COMMUNITY & SOCIAL AFFAIRS COMMITTEE

22 JUNE 2011

JOINT REPORT OF HEAD OF CENTRAL SERVICES & HEAD OF COMMUNITIES & NEIGHBOURHOODS

COUNCIL HOUSING FINANCE REVIEW – HRA REFORM PROPOSALS

1 PURPOSE OF REPORT

1.1 To inform Members of the issues arising from the Government's document on the Council Housing review

2.0 RECOMMENDATIONS

2.1 ***It is recommended that***:

(i) ***The Committee approves the approach and the next steps proposed in response to the document "Implementing self financing for Council Housing".***

3. KEY ISSUES

3.1 Background

The current Housing Subsidy system pools rents and redistributes them nationally on the basis of an assessed need, which takes into account Management, Maintenance and Major Repairs Allowances as well as interest on historic debt. It also pools Right to Buy (RTB) receipts with 75% of receipts going to the Government.

The key problems with this current system are;

- The difficulties associated with making the right assumptions about resources as it is difficult to predict the long term funding available through this system,
- The majority of Councils are in negative subsidy resulting in an overall surplus of around £353m in 2011/12 which is passed to Central Government,
- It is unpopular as there are no perceived 'winners',
- The volatility of the settlements which are increasingly complex and are not transparent,
- The possibility of further massive future surpluses in the system which would benefit central government at the expense of local rent payers.

In December 2007 a review of Council Housing Finance was announced and subsequently launched in March 2008. In July 2009 a consultation paper was issued to which Melton Borough Council (MBC) responded following consultation with Members. In March 2010 the prospectus 'Council Housing: a Real Future' was issued to Councils which again MBC responded to following consultation from Members. In February 2011 the document 'Implementing self-financing for council housing' was issued by the government which outlines the rationale, methodology and financial parameters for their reforms to the council housing finance system, which will be supported under the Localism Bill and so backed by legislation and not optional for Councils.

3.2 **The Vision for Self Financing**

The government aims to replace the current centralised, redistributive system with a new system that devolves financing and accountability to local authorities to give Councils more flexibility to respond to the needs of local people and more ability to plan long term, driving services and improving efficiency.

The new system will be created by a once and for all new settlement between central and local government, in exchange for a one-off allocation of debt. Central Government will stop the annual redistribution of rental income.

The document proposes to:

- Dismantle the current HRA subsidy system
- Issue a one-off allocation of housing debt
- Rents will be retained locally with the current rent restructuring policy to be continued, so central government will still constrain rent increases as with Registered Social Landlords
- 75% of RTB receipts to continue to be remitted to central government
- Retain the current ring fence of the Housing Revenue Account
- A 30 year business plan with assumed rents and expenditure to be used to set the debt allocation valuation
- Limit borrowing for Council Housing at the level of the self-financing valuation

The reform of Council housing finance was a Coalition Agreement Commitment with the aim of implementation in April 2012 and the Government has introduced legislation in the Localism Bill now before Parliament which would commence self financing and abolish the Housing Revenue Account subsidy system.

3.3 What the settlement means for MBC

Debt Allocation

The allocation of debt makes an assumption about rental income and assumed expenditure over a 30 year period. The assumption for rental income is based on the Council reaching rental convergence to formula rent in 2015/16 in line with social rent policy. The assumed expenditure is based on the Management & Maintenance allowance in the 2011/12 subsidy determination plus an uplift of 3.6%, the Major Repairs Allowance (MRA) in the 2011/12 determination plus an uplift of 28.5% and an additional allowance for expenditure on disabled adaptations. This is then discounted to reflect the time-value of money over 30 years.

The discount factor used is 6.5% as is typically used in housing transfers.

The Government commissioned Price Waterhouse Cooper (PWC) auditors to work up a model on how the debt would be distributed and using the assumed annual inflation percentages used in the PWC modelled example the debt allocation for MBC at the 6.5% discount rate would be £31,950,000. This would be reduced by the HRA Subsidy Capital Financing Requirement (SCFR) of £5,931,000 to £26,019,000.

The SCFR is the amount used as the assumed HRA debt levels as at the 2011/12 subsidy determination. The actual amount of HRA debt (the Capital Financing

Requirement (CFR) is forecast to be £4,282,103 at 31 March 2012. The prospectus does state that we would retain the headroom we currently have and will not penalise us for using our own resources in the past to reduce our debt.

Under self financing, local authorities who need to borrow to make the debt allocation to the Government will all face similar funding decisions for this new borrowing, the rates charged to the HRA on this borrowing will vary according to the loans and on the policies which apply to how charges are calculated. For Melton the apportionment of Treasury Management charges between the HRA and the General Fund will increase for the HRA, however this will form a part of the Central Establishment Charges (CEC) exercise at budget setting and will be managed in order to maintain a neutral impact on the General Fund.

The Council currently has one debt pool for both the General Fund and the HRA with interest charges apportioned following a complicated calculation under 'item 8' which is prescribed in the current housing subsidy determination.

The Chartered Institute of Public Finance & Accounting (CIPFA) issued a consultation document to accompany the government document which promotes the clear separation of debt pools between the HRA and the General Fund. This would limit the effect decisions in one area, have on the other and provides the opportunity to eliminate the complexities in existing rules for calculating the HRA's share of debt charges.

Depreciation & Debt Repayment

The principle of self financing extends to the management of assets and liabilities, including making sound long term provision for maintaining and replacing the time-limited elements of homes such as windows, heating systems, kitchens and bathrooms.

Local Authorities are required to make a charge for depreciation of the dwelling stock and other property within the HRA which complies with 'the Code of Practice on Local Authority Accounting in the United Kingdom'. Under self financing it is proposed that an approach to depreciation is based on accounting and financial principles and is rooted in prudent local management. As such, if sufficient resources are to be available to support future maintenance commitments and maintain the value of stock then such depreciation should be cash backed or debt repaid to create headroom for funding future maintenance from borrowing. The ideal position will depend on sound treasury management decisions depending on prevailing market conditions. Under this framework it will be for local authorities to balance investment in major repairs and repayment of Council Housing debt. Local authorities would have a long term incentive to reduce debt but no obligation to do so.

Borrowing by Self-Financing Landlords

There are a number of constraints over the amount of new prudential borrowing that self financing authorities might undertake:

- The new debt allocated in the self financing settlement will restrict the amount of income available to support further prudential borrowing as well as introduce a cap on the overall debt level
- Local authorities will need to satisfy their chief finance officer that extra borrowing is affordable within the prudential borrowing rules
- HRA ring fence will continue under self financing to ensure that borrowing for HRA assets is charged to the HRA and HRA income can only be used to finance borrowing for housing purposes
- The amount of income that authorities can raise to support borrowing will be limited by social rent policy

- In addition, the proposal is to cap borrowing at the self financing debt level.

RTB Receipts

The government have stated that 75% of Right to Buy (RTB) receipts will continue to be pooled. Within the debt settlement is an allowance for a modelled number of RTB sales.

The Council's current policy is to transfer up to £130k per annum to the General Fund to support General Fund housing projects, although in practice this amount has not been achieved for some time due to declining council house sales. Under the new self-financing arrangements this may no longer be affordable to the HRA.

An HRA Balance Sheet

The self financing settlement is largely concerned with replacing the housing revenue support system. However it is essential that local authorities develop a longer term full asset management strategy that brings together revenue and capital streams of funding. The government therefore proposes that all Council landlords should maintain a housing balance sheet to support the HRA.

Re-opening the Settlement

The powers to implement self financing in the Localism Bill provide for further settlement payments between local authorities and the government under certain circumstances. It limits such payments to cases where there has been a change to one of the factors taken into account in calculating the previous payment (such as a major change in national rent policy) and is to protect both government and local authorities from being locked into a deal which no longer reflects a fair valuation.

Related Housing Matters

Melton Borough Council was encouraged to bid for capital funding for the decent homes backlog, we were successful and have provisionally been allocated £395k in 2013/14. This funding is to be spent on the Council's Housing stock to ensure decency and depends on the delivery towards this during 2011-13. This fund has come about due to the previous supported borrowing for HRA authorities to pay for decent homes delivery being stopped in 2011/12 and is still currently available even though the date of receipt is after the self-financing start date

The regulators existing standard on value for money covers all social landlords including local authorities and expects landlords to use its new flexibility provided by the HRA Reform to drive up value for money and efficiency. Landlords should be able to show how they are improving value for money in service provision to their tenants, taxpayers and to the regulator.

3.4 What happens next

The Council received the Government document in February 2011 and checked the figures used in the PWC model. Arrangements were then made to contract a Chartered Institute of Housing (CIH) professional (as agreed at a meeting of this committee on 9 March 2011) to ensure that the business plan for the Council is viable into the future.

The Timetable of key dates to implementation is as follows:

Aug 2011	Data for self-financing provided to CLG
Nov 2011	Draft self-financing determination published for consultation

Dec 2011	CLG & PWLB issue letter to local authorities setting out arrangements for loans and debt redemption
Jan 2012	Final self-financing determinations published Local Authorities making payment to government identify source of funding and apply for loans
Mar 2012	PWLB issue a schedule of sums required
Apr 2012	Series of transactions between CLG & local authorities enable the start of self-financing

In order to present a more detailed and updated report to members the CIH professional will be carrying out and supporting the following work:

- Facilitation of the development of the HRA business plan
    - Development of financial modelling
    - Support for Business Planning review
    - Development of business plan narrative
    - Input to consultative activities
- Facilitating the development of an Asset Management Strategy
    - Supporting the Business Plan
    - Core financial and asset mode
    - opportunities for redevelopment and/or regeneration

There will be presentations and further reports to this committee as further details and progress on the business plan and asset management strategy are forthcoming. This committee will be regularly updated to ensure that the Council is ready for the self-financing arrangements and best placed to make full use of the possible opportunities available.

4.0 **POLICY AND CORPORATE IMPLICATIONS**

4.1 There are no further policy and corporate implications arising from this report.

5.0 **FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 Financial implications have been addressed in the main in section 3 above.

5.2 The document is not a consultation tool and will be brought into legislation, although the figures contained therein will not be the final figures. In order to assess the current figures a 30 year business plan is being developed and based on these assumptions shows that under the present subsidy system the HRA at MBC may not be viable and we would need to explore alternative options which may include stock transfer, ALMO etc. The current offer is viable and maintains a working balance on the HRA in line with the £250k approved at a meeting of the Policy, Finance and Administration committee on 26 January 2011.

5.3 With the increased debt management needs of the Council, in order to ensure that the best value for money is obtained on the Council's Treasury Management function further work will be required both on a set-up and an on-going basis. The resourcing of this has yet to be assessed and determined.

6.0 **LEGAL IMPLICATIONS/POWERS**

6.1 There are no other legal implications directly arising from this report.

7.0 **COMMUNITY SAFETY**

7.1 There are no direct links to community safety arising from this report.

8.0 **EQUALITIES**

8.1 An initial equalities impact assessment has been completed and is subject to peer assessment, findings will be verbally presented to this committee at the meeting.

9.0 **RISKS**

9.1 The risks are considered in the table below:

Probability ↓

Very High A		2		
High B				
Significant C	5		3	
Low D			4,6	
Very Low E			1,7	
Almost Impossible F				
	IV Neg-ligible	III Marg-inal	II Critical	I Catast-rophic

Impact →

Risk No.	Description
1	Interest Rate Fluctuation on short and long term borrowing undermines the business plan
2	Rents will not reach full convergence in line with Social Rent policy due to caps & limits imposed
3	Proportion of RTB receipts not retained within the HRA due to pressures on other funds
4	Long term ability to fund stock to ensure kept within the decent homes standard
5	Impact of the inability to borrow beyond the self financing cap to fund capital repairs
6	Maintenance of stock within budget constraints
7	Robustness of stock condition survey

9.2 In recent years there has been a problem regarding the Repairs and Maintenance budget and so it is imperative that the Council has certainty in the early years of this self financing settlement by ensuring that resources are kept within the HRA to mitigate this risk.

10.0 **CLIMATE CHANGE**

10.1 There are no climate change issues directly arising from this report.

11.0 **CONSULTATIONS**

11.1 TFEC members were informed of the initial proposals in October 2009 and at the meeting held on 7 June 2010 were advised that they would receive a copy of our response. A meeting was held to consult lead members and officers on 25 June 2010.

11.2 In order to develop the business plan, continuous involvement in the process will be required by the interested tenant groups and members, including TFEC and the Housing Task Group.

12.0 WARDS AFFECTED

12.1 All wards are affected.

Contact Officer:	Carol King
Date:	1 June 2011
Appendices:	Appendix A – Implementing Self-financing for Council Housing
Background Papers:	Implementing Self-financing for Council Housing
Reference:	X: C'tees, Council & Sub-C'tees/CSA/220611/DG - HRA Reform Proposals