

Self-Financing: Planning the transition

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Also accompanied is a separate document containing working drafts of the associated determinations (see paragraph 1.2 for more details as to their scope).

Chapter 1

Scope and status of this publication

1.1 This document updates the policy and implementation arrangements set out in the document *'Implementing Self-financing for Council Housing'* published on 1 February, 2011 at: www.communities.gov.uk/housing/socialhousing/. The purpose of this document is to:

- Provide local authorities with the information they need to prepare for and achieve a successful transition to self-financing, taking account of all the issues raised so far particularly in response to *'Implementing Self-financing for Council Housing'*.
- Provide an update on the wider policy and accounting context within which self-financing will operate.

1.2 The publication is accompanied by the following documents:

- A summary which could be used to explain the reforms to tenants or other interested groups
- Working drafts of the legal 'determinations'. These comprise:
 - Settlement Payments Determination – the calculation of the self-financing valuation and the settlement payments and the arrangements for making these payments
 - Limits on Indebtedness Determination – the limit on the amount of housing debt that each local housing authority can hold under self-financing and the formula by which this will be calculated; and
 - Item 8 Credit and Debit Determinations – calculation of the sums to be credited or debited to the Housing Revenue Account under item 8 of Part I and II of Schedule 4 to the 1989 Act for the year 2012-2013 and subsequent years. This controls the operation of the 'ring-fence' which keeps Housing Revenue Account revenue separate from other council revenue.
- Refreshed Demolitions Guidance (this has already been issued via email on 1 July).

1.3 The Department for Communities and Local Government welcomes any questions or comments on the details contained in this document from local authorities, tenant organisations or individual tenants. If you have any queries or suggestions you would like to make, please contact councilhousingfinance@communities.gsi.gov.uk.

- 1.4 The Department's officials will continue to welcome opportunities to meet with local authorities and tenants and other interested parties to help ensure a successful transition to self-financing, including the form of the determinations. To this end the Department will run **two events on preparing for self-financing on the 23 and 30 September** at Eland House, Bressenden Place, London, SW1E 5DU. These events are open to all stock-owning authorities and more details will be circulated closer to the time.

Future communication and engagement with councils

In order to ensure a smooth transition to self-financing it is imperative that we are able to reliably communicate with individual councils. As such can each council send through the **contact details** of their **housing portfolio lead, their head of housing and a senior finance officer who will be taking responsibility for the payment or debt write-off**.

The address to send these details through to is:

councilhousingfinance@communities.gsi.gov.uk

It would be very useful when communicating this information if you could confirm whether your council would like to be represented at the events in September and if so who would like to attend.

Chapter 2

Executive summary

- 2.1 We are now in the detailed implementation phase of the reform. The Localism Bill, which provides the powers needed to make the changes, is progressing through Parliament.
- 2.2 Key milestones are set out below (a more detailed timeline is set out at the end of Chapter 5):

Date	Activity or deadline
<i>Early July 2011</i>	'2012 B1 form' available on LOGASNET for local authorities to submit data to DCLG on their stock
<i>End August 2011</i>	Uncertified data for self-financing submitted by local authorities to the Department
<i>August 2011 onwards</i>	Local authority certified data provided
<i>September 2011</i>	Local authorities making a payment complete a questionnaire on plans for raising the payment sum. This questionnaire will be jointly issued by the Chartered Institute of Public Finance and Accountancy, the Local Government Association and the Department
<i>October 2011</i>	Final auditor-certified data submitted by local authorities
<i>November 2011</i>	Consultation on self-financing determinations
<i>January 2012</i>	Final self-financing determinations published
<i>February 2012</i>	Local authorities set budgets and agree borrowing
<i>28 March 2012</i>	Payments between the Department, the Public Works Loan Board and local authorities to enable the start of self-financing
<i>1 April 2012</i>	Self-financing goes live

2.3 This document sets out the key outstanding elements of the self-financing settlement and the detailed arrangements for its implementation.

- Chapter 3 provides answers to the outstanding issues in relation to the valuation methodology
- Chapter 4 sets out how the limit on indebtedness will be calculated
- Chapter 5 sets out the payment arrangements
- Chapter 6 provides information on closing the subsidy system and the treatment of payments related to self-financing
- Chapter 7 describes the accounting and regulatory framework for self-financing
- Chapter 8 outlines proposals to improve accountability to tenants together with the revised Decent Homes standard
- Chapter 9 sets out the wider policy context for the implementation of self-financing

Chapter 3

The valuation

This chapter answers the outstanding issues raised in relation to the valuation methodology.

Key points include:

- the data inputs to be used in the draft determinations
- confirmation of the position on demolitions following advice circulated to councils on 18 May 2011
- how we are adjusting the model to compensate councils for the continuing pooling of Right to Buy receipts
- Caps and Limits compensation
- a description of the treatment of new-build properties.

3.1 Overall approach to setting the valuation

On 1 February 2011, the department published *'Implementing Self Financing for Council Housing'*. This set out the approach we would use to value the stock of each local authority. The methodology was expanded on in the accompanying financial model, report and user guide.

We encourage all local authorities to begin developing their business plans for self-financing based on the indicative valuations published in this February document. The indicative figures will change before the draft self-financing determinations are issued in November 2011, but in many cases, councils should be able to predict movements based on actual and forecast changes to key national, local and regional variables (see the next section, 3.1.1, on input data for information on exactly what input variables will be used to set the valuation). We therefore advise authorities to stress-test their business plans. In particular this process should involve examining the potential for new data to change the value of the settlement payment.

Between the draft and final determinations numbers, it is unlikely that any of the macro-economic or regional adjustment data inputs will alter. We also expect the consultation on the draft determinations to focus on the calculation of councils' individual settlements. This is because the methodology reflected in the determinations reflects the outcome of

our two consultations on firstly the principles of the Housing Revenue Account reform and secondly a detailed approach to self-financing (as well as the key issues that have been raised following the *Implementing self-financing for Council Housing document*). As such the only difference between the draft and final determinations should be as a result of corrections.

As we have stressed throughout the development of self-financing, if you identify any queries or concerns please contact the Department. In the first instance can you contact councilhousingfinance@communities.gsi.gov.uk

As mentioned earlier in the document, we will also be holding events in the Department on the 23 and 30 September on preparing for self-financing which are open to all stock-owning authorities for which more details will be provided shortly.

3.1.1 Input Data

The financial model published in February used data from the 2011-12 Housing Revenue Account subsidy determination¹. This included information on the average guideline rent and formula rent and on allowances for management, maintenance and major repairs.

For the self financing determinations, we will use input data on rents and allowances from a 'shadow' 2012-13 subsidy determination. The necessary information from local authorities will be collected through the 2012 base data form which (as set out in the February document) has been revised for 2012-13, in order to collect a small amount of additional information that is required to set up self-financing.

This 2012-13 'shadow' subsidy determination will update the other input variables, including the BCIS *Price Adjustment Factors*² (used to regionally adjust building costs), the Area Cost Adjustment factors³ and crime statistics published by the Home Office. The Department for Communities and Local Government's Indices of Deprivation are not published regularly and the 2007 data remains current. The latest information on re-lets and voids will be used from the base data return.

The Retail Prices Index inflation figure used in the shadow Housing Revenue Account subsidy determination will be the outturn statistics for September 2011.

As in previous subsidy determinations, the Gross Domestic Product deflator, used in setting costs, will be a forecast for the 2012-13 financial years available in time to put into the draft determination.

¹ See <http://www.communities.gov.uk/publications/housing/hrasubsidydeterminations1112>

² Data will be used from the BCIS Surveys of Tender Prices publication May 2011

³ Area Cost Adjustment factors published by in the Local Government Finance Report, Personal Social Services Older People, Annex H: <http://www.local.communities.gov.uk/finance/1112/lgfr1112s/index.htm>

We do not expect to revise the inflator or deflator between the draft and final determinations. This will give councils the certainty about their valuations and settlement payments that they need to plan.

3.1.2 Data collection

The 2012 base data return is now live on our data collection site, Logasnet. Local authorities are required to submit their 2012 base data return by 31 August, 2011. The deadline for submission of certified returns is 10 October, 2011.

Subject to local agreements with auditors to provide the certified data by the 10 October deadline, the Department will extend the deadline for providing evidence on planned demolitions beyond the 31 August deadline for submitting un-certified returns. Please see the guidance in Annex B for more details.

Under self-financing, the Department will continue to collect some data on local authorities' housing stock, including the actual rents charged. This data will be collected by the Department's Housing Analysis and Surveys division. This will be used for statistical purposes and for setting the housing benefit 'limit rent'.

3.1.3 Audit qualifications

Following the receipt of certified base data returns by 10 October 2011, the Department may need to follow up audit qualifications with authorities and with their auditors. This will be in line with normal processes but will be accelerated because of self-financing. Local authorities should ensure that they and their auditors are aware of this and that sufficient resource is available to deal with queries. Where the Department remains unsatisfied with the quality of data, we will use assumptions that protect the Exchequer.

3.1.4 Stock assumptions

Authorities should all complete their base data returns using dwelling data as at **1 April, 2011**. The details of how this information will be collected and the associated evidence requirements are given in the demolition guidance at Annex B.

RIGHT TO BUY SALES

The 2012 Spending Review announced that the pooling of Right to Buy receipts would continue. In the light of the decision, the February policy document said that a forecast of Right to Buy sales would be built into the valuation to compensate local authorities for the lost income from these properties.

A national forecast of Right to Buy sales has been developed, based on an extrapolation of current Right to Buy volumes. This will be disaggregated between regions based on the proportion of national Right to Buy sales in the region over the last three years. It will then be distributed in proportion to the stock levels of local authorities within the region. This is estimated to be worth £862m on current data.

Due to the inherent difficulty of producing accurate projections, given the relatively low numbers of sales involved and volatility between years, we decided that a standard methodology should be applied in making forecasts. This is consistent with the approach taken to many of the other factors affecting the valuation.

The Right to Buy forecasts will be updated based on outturn 2010-11 Right to Buy sales data. The forecasts will begin from 1 April, 2011.

Appropriations

The base data return (B1) asks councils whether they intend to undertake appropriations (i.e. transfers between the General fund and the Housing Revenue Account) before the end of 2011-12. Councils must have informed us through this route by 31st August 2012 (the deadline for submitting the un-certified base data form) if they intend to do so. We will then engage further with those councils that have signalled their intent.

This will enable us to take account of the change in dwelling numbers arising from appropriations in 2011-12 and to adjust the Subsidy Capital Financing Requirement used in calculating the self-financing settlement payment to reflect the appropriate share of the value of the asset.

3.1.5 Rental assumptions

The self-financing valuation assumes that councils will set their rents in line with the Government's national social rent restructuring policy. This policy assumes the following:

- that guideline rents will converge with formula rents in 2015-16
- rent increases of just above inflation year on year after 2015-16
- a limit on individual annual rent increases of RPI + 0.5% + £2 per week up to convergence and thereafter for annual increases in formula rents of RPI + 0.5%.

The housing benefit 'limit rent' will continue to ensure the Exchequer does not meet the extra costs of rents which are set above policy levels. Government does not have any plans to change the national rent policy set out above. It will however continue to collect data on actual rents charged to help inform the development of any future rent policy. In addition, the Department retains the power to direct the regulator to set a rent standard, but in the council sector, unlike the housing association sector, it has no plans to do so.

In the context of the development of the Universal Credit model, the Department for Communities and Local Government and the Department for Work and Pensions continue to work closely together to achieve the aim of protecting landlord income whilst at the same time achieving greater individual responsibility for tenants in managing their budgets.

3.1.6 Caps and Limits

In line with social rent policy, the valuation assumes constraints on increases in individual rents as they move towards convergence with the formula rent. Under the subsidy system, councils are compensated for lost income in applying this policy through 'Caps and Limits' compensation. The compensation in the self-financing model is based on an extrapolation of the average difference between constrained and unconstrained rents.

Some local authorities have expressed concern that the compensation in the model does not adequately reflect the position of their housing stock. The alternative would be to attempt to take into account the difference between actual rents charged and the potential unconstrained rent for every property in the country. A forecast built this way would be impractical and very complex to audit. It would also be likely to over-compensate councils. This is because as tenants move on, re-let properties can be immediately charged at formula rent for the new tenants. We have therefore decided to retain the approach set out in *'Implementing Self-financing for Council Housing'* i.e. compensating councils for the average difference between constrained and unconstrained rents.

3.2 Cost assumptions

3.2.1 Other reckonable expenditure

The valuation will take account of the costs of leases which are currently supported with Housing Revenue Account subsidy, up to the date of the next rent renewal. This information will be collected for the period 2012/13 to 2041/42 on the base data return. On renewal, it will be for a council to decide whether it wishes to renew a lease and at what price it is prepared to do this.

3.2.2 Premiums

The self-financing valuation will take account of the costs of premiums for the early redemption of loans which are currently supported with Housing Revenue Account subsidy, where these premiums were incurred before 1 February 2011 – the date the February policy document was published. In future, the local authority will get all the benefit of any savings in interest rates so there will be no need for government to pay the premiums.

3.3 New-build properties

Local authorities have been able to apply for an exclusion from the Housing Revenue Account subsidy system for new homes. This allows councils to use the operating surpluses from those homes to finance the debt on them. New-build properties held outside the Housing Revenue Account subsidy system through those agreements should not be included in the base data return. Under self-financing, councils will continue to be able to apply for an exclusion from pooling the receipt from a Right to Buy sale of a new-build home. We are taking powers in the Localism Bill to do this after the subsidy system ends (see section on consents and disposals in Chapter 9 for more details).

Chapter 4

Limit on Indebtedness (“the borrowing cap”)

This chapter sets out how the limit on indebtedness will be calculated. More details are included in the accompanying draft determination.

Self-financing must not jeopardise the Government’s first priority, which is to bring borrowing under control. Self-financing will give council landlords direct control over a very large rental income stream. Borrowing financed from this income must be affordable within national fiscal policies as well as locally. We will therefore limit the debt that can be supported from the Housing Revenue Account in each local authority. Ministers have stated during the passage of the Localism Bill that we will not subsequently reduce the aggregate borrowing cap, or the borrowing caps for individual councils, which are set out in the original self-financing determinations. Councils will therefore be able to plan ahead on the basis of those caps.

The Localism Bill contains powers which will allow the Secretary of State to limit the amount of housing debt that each local authority can hold and to set a formula for measuring compliance with this limit.

4.1 The measure of housing debt

We will use the Housing Revenue Account Capital Financing Requirement as the measure of housing debt in each local authority for purposes of testing compliance with the debt limit.

Councils are familiar with this debt measure. However, if it becomes apparent that councils are developing financing models which undermine the purpose of the debt cap in controlling public borrowing for housing, we will consider using a different measure of housing debt in order to prevent this.

4.2 The limit on housing debt

The maximum amount of housing debt that each local authority can hold under self-financing will be the higher of:

- The self-financing valuation for the local authority plus any capital financing provided by the local authority before 1 April, 2012 to support a new build scheme under a contract with the Homes and Communities Agency. (Capital financing to support a new build scheme is defined as the capital contribution agreed in contracts with the Homes and Communities Agency for new build schemes and which will have been provided to those schemes prior to 1 April 2012. It does not include the value of any land that the local authority has put into the scheme)
- Where the local authority is making a self-financing settlement payment to the Secretary of State, the end-year Housing Capital Financing Requirement for 2011-2012 plus the value of the payment
- Where the local authority is receiving a settlement payment from the Secretary of State, the end-year Housing Capital Financing Requirement for 2011-2012 less the value of the payment.

A local authority will be in breach of the limit if its housing debt exceeds its debt limit on the final day of any financial year. It will not be in breach where housing debt exceeds the limit at any other time during the year.

A working draft of the limits on indebtedness determination is attached as part of the draft self-financing determinations published as a separate document. We intend to formally consult on the determinations in November 2011 but would welcome views from the sector on the current version.

Chapter 5

The payment arrangements

This chapter sets out the payment arrangements and what local authorities need to do to achieve a successful transition.

Key points include:

- the payment date of 28 March 2012
- adjustments we will make to subsidy payments for 2011-12 as a consequence of this early payment
- why it is important to have an overall picture of sources of funding
- arrangements for local authorities wishing to borrow funds
- The Public Works Loan Board's variable rate loan for self-financing
- arrangements for local authorities having debt paid off.

5.1 The payment date

Subject to Royal Assent of the Localism Bill, the payments enabling the start of self-financing will take place on **28 March, 2012**. On this date local authorities will either:

- make a payment to the Department for Communities and Local Government, or
- receive a payment from government – in most cases this will be a redemption of debt held with the Public Works Loan Board

The consultation determinations (and subsequent final determinations) will set out the settlement payments. A working draft of the determinations, without numbers, has been published separately to accompany this document.

5.2 Payment date consequential

The date of 28 March, 2012 enables all the money to be raised and paid within the same financial year, and before the start of self-financing on 1 April 2012. Completing all the payments in the same financial year helps aggregate accounting by the Treasury – a key advantage given the significance of these payments to the national fiscal position.

As the transaction date is four days before the start of self-financing, there will be a financial cost or benefit for each council. We intend to make two changes to achieve neutrality for councils and for government in comparison with a 1 April payment date:

- We will amend the Housing Revenue Account Subsidy determination 2011-12 so that subsidy entitlement for this year is adjusted to take account of four days' interest on the settlement payment. The interest rate used for local authorities receiving a settlement payment will be their consolidated rate of interest. This reflects the fact that the settlement payment will be used to pay down existing debt. The interest rate used for local authorities due to make a payment will be the Public Works Loan Board 30 year maturity borrowing rate, as councils will generally have to take on new borrowing to fund the payment. We plan to make these adjustments through an additional subsidy payment run in March 2012. We will write to local authorities beforehand to let them know of the amount and purpose of the additional item
- We will amend the 2011-12 Item 8 determination so that interest due (or received) on settlement payments before 1 April, 2012 can be charged (or credited) to the Housing Revenue Account. This will also enable local authorities borrowing funds in advance of the transaction date to charge the costs arising after the date of Royal Assent to the Housing Revenue Account (but not to get these paid through subsidy).

Some local authorities have asked whether the settlement payment will be reflected in the Housing Capital Financing Requirement, which measures housing debt. Funds used to make the settlement payment will not count towards housing debt this year because it is not being used for the acquisition of an interest in housing or land. We will not amend the definition for 2011-12 because we do not want the settlement payment to have any impact on the Housing Revenue Account this year except for the interest adjustments which are described above. However, we will be amending the definition of the Housing Capital Financing Requirement so that it includes funds used for the settlement payment from 1 April, 2012 (see section 7.3 for more details).

5.3 The importance of accurate aggregate forecasting

We currently estimate that there will be approximately £13.2 billion paid to government on 28 March. We expect that most of this will be borrowed from public or private sources. There are a number of reasons why it is important for government to have an overall picture of borrowing sources:

- to assist government's debt and cash management
- to distinguish the short term impacts of reform of council housing finance from longer term economic trends

- to aid operational planning for Her Majesty's Treasury and the Public Works Loan Board.

To achieve a good understanding of the aggregate picture, the Department working with the Local Government Association and the Chartered Institute of Public Finance and Accountancy will seek early indications about how local authorities are planning to raise the funds for the settlement payments. Local authorities will not be asked to commit to a particular route of funding. Government recognises that much of the information on local authority plans may be commercially sensitive, especially for those who are looking at private sector borrowing. We will not release this information or share individual responses beyond the purposes listed above.

We will ask local authorities about their current plans later this summer. This will inform the Treasury's autumn forecast. We will ask local authorities to update us on their plans early in the new year.

5.4 Ensuring payment on the day

Local authorities must make cleared funds available to the Department on 28 March. The Department will be working with paying local authorities to set up Direct Debit or CHAPs arrangements in advance. Where payments are made by CHAPs local authorities should aim to have issued instructions by midday or earlier if possible.

Local authorities should notify their banks in advance of settlement payments being made on 28 March to ensure that any safety-valves to avoid large erroneous payments do not prevent the transactions. The Government is taking powers in the Localism Bill to charge interest and other costs in the event of late payments.

Local authorities who wish to pay in advance of 28 March are welcome to do so although it would be helpful if they would notify the Department prior to payment.

5.5 Borrowing to finance the transaction

Local authorities are responsible for their own treasury management including how, where and when they raise the money to finance the settlement payments. We advise local authorities to explore the options now rather than waiting for either the draft or final determinations. However, we do not consider it to be prudent for local authorities to borrow for self-financing in advance of Royal Assent of the Localism Bill.

5.6 Arrangements for local authorities wishing to borrow funds from the Public Works Loan Board

Local authorities borrowing from the Public Works Loan Board will generally have to do so within the Board's published lending arrangements. However, the lending arrangements are being varied in two important respects, one concerning the channel by which the local authority will borrow, the other concerning available facilities.

5.6.1 Loan application arrangements

The Board normally receives and agrees loan applications by telephone. However, because of the likely volumes arising from self-financing, they will temporarily arrange for local authorities who are due to make a settlement payment to be able to make loan applications via their pages on the Debt Management Office's website. The web-based approach will be simple to use and will offer security to industry-standard. It will not hold bank account details – these will be subject to separate private procedures for confirmation.

During the period leading up to the self-financing payment date, the web-based application will be available during business hours and will be the expected route for such authorities to apply for loans. The process will involve completing a simple template that will replicate the steps in a telephone application.

Prospective users of the website will be required to pre-register and will be trained in the application's use. The Public Works Loan Board's telephone desk will be open for any early repayments and for other borrowing.

Further details of the new arrangements and the plans for implementing them will be notified to local authorities in due course, including registration details and training for users. It is important that each local authority provides a named contact who will be responsible for the payment (as set out at the end of Chapter 1 of this document). Local authorities will need to make their own delegation and authorisation arrangements to cover the unexpected absence of this contact around the payment date.

A DETAILED TIMELINE IN THE RUN UP TO PAYMENT DAY

The following is a timetable for processing a loan application. It includes illustrative dates shown for those authorities planning to pay the Department on the same day as receiving funds from the Board. Those authorities who borrow in advance of the payment date and place the funds on deposit in the meantime must withdraw the funds from deposit in good time. A deposit facility (the Debt Management Account Deposit Facility) run by the Debt Management Office is available to local authorities that have made the necessary arrangements with the Debt Management Office in advance.

- **Working Day 1** (Monday 26 March 2012 at the very latest): borrower completes and submits web-form for loan application, and receives an acknowledgement from the system that the application has been successfully submitted. Borrowers will also be able to use the system to view the status of their application(s).
- **Working Day 2** (Tuesday 27 March 2012 at the very latest): the Public Works Loan Board confirms to the designated recipient the agreement to lend, by email⁴. This will support the local authority's own internal processes and controls.
- **Working Day 3** (Wednesday 28 March 2012 at the very latest):
 - At or near the start of business the Board credits funds to the authority's pre-notified account by CHAPs
 - The Board posts the loan confirmation letters
- **On Wednesday 28 March 2012** local authorities make payments to the Department via electronic payment systems such as 'CHAPS' or Direct Debit (see section 5.4 on 'ensuring payment on the day' for more details).

5.6.2 Temporary arrangements for the early repayment of variable rate loans

To help local authorities' treasury management, the Public Works Loan Board will, in the period leading up to the self-financing payment date, after Royal Assent is achieved for the Localism Bill, permit borrowers to take out a variable rate loan which may be repaid within the first twelve months of the date of advance. This facility will be available only to local authorities as part of their borrowing to finance their self-financing payment to the Department. It will be for borrowers to decide how to make best use of this facility but it may help a local authority bridge to the gap between when its self-financing payment is due and when it would prefer to raise long-term finance.

This is a deviation from normal Public Works Loan Board practice as it does not normally advance loans for less than a year or accept the early repayment of a loan which has run for less than a year (or has less than a year to run). These variable rate loans will otherwise be in accordance with the prevailing general lending arrangements in respect of such matters as fees and frequency of resets.

The early repayment of a variable-rate loan attracts a minimal premium or discount. Indeed, if early repayment coincides with a rate-reset – or 'roll-over' – day the premium or discount and accrued interest due are nil, as the borrower merely repays the principal outstanding at par.

⁴ This represents a slight change from established practice in that the 'call-back' is usually made on the day of agreement and by telephone. However, the authorised dealer entering the loan application will have already received the acknowledgement from the system that the application had been successfully submitted. The standard practice of subsequently confirming the terms of the advance in a hard-copy letter will continue unaltered.

5.6.3 Raising funds – procurement issues

A number of local authorities have asked about procurement rules. Local authorities must take their own legal advice, but we would note that raising money from the private sector, either through bonds or some other arrangement, is excluded from the requirements of Public Contracts Regulations 2006 (regulation 6(2)(h)).⁵ However, local authorities will want to ensure that the process they choose provides best value for money.

5.7 Arrangements for local authorities having debt paid off

The authorities with Public Works Loan Board debt will have that debt reduced by a lump-sum payment made by the Department. This payment will cover the amount of principal outstanding with the authority, plus any premiums/discounts due in accordance with normal lending rules⁶. The authority will be responsible for paying the accrued interest due.

The Department will have notified the Board of the final self-financing settlement sums for each authority as soon as these are published. A calculation will be carried out by the Board so that payment is apportioned or 'top-sliced' across an authority's portfolio. The Board will also calculate the premiums/discounts due and the Department will meet these costs on top of the settlement payments in its payment to the Board.

The Board will calculate the amount of accrued interest due from each local authority. The local authority must provide them with the names of the officers who are to be notified on Monday 26 March, 2012 of the amount to be paid on Wednesday 28 March, 2012 in respect of accrued interest.

5.8 Special cases

We have identified a small number of local authorities where the payment from government may exceed the amount of debt that they hold with the Public Works Loan Board. We are discussing with these local authorities how best to make the payment. If other local authorities expect to be in this position they should contact the Department as soon as possible, so that we can discuss the options. Where local authorities have Public Works Loan Board debt, this will be cleared before other options are considered in order to ensure consistency of treatment with other local authorities.

⁵ The full wording of the exemption states 'for the financial services in connection with the issue, purchase sale or transfer of securities, or other financial instruments in particular transactions activities by the contracting authorities to raise money or capital'

⁶ There is one exception to the usual Public Works Loan Board procedure: the discount rate to be used in calculating the premium/discount due on any variable rate loans in a local authority's portfolio will be that in force when the calculation is made rather than that on the day of settlement, as is normally the case. The change is being made to relieve potential operational pressure. The financial effect will be neutral.

THE TIMETABLE FOR THE TRANSACTION IS PLANNED TO BE AS FOLLOWS:

- By close of business on Friday 23 March, 2012 – the Department will have advised the Public Works Loan Board of the settlement sums for each authority
- By close of business on Monday 26 March, 2012 – the Board will notify each authority of the amount the Department will pay in debt redemption on its behalf on 28 March, 2012 and the amount of accrued interest due from the each authority on the same day. The Board will also confirm the premiums/discounts that the Department will be due to pay or receive.

On Wednesday 28 March:

- The Department will pay the due amounts of principal and premiums to the Board
- Each authority will pay the Board the accrued interest due, aiming to make these payments by mid-day
- The Board will record the relevant reductions in the recipients' debt once all the amounts due have been received.

5.9 The overall transition timetable

Date	Activity or deadline
<i>Early July 2011</i>	'2012 B1 form' available on LOGASNET for local authorities to submit data to DCLG on their stock
<i>End August 2011</i>	Data for self-financing submitted to DCLG
<i>August 2011 onwards</i>	Local authority certified data provided
<i>September 2011</i>	Local authorities making a payment receive and return a questionnaire seeking indicative plans as to how much, from where and when they intend to borrow. This questionnaire will be jointly issued by the Chartered Institute of Public Finance and Accountancy, the Local Government Association and the Department
<i>10 October</i>	Deadline for submission of auditor-certified data to the Department
<i>November 2011</i>	Consultation on self-financing determinations Public Works Loan Board issues user information
<i>January 2012</i>	Final self-financing determinations published Local authorities making a payment receive and return a questionnaire seeking firmed up plans on how much and from where they intend to borrow. The Department will follow up as needed in February/March. Public Works Loan Board website opens for business
<i>Early February 2012</i>	Consult on special determinations for subsidy payment adjustments in 10/11 (in light of 28 March payment date)
<i>February 2012</i>	Local authorities set budgets and formally approve borrowing plans
<i>End February</i>	Issue special determinations for subsidy payment adjustments in 10/11
<i>Mid March</i>	10/11 subsidy adjustments for the 4 days' interest are made
<i>28 March 2012</i>	Series of transactions between the Department, the Public Works Loan Board and local authorities to enable the start of self-financing
<i>1 April 2012</i>	Self-financing goes live
<i>March 2013</i>	Cut-off for final payments under the subsidy system.

Chapter 6

Closing down the subsidy system

This chapter provides information on the arrangements for closing down the subsidy system and the treatment of Decent Homes and Private Finance Initiative payments.

6.1 The overall arrangements for closing down the subsidy system

From 1 April 2012, subject to Parliamentary approval of the powers in the Localism Bill, the Housing Revenue Account subsidy system will be replaced by self-financing. However, as with previous years, there will be residual payments and claims with respect to the previous year, as well as unresolved issues from earlier years. There are saving and transitional provisions in the Localism Bill which allow us to retain the powers needed to deal with over or under-payments of subsidy.

The 201103 form will be issued as usual for return by the end of September 2012 and the final form, the 201104, will be issued for certification by the auditor by the end of December 2012. This will prompt the majority of final adjustments in January 2013. However, there will be a concluding payment/claim run in early 2013, probably in February or March, for final settlement of subsidy payments and claims following auditor certification and resolution of any auditor qualifications.

Where audit qualifications have led to suspension of payments to local authorities, or local authorities have withheld payments to the Department pending resolution of any disputes, as is the standard practice it will be for the Department to take a view on further action.

We will need to keep the current arrangements for BACS payments and Direct Debits open, and to retain local authorities' bank details for this purpose until the final transactions are completed. Local authorities should continue to advise the subsidy team of any changes to bank details that arise during this period.

6.2 Support available from the Department

The subsidy team, in collaboration with the LOGASnet team, will be working throughout the remainder of 2011-12, and beyond as necessary to resolve all outstanding overdue receipts and to clear all outstanding issues such as suspensions/abatements. We will close down subsidy years where these currently remain open as soon as all issues are resolved.

Local authorities should contact the subsidy team if they have any outstanding queries or issues around Housing Revenue Account subsidy as soon as possible with a view to early resolution as we move to the new system.

The Department will write to local authorities at the end of February 2012 with further detail on timings and arrangements for final payments.

6.3 Remaining work related to the Housing Revenue Account

The Department will maintain a residual capacity to deal with issues related to the Housing Revenue Account. There will continue to be a contact point in the Department for issues such as directions on transfers of assets or funds across the ring-fence and any Housing Revenue Account policy issues.

The Department will continue to deal with applications to the Secretary of State to close Housing Revenue Accounts following transfer and to hold and account for properties outside the Housing Revenue Account ringfence.

There will also be support for handling longer-term issues such as reviewing the need to update secondary legislation and guidance, including the Guidance for Valuers on Stock Valuation for Resource Accounting, the Housing Revenue Account (Accounting Practices) Directions and the Housing Revenue Account Manual, which provides definitive guidance on keeping the account, as necessary.

6.4 Related payments: Decent Homes payments in 2012/13

We previously said we were minded to adjust the debt settlement figure to reflect Decent Homes Backlog funding allocations for 2012-13. We no longer intend to make payments this way. In order to simplify the process and make it more transparent, the self-financing settlement payments will not take account of these sums. Decent Homes backlog funding for 2012-13 will be paid as grant early in April 2012. In London, grant will be paid by the Greater London Authority, elsewhere in England it will be paid by the Homes and Communities Agency.

We will ensure that these grants are used for the purposes intended. We intend to make a direction under Item 9⁷ which requires this sum to be credited to the Housing Revenue Account and a direction under Item 8⁸ to require this sum to be subsequently debited from the Housing Revenue Account and paid into the Major Repairs Reserve.

⁷ Item 9 of Part 1 of Schedule 4 to the Local Government and Housing Act 1989

⁸ Item 8 of Part 2 of Schedule 4 to the Local Government and Housing Act 1989

6.5 Related payments: Private Finance Initiative payments

Subsidy payments for Housing Revenue Account Housing Private Finance Initiative schemes are currently included in the Housing Revenue Account subsidy calculation. We announced in *Implementing self-financing for council housing* that we will continue to pay this separately as a revenue subsidy. From the start of self-financing the Department intends to pay this subsidy as a grant using powers in section 31 of the Local Government Act 2003. We will also amend the item 8⁹ credit determination to provide for this payment to be credited to the Housing Revenue Account.

Councils with Housing Revenue Account Housing Private Finance Initiative schemes that reach contract signature after 31 March will not have had their Major Repairs Allowance reduced to reflect the properties included in the Private Finance Initiative contract. The subsidy that is paid will be adjusted to take account of Major Repairs Allowance included in the self-financing valuation for properties that are subsequently included in a Private Finance Initiative contract.

⁹ Item 8 of Part I of Schedule 4 to the Local Government and Housing Act 1989

Chapter 7

Accounting and regulatory framework

This chapter describes the accounting and regulatory framework for self-financing. It covers:

- depreciation and impairment
- separating housing and general fund debt
- the operation of the housing ring-fence and the revised Item 8 credit and debit determinations
- Minimum Revenue Provision.

7.1 Depreciation and impairment

Under the current housing finance system councils must put some of their income each year into a 'Major Repairs Reserve'. Money put into this pot can then only be spent on major repairs or on repaying housing debt. This ensures that councils make appropriate provision for capital works – and that money needed for a future capital programme is not spent earlier on other things. Under self-financing, it will be even more important that councils set aside this money. We therefore intend to retain the principles of the Major Repairs Reserve.

The subsidy system requires councils to put at least as much money into the Major Repairs Reserve as their Major Repairs Allowance – this is the amount government assumes a council needs to spend on capital works when it calculates subsidy entitlement. There will not be a Major Repairs Allowance under self-financing. The amount to be paid into the Major Repairs Reserve must therefore be drawn from a local assessment of capital spending needs.

This assessment should be based on the amount which needs setting aside for depreciation, namely the cost of replacing or renewing all the time-limited components of the stock plus an amount for the fabric of the building. If the components are replaced at the end of their lifespan then it is expected that the fabric of the building will have a long life. As the self-financing valuation is based on an updated Major Repairs Allowance which is built up using the same method in respect of components, we expect that the need to spend in local plans will be broadly similar to the figure funded in the self-financing valuation.

Under the subsidy system, councils have been required to put a figure equivalent to their depreciation into the Major Repairs Reserve, but have then been allowed to 'reverse out' any difference between that and the Major Repairs Allowance. In future, councils will need to develop a component-based approach to depreciation in order to comply with accountancy standards. There should be no difference between this and the need to spend on major repairs identified in the business plan, which is itself based on the cost of replacing and renewing components. We therefore see no need longer term to have a mechanism which prevents the full depreciation charge from hitting the Major Repairs Reserve.

However we recognise that councils will need time to implement component-based depreciation. There are also issues to be resolved, including the link between depreciation and stock valuations (and revaluations) and how impairments are dealt with. The Chartered Institute of Public Finance and Accountancy consulted on proposals in February and will issue a further consultation on this shortly. We expect this to propose a five-year transitional period during which councils may choose to use the uplifted Major Repairs Allowance in the self-financing valuation as the figure which must be funded in the Major Repairs Reserve. They will also be able to reverse out the effect of impairments as a below the line adjustment in the Statement of Movements on the Housing Revenue Account balance sheet. Authorities will still be able to transfer amounts in excess of depreciation to their Major Repairs Reserves.

7.2 Separating out housing debt

The February policy document published by the Department identified potential benefits from a separation of housing and other local authority debt. In particular, we thought this could help longer term planning and treasury management. The February consultation by the Chartered Institute of Public Finance and Accountancy included proposals for separating housing debt from other council debt and to replace the average interest rate (the Consolidated Rate of Interest) with a charge that reflects the actual interest rates on loans earmarked to the Housing Revenue Account.

The Government and the Chartered Institute want councils to have the flexibility to develop an approach to treasury management that meets local needs, subject to the principle that there should be a fair apportionment of costs and risks between the General Fund and the Housing Revenue Account.

The Chartered Institute of Public Finance and Accountancy will be seeking further views this summer on options for managing debt under self-financing.

7.3 The Housing Revenue Account ring-fence

The Housing Revenue Account ring-fence ensures that money raised from tenants' rents is not used to cross-subsidise the General Fund and that council tax is not used to cross-subsidise council housing. This ringfence will continue after the introduction of self-financing.

Some technical changes are needed to the rules that govern the operation of the ring-fence to take account of the self-financing settlement payment and the new approaches to depreciation and debt management proposed above. As such we have reviewed the contents of the 'Item 8' determination, which deals with the movement of money across the ring-fence. A revised working draft Item 8 has been published as a separate document. We will consult on the revised Item 8 as part of our formal consultation on the self-financing determinations in the autumn but we would welcome views now on the current version.

The Item 8 determination will continue to specify the items that can be debited or credited to the Housing Revenue Account, but in most cases it will require councils to follow proper practice in calculating the appropriate amounts to credit or debit, rather than setting out a detailed set of rules and formulae. Guidance from the Chartered Institute of Public Finance and Accountancy will strengthen the definition of proper practice in this area. The debt cap and the definition of debt will be set out in the 'limit on indebtedness' determination. A working draft of this determination is also published for comments.

It should not be necessary to issue new determinations each year.

7.4 Minimum Revenue Provision

Some local authorities have raised concerns about the impact of the self-financing payments on the obligation to make a Minimum Revenue Provision within the General Fund. We will amend the guidance on Minimum Revenue Provision to ensure that self-financing does not affect this. The draft amendment we propose to make is inserted below:

DCLG GUIDANCE ON MINIMUM REVENUE PROVISION

<http://www.communities.gov.uk/documents/localgovernment/pdf/1502003.pdf>

Additional guidance is to be included in this document as follows:

In Part 1 (informal commentary), after paragraph 39, the following paragraph is to be inserted-

“ Housing Revenue Account Reform Exercise

39A. This initiative, on 1 April 2012, entails new debt being incurred by certain authorities, some with a previously negative Housing Revenue Account CFR. The ensuing increase in their overall CFR would potentially raise their MRP liability – in some cases from nil to a significant level. The Secretary of State considers that, given the special circumstances of the exercise, such a consequence should not be imposed upon authorities. He therefore makes the formal recommendation (Part 2, paragraph 19(b) below) that, for the purposes of determining MRP, this increase in the CFR may be ignored, thus avoiding any impact on the revenue budget. ”

In Part 2 (statutory guidance), at the end of paragraph 19(b), the following sentence is to be added-

“Any increase in the CFR arising from the HOUSING REVENUE ACCOUNT reform exercise undertaken on 1 April 2012 may be ignored for the purposes of determining MRP.”

We will not be changing the rules to require Minimum Revenue Provision within the Housing Revenue Account. Any authority which chooses to include provision within its business plan will be able to do so.

Chapter 8

Improving accountability and transparency to tenants and maintaining the Decent Homes standard

The chapter provides information on the wider context for self-financing including empowering tenants and the continuing importance of accommodation meeting the Decent Homes standard. It covers:

- proposed changes to standards expected by the regulator designed to increase tenant empowerment
- proposed changes to the quality of accommodation standard (the 'Decent Homes' standard)
- transparency around service charges

8.1 Greater accountability to tenants

The Government is currently consulting on draft directions from the Secretary of State to the Social Housing Regulator (*Implementing social housing reform: directions to the Social Housing Regulator* – published 7 July). This includes a proposed direction on tenant involvement. This would support effective scrutiny by tenants by setting the expectation that local authorities (and other registered providers) should provide timely, useful information about their performance. There is also an expectation that providers issue an annual report to tenants, in a form which providers should agree with their tenants in advance. The presentation of financial information in a form which is useful to tenants will be a key element of this. To support tenant involvement, the Government will be funding a residential training programme. This will encourage social tenants to play a bigger role in their communities through, for example, effective scrutiny, challenge and tenant panels.

The Government's draft direction to the Regulator also proposes that the Regulator should set a standard to encourage social landlords to give tenants opportunities to form tenant panels – enabling them to hold landlords to account and help resolve tenant complaints.

The Regulator could use its monitoring and enforcement powers to address serious failure by landlords against these new standards.

8.2 Providing accommodation that meets the Decent Homes standard

The Department is also consulting on a draft direction for the Regulator on the 'quality of accommodation' standard. The previous standard focused on landlords achieving 100 per cent decency by December 2010. The great majority of social housing met the standard before this date and social landlords' statistical returns show that 92 per cent were expected to meet the standard by April 2011.

The new standard will specify that social landlords will be expected to maintain their stock at a decent level, investing capital and using their asset management strategy to ensure pre-emptive improvements are delivered so that their homes do not fall into a non-decent state. Only in exceptional circumstances will temporary exemptions to the standard for specific homes be given¹⁰.

8.3 Increasing transparency over service charges for secure tenants

In addition to the rent, local authority secure tenants are usually liable to pay service charges. Service charges will vary depending upon the services the tenant receives. Typical services are CCTV, grounds maintenance, heating and hot water. This means that different tenants may receive different types of service and therefore different bills. Charges of this kind can be an area of dispute between tenants and their landlord, and, where costs appear to have been unreasonably incurred or apportioned, can give rise to concerns.

The Landlord and Tenant Act 1985 sets out information that tenants (other than secure tenants) can expect to receive from their landlord. (Please see sections 18 to 25 of the Act.) Local authorities are not required to provide this information to their secure tenants although long leaseholders are entitled to such information. In the interests of greater transparency and accountability, local authorities are asked to consider how they can comply in so far as practicable with requirements of Act in respect of secure tenants. This would mean that secure tenants receive similar information about their service charges to other social housing tenants.

Many local authorities already provide fuller information about service charges, consult tenants and give an opportunity to ask questions about them. Local authorities will already be providing information to their long leaseholders and could mirror this practice in relation to their secure tenants.

¹⁰ Some landlords particularly in the local authority sector had formal agreements that some of their stock would be made decent after this date. The extensions granted to these landlords still stand.

Some of the practice that local authorities could introduce includes:

- consulting tenants on the level of service charges
- providing details of how the service charges are calculated and the services that are covered – this may include separating and itemising service charges
- providing estimates in advance of bills where appropriate
- attributing costs to individual homes if appropriate (for example in cases where heating is provided through district heating schemes) though the local authority will want to take account of practicalities and costs)
- providing opportunities for tenants to obtain further information and to challenge the level of service charges.

The important principle is that local authorities set reasonable and transparent service charges which reflect the service being provided to tenants.

As far as possible, there should be a level playing field for all social tenants regarding information and consultation on service charges. We hope to achieve this by working with local authorities to ensure that good practice guidance is available.

Chapter 9

Related policy developments

This chapter sets out the wider policy context for the implementation of self-financing.

Key points include:

- a more detailed description of government's policy on stock transfers
- proposed changes to the consents and disposals regime

9.1 Transfer policy

9.1.1 The overall approach

The Government considers that self-financing gives all stock owning councils a viable long term future and it is the assumed solution for maintaining their stock in good repair.

Under self financing, whole and partial stock transfers remain an option for councils and their tenants. However, the Government's policy on the extent of financial support for transfers has changed to better align it with funding for self financing.

Although value for money has been a consideration in transfers prior to the development of self financing, more generous settlements had often been funded to meet tenant aspirations.

Given the current fiscal climate, a more rigorous approach is required. The Government's starting point for consenting to transfers, set out in a number of recent publications, is that the transfer business plan in aggregate should be justifiable in comparison with the financial settlement for self financing.

As was the case previously, overhanging debt will only be repaid if it is debt owed to the Public Works Loan Board.

9.1.2 What councils need to demonstrate in order to secure a transfer

Councils considering transfer as an alternative will need to demonstrate what additional investment transfer could deliver and how they would fund any proposals. In considering transfer proposals the Department will take the self-financing valuation as the norm, taking account of any Decent Homes backlog and any additional factors such as different tax treatment which would affect a valuation.

If there is any gap between the two approaches, the Department expects that the receiving Housing Association or the transferring council will bridge that gap using corporate financial support, reserves, land or other assets. Councils and tenant advisors should explain this at the start of any option appraisal and make clear to tenants and the Department where the financial support will be coming from.

Financial parameters such as the voids, inflation and discount rates for transfer must be justified against those used in the modelling for self-financing.

The self-financing valuation is based on a formulaic approach and it may be possible for a council to demonstrate that there are costs not fully reflected in the formulae, or that some stock may need regeneration rather than repair. In such cases, the Department may agree that the transfer valuation can take into account such factors, but this will be the exception rather than the rule.

In addition, there must be clear supporting evidence of such need and explanations of why re-profiling spend, or using existing borrowing headroom, is not possible. In all cases there will be a presumption that there is a robust asset management plan in place that ensures stock does not continue to be refurbished if there is a valid case for disposal or regeneration.

Those authorities that are currently discussing potential transfers with the Homes and Communities Agency and the Department will need to take a “twin-track” approach, i.e. planning to deliver self financing as well as any transfer activity, so that self financing can proceed if for any reason the transfer is delayed or rejected.

The Housing Transfer Guidance will be revised and re-issued this autumn to reflect what has already been announced in Written Ministerial Statements and self financing policy documents, including this publication. As part of this revision, an appropriate format for collecting more detailed revenue/expenditure information will be included as part of the redrafted Transfer Manual (to replace the Decent Homes focussed Single Transfer Model).

The Homes and Communities Agency, as well as revising this guidance, will continue to have an active role in analysing transfer proposals. Councils considering full or partial stock transfers should engage early with the Agency

9.1.3 The use of any receipt

Under the subsidy system, if a council gets a receipt from a voluntary transfer of part of its stock to another social landlord, government reduces the amount of housing debt which it supports by the same amount. We therefore expect councils to use this receipt to pay down housing debt, otherwise other income within the Housing Revenue Account would have to be diverted to support this debt.

The financial impact of a partial transfer under self-financing will be similar. In this case the council will lose the operating surpluses from those properties rather than revenue subsidy from government. The receipt from the transfer should reflect the amount of debt which those surpluses were supporting. To maintain viability of the existing stock we therefore expect that the receipt will continue to be used to pay down Housing Revenue Account debt under self-financing.

9.2 Consents and disposals policy

As we announced in "*Implementing Self-Financing for Council Housing*" we wish to enable the effective management of council housing assets. In particular we want local authorities to have greater control over when to dispose of such assets.

9.2.1 Reducing the need to seek Secretary of State's consent

We will therefore be consulting this summer on proposed changes to the General Consents issued under section 32 of the Housing Act 1985. Our main proposal is to remove the requirement to seek the specific consent of the Secretary of State to any disposal at market value except where a) such a disposal would result in a secure tenant becoming the tenant of a private landlord or b) a disposal would be to a subsidiary of the local authority. We also propose to give greater freedom for local authorities to dispose at less than market value where they consider it appropriate to achieve wider objectives.

9.2.2 Clarifying the position regarding the pooling of receipts

We will, at the same time, consult on up-dating the regulations governing the pooling of receipts arising from such disposals. Our aim is to make the regulations clearer and to ensure that our proposed greater freedom to dispose does not inadvertently disadvantage any authority. Receipts from non-Right to Buy (or similar) sales will continue to be retained by local authorities provided they are spent on affordable housing, for regeneration purposes, or for paying off Housing Revenue Account debt. However, we will seek views on amending the regulations to make clear our policy objective that the requirement to surrender 75 per cent to central government shall apply only to receipts arising from Right to Buy sales or sales that are Right to Buy in all but name (i.e. sales to existing council tenants). Sales at market value to other purchasers could be retained provided it is spent on affordable housing, regeneration projects or paying off housing debt.

9.2.3 Timing of implementation

We propose that the changes to the General Consents and the revised regulations come into effect to coincide with the beginning of self-financing.

Annex A

Summary of self-financing for tenants

Changes to how council housing finance is managed

The Government is proposing changes to the way it and your council share the cost of council housing. This document sets out what those changes will be. None of these changes affect your tenancy or the rent you pay.

Introduction

The Housing Revenue Account Subsidy System is the current system for managing the financing of council housing. Under this system, major financial decisions about council housing management are made by central Government and there is comparatively little control in the hands of councils. This makes it difficult for councils to plan for the long term to ensure that decisions about what and how services are delivered are linked directly to local needs.

The Government has committed to replacing the current system with a new arrangement that will enable councils to keep all the money they receive from rent and use it to maintain their homes. This means that council housing will be focused on what is needed locally and councils can make best use of their housing resources.

How is the current system working?

Under the current system – the Housing Revenue Account Subsidy, the Government calculates the spending needs of each local authority and compares it with their rental income. If a council's rental income falls short of its spending needs, the Government provides subsidy to make up the shortfall. If a council's rental income exceeds its spending needs, the excess is fed back into the subsidy system to help provide for those councils requiring subsidy. If any money is left over, it is returned to Government – this is increasingly the case as costs have been assumed to be fixed and rental income assumed to increase above inflation each year.

Why the Government wants to change this system

- The current system is complex and does not deliver sufficient funding for councils to manage and maintain their homes to a good standard
- It does not support tenant involvement in decisions about their homes and locality
- Councils can not undertake proper business planning due to the annual nature of the system
- The system assumes unrealistically low expenditure needs and so generates a large surplus for central government and accommodation that is not always adequately maintained.

Local authorities say, and the Government agrees, that every council is different and no two councils have the same needs. Services need to be right for each council. Government wants a solution that will work for all and is fair to both tenant and taxpayer. Government is therefore shifting power from the centre to councils through the new self-financing system.

The objectives of the self-financing system

The objectives of self-financing are to:

- make the system more flexible and fair, giving councils the power to make the best use of their housing stock, in a way which best meets the needs of individual households in their local area
- enable tenants and local taxpayers to hold their landlord to account for the cost and quality of their housing.

How will the new housing finance system be introduced?

The Government is changing the law to deliver this change from April 2012. The new Localism Bill contains provisions that will bring in the new self-financing system and abolish the current annual system.

How will the Self-financing system affect councils?

- Self-financing will affect the housing revenue account of the 171 councils, who have council housing stock, but will not impact on their general finances, or on other councils
- Implementing self-financing involves a reallocation of housing debt based on whether the valuation of each council's housing business is higher than their existing debt. Where the value is higher than the level of debt, the council will pay the difference to central government. Where it is lower, central government will pay the difference to the council
- Councils will only be asked to take on extra debt if their council housing will generate sufficient income to meet it after costs are met. The debt will not impact on what is delivered to you as tenants
- In order to ensure that the country does not get into any more debt than we can afford at least initially, councils will be given a limit to how much more money they can borrow (a borrowing cap)
- Her Majesty's Treasury have announced that the payment to government of 75 per cent of the net receipt from Right-to-buy sales will continue. This was a necessary decision taken during a difficult Spending Review. Local authorities will still keep 25 per cent of the receipt and 100 per cent of the receipt from other sales provided it is spent on new social housing, regeneration projects or paying off debt. The Department for Communities and Local Government has reduced the level of debt that local authorities will take on under self-financing by £862 million as compensation for the likely loss of rental income from Right-to-buy sales (based on historic sales patterns).

How will the Self-financing system affect you personally?

- You will benefit because self-financing provides the opportunity for business planning to be guided by local priorities, rather than central government rules
- You will benefit because councils will have more money to spend on council houses
- You will also be able to trace a clear connection between the rents charged locally and the service provided. Councils will publish annual, transparent information on charges and costs.

What won't change?

- Your rights as tenants – such as right to repair, and right to buy/acquire will not change
- Your landlord will not change – self-financing does not change your housing provider in anyway
- Your rent – the level of rent you pay will continue to be a decision for your council.

For more information – Ask your council housing officer or see the Department's website: www.communities.gov.uk/publications/housing/socialhousing/ for further details.

Annex B

Guidance on Reflecting Demolitions in the Valuation

Self-financing will enable all councils to develop a long term asset management strategy. That strategy should include plans to demolish or replace stock based on local decisions about viability and future needs. Over the longer term, it is right that these asset management decisions should take account of the full potential of the existing stock to generate income. However, we are aware that the Housing revenue Account subsidy system currently meets some of the costs of demolition schemes, and that councils with firm plans for demolitions may have assumed that subsidy in their plans. We do not want self-financing to destabilise these plans. This note sets out how we intend to avoid this situation. The department reserves the right to the final decision on stock numbers included for authorities.

Current position

Self-financing means councils will take greater control of their stock and the income and debt associated with it. Therefore, over the longer term, council plans which include demolitions will need to take account of any operating surpluses those homes are contributing to the Housing Revenue Account and the amount of debt that this operating surplus is supporting. This will in effect make explicit some costs of these schemes that are currently met through a hidden subsidy paid through the Housing Revenue Account subsidy system. We think it is right that the value for money case for a scheme should in future reflect these costs.

However, we recognise that over the near term councils may have made firm plans to demolish properties based on assumptions about income and debt servicing as under the current Housing Revenue Account subsidy system. We do not want changes to the council finance system to destabilise these plans. Therefore, we are prepared to adjust the settlement where there are firm plans to demolish properties in the early years of self-financing.

This document sets out the process for reflecting demolitions in the valuation including: handling disposals and demolitions before commencement of Self-financing; the relevant time period after commencement; the definition of demolitions; evidence requirements and the data collection and auditing process.

Demolitions

Discussion with councils has indicated the relatively long time horizons over which demolition plans are conducted. Conversely, evidence points to the increasing uncertainty of plans as we move into the future. Giving due consideration to these points the Department has decided to reflect demolitions in the valuation where the property becomes void (and there is a formal decision to demolish it) within **five years of the commencement of self-financing.**

- Unoccupied properties which the authority had **resolved, before 1 April 2011,** should be demolished, should be excluded from the dwelling count on the Base Data Return as has always been the case under the subsidy system. Auditors may choose to test that this number has been recorded correctly.
- **Unoccupied properties** where a **resolution to demolish was made after 1 April 2011 but before the return of the certified Base Data Return** are subject to the evidence and audit requirements as set out below. These planned demolitions should be recorded at cell SF000SR on the 2012 Base Data Return.
- **Occupied properties** where a **resolution to demolish has been made by the time the Base Data Return is certified and submitted (10 October at the latest)** are subject to the evidence and audit requirements as set out below. Planned demolitions of properties occupied at 1 April 2011 taking place in 2011-12 should be recorded at cell SF000SR on the 2012 Base Data Return. Planned demolitions of dwellings occupied at 1 April 2011 and taking place in 2012-13, 2013-14, 2014-15, 2015-16 or 2016-17 should be recorded in the cell corresponding to the relevant year (SF001DE to SF005DE). Properties should be recorded at the point at which they will become void – i.e. the point at which no further rental income would be received from the dwelling. So if a dwelling is to be decanted in 2013-14 and demolished in 2014-15 it should be recorded against 2013-14 (cell SF002DE). The relevant section from the Base Data Return is shown in table 1.

Deadline for Evidence Requirements

Previous demolition guidance (issued 18 May 2011) indicated that evidence would be required by 31 August 2011. The department is prepared to relax this requirement, where such information will become available up to 10 October provided that this can be agreed between authorities and their auditors. Where this additional flexibility will be helpful authorities should agree with their auditors when they will provide the evidence and ensure this allows sufficient time for the Base Data Return to be certified. There cannot be flexibility around the 10 October 2011 deadline for certified base data returns as this is vital to ensuring self financing can be delivered on time.

Evidence Requirements and Data Collection

Tenant specific consultation and a formal council decision to demolish the property will form the basis of the evidence requirements.

The original guidance stated that tenant specific consultation must have been undertaken and the results published as of the 31st August 2011 (the deadline for submitting the B1 form). As the Department is now relaxing the deadline for evidence requirements you may, subject to agreement with your auditor, include proposals for which evidence of the intention to demolish will become available anytime up to 10 October 2011. Please be aware that this is the final deadline for having the certified data available for Self-financing. You will need to build in contingency to your consultation and resolution plans as no extension can be offered. Following the consultation the council must still have firm plans to void the property in advance of demolition by 31 March 2017.

Tenant specific consultation should take the form of a completed consultation which covered all the tenants whose properties the council plans to demolish and is seeking agreement to include in the valuation. The documentation must specify the properties that are due to be demolished, for example by listing addresses, building names or providing maps. Consultation can take many forms. It should outline the demolition plans at a level of detail so as to indicate a clear intention.

Evidence Requirements for Void Properties

Clearly, there cannot be a consultation for an unoccupied property. Where an unoccupied dwelling is part of a block where a consultation has taken place resulting in a resolution to demolish, this will be sufficient. Where the demolition of an unoccupied dwelling could be achieved without decanting any other dwellings then no consultation is required but a resolution to demolish must be in place.

Disposals

The valuation will be adjusted to take into account disposals taking place after 1 April 2011 and before 31 March 2012 only.

We will require details of the number of dwellings disposed of (other than qualifying disposals [SSVT's/LSVT's] or Right-to-Buy Sales) in 2011-12. Such disposals (e.g. market sales) should also be recorded at cell SF000SR on the Base Data Return. The department will require evidence that consent to the disposal has, or will be, granted.

The department will make adjustments to the self financing settlement for **qualifying disposals** (SSVT's or LSVT's) taking place in 2011-12. The department will require information on the number of properties transferring and any capital receipt arising from the transfer but this will not be collected through the Base data return. You should instead

record a “Yes” response to question SF001SR on the Base Data Return and ensure you engage with the department at an early stage.

Properties which will be sold under the **Right-to-Buy should be ignored**; the department will make standard assumptions concerning Right-to-Buy sales.

Appropriations

The department will make adjustments to the self financing settlement for appropriations into or out of the HRA. The department will require information on the number of properties transferring and any capital receipt arising from the transfer but this will not be collected through the Base data return. You should instead record a “Yes” response to question SF002SR on the Base Data Return and ensure you engage with the department at an early stage.

Next steps

Data will be collected and certified through the usual advance base data return process. The base data form for the self-financing settlement 2012-13 (the 2012B1) will be available for completion and certification on LOGASnet **from 30 June, 2011**. As outlined elsewhere in this guidance:

- Void properties where a resolution to demolish exists at 1 April, 2011 should be removed from the stock count
- Demolitions and non-qualifying disposals (other than RTB’s) taking place in 2011-12 should be recorded at cell SF000SR
- Authorities undertaking qualifying disposals in 2011-12 should record “Yes” in cell SF001SR
- Authorities undertaking appropriations in 2011-12 should record “Yes” in cell SF002SR
- Demolitions taking place after self financing where evidence is available (where appropriate) and a resolution is in place should be recorded in cells SF001DE to SF005DE

Table 1: Annotated Illustration of Additional Section of the B1 Form (the 2012B1)

Planned stock reductions for 2011-12

SF000SR
 Properties becoming void in advance of demolition or disposals of properties (other than qualifying disposals [SSVT's, LSVT's] or Right to Buy sales) included in the local authority's dwelling count at cell F001DP on this form that have taken place, or are planned to take place, after 1 April 2011 and before 31 March 2012.

SF001SR
 Have you or do you intend to undertake any qualifying disposals (SSVT and LSVT) between the 1 April 2011 and 31 March 2012 inclusive?

SF002SR
 Have you or do you intend to undertake any appropriations between the 1 April 2011 and 31 March 2012 inclusive?

Planned demolitions from 2012-13

Evidence of planned demolitions

Cells SF001DE to SF005DE should record any firm plans for demolitions after 1 April 2012 in line with DCLG guidance.

SF001DE
 1 April 2012 and 31 March 2013

SF002DE
 1 April 2013 and 31 March 2014

SF003DE
 1 April 2014 and 31 March 2015

SF004DE
 1 April 2015 and 31 March 2016

SF005DE
 1 April 2016 and 31 March 2017

The deadline for completing and certifying the form is 31 August, 2011. The department is content to allow evidence pertaining to planned demolitions to be submitted for certification purposes after this date provided that authorities can agree this with their auditors.

The deadline for returning the 2012B2 form certified by your auditor, to the Department for Communities and Local Government is 10 October, 2011. Any queries should be sent to the usual council housing finance email address:

CouncilHousingFinance@communities.gsi.gov.uk

Clarification of Other Issues Arising from Communication with Councils

During the Department's exercise to gather information regarding this policy, a number of key issues arose:

- *Demolitions versus transfer:* Some councils have supplied us with the details of properties that will be transferred to Housing Associations. In many cases the housing association will then demolish and redevelop. Disposals and transfers up to commencement of Self-financing will be dealt with in the usual manner and require normal approval from the Department. These will then be reflected in the valuation. *Stock that will be transferred or disposed of after commencement of self-financing will not be covered by these provisions*, even where the intention is for the properties to be demolished after the disposal. Councils with stock that cannot be let should consider whether it qualifies to be excluded from the base data for the calculation of HRA subsidy. If it does, this would take it out of the self-financing valuation.
- *Year a demolition is assumed to take place:* In line with current subsidy guidance the demolition should be counted in the year in which the property becomes void in advance of the demolition.

