DRAFT covering letter

Dear…

Please find enclosed the consultation response to the proposed reform of the HRA. This response is a personal response in my role as Portfolio Holder for Housing. The Council have yet to debate the issue in full but will be asked to consider their position in the Council meeting scheduled for 22 July 2010. I will write to you again if there is any update required to our position after that meeting.

The attached consultation response has been drafted by officers of the Council and also reflects a consultation exercise with the Tenant Participation Group.

While I support in principle the move to a self-financing system for council housing, I strongly oppose the imposition of such a significant debt on the Council as the price to be paid for that settlement. The response to the individual consultation questions sets out my reasons for this concern.

Yours…

HRA Reform Consultation – response from the Portfolio Holder for Housing South Cambridgeshire District Council.

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?**

1.1 The Council welcomes the proposal to unpool rents and service charges and create greater transparency.

1.2 The proposed uplift to the Management and Maintenance (M&M) allowance of 0.1% is disappointing. The impact of this on calculating the potential for debt transfer is compounded by the use of a notional rental income figure which is higher than that actually charged by the Council. This proposed uplift does not take account of the particular challenges faced by this Council with regard to providing services to a dispersed rural housing stock or the older age profile of our tenants.

1.3 Whilst the proposed uplift to the Major Repairs Allowance (MRA) of 50.4% is welcome, the low starting base of the MRA for South Cambridgeshire means that this figure does not reflect the true cost of maintaining our homes. With the uplift the MRA would be approximately £5M pa set against a spending need of £12M pa identified by the most recent stock condition survey.

1.4 Whilst the Council is still on course to meet the Decent Homes Standard before the end of 2010, there remains a backlog of essential works totaling £16M.

1.5 The Council is particularly concerned about the exclusion of disabled adaptations from the proposed financial model. South Cambridgeshire has a particularly high demand for disabled adaptations and in the STATUS tenant survey as well as a more recent survey of tenants it is reported that 40 - 50% of all households contain a member with a disability. The exclusion of disabled adaptations and spending on environmental works from the Government's calculations provides a false picture of the resources available to meet debt repayments.

1.6 By basing the reform proposal on the notional assumptions used for the subsidy regime the disadvantages for South Cambridgeshire have been carried forward. The Council accepts the need for a formula that properly reflects the differences in stock condition and management challenges across the country. It is felt however that these reasonable underlying assumptions produce an extreme outcome for South Cambridgeshire and that a limit to the percentage of total income that is allocated to debt should be set.

1.7 The Council welcomes the proposal to cease pooling of capital receipts. The Council has lost £9.5m over the past 6 years of house sale receipts to Government, and as a consequence has not been able to spend that money on maintaining and improving its housing stock.

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

2.1 The proposal that local authorities maintain a separate balance sheet clearly setting out assets and liabilities is accepted as sensible accounting practice.

2.2 The rationale for a separate loan pool for housing is understood but the Council has concerns that this may limit its ability to use its finances flexibly to achieve overall best value for the Council. The Council seeks the power to invest, on commercial terms, its general fund investment pool in the HRA so minimising transaction costs and reducing credit risk overall.

2.3 The Council welcomes the flexibility to balance investment needs against debt reduction. With the high level of the proposed opening debt, this flexibility is essential to ensure the viability of the HRA in the first few years of a self-financing regime.

2.4 The proposed cap on borrowing at the opening self-financing level would not be problematic for the Council. It should be noted, however, that in the modelled debt curve provided with the prospectus, South Cambridgeshire is shown as having an increasing debt over the first four years as projected income is insufficient to meet the initial interest rate charges.

2.5 The Council has tested the proposed model using a range of assumptions and our actual spending figures. This shows that provided there is no requirement to repay any principal in the first few years and interest rates remain at the current low levels, then the HRA should be sustainable and there should be sufficient funding to maintain the decent homes standard. However, if interest rates were higher (say 6.5%) then, for the first few years, investment would fall below the level that the latest stock condition information shows is required.

2.6 Whilst the spend profile pattern at South Cambridgeshire District Council does follow that identified by the BRE, there is a significant discrepancy between the investment assumptions contained within notional model (around £4.6 M pa after the uplift) and the investment figures identified by the Council’s stock condition survey (around £12M pa).

2.7 It is recognised that the Government needs to retain control over public sector borrowing and the Council accepts the need for the continued use of ‘Item 8 determinations’ to achieve this.

2.8 The Council’s proposed business plan for stock transfer put to the tenants in June 2009 provided a capital sum to the Council and allowed a fully funded capital programme of around £12m per annum, a 15% uplift on revenue spending, and a peak debt of £80M. The self-financing proposal provides tenants with a considerably less favourable option. The proposed requirement to meet the self-financing sum of £188M if stock transfer were undertaken ahead of the scheme coming into operation would render a transfer of the Council’s homes unviable.

2.9 The greater clarity offered on accounting for HRA and General Fund activity is welcome. The Council believes that it already meets this level of demarcation.

2.10 The Council accepts that the establishment of a self-financing system would mean the end of the ‘safety net’ of the HRA subsidy system. It is also appropriate that the housing regulator, the Tenant Services Authority (TSA), should play an important role in ensuring that landlords do not fail in their obligations to tenants.

2.11 Housing associations benefit from the TSA’s regulatory framework and also have a range of options open to them such as mergers, to protect their service delivery obligations. These safeguards and options will not be in place for local authorities yet the HRA ring fence means that they are essentially stand alone businesses. It is not clear at present how the role of the Audit Commission or Government Office can be extended to incorporate these dimensions. If the sustainability of a self-funding regime is to be protected these issues will need to be addressed and the Council would welcome some clarification of these issues.

2.12 The Council welcomes the announcement that future guidance will be forthcoming on the issue of leaseholder sinking funds.

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

3.1 The lack of headroom in the early years and the potential for an increasing backlog of investment spending will limit the number of new homes that could be completed in the first 5 years. New supply is likely to occur in small incremental additions that arise out of remodelling opportunities.

3.2 The Council welcomes the opportunity that a 7% discount rate in the model provides to create headroom for the construction of new council housing. Later in the 30 year programme it may be possible to produce some new homes and over 30 years this could support up to 300 new homes, mainly in years 15 to 30 of the plan but with the possibility of two or three homes a year being built after year 5.

3.3 The local land supply is however very limited. The Council currently makes good use of S106 opportunities and rural exception sites to produce around 300 new affordable homes each year in partnership with local housing associations. It is not immediately obvious how the Council could improve upon this performance or offer better value for money by building homes itself particularly if this were reliant upon Homes & Communities Agency (HCA) grant funding.

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

4.1 The Council supports in principle the move to a self-financing system.

4.2 While this Council supports in principle the move to a self-financing system for council housing, it strongly opposes the imposition of such a significant debt on the Council as the price to be paid for that settlement. This Council paid off its debt in the early 1990’s through the application of prudent financial planning and management and since that time it has been subject to capital receipts pooling which has reduced considerably its ability to fund the required capital programme to maintain and improve its housing stock. In taking over half of tenants' rents, the housing subsidy system has also had the effect of starving the Council’s revenue funded management and maintenance services. The Council has brought this unfair taxation of its tenants to the Government’s attention on a number of occasions.

4.3 In order to offer tenants an alternative means of securing future investment in the Council’s housing stock, the Council made a stock transfer offer and this was rejected, meaning that self financing offers the only prospect at this time of increasing the resources available for the Council’s housing stock.

4.4 Given the Council’s experience above, it is concerned that future nationally determined changes may result in the self financing rules being amended at a later date and changing the basis upon which the Council is taking on self financing responsibilities.

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 more time do you think is required to prepare for implementation?

5.1 The Council recognises that the self financing proposal is preferable in the long term to the current HRA subsidy regime. It is, however, reluctant to proceed to an early voluntary implementation.

5.2 Self financing could be implemented in time for 2011/12.

6. If you favour self financing but do not wish to proceed on the basis of the Proposals in this document, what are the reasons?

6.1 For the reasons given in this consultation response the Council is concerned that the opening level of debt proposed has not fully taken into account all of the spending needs of the Council.

6.2 The scale of the proposed opening debt would leave the Council very vulnerable to fluctuations in key variables such as interest rates and inflation.

6.3 The Council would wish to have some certainty from the CLG on the interest rates to be applied. The time period between the Council agreeing to the implementation of self financing and the date of the Government’s confirmation would pose a critical period of exposure to interest rate movements. The Council, therefore, seeks a mechanism that provides some certainty of the rates to be applied on the settlement date.