AGENDA ITEM: 14

CABINET: 17 January 2012

EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE: 2 February 2012

Report of: Assistant Director Housing and Regeneration

Relevant Managing Director: Managing Director (Transformation)

Relevant Portfolio Holders: Councillors A Owens and Mrs V Hopley

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SUBJECT: HOUSING REVENUE ACCOUNT BUSINESS PLAN

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To advise on the latest position on business planning for the Housing Revenue Account (HRA) and to look at the options that are available.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the current position be noted.

2.2 That the information in this report be used for consultation purposes prior to Council considering this matter in February.

2.3 That the Housing Finance Portfolio Holder bring proposals to the Council meeting on 29th February 2012 for the Housing Revenue Account Business Plan and the budget for 2012/13 as a minimum.

2.4 That call in is not appropriate as the matter will be considered by the Executive Overview and Scrutiny Committee on 2nd February.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE

3.1 That the position be noted

3.2 That any agreed comments be brought to the attention of Council for consideration via the Portfolio Holder Housing (Finance), Regeneration and Estates.

4.0 BACKGROUND INFORMATION

4.1 The HRA Subsidy System has universally been disliked and the Labour Government, of the time, consulted on a voluntary scheme whereby the Subsidy System would be abolished in return for Local Authorities accepting debt was debated. The general consensus was that this was a positive way forward as it would allow local authorities to better plan and manage their housing finances.

4.2 The Coalition Government inherited the position where the consultation had been carried out and reviewed this in the light of the economic position faced by them. The Coalition Government took a view that the HRA Subsidy System was not fit for purpose and decided that rather than have a voluntary scheme, it would legislate to scrap the current arrangements and replace this with a self financing HRA position.

4.3 The position for West Lancashire is that as a current contributor into the HRA Subsidy System of £6.3m per annum, the Council will have to make a substantial one off payment to the Government to “buy” its way out of this system. This payment will mainly be funded through borrowing and consequently this will mean that the Council will lose its debt free status.

4.4 The Government has recently announced the self financing settlement which will involve a one off payment of £89m. Some time will be required to work through the detail of this settlement to ensure it is fully understood but the key principles of the new arrangements now seem to be clear.

5.0 CURRENT POSITION

5.1 The current position is that the Council have been taking steps to manage the process and these steps are considered below.

5.2 It is important to recognise that the new self financing system should provide the HRA with greater financial freedom and certainty and so should enable a more long term asset driven approach to managing the housing stock. The new system should also provide a significant financial improvement as the revenue costs of borrowing will be significantly less than the annual subsidy payments that are currently being made. This will provide funding to put additional investment into the Housing Service.

6.0 HOUSING RENTS

6.1 The Government had indicated that authorities should aim to achieve what is known as target rents by 2015. Target rents were set to broadly bring Local Authority rent in line with Housing Associations so that Tenants were paying a similar rent for similar properties within each locality. The target rent is based on the value of the property, the size of the property and the average regional earnings.

6.2 In line with previous years I propose to use my delegated authority to increase rents in accordance with the Government formula. This will mean that the average rent increase will be around 8.07%.

6.3 I also intend to let all new tenancies to applicants not in existing tenancies using the Government's formula rent with effect from April 2012. This will generate income for the HRA which will assist in tackling improvements to homes and service delivery. I have not suggested this previously as a significant percentage would have been taken away by the subsidy system. Now is the right time to maximise our income from new non-Council tenants.

6.4 Service charges will be increased by RPI (5.6%).

6.5 In this context it is important to recognise that around 2/3 of tenants receive housing benefit, and consequently a significant element of any rent increases would be funded by the government (through benefits) rather than directly by tenants.

6.6 To obtain the best possible procurement, it is advisable to let contracts over a number of years rather than on an annual basis which has been our custom and practice. The industry standard is that contracts can be let for a period of 3 years with an option of a 2 year extension, and this seems the most appropriate way to achieve best value. If the Authority took a decision to procure on this longer term basis to achieve the best possible arrangements then Members would need to lock in to a longer period of rent increases.

6.7 As part of the Business planning process, I believe we need to look at a rent strategy which takes us, as a minimum, towards target rent at the earliest opportunity, and because of funding issues in the early years of the business plan, consideration should be given to a guideline rent increase plus a percentage to help tackle some of the backlog issues.

6.8 I will propose in the report to Council that we should consult with tenants on a rent strategy for 2013-2020 that will achieve a comprehensive approach to rent, improvements and service delivery.

7.0 STOCK CONDITION SURVEY

7.1 The Council commissioned Savills, a leading surveying company, to carry out a stock condition survey based on a 25% sample. This gives us a robust position for investment purposes. The table below highlights the business plan year and the level of investment that is required. (All costs are exclusive of Professional Fees, VAT, management and administration costs and are based on today's prices and do not include response and cyclical maintenance costs).

Business Plan Year	**1 to 5**	**6 to 10**	**11 to 15**	**16 to 20**	**21 to 25**	**26 to 30**
Total Programme Renewals	£55,090,525	£28,685,385	£21,633,875	£30,911,810	£36,669,505	£25,975,790
Total per annum	£11,018,105	£5,737,077	£4,326,775	£6,182,362	£7,333,901	£5,195,158

7.2 In broad terms, over the next 5 years, the Business plan requires an investment of £11m per annum. This result is based on adopting a property standard that is higher than the current decent homes standard but broadly in line with tenant aspirations. These figures also do not include professional fees, the costs of any environmental works, or the costs of addressing issues on Firbeck and Findon.

7.3 Even with a rent strategy that looked to maximise income, there will still be a shortfall between the required spend and the income that can be generated.

7.4 Consultation with Tenants needs to consider how the standards associated with improvements needs to be adjusted so that they are affordable in the context of the business plan. Ultimately though it is Members who will need to decide how to prioritise the available resources against the competing priorities for tenants.

8.0 ENVIRONMENTAL IMPROVEMENTS

8.1 The need to make environmental improvements particularly in Skelmersdale have been widely recognised because of the lay out and design of the estates.

8.2 Various interventions can be considered and one estimate is in excess of £300m to tackle the design issue which has not worked.

8.3 The business plan needs to ensure that properties have a sustainable future and therefore I have included within the business plan various investment models. However, I am of the opinion that £100m+ is a realistic investment requirement. This of course would be subject to consultation but would potentially make the business plan unviable but I refer later to the steps which are being taken to address this issue (see 13.1).

9.0 ASSET MANAGEMENT

9.1 The stock condition survey has now given us robust information regarding the investment needs of each individual property. In parallel with this, consideration has been given to asset management requirements. The Landlord Services Committee (LSC) have endorsed a methodology which looks at estate by estate as to the risks associated with investing in properties which will not be sustainable in the longer term.

9.2 This information will now allow option appraisal to be undertaken of areas where there is a risk that investment is unsafe and will investigate whether the properties should be retained in their current use or if alternative arrangements should be identified. An example of this would be a sheltered housing scheme with bedsit accommodation which is proving not popular and where there is high turnover and long periods where the property does not benefit from a rental income. In these situations it would seem illogical to simply invest in accordance with the stock condition survey but rather to look at the long term future and make adjustments as necessary.

9.3 I anticipate that I will need to establish a multi disciplinary team that would look at the option appraisal of properties within estates to ensure that any early investment was not wasted.

9.4 This information will need to be fed into the business plan and I anticipate that the earliest that we could adopt a fully functional business plan would be in April 2013. This would give time for option appraisal to take place and to be broadly agreed so that the income that can be generated can be used to inform an investment strategy.

9.5 To allow work to progress on the Asset Management Plan I will be asking Members to determine where sustainable investment can be made and which estates the asset management work needs to focus on.

9.6 Based on this an investment plan will be determined for the first two years which will target the work identified by Savills and tenants will be advised of this.

9.7 Tenants, where further option appraisal needs to be carried out, will be advised that their investment needs are being explored and that these will be reported back to Council at budget setting in 2013 to agree an investment plan for the next five years and then we will advise residents of this.

10.0 TREASURY MANAGEMENT

10.1 As part of the new system the HRA will need to make a one off payment to the Government of £89m at the end of March 2012. The HRA currently has internal resources of around £12m which it has internally lent to the GRA (technically known as the negative HRA capital financing requirement). It can use these resources but will then need to borrow at least £77m to fund the balance of the total £89m payment amount or indeed borrow £89m to assist financing the investment needs of the stock condition survey information and environmental work necessary following an asset management appraisal process. It is expected that this borrowing will be taken out through the Public Works Loans Board as it is offering very low interest rates specifically for HRA self financing. The Council also has the ability to borrow a further £5m if it wished to take advantage of this.

10.2 The GRA will then need to replace the £12m it was previously internally borrowing from the HRA. This will be achieved partly by reducing the level of external investments and partly by taking out external borrowing but this will lead to an increase in costs (as external borrowing rates are higher than internal rates). This issue has been previously reported to Members and it is currently estimated that it will lead to an increase in costs of £150,000 which has been reflected in the GRA budget position. The issues are still being considered with a view to trying to minimise the impact on the GRA and consequently it is possible that this figure may need to be revised.

10.3 We are currently working with Sector, our treasury management advisors, on the best way to structure the debt portfolio to minimise costs for both the HRA and the GRA.

10.4 As part of the settlement the Government will impose a borrowing cap on the HRA of around £94m. However as only around £77m will need to be borrowed for the self financing payment this will then leave borrowing headroom of £17m. As part of the business plan process, consideration will need to be given to what additional borrowing is required and whether it is affordable.

10.5 A further factor to consider is the level of provision that should be built into the business plan for the repayment of debt. Under the new self financing system there are no prescriptive rules and consequently it is a matter for local discretion. In reaching any decision careful consideration will need to be given to balancing the need for investment in the housing stock with the requirement for a business plan that is prudent, affordable and sustainable.

11.0 TENANT PRIORITIES

11.1 Tenants are to be consulted on their priorities as part of the Annual Tenant Conference.

11.2 Tenant surveys have already given a good indication of what is important to tenants and this will be further tested to ensure that the service is focused on what matters to our customers.

12.0 FINDON AND FIRBECK

12.1 The Council now has the freedom and flexibility to kick start a scheme which would help improve the area over a period and I will be bringing a report back to Council specifically on investment proposals that will be funded from the Housing Revenue Account that would achieve this objective.

13.0 THE WAY FORWARD

13.1 The Council had invited Officials from the Department for Communities and Local Government as well as the Homes and Communities Agency to visit the area on the 2nd of December in order that we could look at the environmental issues affecting Skelmersdale. The meeting had to be postponed due to a Senior Government Official being ill and being unable to attend. It is anticipated that this will take place early 2012. In broad terms, the business plan, whilst having difficulties in the early years, can deliver a programme which will mean that all of our homes are up to a modern standard by the end of the business planning period (30 years). The cost of changing the environment is expensive and needs to be built into the Business Planning process. This will make the Business Plan unviable and the purpose of the meeting is to explore further how this issue can be tackled.

13.2 For this reason, I will be suggesting that we prepare a strategic document based on the information provided in this report which will act as a consultation paper for the longer term business plan purposes from year 2 of the business plan i.e. 2013/14.

13.3 Year one of the business plan will need to be agreed by Council at the February meeting in a similar manner to previous HRA budgets. Officers will work with both political groups and with tenants in the run up to the 2012/13 budget in a similar way to previous years. The 2012/13 budget will need to address the commitment given to make investment a priority to Findon and Firbeck. In addition, investment should be made in tenants' homes as identified within the stock condition survey and where Members are happy that the investment is sustainable. Also, I will be recommending that Members invest in essential

Health and Safety schemes for tenancies which will otherwise not benefit in year 1 of the investment programme (an example of this would be where a boiler required replacement during the financial year). This approach will allow the opportunity to work on the Asset Management Strategy and to link this to an investment plan for years 2-7 of the business plan which would ensure that wise investment would be made in our portfolio of priorities that would not be a risk (see paragraph 9.2).

13.4 In setting the 2012/13 budget the Council will also need to consider some other competing factors. There will be a need for additional resources to be deployed on the work necessary to arrive at a comprehensive Asset Management Plan which will then feed into a programme of investment priorities. In addition to this, the Council needs to strengthen some of its operational areas which have been identified as weaknesses by the Audit Commission, the Tenant Services Authority (TSA) and the Peer Review undertaken by Helena Partnerships. I am suggesting that in year one, these adjustments be made which will provide better services for customers but also will enable the organisational re-engineering projects to be undertaken which will then review each work area to ensure that it is benchmarked and compared with best practice so that efficiency and effectiveness can be focused throughout the organisation. One of the drivers will be to modernise working practices and I anticipate that investment will be needed to compliment the new computer system that has been introduced so that staff move on to more modern methods of working like hand held computers and will avoid double handling situations.

13.5 The business plan also needs to allow for known economic/social changes which will need to be taken into account. Here I am thinking about the changes to the welfare benefit system which will be introduced over a number of years resulting in the introduction of universal credit. At this stage the detail of this remains uncertain but it is sure to create additional arrears and financial provision needs to be made for this. Indeed, it may require some additional resources to be used to give advice and support to tenants at this particular time.

13.6 The position on the Right to Buy has been clarified with the consultation paper entitled ‘Reinvigorating the Right to Buy and One for One Replacement’. A report is considered elsewhere on your agenda. The impact on the HRA is that provision for properties sold needs to be allowed for. If property sales increase so that Government targets are met then any funds attributed to the Council will need to be used to support the HRA Business Plan. It is estimated that this situation is unlikely to occur but needs to be considered if it does arise.

14.0 AREAS OF CONSIDERATION

14.1 Consideration needs to be given to the treasury management strategy. There appear to be a variety of options and in order to take matters forward a view needs to be determined on the following:

a. the amount of debt that we should adopt and when it should be taken out.

- £77m
- £89m
- £94m

b. the strategy for paying off debt which could be:

- No debt repayment
- Repay debt over 30 years of the business plan
- Interest only payment for a period say five years and repay debt over the remainder of the business plan (25 years)
- Repay debt over 75 years (estimated useful life of property). There are a range of other options from equal repayment of debt, interest only for five years and then repayment of the remaining debt or equal real value instalments.

14.2 The costs associated with all the options in b. are dependant on the options chosen in a. above. Appendix A highlights the costs associated with each of these for the varying amounts of debt which could be taken on.

14.3 The rent and service charge increase will be addressed in 2012/13 as outlined in paragraph 6. However, a rent strategy needs to be prepared for future years particularly after convergence in 2015.

14.4 The budget needs to be agreed for 2012/13 and the considerations at 14.1 to 14.3 above need to be determined prior to the budget setting process. Once the budget setting process had been undertaken the normal practice will be for a roll over budget to be tabled (Appendix B). Budgetary pressures include the following areas which will need to be determined so that the residual investment opportunity becomes clear. The areas are as follows:

Asset management work	£250,000
Phase II improvements to computerised working	£200,000
Improvements highlighted in the peer review	£100,000
Communication	£50,000
Improving services using customer profiling	£50,000
Tenancy Strategy	£30,000

14.5 In terms of investment there are numerous options and I propose to work with political groups and tenants on these. The investment opportunities will be dependant on the level of debt and how this is repaid. Once these amount are considered and put forward as part of the budget setting process it will be clearer to work an investment strategy. However, I am concerned that there are some investment requirements that could prove to be unsustainable and would wish the work of asset management to take place prior to any investment plan being agreed. There will be proposals for investment in Findon and Firbeck which will be the subject of a separate report to Council in February.

15.0 DEVELOPING THE BUSINESS PLAN AND LINKS TO THE BUDGET

15.1 External consultants (Tribal) were employed earlier this year to draw up an initial financial assessment of a 30 year business plan. This indicative plan showed that all of the borrowing taken out for self financing could be repaid within 22 years, and so the self financing model was affordable. However, this was based on management and maintenance costs at that time and did not include all the work associated with stock condition survey, nor any costs for environmental betterment.

15.2 The figures in the draft business plan now need to be substantially updated and reworked to allow for new information that has become available. This includes the recent Government settlement figures and the stock condition survey results. This will then provide a more firm assessment of the resources that will be available, which can be used to develop medium and long term investment and asset management plans.

15.3 Various scenarios will need to be modelled to take into account different assumptions as to interest rates, inflation etc.

15.4 The budget for 2012/13 is being put forward for consideration based on my proposals in paragraph 14 above.

15.5 I propose to model the business plan on various scenarios which will be presented to Council following consultation with tenants and political groups.

16.0 SUSTAINABILITY IMPLICATIONS / COMMUNITY STRATEGY

16.1 Clearly the Council with its Tenants will want to ensure that the future business plan ensures that properties are brought up to a reasonable standard and that appropriate investment is able to be made at the appropriate time. The further modelling of the business plan in year one (2012/13) will enable a well informed investment plan to be developed that takes into account the priorities of Tenants, the investment needs in the stock which have been considered as part of a well thought out asset management strategy. It will ensure that the rent levels reflect the needs and requirements of the stock and meet Tenant priorities.

16.2 The community strategy has highlighted that local people should receive good quality homes for a fair and appropriate rent which is changed. The move towards the business plan in April 2013 will ensure that the business plan takes into account these issues and if further funding is necessary then as part of the plan, this issue will be addressed.

17.0 FINANCIAL AND RESOURCE IMPLICATIONS

17.1 The financial and resource implications have been highlighted throughout this report. The Council needs to determine the following:

- Treasury management
- Investment priorities
- Service delivery needs

17.2 A fully worked up proposal will be brought back to Council highlighting all the financial and resource implications both in terms of revenue and capital which will support the Housing Revenue Account Business Plan.

17.3 The implication for the General Fund as referred to in paragraph 10.2 and will be considered by Council as part of the budget setting process in February 2012.

18.0 RISK ASSESSMENT

18.1 The business plan will be fully risk assessed before it is finalised and will allow for regular monitoring and review.

18.2 The report on Findon and Firbeck investment which will be considered by Council on 29th February will include a separate risk assessment.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

Appendix A: Interest costs and debt repayment options
Appendix B: Draft HRA budget 2012-13