SLOUGH BOROUGH COUNCIL

REPORT TO: Overview & Scrutiny Committee **DATE:** 13th September 2011

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PART I
FOR COMMENT AND CONSIDERATION

HOUSING REVENUE ACCOUNT – PREPARATIONS FOR SELF FINANCING

1 Purpose of Report

This report advises members of the Government's proposals regarding changes to the national HRA subsidy arrangements, the system by which all local authority operated housing services are funded and details the preparations that are underway to be ready for the changes when they are introduced in April 2012.

2 Recommendation(s)/Proposed Action

The Committee is requested to note and comment on the proposals for HRA 'self financing and the council's preparations to respond accordingly.

3 Community Strategy Priorities–

- **Celebrating Diversity, Enabling inclusion**
- **Adding years to Life and Life to years**
- **Being Safe, Feeling Safe**
- **A Cleaner, Greener place to live, Work and Play**
- **Prosperity for All**

By adopting a prudent medium term financial strategy for the Housing Revenue Account the Council will create a business plan which sustains council housing for the foreseeable future. By reducing expenditure, delivering savings through service efficiencies and reinvesting in areas of concern for tenants, residents and members alike, the Council's housing services can contribute to each of the community strategy priorities.

4 Other Implications

(a) Financial

Agreed actions to provide a revised 30 year business plan for the Housing Revenue Account including the Capital programme are in progress.

All Housing stock information has been refreshed and agreed to the Housing system (Capita) and the Fixed Asset Register in finance.

First stage information for Self Financing was provided to the Department of Communities and Local Government in August 2011 and this highlighted the latest

projections for all dwellings in management. Approved demolitions associated with the Britwell Regeneration project have been included in this information to ensure the new borrowing requirement (based on rent generated) is reduced accordingly.

This borrowing is estimated to be in the region of £125 million to £127 million which will be confirmed when the base data submission is audited and agreed. A revised borrowing limit for the HRA will also be agreed and this is likely to be in the region of £166 million to £168 million

(b) Risk Management

The Government proposals will be backed up in statute and as such there is no discretion whether to opt in or out of the self financing project. Clearly taking on an additional debt is not without significant risk but this will be mitigated by the following actions

- Updating the stock condition survey to accurately assess future repairing and improvement obligations
- Re-basing all operational budgets within the service and ensuring that we know the accurate cost of operating the service.
- Reformatting a realistic 30 year HRA business plan.
- Engaging capital finance and treasury advisors to secure the funding on the most advantageous interest rate terms.

(c) Human Rights Act and Other Legal Implications

There are no legal or human rights implications to this report.

(d) Race Relations Amendments Act Implications

This report relates to all tenants and leaseholders occupying current or former council homes. Rent fees and charges are set in accordance with government guidance and relate closely to each persons individual circumstances and usage. Where individuals are of limited means benefit advice, debt and welfare counselling is available and accordingly the proposal will not disproportionately affect any section of the community as defined under the above legislation.

5 Supporting Information

Background

5.1 In February 2010 the then Government released proposals to reform the Housing Revenue Account (HRA) subsidy system by replacing a complex and inefficient method of collection and redistribution of council house rents with a new arrangement through which each housing authority would be given greater autonomy and 'self determination' in terms of funding and operating its housing service.

5.2 Under the current system, major financial decisions about council housing management are made by central Government through the annual subsidy determination which sets out the level of any rent increase and the amount of funds to be made available both to operate the service and to invest in the bricks and mortar. This has generally made it difficult for councils to plan for the long term and there is comparatively little control in the hands of councils about what and how services are delivered or how they are linked directly to local needs or the wishes of tenants.

5.3 An example of this is that as recently as 2008, average rents increased by 6.22% while funding to operate the service actually reduced in real terms, compared to 2009 when rents increased by 3.1% but funding increased by 6%. As this information is not released until December each year it then gives managers less than 6 weeks to consult, budget and plan for delivering services in the coming year.

5.4 Fortunately, this Government has carried forward the commitment 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 and councils can make best use of their housing resources.

The present system

5.5 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. In the case of Slough this has meant that in a typical year, with an average rent of £80 per week, as much as £20 per week or £1,150 per property, per year has left the borough and returned to government coffers. As the size of our stock fluctuates and as mentioned above, the calculation varies annually this means that anything between £6,000,000 and £7,500,000 is removed from the rental income before officers can plan how to fund and operate the service. To complicate this further, in recent years the funding hasn't even remained within the national housing sector and the surplus of almost one billion pounds has been used to fund other areas of expenditure; this is increasingly the case as costs have been assumed to be fixed while rental income is assumed to increase above inflation each year.

The proposed system

5.6 The objectives of self-financing are to make the system more flexible and fair, giving councils the power to make the best use of their housing stock, in a way which best meets the needs of individual households in their local area and to enable tenants and local taxpayers to hold their landlord to account for the cost and quality of their housing.

5.7 The new Localism Bill contains provisions that will bring in the new self-financing system and abolish the current annual system from April 2012. Self-financing will affect the housing revenue account of the 171 councils who have council housing stock, but will not impact on their general finances funding other services, or on other non stock owning councils or housing associations.

5.8 Implementing self-financing will involve a reallocation of the national housing debt based upon 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, the council will pay the difference to central government, where it is lower, central government will pay the difference to the council. In the case of Slough, it is the former and the value of our stock and business is significantly greater than the current debt and the Council will be asked to take on £125 million to £127 million additional debt. For simplicity this can be thought of as re-mortgaging the stock and paying the released funds over to central government. So, in return for keeping all the future rent that we

collect, the service will have to budget to maintain the 'monthly mortgage repayments' until the debt is entirely paid off in something like 15 to 20 years.

5.9 The Government in announcing the proposals has confirmed that councils will only be asked to take on extra debt to the level that their council housing will generate sufficient income to meet it after costs are met. The debt will not impact on what is delivered to tenants and leaseholders

5.10 In order to ensure that they do not get into any more debt than can be afforded, at least initially, councils will be given a limit to how much more money they can borrow (a borrowing cap).

5.11 The Treasury have announced that the payment to Government of 75 per cent of the net receipt from Right-to-buy sales will continue and that council's will still keep 25 per cent of the receipt. Although it could be argued that this still represents money that is leaking from the system, the Department for Communities and Local Government has reduced the level of debt that local authorities will take on under self-financing as compensation for the likely loss of rental income from Right to buy sales (based on historic sales patterns).

5.12 Tenants and leaseholders will benefit because self-financing provides the opportunity for business planning to be guided by local priorities, rather than central government rules. There will be direct benefits because councils will have more money to spend on council houses and the business planning process should provide a clear connection between the rents charged locally and the service provided. Councils will be required to publish annual, transparent information on charges and costs.

How the borrowing is financed

5.13 As this proposal still represents a fairly new concept, the finance markets are only now beginning to publicise and devise new methods of borrowing such significant sums of money. There is of course the traditional source of funding, the Public Works Loans Board however the Council's treasury advisers will continue to investigate the benefits of a mixed portfolio of short, medium and long term borrowing which can deliver savings in the interest rate charged. While the savings may only be a matter of 0.1%, over a 25 year funding cycle this could reduce interest payments by up to £16,000,000. Members will therefore see just how crucial it will be to secure accurate treasury and investment advice to ensure that tenants rent is spent on providing a service rather than on high interest payments.

Work undertaken in preparation for self financing

5.14 To ensure that the service and the borrowing is sustainable over a 30 year period the council will need to prepare an entirely new HRA business plan within which all the relevant assumptions can be modelled. This would include, rental income annual rental increases, void loss, operational costs, reduction in stock through Right to Buy and ongoing cyclical maintenance costs.

5.15 It is coincidental but fortunate that we have just completed a full restructure of the housing management service and consequently can accurately project the actual operating costs in terms of staffing, resources and accommodation costs and of course have already improved efficiency by reducing expenditure in the region of £400,000 per year by returning to in-house service provision.

5.16 As we are now approaching the end of the Decent Homes programme a significant level of capital investment has already be spent on upgrading our housing stock but additionally this has given the council a detailed and accurate knowledge of the stock condition and by using our advisors from Savills we will be able to make accurate projections over the short, medium and longer term to project the level of investment needed to maintain the stock at its newly acquired higher standard.

5.17 As these preparations continue over the next quarter, further reports will be brought to both Scrutiny and cabinet to reassure members that the necessary plans are in plan to ensure the future viability of the housing service and the sustainability of the HRA Business Plan.

HRA Ring-fence

5.18 The Housing Revenue Account ring-fence ensures that money raised from tenants' rents is not used to cross-subsidise the General Fund and similarly that council tax is not used to cross-subsidise council housing. This ring-fence will continue after the introduction of self financing

6 Comments of Other Committees

A version of this report will be presented to the Housing Customer Senate to begin the communication and engagement strategy with tenants and leaseholders and an abridged and simplified version will be incorporated into the bi-monthly Housing Newsletter to reassure tenants and leaseholders that the proposed changes do not affect any of their statutory rights as council tenants.

7 Conclusion

Changes to the way that Government funds council housing will, for the first time allow the service to plan over the longer period rather than on a year by year basis. This in itself will produce economies and efficiencies but the extra transparency and linking between the rent collected and the service provided will ensure that tenants have greater ability to hold councils to account for the management of the stock. Taking on an additional £100,000,000+ of debt is daunting, however with sound management and business planning these proposals will herald a brighter future for tenants, leaseholders, councils and their housing stock