are presented for the period April-Sept 2012.

Follow-up to the STAR Tenant Satisfaction survey

The STAR survey that was carried out January - March 2012 showed overall high satisfaction with the services we provide. However, there was a 10% drop in satisfaction with whether we ‘take tenants views into account’ since the last survey in 2009, and a drop of 30% since the 2006 survey.

We are in the process of carrying out research and gathering feedback to establish into why this change has occurred. This will enable us to take immediate steps to improve performance and to build further actions into our 2013/14 Service Plan. Further information will be presented to Members in the next report.

Future Items to note

At the time of writing, the Government has announced its intention to cap welfare benefits for families with more than two children, and to abolish Housing Benefit for under 25 years olds. As these are just announcements and not confirmed policies no financial modelling has been carried out. However, future reports will update on these on-going developments and include the financial impact.