

Meeting of the Council – 18th July, 2011

Review of Housing Finance

Report of the Cabinet

Purpose of Report

1. To provide an update on developments in Housing Revenue Account (HRA) finance.
2. To consider the proposals of the Cabinet regarding revisions to the HRA budgets to reflect latest financial forecasts.
3. To consider the proposals of the Cabinet regarding 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 2011 noted that 2011/12 is likely to be the last year in which the current HRA subsidy system operates. Government proposals to reform HRA funding are set out in the Localism Bill and include the abolition of the current system and its replacement with a self-financing model under which housing authorities will retain all rental income in return for taking on a share of national housing debt.
6. Previous reports to Cabinet have noted progress towards implementation of the self-financing system since the initial consultation paper on the proposals was issued in July 2009. In February 2011 the Government issued updated individual financial models for each local housing authority.
7. The Government's current proposal is very similar to that issued by the previous Government in March 2010 and reported to Cabinet in June 2010. The key elements of the proposed new self-financing system are:
 - Abolition of the HRA Subsidy system – whereas Dudley currently makes negative subsidy payments into a national pool (around £22m in 2011/12). 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 £335m under the current

proposals. At this level, and at current interest rates, 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.
- Transfer of investment, borrowing and inflation risks to housing authorities
- Continued compliance with central government rent policy.
- Capital receipts pooling will continue (a change from the March 2010 proposal), but the debt allocations have been adjusted to compensate for this.
- Additional resource has been identified to support public sector adaptations for disabled tenants (a further change from the March 2010 proposal).

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.

The precise value of debt that the Council will take on under the self-financing system will be determined by a data return identifying property numbers that will be submitted by 31 August 2011. This may exclude void properties that the Council has resolved will be demolished or disposed of before 31 March 2012. A report was taken to the Select Committee for the Environment on 24 January 2011 and a Decision Sheet (DACHS/005/2011) (21 March 2011) authorised as an option the disposal of void properties to Registered Providers (Housing Associations) or to other organisations or individuals in cases where the anticipated refurbishment costs are in excess of £10,000. Discussion has since taken place with Registered Providers and the Cabinet, at its meeting on 29th June, 2011, authorised the disposal of up to 30 void properties by 31 March 2012. As specific properties are identified for disposal, they will be approved via subsequent Decision Sheets.

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.

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 2011-12, approved by the Cabinet and the Council, shows a surplus on the HRA of £0.573m at 31st March 2012. There are now a number of variations to the original budget arising from resources brought forward from 2010-11 including earmarked reserves.

The original 2011-12 budget and the proposed revised 2011-12 budget are shown in Appendix 1.

Public Sector Housing Capital Programme

9. In February 2011, a 5-year housing public sector capital programme was agreed, with years 2012-2015 still provisional pending the final outcome of the Housing Subsidy Review. A revised provisional capital programme is shown at Appendix 2.

10. Community Energy Saving Programme

Cabinet have previously approved that agreements be entered into with energy service providers to provide resources for carbon reducing, energy efficiency measures for the Council's housing stock through the Community Energy Savings Programme (CESP) and Carbon Emission Reduction Target (CERT).

E-On have identified the Priory area of Dudley as a suitable qualifying CESP area whose residents could benefit from a range of carbon reducing, energy saving measures. In addition to the recently completed CESP scheme at Pensnett it is therefore proposed to undertake a further scheme in partnership with E-On to improve around 450 homes in the Priory area. As with the previous CESP scheme not all homes will qualify for any or all of the potential measures under CESP funding rules set by Ofgem, but it is expected that around 300 homes will benefit from external wall insulation and around 200 homes will receive new energy efficient boilers. Council are also asked to approve a pilot solar PV renewable technologies project to be carried out in conjunction with the CESP scheme on the Priory, where prudential borrowing will provide up-front investment to finance solar PV panels on roofs. Solar panel arrays will be installed on around 200 appropriate roofs that are capable of generating electricity for the national grid, which will provide free 'daytime' electricity for residents and an income for the Council for 25 years repaying the initial investment through the government's Feed-in-Tariff (FIT) initiative. Further HRA resources will provide properties with double glazing and associated non-qualifying CESP works that are not fundable by E-On under CESP rules e.g. heating system upgrades, rainwater goods and attached fencing and gates where it is sensible or necessary to undertake them at the same time.

Combining the solar PV scheme with the CESP project increases the carbon emission reductions derived from the CESP scheme and further reduces the amount the Council is required to contribute towards match funding the £3m E-On CESP scheme to around £200,000. This can be financed from HRA resources to contribute towards the total cost of CESP works. In total, around £3m of improvements are financed by E-On directly with a total package of investment schemes for the Priory worth around £5.5m. With £1.25m of the HRA contribution self-financing through the government FIT scheme, the Cabinet resolved to recommend the Council to approve the CESP and FIT schemes and agree to increase the External Improvement Programme by £2.55m to reflect the value of works being financed directly by the HRA.

Further CESP and CERT resources will still continue to be sought, and if successful resources will be added to the housing public sector capital programme to support existing approved investment programmes.

Minor Works

The Council undertakes a cyclical planned programme of inspections of its high-rise flats and carries out any identified remedial works in a rolling programme. It is proposed to increase the Minor Works budget by £250,000 to finance additional structural repairs identified as part of the ongoing structural monitoring, inspection and repair programme.

11. On consideration of the above, the Cabinet, at its meeting held on 29th June, 2011, resolved to recommend the Council as set out in paragraph 15 below. The Cabinet, under delegated powers, also resolved as follows:
 - to note the latest position on HRA funding reform from 2012/13
 - to authorise the disposal to Registered Providers of up to 30 void properties where the anticipated refurbishment costs are in excess of £10,000;
 - to note the continued uncertainty around future years' funding arrangements for the HRA

Finance

12. Section 76 of the Local Government and Housing Act 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 31 March 2012. 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 31 March 2012 and therefore complies with the requirements of the Act.

Law

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

Equality Impact

14. 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

15. It is recommended that Council:

- approve in principle that all capital receipts arising from the sale of HRA assets continue to be used for the improvement of council homes (other than those specifically committed to support private sector housing);
- recommend that Council approve the revised HRA budget for 2011-12 (paragraph 8 and Appendix 1);
- recommend that Council approve the amendments to the Public Sector Housing capital programme for 2011-12 to 2015-16 (paragraphs 9 – 10 and Appendix 2).



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Leader of the Council

Appendix 1

HRA Revised Budget 2011-12

	Original Budget £m	Proposed Revised Budget £m	Variance £m
<u>Income</u>			
Dwelling rents	-81.104	-81.104	0
Non-dwelling rents	-0.720	-0.720	0
Charges for services and facilities	-0.173	-0.173	0
Contributions towards expenditure	-1.169	-1.052	0.117
Interest on balances	-0.005	-0.005	0
Total income	-83.171	-83.054	0.117
<u>Expenditure</u>			
Management	14.321	14.954	0.633
Responsive and cyclical repairs	21.667	22.389	0.722
Negative Subsidy	22.330	22.330	0
Transfer to Major Repairs Reserve	14.525	14.525	0
Interest payable	6.890	6.890	0
Revenue contribution to capital expenditure	2.329	2.829	0.500
Other expenditure	1.053	1.053	0
Total expenditure	83.115	84.970	1.855
(Surplus)/deficit	-0.056	1.916	1.972
Surplus brought forward	-0.517	-2.491	-1.974
Surplus carried forward	-0.573	-0.575	-0.002

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 2011-12. These reserves include sums for general housing repairs, continuing ICT projects, Housing Management office accommodation moves and restructuring.

Appendix 2

Proposed capital programme 2011/12 and provisional programme 2012/13 to 2015/16

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Adaptations	2,563	2,654	2,725	2,818	2,881
Central heating	2,123	1,465	1,495	1,537	1,571
Community Safety and Environmental Improvements	542	332	294	304	311
Electrical Installations	1,443	1,371	1,354	1,109	1,134
External Improvement Programme	7,108	5,658	4,430	4,276	4,371
Insulation	150	154	85	87	89
Minor Works	4,122	3,633	3,683	3,778	3,862
Modernity and Decent Homes	2,180	816	1,273	1,317	1,347
New Council Housing	11,928	420	254	229	0
North Priory	0	0	0	0	0
Tenants Association	113	125	88	91	93
Void Property Improvements (Decency)	9,360	9,797	10,068	8,343	8,529
Brierley Hill Library Housing Office	80	0	0	0	0
Grand Total	41,712	26,425	25,749	23,889	24,188

The capital programme above represents a continuation of the existing programme to maintain current standards and improvements following the achievement of the Decent Homes standard. It should be noted that continuation of the programme is dependent on the specific outcomes and timing of the proposed reforms to HRA funding and therefore it is expected that the provisional programme may be revised for 2012/13 onwards.