

MID SUFFOLK DISTRICT COUNCIL

From: Cabinet Member for Housing – Councillor Jill Wilshaw	Report Number: MCa/17/8
To: MSDC Cabinet	Date of meeting: 10 July 2017

HOUSING REVENUE ACCOUNT

SUMMARY OF THE 30 YEAR BUSINESS AND FINANCIAL PLAN

2017 UPDATE

1. Purpose of Report

- 1.1 To enable Members to approve changes to the 30 year Housing Revenue Account (HRA) business and financial plan for the district.
- 1.2 To appraise Members about changes made to the assumptions contained in the Housing Revenue Account financial plan, the reasons for these changes and the impact the changes have had on the 30 year financial position.
- 1.3 To inform Members how management of the HRA is being adapted to meet evolving needs and demands and to reflect legislative, financial and technological change.
- 1.4 To update Members on the development pipeline of new homes for the Mid Suffolk HRA.
- 1.5 To set out a roadmap for the transformation of the role of local authority housing and the HRAs in light of the significant financial challenges caused by changes to Government policy, the emerging Suffolk work on housing delivery and the Government's White Paper 'Fixing our Broken Housing Market' to create a sustainable and robust plan for the future.

2. Recommendations

- 2.1 Cabinet recommends to full Council that the updated 30 year business and financial plan is approved.

3. Financial Implications

- 3.1 Changes in national policy over the last few years have fundamentally impacted on HRA finance. In 2011, the Government introduced the 'self-financing' regime. As a result, Mid Suffolk took on an additional £57.5m of debt. A debt cap was also set at £90.9m by the Government. The Council must demonstrate that it can operate within this debt cap after having taken into account its anticipated operating environment over a 30 year period and its forecast financing requirements. The Council's current debt is £86.8m leaving a headroom of £4.1m available.

- 3.2 More recently, the Government has introduced further structural change. This includes, an annual 1% reduction in rents for the years up to 2019/20, an increase in Right to Buy discounts and welfare reform. These have all added significant extra pressure to the 30 year financial plan. More detail is included in section 10.
- 3.3 The previous Government's proposal to impose a high value asset levy would weaken the financial position of the HRA still further. The detailed regulations around this have not yet been released by the Government and so, on advice from the Chartered Institute of Housing (CiH), no related assumptions have been incorporated into the financial plan.
- 3.4 The capacity for the Council to absorb the impact is challenging and updating the assumptions used in constructing the HRA financial plans has been critical for the Council. Mid Suffolk DC would be non-compliant by year 8 if the review was not carried out. Plans to manage the financial impact are outlined in this report and the attached document.

4. Legal Implications

- 4.1 The plans outlined in this report are designed to maintain legal compliance.

5. Risk Management

- 5.1 This report is most closely linked with the Council's Significant Business Risk No. 1a – Housing Delivery. Key risks are set out below:

The risk register identifies the following risks. New mitigations have been added.

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to identify detailed housing requirements for local area will undermine our ability to deliver the right homes in the right places.	2 (Unlikely)	2 (Noticeable)	Creation of joint housing strategy including strategy for HRA assets.
Failure to manage our corporate and housing assets effectively will result in diminishing value of the stock and ineffective delivery of JSP outcomes.	2 (Unlikely)	3 (Bad)	Ensure HRAs are robust and sustainable. Explore options for making most effective use of housing assets. Review housing management arrangements based on customer insight and on delivering JSP outcomes.
Failure of the Councils to respond to the external funding	2 (Unlikely)	4 (Disaster)	Annual review of HRA business plans incorporating necessary

environment could result in the Councils' operations no longer being financially sustainable.			changes to key assumptions. Develop and deliver mitigation measures to sustain viability.
Staff within the organisation not having the right capacity and capability to deliver the strategic priorities of the councils and to work within the wider local government system	2 (Unlikely)	3 (Bad)	Developing our understanding of operational costs and customer value. Developing a staff culture that is customer focussed and drives delivery of JSP outcomes.

6. Consultations

6.1 The consultation and decision programme is as follows:

Cabinet pre-briefing	30 May 2017
Opposition briefing	31 May 2017
Overview and Scrutiny	15 June 2017
Joint Housing Board	19 June 2017
Cabinet briefing	26 June 2017
Cabinet	10 July 2017
MSDC Full Council	20 July 2017

The summary report includes comments and changes proposed during the consultation programme as appropriate.

7. Equality Analysis

7.1 There are no equality and diversity implications arising directly from this report. Thorough EIAs will be conducted on any substantial changes to our management service or asset management and investment plans.

8. Shared Service / Partnership Implications

8.1 Babergh and Mid Suffolk Councils currently operate with an integrated officer team. The radically different financial positions of the two Councils' HRAs will create challenges going forward. The options open to the Councils to deliver the best outcomes will be different and although these will be handled carefully, it will limit the extent to which future strategies can be replicated across both Councils.

9. Links to Joint Strategic Plan

9.1 Maintaining sustainable and compliant HRA business plans is fundamental to delivery of the Joint Strategic plan. HRA business planning has a key role to play in the delivery of four outcomes:

- Housing Delivery
- Community capacity and building engagement
- Assets and investment
- Enabled and efficient organisation

10. Key Information

10.1 The financial plan attached explains the elements that have changed since previous plans. It details the implications of the changes for the Council and how it is proposed to manage the impact. It includes a draft roadmap for a transformation of the role of the HRA which will be initiated by our response to the financial context, the Suffolk Housing work and the Government's white paper 'Fixing our broken housing market'.

10.2 In summary the key contextual changes that have impacted on the sustainability of the HRA Business Plan are:

Localism Act 2011

Self-financing

The Act replaced the HRA subsidy system with a system of self-financing, the most radical changes for 30 years to the way in which Councils manage their Council house finances. From April 2012, Mid Suffolk took on a share of the national housing debt calculated by the Government as its debt settlement.

Right to buy

The discount was increased to 70% of value or £77,900 whichever is the lower. This led to a substantial increase in the number of sales which will result in a significant reduction in the Council's future rental income.

New model of affordable housing

The affordable rent tenure regime sets maximum rents for this tenure at up to 80% of local market rents and applies to all new build schemes receiving grant from the Homes and Communities Agency including new council housing.

Welfare Reform Act 2012

Social rent reduction

A reduction in rents by 1% a year for four years (until 2019/20). This has a major impact on long term HRA financial planning.

Universal credit

A replacement for six means tested benefits and tax credits with one universal payment. UC will be rolled out in Mid Suffolk in late 2017/early 2018.

Spare room subsidy

A reduction in housing benefit for working age tenants who under occupy their homes. This has resulted in greater demand for one and two bedroom Council properties.

Benefit cap

A cap on the maximum households can receive in benefits to £20,000. For single people without children, the cap is £13,400.

Housing and Planning Act 2016

High income social tenants – mandatory rents (Pay to Stay)

The Act provides local authorities with the option to charge higher rents to tenants with a household income exceeding £60,000. The Council has decided not to adopt Pay to Stay.

High Value Asset Sales

The Act imposes a duty on local housing authorities to consider selling higher value homes when they become vacant. The definition of “higher value” will be clarified by regulations yet to be made. The payment will take the form of a levy, giving local authorities a choice in how they raise the funds. The money will fund housing association Right to Buy discounts and new house building. As the rules around this issue have yet to be published we have not yet included anything in our assumptions on it.

10.3 The work undertaken to date forecasts that the Mid Suffolk HRA will breach its debt cap in year 8 of the plan. There are a number of actions available to the Council that would contribute to preventing the debt cap breach from occurring. These include:

- Improve efficiency and reduce operating costs. This could impact on the number of establishment posts
- Improve performance and increase income
- Withdraw services and reduce operating costs
- Relinquish Right to Buy receipts
- Sell assets
- Further reduce capital spend

Work has been done to calculate what the bottom line improvement will need to be to prevent a debt cap breach over the entire 30 years. The current minimum position required is £100,000 efficiency savings in each year 2018/19, 2019/20, 2020/21; £300,000 in total at today's value. This would maintain compliance based on what is currently known.

10.4 Revised Babergh & Mid Suffolk Building Services (BMBS) financial forecasts have been included in the overall HRA financial plan. An initial review of the BMBS plan identified some areas of concern and work has now been completed to revisit and verify the costs and assumptions in the plan and its future business strategy.

10.5 A project team was established to understand HRA income and expenditure from an operational perspective and to establish an approach to assessing productivity. This work has produced the cost savings plan included in the report. The team has

produced an outline 3 year business efficiency plan to deliver the £300,000 reduction in costs currently assessed as being necessary to avoid a breach of the Mid Suffolk HRA debt cap.

- 10.6 There is an absolute need for the Councils to develop an overall strategy for housing and, within it, transforming the role of local authority housing going forward. This was identified during the development of the Joint Strategic Plan and continues to be a priority given the delivery of housing and the ability to meet need across existing and new housing remains a major challenge.
- 10.7 The Government's white paper provides a trigger for this work, building on our own housing strategy and alongside work already underway in the wider Suffolk space, including the Suffolk Strategic Planning and Infrastructure Framework, Suffolk Housing Proposal which will inform the NALEP new Economic Strategy and the Suffolk older persons housing strategy.
- 10.8 An initial roadmap for developing this approach is included in the attached summary of the 30 year HRA business and financial plan. As part of this work it will be vital to consider
- the role of local authority housing in the overall housing market in meeting need
 - the future possible necessity to consider cross subsidy with general fund housing to deliver a sustainable local authority model
 - use of the Council's own housing assets
 - investment in new housing
 - developing new approaches to tenure so our assets are used to maximum effect
 - our relationship with residents which focuses on increased independence and pathways to employment or care.

11. Appendices

Appendix A Housing Revenue Account Summary of the 30 year business financial plan 2017 Update	Attached
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