Cheltenham Borough Council
Cabinet – 18 October 2011
Housing Revenue Account Business Plan

Accountable member	**Councillor John Webster, Cabinet member finance and community development**
Accountable officers	**Mark Sheldon, Director of resources** **Jane Griffiths, Director of commissioning**
Accountable scrutiny committee	**Social and community**
Ward(s) affected	**All**
Key Decision	**No**
Executive summary	This is an outline Housing Revenue Account (HRA) Business Plan, written in partnership with Cheltenham Borough Homes (CBH). This document sets out plans for the management and maintenance of CBC-owned housing stock for the 30 year period from 2012 to 2042. It has been developed at a time of significant changes in national policy that impact on social housing. These include reform of the council housing finance system, welfare reform (which is subject to a separate report this evening) and the necessary development of alternative models for the delivery of new stock following a reduction in direct government grant. More detail on these changes and their impact are detailed in the plan and they provide both challenges and opportunities. The move from the HRA subsidy system to a self financing regime is to be welcomed as it will provide both an increase in resources and greater local control of those resources. Final details of the self financing arrangements will not be received until later this year but current financial projections suggest that, after funding existing service levels and the costs of keeping homes to the decent homes standard, there could be additional resources of approximately £15m. This could be used to repay debt or invest in the existing stock to provide better quality homes, establish a programme of new build or improve services to tenants. The emerging strategy is to use these additional resources in three ways: - New Build – CBC will ask managing agent, CBH to identify delivery models for the provision of new housing at St Paul's Phase 2, Cakebridge Place and various garage sites. Our aim is to establish a continuous programme of new build, recognising that the scale of that programme may be restrained by availability of land and affordability. - Existing Stock - priorities will include measures to address fuel poverty, the improvement of external areas through a continuation of the neighbourhood works programme, a review of sheltered housing - Services to tenants – CBH will be requested to invest in further community development to address issues of anti-social behaviour, financial exclusion and unemployment

	The development of the draft strategy has been informed by a member seminar and by the cross party member housing review group. This draft strategy will be informed by the opinions of tenants and leaseholders and other stakeholder partners and a consultation exercise will be undertaken in October and November this year. Feedback will then be used in the preparation of the final business plan to be published in February 2012.
Recommendations	**The Cabinet are asked to endorse the draft strategy and use it as a basis for consultation with a range of stakeholders.** **Following consultation the strategy will be brought back to Cabinet before final approval by Council in February 2012.**

Financial implications	As detailed throughout this report and within the HRA Business Plan. DCLG will issue draft self-financing determinations in November 2011 which will vary from the figures issued in February 2011 to reflect updated stock numbers, RPI and GDP deflator figures. The indebtedness determination will set out the 'borrowing cap' and the Council will need to ensure this settlement figure is paid over to DCLG on 28th March 2012. In order to facilitate this transaction, Council will need to determine and approve its borrowing strategy which will include updating its prudential indicators to ensure there is enough headroom within its authorised borrowing limit. The recent announcements from HM Treasury have indicated that favourable rates from the PWLB will be available (i.e. 13 bases points over gilt rates) for this one-off transaction and in order to benefit from these rates the Council will need to request these rates by 26th March 2012 at the latest. As part of the Council's treasury management strategy, Arlingclose, the Council's treasury advisors, have been enlisted to ensure that its borrowing strategy will provide value for money. **Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk, 01242 775154**
Legal implications	There are no legal implications as a direct result of this report. **Contact officer: Donna Ruck, Solicitor donna.ruck@tewkesbury.gov.uk, 01684 272696**
HR implications (including learning and organisational development)	No HR implications arising as a direct result of the content of this report. **Contact officer: Julie McCarthy,** **julie.mccarthy @cheltenham.gov.uk, 01242 264355**
Key risks	**The key risks are set out in appendix 1 and a more detailed analysis is set out in the business plan itself**

Corporate and community plan Implications	The HRA business plan has been developed in the context of the of the council's corporate strategy. It is proposed that during the consultation phase and before a final version of the business plan is brought back for approval an equality impact assessment will be undertaken.
Environmental and climate change implications	

1. Background

2.1 The existing system for council housing finance has been criticised by local authorities, tenants and housing professionals for some years. It is based on an impenetrable and volatile subsidy system that is underfunded and redistributive and does not give a stable basis for long term business planning.

2.2 The reform of council housing finance has involved all three major political parties. In 2009 the previous Labour government commissioned a comprehensive review which culminated in a consultation process with all stakeholders. Following on from this the government then published a *'prospectus for the future of council housing'* in March 2010 as a second stage consultation document. This document proposed the dismantling of the subsidy system through a 'self financing debt settlement'. This was accompanied by a financial model to be used for the calculation of debt settlements; the assumptions used in the model; and indicative figures for each authority.

2.3 Following the change in government in May 2010 the coalition indicated that it would support the completion of HRA reform and carry forward the reforms to a conclusion. In February 2011 the Department for Communities and Local Government (DCLG) published *'Implementing self-financing for council housing'*. This document set out the methodology, financial parameters and timetable for the reforms and contained key financial information so that councils could see how they would be affected. This enabled local authorities to begin planning for the start of self-financing. This policy document was accompanied by *'a local authority financial model'* with indicative figures, a user guide and a report on the model inputs. This was not a consultation document as the Localism Bill, which was passing through Parliament, provided for the change to be compulsory for all local authorities in April 2012.

2.4 Published on the 28th July 2011 the document *'Self-financing: Planning the transition'* set out in detail the steps central government and councils will take between now and April 2012 to make these reforms a reality. It also sets out the accounting and regulatory framework that will support self-financing. CIPFA has also published a consultation document which seeks to resolve accounting issues arising from the introduction of self financing.

2.5 The reforms are planned to:

- scrap the current subsidy system through a one off debt settlement for each authority with future borrowing controlled by a debt cap. Rent increases continue to be controlled by the government
- give councils the resources, incentives and flexibility they need to more effectively manage their housing stock for the long-term and to drive up quality and efficiency
- provide tenants with the information they need to hold their landlord to account, by replacing the current opaque system with one which has a clear relationship between the rent a landlord collects and the services they provide
- replace the current annual subsidy payment with interest charges on additional debt. The balance of these two figures determines the initial net impact on the authority. The key

variables looking forward are assumptions about future rent levels, interest rates and need to spend

2.6 The settlement figure for each council is to be calculated as the net present value of 30 year notional cash flows using the following modelling assumptions:-

- rent income to increase in accordance with rent restructuring policy (completion in 2015/16) followed by annual increases thereafter at RPI + 0.5%
- management, maintenance and major repairs expenditure based on updated subsidy allowances and now includes funding for disabled adaptations
- the debt settlement is to be based on the 6.5% discount rate – the previous option to use 7% which would give Councils more borrowing headroom for new build has been dropped
- the model also makes allowance for stock losses from Right to Buy (but only using DCLG forecasts of numbers) and will also exclude demolitions planned for the first 3 years after implementation (we have already responded to DCLG within their deadline of 31st March)

2.7 The DCLG reserves the power to re-open the settlement in the future but this is likely only to be used if there is a major change in policy which would have a substantial, material impact on the value of the business. No further guidance on HRA ring fence will be published – continue to operate under existing guidelines using principle of 'who benefits pays'.

2. Reasons for recommendations

2.1 The council needs to set out a business plan for the housing revenue account and needs to consider the options. The attached paper sets out the national and local context, establishes strategic links and describes how the housing revenue account is used to deliver housing services and manage and maintain council-owned homes. Included is a range of options for consideration arising from the move from the HRA subsidy system to a self financing regime. It will provide both an increase in resources and greater local control of those resources and current financial projections suggest that, after funding existing service levels and the costs of keeping homes to the decent homes standard, there could be additional resources of approximately £15m. This could be used to repay debt or invest in the existing stock to provide better quality homes, establish a programme of new build or improve services to tenants.

2.2 From the work undertaken with members and CBH board it would appear that there is a blended approach which includes new build, work to existing stock, environmental and sustainability improvements and earmarking of resource for developing the services delivered by CBH to help meet current and emerging local needs.

3. Alternative options considered

3.1 The council could choose to prioritise one aspect over another but the consultation to date has shown an appetite for a blended approach. The proposed consultation as set out in chapter 6 of the HRA Business Plan should test with a range of stakeholders what their views are about prioritisation within the proposed options.

4. Consultation and feedback

4.1 CBH will undertake a range of consultation activities over the coming months and these will be collated and brought back to the member review working group and to CBH board, who will consider the findings and agree what strategy needs to develop to meet these aspirations. The

HRA business plan will be presented to council in February along with the budget.

4.2 The Cabinet this evening have received a report from the housing review cross party member working group who are keen to continue to be engaged in the development of the plan and to ensure alignment to the council's corporate strategy and emerging outcomes frameworks.

5. Performance management –monitoring and review

5.1 The HRA will be monitored through the service level agreement for CBH and through the normal budget monitoring procedures. Given the changes it will be important to monitor the financial aspects closely over the first few years to ensure that assumptions made are realised and if not that corrective action is taken as required.

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Appendices	1. Risk Assessment 2. Draft Housing Revenue Account Business Plan 2012 to 2042
Background information	

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-4	Likeli-hood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	DCLG reserves the power to re-open the settlement in the future but says it will only be used if there is a major change in policy which would have a substantial, material impact on the value of the business. There are significant treasury management implications arising from these proposals and it is essential that early advice on funding decisions is obtained. Rental income is still subject to Government policy. The surpluses shown are primarily driven by rent increase assumptions in line with current policy.	Mark Sheldon	20/09/11	3	3	9	Reduce	Any investment decision should take into account the council's current view on interest rates. ArlingClose Ltd, the council's treasury advisors, have been appointed to advise on the impact that the HRA subsidy reform will have in respect of Cheltenham. The council has signed up to their Debt Allocation After Transfer (DAAT) service to ensure any borrowing limits are correctly allocated to the HRA.			
	The welfare reforms and benefit changes do not align to the proposed changes to social and affordable rents and there is a risk as to what impact	Mark Sheldon	20/09/11	3	3	9	Reduce	Set realistic target levels re bad debts Continue to monitor the HRA closely in first years of self			

	this may have on the HRA							financing.			

Explanatory notes

Impact – an assessment of the impact if the risk occurs on a scale of 1-4 (4 being the greatest impact)

Likelihood – how likely is it that the risk will occur on a scale of 1-6 (6 being most likely)

Impact Description	Impact score		Probability	Likelihood Description	Likelihood Score
Negligible	1		0% - 5%	Almost impossible	1
Marginal	2		5% - 15%	Very low	2
Major	3		15% - 30%	Low	3
Critical	4		30% - 60%	Significant	4
			60% - 90%	High	5
			> 90%	Very high	6

Control - Either: Reduce / Accept / Transfer to 3rd party / Close