

Report to the Cabinet

Report reference: C-nnn-2009/10
Date of meeting: 5 December 2011



Portfolio: Housing – Cllr Maggie McEwen
Subject: HRA Financial Plan – Strategic Approach
Responsible Officer: Alan Hall, Director of Housing (01992 564004)
Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That the report of CIHConsult, the Council's HRA Business Planning Consultants, attached as Appendix 1, be noted;**
- (2) That, subject to the views of the Tenants and Leaseholders Federation and the Joint Meeting of the Housing and Finance & Performance Management Scrutiny Panels (to be reported orally), the general strategic approach for the HRA Financial Plan be as follows:**
 - a) That provision be made within the Financial Plan to fully maintain the Council's housing stock to a modern standard, based on current stock condition and standard industry life cycles, as opposed to maintaining the stock at the current minimum Decent Homes Standard;**
 - b) That, in order to achieve the Council's aspirations to commence a new Council Housing Building Programme (reported elsewhere on the Agenda), provision be made within the Financial Plan to fund such a Programme on the basis that individual development packages are self-funding, without any support or funding from the General Fund, subsidised if necessary from:**
 - (i) Grant from the Homes and Communities Agency (HCA);**
 - (ii) Section 106 Agreement contributions from developers, in lieu of on-site affordable housing provision;**
 - (iii) If allowed by the Government, the proceeds of Right to Buy (RTB) sales as a result of the Government's proposal to increase RTB discounts whilst ensuring that a new affordable home is provided to replace the affordable home lost;**
 - (v) Housing Revenue Account (HRA) surpluses; and/or**
 - (vi) Cross-subsidy from the sale of other development sites within the Housebuilding Programme on the open market;**
 - c) That average rent increases included within the Financial Plan be based on the following rent increases, which the Government is expected to use to calculate the Council's final HRA debt settlement, in order to achieve rent convergence by April 2015:**

- (i) **Average rent increases of RPI + 2.3% for three years between April 2012 and April 2014 inclusive (representing a 7.9% average rent increase in April 2012); and**
 - (ii) **Average rent increase of RPI + 0.5% from Year 7, as assumed by the Government within the HRA debt settlement;**
- d) Notwithstanding the provision for rent increases included within the Financial Plan, consideration be given each year during the HRA budget process, to the possibility and appropriateness of making a lower rent increase for the following year, having regard to the short and long term effects on the Financial Plan, the need to meet the Council's housing and financial objectives, Government guidance and the effects on tenants; and**
- e) Provision be made within the Financial Plan to fund £1.4m per annum for housing improvements and service enhancements, increased to £5.3m per annum from Year 10;**
- (3) **That the Indicative HRA Financial Plan attached as Appendix 2, based on the above assumptions, be adopted, and that the final version of the Financial Plan be adopted by the Cabinet on the 30th January 2012 or 12th March 2012, dependent on the date the final HRA debt settlement for the Council is confirmed by the Government;**
 - (4) **That, following consultation with the Tenants and Leaseholders Federation, the Housing Scrutiny Panel be asked to consider and recommend to the Cabinet a range of potential housing improvements and service enhancements that could be undertaken, funded from the additional £1.4m per annum provision made within the Financial Plan;**
 - (5) **That a further report be submitted to the Cabinet by the Housing Portfolio Holder on the additional staffing requirements for delivering a full maintenance programme to a modern standard; and**
 - (6) **That the Council's Treasury Management advisers, Arlingclose, be asked to provide advice to the Council on the effects of the HRA debt settlement (if any) on the Council's General Fund.**

Executive Summary:

In March 2012, the Government will be introducing a major change in the way that local authority Housing Revenue Accounts (HRAs) are funded, called Self Financing. It is therefore necessary to agree the approach to be adopted to the Council's 30-Year HRA Financial Plan, which will be used to inform the treasury management options for borrowing the required finance.

CIHConsult, the Council's HRA Business Planning Consultants, have produced their report on the issue and the available options. The preferred option, set out in the recommendations above emerged from an informal meeting with Cabinet members. There are still some uncertainties, the outcome of which will be reported orally at the meeting.

A Joint Meeting of the Housing and Finance & Performance Management Scrutiny Panels and a meeting of the Tenants and Leaseholders Federation are due to be held in advance of this meeting to discuss and consider the issues. Their views will be reported orally at the meeting.

Reasons for Proposed Decision:

The Council needs to agree a strategic approach to its HRA Financial Plan, in advance of agreeing the HRA Budget, setting the rent increase for 2012/13 and borrowing the required finance to make the required debt settlement payment to the CLG.

Other Options for Action:

- a) Not to maintain the Council's housing stock to a full maintenance (modern) standard, but to the lower (minimum) Decent Homes Standard.
- b) Not to make financial provision for a new Council Housebuilding Programme, or a different level of provision.
- c) To plan for different levels of increase than proposed.
- d) Not to make provision for housing service enhancements and improvements, or at a different level.
- e) Not to ask the Housing Scrutiny Panel to consider and recommend a range of service enhancements and that the Cabinet considers this issue itself
- f) Not to consult the Tenants and Leaseholders Federation for their views on the service enhancements to be provided.

Report:

1. In March 2012, the Government will be introducing a major, long-term change in the way that local authority Housing Revenue Accounts (HRAs) are funded. This will involve a change away from the current "HRA Subsidy System" to a new "HRA Self Financing System", under which this Council will need to make a one-off payment to the Government probably around £190m (instead of making annual payments to the Government - currently in excess of £11m per annum), for which a substantial proportion will need to be borrowed.
2. There are two key aspects to this process from the Council's point of view. Firstly, it needs to have a well-thought-through, robust 30-Year Financial Plan for the HRA, setting out all expected housing income and expenditure to meet the Council's housing objectives. Secondly, it needs to consider the treasury management options for borrowing the finance, in order to meet the cost of the payment to the CLG, and to ensure that the Council receives the best terms. This latter process is being led by the Finance and Economic Development Portfolio Holder and the Director of Finance and ICT, on which further information will be provided in due course.
3. CIHConsult are the Council's HRA Business Planning Consultants, and have had a number of meetings with Housing and Finance officers on the options for the HRA Financial Plan, as well as a meeting with Cabinet members to discuss their informal views. CIHConsult have now produced their report on the issue and the available options. The Housing Portfolio Holder has met informally with CIHConsult and her Cabinet colleagues to discuss CIHConsult's report, which has resulted in the above recommendations (including the Indicative HRA Financial Plan attached as Appendix 2) being made to the Cabinet.
4. It should be noted that, at the time of writing, the Government's final draft HRA debt settlements for councils have not been announced, and are now expected to be published W/C 21st November 2011. Although CIHConsult have made assumptions in their report on

what they expect the Council's final draft settlement will be, if they are different, some changes may be required to the above recommendations, which will be reported orally.

5. It should also be noted that, although the Government has always stated that the introduction of HRA self financing should not have any detrimental effect on local authorities' General Funds, CIHConsult has identified that there could possibly be a detrimental impact on this Council's General Fund. However, if this is the case, they feel it could possibly be mitigated with assistance from the HRA (but which would then have a detrimental effect on the HRA). CIHConsult has therefore advised that specialist advice on this issue should be sought from the Council's treasury management advisers, Arlingclose. If Arlingclose's advice on this issue is received in time for the meeting, it will be reported orally. If there is any effect on the HRA as a result, it may be necessary to amend some of the above recommendations, which will be reported orally.

6. A Joint Meeting of the Housing and Finance & Performance Management Scrutiny Panels is due to be held on the 28th November 2011 to enable the two Scrutiny Panels to also consider the issues and options, and a draft version of this report and recommendations, in advance of this Cabinet meeting.

7. In addition, the Tenants and Leaseholders Federation is also being consulted prior to this Cabinet meeting.

8. The views of both the Joint Scrutiny Panel and the Tenants and Leaseholders Federation will be reported orally at the meeting, so that they can be taken into account before the Cabinet makes its decisions.

Resource Implications:

The effects of borrowing around £190million and repaying the debt over different periods of time

Legal and Governance Implications:

Housing and Regeneration Act 2008 and Housing Act 1985

Safer, Cleaner and Greener Implications:

The proposed provision for housing service enhancements could fund additional security, safety and environmental improvements.

Consultation Undertaken:

The views of the Housing and Finance & Performance Management Scrutiny Panels and the Tenants and Leaseholders Federation will be reported orally.

Background Papers:

Stock condition data

Impact Assessments:

Risk Management

HRA self financing brings a number of financial risks, in terms of treasury management. These will be set out and assessed in the Housing and Finance & ICT Risk Registers, as well

as the Council's Corporate Risk Register.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

