

Scrutiny Board (Safer and Stronger Communities)

Reform of Council Housing Finance – review of the draft new Housing Revenue Account Business Plan

Comments for inclusion into Executive Board Report

1.0 Introduction

- 1.1 To ensure the Council complies with Housing Revenue Account (HRA) Self Financing Reforms, which are expected to be introduced from 1st April 2012, it must develop a medium to long term business plan that takes into account investment needs, underpinned by risk and sensitivity analysis and integrated with sustainable funding solutions.
- 1.2 In anticipation of the Leeds HRA Business Plan being approved by the Executive Board in December 2011, the Safer and Stronger Communities Scrutiny Board was given the opportunity to consider and comment on the draft Plan to ensure that it reflects the Council's priorities in terms of housing investment needs.
- 1.3 All Scrutiny Board Members were invited to attend working group meetings on 5th September and 4th November 2011 to consider the principles of the draft HRA Business Plan as it develops and also the content of the Plan nearing completion. During these meetings, discussions were held with the Director of Environment and Neighbourhoods, the Executive Board Member for Neighbourhoods, Housing and Regeneration, Chief officers within Environment and Neighbourhoods and Revenues and Benefits and also the 3 ALMO Chief Executives.
- 1.4 This report presents the agreed view of the Safer and Stronger Communities Scrutiny Board. The Board has requested that these comments are incorporated into the report to go before Executive Board when considering the draft HRA Business Plan in December.

2.0 Observations, Conclusions and Recommendations

Target audience for the HRA Business Plan

- 2.1 The Leeds HRA Business Plan is intended to be a starting point in setting a clear strategy for Council housing in the City and how resources will be utilised and managed over a 30 year period to support the delivery of the Councils Strategic Housing plans for the City and its communities. The Plan will therefore inevitably become a point of reference for other external partners and Government agencies, such as the Homes and Communities Agency. In view of this, the Scrutiny Board acknowledges the rationale for including a detailed section explaining the background and strategic context of the Plan. However, the Scrutiny Board recognised a need to also produce an executive summary of the Plan and for this to also be presented to the Executive Board in December.

Recommendation 1

That an executive summary of the HRA Business Plan is produced to accompany the full Plan and is presented to the Executive Board in December.

Implications of moving to a self-financing regime

- 2.2 Self-financing is intended to allow local authority landlords to be in a position where they can support their own Council House stock from their own income. The proposals under HRA self-financing retain the requirement for local authorities to maintain a statutory, ring-fenced Housing Revenue Account, thereby maintaining the requirement to account for income and expenditure relating to Council housing separately from income and expenditure on other functions and services.
- 2.3 To bring about this change, there will be a re-adjustment of each local authority's housing debt. The intention is that each local authority will have a level of debt it can support, based on a valuation of its business over 30 years. Valuations are based on assumptions about each local authority's income and need to spend over 30 years. The 30 year cash flow of income and expenditure is converted into a capital sum using standard discounted cash flow techniques to arrive at an indicative value for the business.
- 2.4 The Scrutiny Board acknowledges that rent assumptions are fundamental in the self financing proposal. The Government has facilitated the current Social Housing rent convergence policy into its self financing valuation, which highlights the centrality of rents and service charges in the Business Plan.
- 2.5 The self financing valuation assumes that local authorities will follow social rent policy, which aims to put all local authority housing rents on a clear and transparent basis. The policy comprises of the following:
- 1) A 'formula rent' for each property, based on property values, property size and local earnings. Over time, all social landlords are expected to move their rents in line with the formula.
 - 2) A 'guideline rent' which converges with the formula rent by 2015/16. The valuation assumes convergence with formula rents by 2015/16, followed by rent increases of 0.5 per cent above inflation (RPI) per annum.
 - 3) A limit on individual rent rises of RPI +0.5 per cent + £2 per year. The limit is set to prevent excessively high increases in the rent of individual properties as they are moved over time to the formula rent.
 - 4) The policy of a Housing Benefit 'limit rent' will continue, in order to limit the amount of rent a landlord can recover through the Housing Benefit subsidy system. The limit rent will be set in line with current policy, converging with the formula rent in 2015/16 at the same time as guideline rents converge

with the formula rent. Rents charged above this rate cannot be recovered by landlords through the Housing Benefit subsidy system.

2.6 The intention of the policy is that tenants across the country should be paying comparable social rents, allowing for variations in type of property and the economic circumstances of the area. The level of the Council's dwelling rent charges is therefore currently guided by the application of this policy and the 2011/12 budget reflects an average rent increase of 6.84% which is in line with the Government's assumption. The impact on individual tenants varies according to the Government's rent restructuring formula, which allows individual rents to rise by a maximum of RPI+0.5%+£2 per week, in order to protect tenants from large rent increases.

2.7 Whilst the HRA Business Plan makes reference to rental income in relation to the average rents for 2010/11 and 2011/12, the Scrutiny Board recommends that the Plan also details the formula rent for each property type based on current data.

Recommendation 2

That the section on rental income within the HRA Business Plan also details the formula rent for each property type based on current data.

2.8 The Government's valuation model assumes 100% rent collection and that properties will be void for 2% of the time. However, it is highly unlikely that this will be achieved and therefore is a key risk factor. Whilst acknowledging that the Leeds model will be more reflective of the local position, the Scrutiny Board recommends that this is made more explicit within the HRA Business Plan, with appropriate cross reference made to the risk and sensitivity analysis within the Plan.

Recommendation 3

That it is made explicit within the HRA Business Plan that it is the Government's valuation model that assumes 100% rent collection and that properties will be void for 2% of the time. Also, that this is clearly recognised as a key risk factor locally, with appropriate cross reference made to the risk and sensitivity analysis.

2.9 It is clear that assumptions about service charges are also going to affect income levels. The Government has stated that in line with the emphasis on localism it does not intend to issue new guidance on the operation of the ring-fence, but expects local authorities to make decisions based on the principle that 'who benefits' pays. In view of this, the Scrutiny Board recognises the need for the Council to develop a clear policy on service charges that is fair and reflects the situation in Leeds.

Recommendation 4

That the Council develops a clear policy on service charges.

- 2.10 The Scrutiny Board also noted that a forecast for losses of income and expenditure when properties are sold under the Right to Buy scheme has also been incorporated into the valuation. The forecast is based on national forecasts for house sales issued by the Office for Budget Responsibility and have been disaggregated to local authority level using recent historical data about regional levels of Right to Buy sales.
- 2.11 The HRA Plan sets out the trend of Right to Buy sales over the last ten years, which clearly shows the impact of the recession commencing in 2008 as sales reduced to an average of 85 in the last three years. Whilst the Council can only assume a certain level of RTB, the Scrutiny Board agrees that this is an area that the Council would be unable to predict with real confidence given the potential for major changes within the housing market and also in Government housing policy over the long term period of the Plan. The Scrutiny Board recommends that this risk factor be made more explicit within the Plan.

Recommendation 5

That the risk associated with predicting levels of Right to Buy sales over the long term period of the HRA Business Plan is made more explicit within the HRA Business Plan.

- 2.12 The Scrutiny Board was informed that the Leeds indicative self financing valuation, commencing debt at 1st April 2012, is £695.7m. As the Council's Subsidy Capital Financing Requirement is £830.0m, a payment of £134.3m would be paid against the Council's debt with the Public Works Loans Board, to reduce the debt per dwelling to £11,906.
- 2.13 While the methodology for calculating the valuation is now fixed, the Scrutiny Board acknowledges that the figures will change in the final self-financing determination for utilisation from 1st April 2012, as the latest economic assumptions, political priorities and data from Councils will be utilised. The figures used within the Plan are therefore indicative and will change to reflect the final settlement. At the time of the Scrutiny Working Group meeting in November, it was anticipated that the Government's announcement on the final settlement figures would be imminent.

The housing investment priorities for Leeds

- 2.14 The HRA Business Plan acknowledges that some of the long-standing plans developed by the Council and partners to meet the housing challenges of the city were formulated during a period of sustained economic growth. However, despite the economic downturn, the key housing priorities for the city are relatively constant. These relate to the need to increase the supply of housing, with a particular emphasis on increasing the range of affordable housing options; to improve housing quality and sustainability across all tenures; and to promote the capacity for people to live independently.
- 2.15 To date there has not been an agreed and approved City-wide Investment Standard that informs investment decisions and resource priorities. The

Scrutiny Board agrees that the introduction of an agreed standard is essential so that priorities can be set, resources prioritised, targets agreed and monitored.

Recommendation 6

That a City-wide Investment Standard is developed to inform the HRA Business Plan in terms of investment decisions and resource priorities.

- 2.16 In setting a City-wide Investment Standard for this Business Plan, the Scrutiny Board noted that the Minimum Decency and Statutory Standard is not considered to be able to achieve the improvements required. In contrast the Leeds Regeneration Standard, based on the estimated cost projections undertaken in February 2010, is not affordable. It is therefore proposed that the Investment Standard used to initially inform the Business Plan is the Decent Homes and Decent Neighbourhoods Standard.
- 2.17 The 'Decent Homes and Decent Neighbourhood Standard' comprises two elements, firstly, the target Essential Major Investment required to maintain stock, incorporating statutory compliance, maintain the decent homes standard, structural repairs and upgrades to multi-storey blocks and other non-traditional housing, estate and communal facilities upgrades including shops and garages. The second element is the Aspirational Investment Standard, with resources directed to energy efficiency; environmental improvement works and stock remodelling. A full detailed overview of the standard and the targets set to achieve it are set out in the Plan.
- 2.18 The Scrutiny Board acknowledges that the achievement of the Essential Investment Standard will ensure the HRA assets are decent, safe, in good condition and retain their value. It is intended, therefore, this element of the overall standard will be the first priority in relation to the investment of resources. However, the costs to achieve the Essential Investment Standard have been phased over the life of the Business Plan to smooth the use of resources for Essential Investment, thereby maximising the opportunity to release funds for other priorities including the Aspirational Investment Standard, which involves investment in energy efficiency measures.
- 2.19 The Scrutiny Board acknowledges that the establishment of the new Strategic Governance Board, while not having decision making powers under the Council Constitution, aims to provide a single point for the Council and its ALMO's in relation to strategic decisions and will support a more co-ordinated and corporate approach to the development of investment prioritisation and the agreed standard.

Balancing tenants' needs with strategic objectives

- 2.20 The Tenant Services Authority (TSA), the current independent regulator for affordable housing in England, requires social landlords to consult locally with tenants regarding the quality of services to be expected and the priorities of tenants, so that they can be set out in a City Wide Service offer.

- 2.21 Following the city wide consultation exercise ‘the Leeds Conversation’ in 2010, the outcome of this consultation has been the development of the Leeds City Wide Service offer for all tenants based on their priorities, which was implemented in April 2011. The Scrutiny Board also acknowledges that the Council commissions a Comprehensive Tenant Satisfaction survey on a bi-annual basis. The questions asked are consistent, with a number of them mirroring the HouseMark tenant perception indicators used to benchmark performance across the ALMO service functions.
- 2.22 A major reason for the creation of ALMO’s in the city was to localise service delivery and make the landlord function more responsive to tenant priorities and individual area characteristics. Responsibility for the delivery of the majority of the standards, as set out within the City Wide Service offer, is delegated to the ALMO’s and it is intended they will supplement the City Wide standard with local standards to reflect particular area needs and priorities.
- 2.23 Tenants that have benefited from the investment in their properties and improvements in the delivery of services to their homes and estates expect a continuation of the improvements in services and their ability to influence prioritisation and strategic planning. In view of the Government’s proposals to give tenants more responsibility for paying their landlords directly, it was felt that tenant expectations to inform standards are likely to be raised further. In view of this, the Scrutiny Board recognises the need to balance tenants’ needs and expectations with the Council’s strategic objectives. Whilst acknowledging the intelligence data collated from tenant satisfaction surveys and Tenants Forums, the Scrutiny Board would question whether such data is reflective of the vast majority of tenants.
- 2.24 The Scrutiny Board believes that further work is needed to engage with tenants and also Elected Members to understand what their expectations and priorities are in relation to housing investment needs and also make best use of the new Tenant Scrutiny Panels as a way of gauging opinion too.

Recommendation 7

That further work is undertaken by the Council to engage with tenants and Elected Members to understand what their expectations and priorities are in relation to housing investment needs and to make best use of the new Tenant Scrutiny Panels as a way of also gauging opinion.

Effective Asset Management Strategy

- 2.25 The Council does not, at the present time, have an established Asset Management Strategy or Plan for the HRA. In recent years the ALMO’s have had responsibility for formulating their annual Investment Plans. Funding has been allocated to the ALMO’s based mainly on stock numbers and they have prioritised capital works as they deemed necessary with a strategic priority target to meet the Decent Homes standard by 2010. Each ALMO details the proposed investment priorities and profile for the housing stock in each area, based on the ALMO’s asset management knowledge.

- 2.26 With the current subsidy arrangements coming to an end, the allocation of capital resources across the ALMO's will need to be undertaken within an Asset Management Strategy that allocates resources based on condition and need across the city. In order to maximise the use of resources and meet the city's strategic housing requirements, the Scrutiny Board agrees that the development of a City Wide Asset Management Plan is essential as a major part of strategic planning for the HRA. It is the Scrutiny Board's understanding that once the City-wide Plan has been approved, the ALMO's will develop their own Local Investment Plans to reflect area conditions and priorities in order to deliver to the City Plan.

Recommendation 8

That a City Wide Asset Management Plan for the HRA is developed as a matter of urgency in order to maximise the use of resources and meet the city's strategic housing requirements.

- 2.27 The Council has now implemented a major Asset Management System 'Keystone' to provide a comprehensive suite of modules covering strategic investment planning to contract management, in order to utilise one consistent information database for strategic Asset Management and Business Planning. The system will underpin the prioritisation of resource allocations, link expenditure and delivery to stock improvement and identify reactive and cyclical maintenance requirements.
- 2.28 However, while the technical infrastructure is in place with the current 'Keystone' system, the prioritisation of resources to achieve the decent homes standard has meant the system has never been fully integrated. At present keystone is used to inform investment plans in relation to Decent Homes works. The Scrutiny Board agrees that if keystone is to be pivotal to investment planning and the HRA Business Plan in terms of forecasting and allocation of resources, the quality of the information is paramount.

Recommendation 9

That quality assurance mechanisms are put in place in relation to the information stored within the Keystone Asset Management System if this system is to be pivotal to the HRA Business Plan in terms of forecasting and allocation of resources.

- 2.29 The 'Keystone' System does have capability for sustainability and 'what if' modelling using the information it stores, and the information in the 'Orchard' stock management system. Whilst this function is not developed and will require a significant commitment to development, it is clear that the benefits in relation to continual asset management and Business Planning are substantial.
- 2.30 The Scrutiny Board learned that work is currently underway to ensure that regular up to date and accurate stock condition information is being gathered to target action and resources accordingly. This condition data needs to be in a form where it can be accessed and updated, linking it with the planned and responsive repairs system.

- 2.31 The creation of the ABCL also provides a significant opportunity to fundamentally change the way asset management is undertaken, to both support strategic planning and deliver quality works on the ground. The Scrutiny Board agrees that by bringing together the expertise in the ALMO and Council in relation to Asset Management, introduce consistent redesigned processes maximising the IT infrastructure and integrating staff to a one culture approach, the asset management arrangements for the HRA can achieve the quality levels required.

Provision for non-collection of debts

- 2.32 The Scrutiny Board acknowledges that the HRA holds a provision for the non-collection of debt, mainly relating to unpaid rent that is not collectable. The level of provision held is a prudent assessment of potential income that will not be received. Debt that is written off is charged to the Doubtful Debts provision during the financial year.
- 2.33 As mentioned earlier, the Government's valuation model assumes 100% rent collection. In view of this, the Council will need to be prudent within its financial plan to reflect the local position in relation to rent collection rates and to make sufficient provision in relation to Doubtful Debts.
- 2.34 The Scrutiny Board is particularly pleased to note that there is a dedicated section within the Plan which makes reference to the potential impact of the Government's major programme of Welfare Reform, which is currently passing through Parliament.
- 2.35 A cornerstone of the Government's reforms aimed at making work pay, is the introduction from 2013 of a new benefit, called Universal Credit, which will replace existing benefits including Working Tax Credit, Job-Seekers Allowance, Income Support and Housing Benefit.
- 2.36 The Government proposes that tenants will received their Universal Credit directly to them, one month in arrears, and have the responsibility for paying the full amount of their rent to the landlord.
- 2.37 Approximately 22,000 HRA tenants of working age currently receive some level of Housing Benefit, which is paid directly to their rent account, of these, approximately 70% receive full Housing Benefit. Under the proposals for Universal Credit, tenants will have to manage paying the full charge. Clearly the consequences of a missed payment would make it more difficult to recover than at present, with a risk to rent recovery levels, which therefore also needs to be reflective within the Doubtful Debts provision.

A robust risk analysis

- 2.38 The Scrutiny Board recognises the need for the HRA Business Plan to be underpinned by a robust risk and sensitivity analysis. The draft Plan briefly outlines the major business risks to be supported by the HRA, which included

the financial impact, the probability of occurrence, and the actions necessary to mitigate and manage the risks.

- 2.39 Whilst acknowledging that this is a medium to long term Plan and therefore the risks associated with the Plan are at a broader strategic level, the Scrutiny Board believes that the Plan would benefit from a more detailed risk and sensitivity analysis. Where risk factors are highlighted within the main body of the Plan, these also need to be explicitly tied together and cross referenced with the risk and sensitivity analysis.

Recommendation 10

That a more detailed risk and sensitivity analysis is set out within the HRA Business Plan.

Promoting greater transparency

- 2.40 Following the Government Review of Social Housing Regulations, the TSA's regulatory functions are to move to a reformed Homes and Communities Agency (HCA) from April 2012.
- 2.41 Issues relating to governance and viability of Council landlords are not deemed part of the remit of the housing regulator as housing is a service within a local authority. It is therefore covered by the wider local government regulatory framework and subject to the democratic scrutiny of members. The Regulator's existing standard on Value for Money does however include local authorities. The Government expects landlords to use the new flexibility provided by HRA reform to improve efficiency and value for money, with landlords able to show how they are improving value for money in service provision to their tenants and the regulator.
- 2.42 In view of this, the Scrutiny Board agrees that there is a need for greater transparency in terms of tenants and Elected Members being actively informed about future capital investment programmes that will affect their own estates. Whilst the Scrutiny Board acknowledges that regular update reports from the ALMOs are now being taken to Area Committees, further work is needed to promote greater transparency.

Recommendation 11

That further work is undertaken by the Council and its partners to promote greater transparency to enable tenants and Elected Members to be better informed about future housing investment programmes that affect their own estates.

Other observations made by the Scrutiny Board

- 2.43 The Scrutiny Board also made the following observations which may be of interest to Executive Board:
- 2.44 Within the Plan, figures are provided to show the numbers of applicants for social housing as at 31st March 2011, including the numbers of new

applicants. However, the Scrutiny Board requested that clarification is provided within the Plan in relation to the term 'new applicant' to illustrate that this also refers to 'in-year' new applicants as the analysis was initially confusing.

- 2.45 Overall, it is clear that the cornerstone for this approach is the development of a robust HRA Business Plan and given the genuine decisions to be made, the success of the plan will be very much dependant on informed consultation and decisions being made to build an Asset Management Plan and supporting Financial Plan, that will deliver the required aims and objectives. However, it is recognised by the Scrutiny Board that the Council and its partners will also need to remain flexible and innovative to respond to changing challenges and opportunities.

Draft