PROPOSALS FOR THE REFORM OF HOUSING REVENUE ACCOUNT SUBSIDY SYSTEM

To: **Cabinet – 17 June 2010**

Main Portfolio Area: **Housing/Community Services**

By: **Madeline Homer – Landlord Services Manager**

Classification: **Unrestricted**

Ward: **N/A**

Summary: CLG published its voluntary '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 Housing Revenue Account (HRA) subsidy system and introduce a system of self financing from April 2011 on a voluntary basis. This report forms the basis of our response to the 'offer' which needs to be returned by 6th July 2010.

For Decision

1.0 Introduction and Background

1.1 The Housing Revenue Account (HRA) subsidy system is the current redistributive system for financing council housing. The system redistributes income from areas where there is assumed to be a surplus to areas where income does not match needs. However, the existing system is not sustainable and will not in the future deliver sufficient funding to maintain council homes to a good standard and makes long term planning difficult for authorities.

1.2 The Council responded to an initial consultation on the review of council housing finance in October 2009 which amongst a number of questions included a proposal for self financing i.e. voluntarily exiting from the subsidy system and allowing the council to retain all its rental income in exchange for a debt settlement payment.

2.0 The Current Situation

2.1 Following the issue of the 'offer' from CLG work has been carried out by the Chartered Institute of Housing to model the impact of the reform proposals for Thanet District Council. This note is attached as an appendix and sets out the main findings of the modelling work and highlights the main Thanet-specific issues.

2.2 In summary our recommendation is that Thanet would favour the self financing option compared to staying in the current subsidy system. The modelling work has estimated that Thanet would have a debt settlement offer from CLG of £26. 399m however this does put Thanet into a positive position, if we remain in the current subsidy arrangement we would be paying £28.349m (over 30 years) in subsidy so we are in fact better off by £1.950m. In addition to that because Thanet's 'opening self financing debt at 1/4/2011 will be £22.016m we have borrowing potential of £4.383m before we reach the £26.399m borrowing cap. The financial position under self-financing is significantly improved compared to remaining within subsidy.

2.3 There are a number of other benefits for Thanet in choosing the self financing option:

- The uplifts for management and maintenance of our stock has improved overall by 13.3% and are generally higher than the region and national averages.
- On a debt repayment profile of 30 years Thanet has an option to repay the settlement debt within 7 years subject to other HRA priorities.
- The HRA will remain viable throughout this period with balances accruing after debt repayment.
- The Council's assessment of its stock investment needs can be fully met throughout the duration of the 35 year plan.
- The settlement offers the potential for HRA new build.

3.0 Proposed Response to the Consultation

3.1 The prospectus requires Thanet's response to a set of questions by the 6th July 2010. I have indicated in bold our proposed response to those questions

Questions:

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?

It is difficult to comment on the methodology for assessing income and spending needs as we do not have sufficient information on how the Management & Maintenance and Major Repair Allowance uplift figures were arrived at and there is no provision for the costs of aids and adaptations which was mooted in the initial consultation. However our understanding is that Thanet does see an increase in these allowances which contributes positively to the overall self financing position.

Using the assumption of a 2% RPI level and the additional 0.5% in the Rent Restructuring Guidelines we are confident that all of the Locations that have a rental charge will meet their target/formula rent by 2016. However this may not be possible if there are limits set on how much the actual rent can vary between financial years. For example the rental rise between 2009-10 and 2010-11 was not able to exceed an increase of 3.1% in real terms.

The projected income figures will change if there is a subsequent change to the rent setting policy and the authority's business plan would need reviewing in light of any changes.

The assumptions made do not take into account a substantial loss in stock numbers due to Estate Regeneration programmes. Thanet is due to commence an Estate Regeneration project which will result in loss of 54 maisonettes over the next 2 years and this has not been taken into account with regard to the income projections.

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

It is difficult to comment as there is still unknown detail as to how General Fund and Housing Revenue debt will be split out and thus far we have not seen a draft settlement agreement. With the cap on borrowing set it is unclear if any borrowing that is required for new builds or estate regeneration is inclusive of the set debt cap or in addition. There is also concern that the debt settlement figure is open to review in the future and as such will again affect the authority's business plan.

We welcome the review of the HRA ring-fence, however feel that there should be a degree of flexibility at local level for the services that are charged to the HRA. An example of this is that the "maintenance of tenant gardens should not be a charged to the HRA" and it is right that this is normally a tenant responsibility however where a tenant is unable to maintain their garden there should be the ability to provide a service funded by the HRA for the elderly. These decisions should be made at local level in consultation with tenants.

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

Our initial view is (assuming a grant level of 30%, build costs of £100k, formulae rents) that Thanet could deliver new build in the region of 20 units per year.

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

Thanet would have a viable business plan and welcomes the ability for longer term business planning and more resources compared to staying in an unreformed system. Following consultation with tenants and leaseholders they did raise a concern over the lack of detail of the circumstances which may lead to re-opening the debt settlement.

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?

Thanet would be in a position to proceed to implementing self financing in 2011-12, subject to sufficient notification to ensure our finance system hierarchy was amended to be able to report HRA balance sheet entries.

4.0 Options

4.1 To favour a self financing system for council housing

4.2 To reject the offer of self financing

5.0 Corporate Implications

5.1 Financial

5.1.1 The financial implications have been set out within the body of the Charted Institute of Housing model which is attached for reference.

5.1.2 Until the detail of how the General Fund and HRA debt is to be split out is finalised it is difficult to ascertain if there will be an impact to the General Fund, although it is indicated that the intention is provide a proposal that causes nil impact.

5.1.3 The review of the HRA ring fence makes recommendations for expenditure that should not be charged to the HRA, these may impact on some of the GF costs that are currently charged, but it is anticipated that the impact on the GF would be off set by the amendments of those charges that are now deemed acceptable to charge to the HRA.

5.2 **Legal**

5.2.1 Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, at the time of writing this report, it is the Director of Finance and Corporate Services (S151 Officer), Sue McGonigal, and this report is helping to carry out that function.

5.3 **Corporate**

5.3.1 Corporate priorities can only be delivered with robust finances and this report gives Members the opportunity to review the Council's current position.

5.3.2 The Council's Corporate Plan commitment to delivering a quality service as a landlord to council housing tenants.

5.4 **Equity and Equalities**

5.4.1 We will consider the need for equality impact assessments when making policy decisions under self-financing as appropriate.

6.0 Recommendation(s)

6.1 That members approve the response to the prospectus in favour of implementing a self financing system for the Housing Revenue Account.

7.0 Decision Making Process

7.1 This is a key decision subject as it impacts on the viability of the HRA however its current status is a consultation process and the decision can be taken by Cabinet.

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Annex List

Annex 1	CIH – Briefing on the implications of the HRA reform prospectus
None	None

Background Papers

Title	**Details of where to access copy**
Council Housing: a real future – Impact Assessment	www.communities.gov.uk
None	None

Corporate Consultation Undertaken

Finance	Nicola Walker – Principle Accountant
Legal	N/A