
Meeting: Social Care Health and Housing Overview & Scrutiny Committee

Date: 15th October 2009

Subject: Government's Proposals for Reform of Council Housing Finance

Report of: Director of Social Care, Health & Housing

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, anomalous and inefficient system. The main consultation paper is referenced as a Briefing Paper and a link to the Communities and Local Government (CLG) website is provided.

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.

Contact Officer: Tony Keaveney, Assistant Director, Housing

Public/Exempt: Public

Wards Affected: Those in which council houses are situated, entirely in the former South Bedfordshire District Council area.

Function of: Council

RECOMMENDATION:

- 1. That the Social Care Health and Housing Overview & Scrutiny Committee note the contents of this report for information and consider all matters arising from the presentation to the meeting.**
- 2. That the Social Care Health and Housing Overview & Scrutiny Committee provides advice to the Housing Portfolio Holder, to enable Councillor Drinkwater to produce a response to the Government's consultation by 27th October 2009**

Reason for Recommendation: So that Members of Social Care Health and Housing Overview & Scrutiny Committee are provided with opportunity to contribute towards the Housing Portfolio Holder's response to the government's consultation on the reform of council housing finance.

Introduction

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.
2. At Appendix A is a document (Local Government Association Local Housing, Local Solutions), which sets out the arguments around the HRA subsidy which Central Bedfordshire Council pay to Government for redistribution to other local housing authorities. In 2009/10, Central Bedfordshire Council will pay £8.7 million to the Government as negative HRA subsidy and over a ten year period will pay £103 million.
3. Councils have lobbied for a change to this system, and argued that if councils 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. However, it is not certain that all councils will welcome the proposed reform.

Consultation Paper

4. 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 HRA subsidy 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.
5. The consultation period finishes on 27th October 2009. A series of 17 consultation questions are set out in the Consultation document, which is referenced as a Briefing paper, there being a link to the CLG website. The questions will be summarised in a presentation to the Committee. The Portfolio Holder for Housing will respond to the consultation, drawing upon comments made by the Committee.
6. 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.
7. 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.
8. 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.
9. 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 ring-fenced in 1989 to create a more coherent landlord account. This 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.
10. 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 made a contribution (negative subsidy) and 52 in deficit and therefore receive subsidy from the system (Positive subsidy). As stated in paragraph 2, Central Bedfordshire is in negative subsidy and will pay £8.7 million to the Government in 2008/09.
11. The logic behind this system is that councils with different housing stock can deliver similar standards and charge similar rents with 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.
12. 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.
13. 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.
14. 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.

Options for Reform

15. 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.

16. 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 debit 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.
17. The self-financing (second) option is where local authorities keep the income raised from rents and use this to run their stock. It is understood 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.
18. 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 Housing Associations) and 75% of receipts pay for council home adaptations. It is therefore possible that Central Bedfordshire Council could use some of our Right to Buy receipts to meet the increasing demand for disabled adaptations.

Responding to the Consultation

19. The Government is looking to local authorities to agree collectively to take on debt. This means that council 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, whilst in one move the Government is promising to free local authorities to spend the money collected in rents and receipts, it is at the same time imposing new debt burdens which will have the effect of curtailing the freedoms of council to invest in local housing. However, this does depend on how the Debt Settlement is made to work in practice.
20. Put crudely and in simplistic terms, if the Debt Settlement were less than the amount to be paid to Government in negative subsidy over a thirty year period, then the offer from Government would appear attractive. Over a ten year period £103 million will be paid in negative subsidy. The issue in the Consultation paper is the lack of detail as to exactly how the Debt settlement will be made to work, or more precisely how the debt will be distributed between local authorities which still hold stock.
21. Members' attention is drawn to the Local Government Association (LGA) papers at Appendix A, which makes the case for self-determination. Central Bedfordshire Council will need to determine, in time, how better or worse off we will be through taking on a one-off debt charge.

22. The Government certainly makes much of the importance of the reform and there is no denying that it represents what the Government calls a radical dismantling of the infamous HRA subsidy system and its replacement with what the Government calls a 'devolved system of responsibility and funding'. The Government links this reform with its parallel proposals for 'local democratic renewal'.
23. Members who have become familiar with the system will know that 'dismantling' the system will be far from easy and, though the consultation paper makes the best of it, it is clear from the detailed proposals that much debate and difficulty lies ahead.
24. If the opportunity for reform is to be seized, the council may have to exercise a degree of pragmatism that is possibly without precedent, in deciding whether they will be worse or better off under a new "self financing" regime. Also, there will need to be a robust consideration of Risk, in terms of interest rate fluctuations; Rent Policy and the possibility of any significant changes in Government Policy, where it is proposed that a right is reserved by government to revisit the Debt Settlement if necessary.
25. However, it is right to welcome the principle of reform, even if there is concern and perhaps scepticism about the practical results. Until the detail of the Debt Settlement is known, it is unrealistic for the Council to give support and the Portfolio Holder response to CLG should make this point clear. It does, however, look as if the Government is intent on the self-financing option.
26. Provided – and it is a big proviso – that individual authorities who are currently paying into the system (in negative subsidy) or who are receiving subsidy from the system (in positive subsidy) are able to deal with the debt allocated to them then those authorities are likely to find self-financing a considerably more acceptable system than the current one.
27. There will, however, be some authorities – as the consultation paper recognises – who will find this reallocation of debt difficult to accept. The consultation paper refers to this being 'contentious' for debt free and low debt authorities and the argument – though powerful – that those councils are already supporting debt in other authorities (through negative subsidy) will be less than compelling.
28. The alternative (as promoted by the Local Government Association), which was to encourage Government to write-off the overall housing debt, receives short shrift in the consultation paper.
29. It is difficult to comment fully without knowing the level of debt the Central Bedfordshire Council is likely to incur under these proposals. The council 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 matters of principle mentioned above.

30. A number of local authorities have expressed severe disappointment over the detail contained in the proposals. Most welcome the local control proposed, but many appear likely to 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! However, the opportunity that is afforded may require local authorities to be pragmatic on the basis that a solution is better than no solution at all, at a time of economic uncertainty and constraint in public finance.
31. Waverley Borough Council who have been active campaigners for a change to the HRA subsidy system produced the six arguments set out below. The points they make have much merit having regard to Central Bedfordshire Council's own position:-
- 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 a national system – directly contradicting the commitment to giving council's local freedom to manage and invest in their own housing stock.
 - A substantial part 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-government 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 out-weighing any cost to the general taxpayer.
32. The Central Bedfordshire Council's response to the consultation should strongly propose that the Government should increase management and maintenance and major repairs allowances now to reflect the need to spend on local authority housing. This would result in a reduction in the amount of negative subsidy which the Council pays to the Government.

Conclusion

33. Overall, there is disappointment 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 taking on debt. The decisive question for all councils will be 'how much debt?' is each council's share of the national HRA Debt; is it affordable whilst maintaining the stock in good condition, in perpetuity; and at what risk?
34. The opportunity for reform is one to be seized if the question of Debt Settlement between all remaining councils with Housing Stock can be resolved. It is therefore right that the Portfolio Holder's response is welcoming of reform, if cautious as regards "How?" As a minimum, the Debt Settlement would need to be Fair and seen to be Fair by all councils with stock. The reality is that a great deal is still to be worked out in terms of Detail relating to any proposed Debt Settlement between local authorities.
35. In the coming months, Central Bedfordshire Council will determine its strategic direction for Housing, in terms of Landlord services and the broader range of strategic Housing services relating to Supporting People, Private Sector Housing, Homelessness and Housing Options. In particular, it is necessary to involve tenants and leaseholders to determine the strategic direction for Landlord Services. The opportunity for reform is to be welcomed but actually it is too early to say with confidence which direction the Council should take.

CORPORATE IMPLICATIONS

Council Priorities:

The report relates directly to the Council's priority to Managing Growth Effectively, in terms of balancing regeneration and renewal, with growth.

Financial:

The financial implications are difficult to determine at this stage but, as indicated in the report, a robust consideration of Risk is essential once the detail of any proposed Debt Settlement is made known.

Legal:

There are no direct legal implications arising from this report.

Risk Management:

There are no risk management issues arising directly from this report.

Staffing (including Trades Unions):

There are no direct staffing implications.

Equalities/Human Rights:

There are no Human rights or equality implications arising directly from this report.

Community Development/Safety:

There are no issues to consider in this report.

Sustainability:

There are no direct implications arising from this report.

Appendices:

Appendix A - LGA Report: Local Housing – Local Solutions the case for self-determination.

Background/Briefing Papers (open to public inspection):

Reform of Council Housing Finance, CLG, July 2009

Please contact Tony Keaveney directly if you require a copy of the Consultation document on the Reform of Council Housing Finance, or please view the document on the CLG (Communities and Local Government) website:

<http://www.communities.gov.uk/publications/housing/councilhousingconsultation>