

Tenant Services Management Board – 14th February 2011

Report on the Paper “Implementing self financing for council housing” published by Communities and Local Government 1 February 2011

1. Introduction

1.1 Scope and status of the Publication

The purpose of the document was to set out the rationale, methodology, financial parameters and outlines of policies that will support the implementation of the devolved system building on the proposals set out in the March 2010 consultation paper.

2. Objectives

The objectives of these reforms which will be implemented in April 2012 are:

2.1 To give local authorities the resources, incentives and flexibility they need to manage their own housing stock.

2.2 To have transparency in order to give tenants clear information as to how and where the rent collected by the landlord is spent.

2.3 The reforms are based on individual local authority's housing business in order to give a sustainable self-financing settlement. The reforms are not redistributing a fixed amount of debt between local authorities but will abolish Housing Revenue Account Subsidy.

2.4 All the reforms only have implications to the Housing Revenue Account (HRA) and do not impact on the General Fund.

3. The self-financing settlement

3.1 Self financing will put all authorities in the position where they are able to support their own stock from their own income. In order to do this a level of debt has been agreed for each authority based on the valuation of its stock. If this valuation is higher than that shown at present in the HRA subsidy as in the case of Taunton Deane Borough Council (TDBC) a loan will be required to pay the government the difference. In TDBC's case the current estimated self-financing settlement payment amounts to £87.2m (this figure may well change before the final settlement is announced in January 2012).

3.2 Valuations are based on income and need for the next 30 years with assumptions relating to income following the Government's rent policy with expenditure for maintaining and managing the stock coming from evidence gathered in 2009 and 2010.

3.3 The key components to self financing are:-

3.3.1 Income – It is only rental income that is included within the valuation as service charges are not included within the subsidy system.

It is assumed that local authorities will follow national social rent policy with the aim that the rent charged by local authorities will be in line with that charged by housing associations, this is known as convergence. It is anticipated that convergence will be reached by 2015/2016; from then on rent increases will be set by Retail Prices Index + 0.5 per cent per annum. Housing Benefit will still be paid based on Limit Rent until convergence although with introduction of Universal Credit operation of the limit rent will need to be considered by the Government.

3.3.2 Expenditure - The spending needs have been recalculated giving Local Authorities more money to spend on maintaining managing and repairing stock. For the first time disabled adaptations have been included within the calculation providing additional funding as the needs of tenants change.

3.4 Other Factors - With additional debt being taken there will be further responsibilities for Treasury Management so funding for this has been included based on the amount of debt.

3.4.1 Demolitions - After the consultation stage it was decided that if any firm plans to demolish properties within the next few years were in place then these would be excluded.

Communities and Local Government (CLG) is also prepared to take account of future demolitions providing that the councils is able to provide evidence that firm plans have already been developed and that a property specific consultation with affected tenants has been undertaken or is under way by September 2011. Although data on expected demolitions will be collected and audited via the Base Data any council submitting supporting evidence must contact CLG by the end of March 2011.

3.4.2 Right to Buy Receipts - There will no change relating to Right to Buy receipts so 75% of receipts will be paid over to the Government for the period of the spending review (next four years).

4. Settlement

As mentioned previously those authorities with a higher valuation compared to that shown in the Housing Revenue Subsidy will need to pay the Government but as this is for most authorities higher than the actual debt they will be making smaller payments.

5. Borrowing

Whilst self financing gives councils a large income stream and the prudential borrowing rules ensure that any borrowing is affordable the Government is to impose limits on borrowing for council housing in each local authority. The limit of their borrowings will be the level of their self financing valuation. For TDBC the Self Financing Valuation is £117.8m and the self financing settlement payment £87.2m this leaves head room of £30.6m. TDBC already has borrowings of £14.51m in the HRA so the available borrowing after self financing would be £16.09m.

The paper encourages local authorities to seek their own financial advice early as possible to ensure a smooth transaction to self financing. It also stresses that in order to facilitate the successful implementation of self-financing, local authorities are encouraged to get in touch with the Public Works Loan Board now if there is a possibility they will be seeking additional loans from them in order to meet their settlement payment.

6. Ensuring an accurate valuation

It is imperative that accurate data relating to stock numbers is provided when completing the Base Data return which will be audited in September 2011. In addition further data will be required for the self financing settlement calculation these will be notified in June 2011.

7. Housing Revenue Account

The statutory ring-fence on the Housing Revenue Account will NOT be removed. CIPFA has produced draft guidance on an accounting framework for council housing under self-financing.

8. Conclusion

Self-financing will happen and in preparation TDBC will be engaging Robin Tebbutt from Housing Quality Network to work alongside the finance team planning the transition. As things progress updates will be issued.

For quick reference key dates are attached in appendix 1.

Appendix 1

Key Dates

Date	Action
Now	Get in touch with Public Works Loan Board to discuss loans for additional debt.
March 2011	Stakeholder events with local authorities. Local authorities planning to submit evidence on demolitions to contact CLG.
June 2011	Forms sent out to collect data on stock
August 2011	Data for self-financing provided to CLG
August 2011 onwards	Data verified
November 2011	Consultation on self-financing determinations
December 2011	CLG and PWLB issue joint letter to each local authority setting out arrangements for land and debt redemption
January 2012	Final self-financing determination published. Local authorities to tell Public Works Loan Board how much they need to borrow.
April 2012	Transactions between local authorities and CLG to enable the start of self-financing.
March 2013	Cut-off for final payments to end subsidy system