

Taunton Deane Borough Council

Tenant Services Management Board – 20th January 2014

Review of HRA Business Plan 2012-2042

Report of the Director – Housing and Communities - James Barrah
(This matter is the responsibility of Executive Councillor Jean Adkins)

1.0 Executive Summary

Following the HRA Self Financing settlement a 30 year HRA Business Plan 2012-2042 was agreed from the 1st April 2012. At this time a regular review process was agreed. Since the last review process a number of significant changes and issues have arisen that impact on the Business Plan, consequently a further review has been undertaken.

The purpose of this report is to consider the aspects of the HRA Business Plan 2012-42 under review, and refresh the financial aspects of the plan to ensure they remain current and robust.

2.0 Background

- 2.1 It was agreed by the Council that the HRA Business Plan would be subject to a formal annual review involving member scrutiny and agreement as part of the budget setting timetable each year.
- 2.2 The context in which Housing Services operates continues to change rapidly. As a result a review of the business plan has now been undertaken and these issues and their impact are outlined in this report.

3.0 Business Plan - Income

3.1 Stock Figures and Average Rent

Due to increased discounts, the number of Right to Buy sales has significantly increased since the last review of the Business Plan (see table below).

Table showing RTB sales

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14 (to Nov13)
Right to Buy Sales	6	7	9	11	37	37

There have also been a small number of disposals to housing associations for redevelopment such as Parmin Close and Victoria Gate and the planned demolitions involved in the councils own Creechbarrow Road development, which have also been reflected in the updated assumptions.

In addition some acquisitions have been made using Right to Buy receipts (buybacks of dwellings previously bought under the Right to Buy scheme).

This has meant that the number of dwellings at 2014/15 has been reduced to 5941 (from 5980), and consequently the rent income forecasted in the Business Plan has needed to be reduced in line with this.

However, the average rent is slightly higher than was forecast in the last review and this has reversed the reduction of rent in the early years.

3.2 Changes to the Rent Formula

Since 2001, rents for social housing have been set based on a formula set by Government. The formula creates a "formula" rent for each property, which is worked out based on a combination of the relative value of the property, relative local earnings levels and the size of the property.

Landlords have been expected to move the actual rent of a property to this formula rent, over time, by annually increasing the weekly rents by Retail Price Index (RPI) + 0.5% plus a convergence factor of up to an additional £2 per week where the rent is below the formula rent for the property.

At the Spending Round 2013 the Government has directed that from 2015-16, rents in the social sector would increase by the Consumer Price Index (CPI) + 1% and that this rent policy will apply for 10 years.

The change from using RPI to the generally lower CPI measure of inflation is not expected to adversely affect the Business Plan as the government target for CPI is 0.5% lower than for RPI which has been reflected in the change in additional uplift from 0.5% to 1%. The actual impact will however depend on the difference between RPI and CPI in future years.

The change in the formula to remove the convergence factor of up to £2 will however have an effect on future rents and income. Rents have previously been set with the intention of reaching formula rent (also known as target rent) where possible in 2015/16, but with the changes proposed the convergence factor will not be included after 2014/15 leaving only 14% of rents converged to formula rent (if convergence continued 91% of rents would have been converged in 2015/16).

This means that for one year rents will be higher than was previously thought because rather than spreading the remaining difference in actual rent and target rent over two years as previously planned, the difference (up to the maximum convergence factor of £2 per week) will be increased in one year, giving higher than

expected increases in rent for 2014/15. However after this, rent will only be uplifted only CPI + 1% and so rents will increase by less than expected in the Business Plan.

Since the proposal to change rent policy lasts for 10 years, after this time an increase of only CPI (and no additional increase) has been assumed. This adversely impacts the income further since the previous rent policy with an above inflationary uplift has no end date and so was assumed to continue for the length of the Business Plan.

3.3 Relets at 'Formula Rent'

Formula rent figures have already been calculated and set for all Taunton Deane Borough Council properties and in order to help mitigate the loss of income in the Business Plan, through the change in convergence, all dwellings being relet with effect from December 2013 are let at formula rent level.

4 Business Plan - Expenditure

4.1 Voids

The number of void properties has shown a steady increase for a number of years and a more recent significant increase in the first part of this year. Historically void costs have generally exceeded budget.

In addition, a new Lettable Standard has been introduced to provide a specification for relets, which has increased costs slightly and our average cost of voids remain high. We are currently investigating the reasons for this apparently high cost and we are being assisted with this by Deane DLO. It is anticipated that improvements to DLO software and the introduction of schedule of rates by the DLO will provide better control on voids expenditure in future. For the purposes of the Business Plan we have proposed a voids budget for 2014/15 of £1.8m reducing to £1.55m in future years, this represents an average void cost of £3k reducing to £2.6k, the latter being closer to market expectations. The service will continue to provide further efficiencies aiming to reduce this budget further.

Table showing voids and spend

	2009/10	2010/11	2011/12	2012/13	2013/14 (Forecasted)
Budget	N/A	909,030	1,099,930	1,099,930	1,128,600
Outturn Spend	1,143,564	1,493,802	1,076,075	1,668,031	2,000,000
No. of Voids	469	435	494	488	600
Average Cost of Void	2,440	3,430	2,180	3,420	3,330

4.2 Planned Maintenance

Following the “No” vote to stock transfer in 2006, a significant cut was made in HRA expenditure in order to fund the work that was known to be required to achieve Decent Homes. One of the changes that was made at this time was to reduce the frequency of planned maintenance (external repair and decoration) from a cycle of 5 years to 8 years. A 5 year contract is planned which will combine external repairs and redecoration with the replacement of fascias and soffits with uPVC. This is currently at tender stage and should start early in the new financial year.

Consequently, an appropriate budget has been proposed for a five year period, for the completion of this work. Following this period these costs are expected to reduce due to the volumes of lower maintenance components installed, and the extensive door replacement programme which is ongoing. Although this is a higher cost in the short term, over the longer term this will deliver savings.

Table showing Pre-planned Maintenance Budget.

Business Plan Year (Financial Year)	3 (2014/15)	4 – 7 (2015/16 – 18/19)	8 – onwards (2019/20 -)
Budget	£1,100K	£800K pa	£100K pa

4.2 Compliance

There are a number of important areas of safety checking and specialist maintenance within the housing maintenance theme. A number of these areas are covered by statute and compliance with these and codes of practice is essential. There are some weaknesses in our approach to compliance issues and this has resulted in action plans being put in place to move these forward. We seek expertise in these specialist areas and have to rely on contractors and third parties which is not ideal.

Procedures and arrangements that we currently have in place would include: Asbestos sampling, testing and removal; Gas, oil and solid fuel servicing and maintenance; Fire risk assessment; Smoke detector servicing; Sewerage and water treatment plant servicing and maintenance; Construction Design and Management Regulations.

We are currently seeking to employ specialist services in a number of additional areas commencing with what we would consider to be the priority areas. The costs for these include not only the servicing and testing procedures but also any remedial work that may become necessary. These areas are set out in the table below.

Table showing compliance items and costs

Compliance Item	Estimated Annual Cost	Length of programme	Testing Cycle
Periodic electrical testing	£350,000	3 years	10 years (5 years for Supported

			Housing)
Legionella monitoring/ L8	£10,800	Ongoing	Monthly
Emergency lighting testing	£9,600	Ongoing	Monthly
Oil supply systems	£2,500	1 year	10 years
Lift replacement at Kilkenny Court	£135,000	1 year	N/A

4.4 Disabled Facilities Grant (DFG) and Aids & Adaptations (A and A) Budget

The HRA currently budgets £525K capital per year to provide disabled aids and adaptations for tenants in our stock, this work is undertaken by the Somerset West Private Sector Housing Partnership (SWPSHP) on behalf of the housing service.

Table showing Spend on DFG and A and A

Financial Year	2010/11	2011/12	2012/13	2013/14 (forecast)
DFGs	£324K	£197K	£176K	£339K
A and As	£112K	£139K	£83K	£109K

It can be seen that annual spend on A and As is in the order of only £120K. Therefore it is proposed to reduce the budget to this level whilst not impacting on service delivery.

It is anticipated that the need is likely to increase in future years as the population ages. So last year for business planning purposes it was thought prudent to increase this provision by 5% per year for the next 10 years and then for it to remain fixed for the remainder of the plan. However, currently there is no evidence to support a 5% increase and as this would have a significant impact on the Business Plan financial model it is proposed to freeze this budget. There is no envisaged significant impact on service delivery however this will be monitored very closely.

In addition work is being undertaken, in collaboration with representatives within Occupational Health at Somerset County Council, to ensure existing adaptations within the housing stock are utilised where possible.

4.5 Staffing

In line with the recently agreed Joint Management Structure between Taunton Deane Borough Council and West Somerset Council, the management costs have been increased by £77.6k per annum. This is to build leadership capacity in order to maximise the opportunities and manage the financial risk of the self financed HRA.

Provision has been made within the Halcon One Team for one third of co-ordinator post to assist in the continuation of the project.

5 Other Financial Adjustments

The cost of support services provided by the General Fund is recalculated annually to ensure the cost is apportioned fairly. The Housing Revenue Account share has increased due to the proportionate increase in the size of the HRA against the GF.

Inflation has been amended from RPI to CPI within the financial model to bring this in line with the change in rent policy that is to be set using CPI.

6 Voluntary code for a self-financed Housing Revenue Account

The introduction of HRA self financing has given local authorities the freedom to develop and deliver a more positive, less constrained, vision for council housing. In order to support local authorities in assessing and developing, a voluntary code of practice has been developed by the Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing. The principles and provisions of the code will:

- Assist housing authorities in ensuring effective governance, finance and business planning;
- Provide transparency to tenants, members and officers on how the housing business is being managed. The code will give tenants and members a framework against which to hold the authority to account;
- Allow housing authorities to assess where they may need further support and assistance.

The principles included within the code are included under the following headings: Co-regulation; Financial viability; Communications and governance; Risk management; Asset management; Financial and treasury management (copy attached in Appendix 2).

We shall be undertaking a self assessment against these principles which will be validated by an independent audit process.

Members have been asked to approve the adoption and use of this voluntary code.

7 Finance Comments

A number of factors have affected the financial position of the Business Plan since the introduction of Self Financing and the original Business Plan. Some influences have come from Government policy such as the change in Right to Buy discounts, welfare reform and rent policy. Others have been based on local plans such as asset management and maintenance changes and staffing restructures. As such the Business Plan has been updated to reflect these changes.

The detailed table below illustrates the impact of the changes outlined in this report. This table uses the measurement of in year cash flow and impact on the HRA reserve at the end of the 30 year Business Plan (2042).

The overall impact of these changes is a forecast change in projected reserves balances in 2042, from £242.4m to £167.1m - a reduction of £73.3m. Although a significant reduction in expected reserves this still represents a healthy long term reserves position. However, this does highlight the importance of a robust approach to managing the Business Plan.

The changes to rent policy account for the majority of the change in position, with the biggest impact (£61.5m) due to the assumption that the annual uplift on rent will be limited to Consumer Price Index (CPI) level of inflation only at the end of the 10 year rent policy. However this does not affect the Business Plan until 2026/27 and this assumption could be updated again within this time, as and when further rent policy is issued.

The loss of convergence from rent policy has an impact of £12.3m over the length of the Business Plan however the change to move dwellings on to formula rent upon re-let is likely to negate £7m of this, leaving a net impact of £5.3m.

Updated stock numbers and average weekly rents are expected to reduce the closing balance by £24.3m when compared to the previous Business Plan. However, the true impact will be dependent on future Right to Buy levels.

The net impact on changes to expenditure reduce the Business Plan reserves balance by £10.8m, which is more than offset by changing the inflation assumption from RPI to CPI (in line with rent).

Summary of changes to Business Plan

Item	Impact on Business Plan Reserve at 2041/42 £000s	Business Plan Reserve at 2041/42 £000s
Reserve balance on previous Business Plan		242,431.1
Update stock numbers and rent	(24,309.9)	
Changes in rent policy	(66,810.7)	
Update expenditure	(10,770.7)	
Change inflation	23,963.6	
Other changes	2,560.8	
Final Balance		167,064.2

The changes to forecast costs and income are projected forward on an annual basis for the Business Plan / HRA MTFP. Current projections indicate that spending plans are affordable over the longer term but there is a potential cash flow management

requirement between 2016/17 and 2019/20. There are a number of options available to manage the HRA budget during this period:

- Defer or reduce spending on revenue and/or capital maintenance
- Defer or reduce investment in the Social Housing Development Fund
- Undertake further capital borrowing to support capital investment instead of using HRA Revenue resources

We are currently working with Arlingclose, our treasury management advisors, to determine the options for managing the cash and debt position for the HRA in the most effective way. A verbal update will be given in the meeting. From a service cost perspective it is important to manage the budget requirement based on what is affordable.

Conclusion

Overall the 30 year Business Plan continues to forecast a healthy financial position over the long term. However, the future reserve investment in the HRA has reduced significantly, largely due to changes in rent policy and the increase in Right to Buy sales. The current spending plans create a budget pressure in the medium term, which will need to be managed in order to produce an affordable budget forecast for the HRA MTFP.

Table to show variances identified in report and their impact on cash flow and reserve position

	Cash Flow (at 2014/15 prices)													Impact on Business Plan Reserve at 2041/42	Business Plan Reserve at 2041/42	
	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yrs 11 - 15	Yrs 16 - 20	Yrs 20 - 25	Yrs 26 - 30	Total			
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23 - 2026/27	2027/28 - 2021/22	2022/23 - 2036/37	2037/38 - 2041/42				
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s			
Reserve balance on previous Business Plan review																242,431.1
Income																
Update Stock Numbers and Average Rent	700.9	452.6	(128.2)	(607.3)	(622.0)	(637.3)	(651.7)	(663.2)	(3,496.8)	(3,740.4)	(3,942.9)	(4,084.1)	(17,420.4)	(24,309.9)		
Rent Policy																
Change from RPI + 0.5% to CPI + 1%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss of convergence	142.3	(262.8)	(286.6)	(296.0)	(299.4)	(303.2)	(306.7)	(310.5)	(1,615.6)	(1,714.9)	(1,827.5)	(1,953.0)	(9,033.8)	(12,305.0)		
End of above inflation uplift after 10 years	0	0	0	0	0	0	0	0	(764.3)	(6,418.5)	(12,981.9)	(19,729.8)	(39,894.5)	(61,520.8)		
Relet at formula rent	12.4	38.2	59.5	78.2	96.9	113.5	130.1	145.0	897.4	1,077.3	1,164.5	1,215.5	5,028.3	7,015.1		
Total Income	855.6	228.0	(355.3)	(825.1)	(824.5)	(827.0)	(828.3)	(828.7)	(4,979.3)	(10,796.5)	(17,587.8)	(24,551.4)	(61,320.4)	(91,120.6)	151,310.5	
Expenditure																
Voids budget	(671.4)	(419.4)	(419.4)	(419.4)	(419.4)	(419.4)	(419.4)	(419.4)	(2,097.0)	(2,097.0)	(2,097.0)	(2,097.0)	(11,995.2)	(17,678.9)		
Pre planned maintenance	(786.4)	(478.4)	(478.4)	(478.4)	(478.4)	221.6	221.6	221.6	1,108.0	1,108.0	1,108.0	1,108.0	2,396.8	3,450.9		
Compliance	(557.2)	(451.2)	(451.2)	248.8	248.8	135.8	135.8	135.8	(1,118.6)	905.0	(1,118.6)	905.0	(981.8)	(1,264.2)		
DFGs and Aids and Adaptations	116.3	143.8	172.8	203.1	235.0	268.6	303.7	340.7	1,703.5	1,703.5	1,703.5	1,703.5	8,598.0	11,604.6		
Shared Services/Joint Management restructure	(108.6)	(77.6)	(77.6)	(77.6)	(77.6)	(77.6)	(77.6)	(77.6)	(388.0)	(388.0)	(388.0)	(388.0)	(2,203.8)	(2,934.0)		
Support Services increase	(86.5)	(86.5)	(86.5)	(86.5)	(86.5)	(86.5)	(86.5)	(86.5)	(432.5)	(432.5)	(432.5)	(432.5)	(2,422.0)	(3,204.9)		
Halcon One Team/Link Centre	(19.8)	(19.8)	(19.8)	(19.8)	(19.8)	(19.8)	(19.8)	(19.8)	(99.0)	(99.0)	(99.0)	(99.0)	(554.4)	(744.2)		
Total Expenditure	(2,100.6)	(1,389.1)	(1,360.1)	(629.8)	(597.9)	22.7	57.8	94.8	(1,323.6)	700.0	(1,323.6)	700.0	(7,149.4)	(10,770.7)	140,539.8	
Inflation changed to CPI in line with rent																23,963.6
Other minor changes																2,560.8
Final Balance																(75,366.9)

8 Legal Comments

Legal issues are addressed in the body of the report in particular in relation to compliance matters.

9 Links to Corporate Aims

The corporate priorities have influenced the Business Plan; including recognising how changes in national housing finance and policy will impact on the Council's priorities for the housing service. The business plan aims to support the delivery of the Council's corporate priorities and wider housing and community objectives.

The business plan is structured around four housing strategic objectives:

1. *Securing a long term future for our housing service.*

- This means continuing to invest in the management of the housing stock to ensure it meets tenants' needs, who should be at the heart of decision making.

2. *Tackling deprivation and sustainable community development*

- This means taking action so that disadvantaged communities will have better access to local housing services, training and employment, continuing our support for a range of vulnerable people.

3. *Investing in our housing stock, regeneration and affordable housing*

- This means investing in our existing stock to deliver a standard that meets the needs of the stock and local aspirations. It also means planning and successfully managing the regeneration of our housing estates and communities, providing homes that cater for the needs of an expanding and diverse population within communities that people are proud of.

4. *Climate change*

- This means taking action to reduce carbon emissions across our housing stock through our investment planning, service delivery, partnership and community action to address climate change and reduce fuel poverty.

10 Environmental Implications

Climate change is a strategic priority for Housing Services and our Business Plan has been created to have positive implications for the environment. Housing Services aims to take action to reduce carbon emissions across the housing

stock through investment planning, service delivery, partnership and community action.

11 Community Safety Implications

Community safety is incorporated in the strategic priority for Housing Services and our Business Plan has been created to have positive implications for community safety. Housing Services aims to take action so that disadvantaged communities will have better access to local housing services, training and employment. Housing Services also aims to continue its support for a range of vulnerable people and to tackle crime and fear of crime through reducing anti-social behaviour.

12 Equalities Impact

An Equalities Impact Assessment is attached as Appendix 1. There are no significant impacts arising from this report.

13 Risk Management

In creating this report advice has been received from the Council's treasury management advisors concerning, in particular, how our interest savings should be viewed against our ongoing debt position. This advice has been incorporated into the recommendations in this report.

14 Consultation

This report was considered by the Tenants Services Management Board in outline on the 16th December 2013. The board were supportive of the changes to the Business Plan and understood and accepted the revised position. This is a more detailed report for consideration by the board.

15 Recommendations

Recommendation 1 - To comment on the proposed changes to the Housing Revenue Account Business Plan.

Recommendation 2 – To comment on the use of the voluntary code for a self-financed Housing Revenue Account.

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Review of HRA Business Plan 2012-2042 dated December 2013

Appendix 1

Equality Impact Assessment

Responsible person	<i>James Barra</i>	Job Title: Health and Housing Manager
Why are you completing the Equality Impact Assessment? (Please mark as appropriate)	Proposed new policy/service	
	Change to Policy/service	√
	Budget/Financial decision – MTFP	√
	Part of timetable	
What are you completing the Equality Impact Assessment on (which, service, MTFP proposal)	Taunton Deane Borough Council (TDBC) Review of Housing Revenue Account (HRA) Business Plan 2012 – 42	
Section One – Scope of the assessment		
What are the main purposes/aims of the policy/decision/service?	<p>The strategic objectives of the business plan are to:</p> <ol style="list-style-type: none"> 1. Securing a long term future for our housing service; <ul style="list-style-type: none"> • This means continuing to invest in the management of the housing stock to ensure it meets tenants’ needs, who should be at the heart of decision making. 2. Tackling deprivation and sustainable community development; <ul style="list-style-type: none"> • This means taking action so that disadvantaged communities will have better access to local housing services, training and employment, continuing our support for a range of vulnerable people. 3. Investing in our housing stock, regeneration and affordable housing; and <ul style="list-style-type: none"> • This means investing in our existing stock to deliver a standard that meets the needs of the stock and local aspirations. It also means planning and successfully managing the regeneration of our housing estates and communities, providing homes that cater for the needs of an expanding and diverse population within communities that people are proud 	

	<p>of.</p> <p>4. Climate change.</p> <ul style="list-style-type: none"> This means taking action to reduce carbon emissions across our housing stock through our investment planning, service delivery, partnership and community action
<p>Which protected groups are targeted by the policy/decision/service?</p>	<p>Taunton Deane Borough Council's HRA housing stock comprises of approximately 6,000 rented homes, with a further 372 leasehold properties. In addition, the Council also manages two private leasehold schemes for the elderly. Housing services are designed to ensure they meet the needs of wide ranging customer base. As such the HRA Business Plan 2012 – 2042 is targeted at all the protected groups including: Age; Disability; Gender Reassignment; Pregnancy and Maternity; Race; Religion or belief; Sex; and Sexual Orientation; Marriage and civil partnerships.</p>
<p>What evidence has been used in the assessment - data, engagement undertaken – please list each source that has been used The information can be found on....</p>	<p>Data:</p> <ol style="list-style-type: none"> Major changes in national housing finance, welfare benefits reform, housing policy and proposals for change to national rent policy – 2011;2012; and 2014; and Values and priorities reflected in the Council's Corporate Business Plan 2013-2016. <p>Engagement:</p> <ol style="list-style-type: none"> Consultation with tenants and stakeholders which included regular meetings with the Tenant Services Management Board during 2013.
<p>Section two – Conclusion drawn about the impact of service/policy/function/change on different groups highlighting negative impact,</p>	

unequal outcomes or missed opportunities for promoting equality

The proposed variances identified in the reviewed HRA Business Plan 2012- 2042 will apply to all existing and new tenants and as such no potential discrimination amongst the protected groups has been identified.

Specifically, the proposed reduction in Disabled Facilities Grants (DFGs) and Aids and Adaptation (A and A's) budget reflects the current level of spend over recent years, the lack of substantive evidence of higher levels of need and enhancements to working practices that help make better use of existing investment and provision. Housing Services will continue to carefully monitor need against budget spend in this area of our work.

I have concluded that there is/should be:

No major change - no adverse equality impact identified	No major change, as there is no specific equality impact on the protected groups.
Adjust the policy/decision/service	
Continue with the policy/decision/service	
Stop and remove the policy/decision/service	

Reasons and documentation to support conclusions

Section four – Implementation – timescale for implementation

The reviewed Housing Revenue Account Business Plan 2012 -2042 will be effective from April 2014.

Section Five – Sign off

Responsible officer: James Barraah Date	Management Team Date
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Section six – Publication and monitoring

Published on

Next review date	Date logged on Covalent
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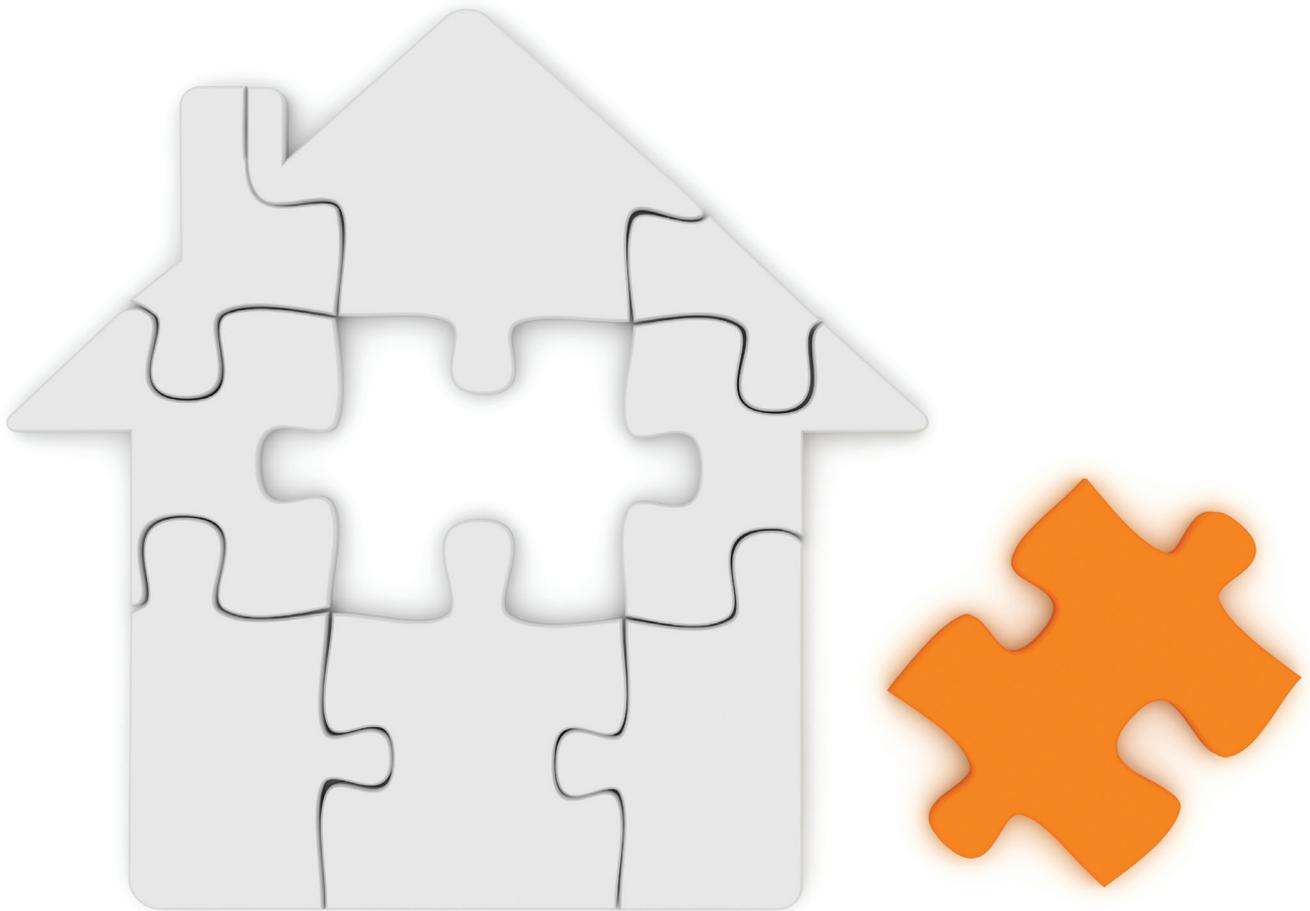
Action Planning

The table should be completed with all actions identified to mitigate the effects concluded.

Service area	Housing and Communities		Date	20 th December 2013		
Identified issue drawn from your conclusions	Actions needed	Who is responsible?	By when?	How will this be monitored?	Expected outcomes from carrying out actions	
Potential to make insufficient resource provision to meet the DFG and A and A's needs of tenants across TDBC's housing stock.	Need to carefully monitor future need against budget spend in relation to Disabled Facilities Grants and Aids and Adaptation Grants	Simon Lewis AD – Housing and Communities	Ongoing throughout 2014/2015	Monthly budget forecasting meetings and quarterly performance monitoring of service delivery.	To ensure we continue to provide support for a range of vulnerable people residing within our housing stock.	

Voluntary code for a

self-financed housing revenue account



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Foreword

The introduction of Housing Revenue Account (HRA) self-financing has given local authorities the freedom to develop and deliver a more positive, less constrained, vision for council housing. The Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing believe that it is vital that local authorities have effective governance and financial management frameworks in place in order for self-financing to be a success.

In order to support local authorities in assessing and developing these frameworks the two institutes have worked together to produce a voluntary code of practice for the sector. The principles and provisions of this voluntary code will:

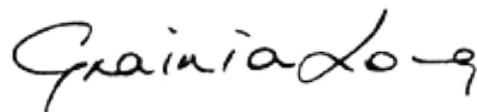
- assist housing authorities in ensuring effective governance, finance and business planning
- provide transparency to tenants, members and officers on how the housing business is being managed. The code will give tenants and members a framework against which to hold the authority to account
- allow housing authorities to assess where they may need further support and assistance.

In some cases, these principles are already covered through other regulatory or professional guidance. These are highlighted along with any specific provisions relating to a self-financed HRA.

These principles are designed to be self-regulatory and we believe that they represent a key tool in assisting local authorities to account for the management of the HRA to tenants and residents and those charged with governance.



Ken Lee
Chair, CIPFA Housing Panel



Grania Long
Chief Executive, Chartered Institute of Housing

Acknowledgements

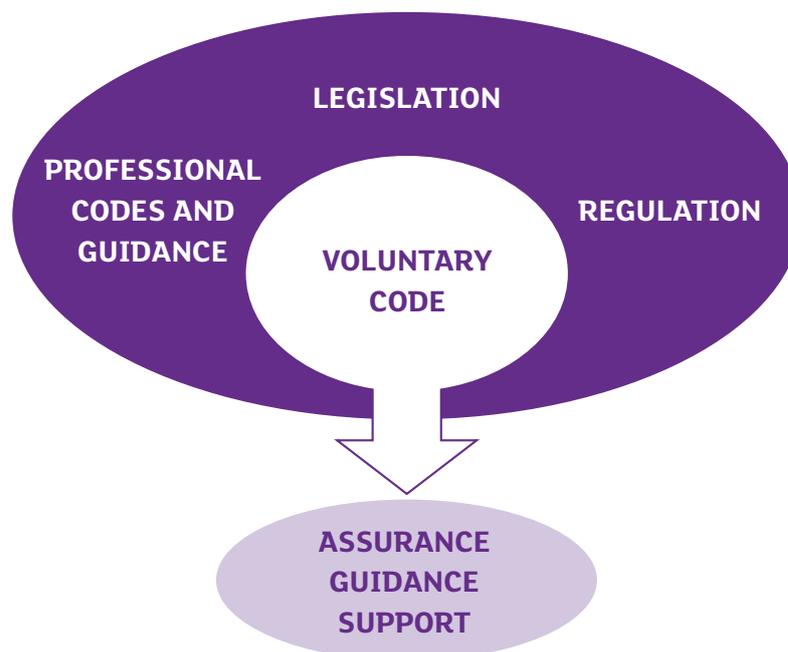
The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Housing (CIH) are grateful to the authors, Louise Dunne and Ben Taylor, and to the members of the project team who undertook the background research:

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Louise Dunne	<i>CIPFA</i>
Steve Partridge	<i>Chartered Institute of Housing</i>
Peter Pennekett	<i>Portsmouth City Council</i>
Ben Taylor	<i>Chartered Institute of Housing</i>

Introduction

Housing Revenue Account (HRA) self-financing commenced in April 2012. For the first time in generations, local housing authorities are able to fully retain the money they receive in rent in order to plan and provide services to their current and future tenants. This represents a monumental shift in outlook from the previous financial system, replacing an annual short-term focus with a longer term planning horizon with the freedom to develop and deliver a more positive, less constrained, vision for council housing.

With freedom and flexibility comes responsibility. Councils are keen to make the most of this opportunity and do so in a prudent, viable and measured way. There are already a number of checks and balances in the system, including formal regulation of consumer standards in housing by the Homes and Communities Agency and the financial and accounting framework operating for local government. This document is designed to support councils in their aim to ensure effective and sensible management of the housing business and to be consistent with existing frameworks.



Viable and sustainable council housing relies upon effective governance, financial and business planning. Decisions about appropriate arrangements for effective management of long-term housing business plans need to be decided and democratically accountable at the local level. However, there is an appetite within the sector for some guiding principles to assist in establishing those arrangements, and to demonstrate that councils are managing self-financing in a responsible and appropriate way.

Purposes

Councils have responded to the move to self-financing by putting in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their self-financed HRA.

To support this work CIPFA and the CIH have produced this voluntary code of practice and accompanying provisions to assist the local authority in its management of the HRA in the following ways:

- To assist councils in ensuring effective governance, finance and business planning.
- To provide transparency to tenants, members and officers on how housing business is being managed. The principles will give tenants and members a framework against which to hold the authority to account.
- To allow housing authorities to assess where they may need further support and assistance.

HOW THE CODE WORKS

This is a voluntary code of practice covering six principles. Along with these high level principles, the code comprises a series of supporting provisions which together describe what the sector considers as essential elements for the continued sustainability of a self-financed HRA. In some cases, these principles are already covered through other regulatory or professional guidance. In these cases, this is stated along with any specific provisions relating to a self-financed HRA.

The code is designed to be self-regulatory and compliance is not formally required. As such there are no formal entry level requirements and no formal sanctions for non-compliance. It will be for a housing authority to determine how it wishes to assess its compliance with the code on an on-going basis and this reflects our belief that this code is a tool to assist the authority to account for the management of the HRA to its stakeholders. One option available to housing authorities is to undertake reviews of compliance with the code and report these reviews to the appropriate scrutiny groups and include them within the authority's Annual Governance Statement. Where an authority does not feel it is complying with the code, it is a prompt to review its approach and question whether different things need to happen.

STATUS

The voluntary code has the support of a wide range of organisations, including those who work alongside tenants and residents – this set of principles and provisions is intended to support these groups and individuals to better challenge and scrutinise the performance of the HRA under self-financing.

Finally, it is not intended that any of the Principles or Provisions as set out in this code will override or countermand Statute.

The Principles

1. **Co-regulation.** The housing authority complies with the principles of co-regulation as set out in *The Regulatory Framework for Social Housing in England from April 2012*¹.
2. **Financial viability.** The housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability.
3. **Communications and governance.** The housing authority keeps under review the communications and governance arrangements with regards to the new operating environment and adopts governance arrangements appropriate to supporting viability and accountability of the housing business.
4. **Risk management.** The housing authority has in place an effective system for the on-going management, monitoring and reporting of risks to the HRA.
5. **Asset management.** The housing authority has in place arrangements to maintain its assets to maximise their value into the future. The authority complies with the principles of good asset management as they apply to HRA assets.
6. **Financial and treasury management.** The housing authority complies with proper accounting practices including CIPFA's *Code of Practice on Local Authority Accounting in the United Kingdom*² and CIPFA's *Treasury Management in the Public Services Code of Practice*³.

PRINCIPLE: CO-REGULATION

The housing authority complies with the principles of co-regulation as set out in *The Regulatory Framework for Social Housing in England from April 2012*.

Existing provisions:

There are six provisions outlined in the Regulatory Framework:

- Councillors and boards who govern providers are responsible and accountable for delivering their organisation's social housing objectives.
- Providers must meet the regulatory standards.
- Transparency and accountability is essential to co-regulation.
- Tenants should have opportunities to shape service delivery and to hold the responsible boards and councillors to account.

¹ *The Regulatory Framework for Social Housing in England from April 2012*, Homes and Communities Agency, March 2012

² *The Code of Practice on Local Authority Accounting in the United Kingdom*, CIPFA, annual

³ *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*, CIPFA, 2011

- Providers should demonstrate that they understand the particular needs of their tenants.
- Value for money goes to the heart of how providers ensure current and future delivery of their objectives.

Voluntary code provisions

Financial and other performance information is presented in a format that is inclusive to all.

PRINCIPLE: FINANCIAL VIABILITY

The housing authority has arrangements in place to monitor the viability of the housing business and takes appropriate actions to maintain viability.

Voluntary code provisions

Provision 1:

The housing authority has put in place a business planning process underpinned by appropriate financial modelling that allows the cash flows of the business to be forecast. The process incorporates an appropriate set of assumptions relating to forecast:

- rent levels
- general income and expenditure levels
- interest rates on investment and borrowing, and associated costs
- levels of void properties and bad debts.

Provision 2:

The housing authority tests the viability of proposed major capital expenditure projects against the resources generated in the business plan. This ensures that additional activity (for example the development of new housing) is fully integrated into the business planning process and does not introduce liabilities that are unable to be fully funded within an appropriate timescale.

Provision 3:

The housing authority ensures that sufficient resources are allocated for the long-term maintenance of the stock and other assets, adopting an appropriate mechanism to transfer resources from revenue to a reserve ensuring that the peaks and troughs of lifecycle investment needs are able to be met.

Provision 4:

Assumptions are kept under regular review and tested against actual financial performance. Alterations to underlying assumptions are made in direct relation to the impact on the overall plan.

Provision 5:

The housing authority maintains accurate data about the cost of its services, and regularly reviews these in relation to its procurement and commissioning strategies. The business plan allocates resources to ensure the continued viability of high quality management services.

PRINCIPLE: COMMUNICATIONS AND GOVERNANCE

The housing authority keeps under review the communication and governance arrangements with regards to the new operating environment and adopts governance arrangements appropriate to supporting viability of the housing business.

Voluntary code provisions

Provision 1:

The housing authority undertakes to achieve openness in communication and sharing of information, and expresses all internal and governance communications in clear language.

Provision 2:

The housing authority engages in appropriate levels of consultation with tenants, members, officers and other stakeholders in a way that ensures it delivers efficient management and control of its business plan.

Provision 3:

The housing authority reviews on a regular basis the quality, accuracy and utility of all information pertaining to the management of its housing business including financial and performance based sources.

Provision 4:

The housing authority has an appropriate mechanism to assess its on-going compliance with the key principles and accounts to residents on this compliance. One option could be to undertake to publish a commentary on its compliance as part of its Annual Governance Statement or through other appropriate channels.

Provision 5:

The housing authority has adopted suitable governance arrangements consistent with the effective operation of a housing business, paying attention to the long-term nature of the business: incorporating for example the need to plan maintenance and investment over the long term and the need to manage large levels of long-term housing debt.

Provision 6:

The housing authority ensures that resources are appropriately allocated between investment, maintenance and management priorities in line with business plan objectives and that the balance of priorities is agreed with tenants, members and other stakeholders as appropriate.

PRINCIPLE: RISK MANAGEMENT

The housing authority has in place an effective system for the on-going management, monitoring and reporting of risks to the HRA. A different set of risks have been transferred to the housing authority from central government within the self-financing system.

Voluntary code provisions

Provision 1:

The housing authority carries out appropriate sensitivity analysis across the business plan to identify potential high, medium and low level risks to the financial viability of the HRA. In particular, attention is given to evaluating risks arising from: changes in government policy; treasury management risks; inflation; income recovery rates; void levels; changes to rent policy; changes in the composition of the stock; investment return; right to buy; debt levels and grants.

Provision 2:

The housing authority has a risk management system in place which, as a minimum, includes the following processes:

- identification of risk
- quantification of risk
- management of risk
- reassessment of risk
- communication of risk to appropriate decision-makers.

Provision 3:

The housing authority identifies appropriate mitigating actions where higher level risks to the overall sustainability of the business plan are identified, to ensure the long term viability of the HRA. These may include:

- an active treasury management strategy and procedures to manage treasury management risks in accordance with CIPFA's *Treasury Management in the Public Services Code of Practice*
- a suitable level of balance of reserves maintained by the HRA as a contingency against risks on inflation and income, bad debt increases as well as investment risk
- performance management frameworks effectively enforced to manage the risks of poor performance in voids, income collection and investment scheme delivery.

PRINCIPLE: ASSET MANAGEMENT

The housing authority has in place arrangements to maintain its assets to maximise their value into the future. The authority complies with the principles of good asset management as they apply to HRA assets.

Voluntary code provisions

Provision 1:

The housing authority takes a strategic approach to asset management ensuring that the long-term strategic vision for the authority is underpinned by a thorough understanding of current and future needs.

Provision 2:

The housing authority's strategic asset management and business planning processes are fully integrated. The business plan supports the maintenance and development of the asset base which in turn provides value to the business plan.

Provision 3:

The housing authority has agreed asset management standards with tenants, members and other stakeholders having regard to the financial resources generated within the business plan.

Provision 4:

The housing authority maintains accurate information relating to the condition, maintenance and investment needs of its housing stock and other HRA assets.

Provision 5:

Asset management information forms the basis for the asset investment programme of the housing authority driven by the business plan and set out over an appropriate medium-term financial period.

PRINCIPLE: FINANCIAL AND TREASURY MANAGEMENT

Existing provisions:

The housing authority complies with proper accounting practices including CIPFA's *Code of Practice on Local Authority Accounting in the United Kingdom* and CIPFA's *Treasury Management in the Public Services Code of Practice*.

Voluntary code provisions

There are two specific provisions in relation to the operation of a self-financed HRA relating to accounting for interest charges and depreciation.

Provision 1:

Housing is a long-term investment and HRA borrowing policy needs long term stability to ensure long-term planning is undertaken on a reasonable and consistent basis. The housing authority has set out a policy stating how a reasonable charge for borrowing costs of the HRA will be calculated, set for the long-term such that it enables long-term planning of HRA resources and borrowing.

Provision 2:

The depreciation charge to the HRA is calculated on a componentised basis in line with proper accounting practices⁴. The housing authority is moving to a full depreciation accounting charge in line with the transitional arrangements set out by the Department for Communities and Local Government.

⁴ For more information see *Housing Finance under Self-financing*, CIPFA, 2013.

Glossary

Co-regulation: the principle that underpins the Homes and Communities Agency's regulatory approach. Councillors who govern providers' service delivery are responsible for meeting the regulatory standards and being transparent and accountable for their organisation's delivery of its social housing objectives.

Housing authority: the same meaning as in the Housing Act 1985.

Housing business: the housing activity that is accounted for in the Housing Revenue Account.

Housing Revenue Account (HRA): the Housing Revenue Account of the local housing authority as defined by the Local Government and Housing Act 1989 (as amended).

Proper accounting practices: in relation to the accounts of a local authority these are defined in accordance with section 21 of the Local Government Act 2003.

Self-financing: a system for financing council housing introduced in April 2012 that replaced the Housing Revenue Account subsidy system.



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