# CABINET

# 29 JUNE 2010

# HRA REFORM PROSPECTUS

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

**Summary**

This report considers the prospectus issued by Government, for reform of the Housing Revenue Account (HRA) subsidy system, and suggests a response as required by 6 July 2010.

## 1. Budget and policy framework

1.1 This is a matter for Cabinet.

1.2 The Cabinet is asked to consider this matter as urgent as Communities and Local Government (CLG) requires a response by 6 July 2010.

1.3 The Mayor, in the absence of the Chairman of the Business Support Overview and Scrutiny Committee, has agreed that the taking of these decisions cannot be reasonably deferred, in accordance with Rule 16 (Special Urgency) of the Access to Information Rules (Part 2 of Chapter 4 in the Constitution).

1.4 The Vice-Chairman of the Business Support Overview and Scrutiny Committee, in the absence of the Chairman, has agreed to waive call in on this report on the basis that this matter is reasonable in all the circumstances and to it being treated as a matter of urgency in accordance with Rule 16.11 of the Overview and Scrutiny Rules (Part 5 of Chapter 4 in the Constitution).

## 2. Background

2.1 In the current subsidy system Central Government effectively pools and redistributes rental income based on assessed need. It also pools 75% of receipts from ‘Right to Buy’ sales. In the case of Medway, HRA subsidy of £1.7m was paid in 2009/10 as well as £191,000 in respect of pooled council house sales.

2.2 However, the current system has been long criticised in that:
- It makes resource planning extremely difficult
- The majority of council's are in negative subsidy with a net surplus of some £100m pa going to central government and
- It is complex, lacks transparency and can be volatile

Furthermore, these shortcomings will become more evident in coming years as surpluses of rent income to cost increase significantly.

2.3 As a step towards addressing these problems, Government has issued a prospectus of its proposals to reform the HRA. The key proposals are:
- To dismantle the current system
- To give each authority a one off adjustment of debt (which effectively commutates 30 years of subsidy payments and,
- For rents and 'Right to Buy' receipts to be retained locally.

**3. Implications for Medway**

3.1 The Government has calculated that it would require Medway to take on additional debt of £11.567m to free itself from the housing subsidy regime and move to a 'self financing' model. A conservative estimate of the subsidy which would be payable, over the next thirty years, under the current system is in excess of £80m. This is a very simplistic comparison but it does demonstrate that this is an attractive offer with the Government 'signing over' future surpluses in return for a one-off benefit, estimated nationally at £3.6bn, from the debt allocation.

3.2 It was obviously important for the Council to model the options, as outlined in the prospectus, in detail before submitting its response. A leading consultancy in housing finance was employed to assist in this process and their briefing paper is attached at Appendix 1 to this report.

3.3 This modelling took into account local issues, the most important of which is the condition of the council stock and the repairs required over the 30 year life of the business plan. The recently completed stock condition survey, identifying works totalling some £175m, was factored into the calculations. The modelling looked at the impact upon Medway in the two scenarios of staying with the current subsidy regime or adopting the Government prospectus and choosing the self-financing route.

**4. Remain in subsidy regime**

4.1 The modelling indicated that, under the current subsidy regime, the Council's HRA was viable but the full program of works required to stock could not be funded. The outcome is discussed at section 8 of the consultant's report and estimated a likely capital shortfall of some £53m against the inflated spending requirement of £149m. Paragraph 8.2 of the attached report spells out the shortfall and the charts 3a and 3b graphically illustrate the position over time. In addition housing debt would remain at current levels.

## 5. Move to self financing

5.1 However, the modelling for the self-financing option indicated that for both the scenarios considered (maintenance of debt and repayment), this option would enable the authority to fully fund the programme of works identified in the stock condition survey. Furthermore it does also give the option of repaying debt and/or embarking on a limited programme of new build if such a policy was to be adopted.

5.2 The proposed settlement for Medway and the self-financing scenarios are set out in sections 4 and 5 of the consultant's report. Charts 1,2 and 3 illustrate the effects as follows:

5.2.1 Charts1a and 1b model a scenario where the authority does not repay debt but funds the full program of works. This sees HRA reserves increasing sharply to some £120m after 35 years.

5.2.2 Charts 2a and 2b model a scenario where the authority undertakes the full program of works and then uses any available in year surplus to pay off debt. This forecasts a debt free position by year 20 after which balances yet again rise sharply.

5.2.3 Chart 3 demonstrates that both scenarios under self-financing fully fund the works identified in the stock condition survey.

5.3 The reasons that self-financing is so attractive, under the terms currently offered, compared to the subsidy system are:

- Because of rent restructuring, rents should rise faster in the future than costs. Self-financing will see this benefit retained rather than redistributed via subsidy.
- The government's valuation of the HRA, in the form of the debt allocation, assumes significant increases in management, maintenance and repair allowances. These increases would not be forthcoming under the subsidy regime.
- Medway's current debt, and the cost of servicing it, is lower than that which the Government has assumed for both subsidy purposes and the calculation of the debt settlement.
- In the model Government has used to value the HRA, it assumes a discount factor of 7% on the predicted cash flows which is higher than the likely cost of borrowing. This means that the valuation is lower than could have been the case. Indeed Government have suggested that this differential should allow authorities 'headroom' to invest in 'new build'. In the case of Medway the modelling outlined above has indicated that there would be 'surplus' funding to repay debt, as well as undertake a full repair and maintenance programme. The Council could choose to fund new build from this surplus and the report attached indicates, as an example, that 30 properties could be build in the next 5 years whilst only delaying the repayment of debt by one year.

5.4 The retention of right to buy receipts will also benefit the HRA, provided that any receipt exceeds the nominal value of debt per unit attributable to the HRA at the time of sale.

## 6. Technical Issues

6.1 The prospectus also includes discussion around a number of financial, accounting and regulatory issues including:
- The introduction of a memorandum HRA balance sheet to aid scrutiny;
- Options for dealing with current and future debt in general and specifically in relation to de-pooling of the HRA element;
- The requirement to balance the repayment of debt with repairs and/or depreciation;
- Proposals to strengthen the HRA / GF ring fence; and
- The limiting of debt to that calculated as the opening stock value.

## 7. Risk Management

7.1 The move to self-financing removes the unpredictability of annual subsidy settlements and promotes long-term asset and financial planning. However, risk remains in the proposals, firstly through any future changes to national rent policy and secondly, over the possibility that the debt settlement may be re-opened at a later date.

## 8. Financial and Legal Implications

8.1 The financial implications are summarised in the body of the report and spelt out in some detail in appendix 1.

8.2 Legislation will be needed to bring this into force and we are unable to advise on legal implications as no draft legislation has yet been issued. There are no legal implications in responding to this consultation.

## 9. Recommendations

9.1 That Cabinet agrees the draft response to the prospectus on HRA self-financing as attached at Appendix 2, to be submitted to the CLG by 6 July.

9.2 That Cabinet agrees that this decision is considered urgent and therefore should not be subject to call-in.

## 10. Suggested Reasons for Decision

10.1 That the consultation response in appendix 2 be submitted to CLG to ensure that Medway Council's views are taken into account.

**Background papers**
CLG 'offer' to Local Authority landlords dated 25 March 2010
http://www.communities.gov.uk/publications/housing/selffinancingprospectus

**Lead officer contact**
Mick Hayward, Chief Finance Officer, Gun Wharf, Tel (01634) 332220,
e-mail mick.hayward@medway.gov.uk

**Medway Council**
**Council Housing: a real future**
**Briefing on the implications of the HRA reform prospectus**

## 1. Introduction

1.1 CLG published its long awaited 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.

1.2 Work has been carried out to model the impact of the reform proposals for Medway Council. This note sets out the main findings of the modelling work, highlights the main Medway-specific issues to arise and provides a summary commentary on the proposals within the prospectus, with the aim of informing the council's response to the consultation, which is due by 6th July.

## 2. The HRA Prospectus

2.1 The reform proposal has been produced following the Review of Council Housing Finance which concluded in the summer of 2009 and following last autumn's consultation.

2.2 The proposal is based on moving towards a 'self financing' HRA system in which negative or positive subsidy is exchanged for a single one-off adjustment of housing debt following which rental surpluses and Right to Buy receipts are retained 100% by local authorities.

2.3 The allocation of debt is the Net Present Value[1] of a cashflow estimate of rents and revenue costs for all authorities over 30 years, based on subsidy rent assumptions which achieve convergence with targets by 2016 and subsidy allowance assumptions which include an uplift of funding. By linking the debt allocation to current and future subsidy assumptions, the government is making the settlement 'neutral' in national expenditure terms.

<u>The National Picture</u>

2.4 Nationally, the total value of future rental surpluses in an unreformed system is estimated to be £34-35bn. Current debt is £21.5bn (forecast at 31st March 2011). Therefore the value of future surpluses is in the region of £13-14bn.

[1] Net Present Value or NPV: a financial technique to calculate the value of a future income stream (eg for a business) and convert it into a single amount at today's prices

ConsultCIH Ltd
4 Riley Court,
Millburn Hill Road,
Coventry, CV4 7HP

www.consultcih.co.uk
EMail headoffice@consultcih.co.uk
Telephone 024 7647 2720
Registered in England and Wales: 01754648

2.5 The total proposed allocation of debt is £25.1bn based on increased allowances of 5% for management and maintenance (M&M) and 28% for major repairs, with a discount factor[2] of 7%. This means that the government could be said to be capturing £3.6bn of surpluses up front and allowing all future surpluses to remain in local HRAs.

2.6 The prospectus identifies that the discount factor for recent stock transfers is lower at 6.5% - which applied to this settlement would result in a debt allocation of £26.3bn. The difference of £1.2bn is therefore treated as 'reduced debt' and there is an explicit reference to authorities setting out some ideas as to how to utilise the headroom from this debt 'reduction' towards new build. Nationally, the prospectus refers to '10,000 properties per year in five years'; although it is not clear how this figure has been developed, authorities are encouraged to set out some outline options in their responses.

2.7 From a revenue perspective, although higher than current debt, the proposed debt allocation is lower than might have been expected following the consultation period last autumn. At a national level, the distribution of increased allowances through the debt mechanism represents an increase in spending power for council housing that is not in line with public expenditure pressures elsewhere. This highlights that the proposal is a 'deal', in which government takes surpluses up front in order to reduce debt elsewhere in the public sector.

2.8 Where the proposals do reflect the significant spending pressures in the economy as a whole is on capital investment and borrowing. The new system would see supported borrowing replaced with a system of capital grants and the ability for HRA business plans to use prudential borrowing on a long term basis.

2.9 Research for last year's consultation identified outstanding backlogs for decent homes and other investment at around £6bn. The prospectus has cut back on this, focusing on the completion of decent homes mainly for later-round ALMO authorities. A figure of £3bn for capital grants is referred, although this would be subject to future spending reviews.

2.10 In addition to the level and uncertainty around the availability of future capital grants, the proposals also act to restrict future borrowing. Although the government has rejected the idea of setting borrowing limits annually, the prospectus contains an absolute restriction on future borrowing above the level of the initial allocation of debt. It is expected that this cap will last until at least into the spending review period after next (i.e. till after 2014).

2.11 Effectively, therefore, self financing HRA plans will need to be based largely on revenue and receipts with reliance on borrowing restricted to any existing gap between actual debt and supported debt. Most authorities are

[2] Discount factors in NPV calculations represent the time value of money: in this case, the discount factor represents an assumed level of interest costs.

unlikely to be in a position to receive grants. The settlement might therefore be said to be '*Revenue-Positive*' and '*Capital-Challenging*'.

2.12 There are a host of technicalities associated with the implementation of the new arrangements, including a proposal to report a memorandum HRA balance sheet and various options for the treatment of depreciation, debt repayment and treasury management. Where relevant for Medway, these are highlighted below.

2.13 The proposals are intended to be a 'once and for all' settlement. A self financing agreement would be signed under clause 313 of the Housing and Regeneration Act 2008. However, as council housing will continue to be 'on balance sheet' for public expenditure purposes, the government will retain the right to 'open up' settlements in the future. The circumstances in which this might take place are not set out and it is essential that self financing agreements are very clear about these circumstances. One obvious example is change to future rent policies i.e. if rents increase higher or lower than assumed in the settlement, the debt calculation might be reopened.

## 3. Medway's modelling: main assumptions

3.1 A model has been produced for Medway launched from 2010/11 and based on the latest forecast for this year, with the following key assumptions:

- Balanced to 2010/11 HRA latest estimates and 2010/11 capital programme
- Rents converge (with similar housing provider properties) in 2015/16 (with no property-by-property adjustment for caps and limits[3])
- Roll forward of management and maintenance expenditure with inflation (i.e. no real terms investment or efficiencies)
- Roll forward of non-rent income with inflation
- Right to Buy sales of 3 per annum
- General inflation (RPI) of 2.5%
- Long term debt interest rates of 6% (early years in line with current rates)

3.2 A critical assumption relates to the stock investment and capital needs for the stock over the longer term. These have been factored into the business plan based on the survey recently completed by Ridge Associates. The 30 year capital profile amounts to around £36.6k/unit and this is slightly above benchmarks for similar authorities.

3.3 The modelling provides a headline sense of the viability of self financing given the debt settlement and no access to capital grants. The plan is developed in two core scenarios: one with debt maintained and one with revenue surpluses set aside to repay debt.

[3] Caps and Limits refer to restrictions on individual rent increases of RPI plus 0.5% plus 2% and not breaching a set rent (for housing benefit purposes) for a property, dependant on the number of bedrooms

## 4. Proposed settlement for Medway

4.1 The headline debt settlement from CLG for Medway amounts to £38.269m. This is based on uplifted M&M allowances of 3.9%, uplifted MRA of 25.7%, resulting in a consolidated average uplift of 10.2%.

4.2 Medway's M&M increase is higher than for the rest of the South East region's average of 3.3% and is lower than the national average due to the lower percentage of flats in Medway, particularly high-rise. The MRA uplift is lower than the national average and the region's 28.6%.

4.3 The £38.269m settlement is based on a 7% discount factor. A reduced discount factor of 6.5% would give a settlement of £40.003m, a difference of £1.734m. The prospectus asks authorities to outline suggestions for how they might use this 'headroom' to deliver more housing. No new build has been included in the plans below but scope exists given the outputs to develop plans.

4.4 Given a settlement of £38.269m, the debt adjustment for Medway is £11.567m which is arrived at by offsetting the existing HRA 'notional' debt SubsidyCFR[4] of £26.702m. This results in an 'opening self financing debt at 1/4/2011' of £32.742m when added the actual HRA debt (HRACFR[4]) of £21.175m. The existing differential between subsidy-debt (Subsidy CFR) and actual debt (HRACFR) of £5.527m is therefore retained as borrowing potential within the new system for Medway.

## 5. Headline outputs

5.1 The headline outputs for two core approaches to self financing are set out below. The CLG debt profile is shown for comparative purposes. These are (i) the maintenance of debt with continued refinancing (i.e. only paying interest) and (ii) the repayment of debt from future surpluses.

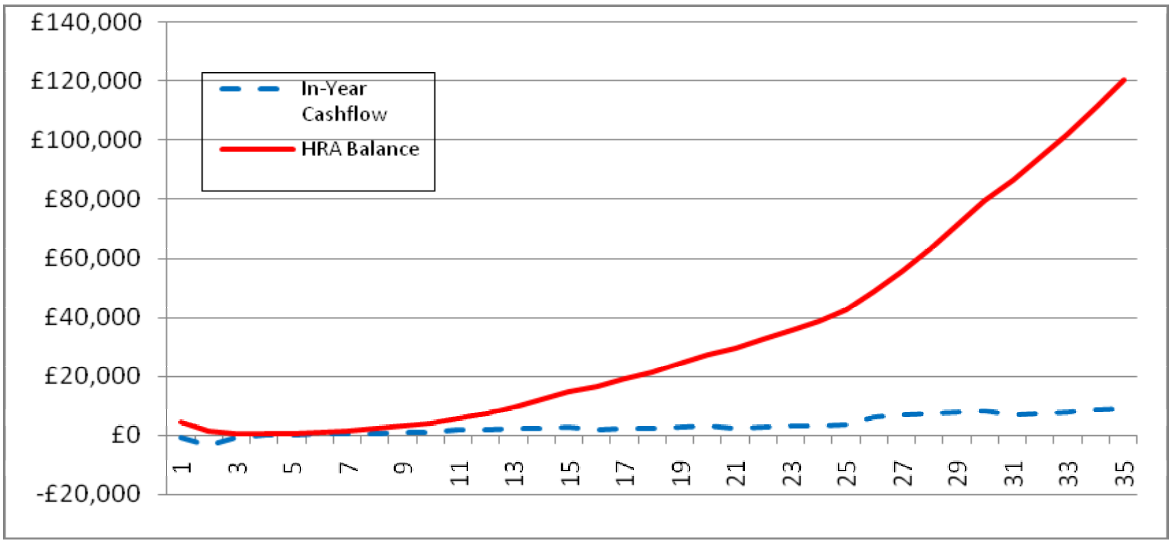
5.2 This shows that both plans are financially viable and meet all expenditure needs in each year of the 35 years covered by the plans. There is some borrowing required throughout to meet the stock investment needs over the first 10 years.

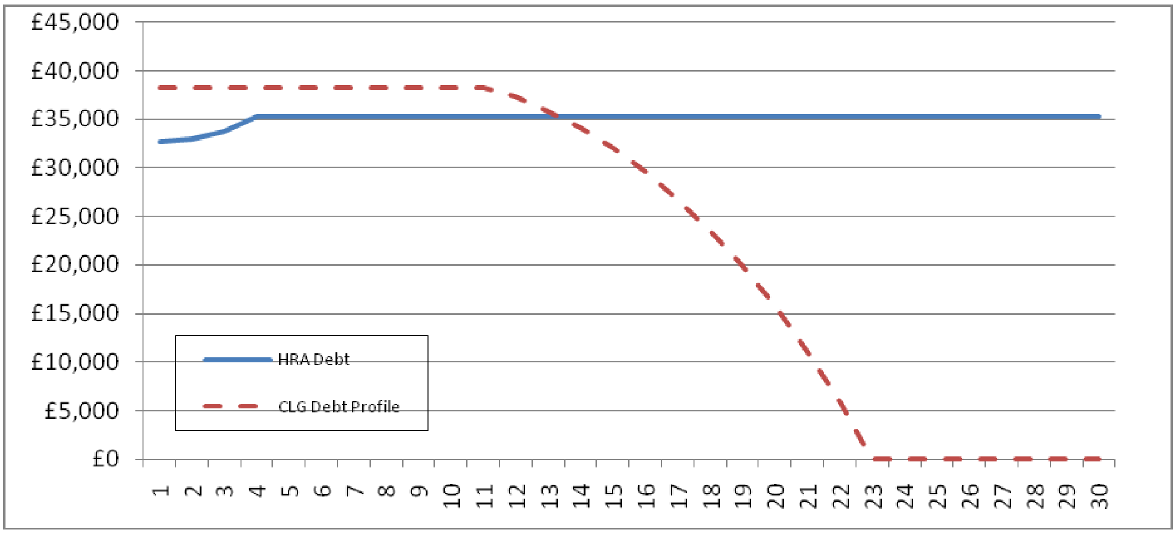
5.3 If debt is maintained as in (i) at £32.742m, reserves build to above £120m after 35 years. Charts 1a and 1b show the outcome.

5.4 If revenue surpluses are set aside to repay debt, repayment can be achieved after 20 years (compared to the CLG's assumption of 23 years) and reserves also built to nearly £114m after 35 years. Charts 2a and 2b show the outcome.

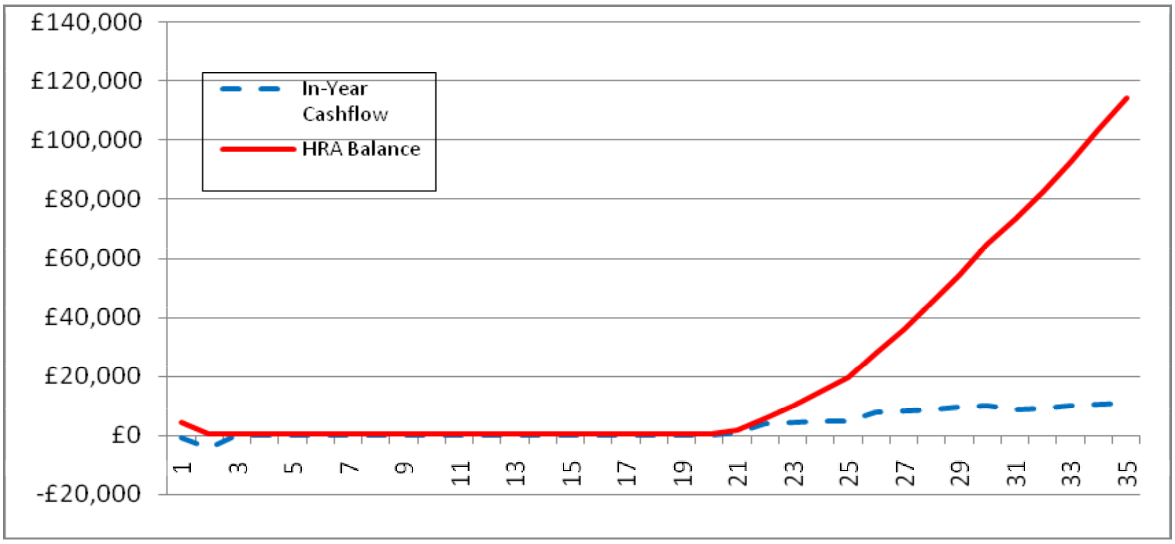
[4] The HRACFR is the actual element of the council's overall surplus or debt relating specifically to Housing. The SubsidyCFR is the assumed level of surplus or debt within the current subsidy system for the council's HRA.

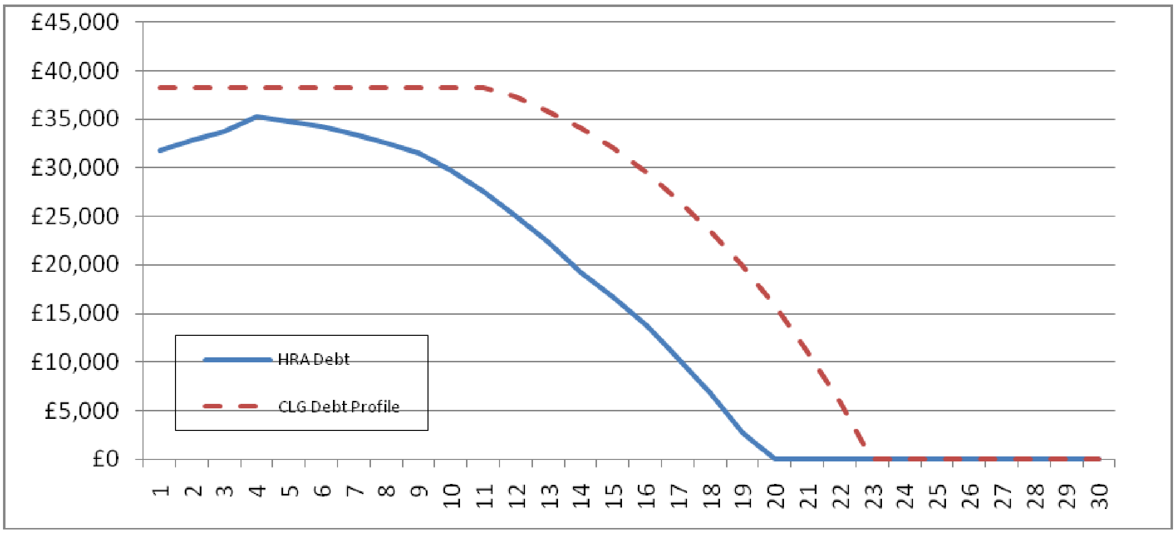
### *Charts 1a and 1b: Self financing revenue and debt profiles £'000: no set aside*



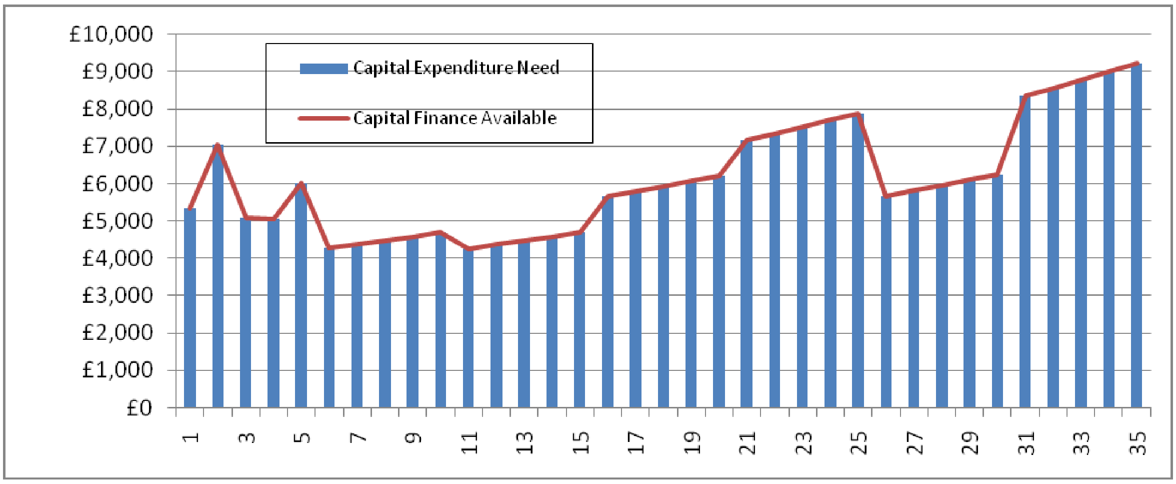
***Charts 2a and 2b: Self financing revenue and debt profiles with set aside £'000***




The Council's assessed capital investment needs, based on property surveys, are able to be met in every year of the plan. Chart 3 highlights the position.

***Chart 3: Capital expenditure needs against resources annually £'000***




## 6. Sensitivities

6.1 The plan is viable and resilient to changes in key assumptions. Some key headlines are set out below.

6.2 If interest rates were 7% not 6%, the debt repayment plan redeems debt by year 23 (compared to year 20). Overall the plan remains viable with considerable reserves at year 35.

6.3 Real inflation in capital costs (1% pa for 10 years) results with debt repayment pushed out to year 24. Overall the plan remains viable with considerable reserves at year 35.

6.4 Real inflation in management and maintenance costs (additional 1% pa for 10 years) reduces revenue surpluses but results in the plan remaining viable with considerable reserves at year 35 and debt repaid by year 25.

6.5 If rent convergence was amended to 2022 (say), this also has the effect of reducing revenue surpluses but debt repayment would be unchanged by year 20. Overall the viability of the plan remains virtually unaffected in the long term.

6.6 The modelling above assumes no income from right to buy receipts. If receipts from right to buy sales were included in the plan, then the viability of the plan would improve, but only on the basis that the level of receipt exceeded the debt per unit (£12k) attributable to the HRA.

## 7. Summary of modelling outcomes

7.1 In general, self financing based on a debt adjustment of £11.567m is viable for Medway. There is in fact some room for manoeuvre for additional investment or service improvements over 30 years, given the plan's resilience as demonstrated above.

7.2 The principle reasons for the positive model for Medway are:

- Net forecast actual M&M costs in 2011/12 are £5.41m, after service charge income and non-dwelling rents, lower compared to assumed M&M (after uplifts) in the settlement of £5.79m.
- Debt begins some £5.527m below settlement – this allows the necessary borrowing to be undertaken to meet needs in the early years.
- The HRA and Major Repairs Reserve have combined balances of £4.6m

7.3 This means that although capital spending needs are £36.6k/unit over 30 years compared to uplifted MRA/unit of £28.3k/unit, there is sufficient headroom in the plan to achieve all the capital needs, subject to the sensitivities above. These could include new build and other environmental enhancements.

## 8. Comparing self financing to subsidy

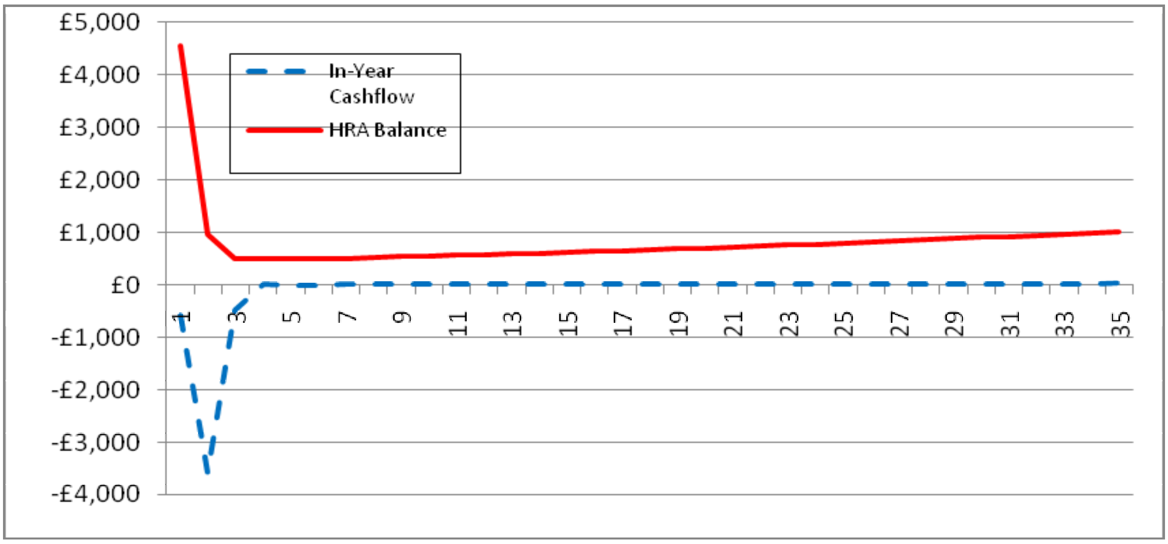
8.1 Self financing business plans on the basis of the current proposals are almost universally better funded than plans based on an unreformed subsidy system. This is the case for Medway and principally arises as a result of the following key factors:

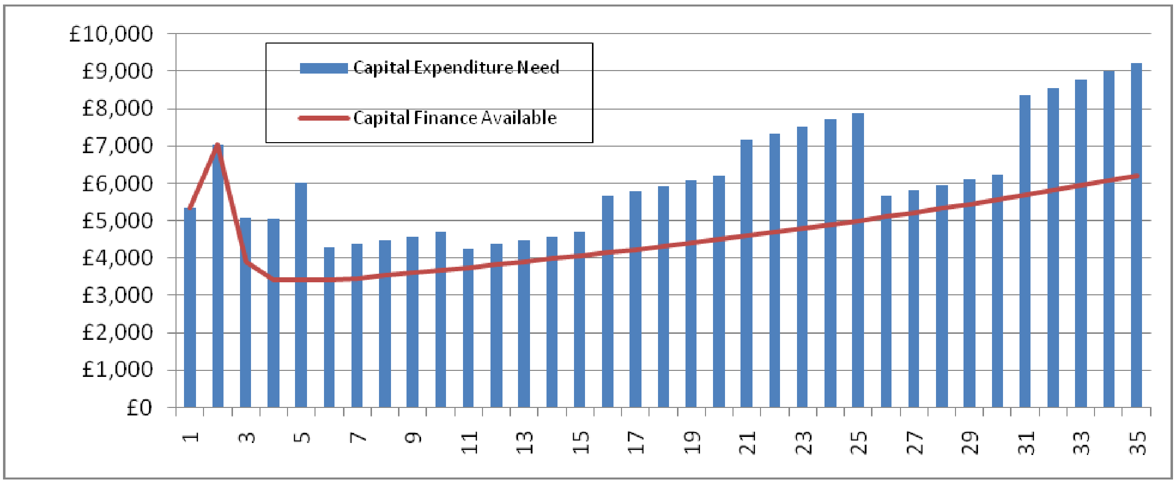
- The benefits of all net rent increases are available to the plan – i.e. surpluses are not captured nationally and redistributed; this is the critical difference between the two futures as rental surpluses are expected to be rise sharply in the future.
- The allocation of uplifts for M&M and major repairs allowances gives additional spending power from day one.
- The interest charge on debt is at a rate lower than the discount factor used in the settlement calculation.
- The opening debt is lower than that identified in the settlement (due to the difference between the CFR measures).

8.2 In an unreformed system, the following are the main comparative outputs:

- Instead of fully funding capital needs, there is a capital shortfall over 30 years estimated at £53.1m out of a total spend of £179m (including inflation). The shortfall starts occurring after 2 years. This is based on the full investment (survey) standard.
- The forecast HRA position is broadly in balance for all years.
- The HRA debt would remain at £21.2m throughout.

***Charts 3a and 3b: In Subsidy revenue and capital profiles £'000***




## 9. Technical issues for Medway

9.1 There are a number of technical issues which are still to be resolved at the national level. These include the treatment of depreciation and the approach to the separation of debt between the General Fund and HRA.

9.2 For Medway, as for others, there is a need to generate a fair depreciation charge for the HRA and this will no longer benefit from a link to the MRA as with the current system. Councils are advised to work through the options in advance of work to be undertaken by CIPFA and the Audit Commission which is expected to be completed later in the year,

9.3 As the council is taking debt on, there are some options in terms of Treasury Management (for example long term fixed rate loans vs variable rate loans). It should be noted that the government has expressed a desire to move to a greater GF/HRA separation of debt and the council should work through the implications carefully.

9.4 Furthermore as the General Fund currently benefits from the average overall CFR, with the HRA taking on debt, it is expected that the Consolidated Rate of Interest (CRI[5]) charged to the General fund could increase. However the consultation suggests that local decisions could be made as to the allocation of debt, if the debt is separated and this should not be to the detriment of the General Fund.

9.5 Revised draft guidance on the operation of the HRA ring fence is included in the prospectus carrying with it some proposals around the treatment of certain types of expenditure. Councils are advised to work through whether this might create movements between the accounts to inform their response.

## 10. Risk and reward

10.1 Moving to a self financing system significantly alters the risk profile in HRA business plans and the council housing service.

10.2 The risks of the current system focus on unpredictability and political intervention in the system (in the widest sense) and on the fact that revenue rental surpluses will leave Medway to other parts of the country.

10.3 New risks are around increased Treasury Management, interest rate fluctuations and the fact that the council will have local responsibility for all spending (revenue and capital).

10.4 A robust risk management strategy is therefore an essential strategic document to support the asset management decisions within the business plan.

## 11. New Build

11.1 Contained within the announcement of this “offer” was a statement that by reducing the level of debt council’s will be taking on they should be able to deliver 10,000 new homes a year. At this stage we are not certain as to whether council’s debt settlements are dependent on the ability for you to deliver new homes within the HRA.

11.2 What could this mean in terms of delivery of new properties? We have interpreted this in two ways assuming build costs of £100k per unit at a high level:

11.3 Example 1
At 6% CRI the debt charge ‘saved’ are £104,000 per annum. Over 5 years this, combined with 50% grant could deliver nearly 10 properties, or 52 over 30 years.

[5] The CRI is the average rate of interest across the Councils debt or retained surpluses.

There will obviously be benefits to the HRA of rental income from these properties, though these will be offset by management, maintenance and improvement costs.

11.4 Example 2

Further accurate modelling can be undertaken within the business plan model once more accurate knowledge around land availability, build costs and property types are known to help inform the response to CLG.

However by assuming build costs of £100,000, grant of 30%, rents of £70 and assumed levels of repairs and maintenance we estimate that 30 properties could be provided for in the first 5 years. This analysis that taking account all income, expenditure and notional interest, the new build schemes would break-even over 30 years. When applying these schemes to the actual HRA Business plan, the debt repayment is extended by one year.

## 12. Summary national issues

12.1 The large majority of authorities, like Medway, will have a potentially viable plan and certainly one which has more resources compared to staying in an unreformed system. In this context, the overwhelming majority of authorities may well be minded to respond positively to the proposals for self financing on the terms that they appear in the prospectus. However, there are some national caveats.

12.2 Given that the prospectus has been issued at a time of considerable change with financial and policy uncertainty, there is the potential for the proposals not to proceed to implementation as planned. Three areas felt to be key are:

- The number and type of authorities that say 'no' to the proposals or are not in a position to respond positively – it is unclear whether CLG have a number in mind that might affect the future for those that do want to proceed.
- The outcome of the General Election and the policy uncertainty that this brings.
- The financial terms of the proposals will be subject to a Spending Review (or equivalent) in the autumn which might affect some of the assumptions.

12.3 Given the direction of travel of the recent political debate, it may be that the methodology within the settlement remains essentially intact but that there is a risk that the financial terms are affected by very close scrutiny by new policy makers.

## 13. Summary of Implications to Medway

13.1 These are the key conclusions from our analysis of the implications to Medway:

- The settlement of £38.269m results in a net debt take-on of £11.567m.
- The uplifts to the allowances to arrive at this figure are generally lower than the region and national averages
- The resulting take-on of debt and withdrawal from the subsidy system result in revenue surpluses to finance the resulting interest charges and facilitate debt repayment
- Medway could repay the debt repayment within 20 years, though various factors could extend this period.
- 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 key reasons for the viability and resilience to changes in assumptions is that plan starts with balances in reserves, interest rates that can outperform those allowed for in the settlement.
- The financial position under self-financing is significantly improved compared to remaining within subsidy.
- The settlement offers the potential for HRA new build.

## 14. Summary of Key Issues for Medway in responding to the prospectus

14.1 These are the key issues Medway should focus upon in their response to the prospectus:

- Questions could be raised in respect of the uplifts to allowances to arrive at the settlement, when making comparisons to neighbouring authorities.
- Clarification needs to be made around the ability to reopen debt and the circumstances that this would be enacted.
- With regard to HRA new build levels, clarification should be sought as to whether local targets might be set and the duration.

Steve Partridge & Simon Smith
ConsultCIH June 2010

## Medway Council

## Council Housing: a real future - response to consultation

***What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business?***

We understand the need to remodel the system at a national level and agree that the use of current subsidy allowances and notional debt is the most appropriate basis for the self-financing calculation.

We welcome the increases to management, maintenance and major repairs allowances built into the offer, recognising current under funding. However we have concerns that the proposed increases for Medway are lower than those of neighbouring authorities.

We accept that valuing the HRA 'business' on a discounted cash flow basis is an equitable way of allocating debt and agree that the use of a 7% NPV rate should generate headroom to repay debt or invest in new build if so desired.

We would welcome assurances about future rent policy as the viability of the offer is dependant on current rent restructuring, which could change significantly over the thirty year period of the model.

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

We understand the desire to cap debt during the current economic climate but question how this approach would seem to conflict with the concepts and principles underlying prudential borrowing.

We welcome the ambition to provide greater transparency in respect of the HRA / General Fund ring fence and would cooperate fully with the TSA or CIPFA in the development of more meaningful financial reporting.

In respect of debt we are of the opinion that it would be appropriate to work towards a full separation of debt albeit that this will be problematic in the short term. This approach would ease the production of a separate HRA balance sheet.

We have some concerns that there are no firm proposals as to the levels of depreciation that could be charged to the HRA but do not think that this would significantly affect the viability of the current offer.

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

The Council accepts that the discount factor used provides additional headroom which could be used to supply new build property. However, any build programme would be dependant on land availability and the continuation of social housing grant.

However, initial modelling has indicated that the offer could facilitate a programme of some 30-40 units, subject to land and grant availability without compromising the long term viability of self-financing. We would not anticipate new build targets to be added to the proposal subsequent to this prospectus.

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

Medway Council welcomes the dismantling of the HRA subsidy system as a matter of principle and favour the alternative proposed.

***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 adopt self-financing in 2011/12? If not, how much time do you think is required for implementation?***

In principle Medway Council would be in favour of self financing from 2011/12 on the basis of the current ‘offer’ and the associated debt settlement. However this would be dependant on further detail / satisfactory assurances around:-

- future national rent policy
- legal and consultative requirements prior to transfer
- circumstances which may lead to a re-opening of the debt settlement

***If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?***

Discussed above