



HRA Self Financing: impact of the new arrangements

**Association of Retained Council Housing
Conference
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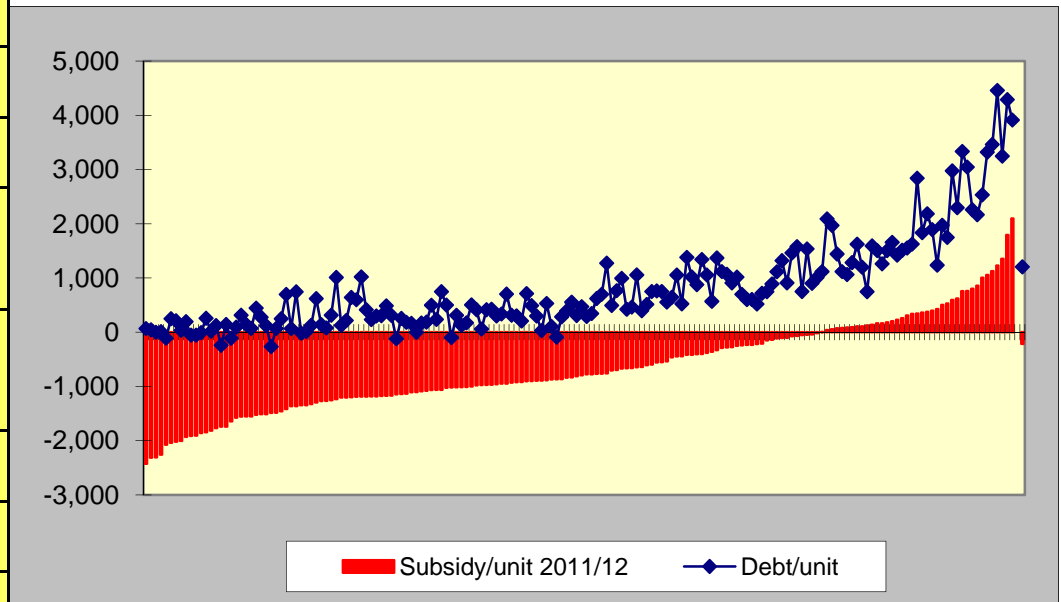
Introduction

- Subsidy & Self Financing
 - A reminder of why we're here
- Getting ready: key decisions
- A bit of technical – but essential
- Business planning in the round



Subsidy 2011/12 – the final year

	2010/11	2011/12
	£bn	£bn
Guideline rents	-6.19	-6.47
Mgmt & Maintenance allowances	3.33	3.36
Major Repairs Allowance	1.27	1.28
Debt/Other *	1.49	1.48
Expenditure	6.09	6.12
Subsidy surplus	- 0.10	- 0.35



- Move to ever greater negative subsidy
 - 7% rent increases in 2011 – only 2% of which end up spent on tenants
- Distribution of negative – positive subsidy tightening
 - ARCH members net negative c£350m-£430m –2 in positive
- Must end the system soon...future surpluses c£17bn



Move to self financing

- A settlement based on the valuation of the council housing (HRA) business
 - Cashflow forecast discounted to today's prices - with details of all the assumptions going in to the calculation
 - National settlement a net 'buy out' of £6.5bn to total £28.4bn
- Key areas past and present...
 - Property numbers
 - RTB assumptions
 - Rent plan vs assumptions on convergence
 - Premiums and discounts (from previous refinancing)
 - Prudential borrowing in 2011/12
- Preparing base data
- Preparing the cash for the settlement or portfolios to be written down – what's the day?



3 challenges + 1 – progress and action

- Reopening the settlement
 - Committee Stage commitment to ‘exceptional’ circumstances which affect all authorities - Rents and Quality of Home
 - Not intended to apply individually... unless?
- Imposition of the debt cap
 - Not ideal but a done deal in the CSR
 - Could this be raised in future CSR periods – and if so how could such an increase be applied?
 - Many with headroom but very unevenly distributed
- RTB receipts
 - Querying the methodology – but a ‘fixed pot’ adjustment to the settlement at the national level
 - Trading off RTB receipts pooling vs debt remains a discussion
- Decent homes backlog funding is half of what is needed
 - What to assume for the future?



Preparing the ground – key decisions

- Whether your plan...
 - Stacks up with plenty to spare
 - Stacks up after a difficult first few years
 - Cannot meet backlogs and risks further deterioration of the stock which builds over time to an unviable plan
- Updating +/- validation stock survey phasing data
- Depreciation
 - CIPFA consultation closed with split responses
- Debt de-pooling
 - CIPFA consultation closed with more agreement but not consensus
- Preparing to pay over the cash
 - Loans/bonds, fixed/variable, long term/short term, private/PWLB
- Preparing to have loans written down
- Preparing a business plan – model and document



Depreciation – not just a technical issue

- Key principles: **SUFFICIENT AND AFFORDABLE**
- IF depreciation charge based on EUV-SH taken over a supposed life risks being too high (South) or too low (North)
 - May be a need to ‘reverse’ as now
- Link to component replacement essential to demonstrate viability
 - Renewals only – no backlog or improvements; the basis of funding in the settlement
- Impairment reversed
 - Not a ‘renewal’ issue

Desc	A	B
Rent	£100m	£100m
M&M	£50m	£40m
Interest	£30m	£20m
Depreciation	£30m	£15m
Net position	-£10m	+£5m

- This is ‘hard’ because of the LA accounting framework
- Aim to address three main drivers
 - IFRS compliant
 - Sufficient for the BP
 - Reassuring CLG



Splitting the debt pools

- Majority opinion appears to be in favour of the ‘two pool’ approach
 - Single pool may be linked to overall size and debt structures
- Split pools consistent with large unsubsidised debt financed by ring fenced revenue income
- Modelling options essential for the HRA business plan
 - Often the first few years are the tightest – need to be clear on interest rates
 - But... GF pressures
- NB Treasury/Debt management – a key seat at the table

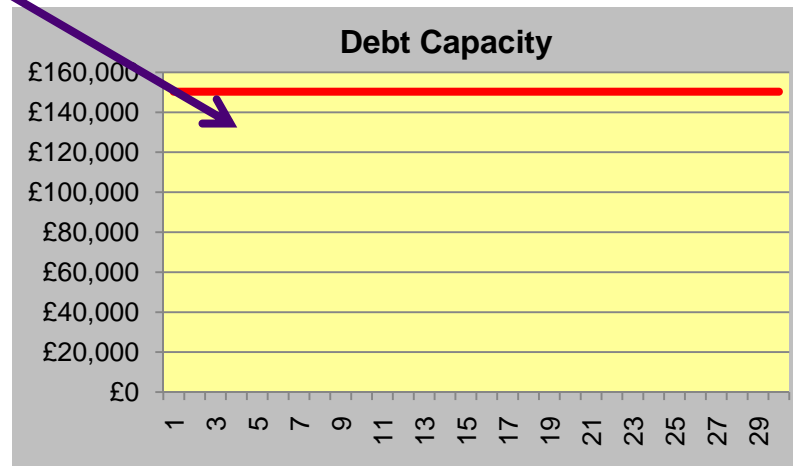
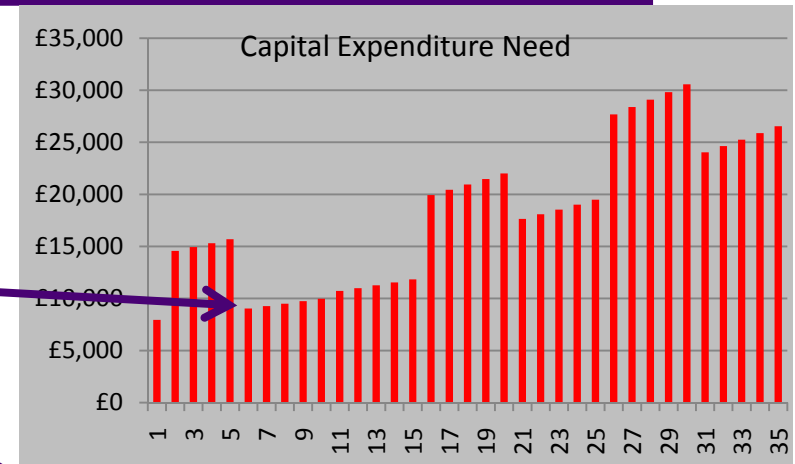
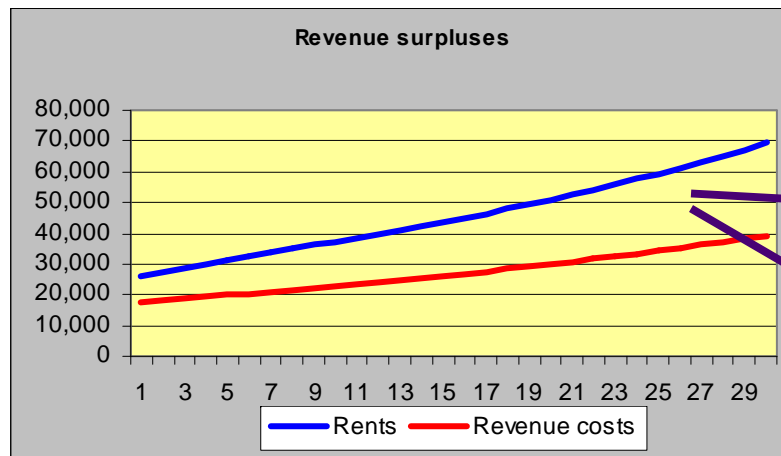
Desc	GF	HRA
Single pool	£200m @ 4%	
Pools split	£100m	£100m
Interest rate	3%	5%

- ‘Under-borrowing’ ...
 - Likely to be taken to the General Fund
 - Likely to be the main source of volatility
- Fairness and equitability in the split, especially if there is scope to adjust rates



Developing new financial plans

OPERATING SURPLUS



- The new long term plan... a focus on operating surplus – the underlying net income generated by the assets
- Financial assumptions and decisions seen in the context of the surplus, the capital need and the debt
- And... all require explicit decisions of some form



Developing the business plan

- By the autumn, at least 3-5 year revenue and capital plan to inform the budget setting process...
 - Capital resources increased... depreciation and component replacement
 - How much by and what will they be spent on?
 - Ensuring rent increases are appropriate and planned for
 - Seeing M&M costs as operating costs – more efficiencies, more for the plan as a whole... or service investment
 - Clarity on debt split and costs to the HRA
 - Are there opportunities – debt headroom, rent flexibility and new build?
- What format will this take?
 - A 50 page word doc (like the old days)
 - An accessible summary paper/document capable of consultation



Business Plan action planning

A plan or strategy for all: many likely to be in place already – where are your gaps?



Summary

- Pause for thought...
 - The passing of a system that did not work
- The settlement method
 - A basis for long term sustainability at a more appropriate level of funding – care on the final figures
- Getting the key decisions worked on and taken early
 - Stock condition, depreciation, debt split and transaction
- Working up a medium term plan in a long term context
 - Tenants and residents
 - Appropriate governance
 - An autumn Business Plan statement which encapsulates it all

