

Cheltenham Borough Council
Cabinet – 7 February 2012
Council – 10 February 2012
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	<p>In October the Cabinet agreed an outline Housing Revenue Account (HRA) Business Plan, written in partnership with Cheltenham Borough Homes (CBH). Following consultation and further work with the council's treasury management advisors, the council is now in a position to approve a business plan.</p>

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 and the necessary development of alternative models for the delivery of new stock following a reduction in direct government grant. The HRA is managed by CBH on behalf of the council and the business plan will therefore set the strategic direction for CBH over the life of the management agreement.

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. We have received the final details of the self financing arrangements which will provide additional resources of approximately £13.8 m over the first ten years. This will be used to repay debt, invest in the existing stock to provide better quality homes, establish a programme of new build and improve services to tenants.

In developing the business plan CBH have prepared a pro-active Asset Management Strategy which ensures that stock decisions are made through effective business planning protocols. The Asset Management Strategy is one of the key tools, which helps the council and CBH to meet and respond to varying housing need and demand.

The strategy is to use the additional resources arising from self financing in three ways:

- ▶ New Build – CBC will ask managing agent, CBH to identify delivery models for the provision of new housing. 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 and social exclusion and unemployment

The development of HRA business plan was informed by a member seminar last year and by the cross party member housing review group. The plan has been informed by the opinions of tenants and leaseholders and other stakeholder partners and a consultation exercise was undertaken in November and December this year.

The business plan has been prepared using advice from the council’s treasury management advisors (Arlingclose) who have modelled different debt scenarios. Their advice is that the plan as presented has the ability to service existing and new borrowing, and has sufficient flexibility to schedule maturities if cash flow assumptions are not achieved.

CBH will work with the council to develop detailed proposals for each of the strands which will be brought back through the appropriate approval process for consideration.

Recommendations

The Cabinet are asked to endorse the strategy as outlined in the business plan at Appendix 2, and recommend Council to approve the strategy as part of the budget setting process.

Financial implications	The financial implications are set out in the business plan. 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. As detailed proposals are brought back for each strand of the work equality impact assessments will be undertaken.

1. Background

- 2.1 The previous system for council housing finance had been criticised by local authorities, tenants and housing professionals for some years. It was based on an impenetrable and volatile subsidy system that was underfunded and redistributive and did 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. Essentially, self financing enables local Council's to buy their way out of the national subsidy system with a one off payment funded by very favourable borrowing rates from the PWLB. The properties are valued and any outstanding debt is subtracted from that value, and the difference paid back to the Government, who get a very substantial (national) capital receipt. Council's are then in a position where they can spend their rental income according to local priorities.
- 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 should take between before April 2012 to make these reforms a reality. It also set out the accounting and regulatory framework that would support self-financing. CIPFA published a consultation document which sought to resolve accounting issues arising from the introduction of self financing.
- 2.5 The reforms will:
- ▶ scrap the current subsidy system through a one off debt settlement for each authority with future borrowing controlled by a debt cap. Rent increases are determined according to Government guidelines, and this advice contains the assumptions on which our projections are based'.
 - ▶ 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 Cheltenham is £27.881m which is calculated as the net present value of 30 year notional cash flows of Cheltenham's rent income and expenditure and section 2 of the attached business plan gives further details of the assumptions used in developing the plan.
- 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 we will continue to operate under existing guidelines using principle of 'who benefits pays'.
- 2.8 There is concern that the current economic situation and increase in rents using the government formula will mean that tenants find it increasingly difficult to meet their obligations. The HRA business plan has been prepared to take this into account and a greater allowance has been made for bad debt provision in arriving at the necessary calculations.

2. Reasons for recommendations

- 2.1 The council needs to set out a business plan for the housing revenue account which takes account of the new self financing regime and puts greater emphasis on the management of housing debt. Self financing will provide both an increase in resources and greater local control of those resources and the business plan sets out the financial projections. The plan has been drafted on the basis that debt levels will be maintained and that the additional resources, after meeting current service levels and essential investment needs, are used for further investment, with the exception of a debt maturing in 2013.
- 2.2 From the work undertaken with members and CBH board there was agreement that there should be 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. CBH will work up detailed plans and proposals for approval.

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 outcome from consultation is set out in section 6 of the HRA Business Plan which shows greatest support for new build and improvements
- 3.2 The council's treasury management advisors worked with officers on different alternative debt repayment models and provided advice on the most suitable options.

4. Consultation and feedback

- 4.1 CBH have undertaken a range of consultation activities over the last few months and these have been collated used to help shape the strategy needs to meet these aspirations.

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.

Report author	Contact officers Mark Sheldon Director of Resources , Mark.Sheldon@cheltenham.gov.uk, 01242 264123 Jane Griffiths, Director of Commissioning Jane.Griffiths@cheltenham.gov.uk 01242 264124 Bob Dagger, Finance, CBH 01242 264225
Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Draft Housing Revenue Account Business Plan 2012 to 2042
Background information	

Risk Assessment

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-4	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	<p>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.</p> <p>There are significant treasury management implications arising from these proposals and it is essential that early advice on funding decisions is obtained.</p> <p>Rental income is still subject to Government policy. The surpluses shown are primarily driven by rent increase assumptions in line with current policy.</p>	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.	1.4.2012	Paul Jones	Finance risk register
	The welfare reforms and benefit changes do not align to the proposed changes to social and affordable rents and there	Mark Sheldon	20/09/11	3	4	12	Reduce	Set realistic target levels re bad debts Continue to monitor the HRA closely in first years of self	31.3.2013	Bob Dagger CBH	CBH

	is a risk as to what impact this may have on the HRA								financing and establish support systems and programmes to help people not on benefits from suffering financial difficulties which may force them into benefit dependency.			
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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	<u>1</u>	0% - 5%	Almost impossible	<u>1</u>
Marginal	<u>2</u>	5% - 15%	Very low	<u>2</u>
Major	<u>3</u>	15% - 30%	Low	<u>3</u>
Critical	<u>4</u>	30% - 60%	Significant	<u>4</u>
		60% - 90%	High	<u>5</u>
		> 90%	Very high	<u>6</u>

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