

**Next steps in HRA Reform:  
Preparing for an offer**

**Briefing for Members**



**“Equipping the profession for today  
and tomorrow”**

**December 2009**

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## Introduction

Following the conclusion of the consultation on Housing Revenue Account reform at the end of October, the government is preparing the ground for a voluntary offer to local authorities in February 2010. The precise format of the offer is being worked up by a project team established by CLG (which includes CIH, LGA and CIPFA), but it is expected to include a proposed debt reallocation or settlement, to take place from April 2011, along with details of how self-financing for the HRA would work.

Local authorities, their housing and finance services, together with their ALMOs if they have one, will need to be in a position to respond to the government's offer. This briefing is intended to assist authorities in developing the main criteria upon which they might make their decision.

## Summary – the Key Issues

In the box below are the seven key issues that each council will need in order to develop a long term sustainable business plan for self financing. Not all of the building blocks will be in place by the spring. But it should be possible to develop the main financial factors locally in order to inform the decision.

### The seven keys issues for a self financing business plan:

- 1. What services does the HRA need to finance?** - What needs to be spent on the stock, estates, neighbourhoods and services over the next 30 years?
- 2. What will be the debt settlement?** - The amount of debt to be calculated and allocated by government.
- 3. What capital grants will be available in future?**- The extent to which capital grants can be assumed to meet backlogs and other outstanding work in the early years of a new business plan.
- 4. How will the debt be allocated (*the process*)?** - The proposed mechanism for how debt levels will be reduced or increased locally needs to be known to understand the interplay with existing debt.
- 5. What flexibilities will there be for borrowing?**- Whether there will be any limits on borrowing over and above the affordability criteria within the Prudential Code.
- 6. Whether use of receipts will be directed by government?**- Whether the government intends to direct the use of RTB receipts locally.
- 7. What will be the actual form of the self-financing agreement, what will be included and excluded?**

If they have not already, local authorities could develop the main issues using the following points.

1. Understand service spending but particularly understand your stock investment needs: desk top update of the stock condition survey profile,

- externally benchmarked and verified, should be sufficient to enable high level business plan modelling.
2. Model opening debt settlements using the key factors set out in this briefing: rents converging in 2017, with estimated uplifts to M&M allowances and MRA.
  3. Model self financing business plans launched from the possible debt settlements in order to test the viability of future plans.
  4. Develop the '*what works for you*', including:
    - Levels of debt within which the self financing plan could meet spending needs and be viable,
    - Levels of uplift in allowances which are required in order to achieve viable debt settlements,
    - The sensitivity to changes in future rent policy post-settlement,
    - The need for borrowing and/or capital grants post-settlement,
    - The extent to which authorities rely on the conversion of existing funding streams, especially ALMO borrowing, into capital grants at the same level.
  5. Understand the implications for the rest of the authority by modelling the impact on General Fund debt interest rates of taking on, or reducing, significant levels of HRA debt.

Every authority will have a scenario in which the business plan starts with a debt that is able to be cleared within 30 years making sure that all future revenue and capital spending is covered. Do authorities have a feel for what that is?

Members will be asked to take a significant decision next spring, in some cases to take on or reduce large amounts of debt in place of negative or positive subsidy, with key risks involved. The decision could be very much for the long term and will need to be taken in the context of the offer 'on the table'. Efforts to ensure members and other stakeholders are adequately prepared and briefed in advance will be essential, together with an appropriate engagement with tenants.

In particular, members will require briefing on the offer, the impacts and whether it could be viable for the HRA, making policy and financial judgements against the alternative financial futures for the HRA. These could either be a legislation-backed self financing settlement in 3-4 years time or even an abandonment of the proposals for self financing and the subsidy system continuing.

These issues are set out in more detail within this briefing, covering an update on the HRA reform debate and further areas of work in preparation that authorities may be considering. CIH remains committed to the localisation of council housing finance and we are working closely with other agencies to develop guidance materials for local authorities in the New Year.

## **HRA Reform: the Background**

The consultation paper *Reform of Council Housing Finance* was published in July 2009, concluding the CLG review of council housing finance which began in March 2008. The review took in many thousands of contributions from stakeholders, as well as detailed research on spending needs and options for the reform.

The problems with the current HRA subsidy system, addressed in the review, are many and varied. They include: lack of transparency and accountability between landlords and tenants, growing complexity in the way resources are distributed, increasing volatility in funding allocations making planning very difficult and, since 2007, the system being in overall surplus - so that an element of tenants' rents supports other government spending, not just (as was previously the case) spending by other housing authorities.

As a topical illustration of the problems, at the time of writing this briefing the annual draft HRA subsidy determination for 2010/11 has still not been published: this is the latest this has been announced and the delay is causing multiple problems for authorities and ALMOs looking to set budgets and work on rent-setting from April onwards.

In summary, the proposals from the consultation paper were to:

- Dismantle the current HRA subsidy system and replace it with self-financing.
- Make a one-off adjustment of housing debt between all authorities in the system.
- Make a debt 'settlement' to be calculated by government utilising a future forecast of subsidy, rents and allowances (effectively a commutation of 30 years' worth of future HRA subsidy into one go).
- Uplift the assumed level of allowances within the debt settlement calculation (5% for management and maintenance, 24% for Major Repairs Allowance).
- Retain all future rent income locally (albeit with continued rent restructuring and convergence to target rents on a trajectory to be determined by government).
- Retain locally the 75% of right to buy receipts that are currently pooled by government, for use on affordable housing and regeneration.
- Strengthen the guidance on the operation of the HRA ring fence, perhaps with a more explicit landlord account covering revenue and capital.
- Require an 'original' 30 year business plan for each authority, with an assumed level of expenditure based on allowances and an assumed need for borrowing.

Nationally, as the assumptions within the settlement will be based on forecast levels of subsidy, the settlement would be *neutral* between central and local government.

## **Developments since Publication of the Consultation Paper**

The consultation on *Reform of Council Housing Finance* closed on 27<sup>th</sup> October. It is understood that there were well over 200 responses overall, with an overwhelming majority in support of the proposals for a radical overhaul by dismantling the centrally controlled HRA system and replacing it with one that is locally controlled and 'self-financing'.

Very early during the consultation period, the issue of the potential need for legislation to implement the reforms raised concerns about timescales and caused uncertainties about how soon changes could take place. In response, the government has now promised to make an 'offer' to local authorities on which they can decide whether to seek a voluntary release from the system.

To develop the offer, CLG has established a multi-disciplinary project team, with representation from CIH, LGA and CIPFA, to work out the details. Local authorities will receive an offer to leave the system, now scheduled for February 2010, and - although the precise terms and details of what will be included are yet to be finalised - local authorities will need to be in a position to respond.

This briefing has three aims:

- To bring members up-to-date on the progress of HRA reform, including a short summary of the key areas of debate from the consultation period.
- To set out some of the key issues which might form part of the offer.
- To assist local authorities, their members, corporate finance and housing functions, ALMOs and tenants, in beginning the process of getting into position to respond to the offer when it is published.

Both CIH and the Local Government Association (LGA) are leading on the development of materials and guidance to help prepare local authorities for a new world of self-financing and these will follow in the New Year.

### **Key areas from the consultation: some issues for local authorities**

As has been widely reported, the review was about both the *funding* within the system and the *type* of system required for the future. There were many questions and issues raised, some of which are specific to individual groups of authorities. At the national level, we have highlighted below six areas on which the debate focused during the consultation period.

#### *1 What level of uplift?*

Research identified that there were shortfalls of *funding* compared to assumed levels of need. These included:

- A 5% shortfall on day-to-day services (management and maintenance)
- A 43% shortfall on the Major Repairs Allowance

- £6 billion of investment needed for additional improvements/outstanding backlogs
- Up to £5 billion needed on health and safety and disabled facilities expenditure.

Some of these needs are to be covered in the new system, including the uplift on M&M allowances and a 24% uplift on MRA (excluding outstanding backlogs). The remainder will be covered through a system of capital grants to be established after the settlement - for which authorities will be able to apply, through a process yet to be determined.

When analysing the potential impact and possible debt settlements locally, it is essential that account is taken of the fact that the allowance uplifts will be calculated and distributed at the individual authority level. Specifically:

- The 5% uplift for M&M allowances could be regionally distributed, and will need to take account of the current commitment to transitional protection operated for these allowances.
- The 24% uplift on MRA, which excludes backlogs and which is aimed towards 'newly arising need', is likely to be distributed on the basis of individual authority property mixes.

Both the background research reports for the Review (HQN's on management and maintenance and BRE's on major repairs) contain some material on the way this might have looked in the past, but more work is required to confirm the actual proposed allocations.

The process for calculation and assessment is one of the key workstreams within the CLG's project team and work has recently begun to develop detailed proposals. The process for distribution of uplifts is critical to success, and the offer must be (and be seen to be) reasonable, transparent, equitable and appropriate so as to avoid unnecessary contention between authorities.

Locally, work to test the outcomes must take account of a range of different scenarios that might apply: our advice would be to always start with 0% uplift on M&M and 0% uplift on MRA as the 'worst case' scenario.

## *2 The ring fence*

The Review consultation proposed to 'strengthen' the HRA ring fence and there was broad support for this among stakeholders. However, opinion appears to be split on how this is implemented, with support for the principle of 'council housing income for council housing' being coupled with some demand for flexibility in the funding of service delivery for complex services in multi-tenure areas.

Work was undertaken within the Review aimed at updating the woefully inadequate current guidance (from 1995) but this work is still unpublished – this is a pity as it may have assisted in informing the debate around what strengthening the ring fence means in practice.

When thinking about the implications of this part of the reform proposals locally, our advice is to remember that:

- The intention is to introduce separate reporting within each authority's annual accounts (and annual report) for the ring-fenced HRA (capital and revenue).
- Tenants have a key role in determining service standards and should be given the opportunity to influence how the ring fence operates in the future.

### *3 Level of debt allocation*

The process will be one of allocation (as opposed to redistribution) where a debt settlement is calculated for all authorities based on a formula developed centrally.

A debt adjustment would be implemented which would move the current level of supported debt (ie that in the authority's subsidy calculation) to the new level of the debt settlement. This is intended to ensure that where an authority's actual housing debt is lower than its subsidy level of debt, the authority will keep the headroom it currently has. [As an example, for an authority where the actual debt is currently £100m and the subsidy debt is £120m: if the debt settlement were £200m, the starting debt would be  $£100m + (£200m - £120m) = £180m$ .]

Many authorities have estimated possible debt settlements. Some may not yet have had the opportunity to do so. For guidance purposes, the review research proposed a mechanism based on Tenanted Market Value (TMV) - a Net Present Value cashflow forecast based on future subsidy guideline rents, less allowances.

Authorities can model the possible outcomes fairly straightforwardly as there are only a few variables. There are five principle elements and all contribute to the outcome of the debt calculation.

### Five principle elements of the debt allocation

1. Guideline rents rise to formula rents
  - The wider the gap at the moment, the lower the starting debt (as reduced future rental surpluses can afford a lower level of starting debt).
  - Mid-range forecasts might lead to a convergence date of 2017 (although this could be different); caps and limits adjustments may be required to the forecast.
2. M&M allowance including uplift
  - At the national level, 5% - but locally?
  - The higher the uplift, the lower the starting debt - as the rental stream has to support a higher spending need.
3. MRA including uplift
  - Nationally 24% - but locally?
  - The higher the uplift, the lower the starting debt - as the rental stream has to support a higher spending need.
4. Inclusion of real and general inflation
  - If general inflation is included, this massively increases future rental surpluses; for this reason the review research was in 'real terms' ie start year prices.
  - Real inflation should be provided for on target rents (0.5% pa) but not on allowances.
5. Discount factor
  - The higher the factor, the lower the debt, as debt is assumed to be more expensive by a higher factor. A factor of 7% was used in the Review research and this is a key assumption in the exercise to determine the offer now underway.

The adoption of a 'real terms' settlement might give some headroom to allow increased revenue expenditure in future years (as the general inflation increases in rent will be wholly available to the business plan).

There has been much debate about the overall amount of debt nationally that might be allocated as part of the proposed settlement. The level of debt matters at the national level in terms of what happens to any differential between existing debt and new levels of debt. The current level of supported debt in the system is £20 billion (technically, the Subsidy Capital Financing Requirement plus ALMO round 1 and 2 allowances converted into borrowing). The consultation talked of the potential for the settlement to be '*more or less*' than this figure.

At paragraph 4.9, the paper said "*It has been suggested... government should pay off debt*" but that it would be "*... unfair to ask the general taxpayer to support this debt*". Therefore, if write off is a cost to the *tax payer*, then it follows that any allocation above the current level must be a cost to the *rent payer*. It is not clear



what would happen if more debt is allocated than currently supported and how the government would invest the resources. All within the council housing sector have urged that the principle of 'council housing rents for council housing' is preserved at the *national* (as well as *local*) level.

Clearly, the level of debt matters *locally* for each HRA:

- The lower the opening debt, the easier it is to fund the revenue services and capital works that are needed and to cover the debt, with increasing rents giving rise to growing headroom over 30 years.
- The higher the opening debt, the more authorities would need to borrow to meet the needs of services and the stock, and - beyond a certain level - the debt may not be covered by future rental streams.

Again, authorities can model the impact of different debt settlements by applying rents, revenue costs and stock survey-based capital profiles to the business plan to test the impact on debt and borrowing levels.

In a way, this is a similar process to determining the financial viability of stock transfer – if debt is able to be covered down to zero within 30 years, this suggests viability, if not, this suggests much greater risk, maybe even non-viability.

Each authority will have a '30 year point', defined as the level of debt and expenditure that leads to a repayment term of 30 years. It is likely that authorities will need to understand what this position is, prior to responding to the offer.

#### 4 *Moving debt*

A key area of debate has been the process for debt reallocation. Some will have debt written off/taken over by government, some will take on new borrowing. There have been alternative suggestions as to how this could happen.

Some have suggested that the government could take all housing debt over and reissue new debt based on the currently favourable interest environment. This could lead to an overall reduction in interest paid by HRAs, but would mean the premature repayment of up to £20 billion of loans, incurring potentially large premiums.

Others prefer a 'top slice' approach in which loans are identified from those authorities where debt is to reduce, repaid by government with premiums payable (maybe between £1-2billion) and new debt is taken on by those authorities where debt is due to increase.

Some of the key issues are:

- How much will premiums on debt redemption cost – and who will pay them? Will they be covered within the settlement (as suggested in the consultation paper) or could government cover them as it does for stock transfer overhanging debt payments?
- What level of local flexibility in treasury management is desirable? Should the government specify debt increases and then allow loans to be taken out locally, thereby maximising local flexibility in how the debt portfolio is managed? Or is there a case for a central solution with long-term loans at low interest rates passed to local authorities?
- Is there a case for ‘ring fencing’ HRA debt within the local authority’s accounts? Or should the current loan pooling arrangements continue?
- What could be the impact of taking on interest rate risk at the local level? How does this compare to risks under the current system (for example uncertainty over future funding)?

A key issue raised by many is what happens if the HRA business plan gets into trouble and cannot cover the HRA’s debt? What would be the recourse? It is essential that the terms of the forthcoming offer cover this. A key option would be to seek redress through asset management (for example, selling assets) rather than the unacceptable alternative of the debt burden falling on the General Fund.

#### *5 Future borrowing flexibility*

The real power of self-financing is in investing in neighbourhoods and services over the longer term, with authorities borrowing when they need to borrow and repaying debt when they are able. Future rental surpluses demonstrate the scope for borrowing to invest – rather than simply make good and mend.

However, larger amounts of borrowing may be ‘inconsistent’ with public sector constraints, particularly in a period when there is pressure to reduce public sector debt. As CIH has consistently highlighted, there is a clear tension between:

- Local authorities looking to invest, to spend to save and to take a longer-term view of stock and neighbourhoods (on the one hand), and
- Government looking to constrain public borrowing, including by local authorities (on the other).

That additional borrowing after the settlement is both desirable and inevitable is not in doubt; and however the offer is formulated, it must set out the proposed limitations, if any, on future borrowing. Many in local government have pointed to the Prudential Code as sufficient to cover future affordability. Others have suggested that an additional set of measures might be appropriate, perhaps in line with the imminent assumption of responsibilities by the Tenant Services Authority. Could a ‘peak debt’ approach, similar to that which applies to stock transfer housing associations, be used in this context?

## 6 *Capital receipts from right to buy*

In many ways, the proposals to retain 100% of RTB capital receipts have not been contentious, with widespread agreement both that localisation is appropriate and that there should be no direction from government towards whether receipts are reinvested in existing stock or new build.

The government believes that it already has the power to end the pooling of receipts from sales from existing stock when it is taken out of the HRA subsidy system, as it has already done for newly built or acquired stock (not in the HRA subsidy system). It may not therefore need to amend capital finance regulations.

### **Summary: a self-financing future?**

Self-financing could represent a fundamentally new way of doing business. In many ways, this could be *real* business planning with decisions genuinely being taken with the long term in mind. Among other advantages, it allows:

- A proper conversation with tenants about how local authorities use rent increases, in the context of government-set overall rent policy (as for housing associations)
- Long-term investment planning with all the efficiency and value for money that this can deliver (estimates at up to 10% of long-term capital costs were made in the 2008 self-financing pilot project)
- Long-term 'asset management', with decisions taken about regeneration, redevelopment and new supply in the full knowledge that resources would stay within the HRA for reinvestment.

### **Preparing the ground: CLG progress**

As pointed out above, CLG is preparing to make an offer to local government in February. Its project team comprises a range of agencies (including CIH, LGA and CIPFA) and some individual authorities (nominated through the LGA); it began meeting in early October.

There are a number of workstreams aimed at developing different aspects of the offer, organised into three groups:

1. *Development of the financial detail* - what debt settlement will be proposed at the authority level, including assumptions around future rent policy and how the uplifts in allowances will be allocated. (Authority case studies are assisting in this process and external consultancy support for the modelling has recently been commissioned.)
2. *Accounting and debt issues* - including the technicalities of the debt reallocation process, and what if any accounting rules need to be changed as a result of self-financing. (CIPFA is leading this aspect of the group's work.)

3. *Ensuring that there are sufficient skills and capabilities in the sector - to support the business planning needs under self-financing. The capacity and awareness raising/building work is being led jointly by CIH and LGA.*

Work is aimed to produce a draft settlement by February. What might this look like? How do local authorities want (or need) it to look? The next two sections cover some of the long-term aims followed by the immediate action needed in the short term to decide how to respond to the government's offer.

### **Developing a sustainable 30 year HRA business plan**

If an offer of a 'deal' is to be made, what are the key components of such a deal? We set out below a 7-point checklist which we believe are the minimum essentials to be able to develop a long term sustainable 30 year plan.

#### *1 What services does the HRA need to finance?*

What needs to be spent on the stock, on estates and neighbourhoods and services over the next 30 years? Given that assumptions will be made about future spending needs in determining the settlement, how do these compare to your own stock condition survey estimates? Have you updated your stock survey – by desktop or in terms of actual physical surveys? Do you need to ramp up service expenditure in order to meet the TSA's proposed new standards and continuing short notice inspections from the Audit Commission? If you are currently below 'two stars', do you need to invest to achieve higher standards?

#### **Key points about stock condition**

The standard for the stock should be set higher than 'decent homes', perhaps the local 'decent homes plus' standard developed with tenants, and which will be useful in complying with the TSA's proposed new 'home' standard from April 2010. But the profile does *not* need to be one developed for stock transfer as this would include comfort for private funders not necessarily needed in the HRA context.

A key factor will be the extent of backlog or further improvements required when the decent homes standard is complete (and completing the decent homes standard as soon after 2010 as possible) – the post-decent homes 'bulge' (if present). Examples include investment in the environment and other improvements deferred whilst decent homes has been achieved, non-traditional properties, communal areas etc, as well as maintaining decency as properties fall into non-decency as age increases. This investment need is essential as the main risks in a self-financing plan will arise from being unable to meet needs in the short term (grants may not become available or borrowing restricted).

## *2 What will be the debt settlement?*

The amount of debt will be calculated by government. Authorities can estimate the potential settlement using the example approach above but caution should always suggest that a range of possible outcomes is quoted to members and stakeholders. Clearly, the more debt taken on, the less headroom there will be to meet future needs and spending may need to be adjusted.

Modelling different debt settlements can give a reasonably clear picture of the parameters in which an authority might be able to deliver sustainability over the long term. The five principle factors set out earlier can straightforwardly be developed into estimates of debt settlements, varying uplifts in allowances and rent convergence dates, discount factors and inflation. The aim would be to develop a sense of the possible outcomes locally under a range of scenarios.

## *3 What capital grants will be available in future?*

A key component of the plan would be the extent to which capital grants can be assumed to meet backlog and other outstanding improvements in the early years of the plan. The more grant there is available, the less an authority might need to rely on borrowing in the early years and the more sustainable the plan.

## *4 How will the debt be allocated?*

The debt written down is likely to be top-sliced in a similar way to loans written off under stock transfer overhanging debt arrangements. Authorities taking on new debt, will need to know the 'how' before they can model interest rates and the interplay with existing debt.

## *5 What flexibilities will there be for borrowing?*

It is essential that authorities know whether there will be any limits on borrowing over and above the considerations of affordability within the Prudential Code. A plan that works, by borrowing up front and repaying debt from future rental surpluses, might be scuppered if there are artificial (or any other) constraints on borrowing.

## *6 Whether use of receipts will be directed by government?*

The consultation paper implied that government might direct the use of receipts to either existing stock or towards new supply. It is essential that authorities know what the intentions of government are so that they are able to model the use of receipts accordingly. As we have stated elsewhere, there will need to be some provision for receipts to end up in the HRA to cover lost rental streams when properties are disposed of under the RTB.

7 *What will be the form of the self-financing agreement? What will be included and excluded?*

If the offer and acceptance is to be voluntary, what will be the form of the self-financing agreement that is signed? The Housing and Regeneration Act 2008 sets out the powers to enter into such agreements and these are in use already for HRA new build. In order to develop a long term plan, authorities need to know what will be in these agreements, including such fundamental questions as:

- What if policy changes affect the fundamental assumptions in the settlements – for example if rent policies change or if standards (such as the Decent Homes Standard) is increased significantly?
- What happens if the business plan gets into trouble – what is the recourse?
- How will PFI properties be treated?

**What does an authority need to know before it says yes?**

Not all of the building blocks will be in place by the Spring. But it should be possible to develop the main financial criteria locally in order to inform the decision in principle. If they have not already, local authorities could develop the main elements of their assessment by following these points:

6. Ensure you understand your service spending but particularly understand your stock investment needs. Carry out a desktop update of the stock condition survey profile, externally benchmarked and verified - this should be sufficient to enable high level business plan modelling.
7. Model opening debt settlements using the key factors set out in this briefing: rents converging in 2017, uplifts to M&M allowances and MRA in real terms with a 7% discount factor.
8. Model self-financing business plan launched from the possible debt settlements in order to test the viability of future plans. A profile that clears to zero before 30 years suggests viability. Those where debt is unable to be cleared to zero within 30 years may still be more viable than staying in the current system but would have a higher degree of risk. A rising debt profile, or one that has higher debt than at the start of the plan, suggests it is non-viable.
9. Develop a '*what works for you*' set of criteria, including:
  - Levels of debt within which the self-financing plan could meet spending needs and be viable.
  - Levels of uplift in allowances which are required in order to achieve viable debt settlements.
  - The sensitivity to changes in future rent policy post-settlement.
  - The need for borrowing and/or capital grants post-settlement.
  - The extent to which you need to rely on the conversion of existing funding streams, especially ALMO borrowing, into capital grants at the same level.

10. Understand the implications for the rest of the authority by modelling the impact on General Fund.

### **Impact on the General Fund**

Modelling can be undertaken to test the impact on General Fund debt interest rates of taking on, or reducing, significant levels of HRA debt. To an extent, this will depend on the process for actual debt reallocation and this will not be known until the offer is published. As the government has committed to 'make good' any adverse impact on the General Fund, it would be useful if authorities had a sense of what these might be. At most risk of adverse impacts are authorities that are debt free and authorities with very low average interest rates, ie those below current long-term PWLB market rates, where there is a risk that debt taken on will be at a higher rate.

Every authority will have their '*30 year point*', the point at which the business plan starts with a debt that is able to be cleared within 30 years making sure that all future revenue and capital spending is covered. Do you as an authority have a feel for what that is?

### **Advising Elected Members**

Members will be asked to take a significant decision next spring, in some cases to take on or reduce large amounts of debt in place of negative or positive subsidy. The decision could be very much for the long term and will need to be taken in the context of the offer 'on the table' from government. Efforts to ensure members and other stakeholders are adequately prepared and briefed in advance will be essential, together with appropriate engagement with tenants.

*First*, members will require briefing on the offer, the impacts and whether it could be viable for the HRA, against the alternative financial futures for the HRA. These could either be a legislation-backed self-financing settlement in 3-4 years time or even an abandonment of the proposals for self-financing and the subsidy system continuing.

The lower the debt, the less dependent business plans will need to be on capital grants, the more predictable the future might be and the more likely that authorities will be minded to accept the offer.

The higher the debt, generically, the more potential there is for dependence on the receipt of capital grants, the greater the risks and, perhaps the less likely that authorities will accept the offer.

*Second*, even if authorities do receive an offer of settlement above that which is either ideal or expected, members must consider the alternatives, which could be:

- *Option A* - voluntary self-financing in the spring, at the level of debt in the offer 'on the table' by then.
- *Option B* - self-financing through legislation, maybe in 2013/14 with all the uncertainties that suggests?
- *Option C* - staying with the current system, where there is certainly no guarantee that the allowance uplifts promised for self-financing would be made available in the future.

Key links:

*Self-financing of council housing services: Summary of findings of a modelling exercise* (March, 2008):

<http://www.communities.gov.uk/publications/housing/selffinancingservices>

*Reform of Council Housing Finance* (July, 2009):

<http://www.communities.gov.uk/documents/housing/pdf/1290620.pdf>

*HRA Reform: The really big issues* (CIH, September 2009):

<http://www.cih.org/policy/HRA-reform-consult-summarysept09.pdf>

CIH response to *Reform of Council Housing Finance* (October, 2009):

<http://www.cih.org/policy/ConsCouncilHousingFinance-Oct09.pdf>

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For further details on this briefing and assistance in modelling, presenting and developing capacity at your authority, contact Steve Partridge, Director of Financial Policy and Development for CIH and ConsultCIH on 07968 354948, [steve.partridge@cih.org](mailto:steve.partridge@cih.org) or [steve.partridge@consultcih.co.uk](mailto:steve.partridge@consultcih.co.uk).



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