

## 'Self-financing' and managing housing debt – the interests of existing and future tenants come first

**A**s a result of Swindon's Housing ballot result, when 72% of tenants voted against selling off our homes, the Council maintained ownership of its housing stock and was thus one of the local authorities included in the new Housing Finance system – 'self-financing'. The government closed down the national Housing Revenue Account and shared out the national 'housing debt' amongst all the local authorities that still owned their housing. Swindon's share of that 'debt' was deemed to be £138.6 million. The Council had to pay it off in one lump sum on March 28<sup>th</sup> of 2012. In order for it to be able to do so, the government's Public Works Loan Board (PWLB) lent the Council that sum so it could pay the government. Having handed over this money to the government the Council owes the money to the PWLB.

However, the money it borrowed from the PWLB was not one loan. It borrowed 22 of them, of varying sizes, for varying periods (for up to 40 years) in March of 2012. The debt structure determines what interest you pay and when the loans themselves fall due for payment. Interest rates vary according to the length of the loan. This has an impact on what money is available and when, for maintaining and improving tenants' homes. Yet despite the importance of this decision the Council *did not consult tenants on the structuring of the debt*. Also in March they decided on the amount of debt to 'pay' at the end of the first year of the new system. *Once again there was no discussion with tenants*. As we shall see the amount of debt they decided to 'pay' (the reason for the quote marks will be clear in a moment) would mean that tenants would suffer an insufficient level of renewals of some of the key components of their homes. The Council has been making decisions which impact upon us, *behind our backs and without our involvement*.

Despite the new system introduced in April 2012 there has been no discussion about it, what it means on a practical level and how the interests of tenants can be best served in the new circumstances. Tenants have been kept in the dark. It's time to try and throw some light on the situation.

The debt structure which the Council decided on, without consulting us, appears to have been determined not by the interests of tenants but *according to the interests of the Council and its General Fund*. For instance, none of the 22 loans borrowed from the PWLB is payable until Year 11 (2023). Why not? Because during these 10 years they would be able to transfer money to the GF, avoiding the need to borrow money from the PWLB, which would be at a higher rate of interest than were the loans for the £138.6 million. So by transferring money from the HRA the GF gets some 'cheap money'. However, once this money is transferred it becomes part of the GF 'pot' and the Council can use it for whatever purpose it chooses.

Can they do this when the HRA is 'ring-fenced', supposedly to stop our rents being used for non-housing purposes? Good question.

In order to 'take advantage' of money from the HRA they decided, without discussing with us, that despite the fact that no debt payment is due to the PWLB until 2023, the HRA would make a 'debt payment' by way of an *internal transfer* between the HRA and the GF. By the use of an accountancy procedure the money would be shifted into the GF and deemed to be a 'debt payment'. A 'minimum revenue payment' is registered, which would mark it down as a debt payment which would be paid at some *unspecified* date in the future. A Finance Manager described it as "a set-aside of cash to repay debt at some point". The GF would take on responsibility for the debt and would pay the interest rate on

the part of the debt which was transferred over from the HRA.

So, in the first year they unilaterally decided that an £8 million 'debt payment' would be transferred into the GF. We were told that there would be 'no detriment' to the HRA because the GF would pay the interest on this sum, hence the HRA would not have to pay interest payments of £250,000 a year for that £8 million. So the tenants' benefit out of this accountancy procedure then? Yes and no. Yes, insofar as the HRA has to pay £250,000 interest a year less than it would otherwise do. However, the high level of 'debt payment' would have a detrimental impact on the upkeep of our homes.

To understand why we have to look at how the new system operates. When it is called 'self-financing' it means it literally. The end of the national Housing Finance system meant that all the Councils have been set adrift on their own. There are no more grants like the Major Repairs Allowance. We have only the money which is collected in from tenants' rents, service charges and one or two minor items.

Having been loaded up with the £138.6 million debt we have to pay the interest on these loans and the loans themselves from the **surplus** which the Housing Revenue Account makes each year; the income from rents etc, minus the expenditure on repairs and maintenance, management costs and so on. The surplus for 2012/13 is expected to be £19.1 million.

The interest which has to be paid on the £138.6 million is just over £4.5 million a year. Housing debt which pre-dated this has an interest payment of £477,900. Added together this is as near as matters £5 million a year. The Council decided that £8 million 'debt payment' would be made in the first year, so *that has to come out of the surplus* as well as the interest payment.

The amount of debt 'paid' will determine how much money you have for the upkeep of the housing stock. This is graphically shown when we look at the amount of work projected for 2013/14. Take the example of bathroom and kitchen renewals. The Council was proposing a miserable 150 renewals of each. You may recall that at the time of the ballot tenants were told that so dire was the situation because of the debt which the Council was going to be given by the government that they would only be able to afford to do 150 bathroom and kitchen renewals a year, for each of the first ten years. This represents around 14% of the housing stock. Swindon Tenants Campaign Group never believed this to be true. But we were never given the 30 year 'business plan' which was the Council's projections for continued ownership should the tenants vote against transfer, so we had no idea about the 'debt payments'.

Now we discover that the reason why they could 'only afford' to do 150 bathrooms and 150 kitchens was precisely *because they were proposing to 'pay' £8 million debt* (in reality an internal transfer). If, on the other hand £5 million was 'paid', that would mean there would be **£3 million extra** for our homes. So for 2013/14 the budget for Kitchen modernisation was £672,000 and for Bathroom modernisation £465,000. If you scaled those up to **450 of each** the budgets would be £2,016,000 and £1,395,000. The increase in spending for the kitchens would be £1,344,000 and £930,000 for bathrooms, or £2,274,000 and you would still have £726,000 to spend on other things from the extra £3 million.

So the Council was proposing a 'debt payment' which was *counter to the interests of tenants and would inevitably lead to a deterioration in the stock*, building up a backlog of work. A lower level of renewals would mean a higher number of repairs, wasting money. So the 'debt management strategy' which they decided on without any discussion whatsoever with tenants meant that the interests of tenants would be *sacrificed* in the interests of the Council's administration for the benefit of the General Fund.

Although the decision on the £8 million 'debt payment' was made in March 2012, in fact the payment *did not fall due until the end of the 2012/13 financial year*. Since it hadn't been made then there was time for the decision to be reversed or amended. The Council has an obligation to consult with tenants and it did not. This unilateral decision was out of order, completely unacceptable.

Another curious thing about the debt structure is that at the time of the ballot we were told that the debt had to be paid off over 30 years. In fact there is no obligation to pay off the debt at all. As a Finance Manager said to me, you could decide *not* to pay it off so long as you were happy to carry on paying the interest. In fact the 'offer document' for the ballot said that you could either pay off the interest and the loan or just the interest. Do decision had been taken because the Council did not know what the final debt settlement would be and they would not borrow the money until they knew that.

As it happens the Council borrowed money not for 30 years but for 40 years. Some £29 million falls due after 30 years. We don't know why they decided to borrow it for that long. Whatever the reason their decision means that *tenants will have to pay more money* through their rent than they would have if the loans were over 30 years because the longer the borrowing is for then the higher the rate of interest.

How you manage this debt is infinitely variable. You might decide to pay it off in 30 years or 40 years. If you were to pay it off in equal instalments it would require £5 million a year over 30 years (the overall debt is £150 million since there was nearly £12 million 'outstanding debt'), or it could be paid off over £40 years which would be an equal payment of £3.75 million a year, which would leave even more money for work on the stock. There are any number of variants of how you deal with this debt. The key question for us is **what is in the best interests of existing and future tenants**. However, this is a question which the Council has **ignored** because it has made a decision on the basis of *its* interests and not ours.

Whatever the technicalities involved in this discussion there is a very simple principle on which it must be based. It is the responsibility of the Council to *maintain and improve the housing stock*. It should not be determining 'debt management strategy' such that the stock deteriorates.

Certainly the Council should not have decided on the debt structure nor debt repayment without the involvement of tenants in meaningful discussion. What this sorry situation underlines is **the need for a Housing Finance Committee to be set up** to discuss 'debt management strategy' and to have an oversight of the finances as they develop through the course of each year, so that, for instance, any money programmed but not spent is utilised elsewhere. For instance, because of the 'bedroom tax' an extra 120 voids have been added into the programme, in the expectation of more people asking for moves. However, evidence is that only a small number of those facing the 'bedroom tax' are requesting to move. If this remains the case throughout the year then this money can be used for other things.

We also need to discuss the relationship between the 'ring-fenced' HRA and the GF. One of the intentions of the 'self-financing' system was to move to a situation where all housing debt was kept in the ring-fenced HRA so that there was transparency and it was clear that no income from rent was used for non-housing purposes and vice versa. Whilst there is no illegality in relation to the transfer of money from the HRA for the purposes of 'debt payment', it *is* highly dubious because as currently proposed the action is directed at benefiting the GF *to the detriment of the tenants and the housing stock*. The GF is saving money *at our expense*. Once the money is transferred to the GF it ceases to be

specifically for housing and is so to speak dissolved into the general fund pot. The Council can use it for whatever purpose it chooses. Hence it is a means of circumventing the HRA 'ringfence'.

As yet we have no indication of when the Council is actually intending to start paying off the debt to the PWLB. There are some curious features of the 'debt profile' such as £95 million of it falling due over a six year period. Depending on the circumstances a Council can either get a bonus for paying debt off early or be penalised. We need to investigate this.

One final thing which needs emphasising is this. The housing debt will be paid for by the rent of tenants, not by the GF or the Council Tax. It was the price we paid for being able to keep all the rent which our tenants pay when the old Housing Revenue system was ended. Whatever 'debt payments' are made, be they real ones to the PWLB, or internal transfers to the GF, they only have any legitimacy if the strategy serves the interests of tenants and helps to improve our housing stock. Our rent is for the benefit of tenants it is not for the convenience of the Council or the GF. Moreover the Council should not be deciding how to use it without discussing with tenants. It is after all our living conditions that are positively or adversely affected by its 'debt management strategy'.

Martin Wicks  
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### **Postscript**

At the Council's Housing Advisory Forum we proposed that no more than £5 million 'debt payment' a year was made and that the £8 million payment for 2012/13 be amended downwards to £5 million. The HAF supported these proposals, and subsequently, the Council has accepted this which means that the HRA will have an extra £3 million for 2013/14 for work on our homes and the same in 2014/15.

The original proposal was for a transfer of £8 million in the first year and the same again for the following year. So we have managed to secure an extra £6 million for tenants. However, the only reason we knew about these transfers was because we had pressed for a meeting to discuss the finances under the new system. We found out what they were proposing to transfer at a presentation given to us late last year. We had to investigate what was going on rather than being told by the Council, which left us in the dark.

Another positive development is that our proposal for a Housing Finance Committee or group has been accepted.

Martin Wicks  
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