Review of Council Housing Finance
Department for Communities and Local Government
Zone 4/H4
Eland House
Bressenden Place
London SW1E 5DU

Dear Sirs,

Council housing: a real future – Response to consultation

This letter constitutes Norwich City Council's formal response to the consultation document ("the prospectus") issued March 2010. The content is based upon a rigorous financial assessment of the content of the prospectus and input from tenants and elected councillors through consultation meetings and consideration by the council's Executive and Scrutiny Committee.

Our response addresses below the six questions raised in the prospectus.

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?**

The council welcomes the recognition, in the uplift of allowances for management, maintenance, and major repairs, of the underfunding existing within the current subsidy system. Although this leaves some areas of essential service unfunded (notably the provision of adaptations for the disabled) on balance the methodology is acceptable.

The council acknowledges the prudence of the use of discount rates of 6.5% and 7.0%, which will provide very significant comfort to the council in taking on and managing the additional debt involved of £123m or £113m respectively, depending on resourcing of new-build council housing.

Additional certainty over some elements of the proposals set out in the prospectus would, however, be welcomed, including on the long-term future of restructured rents and on the possible grounds for future re-opening of the proposed settlement.

2. **What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?**

The council welcomes updated guidance on the operation of the HRA ringfence, though we will primarily of course be guided by its own financial and legal advice. The guidance will be a useful tool against which the council will be able to assess its own situation and engage in meaningful discussion with tenants and leaseholders.

In respect of the management of debt, the council considers that the establishment of separate debt pools for HRA and non-HRA debt, including a one-off allocation of existing debt, would bring the most clarity and transparency to future debt management, albeit with some additional debt management expense.

While the council has a robust business plan model for the HRA, accounting guidance on future arrangements for depreciation (including on componentisation of HRA assets) will be required pre-implementation, so that the impact of changes can be brought into the financial and investment planning process.

The provision of a separate HRA balance sheet would provide useful information to tenants, leaseholders, and other stakeholders. However, the technical difficulties and administrative expense of developing and maintaining an IFRS-compliant balance sheet for the HRA would be considerable. In the council's view, a memorandum HRA balance sheet setting out material assets and liabilities could be a practical and cost-effective measure provided that the regulatory and audit burdens are minimised.

3. How much new supply could this settlement enable you to deliver, if combined with social housing grant?

The council firmly believes in the provision of new council housing in the city, both to replenish losses through Right To Buy sales, and to allow redevelopment of the council's existing stock.

If Social Housing Grant is maintained at current levels of around 50%, the council's estimate is that we would have the financial and other capacity to deliver 57 new properties within the first five years of self-financing from the product of the higher discount rate. We estimate that, in total, 150 new properties could be delivered from the council's capacity under self-financing.

The proposed cap on borrowing at the amount of the settlement restricts the council's ability to deliver further new housing, because of the competing demands for capital financing from our asset management programme. Relaxation of this cap would enable provision additional new council housing within the long-term financial plan.

4. Do you favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?

The council strongly favours a self-financing system for council housing in Norwich, so that tenants can see that their rents support their management services, estate maintenance, and improvements.

The HRA subsidy system currently drains £5.9m per annum from the resources available to finance spending on landlord services and investment, and our forecast that this will increase over time to 29% of tenant rent income within 30 years, while surpluses increase nationally. The constraints that this places on our ability to deliver adequate management and investment are very significant, e.g., requiring our investment plan to be underfunded by about 35%.

Self-financing will, over time, produce and retain sufficient resources within our HRA to fully fund our investment programme, maintain a balanced revenue account, and repay debt within the planning period. Our capacity to respond to local circumstances and demands will be much improved, as will our ability to engage with tenants and make firm commitments to them on investment plans.

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 implement self financing in 2011-12? If not, how much time do you think is required to prepare for implementation?

The council has carried out a rigorous financial assessment of the costs, benefits, and risks involved in the proposals outlined in the prospectus. We are confident that our Asset Management and Business Planning arrangements will enable self-financing for Norwich's council housing to be implemented and to deliver considerable benefit to our tenants without adverse impact on council tax payers.

The council would welcome early voluntary implementation, subject to the confirmation of the figures contained within the prospectus, resolution of the outstanding technical matters, and the drafting of the necessary legal agreement at an early date. If these matters are finalised in the autumn, the council will be confident of its readiness for an April 2011 implementation. Failing this, we would wish for an implementation in April 2012.

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?

As set out above in responses to preceding questions, although there is scope for improvement in the detail of implementation, the council would be content to proceed on the basis of the proposals in the prospectus.

Conclusion

In conclusion, the council welcomes the abolition of the subsidy system in favour of self-financing and increased self-determination for landlord authorities, can accept the terms offered by the prospectus (though these could be improved), and subject to conclusion of technical matters, looks forward to implementation on a voluntary basis on 1 April 2011.

Yours faithfully,

Leader/Portfolio Holder/Chief Executive?