

## ***Report to the Cabinet***

***Report reference: C-038-2011/12***  
***Date of meeting: 5 December 2011***



**Portfolio: Housing**

**Subject: HRA Financial Plan – Strategic Approach**

**Responsible Officer: Alan Hall, Director of Housing (01992 564004)**

**Democratic Services Officer: Gary Woodhall (01992 564470).**

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### **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;**
    - (iv) Housing Revenue Account (HRA) surpluses; and/or**
    - (v) Cross-subsidy from the sale of other development sites within the House Building 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 £1.1m per annum for housing improvements and service enhancements, increased to £5.0m 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 30<sup>th</sup> January 2012 or 12<sup>th</sup> 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 £1.1m 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 continue 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.

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:**

- Not to maintain the Council's housing stock to a full maintenance (modern) standard, but to the lower (minimum) Decent Homes Standard.
- Not to make financial provision for a new Council House Building Programme, or a different level of provision.
- To plan for different levels of increase than proposed.
- Not to make provision for housing service enhancements and improvements, or at a different level.
- Not to ask the Housing Scrutiny Panel to consider and recommend a range of service enhancements and that the Cabinet considers this issue itself
- 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 of £186.2m (based on the Government's latest draft Self-Financing Determination), 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. Within Section 9 of their report, CIHConsult draw attention to the potential impact of self-financing on the Council's General Fund. CIHConsult advised that the Council's Treasury Management advisers, Arlingclose, should be asked to provide advice to the Council on this impact. This advice has now been received from Arlingclose, and is as follows:

*"The Councils present balance sheet position is such that the Housing Revenue Account (HRA) is effectively lending the General Fund (GF) to fund an element of its unfinanced capital expenditure, this loan is currently in the region of £10million.*

*The take-on of debt resulting from the HRA Subsidy settlement will change the face of the Council's balance sheet but the GF position, in terms of requiring £10million to fund this internal borrowing position, will not change.*

*The Council has worked with us to model the impact of the HRA transaction on the Council's balance sheet position, particularly in terms of the cost of this internal loan to the GF. The HRA can borrow £122million from external sources and fund the balance of the transaction, around £58million, from internal resources.*

*Providing cash flow balances exist within the Council, the GF will continue to be able to fund the internal borrowing position at the current rate of interest and there will be no detriment to the GF. If the HRA takes on an additional £10million of external debt (i.e. £132million), this will maintain a cash position within the HRA which can be lent to the GF, again this will have no negative impact on the GF.*

*The GF may have to externalise its borrowing position at some point in the future and officers will be undertaking an analysis of when this is expected to occur."*

5. The treasury advisors have stated that around £58million from internal resources could be used to fund the debt settlement. This is one option open to the Council, but the Council could decide to change the amount of internal resources to be used. Within the model produced by CIHConsult, they have assumed £39million of internal resources will be used, which is equivalent to the negative HRA Capital Financing Requirement (CFR).

6. There are therefore a number of issues that need to be resolved before the Council can decide the amount of internal resources to be used and a further report will be provided by the Finance and Economic Development Portfolio Holder in due course on the proposed amount of internal resources to be used and the make up of the debt portfolio.

7. However, since producing their report, CIHConsult have assessed the potential impact on the HRA, of the HRA taking on an additional £10million external debt in order to avoid any negative impact on the Council's General Fund. They advise that, since this additional borrowing may be deemed by the Government to be outside of the self financing arrangement, the Council may not benefit from the discounted interest rate offered by the Public Works Loan Board solely for the purposes of self financing.

8. CIHConsult have advised that, assuming an interest rate of 3.5% charged to the HRA for the additional debt that it would take-on, and an interest rate of 0.5% paid by the General Fund to the HRA for the internal borrowing (based on 3 month LIBOR), the cost to the HRA at current interest rates could be around an additional £300,000 per annum. However, CIHConsult also advise that this amount is likely to diminish over time, as the internal borrowing rate increases in line with expected increases in interest rates generally.

9. As a result, the additional resources available to the HRA for service enhancements referred to in Tables 8.1, 8.2 and 8.3 of CIHConsult's report all need to be reduced by

£300,000, at least in the short term.

10. Once the strategy for the HRA Financial Plan, the use of internal resources and the debt portfolio have been agreed, a final version of the Financial Plan can be produced for adoption by the Cabinet in January or March 2012.

11. A Joint Meeting of the Housing and Finance & Performance Management Scrutiny Panels is due to be held on 28 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.

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

13. 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 funding £186.2million 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?*  
N/A.

*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?*  
N/A.