## City of York Council

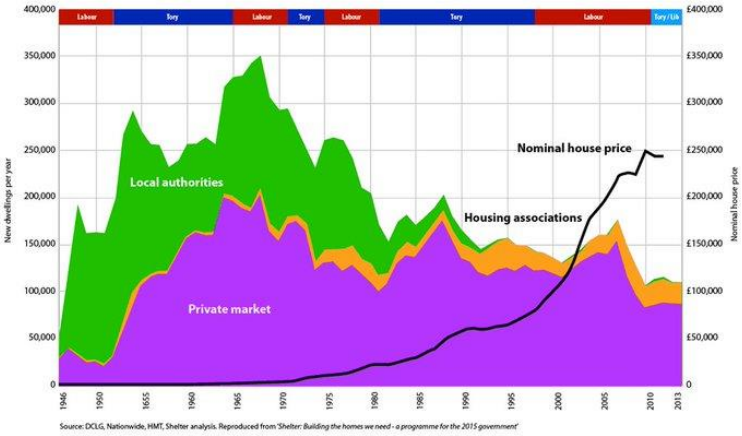
## Housing & Community Safety Policy & Scrutiny Committee – 23rd September 2019

## Housing Revenue Account

### 1 Housing Crisis

1.1 It is generally accepted that there is a housing crisis in England with fewer new homes being built each year than are needed to house the increasing number of households and consequent increases in house values and rents that are making housing unaffordable for increasing numbers of people.

1.2 The graph below shows how house building has only ever reached the 300,000 units that are required each year when there has been a substantial council house building programme, and how since the 1970s when council house building was significantly reduced only about 150,000 new homes have been built each year and house prices have increased significantly.




1.3 The housing crisis affects York where there is a shortage of housing, and where the gap between the cost of housing and what people can afford is wider than in almost any other part of northern England.

1.4 During 2018/19, City of York Council acquired five new council houses, but 61 were sold under the 'right to buy' and two were demolished, meaning that the stock reduced by 58 units.

### 2 Revenue Account

2.1 The Housing Revenue Account appears to have very healthy finances. In 2018/19 there was an under-spend of £1.5million leading to a surplus of £3.4million, despite £2.2million of revenue resources being used to fund capital expenditure. In 2019/20 the budget is for a further surplus of £2.7million after using £1.0million of revenue resources to fund capital expenditure.

2.2 The Housing Revenue Account appears to have a very healthy level of reserves. At 31st March 2019 these stood at £46.1million, including £24.5million in general reserves, £4.3million in the major repairs reserve and £17.3million in other earmarked reserves. This is the equivalent of about eighteen months of rent income.



**PO Box 17, Appleby in Westmorland, Cumbria. CA16 6YL. Telephone: 017683-51498. Mobile: 07502-142658.**
**Twitter @AdrianWaite E-Mail: Adrian.waite@awics.co.uk Skype: Adrian.waite@awics.co.uk Website: www.awics.co.uk**

**Managing Director: Adrian Waite MA CPFA CIHM FInstLM**
**Registered Office: c/o Butterworths Solicitors, 3 Walker Terrace, Gateshead, Tyne & Wear, NE8 1EB.**
**Company Number: 3713554. VAT Registration Number: 721 9669 13**

2.3 The government has now lifted the housing revenue account 'borrowing cap' meaning that the Council can now use prudential borrowing powers to fund capital investment in major repairs and improvements to existing homes and the acquisition or construction of new homes without any restriction other than affordability. With significant surpluses, this could enable the Council to maintain a significant capital programme.

2.4 There may an opportunity to increase income in the housing revenue account. In 2019/20 the Council intends to spend £2.2million on special services but to collect only £1.3million in charges for services and facilities. It may be that the Council is not recovering all its service costs through service charges and that fully recovering service costs could result in an increase in income.

## 3 Capital Programme

3.1 In 2018/19, the City of York Council agreed a housing revenue account capital programme of £29.4million, yet actual expenditure totalled £21.2million (72% of the programme). The approved capital programme is £55.9million for 2019/20, £57.1million for 2020/21 and £42.4million for 2021/22.

3.2 It may be worthwhile considering why the Council didn't succeed in spending the whole housing revenue account capital programme in 2018/19 and whether anything needs to be done to ensure that it has the capacity to deliver the approved capital programme for 2019/20 and subsequent years.

3.3 In view of the significant surplus and reserves of the housing revenue account it may also be worthwhile considering whether a larger capital programme could be sustained through greater use of prudential borrowing. The capital programme for 2018/19 was funded without making any use of prudential borrowing at all.

## 4 Business Planning

4.1 As part of Business Planning, it may be appropriate to consider:

- Reviewing the housing revenue account and business plan as it currently stands and in the light of recent changes to government policy and other external factors including demographic change.
- Checking that the budgets and business plan reflect actual expenditure and income.
- Considering the financial strategy, data and assumptions that underpin the budget and business plan and advising on how robust these are in the light of self-financing.
- Carrying out sensitivity analysis to identify which variables would be likely to have a significant effect on the viability of the business plan thus identifying the risks involved in the plan and suggesting strategies to mitigate those risks.
- Considering Value for Money issues including benchmarking with other local authorities and registered social landlords and identifying areas where value for money gains could be made.
- Reviewing governance arrangements, following the Chartered Institute of Public Finance & Accountancy and Chartered Institute of Housing voluntary code of guidance on the Housing Revenue Account; including reviewing the support and service arrangements, defining where gaps may exist.
- Considering the major variables including: Rents, including future rent increases and levels of collection in the light of welfare reform and the level of current rents;



PO Box 17, Appleby in Westmorland, Cumbria. CA16 6YL. Telephone: 017683-51498. Mobile: 07502-142658.
Twitter @AdrianWaite E-Mail: Adrian.waite@awics.co.uk Skype: Adrian.waite@awics.co.uk Website: www.awics.co.uk

Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Registered Office: c/o Butterworths Solicitors, 3 Walker Terrace, Gateshead, Tyne & Wear, NE8 1EB.
Company Number: 3713554. VAT Registration Number: 721 9669 13

Expenditure, including management, maintenance and major repairs; Rates of interest; Changes in stock levels including right to buy, other disposals and demolitions and new build; How capital investment in new and existing stock is to be financed; Accounting for Depreciation and Major Repairs; Treasury Management implications.

## 5 Strategic Issues

5.1 The Council is rightly linking business planning to asset management. Traditionally, Councils have seen asset management as a static process. Housing associations have tended to see it as a more dynamic process and many councils are moving in this direction. As well as acquiring and constructing new homes, the Council may wish to consider remodelling, regeneration or disposal of existing assets.

5.2 Risk Management is gaining a higher profile in local authority housing. The budget and business plan are based on a single set of most likely assumptions and preferred policies. However, the assumptions may turn out to be incorrect and policies may need to be adapted accordingly. There is therefore a need to identify financial and non-financial risks, assess their likelihood and potential severity and to carry out sensitivity analysis and stress testing.

5.3 The Council may wish to consider options for building new homes outside the housing revenue account through a local housing company or other vehicle, that may include affordable housing and market housing for rent or sale as well as social housing.

5.4 Demographic change is significant. The proportion of the population that is elderly and / or disabled is increasing. There is therefore a need to provide additional homes that are suitable for elderly and / or disabled people although not necessarily traditional sheltered housing.

5.5 The Council has already identified climate change as a significant strategic issue and is addressing the need to make council homes more carbon neutral.

5.6 I would suggest that consultation with existing tenants and the community in general should be an important part of preparing or revising a housing revenue account business plan.

## 6 National Issues

6.1 The self-financing settlement of 2012 was based on a set of assumptions about future levels of income and expenditure in individual local authorities that have not turned out to be correct. In particular:

- It was assumed that rents would increase by more than inflation each year and that they would converge with the social rent formula. However, the Welfare Reform & Work Act 2015 obliged local authorities to reduce rents by 1% a year for four years, reducing their rent by about 14%.
- Provision for major repairs was increased by 29% compared with the previous housing revenue account subsidy system. However, the government's own research had recommended increasing the provision by 43%. Investigations following the Grenfell Tower fire have suggested that Councils may not have enough resources for major repairs.
- When self-financing was originally proposed, it was suggested that 'headroom' should be provided to fund new build. In the event, this was not included.



PO Box 17, Appleby in Westmorland, Cumbria. CA16 6YL. Telephone: 017683-51498. Mobile: 07502-142658.
Twitter @AdrianWaite E-Mail: Adrian.waite@awics.co.uk Skype: Adrian.waite@awics.co.uk Website: www.awics.co.uk

Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Registered Office: c/o Butterworths Solicitors, 3 Walker Terrace, Gateshead, Tyne & Wear, NE8 1EB.
Company Number: 3713554. VAT Registration Number: 721 9669 13

6.2 It may be argued that councils now have levels of debt that are unaffordable in the light of these assumptions not being borne out in practice. A recalculation of the self-financing settlement to reflect this would result in reductions in the level of councils' debts and capital financing costs and an increase in their capacity to invest in council housing.

6.3 As noted above, the 'right to buy' policy is reducing the stock of social housing in York (as it is in all local authority areas). Furthermore, much of the proceeds of 'right to buy' sales are transferred to the Treasury rather than being retained locally. It could be argued that local authorities should have discretion over the operation of the 'right to buy' scheme – for example, being able to vary discounts or suspend the scheme; or that they should retain all 'right to buy' receipts locally to invest in replacement social housing.

6.4 The Council may wish to consider making representations to central government about the self-financing settlement and / or the 'right to buy' scheme.

**Adrian Waite**
**September 2019**



**PO Box 17, Appleby in Westmorland, Cumbria. CA16 6YL. Telephone: 017683-51498. Mobile: 07502-142658.**
**Twitter @AdrianWaite E-Mail: Adrian.waite@awics.co.uk Skype: Adrian.waite@awics.co.uk Website: www.awics.co.uk**

**Managing Director: Adrian Waite MA CPFA CIHM FInstLM**
**Registered Office: c/o Butterworths Solicitors, 3 Walker Terrace, Gateshead, Tyne & Wear, NE8 1EB.**
**Company Number: 3713554. VAT Registration Number: 721 9669 13**