BODY:	**CABINET**
DATE:	**9th December 2015**
SUBJECT:	**Housing Revenue Account (HRA) – 30 year Business Plan**
REPORT OF:	**Senior Head of Community**
Ward(s):	All
Purpose:	To update members on the latest update of the Housing Revenue Account (HRA) 30 year Business Plan and to make members aware of the implications of recent Government announcements relating to the operation of the HRA.
Contact:	Ian Fitzpatrick, Senior Head of Community Tel 01323 415935 or internally on ext 5935 Pauline Adams, Financial Services Manager Tel 01323 415979 or internally on ext 5979.
Recommendations:	Members are asked to: i) Note the content of the report and work being undertaken to set a sustainable HRA business plan ii) Delegate authority to the Snr Head of Community in consultation with the Community Cabinet Portfolio Holder to respond to the Government proposal to outline long term implications of the changes

1.0 Introduction

1.1 The Local Government Act 2003 gives the Secretary of State power to require local authorities to prepare HRA business plans and housing strategies and direct how they should be prepared.

1.2 The requirement for HRA business plans to be submitted to Government has been removed, however it is not only good practice for authorities to prepare HRA business plans but under self-financing there is a need for the HRA to have a detailed business plan to sustain the assets and ensure that debts can be serviced.

1.3 Business planning should be the main tool by which the service is managed, used for service and financial planning, informed by and informing all other plans such as asset management and investment.

2.0 HRA Self-Financing

2.1 The Self Financing regime for Housing Revenue Accounts was introduced on 1 April 2012, and since that time all local authorities have been expected to support all expenditure relating to its housing stock from its rental income.

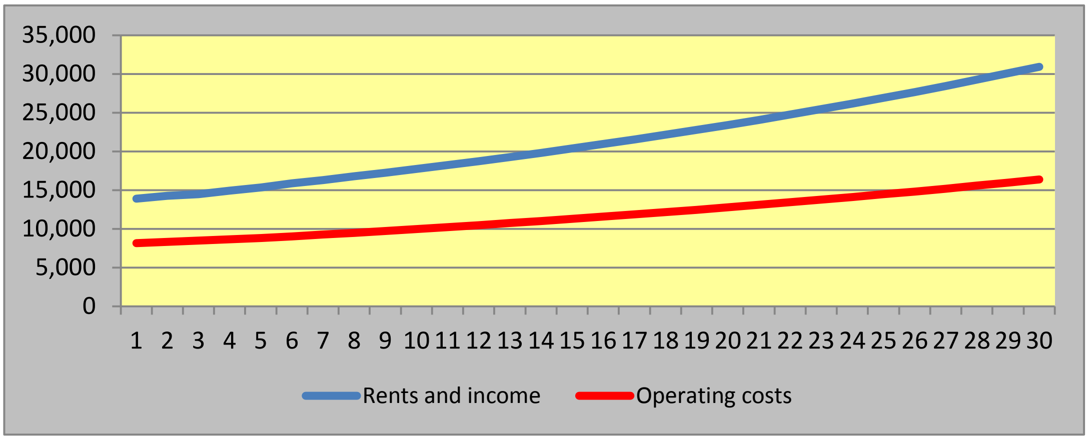
2.2 Self-Financing replaced the old complicated centralised housing subsidy system where housing authorities either received subsidy or were in negative subsidy i.e. where payment had to be made into the Government's central pot. As this authority was a receiver of subsidy, to achieve self-financing the Government made a one off £30m settlement payment to the council which was to be used for debt repayment in order for the long term HRA business plan to be sustainable. The majority of HRA authorities were in negative subsidy and under self-financing had to make lump sum payments to Central Government and thus taken on substantial external new debt.

2.3 The HRA self-financing settlement was based on the HRA business plan being sustainable over 30 years.

2.4 This Council together with Eastbourne Homes employed CIH as consultants to produce the initial thirty year business plan. A number of presentations were made to members back in the autumn of 2011, and a report submitted to Cabinet on 8th February 2012 setting out the outcomes of the Business Plan as at that time.

2.5 Over the full course of the Business Plan, the HRA was predicted to maintain a sustainable position with rental income meeting expected levels of expenditure together with meeting its capital funding requirements necessary to maintain the housing stock in a viable condition.

2.6 The chart below demonstrates how income was expected to exceed operating costs over the thirty years to 2042.



The excess income provided the opportunity for either the repayment of debt outstanding by year 18 (2029-30), the reinvestment in the existing stock or investment in new housing schemes and at that time it appeared that sufficient resources would be available to achieve Council policy objectives over the life of the HRA Business Plan

3.0 HRA Performance 2012/13 to 2015/16.

3.1 HRA performance since the introduction of Self Financing has been in line with the original business and surpluses have been generated in excess of expectations each year. The HRA Balances as at 31.3.16 are expected to be as follows:

HRA Revenue Account	£3,412,000
Housing Regeneration and Investment Reserve	£ 784,000

In addition a capital programme of £31m has been undertaken funded from borrowing, capital receipts, Major Works Reserve and HCA grant.

4.0 HRA Business Plan going forward

4.1 There are a number of legislative changes proposed in the Housing and Planning Bill and the Welfare Reform and Work Bill that will have a financial impact for both the Council and Eastbourne Homes.

The Key points are:

1. 1% reduction in social housing rents for four years;
2. Sale of Council housing high value assets;
3. 'Pay to stay', where high earners will be expected to pay more rent.

The bill also proposes the extension of Right to Buy to Housing Association Tenants, which will be funded by the sale of Council housing high value assets as noted above.

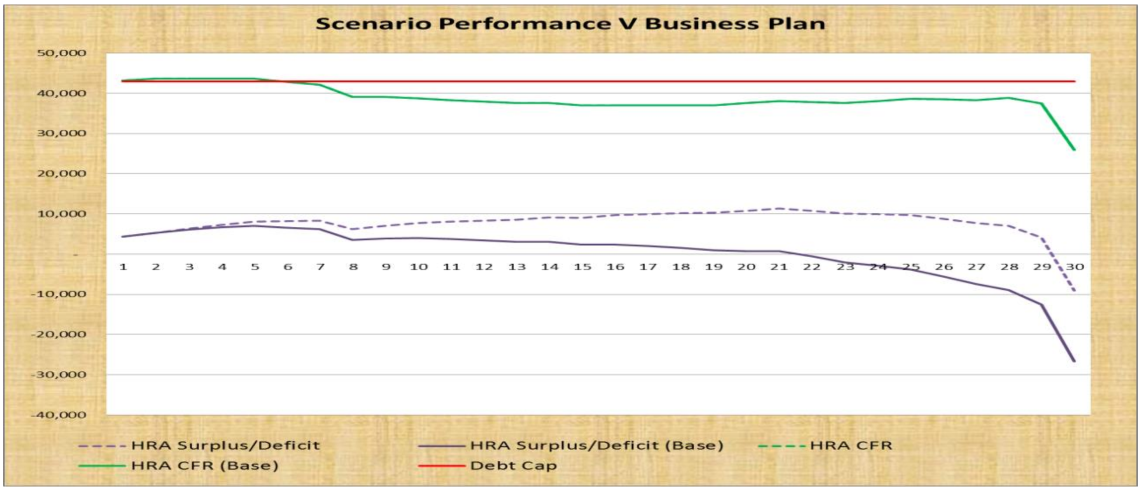
All of these proposed changes will have an impact on the 30 year business plan, in particular the change to the rent policy. The business plan has therefore been re-modelled and a revised business plan produced.

5.0 Rents

5.1 The original self-financing settlement was based on the national social rent policy that rent for council homes should achieve convergence by 2015-16 and thereafter council rents should rise at RPI +0.5% per year. The council has adopted this policy and rents in the past have been increased accordingly.

The Government's expectation is now that all Councils and Housing Associations will be expected to reduce their rents by 1% for four years from April 2016. It is not known at this stage if some types of homes will be exempt.

Early calculations indicated a reduction in income of £560,000 over the 4 years and the effect on the business plan is as follows:



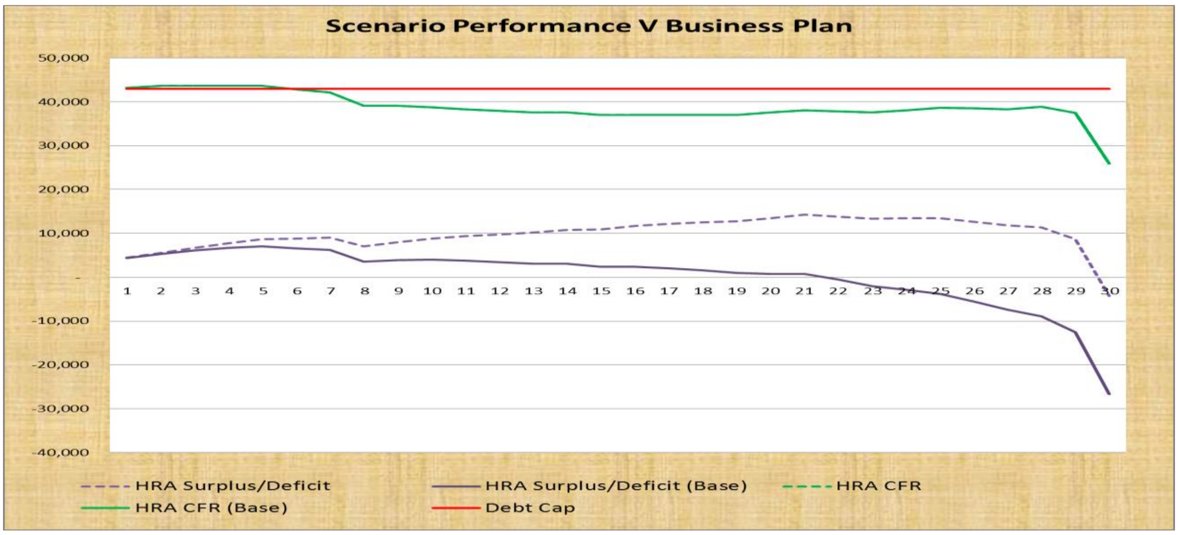
The solid purple line is the predicted HRA surplus/deficit allowing just for the 1% rent reduction, the dotted purple line is what the HRA balance would have been under the current rent policy.

With the rent reduction built into the plan the HRA is expected to remain in surplus until the year 22 when a deficit position is predicted.

6.0 Other factors impacting on the Business Plan

5.1 Other variable factors which will have an impact on the Business Model are:

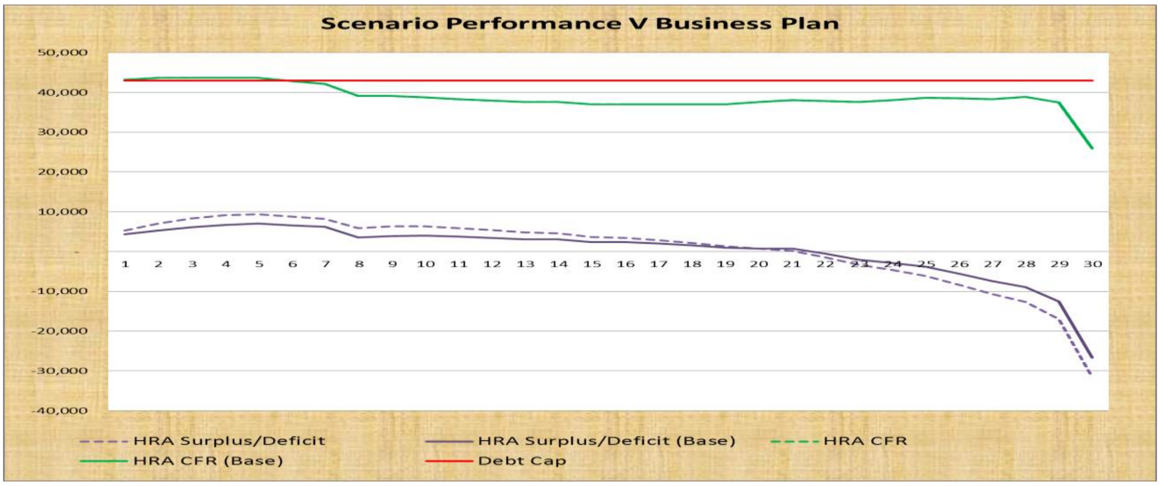
1. **EHL Management Fee** – As an indicator, a reduction of £100,000 on the management fee from 2016/17 would result in the following impact on the business plan, and bring it back into surplus over the 30 years (the dotted line is the effect of reducing the management fee):



The fee has been maintained at the same amount over the last four years and is in fact expected to decrease following the implementation of the Future Model to its operations during this year. The Council and EHL are in the process of examining the impact of a fee reduction and further efficiencies from working with neighbouring authorities and this will be reported at a future Cabinet.

2. **Sales of high value assets** – Council will be expected to sell high value assets as they become void, the receipts will be paid into Central Government to fund the RTB being extended to Housing Associations. The actual amount to be paid will be based on a formula relating to the market value of the housing stock and stock turnover. Payment will be due regardless of whether the expected properties become vacant. The model has been reworked allowing for 80 properties to be sold over the next 4 years with the following result (the dotted line shows both the management fee reduction and the decrease in the number of properties).

   Applying this scenario, the HRA ceases to be sustainable after year 21.



3. **Pay to Stay** – Households earning more than £30,000 will have to pay a higher rent. The government is currently consulting on whether this should be calculated on a taper basis. Councils may have to return any increases in rental income to Central Government. The detail on how this scheme will operate and how/if any additional management costs at a local level will be met has not been released at the time of this report.

4. **Right to Buy properties** – The model assumes the number of right to buys (RTB) to be 26 per annum based on the last two years' experience. Note, however, that there has been some speculation that 'Pay to Stay' will increase RTB's as the cost of renting may not compare as well with purchase for some current tenants.

5. **Inflation and Interest Rates** – CPI has been assumed at -0.16%, 1.50% for years 2 and 3 and then 2% thereafter. The interest rate used is 3.5% based on 30 year borrowing, a view of the actual rates

and length of loans will be taken at the time the borrowing is required to obtain maximum advantage for the HRA.

6. **Refinancing of existing borrowing** – The model assumes that all maturing loan debt of £7.5m up to 2019 will be refinanced and any loans maturing after this time will be repaid, however in order to maintain positive balances on the HRA in the longer term this debt may also need to be refinanced.

7. **Cumulative impact of public sector funding pressures** – many public sector partners working with the Council and EHL are facing significant funding reductions. Key agencies including the Sussex Police, East Sussex County Council, Probation and the voluntary sector are redesigning services, reducing services or in some cases withdrawing services. This includes services for complex high need groups, mental health, homelessness, young people, and older households. Whilst partners are working to understand and minimise the cumulative impact of these changes, based on the scale of reduction we are likely to see increased pressure on the HRA and EHL over the next term.

6.0 Capital Programme

6.1 When making the self-financing settlement the Government set a debt cap for each authority for the maximum amount of borrowing the HRA is allowed. The debt cap originally was set at £42.9m and since then an additional £0.3m borrowing approval has been received. The total HRA borrowing at 1.4.12 was £36.7m giving head room of £6.5m for future borrowing.

6.2 Once the current capital programme for the new build and empty homes programmes has been completed this head room will have been fully utilised and no further borrowing will be available to the HRA. The Capital programme will therefore be limited to the major works programme of around £4.4m annually funded from the major repairs reserves for work on maintaining the existing stock, and a small sum for new stock funded from the element of the right to buy receipts set aside for replacement stock.

8.0 Consultation

8.1 The Council and EHL will be responding to Government and partner consultation events. Information on reductions and implications will be shared with Council residents via direct correspondence and/or use of existing newsletter/magazines.

9.0 Implications

9.1 The Council and EHL are working to fully understand the long term implications for the proposed changes. At this point, there is still significant detail to be released on how the proposals will work in practice and be funded. The Council and EHL will take the outcome of the financial impact and sustainability of the HRA Business Plan into account when setting the

Annual Management Fee for EHL, HRA budget and Capital programme.

10.0 Recommendations

Members are asked to:

i) Note the content of the report and work being undertaken to set a sustainable HRA business plan

ii) Delegate authority to the Snr Head of Community in consultation with the Community Cabinet Portfolio Holder to respond to the Government proposal to outline long term implications of the changes

Pauline Adams
Financial Services Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

HRA 30 year Business Plan

To inspect or obtain copies of background papers please refer to the contact officer listed above.