

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet 8 October 2009
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HOUSING REVENUE ACCOUNT (HRA) SUBSIDY REVIEW: RESPONSE TO GOVERNMENT

Purpose

1. To provide Cabinet with a brief summary of the Government's consultation paper on the reform of council housing finance and to seek approval for the Council's formal response to the consultation questions. This is not a Key Decision but the proposed financial reforms if enacted would have a significant financial impact upon the Council.
2. This report includes a brief overview of the main proposals. A more detailed explanation of the proposals is contained in the report to the Housing Portfolio Holder on 16 September 2009 which is listed in the background papers below. **Appendix A** attached to this report contains draft responses to the consultation questions included in the Department for Communities and Local Government (CLG) consultation paper.

Consultation 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. Under the **present system**, debts arising from investment in council homes are held by the authorities in whose areas the homes are built and owned. Through the Housing Subsidy system the Government takes rental income away from authorities that 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 are debt free and contribute to the national pot for redistribution. 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.
5. Under the **proposed new system** rental income would not be redistributed but the national housing debt of around £17 billion would be. Therefore those authorities deemed to be “in surplus” under the current arrangements could expect to be given new debts to service. Authorities “in deficit” would be given a corresponding lump sum to pay off all or part of their existing debt.
6. In a technical paper on debt accompanying the consultation, South Cambridgeshire is identified as the local authority that 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.

7. The Consultation concludes that national provision for **Management and Maintenance** is currently underfunded by 5%. Given that in South Cambridgeshire and other authorities expenditure already exceeds allowances, an uplift in allowances of 5% may not lead to any extra expenditure on the ground. Additionally, an authority like South Cambridgeshire is likely to have a low score on any needs assessment reflecting the weightings applied by Government in distributing allowances (including deprivation figures, numbers of high rise flats, crime figures etc) and may not benefit from any uplift. The 5% figure refers to total national allowances and will vary for individual local authorities.
8. The consultation proposes raising the **Major Repairs Allowance (MRA)** over 30 years by an average of 24%. It is likely that South Cambridgeshire would receive an uplift of less than 24% as priority is given in the proposals to flats, lifts, common parts etc which are less common in South Cambridgeshire compared to typical urban authorities. The assumption used in the technical paper to calculate the level of debt to be apportioned is based upon an uplifted MRA of 43% but since the Government is only proposing an uplift of 24% or less, the debt allocated to South Cambridgeshire would in practice be higher than the indicative £164m (other factors being equal).
9. 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 definition offered in the consultation paper is ambiguous but it is possible that the Government intends to tighten the HRA 'ring fence' which might mean that services currently funded by the HRA at present would have to be funded by the General Fund in the future.
10. At present local authorities retain 25% of **Right to Buy Receipts** for capital purposes and 75% are pooled nationally. The Government has recently relaxed these rules for newly built council housing where 100% of any subsequent receipts will be retained by local authorities and proposes 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 housing supply or regeneration but this would mean a corresponding reduction in the centrally funded housing investment programmes that would once have been funded by pooled receipts.
11. Currently **disabled adaptations** within the Council's housing stock are funded from the HRA but are not explicitly included as an element in the allocations formula. The Government proposes to continue with this arrangement and suggests 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 the appendix, explains.
12. 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, having to pay back the new £164M debt. The implication is that few transfers would be pursued in future since they would not deliver the financial advantages for tenants and local authorities that the current rules allow.

Implications

13.	Financial	The document states that even before the outcomes of the consultation are decided, the financial incentives for stock transfer no longer exist. 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.
	Legal	
	Staffing	
	Risk Management	
	Equal Opportunities	

Consultations

14. This is itself a consultation paper and has been sent to a wide range of organisations and representative bodies. The draft response was approved by the Housing Portfolio Holder on 16 September 2009.

Effect on Strategic Aims

15.	Commitment to being a listening council, providing first class services accessible to all.
	At this stage the Government has 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.
	Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.
	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.
	Commitment to making South Cambridgeshire a place in which residents can feel proud to live.
	N/A
	Commitment to assisting provision for local jobs for all.
	N/A
	Commitment to providing a voice for rural life.
	N/A

Conclusions

16. 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.
17. The standards of services that South Cambridgeshire is able to provide for its tenants are dependent on the level of allowances for Management and Maintenance and the MRA. This is true for the present system and for the future models being considered.
18. The main areas of concern for the Council can be summarised as follows:
- (a) Under the most likely scenario identified by the Government, the Council is likely to lose its debt-free status and be obliged to take on over £160m worth of debt to be repaid over 30 years.
 - (b) 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.

- (c) 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.
- (d) The proposal 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.
- (e) As an authority able to meet the Decent Homes target by 2010 the Council is unlikely to benefit from any capital grants after that date.
- (f) The omission of disabled adaptations work from allowances, leaving possible capital receipts to fund necessary works will potentially disadvantage disabled people. This is a critical omission for South Cambridgeshire and for other similar authorities.
- (g) 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.

Recommendation

19. That the Cabinet endorses the draft responses to the Department for Communities and Local Government Housing Revenue Account finance consultation questions as set out in the appendix to this report.

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/>
Report to Housing Portfolio Holder 16 Sep 2009: “HRA Review Response”, available at <http://scams.moderngov.co.uk/ieListDocuments.aspx?CId=870&MId=4905>

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