



## **AGENDA ITEM: 11**

**CABINET: 14 June 2011**

**EXECUTIVE OVERVIEW &  
SCRUTINY COMMITTEE:  
30 June 2011**

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**Report of: Director of Transformation**

**Relevant Head of Service: Housing and Property Maintenance Services**

**Relevant Portfolio Holder: Councillor A Owens**

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### **SUBJECT: IMPLEMENTING SELF-FINANCING FOR COUNCIL HOUSING**

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RVL/CC2972cab

Wards affected: Borough wide

#### **1.0 PURPOSE OF THE REPORT**

- 1.1 To advise Members and Tenants regarding the Governments intention to move to a system of self-financing for Council Housing and consider a timetable of what actions are necessary to meet the requirements of self-financing for Council Housing, which will be part of the Localism Act when enacted.

#### **2.0 RECOMMENDATIONS TO CABINET**

- 2.1 That the information contained in this report be noted.
- 2.2 That the outline timetable for implementing self-financing by 2012, at appendix A to the report be agreed and implemented.
- 2.3 That the contents of the letter to the Department for Communities and Local Government (DCLG) at appendix B be noted and endorsed.
- 2.4 That the contents of the letter to CIPFA at appendix C be noted and endorsed.
- 2.5 That the draft HRA Business Plan Indicative Debt Profile at appendix D be noted and the Assistant Director of Housing and Property Maintenance Services and Borough Treasurer, prepare further draft Business Plans based on a range of options and situations.

- 2.6 That the potential adverse financial impact of this new system on the General Fund is factored into the budget setting process for 2012-13.
- 2.7 That a communication strategy for Members, Staff and Tenants be prepared and implemented by the Assistant Director Housing and Property Maintenance Services after consultation with the Portfolio Holder for Housing finance.
- 2.8 That this report be referred to the Executive Overview and Scrutiny Committee,
- 2.9 That call in is not appropriate as the matter is to be considered by the Executive Overview and Scrutiny Committee.

### **3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE**

- 3.1 That the Executive Overview and Scrutiny Committee note the report.
  - 3.2 That any comments of the Committee be reported to Cabinet.
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### **4.0 BACKGROUND INFORMATION**

- 4.1 The Background to this report is that a consultation exercise was undertaken by the previous Government regarding a voluntary scheme which would allow Councils to move out of the National Housing Revenue Account Subsidy System and would be able to move into a financial arrangement which would be self financing for the provision of Housing Services.
- 4.2 The previous Government did not have sufficient time within their period of Government to move this matter to conclusion.
- 4.3 The Coalition Government had looked at the consultation that has been undertaken and have indicated that they broadly support the concept of moving away from the Housing Revenue Account Subsidy System and move towards a self-financing mechanism, which gives Councils greater freedom and flexibility.
- 4.4 The Government proposals are contained within a document issued in February 2011, entitled implementing self-financing for Council Housing.
- 4.5 Copies of this can be made readily available for Members. This report attempts to highlight the salient points that will be included within the Localism Act and produce a timetable for allowing implementation of this legislation by April 2012.

### **5.0 CURRENT POSITION**

- 5.1 The current position is that the Government are expecting feedback on a number of points raised within the paper "Implementing Self-Financing for Council Housing". Officers have been reviewing the position in this regard and a letter to meet the deadline of 31<sup>st</sup> March 2011 has already been sent to the Communities and Local Government. This is attached at appendix B. We have indicated within the letter that further comments may be made by West Lancashire Borough

Council and submission of this does not preclude further comments being made if it is felt to be appropriate.

## **6.0 PROPOSALS**

- 6.1 In abolishing the Housing Revenue Account Subsidy System and moving to an arrangement for self-finance for Council Housing the Government will allocate each Local Authority debt from the system. Councils in accepting the debt may find that this has increased or decreased their real debt position.
- 6.2 The position for West Lancashire Borough Council is that as we are debt free, we will be inheriting debt. The Government have carried out and exercise looking at the National Housing Revenue Account and have made adjustments to this, which reflect the income, which will be generated over a period in line with the Governments Rent Policy. Assumed spending on Management Maintenance and Repairs including:
- Disabled adaptations.
  - Private Finance Initiative Subsidy Settlement.
  - The Discount Rate. Settlement payments.
  - Limits on borrowing.
  - Circumstances under which the settlement might be reopened.
- 6.3 Further information can be provided on exactly how the debt has been allocated using this mechanism.
- 6.4 The net result of this is that the Council are assumed to have a notional debt of £3.6million.
- 6.5 The calculation indicates that the Council will take on a further debt of £93million. Therefore the total credit ceiling that this Local Authority will have and the assumed debt given to it by Government will be £96.6 M.
- 6.6 The Council will be able to keep its existing rental income rather than pay subsidy each year. This will mean that the subsidy paid in 2011/12 of £6.3 M will be able to be retained by this Council. This revenue will be able to be used to support the debt, which we have been allocated. The Business Plan at appendix D demonstrates that based on our existing priorities and spending profile that we are able to meet the interest payments on debt and have a surplus to enhance and improve the service offer to Tenants.
- 6.7 However this initial result will need to be rigorously tested to ensure that it is robust given different assumptions on factors such as interest rates and inflation. The results will also need to be updated to reflect the outcome of stock condition survey and asset management plan work that will be carried out this year.

## 7.0 ISSUES

7.1 The letter to the department for Communities and Local Government (appendix B) highlights some areas where the Council wish the Government to reconsider its position. In broad terms, these are:

a. **Rents** - Within the settlement, the Government have assumed that the Council will achieve formula rents by 2015/16. In analysing our guideline rents and formula rents, the fact of the matter is that we will not achieve formula rents for all properties in line with Governments assumptions. In fact, the rents will fall short of the figures and therefore, the assumed income will not materialise. We have therefore advised the Government of this and asked them to take into account the actual figures that will be achieved for the formula rent in 2015/16, which if accepted will mean that the Government should reduce the level of debt within the settlement.

b. **Disabled Alterations** - The Government have currently allowed within the settlement £60 per property to allow for disabled alterations to be carried out to Council Tenants homes. We have analysed this and find that the allowance that we will be given for carrying out disabled alterations is circa £378k. In reality, this year our budget for disabled alterations is in excess of £1.2 M. We have therefore given the Government a schedule of expenditure over the last few years together with the estimated level of expenditure during this year. We hope that this will persuade the Government to allow an increased amount of allowance per property, which once again could reduce the overall settlement.

c. **Treasury Management** - The Government have indicated that they have made an allowance for increased Treasury Management costs within the Housing Account and we feel that this is a sensible approach and welcome this.

d. **Demolitions** – The Government have asked, by 31<sup>st</sup> March, to be advised of any planned demolitions within the Councils Housing Stock. Details within the letter to Governments Office highlight that there are plans of demolition of properties in Findon and Firbeck.

e. **Uncertain Prospects** - The future of Queens Court may be uncertain in the light of the opening of Brookside, which is the new Elderly Persons complex opening in Aughton Street and being developed by Arena Housing Association.

f. **Design Issues** - We have indicated that because of the layout of many of the estates within Skelmersdale based on the Radburn Principle, that remodelling and some small-scale demolition may need to occur in the future and that we would like the Government to give an allowance to us based on this.

g. **Right to Buy** – The Government have indicated, within the settlement that they do not plan to allow Local Authorities to retain 100% of the right to buy receipt as originally intended. The Government have indicated that they plan to retain the existing arrangements whereby the Council keep 25% and the remaining 75% is returned to Government to pool for national housing purposes. We have addressed this in the letter and feel that fundamentally, it is wrong that we can take on a debt for a property and when selling this property, we would

have to return money to Government. This principle appears inconsistent with the concept of Localism and does not accept that this Council has accepted the debt for the housing stock and that the asset is no longer owned at national level.

**h. Redemption of Loans/Costs of leases** – There is the ability to challenge the settlement if there is a cost to the Authority for redemption of loans or the cost of leases and we have addressed the technical issues with Government regarding this.

**i. Discount Rate** - The Government have indicated that the discount rate as part of the settlement will be 6.5% and in view of the fact that there is no requirement by Government for this Local Authority to build new properties, unless they so wish, we feel that this rate is appropriate.

**j. Borrowing Limit** – The Government have indicated that our overall settlement will be £96.3 M. The fact is we do not have a notional debt of £3.6 M gives us an opportunity to borrow this for investment purposes or only borrow and repay debt on £93M. A decision will need to be made on whether we go to our maximum borrowing limit at day one or use this borrowing potential in latter years. The only comment I would have regarding the limit is that I believe that this is an area that could be decided locally without National Prescription. I can understand why the Government have introduced this at this juncture because they would not wish public expenditure to significantly increase. However, I believe that the Government should review this regularly and remove national prescription in favour of local decision-making.

**k. Local Authority New Build** – Members and Tenants will remember that we were successful in bidding for funding from the Homes and Communities Agency under their National Affordable Housing Programme for a new build of seventeen properties at Elmstead. The Government have indicated that this borrowing should not count against the Council for the borrowing limit referred to above. We are reminding them of this within our letter.

**l. Re-opening the debt settlement** – The Government have indicated that they would look to re-open the debt settlement if there was a substantial and material impact on the value of the Landlords business. Once again there are concerns that if we make a success of our Landlord business, and we create a surplus for our Tenants, that the settlement could be re-opened to allow the Government “a second bite of the cherry”. We have indicated that this approach would not be helpful.

**m. LSVT Levy** – Currently the Council charges a levy to Local Authorities who wish to transfer their stock by way of stock transfer. The Government have indicated that they would wish to abolish this levy. This is a measure that should be supported.

## **8.0 FINANCIAL FRAMEWORK**

- 8.1 The exact financial framework we will be working in is being worked upon by CIPFA. They have issued a consultation paper regarding the Housing Revenue Account Reform and options for Treasury Management and dealing with accountancy issues. A response has gone to CIPFA (appendix C), which is mainly a technical paper, but it could have serious implications for the Council.
- 8.2 The current rules need to be amended, in a sympathetic manner or the Council could find that the General Fund is disadvantaged because of the new arrangements. There are technical reasons for this, which I do not plan to go into detail within this paper, although a separate report can be produced if Tenants or Members would like to see this in more detail.
- 8.3 The General Fund could be disadvantaged by £625K per annum if the accountancy rules are not amended. This clearly would have a massive impact on the financial position of the General Fund at a time when it is already under severe pressure from reductions in government grant funding. This factor will need to be considered in the budget setting process for 2012-13 but it is possible that the rules of the new system may only become clear at a late stage in this process. Every effort will continue to be made to lobby the Government that the new system should have a neutral impact on the GRA.

## **9.0 Asset Management**

- 9.1 The whole concept of self-financing will mean that the way that we think, operate and manage our Landlord Business will need to change. The Government, in moving away from the National Subsidy System, are giving Councils greater flexibility.
- 9.2 This flexibility will allow Councils to manage their stock in a very different way. The mindset of Members, Tenants and Staff will need to change as we move into a culture of running a business with a long term Business Plan and Strategy.
- 9.3 Currently the Subsidy System focuses on short timescales, normally to a maximum of three years and which are amended and refocused annually. The business plan will be a 30 year plan, which will give the Council greater opportunity to look at those properties, which are generating a surplus, and those properties, which are a drain on resources to our Tenants.
- 9.4 The Council may choose to look at disposal of some properties and the Government have indicated that if this is the case, and to give an incentive to Local Authorities to do so, any disposals, which are made with vacant possession, the Council will be able to utilise 100% of the asset value. (Provided that this is spent on provision of affordable housing, regeneration schemes or the repayment of housing revenue account debt).

## **10.0 The Way Forward**

10.1 The timetable highlighted at appendix A shows the detailed work which is necessary to deliver the agenda by April 2012. It would be my intention to have a standing item on the agendas of:

- Cabinet
- Landlord Services Committee
- Tenants and Resident Forum
- Executive Overview and Scrutiny Committee
- Directorate Service Heads

10.2 This will enable sufficient focus to ensure that the deadline is kept and that the issues for both the Housing Account and the General Fund are satisfactorily resolved.

10.3 In preparing for self-financing, the Housing Revenue Account Business Plan will need to be re-modelled and reviewed to ensure that this is fit for purpose. The Housing Revenue Account Business Plan will need to be underpinned by several pieces of work and these are:

- Robust stock condition survey
- Robust asset management plan
- Tenant priorities
- Treasury Management
- Ensuring that the structure of the service is fit for purpose.

10.4 A Communication plan on how and when we let stakeholders know of developments will be helpful. If the timetable is approved a communication plan will be prepared to support and compliment this.

## **11.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

11.1 The response to the DCLG sets out the Councils concerns about the sustainability of the Governments proposals. We will await their comments and observations.

## **12.0 FINANCIAL AND RESOURCE IMPLICATIONS**

12.1 The financial and resource implications have been highlighted within this report in terms that the debt settlement will mean that this Council, as a minimum, would need to take out borrowing of £93 M of debt.

12.2 The Council has the option of extending the debt provision up to a maximum of £96.6 M if they so choose.

12.3 The Council will need to ensure that the business plan is self-sufficient and that the debt can be serviced by the income generated through rents.

- 12.4 The Council will need to satisfy itself that the potential cost to the General Fund of £625K per annum, does not materialise and remind the Government of their commitment that there should be no adverse affect on the General Fund as a result of the changes to Housing Finance.
- 12.5 The cost of providing additional work on the Stock Condition Survey and the Asset Management Plan has been provided for in the budget. £30K has been allocated for this purpose. If during the course of the year this proves insufficient, then budgets will have to be reviewed in order that any essential work can be funded.

### **13.0 RISK ASSESSMENT**

- 13.1 The rules of the new self financing system have not yet been fixed and Government decisions on how it will operate both now and in the future could have a significant financial impact on the Council.
- 13.2 There is a high level of risk to the General Fund and because of this; it is being monitored through the Councils risk management processes. The action taken to report regularly through to Members and Tenants, including the Senior Officers of this Council will ensure that this focus is not lost.
- 13.3 The action proposed will minimise the risks and will allow greater opportunity to scrutinise and develop the process for the benefit of West Lancashire Borough Council and its Tenants.

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#### **Background Documents**

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

<u>Date</u>	<u>Document</u>	<u>File Ref</u>
February 2011	Implementing Self-Financing for Council Housing	

#### **Equality Impact Assessment**

There is a significant direct impact on members of the public, employees, elected members and / or stakeholders. Therefore an Equality Impact Assessment is required. A formal equality impact assessment is attached as an Appendix to this report, the results of which have been taken into account in the Recommendations contained within this report.

#### **Appendices**

- Appendix A – Timetable for Implementing Self-Financing by 2012  
Appendix B – Letter to DCLG  
Appendix C – Letter to CIPFA  
Appendix D – HRA Business Plan Indicative Debt Profile  
Appendix E - Equality Impact Assessment (EIA)