

Item No.	Classification: Open	Date: 15 June 2010	Meeting Name: Cabinet
Report title:		Housing Revenue Account Reform – ‘Council Housing – A Real Future’ Consultation Paper – Addendum to Main Report	
Ward(s) or groups affected:		All	
From:		Finance Director	

BACKGROUND INFORMATION

1. Since the publication of the main report on the latest stage of the HRA Reform process for the Cabinet meeting on 15 June 2010, several matters have progressed which require summary in this addendum. At the outset it is also useful for reference purposes to set out the immediate and specific concerns with the proposed Settlement Offer for Southwark.

PARTICULAR CONCERNS (ref. Paragraph 13)

2. The current housing subsidy system is generally considered by most commentators to be no longer “*fit for purpose*”, whereas a move to a ‘Self-Financing’ system represents a broadly viable alternative for local authority social housing providers across the sector, including Southwark, subject to certain caveats. Those areas of immediate and greatest concern are set out below, and representations have already been made to Communities and Local Government (CLG) prior to the formal response deadline of 6 July.
 - **Consolidated Rate of interest (CRI)** – Southwark would receive a substantial debt reduction of £283.8m, which in the absence of detailed information is assumed will be achieved through a top-sliced approach, thereby preserving our existing CRI around 7%, which is higher than the Offer assumes. In order to mitigate this we are seeking a more targeted approach to high value debt which would reduce our CRI, generating revenue savings through lower interest costs from the outset.
 - **Rent Levels** – convergence is assumed to be 2015/16, but Southwark rents will not meet this timetable as we are starting from a historically low base. This represents a real mismatch between our actual rental stream and the assumed rental stream within the business plan and needs to be addressed.
 - **Rent Caps** – the application of affordability caps on annual rent increases currently affects around 80% of our rents, with the cost being reimbursed under existing arrangements. The proposal to ignore this in future is particularly detrimental for us and means a real loss of income (albeit the effect of this gradually falls out over time). It would be possible to mitigate this through transitional funding.

- **Stock Numbers** – the Offer is predicated on stock numbers at a given point (April 2009). This is some 500 greater than the actual position currently and overstates our rental stream. This will be compounded over time as our stock reduces through major regeneration programmes, and whilst some savings accrue as stock reduces, it does not fully compensate for the rental loss and this needs to be recognised within the business plan model.
- **Decent Homes** – the Prospectus identifies a requirement of £3.2bn to meet its policy objective, for both ALMOs and retained stock authorities. However, there is no indication on the methodology for determining allocations, nor the mechanism for accessing those funds within the consultation paper.
- **Housing Revenue Account impact** – as it stands the proposals would have a negative revenue effect initially as the loss in subsidy foregone is greater than the reduction in debt charges. However, it is worth noting that under the existing arrangements, the level of subsidy receivable is in sharp decline and will fall out completely within the next 6 to 10 years depending on modelling assumptions.

MINISTERIAL STATEMENT & SPENDING REVIEW (ref. Paragraph 6)

3. On Tuesday 8 June 2010, the Housing Minister within the new Coalition Government, Grant Shapps MP, issued the first specific statement on the Self-Financing Offer; indicating that the Government intended to allow the consultation period to run its course, and to analyse the responses generated before considering whether the Offer should be taken forward in its current form. His full statement is reproduced within the appendix.
4. The Coalition Government has also embarked upon the process of re-examining public finances, which will include a Budget Statement later this month, and a Spending Review to report in the autumn. As part of the framework behind the Spending Review, the HRA Reform process is identified as one of several currently underway that, if complete, will inform the Spending Review. If not completed, HM Treasury intend to factor in any initial conclusions from the various reviews.

CONSULTATION OUTCOMES (ref. Paragraph 75)

Tenant Council

5. Tenant Council met on Monday 7 June 2010 to consider a draft version of the main report to Cabinet. After a full discussion of the issues surrounding the HRA reform process, they passed a unanimous resolution worded as follows:

Tenant Council does not consider the current offer to be in the best interests of tenants in the borough, and requests that alternative proposals be considered and further options requested from Communities and Local Government.

Home Owners Council

6. Home Owners Council met on Wednesday 9 June 2010, also to consider the draft version of the main report to Cabinet. They agreed that the submission made by the Chair to the previous round of consultation in October 2009 still held true, and asked that his points be drawn to Cabinet's attention:

The Southwark Home Owners' Council for leaseholders in Southwark has had an opportunity to discuss the CLG consultation paper for HRA Reform and wishes to offer some preliminary comments. We felt it difficult to balance arguments as the one matter which is apparent that change is proposed but the nature of it and the pace of introduction were not clear.

However we identified some areas which we would like explored as follows:

- 1. The Borough has a mountain of historical debt of £600m approx and the high annual cost of servicing it (6-7 %). Where will the funds come from to cope with this – the HRA?*
- 2. The potential of a cash injection but where would this come from given the high amount of public debt which it is anticipated will continue to increase?*
- 3. How would the costs repair/replacement of aged buildings and equipment be covered?*
- 4. The structure of the HRA is shrouded in mystery. Tenants and leaseholder should have more access to detailed budgets, costings and spend so they can play a part in developing viable policies.*
- 5. Sinking funds are difficult to justify given the vagaries of government funding so it might allow councils to harbour more leaseholder funds if grants or local funding is limited which would cause unfairness. There will be legal problems over leases if it is attempted to enforce contributions. Who would manage such funds and would there be a charge incurred?*
- 6. Voluntary contributions to deposit accounts should be encouraged so leaseholders can build up funds to deal with any major works costs perhaps with a tax concession for money spent in this way.*

Background Papers	Held At	Contact
Report to Cabinet on ' Council Housing – A Real Future '	160 Tooley Street	Shaun Regan x57771
Report to Tenant Council on 7 June 2010 consulting on the above	As above	As above
Report to Home Owners Council on 9 June 2010 consulting on the above	As above	As above
Statement from Grant Shapps MP on 8 June 2010, reported on CLG website	As above	As above

APPENDICES

No.	Title
Appendix F	Ministerial Statement

AUDIT TRAIL

Lead Officer	Duncan Whitfield – Finance Director	
Report Author	Ian Young – Head of Housing Finance	
Version	Final	
Dated	10 June 2010	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS/DIRECTORS/CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law and Governance	No	No
Finance Director	n/a	n/a
Deputy Leader and Cabinet Member for Housing	No	No
Date final report sent to Constitutional Support Services		10 June 2010

N.B. both the Deputy Leader and Cabinet Member for Housing, and the Strategic Director of Communities, Law and Governance were consulted in the drafting of the main report to which this is an addendum.

MINISTERIAL STATEMENT

Statement of Grant Shapps MP, Minister for Housing and Local Government on
8 June 2010

"The council house finance system is a mess. For far too many years this unfair system has tied the hands of councils, stopping them from best meeting the housing needs of the communities they serve.

The 4 million tenants living in council housing deserve better. That's why this Coalition Government is committed to genuine action to overhaul the system. As a starting point I can today confirm that I am continuing the consultation on dismantling the current system that is already underway.

I want to see a new devolved system that puts councils firmly in control and gives them the financial freedom they need to make the best long-term decisions about their housing. But it is important I hear from councils and other experts themselves that the current proposal genuinely allows them to do this. And in these tough economic times I need to be convinced this approach offers the best possible value for money.

So I encourage everyone to use the remaining four weeks of the consultation to send me their views. Once I have considered these I will announce the next steps to return power and money to councils and communities themselves."

Source: www.communities.gov.uk

