ROTHERHAM BOROUGH COUNCIL –REPORT TO CABINET

1.0	**Meeting:**	**Cabinet**
2.0	**Date:**	**28th March, 2012**
3.0	**Title:**	**Overview of Housing Revenue Account 30 Year Business Plan Modelling**
4.0	**Directorate:**	**Neighbourhoods and Adult Services**

5.0 Summary

From 1 April 2012 the current Housing Revenue Account (HRA) subsidy system will cease and a new a self financing process commence. Over a 30 year period this new system may produce significant surpluses.

Based on our assumptions the council will be able to maintain its housing stock to the decent homes standard and also be able to invest in other priorities, for example an ongoing programme of building council houses to deal with the acute shortage of affordable housing in the borough. Such a programme has the ability to deliver training and job opportunities which can have a significant effect on regeneration in the borough.

Initial financial modelling has taken place and indicates that:

- current housing stock investment plans can be delivered;
- debt can be serviced and/or repaid; and
- surplus resources can meet long term and wide ranging investment needs

The report also demonstrates that whilst the surplus resources can be accessed, an alternative funding vehicle may be required to effectively "bring forward" or "smooth out" the projected surplus resources from the latter part of the Business Plan.

6. 0 Recommendations
Cabinet agrees:

1. **That work commences to facilitate the borrowing of up to £33m (permissible against the debt cap ceiling), in order to address short to medium term housing related investment priorities.**

2. **To receive a further report identifying and costing these short to medium term priorities for consideration and approval.**

3. **To secure external support to assist officers**

   a) **Define and model future Investment methods available across the term of the Business Plan and**

b) To undertake an estates needs analysis and investment planning as described in section 10.0.

4. To inject an additional £1m p.a. into repairs as described in Section 9.2

7.0 Background

7.1 In recent years there has been a significant improvement in the quality of the boroughs housing stock as a result of the investment of over £300m of funding sourced from the Decent Homes Programme and HRA. Notwithstanding these significant investments, the Council has a clear ambition to continue to raise both the quality of existing stock and provide further social, affordable new housing to meet the local need within the borough.

7.2 Rotherham tenants have for many years benefited from some of the lowest rents in the country. This has however limited the availability of resources to invest in repairs and maintenance activities. As a result planned works such as painting, roofing, guttering, fencing and boundary treatments have been restricted or ceased, and now represent significant financial challenges.

7.3 The increasing cost of home ownership, the comparative affordability of council housing and the difficult economic and financial prospects facing many of the borough's residents has also meant that council housing is highly sought after. Demographic and lifestyle pressures mean that demand for family housing and small, two bedroom properties, especially bungalows is high. Similarly, given the pressure on household incomes tenants want houses that are fuel efficient and economical to heat and light.

7.4 The replacement of the HRA subsidy system by the self financing arrangements provides an opportunity to begin to address some of these issues regarding the size and quality of the housing stock, the nature of the surrounding estates and the wider housing services support services. Used prudently, available resources can present significant investment opportunities not only for housing services in Rotherham, but also for the borough through work to transform our communities and the job and training opportunities that this investment will attract.

7.5 From the 1 April 2012, the self financing system will be operational. The intention behind the new arrangements is to:

- Give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long term; and

- Give tenants greater transparency and accountability as to how the rent collected is spent on the services provided.

The old system was structured upon a subsidy payable <u>to</u> a local authority, or <u>by</u> a local authority to the Government, based upon assumed rental income, offset by the assumed cost of running the service (including the cost of servicing housing related debt). Any "surplus" of income over expenditure would be payable to Government. Rotherham was in such a position (this is called negative housing subsidy).

The new system allows Rotherham to retain all the rental income in exchange for a share of the national housing debt. Each authority will become responsible for long term business planning and the management of all existing and future housing debt. The HRA will remain a ring-fenced account within the General Fund and therefore will not impact on the Council's general finances, and the strict protocol of the HRA ring fence arrangements are further endorsed through the self financing regime.

As well as presenting the Authority with significant opportunities, the move to self financing also transfers all financial risks from DCLG to the Authority. Changes in inflation, local policy, rental rates, investment and debt management decisions, will all impact on the financial viability of the Business Plan. Robust, proactive management of all aspects of the Plan will be essential throughout the 30 year period.

8.0 The 30 Year Financial Plan

8.1 A 30 year draft Financial Plan has been developed by the Director of Neighbourhoods in conjunction with Financial Services, using a model from the Chartered Institute of Housing (CIH). The model assumptions and outputs have been given a high level quality review by CIH and the Council's Strategic Finance Partner, PwC. This provides Members with appropriate assurances that the base Model framework is robust and assumptions used in projecting forward the outputs are reasonable.

9.0 Outcomes of the 30 Year Financial Plan

9.1 The 30 year Financial Plan demonstrates that substantial surpluses could be generated during the latter years of the Plan, thus presenting opportunities to shape the business moving forward and deliver against local priorities and investment needs. However it is important to recognise that the model is extremely sensitive to what appear to be relatively minor variations in inputs, such as rental levels or inflation. For example, to realise the following scenarios it is critical that the journey towards converge in 2016/17 is maintained. If the future rent policy after convergence is set at just 0.5% **below** RPI, instead of 0.5% **above** RPI, there will be a reduction of £516m in HRA balances by 31 March 2041 which is equivalent to a loss of additional investment of about £25k for each property.

9.2 Various options have been modelled and the outputs are described below. In each example, the Base Case is flexed to model different scenarios.

Option 1 – The Base Case Scenario

This scenario, does not allow for any additional new investment or any significant repayment of debt. At the end of 30 years we would be faced with a HRA surplus of £796m, but a debt of £229m.

Option 2 – Base Case + £1m additional spend on repairs

This options is as above, with the addition that as a means of partially addressing significant under investment in previous years, it injects £1m p.a into the maintenance programme. This will help to address some of the limitations imposed by the previous subsidy system and service demand. In thirty years time the HRA balance will be £728m and the outstanding debt £230m.

Option 3 - Base Case + £1m additional spend on repairs + Repay Debt

If in addition to option 2, the decision is taken to repay the debt, it would leave an outstanding HRA balance of £671M at the end of the business plan period.

Option 4 - Base Case + £1m additional spend on repairs + £30m Capital Investment then Repay Debt

If in addition to option 2, the decision is taken to utilise the borrowing headroom of up to £33m, then repay the debt, the outstanding HRA balance at the end of the period will be £559m.

Option 5 - Base Case + £1m additional spend on repairs + Use HRA Balances to fund Capital Investment

If this approach were to be followed, whilst the council would be left with £338m debt at the end of the 30 year period, it would be at a serviceable level, and the benefit of £330m of additional investment would be realised.

10.0 Financial Plan Modelling Conclusions and Next Steps

This report demonstrates that HRA self financing presents significant investment opportunities in the future, if the assumptions contained within the model are realised.

It can be seen from the various models that the Plan demonstrates that current investment requirements can be met, debt can be serviced and / or repaid and that surplus resources present opportunities for the Authority to address long term and wide ranging investment needs. This will enable the Council to start addressing both local and national agendas, providing maximum benefit to both the Council and the wider community.

Now, subject to Cabinet agreement we need to bring forward proposals for possible future investment priorities, and to work up formal proposals to utilise the available £33m borrowing headroom. This work is already underway and can largely be achieved from existing resources. However, a more fundamental piece of work relates to the longer term strategy for our council estates. To achieve sustainable estates, which remain attractive places to live in the longer term, it will be necessary to consider a range of more significant interventions. Support will be required to undertake a rigorous and robust process aimed at informing estate based investment decisions. In determining investment priorities it will be essential that as a council we have a clear understanding of the viability of each housing estate and the works that will be required to ensure that they are sustainable and desirable areas to live. This could potentially involve significant remodelling, investment or disinvestment.

In comparison to the scale of other recent investment in housing, the surpluses may appear relatively modest. Consequently it is important that as part of this work we consider how the available resources can be used to lever in supplementary sources of investment.

In addition, it is also apparent that whilst the surplus resources can be accessed, an alternative funding vehicle may be required to effectively "bring forward" the surplus funds from the latter part of the Business Plan to the earlier years. This may include some form of borrowing against the projected surplus. To aide Rotherham consider how best to access the funding earlier, and lever in additional resources, it is proposed to appoint specialist advisors in this field.

Through the Council's Framework Agreement, initial discussions have taken place with Pricewaterhouse Coopers(PwC), who are exploring various funding vehicles to unlock the resources available later in the Business Plan, without jeopardising current constraints on borrowing caps. Discussions have also taken place with CB Ellis, relating to the asset management assumptions within the model and the opportunities to that may be available relating to financial leverage. It is therefore recommended that an appraisal takes place regarding the most appropriate and cost effective support available to assist the council with its intentions and that authority is given subject to normal procurement rules to engage a company on a consultancy basis to further research these options.

11.0 Finance

Covered in Part 8 above.

12.0 Risks and Uncertainties

The Business Plan Model is based on a number of key assumptions which have risks and uncertainties associated with them. The impact of these risks if they were to occur, either individually or collectively, could have a significant impact on the level of HRA balances and the amount that is available to fund future investment needs.

- **Level of Future Rent Increases**. It is assumed that the Authority will work towards rent convergence in 2015/16 (with actual convergence being achieved in 2016/17) with rents thereafter being set at 0.5% above assumed RPI. Rent increases below this assumption will lead to a significant reduction in the amount of HRA balances available to deliver against local priorities and meet future investment needs.

- **Future Repairs and Maintenance Requirements.** Expenditure on the maintenance of the existing housing stock needs to be at a level to ensure that decent homes standards are maintained and the stock does not deteriorate. Further work is required to improve and refine the quality of asset management information that the council owns. If additional expenditure is required on maintenance, over and above the assumed level, this naturally reduces the amount available to meet future investment needs.

- **Future Capital Investment Requirements.** This is intrinsically linked with repairs and maintenance above. By ensuring that the APEX stock condition survey is up to date and the cost information incorporated in the Asset Management Strategy is robust and subject to continual review, the Business Plan can be used to ensure that future investment needs are met and that the stock is being adequately maintained.

- **Inflation.** A long term RPI assumption of 2.5% has been applied from 2016 to all expenditure items. This links in with rent policy above and will need constant monitoring to ensure the Business Plan modelling remains robust. Differential inflation rates can be applied, for example, if construction inflation exceeds revenue related inflation.

- **Interest Rates.** Interest Rate risk will be managed as part of the Treasury Management / Debt Management Strategy. Prudent assumptions have been made on borrowing and investment rates based on current market conditions.

These risks will be mitigated by building into the Council's Governance framework an appropriate monitoring and review cycle for the Business Plan and its underpinning strategies – it will be essential that any changes in policy, new housing initiatives etc are evaluated across the term of the Plan to fully assess the long term implications of the decisions being made.

13.0 Policy and Performance Agenda Implications

This proposal is about making effective use of council assets and managing them to best effect. It contributes to the sustainable neighbourhood's agenda by addressing future investment needs and will help deliver a better quality of affordable housing to the community.
The proposal contributes towards our key corporate strategic themes of:-

- Rotherham Proud
- Rotherham Safe
- Rotherham Alive
- Fairness
- Sustainable Development

These key themes are reflected within the Individual Well-being and Healthy Communities outcome framework, as follows:

- **Improved Quality of Life –** by creating opportunities for an improved quality of life (Objective 6).

- **Economic well-being –** providing affordable high quality housing, to meet identified needs and create sustainable neighbourhoods.

- **Safe** – by creating neighbourhoods that are clean, green good quality homes.

The initiative links to the key investment theme in our Local Investment Plan.

- **Climate Change –** introducing a range of measures to address issues such as fuel poverty, reduce household energy consumption, minimise environmental impact.

These key investment themes align with the Council's corporate priorities of:-

- Making sure that no community is left behind.
- Helping to create safe and healthy communities.
- Ensuring care and protection are available for those people who need it most.
- Providing quality education, ensuring people have the opportunity to improve their skills, learn and get a job.
- Improving the environment.

14.0 Background Papers and Consultation

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