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6 October 2009

S U M M O N S

MEETING: Extraordinary Housing Board
DATE: 14 October 2009
TIME: 6.00pm
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Catherine McDonald

BOROUGH SOLICITOR

MEMBERS OF THE BOARD

Councillor Philpott (Chairman)
Councillor Beavis (Vice Chairman)

Councillor Allen	Councillor Gill
Councillor Mrs Cully	Councillor Hylands
Councillor Edwards	Councillor Mrs Mitchell-Smith
Councillor Geddes	Councillor Mrs Mudie

The Mayor (Councillor Mrs Searle) (ex officio)
Chairman of Policy and Organisation Board (Councillor Hook) (ex-officio)

FIRE PRECAUTIONS

(To be read from the Chair if members of the public are present)

In the event of the fire alarm (single continuous sound) being activated, please leave the room immediately.

Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.

IMPORTANT NOTICE:

- If you are in a wheelchair or have difficulty in walking and require access to the Committee Room on the First Floor of the Town Hall for this meeting, assistance can be provided by Town Hall staff on request

If you require any of the services detailed above please ring the Direct Line for the Democratic Services Officer listed on the Summons (first page).

NOTE:

- i. Members are requested to note that if any member wishes to speak at the Board meeting then the Borough Solicitor is required to receive not less than 24 hours prior notice in writing or electronically and such notice shall indicate the agenda item or items on which the member wishes to speak.
- ii. Please note that mobile phones should be switched off for the duration of the meeting.

AGENDA

RECOMMENDED
MINUTE
FORMAT

PART A ITEMS

1. APOLOGIES FOR NON-ATTENDANCE
2. DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter, any personal or personal and prejudicial interest in any item(s) being considered at this meeting.

3. DEPUTATIONS – STANDING ORDER 3.5

(NOTE: The Board is required to receive a deputation(s) on a matter which is before the meeting of the Board provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Monday, 12 October 2009. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

4. PUBLIC QUESTIONS – STANDING ORDER 3.6

(NOTE: The Board is required to allow a total of 15 minutes for questions from Members of the public on matters within the terms of reference of the Board provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Monday, 12 October 2009).

5. ENVIRONMENTAL IMPROVEMENTS

To agree Member nominations to an interim Environmental Improvements Panel.

PART II
Contact Officers:
Charles Harman
Ext 5287

6. COUNCIL HOUSING FINANCE REFORM

To consider the Government's consultation paper issued at the end of July 2009 and this Council's response to that paper.

PART II
Contact Officer:
Tim Hoskins
Ext 5322

7. ANY OTHER ITEMS

- which, in the opinion of the Chairman should be considered as a matter of urgency by reason of special circumstances.

AGENDA ITEM NO. 5

Board/Committee:	Extraordinary Housing Board
Date of Meeting:	14 th October 2009
Title:	Environmental Improvements
Author:	Housing Services Manager/CH
Status:	For Decision

Purpose

To agree Member nominations to an *interim* panel in order to make recommendations to the Housing Services Manager for the allocation of funding towards specific environmental projects. The panel to meet for 2009-10 only, pending a formal re-constitution of Environmental Improvements Panel by Housing Board (at a later date) for 2010-11 onwards.

Recommendation

That Members:

- 1) Agree nominations to a panel (on the basis of 2:1:1)
- 2) Agree the remit as identified in Appendix A
- 3) Agree that officers present a report to a later Housing Board on future options on the re-constitution of Environmental Improvements Panel .

1 Report

- 1.1 The Environmental Improvement Panel (EIP) used to meet to oversee the expenditure of an allocated budget to deliver specific types of communal improvements to Housing land.
- 1.2 In the financial year 2008-09 Housing Board was unable to make an allocation of funding for this project work due to the financial position at that time. The Environmental Improvement Panel did not meet throughout 2008-09 as a consequence.
- 1.3 In June 2009, Full Council abolished the existing EIP. Funding however has been identified for 2009-10 (£30,000) for environmental improvements and an interim arrangement to make recommendations to the Housing Services Manager on the allocation of that expenditure is requested.
- 1.4 It is proposed that there would be two meetings for the group within 2009-10. A remit for the meetings is outlined in Appendix A.
- 1.5 It is proposed that a further report is brought back to Housing Board outlining the options for re-constituting the EIP to consider future budget allocations in this area of the service for 2010-11 onwards.

2.0 Conclusions

- 2.1 That Member involvement in the Housing Service's environmental improvement programme is requested for 2009-10. As an interim measure, prior to Members considering options for the reconstituting of EIP [at a future meeting of Housing Board] Members nominate representatives to attend a meeting(s) on the basis of an agreed remit, to provide recommendations to the Housing Services Manager.

Financial Services comments:	None
Legal Services comments:	None
Service Improvement Plan implications:	None
Corporate Plan:	None
Risk Assessment:	There are no risks associated with this report
Background papers:	Housing Committee Report " <i>Environmental Improvements Panel</i> " Sept 1999 Housing Board Report " <i>Customer Involvement Partnership</i> " June 2005
Appendices/Enclosures:	
Appendix 'A'	Interim Remit
Report author/ Lead Officer:	Charles Harman

APPENDIX A

Remit:

Consider the relative merits and priority of submitted projects for the improvement of communal areas. To make recommendations to the Housing Services Manager on the work to be included within the environmental improvements programme and monitoring the successful conclusion of those projects.

The following guidelines are applied to each proposal prior to referral to the Environmental Improvements Panel for consideration.

Projects:

- Should be no less than £4000.00 in value
- The local community as a whole should benefit, and not individual properties.
- Ideally will follow certain strategic themes, linking into the overall corporate strategy and other key objectives, such as community safety and regeneration.
- Should improve the environmental facilities of local areas, with the main focus on improving the quality of life for residents.
- Be on Housing Services owned land

Projects should not have as their *primary* focus:

- a) Fencing schemes
- b) Security improvement work or
- c) Parking initiatives; including the provision of parking bays & parking areas

Unless these elements are bi-products of wider projects helping to deliver the objectives of the Panel.

Agenda item no. 6

Board/Committee:	Extraordinary Housing Board
Date of Meeting:	14 th October 2009
Title:	Council Housing Finance Reform
Author:	Housing Services Manager/TH
Status:	For Decision

Purpose

This report considers the Government's consultation paper issued at the end of July 2009 and this Council's response to that paper.

Recommendations

That the Housing Board:

- 1) Note the contents of the report.
- 2) Instruct Officers to respond to the consultation paper expressing the views agreed at Housing Board.

1.0 Background

- 1.1 The Department for Communities and Local Government published a consultation paper confirming the Government intention to dismantle the Housing Revenue Account Subsidy system and replace it with a devolved system of responsibility and funding. The paper sets out options for how this might be done.
- 1.2 The paper describes a range of options for fundamental reform of the Council housing finance system. From improvements to the current system to reduce volatility, to the far more radical proposal for a fully devolved system of self-financing. In this respect the paper describes methods for assessing the level of debt each authority would be required to support under a self-financing system and how this debt would be reallocated. The current overall level of debt within the existing system is £18bn.
- 1.3 The paper also sets out proposals for new borrowing regimes Council's might undertake through self-financing, so that they are consistent with overall Government public borrowing and spending policies. It considers the risks arising from self-financing and how these could be managed. It also includes a proposal to end the current pooling of capital receipts (provided the receipts are re-invested in housing).
- 1.4 The consultation asks seventeen questions, many of which require detailed information from respondents, particularly Local Authorities, in order to 'inform' their decision making process. These can be found in Annex A of this report. The deadline for the responses to the consultation is 27th October 2009.

2.0 Housing Revenue Account (HRA) subsidy

- 2.1 The requirement for Local Authorities to keep a Housing Revenue Account (HRA) dates back to the 1935 Housing Act.
- 2.2 The Housing Revenue Account Subsidy system is a method by which an assessment of Government financial support for Council housing is made. It is based on calculations derived from a 'notional' housing revenue account. In broad terms the Government takes *what it believes* an authority needs to spend and deducts from this the income *that they believe* an authority should raise (in rent). The difference between the two being the subsidy entitlement for the Local Authority. This authority's notional income is greater than its notional expenditure, it therefore receives a *negative* subsidy. It means this Council pays *into* the national pot. The amount the Council paid in for 2009/10 is £3.2m or £990 for each Council property it manages
- 2.3 Of the 205 Local Authorities who still retain their housing stock, 153 were in negative subsidy, with just 52 Local Authorities receiving the benefits. Because the subsidy is based on a notional account it does not matter how efficient a landlord is in delivering services, as the amount of subsidy will not change. This notional account also ensures that local choices about what rent levels to set do not influence subsidy received. The rationale for redistribution in this way is that Council's have different spending needs and different capacities to raise income. It is argued that the current system levels that 'playing field'.
- 2.4 Another important driver of subsidy redistribution in the way described in 2.3 above is the cost of servicing debts that has built up within a number of authorities. There is an uneven distribution of debt between authorities, with the majority of debt being in London, the North West and amongst the large Metropolitan Council's. The debt is fully paid for, through the subsidy system, and for this reason the resources a Council has available to spend are not hindered by the debt it holds.
- 2.5 One area of capital expenditure related to the HRA is the major Repairs Allowance (MRA) which is held in a separate reserve account and can only be used for housing capital expenditure. All other Council capital receipts and expenditure are accounted for outside of the HRA.

3.0 Rents

- 3.1 Members will be aware that there is a national rent setting policy currently in operation. *Rent convergence* (closing the gap between Council rents and Housing Associations) has been a national policy since 2002 and was established by the Government to enable all social landlords to offer similar rents for similar properties, while still being lower when compared to market rents. A *formula rent* that took into account the value of properties as well as local earnings was introduced. Bedroom weighting factors were also applied. These formula rents have been increased each year by RPI +0.5% with an original objective of completion by 2012.

- 3.2 A problem that this authority has is that the notional guideline rent used in Gosport's subsidy calculation is currently at £64.72 (on a 52 week basis), whereas the actual average rent for Council property is £60.52 (a difference of £4.20 a week per property). The Government is therefore assuming that Gosport's income is significantly greater than it actually is when calculating the Authorities subsidy.
- 3.3 A major drawback with the current system is that it is a national system and the fairness of it is based upon *assumptions of the spending needs* in over 200 authorities and these assumptions may not necessarily be correct. It has also proved problematic for many authorities, those that are net contributors, to effectively argue with tenants at a local level, in the equity of a system that sees up to £1,200 per property per annum in rental income being redistributed to authorities elsewhere in the country. This is particularly the case where a local need may be so evident.
- 3.4 The annual nature of the determining subsidy and the changes in the subsidy that can happen from one year to the next, means that long term planning is difficult for Local Authorities as total income in future years is not known. Currently there are annual changes in allowances, rent levels and borrowing allocations.

4.0 Future Need To Spend

- 4.1 The national pot for spending on management and maintenance on Council housing is calculated each year on the basis of the '*Gross Domestic Product (GDP) deflator*'. The level of assumed costs for each authority is calculated using four key factors: stock numbers, stock type, number of re-lets and voids and 'compensating indicators' to reflect the fact that some areas have higher costs than others.
- 4.2 Research has been done as part of the review process and established that current funding for management and maintenance needed to increase by 5%. It also found that 40% of management costs are now spent on traditionally 'non core' services. These would include for example; tackling anti-social behaviour, debt advice and helping tenants into work. The reasons put forward for this growth on non core services are;
- Rising expectations from tenants and political objectives
 - Estate work
 - The comprehensive nature of the 'Key Lines Of Enquiry' (KLOE's) used by the Audit Commission to determine star ratings during inspections.

It is recommended that over time non core services should be recognised as landlord services *but funded from sources other than rent*.

- 4.3 The Government has said that it does not wish to provide a prescriptive list of what services should be categorised as 'core' or 'non core'. Nor do they wish to reduce the flexibility Local Authorities have in responding to local demand. But this needs to be balanced against the concern that pressures are being placed upon the HRA to provide an ever increasing range of services often to a high standard from a limiting source of funding.

- 4.4 The Consultation's preferred option is to establish a series of principles to enable Local Authorities to decide whether a service should be paid from the HRA or the General Fund.
- 4.5 The Major Repairs Allowance (MRA) was introduced in 2001/02 as an allowance to help authorities invest in, and maintain the value of, their stock. The MRA is a ring-fenced grant (that means it must be spent on Council Housing) available for capital expenditure only. The review found that the MRA was under funded on average by 43%. It is proposed that new national formula is built in as part of the new system taking into account Local Authorities *Asset Management Plans* (as was approved by Housing Board at its January 2009 meeting).

5.0 Leaseholders and Service Charges

- 5.1 Some leaseholders have incurred substantial costs as a result of improvements, particularly with the introduction of the Decent Homes Standard. It is with this in mind that the review has recommended a change in legislation to enable authorities to set up sinking funds. The use of sinking funds would enable leaseholders to spread the costs more evenly over a longer period by paying in regular amounts in advance of any work being required. Local Authorities are currently prevented from operating sinking funds.
- 5.2 This would mean that a provision would have to be set up to allow for a change to the standard leases used by this authority. Leaseholders would be provided with additional information and also be encouraged to use the sinking funds.

6.0 Options for fundamental reform

- 6.1 The review offers two broad models for the financing of Council housing into the future:
- Improvements to the national system for funding Council housing in which revenues continue to flow between local and central Government as a result of ongoing assumptions made by the Government about landlord costs and income. In other words retaining the existing system with a limited number of adjustments to improve equity and increase local flexibility.
 - A devolved system (self-financing) in which rents are retained by Council's to spend on their own services, in exchange for a one-off reallocation of the national housing debt (currently in the region of £18bn).
- 6.2 Both models would include a number of shared characteristics:
- Costs, standards and rents would be based on the same principles.
 - 30 year Business Plans would be required based on updated stock conditions after the completion of the Decent Homes Programme.

- All housing capital receipts would be retained locally and would be accounted for alongside revenue.
- 6.3 Another key criticism of the current system is the fact that an annual subsidy determination is unpredictable and makes long term planning very difficult (as stated in 3.4 above). Moving to a longer determination of between three to five years, (during which time assumptions made about costs and income would not change) is an option. It would enable longer term plans to be drawn up by the Authority because of greater certainty over a longer period of the subsidy and income. The risk of having certainty over, say a 5 year period is this could result in greater uncertainty at the end of 5 years. Although there are a number of accounting safeguards possible to limit the impact between “5 year cycles”.

Management of the National Housing Debt

- 6.4 If the current subsidy system is to be abolished a key question is “how does the national housing debt, standing at £18bn, be serviced?” The options are:
- Effectively right off the debt (see 6.5 below)
 - Redistribute the debt to housing authorities according to a formula (see 6.6-6.8) for them to manage
 - Central Government to retain control of servicing the debt and financing through ‘claw backs’ from housing authorities, the amount calculated again by a specific formula (6.9).
- 6.5 It has been suggested that Government may ‘write’ off all the housing debt owed by authorities leaving rents to support just the day to day running costs of the stock. The response from Government was that the £18bn was unaffordable and an unfair burden to the taxpayer. This therefore places the onus on housing authorities to ‘manage’ the national housing debt.
- 6.6 It has also been suggested that the debt be reallocated to authorities to leave them with a debt in proportion to the value of their stock. This would allow the subsidy position of each Council to more closely reflect the relationship between its rental income and its running costs, providing greater transparency.
- 6.7 The basis for the calculation of how much debt would be redistributed to each authority, as well as when this will happen and what assumptions will be made about it, are still to be worked out. The principle behind it is that it should achieve neutrality i.e. Council’s will only be allocated debt on an affordability basis, based around their thirty year business plans. These decisions are clearly of utmost importance to all housing authorities.
- 6.8 Additional costs which were to fall on either the General Fund or the HRA as a result of the debt reallocation would be funded by central Government.
- 6.9 An alternative would be for the debt to be taken on by central Government and to

then charge each authority for the cost of servicing an amount equal to the sum they would have been allocated. This would address the concerns of Council's that are currently debt free taking on debt. Although, if an annual payment mechanism were to be introduced this might not seem that dissimilar to the present subsidy system.

6.10 Under self- financing it is envisaged that the funding for Council houses will prove to be more sustainable.

- Council's will have enough money from rental income to service debt over time and afford ongoing maintenance at Decent Homes Standard as well as the works needed to maintain communal areas.
- Long term planning will become easier with regard to management of assets including planning works and procuring them efficiently.

7.0 Borrowing Under Self-financing

7.1 Since April 2004, Local Authorities have been free to borrow for capital investment purposes, subject to that borrowing being assessed as 'affordable' against the terms of the Prudential Code. It is felt however that various aspects of the HRA subsidy system have effectively constrained Authorities ability to use housing revenues to fund additional borrowing.

7.2 Additional borrowing under the current system could only be achieved by continual improvements in operating surpluses over and above the assumed surplus in the notional HRA. Self-financing could lead to an increase in Prudential Borrowing and central Government would need to retain some control to ensure public borrowing was kept under control.

7.3 It is envisaged that surpluses will be generated under self-financing that could be retained locally and these could be used to underpin further borrowing.

8.0 Timetable for Change

8.1 The DCLG has already implemented changes so that Local Authorities are able to use a self-financing mechanism for new build properties:

- Council's are able to keep operating profits from newly built stock. They are outside of subsidy system.
- All capital receipts from new units sold can be retained.
- Grant is available from HCA (Home and Communities Agency) to build new homes.

8.2 This has been implemented using the Housing and Regeneration Act 2008 and secondary legislation.

8.3 The powers in the 2008 Act allow for individually negotiated agreements between Local Authorities and central Government to exclude specific stock from the HRA subsidy system. This could be used in principle to bring about voluntary self-

financing. For this to be achievable it would need:

- An agreement about the costs of running the stock at a local level.
- An understanding of the HRA ring fence in the context of self-financing.
- The debt settlement to include any significant transaction costs with reference to debt write off.

8.4 If all stock owning Authorities accept the terms, agreement could be reached by Spring 2010. If agreement cannot not be reached, then primary legislation would be required to achieve a national settlement. This would push back the date to 2012/13.

Financial Implications:	As set out in the report
Legal Implications:	The Council has a statutory duty to maintain a separate revenue account for the provision of local authority housing
Service Improvement Plan Implications:	There are no service plan implications arising out of this report
Corporate Plan:	There are no corporate plan implications arising out of this report
Risk Assessment:	There are no risks associated with this report
Background Papers:	Reform Of Council Housing Finance – CLG consultation paper
Appendices/Enclosures:	Appendix A: List of consultation questions
Report Author/Lead Officer:	Tim Hoskins

Annex A:

List of consultation questions

Core and non-core services

1. We propose that the HRA ring fence should continue and, if anything, be strengthened. Do you agree with the principles for the operation of the ring fence set out in paragraph 3.28?
2. Are there any particular ambiguities or detailed concerns about the consequences?

Standards and funding

3. We propose funding the ongoing maintenance of lifts and common parts in addition to the Decent Homes Standard. Are there any particular issues about committing this additional funding for lifts and common parts, in particular around funding any backlog through capital grant and the ongoing maintenance through the HRA system (as reformed)?
4. Is this the right direction of travel on standards and do you think the funding mechanisms will work or can you recommend other mechanisms that would be neutral to Government expenditure?

Leaseholders

5. We propose allowing Local Authorities to set up sinking funds for works to leaseholders' stock and amending HRA rules to permit this. Will there be any barriers to Local Authorities taking this up voluntarily, or would we need to place an obligation on Local Authority landlords?

Debt

6. We propose calculating opening debt in accordance with the principles set out in paragraphs 4.22- 4.25. What circumstances could lead to this level of debt not being supportable from the landlord business at the national level?

7. Are there particular circumstances that could affect this conclusion about the broad level of debt at the district level?
8. We identified premia for repayment and market debt as issues that would need to be potentially adjusted for in opening debt. How would these technical issues need to be reflected in the opening debt? Are there any others? Are there other ways that these issues could be addressed?
9. We propose that a mechanism similar to the Item 8 determination that allows interest for service borrowing to be paid from the HRA to the general fund should continue to be the mechanism for supporting interest payments. Are there any technical issues with this?
10. Do you agree the principles over debt levels associated with implementing the original business plan and their link to borrowing?
11. In addition to the spending associated with the original business plan, what uncommitted income might be generated and how might Council's want to use this?

Capital receipts

12. We have set out our general approach to capital receipts. The intention is to enable asset management and replacement of stock lost through Right to Buy. Are there any risks in leaving this resource with landlords (rather than pooling some of it as at present)?
13. Should there be any particular policy about the balance of investment brought about by capital receipts between new supply and existing stock?
14. Are there concerns about central Government giving up receipts which it currently pools to allow their allocation to the areas of greatest need?

Equality impact assessment

15. Would any of our proposed changes have a disproportionate effect on particular groups of people in terms of their gender or gender identity, race, disability, age, sexual orientation, religion or (non-political) belief and human rights?
16. What would be the direction (positive or negative) and scale of these effects and what evidence is there to support this assessment?
17. What would be necessary to assemble the evidence required?

Responses to consultation questions

- 1) Gosport Council agrees with the principles set out in paragraph 2.8 providing there is scope for local discretion and would welcome the setting up of a landlord a/c. Is it an intention to update circular 8/95 ?
- 2) How would additional costs falling on General Fund be treated by strengthening of the ring-fence.
- 3) BRE research results showed the level of increases to be substantially higher than those mentioned in consultation paper with lifts and common parts at 43%.
- 4) No other recommendations.
- 5) The Council believes this would mirror private sector practice and would be beneficial in maintaining affordability. Although unsure how this would work in practice with current accounting rules and the need for separate accounts for each leaseholder. Would interest on balances need to be paid?
- 6) Would have concerns about funding additional debt from existing cashflows as currently have debt where only interest payments are affordable.
 - How would additional debt be separately accounted for ?
 - Why do we not treat housing debt outside of PSB as other EU countries do?
- 7) Currently LA's can only accrue debt for expenditure on capital items. This Council is unsure how legislation would work in taking additional debt against future rental income to spend on day to day services.
- 8) The Council is unsure, would it not be more transparent to have HRA debt accounted for separately?
- 9) The Council agrees in principle with regards to re-distribution of current level of debt

within the system through the item 8 mechanism –but- for the future this is subject to clarification/confirmation that the General Fund will not be unduly disadvantaged by additional HRA debt. It is important to see the detailed calculation included the consolidated rate of interest (If this is not possible then perhaps future HRA debt should be ring fenced)

- 10) Clarification is needed on how additional borrowing will be reflected in the underlying Housing capital debt (the CFR) and of any requirements for the mandatory repayment of principal. (nb HRA debt repayments are currently voluntary – there is no HRA equivalent of the General Fund’s minimum revenue provision)
- 11) Service charge income is currently outside of subsidy system. Interest on leaseholder sinking fund income, reducing void turnover days. Savings could be found in years where expenditure needs are lower.
- 12) No, provided it was ring fenced for housing, although approval might not be forthcoming.
- 13) 75/25 split as current. Although income at present is greatly reduced
- 14) Local receipts should be able to be spent locally and not pooled.
- 15),16).17) not aware of any issues ?

Other issues/questions

How does the CLG propose to deal with disabled aids and adaptations and have any funding streams been identified ?

Will rent convergence continue into the future and will this be a responsibility for the TSA ?

With regard to the reallocation of debt, are transaction costs to be dealt with in the same way as stock transfer debt transaction costs ie cleared through PWLB debts ?