Appendix B

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Council Housing Finance
Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU

Dear Sir,

Re: Implementing Self-Financing for Council Housing

A. Ensuring an accurate Valuation

Further to your request, West Lancashire Borough Council (WLBC) have three projects on the go at the moment which will require demolition, or redevelopment, which may include disposal to a developer at less than market value, details of which are given below:

1. Findon and Firbeck Housing Estates

Council have passed a resolution to demolish 120 dwellings in the ownership of the Council on these estates as part of a much larger Regeneration Schemes for the Town Centre at Skelmersdale. Although it is anticipated demolitions will take place within the next 3 to 5 years the exact timing of demolition has not yet been confirmed, as the funding arrangements with the developer have still to be agreed.

2. Queens Court

An Extra Care Home facility at Brookside started on site a couple of months ago and is jointly funded by Supporting People, Arena Housing, and the

Department of Heath. As a consequence of this Scheme, the Council is planning to carry out a stock option appraisal in respect of 16 sheltered dwellings located at Queens Court. The outcome of the appraisal is to be considered by the Council later in the municipal year. At this time it is likely that the decision will be demolish or redevelopment this site within the next 18- 24 months

However, we would like to take this opportunity to raise with you some concerns we have about the way the debt settlement has been arrived at.

3. **Rent Restructuring and Rent Convergence**

The Council passed a resolution to adhere to the Government's Rent and Service charge Reforms.

The Government's proposals assumed a commencement date for moving actual rents to formula rent in 2002. However, for technical reasons the actual commencement date for WLBC was not until 2004/5, resulting in a shorter period over which convergence is to take place and a much steeper increase in rents that needs to be applied.

However, within the Guidance there is a requirement not to increase rents by more than RPI+0.5%+£2. The financial modelling of the debt settlement has been predicated on the basis that overall average rents will converge with Government formula rent by 2015-16. The financial model also includes a compensatory adjustment for loss of income by staying within the caps and limits associated with annual rent increases up to 2015-16.

However, individual property rents may be higher or lower than the overall average. In practice staying within earlier Ministerial limits and staying within the Governments guidance of RPI+0.5%+£2 means that at an individual property level a number of dwellings will never achieve convergence over the life time of the Business Plan. We believe this requires reconsideration as it unfairly disadvantages the tenants of West Lancashire Borough Council.

4. **Right to Buys (RTB's)**

4.1 Number of RTB's

Within the financial modelling of the proposed debt settlement, the assumptions made in respect of RTB sales are very modest assuming for WLBC a total number of RTB's in year 1 of 19 and by Year 30, a total of 42.

At our peak WLBC were selling 450 dwellings per year, prior to the economic downturn we were selling around 120 per year. In 2009-10 RTB sales plummeted to 10 dwellings. Our enquiries suggested that this was attributable to prospective purchasers not being able to secure mortgage lending. However, in recent months we have seen a doubling in our RTB's with the result that we have completed 18 sales in 2010-11, 17 are in the process of being completed, and of 33 applications received, 7 are on offer with applicants.

For a 30 year business plan we believe the assumptions within the Government's financial modelling are too conservative and passes too much risk to the Local Authority about which we cannot control. We believe that local evidence should be taken into account in determining levels of RTB rather than national levels. On that basis, under normal economic conditions, WLBC RTB sales would be around 125 to 150 per year and would request that the Governments financial model for debt distribution be adjusted accordingly.

4.2 Capital Receipts Pooling

Very disappointingly the Government's proposals have indicated that the pooling of Capital Receipts will continue beyond the current Comprehensive Spending Review period. Under the existing pooling arrangements costs of disposal are netted off the proceeds before distribution to Communities and Local Government (CLG). There is currently no reference to deducting the cost of redeeming the debt. This simply cannot be sustained within a business plan based on the level of debt take on. This is best illustrated by way of simple example:

Typical value of property sold	£39,000
Distribution:	
CLG (75%)	£29,250
WLBC (25%)	£ 9,750
Indicative Debt per dwg	£15,000

On this basis WLBC would, on top of allocating the full 25% of the receipt towards redeeming the debt, have to find an additional sum of £5,250 to settle the debt. Not only does this place a financial burden on the Council it also restricts reinvestment.

Compound this issue with an overly optimistic forecast on RTB's will almost certainly create an unsustainable position for the Council and has the potential to create a level of overhanging debt unsupportable by the revenue income stream in the longer term.

It would be our considered advice that, if the Government wishes to pursue the matter of pooling, such pooling should only take place after the costs of sale and redemption of debt including any debt repayment premia have been deducted from the proceeds. However, the Government appear to have lost sight that they are moving out of a National System and to one of local control. This Council has supported the principle of self financing BUT is strongly concerned over the Government's attempt to remove local resources that have been " purchased " by Local Authorities (we are Debt free and will inherit £96.6 M of Debt) and interfere in a matter that should be for local decision making.

5. <u>Disabled Adaptations</u>.

We thank the government for making allowance within the financial modelling for Disabled Adaptations. At the rate of £60 per dwelling this amounts to around to £379,000 in year one of the financial plan.

However, demand for disabled adaptations is widely recognised within the profession to be increasing as life expectancy is also increasing.

The actual expenditure with regard to Adaptations for WLBC for last three years is shown in the table below:

Detail	**2008/09**	**2009/10**	**2010/11**
	£	**£**	**£**
Actual expenditure	438,210	599,411	691,145

At the commencement of 2010/11 there was a waiting list of 12 – 13 months, to address the backlog entirely would require approximately £708,000 of additional funding at the time the budget was set. In the main the work undertaken relates to adapting the bathrooms to provide walk in showers at an average unit cost of around £4,200. It is estimated that £1.248m will be required in 2011/12 to meet newly arising demand and meet target waiting times set by CLG and the Council have budgeted for this with the HRA.

Clearly, the allowance made in the settlement is welcomed but as can be seen it falls well short of what is required. Perhaps consideration needs to be given to weighting the distribution to local authorities based on local rather than national demand.

6. Radburn Design of Skelmersdale New Town

In 1961 Skelmersdale was designated a New Town with a mandate to house overspill population from the north Merseyside conurbation. The layout of the estates within Skelmersdale was based on the Radburn design used in the United States. The majority of properties were built in the 70's and consist of significant proportion of non-traditional construction types including Wimpy No-Fines, REEMA, and BISON design that have been obsolete for more than three decades. In 1985 Skelmersdale New Town was transferred to West Lancashire District Council.

Long before the turn of the century Skelmersdale New Town lost all it external funding streams to those New Towns designated as Growth Areas.

A Government Select Committee was convened to consider the progress of the New Towns. This Committee reported that West Lancashire District Council had been particularly proactive in investing in the properties in the New Town Estates of Skelmersdale, which had enabled the Authority to overcome many of the issues of poor construction / materials. However, the report added that the Council was facing high ongoing maintenance costs associated with the former New Town properties which were not adequately reflected in the Government's Housing Revenue Account Subsidy System, e.g. Council is required to spend in excess of £1m per annum on landscape maintenance of large open spaces in the former mining town of Skelmersdale as compared to an average landscaping costs for beacon authorities that are less than £100,000 per annum. The Select Committee concluded that the Skelmersdale New Town estates had, broadly, issues with the Radburn design rather than one of materials. The high-density levels and the acknowledged failure of the Radburn design layout had not been overcome and were contributing to the "fear of crime". Accordingly, residents were wanting the estates to be remodelled on more conventional lines to provide:

1) Defensible space so that the design issues which lend themselves to offset crime and disorder may be designed out;
2) Parking within the curtilage of their home; and
3) An integrated road/footpath system, and a reduction of general use areas which gave rise to anti social behaviour.

Successive Select Committees on the New Towns in 2002 and 2008 have echoed these sentiments concluding that local authorities with New Town stock are facing a major task with many estate areas requiring extensive renewal for which they do not have the financial capacity to tackle. These Committees have found that funds provided for management and maintenance is inadequate, bearing in mind the non-traditional housing design and infrastructure and intensive landscaping built by the Development Corporation which is more expensive and much of which required wholesale renewal.

Indeed, the Select Committee of 2008 expressed the view that the New Towns design is inappropriate to the 21st Century and that the New Towns had special and particular needs. The Committee reported that each New Town was built at around the same time, so the majority of the infrastructure was reaching the end of its design life at the same time, where other urban areas may have pockets of infrastructure needing renewal New Towns face the prospect of the entire infrastructure having to be renewed at the same time. MP's warned that these needs have not been properly recognized and there is a danger New Towns will fall into decay and physical dereliction.

As part of the Council's Stock Option appraisal for LSVT in 2004 the Council engaged Independent Surveyors, Taylor Hutchinson, to assess the investment requirements for the housing stock. This was revisited as part of the Council's consideration of the Government's initial proposals relating to HRA Finance Reforms and Self-Financing arrangements. In total the investment requirement is in the region of £324m, including new build. This requirement falls sharply to £230m if new build is excluded. Taking out both new build and Compulsory Purchase Orders (CPO) the investment requirement falls to £176m.

Based on the assumptions provided within the Government's HRA Finance Reforms, the Council's Business Plan **cannot** support this level of investment.

Given these facts the Council made application to the Homes and Communities Agency for Decent Homes Backlog Funding under paragraph 7.4 of the Invitation to bid on the grounds that unless significant investment is made the estates within Skelmersdale will become unsustainable. The amounts sought were £48m in years 2014/15 and 2015-16. However, this bid was unsuccessful.

Given the scale of issue my Accountant has contacted Ann Williams and spoken to John Yates of your Department and Tom Warburton of the Homes and Communities Agency to arrange meetings to discuss this matter in more detail.

As we see it and subject to consideration and agreement there are a number of ways this could be moved forward including reducing the debt settlement, providing Grant funding through the auspices of the HCA, giving special dispensation to WLBC to retain all RTB proceeds, or a combination of these funding streams. An early dialogue on this matter would be most welcomed.

7. New Build

From previous correspondence with Ann Williams, you should be aware WLBC currently have a negative HRA CFR and a positive Council wide CFR and furthermore is debt free. Hence, if borrowing was undertaken to finance the following new build development it may result in a significant financial burden falling upon the GRA due to the machinations of the Item 8 calculation. This sum could be in the region of £0.5m dependant upon the interest rate charged at the time of undertaking. As a result, we have not been able to exercise external borrowing to meet the Council's funding requirement for 17 new affordable housing at the Elmstead Estate in Skelmersdale for which we were able to attract HCA funding.

The papers released to date make reference to increasing the borrowing cap for such schemes to the extent of the prudential borrowing used. For the reasons outlined we have used internal borrowing to fund our proportion of the Elmstead Development and would expect that this should be treated in the same way as for external prudential borrowing. An assurance to that affect would be much appreciated.

8. Borrowing Limit

Under normal circumstances the proposal is that Council's borrowing powers will be limited to the level of the debt allocation. We believe the prudential code for determining levels of borrowing are already in place to ensure prudent borrowing decisions and this constraint on local decision making is at odds with ethos expounded in the Localism Bill. We urge the Government to periodically review their position in regard to borrowing.

9. Re-Opening the Debt Settlement

We have reservations regarding the proposal that Government can re-open the debt settlement if there is a substantial and material impact on the landlords business. Whilst we acknowledge that we cannot fully estimate issues which a landlord service will face in the future and welcome the safety net this provision makes we do have concerns that it does open the door for successive administrations to review the landlord's service if they have been particularly successful. This latter point would not be helpful to the landlord business. Perhaps the point needs clarification by a simple statement to the affect that it will only be exercised in the event of potential failure of the landlord business.

10. Leased Properties

WLBC welcome the suggestion that the Government will adjust the financial modelling to reflect costs related to leased properties. As WLBC currently leases 9 dwellings from Goldsborough Estates we would welcome an adjustment to financial model for the annual costs incurred of around £11,000 per annum.

11. Treasury Management

WLBC would welcomes support for the extra treasury management costs associated with the management and administration of the allocated debt.

12. Mechanics of Local Authorities taking on Debt Allocation

Careful consideration needs to be given by central government as the mechanics of all the Authorities taking out debt at the same time as this will possibly have a detrimental affect to the financial market place which could result in their not being sufficient funds to meet Councils requirements and may also result in the financing costs associated with the debt being inflated above normal levels.

13. Management of Debt and Depreciation.

Earlier correspondence with Ann Williams of your Department highlighted two principle concerns for WLBC relating to the Capital Financing Requirements for HRA and GRA, and to the treatment of HRA depreciation. WLBC have prepared a response to the recent consultation issued by CIPFA entitled Capital Financing Arrangements under the New Housing Finance System, which broach these technical issues. Rather than simply repeat our case here I have attached a copy of our response to CIPFA for your information and consideration.

We look forward to hearing from you.

Yours sincerely

R V LIVERMORE
EXECUTIVE MANAGER
HOUSING AND PROPERTY MAINTENANCE SERVICES

Chief Executive: William J Taylor MBE