Melton Borough Council
HRA Reform Briefing

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Introduction

- HRA Prospectus: headlines and key issues
- The national position
- The Melton position
- Discussion and debate…

HRA proposals in summary

- HRA subsidy system…
  - Pools rents – and distributes as ’allowances’ to spend on management, maintenance, major repairs and historic debt
  - Differences are claimed as ‘negative subsidy’
  - Pools 75% of Right to Buy receipts
  - Unpopular, complex, lacks transparency and is volatile

- Proposals follow…
  - Review of Council Housing Finance: and many years of pushing for ‘self financing’ in a range of formats

HRA proposals in summary

- Essentially…
  - Proposal to dismantle the system and replace with a ‘one-off’ adjustment of housing debt
  - Keep rents and RTB receipts locally – revenue flexibility
  - But … control over capital expenditure and capping borrowing

National position

- Nationally the subsidy system is destined for massive surplus
  - As rents increase faster than allowances
- Nationally, the ‘surplus’ would be £13-14bn over 30 years if nothing changes

- The ‘deal on the table’ – in principle response
- The ‘deal’ is to ‘split’ the surplus between central and local government
  - Broadly, between £3-5bn ‘extra’ debt in return for keeping rents and receipts locally
  - Locally, more money over the long term – and for many, the interplay of assumptions means more money from day one…

National position: revenue and capital

- Since 1990, the HRA and HRA subsidy system has been characterised by increasing revenue constraints
- Over the last 20 years, the massive constraints on capital expenditure have been gradually released
- To 2010: Capital freedom but with no revenue to exercise it
- From 2011: Revenue freedom but not with capital?

REVENUE FLEXIBILITY : CAPITAL CHALLENGE

BUTLERS
Excellence in Treasury Consultancy

Big issues nationally: the numbers

- Nationally, the proposed debt allocation is £25.1bn
  - Based on assumed increased allowances and an interest rate (discount factor) of 7%
  - Compares to projected debt at 31/3/2011 of £21.5bn
  - Lower discount rate (6.5%) leads to higher debt – the debt is kept lower in prospectus and linked to headroom for new build

- Nationally
  - ALMO decent homes -> capital grants – and nothing for anyone else; £3.2bn vs research suggesting is £6bn
  - Cap on borrowing causing concern because limits investment which might actually be more efficient

Big issues nationally: some technicals (for info)

- Technically…
  - An HRA Balance sheet
  - Clarification needed on depreciation and debt repayment
  - Separation of debt
  - HR ring fence
  - Unintended impacts on General Fund

Progress nationally

- Responses by 6th July

- Three uncertainties
  - What if a proportion say 'no'
  - What if policy priorities shift
  - What could be the impact of the autumn Spending Review

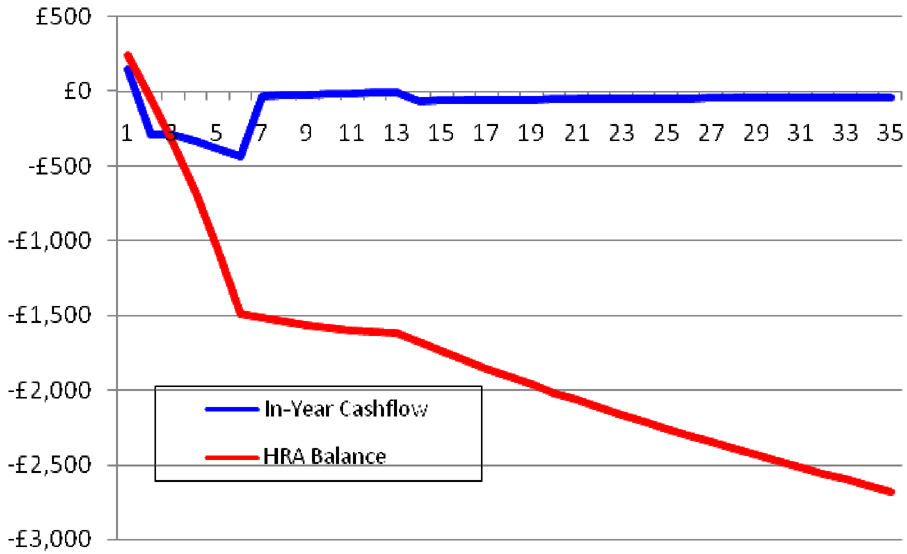
- Who might say 'no' and why?
  - Backlogs and significantly adversely affected authorities

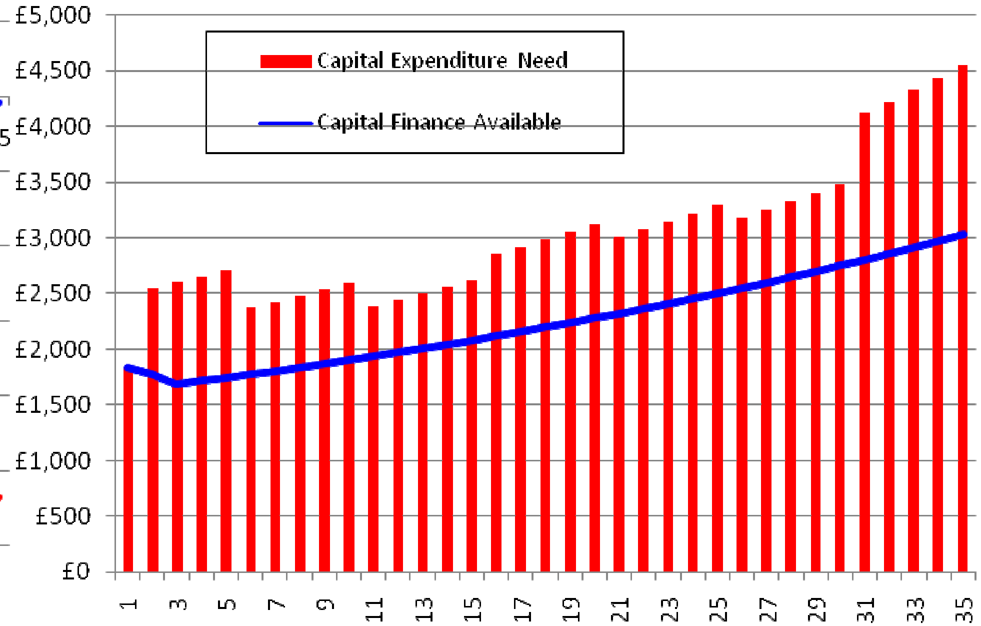
- Timetable to implementation
  - Run up to April 2011

Local position: Melton 'in subsidy'

- Out of all the rent income to be collected over the next 30 years
  - £110m (37%) potentially goes out in negative subsidy
- HRA pressures build from the start
  - Heading for deficit without real savings in day to day costs
- But… the full capital needs cannot be met
  - Long term needs est. at £29k/unit over 30 years – critical information subject to upcoming stock survey
  - Shortfalls are c£30m out of cash spending need of £90m
  - Or… the equivalent in today's terms of £2.4m a year needed in the long term…
  - …vs MRA of £1.6m per year and reducing revenue

Melton in (negative) subsidy





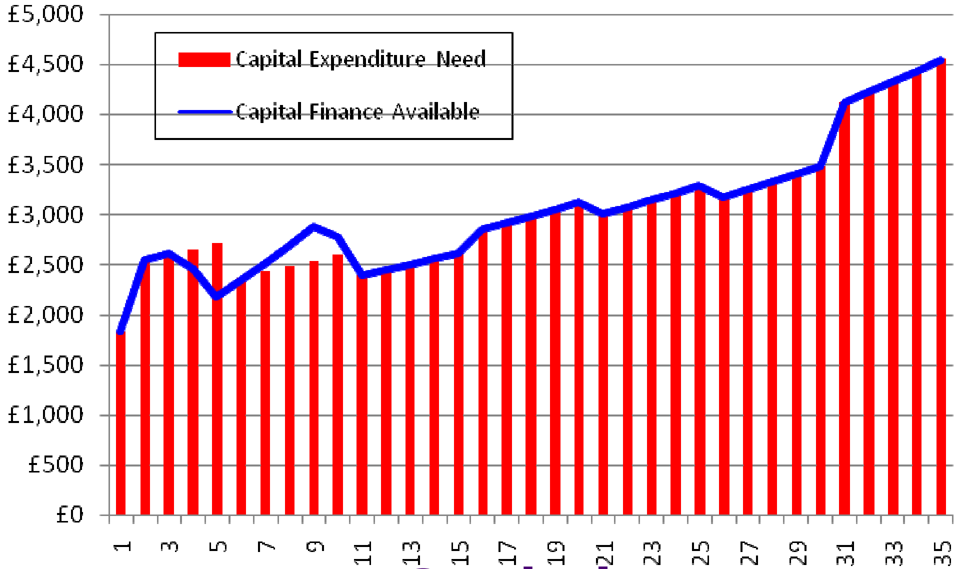
- Proposal is to replace the negative subsidy with a one-off debt increase
  - THINK: ‘*rent to mortgage*’…
  - Have debt… the net income stream, 100% of the receipt if the asset is sold

Local position: proposed settlement

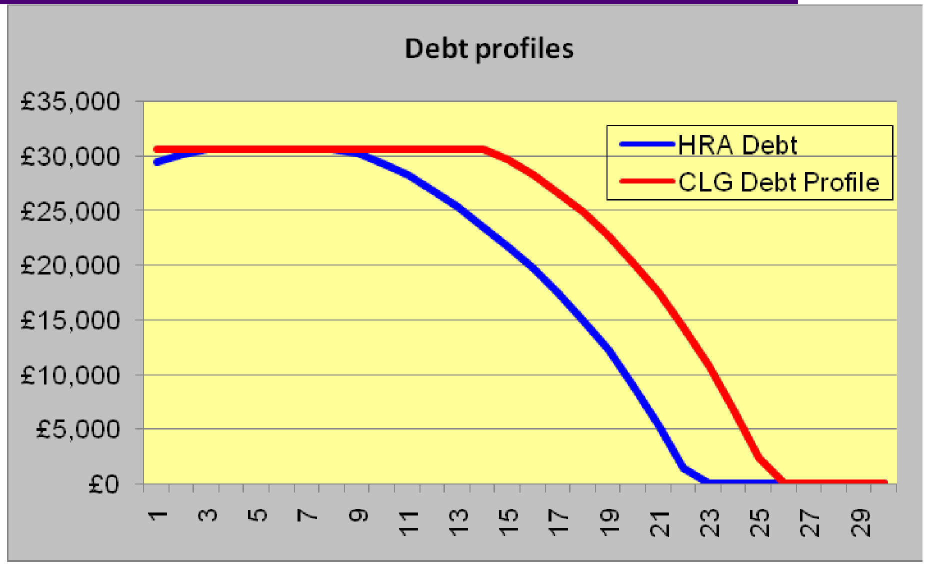
- Proposed debt allocation is £30.6m
  - As current subsidy-debt is £5.6m, the debt increase (take on) would be c£25.0m
  - For historical reasons, the actual debt is currently £3.6m – so start self financing at £28.6m (£2m below cap)
  - At the lower settlement: allocation is £29m

- In the first year
  - Projected negative subsidy would have been… £1.7m
  - Additional interest on £25m … a max of c£1.5m
- In future years
  - No further withdrawal of subsidy surplus
  - All future rent increases available to the HRA business plan

Melton in ‘**self financing**’



Capital



Debt profile

- Revenue not shown as in surplus all years
- Capital needs can be met in the short and long term…
  - Small amount of borrowing in the early period to meet the ‘up front’ needs and minor re-phasing needed
- Debt able to be brought to zero by year 23
  - Shows viability: would not need to reduce debt

Issues and implications: HRA and GF

- A potentially positive future for the HRA – **WHY?**
  - Rent increases – the HRA not the government gets the benefit
  - M&M spending within the assumptions made in the settlement
  - Debt headroom below the cap by £2m

- Implications for General Fund
  - CLG prospectus talks of ‘offering mitigation’ although the form and extent to be determined
  - Ring fence guidance between GF and HRA
  - Unintended consequences for ‘with debt’ authorities
  - Local issues?

- Risk, reward and… opening the settlement?

Summary areas of debate for Melton

- Settlement results in a net debt take-on of £25m
- Net interest vs withdrawal from subsidy -> revenue surpluses to finance interest and debt payments
- Melton could repay within 23 years but could refinance
- HRA remains viable throughout with balances accruing
- Estimated capital profiles have some ‘up front’ needs -> would be able to borrow and re-phase - but subject to revised stock survey
- HRA financial position under self-financing therefore improved
- Potential for new build and long term asset management

Formulating a response: 6 questions

1. What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business?
2. What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?
3. How much new supply could this settlement enable you to deliver, if combined with social housing grant?
4. Do you favour a self-financing system for council housing or the continuation of a nationally redistributive system?
5. 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 move to self-financing in 2011/12? If not, how much time do you think is required for implementation?
6. If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?