

Committee:	Community & Housing Committee	Agenda Item
Date:	17 September 2009	8
Title:	Review of council housing finance	
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Summary

- 1 The Government has announced proposals to reform council housing finance.
- 2 Currently, almost half of the rent paid by Uttlesford tenants has to be paid over to the Government, who then gives it to other Councils who otherwise would not be able afford to keep their houses in habitable condition. The Council has repeatedly complained to the Government that this is unfair. It also the case that most of the capital receipts arising from Right to Buy sales have to be paid over to the Government.
- 3 The Government has recognized that the current system is unfair and is proposing that it is abolished, with the effect that all rents and capital receipts arising from Uttlesford tenants would stay with Uttlesford. In principle, this would enable us to improve the condition of the housing stock, enhance services to tenants, and put money into building new houses.
- 4 However, all housing authorities, including Uttlesford, will have to contribute towards paying the interest on £17 billion of historic local authority debt. None of this debt is Uttlesford's, so depending on the amount Uttlesford would be required to contribute, the proposed system may be as unfair as the current system, and it could take some years before any effects are seen by tenants.
- 5 Details of exactly how the Government's proposals will affect Uttlesford will not be available until next year. Meanwhile, the Government has asked for comments on its proposals by 27 October.
- 6 A proposed consultation response is set out in the report.

Recommendations

The Committee is recommended to approve the attached consultation response for consideration by Full Council on 20 October.

Background Papers

Details of the Government's proposals are here:

<http://www.communities.gov.uk/housing/decenthomes/councilhousingfinance/housingfinancereview/>

Impact

Communication/Consultation	Government consultation response deadline of 27 October.
Community Safety	None
Equalities	None
Finance	Potential significant changes for the Housing Revenue Account but no information available to model those changes.
Human Rights	None
Legal implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Housing Revenue Account – current system

- 7 Council housing expenditure is funded by rents and service charges paid by tenants and is kept within a ringfenced account, known as the Housing Revenue Account (HRA). The HRA may not subsidise the General Fund, i.e. services funded through general taxation and council tax, or vice versa.
- 8 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. The Government makes notional calculations of how much income and expenditure each authority should have. If assumed spending is greater than assumed income, Government pays HRA subsidy to make up the deficit; where it is less, the local authority pays the surplus to Government.
- 9 In Uttlesford, the notional calculations determine that assumed income levels are greater than assumed expenditure levels. The surplus has to be paid over to Government, known as “negative housing subsidy”. For 2009/10, it is estimated that the HRA will have to pay £5.5 million over to the Government. This is equivalent to 48% of the estimated housing rent income of £11.5 million. In percentage terms, Uttlesford is one of the biggest “losers” in the country.

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- 10 The Council has long felt that this is unfair and has made representations to Government, including meetings with Ministers.
- 11 While the calculations are notional, they are based on actual data such as stock numbers, interest rates and deprivation indices, all of which are adjusted annually.
- 12 It is also the case that 75% of capital receipts arising from Right to Buy sales of council houses and 50% of capital receipts arising from sales of 50% have to be paid over to central government (although allowances are given for expenditure on affordable housing).

Government proposals to reform HRA finance

- 13 On 21 July, the Housing Minister John Healey MP published a [consultation document](#) setting out proposals to reform the system. The deadline for consultation responses is 27 October.
- 14 The Minister has recognised that the current system of redistributing rents under the subsidy mechanism is unfair. It is also recognised that the pooling of capital receipts is unfair. The Minister feels that these arrangements are preventing Councils from investing in new social housing. The Minister wants to address these problems.
- 15 There is a major barrier to reform in the shape of historic local authority housing debt which totals £17 billion and has to be serviced; the Treasury is apparently unwilling to be flexible on this.
- 16 The key proposals are as follows:
 - Housing subsidy / rent re-distribution scheme to be scrapped.
 - Historic housing debt to be redistributed across all housing authorities.
 - Capital receipts pooling to be scrapped; councils will be able to keep all receipts.
 - Funding to be made available to help councils to build new homes again.
 - All new build housing excluded from housing subsidy system with immediate effect.
 - Tenant Services Authority to ensure value for money and efficiency.
 - Stock transfer is still an option if tenants choose this.

- 17 The consultation states that “the principle of debt allocation is that it should achieve neutrality with the subsidy position”. This can be interpreted as meaning that the Council will be allocated a share of the historic debt that will generate servicing payments broadly equivalent to what the Council is currently paying in negative housing subsidy. A reasonable assumption is that the Council would have discretion to repay debt more quickly and so reduce the annual servicing payment. Over several years, the net loss to the HRA would be reduced to the benefit of Uttlesford tenants.
- 18 Apart from the above general assumptions, there is no information available to assess what the implications for Uttlesford would be if the proposals are implemented. Depending on consultation outcomes, a detailed offer would be made in Spring 2010.
- 19 A revised HRA system could be in place from 2012/13, or earlier if all authorities accept the terms offered to them in 2010, which is considered unlikely.
- 20 The Government has sought views on 17 specific aspects of the proposals. The consultation questions, and proposed responses, are attached to this report. The Committee is recommended to approve the responses, for consideration by Full Council on 20 October.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
No specific risks arising at present			

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

List of consultation questions

Question	Proposed Response
Core and non-core services	
1. We propose that the HRA ring fence should continue and, if anything, be strengthened. Do you agree with the principles for the operation of the ring fence set out in paragraph 3.28?	Yes.
2. Are there any particular ambiguities or detailed concerns about the consequences?	<p>Risk of additional pressure on General Fund / Council Tax if overhead apportionment models have to be revisited.</p> <p>The proposals must ensure that the accounting and audit regime is less onerous than the present system.</p>
Standards and funding	
3. We propose funding the ongoing maintenance of lifts and common parts in addition to the Decent Homes Standard. Are there any particular issues about committing this additional funding for lifts and common parts, in particular around funding any backlog through capital grant and the ongoing maintenance through the HRA system (as reformed)?	No.
4. Is this the right direction of travel on standards and do you think the funding mechanisms will work or can you recommend other mechanisms that would be neutral to Government expenditure?	This is the right direction of travel.

Question	Proposed Response
Leaseholders	
<p>5. We propose allowing local authorities to set up sinking funds for works to leaseholders' stock and amending HRA rules to permit this. Will there be any barriers to local authorities taking this up voluntarily, or would we need to place an obligation on local authority landlords?</p>	<p>This should be voluntary and subject to support from leaseholders.</p>
Debt	
<p>6. We propose calculating opening debt in accordance with the principles set out in paragraphs 4.22- 4.25. What circumstances could lead to this level of debt not being supportable from the landlord business at the national level?</p>	<p>The Council welcomes the proposal to abolish the housing subsidy system.</p> <p>However, as a debt-free Council we are unhappy with the principle of having other councils' debt allocated to us.</p> <p>Depending on the amounts involved, this could be as unfair as the present subsidy system.</p> <p>If, as proposed, debt allocation will achieve neutrality with the subsidy system, it would take years before benefits are felt locally. Meanwhile, the unfairness would continue.</p>
<p>7. Are there particular circumstances that could affect this conclusion about the broad level of debt at the district level?</p>	<p>The consultation document does not enable us to estimate the implications for this Council. More information is needed to enable an informed response.</p>
<p>8. We identified premia for repayment and market debt as issues that would need to be potentially adjusted for in opening debt. How would these technical issues need to be reflected in the opening debt? Are there any others? Are there other ways that these issues could be addressed?</p>	<p>The government should suspend repayment premia so that councils have flexibility to reduce debt when opportunities arise. This would be consistent with recommendations arising from the wider review of local authority investments.</p>

Question	Proposed Response
9. We propose that a mechanism similar to the Item 8 determination that allows interest for service borrowing to be paid from the HRA to the general fund should continue to be the mechanism for supporting interest payments. Are there any technical issues with this?	No, but the opportunity could be taken to simplify the present arrangements.
10. Do you agree the principles over debt levels associated with implementing the original business plan and their link to borrowing?	Yes. Borrowing should be prudent and affordable.
11. In addition to the spending associated with the original business plan, what uncommitted income might be generated and how might councils want to use this?	Income collection and voids performance may exceed business plan assumptions. This would create flexibility to improve services to tenants, enhance the condition of housing stock, accelerate disabled facilities improvements or pay off reallocated historic debt.
Capital receipts	
12. We have set out our general approach to capital receipts. The intention is to enable asset management and replacement of stock lost through Right to Buy. Are there any risks in leaving this resource with landlords (rather than pooling some of it as at present)?	Housing supply is a national and regional issue requiring national and regional solutions. The risk of leaving resource with landlords at individual authority level is that regional solutions may be harder to implement. However, we support the proposal to discontinue the pooling system.
13. Should there be any particular policy about the balance of investment brought about by capital receipts between new supply and existing stock?	No, individual authorities should have discretion to manage this, with reduction of inherited debt another option for use of capital receipts arising.
14. Are there concerns about central Government giving up receipts which it currently pools to allow their allocation to the areas of greatest need?	It is right that pooled funds be returned to local government but there needs to be a transparent and fair allocation method. Returning pooled monies to all contributing authorities commensurate with the level of pooling each authority has made would be equitable.

Question	Proposed Response
Equality impact assessment	
15. Would any of our proposed changes have a disproportionate effect on particular groups of people in terms of their gender or gender identity, race, disability, age, sexual orientation, religion or (non-political) belief and human rights?	No
16. What would be the direction (positive or negative) and scale of these effects and what evidence is there to support this assessment?	n/a
17. What would be necessary to assemble the evidence required?	n/a