CAB2260 (HSG)
FOR DECISION
WARD(S): ALL

CABINET (HOUSING) COMMITTEE

6 DECEMBER 2011

CABINET

7 DECEMBER 2011

THE OVERVIEW AND SCRUTINY COMMITTEE

23 JANUARY 2012

HOUSING REVENUE ACCOUNT REFORM AND BUSINESS PLANNING FOR 2012/13

REPORT OF HEAD OF LANDLORD SERVICES

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RECENT REFERENCES:

CAB2200 (HSG) - Housing Revenue Account Reform – Potential Demolitions and Disposal of HRA Property – 29 June 2011

EXECUTIVE SUMMARY:

The Government is now consulting on the draft “Self Financing Determinations” for all local authority landlords. The City Council’s proposed borrowing cap is £167.523m and this will require the Council to make a payment of £157.393m in March 2012.

However, this will allow the Council to retain all rents collected and to properly plan for the management of its housing services over the next 30 years. This will provide significantly more resources (estimated at 14% over and above existing provision) for the funding of Council housing and whilst the debt level is high, the potential benefits for current and future Council tenants are very positive.

The Self Financing proposals will allow the City Council to meet all its maintenance obligations, in the medium term, which it has not been able to do for some years, as well as increasing investment in services to tenants and consider the commencement of a Council new build programme from next year, albeit on a small scale.

RECOMMENDATIONS:

1 That the Committee recommends to Cabinet the key priorities to be considered both in the development of the Housing Revenue Account (HRA) Business Plan and HRA budget for 2012/13 as set out in 8.2 of this report.

2 That the Committee recommends to Cabinet that it supports proposals for the establishment of a programme of Council new build housing, and determines the possible extent of the programme required over the Plan period.

3 That the Committee recommends to Cabinet that the Head of Finance and Head of Landlord Services be authorised to prepare any technical response to the HRA Self Financing Determinations consultation that they consider to be necessary.

4 That, in view of the proposed significant changes of approach following the introduction of Self Financing, the Committee recommends to Cabinet that The Overview and Scrutiny Committee be asked for its views on the development of the Housing Revenue Account (HRA) Business Plan and HRA budget for 2012/13.

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REPORT OF HEAD OF LANDLORD SERVICES

DETAIL:

1 Introduction

1.1 The implementation of Housing Revenue Account (HRA) Reform is scheduled for 1 April 2012 and the Government are on track to meet that timetable.

1.2 The Government is now consulting on the draft "Self Financing Determination" for the City Council, increasing the original estimate of the forecast borrowing cap from £161m to £167.523m. This results in the Council having to make a payment of £157.393m to the DCLG on 28 March 2012. The main reasons for the increase relate to the reduction in overall property numbers nationally as result of major demolition programmes being taken into account and to inflation being higher than previously modelled (the increase in inflation means the Government assume more rent will be collected and so a higher debt level can be afforded). The consultation period will end on 6th January 2012 after which the final Determinations will be issued.

1.3 The City Council has responded in detail to previous consultations relating to Self Financing proposals and challenged a series of assumptions on which the debt allocation has been based, which arguably follow the same principles that were regarded as weaknesses of the current subsidy system. The current consultation is a more technical one, asking authorities to review calculations, check figures and make specific representations if they note any inaccuracies. It is recommended that no response on the general principles of the proposals be made as the opportunity to influence overall policy is now passed. However, it is recommended that the Head of Finance and Head of Landlord Services be authorised to prepare any technical response to the consultation that they consider to be appropriate after a detailed review of calculations and modelling used to reach the draft determinations.

2 The Debt Settlement

2.1 The Council currently has no external debt and the funding and servicing of the payment of £157.393 million to DCLG will have a major impact on the Council's Treasury Management Strategy and Treasury Management activity.

2.2 As part of the proposal, the City Council will be expected to take on significantly more debt per property than most other councils. This mirrors the current housing subsidy system, which resulted in a large annual payment to the Government as a result of "negative subsidy". This was due to the Government's assessment of what they thought it should cost to run housing management services in Winchester compared to what the Council was able to recover through rental income.

2.3 The valuation has also been based on a cash flow assessment of future rental income against assumed service costs. However, the Government has included in the calculation a significant increase in assumed costs as well as provision for items previously not included in subsidy calculations, such as disabled adaptations. This will provide much needed additional resources to fund Housing services.

2.4 In addition, the relatively cheap cost of borrowing because of low interest rates and additional discounts on offer from PWLB for self financing, provide a real opportunity to address the funding shortfalls in housing maintenance in recent years, as well as potentially reintroduce suspended revenue services and consider a small programme of Council new build/stock improvement.

2.5 The Government has retained a statutory right to "re-visit" the settlement if required but has stated this would only be if policy changes impacted on councils' abilities to sustain their business plans. This could include changes to the national social rent policies or changes to Decent Homes requirements. Most councils project very large surpluses being generated in the latter part of the 30 year planning period. It is not clear at this stage the extent to which the assurances given regarding the limited cases in which the settlement would be "re-visited" place these projected long term surpluses at risk.

3 HRA Business Plan

3.1 Officers have been preparing a 30 year HRA Business Plan which takes full account of stock investment needs prepared by David Adamsons Ltd. Key assumptions included in the draft plan are:

a) All existing services are maintained

b) An additional £1m per annum for the first 10 years to support additional investment in the Repairs programme (see paragraph 4 below).

c) A further £1.5m per annum in year 1- 5 and £3m per annum after that to fund stock improvement, adaptation and new build (see paragraph 5 below)

d) An additional £500,000 per annum to support the funding of additional revenue services (see paragraph 6 below)

e) Rents continue to rise in accordance with the national rent formula (Sept RPI + 0.5%)

f) A payment of £157,393,000 to the DCLG on 28 March 2012.

g) Average borrowing costs of 3.8% over the 30 year plan.

3.2 It should be noted that the figures stated in these assumptions and in the remainder of the report are only indicative at this stage and will be subject to further modelling. They are intended to give members an illustration of what could be achieved but do not in themselves form part of the recommendations at this stage.

4 Additional Spend on Repairs and Maintenance

4.1 The additional £1m per annum in 3.1 b) above provides for bringing all outdated kitchens, bathrooms, heating and doors up to date within the first 10 years of the programme. It should be possible to achieve this within 5 years, although this would require a significant increase in staff to deliver the programme and would leave little available for additional investment in stock improvements/new build. The Adamsons' Stock Condition Report considers the 10 year approach to be reasonable.

5 Additional Capital Resources

5.1 This resource (as per 3.1 c) above) could provide the opportunity to fund additional discretionary works, carbon reduction programmes and/or to develop a small scale programme of Council new build. The draft business is based on the following priorities:

- Council New Build Years 1-5 £850k pa (£2m pa years 6-30)
- Loft Conversions/Stock Adaptation £250k pa
- Renewable Energy Investment £200k pa
- Improving sheltered housing schemes £200k pa

5.2 Whilst spend available for a Council new build programme would be limited in years 1-5, it would be sufficient to commence a small scale programme, with rental income from new units being reinvested potentially allowing further increases to this programme by year 10.

5.3 This report seeks members' views on the extent to which the Council should be exploring opportunities to commence new build programmes and what priority should be given for this against other housing programmes.

6 Additional Revenue Spend

6.1 The £500k additional revenue referred to in 3.1 d) above could be sufficient to fund additional discretionary work including:

- Programme of internal decoration for older tenants £150k pa
- Increased cyclic maintenance £ 200k pa
- Additional staffing required to fund new programmes £100k pa
- Work to address deprivation on estates £ 50k pa
  (inc. research into key causes, tenant training and promoting increased physical activity)

7 Housing Rents

7.1 As highlighted in 3.1 e) above, the Government's debt settlement and the draft business plan is based on an assumption that rents will continue to rise in line with the Government social rent policy and national formula for local authority landlords. This approach assumes an annual increase in line with the September retail price index + 0.5%. All Government calculations in relation to the total debt figures assume this approach and adopting any other strategy will have a significant impact on the Council's ability to deliver its business plan. Whilst it is clear that some additional resource is available through this Reform process, any below guideline increases would immediately reduce the benefit offered through this process, which both councils and their tenants have been arguing for for so long.

8 Business Plan and Budget Priorities

8.1 To assist the preparation of the final business plan and the budget for 2012/13, both of which will be submitted for approval to the February 2012 meeting of this committee, it is recommended that key priorities be identified to assist planning and preparation work. Potential priorities are set out in paragraphs 3-6 above. Tenants have consistently highlighted repairs and maintenance as their key priority. Last year's Status survey also highlighted some demand for assistance with decorating and for the re-implementation of a decorating programme for older residents.

8.2 The HRA budget for next year will be supported by the final borrowing approach to be adopted as part of "Self Financing". However, it is recommended that members decide how all spend is prioritised. A suggested way forward, based on the proposals above is detailed below (in order of priority):

a) All existing services be maintained

b) That the Repairs programme set out in the business plan be funded (with all outdated kitchens and bathrooms being addressed within 10 years)

c) Rent is set in accordance with the national policy for local authority rents

d) All additional capital and revenue services detailed in paragraphs 4 to 6 be funded, including the commencement of a Council New Build programme.

e) That the Council new build programme be amended to take account of the final costs of borrowing (any savings resulting in an increased programme and vice versa)

9 <u>Borrowing Assumptions</u>

9.1 The Plan has been based on a model of repaying debt as soon as the programme allows, although little principal is repaid in the early years if the programme above is to be afforded. If the Council decides it needs to repay debt quicker, the additional spend highlighted above will need to be reconsidered. However, if it decides to defer any payments for more than 10 years, this could allow some limited additional investment in the early years of the plan and significantly more in later years. The modelling to date assumes borrowing costs over the life of the plan of 3.8%. It may well be possible to reduce this average cost and the Cabinet Informal Policy Group on Housing Re-financing will consider this in detail in January.

10 <u>Sensitivities</u>

10.1 Officers have tested a number of sensitivities and the projections are reasonably robust. Increases in interest rates have a major impact although provided these are fixed at 28 March, this can be managed.

10.2 Other sensitivities tested which could have an impact on the plan include increasing arrears, unforeseen maintenance demands, below inflation rent increases and fluctuations in inflation rates. Inflation has little impact on the plan provided the national rent policy is adhered to. The other issues could all have a negative impact and it will be necessary to continue to evaluate economic conditions and changes to Government policy throughout the life of the business plan.

11 <u>Finalising the Business Plan</u>

11.1 The headline proposals set out above have been discussed with TACT. It is proposed that, subject to Cabinet's view on priorities, a more detailed consideration of the final business plan proposals be undertaken with TACT in January prior to the final plan coming to this committee and Cabinet in February 2012. In view of the significant changes in approach following the introduction of self-financing it is proposed to consult The Overview and Scrutiny Committee on the emerging proposals at its meeting on 23 January 2012 as well as on the final proposals on 13 February 2012.

11.2 Borrowing options based on this business plan are currently being prepared for consideration by the Cabinet Informal Policy Group on Housing Refinancing in January.

11.3 The Council's Treasury Management Strategy will need to be approved alongside the final Business Plan and the HRA Budget for 2012/13 in February.

11.4 Officers will continue to assess the sensitivity of the Business Plan and the associated risks.

12 Conclusion

12.1 HRA Reform and self financing provides a real opportunity for the Council to develop an effective and sustainable business plan for its Landlord Services, providing a significant uplift in investment from 2012.

12.2 However, whilst Reform provides the opportunity for additional investment, the Council's Treasury Management strategy will need to take full account of the risks that the HRA Business Plan may be exposed to in future years.

OTHER CONSIDERATIONS:

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

13.1 The proposals accord with the principles of making the best use of all available resources by continued clear financial planning. The additional resources that could be available will also make a significant contribution to meeting the targets and priorities identified in the Council's Active Communities Change Plan.

14 RESOURCE IMPLICATIONS:

14.1 As discussed in the main body of the report.

15 RISK MANAGEMENT ISSUES

15.1 The potential risks associated with the Self Financing proposals cannot be under estimated. Whilst the current subsidy system has many failings, it does protect councils from economic and business risk. However, this protection will no longer be available and council business plans will need to be subject to detailed sensitivity analysis to ensure plans are robust in the long term.

15.2 Sensitivity analysis is underway and will continue throughout the life of the plan. The Council's Treasury Management Strategy is supported by the Council's Treasury Management Practices and Policies which consider the management of risk associated with treasury management activities.

16 TACT COMMENT

16.1 The proposals in this report were presented to TACT at its meeting on 16 November.

16.2 TACT never thought they would see the day when included in the recommendations would include the following:

- That the Committee recommends to Cabinet that it supports proposals for the establishment of a programme of Council new build housing, and determines the possible extent of the programme required over the Plan

16.3 TACT however have worrying niggles at the back of their minds, that the government can revisit the scheme, supposedly if councils are struggling to manage, or would it be they are doing too well?

16.4 So we will be holding our breath to see if the Council and Cabinet will honour their intentions, when things get underway, TACT will be monitoring very closely to see the dream fulfilled.

16.5 Like the Council, the Debt Settlement is a sword in our side, unjust unwarranted, imposed by MPs with little reality of the real world, and at times I wonder if they care at all, regarding the suffering they cause to people struggling to make ends meet.

16.6 Have no doubt there will be hardship caused through ever rising rents year on year, councils had to pay negative subsidy because they were told they did not need all the rent they collected **so why the ever increasing rents now?**

BACKGROUND PAPERS

Files held within the Landlord Services

The Housing Revenue Account Self Financing Determinations - Consultation

http://communities.gov.uk/publications/housing/draftdeterminationsselffinancing

APPENDICES

None