REPORT TO:	**EXTRAORDINARY COUNCIL**	**AGENDA ITEM: 3**
DATE OF MEETING:	**28th JUNE 2010**	**CATEGORY: RECOMMENDED** **OPEN**
REPORT FROM:	**DIRECTORS OF CORPORATE AND COMMUNITY SERVICES**	
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (595811)** **BOB LEDGER (595755)**	**DOC:** u/ks/housing/HRA review April 10/self financing consultation June 10 v3
SUBJECT:	**HOUSING REVENUE ACCOUNT REFORM – GOVERNMENT PROSPECTUS**	**REF:**
WARD (S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 That the Council's proposed response to the Government's Prospectus is considered and a final view formulated to submit to the Government by 6th July 2010.

2.0 Purpose of Report

2.1 To consider the proposed response to the Government's proposals for self-financing of the Housing Revenue Account (HRA) as set out in their consultation document "Council Housing: a real future (Prospectus – published 25th March 2010).

2.2 The government has requested that each Council responds to six questions in formulating their response. These are listed in the final section of the report along with a proposed response.

3.0 Executive summary

3.1 The principle of the self-financing arrangement for the local HRA gives a more viable financial future than the current system.

3.2 Under the current subsidy system the local HRA is estimated to make a net contribution to the national pool of £3.35m in 2010/11 out of a total rent income of £9.7m) i.e. 35% of income. The proportion of the Council's income that has been contributed has gone up year on year and is projected to continue to increase.

3.3 Under the current system the total contribution to the national pool over the next 30 years (the recognised period for business planning) is estimated at £135m. It is this one factor of negative subsidy and the amount of contribution that makes the local HRA non-viable in the medium and long term. This situation has been reported several times to Council Committees and Full Council over recent years and was the reason that the stock options issue was reopened in 2008.

3.4 The self-financing option currently being offered by the Government has the following main features:

- A settlement of £59.2m results in an initial net debt take-on of £49.7m with a requirement to borrow upto the £59.2m to fund all the works in the stock condition survey of 2009.

- The resulting withdrawal from the subsidy system results in revenue surpluses to finance interest charges and facilitate debt repayment in the longer-term.

- Debt would be repaid within **27 years**, though various factors could affect this.

- The HRA will remain viable throughout this period with balances accruing after debt repayment, although the Council would carry debt for a long period.

- The Council's current assessment of its full stock investment needs can be fully met throughout the duration of a 30-year plan, though some re-profiling is required to match available resources.

- The key reasons for the viability are that the plan starts with balances in reserves and that current interest rates can outperform those allowed for in the settlement, the resulting interest being lower than the current subsidy payment.

- The financial position under self-financing is significantly improved compared to remaining within subsidy.

- The settlement offers the potential for HRA new build.

- The prospectus proposes that Right to Buy receipts are retained locally utilising a principle that 75% of the net receipt is used for affordable housing and regeneration purposes and the remaining 25% is available for general use (currently 75% of receipts are called in by national government)

Comparison of Self financing to the Current Subsidy System

3.5 A self-financing system appears more favourable for the Council when compared to the current unreformed subsidy system. This mainly arises as a result of the following factors:

- The benefits of all net rent increases are available to the plan – i.e. surpluses are not captured nationally and redistributed; this is the critical difference between the two as rent surpluses (excluding rent convergence) are expected to rise sharply in the future. For South Derbyshire, this extra income will outstrip any inflationary increase in costs as the rental stream is larger than the cost base (excluding debt repayment).

- The allocation of uplifts in M&M and MRA gives additional spending power from day one.

- The interest charge on debt is at a rate lower than that used in the settlement calculation.

- The opening debt is lower than that identified in the settlement.

- Full investment needs (subject to re-profiling) can be met and sustained over a longer period.

3.6 In an unreformed system, it is very unlikely that sufficient resources will be generated to meet the full investment requirement. The estimated shortfall over an equivalent 30-year period is £91m. This shortfall will begin to accumulate within the next year based on the stock condition survey.

4.0 **Detail**

4.1 The Government published an 'offer' to local authority landlords on 25th March. The offer is in the form of a prospectus setting out the terms within which the Government plans to implement the dismantling of the HRA and associated national subsidy system and introduce a system of self financing at a local level from April 2011, on a voluntary basis.

4.2 An exercise (with the assistance of the Chartered Institute of Housing) has been carried out to model the impact of the reform proposals, including an assessment of the variables and risks for the Council.

4.3 The Institute has also worked with a standard model for many other authorities and it is considered that the figures are robust, but clearly depend on the assumptions that are inputted to the model.

The HRA Prospectus

4.4 The reform proposal has been produced following an earlier review of housing finance which concluded in the summer of 2009. The Council responded positively to the subsequent consultation in October 2009, which set out the broad principles and different levels of settlement proposals.

4.5 This was based on various levels of debt allocation across the country. That proposal effectively asked authorities to model various options and to determine whether debt could be sustained and repaid locally within a 30-year business planning period.

4.6 This consultation now provides a firmer proposal, together with more details and covers issues raised during the previous consultation. The proposal contained in the prospectus is effectively a “deal” whereby authorities will buy themselves out of the national system for a one-off payment towards the national housing debt.

4.7 This would mean that the Council would cease paying negative subsidy on an annual basis, but take a share of the debt calculated by the Government.

4.8 Having done that, the Council would become responsible for managing that debt and would receive no further support from the Government. It is considered that nationally future capital support through grants or supported borrowing would be extremely limited for council housing, although this Council has not received such support for many years.

4.9 However, the local HRA would retain all rent income locally. In addition, it would also retain all future asset sales (including right to buy receipts) as long as 75% was reinvested in affordable housing or regeneration.

Allocating the Debt and the National Context

4.10 This has been undertaken by the Government for each authority. It is based on an assessment of future rents and revenue costs over 30 years. It is also based on a key assumption that rent convergence will be achieved nationally by 2016. Each authority will be set a borrowing limit or cap in which they will need to operate.

4.11 Nationally, the Government have calculated that if the current subsidy system remained, the total value of future rent income over the next 30-years is estimated to be £35bn. Current debt is assessed at £21.5bn, as measured in the subsidy system, although this is a notional figure and the actual level of debt is perhaps not known nationally.

4.12 Therefore, based on these figures, the value of future surpluses in the current national system is in the region of £13.5bn (£35bn - £21.5bn).

4.13 However, the Government have proposed a total debt allocation of £3.6bn above the £21.5bn, at £25.1bn. The proposal is that an increased settlement is necessary to retain an investment fund at the centre to assist those authorities that have specific investment needs that would not be adequately covered in the self funding route.

4.14 Therefore, by charging a higher debt nationally, the Government are capturing surpluses of £3.6m up front, but allowing the remaining surpluses to be retained by authorities over a 30 year planning period.

4.15 Clearly, this is a complex and technical accounting calculation, which is based on notional figures taken from current subsidy arrangements, projected forward. In principle, it is trying to achieve a situation that in allowing authorities to buy-out of the system, they will have access to greater resources, although they will need to borrow and manage the debt to access the resource.

4.16 Consequently, each authority has to compare how their current and indeed future subsidy position, compares to the cost and repayment of the debt taken on and how far they can meet their repair, maintenance and management liabilities.

A Higher Settlement

4.17 The position is further complicated by the Prospectus highlighting the possibility of an increased debt settlement of £26.3bn nationally. This is based on different assumptions regarding interest rates.

4.18 The increase in the settlement would, at a national level, mean that more of the ‘headroom’ for investment is retained at the centre. Given the current economic situation in the country there is a real possibility that the national debt settlement would be at the higher figure.

New Build

4.19 In addition, the previous government specifically linked the lower debt settlement figure with asking how authorities could use this ‘additional resource’ to provide new build. It remains to be seen the position that the new government will take on this proposal.

4.20 The implication of the prospectus, as currently written, is that the lower debt settlement figure may only be on offer if local authorities agree to commit to the principle of new-build. However, at a local level, this will need to be assessed, i.e. will individual authorities commit to new build as opposed to meeting the investment needs of the current stock.

Interest Rates

4.21 The level of interest rates as highlighted later in the report is a key factor. In the proposed debt settlement of £25.1bn, interest rates have been assumed at 7%. The higher figure of £26.3bn, assumes an interest rate of 6.5%.

4.22 In principle, as the interest rate reduces, the debt settlement becomes higher as the Government’s model assumes that authorities can take-on more debt at lower interest rates. However, there may come a point at a local level, where the additional debt take-on becomes unsustainable and/or is no better than the current system.

4.23 However such a proposal would likely be the subject of further consultation. The current prospectus details settlements at only the higher (£26.3bn) and lower (£25.1bn) rates.

Other Issues

4.24 There are other technicalities associated with the implementation of the new arrangements. These include a proposal to report a memorandum HRA balance sheet, the treatment of depreciation, debt repayment and the possible effects on the General Fund.

4.25 A separate group drawn from the Audit Commission and CIPFA has been set up to review these issues. In particular, they will assess any knock-on effects for the General Fund.

4.26 It is likely that the debt-take on will be ring-fenced in the HRA. Currently, all debt is accounted for in the General Fund, with the HRA share recharged on an historical calculation and reimbursed through the subsidy system.

4.27 Therefore, current accounting regulations would need to be reviewed to ensure that the additional debt does not affect the general council taxpayer.

Proposed Implementation

4.28 The proposals are a ‘once and for all’ settlement. A self-financing agreement would need to be signed between each authority and the Government under the Housing and Regeneration Act 2008. This makes provisions for authorities to opt out of the current system in agreement with the Government.

4.29 If all or a sizeable number of authorities are not in agreement, then the Prospectus indicates that the new system may be imposed if no alternatives are available. This would require primary legislation to be approved in the national parliament.

4.30 Depending on where that could be accommodated into the legislative timetable, the implementation would probably be put back until April 2013, compared to April 2011, if the system was introduced on a voluntary basis.

The New Coalition Government

4.31 Clearly, the prospectus was issued by the previous government. In a statement issued on 8th June, the new Housing Minister for the Coalition Government was quoted as saying:

“The Government is committed to genuine action to overhaul the current system subject to being convinced that these proposals give councils the financial freedom they need, and represent value for money. I encourage everyone to use the remaining four weeks of the consultation to send me their views.”

South Derbyshire’s Model

4.32 The model for the Council makes the following key assumptions:

- Base budgets used in the current 30-year business plan remain unless otherwise stated.
- Inflation on costs and income (excluding rents) of 2.5% with no real terms investment or efficiency savings.
- Rents converge in 2015/16 (although in practice this won’t be the case for all properties at this Council).
- Rents increase in real-terms by 0.5% each year in accordance with Government guidelines.
- Right to buy sales or other reductions in the stock of 5 per annum.

- Short-term interest rates of 4 to 5%.
- Long-term debt interest rates of 6%.
- The minimum HRA balance of £1/2m is maintained and a target of break-even is set each year.
- Current reserves above the minimum are utilised in the early years.

Interest Rates

4.33 The assumed interest rates used in the above assumptions are different to that used to calculate the debt settlement, i.e. 7%. The model assumes lower rates to reflect the average over recent years. Depending on the timing of implementation, the Council would be in a position to take advantage of that situation.

Capital Investment

4.34 One of the key factors of a self-financing model is that the Council is able to afford continued investment in its stock over the longer-term. This investment in the future may be over and above that currently delivered due to constraints on resources.

4.35 The principle in the self-financing system is that the Council would be able to afford further investment. Therefore, the model factors in the latest stock condition survey undertaken by the Council in August 2009.

4.36 This identified that the HRA would have a shortfall in resources in the region of £12m to £13m over the next 5-years to meet all investment needs identified in that survey. This has been factored into the model

Proposed settlement for South Derbyshire

4.37 The <u>headline</u> debt settlement for the Council is £**59.16m**. This is the maximum (cap) amount of debt that the Council would be allowed for the HRA to have at any time and would be fixed on Day 1.

4.38 This is based on uplifted M&M allowances of 0.6%, uplifted MRA of 32.3%, resulting in a consolidated average uplift of 10.6%. The M&M increase is lower than for the rest of the East Midlands region, where the average is 2.1%

4.39 The MRA uplift is also lower than the regional average of 35.1%. In both instances, this is mainly due to the Council’s stock being valued higher when compared to other authorities. This reflects the principle contained in the current subsidy system and is one of the reasons why the local HRA contributes a greater proportion of its income to the national pool than some others in negative subsidy.

4.40 The headline settlement is based on the 7% interest rate. At a rate of 6.5%, the settlement would be £61.95m, £2.79m higher. This is the amount that the Government would wish to see invested in new build if the Council has the capacity to achieve this, in particular its land availability.

4.41 It is estimated that this would deliver approximately 25 new units in the District at an average cost of £110,000. However this could be expanded to around 50 units if, as the Prospectus indicates, additional social housing grant is provided as matched funding.

4.42 The income and expenditure associated with any new build would remain in the HRA. Therefore, the case for new build would be subject to a separate feasibility study and added into the Business Plan.

4.43 The Council's model is constructed on the basis that available resources will be committed to investment in the current stock in at least the short and medium term; it may be possible to commit resources in the second half of the business planning period for new build.

Payment to the Government

4.44 Although the headline figure is just over £59m, the current subsidy system assumes that the HRA already operates with a debt of approximately £9.5m. This is taken into account in the debt calculation.

4.45 Therefore, on signing an agreement, the Council would pay approximately £49.5m to the Government. However, it would be able to borrow to a limit of £59m.

Headline Outputs

4.46 The model works with the headline debt cap of £59m. The headline outputs for two core approaches to self financing are set out below.

4.47 Clearly, a long-term view needs to be taken and the model works on a basis of 30 to 35 years in accordance with current business planning periods.

4.48 The 2 approaches (or plans) are:

- 1. Maintaining the debt with continued re-financing; i.e. only interest is paid.
- 2. The repayment of debt from future surpluses.

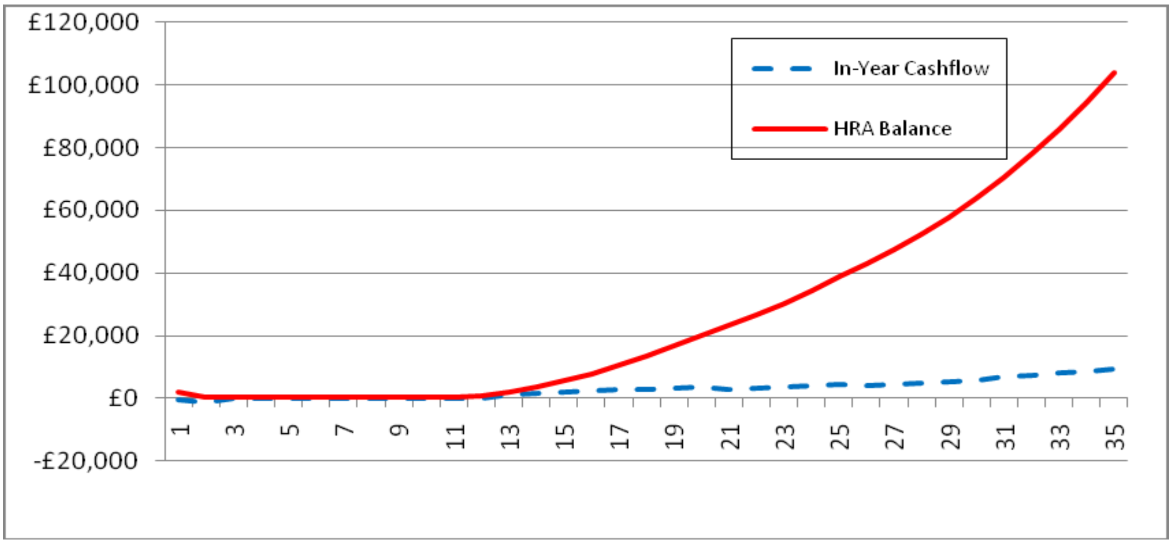
4.49 The outputs are summarised in the charts below. Both plans are financially viable (although this is over a long-term period) and, with some minor reprofiling, can meet all expenditure needs in each and every year covered by the plans.

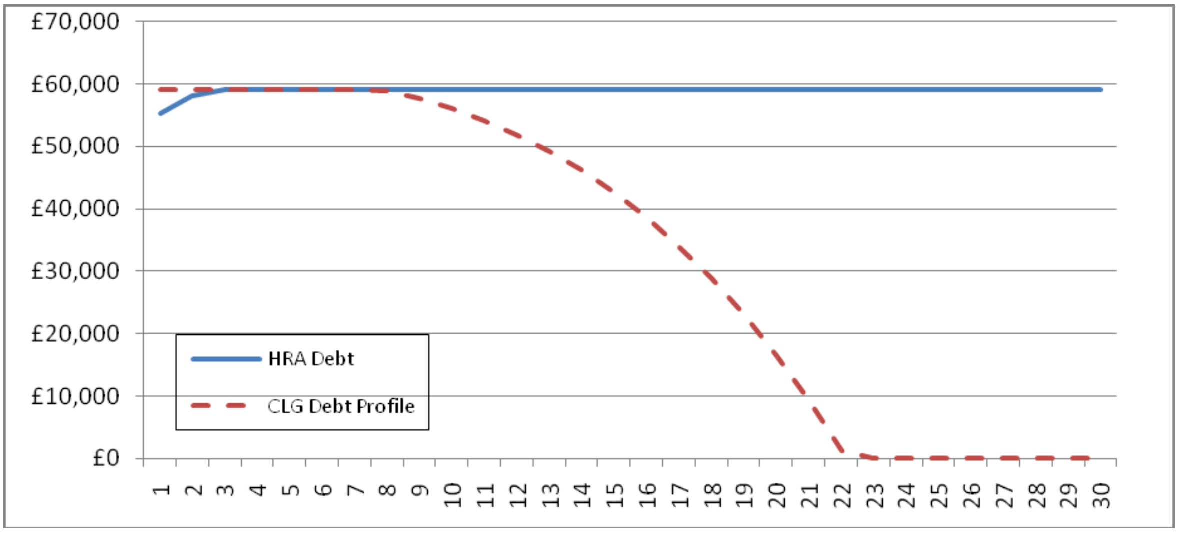
4.50 Overall borrowing would be required up to the cap of £59m to meet the full investment needs and this is borrowed over the early years. If debt is maintained (Plan 1) reserves actually build to above £103m after 35 years, assuming no further investment or changes to interest rates. In plan 2, reserves build up to nearly £76m after 35 years.

4.51 If surpluses are set-aside to repay debt (Plan 2), repayment can be achieved **after 27 years**. This compares to the Government's assumption of 23 years, although that assumption does not take into account any additional investment needs.

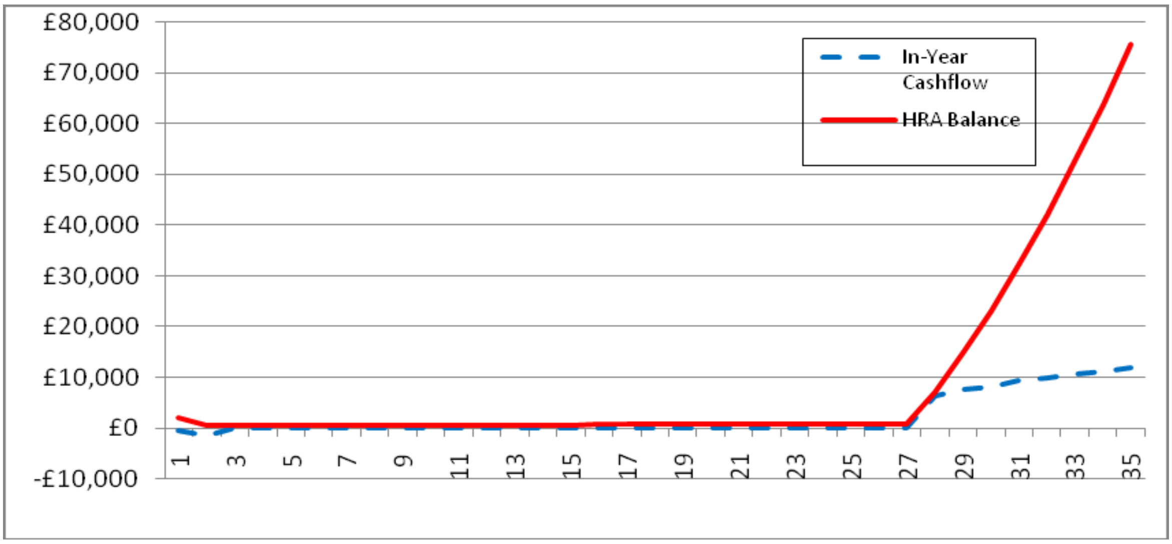
4.52 **No debt is repaid until Year 13** and in both plans the Council would be maintaining a high level of debt for a considerable period.

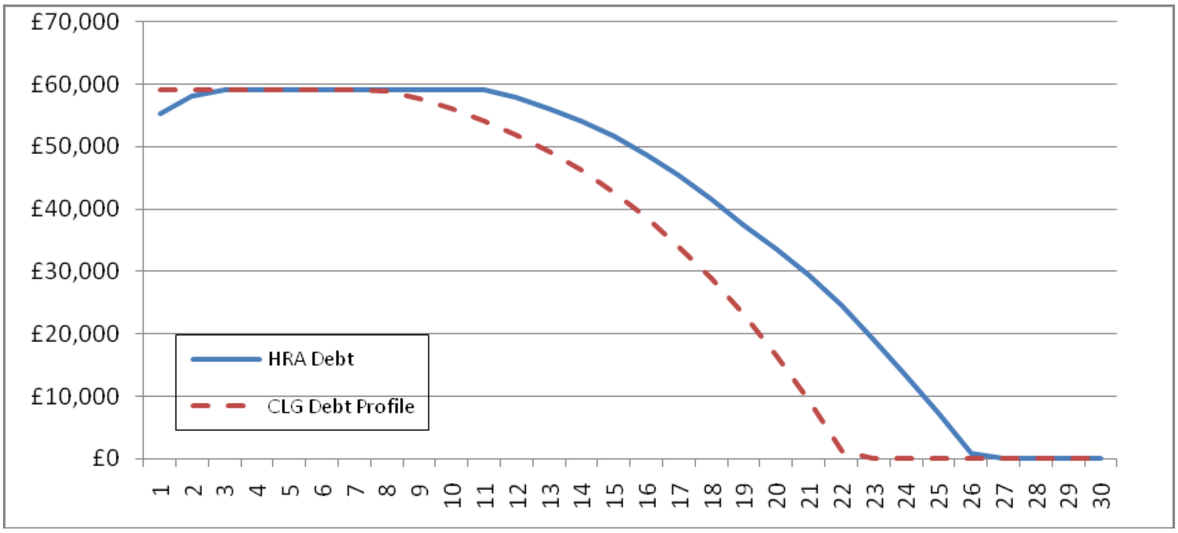
Plan 1 - Self financing revenue and debt profiles £'000: <u>no debt repayment</u>





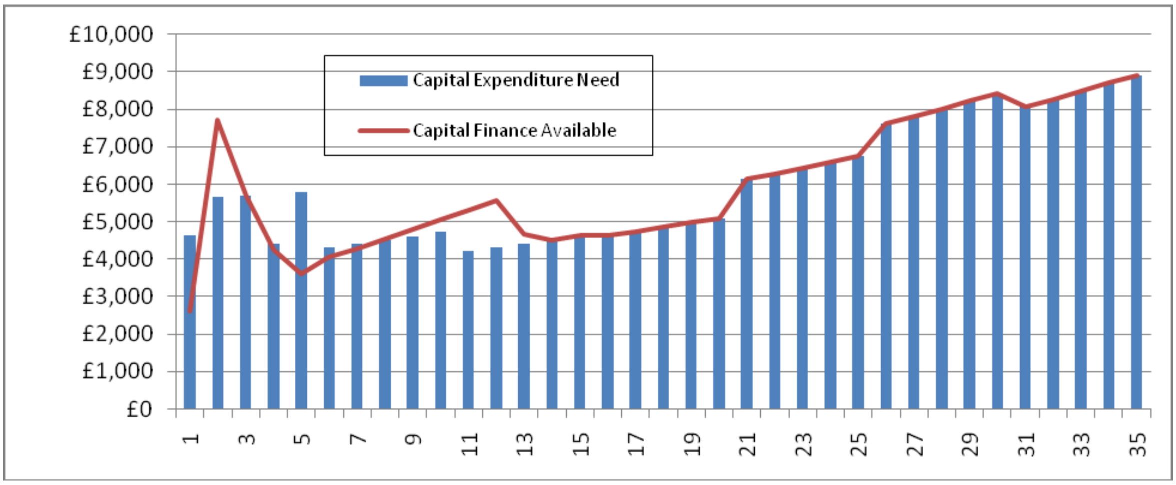
Plan 2 - Self financing revenue and debt profiles £'000: <u>debt repaid</u>





4.53 As previously highlighted, the Council's assessed capital investment needs, based on property surveys, would need some minor reprofiling to be able to be met in every year of the plan. The following chart shows that position.

Capital expenditure needs against resources annually £'000



Summary outcomes

4.54 The model shows that self-financing is a viable option for South Derbyshire. There is in fact some room for manoeuvre for additional investment or service improvements over 30 years, given the potential to build up reserves, although this would be a longer-term situation until debt is redeemed (Plan 2).

4.55 The main reasons for this position are that:

- Current rents are £6.29 below target and the self financing plan builds headroom against current operating costs quickly in the period to convergence.

- The Council's maximum debt is above the actual settlement (£59m - £49.5m) and this borrowing can be used to meet additional capital investment in the early years.

- Current resources of approximately £2.1m would be released. This is the amount currently in the HRA general reserve above the minimum level of £1/2m. This is effectively set-aside to pay for future budget deficits projected in the current business plan. The model is based on a break-even situation each year with a target of £1/2m minimum balance always in reserve.

- Interest on the debt would be fixed whereas current negative subsidy payments would increase year on year in the current system (this is highlighted later in the report). This is the difference compared to the previous modelling, because debt is not being paid until Year 13 (Plan 2). This is the point where having made more significant capital investment, the model releases resources to maintain that investment and to repay debt.

Sensitivities – Interest Rates and Debt Repayment

4.56 If as shown in Plan 1 no debt is redeemed, changes in the key assumptions will affect the longer-term level of reserves that are built up. Not redeeming debt is an option as long as the value of the assets (i.e. the properties) is higher than the debt. The value of the current stock in the Council's balance sheet for HRA dwellings is approximately £125m as at 31st March 2010.

4.57 In respect of Plan 2, where debt is redeemed, different assumptions will affect when the debt is eventually repaid. For example, if interest rates were 7% and not 6% in the long-term, debt would be redeemed beyond year 33 (compared to year 27).

4.58 However, if interest rates were 5%, then this would save around £600,000 in interest per year, which could accelerate repayment and/or pay for improvements in services. This would provide some flexibility.

4.59 For example, debt repayment could start at Year 8 and be repaid within 20-years. Currently, money can be borrowed on a long-term basis for between 30 and 50 years from the Government's Debt Management Office at 4.4%.

4.60 This is on a maturity basis, i.e. the money in totality is repaid at the end of the borrowing period. Currently, lower rates can be achieved, down to as little as 3.85% on an annuity basis. However, to access these rates, the loan period is only around 20-years and repayment starts in Year 1 on an annuity basis. Although the interest rate is lower, the model would not be able to afford the principal repayments in that period.

Inflation

4.61 On costs, this is a less sensitive variable. An increase in inflation on capital costs (say 1% for 10-years) also pushes debt repayment out to year 30. Inflation in management and maintenance costs reduces revenue surpluses and also has the same effect.

4.62 However any inflationary pressures on costs are also likely to be reflected in higher income and therefore will to some extent compensate.

Rent Convergence

4.63 Besides interest rates and debt restructure, this is considered to be the other key issue for the Council. The Government assumes full convergence will take place by 2015/16 and is reflected in the Council's model. As the Council's average rent is well below the formula by £6 per week (or 10%), there is a large amount of income that would accrue to the HRA by 2015/16, as rents catch up quicker than anticipated.

4.64 In practice this may not entirely be the case. Within the new system, the Government may still choose to retain control nationally over local rent increases. Although the model builds in on-going increases, central control may be exercised to protect individual tenants from excessive increases. This may include setting the baseline increase each year.

4.65 Under current rent policy, the Government place a limit or cap in which individual increases are constrained. This has been affecting the Council's HRA in recent years due to many tenants being below their formula and gaining protection in the cap.

4.66 Therefore, it will take longer for all tenants to converge. It is currently estimated that rent convergence in South Derbyshire will not be achieved in totality until **2021/22**.

4.67 Reflecting this situation in the model has the effect of reducing income by approximately **£3m** over the period of the business plan. Clearly, this would put pressure on capital investment and under Plan 2, debt repayment would not commence until year 15 and is repaid in year 29.

Other Capital Income

4.68 The model assumes no income from right to buy receipts (RTB) or other asset disposals. Any proceeds from these sources would clearly help either plan. The Chartered Institute of Housing is stating that in business planning practice the first call on any RTB receipt should be clearance of the debt associated with the property being sold.

Comparison of Self financing to the Current Subsidy System

4.69 A self-financing system appears more favourable for the Council when compared to the current unreformed subsidy system. This mainly arises as a result of the following factors:

- The benefits of all net rent increases are available to the plan – i.e. surpluses are not captured nationally and redistributed; this is the critical difference between the two as rent surpluses (excluding rent convergence) are expected to rise sharply in the future. For South Derbyshire, this extra income will outstrip any inflationary increase in costs as the rental stream is larger than the cost base (excluding debt repayment).

- The allocation of uplifts in M&M and MRA gives additional spending power from day one.

- The interest charge on debt is at a rate lower than that used in the settlement calculation.

- The opening debt is lower than that identified in the settlement.

- Full investment needs (subject to re-profiling) can be met and sustained over a longer period.

4.70 In an unreformed system, it is very unlikely that sufficient resources will be generated to meet the full investment requirement. The estimated shortfall over an equivalent 30-year period is £91m. This shortfall will begin to accumulate within the next year based on the stock condition survey.

Negative Subsidy

4.71 The latest reported projection shows the HRA operating with an increasing budget deficit, which is being financed by drawing down reserves.

4.72 Without any intervention or action, the HRA will fall below its minimum reserve balance of £1/2m by 2016/17. The main reason for this is that in an unreformed system the Council will continue to make negative subsidy payments to the national pool on an increasing basis.

4.73 In 10-years time, this is currently estimated at **£5.2m** per year. The equivalent interest payment on the self-financing model at 6% on a maturity basis would be **£3.5m** (on debt of £59m).

Technical issues for South Derbyshire

4.74 There are a number of technical issues which are still to be resolved at the national level. As previously highlighted, these include the treatment of depreciation and the approach to the separation of debt between the General Fund and HRA.

4.75 In addition, the Prospectus also includes revised draft guidance on the operation of the HRA ring fence carrying with it some proposals around the treatment of certain types of expenditure. This is designed to tighten up and provide greater transparency around what is charged to the HRA.

4.76 However, it is not considered that this will be a major issue for the Council as its accounting arrangements generally comply with the guidance.

New Risks

4.77 Moving to a self financing system significantly alters the risk profile in HRA business plans and the council housing service. The risks of the current system focus on unpredictability, government intervention and on the fact that significant rent surpluses are redistributed around the country.

Treasury Management

4.78 As previously highlighted in the sensitivity analysis, interest rates and debt structures are the biggest single risk. As the Council would be taking on a significant amount of debt relative to its size, there are implications for treasury management.

4.79 Although the model simplifies this by assuming that all borrowing is entered into early and at fixed rates, in reality this will depend on the ultimate borrowing strategy and state of financial markets at a point in time.

4.80 If Plan 1 is implemented, borrowing may need to be re-financed on a regular basis. In any case, borrowing, especially of this magnitude, does carry risks regarding interest rate exposure, borrowing periods, type of loan (maturity or annuity basis) and of course the general state of financial markets.

4.81 These risks would be mitigated by borrowing from the Government's Debt Management Office which offers a safer and sustainable form of financing for local authorities. However, self financing would completely change the Council's current Treasury Management Policy and arrangements. Given the amount of debt involved, the strategy would have a significant impact upon the HRA's Business Plan under the new system.

4.82 In addition, the Council would have local responsibility for all HRA spending. This will require a robust risk management strategy to support the asset management decisions within the business plan. The prospectus recognises this and talks of the need for new skills and capacity for authorities to make a success of self financing.

The National Picture

4.83 Based on wider modelling by the Housing Institute, it is considered that the large majority of authorities will have a potentially viable plan and certainly one which has more resources compared to staying in an unreformed system.

4.84 In this context, the overwhelming majority of authorities may well be minded to respond positively to the proposals for self financing on the terms that they appear in the prospectus. However, there are some national caveats.

4.85 Given that the prospectus has been issued at a time of considerable change with financial and policy uncertainty, there is the potential for the proposals not to proceed to implementation as planned. Three areas considered to be key are:

- The number and type of authorities that say 'no' to the proposals or are not in a position to respond positively; it is unclear whether the Government have a number in mind on this and how they would deal with such a scenario (other than to legislate) and how this will affect the future for those that do want to proceed.

- The ultimate view in principle of the new Coalition Government.

- The financial terms of the proposals will be subject to the national spending review that might affect some of the key assumptions. The proposals in the Prospectus would effectively mean the Government freeing up more resources into council housing when the rest of the Public Sector is facing significant cuts.

Summary of Implications for South Derbyshire

4.86 The key conclusions from the analysis for the Council are as follows:

- The settlement of £59.2m results in a net debt take-on of £49.7m.
- The uplifts to the allowances to arrive at this figure are generally lower than the region and national averages overall.
- The resulting take-on of debt and withdrawal from the subsidy system result in revenue surpluses to finance interest charges and facilitate debt repayment in the longer-term.
- Debt could be repaid within 27 years, though various factors could affect this.
- The HRA will remain viable throughout this period with balances accruing after debt repayment, although the Council would carry debt for a long period.
- The Council's assessment of its full stock investment needs can be fully met throughout the duration of a 30-year plan, though some re-profiling is required to match available resources.
- The key reasons for the viability are that the plan starts with balances in reserves and that interest rates that can outperform those allowed for in the settlement.
- The financial position under self-financing is significantly improved compared to remaining within subsidy.
- The settlement offers the potential for HRA new build.

Other Issues

4.87 The biggest risk is considered to be Treasury Management as highlighted in the report. However, other constraints should be noted.

4.88 In particular, although the proposals are being "sold" as "self financing," the Government retains the option to control rent levels nationally. Consequently, this will impact upon the Council's main income stream and could affect future resources as the Council remains well below formula rents.

4.89 In addition, a borrowing cap will be set on Day 1. Although the Council may be able to prudently afford extra borrowing in the future, it would be unable to do so.

4.90 However, perhaps the greatest concern is that as council housing will continue to be 'on balance sheet' for public expenditure purposes, the government will retain the right to 'open up' settlements in the future.

Other Stock Options

4.91 The Prospectus indicates that authorities should consider these self-financing proposals against other options for their stock and HRA, i.e. ALMO's, PFI and Large Scale Voluntary Transfers (LSVT) and be mindful of this in their response.

4.92 If an authority opts for self-financing, LSVT is not being ruled out in the future. The arrangements for doing so may change and in particular the Prospectus makes it clear that transfer would be on the same financial terms as self-financing.

4.93 This Council has often stated that it's only motivation for considering transfer of the housing stock is financial i.e. if there is no major financial benefit would we consider transfer as a viable option? There would still be some benefits in transfer such as removing the potential intervention of government in setting rent levels or reopening the settlement but would these be considered by tenants to carry enough weight to warrant a transfer of ownership?

Consultation Response

4.94 The prospectus asks for a response based on the following 6 questions. Proposed responses are suggested in italics together with a general response at the end to sum up the overall view of the Prospectus.

Question 1

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

- *The methodology has a logic that should work for the majority of Councils, although we would argue for greater uplifts in allowances than is proposed to reflect actual local need and the research done to inform the prospectus.*

Question 2

- What are the Council's views on the proposals for financial, regulatory and accounting framework for self-financing?

- *The Council has concerns over the Government retaining any option to control rent setting under a proposed 'self-financing' arrangement; it is considered that this could significantly affect our ability to self manage. The Council is currently well below its Formula Rent and would be reliant upon* *convergence in accordance with the proposals. The Council's concern is that any future government intervention could affect convergence being achieved in line with the current proposals. Such intervention would severely limit the amount we were able to invest in the stock and the ability to service the debt.*

Furthermore, given the current economic climate, the Council understands the cap on borrowing being made at the opening debt settlement. However, it considers the cap to be a further restriction on the ability to self manage. Many authorities, including this one, have a long history of prudent debt management and the Council would wish to see the wider Prudential System apply to a revised HRA.

In addition and to ensure transparency, the Council would support the complete separation of the debt-take between the HRA and the General Fund so that no effect is passed onto the Council Taxpayer.

Question 3

- How much new supply could this settlement enable the Council to deliver, if combined with Social Housing Grant?

- *Utilising ex-garage sites it should be possible to build around 25 new affordable homes under the debt settlement. If our investment was match funded with social housing grant we anticipate being able to deliver around 50 new affordable units. We would seek to progress this proposal on the basis that it would prove a feasible option to the overall HRA in the longer-term.*

Question 4

- Does the Council favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?

- *The Council considers the prospectus to be a viable proposal and therefore it does favour it over an unreformed subsidy system.*

Question 5

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

- *If the government gives the Council a reasonable lead in time (of say six months) it would commit to start the self-financing regime from April 2011 given access to suitable government borrowing at preferential rates.*

Question 6

- If the Council favours self-financing but do not wish to proceed on the basis of the proposals in this document what are the Council's reasons?

- *See general comment below.*

General Comment

- *As stated, the Council feel that the principles in the Prospectus are a viable alternative compared to the current system. If ultimately the Government are minded to implement the proposals, the Council would wish to be given the opportunity to finalise its decision at that time.*

  This is to ensure that some of the technical issues, for example around separation of debt had, in the meantime, been adequately addressed.

  In addition, if any of the main principles were subsequently changed, which resulted in a higher debt settlement to the Council for example, then the Council would want the opportunity to consider this before accepting any changes.

  As stated, the main concerns for the Council are:

  - *The Government retaining any control over rent levels, especially given this Council's position of being well below its Formula Rent*

  - *The Government retaining the option to detrimentally (from our perspective) "open up" the settlement in the future.*

  The Council strongly believes that these issues hinder the ability to self-manage.

4.0 Financial Implications

4.1 As contained in the report.

5.0 Corporate Implications

5.1 None directly, other than that there is still an issue to be resolved that no impact falls onto the General Fund.

6.0 Community Implications

6.1 Clearly, the proposals will have a significant upon Tenants. In the stock options process completed in April 2009, it was stated to tenants that the Council would await the outcome of the HRA review before deciding the next step in the process.

6.2 Whatever the final response is to the Prospectus, it proposed that an information update be sent to all Tenants outlining the current situation and details of that response.

7.0 Background Papers

7.1 Council Housing: a real future - The Prospectus.

http://www.communities.gov.uk/documents/housing/pdf/1512947.pdf