

Strategic Overview and Scrutiny Panel

Old Library, Town Hall
24 June 2010 at 6.30pm

Strategic Overview and Scrutiny Panel deals with reviewing corporate strategies within the Council's Strategic Plan, the Council's budgetary guidelines for the forthcoming year, scrutinising the Forward Plan, the performance of Portfolio Holders and scrutiny of Cabinet decisions or Cabinet Member decisions (with delegated power) which have been called in.

Information for Members of the Public

Access to information and meetings

You have the right to attend all meetings of the Council, its Committees and Cabinet. You also have the right to see the agenda, which is usually published 5 working days before the meeting, and minutes once they are published. Dates of the meetings are available at www.colchester.gov.uk or from Democratic Services.

Have Your Say!

The Council values contributions from members of the public. Under the Council's Have Your Say! policy you can ask questions or express a view to meetings, with the exception of Standards Committee meetings. If you wish to speak at a meeting or wish to find out more, please pick up the leaflet called "Have Your Say" at Council offices and at www.colchester.gov.uk

Private Sessions

Occasionally meetings will need to discuss issues in private. This can only happen on a limited range of issues, which are set by law. When a committee does so, you will be asked to leave the meeting.

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Please ensure that all mobile phones and pagers are turned off before the meeting begins and note that photography or audio recording is not permitted.

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Terms of Reference

Strategic Overview and Scrutiny Panel

- To review corporate strategies.
- To ensure the actions of the Cabinet accord with the policies and budget of the Council.
- To monitor and scrutinise the financial performance of the Council, and make recommendations to the Cabinet particularly in relation to annual revenue and capital guidelines, bids and submissions.
- To link the Council's spending proposals to the policy priorities and review progress towards achieving those priorities against the Strategic / Action Plans.
- To scrutinise executive decisions made by Cabinet, the East Essex Area Waste Management Joint Committee, the Colchester and Ipswich Joint Museums Committee and Cabinet Member decisions (with delegated authority taking a corporate / strategic decision) which have been made but not implemented, and referred to the Panel through call-in.
- To monitor the Council's operational performance in relation to the Strategic Plan, Local Area Agreement targets and National Indicators.
- To scrutinise the Cabinet's performance in relation to the Forward Plan and to scrutinise the performance of Portfolio Holders.
- At the request of the Cabinet, make decisions about the priority of referrals made in the event of the volume of reports to the Cabinet or creating difficulty for the running of Cabinet business or jeopardising the efficient running of Council business.
- The panel will be the appropriate route for any member to refer a 'local government matter' in the context of Councillor Call for Action.

Process for Councillor Call for Action

- Councillors have the ability to call for debate and discussion a topic of neighbourhood concern, limited to issues affecting a single ward, in an attempt to bring about specific solutions for local problems. This enables members to get things done without going through the Council's executive decision making process.
- Members may bring an action on any issue they choose, with exceptions, for example, if the issue is vexatious or deals with an individual complaint. Local Government matters specifically excluded from the regime are namely matters relating to a planning decision, a licensing decision or where a right of recourse to a review or right of appeal is already provided for in law.
- Poor service performance or increased anti-social behaviour are examples of where a member will bring an action to the panel's attention.
- The scrutiny panel may reject a request as not within the guidance, or the usual channels have not been exhausted, or accept that an investigation is the appropriate action.
- The panel may conduct an investigation in the usual scrutiny manner, seeking information from the Council and/or partners and inviting them to attend meetings.
- A report with recommendations will be compiled and brought to the Council and/or partners attention, with the Council and/or partners having a duty to respond.
- The panel will consider and publish the responses to their recommendations and feed back this information to the Councillor calling for the action.

COLCHESTER BOROUGH COUNCIL STRATEGIC OVERVIEW AND SCRUTINY PANEL 24 June 2010 at 6:30pm

Members

Councillors

Councillor Christopher Arnold (Chairman)
Councillor Dennis Willetts (Deputy Chairman)
Councillor Nigel Offen (Liberal Democrats Group Spokesperson)
Councillor Gerard Oxford (Highwoods Independent Group Spokesperson)
Councillor Julie Young (Labour Group Spokesperson)
Councillor Nigel Chapman
Councillor Mark Cory
Councillor Andrew Ellis
Councillor William Frame
Councillor Theresa Higgins

AGENDA - Part A

(open to the public including the media)

Members of the public may wish to note that agenda items 1 to 5 are normally brief and agenda items 6 to 9 are standard items for which there may be no business to consider.

Pages

1. Welcome and Announcements

- (a) The Chairman to welcome members of the public and Councillors and to remind all speakers of the requirement for microphones to be used at all times.
- (b) At the Chairman's discretion, to announce information on:
- action in the event of an emergency;
 - mobile phones switched off or to silent;
 - location of toilets;
 - introduction of members of the meeting.

2. Substitutions

Members may arrange for a substitute councillor to attend a meeting on their behalf, subject to prior notice being given. The attendance of substitute councillors must be recorded.

3. Urgent Items

To announce any items not on the agenda which the Chairman has agreed to consider because they are urgent and to give reasons for the urgency.

4. Declarations of Interest

The Chairman to invite Councillors to declare individually any personal interests they may have in the items on the agenda.

If the personal interest arises because of a Councillor's membership of or position of control or management on:

- any body to which the Councillor has been appointed or nominated by the Council; or
- another public body

then the interest need only be declared if the Councillor intends to speak on that item.

If a Councillor declares a personal interest they must also consider whether they have a prejudicial interest. If they have a prejudicial interest they must leave the room for that item.

If a Councillor wishes to make representations on an item on which they have a prejudicial interest they may do so if members of the public are allowed to make representations. In such circumstances a Councillor must leave the room immediately once they have finished speaking.

An interest is considered to be prejudicial if a member of the public with knowledge of the relevant facts would reasonably regard it as so significant that it is likely to prejudice the Councillor's judgement of the public interest.

Councillors should consult paragraph 7 of the Meetings General Procedure Rules for further guidance.

5. Minutes

1 - 5

To confirm as a correct record the minutes of the meeting held on 8 June 2010.

6. Have Your Say!

(a) The Chairman to invite members of the public to indicate if they wish to speak or present a petition at this meeting – either on an item on the agenda or on a general matter not on this agenda. You should indicate your wish to speak at this point if your name has not been

noted by Council staff.

(b) The Chairman to invite contributions from members of the public who wish to Have Your Say! on a general matter not on this agenda.

7. Items requested by members of the Panel and other Members

(a) To evaluate requests by members of the Panel for an item relevant to the Panel's functions to be considered.

(b) To evaluate requests by other members of the Council for an item relevant to the Panel's functions to be considered.

Members of the panel may use agenda item 'a' (all other members will use agenda item 'b') as the appropriate route for referring a 'local government matter' in the context of the Councillor Call for Action to the panel. Please refer to the panel's terms of reference for further procedural arrangements.

8. Referred items under the Call in Procedure

To consider any Portfolio Holder decisions, taken under the Call in Procedure.

The panel may a) confirm the decision, which may then be implemented immediately, b) confirm the decision back to the decision taker for further consideration setting out in writing the nature of its concerns, or c) refer the matter to full Council in the event that the panel considers the decision to be contrary to the Policy Framework of the Council or contrary to, or not wholly in accordance with the Budget.

9. Decisions taken under special urgency provisions

To consider any Portfolio Holder decisions taken under the special urgency provisions.

10. Consultation on the reform of Council Housing finance

6 - 19

See report from the Head of Strategic Policy and Regeneration and Head of Resources.

11. Exclusion of the public

In accordance with Section 100A(4) of the Local Government Act 1972 and in accordance with The Local Authorities (Executive

Arrangements) (Access to Information) (England) Regulations 2000 (as amended) to exclude the public, including the press, from the meeting so that any items containing exempt information (for example confidential personal, financial or legal advice), in Part B of this agenda (printed on yellow paper) can be decided. (Exempt information is defined in Section 100I and Schedule 12A of the Local Government Act 1972).

STRATEGIC OVERVIEW AND SCRUTINY PANEL

8 JUNE 2010

Present: - Councillors Arnold, Chapman, Cory, Ellis, T.Higgins, Offen, G.Oxford, Willetts and J Young
Substitutions: - Councillor Cook for Councillor Frame

3. Minutes

RESOLVED that the minutes of the meetings held on 30 March 2010 and 19 May 2010 were confirmed as a correct record.

Councillor Arnold (in respect of his spouse being a Board Member of Age Concern), Councillor Chapman (in respect of being a Board Member of Colchester Borough Homes), Councillor Theresa Higgins (in respect of being a Member of Essex County Council and a Colchester Blue Badge Guide), Councillor Offen (in respect of being a Board Member of Colchester Borough Homes) and Councillor Young (in respect of being a Member of Essex County Council) all declared a personal interest in the following item.

4. 2009-10 Year End Performance Report

Councillor Tina Dopson, Portfolio Holder for Communities (previously the Portfolio Holder for Performance and Partnerships in 2009-10) and Ms. Ann Wain, Executive Director, attended the meeting for this item.

Councillor Dopson introduced the Year end Performance report (including the Strategic Plan Action Plan (SPAP) and proposed targets and actions for 2010/11) making members aware of the Performance Summary, that included commentary on the progress on our National Indicators, LAA 'Have Regard to' indicators, our Local and Life Chances Indicators and the SPAP, and appendix 2 that highlighted the Council's excellent performance in regards to Number of Affordable Homes Delivered (NI155) and the Number of homeless people in Temporary Accommodation (NI156). Councillor Dopson also explained the reasoning for the NI192 Household Waste reused, recycled and composted sadly being below target, though the dry weather conditions that caused a lowering of garden waste collected was out of the Council's control.

Both panel members and Councillor Dopson agreed with Councillor Arnold that NI192 would be better explained and understood if the information was broken down into the three constituent parts.

Ms. Wain explained to the panel the future changes that would alter the Council's Performance Management Framework as we know it, due to the significant changes being made at a national level. Comprehensive Area Assessment (CAA) and including 'Use of Resources', was now abolished, with the Audit Commission instructing the Council to stop this work, though the Council was awaiting further instruction on the future for Place Survey (Customer perception

Survey), a replacement for CAA and the agreed set of National Indicators. Ms. Wain said once further details are announced, briefings on the new arrangements will be organised.

Ms. Wain confirmed to the panel that once the Government provides guidance, likely to be in the autumn, on publication of individual items of expenditure above £500.00, a final decision, taking into account the work of other leading authorities, will be made.

Councillor Chapman explained that the additional information sheet supplied to members provided a fuller list of Awards and Accreditations to Colchester Borough Homes than that presented in Appendix 1 of the main report.

Councillor Dopson confirmed that with regard to 'Future Jobs Fund Project' that included 88 work placements for unemployed people aged 18-24, the project would lose its funding in 2010-11 and would not go ahead.

Further to Councillor Offen's concern about the air quality at certain 'hot spot' locations in or close to the Town Centre (prompted by NI194 'Level of Air Quality from Council buildings and operations', Ms. Wain confirmed these and a potential additional 'hot spot' are part of officer's current work in progress (including Brook Street, Mersea Road and the Town Centre) with ongoing dialogue with DEFRA and the Highways Agency. It is anticipated that the longer term aspirations for the Town Centre will improve air quality.

In respect of the SPAP 2009/10 Congestion Busting action around changes to town centre to reduce traffic, the panel requested the agreement on "Key Fundamentals agreed" should read "Key Principles agreed".

The panel member's agreed with Councillor Arnold that the Cabinet should be requested to provide additional information on Air Quality Hot Spots in the Borough in future reporting.

Following discussions on NI184 'Food Establishments compliant with hygiene law', an indicator dropped for 2010/11, members of the panel considered it desirable to see this indicator retained locally, so that the percentage of compliant premises in any one year was known. Members understood from Councillor Dopson and Ms. Pam Donnelly, Executive Director that year on year comparisons are misleading due to changes in the comparative property data, though the dropping of this local indicator would not impinge on the annual food premises inspection programme. Councillor Dopson and Ms. Donnelly agreed to seek further clarification on this indicator and provide this to the Cabinet for consideration.

During discussions about NI157 The Processing of Planning Applications, Ms. Donnelly explained to the panel that though a Fundamental Service Review (FSR) had been undertaken in Environmental and Protective Services in 2009, there remained areas still to be focused on during phase II of this review, including performance issues, though members should be aware of the reality that due to future financial pressures and decisions taken as part of the FSR, that there could be a trade-off with lower, more realistic targets. Members suggested that a more detailed definition to the three categories of planning applications could be useful.

The panel agreed to discuss future FSR later, during discussions on the work programme.

Councillor Smith addressed the panel to explain that the targets for NI79a 'Benefit Claims Processed correctly' had been revised downwards due to a change in methodology introduced by the Government, not a softening of the expected target level.

Panel members felt a final review of the Community Safety action on 'reducing crime and anti-social behaviour' was required, though the panel were not sure whether the Night Time Economy Task and Finish Group, in existence for approximately six years, would be responsible for reviewing the final actions and outputs from the SPAP. The panel therefore agreed for Councillor Offen, Chairman of the Policy Review and Development Panel (PRDP) to confirm to the next SOSP briefing (Chair and Group Spokespersons) whether the PRDP would be completing this review, and if not whether it should be considered as a future SOSP work programme item.

The Scrutiny Officer was requested to check that the Finance and Audit Scrutiny Panel retained an item on their work programme for the need to examine the finances for a new Park and Ride at North Colchester.

The Chairman requested clarification on what was meant by 'An agreement had been reached with ECC to develop the option for improving bus reliability and operation in Colchester. Councillor Barton, Portfolio Holder for Planning and Sustainability explained that the agreement was to look at options generally, with regular 5-aside meetings to be arranged, to develop the options to informal agreements. Councillor Smith and Arnold agreed that greater transparency around this work was needed.

Councillor Arnold questioned the correctness of the Q4 update on the Enabling Job Creation action on 'Increased incubation and grow-on space', indicating 'green', but stating Stane Park development currently on hold.

The panel requested more detail on the SPAP 2009/10 Healthy Living action on the delivery of the Community Sport Network action plan, giving the target for this action was not achieved.

Discussions around the Healthy Living action on 'Work with partners to deliver the London 2012 Partnership Plan', including Councillor Dopson's update on work in progress, resulted in agreement that it would be beneficial for the panel to undertake a review of the London 2012 Partnership later in the year.

Councillor Arnold congratulated the Council and officers on the good news that under the Reduce, reuse and recycle action, the Council had, due to high levels of waste minimisation, achieved a reduction of 8.5% in waste to landfill.

Councillor Arnold said that as one of the main objectives of the Council's Strategic Plan was to make Colchester a place that people want to live, work and visit, the SPAP for 2010/11 should have an action focusing on visits to Colchester to pick up the "visit" in the vision.

Councillor Theresa Higgins requested that New Town be added to the Addressing Young People's Needs action on organising a varied programme of subsidised or free activities.

The Chairman thanked Councillor Dopson and Ms. Wain for attending the meeting, presenting the Year End Performance Report and responding to questions from the Panel.

RESOLVED that the panel

- i) Considered and commented on the performance report for the period up to the end of March 2010 which included progress of our performance measures, the Strategic Plan Action Plan and proposed targets and actions for 2010-11.
- ii) Requested that the Cabinet consider that future performance reports provide the

following:

- a) A breakdown of the three constituent parts that make up NI192 Household waste 'reused', 'recycled' and 'composted'.
 - b) The provision of additional information on Air Quality Hot Spots in the Borough (to run in parallel with NI194).
 - c) In respect of the SPAP 2009/10 Congestion Busting action around changes to town centre to reduce traffic, the panel requested the agreement on "Key Fundamentals agreed" to read "Key Principles agreed".
 - d) The panel requested more detail on the SPAP 2009/10 Healthy Living action on the delivery of the Community Sport Network action plan, giving the target for this action was not achieved.
 - e) A more detailed definition to the three categories of planning applications could be useful.
 - f) Given that one of the main objectives of the Council's Strategic Plan was to make Colchester a place that people want to live, work and visit, the SPAP for 2010/11 should have an action focusing on visits to Colchester to pick up the "visit" in the vision.
 - g) That New Town is added to the Addressing Young People's Needs action on organising a varied programme of subsidised or free activities.
 - h) In respect of the retention of NI184 'Food Establishments compliant with Food Hygiene law' as a local indicator, Councillor Dopson and Ms. Donnelly are requested to seek further clarification and provide this to Cabinet for consideration.
- iii) The Scrutiny Officer was requested to check that the Finance and Audit Scrutiny Panel retain on their work programme a review of the financial aspects of a new Park and Ride at North Colchester.
- iv) The Chairman and Group Spokespersons of SOSP to consider a future year end review of the London 2012 Partnership as part of the work programme, at the next panel briefing.

Councillor Chapman (in respect of being a Board Member of Colchester Borough Homes), Councillor Theresa Higgins (in respect being a Member of Essex County Council) Councillor Offen (in respect of being a Board Member of Colchester Borough Homes) and Councillor Young (in respect of being a Member of Essex County Council) all declared a personal interest in the following item.

5. Work Programme

Councillor Smith addressed the Panel to ask for members to agree to a further review of the Greenways Care Home as soon as possible.

Councillor Smith said in light of the Greenways Care Home Case Review published one week ago and uncertainty around the rebuild at this site it was important that a Council enquiry was undertaken.

The panel was informed that whilst the Executive Summary of the Case Review has been published full details of the report had not.

Councillor Smith said the report has 23 recommendations, and he was alarmed that all agencies other than Colchester Borough Council were mentioned in the recommendations or

informed of what was happening.

The Panel was reminded that the Council approved a motion in December 2008 in regards to Greenways and following on from this a progress review was undertaken by the Panel in February 2009 in which Councillor Finch as Essex County Council Portfolio Holder attended and contributed to what was considered a thoughtful debate. At this meeting Councillor Finch concluded the discussion by saying he would be happy to return to the panel to brief members on the progress of the Greenways Care Home at some time around the end of 2009.

In discussions with Councillor Smith, the Panel agreed that as the Council has a statutory responsibility to the safeguarding of vulnerable adults, with a strategic role in addressing older people's needs, that it was incumbent on the Council to consider the issues in greater depth.

To this end, the Panel requested that the Scrutiny Officer writes to Ms. Liz Chidgey, Deputy Executive Director of Adults, Health and Community Wellbeing (Essex County Council), and to the Chair of the Essex Safeguarding Board for Adults, to invite them to attend a future meeting so a more thoughtful and informative discussion can take place, and further more the panel felt any meaningful scrutiny can only take place with full unedited copies of the report provided to members of the panel. It was also agreed that Councillor Finch would also be most welcome to attend any future discussions. It was hoped that a review would be undertaken before the County Council Cabinet approve any recommendations resulting from the Greenways report.

The Chairman explained to the Panel that at the previous day's briefing, members and officers had discussed the need to re-draft the work programme to provide a schedule for each meeting that retained member's focus (less substantive items at each meeting, more thorough reviews, earlier close of meetings), thereby providing a basis for more meaningful scrutiny. Consideration would be given to amalgam of Portfolio reviews with Fundamental Service / service performance reviews. Prompted by Councillor Gerard Oxford, the Chairman said that members had also accepted that this approach would require the need to schedule in more meetings throughout the year.

RESOLVED that the panel:

- i) Requested that the Scrutiny Officer writes to Ms. Liz Chidgey, Deputy Executive Director of Adults, Health and Community Wellbeing (Essex County Council), and to the Chair of the Essex Safeguarding Board for Adults, to invite them to attend a future meeting so a more thoughtful and informative discussion can take place, and further more the panel felt any meaningful scrutiny can only take place with full unedited copies of the report provided to members of the panel.
- ii) Requested officers to redraft the 2010-11 Work Programme based on the ideas discussed, to be presented to the Chair and Group Spokespersons at the next briefing in preparation for the July meeting.



Strategic Overview and Scrutiny Panel

Item
10

24 June 2010

Report of	Head of Strategic Policy and Regeneration / Head of Resources	Author	Darren Brown ☎ 282891 Lindsay Barker ☎ 282253
Title	Consultation on the reform of Council Housing Finance		
Wards affected	All		

**The Panel is invited to consider and comment on the Council's response
to the Consultation on the reform of Council Housing Finance.**

1. Action required

- 1.1 The Strategic Overview and Scrutiny Panel are asked to note the report to Cabinet and make any appropriate comments to Cabinet for their consideration on 30 June 2010.

2. Reason for scrutiny

- 2.1 On 25 March the Department for Communities and Local Government (DCLG) published the revised proposals for the reform of the Housing Revenue Account (HRA) in their consultation paper entitled *Council Housing: A real future (Prospectus)*. The proposals take the form of a prospectus and set out the terms on which the Government plans to dismantle the HRA Subsidy system and introduce a system of self-financing, on a voluntary basis.
- 2.2 The attached report to Cabinet recommends the Council's response to this consultation and considers the impact and opportunities of the proposed changes.

3. Further information

- 3.1 The Cabinet report and supporting information is attached.



Cabinet

Item

30th June 2010

Report of	Head of Strategic Policy and Regeneration	Author	Lindsay Barker Darren Brown ☎ 282253
Title	Consultation on a Self-Financing Housing Revenue Account		
Wards affected	All		

This report concerns the proposal to leave the current national Housing Revenue Account (HRA) Subsidy System and adopt a Self-Financing HRA.

1. Decision(s) Required

- 1.1 To approve the Councils response to the Governments proposal to leave the present HRA subsidy system and adopt a self-financing housing revenue account, shown at Appendix A.

2. Reasons for Decision(s)

- 2.1 The Government are consulting on proposals to reform the current housing finance system and this report provides the opportunity to give our views.

3. Alternative Options

- 3.1 To not approve the Councils response to the consultation paper, however this is not being recommended for the reasons set out below. Alternatively, the option exists to not respond.

4. Supporting Information

The Current System/Background:

- 4.1 Council Housing finance is supported through the Housing Revenue Account (HRA) Subsidy system. This is a national system which provides deficit funding to local authorities, to enable them to meet the interest costs that are incurred from holding housing debt. It is a redistributive system based on a notional HRA for each authority and has been in operation in its present form for more than 20 years. Under the subsidy system, income from tenants' rents and Right To Buy sales is collected centrally, and in return Councils are paid allowances for Management, Maintenance and Major Repairs. In principle, this redistributes funds to Councils that would be unable to meet interest payments on their debt, and other costs through rental income. However, over time these allowances have not kept pace with increases in rental income, which has led to a steady withdrawal of resources from the national housing system. So much so, that it is now acknowledged that the national HRA subsidy system is in surplus which represents a real redirection of resources from local authorities into central Government and hence a reform of the present housing subsidy system has long been called for by local authorities and leading housing professionals.

- 4.2 There has long been the belief that there are insufficient resources within the current subsidy system to deliver long-term investment in services to tenants and provide a sustainable housing stock. Furthermore, the current system is seen as being both unfair and unpopular. Not only is the system complex, it lacks transparency and provides little local accountability. It is highly volatile and can change at short-notice, creating difficulty in planning in the medium to long-term.
- 4.3 As a consequence, there have been a number of documents produced in recent years, setting out the intention firstly that high-performing ALMO's would be able to take advantage of "freedoms and flexibilities" in the current system, then developing into a Self-Financing pilot project consisting of 6 case-study local authorities who investigated the possibility of an alternative approach to the subsidy system which could be implemented for all local authorities. It was the findings of this pilot project which led the Government at the time to commission an HRA review, which resulted in a consultation paper on HRA reform being issued in July 2009 to which we responded. The results of this exercise have now been considered by the Government, which has resulted in a further consultation paper being produced in March 2010 setting out a "Voluntary offer" to local authorities to dismantle the current subsidy system, which is the subject of this report.

5. Proposals

- 5.1 On the 25th March 2010, the Department for Communities and Local Government (DCLG) issued the consultation paper entitled "Council Housing: A Real Future (Prospectus)". The proposals contained within the paper in summary are as follows;
- The current national HRA Subsidy system would be dismantled,
 - It would be replaced with a devolved, self-financing system in which Councils would be able to retain all tenants' rental income and capital receipts including those from Right To Buy (RTB) sales, within their Housing Revenue Account,
 - There would be a one-off adjustment of housing debt to local authorities,
 - There would be a strengthened (more transparent) HRA ring-fence guidance,
 - It would be nationally neutral between central and local Government.
- 5.2 The detail of how self-financing would work is becoming clearer, but there are still a number of technical questions that need to be answered before we are in a position to know absolutely the impact locally. The Department for Communities and Local Government (DCLG) are working with leading housing finance professionals, CIPFA and the Treasury to establish how some of these areas may be dealt with, which primarily revolve around the treatment and accounting for the debt reallocation.

- 5.3 The consultation paper is asking local authorities 6 questions. These are not specifically asking for an agreement at this point in time, but are in essence asking for our views on the proposals, whether or not we would favour moving to a self-financing environment for our HRA and voluntarily in 2011/12, and what reasons we may have for not wanting to move forward based on the proposal being made. It should also be noted that all of the figures included within the proposals are subject to confirmation by the Government at the next Comprehensive Spending Review, and should be viewed on the basis that they were proposed by the Government prior to the General Election, and the new incoming Government has indicated its intention to look at all areas of public expenditure.
- 5.4 The new Government has recently confirmed its intention to reform council housing finance. They have stated in their Coalition document that “We will... review the unfair Housing Revenue Account..”, however it is not yet clear whether the review will be in the same form as that proposed by the previous Government. Nevertheless, the consultation process is being continued. Furthermore, the Housing Minister made an announcement on 8th June, stating the he wants “to see a new devolved system that puts Councils firmly in control and gives them the financial freedom they need to make the best long term decisions about their housing”.

6. Housing Subsidy and The Debt Settlement

- 6.1 The Government appointed Price Waterhouse Coopers (PWC) to undertake the work around the level of debt that is to be redistributed amongst authorities, along with determining the most appropriate method of allocation. PWC have come up with a model which makes an assessment of each authority’s ability to service an amount of debt, based on an assumed level of spending required and rental income over the next 30 years. These expenditure assumptions are based on uplifted allowances within the current subsidy system as identified as part of the HRA review.
- 6.2 There is currently around £21billion of national housing debt which is serviced by all housing stock-retaining Councils, through the housing subsidy system. There are a number of authorities who have a high level of historic debt, along with a number of authorities who have little or no debt. Accordingly, there is a large number of authorities who pay negative subsidy to the Government under the current system, and there are a few authorities who actually receive subsidy from the Government. In essence, there is a strong relationship between those authorities who have high levels of debt and are receiving housing subsidy, with those with little or no debt that are paying housing subsidy to the Government.
- 6.3 The housing subsidy system takes funding from those authorities who notionally have enough resources to meet the costs of managing, maintaining and servicing the debt on their housing stock, and gives it to those authorities who have insufficient funding. Therefore for local authorities to become self-financing will require the national housing debt to be shared amongst Councils.
- 6.4 Naturally, there is a resistance from some authorities, especially those that are debt free, to taking on any new debt. They feel that they are being penalised for good financial management in the past which has seen them become debt free. However, due to the way the housing subsidy system operates, if an authority has little or no debt, then it is required to pay more in negative subsidy to the Government to support the debt of others. An example to demonstrate this is shown in the following table:

	Authority A (with No Debt)	Authority B (with Debt)
Management Allowance	£5m	£7m
Maintenance Allowance	£8m	£10m
Major Repairs Allowance	£4m	£6m
Total Expenditure	£17m	£23m
Rental Income	(£22m)	(£28m)
Notional Housing Surplus	(£5m)	(£5m)
Debt Charges	£0	£9m
Subsidy Received from Government	-	(£4m)
Subsidy Paid to Government	£5m	-

- 6.5 In the example above, Authority A which has no debt is paying £5 million to the Government in negative subsidy, which then in turn will use these funds to pay subsidy to those Councils like Authority B who need support in meeting their debt payments. This in effect means that authorities are already servicing the cost of debt through their negative subsidy payments to the Government, it just isn't necessarily their own debt. By reallocating the national debt, some authorities would be required to take on additional debt, whilst some authorities would actually see their level of debt reduce. The logic behind this being that once the housing subsidy system no longer exists as a means by which resources are redistributed between authorities to service debt, then each authority has an appropriate amount of opening debt that it can support and service into the future.
- 6.6 At Colchester, we are in a similar position to Authority A in the above example, i.e. we are paying negative subsidy to the Government. Our negative subsidy payments are forecast to increase annually in the future, to the extent that it is anticipated that we will pay around £25million over the next 5 years, and in excess of over £65million over the next 10 years. This is the factor that makes self-financing affordable for local authorities. We will be taking on additional debt, but will be saving future negative housing subsidy payments. Over the next 30 years this is forecast to generate a substantial level of additional resources. Therefore, the key point to understand when taking on debt is that although this will increase our level of debt held at the outset, we would no longer be required to pay the current and ever increasing subsidy payments to the Government in the future, thereby freeing up additional resources. We would be able to use these future resources to service the borrowing costs of the new debt taken on and provide for its repayment, and also fund the much needed improvements to our stock and services in the future. This is the underlying principle behind self-financing.

6.7 The review of Housing Finance not only identified a shortfall in funding of Management & Maintenance and Major Repairs Allowances compared to assumed levels of need, but also that there was £6 billion of investment needed for additional improvements/outstanding backlogs of works, and up to £5 billion needed on health and safety and disabled facilities expenditure. Some of the shortfall in allowances is being covered as part of the debt settlement calculation, whilst the remainder will be covered through a system of capital grants to be established after the settlement – for which authorities will be able to apply, through a process yet to be determined.

7. How will self-financing work

7.1 As previously mentioned, for it to be possible for Councils to be able to run their HRA's on a self-financing basis, it will be necessary to allocate centrally managed debt to local authorities. This will be distributed on the basis of the ability to service and repay this debt over a 30 year period. Therefore, some authorities will find their debt levels reducing, whilst others will find their debt levels increasing. As stated above, Colchester falls in to the latter category, which means we will be required to take on additional debt. Under the voluntary offer received from CLG, this amounts to £59.1million. This additional borrowing would then be paid to the Government to “buy” ourselves out of the system. If agreed and implemented, this would increase our HRA debt to a total of £110million at the start of the new system. There is a proviso within the offer that we could take-on a lower debt allocation of £52.8million, on the basis that we used the £6.3million reduction to deliver new affordable housing. However, the terms of this are currently unclear and therefore for the basis of this report, it has been assumed we would take-on the higher level of debt.

7.2 The amount of debt that authorities will be required to take on has been calculated on the basis of a formula developed centrally. A debt adjustment will be implemented which would move the current level of supported debt (i.e. in the current subsidy system) to the new level of the debt settlement. The review proposed a mechanism based on a tenanted market value, in other words a Net Present Value cashflow forecast based on future subsidy guideline rents, less uplifted Management & Maintenance and Major Repairs Allowances. Furthermore, it is being proposed that there will be a cap on borrowing, so as to limit the level of national debt. For Colchester, this cap would be approximately £125million.

7.3 Once Councils have left the current subsidy system, they will be able to retain all rental income and capital receipts, and invest in those areas where there is insufficient funding currently. However, along with these freedoms there will be a number of new risks which the Council will need to manage. The current system protects authorities to a certain extent from the effects of interest rate changes, for example if interest rates rise, then the HRA pays a higher financing cost but this is reimbursed through the subsidy formula. However, in a self-financing system housing subsidy would no longer exist and therefore this increased cost would have to be met from elsewhere within the HRA. Conversely, any reductions in interest rates are currently not benefitted from as the saving to the HRA is matched by an increase in subsidy payable. Under self-financing this would provide extra resources to the HRA, for either improvements in services, additional stock investment or repayment of debt which would save future financing costs. Whilst this has been identified as a potential risk, it in fact only puts the HRA on the same footing as the Council's General Fund which currently operates in this environment, and therefore we are familiar with and already have experience of operating in this way.

- 7.4 The Council has been developing a Business Plan which forecasts the Housing Revenue Account for each of the next 30 years, both under the current subsidy system and in a self-financing environment. The model takes into account the financing costs of the additional debt we would take-on, the negative subsidy payments no longer payable and the investment requirements of the stock indicated by our stock condition survey. The Business Plan shows that under current assumptions, we would be able to take on the additional amount of debt referred to above, deliver the investment requirements of the stock and in fact repay all of our debt within the life of the 30 year Business Plan. This needs to be compared to the alternative position, whereby we retain the current housing subsidy system and continue to make increasing negative subsidy payments to the Government, alongside not being to deliver the capital investment needs of our stock, and have no ability to reduce our current level of debt.
- 7.5 The modelling undertaken by officers indicates that if the current system remains, we will deliver around £51million of capital investment to our housing stock over the next 10 years (compared to around £94million under self-financing). However, by this time, the HRA balance is projected to go into a negative balance, meaning even this lower level of investment could not be sustained without making reductions in expenditure elsewhere. Even then, this would not deliver the required level of investment needed over the next 30 years.
- 7.6 Whilst the figures contained within this report reflect the Business Plan modelling undertaken as part of the assessment of the self-financing offer from CLG, it is intended that the HRA Business Plan process will be adopted in the future, and become a part of the ongoing financial management of the Council's Housing Revenue Account. Therefore, the assumptions that have been made will be able to be changed in future years, reflecting the Council's changing priorities and local circumstances.

8. Benefits/Risks

- 8.1 There are a number of Benefits and Risks that have currently been identified as part of the proposals. Whilst there will always be risks associated with change, they should be viewed in the context of the substantial benefits self-financing is expected to bring, especially when compared to the current subsidy system. The risks and benefits have been summarised as follows;
- 8.2 Benefits of Self-Financing:
- All future rental income would be retained locally with the continued policy of rent restructuring to safeguard the increase to tenants' rents;
 - 100% of Right To Buy receipts to be retained locally, with discretion retained for 25% as at present;
 - Increased capital investment in the Council's housing stock and services, enabling the Decent Homes standard to be maintained in the long-term,
 - Additional resources / Borrowing headroom for new affordable housing,
 - More certainty in long-term planning,
 - Ability to repay debt over the life of the business plan,
 - Greater local accountability.

8.3 Risks of Self-Financing:

- We would be approximately doubling the amount of debt we hold on our balance sheet from day one of the start of the new regime, although our modelling demonstrates that this could be reduced and indeed repaid over the life of the Business Plan.
- There is likely to be a reduction in Social Housing Grant in the future, as the Government would have less resources for centrally funded programmes, although the expectation is that authorities would be able to use the additional resources generated locally to replace this.
- Under the current capital financing rules, there could be an impact upon the Councils General Fund through the take-on of additional debt, although this depends on how the extra debt is treated and recharged to the HRA.

8.4 It is recognised that the potential impact of borrowing costs upon the General Fund is a concern and has been raised as part of the review. CLG have stated that they do not anticipate any negative impact upon Councils' General Funds as a result of implementing HRA reform. However, this is a technical area where further work will be required, and it is understood that CLG are working with CIPFA and the Audit Commission to resolve any issues that may arise in this area. Therefore whilst it is currently not possible to quantify whether there would be any impact in this area, it has been included as a risk nevertheless. We will however be urging the Government to mitigate any negative impact upon the General Fund in our response to the consultation.

9. Risks

9.1 The risks that revolve around self-financing primarily fall into 2 areas. Firstly, there are the risks relating to treasury management and the take-on of additional borrowing. Given that the current housing subsidy system predominantly protects local authorities from variations in interest rates, if the system is abolished then the HRA will be exposed to the impact of fluctuations in interest rates in the future. These could be positive or negative, dependant on the circumstances at the time. However, this risk can be mitigated by the Council's treasury management policies and indeed can be viewed as a positive, as the Council is incentivised to achieve treasury management efficiencies which it would be able to retain within the business plan, as opposed to being offset by housing subsidy. Furthermore, the abolition of subsidy would simply put the HRA on a similar footing to the General Fund in terms of exposure to treasury management variations.

9.2 The other main risk revolves around the possibility that future Governments may decide to open the settlement. The consultation paper refers to this settlement as "a once and for all settlement between central and local Government". However, the paper also refers to the fact that it cannot be guaranteed that future Governments will not make changes to policies that will impact upon the amount of rental income that can be raised or the costs of meeting standards or other obligations. However, it does state that self-financing business plans should be robust enough to withstand a range of movements in assumptions moving forward. It is expected that local authority landlords should be able to plan for and manage these normal business risks without recourse to Government.

10. Strategic Plan References

10.1 These proposals link in to the Homes for All priority.

11. Consultation

11.1 Briefing sessions on the proposals have been undertaken and have included representation from Colchester Borough Homes along with tenant representatives from their Board. Further consultation will be undertaken should we be asked to formally agree to the proposals in the future.

12. Publicity Considerations

12.1 Given the complex nature of this subject, we will ensure it is communicated clearly. Once the Government provides further information on their proposals, we will communicate this to the appropriate target audiences.

13. Financial implications

Financial Modelling of the “Offer”

13.1 Officers of the Council have been working with the Housing Quality Network (HQN) and the Chartered Institute of Housing (CIH) on developing a 30 year business plan to model the Council's HRA under both the current subsidy system and a self-financing one. Regardless of the outcome of the self-financing proposals, this is a key piece of work and will enable the Council to understand what the HRA looks like in the future from a financial point of view. It is therefore intended to regularly update the business plan model and include it as part of the HRA and Housing Investment Programme budget setting process which is agreed by Cabinet each year.

13.2 The business plan starts with the Council's current HRA budget, and in effect produces an HRA budget for each of the next 30 years (this builds on the current HRA Medium Term Financial Forecast (MTFF) which is produced as part of the current budget process and is reported to Cabinet in January each year). It includes a large amount of financial information, and makes assumptions on a wide variety of issues, such as inflation, interest rates, rents policy, financing options etc. As a result, the further the business plan looks ahead into the future, the more it becomes a guide rather than definitive as it is impossible to accurately predict some of these issues up to 30 years ahead. However, it does enable the Council to understand the future and also to undertake sensitivity analysis within the plan, to determine what the overall impact would be of changes in inflation, costs, income and interest rates etc.

13.3 The business plan will be a key document especially if self-financing goes ahead, because as previously stated, the Council will be taking on additional borrowing of around £59million and it will need to ensure it is able to meet the costs of servicing its debt, along with the potential to reduce or indeed repay it over the life of the plan. In addition, if constraints are applied to future borrowing, the plan will inform the Council of spending levels in future years, which will in turn feed into the delivery of the asset management strategy.

13.4 Colchester Borough Council and Colchester Borough Homes are jointly working on producing an asset management strategy for the Councils housing stock, which will amongst other things indicate the likely level of capital and revenue investment needed over the next 30 years. The strategy is being put together using core information from Codeman, which is the Councils IT asset management planning system and is populated with stock condition data which is gathered as properties are surveyed and average component costs which have been externally verified. This system therefore indicates when elements, such as kitchens, bathrooms, roofs etc require replacing in the future based on assumed lives of components, and puts a cost to these. This therefore enables high level planning on a year by year basis of capital and revenue requirements.

13.5 Clearly this is a planning tool and actual programmes of work each year would be on the basis of actual need, given some components would last longer or shorter than the industry norm, dependant on local circumstances such as usage. However, it does provide the data for the Council to model its business plan and is a necessity for authorities to understand what the current subsidy system and the proposal of self-financing means in the long-term.

14. Equality, Diversity and Human Rights implications

14.1 An Equality Impact Assessment (EIA) will be carried out at the point we are asked to formally commit to the proposals.

15. Community Safety Implications

15.1 There are no particular references to community safety implications.

16. Health and Safety Implications

16.1 There are no particular references to Health and Safety implications

17. Risk Management Implications

17.1 The risks currently identified have been included in the main body of the report.

Response to the DCLG Consultation Paper on the Reform of Council Housing Finance

Firstly, Colchester Borough Council welcomes the opportunity to comment on the Reform of Council Housing Finance Consultation Paper issued by the Department on 25th March, 2010.

In principal, we are very supportive of the proposal to leave the current Housing Revenue Account (HRA) subsidy system and move to a Self-Financing HRA. However, as there are a number of areas where work is still required to fully inform authorities, for example around the treatment of debt we would take-on, we have commented along the lines of the principles outlined in the paper and we will need to see the detail as it emerges before we can fully evaluate the implications for our authority and commit to the change.

Q1. What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each Council's business?

Colchester Borough Council is supportive of the general principles of the process and accepts that there has to be some basis for dismantling the current system. However, the results of our stock condition survey are showing that an uplift to the Major Repairs Allowance of nearer 50% is more reflective of our local position, compared to the proposed uplift for us of 29%. Our modelling is assuming that this difference will be met from securing a lower interest rate on borrowing than assumed within the settlement, thus providing those resources required.

Q2. What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?

We are supportive of the move towards greater transparency in the operation of the Housing Revenue Account. This will contribute towards greater empowerment for our tenants and will assist in the move towards cross-domain regulation.

Q3. How much new supply could this settlement enable you to deliver, if combined with social housing grant?

Whilst we are entirely supportive of increasing the supply of new affordable housing, we are also mindful of the need to ensure our existing stock is fully maintained and is fit for purpose in the long-term. Therefore a balance will need to be achieved locally between increasing supply and investing in our current housing stock, which will be determined by the overall resources available within our self-financing business plan.

We have undertaken a desktop exercise to model the likely number of new units we could deliver in the next 5 years as a result of using a discount rate of 7% compared to 6.5% when determining the debt settlement. We have assumed we would receive 30% Social Housing Grant over that period, and have also made allowance for the anticipated increase in local new build costs over the next few years. Overall, this suggests we could deliver around 75 properties in total over the next 5 years. However, this is a desktop exercise and we would need to explore further the availability of land to deliver this number of units.

Q4. Do you favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?

We strongly believe that the current housing subsidy system is no longer fit for purpose and does not meet the needs of Councils and their tenants. It is not transparent and we feel there is and will continue to be a lack of local accountability as long as it remains in existence. There is a clear case for local authorities to retain all of their rental income and capital receipts, enabling the delivery of much-needed investment in housing stock, services and new supply.

We recognise that a move to a self-financing regime will potentially generate the much needed resources that we require to maintain our housing stock in the long-term. We therefore welcome, subject to the observations raised in this response, the proposal to dismantle the HRA subsidy system and replace it with a finance regime where local authorities are able to make long-term business decisions which meet the local need and aspirations of all stakeholders.

Whilst we are in favour of a once and for all full and final settlement, we are concerned with the reference within the consultation paper to the possibility that the settlement could be reopened in the future. This does cause us concern, for if local authorities are to run their Housing Revenue Accounts on a business-like basis and be able to plan for the long-term, then they should be allowed to do so. Whilst it is accepted that business risks are always prevalent, there is a concern that this is a risk that already exists and that authorities who show good financial management and are able to reduce their levels of debt will be allocated further debt in the future.

The Government is therefore urged to clearly set out the conditions in which the debt settlement would be reopened in the future, and whether this would be applied in both directions, for example where an authority discovers that its opening debt settlement was not sustainable in the long-term given the nature of the methodology used in determining the original allocation of debt at a national level.

Q5. Would you wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document? Would you be ready to implement self-financing in 2011/12? If not, how much time do you think is required to prepare for implementation?

As previously stated, we are supportive of the principles of a self-financing HRA and can see the benefits of moving to one as soon as possible, given the alternative of retaining the current redistributive housing subsidy system. However, there are still some areas of uncertainty for us, predominantly around the treatment of debt and the potential impact upon our General Fund.

Q6. If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?

Whilst we favour the principles of self-financing, we are very concerned that there is the potential for a negative impact on our General Fund through the Item 8 Debit recharging mechanism. Whilst the reasoning for separating HRA loans and debt is understood, we are reluctant to support any proposal that would put additional costs upon our already pressured General Fund.

Of particular concern to is the use of the Consolidated Rate of Interest (CRI) figure at a certain point in time. Following the credit crunch we have 'borrowed internally' to reduce risk, which has led to us having a lower CRI. Using the Average Rate of Debt for the Authority would result in a more appropriate level of recharge in these circumstances.

It is acknowledged that the Government wishes to work with CIPFA and the Audit Commission in establishing a methodology for treating debt. We therefore urge that this is undertaken with the aim that it is cost-neutral for the General Fund as an opening position. We believe this can be achieved by fixing the Average Rate of Debt, as well as the amount of debt attributable to the HRA and General Fund as reflected in the Capital Financing Requirement positions on the eve of the settlement.

Given that we would be taking on significant levels of additional debt under the self-financing proposals, interest rate volatility could have a significant impact upon business plans, both favourable and adverse. It is therefore necessary that local authorities are given as much discretion in structuring and managing debt as possible and we would encourage a review of the CIPFA Treasury Management code, to ensure authorities can maintain an appropriate degree of flexibility in their debt portfolio.

It is recognised that the Government, in the current fiscal environment, wishes to control the level of public borrowing. However, the proposed cap on borrowing is not in accordance with the prudential code and we request that this is given further consideration. By imposing a cap on future borrowing, a constraint will be placed upon spend to save type initiatives, where up front investment is repaid from future revenue streams and which may well also deliver additional resources in the longer term.

The option exists to reclassify HRA borrowing as being outside central Government expenditure, as in the case of housing associations. Whilst this may be a long-term aspiration, it is felt there is a case for this given that the settlement is passing the responsibility for the servicing of debt to local authorities. Regulation could still be exercised through the adoption of a system of ratios and covenants similar to those in operation in the housing association sector.

