MUNICIPAL YEAR 2012/2013 REPORT NO. 41A

Agenda 1	Item: 7
Subject: Housing Revenue Account (HRA) 30-Year Business Plan **Wards:** All	
Cabinet Members consulted: Cllr Oykener, Cllr Stafford	

MEETING TITLE AND DATE:
Council
19th September 2012

REPORT OF:
Director of Health, Housing and Adult Social Care, Director of Finance, Resources and Customer Services

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1. EXECUTIVE SUMMARY

1.1 This report sets out the proposed HRA 30-Year Business Plan and requests that Council approves the document and the supporting base business plan financial model as the starting point to move into HRA Self-Financing. These were considered and recommended to Council by Cabinet on 18th July 2012.

1.2 The plan is supported by a HRA Asset Management Strategy (which was approved by Council on 4th July 2012) and a HRA Treasury Management Plan, and has been prepared in consultation with stakeholders including tenants, leaseholders, Council officers, Members of the Council, Enfield Homes officers and their Board.

1.3 This is the first Business Plan that the Council has prepared in the context of the new system of HRA self-financing, which came into effect from 1st April 2012.

1.4 Copies of the HRA Business Plan document are available in the Members' Library and Group Offices.

2. RECOMMENDATIONS

2.1 To approve the 30-Year HRA Business Plan document.

2.2 To adopt the base business plan financial model as the starting point to move into self-financing.

2.3 To note that, as options relating to the business plan are further developed, these will be reported to Cabinet for decision at the relevant time.

2.4 To note that the HRA Treasury Management Plan included in the document is prepared in accordance with the Corporate Treasury Management Policy and Strategy.

3. BACKGROUND

3.1 The Government's Localism Act 2011 replaced the previous Housing Subsidy system with a system of HRA self-financing with effect from 1st April 2012. Under the previous subsidy system, Enfield was required to make an annual payment (£8m) to the Government from its HRA. Under self-financing, the Council will keep its own rental income to pay for capital investment in its stock, management and maintenance and repayment of debt.

3.2 In order to manage the transition to the new system, the Government prepared a valuation of each Council's HRA business. Enfield's HRA business was valued at £198.015m (an average £17,532 per dwelling). Based on this valuation, the Council paid the Government £28.789m on 28th March 2012 to buy itself out of the subsidy system.

3.3 The Government expects Councils to manage their HRA businesses using a 30-year Business Plan backed by an Asset Management Strategy and a Treasury Management Plan. These should be prepared in consultation with interested parties, especially tenants and leaseholders. This report sets out Enfield's proposed 30-year Business Plan and HRA Treasury Management Plan. The HRA Asset Management Strategy was agreed by Council on 4th July 2012.

4. THE 30 – YEAR BUSINESS PLAN

4.1 The Council's proposed 30-Year Business Plan has been prepared in consultation with various stakeholders including tenants, residents, staff, Members of the Council and Enfield Homes Board. It brings together all aspects of managing the HRA business into the future and, in relation to the physical assets held within the HRA, builds on the direction described in the HRA Asset Management Strategy.

4.2 It is supported by fully costed financial models, which are underpinned by sets of assumptions and sensitivities. These will require constant monitoring and review to ensure that timely action is taken should any significant changes occur.

4.3 The financial model supporting the base business plan shows a balanced position in each year throughout the whole 30 year period, with a revenue balance at the end of year 30 of £158m. This is based on the following overarching assumptions:

Assumption 1

a) rents will be increased in line with government guidelines until 2015/16, and thereafter will increase by RPI + 0.5% (this mirrors the rent assumptions that were included in the Government's self-financing settlement model).

Assumption 2

b) the Council is likely to borrow up to the HRA debt cap (the maximum it can borrow) in the early years, after which it will either set aside reserves to repay debt, or actually repay debt, in the years where it has sufficient resources to do so. By year 30, there will be sufficient resources available to cover the HRA debt outstanding. Any Treasury Management decision regarding HRA debt will be taken in the context of protecting the financial interests of the whole Council, ie) both the HRA and the General Fund.

Assumption 3

c) the Council will improve or renew 16 estates within the next 30 years, four of which will happen in the first ten years (Alma, New Avenue, Ladderswood and Highmead). Currently, all estate renewal projects starting from 2012 onwards are modelled on the basis that the Council will retain the rented stock. However, this would be reconsidered if alternative sources of funding were to become available which favoured the ownership of the stock being elsewhere than the Council.

Assumption 4

d) the current Decent Homes backlog, plus all other elemental backlog, will be cleared by the end of year 5 and there will be no backlog on any decent homes elements after this period. Enfield Homes' database holds information showing which elements will require replacement when, based on their expected asset lives. For example a bathroom may need replacing every 30 years. It is envisaged that, by the end of 2016/17, all elements that are due for renewal under the asset management policy will have been replaced so that from 2017/18 onwards there is no longer a backlog

4.4 A full set of assumptions is attached as an Appendix to the Business Plan document. These assumptions include rates of inflation, cost of borrowing, revenue investment levels, income streams, voids and bad debt levels.

4.5 Although the plan is balanced, resources are scarce in the first ten years. This is because the need to increase the capital programme to address the investment backlog in the HRA stock coincides with the desire to regenerate four estates during that period and the debt position being higher following the payment of the HRA settlement sum to Government. Appendix A shows a graphical presentation of the base HRA Business Plan over the full 30-year period.

4.6 The base plan reflects a starting point to move into HRA self financing and this is the version that the Council is being requested to adopt. It does not, however, fully address two main principles that were agreed with tenants and residents in May. These are:

a) Construct a business plan which shows the Council controlling at least the same number of tenanted housing units in 2042/43 as it does now (11,300), and, subject to affordability and achievability, seek to increase this number. This principle will require regular review, especially if there is a change in accessibility to funding sources.

b) Define the term “sustainable high quality accommodation” and achieve that standard for all stock within the 30-year period, subject to affordability and other constraints (for example, physical features).

4.7 Business Plan modelling carried out since May has shown that it will not be possible to fully afford both of these principles. At present, this assertion is based on the HRA relying on traditional sources of funding, and it may be possible to use alternative financing models to alleviate pressure on the Business Plan. A consultant has been engaged to explore the Council’s options in this respect.

4.8 In anticipation of this piece of work, two further Business Plan models have been prepared, one showing the replacement of right to buy sales on a one for one basis, and one showing that £133.3m of improvement works to move towards the sustainable high quality accommodation standard could be carried out within the next 30 years if the Council chose not to repay debt. These two scenarios are more fully described in the HRA 30-Year Business Plan document, and will need to be further developed in consultation with all stakeholders.

4.9 A set of sensitivities has been run against the base business plan to ensure that the impact of various changes are fully understood (ie what happens if inflation is higher than expected, interest rates go up, rent income goes down, etc).

4.10 The financial models and sensitivities have been validated by external consultants, who are working with the Council on the Business Plan production. They have also been subject to further validation following an Internal Audit review which resulted in a positive outcome.

4.11 The HRA 30-Year Business Plan and its supporting financial models will be subject to regular review through the governance structure described in the Business Plan document.

5. THE ASSET MANAGEMENT STRATEGY

5.1 The approach to HRA asset management was agreed by Council on 4th July 2012. This has been included in the base Business Plan to the extent that it can be afforded. The two further models described above begin to show how additional investment could be achieved, but require detailed consultation on the choices to be made, backed with further financial modelling and options appraisal, before being presented back through Cabinet.

6. HRA TREASURY MANAGEMENT PLAN

6.1 The HRA Treasury Management Plan is described in the HRA Business Plan document and attached as an appendix to it. The HRA Treasury Management Plan is compliant with the CIPFA code of practice in that:

- debt remains the debt of the authority, even if notionally loans are allocated to the General Fund or the HRA.
- the Treasury Management Plan is clear about the principles of allocating loans
- Treasury Management implications will be part of the Local Authority guidance notes to the Treasury Management Code and Local Authorities with housing will be required to have regard to them

6.2 It also follows the CIPFA key principles and the Council's Corporate Treasury Management Policy and Strategy for allocating loans between debt pools as follows:

- the allocation should be broadly equitable between the Housing Revenue Account (HRA) and General Fund but at no detriment to the General Fund
- future charges to the HRA in relation to borrowing should not be influenced by General Fund decisions
- uninvested balance sheet resources which allow borrowing to be below the Capital Finance Requirement are properly identified between General Fund and HRA.

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6.3 The CIPFA Treasury Management Code suggests that:

- budgets and treasury management plans can be compiled based on estimates
- new borrowing from 1 April 2012 can be allocated to new loans pools
- existing loans should be frozen at 1 April 2012 and apportioned as soon as final figures are known

These suggestions have all been taken into account. The Council has consulted its external Treasury Management advisors to prepare the plan and will continue to require and benefit from their advice as this strand of work is reviewed and updated.

7. ALTERNATIVE OPTIONS CONSIDERED

The Council needs to have a HRA 30-year Business Plan and HRA Treasury Management Plan and therefore no alternative options were considered.

9. REASONS FOR RECOMMENDATIONS

The HRA 30-year base Business Plan is a sound basis on which to move into self financing. It is sufficiently developed in the first ten years to translate into a feasible delivery plan, maximise resources to provide services to tenants and leaseholders and carry out physical improvement to the stock at a level that is felt to be viable at this stage. The two further models described in this report, together with the exploration of new funding options, will give tenants, residents and other stakeholders the opportunity to make additional choices and build on the base over time.

10. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE RESOURCES AND OTHER DEPARTMENTS

10.1 Financial Implications

As described in the report, the HRA 30-Year Business Plan is supported by detailed financial modelling. This is based on a number of assumptions and sensitivities which are described within the HRA Business Plan document.

The 30-year Business Plan shows a revenue balance of £158m at year 30, there is no capital shortfall and all debt is repaid. In addition to the base Business Plan, two other business plans have been modelled. The first model is based on the replacement of 770 Right to Buy sales and the second model considers the impact of achieving sustainable high quality accommodation.

The Right to Buy model shows a cumulative revenue surplus of £27m. The other model indicates a total investment of £133.3m over the thirty year period. This model shows a £9m cumulative revenue reserve at year 30, but it is not possible to repay any debt in this model.

Details of the business plan and financial modelling described above are set out in the Business Plan document.

10.2 Legal Implications

The concept of 'self financing' is set out specifically under 'Housing Finance' in chapter 3 of Part 7 of the Localism Act 2011. 'Self financing' is a system for financing council housing to replace the HRA subsidy system. Sections 167 to 175 of the Localism Act 2011 provide for the new system. The HRA Subsidy system will end and local authorities currently operating a HRA will keep all of their rental income and use it to support their own housing stock.

The reforms will only have implications for each stock-retaining local authority's ring-fenced HRA and will not impact on General Fund finances or on other local authorities.

Local authorities will still be required to account to their tenants for income from and expenditure on council housing separately from income and spending on other functions and services. Capital funding will also be provided to tackle the Decent Homes backlog.

The recommendations proposed in this report comply with the reforms set out in the Localism Act 2011.

Under Section 76 of the Local Government and Housing Act 1989 there is a duty imposed on local authorities to prevent a debit balance on the HRA.

10.3 Property Implications

Representatives from Property Services are fully engaged in the HRA Self-Financing project and in particular attended the Asset Management Strategy working group meetings. Their comments and views have been reflected within the HRA 30-Year Business Plan and supporting Asset Management Strategy.

11. KEY RISKS

There are clearly a number of risks associated with setting a 30-year business plan. These are set out as a chapter of the document and supported by a full risks, issues and opportunities register. The sensitivity analysis described in the plan measures the significance of any change to financial assumptions and their likely impact.

12. IMPACT ON COUNCIL PRIORITIES

HRA Self-Financing will allow the Council and Enfield Homes greater opportunity to manage their Housing Revenue Account business in line with their own priorities rather than those imposed by Central Government.

12.1 Fairness for All

Council tenants and other interested stakeholders are closely involved with the HRA business planning project, and their views have been taken into account in developing the HRA 30-Year Business Plan, Asset Management Strategy and Treasury Management Plan. The proposals in these documents are designed to tackle inequality and provide a better place to live for all Council tenants, starting with those who are living in the areas most in need of capital investment.

12.2 Growth and Sustainability

The HRA Business Plan and Asset Management Strategy address growth and sustainability issues, with particular reference to the aspirations to increase stock numbers and to develop sustainable accommodation for the future.

12.3 Strong Communities

The Council's HRA stock is sizeable and therefore the choices it makes through its HRA 30-year business planning processes will have a significant impact on local neighbourhoods within the Borough.

13. PERFORMANCE MANAGEMENT IMPLICATIONS

An action plan accompanies the document. This will require constant monitoring to ensure that it stays on target, both in budgetary and physical delivery terms. The monitoring role will be undertaken through the HRA Programme Board and the HRA Advisory Board and any significant variation reported back to Cabinet.

14. EQUALITIES IMPACT IMPLICATIONS

14.1 The adoption of the "sustainable high quality accommodation" standard, together with the area prioritisation scoring matrices proposed in the HRA Asset Management Strategy and reflected in the HRA Business Plan, are specifically designed to address issues of inequality in the borough so that all tenants live in better standard accommodation more suitable to their needs and neighbourhoods are improved.

14.2 A predictive equalities impact assessment supporting the HRA 30-Year Business Plan is available on the Council's website.

15. HEALTH AND SAFETY IMPLICATIONS

Health and Safety issues have been weighted appropriately when considering prioritisation for HRA stock investment over the 30 year period. In addition, it is acknowledged in the HRA Asset Management Strategy that Health and Safety will continue to be given absolute priority in the event that significant issues arise.

Background Papers

"Implementing Self-Financing for Council Housing" DCLG (February 2011)
"The HRA and Self- Financing Determinations" DCLG (July 2011)
"Self-Financing – Planning the Transition" DCLG (July 2011)
"Depreciation and Treasury Management under the Self-Financing of Council Housing" CIPFA (August 2011)
"Consultation on the Draft Determinations to Implement Self-Financing for Council Housing" DCLG (November 2011)
"The Housing Revenue Account Self-Financing Determinations" DCLG (February 2012)