CAB2200 (HSG)
FOR DECISION
WARD(S): ALL

CABINET (HOUSING) COMMITTEE

29 June 2011

HOUSING REVENUE ACCOUNT REFORM – POTENTIAL DEMOLITIONS AND DISPOSAL OF HRA PROPERTY

REPORT OF HEAD OF LANDLORD SERVICES

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RECENT REFERENCES:

CAB2026 – The Reform of Council Housing Finance - 24 June 2010.

EXECUTIVE SUMMARY:

Government proposals for the reform of Housing finance and the introduction of a regime of “self financing” were considered by Cabinet in June 2010. The Government has now announced its intention to proceed with the proposals and this report provides an update on the implications for the City Council. A detailed assessment of the full technical, financial and service implications will be reported to a future meeting of this Committee.

This report identifies plans for a small number of potential disposals and demolitions of existing Council stock. Approval is sought to commence consultation regarding this potential with tenants that could be affected by the Council’s future plans.

RECOMMENDATIONS:

That the Committee note the considerations regarding potential disposals and demolitions as highlighted in paragraph 2.2 and the Exempt Appendix of the Report and approval be given for the commencement of direct consultation with those tenants who may be affected by the proposals.

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DETAIL:

1 Introduction

1.1 Self-financing aims to put local authority landlords in a position where they can support their stock from their own income. In order to bring about the change, there will be a readjustment of each local authority's housing debt, based on a valuation of its housing stock.

1.2 Government guidance on implementing self financing for council housing by April 2012 was published in February 2011. The guidance remains similar to the proposal the previous Government consulted on in 2010, although a number of changes should be noted:

a) Capital Receipts – Previous proposals for councils to retain 100% of right to buy receipts are not included and will not be in place at least for the remainder of the current spending review period

b) Disabled Adaptations – An additional allowance has been included to provide for Disabled Adaptations at £60 per dwelling per year. This amounts to £300,000 per annum for Winchester (current spend amounts to £750,000).

c) Valuation updated – The valuation has been updated to account for the current number of stock-holding authorities and property numbers. The revised valuation is detailed below in paragraph 1.4.

d) Re-opening of settlement – Provision has been made to reopen the settlement in later years if necessary. The Department for Communities and Local Government (DCLG) claim this protects councils in the event of policy changes that would make business plans unsustainable, such as changes to rent policy or introducing a higher or green decent homes standard.

e) Borrowing limit confirmed – The guidance confirms the borrowing limit will be set at the level of settlement debt, thus making no provision in the short term for new build to be funded from additional borrowing (the Affordable Rent model approach can be used though).

f) Ring Fence Confirmed – The guidance confirms that the HRA “Ring Fence” will remain. No further clarification around “core” and “non core” services will be made though.

1.3 Overall, the proposal is considered to be positive, but will expose the Council to significantly greater risk than the current system. It is estimated that it should provide an overall uplift in annual resources of 14%. Whilst this will not provide sufficient resource to bring all property elements up to standard in the next five years or provide resources for improving stock or developing new build, it should be possible to develop a sustainable business plan aimed at maintaining Decent Homes, accepting that a number of kitchens and bathrooms will remain outdated for many years. The Plan will however be very sensitive to market conditions and a very robust approach to risk management will be required.

1.4 As mentioned above, the valuations for stock-holding councils have been recalculated. The Draft Valuation for Winchester is as follows:

Stock for Rent	5,055
Self Financing Valuation	£161,400,000
Subsidy Capital Financing Requirement	£ 9,800,000
Self Financing Settlement Payment	£151,600,000
Indicative Borrowing Limit	£161,700,000
Debt per Dwelling	£ 31,926
Combined Uplift in Allowances(inc. disabled adaptations)	14%

2 <u>Issues to be considered.</u>

2.1 **Updating Stock Data and Business Plan** – Work is already under way to update the 2008 Stock Condition Survey update and the financial projections prepared following the previous consultation. Draft projections will be completed in April. These will be subjected to sensitivity testing with a view to producing a detailed member briefing on the impact of Self Financing for May 2011. It is proposed to develop a long term business plan for HRA services in the coming months. This will include developing a comprehensive asset management strategy for housing stock and non operational assets.

2.2 **Plans for Demolitions** – As the final settlement will be based on specific stock numbers, it is essential that the Council is clear on plans to demolish or dispose of specific properties in the early years of self-financing. Latest Government guidance indicates that account may be taken of planned demolitions, although a formal decision to support these plans will be required, and/or the commencement of tenant consultation. The Council is currently actively considering, arranging or consulting on the disposal/demolition of 47 units of accommodation as part of its commitment to increase numbers of affordable housing units and to make best use of existing stock to support the aims of the Community Strategy. The specific addresses are detailed in the Exempt Appendix. Formal approval to commence tenant consultation is requested as indicated in the Exempt Appendix, in order to ensure that such potential demolitions/disposals can be taken into account.

2.3 **Accounting Changes** – The Major Repairs Allowance is currently used as an estimate for depreciation. There will be no such allowance from April next year. The Council will have to calculate depreciation in accordance with International Financial Reporting Standards, including the application of component accounting. However, the detailed treatment of much of the accounting for Housing services post the HRA reform in April 2012 is still subject to consultation. This is proposing that an equivalent amount to the depreciation charges is transferred to an earmarked reserve (as the MRA is currently accounted for). The full implications of this can only be worked through when the guidance is issued.

2.4 **Treasury Management** – By law, the Housing Revenue Account is a ring fenced account sitting within the General Fund, and all borrowing by a local authority is borrowing on behalf of the Local Authority as a whole. It is anticipated that DCLG will give several months notice of the intended settlement day and that if this is towards the end of 2011/12 rather than in 2012/13 the Government will make the necessary regulatory changes. In this event the Council would need to approve a revised Treasury Management Strategy in advance of the settlement date. Councils are being encouraged to review plans for borrowing and to ensure that DCLG are aware of the plans in advance of the settlement. Additional treasury management advice is likely to be required in order to prepare the Treasury Management Strategy and to support the implementation of the borrowing decisions. Managing the borrowing on an ongoing basis will require additional resources and this will need to be included within the Housing Revenue Account business plan projections and the General Fund Budget Options.

2.5 **New Build/Localism/Affordable Rent** – Whilst the debt settlement and borrowing limit prevent any scope for new build within the formula, the Council does have some limited scope to consider new build projects in conjunction with Strategic Housing. It also has the power to bid in response to the Affordable Rent prospectus. Whilst there will no doubt be concern about any Council properties moving to 80% of market rent, the model could provide real scope for Council new build. The potential impact of flexible tenancies and other developments included within the Localism Bill will also need to be incorporated into business plan projections.

3 Timescales

3.1 The DCLG guidance includes the following key dates for announcements, consultations and data submissions:

- March 2011 Stakeholder events with local authorities
- Local authorities planning to submit evidence on demolitions are advised to contact DCLG

- June 2011 Forms sent out to collect data on stock
- August 2011 Data for self-financing provided to DCLG
- August 2011 Data verified
- Nov 2011 Consultation on self-financing determinations
- Dec 2011 DCLG and PWLB issue joint letter to each local authority setting out arrangements for loans and debt redemption
- Jan 2012 Final self-financing determinations published
- Local authorities asked to tell Public Works Loan Board how much they wish to borrow
- April 2012 Series of transactions between DCLG and local authorities enable the start of self-financing
- March 2013 Cut-off for final payments to end the subsidy system

OTHER CONSIDERATIONS:

4 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

4.1 Proposals for Housing Finance Reform will provide additional resources to assist the Council in delivering its commitments set out the Sustainable Community Strategy.

5 RESOURCE IMPLICATIONS:

5.1 Housing Finance Reform will have some very significant resource implications and these will be assessed in detail and will form the basis of future reports to this Committee ahead of the planned implementation date of April 2012.

6 RISK MANAGEMENT ISSUES

6.1 Whilst the proposals do suggest that additional resources will be available to the Council post April 2012, the additional resources come with some very significant potential risks, with the effective transfer of risk in many areas that are directly outside of the Council's control and currently absorbed by the existing subsidy system being transferred from Government to the Council. This includes increased exposure to interest rate and inflation risks. A full risk assessment and sensitivity analysis will be completed and reported to future meetings of this Committee as well as Cabinet and Council.

BACKGROUND DOCUMENTS:

Documents held in the Finance and Landlord Services teams (other than exempt information referred to in Exempt Appendix).

APPENDICES:

Exempt Appendix – Planned/Potential Demolitions and Disposals of Council Dwellings