Manchester City Council
Report for Resolution

Report To: Executive – 30 June 2010

Subject: Reform of Council House Finance and Self Financing

Report of: City Treasurer
Director of Housing

Purpose of Report

To inform Members about the proposed changes to the Housing Revenue Account (HRA) subsidy system.

To seek approval to respond to the proposed settlement offer as outlined in this report.

To seek approval for the City Treasurer and the Director of Housing, in conjunction with the Executive Member for Finance and Resources and the Executive Member for Neighbourhood Services to enter into negotiations with Government on the terms of the settlement, on the basis of the response attached as appendix 1.

Following negotiation the City Treasurer and the Director of Housing will submit a further report with their final recommendation.

Recommendations

Executive is asked to delegate authority to:

- The City Treasurer and Director of Housing to respond to the consultation on the proposed HRA reforms based on the information included in this report in consultation with the Executive Member for Finance and Human Resources and the Executive Member for Neighbourhood Services.
- The City Treasurer and the Director of Housing to enter into negotiations with Government regarding the terms of the HRA settlement. This will be done following consultation with the Executive Member for Finance and Human Resources and the Executive Member for Neighbourhood Services.

Wards Affected:

Ancoats & Clayton, Ardwick, Bradford, Charlestown, Cheetham, Crumpsall, Harpurhey, Higher Blackley, Miles Platting & Newton Heath , Moston

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	A healthy and fit for purpose housing market is essential for the economic growth of the city. People living in energy efficient housing in good repair are more likely to stay in good health and so be able to obtain employment and stay in employment. An increase in the Management and Maintenance allowance and the Major Repairs allowance should help the City Council to maintain its homes to levels of quality expected by tenants. Physical improvements to tenants' homes through the Major Repairs Allowance (MRA) will create jobs in the local area. Much of the improvements work is likely to be contracted to local and sub-regional firms.
Reaching full potential in education and employment	Appropriate housing helps to ensure that residents achieve their full potential. Tenants living in housing in good repair and of adequate size are more likely to stay in good health to enable full potential in education and employment.
Individual and collective self esteem – mutual respect	Quality housing is intrinsically linked to residents' health, well being and feeling about their community.
Neighbourhoods of Choice	Increases in both the Major Repairs Allowance (MRA) and Management/Maintenance Allowance will ensure the maintenance of existing housing stock and secure the future quality of council owned properties. Thus increasing neighbourhood pride and creating attractive environments to build and sustain a sense of community.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The current proposals, if introduced will fundamentally change the way in which the Housing service is funded in future years. We will no longer receive the annual housing subsidy payments, which are based on a complex annual calculation, but will be reliant on the rental income generated from our own stock, to cover the costs of providing the service. This will require the Council to prepare a detailed 30 year business plan that calculates future rental income, and must allow for annual running costs together with ongoing investment in the stock. It will also need to make allowances for changes in increased costs due to inflation etc, while also making assumptions around future interest rates.

The City Council currently has three private financing initiatives (PFI), although the proposal has also covered the Brunswick scheme which has still to be signed. The PFI's are long term investment programmes, whereby we pay an annual fee to the contractor, which covers initial investment and ongoing running costs, and this is funded through an annual grant payment received from the Government. Although the payment and receipt do not balance year on year, they do equal out over the life of the scheme. As part of the proposals the government is proposing to commute the annual PFI grant payments into one lump sum, this will be held by the Council and will reduce as we pay the annual amounts due to the contractor.

The calculation of the lump sum has used a 7% discount rate, whilst also reducing the annual receipts due to an assumed inflationary element of 2.5% per annum. This results in the City Council receiving an initial up front PFI settlement of £250m, this will have to cover future PFI payments of £614m. The model assumes that the Council will receive interest on the lump sum, and assuming an average interest rate of 4% this still leaves a shortfall of over £300m. Clearly the proposals for PFI within the offer document is not affordable going forward, and Manchester together with a number of other PFI authorities have made representation to CLG that, the PFI is taken out of the proposals and continues to be treated in the current manner, with the City Council receiving an annual grant to cover the PFI costs.

The proposal also suggests that the current HRA ring-fencing arrangements may be strengthened, and dependant on the outcome of this, there may be implications on general fund services although the details of this are not yet clear, and will need to be worked through.

Financial Consequences – Capital

The offer document does assume an uplift of 29% in the major repairs allowance, and this will be used to fund capital works around maintaining decency on already improved stock. The consultation refers to other sources of funding to meet the backlog of Decent Homes work and does not therefore factor this cost into the business plan. The City Council continues to implement its approved plan for achieving this investment in Decent Homes in the remaining stock through PFI and small scale stock transfer. Any ongoing capital investment will need to be funded from within the constraints of the business plan, and it also proposed that a separate cap on borrowing will apply in respect of Housing, this will be set at the level of the initial debt settlement figure, but will mean that no additional borrowing will be able to be undertaken until we have repaid some of the initial debt.

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Background documents (available for public inspection):

The following documents provide important details on which the report is based and have been relied upon in preparing the report. If you would like a copy please contact one of the contact officers above.

- *Reform of Council Housing Finance* (Consultation) Communities and Local Government, July 2009
- *Council Housing: a Real Future* (Prospectus) Communities and Local Government, March 2010

1.0 Introduction

1.1 The Housing Revenue Account (HRA) subsidy system was established in the 1930s and has continued in essentially the same form since then. It is considered that the subsidy system is no longer fit for purpose; it lacks transparency, does not support medium / long term financial planning and under-funds basic management and maintenance of housing stock.

1.2 The current HRA subsidy system has been subject to lengthy consultation and review. On 21 July 2009 Communities and Local Government published a consultation document titled *Reform of Council Housing*. This included an option of dismantling the current HRA subsidy system and replacing it with a devolved system of financing and accountability termed self-financing. Under self-financing council landlords would keep all their rental income and use it to finance their own stock, ending the annual subsidy relationship with Government. *Council Housing: A real future* (the CLG paper which was produced in March 2010 in response to the earlier consultation) sets out detailed proposals for reforming council housing finance and seeks the views of councils on implementing this new self financed system.

1.3 The proposed self financing system would be created by a once and for all settlement between Central and Local Government. In exchange for a one-off allocation of debt between local authorities, Central Government will stop the annual redistribution of rental income.

1.4 The Government is treating self financing as a once and for all 'deal' severing one of the key funding links between Government and local housing authorities. The Government proposes to make the reforms happen on a voluntary basis under section 80B of the Local Government and Housing Act 1989. The prospectus sets out no definitive timetable for the reforms as a substantial amount of work will be required to put self-financing in place but it is possible that voluntary implementation of self-financing could take place from 2011/12.

1.5 There is no confirmation of what will happen if local authorities do not accept the proposals. However, Government have intimated that it might decide to implement self-financing on a partial basis that may include a notional allocation of debt to Councils that remain in the existing HRA system.

1.6 The prospectus also states that if there is no voluntary agreement they may seek to implement self-financing through new primary legislation as early as 2012/13.

1.7 The consultation began during the former Government's tenure but the Coalition Agreement has confirmed the new Government's commitment to deliver reform of Council Housing Finance. Grant Shapps, the new Housing Minister, has stated that the new administration is committed to progressing the reforms and will review the consultation responses from Local Authorities.

1.8 Detailed consideration of the proposals is needed. Officers have been working to construct a detailed response to the proposals and have produced financial models to ascertain the impact of the reforms over the life of a 30 year business plan.

2.0 The Current System

2.1 In the current system local authorities collect rent from their tenants. Central government allows each local authority to retain its rents and based on a notional calculation (according to rent setting guidelines) they calculate what each local authority should be collecting. This can be more than what government expects a local authority to collect, therefore they will receive a negative subsidy, or they could collect less than the government expected, and therefore receive a positive subsidy.

2.2 Alongside this, Government calculate a level of expenditure that local authorities should be incurring to manage and maintain their stock. As such each local authority receives a Management and Maintenance (M&M) allowance and a Major Repairs Allowance (MRA) which is determined annually.

2.3 Finally Government also calculates an annual interest payment due on local authorities' debt level based on a notional valuation of their housing revenue account debt.

2.4 For 2009/10 MCC collected rents from tenants worth around £55m. MCC received a subsidy figure payment of c£20m from central government, as MCC requires more funding to maintain its stock. This figure included M&M and MRA. This equates to £75m to cover MCC's HRA expenses, including interest payments and PFI annual charges. MCC also receives an annual fixed sum of £15.4m to cover unitary charges for its Housing PFI schemes.

2.5 Housing's current notional debt is around £441m.

3.0 HRA Reform Proposals

3.1 The consultation paper proposes to end the current subsidy system in favour of a one off payment. As such all LAs will be required to retain responsibility for managing a part of their existing debt and in some cases take on new levels of debt.

3.2 Government is looking to redistribute £25billion worth of Housing debt across the 170 Local Authorities with Council Housing.

3.3 The amount of debt to be allocated to MCC (and to all local authorities) will be based on the same calculation used in the current system. Government has calculated over 30 years how much income local authorities can expect to receive from rents, how much expenditure they should be incurring, and then worked out how much debt local authorities can afford to support. The calculation is based on a more generous assumption of expenditure on M&M and MRA. For MCC this equates to an increase in M&M allowance of 5.10% and MRA of 29.5% over current allowances. The increases in allowances however form part of the overall debt settlement offered to MCC and there will be no further subsidy from Government.

3.4 This annual income and expenditure account is to be capitalised/discounted at a rate of 7%. The PFI support is also capitalised at a sum equivalent of 7% over the life of the PFI contract.

3.5 There are however a number of issues which need to be clarified or resolved before officers could recommend accepting the settlement figure.

4.0 The Proposed Debt Settlement

4.1 Government has calculated that MCC has £441m worth of Housing debt. The total lump sum allocated to MCC in the prospectus will be £559m. This will be a one off payment.

4.2 This payment is made up of £309m for Housing debt, which will leave MCC with £132m worth of debt (£441m - £309m). They will also pay MCC a lump sum amount of £250m as settlement of the current annual PFI subsidy - (£250 m + £309m = £559m).

4.3 Government has included a payment for our Housing debt and a payment of our PFI subsidies as one lump sum. Therefore it appears that MCC will have a net settlement amount of an initial positive cash balance of £118m (£441m - £559m = credit of £118m).

Treatment of PFI grant

4.4 Applying a 7% discount factor to future PFI income is much higher than the discount rates agreed with the Government and contractors when the PFI arrangements were originally signed off (these ranged from 3.32% to 5.75%). When taken together with the mechanics of the calculation which appears to further depress the settlement by de-inflating the annual payment prior to applying the discount factor, the Council estimates that it will be over £300m worse off if it accepts the proposed settlement. The proposal for future PFI projects (such as Collyhurst) is for the annual PFI subsidy payments to be paid as grant via the General Fund outside the HRA.

4.5 The calculation used to capitalise the annual PFI payment is not viable and interest rates may vary over the life of the PFI leaving MCC open to considerable risks by accepting any capitalisation.

4.6 The preferred outcome would be to retain the present annual payment system for the current and future PFIs.

Treasury Management Issues

4.7 If Manchester accepts the current proposal and receives a debt settlement of £559m, we would have to manage a £250m lump sum related to the PFI schemes, over a long period of time. To safeguard the City Council we have a number of rules around Treasury management, these not only restrict which organisations we can lend to, but also restrict the level of lending to each organisation. The receipt of such a large lump sum would create significant treasury management issues for the Council, and also potentially restrict the returns that would be made.

4.8 If the Government accepts the proposal to exclude the PFI grant from the settlement the Council’s debt settlement figure would be around £132m debt. (£441m - £309m). Business Plans have been produced with a variety of scenarios and Officers are confident that this would be a reasonable opening debt figure for the properties in Council ownership and would recommend supporting the self-financing proposals.

4.9 If the Government does not accept the proposal to exclude the PFI grant, then it is recommended that the City Council does not support the proposal and would not be willing to proceed on a voluntary basis.

4.10 Furthermore the proposal to un-pool housing debt from other LA debt will require a separate loans pool to be created. This raises potential efficiency issues in treasury management as well as how current debt will be split. Further guidance from Government will be necessary to support this.

Stock Totals

4.11 The amount of stock in Council ownership is based on a predicted figure at April 2011. We must ensure that the final settlement figure is based on the actual stock totals at the date of implementation taking into account any plans to demolish properties (e.g. in Collyhurst and West Gorton) as there will be no future income stream for these properties.

Backlog of Decent Homes Work

4.12 The Council still owns and manages around 3000 properties. The majority of the properties have an identified solution (stock transfer in West Gorton and PFI in Brunswick and Collyhurst). However, there are some retained properties which have not been improved and which to date do not have a clear future solution. The Council owns and manages bungalows in Eccles and Alderley Edge along with a small number of properties in Wythenshawe which did not transfer to the new housing providers (Willow Park and Parkway Green) when they were established. These homes require funding to bring them up to the Decent Homes Standard. The proposed settlement figure does not include any funding for the backlog of decent homes work although it does acknowledge that there is a backlog nationally of £3.2bn worth of work.

4.13 Homes in the North of the city managed by Northwards will achieve decency by December 2010.

4.14 We will seek commitment from Government to provide sufficient funding to deal with the backlog of decent homes work in Manchester.

Disabled adaptations/communal areas to flats/new fire safety works

4.15 The MRA is not intended to cover the cost of the above works. The consultation paper suggests that separate grant funding will be made available but gives no details. It will depend upon future Comprehensive Spending Reviews.

4.16 We will seek commitment from Government to provide sufficient funding to deal with the work identified above.

Repayment of outstanding loans

4.17 The Government expects Councils to repay loans during the 30 year life of the Business Plan. There is an assumption that local authorities will have borrowed from the Public Works Loan Board (PWLB). Whilst Manchester has some PWLB loans, we do also have a number of commercial loans within our debt portfolio, and these agreements will be extremely costly to break.

4.18 The Government have indicated that they will look to fund any debt redemption costs incurred by authorities, although it is not clear if the Government are aware of the potential scale of these costs. As part of our response we will seek support from Government for loan breakage costs or allow the Council flexibility in deciding when or whether to repay its loans.

New Council House Building

4.19 The consultation paper also proposes to allow local authorities to create ‘headroom’, after they have met the spending needs of their existing stock, to deliver a substantial new build programme without increasing borrowing above the allocated level under self-financing.

4.20 The prospectus has calculated the difference between the capitalisation sums arrived at using 7% as opposed to 6.5% as the discount rate, in the calculation of the debt settlement. The assumed headroom in the Manchester settlement equates to a one off sum of approximately £7m. This may only fund around 50 properties, based on current figures without grant support from HCA.

4.21 However, Government only wants local authorities to assess whether the extra headroom could deliver more council houses, and there is no detail in the prospectus on whether any HCA grant funding would be available to support LA new build programme. Additional debt to build new houses can only be taken on within the limit of the debt cap determined by the settlement (see paragraph 5 below).

4.22 As there is no commitment to fund;

- the backlog of Decent Homes work,
- disabled adaptations,
- environmental works
- communal works to multi-storey blocks,
- fire safety measures following the Lakanal House fire
- replacement for stock which is no longer in demand
- any retrofit CO2 reduction measures

4.23 Officers will seek assurance from Government that there will be local flexibility on the use of this headroom in consultation with residents and that the issues above are more likely to be a priority for Manchester before any new build is considered.

5.0 Other features of the reform proposals

Limits on Future Borrowing

5.1 To ensure that Local Authorities do not increase borrowing at unsustainable levels there will be limits on borrowing in the new reforms. The prospectus states that Central government will cap borrowing at the new self financed starting debt level. Should the City Council wish to borrow any more it would need to repay some existing debt first.

5.2 However, future HRA borrowing will be "capped" at the level of the initial debt settlement and as MCC will receive a cash payment of £559m and have a credit balance of £118m, it is not clear from the proposals whether MCC will be expected to maintain the credit balance. Officers will seek clarification on this.

5.3 The Council has been successful in securing funding to build new Council housing using the last Government's Building Britain's Future funding. It has already been agreed that these properties will sit outside the HRA. So that the Council can take full advantage of any headroom created by the use of the 7% discount factor once the capacity exists above the debt cap. The extra debt taken on to fund the new build should be added to the borrowing cap and this will be included in the consultation response.

Capital Receipts

5.4 Local authorities will be able retain all of their HRA housing and land capital receipts to spend locally with the caveat that 75% of receipts are used for affordable housing and regeneration projects. As the proceeds will be used to fund capital expenditure, this may reduce the need for any further borrowing. Each time a property is sold under the Right to Buy the Council will lose the rental income to cover the debt repayment. The Council should consider whether to set aside an amount equal to the opening debt figure for each property from the capital receipt to service the debt. Unless the Council makes the decision to set aside an element of the receipts the borrowing decisions would become a treasury management issue based on interest rates.

HRA Ring-fence

5.5 The HRA Ringfence will continue and in future there will be tighter controls on what can and cannot be charged to the HRA which is a landlord account. Work is being undertaken by the Chartered Institute for Public Finance and Accountancy (CIPFA) to issue revised ring-fence guidance in the summer. Key to any assumptions regarding the HRA ring-fence will be the test; 'who benefits'. For example, the cost of providing and maintaining recreational areas/grassed areas, gardens, community centres may be charged to the HRA but it will depend on local circumstances and only charges to the HRA will be acceptable where the amenities are provided and maintained in connection with Part II Housing Accommodation.

Asset Management

5.6 Local authorities will need to implement a long term asset management strategy designed to improve and maintain their housing stock without reliance upon extra support from Government. Therefore the City Council will need an asset management plan and strategy based on a detailed stock condition survey.

De-pooling Rents and Services

5.7 All Registered Social Landlord (RSL) stock transfer companies have de-pooled their rents and service charges. There is the expectation that MCC will also be required to de-pool its rents and officers recommend to review this as part of a separate report.

Depreciation

5.8 The treatment of depreciation under the HRA reforms remains unclear. Currently MRA is taken as a proxy for depreciation, however, the actual depreciation value can exceed this for individual Local Authorities including MCC. Under self financing it is proposed that depreciation charges should follow prudent accounting principles. Further work is being undertaken by CLG and CIPFA to determine an effective framework within which this can operate.

6.0 Conclusion

6.1 Manchester's current housing debt is calculated at £441m. The proposed debt settlement figure for the Council is a credit (minus) of £118m which means that the Council is due to receive a payment of £559m under the current proposals.

6.2 The settlement figure is made up of £309m for Housing debt and £250m for our PFI subsidies. Whilst this settlement figure would appear to be generous, the Council would have to maintain the Decent Homes requirements for its 12,600 properties managed by Northwards Housing and make all future contractual payments to its two PFI contractors and, as mentioned earlier there is a shortfall of over £300m in the proposed settlement.

6.3 The City Council will also be required to take on all associated treasury management risks following the debt settlement.

6.4 It is not acceptable in its current format due to the inclusion of PFI grant in the settlement and the Council requires further clarity on the way in which a number of other improvements could be funded.

6.5 However the proposed reform of the HRA subsidy system is a significant improvement on the current HRA Subsidy system. It would enable the Council to create a 30 year business plan to manage its council housing rather than await the annual subsidy determination.

6.6 If officers of the Council receive agreement from Government to exclude the PFIs in the settlement, in the short term the proposed reforms will have a minimal effect on the HRA. However the long term effect will be positive, as the self financing proposals will allow current debt being reduced to zero over thirty years, whereas debt levels will remain static under the current subsidy system.

6.7 There is no guarantee that the proposals on offer will not be amended under the new Government and Officers will present a further report to Executive once the new Government has considered the consultation responses and has published the confirmed settlement details.

7.0 Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

7.1 A healthy and fit for purpose housing market is essential for the economic growth of the city. People living in housing in good repair are more likely to stay in good health and so be able to obtain employment and stay in employment. Physical improvements to tenants' homes through the Major Repairs Allowance (MRA) will create jobs in the local area. Much of the improvements work is likely to be contracted to local and sub-regional firms.

(b) Reaching full potential in education and employment

7.2 Appropriate housing helps to ensure that residents achieve their full potential. Children living in energy efficient housing in good repair and of adequate size are more likely to stay in good health and have suitable conditions and space for studying.

(c) Individual and collective self esteem – mutual respect

7.3 Quality housing is intrinsically linked to residents' health, well being and feeling about their community.

(d) Neighbourhoods of Choice

7.4 A component of the City Council's Housing Strategy Statement 2009-2011 is to improve the quality of the City's housing and its potential to transform places and lives in line with the Community Strategy central premise of neighbourhoods of choice.

7.5 Increases in both the Major Repairs Allowance (MRA) and Management/Maintenance allowance will ensure the maintenance of existing housing stock and regeneration of neighbourhoods. Thus increasing neighbourhood pride and creating attractive environments to build and sustain a sense of community.

8.0 Key Policies and Considerations

(a) Equal Opportunities

8.1 The recommendations in this report will include appropriate consideration of equality concerns however there is little impact on equal opportunities arising from the HRA reform.

(b) Risk Management

8.2 The proposal to accept the debt allocation and the move to self-financing would result in the devolution of power to Manchester City Council, enabling more direct management of housing finance and any associated risks. As such the Council must have in place asset management strategies to plan for the future and officers of the Council and its ALMO will assess and manage these risks, ensuring that Council tenants continue to receive the same levels of housing service.

8.3 If the current proposal to include an upfront payment of future PFI grant is maintained the Council will take on significant treasury management risk as it seeks to invest the settlement sum of £559m.

(c) Legal Considerations

8.4 The City Solicitor has advised that the proposed restructure of Council Housing Finance does not give rise to a legal duty to consult with tenants**.**

(d) Financial Considerations

8.5 Assuming that the debt settlement figure excludes the rolled-up future PFI grant settlement it is envisaged that over the longer term this will enable the Council to properly plan the future investment in its housing stock.

Item 1) Appendix – Communities and Local Government Response

HRA Reform - Council Housing: a real future

Manchester City Council (MCC) welcomes the self financing proposals and the opportunity to plan and manage its assets and to have more financial control to deliver a sustainable future for the tenants and residents of Manchester's council housing.

The prospectus addresses the fundamental weaknesses of the existing HRA Subsidy System and MCC supports the commitment from Government to increase the Major Repairs Allowance and the Management and Maintenance allowances. However, there are matters which could affect Manchester's ability to support the self-financing proposals in its current format, in particular the treatment of PFI grants, and this is explored in detail.

Further discussions are also being held with the LGA and CLG around PFI and the debt settlement prior to the submission of MCC's response to the Consultation.

1. What are your Views on the proposed methodology for assessing income and spending needs under self financing and for valuing each council's business?

Stock Totals

The income assumed in the model is from rents and the continuation of the limit rent however there are some issues in respect of the valuation of MCC's stock and the number of properties in the assumption based on 2010-11 allocation example. MCC has successfully balloted tenants on its West Gorton estate and is due to transfer ownership of 146 homes within the next 9 months. A further 390 homes in the area will be demolished within the next 3 years as part of the redevelopment; the income and debt for these properties ought to be excluded from the settlement.

We propose that the actual stock is valued at the date that the self-financing proposals come into force taking into account stock changes due to the aforementioned demolitions and transfers as there will be no future income stream from these properties.

PFI

The City Council currently has 3 housing projects funded through the private financing initiative (PFI). The settlement proposal has also included the Brunswick scheme which has still not been signed.

The calculation of the commuted PFI figure is based on PFI allowances of £24.591m per annum, whereas in reality the actual allowances are £24.648m, this is £57k per annum different.

The calculation of the future value of PFI credit payments has used a 7% discount rate, whilst also reducing the annual receipts due to an inflationary element of 2.5%

per annum.

Using the discount rate at 7% (much higher than the range of 3.32% to 5.76% rates agreed with the contractors) leads to a shortfall in the settlement for MCC of over £300m in respect of PFI's which is clearly not sustainable.

MCC therefore propose that existing and future PFIs should be treated consistently (retaining the present annual PFI subsidy of £15.4m) with grant paid through the General Fund as simple income & expenditure accounts supporting the PFI contracts.

Manchester's current housing debt is calculated at £441m. The proposed debt settlement figure for MCC is minus £118m which means that MCC is due to receive a payment of £559m under the current proposals.

The settlement figure is made up of £309m for Housing debt and £250m advance payment in place of PFI credits and the modelling we have undertaken indicates that there would be a shortfall of over £300m in the proposed settlement.

Therefore, the proposal is not acceptable in its current format due to the inclusion of PFI grant in the settlement.

Treasury Management

To safeguard the City Council there are also a number of rules around Treasury management which could cause some concern. These not only restrict which organisations we can lend to, but also restrict the level of lending to each organisation. If as suggested in the current proposals MCC was to receive £250m PFI credits up front, this would cause significant treasury management issues for the Council, and also potentially restrict the returns that would be made

Capital Receipts

MCC agrees with the proposal that Authorities can retain all of its HRA housing and land capital receipts to spend locally with the caveat that 75% of receipts are used for affordable housing and regeneration projects. This will provide flexibility around how the proceeds are used in line with the objectives of the council, but will require modelling within the 30 year business plan to ensure that the effects of this are considered.

It will also require consideration in respect of treasury management, in order to ensure that the Authority is making the most effective use of the receipts, with consideration around interest rates etc.

Allowances

MCC agrees with the increase in allowances and although there is a significant increase in the MRA, this will not address the issue of how the decency backlog is funded, and we require further clarification around how resources identified to fund this will be allocated.

Backlogs and Borrowing Cap

MCC is also concerned about the funding to deal with the decent homes backlog as it still owns and manages c.3000 properties which require significant resources to bring them up to the decent homes standard. The consultation paper acknowledges that there is a national backlog of at least £3.2bn works but there is no detail on how this will be dealt with and the proposed settlement does not include any funding for this work. MCC seeks commitment from Government to provide sufficient funding to deal with the backlog of decent homes work in Manchester.

The City Council continues to implement its approved plan for achieving this investment in Decent Homes in the remaining stock through PFI and small scale stock transfer. Any ongoing capital investment will need to be funded from within the constraints of the business plan. This creates a further problem for Manchester if the PFI income is treated within the settlement given that Manchester's opening debt figure is a positive £118m. We need advice from CLG around the interpretation of the cap when the opening balance is positive.

Similarly, Manchester is faced with the considerable cost of upgrading communal areas in flats, adaptations for disabled tenants, carbon reduction measures and potential implications arising from the Lakanal House fire investigation. All costs which are not factored into debt offer. The consultation paper suggests that separate grant funding will be made available for this however offers no details. MCC seek commitment from Government to provide sufficient funding to deal with these works.

Debt redemption Costs

The proposal does state that the Government will fund any debt redemption costs, although it does not indicate that this will include costs of breaking from commercial lending arrangements. MCC has a broad portfolio of long term commercial loans, and there will be significant costs to the Council if we have to break out of these deals. Within the consultation paper there is an assumption that local authorities will have PWLB loans, which are relatively straightforward to break from and the costs will be minimal.

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

MCC agrees with the proposals for the financial, regulatory and accounting framework for self-financing and sees it as an intrinsic element for the self-management of such finances. MCC also agrees with the proposal for all Councils to maintain a council housing balance sheet (memorandum balance sheet)

Depreciation

It is not clear from the consultation on how depreciation is to be treated, and some clear guidance is required. we are aware that CIPFA are currently reviewing this and we will be guided by there advice. For the purposes of business planning, we have assumed that the depreciation charge is the equivalent of the MRA, and will contribute towards the capital costs.

Borrowing Cap

MCC understands the need to cap borrowing but questions whether the level of the cap should be based on the opening debt figure. Within the current proposals Manchester will receive a credit of £118m, and clearly it is not possible to cap the debt at this amount, so we require further clarification on this point.

Building Britain's Future funding

The Council has been successful in securing funding to build new council housing using the last Government's Building Britain's Future funding. It has already been agreed that these properties will sit outside the HRA. So that the Council can take full advantage of any headroom created by the use of the 7% discount factor, MCC proposes that the extra debt taken on to fund the new build should be added to the borrowing cap.

Sinking Funds

MCC is comfortable with the proposal to allow sinking funds for leasehold properties having operated its leasehold portfolio on this basis for many years.

HRA Ringfence

MCC welcomes the review of the HRA Ringfence and proposals around what should be included in the HRA ringfence offer a valuable starting point. However, MCC believes that these should be agreed & regularly reviewed in consultation with local people, as key to any assumptions regarding the HRA ring fence will be the test 'who benefits'. There may be differing local priorities which tenants may be prepared to fund in whole or part from their rents, over and above core services and MCC believes that this should be the basis of the Local Offer as regulated by Tenant Services Authority.

The proposal also suggests that the current HRA ringfencing arrangements may be strengthened, and dependant on the outcome of this, there may be implications on General Fund services.

3. How much new supply could this settlement enable you to deliver, if combined with social housing grant?

Manchester supports the decision to provide headroom to build new housing. However, there are important details which need to be addressed.

The prospectus has calculated the difference between the capitalisation sums arrived at using 7% as opposed to 6.5% as the discount rate, in the calculation of the debt settlement. The assumed headroom in the Manchester settlement equates to a one off payment of approximately £7m. This may only fund around 50 properties based on current figures and assuming 50% grant funding.

The prospectus provides no details of whether grant funding would be available for the delivery of new homes. MCC would like commitment from Government that there will be local flexibility on the use of this headroom, in consultation with residents, and that issues such as backlog of decent homes work, disabled adaptations, communal works, carbon reduction measures, fire safety measures and the replacement of stock which is no longer in demand, could be prioritised before any new build is considered.

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

Overall the proposed settlement is a significant improvement compared with the current HRA subsidy system and is therefore to be welcomed. Although this is subject to the PFI arrangements remaining on the same basis as currently exists.

5. Would you wish to proceed to early voluntary implementation of self-financing on the basis of 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?

Manchester would seek to move voluntarily to self-financing from 2011/12, but subject to resolving:

- Treatment of PFI grant outside the debt settlement
  Debt redemption premia
- Backlog decent homes funding
- Funding for communal areas in flat accommodation, adaptations, carbon reduction measures and fire safety requirements etc. going forward
- Agreement on the stock totals to be included in the debt settlement figure

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

MCC seeks assurance that there will be local flexibility on the use of the purposed headroom and that the disabled adaptations, environmental works, communal works to multi-storey blocks, fire safety measures, replacement for stock which is no longer in demand, and any retrofit CO_2 reduction measures, are more likely to be a priority for Manchester before any new build is considered.

The amount of stock in Council ownership is based on a predicted figure at April 2011. The final settlement figure must be based on the actual stock totals at the date of implementation taking into account any plans to demolish properties.

However the proposed reform of the HRA subsidy system is a significant improvement on the current HRA Subsidy system, and it would enable MCC to create a 30 year business plan to manage its council housing rather than await the annual subsidy determination.

If the PFI subsidy is excluded from the settlement, the long term effect will be positive, as the self financing proposals will result in current debt being reduced to zero over thirty years, whereas debt levels will remain static under the current subsidy system.