Meeting of the Council – 16th July, 2012

Report of the Cabinet

Review of Housing Finance

Purpose of Report

1. To consider the recommendations of the Cabinet on:

    - proposed revisions to the Housing Revenue Account (HRA) budgets to reflect latest financial forecasts.

    - proposed revisions to the Public Sector Housing capital programme.

2. To inform the Council of the decisions taken by the Cabinet under delegated powers concerning certain other issues associated with the Housing Revenue Account (HRA).

Background

3. 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.

4. HRA Revised Budget

    The current budget for 2012/13, approved by the Cabinet on 8th February 2012, shows a surplus on the HRA of £0.324m at 31st March, 2013. There are now a number of variations to the original budget arising from the self-financing transactions undertaken at the end of March 2012 and from resources brought forward from 2011/12 including earmarked reserves.

    It should be noted that 2012/13 is the first year in which the new HRA self-financing system operates. The Government's reforms of HRA funding are set out in the Localism Act 2011 and include the abolition from 1st April, 2012 of the previous subsidy system and its replacement with a self-financing model under which housing authorities retain all rental income in return for taking on a share of national housing debt.

    Previous reports to the Cabinet have noted progress towards implementation of the self-financing system since the initial consultation paper on the proposals was issued in July 2009. The key elements of the proposed new self-financing system are:

- Abolition of the HRA Subsidy system – whereas Dudley previously made negative subsidy payments into a national pool (around £22m in 2011/12) we are now able to retain all rental income.
- In return we have taken on a one-off allocation of housing debt (£335m) based on an affordability calculation. At this level, and at current interest rates, the increased interest payments are more than offset by the removal of negative subsidy payments, allowing greater investment in management, maintenance and major repairs than would be possible were the previous system to have continued.
- A cap on new borrowing above a set maximum level.
- Transfer of investment, borrowing and inflation risks to housing authorities.
- Continued compliance with central government rent policy.

It was noted in the report approved by the Cabinet on 8th February, 2012 that the requirement for new housing debt came at a time of unprecedented uncertainty in the financial markets not least due to events in the Eurozone. The proposed HRA budget for 2012/13 was therefore calculated on a very prudent basis allowing for an average interest rate payable on all the Council's HRA debt (including existing debt) of 4.5%. When the borrowing transactions are undertaken with the Public Works Loans Board (PWLB), a lower average interest rate of 4% was in fact achieved, resulting in a saving of £2.5m on interest payments compared to the original budget. This will be invested in major repairs, bringing the backlog of empty properties back into use.

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 2012/13. These reserves include sums for general housing repairs, improvement works, continuing ICT projects and Housing Management office accommodation moves.

The original 2012/13 budget and the proposed revised 2012/13 budget are shown in Appendix 1.

5. Public Sector Housing Capital Programme

In February, 2012, a 5 year housing public sector capital programme was agreed. A revised capital programme is shown at Appendix 2.

The proposed capital programme follows the principles approved in the current programme and reflects the priorities of the Council Plan and the views of Area Housing Panels, targeting investment into maintaining the Decent Homes Standard and achieving energy efficiency measures under the Energy Act 2011. The programme addresses the following priorities:

- Continuing investment to target maintaining decent homes;
- Improving energy efficiency, combating climate change and reducing fuel poverty;
- Investing in empty homes to ensure that as many of the Council's homes as possible are available for occupation;
- Maintaining investment, at affordable levels, in community safety, environmental and social programmes such as adaptations for persons with disabilities.

An additional £2.5m has been identified as a result of the savings on interest payments achieved with the implementation of self-financing, which has been directed towards investment in empty homes, bringing the backlog of empty properties back into use.

6. Right to Buy

Following consultation earlier in the year on *Reinvigorating the Right to Buy and one for one replacement*, the Government has from 1st April, 2012 increased the cap on maximum Right to Buy discount from (in the West Midlands) £26,000 to £75,000 and introduced a requirement to use the additional capital receipts from increased house sales to build more social rented homes. The original budget assumed a number of house sales consistent with the self-financing settlement and current assumptions based on the present maximum discount.

At this stage, it is too early to estimate the likely increase in house sales as a result of the increased discount: while right to buy enquiries have increased substantially, these have not yet resulted in increased sales. It is likely that sales will increase, although the receipt for each sale will reduce as a consequence of the increase in maximum discount.

It is therefore proposed that the original budget is maintained, as this represents a prudent level of income, and this will be reviewed throughout the year as the number of sales is known.

A council can choose to retain receipts arising from right to buy sales, above the current budgeted level (52 homes), so long as these additional receipts are used for provision of affordable rented council homes. These can be either new build or acquisition of existing properties, and there is no restriction on their size, location, type or number. The only constraints are that funding from additional receipts must be no more than 30% of the total acquisition / construction cost, and that the funding must be spent within three years.

The Cabinet has authorised the Director of Adult, Community and Housing Services to sign the agreement with the Department for Communities and Local Government to retain additional right to buy receipts and use these for provision of affordable rented council homes.

7. HRA Business Plan

A new financial strategy for landlord housing is currently being developed to take into account maintenance of the Decent Homes Standard and the new opportunities and challenges arising from the introduction of the self-financing system. This will be the subject of a consultation process that will include tenants and residents.

The key elements of this new financial strategy, which will cover a rolling five year period, are likely to include:

- maintain the Decent Homes Standard;
- improve the energy efficiency of the housing stock and address fuel poverty;
- invest in housing stock and minimise the number of void properties;

- review the suitability of the housing stock and explore the feasibility of new build to increase stock and / or replace properties that are in poor condition or that do not meet modern requirements;
- support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
- identify ongoing savings and efficiency gains, through the use of partnerships where appropriate;
- continue to undertake prudent management of reserves and other balances;
- set rents having regard to government rent policy and investment needs.

8. On consideration of the information set out in this report, the Cabinet approved the following recommendations at its meeting on 20th June, 2012:-

    - That receipts arising from right to buy sales, above the current budgeted level, be retained, so long as these additional receipts are used for provision of affordable rented council homes.

    - That the Director of Adult, Community and Housing Services be authorised to sign the agreement with the Department for Communities and Local Government to retain additional right to buy receipts and use these for provision of affordable rented council homes.

    - That the key elements of the Housing Revenue Account 30 Year Business Plan be approved.

    - That the Council be recommended to approve the proposals set out in paragraph 12 below.

<u>Finance</u>

9. 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, 2013. 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, 2013 and therefore complies with the requirements of the Act.

<u>Law</u>

10. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing.

Equality Impact

11. The Equalities Act 2010 created a new public sector equality duty, which came into force from 5th April, 2011. This consists of a general equality duty, which applies to the Council and specific duties, which have not yet been published.

The general equality duty has three objectives, to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct that is prohibited by the Act.
- advance equality of opportunity between people who share a characteristic and those who don't.
- foster good relations between people who share a characteristic and those who don't.

The new Equality Duty covers the following protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

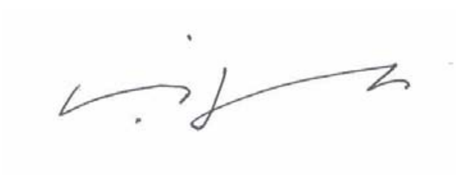
This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve quality of life for protected groups.

Recommendations

12. It is recommended that the Council:

- Approve the revised Housing Revenue Account budget for 2012/13, as set out in paragraph 4 and Appendix 1.

- Approve the revised Public Sector Housing capital programme for 2012/13 to 2016/17, as set out in paragraph 5 and Appendix 2.



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Leader of the Council

Appendix 1

HRA Revised Budget 2012-13

	Original Budget £m	Proposed Revised Budget £m	Variance £m
Income			
Dwelling rents	-87.350	-87.350	0
Non-dwelling rents	-0.691	-0.691	0
Charges for services and facilities	-0.199	-0.199	0
Contributions towards expenditure	-1.130	-1.038	0.092
Interest on balances	-0.005	-0.005	0
Total income	**-89.375**	**-89.283**	**0.092**
Expenditure			
Management	14.717	15.643	0.926
Responsive and cyclical repairs	24.050	25.803	1.753
Negative Subsidy	0	0	0
Transfer to Major Repairs Reserve	21.487	21.487	0
Interest payable	20.905	18.427	-2.478
Revenue contribution to capital expenditure	8.720	11.847	3.127
Other expenditure	0.968	0.968	0
Total expenditure	**90.847**	**94.175**	**3.328**
Deficit in year	**1.472**	**4.892**	**3.420**
Surplus brought forward	**-1.796**	**-5.606**	**-3.810**
Surplus carried forward	**-0.324**	**-0.714**	**-0.390**

As interest rates were lower than originally budgeted when the HRA self-financing transactions were undertaken, we have achieved a saving of £2.5m on interest payments. This will be invested in major repairs, bringing the backlog of empty properties back into use.

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 2012-13. These reserves include sums for general housing repairs, improvement works, continuing ICT projects and Housing Management office accommodation moves.

Appendix 2

Proposed capital programme 2012/13 to 2016/17

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Adaptations	2,644	2,618	2,662	2,740	2,839
Central heating	1,929	1,526	1,552	1,597	1,656
Community Safety and Environmental Improvements	564	283	288	296	307
Electrical Installations	1,484	1,374	1,059	1,090	1,130
External Improvement Programme	7,472	7,570	7,749	7,098	7,178
Insulation	208	161	164	168	175
Minor Works	4,080	2,776	3,839	3,953	4,015
Modernity and Decent Homes	2,292	2,325	2,364	2,433	2,505
New Council Housing	2,262	420	218	0	0
Tenants Association	124	85	87	89	92
Void Property Improvements (Decency)	12,682	10,701	10,879	11,201	11,321
Grand Total	**35,741**	**29,839**	**30,861**	**30,665**	**31,218**