OPEN

HOUSING AND COMMUNITY SERVICES COMMITTEE

2nd February 2012

PRESENT:-

Conservative Group
Councillor Lemmon (Chairman), Councillor Hewlett (Vice-Chairman) and Councillors Ford, Harrison, Mrs. Hood, Murray and Smith.

Labour Group
Councillors Dunn, Mrs. Heath, Mulgrew, Rhind, Richards and Shepherd.

In attendance
Councillors Atkin and Mrs. Plenderleith (Conservative Group) and Bell and Taylor (Labour Group).

HCS/54. **MINUTES**

The Open Minutes of the Meeting held on 24th November 2012, were taken as read, approved as a true record and signed by the Chairman.

MATTERS DELEGATED TO COMMITTEE

HCS/55. **HOUSING REVENUE ACCOUNT BUDGET 2012/13**

The Head of Corporate Services submitted a report which detailed the Housing Revenue Account (HRA) base budget for 2012/13, as part of the annual financial planning cycle, together with an updated financial forecast to 2023. The report also set out details of a proposed rent increase for 2012/13 under the Government's National Rent Setting Policy.

The current subsidy system for financing council housing nationally would be abolished on 31st March 2012. Under the Localism Act 2011, the Council would no longer pay a negative subsidy payment to the Government or take on a share of the national housing debt based on the valuation of its local housing stock/business. The base budget for 2012/13 and 10 year financial projection was the first financial plan constructed under self-financing. This included the recommended debt repayment profile and associated interest costs, together with previously approved stock investment needs. In addition, the base budget for repairs and management costs, together with all of the day-to-day income and expenditure had also been reviewed.

Estimates were generally based on service levels continuing in 2011/12, and included any full-year effects of the previous year's growth and service restructures. Non-recurring and one-off items associated with IT development and early terminations costs had been removed. A 10 year projection was a relevant time period, as it accorded with the approved debt maturity profile and ensured focus was maintained on a longer term. In addition, an overall 30 year business plan would also continue to focus on stock investment, in line with available finance and tenant aspirations. This was considered to be good practise, and a good tool in a self-financing regime to demonstrate to all stakeholders that the housing business was sustainable.

An appendix to the report showed the fully costed base budget and finance projections for the first 10 years of self-financing. This showed that the HRA was sustainable, could deliver the required capital investment in the stock and made the necessary surpluses in future years to repay the debt. The projection assumed no further borrowing above the initial debt take on. Including existing debt, headroom of about £7m remained before the HRA would exceed its borrowing limit that would be set and fixed by the Government on 1st April 2012. The base budget and projected figures were based on annual rent increases in line with Government guidelines and also assumed that there were no significant increases in interest rates prior to 28th March 2012. An analysis of the main assumptions and risks were detailed within the report.

The Head of Corporate Services advised that the debt settlement had, the previous day, been confirmed as lower than previously circulated, and with this in mind, an amended set of figures was circulated to all members. This had the effect of the Council needing to borrow £300,000 less than originally thought.

Appendices within the report detailed the profile of interest and loan repayments over the 30 year business planning period. This showed how surpluses would be built up at different stages to repay each tranche of the debt as it periodically fell due. In accordance with the Council's approved business plan, no resources were available for debt payment in the short term as they were invested in capital works to the stock, to meet a backlog and to maintain at least "decent standards". In year 6, surpluses started to accrue on the HRA as the ongoing capital need reduced and full implementation of rent restructuring took effect. Costs associated with arranging the original borrowing and ongoing treasury management support were also included in the financial projection.

Although the Council no longer received a Major Repairs Allowance, the additional resources generated from self-financing would allow for capital investment. Capital works would continue to be funded from a major repairs reserve. This would be topped up each year from revenue contributions, which would include an amount for depreciation. These amounts were shown separately as the Capital Expenditure Requirement (CER).

With regard to Right to Buy (RTB) receipts, under self-financing, pooling of capital receipts from the sale of council houses would continue to apply. This meant that 75% of proceeds would continue to be payable to the Government. The remaining 25% would be available to the Council, and the Council had previously approved that this would be for the sole benefit of the HRA from 1st April 2012. The Government's debt settlement figure included a provision for the loss of rental income from RTBs post 1st April 2012. This had been assumed at an average of 8 properties per year for South Derbyshire – a reduction of 268 properties over the 30 year planning period. In addition, the Government had issued a consultation paper with proposals to increase RTBs.

The main proposal was to increase the discount available on the purchase price to tenants who qualified. The financial plan did not at this stage include any capital receipts from RTBs. This would be kept under review, pending the detailed mechanics of the Governments proposals and actual income generated.

It was estimated that the HRA would enter self-financing with a general reserve of around £1.9m. This was above the current minimum contingency level of £1/2m approved in the Council's Financial Strategy. It would be used over the first 5 years of the plan to meet the estimated deficit on the overall HRA. Around 2016/17, it was projected that the reserve would have fallen to around £950,000. After this date, the Plan moved into surplus and as previously highlighted, this would be set aside to repay the debt. Therefore from 2016/17, the general reserve would remain at this level. The principle of self-financing allowed greater freedom and scope for local HRAs, and for Councils to deliver additional investment in their stock, but it came with a transfer of greater responsibility and hence risk. Therefore it was recommended that a level of £1m was maintained as the minimum general reserve balance on the HRA from April 2012.

Previous reports to the Committee had indicated that rent income from tenanted properties was a fundamental part of the self-financing proposal. It would continue to be the most significant source of income, accounting for around 95% of all income generated in the HRA. Under self-financing, Councils would be expected to follow the national rent setting framework and continue towards convergence. The self-financing settlement was based on real term increases in rent each year of inflation plus 0.5%. For 2012/13 the national average rent increase had been set as:

- RPI as at September 2011 – 5.6% plus 0.5% = 6.1%

The Council's current average formula rent was substantially behind the national average. This situation had been exacerbated over the last 3 to 4 years by the national formula capping increases for individual tenants in any one year, together with the Council setting rates lower than the national average formula. Consequently for 2011/12, the Council's average rent was around 9% lower than the national formula. In order to catch up by 2015/16, the average rent for tenants in South Derbyshire would need to increase by a further 2.4% in 2012/13. This made the overall average rent increase 8.5% for 2012/13, an average of £5.49 per week. Examples were provided of the implications of a reduction in the overall increase.

It was pointed out that in recent years, Members had attempted to maintain a reasonable rent increase, and in the current economic climate it was felt that it might be unreasonable to increase rent by 8.5%, and it was suggested that 6.1% would be more acceptable. It was also suggested that the increase could be spread more evenly over a three year period. A response was given that the Authority had a statutory obligation to balance the HRA, and although it had been considered how to mitigate this increase, it was felt that increasing rent by 8.5% was the only way, not only to maintain properties, but also to improve them and provide value for money.

RESOLVED:-

(1) That an average rent increase of 8.5% (£5.49 per week) be approved for 2012/13 in accordance with Government guidelines for tenanted properties.

(2) That the average rent increase be adjusted for individual tenants, in accordance with the Rent Restructuring Formula.

(3) That the proposed estimates of income and expenditure for 2012/13 for the Housing Revenue Account be referred to the Finance and Management Committee for approval.

(4) That the updated financial projection, including the associated assumptions and analysis for the Housing Revenue Account to 2023 be approved.

(Councillors Dunn, Mrs. Heath, Mulgrew, Rhind, Richards and Shepherd requested that it be recorded that they had voted against the proposal in Resolution (1)).

HCS/56. **FIVE YEAR MAINTENANCE AND IMPROVEMENT PROGRAMMES FOR COUNCIL HOUSING 2012-2017**

A report was submitted that advised that all the Council's properties were recorded as meeting the Decent Homes Standard (DHS) at the national target date of 31st December 2010. It was clear that without the advent of the new financing regime, the Decent Homes Standards would not be maintained, even in the short term. The updated Stock Condition Survey and HRA Business Plan indicated a spend requirement of £26.5m over the five-year period of 2012 to 2017. If interest rates remained low, as currently projected, and income went up in line with the National Rent Formula, then resources would be available to meet this commitment in full.

Full details were provided on the major repairs, planned external maintenance and improvements programme, and it was proposed that the Major Repairs Reserve would continue to fund disabled adaptations required in Council stock over the proposed five year period. Funding in recent years had not met with demand, and there was currently a backlog of clients assessed as needing adaptations. It was estimated that the cost of the current backlog was £210,000. It was therefore proposed to increase the 2012 /13 budget to £500,000 and it was envisaged that once the backlog was cleared, expenditure required annually would be under £400,000.

The allowance from the Housing Revenue Account (HRA) in 2012/13, for planned external maintenance was proposed as £635,000. It was proposed to increase this budget year on year by an inflationary rate of 2.5%, as detailed in the separate HRA report to this Committee. A table was included that showed an estimate of available finance for 2012/13 and also the proposed 2012/13 programme. Street by street details for the full five year proposed programme were also detailed in an appendix to the report.

It was suggested, as many of the costs were indicative, that there might be some funds available, when contracts were negotiated at a lower cost than estimated. It was requested that this Committee receive a report for a 6 monthly period comparing estimated costs to actual spend, with a view to consideration of where any savings might be allocated.

RESOLVED:-

That the five year expenditure proposals contained within the report be approved, subject to an annual review of the Major Repairs Reserve, and contributions from the Housing Revenue Account.

HCS/57. **WORK PROGRAMME**

Members were asked to consider the updated work programme and review it's content where appropriate.

RESOLVED:-

That the updated work programme be approved.

HCS/58. **LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT ACT (ACCESS TO INFORMATION) ACT 1985**

RESOLVED:-

That, in accordance with Section 100(A)(4) of the Local Government Act 1972 (as amended), the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraphs of Part 1 of the Schedule 12A of the Act indicated in brackets after each item.

MINUTES

The Exempt Minutes of the Meeting held on 24th November 2012 were received.

REPLACEMENT OF CARBON MONOXIDE DETECTORS IN SUPPORTED HOUSING PROPERTIES (Paragraph 3)

Members approved the replacement of carbon monoxide detectors.

J. LEMMON

CHAIRMAN