DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	HOUSING REVENUE ACCOUNT SELF-FINANCING: REFORM OF COUNCIL HOUSING FINANCE
DATE OF DECISION:	24 OCTOBER 2011 16 NOVEMBER 2011
REPORT OF:	CABINET MEMBER FOR HOUSING

STATEMENT OF CONFIDENTIALITY
None

BRIEF SUMMARY

This paper provides information on the new national regime for council housing finance, (Housing Revenue Account Self Financing), the impact on Southampton and the work that is underway to prepare for the new system to start from April 2012. It is the first of three reports that will be presented on this matter. The others will be the budget report in February 2012, which will be the main report containing the financial detail and the outturn report in July 2012, which will include information on the final implementation actions at the end of 2011/12.

This report is therefore the first stage in the development of the full 30 year business plan as required under the new arrangements. It presents the best information currently available for the period to 2015/16 so that a cautious provisional assessment can be made of the capital spending that could be undertaken in that period. This will enable work to commence on the design and procurement of some of the capital schemes for that period. The capital programme for 2011/12 to 2015/16 is attached at Appendix 1. The full 30 year plan will be presented in February 2012.

The report also seeks approval to

- Some key principles that will underpin the business plan;
- Some delegations that are necessary to ensure the smooth implementation of the new regime.

RECOMMENDATIONS:

CABINET

(i) To consider and agree the recommendations to Council

COUNCIL

1. It is recommended that the following principles are agreed to underpin the development of the full 30 year Housing Revenue Account (HRA) business plan;

(i) For rents

- Rent increases will follow Government rent policy (rent restructuring) so as not to disadvantage the business plan.
- From 2 April 2012, all new tenants will be charged the full target rent for the property they move into
- From 2 April 2012, the target rent for houses be increased by

5% and the target rent for flats reduced by 2.9% so that there is no change in the average target rent for the HRA as a whole subject to a full financial assessment of the impact on tenants and the business plan being considered as part of the budget report in February 2012.

(ii) For service charges, from 2 April 2012:

- All existing service charges will be recalculated to ensure that the charge is linked directly to the cost of the service provided.
- The charge will endeavour to meet the principle of full cost recovery, with any exceptions being agreed as part of the budget report in February 2012.
- Charges will then go up (or down) each year based on the actual cost of the service giving residents greater transparency and control over what they pay for a service.
- That delegated authority is given to the Senior Manager for Housing Services, following consultation with the Cabinet Member for Housing, to approve the annual revision to service charges within the policy parameters agreed by Council.

(iii) For garages and parking spaces, from 2 April 2012:

- Garages and car park spaces charges will increase each year by RPI + ½% i.e. in line with target rents.
- These charges will be reviewed every 2 years to ensure they are comparable with other landlords.
- A reduced rent incentive of 50% for 6 months will be introduced on garages where there is a need to increase usage.
- That delegated authority is given to the Senior Manager for Housing Services, following consultation with the Cabinet Member for Housing, to decide where to apply the rent incentive and also to approve the annual revision to charges for garages and parking spaces within the policy parameters agreed by Council.
- Plans will be implemented to remove the lockable posts from parking spaces in Housing ownership in the City centre.

(iv) For the borrowing headroom:

- A proportion of the headroom will be retained as a reserve / contingency for any unforeseen or high risk / short term issues that need to be supported.
- Some funding will be allocated on an "invest to save" basis so that there is a payback of capital over a period.
- Some funding is allocated to "cash flow" estate regeneration initiatives where expenditure on relocating tenants and preparing for redevelopment takes place before the capital

receipts are received from the sale of the sites.

(v) For treasury management:

- The Council adopts the two loans pool approach for long term debt.
- Existing long term debt (at 16 November 2011) is split between the HRA and General Fund (GF), with this split ensuring there is no adverse impact on the GF.
- All long term loans raised after 16 November 2011 are allocated into either the HRA or GF pool.
- That delegated authority is given to the Chief Financial Officer "To increase the limits set in the annual treasury management strategy by the sum notified to the Council that it needs to pay to CLG under HRA reform and to take all decisions needed to borrow this sum before 26 March 2012".
- For the purposes of preparing the current business plan, the maximum average debt per property should be set by reference to the projected HRA debt outstanding at 31 March 2012 and stock level used in the final debt settlement (currently estimated at £10,400). Average debt levels per property over the life of the business plan should not exceed this level.
- The full 30 year business plan should aim to make provision for the repayment of all HRA debt by the end of the plan.

2. It is recommended that the capital programme for 2011/12 to 2015/16 as set out in Appendix 1 is approved

3. To note that the implementation of the new system will require the HRA to borrow an estimated £70M in order to make the payment to CLG in March 2012.

REASONS FOR REPORT RECOMMENDATIONS

1. To enable preparation of the 30 year Housing Revenue Account (HRA) business plan and to ensure proper arrangements are in place for the implementation of the new financial regime for Council housing,

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The introduction of the new financial regime is a legislative requirement. It will start on 1 April 2012 assuming that the Localism Bill receives Royal Assent in time. The capital spending plans set out for 2011/12 to 2015/16 are consistent with the priorities approved in the HRA outline business plan approved by Council in July 2011. The recommendations for the key principles that underpin the detailed business plan could be varied but the ones recommended are considered best for the long term viability of the HRA and also to protect the General Fund (GF) from any adverse financial impact from the borrowing that needs to take place.

DETAIL (Including consultation carried out)

<u>Background</u>

3. In the budget report in February 2011 it was noted that it may be necessary to make a special report on the implications of the new system during the summer and to further update capital spending plans for 2012/13 and subsequent years at that time. This report provides this information.

4. The Housing Revenue Account records all income and expenditure in relation to the provision and management of Council owned homes in the City.

5. A key feature of HRA finances is the HRA Subsidy system, the legal basis for which can be found in the Local Government and Housing Act 1989. Whilst there have been changes to the system over the years, the main principle is that every year the Government assesses:
   - The rental income we should receive;
   - The money we should spend on managing and maintaining the stock; and
   - The interest we pay on the debt it thinks we have.

   These assessments are not finally notified to us until late December / early January and take effect from April each year. The actual income and expenditure will be different from the national assessments but the subsidy payments are based on the national assessments.

6. Where the Government's assessment of income exceeds the assessment of expenditure councils have to pay money to the Department for Communities and Local Government (CLG) (often referred to as negative subsidy) the reverse also applies. In 2011/12, we are budgeting to pay £7.6M to CLG (or 12% of our turnover) in negative subsidy. If the subsidy system remained in place the negative subsidy payments would have continued to rise in future years.

7. Over the years there has been a steady decline in the number of councils receiving money from CLG and an increase in those paying money to CLG to the extent that nationally, CLG receive more than they pay out. This has often been referred to as the "hidden tax on tenants". As a result many councils and tenants have long been seeking a change to the system.

8 The Government therefore started a review of HRA finances back in 2008. The aim of the review was to *"develop a sustainable, long term system for financing council housing that is consistent with wider housing policy and fair to both tenant and taxpayer"*. There were 4 workstreams for the review:
   - Costs and standards of social housing;
   - Rents and service charges;
   - Rules governing the HRA and capital receipts; and
   - HRA subsidy.

<u>Latest position</u>

9. The latest proposals for reform were published in February 2011. The main thrust of the proposals is that councils who currently pay money each year to CLG will make a single payment to CLG to buy their way out of the subsidy system. The few councils currently receiving annual payments from CLG will receive a single payment to end CLG's support to them. The aim is that the new system starts from April 2012, subject to the Localism Bill receiving

Royal Assent in time. ***It is not an optional scheme.***

10. The February paper from CLG advised us that we would need to make a single payment of £64M to CLG. Our latest assessment, using the methodology set by CLG, is that the payment will be circa £70M. This is because the Retail Price Index (RPI) is higher than expected when the forecasts were prepared by CLG in February. More information on the sum due will be available in November, with the final number notified to us in January 2012***. The HRA will therefore need to borrow in the region of £70M in order to make the payment to CLG.***

11. Other key features of the new system are:
    - There will be a cash cap on total HRA borrowing. It is currently estimated that we can borrow up to £21.7M more before we reach our debt cap. This is an absolute level of debt cap.
    - 75% of all Right-To-Buy sales proceeds will continue to be paid to CLG, but the Council will be able to retain 100% of all other HRA disposals, subject to them being used for affordable housing or regeneration.
    - Current national rent policy will continue, which means that rents will increase by at least RPI plus 0.5% pa (and more in the short term as council rents are increased up to housing association levels by 2015/16).
    - There will be a limit on the maximum average rent level that the Council can set in any year if it wants the costs of housing benefit for Council tenants to be met in full by Government.
    - The Council's current borrowing needs to be split between the HRA and General Fund, with all new borrowing being allocated to one account or the other. This is essential to avoid any initial adverse impact on the General Fund and to facilitate different approaches to treasury management in the future.
    - The Council will be required to establish an outline 30 year business plan with a more detailed 5 year business plan (investment plans) to manage the income and investment in Council stock. The decent homes standard will be retained as the minimum standard that Council homes should be maintained to.
    - Within the HRA, the introduction of a depreciation calculation will place restrictions on the use of some of the HRA's capital resources.
    - Demolitions approved by 31 August 2011 will be excluded from the debt calculation, but consideration of any disposals after that will need to recognise that the average debt level per dwelling will be circa £10,400.
    - ***The HRA ring-fence is retained unchanged and will continue to be subject to audit***. The rules that govern the operation of the ring-fence were outlined in the Local Government and Housing Act 1989 and in circular 8/95. Expenditure from the HRA is determined to be linked directly to the landlord function provided by the Council to its tenants. The ring-fence gives scope for support to spending that 'benefits' Council tenants providing the justification for the spend is clear and is not expenditure which would ordinarily be met from the

General Fund.

- The new system is more transparent, enabling improved accountability to tenants and giving the opportunity for more meaningful involvement in decision making. Indeed the regulatory code from the Tenants Services Authority outlines the role that tenants should play in scrutiny of a landlord's services.

Advantages and risks

12. The new system will bring a number of advantages as well as some new risks.

13. A major benefit of the new system is the ability for councils to now undertake long term planning for their business without being subjected to the vagaries and uncertainties of the annual subsidy settlement. This will give a framework for more active housing investment strategies, securing procurement opportunities, generating new income streams and the potential for the Council to develop new dwellings for itself. It will also be seen by tenants as a much 'fairer' system as they will see the rents they pay in Southampton spent in Southampton.

14. There are new risks that need to be managed. By far the biggest risk is the exposure to changes in interest rates which can be mitigated by treasury management strategies linked to prudent business planning. In addition, CLG has the ability to reopen the settlement and there remain risks from fundamental changes in national housing policy rendering business plans unviable.

15. A major feature of the new system is the requirement for long term business planning. Long term business planning (5 years and 30 years) is not only possible but is essential to the successful long term implementation of the new financial regime. It will therefore be essential that short term considerations do not undermine the long term financial viability of the HRA as the Council will retain responsibility for the management of the HRA to ensure its homes can continue to be maintained for current and future tenants.

Key principles for use in developing the business plan

16. In order to develop the business plan it is important to establish some key principles that can be used to underpin the plan. These principles will be used to develop the detailed business plan that will be presented to Cabinet and Council in February 2012. There should be regarded as firm commitments for the foreseeable future to protect the integrity of the business plan.

17. The principles cover a range of matters set out below.

Rents

18. In calculating the debt settlement CLG have assumed that current Government policy for setting rents continues. This is known as rent restructuring, which means that rents for all council owned dwellings will gradually increase to match the current social rent levels currently charged by Housing Associations. The Council is not required to increase rents to the proposed new affordable rent levels which can be set at up to 80% of

market rents.

19. Under this formula, the inflationary increase is determined by the Retail Price Index for September. The formula requires the addition of a further 0.5% plus an element for converging with Housing Association rent levels. The date for this convergence is 2015/16. The rules also require that the rent convergence component of the increase for each dwelling should not exceed £2.00 per week. The Council has followed this rent policy since it started in April 2003.

20. **It is recommended that rent increases will follow Government rent policy so as not to disadvantage the business plan.**

21. There are also other features of the national rent restructuring framework that have previously been discounted but now need to be reconsidered under self-financing.

22. The arrangements set out in paragraphs 18 to 19 above, do not need to be applied when a new tenant occupies a property (a transfer or mutual exchange is not treated as a new tenant). In these circumstances it is open to the Council to decide whether the new tenant should be immediately charged the full target rent. On average, target rents are £5.47 above current rent levels so adopting a policy of charging all new tenants the target rent would increase income to the HRA in the short term and result in more properties reaching the target rent by 2015/16. There is no long term benefit as all properties will eventually reach the target rent. There is also the risk that the overall average HRA rent level might exceed the maximum average rent level that the Council can set in any year if it wants the costs of housing benefit for Council tenants to be met in full by Government. The initial assessments show that this is very unlikely to occur, but it will need to be kept under review each year.

23. Under the subsidy regime, there was no advantage in adopting this policy because any additional funding raised would have increased the subsidy payment to CLG. Under self-financing the extra revenue would be retained in the HRA. The additional revenue in 2012/13 is provisionally estimated at £100,000, which can be used to support further investments in tenants' homes and the services we provide. This has not been included in the current business plan. It is proposed that the final sum will be confirmed and included in the February 2012 budget report.

24. **It is recommended that from 2 April 2012, all new tenants will be charged the target rent for the property they move into.**

25. The rent restructuring policy also allows for individual target rents to be increased or reduced up to 5% as long as the overall average rent does not change. When the Council adopted rent restructuring in 2003 it was decided, following consultation with tenants at that time, not to make any such adjustment. Over the years since then however, there has been a growing view that the differential between flats and houses is not large enough, particularly when the service charges for flats are taken into account.

26. To respond to these issues, the Council intends to utilise the 5% 'tolerance' to uplift the rent for houses in the City to recognise their 'value' to residents.

Rents for flats would therefore be decreased to achieve the same overall average rent. This will ensure there is a suitable variation between the rent for a flat and a house of the same size. This does not generate the Council any additional income as the overall average rent we charge cannot vary.

27. **It is recommended that from 2 April 2012, the target rent for houses be increased by 5% and the target rent for flats reduced by 2.9% so that there is no change in the average target rent for the HRA as a whole, subject to a full financial assessment of the impact on tenants and the business plan being considered as part of the budget report in February 2012.**

Service Charges

28. Over recent years the link between costs and income for individual service charges has been eroded. This position needs to be corrected so that service charges levied are linked to budgeted costs each year.

29. **It is recommended that from 2 April 2012:**
    - **All existing service charges will be recalculated to ensure that the charge is linked directly to the cost of the service provided.**
    - **The charge will endeavour to meet the principle of full cost recovery, with any exceptions being agreed as part of the budget report in February 2012.**
    - **Charges will then go up (or down) each year based on the actual cost of the service giving residents greater transparency and control over what they pay for a service.**
    - **That authority is given to the Senior Manager for Housing Services, following consultation with the Cabinet Member for Housing, to approve the annual revision to service charges.**

30. This report does not propose the introduction of any new service charges. This will be considered as part of the budget report in February. There are two approaches to implementing new service charges. Where the charge relates to a new service then it is possible to add the full cost of the new service to the rent. If the service charge relates to an existing service then the dwelling rent for those tenants affected by the new charge is reduced by the same value as the new service charge. This means affected tenants will not pay any more in the first year. Once implemented, the annual review of these charges would follow the same arrangements set out above.

Other charges

31. The other charges relate to the charges for garages and parking spaces. In the past different approaches have been adopted to setting these charges. Plans are also being developed in partnership with Highways to remove parking spaces from Housing ownership as it is not cost efficient for Housing to continue to manage these spaces and the lockable posts currently used are considered an eyesore in the City centre.

32. **It is recommended that from 2 April 2012:**
    - **Garages and car park spaces will increase each year by RPI + ½% i.e., in line with target rents**
    - **These charges will be reviewed every 2 years to ensure they are**

comparable with other landlords.

- **A reduced rent incentive of 50% for 6 months will be introduced on garages where there is a need to increase usage.**
- **That authority is given to the Senior Manager for Housing Services, following consultation with the Cabinet Member for Housing, to decide where to apply the rent incentive and also to approve the annual revision to charges for garages and parking spaces.**
- **Plans will be implemented to remove the lockable posts from parking spaces in Housing ownership in the city centre.**

Borrowing Headroom

33. The new financial regime will replace the current prudential borrowing arrangements for the HRA with an absolute cap on the level of debt that the HRA is allowed to have outstanding. The current assessment of the level of the cap is that the HRA would be able to borrow up to £21.7M more than the projected debt level at 1 April 2012.

34. Careful consideration needs to be given to the use of this headroom. Three potential uses of the headroom are envisaged, although at this stage the £21.7M has not been divided between them.

35 **It is recommended that:**

- **A proportion of the headroom will be retained as a reserve / contingency for any unforeseen or high risk / short term issues that need to be supported.**
- **Some funding will be allocated on an "invest to save" basis so that there is a payback of capital over a period – for example on installing PV cells to blocks of flats to benefit from feed in tariffs or other similar initiatives.**
- **Some funding may be allocated to "cash flow" estate regeneration initiatives where expenditure on relocating tenants and preparing for development takes place before the capital receipts are received from the sale of the sites.**

Treasury Management / Debt Management

36. As noted in paragraph 14, treasury management becomes a major issue for the HRA under the new regime. Under the current subsidy system the HRA is insulated from changes in interest rates as any increase or reduction in interest costs was fully compensated for in the subsidy system. In the future, increases or reductions in costs will directly impact on the HRA. It will therefore be necessary to develop a specific treasury management strategy for the HRA and also to make prudent provision for interest costs in the business plan.

37. It is also necessary to reconsider some technical aspects of the Council's current treasury and debt management arrangements. Currently all long term loans raised by the Council are placed in a single "pool" with the HRA and GF charged an average interest rate of all the borrowings. This approach is common amongst local authorities and it has long been recognised that if this

arrangement was maintained after April 2012 then:

- The average interest rate would rise in 2012/13 as the new borrowings that are specifically for the HRA will be at higher rates than current borrowings; and
- There will be different business considerations in the future as the HRA will be required to plan its business over a 30 year period.

38. This issue has been the subject of review at a national level and the new preferred approach is for councils to adopt a "two pool" approach, one for the HRA and one for the GF. All new borrowings would be charged to one of these pools and decisions on the type and period of the borrowing can be made in the context of their respective business needs. The costs of the estimated £70M that the HRA will need to borrow will be therefore be fully charged to the "HRA pool".

39. The other issue this raises is how best to split the existing debt between the two new pools. A key principle is that there should be no detriment to the GF. It is considered that the best approach would be to split all existing long term borrowing as at 16 November 2011 between the HRA and GF, with all borrowing after this date being allocated to either the HRA or the GF. The Council's treasury advisors have been asked to recommend how best to make the split of the existing loans to ensure there is no detriment to the GF.

40. No changes are proposed to the short term cash management arrangements and it is not necessary to consider matters like separate bank accounts etc. The Council will also retain a single firm as treasury advisors.

41. **It is therefore recommended that:**

- **The Council adopts the two loans pool approach for long term debt;**
- **Existing long term debt (at 16 November 2011) is split between the HRA and GF, with this split ensuring there is no adverse impact on the GF; and**
- **All long term loans raised after 16 November 2011 are allocated into either the HRA or GF pools.**

42. The Council's long term borrowing strategy is set out each year in the "Annual Treasury Management Strategy and Prudential Limits report". The authority to make decisions on long term borrowing is provided for in delegated power 7.1.12, which enables the Chief Financial Officer *"To take all and any decisions necessary or required to be taken by an officer of the Council in relation to the Council's Treasury Management activities and to authorise all officers within the Finance Division to undertake operational Treasury Management activity consistent with those decisions and the Annual Treasury Management Strategy"*

43. The "Annual Treasury Management Strategy and Prudential Limits report" was last presented to Council in February 2011. That report specifically noted that no allowance had been made for the additional borrowing that would arise from HRA reform, due to the uncertainty over the timing and amounts to be borrowed.

44. The HRA will need to borrow substantial sums (currently estimated at £70M) no later than 26 March 2012. Most of the Council's borrowings are from the Public Works Loans Board (PWLB). It has been announced that special lower PWLB rates will be available between a date yet to be specified in January and 26 March. In order to secure the best treasury management arrangement for this borrowing it is essential to ensure that the delegated power above can be utilised to decide the best borrowing arrangements for this payment.

45. **It is therefore recommended that delegated authority is given to the Chief Financial Officer "To increase the limits set in the annual treasury management strategy by the sum notified to the Council that it needs to pay to CLG under HRA reform and to take all decisions needed to borrow this sum before 26 March 2012".**

46. In the future, one of the key measures of debt management will be to ensure that the average debt per property does not increase unless there is a positive decision to this effect and the HRA business plan demonstrates that this is affordable. This would mean that as dwellings are sold or demolished, provision needs to be made to repay the debt associated with those properties. This average debt level would be established each year as part of the treasury management strategy. CLG also expect that the HRA business plan will provide for the repayment of all HRA debt over the life of the plan.

47. **For the purposes of preparing the current business plan, it is recommended that the maximum average debt per property should be set by reference to the projected HRA debt outstanding at 31 March 2012 and the stock level used in the final debt settlement. Average debt levels per property over the life of the business plan should not exceed this level (currently estimated at £10,400). The full 30 year business plan should aim to make provision for the repayment of all HRA debt by the end of the plan**

Capital Programme 2011/12 to 2015/16

48. The capital programme for 2011/12 to 2015/16 is attached at Appendix 1. This now utilises the main priority headings approved by Council when it approved the outline HRA business plan in July 2011. The sums available for spending in each year have been assessed on a cautious basis, as it is important that an affordable spending programme is agreed at this time so that design work and procurement can proceed in order to avoid a slow down in spending in the early part of 2012/13. The spending shown is at outturn prices i.e. allowing for inflation.

49. A final assessment of spending levels will be included in the report to Cabinet and Council in February 2012, when the spending plans can be updated to reflect the revised level of resources. Key features of the new programme are set out below.

Safe, wind and weather tight

50. Spending has been prioritised to ensure that the properties that the Council are responsible for are maintained to ensure they are safe for residents to live in and the overall structural integrity is maintained. This programme ensures

that roofs are replaced as needed, all properties in the City have double glazed windows, electrical systems are safe and can accommodate modern demands, and properties are structurally sound. This programme specifically includes provision to replace walkways to supported housing schemes such as the scheme recently completed at Bassett Green Court.

<u>Warm and energy efficient</u>

51. The Council recognises that with increasing utility bills it is vitally important to support our tenants by undertaking improvements to their homes that helps them save money on the basics of heating and lighting. A warm and comfortable home also contributes significantly to the wider health of our residents in the City. This programme provides insulation to some of our most needed properties such as tower blocks, some blocks of flats and our Pre-cast Reinforced Concrete (PRC) houses. We are also developing a programme to install more energy efficient lighting and controls for communal areas in our flats to help drive down electricity bills for tenants. This programme also specifically provides for the removal of over 5,000 tenants from the current landlord heating system to give the control and choice over heating their home back into the hands of our tenants.

52. This section of the programme will also be enhanced by the use of some of the borrowing headroom in order to facilitate further energy efficiency measures, particularly those that enable the Council to access matched funding through schemes such as green deal and FIT.

<u>Modern Facilities within the home</u>

53. We want our tenants to be able to live in good quality modern homes with facilities that are up to modern standards. This programme supports the installation of new kitchens and bathrooms across the City based on the current assessment of need. We will also be ensuring that all homes with gas central heating have modern boilers by removing all back boilers and upgrading systems as necessary. We will also ensure that our homes can continue to meet the needs of our older residents by continuing to provide disabled adaptations as required, as well as updating bathrooms in some of our supported schemes with modern shower facilities.

<u>Well maintained communal facilities</u>

54. We will also continue with our programmes for investment in the areas outside our tenants' front doors. This will include refurbishing our lifts in our tower blocks and supported schemes as needed, upgrading door entry systems and improving the communal hallways and common areas of our supported schemes and blocks of flats. We will specifically maintain our commitment to the ongoing programme of Decent Neighbourhoods improvements to improve the open spaces around our homes.

<u>Estate Regeneration</u>

55. The programme includes provision for all approved schemes, including the master planning for Townhill Park. It is important that the future HRA capital programme makes provision for estate regeneration in Townhill Park as well as other areas of the City. The best financial model for doing this is being considered as part of the current master planning for Townhill Park. The

consultants brief includes the following requirement:

There will be a detailed investment cashflow model which sets out very clearly a viable decant, disposal, redevelopment and refurbishment programme. Cashflows will be produced which show anticipated Council income and expenditure in phases, and a viable cashflow developed which ensures that the Council enabling costs are kept to a minimum at the early stages of the project, with capital receipts paying for the latter stages of Council enabling expenditure. It is anticipated that the investment model and development approach will be rolled out to other priority regeneration areas.

56. It is anticipated that the final report will be submitted to Cabinet in March 2012. However, the draft financial model will be available in December 2011 to assist with informing the February budget report. This will be crucial in determining the financial impact on the HRA of future schemes, as these will now need to be assessed over the 30 year life of the plan

57. The value of HRA land for redevelopment as part of Estate Regeneration is fundamental to the HRA Business Plan for the purposes of future planning for estate regeneration. Housing density is an important element which informs the value of land for residential use. There is also the need to unlock value through better use of space and good urban design. The aim of estate regeneration is to transform neighbourhoods as part of a wider commitment of delivering sustained economic growth and tackling deprivation on Southampton's Council estates and this includes maximising the number of new homes, including family homes, as part of the re-development. In other words demolishing low density schemes and redeveloping at a higher density. The ability to move to develop at high density on estate regeneration sites (incorporating high quality design and recognising site conditions) would have a significant impact on the value of HRA land and contribute positively to HRA Business Plan.

58. With such significant issues under consideration a sum of £2.5M per annum for 4 years (£10M in total) has been included in the current capital programme. This will be updated for the next report in February 2012. This represents a significant contribution from the HRA but estate regeneration is not limited to HRA and dwellings but involves the comprehensive regeneration of a neighbourhood. The General Fund will also therefore need to consider how it can contribute to this important corporate initiative.

59. **It is recommended that the capital programme for 2011/12 to 2015/16 as set out in Appendix 1 is approved.**

Social Housing Reform

60. Alongside the changes to Council Housing Finance, the Council is currently considering the implications of Social Housing Reform proposals which are currently part of the Localism Bill passing through Parliament. The most significant impact of the reform will be that from April 2012, councils will be able to offer fixed term tenancies as well as full secure tenancies (sometimes referred to as tenancies for life). This will allow the Council in certain circumstances, to grant a five year tenancy that will be subject to review. In order to introduce such tenancies, the Council will be required to set out a strategic policy for tenancies and it will also necessitate changes to the

current allocations policy. Work is now underway to consider the implications and the opportunities of the reform with a view to bringing recommendations concerning changes to tenancy and allocation policies to Cabinet in early 2012. In principle, the Council will be seeking to utilise the changes to enable it to make the best use of its housing stock in the future, provide flexibility to support residents into training and employment, and support ongoing work to ensure that tenants look after their home. It is anticipated that the changes will have some impact on the overall HRA business plan and these will be assessed and reported in future reports to Cabinet.

<u>Consultation</u>

61. In May 2011, the Council held a workshop attended by over 50 already involved residents. As part of this workshop detailed discussions were held and views sought on what type and level of investment tenants were looking to see as part of the new self funding proposals. In general terms, residents were very keen to see:

- Funding provided to ensure their homes are maintained to a good standard;
- Significant priority was attached to work that would improve the energy efficiency of their homes;
- Tenants wanted to continue to receive new kitchens and bathrooms at a reasonable frequency;
- Continued investment in the neighbourhood areas; and
- A commitment to building new homes.

62. Over the summer period consultation was undertaken with tenants in Townhill Park about the potential opportunities for regenerating the area and building new homes. This consultation received very positive support from the whole community.

63. In October, the Tenants' Resources Group received a presentation on the outline business plan and had the opportunity to raise comments and questions. This dialogue will continue over the next few months as the arrangements for self-financing are finalised.

64. The proposals in this paper have been discussed at the Management Board of Directors and various officers have been involved in the preparation of this report. Briefings have also been arranged with the Group Leaders and Housing Spokespersons as well as the Chair of Overview and Scrutiny Management Committee. All members of the Council have also been invited to a similar briefing before this report is considered at Cabinet.

RESOURCE IMPLICATIONS

<u>Capital/Revenue</u>

65. This is the first of three reports that will be presented on the new financial regime for the HRA. The others will be the budget report in February 2012, which will be the main report containing the financial detail; and the outturn report in July 2012, which will include information on the final implementation actions at the end of 2011/12.

66. This report does not therefore seek to present a full 30 year business plan. This will be included in the budget report in February 2012. It does however, present the best information currently available for the capital funding plan for the period to 2015/16 so that a cautious provisional assessment can be made of the capital spending that can be undertaken in that period. This will enable work to commence on the design and procurement of some of the capital schemes for that period.

67. The proposed capital programme is attached at Appendix 1. This shows annual spending for the period 2012/13 to 2015/16 averaging over £30 pa. This is substantially greater than the programmes that might have been possible if the subsidy system had continued, where programmes in the region of £20M pa would have been likely.

68. A capital funding plan for the period to 2015/16 is attached at Appendix 2. Although the programme is potentially short of resources in 2014/15, there are adequate resources available the following year to mean that the proposed capital spend is affordable over this period. Importantly, the funding plans for this programme do not assume any use of the borrowing headroom so some short term borrowing could be used to fund this shortfall if needed.

69. In developing the full business plan, careful consideration needs to be given to how to manage risk in the new regime. Reserving some borrowing headroom is one option and taking a prudent view of interest rate increases is another. However, there will always be unforeseen events that arise and it is considered that it would also be prudent to establish a “risk fund” that could be drawn on to help mitigate the effect of these events on other spending commitments, at least in the short term. The size of this fund will be considered as part of the work later this year and a recommendation included in the budget report for February 2012.

Property/Other

70. The business plan outlines the investment needs identified to maintain the current Council owned homes in a good and modern condition and also provides for additional investment to improve the performance of the Council’s homes and improve the neighbourhoods in which they sit. It also makes provision to support the regeneration of Townhill Park and future estate regeneration schemes. It reflects a detailed assessment of current stock condition and what investment level is needed to maintain the homes over a 30 year period. Therefore, the Capital Programme attached to this report identifies the first stage in the full 30 year assessment of financial demands of the stock. The investment principles established within this report reflect a long term commitment on behalf of the Council to ensure that its homes best meet the needs of our tenants, whilst balancing the financial demands on the Council over 30 years. The ability to plan for the medium to long term allows the Council to provide greater clarity and certainty to its tenants as well as seek efficiencies in delivering significant improvement projects. It is therefore important to recognise that short term adjustments to the priorities have potentially long term impacts on the viability of the overall business plan.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

71. The legislative framework for the new regime for council housing finance is set out in the Localism Bill. All the preparations are being made on the basis that this Bill will have received Royal Asset in time to enable the new system to start from April 2012. Should the Bill be delayed, it will be for CLG to decide what arrangements will be put in place for housing finance in 2012/13.

72. The changes to the proportion of capital receipts from non Right-To-Buy sales that need to be paid to CLG do not depend on the Localism Bill. These can be done by a statutory instrument approved by the Secretary of State. The Government has indicated that it intends for these changes to be made at the same time as the new financial regime starts.

73. The draft directions published by CLG that will be provided to the Housing Regulator (to replace the Tenant Services Authority from April 2012) outline the requirements for the minimum standard that homes should be maintained to and the expectations for the involvement of tenants in shaping the plans of their landlord.

Other Legal Implications:

74. The principles outlined within this report can be introduced to tenants without the requirement to change the standard tenancy agreement. Regard will be given to statutory consultation requirements as necessary.

POLICY FRAMEWORK IMPLICATIONS

75. The HRA estimates form part of the Council's budget and are therefore key elements of the Council's overall budget and policy framework. The proposed estimates also reflect the priorities set out in the approved stock options report and HRA Business Plan.

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KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	HRA Capital Programme 2011/12 to 2015/16
2.	Capital funding plan for the period to 2015/16
3.	Glossary of Terms

Documents In Members' Rooms

1.	None

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No

Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	