

Taunton Deane Borough Council

Executive – 24 June 2010

Housing Revenue Account Reform: Council Housing – a real future – Prospectus

Report of the Community Services Manager

(This matter is the responsibility of Executive Councillor Jean Court-Stenning)

1.0 Executive Summary

To agree a response to the consultation Council Housing: A Real Future - Prospectus issued by the Department of Communities and Local Government (DCLG) on the 25 March 2010.

This report recommends that, subject to Members' views, the responses set out in Appendix 'A' be the Council's response to the Government's consultation prospectus on the reform of council housing finance.

2.0 Background to the current Housing Revenue Account (HRA) Subsidy System

2.1 Every local authority with council housing must maintain a HRA. The HRA comprises the revenue expenditure and income arising from the provision of the Council's own housing stock. The HRA is a ring-fenced account: rent levels and expenditure on the housing stock therefore cannot be subsidised by Council Tax and, equally, local authorities are prevented from using rent income to keep Council Tax levels down. The basis of the current HRA subsidy system for council housing finance is the national redistribution of revenue from those councils that are deemed to have surplus income to those councils that are deemed to not have enough. HRA subsidy is the difference between assessed rent and assessed expenditure. It makes no difference if the real figures are significantly different. In essence, the current subsidy system supports a minority of councils in servicing their historic housing debt. Taunton Deane Borough Council is one of the councils adversely affected by this system – in 2010/11 some £6 million is to be paid to the government in the form of “negative subsidy” and redistributed to assist other local authorities that retain their housing stock.

2.2 The Government does not pay out all the money it receives. For example: In the 2009/10 financial year, the subsidy system nationally made a surplus amounting to £229 million, i.e. the authorities in negative subsidy paid in total £229 million more than was paid out to authorities that receive subsidy.

2.3 As well as the significant effect negative subsidy has on many local authorities, the HRA subsidy system has other serious faults, for example:

- The annual nature of determinations, even under the three year spending review, makes it difficult to undertake any serious long-term planning and develop housing investment strategies.
- It offers only very limited local autonomy
- The system has removed the clear link between rents paid and services provided locally.

3.0 Background to the Government's Proposals

3.1 The DCLG and the Treasury announced in 2007 a review of the national Housing Revenue Account Subsidy System. In July 2009 a consultation paper, Reform of Council Housing Finance, was launched which unveiled proposals for the future of council housing finance. Its stated intention was to dismantle the existing subsidy system and replace it with a localised system of self-financing for all councils.

In essence, the Government's self-financing option involved re-allocating the national housing debt by offering local authorities a debt settlement which they would then be responsible for servicing. In large measure, this would make more explicit the process which already happens now, with those councils in negative subsidy effectively servicing debt that has been incurred elsewhere.

3.2 Key to the process therefore would be the terms of the once-and-for-all settlement, which would be akin to a 30-year housing subsidy settlement.

3.3 However, the 2009 consultation documents did not provide authority-by-authority details of the potential impact of the options for change. They did not make clear exactly how this debt (which amounts to up to £21.5 billion nationally) would be re-allocated.

4.0 What does the Government's latest consultation document mean for Taunton Deane Borough Council's Housing Revenue Account?

4.1 On 25 March 2010 the Government issued a further document, Council Housing: a Real Future - Prospectus, which sets out the basis of the offer. The prospectus proposes dismantling the current system (something many local authorities have called for over many years), sets out

proposals for how a self-financing system would be created, and asks a series of questions about the detail of that system.

- 4.2** To inform the Council's response, Housing Quality Network was asked to evaluate the potential impact of the proposal for Taunton Deane Borough Council. Using figures provided by government it has been suggested the council will be allocated additional debt of £86 million. The cost of servicing the debt would be ring-fenced to the HRA, but the need to pay some £6 million of negative HRA Subsidy (@ 2010/11) to the Government will be removed.
- 4.3** Councils are not being asked to agree to firm figures at this stage. The figures provided are subject to confirmation as part of the next Spending Review. Housing Quality Network advise that we caveat our response to the consultation by clearly stating it is on the basis of the figures set out in the prospectus.
- 4.4** The prospectus sets out how the new self-financing system would work, with a one-off distribution and allocation of debt between authorities, so that each council should start the new system in an equal position to support its stock and to finance new build from future income without the need for subsidy. The basic structure of the proposal is as follows:
- 4.5** Central proposal:

 - 4.5.1** In future councils will be self-financing. This will be achieved by a one off financial arrangement that calculates the spending requirement for each council, with increases in the calculation of management and maintenance costs and with a discount rate of 6.5% usually used in stock transfer. For Taunton Deane Borough Council the opening debt settlement is shown as £116 million. Councils will be allowed to borrow up to the level in the settlement, which will enable some additional borrowing without forcing up overall public spending.
- 4.6** Income:

 - 4.6.1** The only income assumed is rent, and local authorities will need to adhere to national rent policy. Part of the government's rent restructuring policy is that social sector rents, both local authorities and Registered Social Landlords, should move towards (converge) a common 'formula rent' over a period of time. The aim of rent restructuring is that similar properties will have similar rents in similar areas. It is assumed this will be complete by 2015/16. To ensure councils continue to respect rent policy, housing benefit will only be paid to the level commensurate with national rent policy.
- 4.7** Spending needs:

4.7.1 Several pieces of research have been conducted that have demonstrated that, nationally, HRA system has, generally, been under-funding maintenance and management costs. Under the proposals it is suggested Taunton Deane Borough Council will have an overall 12.9% increase in overall expenditure.

4.8 Maintenance backlog and Decent Homes works:

4.8.1 There is an estimated, national, backlog of £3.2 billion to deliver Decent Homes. Although Taunton Deane Borough Council has met the Decent Homes Standard there remain a number of units that will require 'decent homes work' as and when they become void. This work is currently estimated, by council officers, to be in the region of £2.75 million.

4.8.2 The prospectus recognises that the settlement proposed here will not address the backlog, and commits to considering this spending need as part of the next Spending Review along with other identifying spending gaps. For example: Issues relating disability related adaptations, asbestos removal, and the Health and Safety Rating System. Further analysis of the work required on Taunton Deane Borough Council's housing assets in these areas needs to be undertaken to determine the extent of the cost of the total backlog.

4.9 Capital receipts:

4.9.1 The proposal is that local authorities retain 100% of capital receipts, with the expectation that 75% of these funds will be used for affordable housing and regeneration. Currently local authorities are required to pay over to Government up to 75% of capital receipts generated through the sale of HRA assets.

4.10 Debt:

4.10.1 Debt will be allocated using the Subsidy Capital Financing Requirement (SCFR) which currently forms part of the subsidy system calculation.

Amount of debt HRA can service under proposals	£116,294,00
Amount of debt currently recognised by subsidy	£30,585,000
Amount of additional 'settlement' debt under proposals	£85,709,000
Current actual HRA debt (2010/11)	£14,451,000
Actual HRA debt under proposals	£100,160,000

4.10.2 Such figures would therefore give Taunton Deane Borough Council some leeway for further borrowing i.e. the difference between the amount of debt the HRA can service under the proposals and the actual HRA debt under the proposals.

Note: Rigorous testing, prior to any further borrowing, would have to be carried out to ensure it could be afforded.

5.0 The consultation questions.

5.1 The questions which are now being asked in the prospectus are whether councils favour a self-financing HRA, or the continuation of the existing arrangements; and if they favour it, whether councils would be willing to see implementation from 2011/12. The six questions, together with proposed responses, are set out at Appendix 'A'. The consultation runs until the 6th July 2010.

5.2 Paragraph 3.28 of the prospectus states that the Government expects councils to "test the opening debt figure proposed under self-financing in a local business plan which reflects local information about actual income and spending needs and borrowing costs. A number of factors will have an effect on the borrowing profile in these individual business plans, including:

- Interest rates on existing and new debt
- Investment needs and the timing of this spend
- Difference between current actual housing debt held by a council and the level of debt supported by the subsidy system
- Capital receipts and any HRA reserves which can be used to supplement the revenue in the business plans."

5.3 Housing Quality Network have been asked to undertake an analysis of this offer: what it will mean for the financial viability of the HRA; and the advantages, disadvantages and associated risks.

5.4 Robin Tebbutt, Executive Director (Finance) from Housing Quality Network will be attending the meeting to present and report on his findings.

6.0 Finance Comments

6.1 At the time of writing further work needs to be undertaken with the Council's S151 Officer to assess the impact of the proposals. However, early comment refers to the principles being supported.

7.0. Legal Comments

7.1 No comment

8.0 Links to Corporate Aims (Please refer to the current edition of the Corporate Strategy)

8.1 Proposals have the potential for positive impact on all of the existing Corporate Aims: Tackling Deprivation and sustainable Community Development; Regeneration; Affordable Housing; and Climate Change.

9.0 Environmental and Community Safety Implications (if appropriate, such as Climate Change or measures to combat anti-social behaviour)

9.1 Proposals have the potential for positive impact on the environment and community safety.

10.0 Equalities Impact

10.1 The Government have undertaken a screening of the reform of council housing finance for race, disability and gender equality. On the basis of the screening the government does not believe that any specific equalities impacts will arise.

10.2 There will be a need for the Council to undertake an Equality Impact Assessment when making actual policy decisions under self financing.

11.0 Risk Management

11.1 Under the proposals the HRA will take on some of the external risk it is currently insulated from. Good business planning and risk management under the proposals will be essential.

12.0 Partnership Implications

12.1 It is considered the proposals will have additional responsibilities and workloads that will impact on our partners e.g. SW1

13.0 Tenant Services Management Board comments

13.1 In summary and following a formal presentation (10 June 2010), by Robin Tebbutt – Housing Quality Network of the HRA Reform Prospectus board members recommended the following:

1. To favour a self financing system based on the current proposals;
2. A preference to progress to implementation as soon as possible; and

3. A preference in favour of using additional resource to support new build.

14.0 Officer comment

- 14.1 On the basis of a £86 million debt settlement Taunton Deane Borough Council will be in a position to repay it and have scope for additional investment in the stock over the term of a plan. The responses to the questions have been drafted accordingly.

Note: Members should note that, at this stage, the figures set out in the prospectus are subject to confirmation as part of the next Spending Review, so Councils are not being asked to agree to firm figures and the response to the 'offer' does not therefore represent a contractual commitment.

15.0 Recommendation

- 15.1 (a) The Executive is requested to support the proposed responses to the Department of Communities and Local Government's Consultation Paper set out in Appendix A; and

(b) The Executive also recommends acceptance of these responses to Full Council.

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Appendix A

COUNCIL HOUSING: A REAL FUTURE Consultation Response

Q1 What are your views on the proposed methodology for assessing income and spending needs under Self Financing and for valuing each council's business?

Our broad view is that the proposed methodology provides a reasonable approach for valuing the housing business. With the uplifts to management and maintenance and major repairs allowances and the proposed 6.5% discount rate, self financing will provide a basis for a viable HRA Business Plan.

Q2 What are your views on the proposals for financial, regulatory and accounting framework for self financing?

We support the proposal for local authorities to report on a separate housing balance sheet and to introduce a separation of the loans pool between the HRA and the General Fund for accounting purposes. This is on the proviso that in practice funds would be managed jointly so that the costs and income potential from our treasury decisions are not adversely affected by this change. This will have the advantage of making the results of investment decisions in the respective areas more transparent. However, we need to go through this in more detail and undertake due diligence in relation to the accounting.

We also welcome the further clarification of the accounting treatment of core, core plus and non-core services.

Whilst Taunton Deane Borough Council is already accounting for expenditure appropriately between the HRA and the General Fund, revised guidance on the operation of the HRA ring fence will improve comparability of actual costs between local authorities.

Q3 How much new supply could the settlement enable you to deliver, if combined with social housing grant?

We are cautiously optimistic that there may be scope for additional new supply, subject to effective running of our business plan for at least 4 years from the onset and the availability of land.

We have modelled a scheme based on 110 new units assuming a 30% grant rate from the Homes and Communities Agency over years 4 to 9 of our business plan and 75 new units assuming a 0% grant rate over years 4 to 9 of our business plan.

Q4 Do you favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?

On the basis of the proposals Taunton Deane Borough Council favours a self-financing system.

Q5 Would you wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document? Would you be ready to implement self-financing in 2011-12? If not, how much time do you think is required to prepare for implementation?

Moving to early voluntary implementation of self financing based upon the information currently provided is supported subject to obtaining full and acceptable financial details and resolution of the issues raised within our replies to the other consultation questions.

Implementation in 2011/12 would be feasible subject to early receipt of final acceptable details from the government and conclusion of the financing arrangements.

The earliest possible confirmation, even if final implementation is delayed, or a clear statement that self financing on the basis of the proposals is going to happen, will allow us to secure the best terms on loans in the intervening period.

Q6 If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?

Taunton Deane Borough Council does favour self financing and would like to move to an early implementation of the system.