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Housing Revenue Account

2019-2049
Business Plan

Community Services Directorate
Guildford Borough Council

2019 – 2049 Business Plan

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Housing Revenue Account

2019 - 2049 Business Plan

Executive Summary

1.0 Introduction

1.1 This will be our seventh year under the self financing regime introduced in 2012 under the Localism Act 2001, which for Guildford meant taking on a loan of £193.2 million.

Our tenants are better off under the new arrangements in that we now retain our rental income to invest in services locally. We were only able to retain just over 50 per cent under the previous system.

1.2 The weak global financial environment in 2012 allowed us to borrow at lower rates than we had expected. This helped to counter balance some of the impact of the Welfare Reform changes that we have encountered in recent years.

2.0 What we want to achieve

2.1 Our mission for landlord services along with our key objectives are as follows:

Mission

To make a positive difference to residents' lives by providing excellent services and good quality affordable homes in valued neighbourhoods.

Objectives: These are to:

- operate a sound, viable housing business in a professional and cost-effective manner
- provide good quality homes in settled communities for as long as needed by tenants, consistent with our Tenancy Strategy
- increase the supply of affordable homes, including by direct provision where it is appropriate and viable to do so
- continue to strengthen communities by making our estates places people value and want to live
- value and promote tenant involvement in decision making
- widen the range of housing options open to tenants, ensuring they are in a position to make informed choices.

3.0 The business environment

3.1 The business operates in a complex and changing economic and social environment.

Housing is fundamentally important to our residents, affecting many areas of their lives and an individual's general health and wellbeing. The HRA operates within an increasingly stressed public sector financial environment and we see the impact daily. The intervention threshold for mental health and social services have steadily increased. We are having to attempt to manage the consequences on both tenants and neighbourhoods, which is proving increasingly challenging. This, coupled with the fact that over 50 per cent of the cost of social housing is met from the housing welfare system, makes it inevitable that we operate in a regulated environment.

3.2 The regulatory framework operated by the Homes & Community Agency places greater emphasis on self-regulation, with tenants being placed at the heart of the process. Following a series of financial crises in the sector the focus is increasingly on the long term viability of individual registered providers. The Chartered Institute of Public Finance and Accounting published a code for Financial Accounting (CIPFA) for HRA's which has a similar objective.

3.3 The Government has over the last year made a number of policy announcements which recognise the important role social housing has across our communities. There also appears to be a greater desire to see local Councils play an increased role in the delivery of new homes.

3.4 The announcements are resetting the landscape in which the HRA business operates and are very much in line with the ambitions this Council has for its communities.

3.5 The Government has clarified three policy areas which have been a threat to the long-term viability of the Housing Revenue Account.

Rent setting: From 1 April 2020 we will no longer be required to reduce rent, each year by 1%. We will be allowed to revert to the rent policy of CPI + 1% on which the debt settlement was predicated.

Enforced Sales: The Government has accepted the policy of forcing Councils to sell higher value properties was not appropriate when we face increasing housing shortages for lower income households.

HRA borrowing: The recent announcement to lift the restriction on borrowing by our HRA allows us to consider a more ambitious development programme.

3.6 The impact of welfare reform through the introduction of Universal Credit as currently structured remains a concern. Some of these concerns are increasingly shared at a national level. We await to see whether these fears are seen locally as Universal Credit is rolled out.

3.7 The Council has now set up North Downs Housing Ltd. Whilst its role is to provide an alternative range of tenures, it offers the opportunity through partnership working to consider a wider range of development opportunities.

3.8 The Council has, through the Community Wellbeing Team and Project Aspire, provided greater support in less advantaged areas. They work closely with Landlord Services.

3.9 The Right to Buy scheme has reduced the stock considerably since its introduction in 1980. The number of sales had fallen to around ten each year but this trend has reversed. On average, there are now around 22 Right to Buy sales per year. The increase in the maximum discount to £80,900 (2018-19) combined with the availability of finance is leading to continuing sales. Right to Buy sales remain a risk to the business but not in the short term based on current activity levels.

3.10 Demand for our properties is high and this will continue over the long term because of the extremely high cost of housing in the borough.

4.0 Our priorities

4.1 Looking over the next five years the plan identifies a series of priorities. The business is structured in a way to ensure we deliver against those priorities. Apart from the overarching priority to ensure we continue to operate a sound and viable business, our priorities are to:

- protect the income stream
- protect the asset base
- deliver additional homes
- deliver stronger communities
- maintain high satisfaction levels with core landlord services.

4.2 Staff share the senior management team's commitment to the service and have demonstrated their capacity to meet the challenges presented by the self financing regime.

5.0 Financial plan

The financial plan recognises the need to effectively manage the £197 million debt. The 30 year financial model has been constructed making a range of assumptions. Some of the more significant assumptions include:

Consolidated borrowing rate:	3.16 per cent for 2019-20
Annual rent change:	1 per cent reduction to 2020 then a return to CPI + 1 per cent from 1st April 2020
Average 5 year inflation:	2.0 per cent per annum
30 year capital investment: (Current day prices)	£192,000,000

5.1 Based on current assumptions the plan is viable over the 30 year plan period and offers scope to expand through continuing to build additional homes.

5.2 The key sensitivities are:

- interest rates
- inflation
- right to buy activity
- income stream levels

5.3 The HRA has access to reserves representing approximately 47 per cent of the debt burden, higher than most similar businesses in our sector. The reserves are available to support both revenue and capital activities.

6.0 Business risks

6.1 The Localism Act 2011 introduced not only opportunities for the business, but some new risks. Mitigation measures are incorporated into the plan with others being developed – for example those relating to our development programme.

6.2 Whilst the inflation and interest rate risks are quantifiable to some extent, those flowing from the Government's reforms of the welfare system are less so and continue to present a material risk.

6.3 Early versions of the business plan reflected the prevailing HRA rent settlement which provided for an annual increase in rents of CPI plus 1 per cent. In 2016, the Government announced regulations requiring registered providers of social housing to reduce social housing rents by 1 per cent per annum for 4 years.

6.4 The Government announcement that post-2020 there would be an inflation linked rent settlement, returning to social rent policy of Consumer Price index plus 1 per cent is welcomed.

6.5 The roll-out of the Welfare Reform is continuing and presents a significant risk to the business.

6.6 Changes to make the Right to Buy scheme more attractive has increased the number of sales from the levels assumed in the Governments debt settlement model. Countering the incentives has been the economic climate and the availability of mortgage finance. High property valuations coupled with the likelihood of increasing borrowing rates is starting to impact on Right to Buy activity. Our plan reflects our latest estimate of the annual sales numbers.

6.7 As mentioned, the impact of pressures on social and health core services for tenants is increasingly evident. The cost of managing tenancies is likely to see upward pressure as we are forced to deal with situations we are less well equipped to manage.

6.8 The funding framework available to meet the cost of supported housing remains fragile. Last year we saw the Supporting People Grant reduce by £168,000 and further reductions are envisaged.

7.0 Conclusion

7.1 The business plan is a measured and robust response to the changing environment our housing business operates in.

7.2 The plan will ensure we operate a sound and viable business able to deliver our two central aims of:

- being a major social landlord that delivers high levels of tenant satisfaction but adds value to our local community
- expanding our stock to provide more affordable homes.

7.3 Using the assumptions set out in the plan, the financial model shows the business to be viable both in the short and long term and capable of supporting expansion.

7.4 A number of business risks have been identified but these are capable of being managed to minimise their impact. Naturally the future will bring both new opportunities and risks.

7.5 The senior management team are confident the business plan is sound and deliverable. The business will continue to do what it does best – provide a great added value service to our local community.

Housing Revenue Account

2019-2047 Business Plan

1.0 Introduction

1.1 Guildford Borough Council is the largest single provider of social housing in the Borough, providing homes to nearly 1 in 10 residents of our borough.

It is the largest social business run by the Council with an annual turnover of in excess of £30 million. More importantly we provide homes for some of the most vulnerable members of our local community.

1.2 The Localism Act 2011 returned control of this business back to the Council. This business plan sets out how we manage and develop our social housing business for the benefit of our local community.

1.3 The Council sees this service as central to delivering a number of its wider objectives and it attaches a high priority to the provision of affordable housing and is fully committed to delivering this plan.

2.0 What we want to achieve

2.1 Our overall mission is:

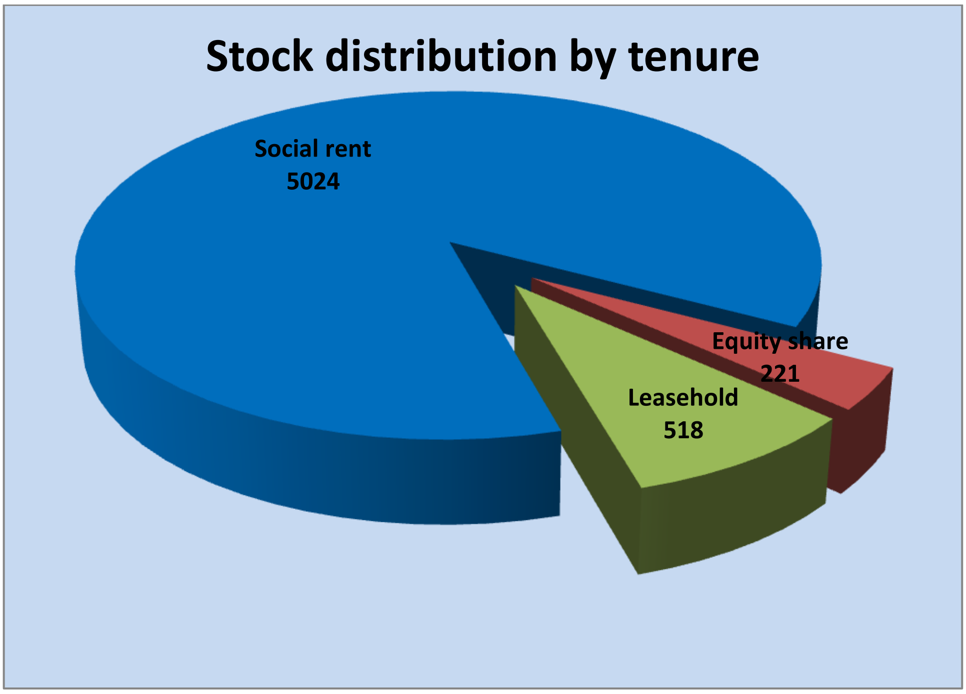
To make a positive difference to residents' lives by providing excellent services and good quality affordable homes in valued neighbourhoods.

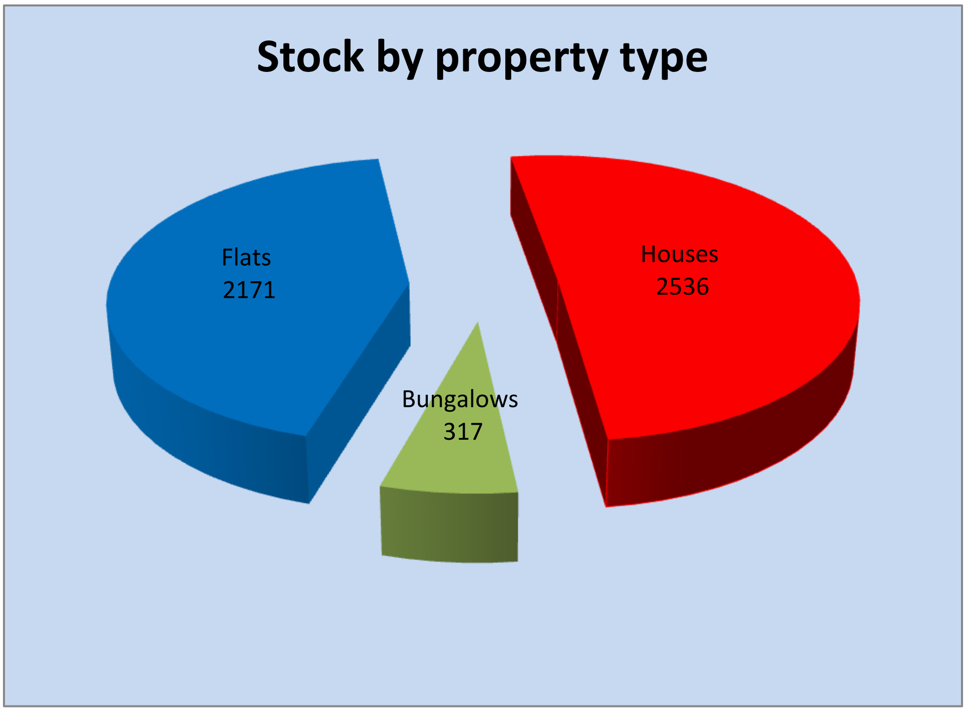
2.2 Our objectives are to:

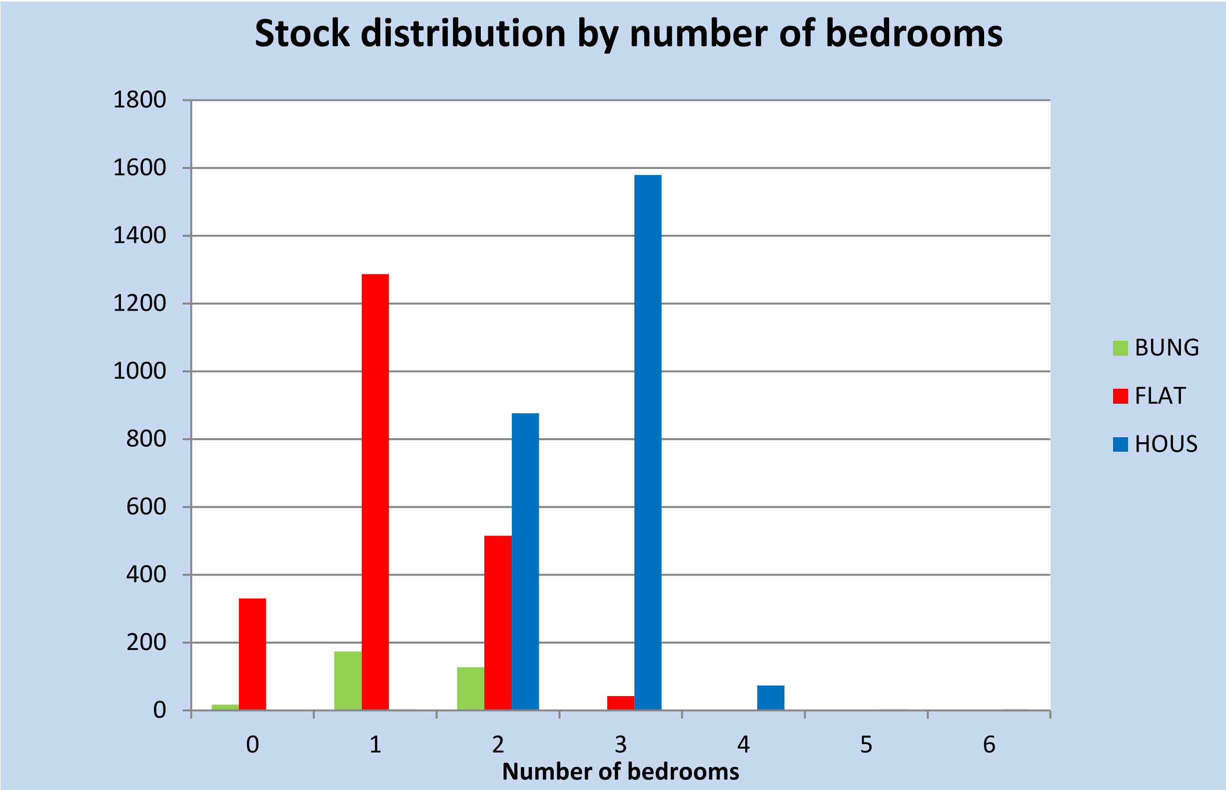
- operate a sound and viable social housing business in a professional and cost effective manner
- provide good quality homes in settled communities for as long as needed by a tenant and is consistent with our Tenancy Strategy
- continue to strengthen communities by making our estates places people value and want to live
- increase the supply of affordable homes including by direct provision where it is appropriate and viable to do so
- value and promote greater tenant involvement in decision making
- widen the range of housing options open for tenants, ensuring they are in a position to make informed choices.

3.0 **What is the business today**

3.1 We provide a range of homes across the borough under a variety of tenures. The charts below describe the stock.







3.2 The stock consists largely of low rise, post war properties with a large percentage being flats. It is largely concentrated in the urban areas around Guildford town and Ash in the west. The remainder is distributed across the more rural parts of the borough.

3.3 The Council has a strong track record in maintaining the stock as confirmed by stock condition surveys carried out in 2018. This assessed the level of decency to be in the region of 98 per cent with the cost of making the remainder decent between £100,000 and £150,000. This liability is fully covered by reserves.

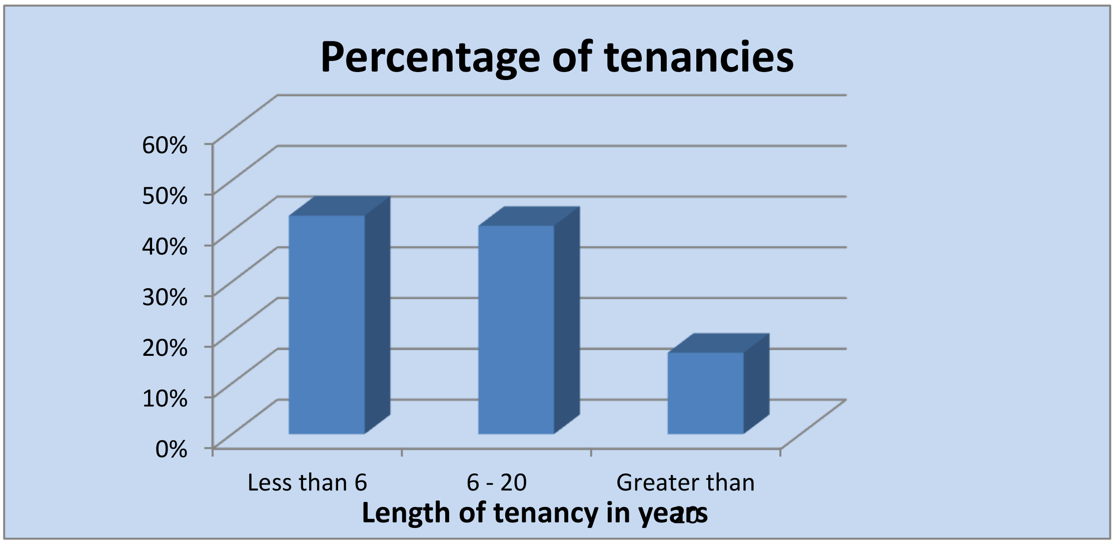
3.4 The principle need is to ensure an on-going repair and replacement programme is delivered to not only protect but enhance the existing asset base.

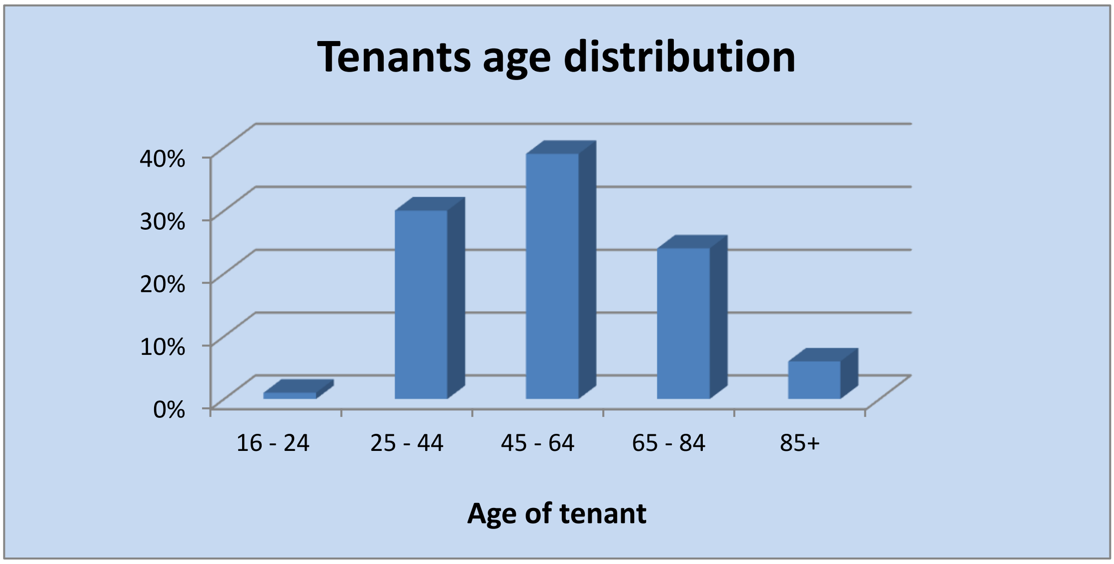
3.5 We are also a large provider of garages with over 1,700 units. This part of the business generates an income valued at around £730,000 per annum.

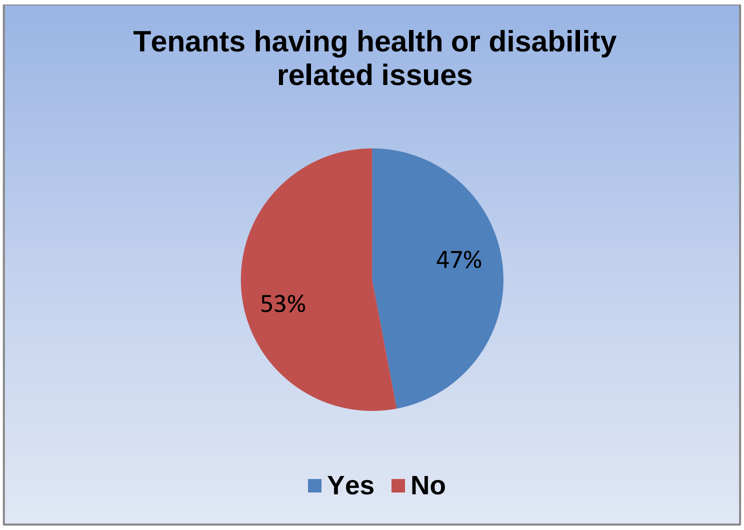
It is important therefore we maintain an investment programme for this element of our asset base.

3.6 All but our recently built properties are let and rented at social rent level. This is determined by reference to a national formula and subject to influence by the government and our regulator. Newly built properties are let at higher 'affordable rents'.

3.7 Our customer base reflects the Council's current and historic housing allocation policies and the high cost of housing in the area. The charts below detail some of the characteristics of our existing customer base based on our last survey.







4.0 **Business Environment**

4.1 All social housing providers operate in an increasingly complex and challenging environment. We are a registered provider and are subject to regulation by the Homes and Communities Agency.

4.2 **National policy:** The nature and delivery of social housing is critical to a variety of national social and economic policies. Each government has its own agenda and policy objectives which social housing needs to contribute towards.

Whilst the current Government continues to see home ownership as its preference, there is an increasing acceptance that for a significant proportion of the population this is out of reach. Investment and policy initiatives are becoming more supportive to the social housing sector.

The decision to relax the HRA borrowing restriction is evidence of the policy shift.

4.3 There is continued reliance on the model that relies on charging higher rents partly funded through the housing benefit system – the affordable rent model. However the sector has increasing concerns on how truly affordable it is for many.

4.4 The Government's announcement to lift the borrowing restriction is welcomed. We feel however it could go further in relaxing the restrictions on the use of receipts from the sale of council houses under the national Right to Buy scheme.

4.5 The government see increasing house building as one of the ways to address housing need and generate economic growth and want local councils to contribute towards this objective. Our HRA has capacity to support additional borrowing and we recently bid to have our borrowing limit raised for a specific project this has been overtaken by the announcement to lift borrowing restrictions more generally.

4.6 **Regulation:** The importance of housing to the lives of the tenants coupled with the level of national subsidy and lack of effective competition makes it inevitable our business is subject to regulation. The national regulatory framework issued by the Homes and Communities Agency (HCA) sets out the regulatory requirements we must meet.

4.7 The framework, last revised in 2018, has moved us towards a system of self-regulation. A summary of the framework is set out in Annexe 2. It requires us to place our tenants at the heart of the process, something we and the Tenants' Action Group welcome. The HCA are considering revising the standard to ensure adequate separation of commercial activities, which might threaten the viability of the core regulated business.

4.8 Aligning the interests of the business with that of our existing and future tenants will contribute towards long-term sustainability.

4.9 **Demand:** We operate in an area with an extremely high cost of housing. In the borough's relatively expensive housing market Hometrack are saying that the average price of a two bedroom house is around £380,00. Yet over 75 per cent of residents in the borough have a total household income of less than £50,000. This means that even with a substantial fall in house prices or a sizeable increase in income, a significant proportion of local people would be unable to afford to buy a house on the open market.

4.10 Using the housing needs register as a proxy for the demand for social housing shows how far we are unable to meet current demand. The chart below illustrates this with reference to the lettings activity last year.

Insert

There is a high likelihood that demand for social housing in this Borough will continue to exceed supply for the life of this business plan.

4.11 Whilst some stock over time will become increasingly difficult to let because of its configuration this will only affect a small proportion of the stock – less than 10 per cent.

4.12 Financial environment: We operate in a very different financial environment to that which existed before the HRA debt settlement, one with a greater business focus.

4.13 The business operates with an overhanging debt of £197 million; this debt is financed largely through a range of loans from the Public Works Loan Board (PWLB) together with some internal borrowing. The loans are a blend of fixed and variable rate instruments with varying refinancing periods.

The debt has been structured to minimise cost, balancing a need to maintain flexibility whilst at the same time achieving a large degree of cost certainty.

4.14 Business operating costs will be met from the rental stream. Rental cover provides sufficient comfort on our ability to meet our debt obligations.

4.15 Approximately 50 per cent of our income stream is reliant on the housing benefit subsidy system. This ratio has remained fairly constant over the last 10 years and is unlikely to reduce.

The Government maintains tight control on its exposure to this cost, through a series of complex measures. It is the stated aim of the government to contain the national housing benefit bill and is something we need to be very aware of looking ahead.

4.16 Asset base: Historically our asset base has shrunk, through a combination of Right to Buy disposals and previous stock rationalisation programmes. Each property we own not only contributes towards the cost of debt and our other operating costs but also generates a surplus over time.

Our ambitions to develop new homes is starting to reverse this trend.

5.0 Our priorities

5.1 Against the background of the objectives set out above the following priorities have been identified for our business:

- protecting the income stream and reducing unnecessary costs
- protecting the asset base
- delivering additional homes
- delivering stronger communities
- maintaining high satisfaction levels with core landlord services.

In order to deliver against these priorities the business will continue to focus tightly on controlling all our expenditure, including the costs associated with our debt to ensure we remain viable in these difficult economic circumstances.

Each is briefly considered below.

5.2 **Income stream:** It is vital we protect our income stream if we are to sustain a viable business. With over 90 per cent coming from rents this will be the main focus.

5.3 To safeguard our income stream we will:

- continue to promote and increase awareness of the changes arising from welfare reform
- ensure sufficient and adequate financial advice is available to our tenants both directly and by working in partnership with third sector agencies
- implement measures to help mitigate fuel poverty
- continue to provide financial and practical assistance by working with partner organisations to support tenants
- explore additional income streams including through a system of fairer charging for some of the services we provide and providing management services to others including North Downs Housing Ltd
- continue our development programme
- closely monitor the risks outlined in Section 8.

At the same time the business will continue to tightly focus on controlling all our expenditure, including the costs associated with the debt to ensure we remain viable.

5.4 **Protecting the asset base:** Though the demand for social housing is high in the borough some properties are in less demand. We have addressed this through an ongoing stock rationalisation programme – the redevelopment scheme at Ladymead, Guildford being the most recent examples.

5.5 It is important we ensure our properties and associated neighbourhoods remain attractive as measured by the ability to let. We need to maintain the properties in a manner that achieves the greatest return on our investment.

5.6 We will protect the asset base by implementing our asset management strategy which in summary is:

- fully funding and delivering a planned preventative maintenance programme to prevent early component failures
- fully funding and delivering a responsive maintenance programme that ensures minor defects do not lead to further avoidable expenditure
- ensuring we have accurate and appropriate stock data information to enable informed decisions to be made on stock maintenance

- ensuring our capital replacement and improvement programmes are correctly targeted at the right time
- implementing timely stock rationalisation programmes where properties are reaching the end of their economic life or become hard to let.

5.7 **Delivering additional homes:** The need for additional affordable homes has been identified by the local community as being one of its top priorities. The Council has acknowledged this by making it one of its key delivery targets. Our development strategy is set out in Annexe 4.

HRA reform has created opportunities to provide new affordable homes and has allowed us to embark on a new development programme. Since HRA reform, the HRA has delivered 92 new homes and has a further 30 under construction. A further 400 are planned to be completed in the next 5 years subject to land availability.

5.8 We will continue to structure our business to best place us to deliver additional affordable homes. We will do this by:

- creating financial capacity through our revenue streams to support development whilst protecting existing assets and services
- using appropriate delivery mechanisms to achieve the best value solution
- identifying viable redevelopment opportunities across both the HRA portfolio and the wider Council's property estate with a view to adding to the Council's stock of affordable housing
- using a range of models to deliver the most affordable housing we can – this is likely to involve not only social rent but affordable rent models and working with North Downs Housing Ltd on a joint venture basis.

5.9 The HRA development strategy sets a target of delivering at least 200 new homes on Council owned land by 2022.

5.10 **Delivering stronger communities:** We are very much a social business and intend to be much more than just a residential landlord. We will continue providing considerable added value through a range of measures.

5.11 We will help communities to become stronger by promoting and developing the range of opportunities our tenants have to be involved in decision making in a way that suits them:

- developing tenant co-regulation of the business
- supporting the development of the Tenants' Action Group
- increasing opportunities for active tenant participation in service delivery through a range of initiatives
- engaging with initiatives designed to get people back into work
- working in partnership with the Community Wellbeing Team to support and develop grassroots community projects.

5.12 **Maintaining core landlord services:** Our tenants rightly expect high standards from the landlord services team in return for the rent they pay. Our reputation as a good landlord is important to us and we are judged daily through the quality of the service we provide.

5.13 Though demand for social housing is high there are other alternative providers in the borough. With over 2,500 units, a range of other registered providers offer alternative options for tenants. It is important we appeal to a wide range of potential tenants to enable us to deliver sustainable and vibrant neighbourhoods.

5.14 We will continue to deliver good quality services, aiming to achieve increasing levels of tenant satisfaction. We will do this by:

- agreeing service standards with tenants and delivering services in the best way to meet those standards
- maintaining a strong focus on customer service and subject ourselves to regular scrutiny by our tenants
- meeting our financial targets to allow us to fund core landlord services to enable our services to be properly delivered
- demanding from our contractors and service suppliers the same commitment to customer service that we expect of ourselves.

6.0 Financial plan

6.1 From April 2012 key elements of our financial strategy changed. Total HRA borrowing now stands at £197 million. Additional borrowing is envisaged.

6.2 The plan is built around the need to manage this debt whilst at the same time delivering our business objectives. In order to assure ourselves on the long term viability of the business a 30 year financial model has been constructed.

6.3 **Key assumptions:** The model has been constructed using a number of assumptions. The most important are set out in the table below:

Item	Assumption
Opening stock	5,221 units of accommodation
HRA debt	£197 Million
Borrowing rate 2019-20	3.16%
Annual rent change	Reduction of 1% to April 2020 then return to CPI plus 1 per cent
Rent change mechanism	DCLG settlement
Garage income increase	Relevant to market, resistance assumed 1%
Bad debt provision 2019-20	£300,000 (Reviewed annually to ensure

Item	Assumption
	reasonableness)
Void rate	1%
Service charge increases	Linked to inflation on repair and maintenance headings
RTB	25/yr
Retained receipt	Held in reserves
HRA ring fence	Policy of strong ring fence continues
Debt repayment	No provision has been made for the repayment of debt
Operating balance	£2.5 million
30 yr capital investment (Current day prices)	£192 million
Service cost inflation	2.5% per annum for 10 year period

6.4 Inevitably, the further we look ahead the reliability of the model outputs reduce. The table below sets out our revenue projections over the next 10 years.

Updated table to be follow

HOUSING REVENUE ACCOUNT PROJECTIONS 2015-16 to 2024-25 (includes approved new build schemes) **TABLE 1**

Guildford Borough Council

Year	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
£'000										
INCOME:										
Rental Income	-29,950	-30,690	-31,780	-32,910	-34,080	-35,280	-36,520	-37,810	-39,140	-40,510
Service Charges	-968	-1,000	-1,030	-1,060	-1,090	-1,120	-1,150	-1,180	-1,220	-1,260
Non-Dwelling Income	-1,118	-1,130	-1,140	-1,150	-1,160	-1,170	-1,180	-1,190	-1,200	-1,210
Grants & Other Income	-641	-530	-530	-440	-440	-370	-370	-310	-310	-260
Total Income	**-32,677**	**-33,350**	**-34,480**	**-35,560**	**-36,770**	**-37,940**	**-39,220**	**-40,490**	**-41,870**	**-43,240**
EXPENDITURE:										
General Management	3,404	3,520	3,640	3,770	3,900	4,040	4,180	4,330	4,480	4,640
Special Management	2,001	2,070	2,140	2,210	2,290	2,370	2,450	2,540	2,630	2,720
Other Management	336	350	360	370	380	400	420	440	460	480
Bad Debt Provision	150	150	275	300	300	300	300	300	300	300
Responsive & Cyclical Repairs	5,072	5,300	5,540	5,820	6,110	6,420	6,740	7,080	7,430	7,800
Total Revenue Expenditure	**10,963**	**11,390**	**11,955**	**12,470**	**12,980**	**13,530**	**14,090**	**14,690**	**15,300**	**15,940**
Interest Paid & Administration	5,250	5,275	5,300	5,350	5,400	5,450	5,500	6,250	6,750	7,250
Interest Received	-262	-485	-755	-925	-1,100	-1,300	-1,500	-1,700	-1,900	-2,100
Depreciation	5,678	5,960	6,260	6,570	6,900	7,250	7,610	7,990	8,390	8,810
Net Operating Income	**-11,048**	**-11,210**	**-11,720**	**-12,095**	**-12,590**	**-13,010**	**-13,520**	**-13,260**	**-13,330**	**-13,340**
APPROPRIATIONS:	0	0	0	0	0	0	0	0	0	0
Revenue Contribution to Reserves	10,973	11,135	11,645	12,020	12,515	12,935	13,445	13,185	13,255	13,265
Revenue Contribution to Capital	75	75	75	75	75	75	75	75	75	75
Total Appropriations	**11,048**	**11,210**	**11,720**	**12,095**	**12,590**	**13,010**	**13,520**	**13,260**	**13,330**	**13,340**

6.5 A key factor driving our debt management and treasury management strategies is the objective to increase the stock. This will require substantial capital investment over the 30 year plan life over and above our need to maintain and improve the existing stock.

In order to finance this investment physical debt repayment will attract a lower priority. This in turn has influenced the financing structure used to support the business. With this in mind some of the debt instruments stretch over the 30 year plan period. The table below sets out our current loan portfolio.

Loan Type	Principal	Remaining Period	Rate
Variable	£45,000,000	4	0.92%
Fixed	£2,070,000	3	3.60%
Fixed	£10,000,000	6	2.70%
Fixed	£10,000,000	7	2.80%
Fixed	£10,000,000	8	2.92%
Fixed	£10,000,000	9	3.01%
Fixed	£25,000,000	11	3.15%
Fixed	£25,000,000	14	3.30%
Fixed	£25,000,000	19	3.44%
Fixed	£15,000,000	23	3.49%
Fixed	£17,435,000	24	3.50%

6.6 It is difficult to predict with certainty many of the factors used to construct the model. We have therefore identified the key sensitivities for the business.

These are set out below: (to be updated after revision of table 1 above)

Assumption	**Change**	**Impact - 10 yr cashflow**
Rent inflation rate	+ 1% -1%	£16.8 million increase £16.0 million decrease
Revenue cost inflation	+1% -1%	£6.3 million decrease £5.9 million increase
Borrowing rate	+1%	£4.5 million decrease

Assumption	Change	Impact - 10 yr cashflow
	-1%	£4.5 million increase
Right to Buy sales (income from rent foregone)	+15/yr +30/yr	£4.5 million decrease £9.0 million decrease

Note (i) the calculation is predicated on the lost rental income for each property based on a mid-year sale, against which a small allowance has been made to reflect a saving against maintenance costs. The implications around capital receipts would be separately assessed and tied into the priorities of the business plan.

In practice it is unlikely each factor will change in isolation which may mitigate the impact. For example investment cost inflation is likely to generate an increase in the Consumer Price Index which in turn will feed into high rent increases.

6.7 Any significant impacts from changes in the economic environment will form part of the information used to produce the annual estimates.

6.8 The plan has been constructed on the basis that we will fully fund our existing revenue and capital commitments as the first priority. The plan allows for some enhancement to existing services.

6.9 The areas being proposed for 2019-20 include:

- improving the physical environment on some of our estates through an environmental improvements programme
- increasing funding to deal with communal cleaning improvements and measures to support tenants with the introduction of universal credit

Whilst we continue to seek increased efficiencies, some additional investment will be needed and priority will continue to be given enhancing services to existing tenants as we further develop the plan.

6.10 It has been assumed income collection rates will remain strong. Inevitably the economic climate coupled with the Welfare Reform changes, including universal credit, is likely to lead to increasing arrears and ultimately bad debts. A steady increase in the provision has been made over the last five years based on our best estimate. At this point the impact cannot be forecast with any certainty.

6.11 Depreciation represents a real charge to the operating account. This allowance will be used to support the major capital works programme. Under this plan we commit to making appropriate provision to do so. A charge of £5,528,730 million has been included in the 2019-20 estimates.

6.12 Based on current projections over the 30 year plan period we need to spend in the region of £192 million (current day prices) maintaining and improving the stock. The plan as currently structured is affordable.

6.13 **HRA reserves:** The HRA through a combination of tight control of the business and the policy not to repay debt has built-up significant reserves. This approach gives us options and greater flexibility than would otherwise have been the case, not only in terms of service delivery but in how we manage our debt.

6.14 In the short term our reserves will and have been used to support our latest development programme target of 425 units by 2025. The removal of the HRA borrowing restriction offers us the opportunity to increase the scale of our development programme and to consider reviewing our rent setting policy on our new developments.

6.15 Shown below are the cumulative reserves which can be used to support the business plan – they reflect however only approved new build projects and the decision not to repay debt :

Year ending	Reserve for future capital works	Major repairs reserve	New Build Reserve	**Total**	Usable capital receipts	Usable Capital Receipts (one-for-one receipts) 1	Usable Capital Receipts (HRA debt repayment)	**Total usable capital receipts**	**Total reserves/ receipts**
	£000	£000	£000	**£000**	£000	£000	£000	**£000**	**£000**
Mar-19	33,329	9,032	45,860	**88,221**	6,760	6,524	4,300	**17,584**	**105,805**
Mar-20	35,829	9,061	52,743	**97,633**	0	8,471	4,961	**13,432**	**111,065**
Mar-21	38,329	9,061	55,349	**102,739**	0	8,594	5,644	**14,238**	**116,977**
Mar-22	40,829	9,061	57,846	**107,736**	0	8,674	6,349	**15,023**	**122,759**
Mar-23	43,329	9,061	65,873	**118,263**	0	11,128	7,077	**18,205**	**136,468**
Mar-24	45,829	9,061	74,794	**129,684**	(397)	13,969	7,829	**21,401**	**151,085**

Note (i) The figure for usable capital receipts assumes the redevelopment only. Schemes in the pipeline as approved will reduce these balances

(ii) Future development projects will be funded from a mix of the new build reserve, capital receipts, and additional borrowing as appropriate.

(iii) No allowance has been made for repayment of debt

(iv) It is intended to maintain the amount held in HRA operating balances at £2.5 million to reflect the ongoing risk of rent arrears in the difficult economic climate.

6.16 Whilst the table shows a significant accumulation of reserves, it makes no allowance for the repayment of debt or the need to fund further development schemes in the pipeline. Further opportunities will present themselves over the next few years and these will need to be partially funded from the reserves set out above. The level of reserves will be kept under review in the context of the evolving development programme along with the anticipated pressures on the revenue account.

6.17 Following changes introduced by the Government in October 2013 future HRA generated capital receipts must be used for HRA purposes only.

6.18 **Affordable rents:** These are rents set at up to 80 per cent of local market rents and therefore place a greater burden on the Housing Benefit system. Local authorities developing new properties for rent will, subject to both the Homes and Communities Agency and Department of Works and Pension agreement, be able to charge affordable rents. Any consent will be on a scheme by scheme basis.

6.19 The plan assumes that new schemes will be let at 70 per cent of local market rents or at the local housing allowance, whichever is the lower.

Each development will be subject to an individual project appraisal before any firm commitment is made.

We are increasingly aware that affordable rents are, to some on very low incomes, financially, very challenging. This is particularly so on the larger properties. Now, with the option to borrow, we will consider on a site by site basis whether rents below the 70% limit can be charged whilst still ensuring the project remains viable.

6.20 **Operating costs:** When benchmarked against other providers, we generally fall into upper or mid quartile levels. Scope to achieve substantial cost reductions is limited. The plan therefore has been prepared on the basis it is not reliant on unpredictable future possible savings and no savings have been factored into the plan at this stage.

6.21 As a matter of ongoing policy the practise of maintaining a downward pressure on costs will continue through reviews to ensure services are delivered in the most cost effective way.

6.22 **Operating balances:** The model projects over the next five years, that net operating income will be positive. Whilst it does include the additional income from new developments, it makes no provision for debt repayment.

6.23 Any surpluses will be used to support either future year’s revenue services or the major capital schemes, unless the financial environment makes debt repayment essential.

7.0 **Operating policies**

7.1 A range of operating policies and strategies have/are being reviewed. These include:

- Rental policy – under review
- Asset management strategy
- Tenancy policy
- Tenancy engagement strategy
- Development strategy

7.2 The plan has been prepared on the assumption the existing policies remain unchanged. In practise this will not be the case as we seek to take advantage of any opportunities the new environment provides to improve and grow our business.

8.0 **Business risks**

8.1 Though the reform offers exciting opportunities for the business in the future, the changing environment continues to present a series of business risks. In some cases we are well placed to manage the risk, others lie largely outside our control.

The main risks identified are set out below:

8.2 **Inflation:** The subsidy system to some degree isolated the HRA from the effects of inflation, even though it did not seem that way. Our rental stream from 1st April 2020 will once again be linked to the Consumer Price Index (CPI) prevailing in September. Expenditure on the other hand is not so tightly linked.

8.3 During a volatile period we could face significantly different inflation rates for expenditure and income. A low CPI in September coupled with a high average cost inflation figure for the year is a realistic scenario and would place strain on the plan if it continued for a number of years.

8.4 We recognise that construction related costs were constrained during the recession but inflation pressures are evident across the sector. The impact of Brexit is already seen in the availability of skilled labour. Commodity and material prices are more subject to global influences and have continued to steadily rise.

8.5 **Interest rates:** The annual interest cost is estimated to be £5.14 million for 2019-20. The £45 million of variable rate loans is subject to a six monthly interest rate reset. A movement of 1 per cent would result in an additional charge to the revenue account of £450,000.

Subsequent interest rate risks will largely be mitigated by an effective treasury management strategy.

Our borrowing strategy insulates the HRA from interest rate volatility on 75 per cent of the fixed debt portfolio. However there remains a refinancing risk, assuming the debt is not repaid when it falls due, which is difficult to quantify.

8.6 **Welfare reform:** The government's stated objectives include:

- reducing the national cost of the welfare system
- ensuring the benefit system does not act as a disincentive to work
- placing greater responsibility on individuals.

8.7 Universal Credit is now in place for new claimants and those having a material change in circumstances. The transition date for existing claimants remains uncertain. The current scheme creates a risk that some of our tenants face reductions in their benefits and therefore ability to pay their rent. Older tenants are to be largely protected which will mitigate any short term impact. With around 50 per cent of our income being met via the Housing Benefit system any changes to it are a potential threat to our income stream.

8.8 The biggest risk continues to be direct payment to tenants rather than social landlords. This returns us to the position we were in before the direct payments to landlords were introduced. Collection costs will increase along with debt management costs. Additional investment, over that already made, in financial advisory and debt support services may be necessary to counter the risk to our income stream. Across the country areas have seen significantly different results. The common theme however is that all have seen some reduction in rent collection rates.

8.9 **Right to Buy:** Right to Buy disposals had always been identified as a business risk.

8.10 Unit overheads increase with each sale, compounding the adverse financial impact. Based on current RTB activity the plan assumes limited impact in the short term from the revised Right to Buy scheme.

8.11 **Regulatory environment:** The regulatory environment has changed considerably since its introduction in 2009. The burden of external inspection has been reduced and replaced by self-regulation which is to be welcomed. This position could of course reverse.

It is reasonably foreseeable that the regulator will be obliged to reflect future government policies, placing additional investment obligation on our business. Maintaining adequate reserves will help mitigate this risk.

8.12 Rent setting across the sector to a large degree remains in the hands of the government and the regulator. The business plan is based on rents increasing by CPI + 1 per cent annually. It is unclear when or if rent convergence will be allowed post 2020.

With national government meeting over half of the cost, they have little incentive to change the rent charge formulae so as to increase rents. Whilst it has been stated they have no intention to do so, it remains to be seen that this position is left unchanged over the 30 year plan period.

The government has ended the convergence process by which let properties reach formula rents. Convergence will now be achieved only when a property is relet. We anticipate having around 2,100 properties below their formula rent at the end of the convergence period. If all properties moved immediately to their formula rent, then we would generate additional in rental income. However, we cannot predict with any certainty when the additional income might be received so our projections do not take account of such income. The maximum income that could be achieved is in the region of £300,000.

8.13 To mitigate the risks to our rental income stream, alternative income streams will be explored, though we have to recognise the scope to make a material contribution is very limited. The HRA team now provide management services to North Downs Housing in return for a fee charged as a proportion of the rent.

8.14 **Governance:** We now have greater control of the business in our hands. The Council, despite the degree of central Government control, has always managed the service on business lines.

The Executive has committed itself to continue managing the service as a business imposing clear financial discipline. Though it has a strong desire to expand the stock, it has in place appropriate governance structures to prevent the business becoming over-stretched or unduly exposed to avoidable risks.

8.15 Tenants, through the Tenants' Action Group, form part of the scrutiny process to ensure identified risks are properly managed.

8.16 Further risks such as further reform of the HRA or reopening of the settlement by the government do exist but these largely remain outside our control. It is important we closely monitor the political environment so we can respond at the earliest opportunity.

Appendices

Annexe 1: Geographical property distribution

Annexe 2: Regulatory Framework extract

Annexe 3: Key business indicators

Annexe 4: HRA Development Strategy

Annexe 1

Geographical property distribution

Area	General Needs	Sheltered
Albury	24	0
Artington	9	0
Ash	223	61
Ash Vale	63	0
Bellfields (North And South)	696	0
Burpham (Misc) Inc Gosden Hill Estate	63	0
Charlottville	32	0
Chilworth	130	37
Compton	53	0
East Horsley	37	31
Effingham	12	0
Gomshall	38	0
Guildford Park (Estate)	166	71
Holmbury St Mary	15	0
Hurtmore	29	0
Merrow 1	189	0
Merrow 2	143	0
Normandy	96	0
Park Barn	647	0
Peaslake	21	0
Pirbright	30	0
Puttenham	25	0
Ripley	82	0
Seale	3	0
Send	117	0
Shalford	50	0
Shepherds Hill	122	0
Shere	14	0
Slyfield	184	0
Stoke	105	0
Stoughton	8	0
The Mount	66	27
Tilehouse	65	39
Tongham	206	0
Town Centre	165	0
West Clandon	69	0
West Horsley	55	0
Westborough (Estate)	535	0
Wood Street	129	0
Worplesdon	35	0
TOTALS	**4,751**	**266**

Standards for registered providers **Annexe 2**

Extract from Regulatory Framework

This section sets out the standards[1] that will apply from 1 April 2012 to registered providers. It also sets out the products on which standards apply.

Consumer standards

These standards apply to all registered providers. Providers' boards and councillors are responsible for ensuring their organisation meets the consumer standards. The regulator's role is limited to setting the consumer standards and intervening only where failure of the standard could lead to risk of serious harm to tenants (the 'serious detriment test') as described in chapter five.

Tenant Involvement and Empowerment standard

1 Required outcomes

1.1 Customer service, choice and complaints

1.1.1 Registered providers shall:

a. provide choices, information and communication that is appropriate to the diverse needs of their tenants in the delivery of all standards

b. have an approach to complaints that is clear, simple and accessible that ensures that complaints are resolved promptly, politely and fairly.

1.2 Involvement and empowerment

1.2.1 Registered providers shall ensure that tenants are given a wide range of opportunities to influence and be involved in:

a. the formulation of their landlord's housing-related policies and strategic priorities

b. the making of decisions about how housing-related services are delivered, including the setting of service standards

c. the scrutiny of their landlord's performance and the making of recommendations to their landlord about how performance might be improved

d. the management of their homes, where applicable

e. the management of repair and maintenance services, such as commissioning and undertaking a range of repair tasks, as agreed with landlords, and the sharing in savings made, and

f. agreeing local offers for service delivery.

1.3 Understanding and responding to the diverse needs of tenants

[1] Sections 193 and 194 of the Housing and Regeneration Act 2008.

1.3.1 Registered providers shall:

a. treat all tenants with fairness and respect

b. demonstrate that they understand the different needs of their tenants, including in relation to the equality strands and tenants with additional support needs.

2 Specific expectations

2.1 Customer service, choice and complaints

2.1.1 Registered providers shall provide tenants with accessible, relevant and timely information about:

a. how tenants can access services

b. the standards of housing services their tenants can expect

c. how they are performing against those standards

d. the service choices available to tenants, including any additional costs that are relevant to specific choices

e. progress of any repairs work

f. how tenants can communicate with them and provide feedback

g. the responsibilities of the tenant and provider

h. arrangements for tenant involvement and scrutiny.

2.1.2 Providers shall offer a range of ways for tenants to express a complaint and set out clear service standards for responding to complaints, including complaints about performance against the standards, and details of what to do if they are unhappy with the outcome of a complaint. Providers shall inform tenants how they use complaints to improve their services. Registered providers shall publish information about complaints each year, including their number and nature, and the outcome of the complaints. Providers shall accept complaints made by advocates authorised to act on a tenant's/tenants' behalf.

2.2 Involvement and empowerment

2.2.1 Registered providers shall support their tenants to develop and implement opportunities for involvement and empowerment, including by:

a. supporting their tenants to exercise their Right to Manage or otherwise exercise housing management functions, where appropriate

b. supporting the formation and activities of tenant panels or equivalent groups and responding in a constructive and timely manner to them

c. the provision of timely and relevant performance information to support effective scrutiny by tenants of their landlord's performance in a form which registered providers seek to agree with their tenants. Such provision must include the publication of an annual report which should include information on repair and maintenance budgets

d. providing support to tenants to build their capacity to be more effectively involved.

2.2.2 Registered providers shall consult with tenants on the scope of local offers for service delivery. This shall include how performance will be monitored, reported to and scrutinised by tenants and arrangements for reviewing these on a periodic basis.

2.2.3 Where registered providers are proposing a change in landlord for one or more of their tenants or a significant change in their management arrangements, they shall consult with affected tenants in a fair, timely, appropriate and effective manner. Registered providers shall set out the proposals clearly and in an appropriate amount of detail and shall set out any actual or potential advantages and disadvantages (including costs) to tenants in the immediate and longer term. Registered providers must be able to demonstrate to affected tenants how they have taken the outcome of the consultation into account when reaching a decision.

2.2.4 Registered providers shall consult tenants at least once every three years on the best way of involving tenants in the governance and scrutiny of the organisation's housing management service.

2.3 Understanding and responding to diverse needs

2.3.1 Registered providers shall demonstrate how they respond to tenants' needs in the way they provide services and communicate with tenants.

Home standard

1 Required outcomes

1.1 Quality of accommodation

Registered providers shall:

(a) ensure that tenants' homes meet the standard set out in section five of the Government's Decent Homes Guidance[2] and continue to maintain their homes to at least this standard

(b) meet the standards of design and quality that applied when the home was built, and were required as a condition of publicly funded financial assistance[3],

[2] 'Decent Homes Guidance' means A Decent Home: Definition and Guidance for Implementation, published by the Department for Communities and Local Government in June 2006, and any guidance issued by the department or its successors, in relation to that document.

[3] 'Financial assistance' is assistance given by the Homes and Communities Agency (HCA) under section 19(3) of the Housing and Regeneration Act, 2008; and (with effect from 1 April 2012) given by the Greater London Authority (GLA). For the purpose of this standard, it includes financial assistance provided by predecessor bodies to the HCA.

if these standards are higher than the Decent Homes Standard

(c) in agreeing a local offer, ensure that it is set at a level not less than these standards and have regard to section six of the Government's Decent Homes Guidance.

1.2 Repairs and maintenance

Registered providers shall:

(a) provide a cost-effective repairs and maintenance service to homes and communal areas that responds to the needs of, and offers choices to, tenants, and has the objective of completing repairs and improvements right first time

(b) meet all applicable statutory requirements that provide for the health and safety of the occupants in their homes.

2 Specific expectations

2.1 Quality of accommodation

2.1.1 Registered providers may agree with the regulator a period of non-compliance with the Decent Homes Standard, where this is reasonable. Providers shall ensure their tenants are aware of the reasons for any period of non-compliance, their plan to achieve compliance and then report on progress delivering this plan.

2.2 Repairs and maintenance

2.2.1 Registered providers shall ensure a prudent, planned approach to repairs and maintenance of homes and communal areas. This should demonstrate an appropriate balance of planned and responsive repairs, and value for money. The approach should include: responsive and cyclical repairs, planned and capital work, work on empty properties, and adaptations.

2.2.2 Registered providers shall co-operate with relevant organisations to provide an **adaptations service that meets tenants' needs.**

Tenancy standard

1 Required outcomes

1.1 Allocations and mutual exchange

1.1.1 Registered providers shall let their homes in a fair, transparent and efficient way. They shall take into account the housing needs and aspirations of tenants and potential tenants. They shall demonstrate how their lettings:

(a) make the best use of available housing

(b) are compatible with the purpose of the housing

(c) contribute to local authorities' strategic housing function and sustainable communities

There should be clear application, decision-making and appeals processes.

1.1.2 Registered providers shall enable their tenants to gain access to opportunities to exchange their tenancy with that of another tenant, by way of internet-based mutual exchange services.

1.2 Tenure

1.2.1 Registered providers shall offer tenancies or terms of occupation which are compatible with the purpose of the accommodation, the needs of individual households, the sustainability of the community, and the efficient use of their housing stock.

1.2.2 They shall meet all applicable statutory and legal requirements in relation to the form and use of tenancy agreements or terms of occupation.

2 Specific expectations

2.1 Allocation and mutual exchange

2.1.1 Registered providers shall co-operate with local authorities' strategic housing function, and their duties to meet identified local housing needs. This includes assistance with local authorities' homelessness duties, and through meeting obligations in nominations agreements.

2.1.2 Registered providers shall develop and deliver services to address under-occupation and overcrowding in their homes, within the resources available to them. These services should be focused on the needs of their tenants, and will offer choices to them.

2.1.3 Registered providers' published policies shall include how they have made use of common housing registers, common allocations policies and local letting policies.

Registered providers shall clearly set out, and be able to give reasons for, the criteria they use for excluding actual and potential tenants from consideration for allocations, mobility or mutual exchange schemes.

2.1.4 Registered providers shall develop and deliver allocations processes in a way which supports their effective use by the full range of actual and potential tenants, including those with support needs, those who do not speak English as a first language and others who have difficulties with written English.

2.1.5 Registered providers shall minimise the time that properties are empty between each letting. When doing this, they shall take into account the circumstances of the tenants who have been offered the properties.

2.1.6 Registered providers shall record all lettings and sales as required by the Continuous Recording of Lettings (CORE) system.

2.1.7 Registered providers shall provide tenants wishing to move with access to clear and relevant advice about their housing options.

2.1.8 Registered providers shall subscribe to an internet based mutual exchange service (or pay the subscriptions of individual tenants who wish to exchange), allowing:

(a) a tenant to register an interest in arranging a mutual exchange through the mutual exchange service without payment of a fee

(b) the tenant to enter their current property details and the tenant's requirements for the mutual exchange property they hope to obtain

(c) the tenant to be provided with the property details of those properties where a match occurs

2.1.9 Registered providers shall ensure the provider of the internet based mutual exchange service to which they subscribe is a signatory to an agreement, such as HomeSwap Direct, under which tenants can access matches across all (or the greatest practicable number of) internet based mutual exchange services.

2.1.10 Registered providers shall take reasonable steps to publicise the availability of any mutual exchange service(s) to which it subscribes to its tenants.

2.1.11 Registered providers shall provide reasonable support in using the service to tenants who do not have access to the internet.

2.2 Tenure

2.2.1 Registered providers shall publish clear and accessible policies which outline their approach to tenancy management, including interventions to sustain tenancies and prevent unnecessary evictions, and tackling tenancy fraud, and set out:

(a) The type of tenancies they will grant.

(b) Where they grant tenancies for a fixed term, the length of those terms.

(c) The circumstances in which they will grant tenancies of a particular type.

(d) Any exceptional circumstances in which they will grant fixed term tenancies for a term of less than five years in general needs housing following any probationary period.

(e) The circumstances in which they may or may not grant another tenancy on the expiry of the fixed term, in the same property or in a different property.

(f) The way in which a tenant or prospective tenant may appeal against or complain about the length of fixed term tenancy offered and the type of tenancy offered, and against a decision not to grant another tenancy on the expiry of the fixed term.

(g) Their policy on taking into account the needs of those households who are vulnerable by reason of age, disability or illness, and households with children, including through the provision of tenancies which provide a reasonable degree of stability.

(h) The advice and assistance they will give to tenants on finding alternative accommodation in the event that they decide not to grant another tenancy.

(i) Their policy on granting discretionary succession rights, taking account of the needs of vulnerable household members.

2.2.2 Registered providers must grant general needs tenants a periodic secure or assured (excluding periodic assured shorthold) tenancy, or a tenancy for a minimum fixed term of five years, or exceptionally, a tenancy for a minimum fixed term of no less than two years, in addition to any probationary tenancy period.

2.2.3 Before a fixed term tenancy ends, registered providers shall provide notice in writing to the tenant stating either that they propose to grant another tenancy on the expiry of the existing fixed term or that they propose to end the tenancy.

2.2.4 Where registered providers use probationary tenancies, these shall be for a maximum of 12 months, or a maximum of 18 months where reasons for extending the probationary period have been given and where the tenant has the opportunity to request a review.

2.2.5 Where registered providers choose to let homes on fixed term tenancies (including under Affordable Rent terms), they shall offer reasonable advice and assistance to those tenants where that tenancy ends.

2.2.6 Registered providers shall make sure that the home continues to be occupied by the tenant they let the home to in accordance with the requirements of the relevant tenancy agreement, for the duration of the tenancy, allowing for regulatory requirements about participation in mutual exchange schemes.

2.2.7 Registered providers shall develop and provide services that will support tenants to maintain their tenancy and prevent unnecessary evictions.

2.2.8 Registered providers shall grant those who were social housing tenants on the day on which section 154 of the Localism Act 2011 comes into force, and have remained social housing tenants since that date, a tenancy with no less security where they choose to move to another social rented home, whether with the same or another landlord. (This requirement does not apply where tenants choose to move to accommodation let on Affordable Rent terms).

2.2.9 Registered providers shall grant tenants who have been moved into alternative accommodation during any redevelopment or other works a tenancy with no less security of tenure on their return to settled accommodation.

Neighbourhood and Community standard

1 Required outcomes

1.1 Neighbourhood management

Registered providers shall keep the neighbourhood and communal areas associated with the homes that they own clean and safe. They shall work in partnership with their tenants and other providers and public bodies where it is effective to do so.

1.2 Local area co-operation

Registered providers shall co-operate with relevant partners to help promote social, environmental and economic wellbeing in the areas where they own properties.

1.3 Anti-social behaviour

Registered providers shall work in partnership with other agencies to prevent and tackle anti-social behaviour in the neighbourhoods where they own homes.

2 Specific expectations

2.1 Neighbourhood management

Registered providers shall consult with tenants in developing a published policy for maintaining and improving the neighbourhoods associated with their homes. This applies where the registered provider has a responsibility (either exclusively or in part) for the condition of that neighbourhood. The policy shall include any communal areas associated with the registered provider's homes.

2.2 Local area co-operation

Registered providers, having taken account of their presence and impact within the areas where they own properties, shall:

(a) identify and publish the roles they are able to play within the areas where they have properties

(b) co-operate with local partnership arrangements and strategic housing functions of local authorities where they are able to assist them in achieving their objectives

2.3 Anti-social behaviour

2.3.1 Registered providers shall publish a policy on how they work with relevant partners to prevent and tackle anti-social behaviour (ASB) in areas where they own properties.

2.3.2 In their work to prevent and address ASB, registered providers shall demonstrate:

(a) that tenants are made aware of their responsibilities and rights in relation to ASB

(b) strong leadership, commitment and accountability on preventing and tackling ASB that reflects a shared understanding of responsibilities with other local agencies

(c) a strong focus exists on preventative measures tailored towards the needs of tenants and their families

(d) prompt, appropriate and decisive action is taken to deal with ASB before it escalates, which focuses on resolving the problem having regard to the full range of tools and legal powers available

(e) all tenants and residents can easily report ASB, are kept informed about the status of their case where responsibility rests with the organisation and are appropriately signposted where it does not

(f) provision of support to victims and witnesses

Annexe 3

Key business indicators

Indicator	Monitoring period
% of rent collected	Quarterly
Arrears as a percentage of debit	Quarterly
Write offs as % rent roll	Annual
Former tenant arrears	Annual
% repairs completed in timescale	Quarterly
% satisfaction with repairs service	Quarterly
% repairs completed on first visit	Quarterly
% revenue spend against profile	Quarterly
% capital spend against budget	Quarterly
Average maintenance cost/unit/week	Annual
Gas % safety checks completed on time	Quarterly
Average time taken to complete non- urgent repairs (days)	Annual
Average SAP rating	Annual
% Non decent homes	Annual
Average management cost/unit/week	Annual
% satisfaction with ASB case handling	Quarterly
% satisfaction with ASB case outcome	Quarterly
% new tenancies first visited within 4 weeks	Quarterly
Number of complaints received and resolved at first stage	Quarterly
% complaints dealt within target	Quarterly
Sickness - No of days lost due to sickness absence	Monthly

Annexe 4

Housing Revenue Account

Development Strategy

1.0 Introduction

1.1 One of the Council's key objectives is to enable the provision of more affordable housing in the borough. There are a range of housing providers operating in our area and a number of delivery mechanisms exist to support the achievement of this objective.

1.2 The Housing Revenue Account Business Plan offers a further option – that of direct development.

1.3 The demand for affordable housing in this area greatly outstrips supply and this position will not change in the foreseeable future. Whilst any contribution the HRA is able to make is welcomed, it can only form part of a wider delivery strategy.

1.4 This paper focuses on how we can deliver on the element of the HRA Business Plan dealing with providing additional affordable homes in the borough.

1.5 In order to achieve this, three strands need to be addressed. These are:

- funding
- land availability
- capacity.

2.0 Funding

2.1 The HRA Business Plan is robust and has scope to support a development programme. The HRA has already delivered 92 dwellings without having the ability to fund any of the programme through borrowing.

2.2 The recent announcement by Government means that this Council can, for the first time since 2012, make its own decision to borrow without Government constraints. Naturally any borrowing undertaken by the HRA must be affordable and not create a material risk for the core business.

2.3 The HRA has, largely due to the strategic decision not to repay debt, been able to build up reserves which can support a development programme. The reserves built up to date, reflect the inherent lag development programmes have particularly when complex sites are involved.

The HRA now has three funding options to draw on to support its development programme.

These are:

- HRA revenue generated reserves
- Usable capital receipts under the 1 for 1 programme
- HRA borrowing

2.4 The new option of HRA borrowing allows the Council to expand its development programme and/or reducing the rents charged on new dwellings through an internal subsidy.

Whilst social rents (those charged for pre-2012 stock) are more attractive to tenants, charging such rents on new developments would not be sustainable over the long term. Scope does exist to reduce rent below the 70% of market rent or LHA rent to some degree. This would however reduce the numbers of dwellings built.

2.5 The circumstances around each development will vary and so will the delivery cost. It is therefore proposed to review our approach on a case by case basis having regard to the impact on the overall development pipeline. Any reductions likely to be considered are unlikely to be below 60% market rent unless external grant funding can be obtained.

2.6 The Business Plan envisages applying £2.5 million of any annual operating surplus to the reserve to support major repairs and improvement programme. The balance will be applied to the new build reserve and the associated development programme.

This is felt to be a prudent approach that acknowledges the fact the majority of our stock is now around 70 years old.

2.7 Over the next 10 years, we are projecting the following resources will be available to support a development programme: (To be updated)

Operating surpluses	£30 million
RTB receipts	£20 million
HRA reserves	£50 million
HRA borrowing	£50 million
	£150 million

At this stage it can only be indicative as we have already seen considerable changes in the financial arrangement for the HRA in just 6 years, each having financial impacts on the capacity of the HRA to deliver a development programme.

2.8 This projection is based on a number of assumptions:

- Right to Buy sales continue at 20 per year, generating a usable receipt of £100,000
- Operating surpluses remain possible having regard to interest rates, inflation and an ongoing policy not to repay debt
- HRA borrowing continues to be permitted and remains possible within the Prudential Borrowing Code.

2.9 In practise each or all of these assumptions will change over time, however the option, for example to increase borrowing, may be possible to offset a reduced contribution from other sources.

2.10 The Business Plan takes account of the projected £45.8 million (1 April 2019) in the new build reserve and one-for-one receipts arising from Right to Buy sales. These have been identified as being predominantly available to support development activities in the borough. This reserve offers the ability to translate the desire to carry out direct development into reality.

The reserve has allowed us to compensate for our inability to increase total HRA borrowing in the early stage of the business plan and will now allow some flexibility on the rent charged for new dwellings, particularly for larger homes.

2.11 Under the settlement, we are currently in the region of £8.5 million per annum better off. However, it is essential we adequately protect our existing asset base and associated income stream. We also need to recognise the potential impact of welfare reform and the predicted ongoing low inflationary environment for the short-term.

Some provision may be required to mitigate the refinancing risk associated with the £45 million variable rate finance due for repayment in 2022.

2.12 The Business Plan applies £10.6 million of the projected surplus in 2019-20 as follows:

Contribution to reserve to support major repairs and improvement programme	£2,500,000
New build reserve	£8,112,230

The last call on the operating surplus will be the new build reserve and associated programme.

This is felt to be a prudent approach.

2.13 Over the next 10 years, a revenue cash funded development programme of at least £45 million can be supported whilst retaining a reserve equal to at least six months' gross income. Further details on the financial position of the HRA Business Plan, taking into account the latest ten year projections, is set out in ######.

2.14 A sensitivity analysis identifies inflation as our largest financial risk in the short term impacting on both income and expenditure projections. Any development programme will need to take account of this to ensure the HRA is at no time overstretched and existing services materially put at risk.

2.15 The other principle risk involves welfare reform and the downward pressure the Government is exerting on the cost of benefits. Many tenants are receiving some form of financial support from the state and some will struggle to pay their rent.

2.16 Whilst the HRA, through its reserves can develop on the basis if we do not recover our costs. This is only possible in the short term and is not a sustainable model.

In order for the Council to have a long-term on-going development programme, it is important we develop a model that enables individual developments to break-even at some point.

2.17 Experience shows that on average a property will require a major refit in the region of every 25 years. Taking this into account and the need to develop a sustainable development model, we should aim for developments to break-even within 30 to 35 years of construction. In exceptional cases, this could be extended to 40 years.

2.18 To achieve this without external subsidy, rents need to be set in the range of 65-100 per cent of market rents. As rents approach open market rents levels, the ability of those on our waiting list to pay the rents rapidly diminishes.

2.19 Specific software to assess the viability of individual schemes that is widely used across the sector is now routinely used to assess sites, particularly where land acquisition is involved.

2.20 Looking ahead, we will need to develop models that generate cross-subsidies if we are to continue offering properties at rents our tenants can afford and at a scale that makes a significant contribution to meeting demand in the borough. Registered providers are increasingly developing models that incorporate elements of market sale and/or rent as a way of delivering the level of cross-subsidy sought.

2.21 Local authorities are restricted in ways that other providers are not. There are significant disadvantages to developing outside the local authority framework which include VAT and Corporation Tax liabilities and increased borrowing costs. We will need to develop arms-length models that may enable us to develop a wider range of schemes than current rules permit.

3.0 Land

3.1 This is our greatest constraint. Historically, land on our housing estates has been identified and used to facilitate development by Housing Associations. The majority of the more obvious sites ranging from garage sites and open space to decommissioned sheltered units have already been developed.

3.2 The new Local Plan, once approved, will offer greater opportunities than currently exist and will represent a sea-change in development capacity across the Borough.

This, together with the creation of the Council's housing company, North Downs Housing Ltd, creates the ability to deliver longer and mixed tenure schemes. It also allows the option of cross-subsidy across tenures – something not previously available to support the Council's wider housing provision agenda.

3.3 The HRA is already working with private land owners to bring forward developments through new development frameworks and in this way we plan to increase the number of development opportunities open to the HRA.

The HRA is also looking to play a significant role in the Slyfield development and has already planned to allocate a minimum of £50 million to deliver affordable development on the site.

3.4 Schedule 1 lists a number of sites that have some redevelopment potential.

4.0 Capacity

4.1 **Technical:** We have already increased capacity and will look to recruit additional resources as required.

4.2 In common with other providers, we call on external consultants as required together with construction partners. This is a cost effective approach when faced with what will be an inevitably fluctuating workload.

Some development would be procured through a design and build route where the level of risk transfer could be accurately assessed. In other cases separate design and construction partners may be used.

4.3 To ensure we achieve quality developments cost effectively, it is important we maintain a strong and professional client presence which is adequately resourced.

In order to achieve this and formulate a long-term development programme, a New Homes Delivery Officer is being recruited to support the New Homes Delivery Manager. These posts are responsible for the delivery of individual projects, which together, create a viable and deliverable development programme.

4.4 **Suppliers:** As the pace of development in the Borough picks up a capacity issue within the construction sector may develop. It is too early to say how the market will respond to this pressure however new forms of construction models are being developed which reduce the demand for skilled site workers in the numbers traditionally deployed.

4.5 **Applicants:** There is some uncertainty surrounding the ability of those on our current housing needs register to pay Affordable Rents which can be up to 80 percent of market rents. Already it is becoming apparent that some who need larger accommodation find it particularly challenging but we need to see how tenants on our recently completed developments fair. The plan though envisages we retain the option of greater flexibility on rent levels charged on new developments.

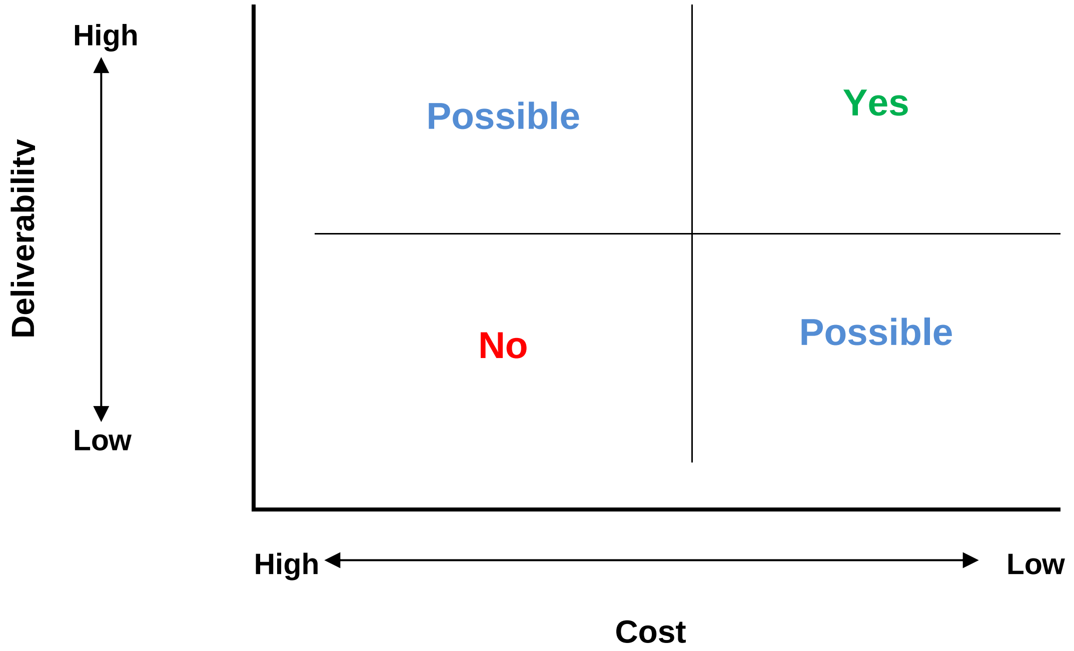
5.0 **Scheme viability**

5.1 It is important that we only develop when it is appropriate to do so and where an individual development makes a positive contribution to the long term viability of the business. Whilst there are always good reasons to provide additional affordable housing, it is important this desire does not create unnecessary risk.

5.2 It is proposed to use the development matrix overleaf to guide our decision making. It does not provide definitive answers but will help us to focus on the most viable projects. The criteria are indicative and will be reviewed on an annual basis.

New developments can also deliver additional social benefits. An example would be the regeneration of a run down area. Such factors where a scheme is only marginally viable can be a deciding factor as to whether to proceed or not.

Development Viability Matrix



5.3 **Relevant factors:** The factors listed below will inform the development matrix. They will need to be reviewed on an annual basis to take account of market conditions.

	Factor	Low	High
Cost:	Land	< £30,000/plot	> £60,000/plot

	Payback	< 30 years	> 35 years
	NPV	Positive	Negative
Deliverability:	Land	Open market	Owned by Council
	Timescale	> 5 years	< 3 years
	Planning consent	No	Yes
	Demand	Limited	High
	Increases stock utilisation	No	Yes
	Community support	None	Strong
	Decant requirements	Yes	No

6.0 **Alternatives**

6.1 Development is the preferred route as it increases the total housing stock in the Borough, however, the numbers of affordable units in the borough can be achieved by changing the tenure of existing properties. Purchasing properties on the open market is an option that could achieve an increase in the number of affordable housing units.

6.2 Properties originally sold under the Right to Buy scheme are a natural target group. Many of these properties however represent entry level dwellings for the owner-occupation market. Purchasing such properties reduces the number available to this group of purchasers.

6.3 The cost of acquiring such properties will be greater than developing new properties on our own land and in many cases developing on land subject to Section 106 affordable housing obligations. Older properties will inevitably require significant investment sooner than newly constructed properties and have higher maintenance costs.

6.4 Though the number of units converted into affordable housing units can be achieved more quickly than constructing units, it is not the most cost effective route and reduces the number of entry level units available. Perhaps, more importantly, it does not increase the total number of dwellings in the borough.

6.5 Alternative delivery vehicles are starting to be developed across the sector that investment capacity. Unfortunately, they do not address the most immediate issue we face, that of land availability.

Appendix 1

To be inserted

2018- 19 Housing delivery status

Site	Timescale	Status
Lakeside Close, Ash	N/A	Complete
New Road, Gomshall	N/A	Complete
Wyke Avenue site, Normandy	N/A	Complete
Guildford Park car park.	2022	Enabling works in progress, detailed design of MSCP being finalised
Phase 1 and 2 garage sites	N/A	Complete
Ladymead, Guildford	Summer 2019	Under construction
Former Apple Tree public house site , Park Barn	Spring 2019	Under construction

Housing development pipeline – sites under consideration

Site	Net Gain
Ash Site A	>50
Ash Site B	>10
Ash Site C	TBC
Ash Site D	>50
Bright Hill Car Park	>25
East Horsley Site A	5-10
Guildford Park Site A	<5
Lido Overspill Car Park	>10
Park Barn Site A	<5
Park Barn Site B	>10
Pirbright Site A	<5
Send Site A	TBC
Send Site B	>25
Send Site C	<5
Slyfield Site A	<5
Slyfield SARP	>200
Town Centre Site A	<5
Town centre Site B	<5
Westborough Site A	>10