



Preparing for self financing

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Introduction

- Local authorities and ALMOs have argued for many years for greater flexibilities to run their housing businesses
- Another and major milestone has been reached
- Legislation not consultation
- Preparing through the implementation period
- Preparing for the new world



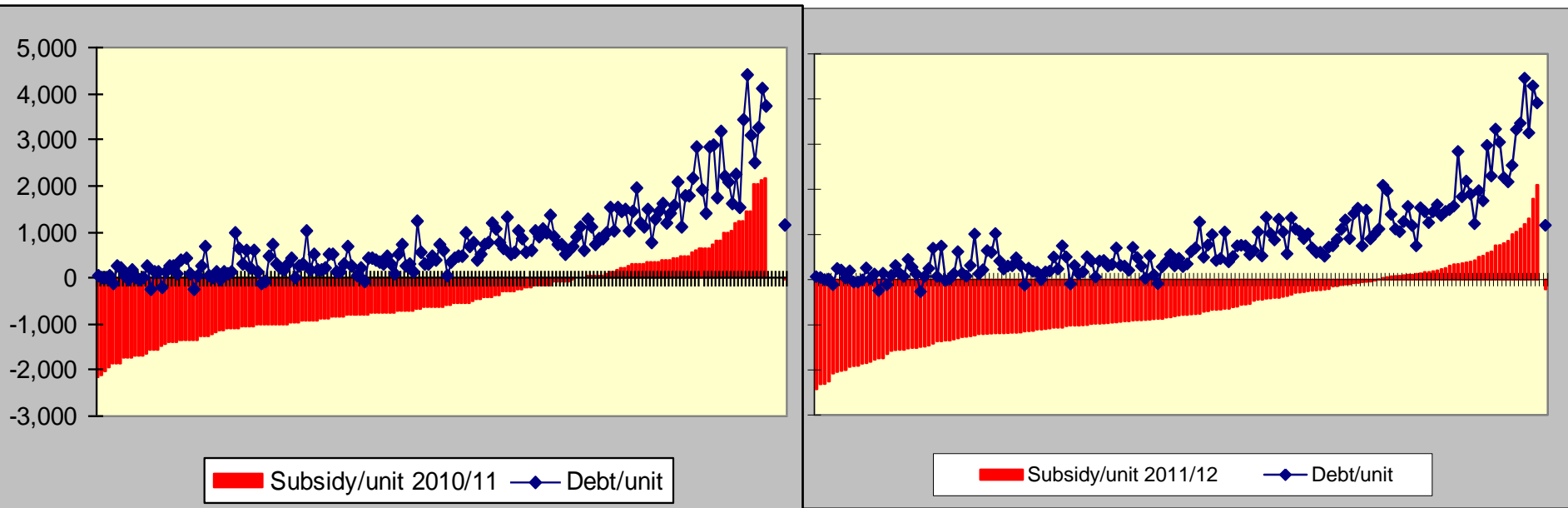
Preparing for implementation: the numbers

- The subsidy system has got to go: you don't need any greater evidence than the table below
- Near 7% rent increases for tenants... less than 2% of the increase ends up being spent for tenants

Est national subsidy totals	2010/11	2011/12	Change
	£m	£m	£m
Guideline rents	-6,191	-6,474	-283
Mgmt & Maintenance allowances	3,328	3,360	+32
Major Repairs Allowance	1,273	1,282	+9
Debt/Other *	1,246	1,388	+142
ALMO/PFI subsidy *	244	91	-153
Expenditure	6,091	6,121	
Subsidy surplus	-100	-353	-253

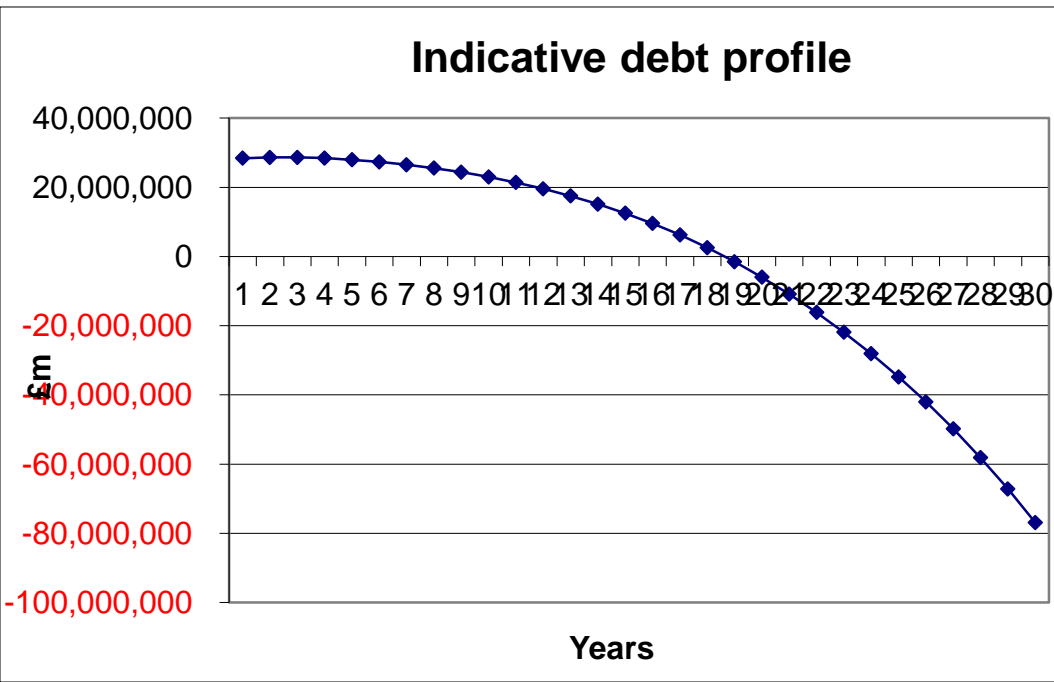


Subsidy determination 2011/12 & 2010/11



- Significant shift to negativity – across the board
 - 2011/12 :133 negative paying £825m – 41 positive getting £472m
 - 2010/11 :128 negative paying £700m – 50 positive getting £600m
- Indicative debt allocation in line with this movement – there have been some movements

Preparing for implementation: the numbers



- Assumptions and discount factors should mean authorities have more money over the longer term
- But...
- Assumes up to standard on day one

- The details published by government are considerable and LAs are able to check all the assumptions made against:
 - Their own experiences
 - The position last year
 - The position if the subsidy system were to continue



Checking the numbers... some issues

- Allowances
 - **Uplifts** remain but the distribution has changed – in some authorities very considerably; do we understand why?
 - **Aids and adaptations**: do you want to make the case for a different distribution - bearing in mind a fixed pot?
- Rent policy
 - **Convergence 2016** with some assumption of caps and limits (the £2 limit) – but what does your actual rent plan say?
- Property numbers
 - Opportunity to adjust for **planned demolitions**
- RTB volumes
 - For many the **assumption is very low** – as low as sales activity has ever been – important that the implications are recognised
- Treasury Management preparations
 - Are there any googlies in the **detailed timetable**?



Three challenging areas – and questions

- Treatment of Right to Buy receipts
- Operation of the debt cap
 - Beware also the provision to exercise control over borrowing in 2011/12 to prevent going 'over cap'
 - Genuine reasons for investment in 2011/.12 – eg green investment
- Reopening the settlement
 - Getting political commitment to the two areas in the document essential
- Where are the issues? Where are the risks? What are the options for addressing the risks?



Risks and opportunities

- For all authorities, self financing will mean more resources under local control over the longer term; some are left better off in revenue terms quickly; for many, the real power of self financing will develop over the medium to long term
- But... for some, the pressures in the early years might be too great to allow a sustainable plan

Triple whammy... Under-funded DH backlog / Pooled RTB receipts / Debt cap...

All authorities should start the new system without the need to struggle to meet backlogs that have built up for decades and which central government has a responsibility to address



Preparing for the new world...(1)

- Develop plans for taking out the money to pay the settlement now
 - Aim to maximise value in the settlement transaction.
- Update (complete?) your initial HRA 30 year model
 - Assess the impact of the new figures given your 2011/12 budget base and known capital plans
- Run scenarios and identify the key factors
 - For some this might be repairs backlogs
 - For others this might be the starting position on debt
 - For others, rents might be above or below targets with implications for financing



Preparing for the new world...(2)

- Assess the impact on the General Fund
 - Alert DCLG to any unintended consequences – may be open to proposals to mitigate adverse GF effects.
- Developing a new approach to risk management
 - Fit for the new world
 - Shift in the balance of risks: political/volatility -> interest rates and inflation
- Think about planning to establish an HRA business plan for April 2012
 - Involving tenant and stakeholder consultation
 - Rest of the council
 - Ideally putting something in place for the start of self-financing.



Summary

- HRA business planning introduced in 2000/01 but always rather been a bit of a 'plaything'
- Now an extra £28bn of unsubsidised debt with authorities
 - Risks important but containable; rewards potentially significant

Business planning becoming real!

3-way resource utilisation

1. **First call** on rents must be to cover existing debt
 2. **Second call** must be to ensure that properties are maintained so that they continue to raise rent income... so that they can continue to cover the debt
 3. **Third call** is for service delivery and other priorities
- **Then** we can talk about development and growth...



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