NATIONAL HOUSING REVENUE ACCOUNT (HRA) REVIEW

Cabinet Member	Councillor Philip Corthorne
Cabinet Portfolio	Social Services, Health and Housing
Officer Contact	Maqsood Sheikh, Adult Social Care, Health and Housing Paul Whaymand, Finance and Resources
Papers with report	Appendices 1-4

HEADLINE INFORMATION

Purpose of report	The purpose of this report is to provide a briefing on the government's proposed reform of the HRA (Housing Revenue Account) financing regime as set out in the document, *Council housing: a real future*. It briefs Members on the main financial benefit that is potentially available to the Council mainly for the HRA, which will result in increased long term resources in exchange for taking on additional debt to pay for opting out of the current system. The proposed reform would result in retaining 100% of locally raised rents instead of giving up a significant proportion to the government and other councils. The report also sets out a number of other items related to the HRA including changes in the rules for capital receipts and the HRA ring fence that form part of the proposed deal along with the potential impact on the council's General Fund (GF).
Contribution to our plans and strategies	TBC
Financial Cost	This is a long term initiative that will change the basis of the funding of the HRA and there will be no costs for the General Fund.
Relevant Policy Overview Committee	Social Services, Health and Housing
Ward(s) affected	All

RECOMMENDATIONS

That Cabinet:

1. **Notes that the proposals are subject to confirmation and decisions in principle can be revoked if the eventual self financing offer is not in line with expectations or if circumstances change sufficiently to alter the current view of the proposals.**

2. **Taking this into account and on the basis that both the Council HRA and GF stands to benefit under a future self financing system, instructs officers to respond positively to the Government proposals.**
3. **Approves the Hillingdon response as set out in Appendix 4.**

INFORMATION

1. The Government consultation *Council housing: a real future published* in April 2010 has invited local housing authorities to respond to an offer to dismantle the current HRA Subsidy system in favor of a self-financing alternative. Responses are required by 6th July 2010.

Reasons for recommendation

2. Hillingdon is currently required to pay over negative subsidy of £11m in 2010/11 and this figure is set to rise to £13.7m in 2011/12. The negative subsidy is projected to increase under the current subsidy system by around £200k each from 2012/13 onward.
3. Since the start of the current HRA subsidy system in 2002/03 we have paid a total of £92.7m up to 2009/10 and will be paying an estimated £11m for 2010/11 as negative subsidy. The Government proposal if delivered will cap our current negative subsidy payment by redistributing the current national HRA capital debt of £21.5 billion plus £3.6 billion for current HRA investment commitments, between local authorities. Hillingdon current estimated share of that loan is £282.9m, our current HRA subsidy loan is £105.5m. The additional loan we will be asked to take up is £177.4m (£282.9m less £105.8m). The actual current HRA debt is £64.1m, which includes £59m of Supported Borrowing for the Decent Homes programme, and adding to this a loan of £177.4m gives a total of £241.5m.
4. The annual cost of funding the additional loan of £177.4m including loan repayment over 50 years is £9.7m. When compared to the current projected Hillingdon negative payment into national HRA subsidy system for 2011/12 of £13.7m, Hillingdon will gain additional resources of £4m. The estimated gain will increase by £200k each year. This gain is very comparable to the projected annual loss of £200k due to annual increase in negative subsidy mentioned above.
5. This current regime is a major disadvantage as it provides disincentives for effective and efficient management of the national HRA system and long term planning of local HRA services. The current regime encourages some local authorities to keep uneconomical historical loan structures. The Government, through the subsidy system, reimburses the interest costs so there is no incentive to reduce these costs. The proposed reform will remove these disincentives and promote prudential management of HRA loans at local levels.
6. Based on the Government proposals set out in the consultation document, a positive response does not bind the Council into accepting an eventual offer if this is not advantageous. By responding we would be able to positively support proposals that may be of benefit to the General Fund (GF) such as the total de-pooling of HRA loans from the GF loans. This would allow the GF to charge the true cost of HRA loans to the HRA. The immediate benefit of this before any additional loans, based on a current HRA loan of £64.1m is £160k.

Alternative options considered

7. The Council could decide to reject the proposals outright but this could result in the current HRA Subsidy system continuing and the HRA having to pay over negative subsidy that is increasing each year by an estimated £200k to the Government. There is also a possibility that some 'early adopter' authorities may voluntary agree a change on favourable terms and this may then financially disadvantage any remaining authorities.

8. The Council could also decide not to respond to the Government consultation but this could result in any issues specific to Hillingdon not being taken into account if the Government decides to bring in the change on a statutory basis.

Comments of Policy Overview Committee(s)

9. None at this stage.

Supporting Information

<u>Summary</u>

10. The current HRA subsidy system is generally held to be unfair by the majority of stakeholders. Hillingdon will lose £11m as negative HRA subsidy in 2010/11. This figure will rise further under the current HRA subsidy system as the authority loses the ALMO allowance, to £13.7m in 2011/12 and thereafter by an average of £200k each subsequent year.

11. The majority of other HRA authorities also lose money in varying degrees. This tax on tenants, as it has become known, has created widespread discontent. The broader subsidy system has been widely criticised by local government due to its inherent weaknesses in preventing the Government from pursuing their own objectives such as the long term maintenance of councils housing stock.

12. There has been ongoing criticism of the annual subsidy determinations as there are wide variations in funding at both a regional and individual council level, which makes strategic long term planning very challenging. This has been exacerbated by the inability of the Government to satisfactorily explain the reasons for the swings in funding from year to year. Apart from this lack of transparency, the subsidy system's key aim of linking resources to need has also been lost.

13. The Government acceded to this criticism and in 2008 set up a review of HRA finances. The proposals contained in the current document review provide Hillingdon an opportunity to benefit substantially in financial terms by an estimated £4m in first year (2011/12), using a cautious average cost of borrowing of 5% for taking on debt for opting for the additional loan of £177.4m. This is set out for the HRA, in table 1 (paragraph 29), the additional resource will increase annually by around £200k each year and Hillingdon would also be able to take control of the future funding of the HRA which is currently centrally controlled. Table 1 below sets out the difference in funding when the current negative subsidy payments are compared to the financing costs implied by the extra debt that would need to be taken on and appendix 1 provides more detail.

14. The financial gain and freedom over future control is accompanied by a need to manage a number of risks including those relating to increased debt

Introduction

15. The Prospectus, as the paper is subtitled, is a complex document. It includes technical details of debt settlement based on an Net Present Value calculation of future subsidy projections based on increased allowances. It also assumes rents will continue to be based on the Government's rent restructure policy with convergence of social housing rents during 2015/16. By 2015/16 our negative subsidy on rent convergence is projected at £14.5m and will increase every year by at least the rate of increase on rent. However, under the current system negative subsidy will increase faster than the Hillingdon rent increase.

16. The new Coalition Government has also taken a view that the current HRA system is unfair. The reform of the HRA will consequently be progressed and ministers will give due consideration to the various individual and collective responses to this Prospectus. The economic climate and the state of public finances will no doubt have an important bearing on the final settlement. However, the proposed self-financing settlement, provides the Treasury with an opportunity to benefit upfront by around £3.6 billion (earmarked as current investment commitments for social housing) and this could be an important favourable consideration in the progress of the proposals.

17. Before looking at the financial impact of these proposals on Hillingdon, the background to this review is provided below as a backcloth for the change.

Background

18. The current HRA subsidy system has been in existence since the 1980s. It was originally intended to redistribute resources on the basis of need. However, formulating an acceptable model that properly reflects need has proved elusive and the HRA subsidy system has been highly controversial and at various times proved acrimonious Various attempts to resolve the issues and problems in order to find an equitable formula have merely resulted in a different set of gainers and losers. Over the years continuing attempts to improve the system have led to the formula becoming ever more technically complex so that it now lacks transparency as well as containing the inherent unfairness and disincentives.

19. Difficulties posed by the system have been high lighted by the Audit Commission in a national report, Financing Council Housing published in June 2005. The report is subtitled: *'A report on the impact of the national system of finance on the Government's objectives for council housing'*, reflecting the concern that the HRA Subsidy hinders Government housing policy objectives and that long term funding difficulties lay ahead. The Audit Commission recommended that the Government review the council housing subsidy system.

20. The HRA Subsidy system was meant to redistribute resources from council housing rents within the council housing sector. However, to emphasise the fact that the system had become complex over time, the system now results in a surplus that is being siphoned off into the Treasury. This has been confirmed by a number of official reports into the HRA subsidy system. However, as the Treasury had only

factored this revenue for the current Comprehensive Spending Review (CSR) period ending in 2010/11, there is now an opportunity for change.

21. The Government announced a review of council housing finance in December 2007 with the key purpose of establishing a sustainable, long term system for financing local authority housing. The review was led jointly by officials from Department for Communities and Local Government (DCLG), the Treasury and Local Government supported by external specialist consultants and representative organisations such as the Local Government Association and Chartered Institute of Housing (CIH). A consultation report was published in July 2009 and generally was positively received by individual local authorities. Since then, DCLG have been working on finalising the review with a view to bringing out a self financing offer. They engaged PricewaterhouseCoopers UK (PWC), the international management consultancy firm, to validate and finalise their self financing model and work out the individual local authority offers.

The Proposed Deal

22. DCLG has proposed a voluntary ‘deal’ to replace HRA Subsidy System from April 2011 with a self financing system that is intended to shift control of HRA finances to individual local authorities. A voluntary deal would avert the need for primary legislation to bring about the change.

23. The Prospectus takes the current subsidy system, makes assumptions about future income from rents and expenditure, and then works out a redistribution of the projected National HRA loan that is affordable to each local authority. The proposal has been made attractive for councils by uplifting the management and maintenance allowances and the major repairs allowance. These have been increased as follows:
    - Nationally: 5.4 per cent in management and maintenance, and 28 per cent for major repairs.
    - Locally for Hillingdon: 4.5 per cent or £1.5m annually in management and maintenance, and 31.5 percent or £2.9m annually for major repairs.

    These increases are only available to authorities who accept the offer and are netted off against the gross debt offered to authorities to opt out of the subsidy system.

24. The effect of this is to reduce the discounted price of the opt out and make the offer attractive for council housing authorities by the reducing the level of debt a council would need to pay to opt out of the subsidy system. For most housing authorities this currently involves making an annual (negative) subsidy payment to the DCLG.

25. The proposal provides Hillingdon an opportunity to benefit financially on the basis of the Self Financing Prospectus published by DCLG. However, this is subject to Comprehensive Spending Review (CSR) confirmation. The change in national Government may also have an impact on the conclusion of the deal. However, the new Government has stated that they are committed to completing this current round of consultation and will review the responses in detail and implement the proposals if there is sufficient consensus.

Key Points of the Offer

26. The substantive issue centres around the immediate and longer term financial impact of the offer on the HRA as this is the critical factor in the sustainability of the council's dwelling stock.

27. The DCLG proposals involve the reallocation of £25.1 billion debt between the 177 local housing authorities. This compares with the 2010/11 current debt assumed for subsidy purposes of £21.5 billion. Central Government is proposing to retain £3.6 billion to fund capital spending including a decent homes allocation for authorities that have not yet embarked on this programme. Under the current system central Government is projecting a surplus of £13 billion over 30 years. The proposal will however result in local authorities taking up additional debt of £3.6 billion but will get back additional resources £9.4 billion over 30 years. Compared with the current subsidy regime, the proposed DCLG offer is therefore financially advantageous for all local authorities.

28. There is an immediate financial benefit for Hillingdon when a comparison of increased debt charges is made with the negative subsidy that would be payable under the present regime. This is shown in Appendix 1. Appendices 2 and 3 further reinforce this by showing a projection of the HRA on the basis of the current system and under the review proposals. As the HRA is not allowed to go into deficit, the scenario in Appendix 2 is only illustrative. Consequently expenditure would have to be scaled back to prevent a deficit from 2013/14 onwards. This would clearly have a significant impact on services provided to tenants.

29. The major consideration in an assessment of the financial benefits is the comparison of the additional debt costs against the projected negative subsidy payable. Such an analysis shows that Hillingdon would significantly benefit from the proposals as set out in Appendix 1. As shown in the appendix, Hillingdon would need to take on additional debt of £177.4m to opt out of the HRA subsidy system. Consequently, costs of servicing the debt would replace the negative subsidy that is payable under the current system. An extract from which, is shown in the table 1 below.

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)
Subsidy Payable to Government	13,576	13,905	14,204	14,498	14,767
Interest on Additional Debt	8,870	8,827	8,783	8,736	8,687
Difference (Increase resources)	**4,706**	**5,077**	**5,421**	**5,169**	**6,080**
Principal	847	890	934	981	1030
Cash Flow Increase	3,858	4,188	5,050	5,300	5,456

Table 1: Five Year Comparison of Negative Subsidy against Increased Debt Costs

30. The table above demonstrates that over the next five years the cost of borrowing on the additional debt is much less than the negative subsidy payable by Hillingdon resulting in a significant increased resource of over £20m after taking account of the repayment of the principal sum. Appendix 1 confirms that the financial benefit

continues to the end of the loan repayment beyond 5 years. The figures are based on a cautious view of long term interest costs for the additional debt that Hillingdon would take on.

31. These projections are based on the assumption that rents will be subject to the rent restructuring policy and the accompanying formula rent that is currently in force. This has the aim of bringing RSL and council housing rents in line. This implies an increase in rents by 2.2 per cent above inflation before convergence to formula rent by 2015/16. Formula rents could then be assumed to increase at 0.5 per cent above inflation thereafter.

32. There is also an assumption made by officers that any future government will continue to fully fund council rents through the housing benefit system. As approximately 70% of council tenants in Hillingdon are on full or partial benefits, this is the major source of income through rents. It is a reasonable expectation that provided rents continue to be set at formula rent levels this will be the case. However, with increasing pressure on public expenditure, this is an area for consideration. No government since rent restructuring was imposed has failed to fully fund social housing rent set at the correct level.

New Build

33. The proposal also includes financial headroom for new build. This is also shown in Appendix 1, which indicates that if authorities are willing to undertake new build, the additional debt for opting out is reduced by nearly £12.8m. Technically, this additional headroom in terms of resources for undertaking new build has been created by discounting the future subsidy flows by 7% instead of 6.5%. There is an expectation that social housing grant would also be available as a top up to make viable such a new build programme. Although further details are needed to properly appraise this option, this could provide further opportunities for the Council to meet affordable housing objectives. This head room of £12.8m is very small over 30 years in terms of the number of units that could be delivered in Hillingdon. Assuming an average cost of £100k, a total of 100 units could be delivered. This figure could be doubled if match funding from the Housing and Communities Agency is available.

Future HRA Borrowing

34. One of the key issues for the Treasury was the potential likelihood of an escalation in borrowing within the HRA as councils benefiting financially from the review proposals undertake new build capital projects. This would increase the Public Sector Borrowing Requirement (PSBR), which would have a corresponding adverse impact on the Government's macro economic policy. Consequently, particularly as a result of the headroom provided for new build, DCLG have stipulated that no further borrowing will be allowed in the near future. It should be noted that the additional debt, which will be incurred as local authorities currently paying negative subsidy take on more debt as the price for opting out, will not increase the PSBR as the total level of debt is merely being shifted from central to local government.

Capital Receipts

35. The Government's proposals also include a relaxation in the current capital pooling regulations. Currently 75% of RTB (right to buy) receipts from the sale of council housing are paid to the Government with local authorities retaining 25%. In addition, for HRA land sales 50% of receipts are payable to the Government unless the receipts are used for affordable housing or certain regeneration projects in which case councils can keep 100% of receipts. Under the new proposals as long as 75% of receipts from all HRA resources (land and dwellings) are used for social housing for maintenance, regeneration and new affordable housing, 25% can be used for general capital purposes. For HRA assets other than council housing e.g. land, under the current capital rules, 50% is available to the General fund if the other 50% is surrendered to central Government and to avoid this the Council has a policy of retaining 100% of receipts under the conditions imposed by the current capital receipts regulations that require all of this to be spent on affordable housing, including some General Fund capital schemes within the Learning Disabilities and Mental Health modernisation programme.

HRA Ring Fence

36. During the review the HRA Ring Fence received considerable attention and DCLG considered the contrasting merits of both relaxing and tightening the HRA ring fence. DCLG were mindful of the impact of this on their housing objectives and have decided to maintain the ring fence with the rules staying the same but the opportunity has been taken to clarify the guidelines.

37. Greater clarification is being achieved by defining core, core plus and non-core services. Core costs cover mainstream landlord services such as rent collection, repairs and lettings management. Core-plus costs cover services costs for anti-social behaviour and tenancy sustainment that are directly related to the landlord function and can help reduce management and repair costs. Non-core costs are expected to be funded from outside the HRA. There is also a proposal for seeking external audit and council tenants approval in relation to costs that are apportioned to the HRA.

Other Benefits for Hillingdon

38. Apart from the clear financial advantage from accepting the proposed offer, there are also other benefits from generally gaining control of the HRA finances and taking advantage of some other elements of the proposals. In brief, some of the obvious ones include the following:

    - As stated above, the proposals include changes in the regulations governing HRA capital receipts. Unless a local authority is willing to give Government 50% of capital receipts from the sale of land and buildings, 100 % of receipts currently have to be used on affordable housing. Under the proposals the authority can retain 100% of receipts and use 25% of these capital receipts from HRA land and buildings on the general Capital Programme, providing the other 75% is used on affordable housing and regeneration projects.

    - There is potential for the development of a long term vision for council housing, which could have a wider impact that is made possible by local control of long term finances. The 100% capital receipts available for local use, provided 75%

is used to maintain council housing or finance new affordable housing, can be used for residential developments for social care projects and this could have the advantage of reducing the need for costly institutional residential care thereby alleviating the pressure on General Fund budgets. However, right-to-buy receipts are currently very low and very limited resources should be expected in this area.

- Incentives for generating efficiencies, instead of paying for inefficiencies of national system and other local authorities. For example, in the past, some councils such as Hillingdon that have pursued more efficient treasury management policies and negotiated favourable terms for the repayment of debt only to then pay over the debt cost saving as negative subsidy.

- Reduction in costs of administering HRA Subsidy system locally and in particular nationally. The current system is resource intensive and both the DCLG and Treasury employ significant staffing resources to maintain this system.

Potential Risks

39. The current system is essentially centrally controlled. The annual subsidy determination effectively sets out funding for the following year and HRA budget planning is constrained by this central Government process. Self financing will allow authorities greater financial autonomy, which is essential for developing a meaningful asset management strategy for council housing assets. The opportunities afforded by greater autonomy are accompanied by risks and even though these are not necessarily prohibitive, they will nevertheless need to be taken into account. These potential risks include the following:

    - A material impact on income of future Government policy particularly on HB as well as rent (levels) policy.
    - Impact on General Fund arising from ‘pooling’ of debt, which share out the impact of adverse interest rates between the HRA and the General fund.
    - Greater level of debt will result in increased sensitivity to interest rate volatility.

40. Such risks may have an important bearing on our response to the Government offer. However, the risks need to be considered in the proper context and opportunities for the possible mitigation of the risks can also be available.

41. Changes in housing benefit and rent policies would have an impact on the HRA as the income is dependent on rent policy and, as around 60% of our tenants are in receipt of housing benefit, any adverse policy impact could have a material impact on future resources. That is, there will be a shortfall in income if housing benefit for council tenants is capped below rent levels for HRA tenants. However, such changes would equally apply to the current HRA Subsidy regime. Housing benefit changes are more likely to have an impact on rents at the upper level. Rents in the private sector, some of which are well over £300 per week, are more likely to come under pressure from a housing benefit perspective.

42. A CIPFA technical housing panel is currently looking to resolve any adverse impact on the General Fund through a de-pooling approach. As already stated earlier in

this report, this would mean that any adverse movement of debt costs on the increased HRA debt would not spill over into the General Fund. This has been acknowledged in the DCLG Prospectus so local authorities should be free to adopt this practice.

43. An appropriate Treasury Management strategy will be needed with such a significant increase in debt. This will result in a need to monitor short and especially long tern interest rate movements. If this aspect is not given due attention then there could be a financial impact. However, this also provides an opportunity for setting sound and effective strategies that would also allow or provide opportunities for financial benefits.

44. Although the risks outlined in brief need to be taken into account as part of good management practice, they should not unduly impact on the acceptance of the DCLG proposals. The proposed settlement, as shown in appendix 1 and reinforced by appendices 2 and 3, provides some headroom to mitigate future risks.

Conclusion

45. The Government's proposals will have a positive financial impact on the HRA in Hillingdon and will enable the Council to improve services for current and future tenants and also embark on future affordable projects. This compares with the current system whereby Hillingdon tenants will pay a significant proportion of their rents to other councils as well as central Government.

46. The officer advice, as a consequence, is to respond positively to the DCLG proposals, especially as the proposals are subject to CSR confirmation in the autumn. The Council would only be accepting this voluntary offer in principle and could change its decision if the proposals change or if there are other changes in circumstance.

Financial Implications

47. The whole of this report is concerned with HRA finances. However, there is a potential connection with the General Fund through the current arrangements for the accounting of Treasury Management related costs. Currently these involve pooling interest rate costs to work out the (average) consolidated rate of interest (CRI). This is then applied to debt to work out interest rate costs for both the General Fund and the HRA. If the interest rate costs of borrowing for the additional debt that would be needed for the opt out is at a higher rate than the current CRI, then some of the higher costs would be apportioned to the General Fund. As stated in the Prospectus, this can be avoided by simply changing the current practice and de-pooling the debt so that the General Fund element is separated the HRA element so that there is no impact on the General Fund.

EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES

What will be the effect of the recommendation?

48. The recommendations will have no immediate effect as the Government proposals need to be confirmed by the CSR in the autumn. However, if there is such confirmation and the Council decides to formally adopt self-financing for the HRA,

then increased resources and the ability to plan on a long term basis will have a beneficial impact on HRA tenants.

CORPORATE IMPLICATIONS

Corporate Finance

49. Corporate Finance has co-authored this report and fully endorse the recommendations to respond to the consultation exercise positively yet without committing the Council at this stage, prior to final details being published and scrutinised.

50. The two basic elements that Corporate Finance have essentially considered are a) that the fundamental business case for taking on such debt is sound, and b) there will be no adverse implications for the General Fund in doing so. Whilst the finer details are still to be determined, the proposals presented now are certainly encouraging and will give considerable advantages to authorities such as Hillingdon over the current Subsidy system.

Legal

51. It is currently a statutory requirement for local authorities that own their own housing stock to keep a Housing Revenue Account [HRA]. The HRA is a record of revenue expenditure and income relating to a local authority's own housing stock. Items that must be accounted for in the HRA are defined in Schedule 4 of the Local Government and Housing Act 1989.

52. With regard to the Government's proposed reform of the HRA financing regime, the basis of which is a shift to the principles of self-financing for local authorities, the paper, 'Council housing: a real future' which underpins this report, provides information for local authorities to decide whether they wish to proceed and implement the new system.

53. If there is agreement, the Government proposes to work towards voluntary implementation from 2011/12. This would be achieved through existing powers in the Local Government and Housing Act 1989 which permits local authorities and the Government to enter into individual agreements to exclude specified housing stock from the HRA subsidy system. Such agreements would need to be in a standard form, reflecting an offer that was available to all local authorities. It would not be possible to enter into bespoke agreements based on individual negotiations.

54. Alternatively, the Government will seek to implement self-financing through new primary legislation. Subject to Parliamentary time, this could be as early as 2012/13.

Corporate Property

55. This report has no direct property implications for the Council

BACKGROUND PAPERS

NIL

Appendix 1

Subsidy v. Additional Interest on Debt 15 Year Projection

Input Data		Notes
Additional Debt @ 6.5% NPV	£177,395 K	
Additional Debt @ 7.0% NPV	£164,634 K	(Additional Headroom for undertaking New build)
Interest rate	5.0%	
Number of Years for Repayment	50	

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)	Projection £(000)
Subsidy Payable to Government	13,576	13,905	14,204	14,498	14,767	15,017	15,173	15,331	15,501	15,665	15,832	16,006	16,182	16,359	16,537
Interest on Additional Debt	8,870	8,827	8,783	8,736	8,687	8,636	8,582	8,525	8,465	8,403	8,337	8,268	8,195	8,119	8,039
Difference (Increase in Resources)	**4,706**	**5,077**	**5,421**	**5,169**	**6,080**	**6,381**	**6,592**	**6,806**	**7,036**	**7,262**	**7,495**	**7,738**	**7,986**	**8,239**	**8,498**
Principal	847	890	934	981	1,030	1,081	1,136	1,192	1,252	1,315	1,380	1,449	1,522	1,598	1,678
Cash Flow	3,858	4,188	4,487	4,188	5,050	5,300	5,456	5,614	5,784	5,948	6,115	6,289	6,465	6,642	6,820

Additional Headroom for New Build Provided by 7% NPV

Interest Saving / Increased Surplus	638	635	632	628	625	621	617	613	609	604	600	595	590	584	578
Debt Repayment / Cash Flow Improvement	61	64	67	71	74	78	82	86	90	95	99	104	109	115	121

HRA 10 Year Projection with updated Capital Programme

HOUSING REVENUE ACCOUNT : 10 YEAR PROJECTION

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
	Original Budget £(000)	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN
General Services	7,241	7,314	7,387	7,461	7,535	7,611	7,687	7,764	7,841	7,920
Special Services	5,711	5,768	5,825	5,884	5,942	6,002	6,062	6,123	6,184	6,246
Repairs Services	11,787	11,655	11,771	11,889	12,008	12,128	12,249	12,372	12,496	12,621
NEW BUILD (Management and Maintenance cost)	0	50	96	96	97	98	99	100	101	102
Supporting People Contribution	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)
HILLINGDON HOMES OPERATIONS	**23,647**	**23,694**	**23,987**	**24,238**	**24,491**	**24,747**	**25,006**	**25,267**	**25,530**	**25,796**
General Services	1,255	1,217	1,229	1,242	1,254	1,266	1,279	1,292	1,305	1,318
Special Services	1,198	1,210	1,222	1,234	1,246	1,259	1,272	1,284	1,297	1,310
Repairs Contribution	(215)	(217)	(219)	(222)	(224)	(226)	(228)	(231)	(233)	(235)
LBH OPERATIONS	**2,238**	**2,210**	**2,232**	**2,254**	**2,277**	**2,299**	**2,322**	**2,346**	**2,369**	**2,393**
Subsidy Payment to Government	11,040	13,576	13,905	14,204	14,498	14,767	15,017	15,173	15,331	15,501
Existing Capital Charges	2,904	3,139	3,260	3,226	3,203	3,187	3,172	3,176	3,181	3,161
Capital Funded From Revenue (RCCO)	12,323	12,079	15,016	14,620	13,031	12,790	12,710	12,710	12,710	12,710
Other Expenditure	387	350	350	350	350	350	350	350	350	350
Contingency	300	300	300	300	300	300	300	300	300	300
TOTAL EXPENDITURE	**52,839**	**55,348**	**59,049**	**59,192**	**58,150**	**58,440**	**58,877**	**59,322**	**59,772**	**60,212**
Dwelling Income	(47,867)	(48,471)	(49,133)	(49,565)	(49,992)	(50,412)	(50,837)	(51,264)	(51,695)	(52,135)
Other Income	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)
TOTAL INCOME	**(53,329)**	**(53,933)**	**(54,594)**	**(55,027)**	**(55,453)**	**(55,874)**	**(56,298)**	**(56,726)**	**(57,157)**	**(57,596)**
In-Year (Surplus) / Deficit	**(490)**	**1,415**	**4,455**	**4,165**	**2,697**	**2,566**	**2,579**	**2,596**	**2,615**	**2,615**
Balance Brought Forward	(6,045)	(6,535)	(5,120)	(665)	3,500	6,197	8,764	11,342	13,938	16,553
Balance Carried Forward	**(6,535)**	**(5,120)**	**(665)**	**3,500**	**6,197**	**8,764**	**11,342**	**13,938**	**16,553**	**19,168**

HRA Review 10 Year Projection with Updated Capital

HOUSING REVENUE ACCOUNT : 10 YEAR PROJECTION

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
	Original Budget £(000)	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN	LATEST PRJCTN
General Services	7,241	7,314	7,387	7,461	7,535	7,611	7,687	7,764	7,841	7,920
Special Services	5,711	5,768	5,825	5,884	5,942	6,002	6,062	6,123	6,184	6,246
Repairs Services	11,787	11,655	11,771	11,889	12,008	12,128	12,249	12,372	12,496	12,621
NEW BUILD (Management and Maintenance cost)	0	50	96	96	97	98	99	100	101	102
Supporting People Contribution	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)	(1,092)
HILLINGDON HOMES OPERATIONS	**23,647**	**23,694**	**23,987**	**24,238**	**24,491**	**24,747**	**25,006**	**25,267**	**25,530**	**25,796**
General Services	1,255	1,217	1,229	1,242	1,254	1,266	1,279	1,292	1,305	1,318
Special Services	1,198	1,210	1,222	1,234	1,246	1,259	1,272	1,284	1,297	1,310
Repairs Contribution	(215)	(217)	(219)	(222)	(224)	(226)	(228)	(231)	(233)	(235)
LBH OPERATIONS	**2,238**	**2,210**	**2,232**	**2,254**	**2,277**	**2,299**	**2,322**	**2,346**	**2,369**	**2,393**
Subsidy Payment to Government	11,040									
New Charges for capital		8,870	8,827	8,783	8,736	8,687	8,636	8,582	8,525	8,465
Existing Capital Charges	2,904	3,139	3,174	3,157	3,140	3,121	3,102	3,081	3,059	3,037
Capital Funded From Revenue (RCCO)	12,323	12,079	15,016	14,620	13,031	12,790	12,710	12,710	12,710	12,710
Other Expenditure	387	350	350	350	350	350	350	350	350	350
Contingency	300	300	300	300	300	300	300	300	300	300
TOTAL EXPENDITURE	**52,839**	**50,642**	**53,887**	**53,702**	**52,325**	**52,295**	**52,425**	**52,635**	**52,844**	**53,051**
Dwelling Income	(47,867)	(48,471)	(49,133)	(49,565)	(49,992)	(50,412)	(50,837)	(51,264)	(51,695)	(52,135)
Other Income	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)	(5,462)
TOTAL INCOME	**(53,329)**	**(53,933)**	**(54,594)**	**(55,027)**	**(55,453)**	**(55,874)**	**(56,298)**	**(56,726)**	**(57,157)**	**(57,596)**
In-Year (Surplus) / Deficit	**(490)**	**(3,291)**	**(708)**	**(1,325)**	**(3,129)**	**(3,579)**	**(3,873)**	**(4,091)**	**(4,313)**	**(4,545)**
Balance Brought Forward	(6,045)	(6,535)	(9,826)	(10,534)	(11,858)	(14,987)	(18,566)	(22,439)	(26,530)	(30,843)
Balance before Debt Repayment	**(6,535)**	**(9,826)**	**(10,534)**	**(11,858)**	**(14,987)**	**(18,566)**	**(22,439)**	**(26,530)**	**(30,843)**	**(35,388)**
Repayment of New Debt Principal	0	847	890	934	981	1,030	1,081	1,136	1,192	1,252
Repayment of Exisitng Debt Principal	306	322	338	355	372	391	410	431	452	475
Balance Carried Forward	**(6,229)**	**(8,657)**	**(9,306)**	**(10,569)**	**(13,634)**	**(17,145)**	**(20,947)**	**(24,963)**	**(29,198)**	**(33,661)**

Draft Response to the Prospectus

Stephen Edwards
Review of Council Housing Finance
Communities and Local Government
Zone 4/H4 Eland House Bressenden Place
London, SW1E 5DU

Dear Mr Edwards,

Council housing: a real future

We welcome the proposal to replace the current HRA Subsidy with a more sustainable system that links resources raised at a local level with local (HRA) services. The ability for the council to have longer term control of resources should have a favourable impact especially over the medium and long term. As our tenants lose significant sums from their rents in the form of negative subsidy the proposals will provide fairer funding for our tenants and provide the borough with an opportunity to draw up long term strategies for the maintenance of our properties, which would have otherwise fallen below acceptable standards. This ability to use more of the funds raised from local rents to better meet our stocks needs is obviously important for our tenants. The longer term local control of resources may also allow us to improve options for affordable housing within the Borough. This will also critically result in helping tenants to better link rents to services they receive and thereby enable them to take part in decisions that impact upon them.

Our individual responses to the questions contained in the consultation document are as follows.

Questions

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?

The Prospectus does not provide sufficient detail to adequately analyse the income and spending assumptions that are part of the calculations. However, any methodology used is likely to be complex and give rise to issues. We have set out concerns about the subsidy system over the years and our recent responses to the annual Subsidy Determinations in the past few years has outlined our unease with the variables that underpin the system in its current guise. As this offer is essentially underpinned by the current formula our previous reservations would generally apply. However, we broadly supported the aims of the review and recognise the need for some compromise to ensure that collectively we draw the line on this system to ensure future progress. The increased allowances go some way in alleviating the funding constraints. More importantly though, we look forward to making use of the benefits of long term planning that is essential with the housing sector which is characterised by need for assets to be managed on a longer term horizon.

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

The long term benefits will depend on a future revenue stream that is critically dependent on future rent policy as well as housing benefit reforms. Whilst we recognise the need for the government to ensure proper regulation, we believe it is possible to set out some general principles to which there must be adherence in order to protect future rent streams. At the very least we would expect the local government sector to be treated in the same way as the RSL. Over 60% of our tenants are on housing benefits, as a direct result over 60% of our rental income that will be used to support significant loan repayments after reform will be depend*ent on future HB policies.* Any HB reforms will need to factor in the possible impact on the HRA and should also take into account the low level of council housing rents and any attention to reducing the housing benefit burden should be directed at the higher end.

The increase in the level of debt is significant and councils will need to reconsider their Treasury Management strategies as changes in interest rates will have more impact on the revenue position. There cannot be an impact on the general fund as a result of increased debt for the HRA so the current practice of pooling the consolidated rate of interest will need to be reviewed. As various different local authorities may be affected in different ways by the impact of the debt reallocation, we would urge the government to put in place flexibility in this area and allow individual councils to determine their own policy and there should be options de-pool debt. We will need such an option to ensure there is no impact on the General Fund. This is an important detail as we do not feel that exposing the General Fund to risks of interest rate movements through the pooling of debt is either appropriate or acceptable. On a related practical note we trust that PWLB will have the capacity to facilitate the reallocation of debt for an early implementation of the proposals.

Self financing should allow councils to develop long term plans for council housing that fit in with wider affordable housing and well being strategies. Any borrowing constraints which are not linked to the prudential guidelines, which essentially restrict borrowing in line with affordability, will hamper such long term developments. Whilst we acknowledge that in the current economic climate there may be a case for capping borrowing, this should only be temporary and we would like to see a commitment to remove this constraint in 3 years time.

The accounting changes should not pose much of a problem especially the requirement to provide balance sheet information for the HRA. However, we trust that there will be scope to determine local depreciation policies as there is a potential for depreciation calculations to have an adverse revenue impact

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

We are also interested in taking the opportunity for new build that a 7% NPV would provide, especially as we will be able to build on the experience we are currently gaining as one of the successful bidders for the challenge fund. We assume that we will be able to draw on social housing grant to top up the funds that are included in the prospectus. The number of units is dependent on the availability of land and the level of rents as well. If suitable land is available at nil cost then our broad estimate is that we could build around 200 assuming HCA match funding.

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

As indicated above, we favour a self-financing system for council housing as it is fairer for tenants, who currently pay rent but do not receive the proportionate benefits in return. The nationally redistributive subsidy system is no longer fit for purpose despite various attempts at fixes and the redistribution of resources lacks any equitable basis. Consequently, the continuation of the current system will only serve to perpetuate the inherent inequity and would delay local empowerment and in turn hold up locally developed plans to meet local housing objectives.

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 time do you think is required to prepare for implementation?

On the basis of our responses to the previous questions, we would wish to proceed to an early implementation of self financing. This intention is on the basis of the methodology and the principles and, critically, the accompanying financial analysis contained as part of the Prospectus. We may need to reconsider the situation if the figures change materially and/or if there are any other changes that have corresponding impact on the sustainability of our HRA.

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?

N/A