

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Housing Portfolio Holder

17 November 2010

AUTHOR/S: Executive Director of Operational Services

UPDATE ON HOUSING REVENUE ACCOUNT (HRA) REFORM

Purpose

1. To update the Portfolio Holder on the progress of the reform proposals for the HRA.
2. This is a not a key decision.

Recommendation

3. The Housing Portfolio Holder is asked to note this report

Background

4. The Government began the review of council housing finance in 2007. The first phase of the consultation was reported to the Portfolio Holder for Housing on 16/9/09 and the Cabinet on 8/10/09.
5. The Government's reform proposals seek to replace the current HRA subsidy system with a new self-financing regime. In 2010/11 the HRA subsidy system requires the Council to pay back to central Government £11.8m; over half the rent collected from tenants in the year.
6. The Government is proposing that the removal of the HRA subsidy system and the establishment of a new self financing regime can be achieved by reallocating national housing debt between all stock owning local authorities.
7. It was reported to the Cabinet in October 2009 that the consultation document at that time had indicated that South Cambridgeshire District Council may be required to take on a debt of around £30,000 per dwelling amounting to around £164m in total.
8. The Cabinet agreed the Council's response to the consultation and this was submitted to the Department for Communities and Local Government (CLG) in October 2009.
9. In March 2010, the CLG has responded to the first consultation phase with a consultation prospectus, which set out in more detail the settlement for each local authority and is seeking the views of all local authorities on whether they wish to proceed with the settlement. The opening debt for the Council was calculated at £197m.
10. The Housing Portfolio Holder issued a detailed response to the CLG to meet the July deadline, highlighting the concerns of the Council particularly with regard to the treatment of disabled adaptations.
11. The consultation was debated in full Council in September 2010.

Considerations

12. The Comprehensive Spending Review announcement in October has confirmed that the HRA reform will go ahead and that the required legislation would form part of the Localism Bill to be launched in November 2010 with Royal Assent anticipated in November 2011. A key role for the CLG will be “reforming the council house finance system so local authorities have greater control over their own finances and can reinvest to meet local housing need.”
13. There is likely to be some further consultation on detailed aspects of the reform proposal over the next few months. The announcement of the detailed debt settlement for each local authority is expected in January 2011.
14. In a change from the previous consultation it was also announced that the reforms “will build in the resources needed to carry out future disabled adaptations required in the council housing stock.”
15. In a further change to the previous consultation, it was also announced that the pooling for Right To Buy receipts at 75% would continue until 2015 with the money now going to the Treasury rather than the CLG.
16. Whatever the final form of the settlement it will now become critical to develop a robust 30 year business plan for housing.

Options

17. Some key issues will need to be addressed as part of the anticipated consultation paper, in particular:
 - a. Disabled adaptations - the Council can help the CLG to address the needs to be met by preparing accurate data on the spend required locally to meet demand.
 - b. Disposal/Right To Buy (RTB) - the wording of the CSR report suggest that the retention of 75% capital receipts will be limited to the RTB receipts and will not therefore affect the retention of receipts from other sales. This needs to be clarified in the consultation particularly with regard to the impact it has for the Council’s equity share properties. In addition, the CIH have described the suggested retention of receipts pooling as “inconsistent [with the principles of self funding] and technically unsustainable. With debt being allocated per property the requirement to pool the receipts would not allow the debt associated with that property to be paid off placing a burden on the HRA.
 - c. The Public Works Loan Board (PWLB) interest rates have been increased thus increasing the cost of undertaking the borrowing. The Council will need to re run its modelling of the sustainability of the debt settlement to take account of this and to explore alternative sources of funding.
 - d. The total amount of national debt to be paid of has increased since the first consultation phase. The actual housing debt stands at around £16b but the CLG is now working on a figure of around £26b and may go higher. This will increase the total debt to be distributed and may lead to an increased opening debt for the Council.

- e. There may be revisions made to the anticipated rental income for councils with new assumptions about higher rents in the future. This will also have the effect of increasing the level of the opening debt.
18. There are also a number of technical accounting issues to resolve. For example, it has been proposed that depreciation will need to be calculated and deducted from the HRA. At present the Major Repairs Allowance (MRA) stands in as a proxy for depreciation. If the new depreciation figure is higher than the MRA this will place a significant strain on the HRA. If, for example, the depreciation figure were to reflect the true cost of maintaining Council owned homes in this district it would add a cost of around £7m pa and render the HRA immediately unviable. CIPFA are working on establishing an approach to depreciation that prevents these undesired outcomes.

Implications

19. Financial	The proposed HRA reform has significant implications for the Council's finances with the potential requirement to take on a debt of around £200m.
Legal	The HRA reforms are to form part of the Localism Bill expected to be passed into law in November 2011.
Staffing	A review of staffing will be required to ensure that the Council has the capacity to manage a complex portfolio of debt.
Risk Management	A risk matrix will be drafted to accompany the implementation project.
Equality and Diversity	No
Equality Impact Assessment completed	Not applicable
Climate Change	None

Consultations

20. None

Effect on Strategic Aims

21. The affordable housing programme is one of the key roles of the Council

Conclusions / Summary

22. The implications of the HRA review for the Council are far reaching. The detailed proposals are now expected in January 2011. A service plan project to prepare for the implementation of these reforms will be included within the new Affordable Homes Service Plan for 2011/12 –2013/14.

Background Papers: the following background papers were used in the preparation of this report: Housing Portfolio Holder Report – 19th May 2010 Housing Revenue Account (HRA) Reform Consultation

Contact Officer: Stephen Hills – Corporate Manager Affordable Homes
Telephone: (01954) 713412