

Agenda Item 8

Housing Review Board

10 September 2009

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Reform of council housing finance – consultation exercise

Summary

In July 2009 the government issued a consultation paper on the long awaited reform of council housing finance. This is about reform of the ring fenced Housing Revenue Account system and the subsidy regime that is widely seen as an unfair element of current system. The main consultation paper is accompanied by a number of supporting documents.

In response to lobbying the government has indicated a willingness to reform the system of council housing finance and are consulting on freedoms and flexibilities from the current HRA accounting rules. Two main options for change are set out in the consultation, both involving local housing authorities taking on part of the national housing debt. For debt free authorities like us this is likely to present a major problem of equity and principle.

Overall I found the consultation proposals disappointing in that they only provide freedoms if we are prepared to take on part of the national housing debt. The proposals are unlikely to enable us to reinvest our rental income into improved services for tenants, improving council homes and building new council homes.

Recommendation

That we respond to the consultation paper Reform of council housing finance, as indicated in the report.

a) Reasons for Recommendation

To invite the Housing Review Board to contribute towards the council's response to the consultation exercise on the review of council housing finance.

b) Alternative Options

Not to respond to the consultation exercise or to respond in a different way to that proposed in the report.

c) Risk Considerations

That the changes proposed through the consultation exercise are not to the financial advantage of council tenants in the district, or worse disadvantage local housing finances.

d) Policy and Budgetary Considerations

There are potentially significant budgetary implications to our advantage if the government change the current housing finance arrangements which have placed us in negative subsidy.

e) Date for Review of Decision

When the outcome of the consultation exercise are published which we anticipate being towards the end of 2009.

1 Background

- 1.1 The current Housing Revenue Account (HRA) financial regime has existed for many years and includes a series of accounting rules and conventions that all landlord housing authorities have to follow to show the income and expenditure plans for managing and maintaining homes in council ownership.
- 1.2 The Board are familiar with the arguments around the HRA subsidy we pay to government for redistribution to other local housing authorities. This current year we expect to pay £5.8 million as HRA subsidy and receive a major repairs allowance of approximately £2.5 million.
- 1.3 We have lobbied for a change to this system, and argued that if we retained all the rent income due that we could put this to good use locally in accelerating the rate of modernisation of council homes; improve housing services and subsidise the cost of building new affordable homes.

2. Consultation paper

- 2.1 The consultation paper is concerned with a review of council housing finance and aims to find a long term, sustainable solution to improve or replace the current Housing Revenue Account subsidy system that would be fair to both tenant and taxpayer and fit with wider housing policy. The government have signalled an intention to dismantle the current HRA subsidy system and replace it with a devolved system of self-financing for all local authorities. This will depend on a one-off allocation of housing debt, after which councils will be able to keep all their rental income. An alternative would be to retain, but improve the current system.
- 2.2 The consultation period finishes on 27th October 2009. A series of consultation questions are posed for respondents to answer.
- 2.3 The review has been progressed because the government claims to have established a new era in the provision of social housing. The Housing and Regeneration Act 2008 has led to the creation of two new agencies to invest in housing and regulate to protect the interests of tenants. The government is increasingly looking to local authorities to play a bigger role in the housing arena, both at a strategic level and as a direct provider of housing services and new social housing.
- 2.4 The review was proposed in the housing green paper in July 2007 and has been organised into four workstreams:
 - Costs and standards for social housing;
 - Rents and service charges;
 - Rules governing a local authority's Housing Revenue Account and capital;
 - Mechanisms for delivering funding.
- 2.5 I have reproduced the executive summary from the consultation paper in **annex 1**. This summarises the five sections of the 61 page consultation document. There are a number of externally commissioned research reports which have been published alongside the consultation paper. These research reports contain important supporting and contextual information and include the following:
 - An evaluation of management and maintenance costs in local authority housing;
 - A review of the major repairs allowance;
 - An analysis of rents;
 - Options for dealing with housing loan debt in the local authority sector;

- Tenant attitudes to council housing finance and rents policy;
- Summary of the findings from tenant engagement work.

2.6 The consultation paper explains the current housing finance system. The requirement to hold a HRA dates back to the 1935 Housing Act and is a record of revenue expenditure and income relating to the authority's own housing stock. The HRA was ringfenced in 1989 to create a more coherent landlord account. It ensures that rents cannot be subsidised by increases in the council tax and that rents cannot be increased in order to keep council tax levels down.

2.7 The HRA subsidy system is the system through which the government determines the amounts local authorities need to spend on their council housing and whether subsidy is required to support this. Of the 205 local authorities in the HRA subsidy system 153 are in surplus and make a contribution (negative subsidy) and 52 in deficit and therefore receive subsidy from the system (positive subsidy).

2.8 The logic behind this system is that councils with different housing stock can deliver similar standards and charge similar rents within a mechanism that redistributes resources. However, subsidy is not influenced by the relative efficiency of different landlords and makes assumptions on spending requirements which are not always accurate.

2.9 The review identified the following problems with the existing system:

- The fairness of the system depends on the accuracy of the assumptions it makes about spending needs and it is difficult to manage this information nationally.
- Over time the balance of deficit and surplus authorities has changed. The system is now roughly in balance yet three quarters of councils pay notional surpluses into the system and a quarter receive subsidy.
- The requirement to contribute rental income to government is unpopular, especially as the national system is moving into surplus.
- The annual nature of the system and volatility militates against long term planning.
- The complexity of the system means less transparency and lots of subtle adjustments.
- Local responsibility and accountability is weak because of the central control.

2.10 Management and maintenance allowances have been found to be out of date and in need of overhaul. The research accompanying the consultation suggests that a 5% increase is required for those core housing management activities.

2.11 The Major Repairs Allowance has similarly been found to be some 24% below needs and excludes a number of elements. The Building Research Establishment estimated that MRA should be increased to £825 per unit over 30 years.

3. Options for reform

3.1 The consultation paper identifies two broad models for financing council housing in the future. These are described as an improvement to the national system, and a devolved system (self-financing). Both options share a number of characteristics:

- Costs, standards and rents would be based on the same principles;
- Local authorities would be required to draw up 30 year business plans based upon updated stock condition surveys following completion of their Decent Homes programme;
- All housing capital receipts would be retained locally and would be accounted for alongside housing revenues;

- Any option taken forward will be fully compliant with the Government's new burdens procedure.

- 3.2 The first of the options proposes longer term financial determinations of say three to five years. This would provide more certainty in financial planning and safeguards in terms of unexpected pressures or financial circumstances. The paper indicates that it is unaffordable to write off housing debt and proposes a system of allocating housing debt in relation to the value of each authorities housing stock. As an alternative it is suggested that housing debt could be held by government and authorities charged for their allocated amount of the national housing debt.
- 3.3 The self-financing (second) option is where local authorities keep the income raised from rents and use this to run their stock. We are told that this necessitates the one off reallocation of debt on the basis of each authority's ability to service it using updated management and maintenance allowances. Debt levels would be based upon tenanted market value of the stock. This scenario would likely not leave us much 'better off' particularly as our stock has a relatively high value compared to others because it is mainly traditional built, low rise well maintained and located housing accommodation.
- 3.4 The consultation paper suggests that the principle of debt allocation should be "neutrality with the subsidy position". So we would likely be no 'better off' apart from an increase in management & maintenance allowances and major repairs allowance, which have been allowed to fall behind local investment needs.
- 3.5 The consultation attempts to address the issue of increasing pressures to undertake disabled adaptations in social housing by allowing local authorities to retain capital receipts. It is suggested that 25% of receipts go to the General Fund for adaptations in the private sector (including RSL's) and 75% of receipts pay for council home adaptations. So we could use some of our Right to Buy receipts to meet the increasing demand for disabled adaptations.

4. Responding to the consultation

- 4.1 The consultation proposals do not offer all we have been seeking in that the intention is to redistribute existing housing debt, not to write it off. As a debt free authority this presents us with a significant issue of principle. We have paid off our housing debts and are naturally reluctant to take on other authorities' debt. Having said that the HRA subsidy we currently pay is essentially a contribution towards this debt. We need to determine how better or worse off we will be through taking on a one-off debt charge.
- 4.2 The government is looking to local authorities to agree collectively to take on debt. This means that councils who are currently debt free or have lower than average debt, will receive a one-off lump sum of debt – in effect a new mortgage on their housing stock. So while in one move the Government is promising to free local authorities to spend the money we collect in rents and receipts, it is at the same time imposing new debt burdens which will have the effect of seriously curtailing the freedoms of councils to invest in local housing. I feel that we should resist this approach even though it is not in the spirit of the consultation exercise.
- 4.3 It is difficult to comment fully without knowing the level of debt we are likely to incur under these proposals. We would need the expertise of an external consultant to estimate the range of debt likely to be transferred and this could influence our stance aside from the matter of principle mentioned above. I would like to commission Tribal to undertake a calculation to estimate the likely levels of debt we may be required to service under these proposals.
- 4.4 A number of debt free authorities have expressed severe disappointment over the detail contained in the proposals. Most welcome the local control proposed, but reject the notion of taking

on new debt when this is regarded as historic and notional, not real debt. This can hardly be described as radical reform of an inequitable housing finance system !

4.5 Waverley Borough Council who have been active campaigners for a change to the HRA subsidy system produced the six arguments set out below. I feel that the points they make have much merit having regard to our own position and stance adopted on this matter:

- Proposals are unfair to tenants – why should we expect poor tenants in one area to pay for debt incurred decades ago in another part of the country ?
- Approach continues to treat council housing as on national system – directly contradicting the commitment to giving council's local freedom to manage and invest in their own housing stock.
- A substantial of this debt should already have been paid off – had councils been allowed to retain 100% of the receipts from Right to Buy sales.
- Debt write off is practical and affordable – it is already government practice to write off housing debt to improve the delivery of housing (stock transfer).
- Cancelling debt would have no impact on the national debt – as it is an intra-governmental debt.
- Cancelling housing debt would deliver huge economic benefits – the Local Government Association estimates this to be £72 billion over 10 years. This economic boost would benefit the exchequer through a massive increase in tax revenues and reduction in benefit payments, easily outweighing any cost to the general taxpayer.

4.6 I would suggest that our response to the consultation needs to be firm and clear in that we do not accept the principle of taking on other authority's debt. We have lobbied for a fair and equitable accounting system, which leaves us better off and with the ability to invest our rental income into improved maintenance and services for tenants, and financing new affordable homes. The consultation proposals do not provide a mechanism for this and is therefore most unsatisfactory, and can hardly be described as reforming the inequitable financial system we currently work in.

4.7 The Government should increase management & maintenance and major repairs allowances now to reflect the accurate need to spend on local authority housing.

4.8 I am most disappointed with the lack of commitment to genuinely reform the HRA system to create real freedoms and flexibilities for local housing authorities to manage their housing budgets locally and align them with local priorities. The proposals are largely about authorities like us taking on debt leaving little opportunity to spend our tenant's rental income on issues they consider important – improving their homes, housing services, and providing more affordable homes.

Legal Implications

There are no legal implications set out in the report.

Financial Implications

The financial implications are difficult to determine at this stage but, as indicated in the report, it seems unlikely we will be better off under the proposal to redistribute the national housing debt.

Consultation on Reports to the Executive

This is a CLG consultation exercise.

Background Papers

- ❑ Reform of council housing finance, CLG, July 2009.
- ❑ Letter from C.E. Waverley Borough Council dated 31st July 2009.
- ❑ Defend Council Housing campaign material.

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Housing Review Board
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