

Reform of council housing finance - CLG consultation

Executive summary

This consultation is the result of a detailed investigation into the operation of the council housing finance system. It has drawn extensively on the input from a variety of organisations and individuals and has been underpinned by a strong evidence base. The review team is grateful for the many contributions that it has received and the support of stakeholders during the evidence gathering process.

This document is divided into five sections:

Section 1 describes the background to the review, its terms of reference, working methods and the ways we have engaged with stakeholders.

Section 2 provides an overview of the current system for financing council housing, covering the ring-fenced landlord account (the Housing Revenue Account) and the system for redistributing income between councils (the Housing Revenue Account subsidy system). It describes the current distribution of housing debt within the system and the rules that apply to capital receipts and borrowing. It also provides an overview of the Decent Homes Standard and social rent policy.

Section 3 covers the future costs and standards of council housing. It describes the allowances within the current system and the evidence gathered during the review about the need to spend in future. It proposes changes to the framework for allocating costs between the Housing Revenue Account and a local authority's general fund. It sets out a proposal for continuing the Decent Homes Standard in future and how we might address energy efficiency. It also proposes changes to the Housing Revenue Account which would allow sinking funds to be set up for works to leaseholders' homes.

Section 4 describes the options for fundamental reform of the council housing finance system. It covers improvements to the current system which would reduce volatility and improve long term planning – in particular through multi-year subsidy determinations and/or debt allocation. It also sets out an option for a devolved system – self-financing – which would remove the need for redistribution of revenues in return for a one-off allocation of debt. It describes methods for assessing the level of debt each council would be required to support under self-financing and how this debt would be allocated. It also identifies some potential costs to the general fund from debt allocation and how these could be mitigated or funded.

In addition, Section 4 sets out proposals for managing the amount of new borrowing councils might undertake under self-financing, so that this is consistent with overall public borrowing and spending policies. It considers risks arising from self-financing and how these could be managed. It also includes a proposal to end the pooling of capital receipts, subject to a condition that the currently pooled amounts are reinvested locally in housing.

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Finally it describes the implications of our proposed changes on disabled adaptations, on transfer and arms-length management organisation (ALMO) policy and programmes and on local housing companies. It also invites views about any impact on equalities.

Section 5 covers implementation of reforms. It describes the measures being taken immediately on new council homes in order to remove disincentives to council house building, the powers which would be required to implement self-financing across all councils and stock, and an indicative timetable for implementing the revenue and capital reforms.