

Tenants, Leaseholders and Residents Consultative Forum

30 January 2012, 2 - 5pm
Civic 1, Committee Rooms 1 & 2



Content

- HRA Reform
- Rent & Service Charges 2012-13
- Other Charges 2012-13

HRA Reform – Reminder

- Council currently pays over subsidy to Government – approx £7m pa
- To exit the subsidy system Harrow will have to take on additional debt, estimated at £89m
- Expect to be better off by £2-4m pa
- Debt cap to be introduced by Govt nationally
- The HRA remains a ring fenced account but is still part of the Council

Tenant Objectives

At the Special TLRCF in September 2011, the following objectives were made clear:

- To invest more in improving the stock
- To improve the repairs service
- To invest in the service to protect it against management risks associated with coalition changes
- To maintain safe balances
- To consider repayment of debt
- Investment in new affordable housing with rents maintained at an acceptable level (specifically maintaining a positive differential with registered providers)

HRA Reform - Considerations

- How the self financing payment will be made
- The length of the loan
- How the debt will be managed
- How the additional resources will be used

Settling the Self Financing Payment

- Funding could be from internal cash balances or new external borrowing
- External borrowing could be with existing lenders or bond options
- Public Works Loans Board (PWLB) published preferential rates – a discount of 0.85% pa on standard rates
- Consideration of the overall Council borrowing requirements

Length of Loan - Considerations

- Loans range from 10 to 50 years
- Rates for short term loans are more attractive than the longer term loans BUT need to consider ability to repay loan or cost of refinancing at the end of the loan period
- Rates are fluctuating daily and will continue to do so until the settlement date. Rates at 19th January 2012 were:
 - 10 yr rate approx 2.16%
 - 50 yr rate approx 3.15%

Length of Loan - Preferences

- The Council will have a borrowing requirement over the next 50 years
- Given the immediate investment requirements in the stock and services, HRA surpluses not expected until yr6 onwards, so would need to refinance debt
- Anticipate rates yr 10 in the region of 5%+ - so short term gain v long term cost
- 50 year debt recommended

How the debt will be managed - considerations

- Councils have freedom to develop own approach provided it is fair to both
- Currently HRA borrowing is combined with the General Fund in a single pool of borrowing – this could continue
- A two pool approach would allocate the HRA a share of existing debt based plus the new debt acquired for settlement purposes – this would be a change to the current method

How the debt will be managed - preferences

- A single pool:
 - provides flexibility for both the Council and the HRA in the longer term ie; if the HRA was in a position to repay debt at any time it could do so.
- A two pool approach:
 - could mean lower rates of interest for the HRA in the short term
 - would mean that the HRA would have to make treasury decisions based on its debt alone, this may not be as flexible as the single pool approach
- Preference for continuation of single pool to maintain maximum flexibility across the Council

- Assuming £150m at 50 yr rate (3.15%) and one pool
 - HRA interest rate would be approx 4.2%
 - Cost of financing debt would be approx £6.3m
- Assuming £150m at 10 yr rate (2.16%) and one pool
 - HRA interest rate would be approx 4%
 - Cost of financing debt would be approx £6m
- Assuming £150m at 10 yr rate (2.16%) and two pools
 - HRA interest rate would be approx 3.14%
 - Cost of financing debt £4.7m

Other Reform Considerations

- As a consequence of borrowing to meet Decent Homes, the additional borrowing for Self Financing will place Harrow at the maximum debt cap
- This means Harrow will not be able to borrow until some debt has been repaid
- Given investment requirements, surpluses not expected beyond safe balances until yr 6 earliest
- Therefore, cannot borrow to meet affordable housing in the shorter term – this was one of tenants main objectives

Other Considerations - Solution

- The GF is not at its capital borrowing limit
- It does have revenue pressures
- The HRA is at its capital limit but anticipates surpluses in the medium term
- Cabinet members are therefore looking at ways in which the HRA could access capital to enable consideration of an affordable housing programme

So.....

50 year debt and a single pool would in 2012-13;

- Enable additional investment in the stock of £1.3m (and over 30 yrs deliver the investment required by the stock condition survey)
- Enable additional investment in services of £0.9m (and further annual amounts in the first five year)
- Enable surpluses to be built up post year 10 of the 30yr business plan
- As a consequence of the anticipated increase in balances, enable longer term consideration of debt repayment and / or wider affordable housing programme to meet needs of residents in Harrow.

Rents & Service Charges 2012-13 – Appendix 2



- Government policy that rents will be similar by 2015-16 (rent convergence)
- Rental strategy approved March 2011 based on national rent policy = RPI + 0.5% real growth + £2. RPI was 2.5%, anticipated average rent increase for 2012-13 of 3.7%
- RPI at September 2011 was 5.6%. Maintaining this policy will mean rents will increase on average by 6.74%

Rents & Service Charges 2012-13 (Cont'd)



Maintaining current rent policy, uplifted for revised inflation means:

- Average rent becomes £102.14 per week - an increase of £6.45 per wk on the current year average of £95.69
- Average service charge becomes £2.68 - an increase of £0.15 per wk on the current year average of £2.53

Other Charges 2012-13 – Appendices 3-6

- Garages – Appendix 3 – recommended to increase by 2%
 - Garages £14.33 (2011-12 £14.05)
 - Car spaces £9.34 (2011-12 £9.16)
- Facility Charges – Appendix 4 – recommended to increase by 4% to recoup anticipated cost increases 2012-13 and move towards full cost recovery
- Water Charges – Appendix 5 – assumed 2% increase but awaiting notification from Veolia Water
- Community Centres – Appendix 6 – assumed 2% increase

What happens next

- Feedback to Cabinet from TLRCF
- Cabinet on 9th February 2012 will be asked
 - To increase rents and other charges and refer to Council on 16th February 2012
 - To agree the HRA MTFS
 - To approve the introduction of a Major Work Loans Policy
 - To delegate further consultation to the Director of A&H and the Portfolio Holder for Housing to consult with leaseholders around the increase in the admin fee
- Council on 16th February 2012 will be asked
 - To agree rents and service charges
 - To agree the 2012-13 HRA budget
 - To agree the 2012-13 HRA capital programme