Havering
LONDON BOROUGH

CABINET **26 October 2011**	REPORT

Subject Heading:	The Reform of Council Housing Finance (Implementation)
Cabinet Member:	Councillor Lesley Kelly
CMT Lead:	Cynthia Griffin
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Policy context:	Reform of Council Housing Finance – Implementation and Planning the Transition
Financial summary:	These decisions primarily relate to the preparation for Housing Revenue Account, HRA, Self Financing. The financial consequences at this stage cannot be finalised until further government announcements, although it is clear that the Council's HRA will need to borrow a substantial amount to make a payment to "buy itself" out of the subsidy system.
Is this a Key Decision?	Yes
Is this a Strategic Decision?	Yes
When should this matter be reviewed?	When the Government makes a further announcement – January 2012
Reviewing OSC:	Towns and Communities

The subject matter of this report deals with the following Council Objectives

Ensuring a clean, safe and green borough	[]
Championing education and learning for all	[]
Providing economic, social and cultural activity in thriving towns and villages	[X]
Valuing and enhancing the lives of our residents	[X]
Delivering high customer satisfaction and a stable council tax	[]

SUMMARY

This report presents information about the current Housing Revenue Account Subsidy system, and the proposals that are due to implemented in April 2012 to reform the Housing Revenue Account system. It shows how the proposed new system is currently projected to require Havering Council to take on estimated additional housing debt of £160m, which will mean that the Council's total housing debt will be £203m. These estimates are subject to changes before the final figures are known in January 2012. The Council will have to manage this debt and deliver a decent level of stock investment over a 30 year HRA Business Plan. The initial baseline HRA Business Plan model shows that this is achievable as long as the Decent Homes funding allocated in February 2011 remains in place.

This report proposes that there should be an annual review of the HRA Business Plan figures in order to ensure that the assumptions about expenditure, income and the repayment of debt are sound and have no adverse impact on Council tenants or Council Tax payers.

RECOMMENDATIONS

1. That Cabinet notes the changes in the Reform of Council Housing proposals that have occurred since the subject was last considered in June 2010.

2. That Cabinet approves the baseline HRA Business Plan model – included in Appendix 2 of this report – for the management of the Council Housing stock over the next 30 years, and the assumptions which are included in it.

3. That Cabinet notes that the Council's Treasury Strategy will be reviewed, and that there is a report to this end, elsewhere on this Agenda.

4. That Cabinet commits to carrying out an annual review of the HRA Business Plan, in order to ensure that the objectives of maintaining the condition of the Council's housing stock and meeting the Council's financial obligations are fulfilled.

5. That Cabinet approves the application of a 'mortgageable' standard for its stock in addition the Decent Homes standard for the purposes of HRA business planning.

6. That Cabinet commits to review, no less frequently than annually, which, if any, of the Council's housing stock investment pressures should be met from additional borrowing up to the maximum borrowing cap.

7. That should the number of sales of council homes under the Right to Buy rise above the 13 assumed in the baseline HRA Business Plan model, the policy of not applying Right to Buy receipts to pay off the debt associated with those properties will be reviewed.

8. That Cabinet agrees to refer the baseline HRA Business Plan model to full Council for approval.

REPORT DETAIL

1 The current Housing Revenue Account Subsidy system

1.1 Every local authority that owns housing is obliged to maintain a Housing Revenue Account (HRA). The account is "ring fenced" in that all income from and expenditure on the management of a council's housing stock is held within the account, and local authorities are not permitted to subsidise the account from contributions from the General Fund, and nor are councils allowed to subsidise the General Fund by contributions from the HRA. The main items of income and expenditure on the HRA are:

Income
Rents and service charges from tenants
Income from council owned shops on estates
Interest on council mortgages
Interest on balances

Expenditure
Management and maintenance costs
Provision for bad debt
Interest on loans

The Government currently operates a notional account to calculate housing subsidy using a number of formulae. If the Government's calculated income for a particular local authority exceeds its calculated expenditure, then the authority is obliged to pay subsidy to the Government. Conversely, if a local authority's calculated expenditure exceeds its calculated income, then it would receive subsidy from Government. What largely determines whether a local authority receives or is paid subsidy is the interest on its loans. Therefore, local authorities with large historic debt were more likely to receive subsidy than local authorities with low levels of housing debt. In 2009/10, the latest available data, 128 councils paid a total of £695m into the national HRA subsidy system. This left 50 councils in receipt of subsidy payments of £596m leaving a net surplus in the system of around £100m. Notably, only five councils accounted for 40% of the money taken out of the system; LB Southwark and LB Islington received around £130m between them.

An additional complication to the system is caused by the fact that the costs that the Government uses to determine whether a local authority receives or pays subsidy are not real costs, but notional costs which the Government uses to decide what the local authority ought, in its view, to be spending on its core activities.

In past years, at a national level, the subsidy payments in and out have balanced off at a national level. Thus, the national HRA was in effect ring-fenced for housing purposes. Since 2008/9, however, the overall national pot has been in surplus, with the national surplus being taken by Central Government to spend on other programmes. A campaign against this system has been in operation for a number of years, on the basis that this system has in effect, become a "tax on tenants".

The estimated surplus for 2011/12 is £600m; this is increasing every year that the system continues to run in its present form. If the current system continues the total contribution will be £17bn over the next 30 years.

2. Problems with the Housing Subsidy system

2.1 The current system of Housing Subsidy has been heavily criticised by a range of reports, ranging back to an Audit Commission report in 2005. This has led to a number of reviews, including an 18 month pilot to establish whether an alternative system could be provided.

2.2 The main criticisms of the current system are:

- it is an opaque system, which is understood by very few
- it removes control and accountability from local authorities, making it a national system locally administered, rather than one on which local authorities make real decisions in response to local conditions and preferences
- it removes local decision making, so that tenants have virtually no influence over the efficiency or decisions of their landlord
- it has been proven that certain key elements, such as management and maintenance allowances, are under funded
- key decisions, such as subsidy levels and rent levels, are decided on an annual basis by Central Government and this removes local authorities' ability to make proper local term asset management decisions.

2.3 The problems with the current system were acknowledged by the previous Government. A Consultation Paper was issued last year, which invited local authorities to indicate whether they would prefer to continue with the existing system, make minor tweaks to the system, or move to a new alternative system of "Self Financing" which would enable local authorities to plan and manage their housing stock over a 30 year cycle. The overwhelming response was that local authorities would prefer to move to a new system, although the major concern was how historic debt would be re-distributed.

2.4 The current Government has issued firmer implementation papers, including the Implementation Paper in February 2011, and "Self Financing: Planning the Transition" in July 2011.

3. The Proposals

3.1 The Government is implementing a scheme which will bring the Housing Subsidy system to an end in April 2012. The enabling legislation is included within the Localism Bill, which is due to pass into law in December 2011. What is proposed in effect is that local authorities would get the independence and responsibility for the management of their housing stock that they are seeking, but this would be in return for a "payment" which represents the redistribution of the national housing debt in the form of a one off payment to or from Central Government. For Havering Council, this would be a payment to the Government given that the Council is already in negative subsidy, that is, it pays into the national HRA subsidy each year under the current arrangements. The national balance of these individual payments for and to housing authorities represents some part of the future surpluses that the Government had anticipated it would have received had the system continued in its present form.

3.2 The overall national deal is to allocate £27bn of debt between the approximately 178 local authorities remaining within the Housing Subsidy system. (The exact number of local authorities in the system continues to fall, as some are currently balloting their tenants on possible Stock Transfers.) In total, £21.5bn of this is the national housing debt; £2bn is the value of PFI credits; £3.6bn is the Government's "price" to give local authorities that freedom. The deal does include however, uplifted allowances of management and maintenance expenses, which the Government acknowledges are currently under funded.

3.3 The figure that each local authority has been given is the level of national debt that they are being asked to take on. In effect, this is the net present value of future subsidy payments using the increased allowances and presenting it as a sum in present day values (Net Present Value or NPV) by applying a discount factor. A discount factor of 6.5% has been applied to this calculation, which is similar to that applied to the value of stock transfers. This gives one value to the business.

3.4 The Government has re-iterated its commitment to completing the Decent Homes Programme through a regime of capital grants, although the original proposals for funding the Decent Homes Programme have been radically reduced. The Consultation paper issued in November 2010, made a number of significant changes to the Decent Homes Programme. This included the requirement for all local authorities to fund the last 10% of non-decency themselves. The level of funding was reduced. Also, the requirement that authorities had to have an Arm's Length Management Organisation to receive additional Decent Homes monies was removed.

3.5 The proposals do limit the level of borrowing each local authority can take on, by setting a limit of indebtedness. Clearly the Government does not want local authorities embarking on significant borrowing, which would compromise the over-riding Government priority to reduce the national debt. It is also proposed that rents will remain under Government control, through the rent restructuring formula. It is proposed that rents will converge at target rents by 2015/16 and rise by RPI + 0.5% thereafter. It appears that the caps and limits regime also remains in place for this year. Currently this compensates local authorities where they cannot recover the full level of rent increase because of the limit on a rent increase in any one year. Under self financing this compensation will not be payable, however, but has been taken into account in calculating the debt settlement figure.

3.6 Management and maintenance allowances are increased in the proposal and for Havering, this increase amounts to 5.2% for management and maintenance allowances and 29.5% for our Major Repairs Allowance, MRA. The average increase for all authorities is 5.7% for management and maintenance and 30.2% for Major Repairs Allowance. The purpose of the MRA is to maintain stock at a Decent level, once backlog repairs have been carried out. The average MRA in Havering is around £1,127 per property per year; and this equates to around £33,870 per unit over a 30 year life. This is not far from the industry estimate of the cost of maintaining property.

3.7 Currently 75% of RTB receipts are "pooled" back to Central Government. As part of the initial discussion paper on self-financing, the Government had proposed that local authorities could retain 100% of their RTB receipts. However, this proposal has been withdrawn and the Government has adjusted the debt settlement to reflect the fact that RTB receipts will continue to be pooled. Within the last few weeks, the Government has announced its intention to amend RTB discounts nationally to make the scheme more attractive to tenants. It not yet clear how, if at all, any impact of these changes will be reflected in the opening debt settlement. The situation will be kept under review by officers and reported to members should the impact be material to the HRA Business Plan.

3.8 One factor that should be noted in the new self financing regime is that in effect the local authority will be paying for "real" debt within the HRA Business Plan. If a property is sold, and the debt associated with that property is not paid off, then that debt remains to be serviced by a reduced number of properties. This would not necessarily be significant for a small number of properties, but should a small scale stock transfer (say, like the Mardyke Estate) take place, then the debt associated with the properties sold, should be paid off, or the level of debt attributed to the HRA Business Plan may at some stage become unmanageable. What this means in practice is that there would need to be a proper option appraisal in place to support any decision to make voluntary disposals. This would need to take into account (a) the investment requirement for that particular property, which would no longer be required, (b) the loss of rental income, and also (c) the debt associated with the property, which would need to be paid off or maintained. There may be some cases where the debt associated with the property might exceed its value. Under the current system, the debt was not a significant factor because the interest costs were covered by the Government within the Housing Subsidy formula. Under the Self Financing regime, the debt is a real debt on the Council's books and we would be obliged either to pay it off, or pay the interest on it from resources within the HRA Business Plan.

3.9 It is proposed that the Tenants Services Authority (TSA) will regulate both the HRA Business Plans of local authorities, as well as the rent regime. It is proposed that there should be a separate HRA balance sheet, which will show, on an annual basis, the assets and long term debt liabilities. The TSA will become part of the Homes and Communities Agency on 1 April 2012 but the regulation functions remain.

3.10 Currently, all local authority debt is "pooled" across all the activities of the Council. There is a consolidated rate of interest (CRI) across all loans, which is shared between the HRA and the General Fund. There will be a requirement for Havering Council to take on an additional level of debt, and it is therefore possible that the debt could be split between the different activities. This gives the opportunity of attributing a different level of interest rate across the HRA and the General Fund. The CIPFA Guidance indicates that the way in which the debt should be split should be equitable between the two activities.

3.11 The Council is currently taking advice on the proposals to split the debt, and the best way that this debt and its interest costs should be attributed between the HRA and General Fund.

3.12 The HRA has been ring fenced since 1989, and the guidance on the ring fence is sometimes not always clear. There has been no change to the proposals for the ring fence, and local authorities are obliged to ensure that appropriate activities are funded from the HRA and that no subsidy between the HRA and General Fund is permitted.

3.13 The Government is acutely aware that the movement of some £20bn of debt between local authorities and Central Government will be a significant transaction, and may cause many local authorities, the Public Works Loan Board (PWLB) and the market some difficulties. Some changes have therefore been put in place to assist the process:

- the PWLB has put in place an online application arrangement
- the PWLB is making available short term loans of 12 months with variable rates, which can be paid back without significant penalties – in effect, the PWLB can provide bridging loans for local authorities

who want to take more time to consider their market options; this arrangement is only available for the payment of self financing debt

- there has been a recent announcement by the Treasury that the interest charged on PWLB loans, for the purpose of discharging a local authority's obligations under Self Financing, will be reduced by 1% on the rate announced last October. This makes longer term loans from the PWLB attractive again
- the Government is putting in place powers to charge interest to those local authorities who do not pay their debt contribution on 28 March 2012.

4. The Baseline HRA Business Plan Model

4.1 The first set of financial models that have been constructed look at what would happen if the current system continued in the present form. This would result in a very difficult position for the Council over the forthcoming years. The stock investment work that is required would never be completed; the level of housing debt would never be paid off, and the HRA would quickly go into deficit and end up at a negative figure of minus £50m by Year 30 if no action was taken to drastically reduce costs. This is illustrated at Appendix 1.

4.2 Under the Self Financing regime, there is a better future in prospect, although of course there are risks associated with this regime that need to be taken into account. A **baseline HRA Business Plan model** has been drawn up. It should be noted that given that the final debt figures are yet to be released by the Government, the work to date should be considered a baseline model, rather than a finalised opening HRA Business Plan. Housing, Homes in Havering and Finance officers have worked together to establish a series of prudent assumptions for baseline HRA Business Plan model, which are as follows:

- RPI at 2.5% through the life of the plan
- financing costs at 6.0% through the life of the plan
- 13 properties sold through the Right to Buy each year throughout the life of the HRA Business Plan (which is the current level of disposals)
- the stock investment requirement is that identified in the Stock Condition Survey (which is more than is required under Decent Homes, though not beyond a 'mortgageable' level for the properties)
- balances in the HRA need to be maintained at a minimum provision of £2m
- Right to Buy receipts are not used for housing purposes up to the level of anticipated sales
- Decent Homes funding is provided by the Government as allocated in February 2011 (£62.7m over four years)
- voids level at 1.4% and bad debt at 0.76%
- opening number of properties 9,959, with an average rent of £74.92

- opening debt of £203.097m (net additional debt of £160.342m). It should be noted that should the new RPI rate of 4.5% would increase the total debt figure by £6.5m.

4.3 The baseline HRA Business Plan model is illustrated at Appendix 2. Under the model, balances can be maintained at the minimum required level, whilst the work is carried out. The baseline HRA Business Plan model shows that the backlog of work is completed in Year 12, and thereafter the balances begin to rise which enables the Council to pay of its debt by Year 24, if it chooses to do so. It should be noted that completing all the backlog of stock investment within 12 years, may not be readily acceptable to tenants, however, it should be noted that decent homes investment will be completed by year 8 at the latest. As stated in paragraph 3.4, the Government requires that for councils with non-decent stock, the HRA Business Plan must deliver the last 10% of non-decency through its own resources. Also, there is the added pressure of newly arising non-decency. That said, through prioritisation of decency above other investment, decency could be delivered before year 8 if desirable.

4.4 A number of alternative assumptions and scenarios have been applied to the baseline HRA Business Plan model so as to test the impact of a range of actions and approaches to planning for the housing stock over a 30 year HRA Business Plan. The scenarios are set out below in Table 1, and the summary of the impact is shown in Table 2. All assumptions are as set out above at Paragraph 4.2, apart from those specifically varied under each scenario.

4.5 There are in fact an infinite number of alternative scenarios that could be examined, and it is likely that over time as the HRA Business Plan is reviewed and tested, a mix of factors will pertain. For example, in the examples in the table, it is assumed that either no or all the RTB receipts are applied to Housing, but it is of course possible to apply different proportions in the HRA Business Plan and assess the impact.

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SCENARIO		HRA Surplus Point (>£2m) Year	SCS Investment Backlog cleared Year	Debt Free Point Year
	Baseline HRA Business Plan model	24	12	24
Variants to the baseline HRA Business Plan model				
1	RPI = 4% rather than 2.5%	21	11	21
2	Inflation on capital 1% > RPI	28	16	28
3	Inflation on capital 2% > RPI for first 10 years	29	20	29
4	Interest Rate 7% compared with current assumption of 6%	27	17	26
5	RTB sales rise to 50 instead of 13 per annum	27	14	27
6	Right to Buy receipts are applied to the HRA Business Plan	24	11	23
7	No real ½% inflation on rents	30	18	30
8	Reduce level of investment to minimum Decent Homes Level	20	8	20
9	Debt settlement figure £6.25m higher (possible 2012/13 settlement figure)	25	13	25
10	No real ½% inflation on rents Interest Rate 7% compared with 6%	30+	26	30+
11	No real ½% inflation on rents Interest Rate 7% compared with 6% Invest Decent Homes Level	30+	23	30+
12	No real ½% inflation on rents Inflation on capital 1% > RPI	30+	27	30+
13	Interest Rate 7% compared with 6% Inflation on capital 1% > RPI	30	23	30
14	Interest Rate 7% compared with 6% Inflation on capital 1% > RPI; Invest Decent Homes Level	29	21	29

4.6 The scenario testing when applied to the baseline HRA Business Plan model and displayed in the above table indicates that the most significant factors that make a difference to the HRA Business Plan are:

- the level of financing costs, and whether it rises significantly above 6%
- the level of investment carried out, and
- capital inflation.

4.7 It then becomes a question in planning the way forward, how long it is considered acceptable for tenants to have the work programme completed; and what level of stock investment is acceptable.

4.8 There are clearly some major risks associated with this HRA Business Plan. For example, it is clear that one of the risks that cause major difficulties is a long and consistent period of high capital inflation. Should this occur, then it would be necessary for the Council to take action to mitigate the risk. This might be either to cut the investment programme for a period, or to inject some additional resources, such as capital receipts.

4.9 A second risk is the risk of interest rates rising. This is clearly a risk that is quite likely to occur, and the action that might be available to mitigate this risk, is to adopt a range of borrowing tactics, including some long term fixed rate borrowing, to introduce a level of certainty in the HRA Business Planning. What will be different in the future, under a HRA Business Plan, is that the Council will be adopting real business planning, managing these risks pro-actively and making real decisions about rents, investment, borrowing and payment of debt. The Council has appointed financial advisors, Sector Housing Services, to carry out the initial assistance in preparing for Self Financing, but regular ongoing advice will need to be tendered in order to establish a regular review of the HRA Business Plan.

5. Disposals and demolitions

5.1 One of the key factors influencing the level of debt that the Council will be obliged to take on is the number of properties that we have; the fewer the properties, the lower the level of debt the Government calculates that the HRA Business Plan can support. The guidance regarding the opening debt settlement allows the Council to disregard from its opening stock level any properties it plans to demolish before March 2017, so long as the Council has resolved to demolish the properties and has consulted all the tenants involved and this has been verified by the Council external auditors by no later than 10 October 2011. These requirements have been met and so the necessary audit sign off of all planned demolitions has been granted. Therefore, the Council can be sure that the benefit of its current demolition plans will be reflected in its opening debt settlement. The opening number of housing dwellings within the HRA Business Plan will be around 9,959.

5.2 If and when, in the future, the Council wishes to consider any proposals for disposal / demolition, it remains an option for the Council to manage its stock actively, and make future disposals and/or demolitions if it chooses to do so. However, the calculation of the financial effect on the HRA Business Plan needs to include consideration of the impact of the loss of income (and loss of repairing and investment responsibilities) of each disposal, and a decision will need to be made in relation to that impact at that point in the lifetime of the HRA Business Plan.

6. Stock Investment level

6.1 The Council has an obligation as a landlord to maintain its properties. In addition there is a Government target to eliminate the backlog of investment in social housing, and achieve the Decent Homes standard. This obligation has been funded through the Backlog Funding scheme, and Havering Council is due to receive a total of £62.7m over the four years 2011/12 to 2014/15 to complete 90% of our Decent Homes work.

6.2 The Decent Homes Standard however, does not include a number of significant items that would maintain our housing stock at a mortgageable standard. These include, for example, lift repairs and environmental works. The level of investment included in the baseline HRA Business Plan model therefore includes those essential works that would achieve this higher level of stock quality. This level is achievable within the current baseline HRA Business Plan model. An alternative scenario which would see completion of the minimum Decent Homes Standard is included as Scenario 8 in the table under paragraph 4.5 above. This shows that should this lower level of investment be carried out, then the work would be completed by Year 8 and the debt be paid off by Year 20.

6.3 The level of investment that has been included in the baseline HRA Business Plan model is therefore Decent Homes as a base *plus* additional works that would ensure that the property is mortgageable. This means that the property maintains in effect its market value, and can be bought and sold as required. For example, our properties that are system built properties under certain designated non traditional methods used immediately after the war cannot be sold on the open market, as there are no lenders willing to provide mortgage funds to buy them. The work that is included in the stock investment programme will bring them up to a standard that will enable them to be sold on the open market. Should we fail to maintain a programme of maintenance of our stock, we would be obliged to set aside greater sums to provide for depreciation of our assets.

6.4 It is recognised that there is difference between the level of borrowing the Council needs to take on to make the payment to the Government under the opening debt settlement, and the cap on the maximum amount the Government would allow the Council to borrow for self-financing purposes. This is commonly referred to as the 'headroom' within the self-financing regime. It should be noted that the Government has set this upper limit for Havering at an estimated £27m above the figure required to pay off the debt. In effect this means that the Council may, if it chooses to do so, borrow additional money, but only for the purposes of implementing Self Financing and investment in its housing.

6.5 At this stage, it is proposed that no additional borrowing should be undertaken as it is recognised that this headroom is not immediately required to bring the stock up to the Decent Homes and mortgageable standard within a reasonable timescale. It is also recognised, however, that there are considerable additional pressures for further housing stock investment that are likely to arise over the coming 30 years, which may also give rise to additional expenditure.

6.6 It is prudent to retain the need for additional housing investment funded from headroom borrowing under constant review. Maintaining the sustainability of the Council's stock and estates in coming years could require additional investment. For example, standards relating to fire risk mitigation, legionella, asbestos remediation, and electrical safety are constantly rising and so could lead to additional investment needs. Furthermore, there may be additional option work that tenants and members would wish to bring forward to improve the quality of the housing stock. Some works which are optional and not included in the current baseline HRA Business Plan model that may arise over the next 30 years include:

Housing affected	Item
Sheltered housing	Some sheltered housing does not have lifts, and as existing residents age, they have either to move, or their independence is restricted. It may be helpful to have a programme to install lifts
	As the resident population ages, it is helpful to change the balance between sheltered accommodation and extra care

	accommodation which enable a frailer group of residents to remain independent. More of these units can be converted to extra care, rather than independent sheltered accommodation
	Telecare equipment can be installed and upgraded within sheltered accommodation in order to maintain the independence of existing residents
Energy efficiency	The properties most difficult to insulate, are solid brick construction dwellings. A programme of external insulation to these properties will assist with the Council's commitment to energy efficiency
	Solar PV panels. Plans are advanced to start a programme to install Solar PV panels. This programme could be accelerated
Car Parking	There has been a programme to remove redundant garages across housing estates, but it has also left a legacy of some additional requirement for remodelling off street parking in order to accommodate increasing car ownership
Estate improvements	There are continuing problems with some communal areas on estates, which need estate improvements, play areas, gating of alleys, and improved paths and fencing
Provision of new accommodation, such as bungalows	There is a programme of assisting elderly tenants who are under occupying their homes, but who are reluctant to move the Council does not have accommodation of the quality that they would be willing to accept. A programme to provide some high quality one and two bed bungalows in locations which are acceptable may be a solution to this.
Other basic improvements	There are problems with the need to improve continuously sound insulation, fire prevention measures, communal areas such as lobbies and lift areas, shops and community centres

6.6 Investment requirements in these, or other areas, need to be kept under review and it is prudent to retain the option to using the headroom borrowing to meet needs as they arise.

REASONS AND OPTIONS

The current system of Housing Revenue Account Subsidy is not fit for purpose. It currently re-distributes resources on an annual basis from local authorities who have little debt, to those who have accumulated a great deal of debt. The defects of the system have been known for a long time, and criticised in several reports since the Audit Commission Report of 2005. The current system does not allow for local accountability, local decision making or local control of rents, investment or business planning.

Clearly as the proposed new system is being imposed through legislation, the London Borough of Havering has no option now but to adopt and adapt to the new system. Whilst the system brings independence and responsibility, it also brings significant risks to the management of the housing debt. This report proposes that there should be an annual review of the HRA Business Plan so that the accuracy of all the underlying assumptions can be tested; and appropriate adjustments made in order to fulfil the twin objectives, of bringing the council housing stock up to a decent standard, as well as ensuring that the income, expenditure and debt are all managed in a prudent manner.

The Council could decide to borrow up to the borrowing gap at the outset, however, this option is not being followed with, instead, the case for using the additional borrowing facility to meet some of the Council's other housing investment pressures being kept under constant review.

IMPLICATIONS AND RISKS

7.1 Financial implications and risks:

- These proposals are not optional. Under self financing, those Councils, such as Havering, paying substantial HRA net surpluses to the Exchequer will legally be required to "buy themselves out" of this liability, based broadly on the net value of the rental income streams. That payment will mean having to take on additional debt currently estimated at £160m, though this figure will change, for example as stock details are finalised.

- While the settlement can be viewed as positive, in that it will increase assumed allowances for management and maintenance (Para 3.6.), there will be concern should the years 3 and 4 Decent Homes funding be reduced from the current indicative government allocation. The Council's previous favourable response to the proposals was predicated on receiving the full amount of Decent Homes funding.

- As explained in the report, the settlement will give the HRA the prospect of long term business planning, not being subject to the vagaries of the annual subsidy settlement - for example the recent 2008/09 £4m loss incurred by Havering Council. However, as also explained, there are risks to be managed, and this is reflected in Recommendation 4 - the need for annual review.

- A key decision will be the standard to which homes will be maintained, drawing a balance between the desire to invest in tenants' homes, and that of for example repaying debt, or building new supply.

- Due to the scale of new debt being taken on, the Council's Treasury Strategy will require review, and a report on this matter is elsewhere on this agenda..

7.2 Legal implications and risks:

The Council is likely to have no choice but to implement these proposals, when the Localism Bill is enacted. The management of the debt will inherently involve risks because of the current fiscal climate

Management of the debt will need to be closely monitored and controlled, both in terms of maintaining required repayments, and the effect it may have on the duties the Council will be expected to continue to perform.

7.3 Human Resources implications and risks:

There are no direct HR implications arising as a result of this report. There will be a requirement to manage the budget of the Housing Revenue Account actively, and should there be financial pressures then this may have implications for staffing. However it is anticipated that this would need to be considered and approved in the usual way, through reports to Cabinet.

7.4 Equalities implications and risks:

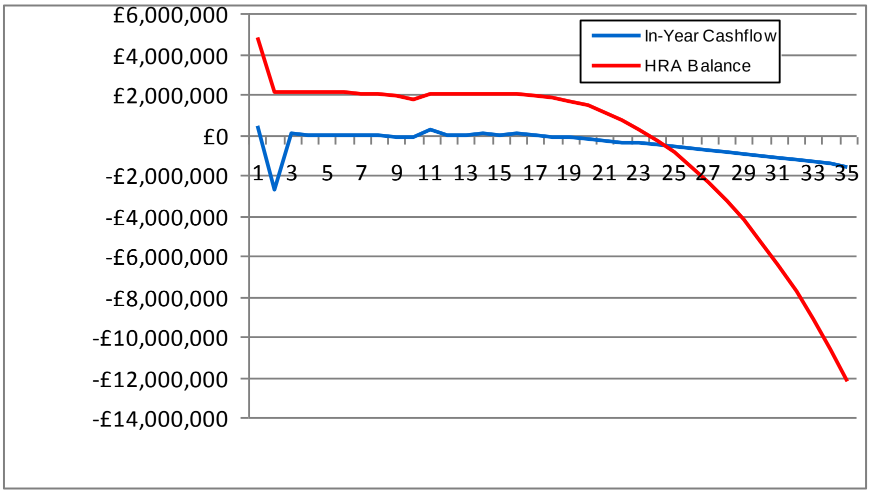
- The current baseline HRA Business Plan model includes adequate resources for the provision of aids and adaptations for disabled tenants.
- The current HRA Business Plan model provides for the provision of the current level of housing management service. Should the HRA Business Plan become under serious financial pressures in the future, which are identified in Table 1, then there would need to be savings in the housing management service, which may have implications for equalities. Any changes to the quality of the housing management service would be reported in the usual way, and an Equalities Impact Assessment carried out.

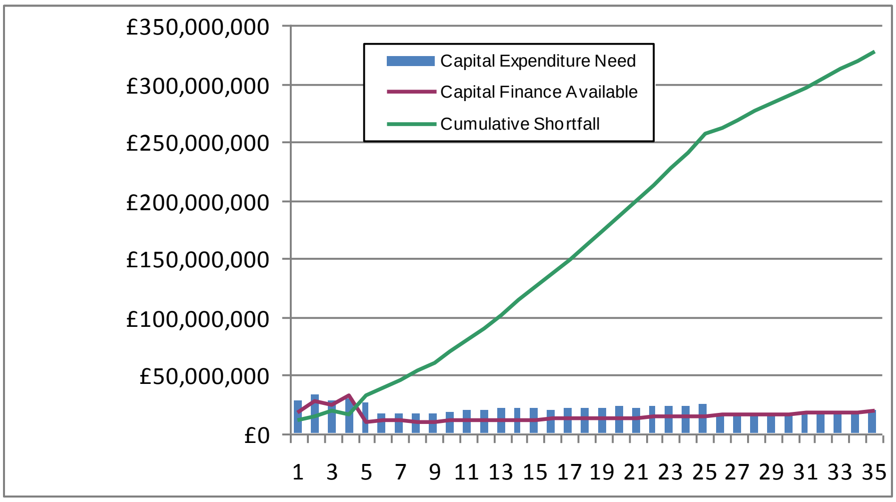
BACKGROUND PAPERS

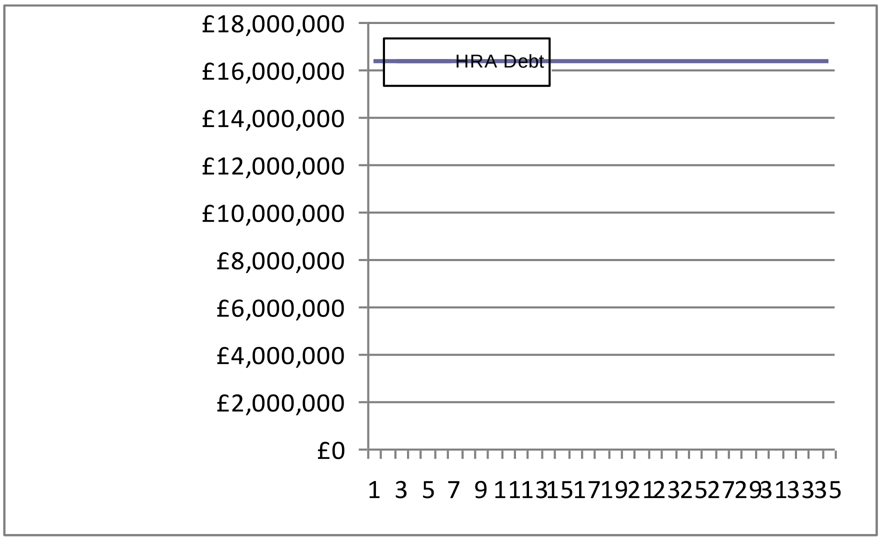
Self Financing: Planning the Transition: issued by the Communities and Local Government Department, July 2011
The Housing Revenue Account and Self Financing Determinations: issued by the Communities and Local Government Department, July 2011

Cabinet, 26 October 2011

Appendix 1 – HRA projection under the existing HRA subsidy system







Appendix 2 – Baseline HRA Business Plan model

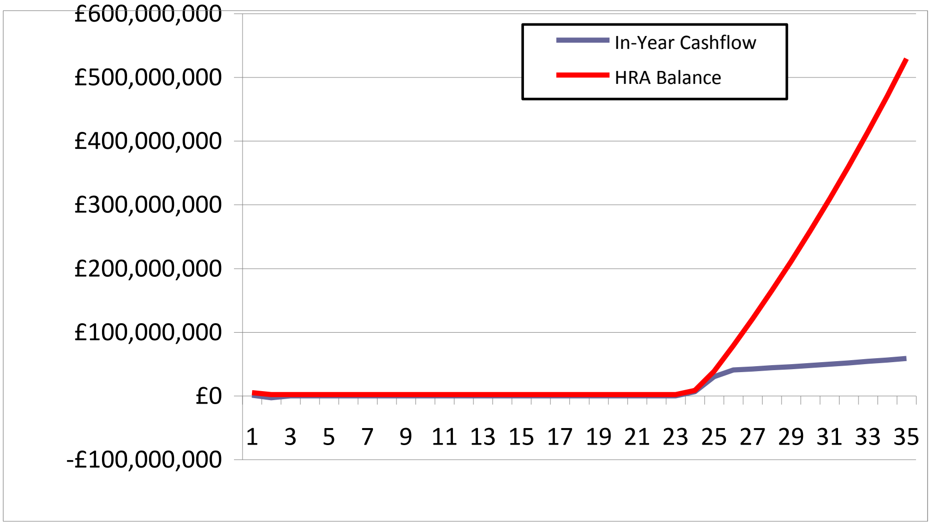
Assumptions

- RPI at 2.5% through the life of the plan.
- Financing costs at 6.0% through the life of the plan.
- 13 properties sold through the Right to Buy each year throughout the life of the HRA Business Plan (which is the current level of disposals).
- The stock investment requirement is that identified in the Stock Condition Survey (which is more than is required under Decent Homes, though not beyond a 'mortgageable' level for the properties).
- Balances in the HRA need to be maintained at a minimum provision of £2m.
- Right to Buy receipts are not used for housing purposes up to the level of anticipated sales
- Decent Homes funding is provided by the Government as allocated in February 2011 (£62.7m over four years)
- Voids level at 1.4% and bad debt at 0.76%.
- Opening number of properties 9,959, with an average rent of £74.92.
- Opening debt of £203.097m (net additional debt of £160,342m). It should be noted that should the new RPI rate of 4.5% would increase the total debt figure by £6.5m.

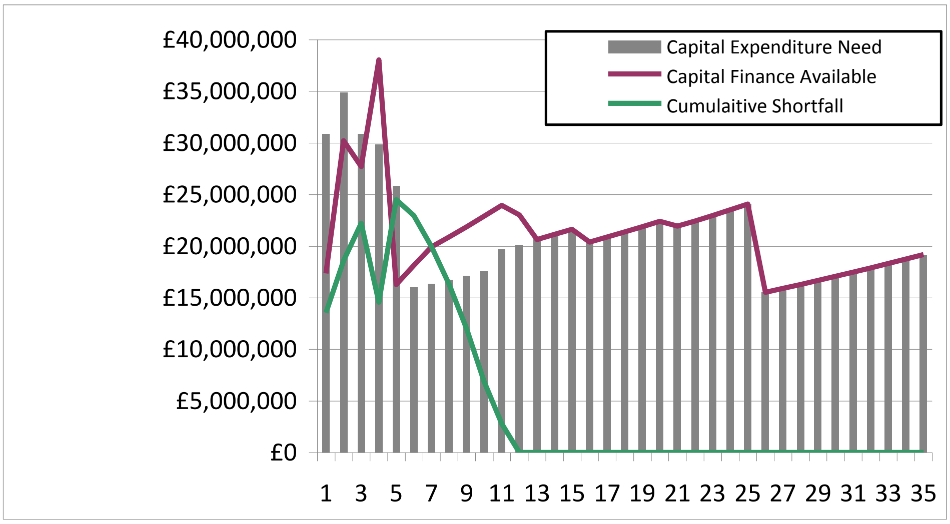
Summary of Outcomes

- HRA surplus point (>£2m) achieved in year 24 of the 30 year plan.
- Stock Condition Survey investment backlog cleared in year 12.
- Debt free point achieved in year 24.

HRA Balances



Investment profile



Debt profile