

Swindon Borough Council Housing Options Appraisal

The Financial Position

Introduction

- As Independent Tenants Advisors a part of our role is to make sure all tenants and leaseholders get accurate & factual information on the housing options open to Swindon Borough Council. To this end we work in partnership with Graham Moody Associates (GMA) to examine the financial aspects of the options.

- GMA's report for **DWA** is not a separate financial analysis but a review of the Tribal draft report (November 2008). He has looked at the report to judge whether it is reasonable and something on which tenants and leaseholders can rely. Graham Moody has been our finance expert for many years and is one of the most highly respected consultants in his field. He has based his comments on his knowledge and experience of the English council housing finance regime and current developments around it. This is a summary of Graham Moody's findings. The full report is available on request and will form part of our overall final report.

Key Point

For Swindon Council to be able to retain its housing it must be able to:

- Balance its Housing Revenue Account (HRA) and
- Be able to invest enough money to sustain the Decent Homes Standard.

So, two key questions must be answered:

Q1. Can the HRA be kept in balance in the long term?

1. The Tribal report sets out long-term financial projections of the Council's Housing Revenue Account (HRA) using Tribal's own model. We note that the HRA analysis undertaken by Tribal was carried out before the Government's HRA Subsidy Determination for 2009/10. However, we have assumed that the actual Subsidy Determination for 2009/10 will not have made any major difference to the HRA revenue or capital availability projections.

2. Tribal's assumptions about inflation and Government policy appear to be reasonable. Projections on income also cover the planned redevelopment of Marlowe Avenue and Sussex Square. Tribal's report also notes that service costs (for which service charges should be levied) have not been fully 'un-pooled' from rents. This would make some potential income available to the HRA if needed.

3. Tribal predict that the HRA is expected to be in some difficulty within 8 years as the minimum balance needed starts to 'disappear' in 2017/8 and further losses will continue, causing the HRA to be in deficit by the end of 2023/4.
4. There is a fundamental Government review of council housing finance being carried out at present. This review will look at how Councils might continue to own and manage their housing stocks in the long term. However, any major changes coming out of the review will not be implemented until 2012/3, the start of the next Government Spending Review.
5. One possible outcome of this review of council housing finance is an increase in Management and Maintenance Allowances to local authorities. If this were to happen it would strengthen the Council's HRA revenue position in Swindon.

If the Options Appraisal were looking at the revenue position alone, GMA believes that there is no immediately compelling reason to change the status quo – the Housing Revenue Account is not in difficulty for the next 8 years and there may even be an increase in management and maintenance allowances as a result of the Government's council housing review.

Q2. Will there be enough capital to keep Council homes fit and safe, and to sustain the Decent Homes Standard?

6. The Stock Condition Survey carried out by RAND Associates shows that more than £70 million needs to be invested over the next 5 years to maintain the Decent Homes Standard and to begin to address structural repair problems in the Council's housing stock.
7. Over the same period the Council is likely to have around £50.6 million available. This means an investment gap of £19.6 million. This gap could be reduced to around £18.7 million if the Council allocated all of its available Right to Buy receipts to the HRA. (This is not current Council policy).
8. The report by Curtins suggests that the need for structural repairs increases greatly after the first 5 years, so that more than £62 million will be needed over the first 15 years. This increases the investment gap to £38.5 million in years 6 to 10, with a further £27.4 million in years 11 to 15. In total the investment gap over years 1 to 15 is more than £85 million.

9. Another possible outcome of the current review of council housing finance is that the HRA Subsidy system - broadly in its current form - is retained, but that there is an increase in Management, Maintenance **and** Major Repairs Allowances. These may be enough to allow councils to deliver reasonable levels of housing services **and** invest in homes up to at least the Decent Homes Standard.
10. However in Swindon's case, the Major Repairs Allowance would need to **double** (an increase of 100%) to meet the 15-year investment gap described in point 8 (above). **This is well over any increase in the Major Repairs Allowance that has been discussed by the Government's review to date and we think that it is unlikely to be forthcoming.** Therefore, if the council were to retain its housing stock, we think it likely that the homes that are most expensive to repair would need to be identified for decanting and demolition or disposal. The council may also need to look at selling empty homes on the open market in order to generate enough funds to invest in the remaining homes.
11. A "Self-Financing" option might also come from the review of council housing finance. Under this option the current HRA Subsidy system would be abolished. This would mean that no "excess rent" would need to be paid to central Government. In Swindon the council may be able to take on the economic risks and manage the homes, much as Housing Associations do now, using prudential borrowing, in exchange for a one-off "adjustment" to the housing debt.
12. The outcome of the Government's review of council housing finance is needed before the council in Swindon can judge whether this will be a viable option. We do not expect this to be before 2010. Even if there is a positive outcome from the review the earliest time for any significant HRA reforms to be implemented is 2012/3. **There is also the additional risk that a new Government, which would be in power by then, would see the Public Expenditure cost of Self-Financing too expensive.**
13. The Tribal report also sets out some possible Transfer proposals (these can be found in Section 8 and Appendix E of that report). **It is clear that in this Options Appraisal the Transfer proposition in Swindon is at a very early stage and is only really for illustration. If Transfer were to be pursued, the proposal would need a lot more work.**
14. However, Tribal's Transfer proposals show that the full investment standard recommended by Rand Associates could not be achieved in Swindon without a dowry (financial help from the Government or the council) and there are no resources for a dowry.
15. The Swindon "Middle" standard (developed by Council officers) is a response to this problem and is an improvement on the Decent Homes Standard and could probably be afforded. This "Middle" standard might also

be able to make a contribution to the cost of setting up a Transfer. The precise definition of the “Middle” standard is not yet clear but, from the information provided, it appears to assume longer than normal lives for a range of building elements (e.g. 40 years rather than 30 years for doors, windows and bathrooms, 30 years rather than 20 years for kitchens). It also removes recommended overcladding works to a number of non-traditional housing types and allows for the minimum standard of works recommended by Curtins. Around £100 million over 30 years has been removed from the Rand-recommended standard to arrive at the Swindon “Middle” standard.

16. Because of the need to spend nearly £46 million on remedying problems with the non-traditional homes, the “Middle” standard – as it currently stands - does not offer the normal benefits to tenants in relation to doors, windows, kitchens, bathrooms and thermal improvement that we usually see promised under Transfer. This is probably because the level of investment has been pitched to produce a Transfer that just works financially, does not need a dowry, possibly makes a contribution towards the setting up costs and leaves the Council with the benefit of RTB and VAT Shelter shares (see sections 8.17 to 8.25 of Tribal’s report).

GMA believes that, under the current Council housing finance system, the amount of investment available to keep homes up to the Decent Homes Standard and to address the structural problems identified by Curtins is grossly inadequate. Transfer would be the only available option.

Conclusions

- The Council should compare the assumptions made in the Tribal report with the 2009 Determination for any significant deviations and update the HRA projections accordingly.

- Subject to there being no major changes to the projections, the way forward for Swindon council’s housing is highly dependent upon the outcome of the current review of Council housing finance.

- The Government’s council housing finance review may produce a Self-Financing option that would enable Council ownership of the stock with adequate investment resources. Details must be awaited from the outcome of the review, which will not be for some time. Consultation on the outcomes will probably not begin until summer 2009. The final outcome will probably not be decided until Government Spending Review has ended, probably during late 2010.

- If the transfer option is pursued, a major area for further work should be to improve the possible ‘offer’ to tenants and leaseholders. This may possibly be at the expense of the Council receiving reduced benefits from Right to Buy sales and any VAT Shelter.

- In the meantime it is **DWA's** view that if Swindon Borough Council decides to go ahead and consult tenants and leaseholders over a possible stock transfer, it should continue to keep a very close eye on developments with the review for any possible opportunities that would be of benefit to a retention strategy.

- Consultation with tenants and leaseholders about their expectations of the future housing service will be of benefit whichever option is finally chosen.

- If the Government's council housing finance review fails to benefit Swindon's housing finances in any major way, time will not have been lost and Swindon Council can continue to consult tenants and leaseholders over its transfer proposals.

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