

# Scrutiny November 2017

## Issues to cover:

- **HRA Business Plan change 2012**
- **1% rent cuts:**
  - Impact on business plan
  - Actions needed to balance plan
  - Impact on new build viability / Derby Homes' surplus
- **Government policies on social housing:**
  - Positive / unclear / negative impacts coming
  - Focus on Higher Value Levy policy

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2012 Self Financing system introduced - £/week

- £3m a year more for major works / capital (~ 300 new homes so far)
- £1m+ reduction in management



**Old budget**



**New budget**

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### **Rent reductions announced 2015**

1% a year for 4 years from 16/17 – 2 more years to go

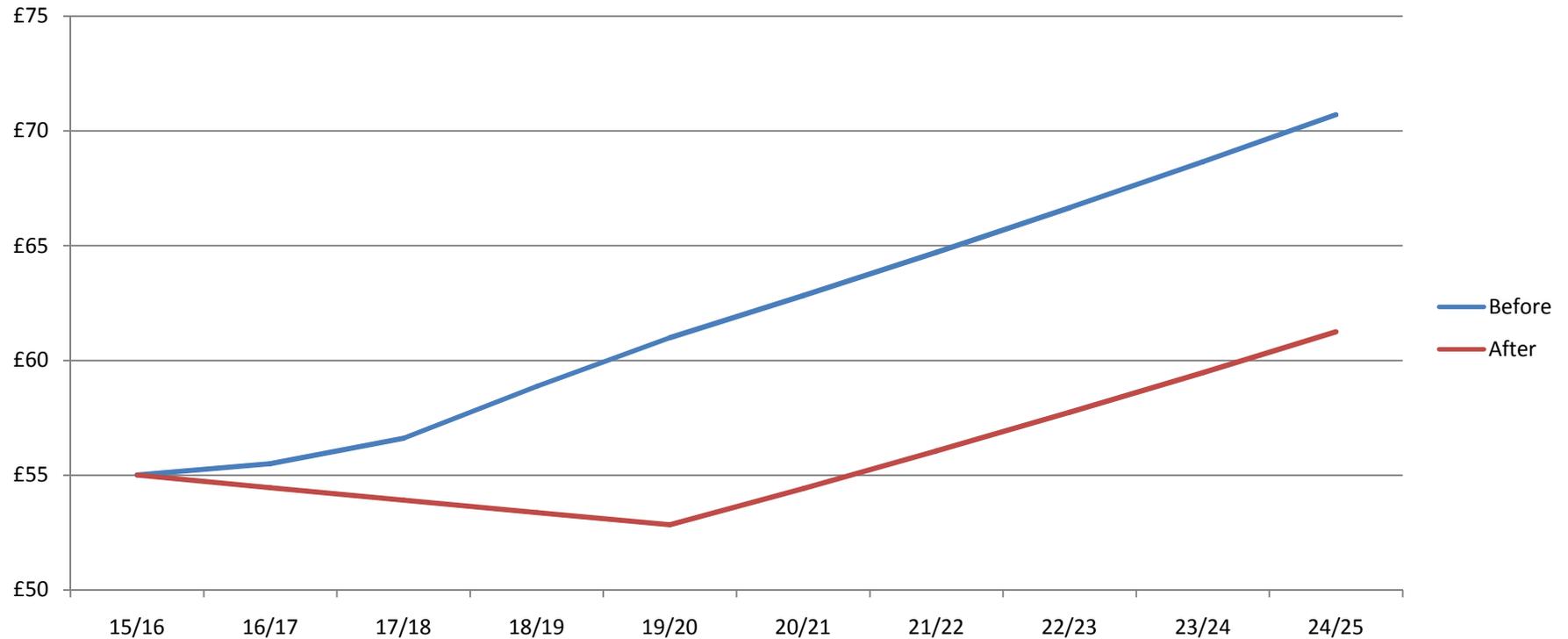
Translates to a loss of **13% of income (£8m a year / £12 a week per tenancy)**

Overall deficit **over £200m over 30 years**

**Makes new homes more difficult to finance**

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## Rent income: before and after 4 years reductions - £m



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**Rent reductions 1% a year for 4 years**



**Actions to balance HRA in 16/17:**

- Lower inflation: RPI-CPI / voids(2% to 1%) **~£125m**
- Reduced capital maintenance budget 15% (efficiency gains / lower costs) **~£21m**
- Reduced Estates Pride spending **~£11m**
- Reduced Derby Homes' fee **~£47m (& CPI switch)**

These rebalanced the HRABP over the 30 years



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**Makes new homes more difficult to finance**

**Previously –**

**30% costs = RTB 141 funding**

**70% costs met by borrowing funded by future net rents**

**Now**

**70% \* 87% (13% less) = 60% met by future net rents**

**30% RTB funding**

**10% shortfall – need funding to be 40% for social rent**

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**17/18** : some services were under threat of closure for lack of funding: – DH Board agreed to take on:

- Housing Options & Derby Advice
- Domestic Violence grant
- Milestone House costs
- Increased charges for services provided by DCC

These total about £1m a year more than previously & reduce DH's surplus

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Derby Homes Key figures	Actual £'000 15/16	Actual £'000 16/17	Budget £'000 17/18
Turnover £m	37	38	39
<b>Operational Surplus £m</b>	<b>3.0</b>	<b>2.0</b>	<b>0.8</b>
Surplus % Turnover	<b>8.2</b>	<b>5.3</b>	<b>2.0</b>
Council Homes managed	13,307	13,149	13,015
Derby Homes properties owned	84	90	98



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### **Government Policy impacts on HRABP since 2016:**

#### **Positive for HRA:**

'Higher Income' Rents – not implemented

Future Rent policy – now CPI plus 1% for 2020-25

#### **Mostly positive for HRA:**

Local Housing Allowance cap 2019 – now a new

Supported Housing consultation for 2020 instead

#### **Negative for HRA:**

Higher Value Sales – not dropped (yet?)

Welfare Reform – lower benefit levels for many tenants

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Government Policy impacts on HRABP:

## Higher Value Sales

**HRABP assumption :**

**not included in the plan -**

**if it goes ahead will probably have to sell some homes to pay the levy.**

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**'Higher Value' Council homes to be sold:**

**'Thresholds' are critical**

Likely to be set at LA level ?

For Derby:

	Election 2015	Likely Value (Derby, >av)
Beds	£000	£000
1	105	89
2	<b>145</b>	<b>110</b>
3	175	130
Number (now)	~ 20	~1000
Turnover?	3%	3%
Possible Levy?	£100k?	£5m?

Hoping it goes away.....

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## Possible new policy on HRA debt cap?

Lifting the debt cap – what impact might it have?

Increased potential financial capacity to build new homes

BUT

Lower rents (-1% for 4 years) mean more difficult.

Current average in plan over 30 years	= 50 a year
Lift Debt cap only	= ~80 a year
Lift debt cap and CPI +1% rent >2025	=145 a year

Would still need land on which to build

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## Conclusions

1% rent cut has permanently reduced HRA financial capacity by **£8m**

Right to Buy on new homes and Higher Value sales still a risk

Rent certainty until 2025 – positive – perhaps shifting attitude?

Losing 170 homes (1.3%) a year through RTB

If CPI + 1% for longer (& debt cap lifted) - more homes possible