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Report of Director Environment and Neighbourhoods

Report to Executive Board

Date: 10th February, 2012

Subject: Housing Revenue Account Self Financing and Business Plan

Are specific electoral Wards affected? **All** If relevant, name(s) of Ward(s):	☐ Yes	☒ **No**
Are there implications for equality and diversity and cohesion and integration?	☒ **Yes**	☐ No
Is the decision eligible for Call-In?	☒ **Yes**	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ **No**

Summary of main issues

Currently the Housing Revenue Account (HRA) subsidy system redistributes significant resources annually between local and central Government . Councils do not retain their rental income and are reliant on a centrally determined annual allocation, which includes the cost of council housing debt. Under this system which is complex, councils do not have any certainty as to what level of funding they will receive from one year to the next and therefore have very limited ability to develop any meaningful long term financial planning for their housing. On 1st April 2012, the Government will abolish the Housing Revenue Account (HRA) subsidy system and introduce self financing for council housing, whereby Council's will be allowed to retain all the rental income they generate and will be responsible for deciding how they use it to meet local housing needs and priorities. In return for this councils will be allocated a one off debt settlement which they will be responsible for managing and servicing. Self financing is intended to allow local authority landlords to be in a position where they can support their own council house stock from their own resources. The reforms mean responsibility transferring to Councils for strategic investment plans, controlling rent levels and debt and funding decisions. The Leeds HRA Business Plan has been developed in response to this change. The Business Plan sets a direction for council housing in the City and how resources are utilised and managed.

The debt settlement for each local authority is based on the application of two principles of Government rent policy. That council rents will converge with other social housing providers by 2015/16, and that rents will increase by 0.5% above RPI thereafter. To strictly follow the settlement model which increases rents in line with RPI of 5.6% at September, 2011, together with an additional 0.5% and a further convergence factor would mean an increase of 8.94% in 2012/13. The rents policy incorporated into the Financial Plan aims to converge with formula rent over the first five years of the Plan, in order not to lose significant resources, but changes the incidence of the rent increases over this period to allow an average rent increase of 6.82% in 2012/13. To implement a more level strategy for rent increases over the first five years will

mean a reduction in income of £11.3m in comparison to that generated if the increases are in line with the settlement calculation. In order to ensure capital investment is maintained the Capital Programme will be supplemented by a corresponding contribution from reserves held by the ALMO's.

A City Wide Investment Standard has been devised so that capital maintenance priorities can be set, resources aligned and targets set and monitored. The standard comprises two elements, firstly the Essential Major Investment Standard required to ensure the stock and estates are well maintained and retain their value. The second element is the Sustainability Investment Standard, with resources directed to energy efficiency, environmental improvement and stock remodelling.

Analysis undertaken to inform the Business Plan has been brought together to identify HRA business priorities. The priorities have been separated between those that relate to operational and management activities to deliver service improvement and better use of resources, and strategic priorities that relate to the Council's strategic housing objectives for the City. Service improvements, including the establishment and delivery of the City Wide Essential Investment Standard are incorporated into the Financial Plan.. Choices and prioritisation with regard to Strategic Investment will be subject to the planned build up of available resources. Financial Plan projections show, subject to rent policy, control of costs and the management of risk, that investment resources can be generated providing the opportunity for investment to support the Council's strategic priorities, Sustainability investment, Older People Provision and new Affordable Homes.

Recommendations

1. It is recommended that Executive Board approve the following :

    1.1 the HRA Business Plan
    1.2 the key priorities and actions set out in the Plan
    1.3 the rent strategy outlined for the next 5 years in order to deliver essential investment
    1.4 Utilise ALMO cash reserves as required to sustain the Essential Investment Standard.

.**Purpose of This Report**

1.1. On 1st April 2012, the Government will abolish the Housing Revenue Account (HRA) subsidy system and introduce self financing for Council housing, whereby Councils will be allowed to retain all their rental income in return for a one off debt settlement. The reforms mean responsibility transferring to Councils for strategic investment plans, controlling rent levels and long-term debt and funding decisions. In response to this change the Council has developed Business Plan that identifies and targets service delivery improvements and priorities, takes account of investment needs which is underpinned by risk and sensitivity analysis and is capable of being integrated with funding solutions in relation to priority investment. This report seeks Executive Board approval to the HRA Business Plan, attached at Appendix A, and sets out the key findings, priorities and principles contained in the Plan.

2. Background and Context

2.1. At 1st April 2011, the Council's property stock held by the HRA consisted of 57,891homes, managed by the ALMO's and BITMO.

Table 1: HRA Dwellings at 1st April 2011

Category	No.
ALMO Managed	57,891
Leased	313
Shop Dwellings	80
In Conversion	84
Shared Equity	10
Total Stock	**58,378**

2.2. Capital resources of £750m have been invested to make the Council's housing stock decent. The ALMO's charged with delivering the Decent Homes Programme achieved the target of 96% of homes decent by March, 2011. When the programme commenced, 45% of homes met the standard. Work has been undertaken to understand the post decency investment requirement for the housing stock over a 30 year period, based on an initial assessment of its condition. Using estimated resource availability, under the existing HRA subsidy arrangements, a likely shortfall of £741m in resources to meet statutory obligations and retain the decent homes standard was identified. In addition, there remained particular pressure in relation to sheltered housing and non-traditional and pre-1999 stock.

2.3. The recommendation of a review of delivery models for Council housing in the City was agreed by Executive Board on 3rd November 2010, to continue with the three ALMO model, but with key reforms.

2.4. The Leeds Housing Strategy is being reviewed to highlight the three key priorities of housing growth, housing quality and housing support.

2.5. The Leeds Housing Investment Plan (LHIP) articulates the City's housing priorities and investment requirements. The thematic priorities for investment are:

- New housing provision including mixed tenure and affordable housing
- On-going development and investment in the public sector stock
- Improve the quality of private sector stock
- Increase, improve and modernise the housing on offer for older people

2.6. The introduction of the HRA Self Financing Reforms will bring an end to the current subsidy system, whereby rental income is pooled and then redistributed nationally on an annual basis. The rationale underpinning the plan is to maximise the resources available in order to support the delivery of improved services to tenants and the Council's strategic housing plans for the City and its communities. The Business Plan is a starting point in setting a clear strategy for Council housing. It is intended the Plan will be continually refined and updated to reflect changes to housing need, resources and policy.

3. The HRA Self Financing Settlement Calculation

3.1. Self financing is intended to allow local authority landlords to be in a position where they can support their own council house stock from their own income.

3.2. Valuations are based on assumptions about each local authority's income and need to spend over 30 years. Assumptions about expenditure reflect evidence commissioned by Government in 2009 and 2010 in relation to the cost of managing, maintaining and repairing stock. The 30 year cash flow of income and expenditure is converted into a capital sum using discounted cash flow techniques to arrive at a value for the business.

3.3. The only income included in the valuation is rental income. The self financing valuation calculation incorporates Government social rent policy, which aims to put all local authority housing rents on a clear and transparent basis, and therefore assumes local authorities will follow social rent policy.

3.4. The spending needs built into the valuation are based on research into the costs of managing, maintaining and repairing council housing stock. The valuation also incorporates an allowance for disabled adaptations to council stock, and takes into account losses of income from Right to Buy sales and planned demolitions.

3.5. Borrowing by local authorities for housing purposes is included as part of the Public Sector Borrowing Requirement. The Government has stated that the reforms must reflect its first priority, which is to reduce the national deficit and will therefore limit the borrowing for council housing in each local authority. The amount of housing debt the HRA can hold is capped.

3.6. Table 2: Key Settlement Figures for Leeds

Key Outputs	Indicative Figures
Self Financing Implementation	2012
Self Financing Valuation	£722,675
Subsidy Capital Financing Requirement	£829,984
Self Financing Settlement Payment	-£107,309
Indicative Debt Cap	£726,153
Debt Per Dwelling	£12,478
Forecast Year-end Actual Debt (exc settlement)	£808,096

The Leeds self financing valuation commencing debt at 1st April, 2012 is £722.7m. As the Council's Subsidy Capital Financing Requirement is £830.0m, a payment of £107.3m would be paid against the Council's debt with the Public Works Loans Board, to reduce the debt per dwelling to £12,478.

4. Main Issues

4.1 The introduction of a City Wide Investment Standard so that priorities can be set, resources aligned and targets agreed and monitored is essential. The key component areas are:

- Stock Condition Information. Regular up-to-date and accurate information is required to allow planning over the short, medium and long-term to optimise investment and target action and resources accordingly.

- Needs Profile and Stock Sustainability. Decisions to invest in council housing stock either from a maintenance or capital works perspective have to take into account the extent to which the stock will be needed by prospective tenants in the future, and the stocks position in meeting the strategic need of the Council, within its housing policy. Where demand for social housing is declining, in relation to either an area or pockets of particular houses or housing, the Council will make decisions regarding managed disinvestment, focus further investment on properties, or focus investment through a co-ordinated approach to regeneration incorporating structural investment and inter-agency working with the ALMO's, BITMO and other partners.

- Locality and Tenant Priorities. The views of tenants and the influence they have in relation to both capital investment plans and the maintenance strategy is within the remit of the ALMO, to design and deliver services to meet local needs. Once a City Wide Plan is in place, the ALMO's and BITMO will develop Local Investment Plans.

4.2 The provisional work, to achieve an initial understanding of the investment assessed investment need against the following three Investment standards:

Table 3: Investment Standards

	Investment Standards
1	Minimum Decency and Statutory Standards. Meet legal obligations and maintain the Decent Homes Standard
2	Decent Homes and Neighbourhood Standard. In addition to the minimum standard, achieve full decent homes standard to all building elements and achieve decency plus (environmental improvements, low demand properties, security and communal facilities etc)
3	Leeds Regeneration Standard. In addition to 2 and 3 replace building elements based on shorter lifecycles, higher SAP ratings and the Secured by Design and Lifetime Homes Standard

In setting a City-wide Investment Standard for this Business Plan the Minimum Decency and Statutory Standard will not achieve the improvements required and the Leeds Regeneration Standard is not affordable. It is proposed that the Investment Standard used to initially inform the Business Plan is the Decent Homes and Decent Neighbourhoods Standard. The standard seeks to provide the following:

'The housing stock meets all the requirements of the Decent Homes Standard and makes it sustainable in the long term. Additionally it will address structural issues in non traditional stock, ensure Communal and Estate assets are reviewed and upgraded and essential environmental maintenance undertaken. The standard will also aspire, where possible, subject to funding and priorities at the time, to ensure housing stock is sustainable, energy efficiency measures installed for hard to treat properties, and further environmental improvements undertaken.'

The 'Decent Homes and Decent Neighbourhood Standard' comprises two elements, firstly, the target Essential Major Investment required to maintain stock, incorporating statutory compliance, maintenance of the decent homes standard, structural repairs and upgrades to multi-storey blocks and other non-traditional housing, estate and communal facilities upgrades including shops and garages. The second element is the Sustainability Investment Standard, with resources directed to energy efficiency; additional environmental improvement works and stock remodelling.

The achievement of the Essential Investment Standard will ensure HRA assets are decent, safe, in good condition and retain their value. It is intended, therefore, this element of the overall standard will be the first priority in relation to investment of resources. The effective delivery of the standard will also compliment and potentially reduce the demands for routine revenue maintenance. The costs to achieve the Essential Investment Standard have been phased over the life of the Business Plan to smooth the use of resources, thereby making it affordable in the short to medium term, and at the same time allowing the opportunity to release funds for other priorities including the Sustainable Investment Standard.

Table 4: Projected Capital Investment to meet the Standard

Decent Homes and Decent Neighbourhoods Standard	**10 year Investment (£000)**	**30 year Investment (£000)**
Essential Investment		
Statutory Compliance	94,211	255,659
Decent Homes	411,462	1,357,547
Structural Condition	41,818	103,310
Estate and Communal Facilities	68,527	236,785
Contract Management and Delivery Fees	36,961	117,198
	652,979,	***2,070,499***
Inflation and adjustment for RTB sales	*95,917*	*956,026*
	748,896	***3,026,525***
Sustainability Investment	29,998	385,471
Contract Management and Delivery Fees	1,800	23,128
	31,798	***408,599***
Inflation and adjustment for RTB sales	*6,336*	*204,270*
	38,134	***612,869***
Total Investment	**787,030**	**3,639394**

The table shows that the cost of delivering the Essential Investment element is £3,023.4m over the 30 year period. The cost of achieving the Sustainability Investment element is £615.9m over the same period.

The key elements of the Decent Homes and Decent Neighbourhoods Standard are summarised in the table below:

Table 5: The Decent Homes and Decent Neighbourhoods Standard

(A) Essential Investment Standard
Statutory Compliance
All properties meet statutory requirements (Landlord and Tenant Act, Housing Health and Safety Rating HHSRS, Environmental Protection Act) All communal areas comply with West Yorkshire Fire and Rescue Compliance Code and Enforcement Concordat. All communal areas to meet the DDA(Premises) Regulations 2006 All mandatory adaptations, that are reasonable and practical, to be provided, with provision for discretionary works.
Decent Homes
All homes to meet the Decent Homes Standard. To ensure a minimum standard across the criteria a common classification has been devised. Where homes meet the minimum standard, but have remaining elements which fail the standard at a component level, the works will be undertaken on an agreed programme of action within 10 years so that all components meet the standard within this timeline. All building elements to properties to be replaced at the end of their agreed lifecycle, except where following survey they are deemed to be in good condition and the life extended. All components are replaced to an agreed set of minimum standards to ensure renovation works not only replace existing elements, but carry out all necessary upgrade and improvement. eg all new heating installations will incorporate full central heating.
Structural Condition
Structural remediation action to remedy structural deficiencies in the designated PRC housing stock, multi-storey blocks and other non-traditionally constructed low rise housing. Remodelling of all sheltered bed-sit schemes to fully contained accommodation In the first 10 years of the plan
Estate and Community Facilities
All existing communal facilities and equipment provided to dwellings and blocks of flats to be replaced once they become defective. Undertake essential environmental maintenance on an annual programme such as works to existing dwelling cartilages (fences, gates etc), communal areas (paving, fencing, gates and car parks) and the general estate environment.
(B) Sustainability Standard
Housing and Estate Sustainability
Provision to respond to low demand and unsustainable houses on a priority basis, where conversion or modelling to provide a more sustainable type of property is required e.g. remodelling sheltered schemes, or conversion of low rise-flats to houses in areas of low demand for flats. Provision of targeted environmental improvement to specific areas to improve security and quality of space e.g. security fencing, car parking provision to aid mobility, landscaping and activity areas. The programme to be guided by local tenants with the ALMO's. Energy efficiency improvements so that all the housing stock achieves an agreed minimum SAP rating.

Miscellaneous Assets capital investment provision will be included to ensure estate shops are improved. For the other Miscellaneous Assets, they will be subject to a review and revenue provision has been made to ensure adequate maintenance resources are available. Where option appraisals provide a case for capital investment, this will be built into the Business Plan at a later date.

5. Business Plan Priorities

5.1. Comprehensive analysis undertaken to inform the Business Plan has been brought together to identify HRA business priorities over the short, medium and long-term life of the plan. The basic service improvements are incorporated into the baseline Financial Plan, while choices and prioritisation with regard to Strategic Investment will be subject to the build up of planned investment resources.

5.2. Basic Service – Key Principles and Actions (Assumed within the Baseline Financial Plan)

5.2.1. Performance and Tenant Satisfaction

Service Performance Improvement Plans are developed jointly between the Council and the ALMO's and BITMO, to raise performance to top quartile levels, with particular emphasis on the management and delivery of maintenance contracts and tenant communication and consultation. The Strategic Governance Board will consider the utilisation of one off injections of resources to help address underperformance where appropriate.

5.2.2. Inter-Agency and Locality Working

Utilisation of area based intelligence to inform the continued development of locality based inter-agency working within council estates. Consideration will be given to one-off injections of resources to support sustainable neighbourhood improvements.

5.2.3. Welfare Reform

Housing Services, the ALMO's and BITMO will participate in the Council Welfare Reform Group working with services across the Council to formulate strategies in response to the reforms. This will incorporate tenant awareness and money management programmes, early intervention and the review of recovery processes, the promotion of direct debit and support from Credit Union and other relevant agencies

5.2.4. Asset Management

- Development of a City Wide Asset Plan to inform and be informed by the HRA Business Plan, incorporating an Investment Plan, Capital Programme and Maintenance Plan
- ALMO's and BITMO to develop their own Local Investment Plans to reflect local needs and characteristics, to support the delivery of the City Plan. This will involve the use of Tenant Scrutiny Panels
- An agreed City Wide Investment Standard to inform investment and resource prioritisation decisions, with the Essential Investment Standard set as the minimum standard to maintain and improve the quality and value of the

council stock. The Strategic Governance Board will support a co-ordinated approach to investment target setting, monitoring and prioritisation.

- End to end processes designed and training programmes installed across the ABCL and the ALMO's to in-bed an effective asset management information system.
- Develop and integrate a sustainability function within the Asset Management system to provide a consistent basis for strategic stock investment decisions
- Introduction of a one Council standardised approach to stock option appraisal in order to inform sustainability decisions
- Implement effective Capital Programme planning and delivery processes and skills, incorporating Strategic Planning, Capital Programme Formulation, Contract Management and Scheme delivery. Review the structural arrangements to maximise effective delivery across the Council, ABCL and the ALMO's.
- Undertake a technical assessment of the level of revenue maintenance budget required, based on current stock condition, the Essential Investment Standard, the optimum ratio of planned and reactive works and target major contract efficiencies.
- Review miscellaneous non-dwelling assets vested in the HRA.

5.2.5. Tenure/Tenancy Strategy

Complete the review of the tenure/tenancy strategy in response to the reforms proposed by the Government. The strategy will identify the type and balance of housing tenures the Council and its partners wish to be active in the city, to best meet its housing needs. This will particularly focus on the priority groups and housing requirements identified in the Business Plan, and the improved functioning of the 'housing ladder'.

5.2.6. Strategic Housing Investment Priorities (Subject to the managed generation of Investment Resources)

The Business Plan has identified the following strategic Housing Investment Priorities:

- The Sustainability Standard
- Older People Provision
- New Affordable Homes

5.2.7. The Sustainability Standard

- Capability to respond to low demand and unsustainable properties, where conversion or modelling to provide a more sustainable type of property is required across the stock. Investment Need of £1m per annum has been estimated
- Heating and energy efficiency measures.
- To achieve Decent Neighbourhoods, further investment is required to the external environment of estates, in addition to that provided in the Essential Investment Standard, in order to support the improvement and long term sustainability of the neighbourhoods.
- Energy efficiency measures to Hard to Treat properties, either as additional works, or follow on works, once the structural works incorporated in the Essential Investment Standard are complete.

5.2.8. **Strategy for Older People Provision**

- Full provision is incorporated into the Business Plan to fund adaptation works to allow older people to continue to live independently in their own homes, and the conversion of the existing sheltered bedsits into self contained flats for older people. The HRA and the Council stock will be integrated into the development of the Council Strategic Vision for Older People. The approach to deliver the best solution will prioritise inward investment through the HCA Local Investment Plan, HRA Business Plan resources and other funding opportunities.

5.2.9. **Housing Strategy – Supply of Affordable Homes**

- The sustained level of demand for affordable homes to meet the needs of newly arising households, and those in priority need will generate a requirement for approximately 1,158 affordable dwellings per annum over the next 5 years.
- The Council will assess the impact of the Governments proposal to increase the Right to Buy discount for tenants, in relation to how the policy can support the Council priority to deliver more affordable housing in the City, and the financial implications to the HRA Business Plan.

6. Financial Implications

6.1. The debt settlement is based on the application of two principles of Government rent policy. That council rents will converge with formula rent, and that rents will increase by 0.5% above RPI thereafter. Rents in the settlement model have therefore been uplifted for 2012/13 by the RPI of 5.6% at September, 2011 together with an additional 0.5% and a convergence factor. To strictly follow this policy in Leeds would mean an average rent increase in 2012/13 of 8.94%. However, given that this convergence policy has been assumed in the settlement calculation, there is little scope to set rents below this expectation without the deferment of essential investment in the early years of the plan, and a significant loss of investment resources over the life of the plan, thereby the reducing the scope for priority investment in the longer term. In the medium to long term, future investment headroom is heavily reliant on the scale of current and future rents, with a significant trade off between rents and investment.

6.2. The rents policy incorporated into the Financial Plan aims to converge with formula rent over the first five years of the Plan, in order not to lose significant resources, but changes the incidence of the rent increases over this period to reduce the impact of the increase to tenants particularly in the first year. The average rents for a 48 week collection period included in the Financial Plan, are shown in the table below:

Table 6: Dwelling Rents (48 weeks)

Average Rent	Per Week	Year on Year	
2011/12	**£65.30**		
2012/13	**£69.75**	**£4.45**	**6.82%**
2013/14	**£73.87**	**£4.12**	**5.90%**
2014/15	**£77.71**	**£3.84**	**5.20%**
2015/16	**£81.36**	**£3.65**	**4.70%**
2016/17	**£85.02**	**£3.66**	**4.50%**

The implementation of a more level trajectory for rent increases over the first five years of the Plan will mean a reduction in rent income over this period amounting to £11.3m in comparison to the rent generated if the increase used for the settlement calculation was applied. As the resources would have been utilised for capital expenditure to deliver the Essential Investment Standard, it is proposed that in order to retain investment at the level planned over the period, the Capital Programme will be supplemented by a corresponding contribution of £11.3m from reserves held by the ALMO's. The ALMO Business Plans have been reviewed and show that they are financially sustainable without needing to utilise the reserves.

6.3. Expenditure projections for the Financial Plan have been prepared on the following basis:

6.3.1. General revenue costs are increased by 3% per annum for the first two years of the plan and 2.5% per year thereafter.

6.3.2. The management element of the ALMO Management Fee has been reduced by 5% for 2012/13, to be delivered by efficiency savings, and then retained at this level for the next four years of the Plan. The maintenance element of the fee has been increased by 6% in 2012/13 and then increased in line with the general increases in 6.3.1 above. This increase reflects the identified need to put more resources into revenue maintenance.

6.3.3. A prediction regarding the impact on rent collection rates of the reforms to welfare provision cannot at the present time be undertaken with any certainty. However, in order to acknowledge the potential impact and reflect this in the Financial Plan an increase in the HRA Provision for Doubtful Debts has been calculated based on the annual non collection rate increasing from 2.5% to 4.5%. The annual contribution in the Financial Plan to support this level of provision has been set at £2.5m.per annum.

6.3.4. The Financial Plan reflects forecast losses of income and expenditure in line with the Right to Buy scheme sales forecast used for the Leeds Self financing valuation. The forecast is based on national forecasts for sales issued by the Office of Budget Responsibility and then disaggregated to local authority level using regional levels of Right to Buy sales. The approach does not reflect the recent government policy announcement regarding the intention to increase the level of the Right to Buy discount in order to increase sales.

6.3.5. The forecast level of debt held by the HRA at 31st March, 2012 is £808.1m. After deducting the settlement payment of £107.3m additional scope for borrowing up to the debt cap of £726.2m amounting to £25.4m will be available. The amount of debt held by the HRA for financial planning purposes assumes the current level of borrowing less the settlement payment will be retained in 2012/13, and in 2013/14 will move to the level of the debt cap and be retained at this level each year thereafter. HRA surpluses could be used to pay down debt thereby saving on future interest and building capacity to undertake further borrowing in the future to the prescribed limit. However, this strategy would require the timing and prioritisation of priority capital expenditure required in the future to be known, when Leeds has been identified as having immediate investment needs, and so for financial planning purposes the debt level at 2013/14 is retained over the remaining years of the plan. As long as the Council's HRA assets receive the investment necessary to retain their value, the opening level of debt can be sustained over the medium to long term.

6.3.6. An interest rate of 4.05% has been applied to calculate the cost of borrowing for 2012/13 and 5.0% per annum thereafter. The rate has been increased to provide a more realistic rate over the life of the plan, as the Council's current consolidated borrowing rate reflects the particularly low cost of borrowing at the present time.

6.3.7. The resources required to achieve the Essential Investment element of the 'Decent Homes and Decent Neighbourhoods' Standard, outlined at section A of table 5 within this report, have been charged to the Major Repairs Reserve as the first call on capital resources over the life of the Business Plan. The optimum delivery programme for the Essential Investment Standard is not affordable within the resources available in the early years of the Plan, and therefore the phasing of the investment over the 30 year period takes a managed approach, but is in line with recognised good practice to ensure the quality and value of the stock is maintained. The Swarcliffe and Little London, Beeston and Holbeck PFI schemes have been excluded from the capital investment requirement, as the works are undertaken under the PFI contract. Provision has been made in the Financial Plan for the annual Unitary Charge paid to the PFI consortia for each scheme as per the current financial projections for the projects.

6.3.8. The minimum General HRA Reserve has been increased from £4.0m to £7.0m, utilising £3.0m remaining unallocated from the FRS 17 Reserves transferred to the HRA from the ALMO's.

6.4. A Financial Plan for the HRA Business Plan has been developed using the assumptions outlined above, to provide a strategic assessment of the investment resources that could be available to the HRA over the short, medium and long-term of the Business Plan. The resultant Financial Plan projections are shown in detail within the Business Plan attached at appendix A and show that in year investment resources over and above the Essential Investment Standard could be generated that build over the 30 years of the Business Plan. Table 7 below summarises the position with regard to the planned investment resources and Table 8 shows how they are configured:

Table 7: **Financial Plan (Surplus)/Deficit Generated in Year**

Year 1 £000	**Year 2 £000**	**Year 3 £000**	**Year 4 £000**	**Year 5 £000**
0	**(679)**	**(1,009)**	**(1,540)**	**(2,380)**
Total Years 1 to 5 £000	**Total Years 6 to 10 £000**	**Total Years 11 to 20 £000**	**Total Years 21 to 30 £000**	**Total (Surplus) 30 Years £000**
(5,608)	**(32,525)**	**(401,577)**	**(522,279)**	**(961,989)**

Table 8: Financial Plan Accumulated Resources

Analysis	Years 1 to 5 (£m)	Total 30 Years (£m)
Rent	(1235.6)	(10,173.2)
Revenue Costs	721.9	5,097.6
Interest on Debt	179.4	1,087.1
Capital Investment	328.7	3,026.5
Accumulated Investment Reserve	(5.6)	(962.0)

6.5. The managed build up of investment resources, subject to policy decisions, control of costs, delivery of contract efficiencies and the management of risk, provides an opportunity for investment to support the strategic housing priorities identified in this report.

Leeds will, subject to the final settlement, have some headroom to undertake additional borrowing amounting to £25.4m. However, the borrowing limit will mean further borrowing will not be available until existing debt has been repaid, thereby, limiting the utilisation of the projected surpluses in the medium term of the Plan, when the Council has the immediate priority investment need identified. The Council will assess delivery options available for the HRA to support the Council's investment priorities, without recourse to borrowing:

6.6 During the initial three years of the plan operating under the self-financing arrangements, it is intended the priority will be to consolidate financial control, asset management and service improvement in order to ensure the sustainability of the Business Plan , and form a base to build future resources. A detailed assessment will be undertaken in relation to the role of the HRA in supporting the priorities identified within the overall Council strategies for housing. A number of projects leading to business cases for priority investment can then be developed based on the projected level of resources available. This will allow informed decision making to meet strategic priorities, and incorporate the impact on the HRA financial position, risk profile and debt strategy.

6.7 A detailed assessment will be undertaken regarding how the Governments Right to Buy policy proposals can support the building of affordable homes, the financial implications in relation to the Business Plan and the potential of the policy to be used alongside or complement the other funding and delivery models.

7. Risk Analysis

The major business risks to be supported by the HRA have been identified and analysed in relation to their probability of occurrence, and the actions to mitigate and manage them. The bullet points below identify the major risk areas and actions to be taken. It is recognised that because of the considerable value of the costs and income within the HRA, relatively small changes in controllable and non controllable factors can have a significant financial impact. It is essential, therefore, that an adequate level of minimum reserve is retained, priority areas to reduce spend in year are agreed, commitments for the use of future surpluses are not made until a robust business case is approved and an acceptable level of confidence has been achieved that additional resources are sustainable and risk levels managed. The major business risks at the present time have been identified.

- Inflationary increases above those assumed in the Plan.
- Changes to Housing Benefit Support and the move to Universal Credit cause a substantial increase in rent arrears.
- Borrowing costs increase above the planned level.
- Right to Buy sales move to pre-recession levels and the impact of the Governments recent policy announcement causes a net loss of resources

8. Corporate Considerations

8.1. Consultation and Engagement
Consultation about the HRA Business Plan has included discussions with senior elected members of the Council, including consideration by the Safer and Stronger Communities Scrutiny Board, the Housing Strategic Governance Board and ALMO Chief Executives and Boards.

8.2. Equality and Diversity / Cohesion and Integration
To ensure that due regard and proper consideration to equality is given in line with extended equality groups and new general duties required by the Equality Act 2010, an Equality Impact Assessment of the HRA Business Plan has been undertaken. The Plan includes a section on the housing needs of equality groups to inform the identification of investment priorities.

8.3. Council Policies and City Priorities
The HRA Business Plan has been devised within the context of the Council's strategic priorities and aligned to the Vision for Leeds, the City Priority Plans and the Leeds Housing Investment Plan.

8.4. Legal Implications, Access to Information and Call In
There are no specific legal implications associated with the HRA Business Plan.

9. Conclusions

9.1. The Leeds Housing Revenue Account (HRA) Business Plan has been developed to ensure the Council has a clear strategy in response to the HRA Self Financing Reforms which are to be introduced from 1st April 2012. The Plan identifies business and strategic investment priorities over the short-, medium and long term. These priorities have been separated between those basic service activities that need to be implemented to deliver the Business Plan and improve core services, and key strategic investment priorities that could be supported by the HRA.

10. Recommendations

It is recommended that Executive Board approve the following :

10.1. the HRA Business Plan
10.2. the key priorities and actions set out in the Plan
10.3. the rent strategy outlined for the next 5 years in order to deliver essential investment
10.4. Utilise ALMO cash reserves as required to sustain the essential investment standard.

11. Background Documents

11.1 Equality Impact Assessment
11.2 Leeds Strategic Housing Market Assessment Update, May 2011
11.3 HRA Outline 30Year Investment Programme
11.4 The Housing Revenue Account Self-financing Determination (CLG Nov 11)
11.5 Implementing Self- financing for Council Housing (CLG Feb 11)
11.6 Modelling Business Plans for Council Landlords (CLG Feb 11)
11.7 Council Housing: A real future (CLG)

Appendices:

A: Housing Revenue Business Plan