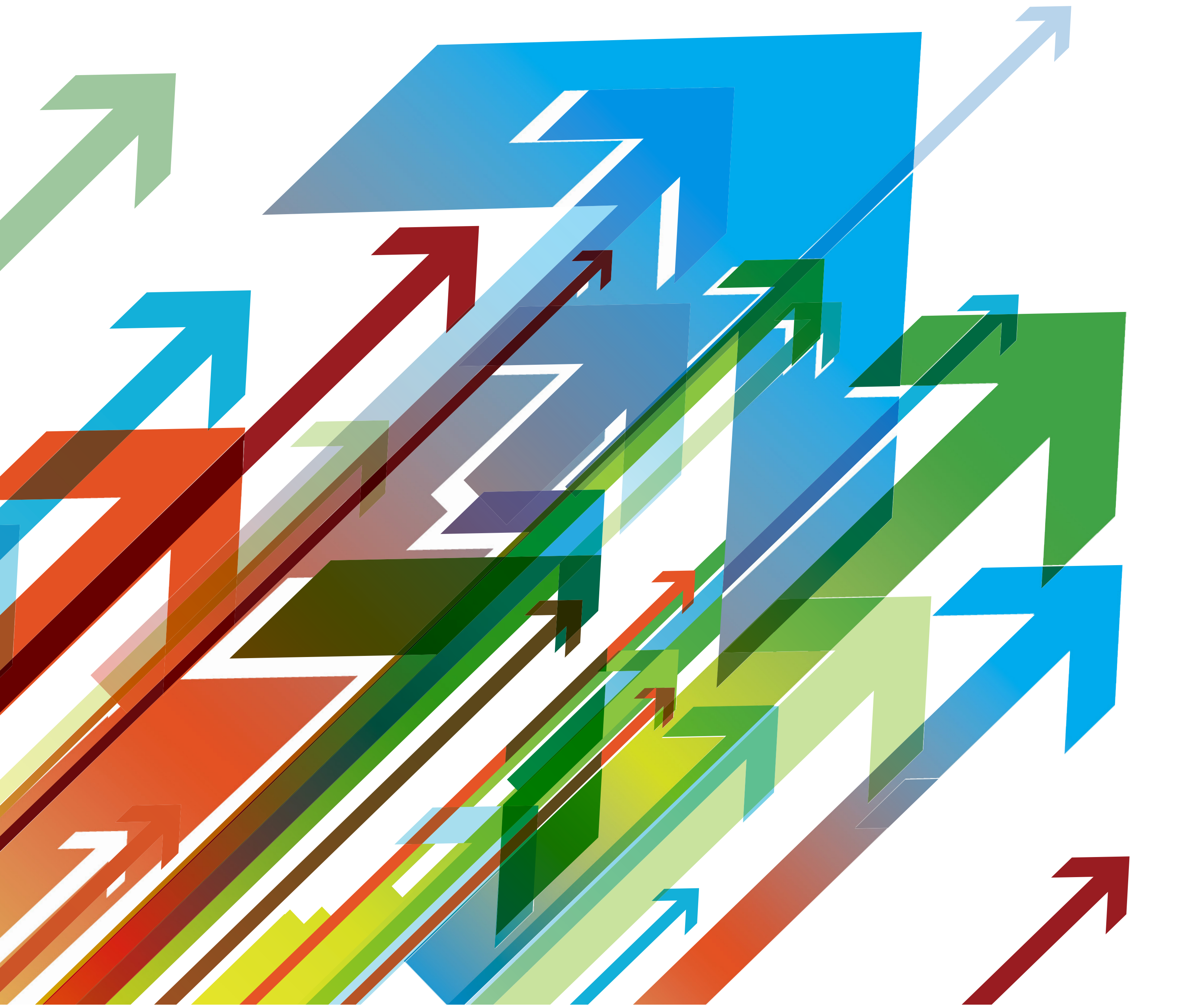
Arch
ASSOCIATION OF RETAINED COUNCIL HOUSING

Innovation and Ambition:
the impact of self-financing on council housing



cwag
Councils with ALMOs Group

HouseMark
Performance Improvement

Local Government Association

National Federation of ALMOs
championing better homes and communities

Table of contents

Foreword

April 2012 saw the most significant change in a generation to the way council housing is financed. With the end of the unfair and unpopular housing subsidy system, councils were freed to take a long-term view of their housing and manage it for the benefit of local residents in a more transparent, accountable and cost-effective way. In a joint statement issued at the time, the government and the LGA agreed that councils had a new opportunity to be both ambitious and innovative in how they manage, maintain and improve the housing stock, and to invest in new homes.

ARCH, in association with the Councils with ALMOs Group, HouseMark, the Local Government Association and the National Federation of ALMOs, commissioned the Chartered Institute of Housing to assess the impact of self-financing on council rent decisions and spending plans. This report sets out the results of that assessment, based on a survey of all English councils with housing, whether managed directly or through ALMOs, supplemented by case study visits to a selection of councils.

The assessment shows clearly that councils have seized their opportunity, raised their ambitions and begun a range of new initiatives made possible by the new finance system. Most have stepped up plans to invest in their housing, and many are planning to build new homes, often for the first time in many years. But it is also clear that councils could afford to do more if arbitrary restrictions on council borrowing were relaxed or removed.

The five organisations which have sponsored this research believe that it demonstrates that self-financing has been a success. Councils have used their new freedom responsibly and appropriately and will continue to do so. But the research also helps make the case for further freedoms – the relaxation or removal of debt ceilings which are preventing many councils from making the investment in housing which local residents need and planned rent income can easily support.

Councillor Paul Ellis, Chair
Association of Retained Council Housing

John Statham, Chair
Councils with ALMOs Group

Ross Fraser, Chief Executive
HouseMark

Sue Roberts, Chair
National Federation of ALMOs

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Executive Summary

April 2012 saw the biggest change for a generation to the way English local authority housing is financed. The housing revenue account subsidy system was abolished and replaced with a system of self-financing for council housing. Each council is now free to keep rent income in full and invest it as agreed with tenants and residents locally.

This is a momentous change which has released extra resources and is allowing councils to undertake long-term business planning free from disruption by a volatile annual subsidy settlement.

The Association of Retained Council Housing (ARCH) together with the Councils with ALMOs Group (CWAG), the National Federation of ALMOs (NFA), Local Government Association (LGA) and HouseMark has commissioned this research to answer two key questions:

What impact has this made?

How are councils responding?

The research consisted of two main elements. Firstly, all 167 stock owning councils were asked to complete a structured survey. This was followed up at seven authorities by a research visit to provide a more in-depth understanding of the local response. These visits formed the basis of case studies appended to the report. Survey responses were received from 81 councils (49%) covering 57% of the total local authority stock. This gives a sound basis to draw conclusions about the sector as a whole.

The survey found that councils are responding well to the new framework and are taking sensible and prudent decisions to manage and improve their housing stock and invest in new build. Councils are ambitious to do more and could safely afford to take on additional new build if current artificial restrictions on borrowing were lifted.

Councils have responded appropriately to the new self-financing framework

The survey responses and research visits demonstrate a sound approach to the new framework.

- The overwhelming majority (99%) of responding councils that responded have prepared a formal business plan based on a set of sound and reasoned assumptions and underpinned by a 30 year financial model.
- Nearly all councils (95%) are planning rent increases in line with the rent restructuring formula[1] to safeguard long term investment in stock. The average rent increase in 2012/13 was 6.24%, but because inflation is expected to fall, the average planned increase in 2016/7 is half that.
- Councils have begun to increase provision for bad debts in anticipation of the impact of welfare reform. They may be increased further as evidence accumulates on the impact of changes to the benefits system.
- Average interest rates on borrowing continue to remain low for the first five years rising from 3.48% to 3.82% and well below the costs of funds in the private sector.

Councils are investing responsibly

The move to self-financing replaced a subsidy system based on annual payments to or from government with a one-off adjustment to council debt.

The debt settlement was intended to allow each council, from rent income, to manage its stock and maintain it in a good state of repair for 30 years, or replace it where necessary, with enough over to meet debt interest and repay the debt over the same period. However, the time profile of planned investment and debt repayment varies significantly, reflecting local needs and circumstances.

[1] RPI + ½% + convergence factor

- All councils have put time and resources into understanding their financial position and have put together investment plans that reflect their individual circumstances and priorities.
- The majority of authorities are choosing to invest additional resources in expanded programmes of investment while managing their housing debt at a relatively stable level, ensuring the council remains in a prudent position to manage business plan risks.
- The top priority for the majority (over 60%) of councils is investment in their existing housing stock to ensure it meets and maintains the decent homes standard. In many cases authorities are going beyond this standard. Other activities featuring most often in the top three priorities are:
    - new build (71% of authorities);
    - regeneration (46%) and
    - the green agenda (39%).

This reflects the different positions that local authorities found themselves in at the start of self-financing. For some, the condition of their stock means that investment in the stock is the only priority. For those authorities that have achieved the minimum decent homes standard, the clear priorities are around achieving a full modern standard along with the development of new council homes and addressing energy efficiency/green issues.

- Over the next 5 years[2] councils will be investing at least £15 billion in their existing housing stock, an average of nearly £9,000 per property.
- Three quarters of councils are planning to provide new council housing - 20-25,000 units over the next 5 years. Local authorities are using a variety of approaches towards new build with regeneration (46% of councils) and garage and infill sites (24%) making up the majority.
- Of those authorities that have indicated they are planning to undertake new build, 50% are planning to use Affordable Rents to help finance the new homes. The other 50% are planning to continue to use Social Rents.

Councils and ALMOs have the capacity to deliver more

The self-financing settlement also involved the imposition of a cap on local borrowing. The cap is set significantly below the amount of borrowing councils could safely afford to repay. Most councils have some headroom within the cap to undertake additional borrowing, but 28 do not. The availability of headroom bears no relation to a council's need for additional borrowing or to its housing needs.

- Councils are planning to finance 75% of their planned investment either from their major repairs reserves (52%) or directly from revenue (22%).
- Some councils are also planning additional borrowing: £507million of borrowing is planned in the first five years. This is equivalent to 37% of available headroom and represents 6% of total planned investment.
- A significant number of local authorities (39%) are considering new build outside of the HRA although many of these schemes are at an early stage. These include building through ALMOs, through Housing Association partners and through special purpose vehicles.
- If debt caps were not in place, 25 councils in our sample estimate that they could build an additional 6,913 units over the next 5 years and 16,208 units over the next 10 years. Even this small sample clearly demonstrates that there is capacity to gear up investment programmes over and above the caps in place.
- The figures in this report are a snap shot of council plans six months after the start of self financing. Council plans are continuing to develop and restraints on borrowing are likely over time to become an obstacle for more and more councils.

It is for this reason that ARCH, together with the LGA, NFA and CWAG are arguing for restrictions on borrowing to be removed to enable councils to gear up their investment programmes to meet housing need. We estimate that, with the cap removed, councils would have the capacity to deliver up to an additional 60,000 homes over five years. This would require an additional £7 billion of borrowing which would be well within what councils could reasonably afford to borrow.

[2] based on an extrapolation of the survey data

Interest in the Right to Buy is increasing

While it is still early days in terms of the reinvigoration of Right to Buy, the effects are beginning to be felt and plans adjusted accordingly.

- 96% of respondents had experienced an increase in enquiries, 92% an increase in applications and 52% an increase in sales.
- In time, it is likely that the increase in applications will filter through to a greater increase in sales.
- Despite the increase in sales only 56% of respondents envisaged having additional receipts for reinvestment and these have been factored into local authority plans.

Councils and ALMOs are starting to deliver and gathering momentum

The findings paint a picture of a sector that has made a positive and proportionate start to the self-financing regime. There is scope to do more in many places and a number of authorities have been taking stock of the new landscape before committing further.

There is a considerable amount of good work in financial planning and risk management. This needs to continue as risks develop around welfare reform and new risks emerge around development or regeneration.

Overall, the sector has the financial capacity to do more within the constraints of the debt caps and even more if they were removed. There is a growing sense that councils and their ALMOs are beginning to expand their programmes and deliver against their priorities.

Introduction

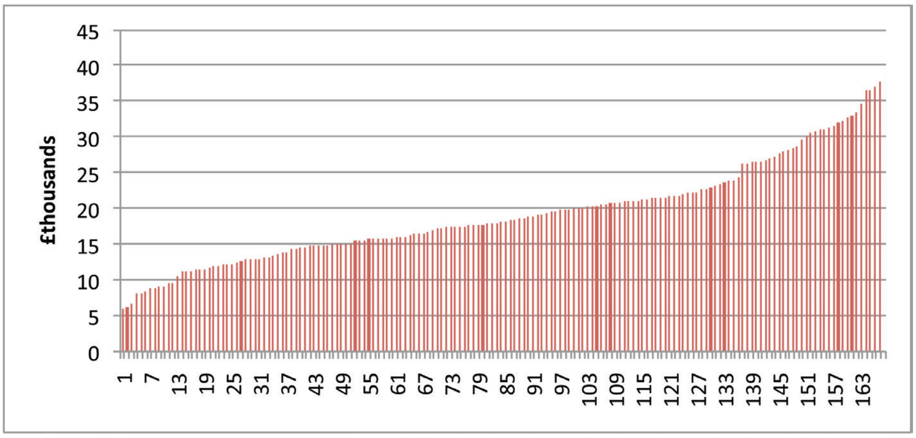
A new system of housing revenue account self-financing was introduced in April 2012. The previous housing revenue account subsidy system was switched off following a financial settlement that adjusted the debt levels of each local authority. Based on a valuation of each council's housing stock which gave a total value of £29.2 billion to council housing in England, 136 authorities took on new debt, while 34 received government payments to reduce their housing debt. These transactions saw the movement of over £18.5 billion in one day with the overall financial outcome a net receipt to Government of just over £8 billion.

It is widely acknowledged that the new system is a significant step forward for local authority housing, releasing extra resources for investment and allowing long term business planning free from disruption by a volatile annual subsidy settlement.

The debt settlement was designed to leave each council with a debt equal to a formula-based calculation of the net present value of its housing stock, roughly equivalent to the amount the council could afford to repay over 30 years from rent income, after allowing for the costs of managing the stock and keeping it in a good state of repair over that period. Allowance was made in the calculation for the different costs associated with different dwelling types and ages, which yields a range of valuations, as shown in Exhibit 1.

No account, however, was taken of the actual condition of the stock on the day of the settlement, which varied widely among different local authorities. While other mechanisms have been put in place to address backlogs against the decent homes standard, variations in the condition of the current stock is a major factor in determining variation in the priorities, viability and sustainability of business plans.

Exhibit 1 – Distribution of net present value per property by local authority

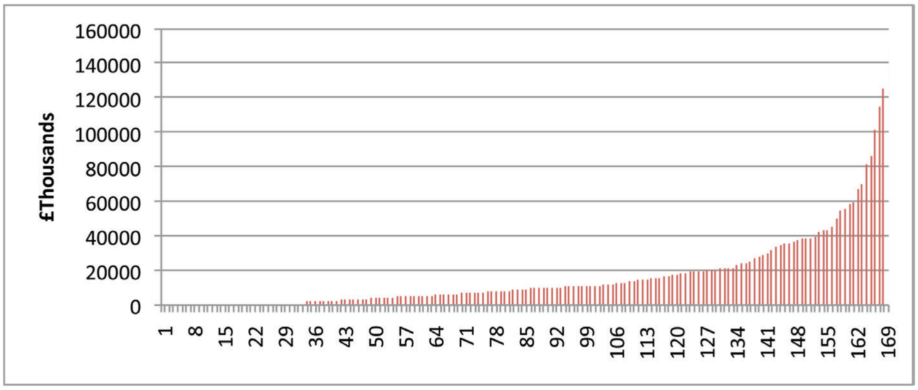


Source: Analysis of self-financing settlement CLG February 2012

Post settlement, local authorities are free to use the whole of rental income to support investment in housing. Investment can either be financed directly from rent income or from borrowing that will be repaid from rent income in future. In the housing association sector, borrowing is limited only by what associations can afford to repay from rental income. However, in the local authority sector the Government has introduced an additional limitation on borrowing (usually referred to as a 'debt cap') for each local authority to prevent the excessive exposure of the national finances to local authority borrowing for housing purposes. The debt cap for each local authority is based on the notional value of its housing stock plus adjustments to allow for recent investment via the Local Authority New Build programme of 2009-2011. These caps limit overall local authority housing debt to £29.8 billion.

In most local authorities, because of historic financing decisions, the actual housing debt is less than the notional debt derived from the stock valuation, which is used to calculate the borrowing limit. This means that most local authorities (85%) have headroom for borrowing underneath the cap which in total amounts to £2.8 billion – just under 10% of the total borrowing limit. However, twenty eight councils have begun the new system with no borrowing headroom following the settlement.

Exhibit 2 – Distribution of headroom by local authority area



Source: Analysis of self-financing settlement CLG February 2012

As can be seen from the chart, there is a wide range of headroom available to local authorities. However, this is in many ways a product of a complex and very technical history, and, as with the overall settlement, does not reflect the level of need at the point of settlement.

For these reasons, councils have entered self-financing from very different starting points, depending on the differences in their stock and their ability to borrow. The impact of self-financing will therefore differ in each council according to its particular starting point and the policy choices made in response to it and incorporated in the council's business plan. Self-financing also requires councils to develop new skills and competences rarely required under the old subsidy system, principally the ability to plan for the future of their housing stock over a much longer time frame and make long-term decisions about rents, investment and debt management. Councils now face future uncertainties associated with rent collection, inflation and fluctuations in interest rates without the prospect of rescue by subsidy payments and must develop the capacity to successfully manage these risks.

It is against this backdrop that the Association of Retained Council Housing (ARCH) together the Councils with ALMOs Group (CWAG), HouseMark, the Local Government Association (LGA) and the National Federation of ALMOs (NFA) commissioned CIH to undertake research into how the sector has approached the implementation of self-financing. The aim of the research was to understand how councils are responding to the introduction of self-financing, to identify any trends around business planning which might form part of an evidence base for future development of the system and to identify potential development and support needs. Specifically:

- To assess and analyse planned local authority housing capital investment and borrowing, over the first five years and beyond;
- To analyse income and revenue expenditure assumptions underpinning capital spending and debt reduction plans and evaluate vulnerability to risk;
- To evaluate councils' preparedness for the new challenges posed by the implementation of self-financing and identify particular needs for support, capacity-building or development.

The findings of this research might also usefully be used as a 'benchmark' against which to measure future trends and developments as the new system becomes embedded.

A research plan was constructed consisting of two main elements. Firstly, a survey was sent to the 167 councils which still have housing stock and operate a housing revenue account. Secondly, follow up visits were conducted at seven local authorities to get a better understanding of the underlying approach, assumptions and plans of some authorities. These have been included in the report as case studies. Detailed findings from the questionnaire can be found at Appendix 1. These findings have been used to inform the analysis within the report.

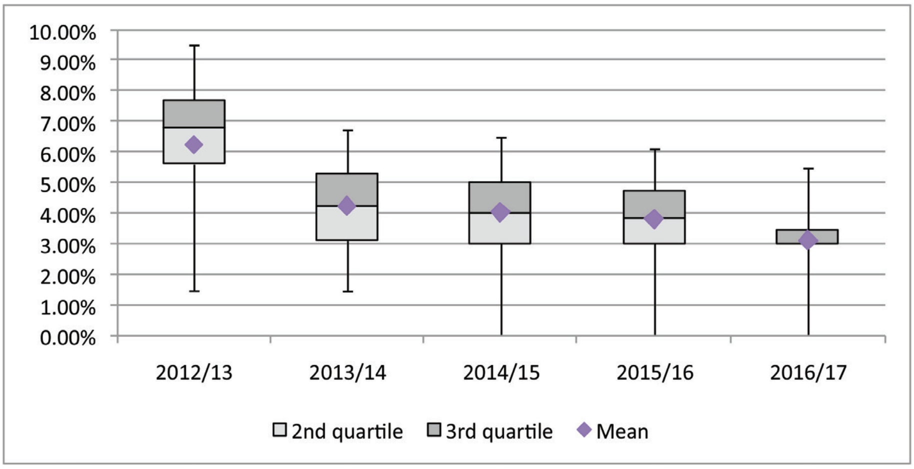
The sector has responded appropriately to the new self-financing framework

It is clear from the survey responses and research visits that the sector has responded positively to the new self-financing framework. 99% of the local authorities that responded to the survey had gone through a business planning process and produced a business plan underpinned by a 30 year financial model. 58% of authorities have produced a business plan document setting out the financial policies and priorities for investment in the new system.

An effective plan needs to be underpinned by good information around the needs of the housing stock. This has always been the case. However, the move to self-financing reinforces the need to understand the future financial requirements of the stock and put in place a plan to meet them. It also allows wider asset management options to be considered in light of the forecast financial position. In the run up to self-financing 68% of authorities updated their asset management strategy to reflect the new position.

The financial models have been underpinned by a set of assumptions. In the survey we asked for details of the key financial assumptions over a five year period. The following charts show the results.

Exhibit 3 - Assumptions on rent increases



Source: HRA Self-financing Survey

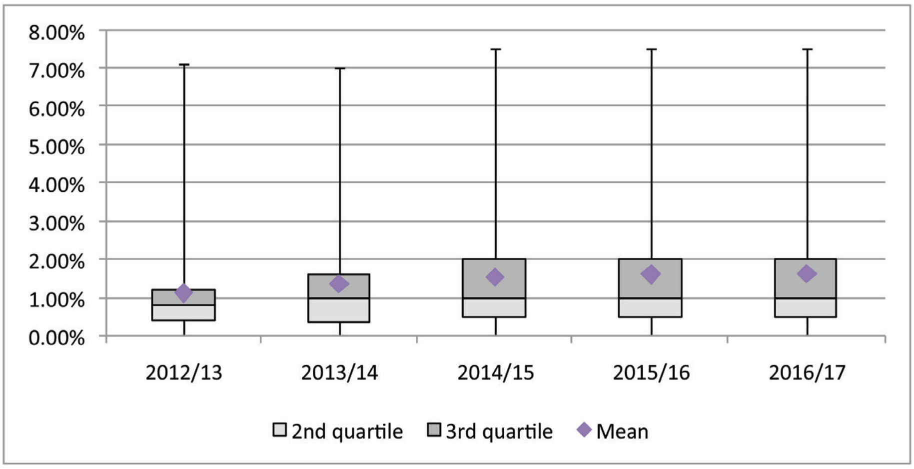
The self-financing settlement for each council is based on the assumption that rents will increase annually in line with pre-exiting government policy of a rent restructuring formula of ½ % more than the increase in the Retail Price Index (RPI) plus the amount required to meet convergence targets. Councils opting for increases below this formula may be unable to meet future investment needs. Councils opting for higher increases are likely to suffer some loss of HB subsidy. Nearly all councils (95%) are planning rent increases in line with the formula to safeguard long-term investment in the stock. Average rent increases were 6.24% in 2012/13, influenced by a high September 2011 RPI figure, but fall steadily year by year, reaching half that (3.13%) by 2016/17, reflecting an expected fall in RPI but also the fact that some authorities expect to achieve convergence.

Looking further ahead, rental policy across the social housing sector post-2015 is as yet undecided. Any change to assumptions in national rent policy post-2015 will need to be considered carefully in terms of the impact on housing business plans [3].

A number of authorities have taken the opportunity presented by self-financing to agree longer term rent policies that give additional stability to business plans in the early years. The move to self-financing has also presented opportunities to alter rents between property types within a stable financial settlement as shown in our Southampton case study (appendix 2).

[3] Change to the long term rent increase inflation assumption at the national level is one of the core assumptions that might trigger a re-opening of the self financing settlement under the terms of the Localism Act.

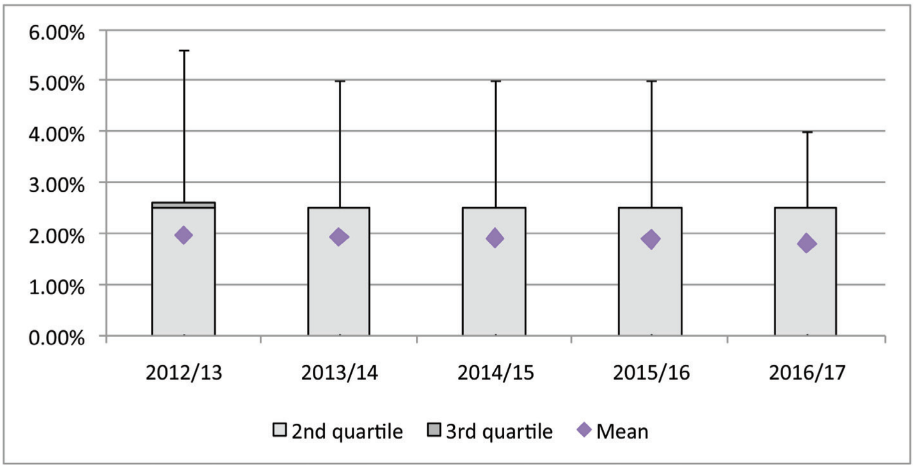
Exhibit 4 - Assumptions on bad debts provision



Source: HRA Self-financing Survey

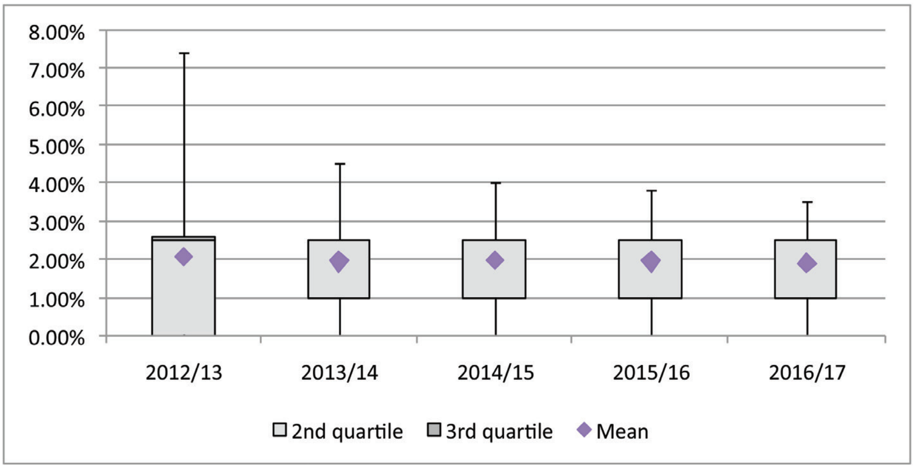
The level of bad debt provision within business plans averages 1.11% in 2012/13 and rises to 1.61% by 2016/17. This increase reflects the level of uncertainty regarding income collection under welfare reform and appears to represent a prudent response to the forthcoming changes to housing benefit and Universal Credit. These assumptions may need to be revised in light of findings from the demonstration projects currently being undertaken to evaluate the impact of direct payments to social tenants on the levels of arrears.

Exhibit 5 - Assumptions on income inflation



Source: HRA Self-financing Survey

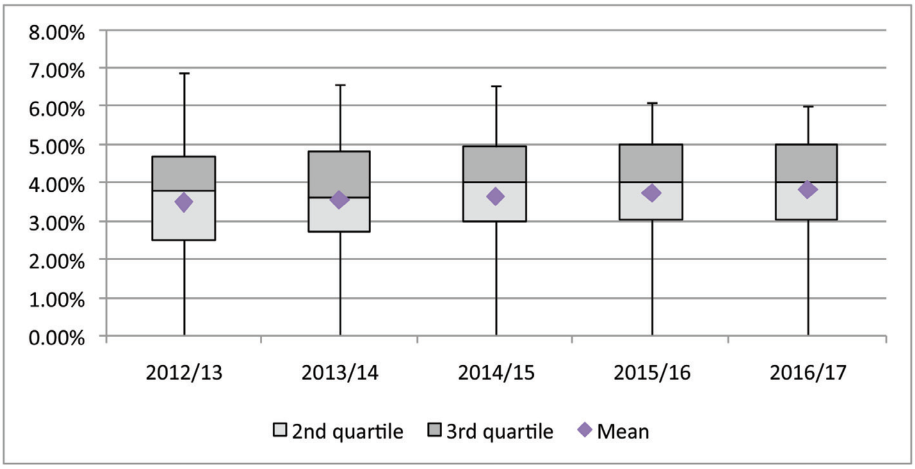
Exhibit 6 - Assumptions on expenditure inflation



Source: HRA Self-financing Survey

Income inflation is running at slightly below 2% for the first five years with expenditure inflation running slightly higher but again around the 2% mark. This is consistent with the long term inflation target set by Government and is a sensible approach.

Exhibit 7 - Assumptions on interest rates



Source: HRA Self-financing Survey

The interest rates achieved at settlement were at historically low levels and the debt servicing costs of the sector are forecast to remain low when compared to the costs of funds in the private sector, rising from 3.48% to 3.82% for the first five years. This reflects the average long term low interest rate debt taken on by many local authorities at settlement and an expectation of continued low interest rates available through the Public Works Loans Board.

A key element in making a success of self-financing will be appropriate governance input into the strategic direction of the housing service and oversight of the business plan. Good governance is recognised as playing a crucial role in driving effective delivery. Arguably, the move to self-financing requires a different set of skills compared with the previous system. When added to the requirements of the regulatory framework around tenant scrutiny, some local authorities have taken the opportunity to reform their governance and scrutiny arrangements to better fit the new arrangements.

Local authorities have put in place different governance arrangements relating to their business plans and these depend on the overall governance arrangements at each council. In the majority of authorities, the self financing business plan has been approved by Cabinet or Council and via formal scrutiny processes.

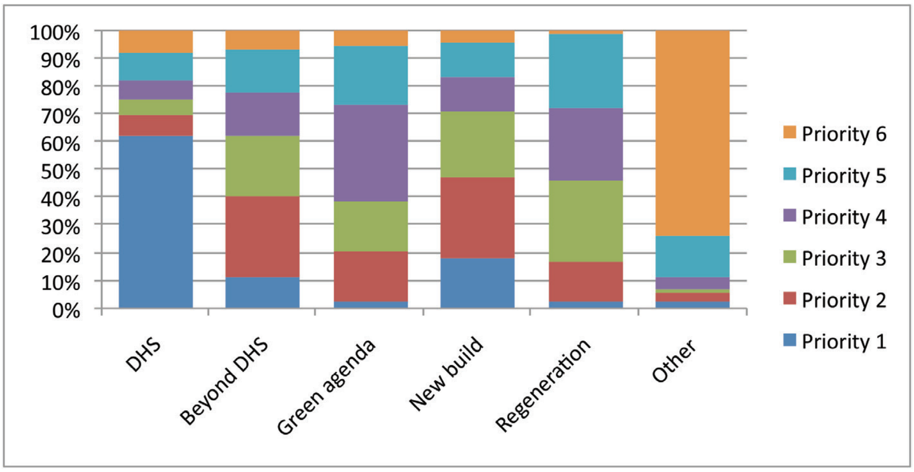
Where the authority has delegated management to an ALMO, as expected, partnership working with the council has been the normal approach and effective governance put in place which recognises both the role of the ALMO board and the role of the Council.

Where no ALMO is in place, a number of authorities have also established specific housing management boards bringing together councillors, tenants, officers and in some cases independent members to oversee the production and monitoring of the HRA business plan. In other authorities, tenant engagement structures have been used to obtain tenants' views and to feed into the council's priorities. There is no 'one size fits all' solution in this area with many appropriate configurations set firmly in the local context. A combination that involves elected members, tenants and officers with the potential for additional independent input around specific areas such as housing finance, development or regeneration, whether via an ALMO or 'in-house' governance mechanism appears to offer an appropriate mix.

Councils are investing responsibly

All local authorities have put time and resources into understanding fully their financial position and are putting together investment plans that reflect their individual circumstances and priorities. Within the questionnaire we asked local authorities to rank their priorities for investment.

Exhibit 8: Distribution of the top 6 local authority investment priorities



Source: HRA Self-financing Survey

The first priority for the majority (63%) of authorities is investment in their stock to reach and maintain the decency standard. This is followed by new build (18%) and investment to reach a full modern standard i.e. beyond the minimum decency standard (11%).

This reflects our experience of working with the sector around self-financing business plans. Authorities broadly fall into one of three main types.

Type 1: For the majority, the additional resources are sufficient to meet the decent homes needs of the stock, perhaps with some initial use of borrowing headroom and other available resources. Over the short to medium term, resources grow allowing investment into other priorities such as new build.

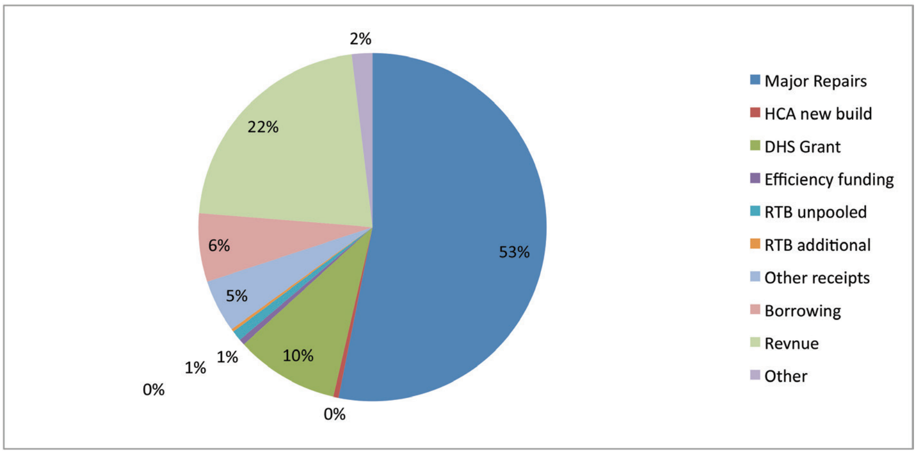
Type 2: For some, decent homes work is complete and the business plan has capacity to invest from the outset in other priorities, either through revenue or the use of borrowing headroom. These may include: improvements beyond the minimum decent homes standard, investing in new build and regeneration and/or investment to improve energy efficiency; these local authorities have started to invest further or are in various stages of planning for enhanced programmes.

Type 3: For a minority, even with the increased resources distributed within the settlement and including decent homes backlog funding, the needs of the stock cannot be met in the short term. In these cases the priority is to find a solution that meets the stock needs which may include looking at alternative management options, (e.g. stock transfer) to bring further investment or regeneration and redevelopment. These authorities have no immediate financial capacity to prioritise investment in other areas.

Overall, 70% of authorities are planning to invest in the development of new homes as one of their top three priorities. Over 60% are planning to undertake work beyond the decent homes standard as a priority investing in areas where there were previously insufficient resources to do so. Only a small minority (18%) have new build as a lower (fifth or sixth) priority, generally those with a greater backlog of need around decent homes.

The councils who responded to the survey are planning on investing £7.9 billion over the next 5 years on delivering their priorities. The financing for this investment comes from a variety of sources as set out in the following exhibit.

Exhibit 9: Sources of finance for housing capital expenditure



Source: HRA Self-financing Survey

As expected, the majority (£4.2 billion or 53%) of capital expenditure will be financed by the major repairs reserve made up from money set aside, via a depreciation charge[4], to fund future capital works. In comparison, the self-financing settlement assumes that the same local authorities would have received £4.3billion in major repairs allowances over the same five-year period. The remaining £100m may be set aside for debt repayment or reserved to fund liabilities beyond the first 5 years).

Authorities are also planning to make significant contributions to capital expenditure from their revenue resources. £1.7 billion or 22% of the capital investment identified is being funded from revenue over and above their major repairs reserve contribution. It is not clear from the survey whether the allocation of additional revenue is earmarked towards specific investment priorities – our sense is that additional revenue is being used to 'top up' investment programmes delivering a combination of the priorities listed previously, and not necessarily all on stock improvement works.

Some authorities are also planning for borrowing to meet some of the funding requirement of their capital programmes. £507million of borrowing (representing 6% of all capital spend) is included in capital financing plans in the first five years of self-financing against headroom of £1,374million for that cohort of authorities. This represents 37% of borrowing capacity. Those authorities that have plans to borrow appear to be doing so for a variety of reasons, again depending on the full range of investment priorities.

The remaining financing is planned to come from traditional Right to Buy or other capital receipts (6%), specific grants (decent homes backlog funding; energy efficiency grants; new build grant from the Homes and Communities Agency) amounting to 11%. Other sources account for around 2%. Local authorities are expecting to generate additional receipts from the reinvigoration of Right to Buy but not sufficient to contribute a significant percentage of funds for investment. This is a prudent assumption at this stage of the introduction of the new policy. Any additional resources generated for reinvestment can supplement other funding sources as and when they arise.

If these results were extrapolated across all local authorities, they would lead to an investment in local authority housing of at least £15billion over the next 5 years, an average of nearly £9,000 per property over that period.

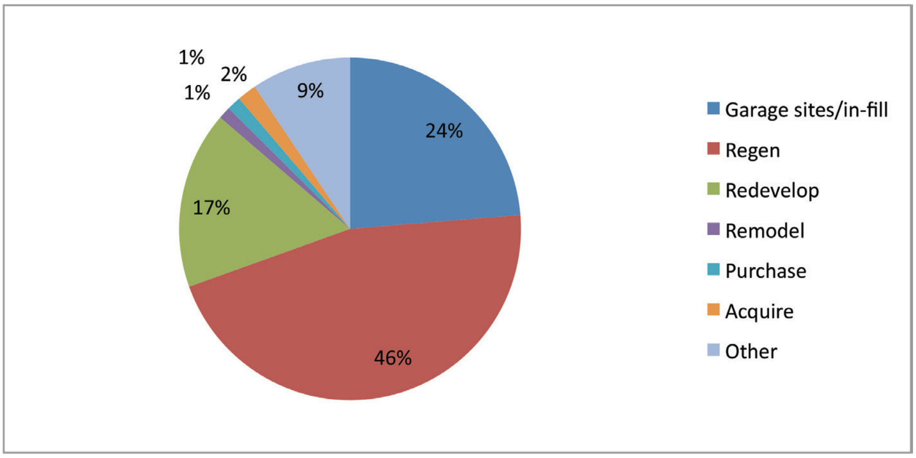
We asked specifically about local authorities' plans and intentions around the development of new homes. Overall, 62 (76%) of authorities that replied to the survey are planning to undertake some form of new build over the next five years. 51 authorities provided details of the number of new homes planned, amounting to 11,114 units. Extrapolated to cover all local authorities, this suggests investment to deliver between 20,000 and 25,000 new council homes over the next five years.

[4] Depreciation in the housing revenue account in line with International Financial Reporting Standards is being phased in over the first 5 years of the new system; as the settlement included a major repairs allowance as proxy for this charge, in this research, the terms depreciation and major repairs allowance/reserve are used interchangeably.

From the responses to the survey and the visits undertaken within this research, it is clear that local authorities are at different stages of preparedness in relation to new build. Some authorities already have firm plans in place around new build and have started to develop. The majority that expressed an interest in development appear to be progressing plans now for delivery but are not yet physically building. This is particularly true of authorities that have no recent experience of development and are taking time to procure or develop the necessary skills. This is an area where further support to authorities might be helpful and a number of sector-wide events are beginning to address this.

Local authorities are proposing to use a variety of new approaches to new build as shown in Exhibit 10.

Exhibit 10 – Breakdown of development by type (%of units)



Source: HRA Self-financing Survey

A significant proportion of development is forecast to be on large regeneration (47% of units) schemes. Many of the smaller schemes are on garage and infill sites (22%) with 17% on redevelopment of existing units. 10% of units are in schemes that have been classified as other or not known as plans are not yet fully formed.

Of those authorities that have indicated that they are planning to undertake new build, 50% are planning to use Affordable Rents[5] to help finance the new homes. Among these authorities, levels of affordable rent varied from 60 – 80% of the market rent. 50% are planning on the continued use of Social Rents.

Councils have the capacity to deliver more

Local authorities have made a good start to their self-financing journeys and appear to be investing the resources available prudently. However, could they be doing more? In principle, councils have the financial capacity to do more within current borrowing restraints (debt caps), and even more if they were removed. Councils with borrowing headroom are not planning to make full use of it in the short term. Councils are of course free to decide what amounts of investment and borrowing to include within their business plans, and some may have decided that they can meet local housing need without using the full extent of their borrowing capacity. Others have the appetite to do more but were, at the time of our survey, still focussed on developing firm plans and building the necessary capacity to undertake the necessary expansion of investment. Discussions with a number of authorities . demonstrated that they still have work to do, following the settlement, to bring forward firmer plans to deliver on priorities. Also, in many cases, councils are proceeding cautiously while uncertainty remains about the impact of welfare reforms on future rental income.

However, the plans of some local authorities are constrained by the operation of the debt cap. Of those that responded to the survey, 10 authorities are planning to fully utilise their headroom suggesting they are making use of all resources available.

[5] Affordable Rent here defined as a level of rent above social rents but below market rents in line with the HCA's Affordable Homes Programme.

In the questionnaire we asked authorities if they could deliver additional new homes if the debt cap was not in place. 25 authorities responded to this by providing estimates that they could build an additional 6,913 units over the next 5 years and an additional 16,208 over the next 10 years if the cap was not in place. This sample is too small to support extrapolation to the sector as a whole. A recent report by the National Federation of ALMOs *(Let's Get Building)* drew on the initial estimates from this study. These figures are very tentative and probably reflect reluctance to express a view given the reality that investment is still capped. Taking this reluctance into account, but also bearing in mind limitations such as land and organisational capacity, possible additional investment of £7bn over five years, to produce an extra 60,000 extra homes in total, would appear a reasonable estimate of the sector's maximum additional new build capacity. This is set against a theoretical maximum financial capacity within the overall national council housing asset and resource of anything up to £27.5billion.

It is difficult to accurately predict the level of additional homes that could be built. Local authorities are undertaking work to deliver within the current framework. However, extrapolating from those that did respond fits with our estimate of up to 60,000 new homes.

Interest in Right to Buy is growing

In April 2012, the Government increased the maximum discount available to local authority housing tenants purchasing under the Right to Buy scheme to £75,000 in all local authority areas. In March 2013, the maximum discount in London was further increased to £100,000. The Government's aim to reinvigorate Right to Buy and increase the number of sales was matched by a commitment to use the additional receipts arising to fund the provision of replacement social[6] housing. Councils were offered the opportunity to retain these receipts for local reinvestment in accordance with a somewhat complex Government scheme intended to ensure one-for-one replacement at an aggregate national level. The self-financing settlement already included an assumed annual receipt from Right to Buy sales and the replacement scheme applies only to receipts additional to this. This makes the scheme design somewhat complicated. The increase in the maximum discount in April 2012 was accompanied by a Government publicity scheme intended to raise awareness of the changes and stimulate new applications to buy. It was unclear what impact this would have in different areas due to the large number of other factors at play likely to affect the level of take-up, including affordability, mortgage availability and general economic confidence. We asked local authorities how it was going.

96% of respondents had experienced an increase in Right to Buy enquiries; 92% an increase in applications and 52% an increase in sales. 56% of respondents thought they would have additional receipts for re-investment as a result of the reforms totalling nearly £34 million has and these have been factored into business plans. Nearly £25 million of this relates to London authorities. The lower percentage of respondents reporting increased sales is likely to reflect the fact that, at the time of the survey, many applications were too recent to have fed through into sales. More recent national data shows bigger increases in sales. We also asked what other options authorities were considering in relation to the building of new homes. A significant number (39%) are considering new build schemes outside of the HRA although many of these schemes are at an early stage of development. These schemes include building through an ALMO; through a traditional housing association route or through the establishment of a special purpose vehicle, and some examples of these are contained in the case studies.

Other issues

The survey also asked whether the authority had created a separate loan pool to manage HRA debt. Of the 75 authorities that responded, 51 (68%) had done so. This appears to be dependent on the differing opening debt positions at an authority and the ease with which one pool could still be managed under a single treasury management strategy.

[6] Affordable Rent here defined as a level of rent above social rents but below market rents in line with the HCA's Affordable Homes Programme.

Appendix 1 – Survey analysis

Summary

From the initial 167 on-line survey requests in September 2012 we have had a response of 81 completed surveys, of which 6 were partially completed. The survey covered all stock holding local authorities in England.

The table below shows the total number of requests and responses, broken down by geographical regional areas and stock numbers:

Region	Surveys Requested		Surveys Returned			
	No of Authorities	Total Units	No of Authorities	%	Total Units	%
East	24	161,200	11	46	75,581	47
East Midlands	24	173,808	16	67	120,524	69
London	29	413,324	13	45	222,234	54
North West	10	93,202	5	50	66,606	71
South East	31	174,056	13	42	91,165	52
South West	15	100,885	9	60	71,696	71
West Midlands	14	208,419	6	43	127,631	61
Yorkshire/Humberside and North East	20	360,312	8	40	186,703	52
	167	**1,685,206**	**81**	**49**	**962,240**	**57**

The survey received a response rate of 49% with a fairly even spread across the regions. Responding councils covered 57% of all units in England, again with a reasonable spread across the regions.

The following summarises the responses, question by question for all of the completed surveys.

Q2. Do you have a HRA business plan model? (Yes/No)

A total of 81 authorities responded positively to this question, representing 99% of the total responses and we understand that the one authority that does not currently have a business plan model is in the process of completing a model ahead of the 2013.14 financial year.

Q3. Does the business plan model run over 30 years?

Of the 80 authorities with a business plan model only 1 authority does not forecast using a 30 year timeframe. No details were supplied as to the actual length of their forecast. This demonstrates that the sectors 'norm' has been adapted for assessing the viability of their plans.

Q4. Is your business plan model integrated with your treasury management modelling? I.e. do your business plan outputs inform and shape your treasury decisions?

Currently, of the 81 authorities, 11 (14%) responded that their modelling does not shape their treasury decisions.

Q5. Have you written a new business plan document?

Of the 80 authorities with a business plan model, 34 (42%) are yet to write text or a business plan document that accompanies their modelling. However, 4 authorities did reply in that they have something in draft format, will be updating previous text or publishing something early in time for the new financial year.

Of the positive responses the vast majority (82%) have written lengthy documents of thirty pages of more, whilst the remainder have integrated text into their Council wide medium term financial strategy, asset management strategy or shorter executive summary type documents.

Q6. What assumptions have been used to underpin the business plan in the first 5 years? - Rent (% increase)

	2012.13	2013.14	2014.15	2015.16	2016.17	Mean Average
East	5.95	4.29	4.02	3.90	3.18	4.3
East Midlands	7.06	4.34	4.27	3.88	3.25	4.6
London	7.08	4.31	3.93	3.72	3.35	2.5
North West	6.78	4.66	4.59	4.12	2.92	4.6
South East	4.98	3.66	3.57	3.51	3.18	3.8
South West	4.14	2.98	2.97	3.02	2.33	3.1
West Midlands	6.56	5.04	5.01	4.65	3.62	4.5
Yorkshire/Humberside and North East	7.45	5.34	4.58	4.31	3.06	5.0
England Average	**6.24**	**4.24**	**4.03**	**3.82**	**3.13**	**4.3**

Of the 81 authorities, 4 did not reply with their forecast rent increases and are therefore excluded from the above analysis. In 2 instances, rent increases are below the 'norm' of 2.5% or just at inflation only, suggesting a divergence from the rent restructuring policy.

Q7. What assumptions have been used to underpin the business plan in the first 5 years? - Bad Debt Provision (% of rent debit)

	2012.13	2013.14	2014.15	2015.16	2016.17	Mean Average
East	0.71	0.82	1.05	1.35	1.55	1.1
East Midlands	1.01	1.27	1.53	1.61	1.59	1.4
London	1.02	1.77	2.02	2.12	2.15	1.8
North West	1.24	2.13	2.58	2.56	2.56	2.2
South East	0.91	1.03	1.14	1.17	1.17	1.1
South West	0.53	0.79	1.12	1.36	1.43	1.0
West Midlands	1.23	1.53	1.62	1.87	1.88	1.6
Yorkshire/Humberside and North East	1.28	1.44	1.69	1.31	1.34	1.4
Overall Average	**0.96**	**1.29**	**1.53**	**1.61**	**1.65**	**1.4**

Of the 81 authorities, 6 did not reply with their forecast bad debt provision and are excluded from the above analysis.

Perhaps, as expected, authorities have started making provision for the impact of welfare reform by increasing their provision for bad debts for rental income. Whether this will be sufficient remains to be seen and is one of the key variables that needs to be stress tested within HRA business plans.

Q8. What assumptions have been used to underpin the business plan in the first 5 years? - Income inflation (%)

	2012.13	2013.14	2014.15	2015.16	2016.17	Average
East	2.48	2.29	2.25	2.15	2.00	2.24
East Midlands	1.42	1.97	1.90	1.89	1.86	1.81
London	1.51	1.51	1.47	1.47	1.51	1.49
North West	2.63	2.01	2.01	2.01	2.01	2.13
South East	2.54	2.36	2.34	2.32	2.30	2.37
South West	2.52	1.81	1.74	1.64	1.36	1.81
West Midlands	2.39	2.27	2.35	2.39	2.34	2.35
Yorkshire/Humberside and North East	0.92	1.21	1.28	1.33	1.19	1.18
Overall Average	1.97	1.93	1.91	1.88	1.81	1.90

There appears to be little variation across the regions and also a slight decrease in future inflation increases towards the end of the five years, showing some cautiousness within the plans. Generally we are seeing assumptions below what might be expected core RPI/CPI inflation of 2.5% per annum.

Q9. What assumptions have been used to underpin the business plan in the first 5 years? - Expenditure inflation (%)

	2012.13	2013.14	2014.15	2015.16	2016.17	Average
East	3.07	2.39	2.35	2.25	2.25	2.46
East Midlands	1.44	1.63	1.73	1.73	1.61	1.63
London	1.55	1.56	1.52	1.52	1.69	1.57
North West	2.01	2.01	2.01	2.01	2.01	2.01
South East	2.50	2.31	2.28	2.27	2.24	2.32
South West	2.39	1.98	1.95	1.88	1.72	1.98
West Midlands	2.17	2.14	2.20	2.20	2.20	2.18
Yorkshire/Humberside and North East	1.79	1.95	2.03	2.08	1.94	1.96
England Average	**2.06**	**1.96**	**1.97**	**1.95**	**1.92**	**1.97**

Unsurprisingly there is quite a close relationship between income inflation and expenditure inflation. Again the rate of inflation applied is below perhaps what might be expected, but could demonstrate that authorities are looking for efficiency savings to match income resources.

Q10. What assumptions have been used to underpin the business plan in the first 5 years? - Interest Rates (%)

	2012.13	2013.14	2014.15	2015.16	2016.17	Mean Average
East	2.95	3.18	3.27	3.36	3.46	3.2
East Midlands	2.79	2.93	3.18	3.41	3.53	3.2
London	4.16	4.27	4.25	4.19	4.17	4.2
North West	4.69	4.74	4.81	4.73	4.69	4.7
South East	3.42	3.17	3.25	3.41	3.54	3.4
South West	2.77	2.70	2.72	2.88	3.22	2.8
West Midlands	3.89	3.95	4.10	4.19	4.30	4.1
Yorkshire/Humberside and North East	4.16	4.36	4.38	4.36	4.36	4.3
England Average	3.48	3.54	3.64	3.73	3.82	3.6

The areas where lower levels of debt take-on following self-financing show higher interest rates due to existing facilities and not being able to take on the PWLB discounted rates for the transaction.

Q11. Do you intend to update your written business plan in full in the next year?

Of the 78 authorities that responded to this question, 53 (68%) said that they would be updating their business plan text within the next year.

Q12. Have you updated your asset management strategy in light of self-financing?

Of the 81 authorities, 52 (64%) responded that they have updated their asset management strategy following self-financing, 23 (28%) have not and 6 (8%) declined to comment.

Q13. What are the governance arrangements for your HRA business plan? E.g. council/scrutiny; ALMO lead; ALMO-Council joint body; in-house board

Governance arrangements:	Number
ALMO – Jointly with the Council	11
ALMO lead	5
Council – Full	4
Council – Cabinet	17
Council – Scrutiny	19
Council – Executive	3
In-House Team with Council Input	5
'Community Housing Board' type arrangement	6
Total Responses	**70**

There were 5 authorities which have a 'Community Housing Board' arrangement that consists of elected members, tenant representatives and some with independent stakeholders.

Q14. Self-financing delivers more capital resources for authorities. In increasing your programme, please rank the additional areas you prioritised (1 highest).

Priority	Decent Homes	Increased standard beyond decent homes	Investment in green agenda/ energy efficiency	New Build	Regeneration or re-development	Other
1st	**45**	8	2	13	2	2
2nd	5	**21**	13	**21**	10	2
3rd	4	16	13	17	**21**	1
4th	5	11	**25**	9	19	3
5th	7	11	15	9	19	11
6th	6	5	4	3	1	**53**

Of the 72 responses, 45 (63%) authorities identified that achieving and maintaining decent homes was their first priority. New build and increased standards beyond decent homes were both identified as the second most important priority with 21 (29%) authorities respectively.

Q15-Q25. What is the total size of your capital programme in each of the next 5 years and how is it financed?

£'million	**2012.13**	**2013.14**	**2014.15**	**2015.16**	**2016.17**
Total Capital Programme	**1,515.0**	**1,721.5**	**1,727.5**	**1,521.2**	**1,411.7**
Financed by:					
Major Repairs Reserve	834.6	893.8	777.6	868.0	852.4
HCA New Build Grant	4.4	20.6	9.9	3.9	-
DHS Grant Funding	180.7	230.0	331.8	23.0	-
Ext Efficiency Grants	37.3	2.8	1.3	1.3	1.3
RTB Un-pooled Receipts	15.2	15.7	14.8	14.8	15.9
RTB Additional Receipts	2.0	5.1	4.7	4.7	5.0
Other Capital Receipts	107.3	78.7	64.6	94.0	45.5
Borrowing	94.4	116.1	98.1	106.9	91.2
Revenue Contributions	235.1	342.2	395.1	365.1	395.9
Other Resources	40.6	19.2	38.0	34.4	19.8
Total Financing	**1,551.4**	**1,724.1**	**1,735.9**	**1,516.1**	**1,427.1**
Variance	**-36.4**	**-2.5**	**-8.4**	**5.1**	**-15.4**

Q26. Are you planning to undertake any new build over the next five years?

Of the 81 surveys answered, 62 (76%) responded that they would be building in the next five years. 12 (15%) authorities responded that they would not be building with the balance of 7 authorities not selecting a response.

The table below demonstrates the estimated number of new builds over the next 5 years from the survey responses supplied. Some respondents did not include numbers suggesting that plans were not fully formed at this stage and hence only 51 authorities included.

	5Yr New Build	No.
Authorities		
East	759	8
East Midlands	1,177	7
London	4,401	9
North West	306	2
South East	897	10
South West	683	7
West Midlands	1,113	3
Yorkshire/Humberside and North East	1,778	5
Overall Total	**11,114**	**51**

Q27. What type of new build programmes are you considering? Please choose all that apply along with the number of proposed new units

	Garage sites and in-fill	Regeneration	Redevelopment	Re-modelling	Purchase	Acquisition	Other
East	221	215	150	30	15	-	128
East Midlands	343	229	390	27	-	-	188
London	827	3,130	319	25	-	-	100
North West	-	306	-	-	-	-	-
South East	240	200	251	20	40	80	66
South West	489	42	55	27	43	27	-
West Midlands	165	902	-	-	-	46	-
Yorkshire/ Humberside and North East	350	68	696	-	50		
	50	564					
Overall Total	**2,635**	**5,092**	**1,861**	**129**	**148**	**203**	**1,046**
% of total units	**24%**	**46%**	**17%**	**1%**	**1%**	**2%**	**9%**

The survey response totals for the breakdown to the delivery vehicles for the new build vary slightly from the totals in Q26 as in some instances data was not provided by authorities.

Q28. To enable an assessment of capacity in the sector, how many additional homes do you estimate could be built in your authority if the debt cap wasn't in place and you could borrow up to prudential limits?

	Responses (No. Authorities)	5 Years	10 Years	Not Known (No. Authorities)
East	2	210	260	2
East Midlands	6	1,463	2,153	4
London	3	1,010	1,425	1
North West	1	300	3,000	1
South East	4	600	1,450	1
South West	3	1,120	2,300	1
West Midlands	2	1,010	2,020	1
Yorkshire/Humberside and North East	4	1,200	3,600	1
Overall Total	**25**	**6,913**	**16,208**	**12**

Q29. Are you planning to apply Affordable Rent to any new build properties?

	Yes – Responses (No. Authorities)	No – Responses (No. Authorities)	Not Known (No. Authorities)
East	4	5	2
East Midlands	6	7	3
London	5	5	3
North West	2	1	2
South East	7	5	1
South West	5	4	-
West Midlands	4	1	1
Yorkshire/Humberside and North East	1	5	2
Overall Total	**34**	**33**	**14**

	Affordable Rent Levels
East	65% or LHA Levels
East Midlands	80%
London	50-64%
North West	80%
South East	80%
South West	80%
West Midlands	70-80%
Yorkshire/Humberside and North East	80%

Q30. Are you considering new build outside of the HRA? E.g. ALMO or via a special purpose vehicle

	Yes - Responses (No. Authorities)	No – Responses (No. Authorities)	Not Known (No. Authorities)
East	2	7	2
East Midlands	6	9	1
London	3	8	2
North West	2	1	2
South East	3	9	1
South West	5	4	-
West Midlands	3	2	1
Yorkshire/Humberside and North East	4	4	-
Overall Total	**28**	**44**	**9**

Q31. Under the revised RTB arrangements, has your authority experienced an increase compared to last year in:

	Enquiries (Yes)	Applications (Yes)	Sales (Yes)	Sales to date
East	8	7	5	110
East Midlands	14	13	9	159
London	11	11	4	102
North West	3	3	1	56
South East	11	11	7	127
South West	9	8	4	66
West Midlands	6	6	4	174
Yorkshire/Humberside and North East	8	8	4	137
Overall Total	**70**	**67**	**38**	**931**

Q32. Does your authority anticipate having additional receipts for re-investment from the changes to RTB?

	Responses Yes	Expected Receipts £'m
East	6	0.5
East Midlands	8	3.7
London	8	24.8
North West	-	-
South East	8	3.1
South West	6	0.6
West M idlands	4	-
Yorkshire/Humberside and North East	1	1.6
Overall Total	**41**	**34.3**

Q33. Did your authority create a separate treasury loan pool for HRA debt?

	Responses Yes	Responses No
East	6	4
East Midlands	11	4
London	7	4
North West	3	1
South East	7	5
South West	7	2
West Midlands	5	1
Yorkshire/Humberside and North East	5	3
Overall Total	**51**	**24**

Q34. Are you planning to repay borrowing within the lifetime of the plan?

	Responses Yes	Responses No
East	10	0
East Midlands	12	4
London	8	3
North West	-	4
South East	7	5
South West	2	7
West Midlands	4	2
Yorkshire/Humberside and North East	4	3
Overall Total	**47**	**28**

Appendix 2 – Southampton City Council: comprehensive investment underpinned by greater rent flexibility

Southampton City Council is the largest landlord in the South East of England. They own stock of around 18,000 units including leaseholders with a housing business valued through self-financing at £196million. The housing stock is managed by the council. On commencing self-financing the HRA had headroom beneath the borrowing cap of nearly £22million. In 2011/12 Southampton paid negative subsidy to CLG of £7.6m which was forecast to grow to £8.5m in 2012/13 as rent restructuring continued. The Council has all but met the decent homes standard with only 300 properties in a regeneration area deliberately left.

The Council prepared in advance for self-financing and took a report to cabinet in October 2011 setting out the key decisions required. These were then ratified, with some slight tweaking, in February 2012 as the final settlement numbers were received.

The HRA business plan for self-financing has built on the previous business plan with many of the existing principles, particularly those around capital investment that were developed in conjunction with tenants, remaining. A 30 year plan has been produced with the next 5 years set out in detail. This is accompanied by a commitment to revisit the plan each year.

Southampton's priorities for investment were set out in their 2011 business plan and followed a consultation exercise with tenants. They are grouped under the following headings:

- Safe wind and weather tight;
- Warm and energy efficient;
- Modern facilities in the home;
- Well maintained communal facilities;
- Estate regeneration.

These programmes have continued under self-financing with the Council extending them into areas where funding wasn't previously available. For example, further works outside of the home along with additional money set aside to progress the estate regeneration schemes.

The Council undertook new build via the LA new build scheme and are now looking in conjunction with their estate regeneration ambitions at further opportunities. This includes the possible redevelopment of 2 sheltered schemes within the City.

One area where self-financing has enabled greater flexibility is around rent levels. The Council is committed to following the principles of rent restructuring as it has done since they were introduced in April 2003. Over that time, there has been a growing view that the differential between the rent charged on flats and houses is not large enough, particularly when the service charges for flats are taken into account. To address this, the Council has decided to increase the target rent for houses by 5% and reduce the target rent for flats by 2.96%.

This has no overall effect on the overall average target rent. However, under the restructuring rules, it would have meant a shortfall in income over the first 9 years of the business plan of £4.6m. This was due to the slower convergence to target. On looking further at this, it was decided to adjust the cap on increases to individual properties to allow for inflation on the £2 element of the RPI + 0.5% + £2 limit calculation. This resulted in a cap on individual increases of RPI + 0.5% +£3.03 in 2012/13. The adjustment made the proposal affordable to the business plan.

The business plan has been subject to sensitivity analysis with the major risk element being building cost inflation. Work has also been done to identify the impacts of welfare reform and appropriate provision made within the financial modelling to meet the likely impacts.

The governance of the business plan is undertaken by the lead member for housing reporting into the cabinet. An advisory tenant structure operates beneath cabinet with two groups looking at resources and scrutiny of performance.

Appendix 3 – Milton Keynes Council: increasing sustainability with greater ambition to invest in regeneration

Milton Keynes Council (MKC) is the largest new town with an asset base comprising properties predominantly built from the late 1960s to early 1990s. Properties are largely of non-traditional construction and hence differ from the average district, borough or metropolitan authority. The council also has traditional stock developed largely in the 1950s by the predecessor urban and rural districts. The circa 11,700 dwellings the Council owns are spread from the former new town area to the surrounding pre-existing towns and rural villages. The Council also owns over 1,000 equivalent shared ownership properties.

The Housing Stock Option Appraisal was signed off in 2006 on the basis on achieving the minimum decent homes standard following significant tenant opposition to any other proposals such as stock transfer.

Prior to self-financing, the emphasis of keeping a balance of investment in the stock and viable HRA demanded efficiency savings on management and repairs. In addition, the loss of stock through right to buy meant the HRA felt more pressure than other authorities due to the HCA (and former bodies) claiming around 95% of the capital receipt, instead of the national pool contribution of 75%. Needless to say, the subsidy system, to which MKC was a contributor of over 25% of rental income, did not assist with the year on year uncertainty it provided. Exhaustive steps were taken to gain grants to make up any investment shortfalls.

As the last post-war new town, with the resultant tight build period, MKC is now suffering from the lack of available investment in the past. There are issues with structural integrity on properties that are perhaps past their intended lifespan and more importantly asbestos is present in over 95% of their properties. The major repairs allowance provided little support towards these issues compared to the scale of the problem. The communal heating systems were also causing issues in terms of regular maintenance.

The introduction of self-financing has provided additional finances. The take on of debt of £170million replaced a potential annual subsidy payment of nearly £15million and MKC were able to take advantage of the discounted PWLB rates over 30 years. The council operates a one treasury pool approach to give a balanced position to both the HRA and General Fund. In the lead up to self-financing MKC provided training and workshops for tenants, members and officers.

Due to the significant investment need and wide range of stock types, the Council is undertaking more detailed stock condition surveys to develop better informed asset management and regeneration strategies. Subsequently, the business plan will be revisited and to date only medium term plans have been published.

Governance of the plan and strategy is led via a Housing Programme Board which is also overseeing reorganisation of housing service delivery. Regular feedback is provided to tenant groups and the Council is reviewing its Involvement Framework to ensure it is fit for purpose under the new regulatory arrangements.

Existing rents are close to or meet formula rents (with the exception of the shared ownership properties whose are significantly lower than their target levels). Members will continue to review increases on an annual basis with 4% being applied in April 2012. Welfare reform is potentially a major issue: in the region of 1,300 affected by under-occupancy with the demand for homes in the small family category.

MKC continue to seek efficiencies within its management and external contracts it has on services and repairs. It has renegotiated its partnering contract for void and responsive repairs as well as for gas maintenance. It has reviewed corporately its wider Public Private Partnership, which includes the managing agent function for housing maintenance. To provide greater housing management staffing in anticipation of welfare reform, it has now withdrawn its remaining three local offices.

Whilst self-financing allowed for immediate revenue gains, which will continue to grow with inflation, the uplifted major repairs allowance failed to recognise that much of the stock was built in a short period of time, resulting in large peaks of expenditure currently being experienced and the type of investments needs of MKC stock falling outside of decent homes.

Key reasons for high investment (due to the type and age of properties) are:

- External Fabric Investment
- Poor levels of thermal comfort
- Time concentration of heating failures
- Asbestos prevalence
- Sheltered accommodation with shared facilities

There is currently an estimated shortfall to achieve the required investment of around £75million, though this is very much subject to change due to on-going survey work. The lack of borrowing headroom (£5 million) hinders the ability to invest, whilst the long term business plan generates sufficient resources to fund higher levels of borrowing. The headroom is currently treated as a safety net against unforeseen capital expenditure.

MKC is seeking to develop an estate based approach using a 'whole property' methodology as part of a wider approach to regeneration as per the above needs and decent homes standard.

MKC intends to build new Council homes within the HRA. In the medium term financial plan, £1million p.a. has been allocated for this purpose along with any receipts that occur from the reinvigoration of right to buy (with the HCA liability disposed of) on existing HRA land. There is of course demand for more affordable homes, but the lack of borrowing headroom prevents MKC directly delivering new homes in greater numbers. There are infill sites within the HRA and the Council's wider land-holdings and the transfer of land from the HCA will present further opportunities.

MKC is considering alternative options for areas of their stock regeneration and is likely to progress these during 2013/14.

In summary, MKC have embraced self-financing and taken advantage of long-term financing to create more stable financial projections though the significant stock issues and lack of borrowing headroom prevent their aspirations for sustainable properties and new homes.

Appendix 4 – Newark and Sherwood District Council: a solid base from which to develop

Newark and Sherwood Council owns stock of 5,475 units with a housing business valued at £110 million. The housing stock is managed by Newark and Sherwood Homes – the Council's housing ALMO. On commencing self-financing, the Council took on an additional £36 million resulting in headroom beneath the borrowing cap of £7.5million.

The run up to self-financing coincided with other work the Council was doing around housing stock options. The decent homes work which the ALMO was set up to deliver has been completed and the options for future management were being considered. This work has resulted in a new vision for housing in the area that focuses on being a trusted landlord, investing in the current housing stock and neighbourhoods efficiently and effectively while at the same time focussing on housing for elderly people in response to demographic need. The management agreement with the ALMO is now being rewritten to focus on these priorities.

The Council has worked closely with Newark and Sherwood Homes in the build up to self-financing to produce a business plan that sets out the financial resources available within a set of appropriate assumptions. This builds on the asset management approach in place to deliver decent homes and ensures that the current stock is maintained to an appropriate Newark standard. The plan allows the investment potential to be set out and an investment reserve has been set up for this purpose.

In the first year of the plan, the priority has been to consolidate the financial position while the future priorities were agreed. The Council is now looking to match the investment potential contained within the business plan to the new housing vision and plans are being put in place to meet those priorities.

The housing vision sets out a role for the council in enabling the delivery of new affordable general needs housing depending on who is best placed to deliver and this will now be progressed. The Council has recently built 52 new homes under the Local Authority New Build scheme in an arrangement project managed by Newark and Sherwood Homes and has recently been submitted to the HCA's care and specialised housing fund to build a 25 unit scheme on HRA land. There is land available within the district and a desktop review has been undertaken to assess the capacity for new development.

In summary, the Council and its partners have a solid base from which to invest and are now planning to deliver their vision for housing in Newark.

Appendix 5 – London Borough of Barking and Dagenham: mixed and innovative approaches to new homes delivery

Barking and Dagenham (LBBD) sits on the very east of London bordering Essex but harbours many of the problems facing London boroughs in respect of the condition of stock and the severe demand for it. It currently has circa 19,130 properties of varying types and has the largest social housing estate, Becontree, within its borough originally managing 27,000 homes.

During the option appraisal approach, which was signed off by Government Office for London in 2006, tenants voiced their wish to remain with the Council rather than consider other options, meaning that the Council could only deliver the minimum of decent homes standard and the needed to consider the future of its high investment estates.

LBBD were very vocal in the process leading to the reforms of the HRA through self-financing due to be being a very high contributor in the subsidy system.

Prior to the commencement of self-financing, LBBD were successful in receiving part of the CLG decent homes back-funding grants, being allocated £42million from the £65million original application.

Due to being a high contributor within the subsidy system, the debt taken on under self-financing was £266million and LBBD approached this by constructing a detailed 30 year HRA business plan and asset management strategy ahead of the transaction leading them to a debt profile that repays in 50 years, taking full advantage of the discounted PWLB rates.

With the freedom from the subsidy system and certainty around interest charges the plan has been structured around three interrelated streams and was published in February 2012:

- Major works and Decent Homes programme to existing stock
- Estate renewal programme
- New Build programme

The current stock (excluding the estate renewal properties) is around 30% non-decent and an investment programme has been developed to refurbish these properties to similar standards of new build. Fuel poverty is a key factor and this is being tackled in conjunction with energy suppliers taking advantage of grants towards over-cladding of tower-blocks, PV panels and boiler improvements. A small level of environmental works has also been factored into the expenditure requirements. In conjunction with the Greater London Authority (GLA) approval has been given to ensure that all homes will meet the decent homes backlog within 8 years, which is monitored on a quarterly basis. Expenditure over 30 years is forecast at approximately £1.31billion.

The estate renewal programme focuses on 4 largely mono estates consisting of around 1,700 flats, mainly high-rise, which are uneconomic to invest in. The plan currently provides for the decanting and demolition of these properties and any right to buy repurchases over a 10 year period. At present there are no firm plans as to the re-provision of these homes within the financial model. LBBD will continue to explore its options on an estate by estate basis with the use of existing HRA resources, innovative joint ventures and funding arrangements. The lack of borrowing headroom (£6.6million) is a real constraint on the HRA being the vehicle to achieve this.

The Council is embarking on a ground breaking venture with a private equity firm to deliver 477 new units by April 2015 on estates that have already been demolished as part of the options appraisal process. The scheme requires a special purpose vehicle to be set up and will run for 60 years in conjunction with the equity grant and will let properties at a range of between 50% and 80% of market rent levels. The HRA will provide the day to day management of the units. In addition both HCA and LGA funding has been secured to deliver 285 HRA units at slightly above existing social rent levels to be built on sites where no previous housing has stood. It is clear the Council has an appetite for new build, considering the ever-increasing waiting list for homes of over 14,000.

Self-financing has proved to provide a stable platform for forecasting forward the business plan and associated asset management strategy. Prudent assumptions have been made for forecasting management costs and inflation. However, to ensure that rents remain affordable, the Council's current policy for rents assumes RPI plus 0.5% per annum but without factoring convergence with social formula (target) rents.

The real risks to the plan are welfare reform (in terms of benefit payable and also collection from direct payment), but there is a currently a joint venture with an external firm to support on this for arrears collection. Service charges have successfully been de-pooled from rents. A further risk is the change in right to buy policy, whilst LBBD previous capped discount was at the highest level of £38,000, applications have gone up three fold. Around 50 sales have been factored in to the plan in the early years, with an average of 20 allowed for in the self-financing settlement. Any usable receipts after government contributions will be used for new build potentially on the estate renewal sites.

In summary self-financing has provided the long-term platform to achieve its three investment streams. However the constraint of the debt cap severely restricts LBBD in being able to provide new affordable homes on the significant land resources available within the Borough.

Appendix 6 – Northumberland Council: a flexible and diverse approach to improving housing

Northumberland Council a unitary county council created in 2009 from the former county council and six former districts. The post-unitary affordable housing landscape is similar to others: the former districts had left a legacy combination of stock transfers, ALMO and in house delivery models.

This mixed picture for delivery drives the council's multiple approaches to intervening in the housing market to regenerate, build, better match supply with demand and, critically, to see the development of housing as a catalyst for economic regeneration and recovery. This is complemented by the first all-county Housing Needs Assessment focused on a comprehensive:

- Identification of housing needs
- Assessment of the ‘tools’ or ‘vehicles’ there are to enable delivery
- Development of a programme of delivery.

The HRA business plan is integrated into this strategy along with strong partnerships with stock transfer associations: for the council this drives a ‘Mixed Model’ based on a combination of determining where resources are, where resources can be levered in, where opportunities exist and which organisation is best placed to deliver.

A three-way business plan for housing: HRA

The council has been proactive in delivering new build and delivered a HRA scheme in the LA New Build programme 2009-2011. A bid to the HCA under the Affordable Housing Programme for 176 new homes was already committed within the framework of the HRA subsidy system and contracts were signed May 2012. Work is continuing in identifying the headroom for opportunities to deliver stock within the HRA.

The schemes focus on a mix of:

- Regeneration estates in the town of Blyth with new build and redevelopment
- Cleared sites. Including former schools, fire station and office sites
- Rural: former hospital site to deliver extra-care units.

A three-way business plan for housing: HfN

Immediately after reorganisation, the council moved the management of the former Blyth Valley and Alnwick district council homes into a new ALMO Homes for Northumberland (HfN). Following a recent option appraisal process, the council has extended the management agreement for HfN to 2020 to continue to manage the the council’s 8,500 homes and recently appointed a joint housing director for both strategic housing services and to run HfN.

Both the board of HfN and the council have highlighted the opportunities for HfN to run its own programme for direct stock ownership. The ALMO already owns 22 properties in its own right part-funded from previous HCA programmes.

A three-way business plan for housing: ARCH-Holdings

An almost unique legacy from local government reorganisation was the existence of a wholly owned subsidiary company ARCH-Holdings. Originally established by the former Wansbeck Council, the company has promoted regeneration in former coal mining communities taking former coal board stock and now has around 700 homes for market rent as well as renting out commercial and industrial units. The company runs its own waiting list but is linked to the council’s Choice Based Lettings scheme. The board of the company is council-led: the leader and deputy, leader of the opposition group, chief executive and council finance director and the company has a small compliment of staff. Although focused in the former Wansbeck area, there are ambitions to grow to around 2,000 properties by 2020 with opportunities to use the company as a vehicle to offer housing products across the county.

Governance

A complex delivery picture operating in many different types of housing markets in a very large county area requires robust governance. The overall position for housing is part of a strategy for growth overseen by an overall Council Investment Board.

Working into the Investment Board is a Housing and Care Services Working Group with delegated powers to oversee the delivery of new affordable housing. This has a political balance and acts as the primary governance Sounding Board for the programme.

Business plan development

The council and HfN delivered a summary plan to get self financing ‘over the line’ for April 2012. The work to identify the capacity for delivery is focused towards a ‘year two’ plan that begins to shape the balance of investment between existing stock, new homes and regeneration within the HRA and HfN: self financing gives the council options that were not really in place beforehand. A key issue for existing stock is a legacy of differing levels of decent homes plus standards within the HRA stock.

Through this work, the council has already identified that the debt cap is likely to be a significant constraint to the delivery if its ambitions – the HRA business plan will therefore be one part, a growing part, of the overall mixed picture for housing in Northumberland.

Appendix 7 – Cheltenham Borough Council and Cheltenham Borough Homes: Using the ALMO as preferred delivery partner

Cheltenham Borough Council (CBC) owns around 4,500 properties. Its ALMO, Cheltenham Borough Homes (CBH) was established in 2003 and recently the management agreement has been extended to 2020. CBH manages and maintains the HRA on behalf of the council and led the development of the planning for HRA business plan in the run up to the implementation of self financing.

The council has already been proactive in developing new homes. And despite its ‘wealthy’ reputation, Cheltenham has some of the most deprived estates in the country, and in particular has focused on the regeneration of St Pauls, a very challenging estate close to the GCHQ site. CBH had already developed new homes in its own right (to be owned and managed by the ALMO) when grant was available from the previous HCA programme, and the council also built some HRA properties in the LA New Build programme 2009-2011.

Like many authorities, a combination of a focus on efficient management, cheap borrowing costs in the HRA settlement – the council took out a mix of 20/25/30 year maturity loans, and rising income, places the HRA plan on a solid footing for the future with resources for investment. Resources of some £13.5m have been identified in the first 10 years of the plan, excluding the potential to draw down up to £8m of HRA borrowing headroom.

Members of CBC and the board of CBH have engaged in determining priorities in a series of ‘Blue Skies’ joint workshops – characterised as a ‘blended’ approach in the HRA across three priorities:

- Investing in improving existing stock (40%)
- New build (40%)
- Service enhancements, specifically focused at welfare reform, providing greater support for the most vulnerable tenants and supporting the work of partnerships with the voluntary sector (20%).

However, the challenges for estates like St Pauls are significant: the need for regeneration is acute. Coupled with a relative absence of vacant usable sites, this backdrop offers a challenge for the council in ensuring that momentum is maintained and that redevelopment opportunities are taken.

Asset management

At the same time, the council and CBH are really keen to ensure that existing tenants benefit from the implementation of self financing. Following the completion of decent homes in 2009, CBH has maintained a rolling programme of stock surveys to inform a programme of investment and improvement in existing homes and communities, including installation of PV cells, the employment of a Sustainability Officer, developing solutions for non-traditional properties and accelerating maintenance programmes (eg a windows programme which was 2014-2020 under the subsidy system is now to be completed 2013-2017) cutting the costs of delivery significantly.

Combining HRA and ALMO development

The council has formally adopted CBH as its preferred delivery partner for new build and regeneration:

- CBH is a member of a development consortium
- CBH has a history of obtaining HCA grant in its own right
- Though the consortium bids were unsuccessful, CBH's effective partnerships with developers are able to bring grant from the current HCA affordable homes programme.
- CBH leads the delivery of all development
- CBH enables the development of new/replacement HRA properties using HRA resources (including any future RTB reinvestment receipts)
- CBH leads on developing its own ALMO-owned stock in regeneration areas.

A growing contribution

CBH already had 46 homes for social rent and 18 for shared ownership developed under the former HCA programme - St Pauls Phase 1. The next phase is for 38 rented, 22 for sale and 14 new homes with planning permission on garage sites.

Scheme finances work with a combination of developer contributions from land value recycled back to support the affordable homes, contributions from the council (receipts), prudential borrowing and revenue surpluses. Partners are Kiers and Lovells, along with the Bromford consortium providing the development framework.

The ambition is to develop up to 250 homes in the period to 2020 and to completely transform areas like St Pauls. CBH is therefore also considering options around a charitable subsidiary in the context of taxation although this discussion is at an early stage.

Governance and future planning

The strong governance model at CBH with an established board comprising members with significant development, financial and legal skills, provides the council with the strong partnership it needs for robust management of the HRA business plan. Joint high level strategic and planning meetings with the council continue 6-monthly.

The business plan is focused on a 3-year horizon and the aim is to maintain a 3-year rolling programme of investment, refining priorities in the light of experience, planning considerations and the financial backdrop.

Appendix 8 – Oxford City Council: prioritising HRA new build in a high-value housing market

Oxford City Council owns and manages around 7,800 properties both in the city and in some out-of-city estates. Oxford is a high-cost city, with affordability ratios amongst the highest in the country and an acute shortage of affordable housing exacerbated by high values, a dynamic and thriving economic future and population growth. It has the least affordable market housing (rent and sale) in the UK

A former debt-free authority, the council had initially begun to borrow to invest post-2004 and delivered new homes via the 2009-11 LA new build programme. The council has further embraced the change to self-financing with confidence and is prioritising the delivery of new homes. Executive Director City Regeneration, David Edwards comments: *"We are taking on board the opportunities that self-financing provides for us as a council to make a meaningful contribution to the delivery of new homes, whilst at the same time ensuring the council's financial interest is protected so we can reinvest further in the future".*

Given the current and future financial strength of the HRA, Oxford is therefore focusing its new build efforts into the development of new council housing, and is an HCA partner within the Affordable Homes Programme (AHP).

Financially sound

The council has run its services with an efficient cost base for over a decade. The Decent Homes Standard was delivered via retained-management, with programmes topped up with significant additional investment from the rents. With the decent homes programme complete, these revenue surpluses within the HRA can now be deployed towards new capital programmes. Yet rents are running some £10 below convergence targets – with significant scope therefore to realise growing rental surpluses for reinvestment in a core long term programme of development. Borrowing headroom at the start of self-financing is £19m. The council has also been prudent in its management of capital receipts over the years and retains a significant reserve to help reinvestment.

Business planning basics

The council drew down some £198m of debt for self-financing, a combination of medium and long term loans providing a mix of finance but with significant certainty over interest costs into the long term – 80% of loans are beyond 20 year maturity. A revenue-led new build programme will increase rental returns significantly over the term of the plan, particularly as social/affordable rents in Oxford are higher than the national average.

At the same time, planned investment in the existing HRA stock is significant, with additional revenue and capital receipts being used to top up depreciation funding for an 8-year programme of up to £9m pa, with maintenance continuing beyond the basic decent homes level. Additional works are needed on several tower blocks and these can also be provided for. The council is also keen to bring forward investment in the green agenda within its existing stock and will be exploring the most appropriate ways to do that in the future.

New homes in Oxford

But the number one priority for Oxford's self-financing plan is new rented homes.

Prior to the implementation of self-financing, the council had already established an innovative Limited Liability Partnership with developers Grosvenor to develop up to 1,000 new homes at Barton, 350-400 of which will be affordable; the council has secured preferred procurer status for each successive development at Barton, a major growth area on the edge of the city.

The LA new build scheme, though limited to 108 homes, bred success in terms of the next phase of bidding to the HCA: AHP grant of £2.5m towards 112 affordable rent properties. The HRA is able to finance the balance of expenditure for these homes entirely from revenue in the early years of the business plan.

Through ongoing prudent management of the existing stock, significant resources are potentially able to be allocated within the HRA business plan in the medium term to acquire some or all of the affordable Barton properties upon completion. Purchase of the initial 60 properties has been provided for in 2015, again from revenue.

The council is also concerned to address, and reduce the costs of, rising homelessness in the city, and is currently discussing its options for acquiring homes for temporary accommodation. Options for financing these could include drawing on borrowing headroom but the council wants to maintain an element of undrawn headroom as part of its risk strategy.

The Council previously lost half its social rented stock through sales under Right to Buy. Risks of additional sales around Right to Buy have yet to emerge with no completions in 2012 (to November), because of lack of access to mortgages. An agreement is in place and should receipts increase, there will be sufficient new build programmes to enable reinvestment. However, the major problem is the availability of housing land adjoining the city, where major allocations have been lost with the end of Regional Spatial Strategies.

The focus is heavily on using the HRA as the delivery vehicle for LA build – taking advantage of future rent income for reinvestment – HRA rents used for HRA homes. The future could potentially be one in which Oxford could add over 5% additional stock to the HRA over the next 10 years.

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