

Report for Resolution

Report to Executive
28 October 2009

Report of Head of Strategic & Neighbourhood Housing and Head of Finance

Subject Response to Government consultation on the future financing of the Housing Revenue Account

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Purpose

To seek Executive's input to and approval of a response to the consultation exercise.

Recommendations

That Executive agree, or agree subject to amendment, the draft response appended.

Financial Consequences

The financial consequences of this report are set out in the body of the report and draft response.

Risk Assessment

The risks involved in responding to the consultation exercise are minimal.

Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority "Safe and healthy neighbourhoods – working in partnership with residents to create neighbourhoods where people feel secure, where the streets are clean and well maintained, where there is good quality housing and local amenities and where there are active local communities" and the service plan priority

Executive Member: Councillor Arthur - Housing and Adult Services

Ward: All

Contact Officers

Mark Smith
Paul Sutton

01603 212561
01603 212785

Background Documents

Consultation papers from Communities & Local Government
Briefing papers from Chartered Institute of Housing

Briefing papers from Chartered Institute of Public Finance & Accountancy
Briefing papers from Association of Retained Council Housing

Report

Background to consultation

1. Council housing is managed within a ring-fenced Housing Revenue Account (HRA) kept by each landlord authority (LA) as a subset of its General Fund.
2. The limits of what can be properly charged to the HRA are set out under the Local Government and Housing Act, 1989. Guidance on the application of these limits is contained in the Best Value Accounting Code of Practice (BVACOP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and by Circular 8/95, issued by the then Department of the Environment in 1995.
3. A national Housing Subsidy system exists which determines, by means of formulae, the amount of money each Local Authority *should* spend on management, maintenance and major repairs, and earn from rents. After allowing for the costs of borrowing, the net balance is paid to/from the government (into the “National HRA”).
4. The government published its wide ranging consultation paper on the outcome of the Review of Council Housing Finance on 22 July 2009, setting out plans to radically overhaul the financial system for council housing in England. The consultation documentation sets out 17 questions for respondents to address.
5. The consultation covers the main issues which have arisen as the housing subsidy system has come under increasing pressure in recent years. These include:
 - The difficulty in making the right assumptions about resources for all authorities within the system. The calculation of the distribution has become increasingly complex as the business of housing management and maintenance has become more complex.
 - The majority of authorities with a retained housing staff, including the City Council, are in ‘negative’ subsidy (that is, they make payments to the government from their HRAs, rather than receiving ‘positive’ subsidy), but the system itself is in overall surplus. This peaked at nearly £200m in 2008/09 but has reduced in 2009/10 to around £100m as a result of the reductions in planned rent increases effected late in the day.
 - The system is deeply unpopular. It is difficult to find any authority or stakeholder that would say that a) the system provides them with enough resources and b) the national approach remains the most efficient way of doing it.
 - Volatility and changes at short notice, not only because of the late rent reduction last year but because the annual approach to determining resources means that it is very difficult to plan for the future.
 - Increasing complexity and lack of transparency. The system has become too complex and is therefore understood fully by very few people. What

- Lack of local accountability. This adds up to 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

Content of consultation

6. The Government propose is to dismantle the current national housing subsidy and finance system and replace it with one based on self-financing HRAs following a one off adjustment to the debt held by each HRA. The government has also acknowledged that the system is under-funded and set out key research findings which support increases in assumed funding within the system.
7. In effect, each housing authority in negative subsidy will “buy out” of the subsidy system by taking on more debt, which it will pay for from the saving in subsidy payments. The relatively few authorities in positive subsidy will have their levels of debt reduced. The amount of debt will be calculated on the basis of increased allowances, existing subsidised debt, and assumed rent income.
8. The proposals consulted upon do not include all HRA debt being paid off by government, or all HRA debt being centralised and serviced nationally.
9. The consultation reaffirms a commitment to the HRA ring fence and recommends strengthening the guidance around what should and should not be charged to the HRA (and the General Fund, for other council services). The last guidance was issued in 1995 and is inadequate for the modern diverse pattern of housing services.
10. On Management and Maintenance Allowances, the consultation sets out a range of possible measures for increases, though at lower levels than Housing Authorities would prefer.
11. On Major Repairs Allowances, the consultation again sets out options for increases. The largest question posed is whether the MRA should increase to the maximum affordable (thereby funding each authority formulaically and therefore irrespective of actual need) or to a lower level which would allow capital grant funding (enabling actual need and/or innovative approaches to be funded).

Draft response to consultation

12. Officers have prepared the appended draft response on behalf of the council, based on the content of the consultation papers and research, and further briefings and papers from the Chartered Institute of Housing, (CIH) the Chartered Institute of Public Finance and Accountancy, (CIPFA), and the Association of Retained Council Housing (ARCH). A high level financial model developed for ARCH has been used to illustrate the impact of various options. The range of options currently set out and the scarcity of resources has

13. The timing of implementation of reform will have a large impact. Delays in implementation (whether caused by parliamentary timetables or protracted debate on the issues consulted over) will increase the burdens on Las and reduce the benefit of self-financing.
14. The draft response appended sets out responses to specific questions raised in the consultation, and addresses related issues omitted from the specific question. The main discussion points giving rise to the proposed responses are also shown in italic type as an aide to Executive's consideration of the draft.