MINUTES of the EXTRAORDINARY MEETING of the
SOUTH DERBYSHIRE DISTRICT COUNCIL
held at Civic Offices, Civic Way, Swadlincote
on 28th June 2010
at 6.00 p.m.

PRESENT:-

Conservative Group
Councillor Atkin (Chairman), Councillor Stanton (Vice-Chairman) and Councillors Bale, Bladen, Mrs. Brown, Mrs. Farrington, Ford, Grant, Harrison, Hewlett, Mrs. Hood, Jones, Lemmon, Murray, Mrs. Patten, Mrs. Plenderleith, Roberts, Watson, and Wheeler.

Labour Group
Councillors Bambrick, Dunn, Mrs. Gillespie, Mrs. Lane, Lane, Rhind, Shepherd, Southerd, Taylor and Wilkins.

Independent / Non-Grouped Member
Councillor Pabla.

APOLOGIES

Apologies for absence from the Meeting were received from Councillors Mrs. Coyle, Timms and Mrs. Wheeler M.P. (Conservative Group) and Councillor Richards (Labour Group)

CL/23. **HOUSING REVENUE ACCOUNT REFORM – GOVERNMENT PROSPECTUS**

A report was submitted to consider the proposed response to the Government's proposals for self-financing of the Housing Revenue Account (HRA) as set out in the consultation document "Council Housing: a real future". The Government had requested that each Council respond to six questions, which were listed in the final section of the report.

The principle of the self-financing arrangement for the local HRA gave a more viable financial future than the current system. Under the current subsidy system, the local HRA was 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. The proportion of the Council's income that had gone up year-on-year was projected to continue to increase. The total contribution to the national pool over the next 30 years was estimated at £135m. It was this factor of negative subsidy and the amount of contribution that made the local HRA non-viable in the medium and long term. The situation had been reported to Members on a number of occasions and was the reason that the stock options issue was re-opened in 2008.

The self-financing option currently being offered by the Government had the following 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 would 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 could be met fully throughout the duration of a 30-year plan, though some re-profiling would be required to match available resources.

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

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

- The settlement offered the potential for HRA new build.

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

A comparison was made between self-financing and the current subsidy system. Self-financing appeared more favourable as a result of the following factors:-

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

- The allocation of uplifts in Management and Maintenance and Major Repairs Allowance gave additional spending power from day one.

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

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

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

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

The detail of the report expanded on each of these areas, including sections on the HRA prospectus, allocating the debt and the national context. Sections of the report covered a higher settlement, new build, interest rates and other issues. There was commentary on proposed implementation, the impact of the new Coalition Government and the key assumptions made in formulating South Derbyshire's model. Further information on assumed interest rates, capital investment and the proposed settlement for South Derbyshire were then reported. Payments to the Government and headline outputs were then reported. A number of graphs were included, showing the self-financing revenue and debt profiles and also capital expenditure needs against resources annually. The summary outcomes and sensitivities to interest rates and debt repayment were then reported. Inflation, rent convergence and other capital income were also reported together with a comparison between self-financing and the current subsidy system. Further information concerned negative subsidy, the technical issues for South Derbyshire, new risks, treasury management and the national picture. A summary of the implications for South Derbyshire was given, together with other issues and other stock options. The report concluded by setting out the six questions on which the Government was seeking feedback and the suggested responses.

Several Members spoke on this matter. The current system was considered unfair and unsustainable, having a significant impact on HRA reserves. Whilst the magnitude of this proposal was recognised, at this meeting the Council was accepting only the principle and submitting a response to the Government's consultation questions. Officers were thanked for their work and the clear presentation provided to Members. There were concerns about the scale of borrowing involved and the potential for the scheme to be varied in the future, with an adverse impact on the Authority. Ultimately the debt would need to be repaid. Officers responded, confirming the potential risks highlighted by Members. A comparison was made to the position on negative subsidy. Reference was also made to the housing problems in some metropolitan areas. Officers responded on the proposed Government measures to retain some funding from this initiative, to meet future issues, which was a small reassurance. There was a broad consensus that the proposal could be supported in principle, on the basis of seeking full repayment of the debt, whilst recognising Members' concerns and the need for further information.

***RESOLVED*:-**

That the Council's response to the Government's prospectus as attached at Annexe 'A' to these Minutes, be approved and submitted to the Government by 6th July 2010.

N. ATKIN

CHAIRMAN

The Meeting terminated at 6.55p.m.