SHEFFIELD CITY COUNCIL
Cabinet Report

8

Report of: Executive Director, Communities
Executive Director, Resources

Date: **28th September 2011**

Subject: Housing Revenue Account Reform – Self-financing

Author of Report: Emma Thomas, 29 30240

Summary:

This report is to:

- Describe the changes to be brought about by Housing Revenue Account (HRA) reform. Councils are moving from the current subsidy funding system for council housing to be self-financing
- Provide detail on what the initial self-financing settlement figures mean for Sheffield City Council
- Agree the Council's preparation for self-financing through the development of a HRA business plan.

Reasons for Recommendations:

In February 2011, the Government published 'Implementing Self-financing for Council Housing', which set out 'the rationale, methodology and financial parameters for our reforms to the council housing finance system in England'. Legislation in the Localism Bill will commence self-financing and abolish the Housing Revenue Account subsidy system. From April 2012, council housing will have to move to a self-financed regime; there will be no opt-out for authorities.

The Council will need robust business planning to optimise its resources for council housing over the next thirty years. In view of the responsibilities and the additional risks that self-financing brings, the Council must be business minded in its approach to council housing in the future if it is to be in a position to continue to provide quality services to tenants.

The Council will aim to consult with tenants and stakeholders on the draft HRA business plan during autumn 2011.

Recommendations:

Cabinet is recommended to:

- Take note of the changing funding system for council housing being brought about by Housing Revenue Account reform (self-financing)
- Take note of what the self-financing settlement means for the Council
- Agree the Council's preparation for self-financing through the development of a HRA business plan.

Background Papers:

The Cabinet Report 23rd June 2010 "Consultation on the Reform of Council House Funding" http://www.sheffield.gov.uk/your-city-council/council-meetings/cabinet/agendas-2010/agenda-23rd-june-2010

The Government's self-financing settlement to local authorities is included in the Department of Community and Local Government's 'Implementing self-financing for council housing', 1st February 2011:
http://www.communities.gov.uk/publications/housing/implementingselffinancing

The Government's update on the policy and implementation arrangements set out in the document 'Implementing self-financing for council housing', 28th July 2011:
http://www.communities.gov.uk/publications/housing/selffinancetransition

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Category of Report: OPEN

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: Liz Orme
Legal Implications
YES Cleared by: Andrea Simpson
Equality of Opportunity Implications
NO Cleared by: Phil Reid, Communities Development Unit
Tackling Health Inequalities Implications
NO
Human rights Implications
NO
Environmental and Sustainability implications
NO Cleared by: Robert Almond
Economic impact
YES
Community safety implications
NO
Human resources implications
NO - Cleared by: Sue Palfreyman
Property implications
YES
Area(s) affected
All Community Assembly areas
Relevant Cabinet Portfolio Leader
Cabinet Member for Homes and Regeneration Cabinet Member for Finance
Relevant Scrutiny Committee if decision called in
Safer and Stronger Communities Scrutiny Board Overview and Scrutiny Management Committee
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
YES

HOUSING REVENUE ACCOUNT REFORM – SELF-FINANCING

1.0 SUMMARY

1.1 This report is to:

- Describe the changes to be brought about by Housing Revenue Account (HRA) reform. Councils are moving from the previous subsidy funding system for council housing to be self-financing
- Provide detail on what the initial self-financing settlement figures mean for Sheffield City Council
- Agree the Council's preparation for self-financing through the development of a HRA business plan.

1.2 Council housing is currently funded by the HRA subsidy system. Under this system all rents collected by local authorities go into a central pot which the Government distributes to councils based on their notional assessment of the council's need using a national formula. A proportion of the income generated through council housing is used by Government to invest in services on a nationwide basis outside of housing.

1.3 The subsidy system has been criticised as being unfair as the resources available to local authorities are not based on the income they generate. As subsidy settlements cover a one-year period and future settlements are unpredictable, long term planning is difficult. Also, as the Government controls the division of income between services and investment, this makes decision making difficult.

1.4 The Council will be better off under self-financing than under the subsidy system. Under self-financing all rents will be retained locally to pay for housing investment and services. Existing council housing debt will be redistributed among the 171 councils in ownership of council housing, and the amount of debt taken by an authority on will be determined by assumptions about income and the cost of repairs. Under self-financing local authorities will also be set a limit up to which they can borrow by Government.

1.5 Under subsidy the gap between resources and requirements over thirty years was estimated in 2010 to be £1.3 billion. Self-financing would reduce this gap to approximately £217 million over thirty years – an improvement of more than £1 billion.

1.6 The introduction of self-financing and the end of the subsidy system in April 2012 is on the whole positive for Sheffield as it will:

- Provide the opportunity to bring more resources into council housing in Sheffield than under the subsidy system
- Make possible long term planning decisions about investment in homes and services

- Give the Council the freedom to manage homes according to local needs
- Provide more opportunity for tenants to have a real say in setting priorities looking to the longer term.

1.7 However, self-financing also transfers risks from central government to local authorities. The risks that the Council will need to monitor and manage include:

    - The Council will bear the responsibility for the long term security and viability of council housing in Sheffield. Council housing finances will be free from Government control which means that from 2012 local authorities will have to fund all activity relating to council housing from the income generated through council housing through long term business planning
    - The Council will need to manage the impact of changes in Government policy for example the impact of the forthcoming welfare reform on income recovery.
    - The Council will take on the management of financial risks, including interest rate changes and inflation rate fluctuation.

1.8 The HRA budget supports £863m of capital financial commitments (total capital debt attributable to the HRA), the costs of which are currently supported by the HRA subsidy system. Interest rate risk is substantially mitigated by the consolidated rate of interest used by the subsidy system in determining the amount of subsidy received (i.e. interest rate rises would be met by an increase in subsidy).

1.9 Under self-financing settlement the government will write off £567.24m of Sheffield's HRA debt in the form of a top-slice of the Council's current Public Works Loans Board (PWLB) loan stock, which will severely dislocate the Council's current debt-strategy and drastically alter the composition and relative risk of the Council's residual debt portfolio.

1.10 There will be also a requirement for the Council to have two separate debt pools, one for the General Fund and one for the HRA which presents a range of risks and opportunities for the Council and a new debt management methodologies and strategies. With the HRA having its own debt pool this will enable debt profiling to be undertaken more effectively which will support the HRA 30-year business plan.

1.11 Although the Council will be better off under self-financing than subsidy, funding for Sheffield's backlog maintenance costs has not been addressed by Government in the settlement. Without this being addressed, under self-financing there will be an estimated shortfall in resources of £217 million over thirty years when taking account of the backlog needs, currently modelled to occur during the first ten years of self-financing.

1.12 The cost of Sheffield's historic backlog maintenance is around £257 million. The backlog costs are a combination of work required to complete: the Decent Homes programme; the backtracks and refusals from the programme; and elemental work to heating, roofs and communal areas which was not included in Decent Homes.

1.13 Sheffield is one of a number of authorities in the country where there is a funding gap because of backlog maintenance. For most of the 171 authorities that own council housing the settlement enables them to fund all their requirements over the thirty-year business planning period.

1.14 The Council alerted civil servants to this shortfall and requested an improved settlement for Sheffield. However, Government has stated that it will not reopen Sheffield's self-financing settlement to take this into account. The Sheffield bid for decent homes backlog funding for 2012/13, which could have helped to reduce the gap, was unsuccessful. The City Council will continue to talk to Government in respect of the maintenance backlog.

1.15 The Council must work within the resources self-financing provides to create a robust business plan for the next five years within the context of the next thirty years and the need to address the unfunded backlog.

1.16 As the self-financing settlement does not provide resources for all the investment in council housing, the Council needs to make a series of choices to ensure the resources it has are optimised. The decisions will include options for reviewing the sequencing of the maintenance backlog.

1.17 The Council will aim to consult with tenants and other stakeholders on the draft business plan during autumn 2011. The detailed first medium term business plan and associated capital investment plan will be taken to Cabinet in January 2012 as a key decision.

2.0 WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE?

2.1 Council housing is an important aspect of the Council's housing strategy. The Council owns approximately 42,000 council houses which are home to over 48,000 tenants. It will be the Council's current tenants and future tenants who will be affected by the ongoing choices that are made in HRA business planning about how services and investment in council housing are delivered under self-financing.

2.2 Having made major investments to bring the majority of homes up to the decent homes standard the Council needs to be able to maintain its homes at this level.

2.3 The Council also needs to maintain a high standard of housing management services for council homes. These services are currently delivered through Sheffield Homes, an arms length management organisation (ALMO). Sheffield Homes' services were rated for the third time as three-star excellent by the Audit Commission in 2010.

2.4 The Council will be consulting with tenants on the draft business plan later in 2011 to ensure that tenant priorities are reflected in the plan. Tenants will play a key role in the decision making process, helping the Council to achieve a balance between funding for services and investment in homes in order to maintain its homes and provide quality services to its tenants.

2.5 Within the ring-fence for tenant services that applies to the Housing Revenue Account, the HRA may also influence and be influenced by the wider aims and objectives for the city. The HRA should continue to support the local economy, for example in its links to addressing vulnerability and promoting health and financial inclusion in Sheffield.

2.6 A separate project, the Planning the Future project, is looking at how council housing should be managed. This follows the decision made at Cabinet on 24th November 2010 to consult with tenants. Tenants will be consulted on the way housing and related services are to be delivered in the future. The approach to consultation with tenants on future management is currently being developed.

3.0 OUTCOMES AND SUSTAINABILITY

3.1 The current HRA subsidy funding system is not sustainable. Sheffield forecast in 2010 that there would be £1.3 billion gap under subsidy between resources and requirements after 30 years. As the subsidy system is also based on national annual assumptions made by central government, it has not allowed for local, long-term planning. HRA monies from all local authorities have also been pooled on a national basis leading to leakage nationally.

3.2 The Government wishes to address these sustainability issues through HRA reform. The purpose of self-financing is to create a more sustainable and fairer system under which local authorities will receive a one-off settlement which allows them to leave the subsidy system. Councils must then create long term plans which will enable them to finance their investment programme, provide services and service their debt using the resources raised locally.

3.3 The role of the Council is to ensure that self-financing works for Sheffield. HRA reform creates an opportunity to secure a sustainable future for council housing. The Council must work with tenants to ensure that the investment and services required for council housing and debt to be serviced are met by the income raised in the HRA.

4.0 BACKGROUND

4.1 In 2008, the Government reviewed the HRA subsidy system because the current system was seen as unsustainable, complex and not supportive of local planning. Sheffield City Council was involved in the Government's pilot to look at self-financing which led to the Government proposing an alternative to the subsidy system.

4.2 In 2010, the Government consulted on detailed proposals for the reform of the subsidy system. The consultation proposed a change in debt for each local authority, to what Government regarded as a sustainable debt level, in exchange for the local authority becoming 'self-financing' (being released from the subsidy system).

4.3 Cabinet approved the Council's response to the consultation on 23rd June 2010. The response concluded that under self-financing the Council would significantly benefit from more money over the longer term. The subsidy system was forecast to provide a shortfall of £1.3 billion in funding over thirty years compared with an expected shortfall of circa £200 million through the self-financing offer in 2010.

4.4 On 1st February 2011, the Government issued its self-financing settlement to be implemented in April 2012 via the Localism Bill which is expected to receive Royal Assent late 2011.

4.5 The Government will provide a further update on the settlement value for all councils as a draft determination in November 2011 for consultation and a final settlement notification issued in December 2011/January 2012.

4.6 The Department of Communities and Local Government (DCLG) published an update on 28 July 2011 which included early determinations for comment prior to the formal consultation in November.

5.0 THE HOUSING REVENUE ACCOUNT AND CAPITAL PROGRAMME 2011/12

5.1 In 2011/12 the Council expects to receive £165.2 million of HRA income. This is ring-fenced for council housing and is broken down as follows:

- £130.9m rents from dwellings, garages and commercial properties
- £27.3m Major Repairs Allowance (MRA) subsidy from Government for capitalised major repairs/the Decent Homes programme, less £1.5m of negative subsidy paid to

Government based on what it calculates the Council needs to spend on management and maintenance on top of income raised

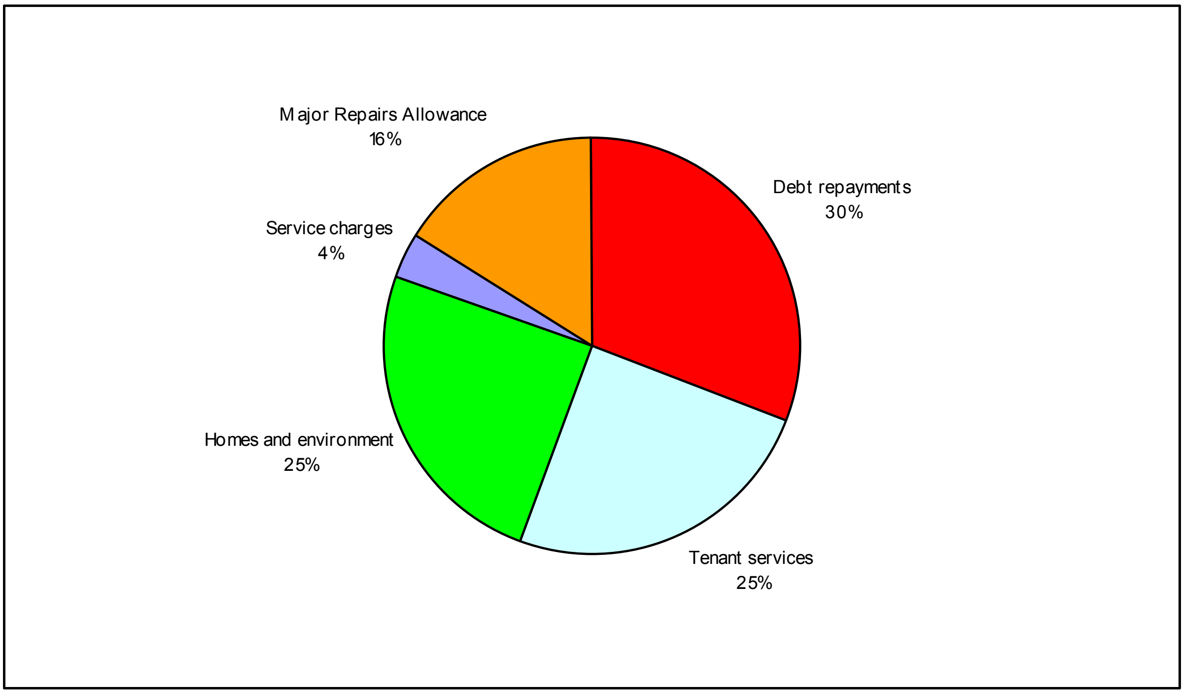
- £5.9m income from community heating and other charges for furnished, city wide alarms, burglar alarms and sheltered scheme services
- £1.1m Revenue Support Grant from Government
- £1.5m other income from loan discounts from refinancing, interest from balances, leaseholder service charges, communal areas and facilities, general fund contribution for open space maintenance, annual payment to the HRA from Kier.

5.2 In 2011/12 the Council is working to a deficit budget (£4.7 million) in order to maintain services and focus on priorities for example the Lettings Policy review, the Planning the Future project and the re-procurement of the repairs and maintenance contract. These priorities will be financed in year using HRA reserves.

5.3 The £169.9 million HRA expenditure for council housing in 2011/12 can be categorised as follows:

- £52.2m capital financing (interest repayments) and other finance costs
- £27.3m Major Repairs Allowance (MRA) - Under the subsidy system the MRA forms the main resource funding the capital programme for decent homes and other investment in council housing including heating replacements, essential health and safety works, provision of adaptations to Council homes, lift renewal, emergency demolitions, security improvements, fire safety works etc
- £6m other services including city wide alarms, burglar alarms, furnished accommodation, temporary accommodation and community heating
- £42.3m tenant services including fees to Sheffield Homes (£29.9m) and the Council (£9.4m), projects and pilots and the £800k Going Local budget
- £42.1m homes and environment including the repairs budget (£32m) and open space maintenance.

5.4 The chart below shows this HRA expenditure as a proportion of the total HRA.



5.5 The capital programme is another integral part of funding for council housing in Sheffield.

5.6 The 2011/12 Neighbourhoods Investment Programme has a budget allocation of £60.968 million. Approximately £39.082 million of this amount is for capital investment in council housing. This investment is funded via a mixture of sources:

HRA Major Repairs Allowance	£27.345m
Major Repairs Reserve	£9.460m
HRA Revenue Contribution	£1.277m
Leaseholders Contributions	£1.000m
Total	£39.082m

6.0 SELF-FINANCING – THE SETTLEMENT FROM GOVERNMENT

6.1 On 1st February 2011, the Government issued its draft self-financing settlement to be implemented in April 2012 via the Localism Bill. The settlement set out that:

- Sheffield's debt would be reduced from £905 million to £338 million – a write-down of £567 million. (The £338m would be the limit to Sheffield's HRA borrowing allowance under the self-financing regime)
- 75% Right to Buy receipts will continue to go to the Treasury, for at least the spending review period
- The rent convergence target date was confirmed as 2015/16.

6.2 The difference in the draft national settlement from the March 2010 consultation proposals, which proposed a £251 million debt for Sheffield and the response to which was approved by Cabinet on 23rd June 2010, has been driven by:

- Government changing the implementation date to 2012
- Revised economic assumptions on rent and cost inflation
- Updated local authority data (dwelling numbers and forward forecasts, type of dwelling, debt figures, rent figures etc) and
- Policy changes agreed by DCLG and Treasury (e.g. Right-to-Buy receipts).

6.3 These factors have changed the valuation of Sheffield's HRA over the 30 year period which has in turn affected the debt figure the HRA will be required to carry. Some of the formulas used by the Government in the valuation are based on the 2011/12 subsidy determination and within this there were a number of variables, such as changes in regional adjustment factors and other weightings, which have not been favourable for Sheffield compared to the variables used in the 2010 consultation proposals.

6.4 Under the offer in March 2010, local authorities retained 100% Right-to-Buy (RTB) receipts; this has now been reduced to 25%. Government is instead compensating authorities by adjusting their projections for lost rental income on the forecast RTBs through the draft settlement. This move will, however, hinder local business planning discretion.

6.5 The Government is expected to produce the final settlement around November 2011. The final figures will change from the draft as the Government updates the variables and data it uses.

6.6 Following self-financing the HRA will have its own debt pool which will enable debt profiling to be undertaken more effectively to support the HRA 30-year business plan.

6.7 HRA reform also means that the City Council will be taking on risks and responsibilities with self-financing that previously were the responsibility of central government. These include:

- The Council will bear the responsibility for the long-term viability of the HRA. It must ensure that all activity relating to council housing can be funded from the income generated through council housing in Sheffield
- The Council will take on the risks of changes in inflation and interest rates
- The impact on income recovery due to changes in Government policy such as future reform of the welfare system.

7.0 REPAIRS BACKLOG

7.1 The self-financing settlement from Government does not take into account Sheffield's £257 million maintenance backlog.

7.2 The maintenance backlog is a combination of:

- Work required to complete the existing Decent Homes programme
- Picking up the backtracks and refusals from the Decent Homes programme that have built up since 2004/05
- Elemental work that was not included in the Decent Homes programme (heating, roofs, communal areas etc), particularly the work that was squeezed as the Decent Homes programme has stretched from 2010 to 2014.

7.3 The table below provides a breakdown of Sheffield's maintenance backlog (the outstanding investment in homes as validated by Savills in 2010). The current modelling of a self-financing HRA assumes that this backlog is addressed over the first ten years of self-financing. This work, plus the other assumptions modelled, leads to a gap of £217m over thirty years.

Table 6: Backlog assessment

Self-financing Backlog Assessment Updated May 2011

Decent Homes		**Cost of work**
Bathrooms, Kitchens, Windows, Doors		£ 49,940,000
Full omits (full refusals of DH work)		£ 25,420,000
Partial work (part refusals of DH work)		£ 58,996,000
Total DH		**£ 134,356,000**
Individual Heating		£ 30,180,000
Roofs		
Flat		£ 7,264,440
Pitched		£ 68,651,600
Electrics		£ 16,822,000
Total (excluding Fees)		**£ 257,274,040**

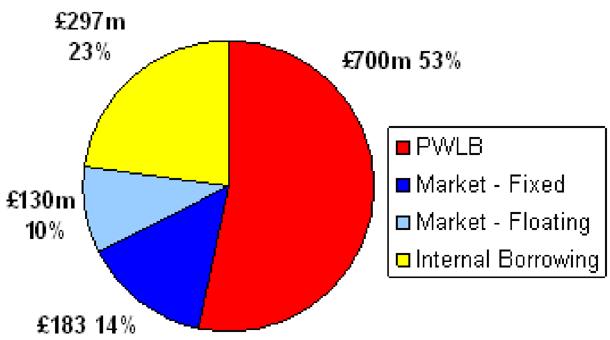
7.4 The Council has met DCLG during the self-financing pilot, consultation and settlement process. DCLG have showed sympathy with the issue but will not provide extra investment under the final determination later in 2011 to cover any of the backlog. The City Council will continue to talk to Government in respect of the maintenance backlog.

8.0 SELF-FINANCING – DEBT MANAGEMENT

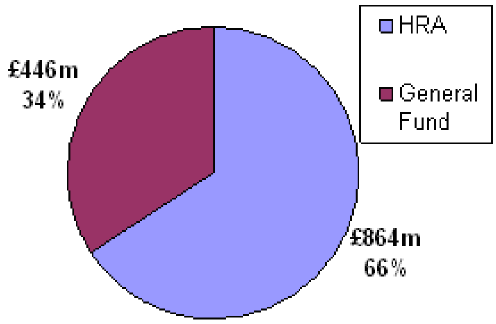
8.1 Under the self-financing settlement the government will write off £567.24m of Sheffield's HRA debt in the form of a top-slice of the Council's current Government debt (Public Works Loan Board loan stock), which will severely dislocate the Council's current debt-strategy and drastically alter the composition and relative risk of the Council's residual debt portfolio as outlined below.

8.2 Presuming that no further borrowing is raised prior to the 31st March 2012, the following charts show the Council's pre self-financing capital structure. The Debt Make-up chart shows the split by loan type of Sheffield's capital debt. The Borrowing Requirements chart shows the current capital financing split between HRA and General Fund.

Debt Make-up



Borrowing Requirements

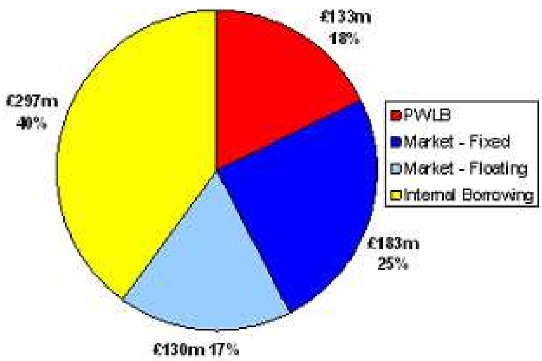


Item	Value	% of Structure	Interest Rate Sensitive
Govt debt (PWLB)	£700m	53%	No
Market - Fixed	£183m	14%	No
Market - Floating	£130m	10%	Yes
Internal borrowing (Unfinanced CFR)	£297m	23%	Yes

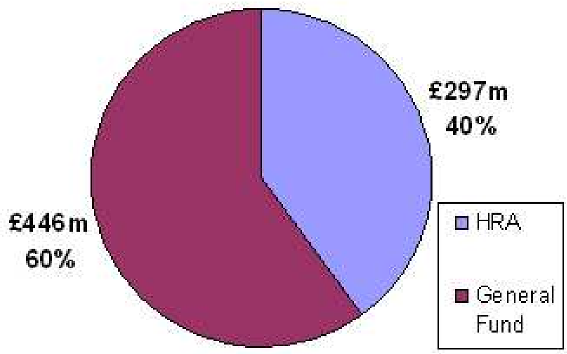
8.3 The table above shows that currently 35% of Sheffield's debt make-up (capital structure) is sensitive to interest rate fluctuations.

8.4 Under self-financing, the Council's capital structure will significantly change due to the reduction in the Council's HRA debt.

Debt Make-up



Borrowing Requirement



Item	Value	% of Structure	Interest Rate Sensitive
Govt debt (PWLB)	£133m	18%	No
Market - Fixed	£183m	25%	No
Market - Floating	£130m	17%	Yes
Internal borrowing (Unfinanced CFR)	£297m	40%	Yes

8.5 The table above shows that post self-financing 61% of our structure is interest rate sensitive which presents a significant refinancing risk to the Council.

8.6 Under self-financing the Council will operate two separate debt pools, one for the General Fund and one for the HRA, with all market debt, residual Government (PWLB) debt and internal borrowing (unfinanced CFR) split between the two pools. The split between the two pools will be based on the internal borrowing (CFR) and be cost neutral to the General Fund and should encompass elements of cost and risk to both pools.

8.7 It will be a local decision made by the Council as to how the debt is actually split between each pool and this decision will be taken to best meet the objectives of both the General Fund and HRA business plans. Factors such as risk appetite, budget pressures, refinancing risk and likely cash balances will all be considered when formulating each debt strategy.

9.0 SELF-FINANCING – WHAT IT MEANS FOR SHEFFIELD

9.1 The Council has carried out analysis of the income and baseline expenditure for all resources over the next thirty years to understand how much money Sheffield will have under the self-financing settlement.

9.2 In order to understand what resources the settlement will allow for Sheffield, the analysis has been based on initial assumptions. Assumptions included in the analysis are:

- Income is based on rent convergence by 2015/16, rents uplifted by inflation and rent loss at 2% (a prudent level used by

Government)

- That the stock condition standard is basic and is based on making homes last rather than improving them
- That the maintenance backlog is addressed in the first ten years of self-financing
- For housing services an annual inflation uplift has been modelled (2.75%).

9.3 Table 4 shows the revenue projections over years 1 to 5, year 10 and year 30, based on the assumptions listed under section 8.2. The table illustrates the income expected from rents, the potential revenue expenditure based on an annual inflation uplift to services, and the resulting potential contribution of any surplus from revenue to capital which may be made over the first five years.

Table 4: Revenue projections for thirty years

Revenue	2012/13 Yr 1 £k	2013/14 Yr 2 £k	2014/15 Yr 3 £k	2015/16 Yr 4 £k	2016/17 Yr 5 £k	2021/22 Yr 10 £k	2041/42 Yr 30 £k
Total income (from rents etc)	140,273	146,263	152,972	160,178	164,926	190,525	333,931
Total revenue expenditure	-143,282	-146,489	-150,877	-154,561	-158,371	-178,478	-287,091
Of which depreciation	-38,018	-39,063	-40,137	-41,241	-42,375	-48,531	-83,494
Deficit / surplus	-3,009	-226	2,095	5,617	6,555	12,047	46,839
Total contribution from revenue to capital	0	0	0	-5,404	-6,558	-11,894	-46,576
Amount transferred to HRA reserves	-3,009	-226	2,095	213	-3	153	264
HRA reserves brought forward from previous year	5,927	2,919	2,693	4,788	5,001	5,573	9,588
HRA reserves closing balance	2,919	2,693	4,788	5,001	4,998	5,726	9,851

9.4 Table 5 shows the projections for capital over years 1 to 5, year 10 and year 30. This takes into account the capital contribution from the services projection above and compares the resources available for capital with the resources required.

Table 5: Capital projections for thirty years

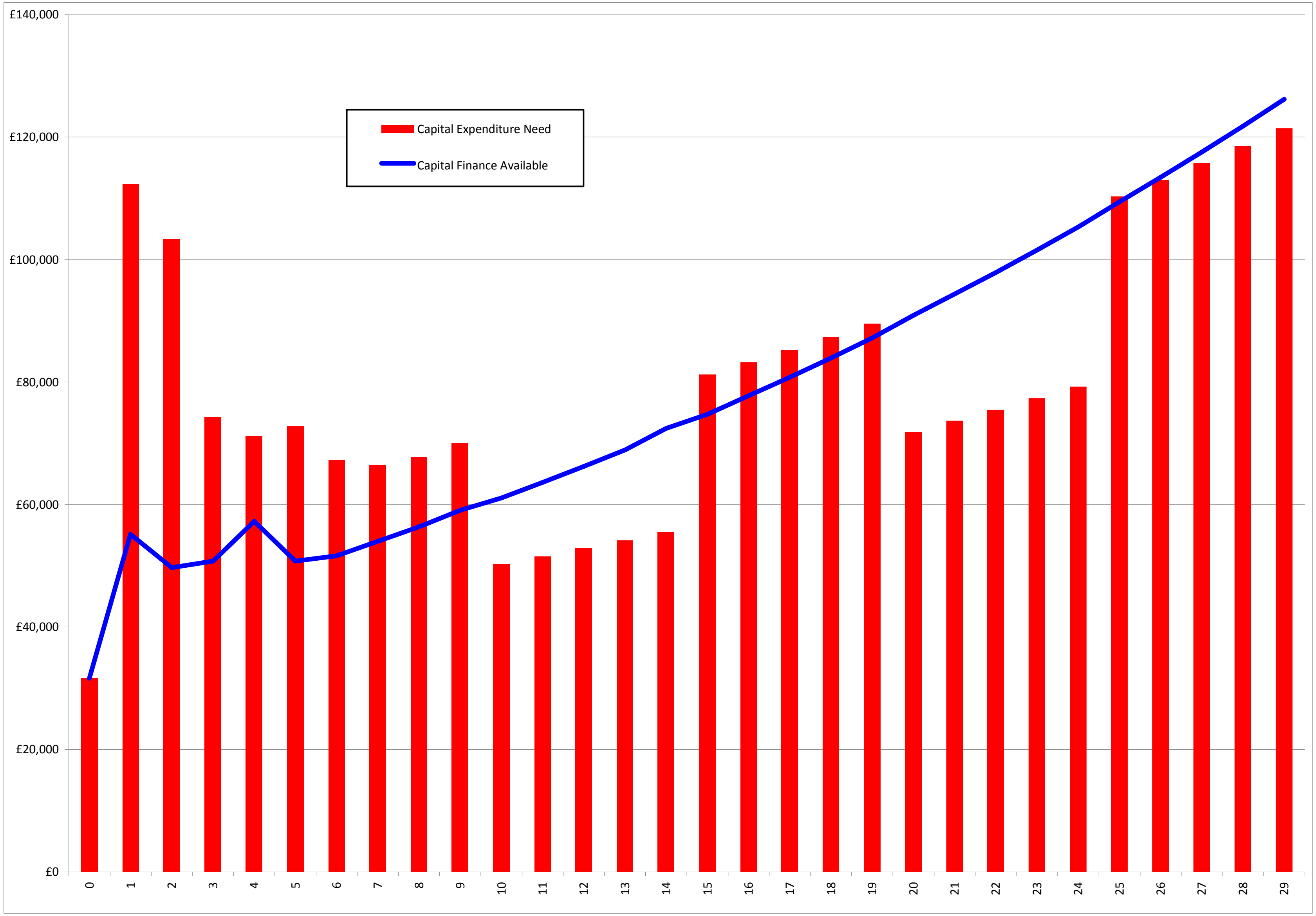
Capital	2012/13 Yr 1 £k	2013/14 Yr 2 £k	2014/15 Yr 3 £k	2015/16 Yr 4 £k	2016/17 Yr 5 £k	2021/22 Yr 10 £k	2041/42 Yr 30 £k
Total capital expenditure (includes previous years shortfall b/f)	-112,358	-162,169	-189,945	-214,147	-234,117	-314,569	-348,145
Total capital funding (Including contribution from revenue)	55,141	49,675	50,749	57,257	50,750	61,037	130,682
Deficit	-57,217	-112,494	-139,195	-156,890	-183,366	-253,531	-217,463

9.5 Despite the contribution from revenue to capital, the table above shows that, based on the assumptions made, there is a gap between funding and expenditure. At the end of year 5 this will be £183 million and £254 million in year 10. By year 30 the gap has improved to £217 million. This gap in expenditure and available finance is also illustrated by the graph below.

9.6 In the 23rd June 2010 report to Cabinet on the Consultation on the Reform of Council House Funding, it was estimated that Sheffield would have a £1.3 billion gap under subsidy over the 30-year business plan period.

9.7 Although the Council will be better off under self-financing than subsidy overall, based on assumptions fed into the analysis, the self-financing settlement does not provide Sheffield with resources to fund all its requirements. This funding gap can be attributed to Sheffield's maintenance backlog (see section 7 above).

9.8 Self-financing will make possible long term planning decisions about investment in homes and services and provide the Council greater freedom to manage homes according to local needs.


£140,000
£120,000
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Capital Expenditure Need
Capital Finance Available
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10.0 KEY BUSINESS PLANNING PRINCIPLES

10.1 Self-financing will require the Council to think differently for four reasons:

- Sheffield's unfunded maintenance backlog means it has to make choices about how best to use resources so that the gap between resource and costs over thirty years begins to close
- The Council will bear the responsibility for the long term security and viability for council housing in Sheffield, rather than Government
- The risks to the Council under a self-financing system are much greater than under the subsidy system, for example the Council will bear the risk for interest rate fluctuations
- The Council must formulate a separate debt strategy which will underpin the objectives of the HRA business plan. Debt profiling, refinancing and interest rate fluctuations will be key drivers of the affordability of the business plan.

10.2 To start to bridge the gap in resources, the Council, in partnership with Sheffield Homes, will have to make some important business planning decisions in 2011 with the support of tenants. In view of the funding gap choices and compromises will be required.

10.3 In view of the responsibilities and the additional risks that self-financing brings, the Council and Sheffield Homes must continually be business-minded in their approach to council housing.

10.4 It is necessary now to move on from the initial assumptions used in the analysis described in section 8 and to focus on the identification of a range of options that can potentially contribute towards reducing the £217 million shortfall and on making decisions that will create a business plan that works for Sheffield's tenants. This work, in consultation with tenants, will culminate in the submission of a medium term business plan for the approval of Cabinet in January 2012.

10.5 The foundation of the business plan will be occupied council homes because homes in letting generate the rental income that will fund all aspects of council housing. To achieve this will require sufficient investment to allow homes to be maintained at a lettable standard.

10.6 Being business-minded means:

- Creating sustainable homes and communities - ensuring the Council has the means to make the right investment in its homes and estates and the right expenditure on repairs, estates and housing management services, at the right time, in order to keep them in letting

- Making best use of council homes - by recovering costs for homes fully and fairly, by collecting all income owed and by keeping them in use as much of the time as possible (through sustaining tenancies and turning round vacant properties quickly)
- Minimising the running costs of the Council and Sheffield Homes.

10.7 Reference to the Council adopting a business-minded approach could create anxiety for some people if they mistakenly interpret it to mean the Council will be seeking to generate a profit in the same way business-minded commercial organisations seek to generate profit to reward their shareholders. It is important to make absolutely clear that council housing will continue to be owned by the Council, the HRA ring fence will still be in place and any surpluses will continue to be reinvested in services and in maintaining and improving the condition of the homes.

11.0 BUSINESS PLANNING

11.1 The self-financing settlement does not provide an immediate solution to all investment needs. This means that the Council, in partnership with Sheffield Homes, needs to make a series of choices and compromises regarding how the money is invested. The size of the funding gap is such that it cannot be closed in the first year, or even in the first five years. The Council needs to ensure that the choices it makes in the early years of the plan will provide the best foundation possible for sustaining the business over the long term.

11.2 On this basis, the key principle to help with decision making must be that the Council optimises its investment. This is that money is spent (on homes or services) only in order to sustain the business or make it more efficient and where this can be achieved in more than one way that the money is spent where it has the biggest positive impact on the customer.

11.3 Optimising investment means spending money only on the business drivers for council housing. The business drivers for council housing can be broken down into three key areas, although there is overlap between them:

- Creating sustainable homes and communities
- Making best use of council homes
- Minimising running costs.

11.4 The decisions which will form part of the development of the business plan for the start of self-financing in 2012 include choices linked to:

- How the cost of services are recovered fully and fairly and all income owed to the HRA is collected

- The sequencing and timing of the investment programme, including the maintenance backlog
- How the Council spends money on Sheffield's neighbourhoods
- Reviewing the way homes are advertised and allocated
- Helping tenants to remain in their home and to sustain their tenancy
- How the City Council gets ready for welfare reform
- How the Council uses long term planning and its purchasing power to achieve efficiencies
- Maximising opportunities for capturing and utilising external funding
- Keeping council housing overhead costs down.

11.5 Setting a debt strategy which balances cost and risk will be key element of the business planning process to ensure that the HRA business plan objectives can be achieved.

11.6 The level and balance of investment that is required for each of these business drivers will be driven by customers' needs and so may be different in different areas. The involvement of tenants in setting and refreshing the priorities for the business plan will be crucial. Tenants will tell the Council what they need from council housing and what the Council must provide to make the business sustainable. Understanding the priorities of council tenants, including the priorities of potential future tenants, will help minimise costs by meeting need and by targeting resources.

12.0 LINKS BETWEEN THE HRA BUSINESS PLAN AND THE CITY

12.1 It is important to stress that the HRA Business Plan will not sit in isolation but must be influenced by and itself influence the city's wider aims and objectives. Council housing is a significant asset to the city and the business plan will be a powerful tool for maximising the benefits of that asset for the people of Sheffield.

12.2 The Housing Revenue Account is a ring-fenced account for the delivery of tenant services. Within the ring-fence all aspects must be delivered with a business focus. However the prioritisation of investment of resources within the ring fence should also be made within the context of a wider city economy where the HRA can benefit and be supported by the city.

12.3 Decent, well-managed social housing can continue to support the city by:

- Providing accommodation to a workforce for inward investors

- Provide land assets for development which support the wider community
- Using the purchasing power of the HRA to support local jobs and businesses where possible
- Addressing vulnerability issues thereby reducing demand for care services
- Promoting health and wellbeing and reducing the demand on health services
- Helping to improve the quality of life for Sheffield communities.

12.4 Because the Housing Revenue Account ring-fence is in place to ensure that the HRA is invested in tenant services, any use of HRA to support wider priorities must also be seen to directly benefit existing or future tenants.

13.0 BUSINESS PLANNING PROCESS AND TIMETABLE

13.1 There are four major disciplines in the delivery of council housing, each with a role to play in contributing to the business drivers of council housing. The business plan will achieve maximum efficiency by striking the right balance between these different elements and ensuring that they are connected and complimentary. The four disciplines will be:

- Homes
- Services
- Income, and
- Debt management.

13.2 The important milestones in the timetable for business plan/budget setting for 2012/13 are set out below.

13.3 The timetable below shows when the consultation with tenants on self-financing and business planning is expected to take place in 2011.

Table 7: Business plan consultation programme

Month	Date	Stakeholder	Event
September 2011	28th	Cabinet	Cabinet Decision
	22nd	Tenants	City Wide Forum
October	6th	Tenants	Annual Residents Conference
November	10th	Scrutiny	Board
	17th	Tenants	City Wide Forum
January 2012	25th	Cabinet	Cabinet Decision
	c19th	Tenants	City Wide Forum
April	1st		Self financing starts

14.0 FINANCIAL IMPLICATIONS

14.1 Under self-financing, the Council will have more money available for council housing than under the subsidy system. However, based on current workings, there is still a gap between the funding available and anticipated expenditure. This is predominately a result of the spend on backlog issues. The full details of this are set out in the body of the report.

14.2 Further work is being undertaken on reviewing costs, refining assumptions and calculating and mitigating the financial risks which self-financing brings. In addition, further work is being undertaken on the timing of capital expenditure on council homes.

14.3 The Council will need to significantly change the way it manages its debt portfolio and post self-financing the Council will need to create two separate debt pools, one for General Fund and one for HRA. There will be implications of how the debt is actually split between each pool and how this is managed in terms of risk appetite, budget pressures and refinancing risk.

15.0 LEGAL IMPLICATIONS

15.1 The duty to keep a Housing Revenue Account and prevent a debit balance on it and restrictions as to what may be credited or debited to the account (the "ring-fence") are governed by Part VI of the Local Government and Housing Act 1989. This includes provision for annual HRA subsidy paid by central government to local housing authorities, as determined by the Secretary of State.

15.2 The housing finance provisions of the Localism Bill, when the Act is in force, will amend Part VI of the 1989 Act by abolishing HRA subsidy but providing for the Secretary of State to make a determination providing for the calculation of a settlement payment to or from each local housing authority.

15.3 The Government has produced working drafts of the determinations which will be necessary to bring self-financing into effect under the powers within the Localism Bill. It intends to formally consult on the determinations in November 2011 when it is anticipated that the Act will be in force.

16.0 HUMAN RESOURCES IMPLICATIONS

16.1 There are no human resources implications identified at this stage. This Cabinet Report provides information on what HRA reform means for Sheffield financially, and does not include details of how approved budgets will be prioritised. There will be a Cabinet Report in January 2012 to set the budget for 2012/13 and the medium term business plan for council housing. Due regard will be paid to any human resources implications as part of the business planning cycle.

17.0 ENVIRONMENTAL & SUSTAINABILITY IMPLICATIONS

17.1 There are no environmental and sustainability implications at this stage. Due regard will be paid to environmental and sustainability implications as part of the business planning cycle.

18.0 EQUALITY OF OPPORTUNITY IMPLICATIONS

18.1 An Equality Impact Assessment (EIA) has been undertaken and concludes there is no need to complete a full EIA at this stage. This Cabinet Report provides information on what HRA reform means for Sheffield financially, and does not include details of how approved budgets will be prioritised. There will be a Cabinet Report in January 2012 to set the budget for 2012/13 and the medium term business plan for council housing and the EIA for that report would describe any impact on equalities: due regard will be paid to equality outcomes as part of the business planning cycle.

19.0 ALTERNATIVE OPTIONS CONSIDERED

19.1 Self-financing will be implemented on a national basis to all local authorities with council housing. There is no opt-out from self-financing.

20.0 REASONS FOR RECOMMENDATIONS

20.1 In February 2011, the Government published ‘Implementing Self-financing for Council Housing’, which set out ‘the rationale, methodology and financial parameters for our reforms to the council housing finance system in England’. Legislation in the Localism Bill will commence self-financing and abolish the Housing Revenue Account subsidy system. From April 2012, council housing will have to move to a self-financed regime; there will be no opt-out for authorities.

20.2 The Council will need robust business planning to optimise its resources for council housing over the next thirty years. In view of the responsibilities and the additional risks that self-financing brings, the Council must be business minded in its approach to council housing in the future if it is to be in a position to continue to provide quality services to tenants.

20.3 The Council will consult with tenants and stakeholders on the draft HRA business plan during autumn 2011.

21.0 RECOMMENDATIONS

21.1 Cabinet is recommended to:

21.2 • Take note of the changing funding system for council housing being brought about by Housing Revenue Account reform (self-financing)

21.3 • Take note of what the self-financing settlement means for the Council

21.4 • Agree the Council's preparation for self-financing through the development of a HRA business plan.