

HRA Review and the future : Navigating a way forward

**Borough of Poole &
Poole Housing Partnership
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Introduction

- How we got to a review
- Review outcomes
- Proposals, issues and questions
- What does this mean for future options?

The main objections...

A long-held and loudly-voiced list of complaints

- Unfair to tenants as a whole – future rental surpluses not necessarily spent on services
- Lacks transparency – who really knows what happens to their rents
- Does not support long term planning and efficiency (exemplified by last year's rent increase decision)
- Under-funds basic maintenance of the stock in the long term
- Anti-community empowerment – no meaningful engagement on spending priorities locally...

Where is the accountability?

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Self financing project

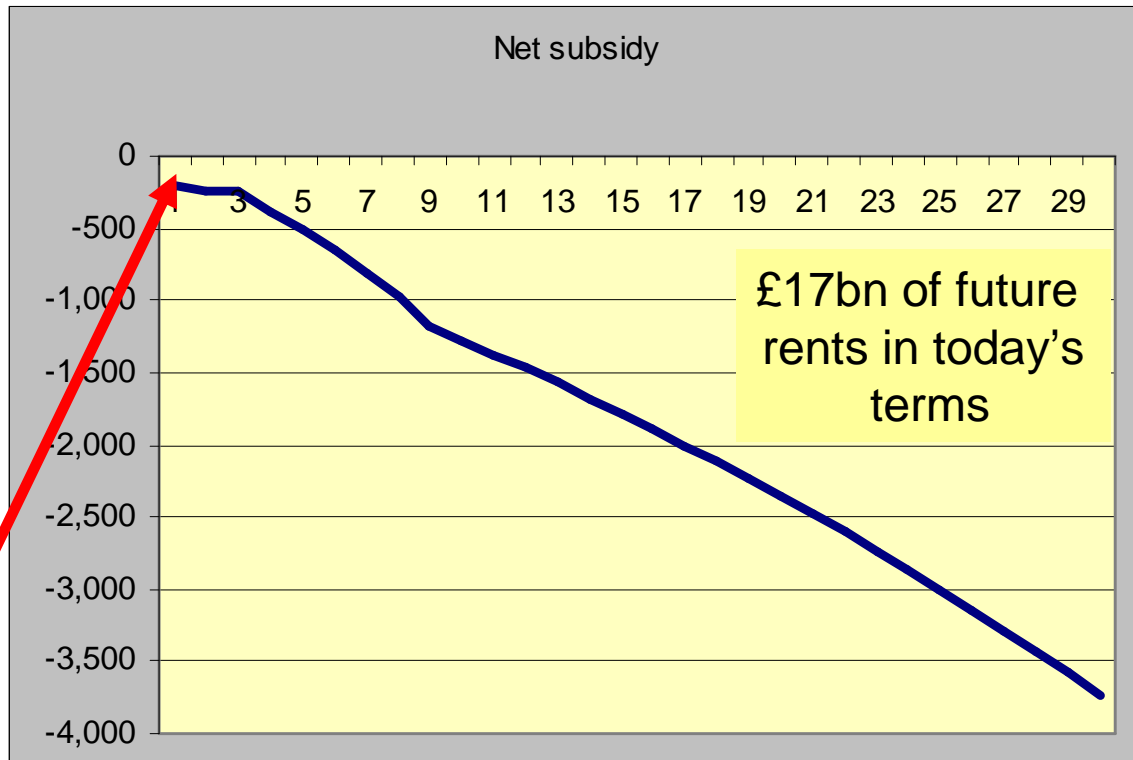
- Six case study authorities - proved...
- Future rental surpluses would be potentially enormous and give huge capacity for investment-so could LAs harness the surplus locally
- Self financing would spend rents on council housing
- More efficiently – over the longer term
- Better reflect priorities between...

- STOCK
- SERVICE
- NEW SUPPLY

	Subsidy	Self financing
Decent Homes	Short term only	YES
Sustainable investment	NO	YES
New build	NONE	13% more stock over 30 years

Where we are (or were?) going

Element	Est. 2009/10 (£billion)
Guideline rents (net of Caps & Limits)	6.1
Management and maintenance allowance	3.3
Major Repairs Allowance	1.3
Debt charges/other	1.4
Expenditure	6.0
Net overall surplus	£100m
LAs in positive subsidy	c. £580m
LAs in negative subsidy	c. £680m

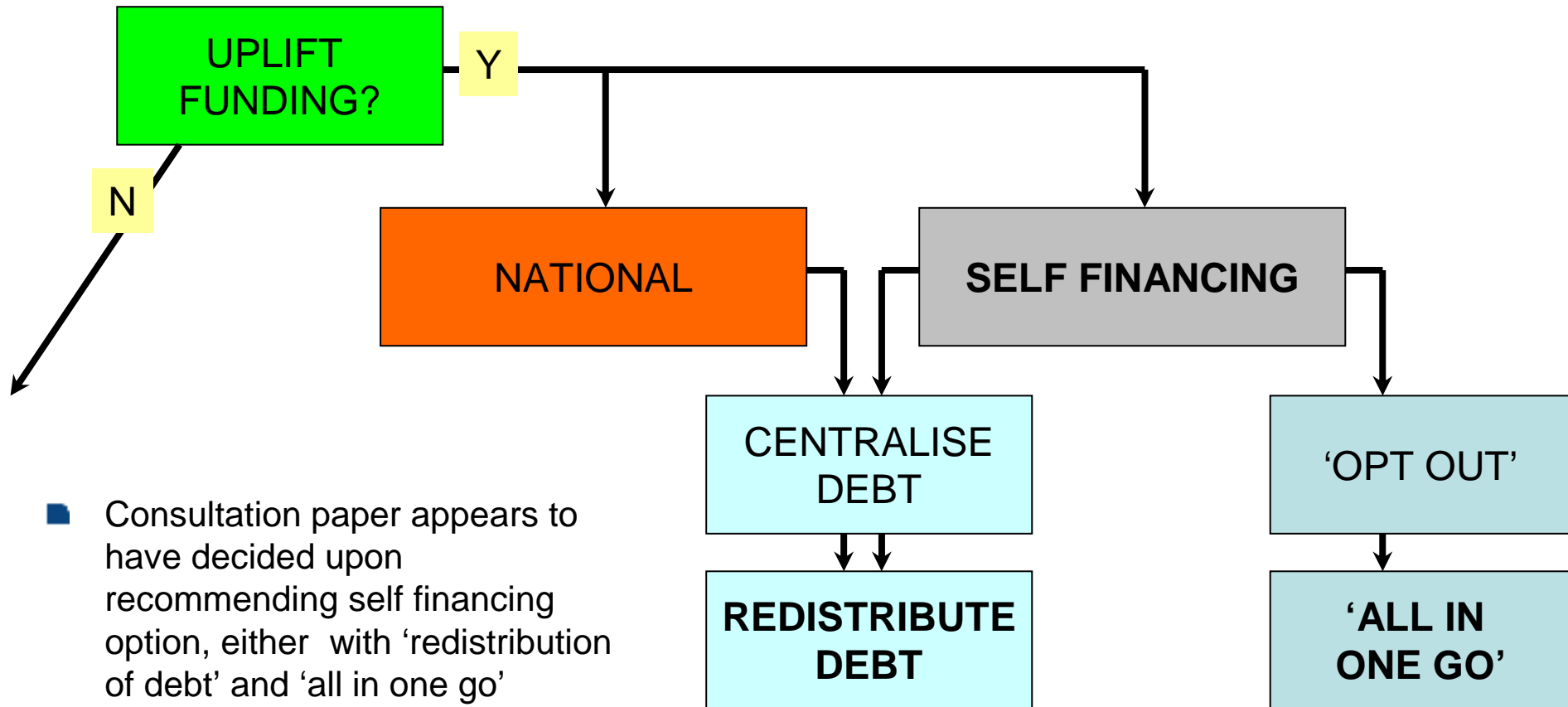


- At the basic level, the review has simply been about who gets to decide how to spend future surpluses
- Note the national surplus is closer to zero than for 3 years (last year's amended rent increase reduced the national surplus)

HRA review work

- Four work streams (began in March 2008)
- Consultation and bi-laterals
- Research work
 - M&M: 5% higher than allowances and 5% less than RSLs-(not a huge difference – there have probably been efficiency gains)
 - MRA: 43% - 60% - 90% increases needed (all stock condition surveys demonstrate this)
 - Rents: too flat (i.e. differential between small and large flats is too low)
 - HRA rules: need for reaffirmation of ‘ring fence’ (the rules are open to interpretation and in some Boroughs the HRA might still be subsidising council services to a degree)
 - Debt issues: redistribution and centralisation modelling
 - Use of receipts: where have they gone? (2004-8-receipts total £6.2 billion, £1.5 bn retained by Las, the rest towards newbuild programme)
- Models and options
- Expert submission
- Timing as planned (more or less)

What were the big picture options?



Models and options

National system: rents and receipts pooled nationally

1. Current system with uplifted allowances and medium term settlements
2. National system with debt redistribution and every LA paying into the pot

Self financing: rents and receipts retained locally

3. Self financing settlement based on formula-based debt redistribution
4. Self financing based on debt settlement that authorities can sustain
5. Self financing with debt centralisation (with a centralised fixed 'debt charge') with potential second stage departure

(The point of self financing is that the debt taken on by the LA remains static, in contrast to negative subsidy payments which increase over time)

Models and options: key issues

- Why not a national system?
 - Inefficient and does not overcome the objections with the current system
 - Debt redistribution with continued rent pooling is the worst of all worlds (i.e. LA has more debt and continues to pay negative subsidy)
- Why not simple debt redistribution?
 - Unpredictable in terms of local business planning
 - Could lead to some plans being unsustainable
- Debt centralisation?
 - Issues around the nature of the 'debt charge'
 - Continued transaction with the government
 - Two stages – over how long?

Ministerial statement and consultation

- Statement 30th June
 - Brought forward to fit with *Building for the Future*
- Further Consultation pre-recess

- Requirement for legislation...?
 - Is legislation required?
 - Timing of any new legislation?

- Related announcements
 - Increase of 'new build' investment from £100m to c.£350m
 - Increase in properties: 900 to 3,000
 - Grant funding through Kickstart increased

Summary of proposal

1. Abolish the current national HRA housing subsidy system
2. Replace with a devolved, self financing system
 - All HRA authorities would retain all rent and capital receipts (including those from Right to Buy sales)
3. Develop a single national one-off adjustment in which housing debt is redistributed between HRAs locally
4. Provide resources as part of the system to meet the long term needs of the stock and services, including 'post-decent homes' programmes (govt has committed to this but not yet known how it intends to make this possible)

So how would self financing work...(1)

■ A quick example...

Description	Year x	Year y
Rents	10	12
Services/loans	-7	-8
'Surplus' from day to day ops	-3	-4
Capital need	5	3
Receipts	-1	-1
Revenue	-3	-2
Borrowing need	-1	-
Repay debt	-	2

- Rents cover...
 - Day to day services
 - Loan costs
- Leaves a 'surplus'
- Capital programme
 - Put receipts in
 - Use the surplus above
- Still short -> borrow
- Left over -> repay

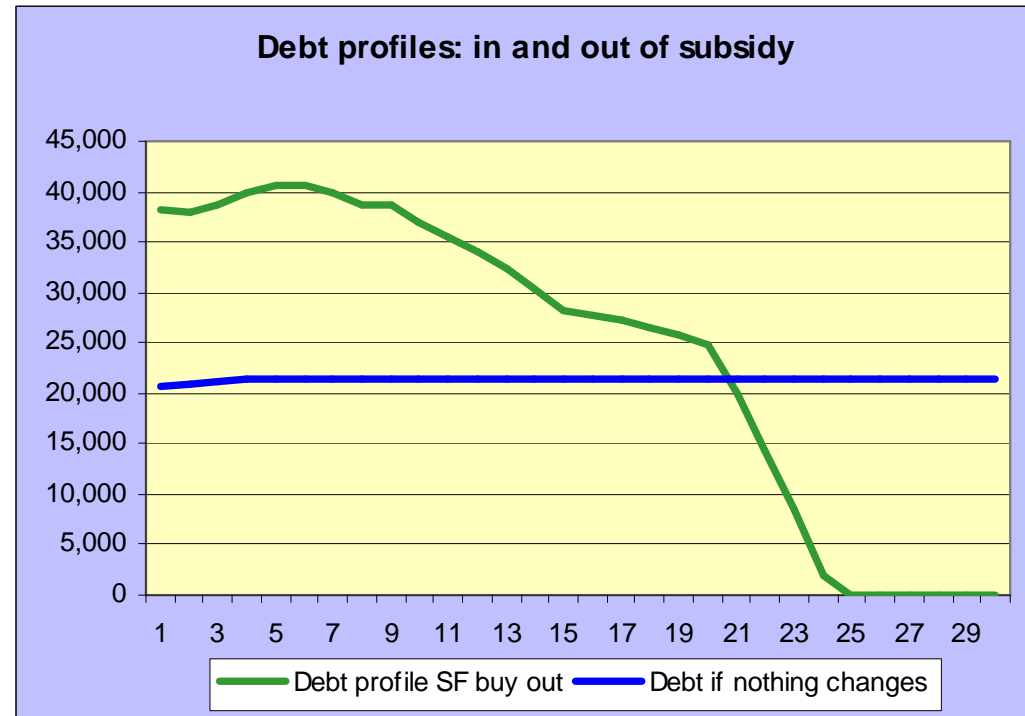
How self financing differs...(2) – Case Study

Current Subsidy system

- LA has £22m debt now
- Rental surpluses pooled nationally – come back as MRA which is not enough
- Unable to fund the capital need
- Still left with the debt

Self financing model

- LA starts with say £36m debt
- Rental surpluses kept – fully fund the capital need
- Revenue left over
- Able to clear the debt to zero within 30 years



- Why?
- Because rents and receipts are local
- And the starting debt is sustainable

Additional comments

Debt:

LAs have different levels of debt because:

- a) Some LAs were given larger borrowing approvals in the past (rather like ALMOS being given additional powers) and
- b) Some had greater RTB receipts prior to 2004 and were able to use to pay off debt

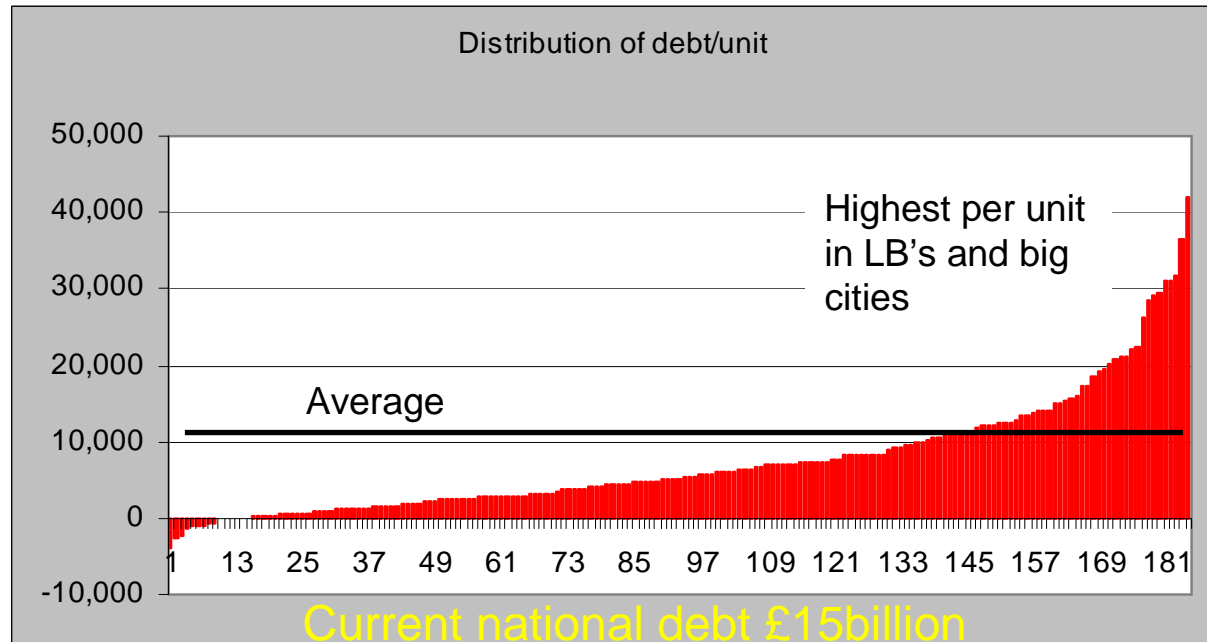
Poole's debt is almost all the result of the 'ALMO borrowing'

Self- financing:

- Under self financing LAs can pay off debt owing to debt repayments remaining static while rental surpluses increase
- Viability depends upon ratio of debt to income (as with any mortgage).

Basis for the calculation

- Average around £10,800 / unit across the system
- Those with debt above average will go down
- Those with lower than average debt will go up
- But how much?



- How will the formula work – balance of timing and complexity, e.g. some ALMOs still borrowing
- Has to leave the HRA with the resources to be sustainable
- Options – a mouthful...
 - “ Present value over 30 years of rents less uplifted allowances reflecting a higher spending need than in the current system “
 - Or...?

Some issues (1): rents and costs

■ Rents

- Retaining rent restructuring
- Period of implementation uncertain
- Possible option to widen property differentials

■ Costs

- Must ensure that the settlement allows improved spending on management and day to day services
- Must ensure that long term renewals needs are covered

■ Long term sustainability

- Must ensure that post-decent homes backlogs are covered – communal and estates: commitment in the statement is critical-(no details yet on how this could be achieved)

■ At the national level it works, must work locally for all

Some issues (2): debt and borrowing

- Debt write-down
 - Precedents with stock transfer clearance of overhanging debt
- Debt take-on
 - Technical issues arise from taking out borrowing when there has been no expenditure - need to be worked through. (Plus issue of treasury management costs?)
- Control over borrowing a central government concern
 - Future control could operate in a broadly similar way to RSLs linking debt levels to rental income levels
 - Ratios and covenants RSLs have with their funders
 - Self Financing Agreement will be put into effect

Some issues (3): receipts

- Use of Right to Buy receipts
 - Historic low – but may not always be...
- HRA must receive some proportion when properties sold (as losing the rent stream) (Might be able to keep receipts locally from next year?)
- How prescriptive does this need to be?

CURRENT

LA FLEXIBLE 25%

LA HRA 0%

GOVERNMENT 75%

FUTURE

LA FLEXIBLE 25% +

LA HRA 75% -

GOVERNMENT 0%

Some issues (4): ring fence

- Most stakeholders argued for retention and strengthening of the HRA ring fence
 - Prevents rent resources 'leaking' to the General Fund and other council services: "*Rents to Town Hall not Whitehall!*"
- For
 - Rents should be spent for tenants only
- Against...
 - Services are much more diverse than they used to be (and that's a good thing) so we can't afford to be too limiting
- Updated guidance: directive but not prescriptive

Some issues (5): new build

- Self financing pilot project identified enormous opportunities
 - Six actual outline plans
 - Actual sites with potential numbers
 - Build, acquisition and redevelopment/conversion
- 4,400 new properties
 - 3,500 for rent
- 2,200 additional properties as a result of conversion and redevelopment
- Could be 'ALMO stock' or 'HRA stock'. Currently promoting ALMO stock so as to be out of subsidy system...but if no subsidy system?
- Represented around 10-15% addition to stock numbers over 30 years

Some issues (6): issues for stock transfer

- ALMOs are part of the future
- For transfer...
- Main reason over the years has tended to be ‘funding’
 - If the HRA is sustainable – will transfer proposals come forward?
- Settlement implies no future debt-clearance support-the new Housing Association would have to take on the debt
- May make transfer difficult to stack up financially in the future
- Partial transfers may still be part of the picture
- Some are already ‘in the process’?

Why this is better than before...

- Your business plan forecast will be better than before
 - Providing the settlement is a genuinely equitable 'share out' of current debt
 - £ for £ retaining rent income
 - £ for £ retaining future RTB receipts (or 75%)
- There is no LA or ALMO that will be *worse off*
 - For the majority, it could be sustainable
 - For some, there will be a need for extra support – no different to housing associations
- Poole likely to be a debt 'take on'
 - How much will it be? Could it be sustainable?
 - Understanding in the context of the appraisal

Review summary

For the first time in a generation...

- A possible long term sustainable future for council housing
- A growing and dynamic sector able to make a telling contribution 'on the ground'?

These are significant proposals

- Outcome of a major review has led to a conclusion that self financing is the future – wide ranging consensus

The key questions...

Will it happen?

If so... when?

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Possible impacts on appraisal process

- We have identified three/four alternative financial futures:
 1. Subsidy / national HRA system (PHP continues as an ALMO)
 2. Self financing HRA (PHP continues as an ALMO)
 3. Stock transfer to independent PHP
 4. Stock transfer to a partner HA (really a 3(b))

- Impact of the Review outcome is on all of these, (not just the top 2)

- Key issues...
 - Is there political support and consensus –and on what?
 - Is there a need for legislation
 - Timing of General Election and possible outcomes

Impact on financial futures

■ Subsidy system

- To be abolished but will carry on until it is...

■ Self financing

- Preference of all parties and overwhelming majority of the sector
- BUT... getting there...
- Form of settlements, form of sign up and agreement
- (Some LAs' attitude may be based on their fundamental approach to debt and its desirability)

■ Transfer

- Could be a 'window' only up to the point of settlement
- If the proposal is implemented, transfer much less viable
- Are there alternative approaches the government could adopt?

Impact on options for future organisation

- Recent NFA/CIH paper on future long term options for ALMOs... Options, New Build & Diversification

One way of looking: financial flexibility encourages organisational flexibility

- Some previous models and ideas re-surfacing?
 - Changing the ownership basis of PHP
 - Different financial treatments

Alternatively, HRA freedoms mean we'll stick with the HRA

- HRA continues in public sector as now
 - Staying with the council on short term management agreements

Timing is everything

- Exploring scenarios and timelines...
- Is legislation required? Will the LGA be able to achieve consensus amongst all LAs for debt redistribution. May be doubtful, therefore legislation required.
- When will legislation be possible? Unlikely to be before next election, then how much of a priority will it be under the new government. Under any scenario unlikely to have new system in place before 2013-2014
- Is the door really close don transfers given the above timetable? LAs face problems with funding before 12013-2014. Will government consider/propose other options
- Unlikely to be radical shift in allowances 2010-2011