Report for Resolution

Report to Cabinet

21 September 2011

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Report of Head of Finance / Head of Housing

Subject Housing revenue account – self financing

Purpose

To seek approval to the work on the work currently being done as well as planned in preparation for self-financing and implementation of the HRA settlement in April 2012.

Recommendations

Members are asked to

1) note the contents of this report

2) agree to the use of up to £100k of funds from the HRA contingency budget to procure independent expert advice on and validation of the asset management, business planning, and treasury management work being undertaken by council staff.

Financial Consequences

The financial consequences of this report are set out in the body of the report.

Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority “Safe and healthy neighbourhoods – working in partnership with residents to create neighbourhoods where people feel secure, where the streets are clean and well maintained, where there is good quality housing and local amenities and where there are active local communities”
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Background Documents

Report

Background

1. The housing revenue account (HRA) subsidy system is the current system for managing the financing of council housing. Under this system, major financial decisions about council housing management are made by central Government and there is comparatively little control in the hands of councils. This makes it difficult for councils to plan for the long term to ensure that decisions about what and how services are delivered are linked directly to local needs.

2. Plans to replace the subsidy system were drawn up by the previous Government to replace the current system with a new arrangement that will enable councils to keep all the money they receive from rent and use it to maintain their homes. This means that council housing will be focused on what is needed locally with councils making best use of their housing resources. This will also enable tenants and local taxpayers to hold their landlord to account for the cost and quality of their housing.

3. The coalition Government is continuing with this project albeit on less favourable terms and on the basis that all councils have to become self financing.

The current system

4. Under the current system the Government calculates the spending needs of each local authority and compares it with their rental income. If a council's rental income falls short of its spending needs, the Government provides subsidy to make up the shortfall. If a council's rental income exceeds its spending needs, the excess is fed back into the subsidy system to help provide for those councils requiring subsidy.

5. Under this system, the government estimates (2011/12) Norwich's need to spend to be c£8m below the rent income – and we therefore have to pay this sum over as "Negative Housing Subsidy". Within 10 years it is estimated this payment would annually be in excess of c£17m.

6. The problems with the current system are:

    - it is very complex
    - it does not provide sufficient funding to manage and maintain homes to a good standard.
    - it does not support tenant involvement in decisions about their homes and locality.
    - its annual nature prevents proper business planning
    - it assumes unrealistically low expenditure needs and so generates a large surplus for central government and housing that is not always adequately maintained.

Self Financing

7. Implementing self-financing involves a reallocation of housing debt based on whether the valuation of each council's housing business is higher than their existing debt. Where the value is higher than the level of debt, as in Norwich, the council will pay the difference to central government. Where it is lower, central government will pay the difference to the council.

8. Councils will only be asked to take on extra debt if their council housing will generate sufficient income to meet it after costs are met. Councils will be given a limit to how much more money they can borrow (a borrowing cap) to retain government control over Private Sector Borrowing Requirement.

9. The payment to government of 75 per cent of the net receipt from Right-to-buy sales will continue. Local authorities will still keep 25 per cent of the receipt and 100 per cent of the receipt from other sales provided it is spent on qualifying objectives.

10. The proceeds of future rent increases will remain with the council instead of being swallowed up in additional negative subsidy. As we begin to repay debt and interest costs reduce, there will be revenue surpluses available for investment.

Implications for tenants

11. Self financing will provide the following benefits to tenants:
    - the opportunity for business planning to be guided by local priorities, rather than central government rules.
    - councils will have more money to spend on council houses.
    - tenants will also be able to trace a clear connection between the rents charged locally and the service provided.

12. Self financing will not change:
    - tenants' rights (e.g. right to repair, and right to buy)
    - the council's position as a housing provider
    - the level of rent tenants pay will continue to be a decision for the council, probably covered by standards set by the regulator as directed by the government.

13. The objectives, assumptions, and risks associated with self financing should be documented and aligned with the council's Housing Strategy.

New build

14. Any headroom between the debt cap and the actual borrowing requirement is potentially available for further investment in the existing stock or new build.

15. The financial capacity for new build council housing will be identified as part of the business planning workstream, to inform future council decisions.

Time table and key work streams

16. The table below outlines the key implementation activities over the next seven months.

August 2010	Council supplies details of stock to CLG
September 2010	CLG requests non-binding borrowing plans
October 2010	Auditor certifies stock data for CLG
November 2010	Report to Council outlining decisions needed
January 2012	CLG announces final payment required
February 2012	Council sets “self-financing” budget and approves Treasury Management Strategy
28 March 2012	Council makes payment to CLG
1 April 2012	Self-Financing goes live

17. To ensure the successful implemenation of self financing officers are currently engaged in 5 key work streams.

Asset management

18. An Asset Management Plan (AMP) is necessary to know what our future costs will be for maintenance, improvement, and replacement of the housing stock. The AMP is based on Stock Condition Survey data, and the expected life of all the components of the housing stock. The costs in the AMP (drawn from contract prices) also depend on the standard to which the stock will be maintained – e.g., “minimum” Decent Homes (kitchen OR bathroom), “full” Decent Homes (kitchen and bathroom), or “Norwich Standard”. (see Tenant Involvement below.) Validation of this work will be sought from external sources within existing procurement arrangements.

HRA business plan

19. The HRA Business Plan (BP) looks at all costs (including debt repayment, negative subsidy, investment needs, services and management) and income (rent and service charges) over a 30 year period. The BP shows how these change and the amount of surpluses available for other uses – e.g., additional investment, stock refurbishment, new build council housing.

20. The BP is currently being updated to take account of all the changes in the government’s proposals, and to test its sensitivity to risk factors (interest rate changes, contract prices, etc.) Expert assistance is being procured to validate this work.

Treasury management

21. The government will announce later in the year the amount that we will need to pay over. We will then know how much we need to borrow (or finance from our own resources) – currently estimated at £145m (£14k per property).

22. There are many options for the new borrowing (fixed term, fixed or variable interest rates, through the government's Public Works Loan Board, from private loans, through issuing corporate bonds) which have risks and benefits which need assessing. These decisions will feed into the Treasury Management Strategy and risk register.

23. This is one of the largest financial decisions that the council will ever take and the council will seek expert independent advice as to the way forward, which may also have benefits for general fund borrowing.

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Tenant involvement

24. When the previous Government's proposals were launched tenants' representatives were briefed on the business plan and implications of self financing. It is vital that this dialogue continues and tenant representatives are fully involved throughout the implementation and beyond. In the coming weeks consultation on the investment standard (detailed above) will be carried out. Future detailed briefings will take place on the potential borrowing options and future governance arrangements.

HRA governance

25. The Government (through the Tenant Standards Authority) will issue directions requiring increased transparency and tenant involvement in monitoring and making decisions. The government also expects the relationship between rents and management & maintenance costs, and between service costs and service charges, to be more open to tenants. As members are aware the housing service is currently reviewing its tenant involvement structures and the above requirements will feed into this.

26. The future financial governance of the HRA will need to be informed by business planning, so that the short- and long-term financial implications of proposals are considered in decision-making. To ensure that this process is seamless and consistent with the council's corporate priorities, the objectives, assumptions and risks involved need to flow through the Corporate Plan to the Housing Strategy and the Business Plan.

Conclusion

27. Self financing provides a massive opportunity to provide a housing stock for the residents of Norwich which is fit for purpose and meets their aspirations.

28. With more freedom from government restrictions, and the benefit of tenants' rents being kept in the city to pay for maintenance and improvement works, the council will be able to deliver more of what tenants and prospective tenants ask for.

29. Alongside the greater regulatory and financial freedoms comes additional

responsibility for making the best use of these resources and opportunities. The outcomes of the workstreams set out above will give members and tenants confidence that these responsibilities are being met.

30. Independent expert advice will give additional assurance that the councils plans are coherent, robust, and deliverable. Approval is sought for up to £100k of the HRA contingency to be applied for this purpose, though actual costs are not currently expected to exceed half this amount. Even at £100k, this cost would be less than 0.1% of the annual cost of the additional borrowing.