

AGENDA ITEM: 9 Pages: 13 - 22

Meeting	Business Management Overview and Scrutiny Committee
Date	5 September 2011
Subject	Housing Strategy
Report of	Cabinet Member for Housing
Summary	The report attached at Appendix A provides an overview of changes in national housing and related policies, and how these relate to the Council's Housing Strategy that was agreed by Cabinet in April 2010. A revised Housing Strategy is scheduled to be reported to Cabinet on 14 September 2011. The Committee is requested to make comments/recommendations for the Cabinet to consider alongside the report and its appendices at the Cabinet meeting.

Officer Contributors	Paul Shipway, Housing Strategy & Performance Manager Anne Gonzales, Housing Strategy and Business Improvement Manager
Status (public or exempt)	Public
Wards affected	All
Enclosures	Appendix A – Housing Strategy Report and Appendices
Reason for urgency / exemption from call-in	Not applicable

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1. RECOMMENDATION

- 1.1 The Business Management Overview and Scrutiny Committee consider the Council's Housing Strategy Report (as set out at Appendix A) and make appropriate comments and/or recommendations to Cabinet.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 As set out in Appendix A.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Overview and Scrutiny Committees, Panels and Task and Finish Groups must ensure that the work of Scrutiny is reflective of the Council's priorities.
- 3.2 Corporate priorities and policy considerations as they relate to the Housing Strategy are set out in Appendix A.

4. RISK MANAGEMENT ISSUES

- 4.1 As set out in Appendix A.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 As set out in Appendix A.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 As set out in Appendix A.

7. LEGAL ISSUES

- 7.1 As set out in Appendix A.

8. CONSTITUTIONAL POWERS

- 8.1 The scope of the Overview & Scrutiny Committees is contained within Part 2, Article 6 of the council's constitution.
- 8.2 The Terms of Reference of the Overview & Scrutiny Committees is set out in the Overview and Scrutiny Procedure Rules (Part 4 of the Constitution).

9. BACKGROUND INFORMATION

- 9.1 At their 1 June 2011 meeting, the Business Management Overview and Scrutiny Committee requested to undertake pre-decision scrutiny of the Housing Strategy. In accordance with that requested, the Housing Strategy, scheduled to go before Cabinet on 14 September 2011, is attached at Appendix A.
- 9.2 The Cabinet Member for Housing will be in attendance at the meeting to answer questions from Committee.
- 9.3 The Committee are requested to consider the Housing Strategy and make appropriate

comments and/or recommendations to Cabinet which will be reported to the 14 September 2011 meeting.

10. LIST OF BACKGROUND PAPERS

10.1 None.

APPENDIX A

AGENDA ITEM:	Pages –
Meeting	Cabinet
Date	14 September 2011
Subject	Housing Strategy
Report of	Cabinet Member for Housing
Summary	This report provides an overview of changes in national housing and related policies, and how these relate to the Council's Housing Strategy that was agreed by Cabinet in April 2010. It provides a set of proposed approaches to the key changes that are taking place, including carrying out an options appraisal to determine the future delivery of the Council's Housing Service. The Housing Strategy will sit alongside the Council's Regeneration Strategy.
Officer Contributors	Andrew Travers – Deputy Chief Executive Pamela Wharfe – Interim Director of Environment, Planning and Regeneration Paul Shipway – Strategy and Performance Manager
Status (public or exempt)	Public
Wards affected	All
Enclosures	Appendix 1 – Housing Strategy Update Appendix 2 – Housing Investment Plan Framework
For decision by	Cabinet
Function of	Executive
Reason for urgency / exemption from call-in	Not applicable

Contact for further information: Paul Shipway, Strategy and Performance Manager, 020 8359 4924

1. RECOMMENDATIONS

- 1.1 That Cabinet agrees Barnet's approach to key national policy changes as set out in slides 8 -12 of the presentation attached as Appendix 1**
- 1.2 That the Interim Director of Environment, Planning and Regeneration be instructed to update the Council's Housing Strategy, to incorporate Barnet's proposed approach to housing reform as set out in 1.1 above.**
- 1.3 That the Interim Director of Environment, Planning and Regeneration be authorised to proceed with a full options appraisal and development of a detailed business case for the future delivery of the Council's Housing Service. The outcome of the options appraisal and the business case will be reported to Cabinet Resources Committee for final approval.**
- 1.4 That Cabinet approves the Housing Investment Plan Framework attached as Appendix 2 with a finalised and more detailed plan to be reported to Cabinet for final approval as part of finalising the 2012/13 budget.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Cabinet, 12 April 2010, Agenda Item 8, Housing Strategy (Report of the Cabinet Member for Housing and Regeneration). At its meeting of 12 April 2010, Cabinet approved and adopted the Housing Strategy 2010-2015 and authorised the Cabinet Member for Housing and Regeneration to agree any further minor changes to the Housing Strategy, in consultation with the Leader, prior to publication.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Council's Housing Strategy will sit alongside the Regeneration Strategy and the Three Strands Approach as part of the borough's wider spatial strategy as set out in the Local Development Framework.
- 3.2 Delivering sustainable housing growth is priority under the Sustainable Community Strategy objective Successful London Suburb.
- 3.3 Ensuring that the borough is able to cater for the housing needs and aspirations of residents is a key element of meeting the Corporate Plan objective Successful London Suburb.

4. RISK MANAGEMENT ISSUES

- 4.1 There is a risk that higher rents of up to 80% of market rents for new affordable homes and existing social housing will be unaffordable for some households because of housing benefit restrictions, which will see the universal benefit, to be introduced in April 2013, capped at £26,000. This is particularly relevant for the larger units where 80% would definitely bring the rent above the benefit caps whereas for the smaller one and two bed units, rents at up to 80% may still be affordable in some places. The Council will not support proposals for schemes to provide homes at affordable rents that are not affordable to residents on low incomes, including those on benefits.
- 4.2 There is a risk that the new funding regime for affordable homes will result in a reduction in the number of new family sized homes being delivered in the borough, as the rents achievable on these within the benefits framework may be too low to make them viable. The Council will work with providers to ensure that larger homes are delivered.

- 4.3 Welfare benefit changes mean that the supply of private rented homes available to households on low incomes will reduce and result in an increase in homelessness and the use of expensive short term temporary accommodation. The Council has put a number of mitigating actions in place, including support for landlords and tenants affected by the changes, working with sub-regional partner boroughs to secure a supply of private sector housing at a competitive rate, and exploring options for a supply of accommodation in cheaper areas outside of Barnet.
- 4.4 Currently, council and housing association tenancies are granted for life and as long as the rent is paid and the tenancy conditions observed, they are not subject to review. The Localism Bill, which will be enacted in November 2011, will give social landlords the flexibility to introduce tenancies for a fixed term. Such tenancies will be reviewed toward the end of the term and if a tenant's circumstances have significantly improved, they may be required to leave their social rented property so that it can be made available to a household in higher need. However, the use of fixed term tenancies for social housing could encourage people to underachieve in order to keep their tenancy if, for example, strict income criteria were to be applied. This risk will be addressed in the draft Strategic Tenancy Policy for Barnet that will be presented to Cabinet for approval in due course.
- 4.5 A number of risks have been identified in relation to carrying out an options appraisal for the future of the Council's Housing Service. These risks are as follows:
- There is a risk that none of the options, when subject to detailed assessment, will be found to be suitable.
 - Changes to how the HRA operated leaves the Council open to substantial losses if the self-financing debt is not managed sufficiently stringently.
 - Future damage to reputation as a result of the selected option not delivering the anticipated benefits, both financial and non-financial.
 - The Council's housing service has transformed the way that it works following a systems thinking review and it is important that the benefits of this continue in any future arrangements.
- 4.6 Whilst the reform of council housing finance provides new investment opportunities for the Council, it also entails a greater risk profile.
- 4.7 There are risks associated with the Council taking on additional borrowing to buy itself out of the subsidy system. This debt will need to be managed in line with the Council's treasury management strategy.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Full equalities impact assessments have been carried out and reported to Cabinet in relation to the Council's Housing Strategy in April 2010 and a new Housing Allocations Scheme for Barnet in January 2011.
- 5.2 Full equalities impact assessments will be carried out in relation to the strategic tenancy policy for Barnet and the review future delivery of the Housing Services.
- 5.3 Other elements of housing reform have potential equalities implications, for example changes to Housing Benefit and the introduction of affordable rents could have a differential impact on different groups. These issues will be considered in more detail as part of the refresh of the Council's Housing Strategy.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 The Housing Revenue Account (HRA) is regulated by the Local Government and Housing Act 1989. Under its terms local authorities are not permitted to budget for a deficit on the HRA, and if during the course of a year it finds it is heading for a deficit it must take such action as to prevent this occurring.
- 6.2 The level of debt associated with the HRA will increase from approximately £108m (current forecast debt as at 31/03/2012) to £226m and the cost of servicing this additional debt will replace the negative subsidy of approximately £12m that the Council currently pays to the Treasury.
- 6.3 The HRA settlement will also include borrowing headroom of up to £32m, and the Council will need to decide whether it wishes to make use of this as it develops the draft Housing Investment Plan (Appendix 2) in more detail.
- 6.4 Interest payments on the additional debt figure will be in the region of £6m if an interest rate of 5.5% was secured. Longer term borrowing rates from the Public Works Loans Board (PWLB) fluctuate between 5% and 6%, and officers are currently working with the Council's treasury advisors to ensure as low a rate as possible is secured.. This compares favourably with the estimated negative subsidy of £12m that would have been payable by the Council to the Treasury under the current subsidy system. This potentially provides £6m additional revenue that could be used to reinvest in the stock and services. However, this calculation assumes no repayment of debt and it would be prudent to use a proportion of this annual surplus to repay the up front borrowing.
- 6.5 At present, the Council operates a single debt pool for all its debts regardless of whether they are associated with the General Fund (GF) or the HRA, and a single average rate of interest is attributed to both accounts. Under the new arrangements, the Council's existing debt will need to be disaggregated between the GF and HRA which could result in different rates of interest attributed to each account, and the Council will make a decision on its preferred option for splitting the debt.
- 6.6 There are a number of ways in which the additional borrowing requirement associated with the settlement could be sourced. Borrowing options include the PWLB, private financial institutions or even the issuing of a council bond in the market. It is important the most beneficial deal that supports the delivery of our wider strategic objectives is achieved. These options are being considered in conjunction with Arlingclose, the Council's treasury advisors.
- 6.7 Agreement to a detailed Housing Investment plan and a Treasury Strategy will be sought from Cabinet as part of finalising the 2012/13 budget.
- 6.8 The Council will also be required to adopt a system of component level depreciation for the Housing Revenue account that takes full account of the key building components of the stock and provides for 30 years of elemental renewals.
- 6.9 The project brief in relation to the future delivery of the of the Council's Housing Service has identified that there may be a need to fund legal advice and external quality assurance, and a facility of up to £50,000 is proposed for this. Funding has been earmarked within the One Barnet programme budget, which can be drawn down if required.

7. LEGAL ISSUES

- 7.1 The Council, as a local housing authority, is required by section 87 of the Local Government Act 2003 to have a strategy in respect of such matters relating to housing. Statute also requires the Council to review its strategy and to make any necessary amendments so that it is consistent with any national strategy.

8. CONSTITUTIONAL POWERS

- 8.1 Constitution, Part 3 – Responsibility for Functions, Section 3.8 of which reserves approval of the Housing Strategy to Cabinet.

9. BACKGROUND INFORMATION

- 9.1 The Council's current Housing Strategy was agreed by Cabinet on 12 April 2010, and identified the following core objectives:

- Increasing housing supply
- Improving the condition and sustainability of the existing housing stock
- Promoting mixed communities
- Maximising the options for home ownership
- Housing related support options that maximise the independence of residents
- Excellent value services that exceed residents expectations

As a result of the reforms contained in the Localism Bill which will be enacted in the Autumn and changes to housing finance, the Council's current housing strategy needs to be revised.

- 9.2 The Localism Bill sets out plans to reform the financing of new affordable homes and the funding of existing council housing, an introduction of fixed term tenancies to replace secure lifetime tenancies for council and housing association tenants, and changes to homelessness legislation.
- 9.3 Changes have already been implemented to the Housing Benefit system, with more reform of the welfare benefits system to follow.
- 9.4 National policy will change the arrangements for the Housing Revenue Account. The new arrangements will provide different incentives and opportunities for social housing provision in the borough. We are therefore proposing to:
- Respond to the national changes
 - Revise the business plan for social housing in Barnet
 - Reform our service provision where needed

To maximise the opportunities of the national changes, and to ensure social housing is developed as part of a coherent approach to each local area, we will need to work closely with key partners, including the private sector, our housing provider, other public agencies and the voluntary and community sector.

- 9.5 The changes being introduced through the Localism Bill provide opportunities for the Council to make better use of its housing stock to help meet some of the challenges facing the borough such as population growth, increasing pressure on social services budgets, and delivery of regeneration and growth. A key element of our response will be to develop a housing investment plan to set out how we will make the most of

opportunities being provided by the reform of council housing finance, which will see a much greater degree of local control through a new system of self financing to replace the existing national subsidy system.

- 9.6 In addition, the Council has already aligned its housing allocations scheme with the proposals around tackling homelessness in the Localism Bill, and it is proposed that this approach is further developed with a review of how the Council's housing services are delivered in future to further improve efficiency and outcomes for residents. This also fits in with the Council's wider programme of service transformation.
- 9.7 Appendix 1 provides an overview of all the main changes to national housing policy and how they relate to the Council's Housing Strategy, as well as the proposed approaches to these that the Council should adopt and incorporate into an updated version of the Housing Strategy, to be produced by March 2012. An updated evidence base to support the recommended approaches is also included.
- 9.8 Appendix 2 provides more detailed information about the Government's plans to introduce self financing for council housing, the implications for Barnet and a set of proposed objectives for our ongoing investment strategy. This will be developed further into a full Housing Investment Plan to be developed in consultation with residents and other stakeholders over the coming months and brought back to Cabinet as part of the Council's budget setting process for 2012/13.

10. LIST OF BACKGROUND PAPERS

10.1 Barnet Housing Strategy 2010 to 2025

10.2 Project Brief : The Future of Housing Service Provision

Legal – VG

CFO – JH

Housing Strategy in Barnet

July 2011



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National priorities

The big picture



- The Prime Minister has been clear that the government has three priorities

Generating growth



Creating the Big Society



Implementing reforms

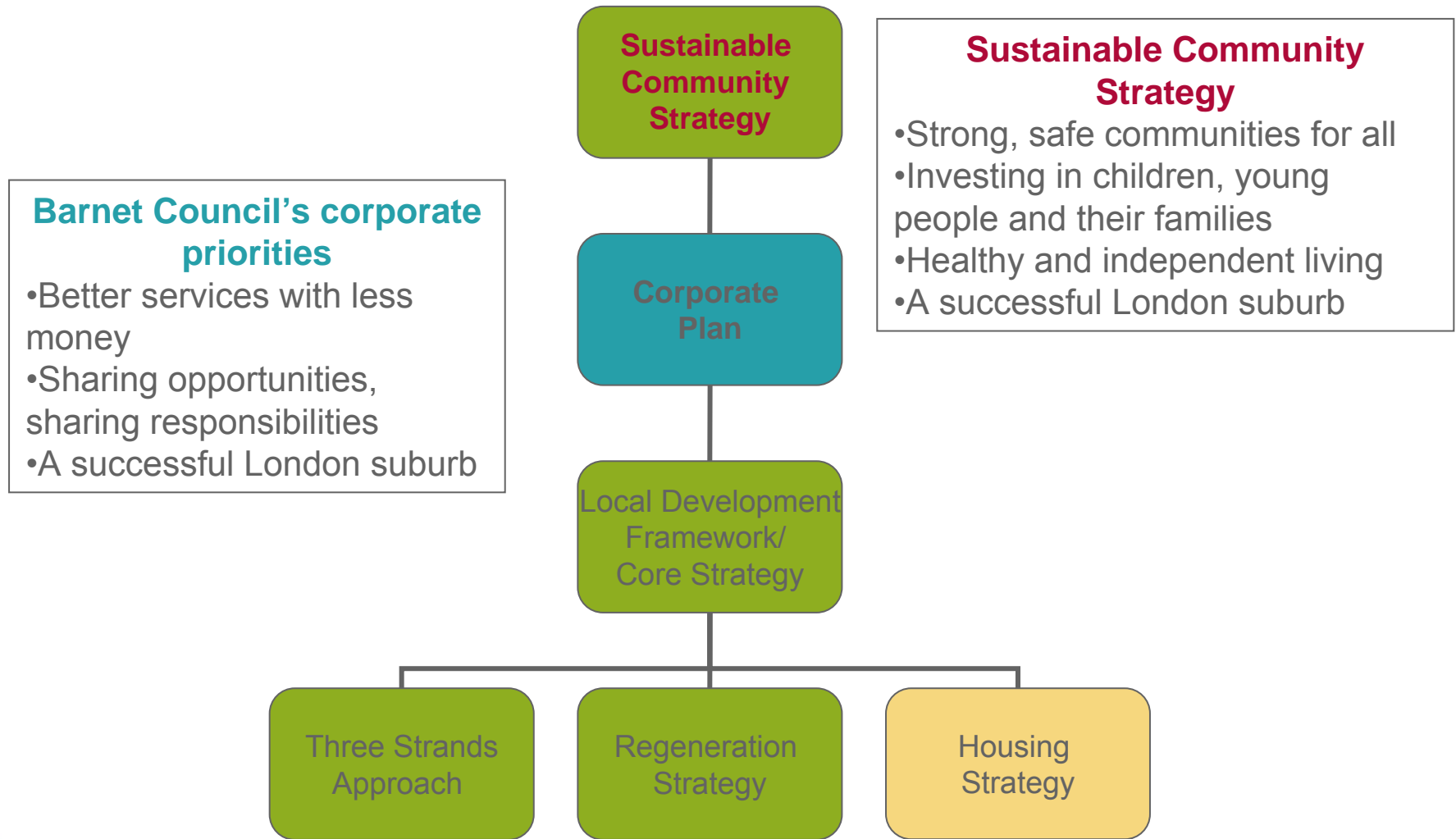


Voluntary and
philanthropic
action

Community
empowerment

Public service
reform

Local strategic context & priorities



Context – state of the borough

- Population Growth - 19,400 over next 5 years
- 28,500 new homes by 2026
- Demographic changes – more diversity, people living longer
- Residents feel less involved than rest of London
- Increasing levels of obesity and related health problems
- Pressure on council budgets
- Significant policy changes in local government finance

Key Issue

- Cost pressures from Children and Adults mean that all council's budgets will be spent on social services by 2022 if no action is taken!

Barnet's housing strategy 2010 – 2025

Objectives agreed by Cabinet April 2010

- Increasing housing supply
- Improving the condition and sustainability of the existing housing stock
- Promoting mixed communities
- Maximising the options for home ownership
- Housing related support options that maximise the independence of residents
- Excellent value services that exceed residents expectations



Housing opportunities

- Reform council housing finance
- Funding of new homes/rents
- Housing Benefit reform
- Move away from security of tenure
- Allocations/homelessness reform



Council housing finance

Overview

- National subsidy system replaced with self financing from April 2012
- Settlement allows for increased allowances and is based on 30 year projections of income/expenditure
- Many councils, including Barnet, will see negative subsidy paid to treasury replaced by additional debt and costs of servicing this

Fit with Barnet Housing Strategy:

- Improving the condition and sustainability of the existing housing stock



ACTUAL EFFECT	Barnet
Proposed Debt Adjustment	£117.9m
Actual Debt (April 2012)	£108.0m
Actual Opening Debt	£225.9m
Debt Cap	£257.8m
Headroom to Borrow	£31.9m

Barnet's Approach

- The council will work with Barnet Homes to identify investment priorities to ensure that the stock is well maintained as well as meeting wider strategic objectives.
- A investment programme that balances opportunity and prudent management of the additional housing debt will be developed

Funding of new homes/rents

Overview

- Significant reduction in government capital grant for funding of new affordable homes, with higher “Affordable Rents” making up the difference
- New rents will be up to 80% of Market Rents; currently target rents set using government formula for regulating social rents
- Rents on re-lets can be increased to fund the development of new affordable homes

Fit with Barnet Housing Strategy:

- Increasing housing supply
- Promoting mixed communities



Strategic Issues:

- Impact of universal benefit on access
- Risk that larger family homes will not be delivered
- Council investment in new affordable homes

Barnet's Approach

- The council expects new affordable homes for rent to be accessible to people on low income, including those on benefits
- Higher rents on existing property will only be supported where the extra income raised is reinvested in Barnet
- The council will work with providers to ensure that larger affordable homes are delivered

Strategic tenancy policy

Overview

- Flexibility for landlords to use fixed term tenancies
- Minimum 2 years*
- Older and those with long term illness still likely to get a lifetime tenancy
- Local Authorities to develop strategic tenancy policy for their area
- Existing tenants not affected

Fit with Barnet housing strategy:

- Increasing housing supply
- Promoting mixed communities



Strategic issues:

- Identifying circumstances in which fixed-term tenancies will be used
- Risk that tenants will curtail their ambitions to avoid termination of tenancy
- Risk that higher turnover of tenancies will be too high and unmanageable

Barnet's approach

- The Council welcomes the additional local flexibility that fixed term tenancies will provide
- The Council will develop and consult on a strategic tenancy policy setting out the approach that it will take to the use of flexible tenancies in Barnet and aim to have this in place by March 2012

*This is under consideration to be increased to 5 years

Allocations/homelessness

Overview

- Councils will now be able to set their own rules about who qualifies to go on the housing waiting list.
- Council's given flexibility to discharge homelessness duty into the private rented sector (PRS)

Strategic issues:

- Barnet has already implemented new allocations scheme that scraps open waiting list
- Discharge of duty into the PRS sits well with our approach, although some concern about the ongoing supply of PRS

Fit with Barnet housing strategy:

- Increasing housing supply
- Promoting mixed communities
- Excellent value services that exceed residents expectations



Barnet's approach

- The Council welcomes the government's more flexible approach on allocations and homelessness, which reflects the approach that Barnet has taken through its new Allocations scheme.
- The Council will consider the potential benefits to its customers of putting the Housing Service together with Barnet Homes

Welfare benefits

Overview

- Local Housing Allowances reduced from April 2011 with 9 months transitional protection for existing tenants
- Universal Benefit from 2013/14, capped at £26,000 per annum depending on household circumstances

Fit with Barnet housing strategy:

- Promoting mixed communities



Strategic issues:

- Impact on the supply of private rented sector in Barnet
- Relationship with Affordable Rents policy

Barnet's approach

- The Council recognises that the local housing allowance scheme has fuelled rent inflation in the past
- The Council will work with private landlords and tenants to ensure that the private rented sector plays a full part in meeting the borough's housing needs
- Barnet currently works with landlords through initiatives such as the Landlords' Forum

Housing investment pressures

- Existing council housing stock - £13m a year to maintain at current level
- Regeneration Stock – potential investment need of £28m for remaining life of existing homes through to 2025
- Pressures on social services budgets - how can Housing help?
 - Supported housing as an alternative to expensive residential care
 - Support for Family intervention Scheme for council tenants
 - Adaptations for older and disabled tenants
- Development of new homes
- Keeping regeneration schemes moving
- Securing a housing supply

Housing Strategy July 2011

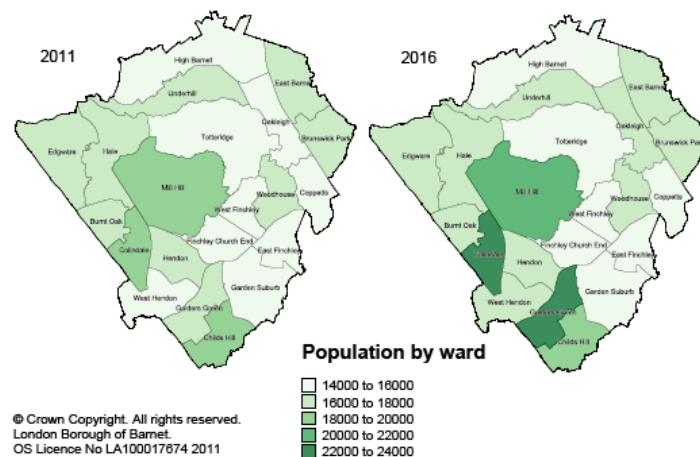


Demographic changes, 2011-16

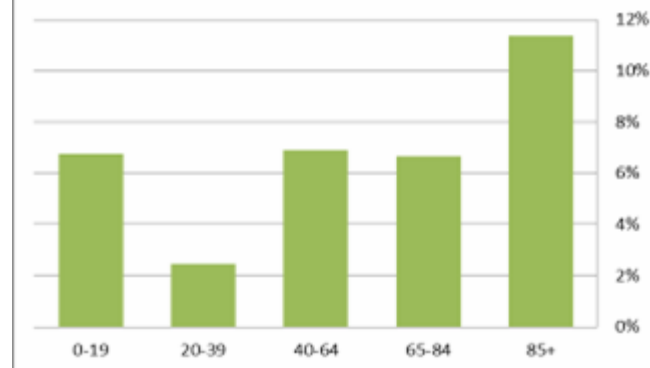
Regeneration and growth

- Already London's most populous borough, with 349,800 residents, Barnet has a changing and growing population
- Over the next five years population projected to grow by 5.5%
- Greatest growth will be concentrated in areas of extensive regeneration in the west of the borough
- The fastest growing age group are 5-14 year olds, increasing the number of school age children
- Sizeable growth in the number of 65-69 year olds and proportionally significant growth in 90 plus cohort

Total population by ward, 2011 and 2016

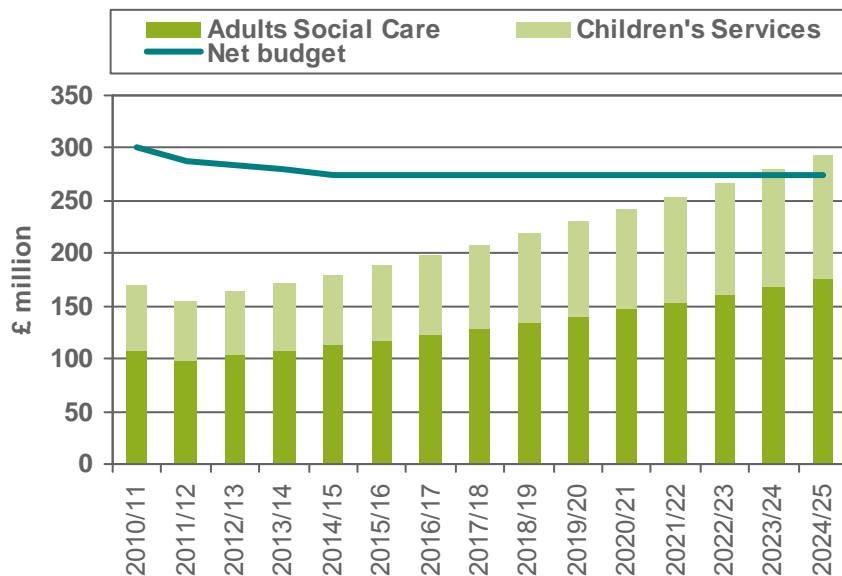


Barnet's changing age profile, 2011-16
Percentage change



Impact of demographic changes

What does demographic change mean in practice?



Each additional primary school place costs **£31,000** a year

Each additional child in care costs **£48,000** a year

Each older person costs on average **£12,000** a year

Each additional residential bed for an older person costs over **£26,000** a year

If population trends translate into an equivalent increase in the cost of Adults Social Care and Children's Services, coupled with decreasing funding from central government, this could lead to the Council having no funding for any other services by **2022**.

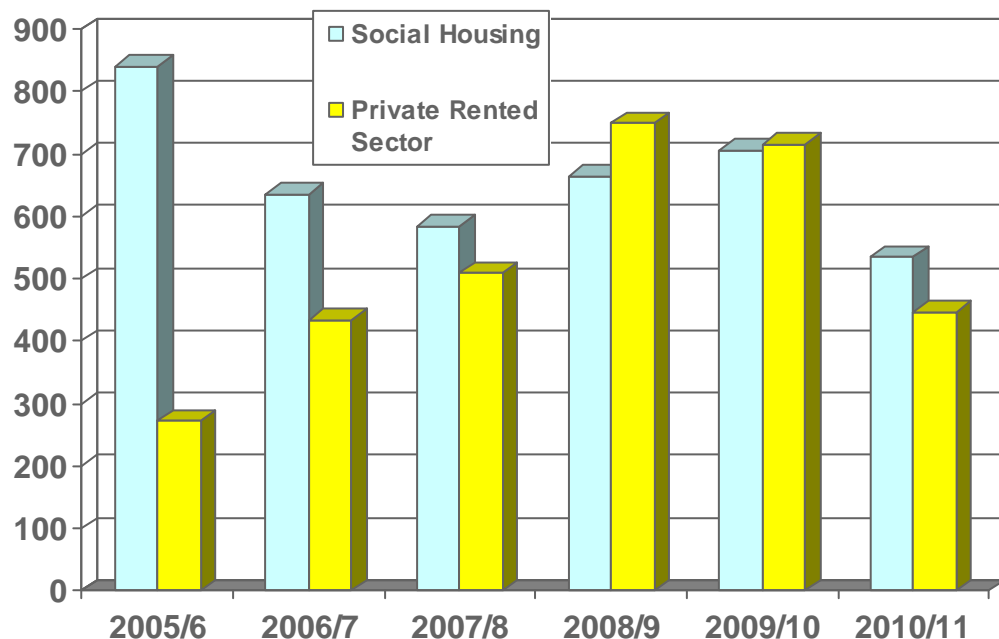
HRA stock Investment needs

Description	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	10 Year Total	2022/2042
Statutory Obligation & H & S	5.8	5.8	5.6	4.8	4.6	3.0	3.1	2.9	2.4	2.4	40.4	85.0
ADAPTATIONS	1.0	1.0	1.0	1.0	0.8	0.8	0.8	0.8	0.8	0.8	8.8	20.0
Decent Homes Requirements Incl Newly Arising Needs	2.4	3.8	6.4	6.9	4.9	4.6	4.4	3.9	3.9	2.9	44.0	100.0
Other - inc Aerials, environmental works and energy efficiency	2.3	2.0	1.7	1.7	2.5	2.3	2.3	2.3	2.3	2.3	21.6	43.5
Other - salaries, voids, hostels	1.7	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	14.3	10.0
Total	13.2	14.1	16.0	15.7	14.2	12.1	12.0	11.3	10.8	9.7	129.0	258.5

The average annual Investment need is an estimated £13m, which includes 7.5m years 1 to 5 regeneration windows and £2.2m for regeneration structural works

There is potential an additional £20m investment needed on the regeneration estates

Access to housing via council



The private rented sector no longer provides more homes than social housing for housing applicants in Barnet.

Lettings by Tenure	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11
Council	492	466	383	367	457	412
Housing Association	348	170	201	298	249	123
Total Social Housing	840	636	584	665	706	535
Private Rented Sector	272	434	509	749	715	447

Access to the private rented sector

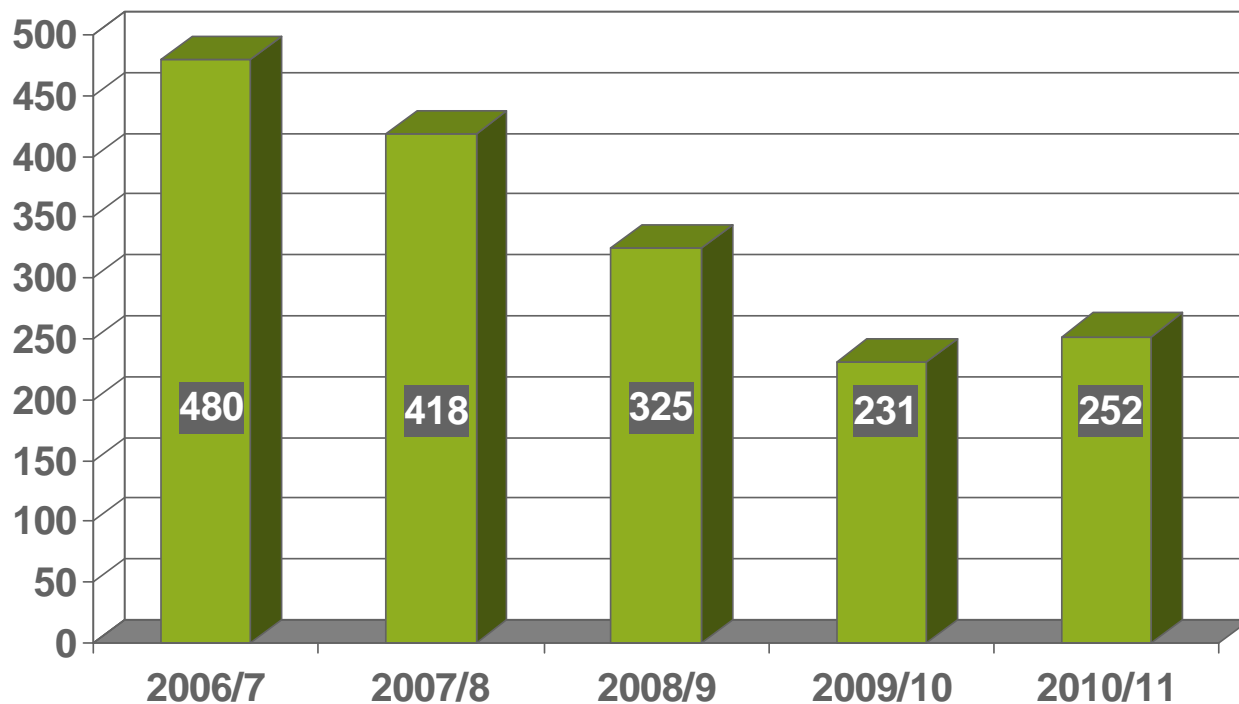
Private sector lets May 2010 to May 2011



Landlords have been less willing to let their properties to the council since local housing allowances reduced in April 2011. This problem has been exacerbated by a highly competitive rental market in London.

Homelessness

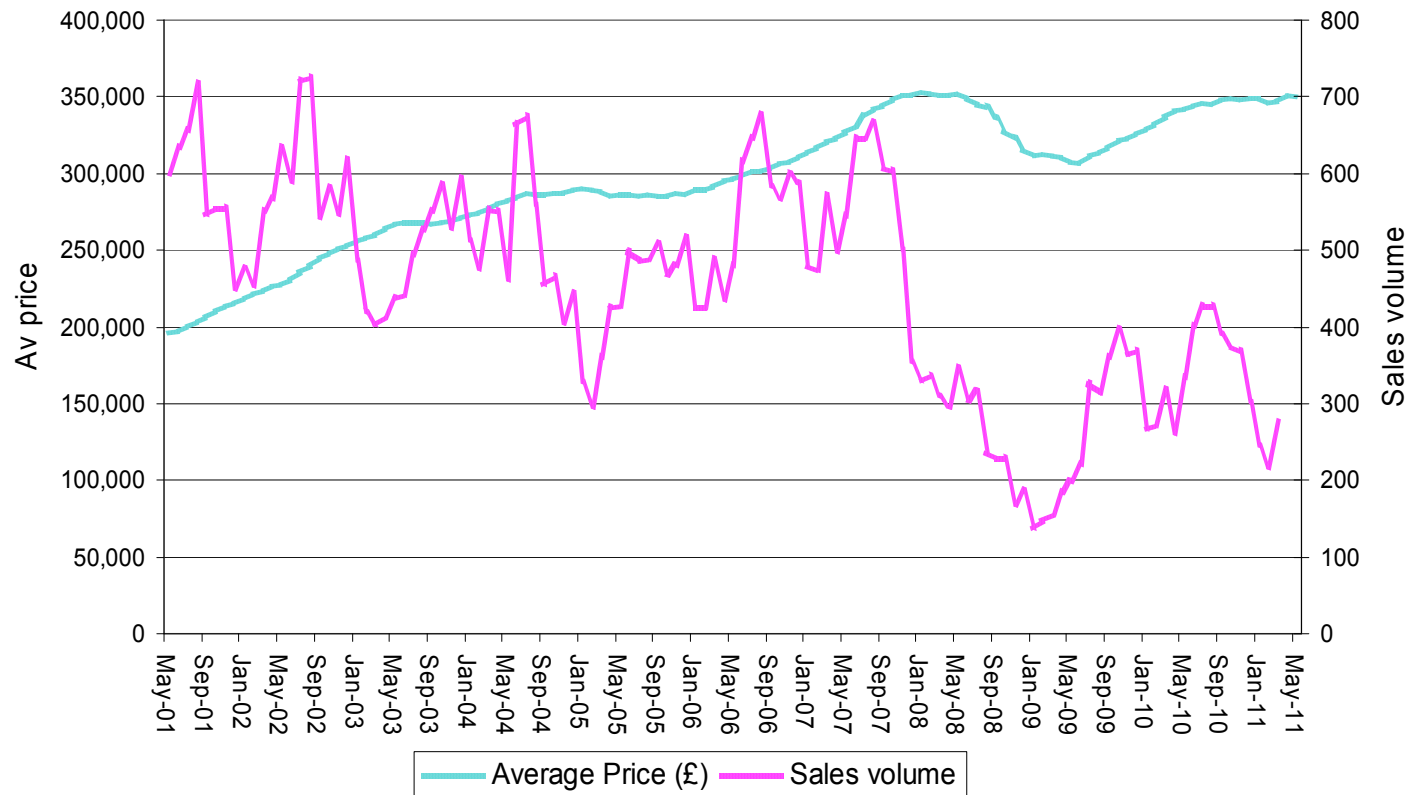
Homeless acceptances



After having fallen for several years, the number of households becoming homeless increased in 2010/11. This was due, in part, to a reduction in the supply of private rented properties that the council was able to access and, in part, as a result of more people losing their homes because of changes in circumstance in a difficult economic climate

House prices and sales volumes

Barnet house price and sales volume

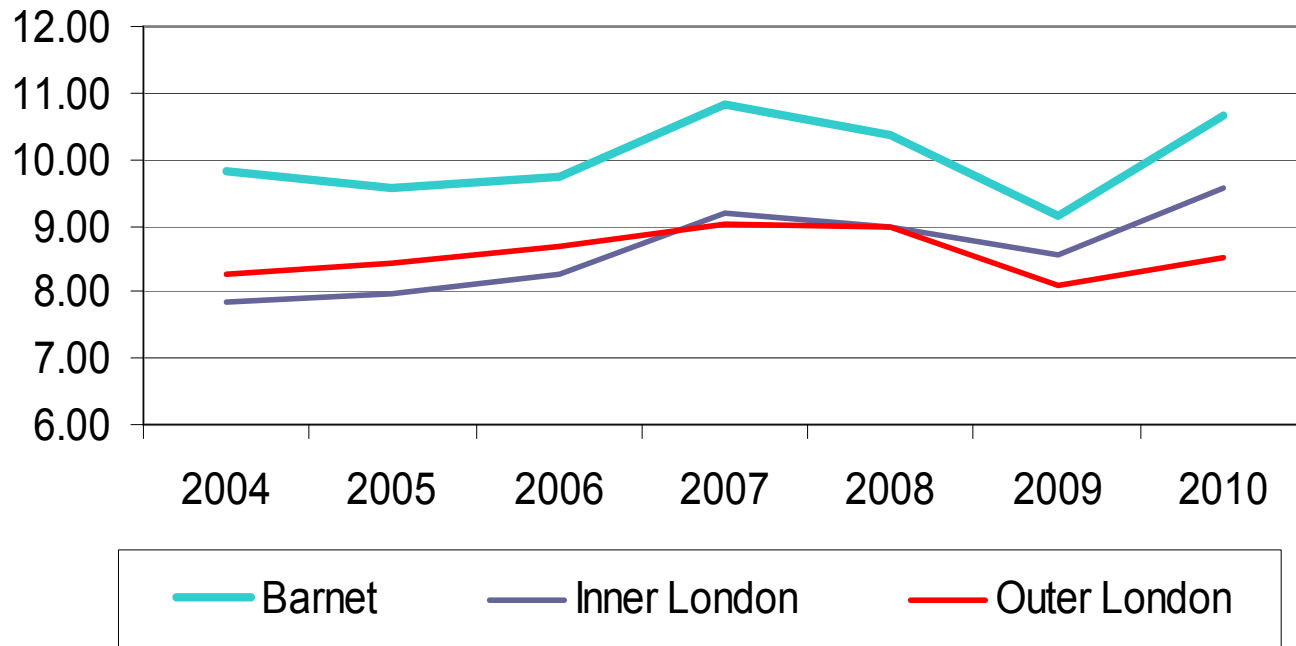


Although house prices have recovered, sales remain well below pre 2008 levels

Source: Land Registry

House prices to earnings ratio

Median property prices to median earnings ratio



Median quartile house prices in Barnet are almost 11X median quartile earnings

Source: Communities and Local Government Live tables

Next Steps

- Council has agreed that Barnet Homes will take on additional responsibilities and is proceeding with Local Authority Trading Company. Next step is to go ahead with options appraisal and business case for Council's retained housing service and decide whether it should be put into Barnet Homes
- Complete a refresh of the Council's housing strategy and supporting evidence base to set policy framework for responding to housing reforms and other local priorities
- Complete preparations for HRA reform including key priorities for investment
- Proceed with developing a draft strategic tenancy policy and consulting on this
 - Cabinet Report – October 2011
 - Finalise – February 2012

Appendix 2 - HRA business plan framework Sept 2011

1. Introduction

The Council welcomes the Government's decision to proceed with replacing the existing national subsidy system for the council housing with self financing arrangements from April 2012.

Under the present system, Barnet has paid increasing amounts of negative subsidy to the Treasury from council tenant rents collected in the borough; the total for 2010/11 was £11.9m.

The new system will see the replacement of the subsidy system with a self financing model. Local authorities will make a one off payment to the Government and use the rents that they collect to service the debt associated with this rather than pay into the subsidy system. More detail about the proposed changes is in appendix 1.

2. Effect on London Borough of Barnet

In Barnet, the settlement means that the HRA debt will increase by £118m which will cost about £7-8m a year to service, this compares favourably to the negative subsidy payments of about £11m currently being made.

Additional borrowing capacity or headroom of £31.9m over and above the initial settlement figure is created by the difference between the current notional HRA debt of £139.9m that is assumed in the current subsidy calculations and for calculation of the settlement debt, and the actual HRA debt for Barnet of £108m.

The following table provides a summary of the debt settlement and the actual effect for Barnet.

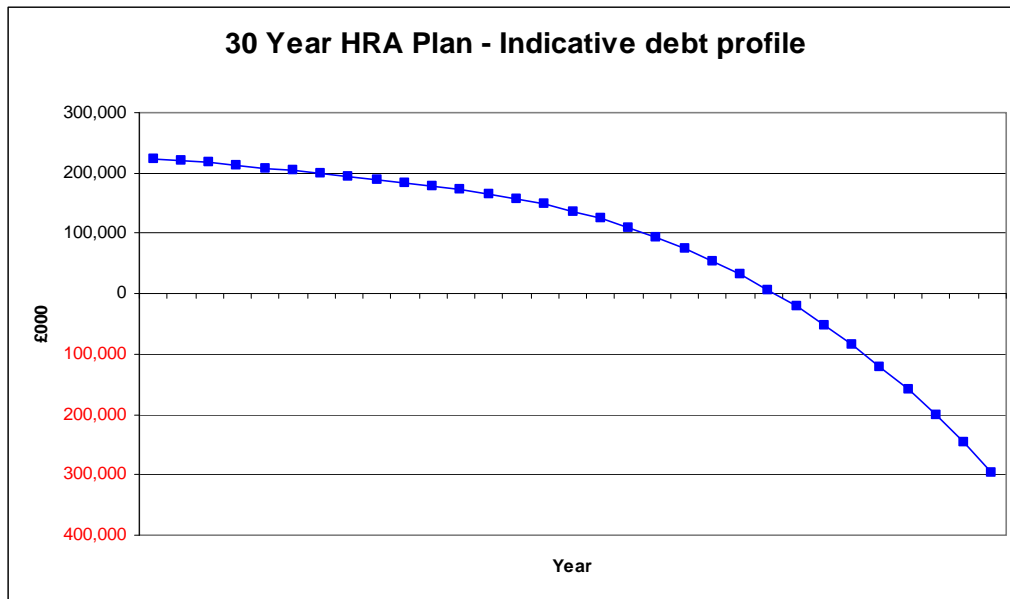
Settlement calculation		Actual Effect	
Debt Allocation **	£257.8m	Actual Opening Debt**	£225.9m
Subsidy level of debt	£139.9m	Actual Debt (April 2012)	£108.0m
Debt Adjustment	£117.9m	Debt Adjustment	£117.9m
Debt Cap	£257.8m	Debt Cap	£257.8m
Debt per Unit	£23,453	Headroom to Borrow	£31.9m
** debt unadjusted for demolitions			

Barnet Homes has carried out an assessment of the investment needs of the Council's Housing Stock which shows that an average investment of £13m a year is required over the next 30 years to maintain the stock at the Decent Homes Standard (appendix 2); this does not take account of the potential investment requirements of stock on the regeneration estates that are subject to an extended programme of demolition.

A model commissioned by the Government and provided by Price Waterhouse Coopers shows that the basic net debt settlement of £117.9 m would sustain an annual investment programme of £13m and enable the total HRA debt of £225.9m to be cleared within 21 years. This would be facilitated by other elements of the HRA as a whole, for example, rising rental income that can be spent on a combination of management and maintenance and debt repayment.

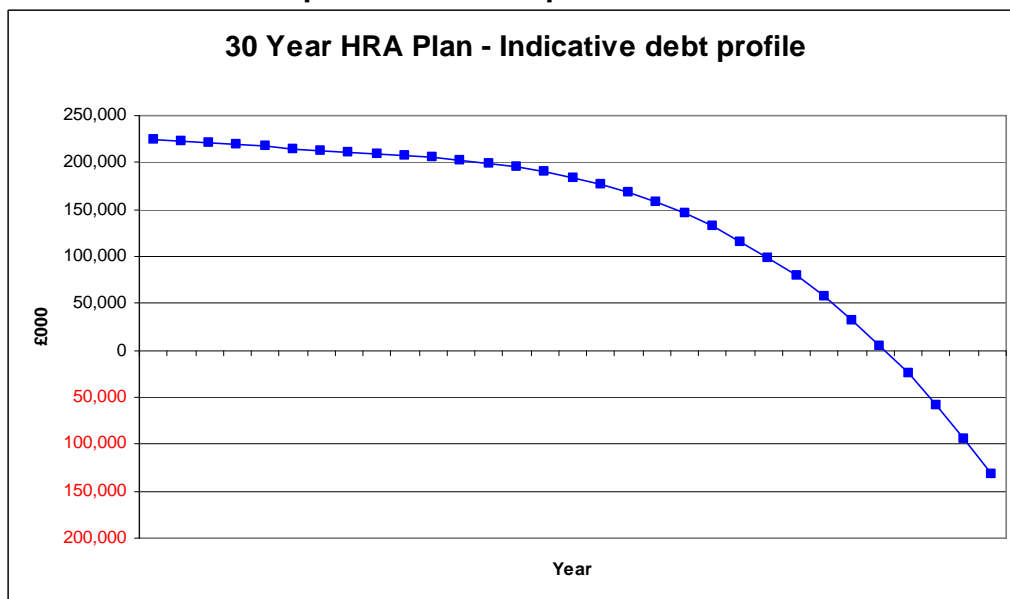
A larger investment programme could be sustained by reducing the debt more slowly or not repaying it at all, and several potential scenarios are presented below:

Scenario 1: £13m capital investment per annum



Note: This assumes no allowance for demolitions has been made in the debt settlement. Rent forecasts are however adjusted for planned demolitions. Under this scenario all HRA debt would be cleared by year 23.¹

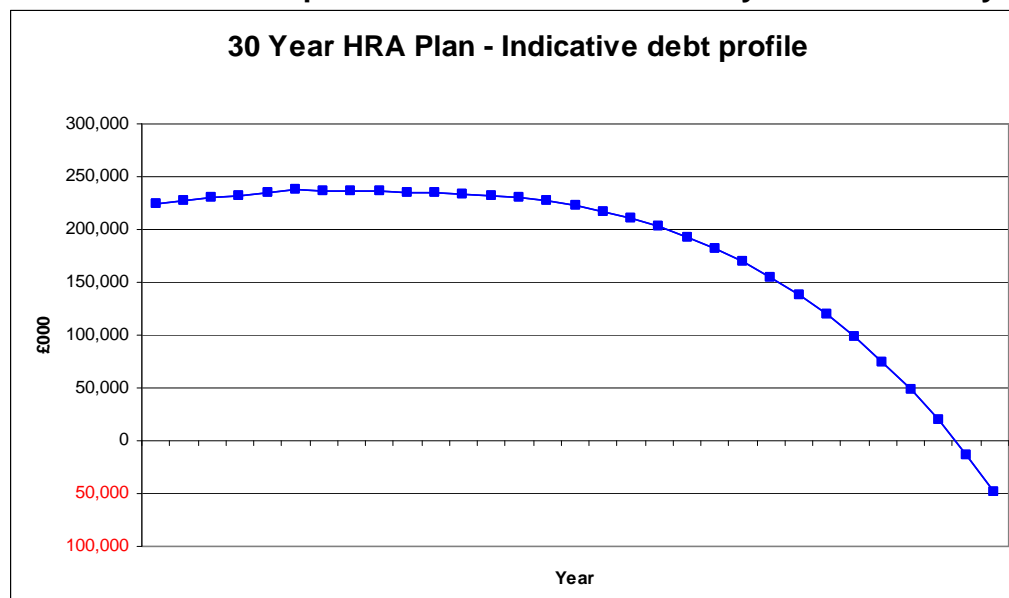
Scenario 2: £15m capital investment per annum



Note: This assumes no allowance for demolitions has been made in the debt settlement. Rent forecasts are however adjusted for planned demolitions. Under this scenario all HRA debt would be cleared by year 27.

¹ Table in Appendix 2, page 6 gives a detailed breakdown of the investment needs of the stock

Scenario 3: £19m capital investment for the first 5 years followed by £15m pa.



Note: This assumes no allowance for demolitions has been made in the debt settlement. Rent forecasts are however adjusted for planned demolitions. Under this scenario all HRA debt would be cleared by year 30.

3. Our Objectives

We believe that the new system will provide a firm basis for continuing to provide excellent services for council tenants and leaseholders, as well as much more local control to determining our priorities for investment with residents.

We will develop an investment programme that delivers against the following objectives:

- Maintenance of existing council homes to take account of the aspirations and expectations of residents, whilst ensuring that our statutory obligations as a landlord are fulfilled.
- Additional investment in some properties on our regeneration estates to take account of the long term nature of these schemes and the need to ensure that residents enjoy a reasonable standard of accommodation in the meantime.
- Prudent management of the HRA that allows for future contingences and a reduction of the HRA debt over time
- Opportunities to help the Council and its partners deliver against wider strategic objectives for the borough

4. Next Steps

A more detailed investment strategy will be developed during the coming weeks to take account of consultation with Barnet Homes' tenants and leaseholders that is

currently underway on their investment priorities. Their responses will feed into a full business plan on how the council housing stock will be managed and maintained from April 2012. The detailed investment strategy will also take account of a more detailed assessment of the ongoing investment needs of the council's housing stock, including the regeneration stock. Opportunities for assisting the Council deliver its wider strategic objectives will also be identified.

Appendix 1 - Key features of Self Financing for Council Housing:

The Government is seeking a settlement that takes account of potential income and costs over the next 30 years, and replaces the existing redistributive subsidy system with one that is funded through locally collected rents. The key elements of the proposal are:

- A redistribution of total £28.4 billion debt to stock owning local authorities by the Government and the abolition of the existing subsidy system.
- Increased allowances of 5% for management and maintenance, and 28% for major repairs have been factored into the settlement.
- Councils will keep all the rents they collect and use this to meet the cost of managing and maintaining their housing stock and servicing the increased debt, rather than making or receiving a contribution to or from the subsidy system as at present.
- Council rents will still be subject to government rent policy, which is to increase council rents at no more than RPI plus 0.5% each year until they converge with housing association rents², and controlled through rent rebate subsidy limits, although it will be possible to charge higher rents where these are used to support the building of new council homes.
- The impact of any demolitions of stock planned during the first few years of the new system will be taken into account when calculating the final settlement for individual authorities later this year.
- The Government will continue to retain 75% of right to buy receipts.
- The Government has reserved the right to reopen the settlement, but has clarified that this will only happen where there is a significant change at a national level in either stock condition requirements, such as the Decent Homes requirements, or in national rent setting policy. There is no expectation that individual settlements would be subject to change outside of this.

² Rents for Barnet council homes are expected to converge in 2015.

Appendix 2

Barnet Homes has recently completed the Decent Homes programme for council homes outside out the regeneration estates. This saw improvements worth £189m completed between over a seven year programme. The ongoing investment needs of the stock have been assessed at an average £13m a year as set out in the following chart:

Description	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	10 yr Total	2020/2042
Statutory	5.8	5.8	5.6	4.8	4.6	3.0	3.1	2.9	2.4	2.4	40.4	85.0
Adaptations	1.0	1.0	1.0	1.0	.08	.08	.08	.08	.08	.08	8.8	20.0
Decent Homes	2.4	3.8	6.4	6.9	4.9	4.6	4.4	3.9	3.9	2.9	44.0	100.0
Other – aerals, environmental energy efficiency	2.3	2.0	1.7	1.7	2.5	2.3	2.3	2.3	2.3	2.3	21.6	43.5
Other – salaries, voids, hostels	1.7	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	14.3	
Total	13.2	14.1	16.0	15.7	14.2	12.1	12.0	11.3	10.8	9.7	129.0	258.5

In addition, Barnet Homes has identified a potential additional spend of up to £20m on the regeneration estates that may need to be spent on keeping homes safe and in reasonable condition whilst they remain occupied. The following table shows what may be spent on each of the estates. These figures are approximations only and a more detailed investment plan for council housing will be reported to cabinet for approval as part of finalising the 2012 / 2013 budget.

Grahame Park	Dollis Valley	West Hendon	Stonegrove / Spur Road
£11.5m	£5.5m	£6.0m	£4.5m
		Total	£27.5m

The difference between the £20m additional spend, that has been identified, and the £27.5m total shown in the table is as a result of some monies already being allocated from the capital programme for this year and next.