APPENDIX F

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 29 JUNE 2010

Title:

**HOUSING REVENUE ACCOUNT SUBSIDY SYSTEM
THE GOVERNMENT'S SELF-FINANCING PROPOSALS**

**[Portfolio Holder: Cllr Keith Webster]
[Wards Affected: All]**

Summary and purpose:

This report invites the Executive to agree a response to the Government's Consultation Prospectus, '*Council Housing: A Real Future',* which was issued by the Department of Communities and Local Government (DCLG) on 25 March 2010. The proposals contained within the Prospectus have significant financial implications for the Council. Annexe 1 is the draft response to the Self-financing consultation for the Executive to consider and approve and Annexe 2 outlines the key business risks for the Council in respect of self-financing.

How this report relates to the Council's Corporate Priorities:

This report relates to three of the Council's Corporate Priorities namely: Affordable Housing; Improving Lives; and Value for Money.

Equality and Diversity Implications:

The Housing Revenue Account provides accommodation for people in necessitous circumstances and on low incomes. The current HRA Subsidy System effectively takes away 53% of Waverley's tenants rent to help fund other council's HRAs. As a result this Council does not have the resources to invest in its own housing stock as it would wish. However, the new self-financing proposals do little to address the inequity from Waverley's perspective.

Climate Change Implications:

There are none.

Resource/Value for Money implications:

There are significant resource implications arising from the proposals in the Government's Self-Financing proposals. There are addressed throughout the report, but the headline is that the Government is proposing that Waverley should borrow at least some £173 million in order to 'buy itself out' of the HRA Subsidy System. The Council could then keep all of its rental income and capital receipts. There are attendant risks with this proposal, which are outlined in Annexe 2.

Legal Implications:

At this stage there are no legal implications, but the Council's draft response to the Consultation Paper makes the point that should a self-financing scheme be implemented, the Council would expect to have early sight of any proposed agreement between the Government and the Council so that a 'due diligence' exercise could be carried out.

Introduction

1. The Government has issued a consultation document with financial information for each local authority landlord offering a self-financing regime whereby councils could keep nearly all of the revenue and capital income. In exchange council landlords would 'buy themselves out' of the present system by taking on debt and the interest and capital payments would be serviced through the rental stream.

2. At present Waverley's HRA carries a debt of £3,238,000. Under these proposals the level of debt will increase to £172,991,000 – though this could rise to £181,260,000.

3. This (of necessity rather long) report provides background information about the Government's proposals.

4. It is worth noting that it was the previous Government that issued these proposals. The new Government announced in its document "The Coalition: our programme for government" that it intends to 'review the unfair housing revenue account'. On 25th May, the Prime Minister's website outlined a number of new bills that will be laid before Parliament in the new session, one of which is the 'Decentralisation and Localism Bill', which will contain provisions for the Review of the Housing Revenue Account. Officers understand that the current Government is expecting to receive responses to this consultation exercise, which will help inform them on the way forward. The closing date for responses is 6th July 2010.

5. The Housing Portfolio-holder has been seeking an early meeting with the Minister for Housing in order to explain the financial and service difficulties that the current system presents for Waverley, and how the new proposals simply manifest the same problems in the new proposed system.

Background

6. Every local authority with Council housing must maintain a Housing Revenue Account (HRA). The HRA comprises the revenue expenditure and income arising from the provision of the Council's own housing stock. The HRA is a 'ring-fenced' account: rent levels and expenditure on the housing stock therefore cannot be subsidised by Council tax and, equally, local authorities are prevented from using rent income to keep Council Tax levels down.

7. The Department for Communities and Local Government (DCLG) considers council housing to be a national resource and the HRA operates at a national level, as well as at a local level. Originally, the national HRA system was a mechanism through which the Government made revenue subsidy payments to council landlords. However, over the years it has become a mechanism through which the DCLG redistributes revenue from those councils that are deemed to have "surplus" income to those councils that are deemed to not have enough income to cover their outgoings. There are a number of councils that have large historic housing debt (amounting to some £18 billion nationally) and their rent income is not great enough to service the interest payments on their housing debt.

8. Of the 177 local authority landlords, most now pay 'negative housing subsidy' (i.e. have to make an annual revenue payment to the Government). A small number of local authorities receive a subsidy payment from the Government. The subsidy payments are calculated on the basis of a formula.

9. In practice, the subsidy system currently supports a minority of councils to service their historic housing debt; with the majority of council landlords paying money into the subsidy system.

10. Waverley, having relatively little housing related debt (some £3 million), is one of the councils most badly affected by this system – in 2010/11, it is estimated that some 53% of rental income (some £12,573,180) will have to be paid to the Government in the form of "negative subsidy" and redistributed to assist other local authority landlords.

11. For the 2009/10 financial year, the subsidy system nationally was projected to move into surplus amounting to some £300 million, i.e. the authorities in negative subsidy will pay in total £300 million more than is paid out to authorities that receive subsidy.

12. As well as the significant effect negative subsidy has on many local authorities, the HRA subsidy system has other serious flaws, for example:
    - the annual nature of determinations, even under the three-year spending review, makes it difficult to undertake any serious long-term planning and develop housing investment strategies;
    - it offers only very limited local autonomy;
    - the system has removed the clear link between rents paid and services provided locally.

<u>The Government's Proposals</u>

13. In 2007, DCLG and the Treasury announced a review of the national Housing Revenue Account subsidy system. In July 2009 a consultation paper, *Reform of Council Housing Finance*, was launched which unveiled proposals for the future of council housing finance. Its stated intention was to dismantle the existing subsidy system and replace it with a localised system of self-financing for all councils. The Housing Portfolio-holder responded to this document in October 2009.

14. In summary, the Government's self-financing option involves re-allocating the national housing debt by offering local authorities a debt settlement that they would then be responsible for servicing. In large measure, this would make more explicit the process, which already happens now, with those councils in negative subsidy effectively paying off debt that has been incurred elsewhere.

15. Key to the process, therefore, would be the terms of the 'once-and-for-all settlement', which would be akin to a 30-year housing subsidy settlement. However, the 2009 consultation documents did not provide authority-by-authority details of the potential impact of the options for change. They did not make clear exactly how this debt (which amounts to up to £18 billion nationally) would be re-allocated, nor did they clarify how the proposed £700 million increase to management and maintenance allowances would be funded.

16. The Government indicated that it would set out the terms of its debt settlement offer by spring 2010.

<u>Council Housing: a Real Future - Prospectus</u>

17. On 25 March 2010, the Government issued a further document, *Council Housing: a Real Future - Prospectus,* which sets out the basis of the offer. The prospectus proposes dismantling the current system (something local authorities have called for over many years), sets out proposals for how a self-financing system would be created, and asks a series of questions about the detail of that system.

18. As well as the 'Prospectus', CLG has published an on-line model to enable local authorities to calculate the impact of proposals on their business plans. However, councils are not being asked to agree to firm figures at this stage, as they are subject to confirmation as part of the next Spending Review.

19. The prospectus sets out how the new self-financing system would work - with a one-off distribution and allocation of debt between authorities, so that each council should start the new system in a similar position to support its stock and to finance new build from future income without the need for subsidy. The basic structure of the proposal is as follows:

<u>The key proposal</u>

20. Under these proposals it is suggested that, in future, council landlords will be self-financing. This will be achieved by a one-off financial arrangement. The Government has:

a) calculated (using the same formulaic approach as in the current system) the spending requirement for each council;
b) increased management and maintenance allowances;
c) calculated the (assumed) income over a 30-year period;
d) then applied a 'discount rate' of 7% to the calculation.

21. The output from this calcuation gives rise to the ‘value’ of the council’s landlord business – a capital sum.

22. For local authorities like Waverley, this value will be converted into a mortgage, which the landlord business will be able to support. This capital sum will have to be borrowed by each council and paid to the Government. For some local authorities, their business will not be able to support the debt they currently hold – and the Government will make a capital payment to them to either reduce or clear their debt. For Waverley, the opening debt settlement is shown as £173 million, but could be as much as £182 million.

Income

23. The only income assumed is rent income from dwellings, and local authorities will be expected to adhere to national rent policy. There is currently a policy of converging housing association and local authority rents – so that a social housing tenant will pay a similar rent for a similar property in a similar area. The model assumes that this will be completed by 2015/16. To ensure councils continue to respect rent policy, housing benefit will only be paid to the level commensurate with national rent policy. However, most council landlords do have other income – from service charges; garage rents and other property related income.

Spending Needs

24. Several pieces of research have been conducted nationally that have demonstrated that the HRA system has been underfunding maintenance and management costs for many years. The Prospectus suggests increasing the Major Repairs Allowance by an average of 27% and Management and Maintenance Allowance by an average of 11%. The prospectus includes a table in the annexes which shows the increases by local authority.

25. However, for Waverley, the combined allowances were only uplifted by 10.8%. Again this formulaic approach does not provide the financial support to those local authorities that have real and clearly identified spending needs.

Decent Homes

26. Nationally, there is an estimated backlog of £3.2 billion to deliver Decent Homes. The Prospectus recognises that the settlement proposed here will not address the backlog, and commits to considering this spending need as part of the next Spending Review, along with other identified spending gaps such as disability-related adaptations. This is a key issue for Waverley, as the Council cannot currently meet the Decent Homes Standard within existing resources. The Prospectus proposes that grant funding might be made available as part of the next CSR, but there is no certainty that this will be forthcoming nor that Waverley will be eligible for the grant. However, the spending review will be extremely tight and experience suggests that capital is usually the first to be reduced. This is a key risk.

Capital receipts

27. The proposal is that local authorities retain 100% of capital receipts, with the expectation that 75% of these funds will be used for affordable housing and regeneration. In recent years there has, in any event, been a relatively low

stream of capital reciepts arising from the RTB as sales have slowed considerably in the current economic climate.

Debt and Discount rate

28. The self-financing model uses a single discount rate for all local authorities – 7%. By comparison, the typical discount rate used in housing transfer valuations is 6.5%. This higher rate (7%) effectively reduces the value of the housing business and therefore the amount of debt each council would start with under self-financing. The government says that by using the higher discount rate, the opening debt nationally decreases by some £1.2 billion, compared to a 6.5% discount rate. The Government's expectation is that this £1.2 billion of headroom would be used to fund new affordable council housing.

29. What this means in practice for Waverley is that the Council could be allocated an opening debt of £172,990,000 (at 7% discount rate),but if a discount rate of 6.5% is used the debt becomes £181,260,000. The Government is prepared to use a 7% discount rate, reducing the opening debt, in Waverley's case by £8,270,000, if councils agree to build new homes. In theory therefore this £8.27 million could be used to fund the construction of new council houses. However, the consultation paper is clear that local authorities can only borrow up to the opening debt calculation – but in order to fund new affordable homes, the additional £8.27 million would need to be borrowed. This matter needs to be clarified by the Government.

Consultation Paper Questions

30. The questions which are now being asked in the prospectus are whether councils favour a self-financing HRA, or the continuation of the existing arrangements; and if they favour it, whether councils would be willing to see implementation from 2011/12. The six questions, together with proposed responses, are set out in the <u>Annexes to this report</u>.

<u>Business Model</u>

31. Paragraph 3.28 of the Prospectus states that the Government expects councils to "test the opening debt figure proposed under self-financing in a local business plan which reflects local information about actual income and spending needs and borrowing costs. A number of factors will have an effect on the borrowing profile in these individual business plans, including:
    - Interest rates on existing and new debt
    - Investment needs and the timing of this spend
    - Difference between current actual housing debt held by a council and the level of debt supported by the subsidy system
    - Capital receipts and any HRA reserves which can be used to supplement the revenue in the business plans."

32. Officers have been making an assessment of the proposals in respect of Waverley's position as a landlord; what it will mean for the financial viability of the HRA; and the advantages, disadvantages and associated risks.

33. The assumptions built into the DCLG's business model for Waverley are:

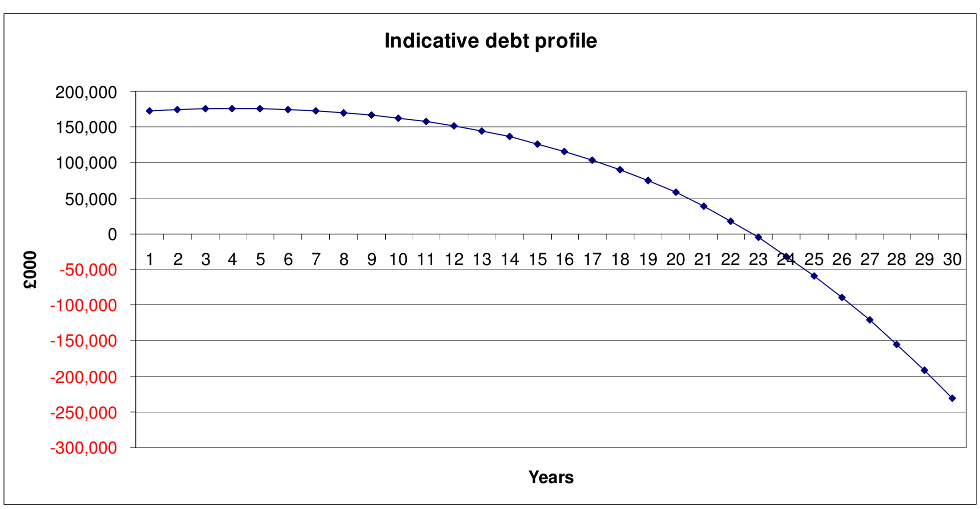
- an annual rent stream of £23,178,000
- a housing stock of 4,907 homes
- annual rent increases at RPI+0.5% (plus rent restructuring)
- an opening debt of £172,991,000 (but this could increase to £181,260,000)
- borrowing at an interest rate of 7%
- an increase to the Major Repairs Allowance from £3.7 million to £4.95 million
- that no Decent Homes backlog or other backlog work are funded through this route.

34. It is entirely possible that the Council could manage its HRA Business under this self-financing regime. This could be achieved on the understanding that the decent homes standard works and other capital backlog works would not be funded. It would be hoped that the Council could borrow at better interest rates than the 7% in the model; and income should be a little higher than in the model, as some income – from garage rents, service charges etc are not included in the Government's model.

35. However, there is an important transfer of risk from central government to local authority landlords, as the new proposals would expose them to interest rate fluctuations on sizeable debt portfolios over the next 30 years.

36. Another aspect, not to be underestimated, relates to Treasury Management. A number of local authorities, like Waverley, which currently have little or no external borrowing, are now being expected to take on sizeable debts that they will not have the in-house capacity (and perhaps expertise) to manage. Waverley will have to resource this new area of work appropriately, with the additional associated costs.

37. The Prospectus also states (para 3.25) that CLG intends to place a cap on borrowing at the self-financing debt level. This needs further clarification as CLG's own financial model shows that debt levels actually increase in the first years of the business plan. The Table below shows the Government's business model with debt increasing in the first few years and then decreasing.



38. The above table demonstrates that for the first eight years or so, under the Government's model, Waverley can expect to be no better off than under the present system. However, it is entirely possible that the Council should be able 'out perform' against this profile. Nevertheless, any financial advantage is long-term. It is also worth noting the table above disregards all backlog capital works that is a key issue for Waverley.

Summary of Key Concerns

39. The key concerns arising from the current proposals for HRA Self-financing are:

1. The self-financing proposals are keeping to the same formulaic approach as the present system – which is generally recognised as being flawed and unfair;

2. The calculations use notional (not real) sums in the formula, which advantage certain local authorities' tenants and effectively penalise others – such as Waverley;

3. As a result, prudent local authorities with no or low debt are being burdened with huge new debts;

4. At present there is nationally £18 billion of housing debt. However, the Government is adding another £7 billion to this figure and is sharing out £25 billion of debt to local authorities. This is forcing 39% more debt onto councils than really exists in the system;

5. A major issue for Waverley is that the current proposals fail to address the Decent Homes Standard backlog. CLG calculate that some £3.2 billion is needed nationally to address the backlog. Waverley has argued that local authorities who need backlog funding should get enough financial headroom in any new system to deal with the backlog as part of a settlement;

6. Stock Transfer as an option for local authorities is effectively being taken away from financially prudent councils and their tenants because stock transfer will not be financially viable for local authorities that are allocated a large debt under these proposals;

7. The new system does not give local authorities freedom to make business decisions in respect of rent setting, but rather the Rent Guideline and Rent Convergence set by Government remains in place;

8. Under the new proposals the winners in the current system continue to 'win' and the losers continue to 'lose';

9. There is no guarantee that this 'once and for all settlement' will not be reopened in years to come; and

10. The business risks associated with the Self-financing proposals (see Annexe 1) should not be under-estimated.

Advantages of the Self-financing Proposals

40. Whilst the self-financing proposals have considerable risks and shortcomings from Waverley's perspective, it is worth noting that there are advantages to the current proposals.

41. If the current HRA Subsidy System remains in situ:

- Waverley's HRA becomes more unsustainable and earlier than under the self-financing regime. The negative housing subsidy contribution will continue to increase year on year.

- The annual rent guideline determination will remain in place, which creates uncertainty each year.

- The combination of these two elements makes long-term business planning extremely difficult.

- The issue of dealing with the Decent Homes Standard backlog works remain unaddressed. Modelling indicates that whilst in isolation the revenue account remains viable, there is likely to be a shortfall in capital funding of around £200 million over 30 years (see Annexe 3).

Conclusion

42. The basis of any decision that this Council makes should rest on whether the self-financing debt allocation can be financed and fully repaid over the term of a 30-year HRA business plan and whether the business risks can be managed and balance against the advantages within the system.

43. The Government's offer of a £173 million debt settlement for Waverley (the largest per unit nationally) could be repaid within the 30 year business plan period. Whilst in the very long term there should be scope for additional investment in the stock. However, it is estimated that there would still be a shortfall of investment of around £40 million over the 30 year period, leaving backlog repairs and improvements not addressed. The responses to the questions have been drafted accordingly.

44. Members should note that, at this stage, the figures set out in the Prospectus are subject to confirmation as part of the next Spending Review (Section 4.4). At this stage councils are not being asked to agree to firm figures and the response to the 'offer' does not represent a contractual commitment.

Recommendation

It is recommended that the Executive:

1. considers the proposals contained in the Government's Consultation Paper entitled 'Council Housing: a real future', as outlined in this report;

2. notes the business risks associated with the Self-financing proposals, which are outlined in Annexe 2;

3. considers the draft response to the consultation paper at Annexe 1; and

4. subject to any amendments and revisions to the consultation response, approves the response and authorises the Housing Portfolio-holder to reply on behalf of the Council.

Background Papers

Council Housing: a real future – The Prospectus (Communities and Local Government) March 2010

Modelling Business Plans for Council Landlords: report on model inputs assumptions and outputs (Communities and Local Government) March 2010

Waverley Borough Council Business Plan model on self-financing

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ANNEXE 1

WAVERLEY BOROUGH COUNCIL

PROPOSED RESPONSE TO THE GOVERNMENT'S CONSULTATION PAPER – COUNCIL HOUSING: A REAL FUTURE – THE PROSPECTUS

Waverley Borough Council has been calling for the reform of the Housing Revenue Account Subsidy System for some time.

We should like to see a system that enables landlords to make their own business decisions locally. We would therefore propose that the new financial regime for HRA finance should:

- put localism at its heart and give freedoms to council landlords to make their own business decisions in the local context

- remove the £7 billion additional debt being added to the existing £18 billion of housing debt

- cap the debt for all authorities at no more than £25,000 per property

- give local authority landlords freedom to set the rent levels they need to manage their own landlord business

- release local authority landlords from the need to seek Secretary of State consent for property disposals – so that council landlords can make their own business and asset management decisions locally

- be reality tested with local authority landlords before implementation so that there are no unintended consequences or surprises.

The current HRA Subsidy System, which was introduced in 1989, aimed to provide a simpler and clearer system of housing finance; give fairness to tenants and community charge payers; and encourage a 'business-like' approach to the landlord function for councils. The revenue funding system established a formulaic basis for the distribution of subsidy to local authority landlords.

Over the years, the HRA Subsidy formula has been amended and changed. This has lead to laws of unintended consequences (or indeed were they unintended?). We now have a system that:

- is far from transparent;
- has broken all relationship between what a tenant pays and what services they receive for their rent;
- has created a dependency by some local authorities on revenue subsidy;
- has failed to adequately address the £18 billion of housing debt nationally and provided no incentive to reduce this debt;

- has deprived low or no debt authorities of increasing proportions of their rental income streams;
- means that some local authority landlords cannot meet the Decent Homes Standard, but who could if they were allowed to retain their own income;
- some landlords are having to reduce services and increase rents in order to pay increasing amounts of negative housing subsidy;
- will make some council landlords HRAs unsustainable in the medium term;
- is in disrepute and widely considered flawed and unfair.

We therefore very much welcome the debate and review about the future of council housing finance.

Unlike other central and local government public expenditure, housing provides a tangible capital asset and a revenue stream from the rental income. It is, in effect, a long-term investment with wider social and economic benefits.

At present some commentators on the proposals contained within The Prospectus say that what is now being offered to council landlords is better than the current system. We agree that this may be the case. But simply replacing a flawed and unfair system, with one that is defective and apparently less unfair, does not take us to a system that is transparent, just and financially sustainable in the long-term.

Waverley Borough Council has grave concerns about new proposals contained in 'The Prospectus'. These can be summarised as:

1. The self-financing proposals are keeping to the same formulaic approach as the present system – which is generally recognised as being flawed and unfair;

2. The calculations use notional (not real) sums in the formula, which advantage certain local authorities tenants and effectively penalise others – such as Waverley;

3. As a result, prudent local authorities with no or low debt are being burdened with huge new debts;

4. At present there is nationally £18 billion of housing debt. However, the Government is adding another £7 billion to this figure and is sharing out £25 billion of debt to local authorities. This is forcing 39% more debt onto councils than really exists in the system;

5. A major issue for Waverley is that the current proposals fail to address the Decent Homes Standard backlog. CLG calculate that some £3.2 billion is needed nationally to address the backlog. Waverley has argued that local authorities who need backlog funding should get enough financial headroom in any new system to deal with the backlog as part of a settlement;

6. Stock Transfer as an option for local authorities is effectively being taken away from financially prudent councils and their tenants because stock transfer will not be financially viable for local authorities that are allocated a large debt under these proposals;

7. The new system does not give local authorities freedom to make business decisions in respect of rent setting, but rather the Rent Guideline and Rent Convergence set by Government remains in place;

8. Under the new proposals the winners in the current system continue to 'win' and the losers continue to 'lose';

9. There is no guarantee that this 'once and for all settlement' will not be reopened in years to come; and

10. The business risks associated with the Self-financing proposals (see Annexe 2) should not be under-estimated.

11. We have not seen a draft of the agreement between central government and local authority landlords, which sets out the contractual arrangements that form the basis of this settlement – we need to see this to do a due diligence exercise.

Our major objection relates to the imposition of a huge debt on this Council. The Prospectus proposes allocating Waverley Borough Council and its tenants with a debt of either £173 million or £181 million – depending on the discount rate applied.

The Coalition Government is rightly concerned about national debt and is taking effective measures to reduce it. Waverley Borough Council would therefore expect that the current administration would consider the proposal to allocate large amounts of debt to prudent debt-free or low-debt councils an unreasonable imposition.

We presented the proposals contained within The Prospectus to the Waverley 'Landlord Services Partnership Special Interest Group' – made up of tenants and councillors, and also at the Tenants' Panel Annual General Meeting. The reaction from both tenants and councillors was extreme concern at the imposition of such a high level of debt and the continuation of what appears to be an unfair deal for Waverley and some other council tenants across the country.

To answer the questions raised in the consultation paper:

Q1. What are your views on the proposed methodology for assessing income and spending needs under Self-financing and for valuing each council's business?

It is a matter of considerable concern that the formulaic approach used in the current HRA Subsidy System are being transferred into the self-financing calculations. Though we recognise and welcome an uplift in allowances, these have not been equally distributed.

It is no surprise that under these proposals those who win under the current financial regime continue to win; and those who lose, continue to lose.

As we understand it, there is £18billion of housing debt nationally. However, the Government is proposing that local authority landlords should take on £25 billion of debt. We consider this unreasonable. Had the £18billion figure been used, Waverley's allocation would have been nearer £125 million, which we may well have considered an acceptable business risk, notwithstanding our principled objection to having to take on debt we never incurred in the first place and the expenditure of which is benefiting the tenants of other local authority landlords.

Of particular concern to Waverley – and no doubt other local authorities in this position – is the issue of funding of the Decent Homes Standard. The business plan model only allows for an MRA sufficient to deal with maintaining stock at its current condition. However, we have an on-going need to carry out backlog works. The model makes no provision for this backlog to be addressed. We have assessed that in Waverley our backlog is some £26 million that needs to be addressed in the next five years. This is not addressed in the model. Whilst there might be capital grant available in the future, this is subject to the Comprehensive Spending Review. We know that the Government is looking critically at all areas of expenditure and we suspect that this particular capital budget might well be at risk. This is a risk we cannot afford to take.

If self-financing is to be introduced in line with these proposals, we believe that there should be some capping off debt per property. It is entirely unfair that Waverley should have to carry a capital debt of some £36,000 per property with other local authorities only having to carry as a little as £47 per property. The maximum debt per property should be capped, possibly in line with housing association average debt per property reported to be £25,000.

Because Waverley is one of the local authorities that pays most per capita by way of negative housing subsidy and the new proposals are simply predicated on the old system, the new system is really a different manifestation of the old system! The new proposals leave Waverley with a huge capital debt that needs servicing and we are not satisfied that the current proposals will provide Waverley with a financially viable business plan into the longer term.

Q2. What are your views on the proposals for financial, regulatory and accounting framework for self-financing?

We support the proposals for local authorities to maintain a separate housing balance sheet and although Waverley Borough Council has no long-term external debt it seems appropriate to maintain a separation of debt between the HRA and the General Fund.

By keeping two separate balance sheets the activities of the HRA and General Fund will be more transparent.

We consider the ring-fencing of the HRA to be entirely appropriate. There are always, however, local decisions to be taken about local service needs and these are best left to the discretion of the Section 151 Officer to adjudicate on the reasonableness of expenditure and where it should sit in the accounts. We take this view in the spirit of devolution and localism.

Q3. How Much new supply could the settlement enable you to deliver, if combined with social housing grant?

The use of a 7% discount rate within the debt allocation methodology would give rise to an additional £9 million of resource (ie debt) available to this council to help fund the development of additional social housing.

By taking the relatively simplistic approach of increasing the discount rate, local authorities with a large opening debt will receive a greater amount of resources for new build. Although we recognise that there is a demand for affordable housing across the country, this mechanism may not release resources where they are most needed.

In the Waverley context, however, there is a serious shortage of housing and additional resources to meet local housing need would be welcomed.

Although asked, the Homes and Communities Agency has not been able to provide this Council with any indication of whether Social Housing Grant might be available; and even it were, what percentage grant rate might be available. We have therefore assumed in our estimate for new homes that a grant rate of 40% would be available.

This being the case, and assuming we can find all the land from within the Council's own land holdings to be made available at nil cost, we estimate that 96 new homes could be provided over the next few years. £8.27 million plus 40% grant from the HCA = £11.6 million divided by build cost of £120,000 (inc fees) per unit; and nil land cost = 96 new homes.

However, there are two issues that need to be addressed: First, there is now very little Council-owned land available within the Borough that would be suitable for affordable housing schemes. This is a serious constraint. Secondly, the proposed cap on borrowing at the level of the initial debt allocation will, even with the availability of SHG, prevent the Council from being able to fund the initial construction costs associated with a new-build scheme. There needs to be some relaxation of the borrowing constraint to make new supply financially feasible for local authority landlords.

Q4. Do you favour a self-financing system for council housing or the continuation of a national redistributive subsidy system?

The Council certainly would like to see the current HRA Subsidy System abolished.

Waverley would welcome a self-financing regime that is fairer than what is currently being proposed and provides a level playing field for local authority landlords.

It seems iniquitous that Waverley should have to incur a debt of some £37,000 per property which it will have to service for the next 30 years, when other local authorities will carry a much smaller debt – for example, Brighton and Hove will have a debt of around £47 per property.

Any self-financing regime needs to be truly self-financing. Waverley proposes that a new financial regime must make provision (within the business model) for all known expenditure streams including sufficient resources to meet the Decent Homes Standard and other backlog works. We do not support the promises of annual capital grants, for which local authority landlords may or may not be eligible into the future.

Q5. 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?

The Council could be ready for implementation in 2011/12 – we are always up for a challenge! However -

On the basis of what Waverley Borough Council has seen put before it in the consultation paper the answer is NO, we are not willing to proceed. Before the Council is prepared to accept an offer of this magnitude we would expect to:

- have sight of a detailed 'contract' between the Government and the Council, so that we can understand precisely the expectations being placed upon us;
- undertake a due diligence exercise;
- have assurances about funding of Decent Homes Standard backlog works;
- have a commitment from the Government not to reopen the settlement at a later date;
- have enough borrowing powers within the prudential code to make sensible business decisions;
- a commitment that social housing regulators would not impose unaffordable requirements on social landlords.

Q6. If you favour self-financing but do not wish to proceed on the basis of the proposal in this document, what are the reasons?

Our reasons are set out in the responses to earlier questions.

ANNEXE 2

Business Risks

There are a series of business risks that would need to be carefully managed were self-financing to be put in place. These include:

- **Rent constraint** by CLG via TSA – RPI+0.5%
- **Rent Convergence** ("*For the purposes of the modeling, we have assumed a convergence date of 2015/16"* – Prospectus para 2.6; but "*Government has not fixed a date for convergence to be completed*" – Prospectus para 2.5)
- **Rent Rebate Subsidy Limitation**
- **Service Charge Income**
- **Sinking Funds** (in relation to leasehold blocks)
- **Leaseholder costs**
- **Interest Rate movements**
- **Inflation**
- **Stock Condition Data**
- **Forecasting of capital expenditure requirements over 30 years**

NB "*… local authorities will receive a revised MRA that is in excess of the estimated spending requirement in the first ten years, but in later years expenditure will exceed the annualized MRA. Therefore local authorities will need to ensure that surplus resources in the early years are made available later on.*" (Report para 81)

- **Other cost pressures**

- TSA/Residents desire for enhanced services
- Pension costs
- Works not funded through the calculations (Disabled Adaptations; Asbestos; Fire-related works; DHS; DHS plus?)

- **Voids and Bad Debts**
- **Cash Flow**
- **Stock Loss/Attrition** (through RTB/sales/regeneration) and associated loss of rental income
- **Demand for homes** (not an issue for Waverley)

- **Borrowing rates at transaction date**
- **Treasury Management** (new area for Waverley)
- **Debt write-down/redemption**
- **Re-opening of calculation by CLG** at some point in the future