APPENDIX A

HOUSING REVENUE ACCOUNT BUSINESS PLAN

Our ambition to be the best city in the UK

February 2012

Leeds
CITY COUNCIL

Introduction

The Plan

The Business Plan has been developed to form a starting point in setting a clear direction for Council housing in the City and how Housing Revenue Account (HRA) resources will be generated, managed and utilised to support the Council's strategic housing priorities.

From 1st April 2012, Self-financing for Council Housing will be introduced. The reforms mean the end of Government funding of housing investment, with responsibility transferring to Councils for strategic investment plans, controlling rent levels and long-term debt and funding decisions.

The Plan identifies and targets improvements and priorities, takes account of investment needs, is underpinned by risk and sensitivity analysis and is capable of being integrated with funding solutions to support priority investment.

The HRA Portfolio

At 1st April 2011, the property stock held by the HRA consisted of 57,891 dwelling properties, managed by the ALMO's and BITMO, by far the largest provider of social housing in the City. As well as the ALMO and BITMO managed units the HRA holds other dwelling units which takes the total to 58,378.

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

There are also approximately 500 physical non-dwelling miscellaneous assets vested in the HRA, including 249 shop units.

The Council, as the owner of the housing stock, undertakes the strategic lead in relation to housing in the City, with the delivery of services to tenants undertaken by three Arms Length Management Organisations (ALMO's), East North East (ENE), West North West (WNW) and Aire Valley Homes (AVH). The Council also funds the Belle Isle Tenant Management Organisation (BITMO) which manages approximately 1,980 homes.

Self-financing

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. In order to bring about this change there will be a re-adjustment of each local authority's housing debt. The intention is that each local authority will have a level of debt it can support, based on a valuation of its business over 30 years. If this valuation is lower than the amount of housing debt which is currently supported through the HRA subsidy system, Government will pay off the difference. If the valuation is higher than the debt supported by HRA subsidy, the local authority will be required to pay Government the difference. Valuations are based on assumptions about each local authority's income and need to spend over 30 years. 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.

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 comprising the following:

- A 'formula rent' for each property, based on property value, property size and local earnings. Over time, all social landlords are expected to move their rents in line with the formula, so that Housing

Associations and Councils will use the same formula for setting rents, with the intention tenants pay similar rents for similar properties, regardless of the landlord being an RSL or a local authority.

- A 'guideline rent' which converges with the formula rent by 2015/16. The valuation assumes convergence with formula rents by 2015/16, followed by rent increases of 0.5 per cent above inflation (RPI) per annum.
- A limit on individual rent rises of RPI + 0.5 per cent + £2 per year. The limit is set to prevent excessively high increases in the rent of individual properties as they are moved over time to the formula rent.
- The policy of a Housing Benefit 'limit rent' will continue, in order to limit the amount of rent that can be recovered through the housing benefit subsidy system. The limit rent will be set in line with current policy, converging with the formula rent in 2015/16 at the same time as guideline rents converge with the formula rent. Rents charged above this rate cannot be recovered by landlords through the Housing Benefit subsidy system.

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 each local authority can undertake. The amount of housing debt the HRA can hold is capped at the higher of the following two calculations:

- The self financing valuation of the authority plus any capital financing provided by the authority before 1ST April, 2012 to support a new build scheme under a contract with the Homes and Communities Agency.

- The amount of housing debt held by an authority, defined as the HRA Capital Financing Requirement (HRA CFR) on the 31ST March,2012. This figure incorporates the settlement payment received from or paid to the Government.

If a local authority has less actual housing borrowing than the debt cap, it can retain the difference as headroom to use the borrowing it allows.

The individual self financing determination for each local authority was announced in November, 2011. This allows for consultation prior to final determination for the start of self financing from April, 2012.

Key Outputs for Leeds	
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 (ex 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.

City Priority Plans (2011 – 2015)

The Council's own social housing stock has a role in twelve of the eighteen 4-year priorities for the City. The development of an effective, quality service and physical infrastructure for Council housing in the City will contribute to the achievement of the Council and its partner's strategic outcomes and priorities as set out in the City Priority Plans.

Partnership Board Outcomes	4 Year Priorities	Headline Indicator
Best City for Children	• Increase the levels of young people in employment, education or training • Help children live in safe and supportive families	• Reduce the number of 16 to 18 year olds that are not in education, employment or training • Reduce the number of Children in care
Best City for Health and Wellbeing	• Support more people to live safely in their own homes • Give people choice and control over their health and social care services	• Reduce the rate of admission to residential care homes • Increase the proportion of people with long-term conditions feeling supported to be independent and manage their condition
Best City for Communities	• Increase a sense of belonging that builds cohesive and harmonious communities • Ensure local neighbourhoods are clean • Reducing crime levels and its impact across Leeds • Effectively tackle and reduce anti-social behaviour in our communities	• Increasing percentage of people who believe that people from different backgrounds get on well together in the local area. • Reduce the percentage of streets in Leeds with unacceptable levels of litter • Reduction in overall crime rate • Improved Public perception rates that ASB is being managed effectively.
Best City to Live	• Maximise regeneration investment to increase housing choice and affordability within sustainable neighbourhoods • Improve housing conditions and energy efficiency.	• Increase the number of new houses built per year. • Increase the number of affordable homes built per year • Increase the number of long term empty properties brought back into use • Increase the number of properties enhanced with energy efficiency measures • Increase the number of properties that achieved the decency standard
Best City for Business	• Create more jobs • Supporting the sustainable growth of the Leeds economy.	• Increase the number of new jobs

The Leeds Housing Strategy

The Leeds Housing Strategy is being reviewed as some of the long-standing plans developed by the Council and its partners to meet the housing challenges of the City were formulated during a period of substantial economic growth. Despite the economic downturn, the key housing priorities for the City remain relatively constant.

- **Increase the supply of housing, with particular emphasis on increasing the number and range of affordable options.**

- **Improve housing quality and sustainability across all tenures.**

- **Promote the capacity for people to live independently.**

Where are we now?

Good progress has been made in a number of areas to improve the services provided to Council tenants and the quality of their homes and living environment.

- The Decent Homes Programme has been completed achieving the target of 96% of homes decent by March 2011. When the programme commenced, 45% of homes met the standard.

- Improved tenant engagement, and responsiveness to tenant and estate priorities.

- The ALMO housing model was one of the first examples of services being delivered in localities. The ALMOs and BITMO play a central role in the improvement of Council estates and are working in collaboration with partners across the City.

But there are also challenges facing council housing in the City which will require the leadership of an ambitious programme of change and improvement, a skilled and motivated workforce and the effective use of resources. The key challenges include:

- An assessment of performance in relation to the delivery of core services to tenants found Leeds to be generally low performing in relation to target performance levels, and in comparison to a comparative group of local authority social housing providers. The Council-commissioned Comprehensive Tenant Satisfaction Survey undertaken on a bi-annual basis also shows a reduction in satisfaction across most functions, reflecting a higher expectation amongst tenants regarding the level of service they receive.

- Comparative cost benchmarking identified Leeds to be an average spender on management functions, but low spending on direct revenue maintenance. This is also reflected in the maintenance allocation within the Leeds ALMO Management Fee, which is lower than the subsidy determination allowance for maintenance, the amount the Government allocates for this purpose.

- The Council's housing stock has been ranked based on its score within the 'Neighbourhood Index', the area profiling system that brings together key information to provide a broad picture of an area. Of the stock, 21% is in the lowest scoring index category, with a clear pattern of low scoring areas in the inner area of the City. A comparison of those Middle Super Output Areas (MSOA's), that have over 10% of council stock classed as low demand in relation to turnover, days void and average Choice Based Lettings (CBL) bids was also undertaken. This showed that 60% of the areas are also in the lowest neighbourhood index scoring group.

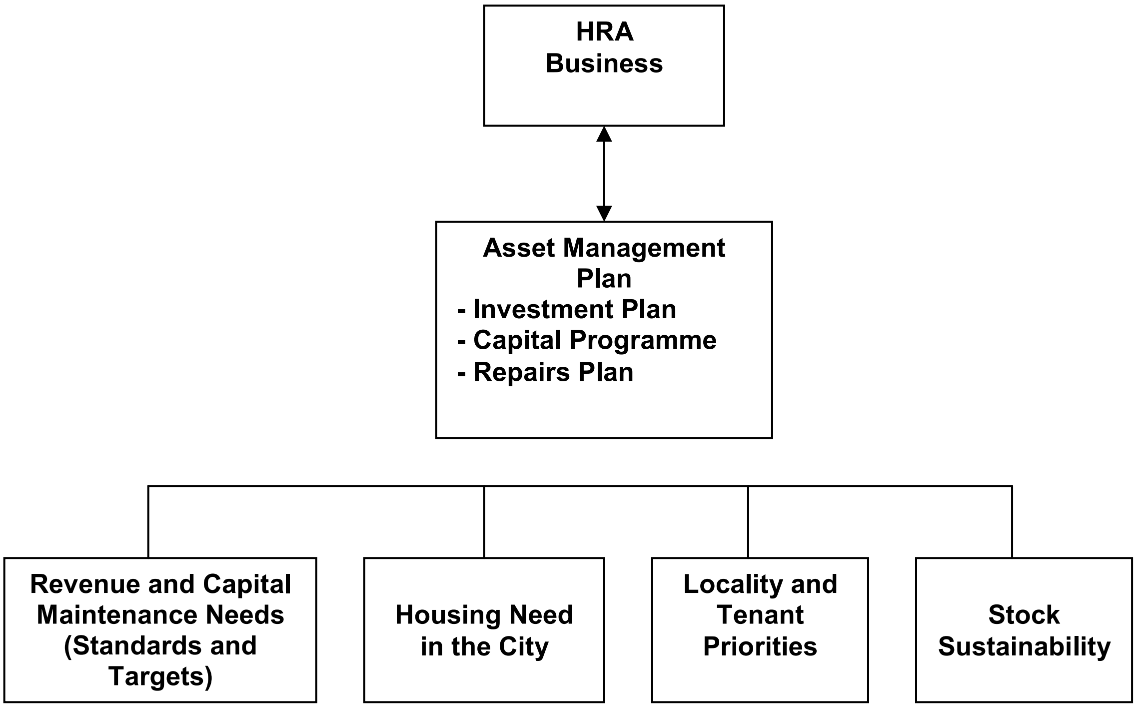
- The Council does not, at the present time, have an approved City Wide Asset Management Plan that defines its asset utilisation decisions in relation to investment, disinvestment and remodelling of stock. In order to maximise the use of resources and meet the City's strategic housing requirements in the future under self financing, the development of a City Wide Asset Management Plan is essential as a major part of strategic planning for the HRA. The Asset Management Plan will inform and be informed by the HRA Business Plan, so that capital investment can be prioritised based on the resources available, and appropriate funding decisions can be made in relation to meeting needs. The following components need to be implemented to deliver effective Asset Management Planning:

  Investment Standards

  Stock Condition Information

  Needs Profile

  Stock Sustainability



- The Council working with the ALMO's have introduced new contractual partnering arrangements for the delivery of capital improvements, refurbishment and responsive repair works and gas servicing. The contracts are partnership open book arrangements that require a particular approach, skills and culture. The aim is to achieve improvements and efficiency gains, with the benefits shared through mutual working, underpinned by capital programme planning over a number of years. The longer-term view of available resources defined in the HRA Business Plan provides the basis to do this.

- The Council is working with its housing partners to develop a new Tenure and Tenancy Strategy in response to 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 meet its housing needs, and aims to create a housing ladder that allows residents to meet their particular circumstances. Local Authorities will be given the freedom to determine who should qualify to go on their waiting list, allowing Councils to restrict the size of the list and end the current open waiting list approach. The Leeds Homes Register (LHR) waiting list stood at 27,742 at 31st March, 2011, of which 24,146 (87%) were Band C low priority applicants. The Government is encouraging social landlords to let new vacancies at fixed term contracts rather then 'tenancies for life'. The fixed term contract would be for 5 years, but with councils having the freedom to offer shorter term contracts where this aligns with local needs.

- From April, 2011 registered providers wishing to participate in new housing development will work with the Regularity and Investment Agency to develop a delivery agreement which will agree new flexibilities on rents, and the allocation of government grant funding, in return for a contribution from providers through cross subsidy and operating efficiencies. It is intended this approach will drive a significant reduction in Government grant costs, and help deliver up to an estimated 150,000 homes over the next Spending Review period. The cornerstone of this delivery model is the introduction of the Affordable Rent. The Affordable Rent Model enables Registered Providers to set rents between social rent level and 80% of local market rents, providing a further affordable housing option. It is intended registered providers, including local authorities, will be able to reach agreement with the regulator, allowing them to convert a proportion of their empty properties into the new tenure with the higher rents charged generating additional revenue. It is intended flexibilities used to deliver new supply at higher rent levels on new stock will build in long term sustainability for new social housing provision.

- The Government has embarked on a major programme of Welfare Reform. A cornerstone of the Government's reforms is the introduction from 2013 of a new benefit, called Universal Credit, which will replace and consolidate existing benefits. Housing Benefit for Council tenants and other social housing tenants is currently paid direct to the landlord. The Government proposes instead that tenants will receive their Universal Credit directly to them, one month in arrears, and have the responsibility for paying the full amount of their rent to the landlord. The changes will not affect tenants of a pension age, however, in Leeds, in excess of £60m a year is rebated to HRA rent accounts for those of working age. Analysis of rent payments shows that the collection rate for sums not covered by full Housing Benefit is 95.5%, some 2.0% lower than the current overall collection rate of 97.5%.

- In line with national trends the City is projected to experience an uplift in the number and proportion of households where the head of household is over 65.The projections indicate that over half of the households will consist of couple households, and just under half being single households. Evidence collated suggests that requirement for two bedroom properties will be strong. Research carried out in the preparation of the 'Lifetime Neighbourhoods for Leeds' PFI Round 6 bid indicates a current shortage of approximately 300 units of accommodation for older people and the requirement is predicted to rise to as high as 1,000 units. It is also recognised that 14% of priority need applicants on the LHR are between 50 and 65 and 8% over 70 years of age, the majority requiring 1 and 2 bedroom accommodation. The expectations of older people are changing; increasingly they require support tailored to their needs, to be delivered in their own homes and to avoid premature entry into residential care. In line with the personalisation of service provision, older people want to remain independent for as long as possible.

- The Leeds Strategic Housing Market Assessment (LSHMA) update identifies a net annual additional dwelling requirement of 4,680 per annum is required in the City over the next five years. Affordability issues mean that 41% of these households are not able to purchase a lower quartile value house, or alternatively, access average rented private properties. This situation is reflected in the Leeds Homes Register waiting list which at the 31ST March, 2011 totalled 27,742 applicants of which 3,596 are in severe or priority need. While there was a year on year reduction in the waiting list overall the 'priority need' classified numbers increased by 33%, and this trend is continuing.

- Of the 2,563 new applicants on the waiting list classified as in priority need, rather then those existing tenants requiring a transfer, 58% were assessed as requiring 1 bedroom and 31% assessed as needing 2 bedrooms, mainly driven by applicants that are homeless or have additional needs and support. To remove the backlog as it stands on the LHR, and excluding transfers, would require an additional 500 homes per annum over the next 5 years .The LSHMA using the DCLG methodology to assess need taking into account newly arising households, indicates that Leeds will need to deliver for a net annual affordable housing need of approximately 1,158 dwellings per annum over the next 5 years.

- The Government is consulting with local authorities regarding its proposal to increase investment in affordable housing by increasing Right to Buy discounts, thereby making them more affordable, with the proceeds used to build new housing for Affordable Rent. The consultation confirms the intention to increase the current discount caps substantially, and the average discount received by buyers in England will be up to half the value of their homes, approximately double the current average discount. The proposal is that Right to Buy receipts over and above the numbers assumed in the Government self financing model and in this plan, will be used to meet debt on the additional properties sold, then utilised to meet Treasury and Council forecast receipts already in place, and the balance being available for investment in new homes. The Right to Buy receipt will cover a proportion of the cost of a replacement home with the remainder of the cost found from other sources.

The Investment Standard

The Investment Standard used to inform the Business Plan is the 'Decent Homes and Decent Neighbourhoods Standard'.

'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, 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 demand for routine revenue maintenance. In order to deliver the Essential Investment Standard a managed approach will be taken that phases the use of resources for Essential Investment over the life of the Business Plan, 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 Sustainability Investment 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**	**3,639,394**

The key components of the Decent Homes and Decent Neighbourhoods Standard are summarised below:

(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 working with the ALMO's and BITMO. Energy efficiency improvements so that all the housing stock achieves an agreed minimum SAP rating.

The Priorities

Comprehensive analysis undertaken to inform the Business Plan has been used to formulate a set of priorities over the short, medium and long-term of the plan. Progress in achieving the priorities will support the delivery of both the Council's strategic housing and City Priority outcomes. To do this we will work with colleagues across the Council, and external partners including other social housing providers, the private sector, the voluntary and third sector and Government.

The plan separates the priorities into two sets. Firstly, are those that relate to operational and management activities and different ways of working, designed to deliver service improvement and better use of resources. Secondly, are the strategic priorities that relate to the Council's strategic housing objectives for the City. The first set of priorities are incorporated into the baseline Financial Plan, while choices and prioritisation with regard to strategic investment will be subject to the managed build up of planned investment resources over the life of the plan.

HRA financial reform means a fundamental shift in resources and risk from national to local level. To meet the new responsibilities and make the most of the financial freedoms, the Business Plan incorporates the following principles:

- Identification of baseline costs, income and risks including the delivery of an Essential Investment Standard.
- Initial formulation of a long term Asset Investment Plan
- A set of operational and management actions to form a platform for the delivery of the plan
- Identification of priority revenue and capital needs
- A Financial Plan that allows for the management of risk and potential further investment
- A Plan that can be integrated with the development of medium and long term funding solutions

Operational and Management Priorities ***(Assumed within the Baseline Financial Plan)***	
Priority	**Action**
The Accounting Framework	
• **Accounting for Depreciation**	**Agreement of a methodology that meets the requirements of the HRA and Accounting Standards**
• **Treasury Management (GF and HRA)**	**Devise and implement an approach that meets the needs of Council Treasury Management and HRA requirements.**
Business Plan Governance	
• **Strategic Policy and Financial Management**	**Implement the Business Plan within overall HRA Governance arrangements, incorporating financial risk and asset management**
Business Plan Management	
• **Continuous Monitoring and Control**	**Continuous update of the Business Plan to include external and internal factors. Clear reporting lines and responsibilities in place. Specific key area monitoring of significant risk areas and remedial action agreed by all participating agencies.**
ALMO Management and Maintenance Fee	
• **ALMO Business Plan Management and Delivery**	**Sustainable Medium Term ALMO Business Plans devised and approved based on HRA Business Plan medium term resource projections.**
• **Resources prioritised into maintenance and priority improvement areas**	**Efficiency Plans implemented to ensure maintenance resources maximised.**

Operational and Management Priorities *(Assumed within the Baseline Financial Plan)*	
Priority	**Action**
Performance and Tenant Satisfaction	
• Service Delivery Performance moves to top quartile standard, together with increased tenant satisfaction	Joint ALMO and Council Improvement Plans devised and implemented to achieve targeted service improvements.
Locality and Inter-Agency Working	
• Achievement of estate improvements through intelligence led inter-agency working	Area based intelligence utilised to identify targeted multi-agency interventions.
Welfare Reform	
• Devise and Implement a Cross-Council response to manage impacts of the reforms •	Working Group established to consider actions necessary to manage the effects of the changes under Welfare Reform.
Asset Management	
• Develop a City Wide Asset Management Plan based on the Investment Standard. Incorporate an Investment Plan, Capital Programme and Maintenance Plan.	Implement the collection and cleansing of asset management data and information. Scope resource requirements and build into Asset Management redesign.
• Develop ALMO Local Investment Plans	Once the City Wide Investment Plan is developed in line with the HRA Business Plan, ALMO's to deliver Local Investment Plans. Enhanced Tenant and Member engagement to understand expectations, including the use of Tenant Scrutiny Panels.
• Co-ordinated approach to investment target setting, monitoring and prioritisation	
• Provide a consistent and accurate basis for stock investment decisions	
• Develop and integrate a sustainability function within the Asset Management system	
• Provide a consistent approach to stock sustainability decisions	Develop and introduce a One Council standard approach.
• An effective Asset Management system installed	End to end process design and training programmes installed underpinned by the Asset Management system.
• Identify Optimum annual planned and reactive maintenance resource requirements	Commission appropriate technical expertise working as part of the City Wide Asset Management Plan Project. Align to the HRA Business Plan.
• Effective Capital Programme Planning and Delivery	Implement revised approach based on outcomes and key tasks. Revise structures, process skills and governance arrangements to deliver business outcomes.

Operational and Management Priorities *(Assumed within the Baseline Financial Plan)*	
Priority	**Action**
• **Deliver and Implement a Fundamental Miscellaneous Assets Review**	**Working Group set up to review Miscellaneous Assets in relation to their contribution to housing priorities and Value for Money.**
Tenure / Tenancy Strategy • **Review the existing Tenancy / Tenure Policy in response to Government proposals** • **Devise and implement a revised strategy to help meet the housing objectives for the City**	**Work with housing partner organisations to develop proposals for a new strategy to support and facilitate the achievement of the Council's strategic housing objectives, in relation to the Leeds property ladder and housing need.**
Rent Policy • **Continuous review of the Business Plan**	**Undertake continuous assessment of the impact of alternative policy options on Business Plan risk, longer-term sustainability and investment resources.**

Strategic Investment Priorities *(Subject to the managed generation of Resources)*
Action

- **Implement the operational and management actions detailed above to form a platform to move away from traditional HRA budget development. Introduce continual Business Plan management for the short term and the strategic assessment of resources likely to be generated over the medium to long-term.**

- **Over the first three years of the HRA operating under the self-financing arrangements, the focus to be on financial control, management and service improvement, in order to ensure the sustainability of the Business Plan, and form a base to build future surpluses in relation to the key priorities:**

  - **The Sustainability Standard incorporating environmental improvements and energy efficiency measures.**

  - **The Strategy for Older People Provision**

  - **The supply of Affordable Housing including social housing at social rents**

- **Match surplus resources to investment priorities. Develop and undertake further detailed assessment of the role of the HRA in meeting the priorities identified within overall Council strategies for housing.**

- **Develop a number of demonstrator projects for priority investment. Based on projected future surpluses undertake informed decision making to meet strategic needs, incorporating the impact of the investment and the impact on the HRA business risk profile, balance sheet and debt strategy.**

The diagram below shows the major actions to be undertaken over the first three years of the Business Plan:

The Financial Plan

The Financial Plan is show in detail at Appendix 1 of this Business Plan.

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.

The rents policy incorporated into the Financial Plan aims to converge with formula rent over the first five years, in order not to lose significant resources, but changes the incidence of the rent increases over this period to reduce the financial impact to tenants particularly in the first year. The average rents for a 48 week collection period included in the Financial Plan, utilising RPI projections of 5.6% for 2012/13, 3.0% for 2013/14 and 2014/15 and 2.5% thereafter, are shown in the table below:

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.

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

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

- 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.

- 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.

- 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.

- 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.

- 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 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.

- 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.

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 at Appendix 1 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. The tables below summarise the position with regard to the planned investment:

Financial Plan – Planned Investment Resources				
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)**

Financial Plan Accumulated Resources		
Analysis	**Years 1 to 5 (£m)**	**Total 30 Years (£m)**
Rent	(1235.4)	(10,173.2)
Revenue Costs	721.9	5097.6
Interest on Debt	179.4	1087.1
Capital Investment	328.7	3026.5
Accumulated Investment Reserve	(5.6)	(962.0)

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:

Utilisation of HRA Resources(without borrowing)	
Option	**Outcome**
Direct Delivery – Sustainability Investment Standard.	Could be delivered with investment building over the lifetime of the plan as available resources increase.
Direct Delivery – New Dwelling Provision (including support for older people)	The delivery model assumes the utilisation of existing HRA land and the recycling of new build rental income.
Other Delivery Options – New Dwelling Provision (including support for older people) The borrowing cap limits leverage from the HRA asset base. Utilisation of private sector borrowing via a Public Private Partnership contract to run for 20 years is viable. Classified as 'off balance sheet' and outside the Public Sector Borrowing Requirement.	Although more expensive than traditional delivery models, could be utilised to substantially increase the number of new dwellings delivered, or investment in the Sustainability Standard, , if this is a priority within the Council's overall Housing Strategy.
Investment Outside the HRA (without borrowing)	
Direct Delivery – New Affordable Dwelling Provision (including support for older people) Working with the HCA and Registered Housing Providers in the city to deliver a programme of new affordable housing developments. This will incorporate the use of HRA land, with build and operation undertaken by an RSL.	In the region of 600 new units delivered over the next 4 years. The Council to be allowed tenant nomination rights.

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. 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.

Risk Management

The major business risks to the sustainability of the Housing Revenue Account Business, and the achievement of the strategic priorities identified within this Plan have been identified and analysed in relation to their probability of occurrence, and the actions to mitigate and manage them.

Risk	Impact	Action
Inflationary increases above those assumed within the Plan	Costs will increase to sustain services and target standards. Large increases may be difficult to pass on through increases in rent.	Build capacity into the Business Plan. Prioritise planned expenditure to allow reductions if necessary. On-going efficiency programme within the HRA. Improve contract VFM.
Changes to Housing Benefit support and move to Universal Credit substantially increase rent arrears.	An increase in rent arrears and non-recovery of debt make planned development and investment unsustainable.	Cross Council Strategy including phased implementation of reforms supported by tenant education programme through the ALMOs and the Council. Move to increase bank accounts and payment through Direct Debit. Close monitoring of tenants with a move to a policy of early intervention..
Increase in borrowing costs over and above that planned	Current interest rates at unprecedented low levels. Even if no further HRA borrowing, rates could increase across the Council Consolidated Loans Fund. 1% increase in the interest rate credits an additional annual cost of £7.4M.	Build higher interest rate into the Financial Plan (5.0%) and undertake on-going debt management. Prioritise planned expenditure to allow reductions if necessary.
Right to Buy sale move to pre-recession levels and impact of recent Government policy announcement	Significant increase in RTB's as economy grows and lending restrictions cease, would cause a net loss in income.	Quantify the potential impact of the Government's Right to Buy proposals.
Essential Investment Standard not achieved	Inflation, budget reductions and delivery issues would make the standard unattainable. Stock condition and value will reduce. Further injections of funding required, removing opportunity for other priority investment.	Proactive monitoring of delivery. Work with contractors to achieve added value. Prioritise the Investment Plan.

Alignment of City Priority and Business Plan Outcomes

Priority Outcomes	HRA Business Plan

Priority Outcomes	HRA Business Plan
Best City for Children • Increase the levels of young people in employment, education or training	• Significantly increased major repair capital investment incorporated into the Business Plan. Additional certainty regarding work allocations should allow growth in younger people training and apprenticeships by Major Partner Contractors including internal providers.
Best City for Business • Create more jobs • Supporting the sustainable growth of the Leeds economy	• Potential for new build in and outside the HRA, will support investment and create/safeguard construction jobs.
Best City for Health and Wellbeing • Support more people to live safely in their own homes • Give people choice and control over their heath and social care services	• Provision in the Essential Investment Standard to replace existing home adaptations at the end of their lifecycle and meet future requirements within target implementation times and projected demand. • Provision in the Essential Investment Standard to undertake remodelling of all sheltered bedsit properties • The role of Council Housing and the contribution that can be made by the HRA to be incorporated into the Strategic Vision for Older Peoples' Housing and Care Needs • The review of the existing Tenure/Tenancy Strategy and the development of a new strategy will focus on priority groups and their housing requirements • The further development of the Sustainability Standard's Energy Efficiency Measures across the Council stock • All communal areas to be made DDA compliant except when building design doesn't allow.
Best City for Communities • Increase a sense of belonging the builds cohesive and harmonious communities • Ensure local neighbourhoods are clean • Reducing crime levels and its impact across Leeds • Effectively tackle and reduce anti-social behaviour in our communities	• Continued development of locality inter-agency intelligence led working to improve neighbourhoods in need and deal with problem issues. • Potential utilisation of managed surpluses for specific intervention activity to deliver improvement. • Enhanced resident consultation by the ALMO's to identify key issues. • Allowance for Environmental Maintenance enhancements across the city included in the Essential Investment Standard • Potential opportunity for further environmental improvement within the Sustainability Investment Standard, subject to surpluses generated and choices thereafter
Best City to Live • Maximise regeneration investment to increase housing choice and affordability and sustainable neighbourhoods • Improve housing conditions and energy efficiency	• The generation of sustainable HRA resources provides an opportunity for Council House new build. • Energy efficiency measures incorporated into both the Essential Maintenance Standard and the Sustainability Standard • The Essential Investment Standard will maintain the Decent Homes standard and improve the overall condition and fabric of the stock.