

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: HOUSING PORTFOLIO HOLDER 16 September 2009
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REFORM OF COUNCIL HOUSING FINANCE-CONSULTATION

Purpose

1. This report provides a brief summary of a Government Consultation paper proposing a reform of council housing finance, together with a draft response. This is not a Key Decision but is brought to the Housing Portfolio Holder to agree the Council's draft response prior to submission to Cabinet for approval.
2. The report includes a brief overview of the main proposals followed by the questions contained in the consultation document and then a suggested response to each question.

Executive Summary

3. The Housing Revenue Account (HRA) Review was launched in 2007 and its stated aim was –*“to develop a sustainable, long term system for financing council housing that is consistent with wider housing policy and fair to both tenant and taxpayer.”* The full terms of reference are set out in an annex to the consultation paper.
4. In the section on Tenanted Market Valuation models (the Government's preferred option) South Cambridgeshire is identified as the local authority who would have the highest level of debt per property under the proposed reforms. (Para 6.2) This is stated as £30,248 per unit which on the basis of 5432 dwellings (April 09) means a debt of approximately £164m.
5. The assumption used included an uplifted Major Repairs Allowance of 43% but since the Government are only proposing an uplift of 24% the debt allocated to South Cambridgeshire would in practice be higher than the indicative £164m (other factors being equal)
6. For comparison purposes, the debt to be carried by South Cambridgeshire Village Homes as the cost of leaving the current system would have been approximately £50m.
7. The omission of disabled adaptations work from allowances leaving possible capital receipts to fund necessary works will disadvantage disabled people. This is a critical omission for South Cambridgeshire and for other similar authorities.
8. The Consultation states that Transfer proposals where tenants have already voted in favour would be allowed to proceed on their current terms but future transfers will only be allowed at standards materially the same as those proposed for self financing. For South Cambridgeshire this would mean for example being able to pay back the £164M debt. The implication is that as from now few transfers would be pursued since they would not deliver the financial advantages for tenants that the current rules allow.

9. The incentives to build council homes offers no financial advantage over partnership arrangements with housing associations and will only be of interest to authorities with significant land holdings.
10. As an authority able to meet the Decent Homes target by 2010 we are unlikely to benefit from any capital grants after that date.
11. At present properties needing major works or redevelopment can be sold to housing associations at low/discounted valuations to enable them to develop affordable housing. In future this is unlikely to be viable because each property will be associated with approximately £30,000 worth of debt and discounted sales would leave that debt outstanding thus putting even more pressure on the HRA.
12. In general the proposals create a two tier social housing sector with council tenants potentially receiving lower standards of services than housing association/stock transfer landlords but with similar rent charges.

Background

13. The Consultation paper is over 60 pages long and makes a number of detailed suggestions and is issued together with explanatory material. The questions set out in the paper invite comments on a number of “high level principles”, rather than setting out a detailed plan. It is therefore not possible to be certain about the likely impact in South Cambridgeshire at this stage and the comments in this report are intended to provide a balanced commentary given the uncertainty about exactly how these “principles” will be applied in practice. Figures are included where these are set out in the paper and accompanying technical documents.
14. The Housing Revenue Account (HRA) Review was launched in 2007 and its stated aim was –*“to develop a sustainable, long term system for financing council housing that is consistent with wider housing policy and fair to both tenant and taxpayer.”* The full terms of reference are set out in an annex to the consultation paper.
15. The Review was arranged in 4 workstreams-
 1. Costs and standards for social housing
 2. Rents and service charges
 3. Rules governing the HRA and Capital
 4. Mechanisms for delivering funding

A range of stakeholders were involved, including representative bodies as well as landlords and tenants organisations.
16. As well as adjustments to allowances for Management and Maintenance, and Major Repairs, the review considered two broad alternative options for financing the overall system, beyond leaving the current system in place. These were-
 1. OPTION ONE- Improved Subsidy Redistribution System with reduced volatility for longer term planning and fairer allocations, uplifted allowances and continuation of the Decent Homes standard with some modifications.
 2. OPTION TWO- Self Financing-a one-off settlement which would deliver self financing for all councils for delivery of landlord services. Councils would keep all

their income after one-off debt redistribution, together with uplifted allowances and continuation of the Decent Homes standard with some modifications.

Both options share certain characteristics-

(i) Costs, standards and rents would be based on the same principles

(ii) Local authorities would be required to draw up 30 year business plans based on up to date stock conditions surveys following completion of Decent Homes programmes.

(iii) All housing capital receipts would be retained locally and accounted for alongside housing revenues

(iv) Compliance with the governments "new burdens" procedures (Government funding for the net costs of any new burdens imposed on local authorities)

Since both options rely on Government imposed allowances for costs, standards and rents the Government effectively controls the key elements that make up future HRA budgets leaving local authorities to manage that spending as effectively and efficiently as possible.

17. The Consultation supports a version of option two-Self Financing-which is outlined in the body of this report. There are also a number of other reforms proposed concerning the use of capital receipts, sinking funds for leaseholders and future borrowing powers which are also detailed below.

Considerations

18. The paper begins with a description of the current system. Since locally members have had a number of briefings about the current system in connection with Housing Futures the details are not repeated here but are set out in the paper together with a glossary and list of acronyms –available at-

<http://www.communities.gov.uk/documents/housing/pdf/1290620.pdf>

19. The Consultation concludes that there are a number of weaknesses with the current system, including the following issues-
- a) Problems with the accuracy of the assumptions made at national level, which affect subsidy calculations
 - b) The balance of deficit and surplus changes over time and now only 25% of authorities receive subsidy
 - c) The existence of "negative subsidy"-ie payments to government-is unpopular, particularly now that the overall system is moving into surplus
 - d) Annual determinations provide uncertainty for long term planning and volatility when changes are made at short notice.
 - e) The system is becoming increasingly complex and therefore less transparent and understandable.
 - f) Local responsibility and accountability is weak.

The Government conclude that their proposals address these concerns

20. **RENT ISSUES**

The Consultation paper makes no new proposals about future rent levels but repeats current policy. This is that all social landlords (i.e. predominantly local authorities and housing associations) should move towards similar rents for similar properties, whilst maintaining substantial discounts to market rents (Rent Convergence). It states that long term rent policy will be established in advance of implementing any changes to the financing system, initially in subsidy determinations and subsequently in a future direction by the Secretary of State to the Tenant Services Authority (TSA)

21. **MANAGEMENT AND MAINTENANCE ISSUES (M+M)**

Currently the assumed costs for each local authority reflect 4 factors-stock numbers, stock types, relets/voids, and compensating factors for high cost issues. The allowances represent the amount of money we are allowed to retain from rent income for spending on these activities.

The management allowance starts with a baseline assumption which is then adjusted for common facilities, medium and high rise flat numbers, crime figures, relets, and deprivation measures. Assumed costs are meant to reflect the difficulties of managing property taking account of these factors.

The maintenance allowance reflects 4 elements-response repairs, planned works, relets, and crime related to voids. The result is then adjusted to reflect local building costs.

22. The Consultation concludes that national provision for M+M is currently underfunded by 5% and an uplift of this amount should be assumed in whichever new model is chosen but that more work is needed to understand how this is distributed locally. It should be noted that this conclusion is about allowances in the system-not about actual spending. The review acknowledges that in practice actual expenditure on management and maintenance already exceeds allowances. In the case of South Cambridgeshire this gap is already over 10%.

23. Given that expenditure already exceeds allowances, an uplift in allowances of 5% may not lead to any extra expenditure on the ground and an authority like South Cambridgeshire is likely to have a low score on any needs assessment reflecting the factors outlined above, and may not benefit from any uplift. The 5% figure refers to total national allowances-the figure will vary for individual local authorities.

24. **MAJOR REPAIRS (MRA)**

The MRA is meant to reflect the cost of maintaining the stock in its current condition i.e. to fund "newly arising needs". It is ring fenced for HRA capital expenditure.

Criticisms of the current system repeated in the Consultation are-

a) Allowances do not include external items like lifts or CCTV.

b) The formula is based on 12 year old data and the recent Decent Homes programme has provided features which in future need servicing/replacement e.g. boilers.

c) The assumed lifetime of components may not be realistic and differs between the MRA and Decent Homes

d) The pricing of elements needs to be updated.

25. The Building Research Establishment (BRE) have revised the model used in calculating the MRA to include-

- data from the latest English House Conditions Survey and updated building costs
- additional elements (lifts and common parts)
- different archetypes for properties and regional building costs to reflect local differences

Using what they describe as the “most conservative scenario” they conclude the MRA should be uplifted to-

- a) £825 for newly arising need
- b) £116 for backlogs
- c) £91 for statutory compliance

This equates to an average uplift of 43%

The Consultation proposes raising the MRA to £825 over 30 years with 11% of the resulting figure devoted to lifts and common parts. This is an average uplift of 24%. It is likely that South Cambridgeshire would therefore receive an uplift of less than 24% given the factors that are taken into account.

In addition, because of the high level of Major Repairs funded currently through Decent Homes programmes, work should be weighted towards the last 10 years i.e. 2030-2040. These conclusions are provisional and subject to “*caveats and revisions*” and therefore the Consultation questions are limited in scope.

26. The report concludes that it would be too complex to build the MRA “from the bottom up” and therefore proposes a national formula with scope for local adjustments. In addition to the MRA there are expected to be two backlogs of work existing after 2010 requiring funding.

27. Firstly, work needed to complete the Decent Homes programme and secondly, the replacement of time expired elements that will not by themselves breach Decent Homes standards. The review concludes that separate capital grants will be required to deal with this backlog.

28. **CORE AND NON-CORE SERVICES**

The Consultation concludes that currently at least 40% of general management costs are additional to core management activities (defined as activities such as rent collection, repairs etc). Non-core services include tackling anti-social behaviour, debt and employment advice etc. Some of the non-core services attract external funding and some are funded from rents.

The Review report had difficulty in reaching a consensus view of core and non-core services and proposes a third category of “core plus”. These are services where there is now a general expectation that landlords will provide a service, such as anti-social behaviour action. The Consultation concludes that “*as a general approach, the net cost of core plus services to the HRA could be taken into account through*

allowances. Over time, non-core services should be regarded as services provided by the landlord but funded from sources other than rent.”

29. The Government do not intend to provide prescriptive lists of services that are core and non-core but they are seeking agreement on general principles. These are listed in Para 3.28 in the Consultation and are-

- *there should be a separate local authority landlord account that records all landlord income and expenditure (both capital and revenue) and the transfer of resources between the HRA and the general fund*
- *housing services that a landlord is required to provide should be paid through the HRA*
- *some defined services should be paid for from the general fund e.g. housing advisory services, administration of a common housing register and other strategic housing functions*
- *any requirements placed on landlords should either arise as statutory obligations or through standards set by the TSA as cross-domain regulator of social housing or be directly funded. When TSA sets standards (whether or not it is the subject of a direction by the Secretary of State) it will need to take into account the consequences for tenants, for new supply and for public expenditure*
- *standards should build in tenant choice and influence*
- *the costs of meeting TSA standards should fall on the HRA*

30. Beyond these standards, any ambiguity about whether or not costs should fall on the HRA should be addressed by asking-“Who benefits?” Officers believe this part of the guidance is unclear and therefore it is included in full here to inform debate-

“If services are provided for everyone or as part of a general obligation, the costs should fall to the general fund.

If the cost of a service can be seen to be of wider benefit than solely to tenants or leaseholders of properties within the HRA, that cost should be divided between the HRA and the general fund according to a local agreement.”

The distinction between “everyone” in the first sentence and “wider benefit” beyond tenants and leaseholders is unclear and needs to be clarified. It is possible that the Government intends to tighten the HRA ‘ring fence’ with regard to these issues with a consequent financial impact upon the General Fund.

31. **CONSULTATION QUESTION 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?

32. **QUESTION 1-Draft Response**

We agree with the principles set out in Para 3.28 and support the idea that local authorities should have maximum flexibility to provide the type of service which they believe will deliver the standards set down by the TSA, taking account of local circumstances. Any “policing” of these services should be done as part of the TSA’s

inspection and regulation role so that local circumstances can be reflected in their judgements.

As well as the accounting mechanisms for HRA activity, comment needs to be made about the standards of service to be funded. In the interests of equity the standards should include anything that would have been approved in the past in a business plan for an LSVT landlord. It would be unjust to deny council tenants access to the same terms and standards that have already been agreed for the 1m plus tenants who have transferred to housing associations, or those enjoyed by other housing association tenants.

33. **CONSULTATION QUESTION 2**

Are there any particular ambiguities or detailed concerns about the consequences?

34. **QUESTION 2-Draft Response**

The test set out in Para 3.29 needs clarification. The distinction between “everyone” and “wider benefit than solely to tenants and leaseholders” is not clear. In particular, the clarification needs to address the following points-

1. Services which are in principle open to everyone often have eligibility or needs assessments which are not based on tenure.
2. Services often have a geographic relevance which limit the numbers of people able to benefit but with no relevance to their tenure.

35. **STANDARDS**

The Review notes that the current national minimum standard for the quality of council accommodation is the Decent Homes standard with a focus on the inside of the home. There has been criticism, particularly from tenants, that not enough attention has been paid to features such as lifts, common parts and environmental standards.

The Consultation paper proposes to deliver and maintain the current standard and to extend it to include items *“missing from the original standard such as lifts and common areas”*

36. It also states that the Government is considering with the TSA the need to identify aspirational standards and benchmarks for energy savings and emissions reductions in refurbishment. Lastly, the Consultation states that improving energy performance may require funding from external sources including-

- a) private sector grants (e.g. from energy suppliers) with tenants contributing through a “pay as you save” mechanism
- b) local authorities spending efficiency savings on energy efficiency
- c) tenant contributions from savings made in energy bills

37. **CONSULTATION QUESTION 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)?

38. **QUESTION 3-Draft Response**

We support the inclusion of lifts and common parts and believe that in the interests of equity the standards should include anything that would have been approved in the past in a business plan for an LSVT landlord. It would be unjust to deny council tenants access to the same terms and standards that have already been agreed for the 1m plus tenants who have transferred to housing associations. In addition, although the government is advocating 30 year business plans, in practice standards are likely to rise in ways that cannot be quantified at this stage over that time scale.

Standards will therefore require periodic reviews to keep them up to date and relevant.

39. **CONSULTATION QUESTION 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?

40. **QUESTION 4-Draft Response**

Raising the standards is necessary and in the interests of equity the standards should include anything that would have been approved in the past in a business plan for an LSVT landlord. It would be unjust to deny council tenants access to the same terms and standards that have already been agreed for the 1m plus tenants who have transferred to housing associations. In addition, although the government is advocating 30 year business plans, in practice standards are likely to rise in ways that cannot be quantified at this stage over that time scale.

Standards will therefore require periodic reviews to keep them up to date and relevant. Financial settlements should be based on actual costs experienced by each authority and ratified by their auditors rather than nominal figures established at national level.

The funding mechanisms can work but any proposals to charge tenants more on the basis of presumed savings should be independently audited to ensure that they are genuinely cost neutral and if savings are not delivered compensatory adjustments should be made

LEASEHOLDERS-SERVICE CHARGES AND SINKING FUNDS

A sinking fund is a reserve of money built up to meet future obligations so that costs can be spread over time instead of having to be met when expenditure occurs. The Government believes that no local authorities have established them for leaseholders

although they are not prohibited by legislation. Although they are not contained in current leases, the government intends to investigate whether-

- a) sale prices can be adjusted to include a lump sum for investing in a sinking fund
- b) provisions for collecting sinking funds can be incorporated into the standard leasehold contract
- c) more information can be provided to leaseholders on their responsibilities towards repair/maintenance costs and service charges.

The Consultation paper states it will encourage local authorities to set up sinking funds where they are supported by leaseholders and will encourage leaseholders to take them up.

41. **CONSULTATION QUESTION 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?

42. **QUESTION 5-Draft Response**

In broad terms the ability to introduce a sinking fund is welcome. The administration of sinking funds will be costly in terms of staff resources, unfortunately, however, RTB leases do not appear to allow for the recharging of any expenditure on management or administration to the leaseholder. This additional expenditure would, therefore, effectively have to be paid for by tenants. In any event, none of our existing RTB leases allow for a sinking fund, therefore, unless the legislation is retrospective this will be a barrier.

43. **OPTIONS FOR FUNDAMENTAL REVIEW OF THE SYSTEM**

The consultation rejects the idea that Government should write off all housing debt as a starting point because the Government believe it would be "*unaffordable and unfair*" to ask the general taxpayer to meet debt incurred in building and maintaining council housing.

44. Within that fundamental constraint, the Consultation looks at two broad models-

- **Improvements to a National System** for funding council housing in which revenues continue to flow between local and central Government as a result of ongoing assumptions made by Government about landlord costs and income
- **A Devolved System (self-financing)** in which rents are retained by councils to spend on their own services, in exchange for a one-off reallocation of debt, again based on Government assumptions about landlord costs and income.

45. Firstly, Improving the Current System-within the context of comments already made about rents, standards and allowable costs there are adjustments that could be made to the current system in the interests of helping long term planning. Briefly these are-

- a) Moving away from annual determinations to a 3/5 year determination. This might facilitate better planning and procurement practices.

- b) moving from simple cash determinations to include variables such as inflation, or triggers for action if inflation moved beyond a pre-determined range
- c) Using rolling averages at the end of a longer determination period to damp down volatility in the system
- d) Combining periodic determinations with some re-allocation of debt. This would either mean adjusting each local authorities debt burden in relation to their “ability to pay” or the government taking on the whole outstanding debt burden and then charging each local authority in proportion to the amount of debt they are deemed to be able to afford to service.
- e) Finally, a national ring fence to ensure that all housing income remained in the system with re-distribution to those authorities deemed to be in deficit and re-investment of any national surpluses in housing.

The Government acknowledge that the shorter the period of determinations, and the more adjustment mechanisms that are built in, the weaker the argument for a multi year settlement .

46. Secondly, **A Devolved System/Self Financing**-whereby each local authority would keep all their rental income and use it to run their stock and pay for a share of the national housing debt.

Under the present system debts are held by the authorities who have taken them on and Government takes rental income away from authorities who are considered to be “in surplus” and redistributes it to those authorities deemed to be “in deficit”. Under this arrangement authorities with relatively high levels of debt gain subsidy at the expense of authorities like South Cambridgeshire who contribute to the national pot for redistribution.

47. Under the proposed new system rental income would not be redistributed but debt would be. Therefore those authorities deemed to be “in surplus” under the current arrangements could expect to be given debts to service. Authorities “in deficit” would be given a corresponding lump sum to pay off their existing debt. Authorities receiving debt burdens would not receive any of the money raised which would be used to pay off debt elsewhere via the Government.

48. The Consultation document states that with this settlement would leave all authorities able to sustain the stock at the higher funding levels identified earlier in this report. The Government consider this to be a sustainable model because-

a) Authorities would be able to service their new debt levels and maintain Decent Homes (including lifts and common parts) out of their rental income

b) Authorities would be able to plan ahead because of long term certainty over funding, and procure works more efficiently.

c) Asset management will be improved and retained capital receipts can be re-invested in replacement stock

49. Fundamentally the new system is summarized by the Government in the following way.

“Housing debt would be allocated to councils on the basis of each council’s ability to

service it, using the same updated figures for costs of management, maintenance, major repairs and income that would be used to calculate subsidy if we were to continue with a subsidy system.

In principle, the total debt allocated to councils under self-financing could be higher or lower than the current level of debt in the system. This would depend on the value to the landlord of the stock, which in turn is determined by the assumptions made about future costs and rental income.”

50. In this instance the meaning of “the value to the landlord of the stock” would be based on the Tenanted Market Value (TMV) and the method of implementing the change is as follows-

“• each council would produce a 30 year business plan. The investment needs in the plan would be based on common service standards and evidence from the review about the costs of delivering those standards. Assumptions about income in the plan would be based on rent levels set in line with Government social rent policy

• the value of the stock would be calculated from the present value of the cash flows in the business plan

• each council’s housing debt would be adjusted to reflect the value of its stock, entailing either a capital payment to or from Government”

51. Members will be aware of the principles of TMV because it was the method used to value the stock during the Housing Futures transfer process. However, although the method is the same there are very different outcomes because of the assumptions used in the model in these different scenarios. The stock transfer model provided a higher standard of services and standards for tenants than the Government’s proposals, hence the South Cambridgeshire Village Homes business plan (based on the same rent assumptions) needed to retain more of the rent to pay for those services, leaving less for the capital receipt for the Council.

This payment to the Council would have been the cost of leaving the current system via Stock Transfer in the same way that the debt burden potentially being redistributed to South Cambridgeshire District Council represents the cost of leaving the current system under the Government’s proposed reforms.

52. The Consultation paper does not attempt to set out the implications of the proposals at local authority level but at the same time the Government have published some of the working papers that informed their proposals and one of these is called “Options for dealing with Housing Loan Debt in the Local Authority Sector”. This does not include information on all local authorities but a few authorities are named where they represent highest and lowest figures.

In the section on TMV models (the Government’s preferred option) South Cambridgeshire is identified as the local authority who would have the highest level of debt per property under the proposed reforms.(Para 6.2) This is stated as £30,248 per unit which on the basis of 5432 dwellings (April 09) means a debt of approximately £164m.

The assumption used included an uplifted MRA of 43% but since the Government are only proposing an uplift of 24% the debt allocated to South Cambridgeshire would in practice be higher than the indicative £164m (other factors being equal)

For comparison purposes, the debt to be carried by South Cambridgeshire Village Homes as the cost of leaving the current system would have been approximately £50m.

53. Debt settlement would take the following form-

- *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*
- *if this value was lower than the current notional debt supported by subsidy (the subsidy capital financing requirement), a payment would be made by Government to the council sufficient to reduce the notional debt to the level of the valuation.*
- *if the value of the stock was higher than the current notional debt level, new debt would be imposed on the council to bring it up to the level of the valuation.*

54. The Consultation paper identifies transactional costs associated with the potential change arising from premia for early debt redemption, debt management expenses and impacts on the consolidated rate of interest. The paper states that the Government would identify additional costs to either the HRA or the General Fund and provide a settlement that funds these. They also leave open the possibility of re-opening the settlement in the event of major policy changes on rent policy or appropriate standards.

55. Lastly, in a rather technical question the Government consider whether it is more appropriate to adjust current debt or add and subtract from it in order to capture the higher cost of redeeming debt at higher interest rates.

56. **CONSULTATION QUESTION 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?

(NOTE-paragraph 4.22 referred to above is para 44 in this report above and the other issues are contained in paras 45 and 46.)

57. **QUESTION 6-Draft Response**

The debt would not be supportable because the policy could not be considered sustainable in view of the contrast between standards enjoyed by stock transfer and housing association tenants and the limitations on service levels proposed for council tenants

58. **CONSULTATION QUESTION 7**

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

59. **QUESTION 7-Draft Response**

At present interest rates are relatively low, however authorities could be vulnerable should there be a significant increase. This could lead to a need to cut services in order to accommodate additional interest costs.

60. **CONSULTATION QUESTION 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?

61. **QUESTION 8-Draft Response**

It might be difficult to arrive at a fair method of deciding which individual debts are to be repaid early as part of the redistribution because authorities do not usually earmark debt.

62. **CONSULTATION QUESTION 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?

63. **QUESTION 9-Draft Response**

On the whole this does seem to be a reasonable option. However, HRA managers will have no control over interest fluctuations or borrowing for General Fund expenditure both of which could impact adversely on the Consolidated Rate of interest that would be payable on the HRA debt.

64. **BORROWING UNDER SELF FINANCING**

The Consultation notes that although prudential borrowing is allowed under the current HRA system in practice it is heavily constrained by the lack of revenues available to finance it. The paper asserts that moving to a self financing model could enable a significant increase in borrowing and that this could jeopardize the Government's commitments to controlling both public spending and public borrowing. Therefore the paper indicates that some controls on borrowing will be retained.

65. The Government are not concerned about borrowing associated with the terms of the settlement and debt redistribution since these would be sanctioned outside the prudential framework.

They are concerned about borrowing funded by future efficiency savings or revenue arising from differences between the original Business Plan and actual costs and incomes. The nature and extent of these future controls is not specified.

66. **CONSULTATION QUESTION 10**

Do you agree the principles over debt levels associated with implementing the original business plan and their link to borrowing?

67. **QUESTION 10-Draft Response**

We agree that any borrowing agreed in the original Business Plan should be outside the prudential borrowing framework but feel that should any future potential efficiency savings be identified which would involve switching revenue expenditure to fund borrowing to pay for works agreed as part of the Business Plan this should also be

permitted. Any future borrowing controls should only apply to uncommitted efficiency savings or surpluses arising from out-performing the Business Plan.

68. **CONSULTATION QUESTION 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?

69. **QUESTION 11-Draft Response**

There are no obvious future sources of uncommitted income although landlords might be in a position to act as agents for public sector agencies or commercial firms or provide services for other landlords. Should these arise we would be in favour of local authorities having maximum local control over how any income is spent.

70. **MANAGING RISK UNDER SELF FINANCING**

Under these proposals local authorities would become responsible for long term planning and asset management. The Tenant Services Authority (TSA) would provide the framework for managing these risks and they would be given strong regulatory powers. In addition to the TSA powers, Government would have the option of a return to a direct annual funding relationship.

71. **CAPITAL RECEIPTS**

72. At present local authorities retain 25% of Right to Buy receipts for capital purposes and 75% are pooled nationally. The Government have recently relaxed these rules for newly built council housing where 100% of any subsequent receipts will be retained and they propose to extend this to all capital receipts. Councils might be required to commit some or all of these extra resources (i.e. 75%) to new supply or regeneration but this would mean a corresponding reduction in the centrally funded programmes that would once have been funded by pooled receipts.

The 25% share of capital receipts which local authorities currently keep would continue to be available for either HRA or General Fund purposes.

73. **CONSULTATION QUESTION 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)?

74. **QUESTION 12-Draft Response**

With capital receipts from RTB running at historically low levels the impact of these proposals is limited. Whilst we support the principle of local decision making about how receipts are spent we would emphasise the need to ensure that programmes of national significance like the Growth Agenda receive adequate funds from national pots where local resources are inadequate.

75. **CONSULTATION QUESTION 13**

Should there be any particular policy about the balance of investment brought about by capital receipts between new supply and existing stock?

76. **QUESTION 13-Draft Response**

The spending of receipts should be a matter of local discretion in line with local Housing and Sustainable Community Strategies. In view of the historically low level of receipts, and their unpredictability, there should be no element of receipt derived spending allowed for in HRA Business Plans.

77. **CONSULTATION QUESTION 14**

Are there concerns about central Government giving up receipts which it currently pools to allow their allocation to the areas of greatest need?

78. **QUESTION 14-Draft Response**

Whilst we support the principle of local decision making about how receipts are spent we would emphasise the need to ensure that programmes of national significance like the Growth Agenda receive adequate funds from national pots where local resources are inadequate.

79. **DISABLED FACILITIES IN LOCAL AUTHORITY HOUSING**

Currently disabled adaptations are funded from the HRA but are not explicitly included as an element in the allocations formula. The Government propose to continue with this arrangement and suggest that the additional capital receipts (see above) could be used to fund this work. This is a critical omission in South Cambridgeshire as the draft response in para 74 below explains.

80. **IMPLICATIONS FOR TRANSFER, ALMO AND LOCAL HOUSING COMPANIES POLICY**

TRANSFER-the Consultation makes the following comments about Stock Transfer-

Self-financing would create a level playing field between transfer and retention in terms of public funding support. The valuation of a transfer proposal should follow the same principles that apply in valuing the stock and setting standards in a self financing settlement.

The Consultation states that Transfer proposals where tenants have already voted in favour would be allowed to proceed on their current terms but future transfers will only be allowed at standards materially the same as those proposed for self financing. For South Cambridgeshire this would mean for example being able to pay back the £164M debt. The implication is that few transfers would be pursued in future since they would not deliver the financial advantages for tenants that the current rules allow.

NOTE-paras 40 and 41 above demonstrate the sharp contrast between the advantages of Stock Transfer under the current financial regime and the loss of these

advantages under the new proposals. The transfer regime has been “levelled down” to HRA standards rather than the HRA standards being “levelled up.”

81. **ALMOs**-the Consultation expects that ALMOs will continue to operate and considers that they will have the same advantages that are intended to arise for self financing with direct management. In the event of new proposals for an ALMO to undertake Stock Transfer the financial support would be no different from that on offer for self financing.

82. **LOCAL HOUSING COMPANIES (LHC)**-these are joint ventures that combine public land with private finance to deliver mixed tenure housing. The Consultation simply states that the current pilots will continue and in future “self financing will provide another option for councils who want to put their land and income into schemes to deliver new housing.” Recent comments by the Homes and Communities Agency indicate that LHCs need to be at least 1,000 units to be viable.

83. **EQUALITY IMPACT ASSESSMENT**

The Consultation states- *“In making any changes we will have to assess whether they would have any disproportionate impact on particular groups of people and take account of this when implementing changes –detailing potential negative impacts, opportunities to positively advance the equality agenda, or importantly, gaps in our knowledge about likely impacts.”*

84. **CONSULTATION QUESTIONS 15+16+17**

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?

What would be the direction (positive or negative) and scale of these effects and what evidence is there to support this assessment?

What would be necessary to assemble the evidence required?

85. **QUESTIONS 15+16+17-Draft Response**

The omission of disabled adaptations work from allowances leaving possible capital receipts to fund necessary works will disadvantage disabled people. This is a critical omission for South Cambridgeshire and for other similar authorities. Our most recent STATUS survey showed that two thirds of our tenants are aged over 60 years and 50% of tenants have a long standing illness, health problem or disability. Our recent Stock Transfer proposals budgeted for £4m for adaptations for disabled tenants and £3m for walk-in showers over the first 5 years after transfer, an extra £1.4m for each of the 5 years.

The £1.4m per year does not include anything for the estimated cost of new or upgraded heating and energy measures for which disabled tenants will need to be prioritized. This is in sharp contrast to the likely availability of capital receipts. In 2009/10 we currently estimate the value of an extra 75% of RTB receipts to be approximately £500,000 although this cannot be guaranteed.

In general the proposals create a two tier social housing sector with council tenants potentially receiving lower standards of services than housing association/stock

transfer landlords but with similar rent charges. Apart from the general issue of equity of treatment, Government should investigate the composition of both tenant groups to see if the proposals disadvantage any of the groups listed by virtue of their different representation in each sector.

86. IMPLEMENTING REFORM-Timetable

The Government already have powers to negotiate settlements with local authorities and believe they could finalise the outcome of this consultation and associated work by Spring 2010. However, they do not believe it would be practical to negotiate with over 200 authorities and therefore this timetable depends upon all authorities accepting the terms on offer. If this doesn't happen, primary legislation will be needed to "achieve a national settlement." Subject to Parliamentary time this could not happen before 2012/13.

87. Implications

Financial	<p><u>The document states that even before the outcomes of the consultation are decided, the financial incentives for stock transfer no longer exist.</u></p> <p>There are no implications in replying to a Consultation document. The eventual impact of proposed reforms will depend on the level and detail of any eventual settlement arising from these initial proposals. In the interim the authority will have to manage within the current system given that any change is unlikely to happen before 2012/13.</p>
Legal	
Staffing	
Risk Management	
Equal Opportunities	

Consultations

88. This is itself a Consultation paper and has been sent to a wide range of organisations and representative bodies

89. Effect on Strategic Aims

<p>Commitment to being a listening council, providing first class services accessible to all.</p>
<p>At this stage the government have not made firm decisions about the reform of council housing finance. The eventual outcome will determine the quality of the service that the Council is able to deliver to its tenants and leaseholders.</p>
<p>Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.</p>
<p>The amount of resources made available to the HRA in future will affect the standard of accommodation and services that South Cambridgeshire District council is able to provide.</p>
<p>Commitment to making South Cambridgeshire a place in which residents can feel proud to live.</p>

N/A
Commitment to assisting provision for local jobs for all.
N/A
Commitment to providing a voice for rural life.
N/A

Conclusions/Summary

90. The Consultation paper is a detailed and occasionally technical document and a very concise summary is not practicable. In principle, any changes that increase revenue or capital resources beyond those delivered by the current subsidy system would be welcomed. However, South Cambridgeshire District Council is one authority who are able to make well informed judgements about the impact of these overall proposals since we have recently completed a Tenanted Market Value exercise for Housing Futures based on up-to-date stock information and extensive consultation with tenants.

Members will appreciate that the services and standards in the Business Plan that led to the formal offer to tenants in the Stock Transfer proposals meant that South Cambridgeshire Village Homes was only able to afford approximately £50m as a purchase price for the stock with the rest of its income being devoted to services for tenants.

91. The figure quoted in the Debt Options paper accompanying the Consultation suggest that the Council will be allocated a debt in excess of £160m. Although there still remains some “fine tuning” of the Governments proposals, the contrast between £50m and £160+m means that services and standards under the Government’s proposals will be far below the level available under stock transfer into the housing association sector.

Therefore, a theme running through this suggested draft response is the unequal treatment of different groups of social sector tenants and the suggestion that a truly sustainable future arrangement is one which involves levelling up standards across the sector.

92. There is a danger that focusing on the elements described by the Government as “Fundamental Reform of the System” will obscure the fact that the standards of services that South Cambridgeshire is able to provide for its tenants is actually dependant on the level of allowances for M+M and MRA. This is true for the present system and for the future models being considered.

93. Therefore the main areas of concern for this authority can be summarised as follows-

1. Under the most likely scenario identified by the Government South Cambridgeshire are likely to lose their debt free status and be obliged to take on over £160m worth of debt to be repaid over 30 years.

2. Any uplift of resources for Management and Maintenance, and Major Repairs, are likely to be targeted on areas with high proportions of flats, non-traditional dwellings and high levels of deprivation. This is unlikely to benefit services in South Cambridgeshire where spending is already above current allowances but is not sustainable at that level.

3. The option of transferring the stock to a not for profit housing association with a much lower level of debt (and service levels identified as necessary in tenant consultation) is no longer viable because future transfers will not be allowed on the same terms that would have applied to South Cambridgeshire Village Homes. The government state that from now any transfer proposal would be under the new TMV model meaning South Cambridgeshire Village Homes would have to pay £164+m to cover “notional debt” with no benefit to the council, and services at the same level as the council will provide in future.

4. The concession to allow 100% retention of capital receipts is unlikely to be of major benefit given the relatively small number of Right to Buy applications being received and completed. Given our tenant profile this is unlikely to increase significantly. However, the problem of funding the “buy back” of equity share sheltered homes could be finally resolved if receipts from future sales became fully usable.

5. The incentives to build council homes offers no financial advantage over partnership arrangements with housing associations and will only be of interest to authorities with significant land holdings.

6. As an authority able to meet the Decent Homes target by 2010 we are unlikely to benefit from any capital grants after that date.

7. The omission of disabled adaptations work from allowances leaving possible capital receipts to fund necessary works will disadvantage disabled people. This is a critical omission for South Cambridgeshire and for other similar authorities.

8. At present properties needing major works or redevelopment can be sold to housing associations at low/discounted valuations to enable them to develop affordable housing. In future this is unlikely to be viable because each property will be associated with approximately £30,000 worth of debt and discounted sales would leave that debt outstanding thus putting even more pressure on the HRA.

Recommendations

94. The Housing Portfolio Holder is asked to note the contents of the Consultation paper and agree the draft response prior to submission to Cabinet for approval.

Background Papers: the following background papers were used in the preparation of this report:

Reform of Council Housing Finance-Consultation
Review of Council Housing Finance-Impact Assessment
Review of the Major Repairs Allowance
Options for Dealing with Housing Loan Debt in the Local Authority Sector
Evaluation of Management and Maintenance Costs in Local Authority Housing

All available from CLG at

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

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