

## **Report to the Cabinet**

**Report reference:** C-075-2009/10  
**Date of meeting:** 1 February 2010



**Portfolio:** Housing

**Subject:** Response to an expected CLG offer on a proposed debt re-allocation or settlement to replace the Housing Revenue Account (HRA) subsidy system.

**Responsible Officer:** Alan Hall (01992 564004).

**Democratic Services Officer:** Gary Woodhall (01992 564470).

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### **Recommendations/Decisions Required:**

- (1) That the apparent intention of the Department of Communities and Local Government (CLG) to make a voluntary offer to stock-holding local authorities “in February 2010” on a proposed debt re-allocation, or settlement, with effect from April 2011 to replace the Housing Revenue Account (HRA) subsidy system be noted;
- (2) That if/when an offer is received from the CLG, the Finance and Performance Management Cabinet Committee be asked to consider the issues and to recommend to the Cabinet a proposed response from the Council, holding one or more special meetings of the Cabinet Committee, if necessary, in order to meet the deadline for the Council’s response;
- (3) That the Cabinet recommends to the full Council the Council’s response to the CLG offer;
- (4) That the Tenants and Leaseholders Federation be asked to consider this issue and to provide its views to the Cabinet Committee, and that the Chairman of the Federation be invited to attend the meeting(s) of the Cabinet Committee and to take part in the discussions but not to be given any voting rights; and
- (5) That the proposed appointment of the Council’s HRA Business Planning Consultant to advise officers and the Cabinet Committee on this issue be noted.

### **Executive Summary:**

Notification has been received that the Government is now preparing the ground for a “voluntary offer” to local authorities in February 2010 to replace the existing HRA subsidy system. It is expected to include a proposed debt reallocation or settlement to take place from April 2011, along with details of how self-financing for the HRA would work.

The Council needs to be prepared to respond to the offer. The report sets out the key issues and suggests that the Finance and Performance Management Cabinet Committee considers the detailed issues relating to the offer, when received, and recommends a response to the Cabinet and full Council.

## **Reasons for Proposed Decision:**

The Council needs to prepare itself to receive, consider and respond to the expected CLG's offer.

## **Other Options for Action:**

- (i) To not respond to the offer; or
- (ii) To respond to the offer through a different process than that proposed.

## **Report:**

### Introduction

1. Previous budget reports relating to the Council's Housing Revenue Account (HRA) have referred to the Government's intention to reform the HRA subsidy system. In July 2009, the Department for Communities and Local Government (CLG) published a Consultation Paper "*Reform of Council Housing Finance*". At its meeting on October 2009, the Overview and Scrutiny Committee approved the Council's response on the Consultation Paper to the CLG.

### HRA Reform: the Background

2. The Consultation Paper concluded the CLG's review of council housing finance, which began in March 2008. The review took in many thousands of contributions from stakeholders, as well as detailed research on spending needs and options for the reform.

3. The problems with the current HRA subsidy system, addressed in the review, are many and varied. They include:

- Lack of transparency and accountability between landlords and tenants;
- Growing complexity in the way resources are distributed;
- Increasing volatility in funding allocations making planning very difficult; and
- Since 2007, the system being in overall surplus - so that an element of tenants' rents supports other Government spending, not just (as was previously the case) spending by other housing authorities.

4. In summary, the proposals from the Consultation Paper were to:

- Dismantle the current HRA subsidy system and replace it with self-financing;
- Make a one-off adjustment of housing debt between all authorities in the system;
- Make a debt 'settlement' to be calculated by Government utilising a future forecast of subsidy, rents and allowances (effectively a commutation of 30 years' worth of future HRA subsidy into one go);
- Uplift the assumed level of allowances within the debt settlement calculation (5% for management and maintenance, 24% for Major Repairs Allowance);
- Retain all future rent income locally (albeit with continued rent restructuring and convergence to target rents on a trajectory to be determined by the Government);
- Retain locally the 75% of right to buy receipts that are currently pooled by the Government, for use on affordable housing and regeneration;
- Strengthen the guidance on the operation of the HRA ring fence, perhaps with a more explicit landlord account covering revenue and capital; and
- Require an 'original' 30 year business plan for each authority, with an assumed level

of expenditure based on allowances and an assumed need for borrowing.

5. Nationally, it is understood that the assumptions within the proposed settlement will be based on forecast levels of subsidy; the settlement would be *neutral* between central and local government.

6. Following the conclusion of the consultation on HRA reform at the end of October, advice has been received from the Chartered Institute of Housing (CIH) that the Government is now “preparing the ground for a voluntary offer to local authorities in February 2010”. The CIH further advises that the precise format of the offer is being worked up by a project team established by the CLG, but it is expected to include a proposed debt re-allocation or settlement to take place from April 2011, along with details of how self-financing for the HRA would work.

7. The CIH suggests that local authorities will need to be in a position to respond to the Government’s offer, and has produced a very useful briefing on this issue, to assist authorities in developing the main criteria upon which they might make their decision.

#### Developments since Publication of the Consultation Paper

8. The consultation on *Reform of Council Housing Finance* closed on 27 October and it is understood that there were well over 200 responses overall, with an overwhelming majority in support of the proposals for a radical overhaul, by dismantling the centrally-controlled HRA system and replacing it with one that is locally-controlled and ‘self-financing’.

9. Very early during the consultation period, the issue of the potential need for legislation to implement the reforms raised concerns about timescales and caused uncertainties about how soon changes could take place. In response, the CIH advises that the Government has now promised to make an ‘offer’ to local authorities on which they can decide whether or not to seek a **voluntary** release from the subsidy system. To develop the offer, the CLG has established a multi-disciplinary project team, with representation from CIH, Local Government Association (LGA) and the Chartered Institute of Public Finance Accountants (CIPFA), to work out the details.

10. The CIH states that local authorities will receive an offer to leave the subsidy system, scheduled for February 2010, and - although the precise terms and details of what will be included are apparently yet to be finalised - local authorities will need to be in a position to respond. At the time of writing, the offer has not been received. Both the CIH and the LGA are leading on the development of materials and guidance to help prepare local authorities for a “new world” of self-financing, and it is understood that these will follow in the New Year.

#### Summary – The Key Issues (according to the CIH)

11. The CIH has identified seven key issues that it believes each local authority will need to consider, in order to develop a long term sustainable business plan for self financing. It points out that not all of the building blocks will be in place by Spring 2010, but that it should be possible to develop the main financial factors locally in order to inform the decision. These seven keys issues for a self financing business plan are as follows:

<b>Key Issue</b>	<b>Covering</b>
1. What services does the HRA need to finance?	<i>What needs to be spent on the stock, estates, neighbourhoods and services over the next 30 years?</i>
2. What will be the debt settlement?	<i>The amount of debt to be calculated and allocated by government</i>

3. What capital grants will be available in future?	<i>The extent to which capital grants can be assumed to meet backlogs and other outstanding work in the early years of a new business plan.</i>
4. How will the debt be allocated?	<i>The proposed mechanism for how debt levels will be reduced or increased locally needs to be known to understand the interplay with existing debt.</i>
5. What flexibilities will there be for borrowing?	<i>Whether there will be any limits on borrowing over and above the affordability criteria within the Prudential Code.</i>
6. Whether use of receipts will be directed by government?	<i>Whether the Government intends to direct the use of RTB receipts locally.</i>
7. What will be the actual form of the self-financing agreement, what will be included and excluded?	

12. Clearly, the level of debt matters *locally* for each HRA:

- The lower the opening debt, the easier it is to fund the revenue services and capital works that are needed and to cover the debt, with increasing rents giving rise to growing headroom over 30 years.
- The higher the opening debt, the more authorities would need to borrow to meet the needs of services and the stock, and - beyond a certain level – the debt may not be covered by future rental streams.

13. The CIH suggests that each authority will have a '30 year point', defined as the level of debt and expenditure that leads to a repayment term of 30 years. It is suggested that local authorities will need to understand what this position is, prior to responding to the offer.

14. There has been much debate about the overall amount of debt nationally that might be allocated as part of the proposed settlement. The level of debt matters at the national level in terms of what happens to any differential between existing debt and new levels of debt. The current level of supported debt in the system is £20billion (technically, the Subsidy Capital Financing Requirement plus ALMO Rounds 1 and 2 allowances converted into borrowing). The consultation talked of the potential for the settlement to be '*more or less*' than this figure.

#### Importance of the Issue

15. Local authorities and their members will be asked to take a significant decision in Spring 2010. In some cases, to reduce large amounts of debt in place of positive subsidy, and in other cases (like this Council's), to take on large amounts of debt in place of negative subsidy.

16. The decision could be very much for the long term and will need to be taken in the context of the offer 'on the table'. The CIH suggests that efforts to ensure members and other stakeholders are adequately prepared and briefed in advance will be essential, together with an appropriate engagement with tenants. In particular, key members will require briefing on:

- the offer;
- its impacts; and

- whether the offer could be viable for the HRA.

17. Policy and financial judgements will also need to be made against the alternative financial futures for the HRA. These could either be a legislation-backed, self-financing settlement in 3-4 years time, or even an abandonment of the proposals for self financing and the existing subsidy system continuing.

### Conclusion on the Issues

18. The CIH says that self-financing could represent a fundamentally new way of doing business. In many ways, this could lead to *real* business planning, with decisions genuinely being taken with the long-term in mind. Amongst other advantages, the CIH feels it allows:

- a proper conversation with tenants about how local authorities use rent increases, in the context of government-set overall rent policy (as for housing associations);
- long-term investment planning with all the efficiency and value for money that this can deliver (estimates at up to 10% of long-term capital costs were made in the 2008 self-financing pilot project); and
- long-term 'asset management', with decisions taken about regeneration, redevelopment and new supply in the full knowledge that resources would stay within the HRA for reinvestment.

### Suggested way forward for the Council

19. In view of the complexity and detail that will need to be considered in order to form a view on the Council's response to the expected offer, it is suggested that if/when an offer is received from the CLG, the Finance and Performance Management Cabinet Committee be asked to consider the issues in detail and to recommend to the Cabinet a proposed response to the offer from the Council. In view of the potential level of debt involved, it is felt that the Council's response would need to be approved by the full Council before it is sent. In order to meet any deadlines imposed by the CLG, it may be necessary for one or more special meetings of the Cabinet Committee to be held.

20. In view of the impact and effect on tenants, the Tenants and Leaseholders Federation will also be considering this issue. It is therefore suggested that the Federation be invited to provide its views to the Cabinet Committee, and that the Chairman of the Federation be invited to attend the meeting(s) of the Cabinet Committee and to take part in the discussions. However, it is not considered appropriate that she be given any voting rights.

21. In past years, the Council has appointed a financial consultant, Simon Smith, to advise on the Council's 30-Year Financial Plan for the HRA, as part of the annual HRA Business Plan. In view of his specialised financial experience and in-depth knowledge of the Council's HRA and HRA Business Plan, Simon Smith has already been appointed to advise the Council on all the issues relating to the proposed offer from the CLG, and it is suggested that he attends the meeting(s) of the Finance & Performance Management Cabinet Committee to present his advice and answer questions.

### **Resource Implications:**

The resource implications of the Council's response to the anticipated offer will be substantial. However, at this early stage there is none.

### **Legal and Governance Implications:**

The Finance and Performance Management Cabinet Committee's Terms of Reference allows it to consider financial issues such as this issue. The Cabinet has the powers to authorise the Cabinet Committee to agree the Council's response to the offer, subject to its decision being eligible for call-in.

### **Safer, Cleaner and Greener Implications:**

If the CLG's offer provides the Council with a better financial arrangement than under the current HRA subsidy system, potentially, the Council could have additional HRA resources to make its homes and housing estates safer, cleaner and greener.

### **Consultation Undertaken:**

No consultation has been undertaken at this stage. However, the report recommends that the Tenants and Leaseholders Federation be invited to provide its view on the issue and the expected offer to the Cabinet Committee and that the Chairman of the Federation be invited to the Cabinet Committee meeting(s).

### **Background Papers:**

CIH Briefing dated December 2009 on "Next steps in HRA Reform: Preparing for an offer".

### **Impact Assessments:**

#### Risk Management

There are significant risks in the Council either accepting or refusing the anticipated offer, which will need to be considered in detail by the Cabinet Committee and mitigated where possible. It is considered that the risks will be minimised by the issues being considered in detail by a Cabinet Committee than can otherwise be considered by the Cabinet as part of a likely heavy agenda of other items. However, there are no risks at this stage, since the proposals only relate to the establishment of a process to consider the issue.

#### Equality and Diversity:

*Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?* No

*Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* N/A

*What equality implications were identified through the Equality Impact Assessment process?*  
N/A.

*How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?*  
N/A.