An Income policy for Housing Revenue Account Self Financing

1. Background

1.1 There is some commentary that the HRA self-financing deal is not equitable to all Councils and allows more freedoms to some than others. This is true. However the reason why the new regime has been welcomed by all the 171 Councils still with housing stock is that the new system is far better than the current deeply flawed negative subsidy system.

1.2 In brief the collective view is anything is better than the current system and Governments of all political persuasions have tried over recent years to come up with a workable alternative to the current system. The current plans were first proposed by the Labour government in 2008 after several years of piloting options. The coalition government has adopted the plans although has made changes to some of the detailed arrangements.

1.3 This Council has prepared for HRA self-financing through a joint stakeholder group (including three councillors from both political sides) which has produced a new 30 year HRA Business Plan approved by Committee in June 2011. The plan was formulated in the six months from October 2010 to April 2011 and the process was supported by specialist consultants.

1.4 The key components of the new HRA self-financing regime in a South Derbyshire context are as follows.

- Self-financing will entail SDDC ‘buying out’ of the national system at around £60m (the 2011 figure quoted by government of £55m will increase – the final figure will be known at the end of November). We will need to borrow at least that amount and pay it to government on 28th March 2012. There is no choice about this – it is being legislated for.

- The 2009 stock condition survey identified £108.5m of works required to the housing stock over the next 30 years. These cannot be funded in the current financing regime but can be funded in full in the new system provided that income goes up in line with national policy.

- In addition to fund the works required by the stock condition survey will require additional borrowing of approximately £5m in the early years of the self-financing regime.

- The requirements of the stock condition survey are loaded to the early years of the plan and combining this with the debt interest needing to be paid means that there will be a limit to additional spending power in the first 10 years of this plan.

- Other Councils in our region will be constrained less and will have more spending power or ‘headroom’ and therefore will be seen to be doing more for their tenants. Because the settlement is linked to the general economic profile of the District we have one of the highest per unit settlements in the East Midlands. If we had the North West Leicestershire per unit settlement we would be paying nearly £5m less to government.

- We also need to take account of our customers' aspirations. In consultation over the new HRA Business plan residents have expressed satisfaction with current service standards and broad spending priorities of the Council. However they would like to see additional resources committed to environmental/parking issues and a decorating scheme for the elderly and vulnerable. The provision of upgrading bathrooms to include electric showers is also recommended.

2. Income assumptions in the HRA self financing settlement and our Housing Revenue Account Business Plan

2.1 The self-financing payment we need to make to government is based on the assumption that our income will go up in line with national policy. Our rents are currently 10.2% behind that national policy and therefore where they are assumed to be by government. Therefore we start the self-financing regime already behind on income profiles.

2.2 The income and expenditure profile used within the HRA Business plan is also based upon rents rising in line with the government's formula rent. The idea behind formula rent is that it is linked to the local economy and local circumstances. According to the government's formula we are significantly undercharging for the quality of the product we are providing relative to those local circumstances. The stakeholder group that produced the plan is recommending that the Council should move its rents to the government formula level asap. A five year rent policy is proposed rather than an annual consideration to enable better planning of resources generated i.e. contracts can be committed knowing that the income to finance them has been broadly agreed.

2.3 The current average weekly rent for a council property is £64.52 (as at April 2011). The government assumes our rents are currently at an average of £71.11. The difference represents an income shortfall in this year alone of over £1m.

2.4 The fact that we are not charging rents according to the national formula is the main reason we have run the Housing Service in recent years utilising balances i.e. it is operating in deficit.

2.5 Since April 2011 any properties that have become vacant have been relet at the formula rent. This means that as of 14th October 4.4% of properties were already let at formula levels. There is an implicit acceptance in this policy that formula rent is where we need our rents to be.

2.6 The national formula system is about trying to link social rents charged by Councils and Housing Associations to the local circumstances. The aim is not to make them market rents but to reflect that social rents should not exist in isolation to the immediate world around them. In this way there is a different formula rent for different parts of the country and region. The formula monthly rent for an SDDC property is currently £308 a month whereas the market rent for a similar product would be around £500 a month in the semi-urban Swadlincote area and much more in rural villages.

2.7 Although the self financing regime will give us greater financial freedom, if we are going to invest in the stock as required this will only be fully realised in the middle period of the business plan i.e. beyond the first 10 years.

3. <u>Future national rent policy (rent convergence) and increases in formula rent</u>

3.1 There are two issues. National rent policy is about social rents going up by more than inflation to better reflect the cost of providing the service and keeping the national stock in decent condition. Locally, because of historical decisions taken by both political groupings about not putting rents up in line with national policy we are now 10.2% behind the formula and the £60-£65M (£60m to government and £5m for maintaining the stock) we will have to borrow is predicated on the assumption that we will catch up with formula within the next four years.

3.2 Therefore our future rent policy is not only about rents going up above inflation in line with formula but also about catching up.

3.3 Because the annual national formula increase is based on the RPI inflation rate in the preceding September (this year it was around 5.2%) plus 0.5% plus 2.6% (catch-up amount) we know that next year's average guideline rent increase will be in the order of £5.46

3.4 Because the costs of running the service are relatively low and that we have kept a modest but steady stream of investment into the stock over the last 25 years or so we have been able to maintain service levels in recent years despite not having the full government assumed income. The 2009 stock condition survey though and the investment identified within it means that this position of operating consistently below formula rent whilst keeping properties at the decency standard is now unsustainable.

3.5 The current national policy is that all social housing tenants should be at formula rent within four years, a process known as rent convergence. A fundamental of rent convergence is that housing association and council rents should be broadly the same in the same area for the same quality of product /property offered. The target timescale has moved year on year to reflect general economy inflationary factors. However the difference this year is that the HRA settlement is happening this year which will fix the convergence in terms of local business modelling at the next four years.

3.6 If we were to apply the catch up needed to get formula rent all in one go our rents would need to go up next year by £10.67 to get to the average 2012 predicted formula rent of around £75.21.

4. Housing benefit

4.1 Increasing rents is inevitably an emotive topic. It needs to be weighed carefully against the main spending requirements which will be investment in the stock and repaying debt.

4.2 An increase in gross rent though is only paid in full by less than half of the tenants. Currently 65% of a total 3,043 tenants are in receipt of full or partial housing benefit. 44% of all tenants currently pay no rent.

5. Investment needs of the housing stock

5.1 The stock condition survey assessed what the council would need to spend overall in the next 30 years to maintain its homes.

5.2 The total cost of this work was assessed as being £108.5m (an average of £3.6m a year). This cost included the necessary catch up repairs identified, cyclical and future major works and improvements in line with possible government expectations.

5.3 Since the time of the survey, the information has been updated on an on-going basis following works carried out during 2009-10 and 2010-11. In addition the council undertakes a 10% annual re-inspection to ensure that the information remains valid and up-to-date.

5.4 A summary of the figures from the survey is as follows:

	Catch up repairs £'000	**Major works £'000**	**Contingent works £'000**	**Improvement and related assets £'000**	**Total £'000**
Years 1 to 5	1,440	18,607	1,304	2,115	23,466
Years 6 to 10	-	15,932	1,304	395	17,631
Years 11 to 15	-	13,125	1,304	754	15,183
Years 16 to 20	-	13,342	1,304	175	14,821
Years 21 to 25	-	16,121	1,304	253	17,678
Years 26 to 30	-	16,611	1,304	1,757	19,672
Total	**1,440**	**93,738**	**7,824**	**5,449**	**108,451**

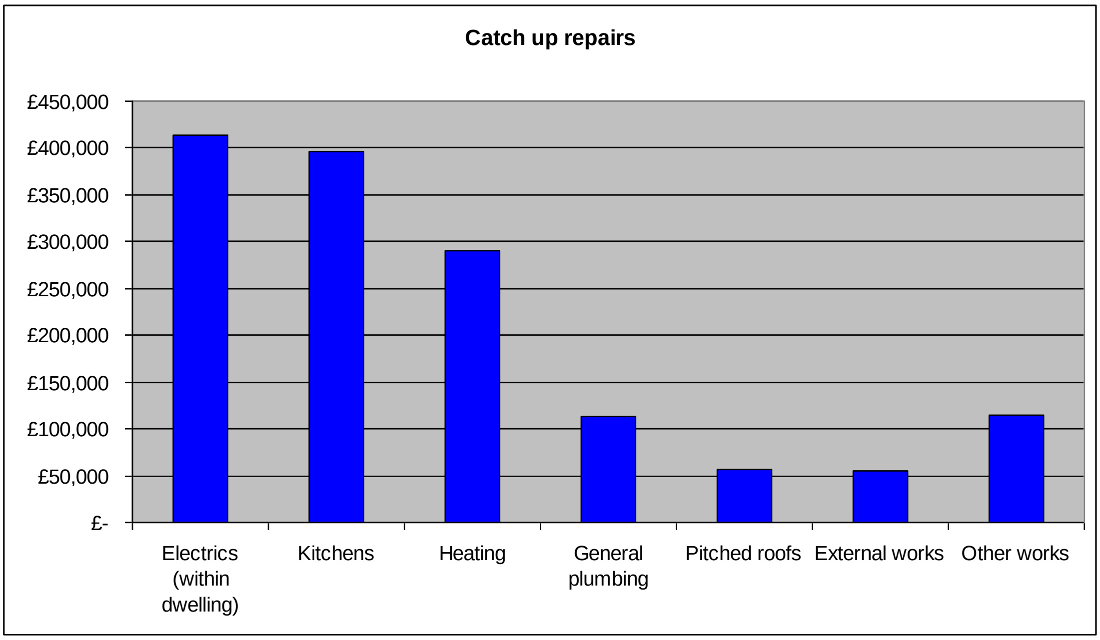
5.5 The repairs categories above can be summarised as follows:

- **Catch-up repairs** are the backlog of repairs needed to make good observable defects in a dwelling. These are usually works which ought to have been done in the past under cyclical or responsive repairs or where planned maintenance has not been carried out
- **Major works** are replacements or major overhauls necessary once catch-up repairs have been completed
- **Contingent repairs** are works which could be reasonably anticipated but for which there is no direct evidence of a problem in the properties concerned
- **Related assets** are repair works connected to the related assets of estates, such as those to garages or unadopted roads
- **Improvements** are defined as works which increase the standard of accommodation either by providing something which did not exist, or upgrading an element to be replaced

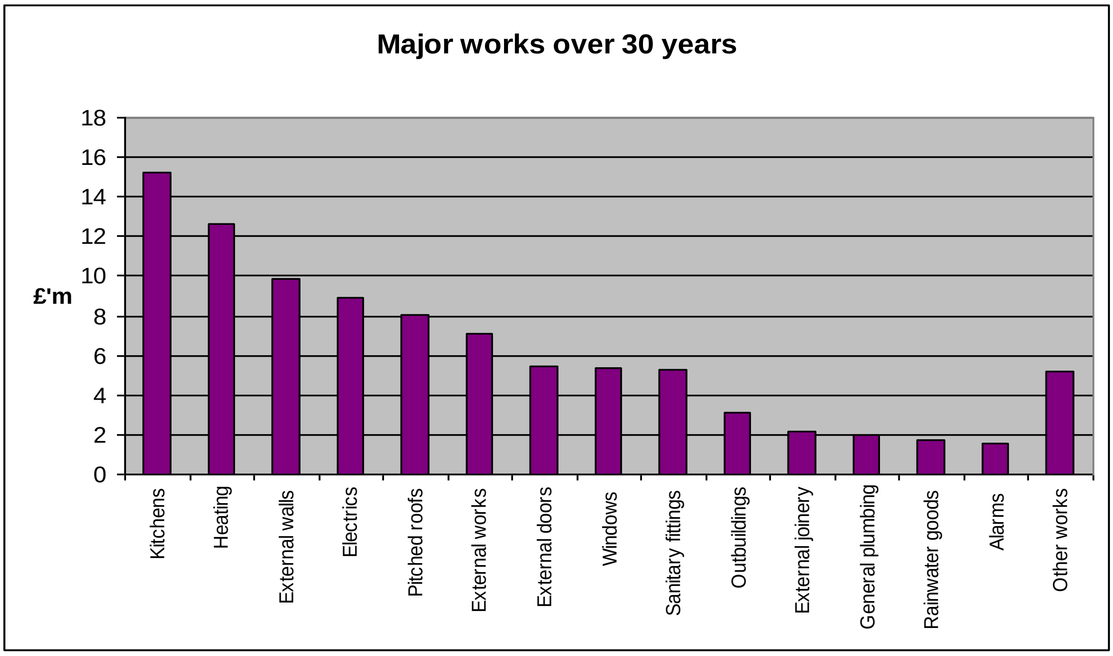
5.6 The figures from the survey are at 2009 prices and do not include allowances for any inflation after July 2009, fees, management charges and any costs of decanting tenants where this should be required. Prices have not been formally uplifted to a 2011 base as external advice and in-house tendering experience has been that contract rates have not increased in this period.

5.7 Within each category the stock condition survey gave some detailed information as to what work was assessed as being required on particular elements.

5.8 In respect of catch-up work the split of the £1.44million assessed as being outstanding is as below:



5.9 Planned major works, based on the survey, over the 30 year timeframe is focussed as follows:



5.10 There may be additional areas where work needs to be done including water services, drainage, drives and pathways.

5.11 All windows are now double-glazed but there are some places where work is now required on the frames. An emerging issue is that some of the windows and doors are now 20 or so years old and construction standards have improved to the extent that energy efficiency could be significantly improved in some properties if we upgraded the current double-glazed units. This though is not costed in the current proposals.

5.12 Key tenant priorities have not really changed over time and remain as new kitchens, bathrooms and heating systems. The consultation with tenants as part of the Business Plan's preparation has also highlighted some demand for environmental and parking improvements. The provision of showers was also included within the plan which are currently a non-standard item. The plan asked the question for how much longer can we expect tenants to have to run a bath which more costly in terms of time, energy and water usage?

5.13 The Council owns 52 garage sites. All are in need of some repair. A mixed programme of sale, refurbishment and redevelopment had been worked upon in 2008. The idea was that capital receipts from the sale of some would be used to reinvest in remaining sites. The depression in the construction sector has meant the market for sites has fallen away and that few of our sites are currently likely to attract meaningful capital sale income. Expenditure will need to be found for these sites.

6. Other costs

6.1 The three cost areas within the HRA are, in the following order: repairs and improvements - £5m; the payment to government - £4m (to be replaced with interest payments) and then the cost of running the service - £1.3m (including Corporate on-costs).

6.2 The Housing Service is part of a national benchmarking club called "Housemark". Benchmarking our staffing costs against the 400 plus Housemark members indicates that our current costs are low across the board and in some places very low.

6.3 Despite already low staffing costs the HRA staff bill has been reduced by approximately £200,000 in the last six months. There is always the potential for further restructurings and reorganisations but it is difficult to see where further savings can be delivered without substantially affecting service delivery.

6.4 The Housing Service is about to commission an external benchmarking review of its in-house responsive repairs service. In the last review in 2006 it was found that the in-house service provided good value.

7. Other income

7.1 Other income into the HRA (i.e. non-house rent) is over £700,000 annually. This is a combination of garage rents and income into the Sheltered Housing service both from the County Council and self-funders. There is significant pressure from the County to reduce their commitment which is likely to lead to reduced income.

7.2 Our average weekly garage rent is £6.91. We don't offer a quality product for this and there is no potential to increase income in this area without first investing in the product on offer.

8. Moving forward on a rent income policy.

8.1 The HRA business needs to have a predictable income and expenditure portfolio to be able to properly plan for the future.

8.2 All the different variables, other than rent, have already been assessed. If we want to keep service levels at the same level and maintain properties to a decent standard then rents need to go up, at least, in line with formula rent.

8.3 The issue then becomes how do we move to formula rent? On the one hand this will hit a number of households who are already on low incomes, on the other hand those on the very lowest incomes will be protected under current housing benefit rules i.e. they won't pay any increase or only a proportion of it for those on partial benefit.

8.4 The sooner we move to formula rent the quicker we put the HRA on a firmer financial footing but this needs to be combined with the effect of the increase on the tenants themselves, albeit a minority not in receipt of housing benefit.

8.5 If we were to move to formula rent in one go next April this would mean an average increase of around £10.67.

8.6 A possible way forward in terms of limiting the effect of the increase would be have a flat rate percentage increase in rent with an actual cash cap. Therefore it may be possible to have a rent policy that seeks to move all rent to formula within four years and that the initial percentage catch-up target is at 6% in year one and 2% per annum in the subsequent three years but to limit the actual cash increase at an agreed amount for individual households.

8.7 If rents caught up to formula at this rate next year's rent could be cash limited at say £7 per week.

8.8 There is though a cap ceiling within the annual formula which if we go beyond there may be a reduction in housing benefit subsidy, although this would not be the full amount by which the cap was exceeded. More work is needed on estimating the reduction in subsidy in these circumstances.

8.9 Another option would be to apply the formula increase and hold the increase at the capping level which would see the average rent rise by £5.70 a week.

8.10 A number of alternative models could be explored to seek to minimise the effect on individual households.

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