

Meeting:	Performance and Finance Sub Committee
Date:	21st January 2009
Subject:	Housing Overview
Responsible Officer:	Gwyneth Allen Divisional Director, Adults and Housing
Chairman:	Councillor Mark Versallion
Exempt:	No
Enclosures:	None

## Section 1 – Summary and Recommendations

This report provides further detailed information on:-

- (1) progress on the delivery of decent homes to meet the government targets by 2010;
- (2) action being taken to minimise the potential budgetary overspend in delivering the response maintenance service in 2008/9;
- (3) financial overview of the Housing Revenue Account (HRA).

### **Recommendations:**

The Sub-Committee is requested to:

1. Seek a further report on the numbers of homes that remain non decent after the stock condition surveys have been analysed.

### **Reasons: (For recommendations)**

1. The decent homes report suggested above will provide the likely cost of the remaining works needed to enable the Council's stock to be made decent.

## **Section 2 – Report**

### **2.0 BACKGROUND**

- 2.1 The Housing service is hoping for a three star rating for CPA purposes as at 31<sup>st</sup> March 2008. This is achieved by strong performance within the Housing in the Community section of CPA assessment. Performance within the Managing housing stock indicators preformed less well but is a high performer in relation to collection of rent and turnaround times for void properties.
- 2.2 A number of new and innovative strategic projects for delivering new and appropriate homes within Harrow are being progressed including the regeneration of Mill Farm Estate, the start on site of the first extra care housing scheme with Harrow Churches Housing Association and access to an additional 100 homes over a period of 18 months through the “temp to perm” scheme.
- 2.3 The Housing service is addressing the challenges of improving the estate based services that are provided to tenants and leaseholders which include grounds maintenance, caretaking and car parking.
- 2.4 89% of tenant and leaseholder contact with Harrow relates to the delivery of the repairs service. The response maintenance service is provided by Kier under the contract that was let in July 2007 with the exception of some areas of specialist maintenance such as health and safety matters. A significant part of the housing capital programme is also delivered by Kier with window and door replacement being delivered by other contractors. All services provided to tenants and leaseholders must be provided from the rent collected from those customers.
- 2.5 The report set out below refers in detail to three specific areas of the housing service.

### **2.6 DECENT HOMES**

#### **2.7 Background**

- 2.8 Harrow has 5063 rented homes and 1137 leaseholders.
- 2.9 Government introduced the decent homes standard with effect from 1<sup>st</sup> April 2001 and required Housing Associations and Local Authorities that owned social housing to ensure that all homes were decent by 2010.
- 2.10 It was in 2002 that Harrow commissioned the stock condition survey that currently provides the base data for planning the work that is necessary to bring Harrow homes to the decent homes standard. This database is used to provide the information that is returned annually to the Department of Communicates and Local Government.(CLG) This survey assessed the condition of Harrow’s homes against a fitness

standard and does not consider the Housing Health and Safety Rating System (HHSRS).

- 2.11 The decent homes standard is set out in "A Decent Home: Definition and Guidance for Implementation" which was updated by CLG in June 2006. This document sets out the definitions for decency and the methodology for calculating when a home is "decent". The definitions have been amended since the standard was introduced particularly in relation to thermal comfort of a dwelling and more recently in relation to Housing Health and Safety Rating System (HHSRS) which came into effect in April 2006.
- 2.12 A home is defined as decent if :-
  - (a) It meets the current statutory minimum standard for housing, (HHSRS)
  - (b) It is in a reasonable state of repair
  - (c) It has reasonably modern facilities and services, and
  - (d) It provides a reasonable degree of thermal comfort.
- 2.13 During the year ended 31<sup>st</sup> March 2008 1613 properties were made decent and 494 became non decent. As at 1<sup>st</sup> April 2008 Harrow reported 2323 homes as non decent in the BPSA 2008 return section B1 submitted to CLG.
- 2.14 There are 1431 properties in the overall Kier 08/09 programme comprising 1061 properties (08/09 contract) and a further 370 properties (c/f from the 07/08 contract): a total of 1431 properties as at 1 April 2008.
- 2.15 At week ending 12 December 2008, Kier reported that 878 properties had been returned as complete and that internal works to the remaining 553 properties are on target to be completed by 31 March 2009.
- 2.16 A small number of those properties returned as complete will also need external works (mostly roofs) that were not part of Kier's 2008 contract. Arrangements are, however, in hand to undertake the work as soon as possible.
- 2.17 In addition, 55 of 62 properties (c/f from the 07/08 programme) that required only windows and door replacements to make the properties decent have been completed by Radways.
- 2.18 The government requires all social landlords to undertake a rolling stock condition survey to update their asset database. A standardised methodology was introduced by government in 2002.
- 2.19 Harrow's stock condition data has not been refreshed since 2002. Ridge, a company of independent national surveyors is undertaking a new stock condition survey during January and February 2009. A report analysing the condition of the stock will be delivered to the Council by the end of February. This will provide the Council with the data needed to provide reliable information on the number of homes remaining non decent. Programmes of works can then be put in place

to ensure these remaining works are completed before the government's decent homes deadline of 31 December 2010.

- 2.20 Once the backlog has been overcome, the Council's homes will all be decent. To ensure that properties remain decent, the asset management database will run reports to show properties that will fall into non decency if preventative works are not undertaken on a timely basis. These reports will form the planned maintenance programmes of the future. The asset management data base will be informed by stock condition data and from works carried out by repairs and maintenance. IT enhancements are being put in place to provide interfaces between the repairs and maintenance module of Anite, the planned maintenance module, the asset data base and in due course with Kier's Servitor system.
- 2.21 Government guidelines allow the negotiation of extended deadlines for meeting the decent homes standard where redevelopment is intended e.g. on Mill Farm should tenants vote against the transfer of the stock to a Registered Social Landlord.
- 2.22 Each year a complex statistical return has to be completed for government that provides information on progress being made towards the decent homes standard. Information from these returns may result in an authority being inspected by the Audit Commission. The new Tenants' Services Authority (TSA) may also commission inspections. Decent homes data may also be the subject of year end audits.
- 2.23 No firm information is available on what action the government might take against landlords that miss their agreed decent homes deadlines. It is possible that subsidy levels or grants could be reduced and/or that under performance will be reflected in the authority's CAA rating.
- 2.24 CAA will assess how well housing need is being met. As decent homes is included in the National Indicator Set (NIS), performance against this indicator may impact on the assessment, although at this stage it is difficult to say how or to what extent.
- 2.25 Until the stock condition survey outcomes have been analysed, future budget need beyond what is known now, cannot be predicted. A contingency of £820k was incorporated into the 08/09 programme in anticipation that works (once validated) might be different to what was originally anticipated. Additionally, the slow start on a number of projects on the 08/09 Housing Capital Programme may lead to an under spend, which could be used to support the decent homes programme, if required. As the 2009/10 capital allocation for decent homes has already been brought forward into 2008/09 it may also be necessary to defer other Housing Capital Programme projects in 2009/10 to release further funding for the decent homes programme.

## **2.26 RESPONSE MAINTENANCE SERVICE**

- 2.27 This report provides the Performance and Finance Sub Committee with further information following the report of 9th December 2009 which referred to the pressures on the housing response repairs budget in the

current financial year and which set out the management action taken to minimise the potential overspend.

- 2.28 The report summarises the measures implemented, outlines the resulting impact to date and provides the budget summary including the percentage overspend against budget.
- 2.29 Harrow tenants and leaseholders have benefited from a high level of spend on responsive repairs in recent years. Customer expectations and demands on the service have been high and continue to remain so. Over the last 5 years Harrow's response repairs expenditure has averaged £5.8m or £1121 per property per annum, above average for London boroughs and significantly above average amongst its nearest neighbours.
- 2.30 The 2008-9 HRA budget for the response repairs service was set at £4.752m, marginally greater than originally anticipated in the business plan approved by Government Office for London (GOL) in 2006. The budget projections within the business plan were based on assessments of expenditure of comparable Authorities in terms of stock size and profile discussed with Tribal during the business plan process. When the business plan was developed it was also assumed that stock investment would result in a reduction in response maintenance spend. There is evidence that suggests that the opposite is actually the case.
- 2.31 The repairs budget includes day to day landlord repairs, void properties maintenance, external redecorations, cyclical maintenance, minor estates improvements, salary costs and support service charges. The budget is under significant pressure and at Quarter 2 was projected to overspend by £1.24m. This is due to the sustained demand for day to day repairs and the delivery of void repairs to Decent Homes standard including works which were initiated in 2007/8. Increases in maintenance obligations arising from statutory and legislative requirements have also contributed to the overspend.
- 2.32 Costs associated with rectification of tenants DIY works and unauthorised modifications to properties, property damage through misuse and abuse and rubbish clearance also put pressure on the budget. To date this has amounted to £65k or £7k a month.
- 2.33 The direct cost of the front line repairs call handling service have also increased significantly. In 2007/8 the cost for Access Harrow stood at £131k and this has increased to £288k in 2008/9. To this must also be added the cost of providing a back office function included within the salaries costs for the repairs service. This back office function places orders and manages enquiries from tenants and leaseholders.

#### **2.34 Management action taken**

- 2.35 A number of measures were introduced with effect from 2<sup>nd</sup> October 2008 to manage the budget pressures. The service has been temporarily reduced to health and safety, Right to Repair and works which if delayed will result in extensive disrepair. Non urgent (K4)

building repairs are now being deferred to 2009/10 subject to reassessment by Property Services.

2.36 Further control measures included the turn around of void properties to Harrow's minimum lettable standard and capitalisation of any necessary boiler replacements, kitchen renewals or electrical rewiring works by delivery of those repairs through the decent homes programme.

2.37 On 9<sup>th</sup> December 2008 it was reported that the best possible outcome that could be expected was a budget deficit of £650k.

### **2.38 Financial impact of management action**

2.39 Spend on day to day landlord repairs cost an average of £280k per month over the last 5 years. As result of the measures outlined in this report the rate of revenue spend in this area has reduced to £141k per month.

2.40 In the first two quarters of 2008-9 void repairs were undertaken to decent homes standard at an average cost of £2419 per void. This standard includes kitchen or bathroom renewal, electrical rewiring and heating system upgrades where the remaining life of those components is less than three years. Delivery of void repairs to minimum lettable standard and capitalisation in accordance with accounting policy has reduced void repair costs to below £1680 per void property.

2.41 Reduction in non urgent [K4] repairs has provided staff capacity within the repairs team to enhance its cost control, audit and repair validation processes. This has contributed to a reduction in the cost of invoiced landlord repairs by 43% from an average of £148 to £91 per repair, subject to inflationary uplift due with effect from 1<sup>st</sup> July 2008.

As at 30<sup>th</sup> September 2008 the projected overspend has been revised from £1.24m to £650k. A summary of the repairs budget and forecast outturn is set out below:

#### Housing Repairs Budget Forecast as at quarter 2 2008-09

<b>Service</b>	<u>Budget</u>	<u>Forecast Outturn</u>	<u>% Overspend</u>
Salaries	602000	657,000	9%
Landlord Day to Day repairs	2519740	2,717,728	8%
Cyclical Maintenance	400000	619,795	55%
Voids	400000	578,157	44%
External Decorations	412000	412000	0%
Minor Estates Improvements	73600	73600	0%
Miscellaneous Costs and	344830	344830	0%

- 2.42 The detail set out above assumes continued deferral of non urgent ['K4'] repairs to 2009/10 and the implementation of void repairs to minimum standards. It should be noted, however, that this projection is subject to (i) variances in repair volumes due to adverse weather conditions and (ii) the need to implement non urgent repairs where special circumstances are deemed to apply due to health and safety or tenant vulnerability.
- 2.43 Budget for 2009/10**
- 2.44 Based on historic spend patterns it is anticipated that the current suspension of non urgent repairs will result in a backlog in 2009/10.
- 2.45 Further pressure on the 2009/10 budget will arise due to the need to deliver external decorations. In the last three years very little external redecoration has been undertaken. Spend in this area amounted to £93k in 2005/6 and £33k in 2007/8. This year it is anticipated that external redecoration will be undertaken within the allocated budget of £412k. In 2009/10 as some properties may have been long overdue for external redecoration this may add further pressure on the available budget.
- 2.46 The draft 3 year HRA budget assumes a response repairs budget in 2009/10 of £4.8m. Based on this figure and given the general level of customer expectation it is anticipated that delivery of the service to the level set out in the tenants' handbook together with the backlog will place significant pressure on the budget.
- 2.47 In view of the anticipated pressure a review of the repairs budget for 2009/10 will commence shortly. This will include consideration of the standard of the service provided, comparison with peers and a plan for improvement of the service that can be delivered within the available budget whilst ensuring the business plan remains viable.
- 2.48 Housemark has been commissioned to provide this service and work commences during week beginning 12<sup>th</sup> January 2009.
- 2.49 Work is being undertaken within Harrow to develop an incentive based payment mechanism with Kier. Working to pre-determined and agreed targets Kier would be charged with delivery of the service within the agreed budget and to improve quality. If Kier deliver the service within a pre-determined budget Kier will share on a 40/60 basis with Harrow in any saving. Any expenditure above budget would require Kier to place an agreed proportion of their profit at risk.
- 2.50 The benefit of this proposed payment mechanism is that Kier are not reliant on work volume to cover overheads and are incentivised to deliver savings. This will enable expenditure to be more effectively controlled and assist in delivering a satisfactory cost effective service to

tenants and leaseholders.

- 2.51 In view of the increased Access Harrow costs of £288k to be charged to the repairs budget consideration will be given to reviewing the current arrangements. The service delivered to tenants will improve if the chain of contact is the shortest possible and mechanisms for diagnosing the repairs required, is put in place. For Kier to efficiently manage their workforce they must have good quality information at the point at which an order is placed and be able to manage their workforce to be able to assist Harrow in operating within the agreed budget.

## **2.52 HRA FINANCIAL ISSUES**

### **2.53 Background**

- 2.54 All councils that own housing stock are required to keep a Housing Revenue Account [HRA]. The HRA is a statutory account based on the Local Government and Housing Act 1989 and subsequent amendments. The 1989 Act established the HRA as a ring-fenced landlord account separate from a council's general fund revenue account, containing the income and expenditure arising from the landlord function. The ability to transfer monies across the ring-fence was limited with certain specific exceptions and the transfer of surpluses from rents to keep down local taxation was ended. Schedule 4 to the 1989 Act specifies the credit and debit items that are required to be shown in the HRA.

- 2.55 The 1989 Act requires LAs to keep their HRA in accordance with proper practices as defined in section 21 of the Local Government Act 2003. Clarification on items to be accounted for within the HRA was set out in the HRA DoE circular 8/95, although this is now significantly out of date.

### **2.56 HRA Ring-Fence**

- 2.57 The HRA ring fence policy and the operation of a 'landlord account' ended the transfer of large sums to the General Fund (GF) and removed some previous perceived abuses of the system. There is still however a lot of variability in practice between councils – for example whether and to what extent they recharge corporate and democratic costs to the HRA.
- 2.58 The debate about the ring fence is philosophical as well as technical, and there are differing views about the proper degree of separation or integration between council housing and the parent council. The Government's objective that tenants should pay similar rents for similar services across landlords suggests that landlords' financial arrangements must be similar and a tighter ring fence might make this more feasible.
- 2.59 At present there is no national HRA and no ring fence between housing and other services at Government level. This reflects normal accounting practice but it means that tenants cannot see directly the



relationship between the rents they pay and the services they receive and the deployment of surpluses when they arise.

- 2.60 The local ring fence does not extend to capital. When tenants exercise the right to buy, the HRA loses income but does not gain the capital receipt. Councils vary considerably in their practice and whether they give retained capital receipts back to housing<sup>1</sup>.
- 2.61 The HRA rules work stream under the HRA review [see below] will look at the rules governing the operation of the HRA to determine whether changes to the rules could improve the efficiency and effectiveness of the delivery of landlord services included in the HRA and produce recommendations for change or amendment.

## **2.62 HRA Review**

- 2.63 Communities and Local Government and HM Treasury are undertaking a fundamental review of the council housing finance system, reporting jointly to the Minister for Housing and Planning, Margaret Beckett MP, and the Chief Secretary to the Treasury, Yvette Cooper MP.
- 2.64 The review is wide ranging, although many of the issues are interlinked, and has been divided into four work streams to make it manageable – Costs and Standards; Rents and Service Charges; Mechanisms for Delivering Finance; and HRA Rules.
- 2.65 The review is due to report to Ministers mid 2009, setting out options for the HRA including the subsidy system and proposals for changes to the rent policy. A formal consultation will follow the review.

## **2.66 Longer term HRA**

- 2.67 Harrow Council's 30 year HRA business plan was updated and submitted to the Government Office for London [GOL] in July 2006. The plan sets out how the Council intends to manage and maintain its Housing stock over the next 30 years.
- 2.68 Like all Local Authority landlords, the financial position is heavily influenced by the HRA subsidy system – the present vehicle for delivering finance to council housing. The Secretary of State makes an annual HRA subsidy determination for each of the 220<sup>2</sup> LAs with an HRA. The determination sets out the amount of subsidy payable to the authority [where the LA's assumed need to spend is greater than their assumed income, the Government pays HRA subsidy to bridge the gap] or to be paid by it to the Secretary of State [where the assumed income is greater than their assumed need to spend, the assumed surplus is captured and recycled within the system to meet deficits elsewhere<sup>3</sup>]. Harrow is one of 154<sup>4</sup> authorities making payments back

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<sup>1</sup> Cabinet agreed in June 2005 to transfer 25% of useable capital receipts or a minimum of £500k per annum from the GF to the HRA to the year 2010, providing useable right to buy receipts were at least this amount

<sup>2</sup> Source CIH HRA review Narrative 4

<sup>3</sup> This payment back to the Government is often referred to as 'negative subsidy'

<sup>4</sup> As note 1

to the Government, resulting in a payment of £22.4m over the three years, these payments have been estimated at a net £325m for 2009-10.

- 2.69 The assumptions made resulted in an affordable business plan [not withstanding the significant subsidy payments back to the Government], reporting healthy surpluses until year 11 of the plan [2017/18] when shortfalls on capital were projected to occur.
- 2.70 Harrow Council paid £6,837,600 in negative subsidy in the current year (some 32% of net rental income) and is budgeting to pay £6,506,217 in 2009/10. These sums are set to rise each year.
- 2.71 Harrow council's HRA business plan assumed a balance brought forward into 2008-09 of £6,377k – the actual balance carried forward was short by £131k at £6,246k. The projected in year deficit at the end of September is £1,170k, an increased in year deficit of £478k when compared with the business plan.
- 2.70 The draft HRA budget and quarter 2 outturn position reported to Cabinet in December 2008 detailed increased levels of expenditure in both the current financial year and proposed budgets for 2009-10 to 2011-12. For each of the three years, the in year deficits are greater than anticipated in the business plan, this results in part from the impact of the current economic climate i.e.; the need to increase the bad debt provision from £100k to £250k, reductions in interest earned on balances from £290k down to £90k and changes across a wide range of budget heads including changes to the costs of financing capital, cost of repairs, HRA subsidy and recharges from the internal market over and above inflationary assumptions made in the budget and business plan.
- 2.71 The business plan assumed that the HRA would show a surplus of £5,460k at the end of 2011-12, however the budgeted surplus reported the draft 3 year HRA budget in December projected this at £2,966k. This assumes a contribution to the repairs account in 2009-10 of £4.8m [the business plan assumed £4.6m] Further benchmarking will commence shortly on the repairs service to arrive at a realistic budget for the three years to 2011-12 and will include the contractual price increases estimated around 5%. The budget assumes an annual revenue contribution to capital [RCCO] of £1m with no further increases in borrowing anticipated in relation to Decent Homes over that included in the capital programme. There is limited flexibility within the HRA to increase the balances carried forward and any increases in the revenue budget requirements for repairs and decent homes will increase the pressure on the draft HRA budget as reported and make worse the future viability. A decision could be made to reduce or eliminate the annual RCCO contribution, although this would require increased borrowing to fund the capital programme, with the resultant revenue costs being charged to the HRA.
- 2.72 The impact of the lower level of balances will significantly shorten the period during which the Council has a viable HRA. If income and expenditure assumptions remain in line with the business plan, the increased in year deficits will result in balances falling below the

recommended level of £0.75m in year 7 [2013-2014]. By this point the Council will have considered the options around the future of managing its housing stock.

2.73 It is intended to update the business plan early in the 2009-10 financial year following the outcome of the HRA review, and at this point it should be possible to advise on the impact of the changes on both the HRA and the Business Plan. Any fundamental changes proposed following the HRA review could alter viability significantly i.e.; the proposal for local authorities to 'opt out' of subsidy by funding the HRA on the basis of rental income streams

**Risk Management Implications**

Risk included on Directorate risk register? Yes (for DH), Yes (for response repairs) No (for HRA finances)

Separate risk register in place? No (for (DH) No (for response repairs), No (for HRA.)

**Section 3 - Statutory Officer Clearance**

Name: Donna Edwards	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 9 <sup>th</sup> January.2009.....		
Name: Paresh Mehta	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 12 <sup>th</sup> January 2009.....		

**Section 4 - Contact Details and Background Papers**

Contact: Gwyneth Allen, Divisional Director – Housing - 0208 424 1998 (Internal 2998)

Background Papers: None

If appropriate, does the report include the following considerations?

1.	Consultation	NO
2.	Corporate Priorities- Improved support for vulnerable people Build stronger communities.	YES