

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Housing Portfolio Holder 5 February 2009
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CONSULTATION-CHANGES TO THE REVENUE AND CAPITAL RULES FOR NEW COUNCIL HOUSING

Purpose

1. To advise the Housing Portfolio Holder of a government consultation document and to suggest an appropriate response .
2. This is not a Key Decision but has been presented to the Housing Portfolio Holder so that a formal response can be made to the issues in the consultation document.

The document itself is relatively short and is attached as an appendix to this report. The main issues are set out below.

Executive Summary

3. In January 2009 the Government issued the above named consultation document and asked for comments by 17 April 2009. The changes being proposed by the Government involve adjustments to the financial regime for local authority housing finance for new affordable housing, and the stated objectives are summarised in the document as-

We want local authorities to play a bigger role in securing the supply of new affordable housing. This should include new opportunities for councils to develop housing directly where this offers value for money in comparison with other options.

The purpose of this document is to set out our proposals for removing some disincentives to local authority investment in new council housing within the current financial framework. These include changes to both revenue and capital rules.

The method for achieving this is somewhat “technical” in nature but the principles can be summarised in reasonably straightforward terms.

Background

4. The basic operation of the Housing Revenue Account (HRA) subsidy system for council housing will be familiar in South Cambridgeshire because it is a key factor underlying the development of the Housing Futures project. As the consultation points out-

The HRA subsidy system is a ‘notional’ system, based on assumptions in national formulae about what each council needs to spend and what income it should raise from rents. Notional surpluses generated in some authorities are used to meet notional shortfalls in others.

5. However, in constructing the notional account, no provision is currently allowed for the financing costs of any new building. The only costs that are taken into account are for management, maintenance and major repairs. Since these allowances are likely to be less than the rent income for a new property the net effect for most authorities is that the balance of the rent (ie rent minus allowances) is paid into the national pool and lost to the local authority concerned.

The cost of its own investment-capital expenditure-is not reflected in the subsidy system and this is a clear disincentive to build within the HRA.

6. The impact will differ between local authorities but viewed at the national level the permissible allowances are equivalent to around 72% of assumed rental income. Therefore constructing a dwelling with a similar profile of rent and allowances would result in 28% of the rent payment being lost to the Government. The loss of rental income in South Cambridgeshire is approximately 50%.
7. As far as current capital rules are concerned, if a property is sold under the Right to Buy then 75% of net receipts are paid to the Government. A council which undertook new build could therefore lose most of its own investment if a tenant bought the property. The council could be left with a debt incurred in building the property after it had been sold and lost as affordable housing.

This is the second current disincentive to councils building new homes which the government proposes to tackle.

Considerations

8. Essentially the Government are proposing two changes which will address these disincentives for new build properties. Firstly, although any new build, newly acquired or newly rehabilitated derelict properties will be still located within the HRA, they will be “invisible” to the subsidy system. This means the council will be able to keep and spend all rental income from these properties even if it exceeds guideline allowances.

Secondly, if the properties were subsequently sold, a council would be allowed to keep 100% of the capital receipt providing it was spent on affordable housing or regeneration projects.

9. There are a number of points of detail in the consultation document which are not explored further in this report here because the proposal does not seem to offer anything to South Cambridgeshire for reasons set out in section 13 below. However, in the interests of encouraging the production of new affordable housing across the country the proposal is worth supporting for those authorities who have significant land ownership and are beneficiaries of the current subsidy system.
10. Although the consultation document only refers to new build/renovated/acquired properties it is possible that the mechanism being proposed could have a wider application. In the case of South Cambridgeshire it might be possible for the Secretary of State to exempt our existing equity share properties from the requirement to pool a share of the receipts. This authority has already requested an exemption from these pooling requirements which was not anticipated at the time the pooling arrangements were implemented. This merits further investigation and the proposal should be supported in case it helps to increase our retained receipts.

Implications for Existing HRA Stock

11. These proposals do not affect the financial arrangements for existing council homes and therefore do not alter the Retention Scenario recently presented to members and tenants. Some journalists have presented this proposal as evidence of a possible future change of policy towards the HRA generally and existing council housing. However officers believe that this interpretation is not consistent with the contents of the document for the following reasons.

(i). Just taken at face value, the consultation document limits itself to new build properties in the context of the current slump in housing production as the opening sentence makes clear-“*We want local authorities to play a bigger role in securing the supply of new affordable housing.*”

(ii). This initiative is not evidence of recent re-thinking of government policy. In July 2007 the Housing green paper said-“*Where councils choose to invest their own money in new (housing) supply, we think they should be able to keep the income and capital returns from those additional homes.*”

(iii). Rather than concentrating on the changes being proposed, the document includes the government's rationale for the current revenue and capital regimes and stresses the difference which distinguishes existing homes from future new build- *"At present, the council housing finance system redistributes the revenue (through Housing Revenue Account Subsidy (HRAS)) and capital returns (through pooling) from new and existing housing on the same basis. Neither pooling nor the HRAS distinguishes between homes which were built in the past with a large element of central Government financial support and new homes, which represent a largely local investment."*

(iv) The proposals do not even represent an open ended or unqualified commitment to exempt all future new build, and probably should be seen as a pragmatic move in the light of current market conditions rather than a fundamental policy issue. Permission for each scheme will be needed from the Secretary of State and the Government are retaining their ability to balance the desire for new build with their commitment to controlling public expenditure as the following quotation shows-

"In considering whether to enter into agreements to exclude council properties from the HRA subsidy system, Government must also consider the overall impact on government's fiscal policies. Local authority spending and borrowing are part of overall public expenditure. Increases in spending and borrowing made possible by exclusions must therefore be affordable within national as well as local spending plans and policies."

The public expenditure implications of extending these proposals to existing stock are very significant because of the numbers involved, in contrast to the much smaller number of properties likely to be delivered through new build.

Options

12. There are essentially 3 options available-
 1. Do not reply to the consultation document. Officers believe, however, that in the interests of boosting the supply of affordable housing across the country the government should be encouraged to implement these proposals and therefore feel there is merit in responding even if South Cambridgeshire will not be directly affected. It is also worth supporting for the reasons set out in 10 above.
 2. Submit the proposed response as per the recommendation.
 3. Amend the contents of the proposed response before submitting it.

Implications

13. There are no significant implications for South Cambridgeshire if these changes are implemented for the following reasons-

1. The Council does not have significant land ownership, or derelict vacant dwellings, that would permit a new build programme even if the subsidy regime were amended.

2. The problems in managing and maintaining the existing stock under the current HRA financial regime have been explored in great detail in recent months (the "Retention Scenario") Even if a few new build properties were possible (eg on redevelopment sites) their contribution towards "supporting" the wider HRA would be negligible.

In addition, it would not be feasible or desirable to attempt to operate two separate maintenance and management regimes for existing stock and a handful of new build properties. The tenants of the new properties would therefore experience the limitations of the Retention Scenario which could be avoided if new build continues to be through housing associations.

3. Although not part of this formal consultation, the accompanying government press statement points to connections between this proposal and plans to allow local authorities to bid for social housing grant from the Homes and Communities Agency. However, this money comes from existing budgets and is not ring fenced for local authorities who would have to compete with local housing associations. There is no suggestion therefore that relaxing the HRA subsidy regime could lead to more affordable homes locally than could be delivered under the current partnership arrangements with housing associations.

4. The Homes and Communities Agency will be aware of the problems associated with the Retention Scenario. They would therefore be extremely unlikely to agree any bid for new grant support from this authority given the future prognosis for management and maintenance.

14.	Financial	There are no implications in submitting views on this consultation document. If the government does eventually amend the subsidy regime then the relevance to the Council can be reviewed in the light of the final detail, particularly in relation to equity share capital receipts.
	Legal	
	Staffing	
	Risk Management	
	Equal Opportunities	

Consultations

15. The publication is itself a consultation document which has been sent to range of statutory bodies, professional interests and tenants representatives, all of whom have the opportunity to comment.

Effect on Corporate Objectives and Service Priorities

16.	Work in partnership to manage growth to benefit everyone in South Cambridgeshire now and in the future
	The proposals do not offer any improvement on the current partnership arrangements with housing associations which continue to deliver affordable homes.
	Deliver high quality services that represent best value and are accessible to all our community
	None specific to the consultation contents but the proposed mechanism may be a vehicle to enable the Government to remove the requirement to pool a proportion of equity share capital receipts. Any extra resources available through this route could help provide local services
	Enhance quality of life and build a sustainable South Cambridgeshire where everyone is proud to live and work
	None

Conclusions/Summary

17. The proposals do not seem to offer any practical advantages in relation to new build in South Cambridgeshire for reasons set out in 13 above. They may provide an opportunity to exercise discretion in the treatment of equity share receipts which could be to this authorities advantage and the proposal should be supported for this reason. In the interests of promoting new build affordable housing wherever possible, officers believe this authority should respond supporting the proposals and advocating flexibility, efficiency and local discretion in the application of any amendments to existing financial regimes.

Recommendations

18. That the Housing Portfolio Holder instructs officers to respond to the consultation in support of the governments proposals with detailed comments that recommend maximum flexibility and local discretion.

Background Papers: the following background papers were used in the preparation of this report:
Changes to the revenue and capital rules for new council housing-CLG-January 2009-attached
Government Press Release-available at <http://www.communities.gov.uk/news/corporate/1125206>

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