Meeting of the Council – 19th July, 2010

Report of the Cabinet

Review of Housing Finance

Purpose of Report

1. To update the Council on developments in Housing Revenue Account (HRA) finance.

2. To propose revisions to the HRA budgets to reflect latest financial forecasts.

3. To propose revisions to the Public Sector Housing capital programme.

Background

4. The HRA is a ring-fenced revenue account and deals with landlord functions associated with public sector housing. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

   Developments in HRA finance

5. The report on the HRA and Public Sector Housing Capital to Cabinet in February 2010 highlighted the considerable degree of uncertainty around the financial outlook after 2010/11. It emphasised that the capital programme from 2011/12 onwards was provisional and was dependent on the outcome of a Government review of HRA Subsidy. This report outlines further developments in that review.

6. For some years, the current HRA subsidy system has been criticised as unfair, inflexible, opaque and unsuited to long-term housing strategy planning. In 2008, the Government announced that a review of the system would be undertaken, focusing on
   - the operation of the subsidy system
   - the operation of the HRA ring-fence
   - standards and expectations following achievement of the Decent Homes Standard.

   An initial consultation paper was issued on 21st July 2009, which recommended a "radical dismantling" of the HRA subsidy system and its replacement with a devolved system of responsibility and funding. Councils would finance their own operations from their own rents, in exchange for a one-off allocation of housing debt. The intention was to free councils from the annual funding decisions in the current system and enable longer-term planning and better management of their homes, leading to greater efficiencies and an improved quality of service to tenants.

In addition, it was proposed that councils would be able to retain all capital receipts arising from the sale of council houses and other HRA assets. Currently, up to 75% of the proceeds from such sales must be paid to Government to repay historic national housing debt.

It was impossible from the information given in the consultation paper to assess the impact on the Council of the proposed reforms. A response to the consultation was submitted in October 2009 indicating a cautious welcome to the proposals.

7. In March 2010, a second consultation paper was issued, outlining the specific proposals for reform of HRA funding and giving a financial model for every housing authority. The proposals are complex but take the form of an “offer” to councils which is in essence as follows:

- Abolition of the HRA Subsidy system – whereas Dudley currently makes negative subsidy payments into a national pool (around £20m and likely to rise) we would in future be able to retain all rental income.
- In return we would take on a one-off allocation of housing debt based on an affordability calculation. This would be around £300m under the current proposals. At this level, the interest payments would be more than offset by the removal of negative subsidy payments, allowing greater investment in management, maintenance and major repairs than would be possible if the current system were to continue.
- A cap on new borrowing above a set maximum level.
- Abolition of capital receipts pooling – we would able to retain all capital receipts from house sales, provided that at least 75% of the receipt is spent on affordable housing or regeneration.
- Transfer of investment, borrowing and inflation risks to housing authorities
- Continued compliance with central government rent policy.

Financial modelling suggests that any continuation of the existing HRA Subsidy system would be very detrimental to our ability to maintain standards and investment in the housing stock at the levels achieved in recent years. While a number of questions remain, it appears that the Government’s “offer” is likely to be beneficial to the Council, particularly in the medium to long term.

Currently, all retained capital receipts arising from the sale of HRA assets are earmarked for the improvement of Council homes, other than a proportion allocated to support private sector housing, and it is recommended that this ring-fence of all HRA capital receipts should continue under the new system. It is likely that there will be a reduction in capital grants that will at least partially offset the increased level of retained receipts.

It should be noted that the consultation was released by the previous Government subject to a spending review in the Autumn. The position of the new Coalition has not been stated in detail but its programme for government states a commitment to “review the unfair Housing Revenue Account”. Earlier this month, Grant Shapps, the new Housing Minister, has stated that the Government ‘‘…is committed to genuine action to overhaul the system...’’ and has encouraged everyone to use the remaining weeks of the consultation to send him their views.

Review of the Housing Revenue Account is specifically mentioned as an area that the Public Expenditure Committee will consider as part of the Spending Review.
At this stage, therefore, considerable uncertainty remains around the future funding of the HRA for 2011-12 and subsequent years. It should be noted that this uncertainty extends also to the funding of public sector housing capital schemes, as the proposed reform affects capital as well as revenue budgets.

HRA Revised Budget

8. The current budget for 2010-11, approved by Cabinet on 10th February 2010, shows a surplus on the HRA of £0.092m at 31st March 2011. There are now a number of variations to the original budget, arising mainly from resources brought forward from 2009-10 including earmarked reserves.

The original 2010-11 budget and the proposed revised 2010-11 budget are shown in Appendix 1.

Public Sector Housing Capital Programme

9. In February 2010, a 5-year public sector housing capital programme was agreed, with years 2012-2015 still provisional pending the final outcome of the Housing Subsidy Review. An additional £3.5m is now proposed to be added to Void Property Improvements [Decency]. This is required to address an increase in the number of high cost empty homes, generally where the previous tenant refused improvement works in the past. The additional budget will allow around 140 homes to have the necessary capital improvements carried out to them to ensure that they comply with the Council's Empty Homes Standard and the Government Decent Homes Standard when they are re-let.

10. Community Energy Savings Programme (CESP)

The February 2010 Cabinet Report 'Deployment of Resources: Housing Revenue Account and Public Sector Housing Capital' also contained proposals about the Community Energy Savings Programme [CESP], which is a funding programme placing an obligation on energy suppliers to meet a CO2 reduction target by providing 'whole house' energy efficiency measures to domestic homes in areas with high levels of low incomes [called Lower Super Output Areas, or LSOAs]. It was approved that any additional resources obtained through the CESP [or similar] schemes be added to the public sector housing capital programme. In addition to this approval it is now apparent that some energy providers are providing scheme funding where they carry the works out on behalf of the Authority. Since these works are often both undertaken and funded by energy providers at subsidised or no cost to the Council, CESP resources will not necessarily be added to the capital programme [in many instances funding may be conditional on the energy provider carrying out or managing the works]. The Council is asked to approve that such works be undertaken by the energy providers subject to their contractors being approved on the grounds of technical competence and health and safety.

11. Orchard Street

The Cabinet has previously (11th June 2008) approved the disposal of 12 houses and 8 site plots and the associated land in Orchard Street, Brierley Hill to Black Country Housing Group [BCHG]. The properties were Council owned Unity systems built housing and have significant structural defects. Aided by Homes and Communities Agency [HCA] Social Housing Grant [SHG] BCHG planned to repurchase three homes in Orchard Street that had been sold under the Right to Buy process and to demolish all defective homes replacing them with new build affordable housing. In conjunction with one of their preferred contractors BCHG have prepared scheme designs, secured planning permission and determined indicative build costs under a design and build arrangement. Unfortunately, whilst their contractor is in a position to start, no contracts have been exchanged and the HCA SHG is no longer available to BCHG. BCHG are therefore unable to progress this scheme any further.

The Council is very keen for this development of 27 new build houses to progress, with the development considered to be contributing significantly towards improving the local area and community, and providing more social housing for the Borough. No land transfer has yet taken place and the Council has established that it could finance the scheme in its entirety at an estimated total cost of £3.35m through prudential borrowing, supported by rental income from the new homes with the cost neutral payback period envisaged to be 29 years. The homes will be constructed to the Code for Sustainable Homes level 3, which will provide good, energy efficient homes that will benefit the residents. On 30th June, 2010, the Cabinet was asked to approve that:

- The Council repurchase the three former Right to Buy homes from BCHG.
- The Council undertake negotiations with BCHG's proposed contractor and, subject to value for money being demonstrated, enter into agreement with them to undertake the development on a similar design and build basis, or to seek alternative procurement arrangements in accordance with the Council's standing orders if this is not possible.
- The Council agree to refund BCHG the reasonable direct costs they have incurred in progressing the scheme to this stage, these being the costs the Council would have incurred if it had progressed the scheme from inception.
- The project be added to the public sector housing capital programme within the new build housing programme.

There is also an aspiration for a mixed tenure community within the development and approval is also sought to explore with BCHG mechanisms to provide affordable homes in Orchard Street whereby it is possible, at no cost to the Council, for a small number of the new homes to be built, either on behalf of BCHG by the Council, or later sold to BCHG, with BCHG then owning or managing the homes in a shared ownership scheme for private householders.

12. On consideration of the information above, the Cabinet, at its meeting held on 30th June, 2010, resolved to recommend the Council to approve the proposals set out in paragraph 16 below. The Cabinet, acting under delegated powers, also approved the purchase and repurchase of the Orchard Street properties and the ancillary actions concerned therewith, referred to in paragraph 11 above, and the Council's response to the consultation paper referred to in paragraph 7 above, which was in positive terms. The response, which was submitted to the

Government by the deadline date of 6th July, 2010, was appended in the report to the Cabinet, a copy of which may be obtained from Democratic Services on (01384) 815236 or e mail to richard.sanders@dudley.gov.uk and may be viewed on the Committee Management Information System (CMIS) on the Council's website, by following the links to Council Decision Making.

Finance

13. Section 76 of the Local Government and Housing Act 1989 places a duty on the Council to ensure that no action will be taken that may cause a deficit to arise on the HRA at 31st March, 2011. A duty is also placed on the Council to review the financial prospects of the HRA from time to time. Reviews and regular monitoring carried out confirm that the HRA will be in surplus at 31st March, 2011 and therefore complies with the requirements of the Act.

Law

14. The housing finance regime is governed by Sections 74-88 in Part VI of the Local Government and Housing Act 1989.

Equality Impact

15. This is primarily a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve the quality of life for disadvantaged groups.

Recommendations

16. That approval in principle be given to the continuation of all capital receipts arising from the sale of HRA assets being used for the improvement of Council homes (other than those specifically committed to support private sector housing);

17. That the continued uncertainty around future years' funding arrangements for the HRA be noted;

18. That the revised HRA budget for 2010-11, as set out in Appendix 1, be approved;

19. That the amendments to the Public Sector Housing capital programme for 2010 - 11 to 2014 -15 (Void Property Improvements, CESP) be approved;

20. That the addition of the Orchard Street scheme to the public sector housing capital programme within the new build housing programme be approved;

21. That the issues dealt with by the Cabinet under delegated powers, as referred to in paragraph 12 above, be noted.

J. E. Millward

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Leader of the Council

Appendix 1

HRA Revised Budget 2010-11

	Original Budget £m	Proposed Revised Budget £m	Variance £m
Income			
Dwelling rents	-76.025	-76.025	0.000
Non-dwelling rents	-0.666	-0.666	0.000
Charges for services and facilities	-0.158	-0.158	0.000
Contributions towards expenditure	-1.224	-1.139	0.085
Interest on balances	-0.006	-0.006	0.000
Total income	**-78.079**	**-77.994**	**0.085**
Expenditure			
Management	14.588	15.867	1.279
Responsive and cyclical repairs	24.685	25.397	0.712
Negative Subsidy	27.546	27.546	0.000
Transfer to Major Repairs Reserve	5.474	5.474	0.000
Interest payable	5.509	5.509	0.000
Revenue contribution to capital expenditure	0.000	0.000	0.000
Other expenditure	1.321	1.321	0.000
Total expenditure	**79.123**	**81.114**	**1.991**
(Surplus)/deficit	**1.044**	**3.120**	**2.076**
Surplus brought forward	**-1.136**	**-3.292**	**-2.156**
Surplus carried forward	**-0.092**	**-0.172**	**-0.080**

The variances between the original and the proposed revised budgets for contributions to expenditure, management and responsive and cyclical repairs relate to earmarked reserves brought forward into 2010-11. These reserves include sums for general housing repairs, continuing ICT projects, and Housing Management office accommodation moves.

The variance between the original and the proposed revised budgets for the surplus carried forward relates to a better than expected revenue balance on the HRA at the end of 2009-10.