Government's Proposals for Reform of Council Housing Finance

Overview & Scrutiny Committee

15th October 2009

Housing Revenue Account (HRA)

A Housing Revenue account is –

An account of expenditure and income that every local authority housing department with stock must keep. The account is kept separate or ring-fenced from other council activities.

Debt

Central Bedfordshire Council does not have any historic debt related to it's Housing Revenue Account

There is £1.2m of "supported borrowing" which is effectively the Government's problem

Government's Proposal

Dismantle the current national subsidy/finance system

Base new system on self-financing Housing Revenue Accounts, following a one-off adjustment to the debt.

'One off' adjustment means **Debt Settlement**

Debt is between £18 & £25 billion

The proposals are

- Genuinely radical,
- Involve the localisation of council housing finance
- Rent income & RtB receipts would be kept locally

How much is paid to the Government?

In 2009/10, the Council will pay £8.7 million to the Government as negative HRA subsidy and over a ten year period will pay £103 million.

205 local authorities in the HRA subsidy system –

153 are in surplus and make a contribution;

52 in deficit; therefore receive subsidy from the system

The Government is looking to local authorities to agree <u>collectively</u> to take on debt – in effect a new mortgage on their housing stock.

How much Debt?

We don’t know.

It is not possible to determine ‘how much’ **Debt** from the consultation paper. We are being consulted on Principles.

A rough estimate could be anywhere between £150m and £190m but that figure would need a “health warning”. There would be additional interest accruing.

But £190m with interest could be repaid within 30 years (just as we’ll pay £103m over 10 years in negative subsidy). However, there are risks.

The system is deeply unpopular.

There is a fundamental lack of accountability in the system, where tenants are unable to fully hold their landlords to account because so much of the financial decision-making is undertaken by Government and not the landlord.

The system is moving further into surplus as rents increase to formula rent.

It is difficult to find any stakeholder that would say, that a) the system provides them with enough resources;

b) the national approach remains the most efficient way of financing (or, for 52 councils) subsidising council housing

The system is inefficient

The logic behind the HRA national system is that councils with different housing stock can deliver similar standards and charge similar rents with a mechanism that redistributes resources.

In effect, 153 councils subsidise 52 councils.

However, subsidy is not influenced by the relative efficiency of different landlords and makes assumptions on spending requirements which are not always accurate.

Radical reform?

Such radical proposals necessarily involve much detailed work to develop the architecture of the new system, to analyse and test the options for change and to understand their implications locally and nationally.

The Council must see the Detail and unfortunately, the consultation paper allows us only to “speculate”.

There is concern about a subsidy system in a new guise. Concern about future Rent Policy and what any Government might do in 10, 20, or 30 years time.

An offer to be seized?

Provided – and it is a big proviso – that individual authorities who are currently paying into the system, or who are receiving subsidy from the system, 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.

But there is an issue for Debt Free councils & there are Principles at stake. However, this opportunity might easily slip away.

View of Chartered Institute of Housing (CIH) 3 slides (1)

CIH supports the dismantling of the current national subsidy system on the basis of a fair and viable one-off settlement releasing all authorities to manage their finances locally.

The benefit of the TMV approach is that, as long as income and expenditure moves in line with the assumptions in the settlement, authorities will gain more and more headroom for additional investment as time moves on and as rental surpluses grow.

CIH View (2)

The push by a few authorities, supported by the LGA, to have debt written off as part of the settlement is explicitly rejected as ‘funfair to the taxpayer’.

The CIH supports the move towards self-financing and the long-term reallocation of debt as the only sustainable method for future council housing finance. Technical issues should be addressed as quickly as possible within the implementation period to minimise the potential for delays to the settlement.

CIH View (3)

HRA self-financing has the potential to reverse decline and to place council housing on a long-term sustainable footing for the first time in well over a generation.

Self-financing has the power to reconnect the tenant with the landlord in terms of local discussion about how to spend rent income and has the power to deliver huge efficiencies through the adoption of long-term predictable plans.

Caution

If debt levels are too high, authorities' self-financing plans will be hampered from the start, over reliant on future capital grants and unable to release the full potential of local financial control.

Risks

- Rent Policy
- Interest Rate fluctuations
- Change of Government Policy in the future
- Re-opening the debt Settlement in the future

Government’s Proposal

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.

‘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.

Will this happen?

Maybe.

But, there isn't a consensus amongst local authorities

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.

As a minimum, the Debt Settlement would need to be Fair and seen to be Fair by all councils with stock.

Reform of some kind better than no reform at all?

Some HRA Business Plans are in difficult straits;

Most HRA's will fail to sustain stock in good condition

Central Beds HRA is viable for 15 years but the level of investment should be greater (e.g. challenges of estate improvement and re-modelling tired sheltered accommodation)

Concern is that 'ill thought out' reform is implemented, which works for some, perhaps for many, but does not resolve the problems of typically urban authorities.

Next steps

Consultation with Way Forward Group (Tenants)

Portfolio Holder will respond by 27th October

PFH Response: some technical matters, but key issue is the Council's fundamental reaction to the Government's Proposal

Key facet of response will be "want to see the Detail" of the proposed Debt Settlement

Possibility of impasse in the context of the General Election next Year

Key Issues

Pragmatism versus Principle

Principle – taking on the Debt of ‘other councils’

Pragmatism – opportunity to be “self financing” and deliver long term investment in the stock

Pragmatism – £103m paid to Govt. over next 10 years

Risks – e.g. future Rent Policy; Interest rates;

Risk – failure to deliver investment resulting in the stock being in worse condition than when Central Bedfordshire Council first became landlord for 5200 council homes.

Consultation Questions

We propose that the HRA ring-fence should continue and, if anything, be strengthened (capital and revenue). Do you agree?

Core and non-core Services:

Example is that costs of dealing with Anti-Social Behaviour are not allowed for within Housing Management Costs.

Consultation Questions

We propose funding the on-going maintenance of lifts and common parts in addition to the Decent Homes Standard.

Uplift on Maintenance Allowances

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?

Consultation Questions

Leaseholders:

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?

Debt Settlement

Tenanted Market Value (TMV) (Para 4.22)

The value of the landlord business would be based on the present value of the cash flows in the business – excluding any existing housing debt.

How much debt we were expected to take on would depend on what the Business could afford – but there is no detail on how this would be calculated.

Debt settlement is £18-25 billion.

Speculative figure – £150m to 190m

Main consultation question

Debt:

We propose calculating opening debt in accordance with the principles set out in paragraphs 4.22 – 4.25 Consultation Paper.

Are there particular circumstances that could affect this conclusion about the broad level of debt at the district level.

(or, what is the Council's Fundamental reaction?)