



AGENDA ITEM: 12

CABINET:  
15 September 2009

EXECUTIVE OVERVIEW &  
SCRUTINY COMMITTEE  
1 October 2009

---

**Report of: Executive Manager Housing and Property Maintenance Services**

**Relevant Portfolio Holders: Councillor Mrs V. Hopley  
Councillor D. Westley**

**Contact for further information: R.V. Livermore (Extn. 5200)  
(E-mail: bob.livermore@westlancs.gov.uk)**

---

**SUBJECT: REFORM OF COUNCIL HOUSING FINANCE**

---

RVL/EH2899cabexeco&s  
4 September 2009

District wide interest

**1.0 PURPOSE OF THE REPORT**

1.1 The purpose of this report is to seek Members views on the Government's consultation on reform of Council Housing Finance.

**2.0 RECOMMENDATIONS**

2.1 That Cabinet endorse the views expressed in paragraph 8 of this report.

2.2 That this report be considered by the Executive Overview and Scrutiny Committee and their agreed comments conveyed to the Portfolio Holders of Finance and Housing.

2.3 That the views of tenants be sought from the Tenant and Resident Forum.

2.4 That the Executive Manager Housing and Property Maintenance Services, in consultation with the Portfolio Holders for Finance and Housing after considering the comments sought of Cabinet, Executive Overview and Scrutiny Committee and Tenant and Resident Forum be given delegated authority to respond on behalf of the Council to this Consultation Paper.

2.5 That call-in not apply as this report is being sent to the Executive Overview and Scrutiny Committee for their comments.

---

---

### **3.0 BACKGROUND**

- 3.1 The Government launched an initial consultation about a review of Council Housing Finance on 12 August 2008.
- 3.2 Members had the opportunity of attending a Workshop on 23 September 2008 to look at the various issues.
- 3.3 The matter was considered by the Executive Overview and Scrutiny Committee on 2 October 2008 and their comments conveyed to Cabinet.
- 3.4 Cabinet at its meeting on 18 November 2008 considered the feedback from the Workshop held by Councillors, feedback from the Workshop held by tenants, comments from the Executive Overview and Scrutiny Committee. Cabinet resolved to respond to the Consultation which is attached (Appendix 1).

### **4.0 CURRENT POSITION**

- 4.1 Government have considered the feedback from the initial consultation and have commissioned various pieces of research in order to help make some proposals on how Council housing finance should look and work in the future.
- 4.2 The Government have now issued a further Consultation Paper on Reform of Council Housing Finance on 21 July 2009. The deadline for making comments is 27 October 2009.

### **5.0 CONSULTATION DOCUMENTS**

- 5.1 The proposals are complex and the consultation consists of the following documents:
  - (a) Reform of Council Housing Finance Consultation (60 pages)
  - (b) Review of the Major Repairs Allowance (47 pages)
  - (c) Evaluation of Management and Maintenance Costs – Report of Findings (90 pages)
  - (d) Evaluation of Management and Maintenance Costs – Summary Report (37 pages)
  - (e) Review of Council Housing Finance – Analysis of Rents (100 pages)
  - (f) Tenants' attitudes towards Council Housing Finance and Rent Policy (45 pages)
  - (g) Review of Council Housing Finance – Impact Assessment (23 pages)
  - (h) Review of Council Housing Finance – Summary of Commissioned Research (8 pages)
  - (i) Options for dealing with housing loan debt in the local authority sector (16 pages)

These documents can be downloaded from the Department of Communities and Local Government website. A copy of each of these documents is available on request.

- 5.2 The Council is a member of ARCH (Association of Retained Council Housing) and I attach a Briefing Paper which covers the main issues raised in the Consultation Paper. (Appendix 2)

## **6.0 UNDERLYING PROPOSALS**

- 6.1 As Members will be aware the HRA Subsidy System is extremely complex and results in around 150 of the 200 Local Authorities within the Subsidy System having to pay into the system by way of “negative subsidy”. This Council subsidises the system to the tune of £5.6m out of the rents that we collect.
- 6.2 The Government acknowledge in the Consultation Paper that £300m raised from the system (about 5% of total guidelines rent income) makes a surplus for the Treasury.
- 6.3 If the HRA Subsidy System continues unchanged it is projected that these surpluses will increase. The Government have declared their intention to dismantle the HRA Subsidy System. Equally, it is recognised that this will be difficult to achieve.
- 6.4 The preferred approach would be to create a new baseline where Local Authorities would have sufficient resources to be able to sustain and manage their homes on an equitable basis. Essentially Local Authorities would be able to keep their rents in return for accepting a one off amount of debt.
- 6.5 The Consultation Papers do not indicate the level of debt to be apportioned to each Local Authority.
- 6.6 The Minister has indicated that if Local Authorities agree to work on this principle the new system is capable of being introduced quickly but if not it will require primary legislation to make the proposed changes.
- 6.7 The proposals also mention changes to the framework for allocating costs between the HRA and the General Fund. At this stage it is not yet known the effects this may have on the interaction between the two accounts and how this may change from the current financial arrangements. Also, the proposals mention the tightening and strengthening of the HRA ring-fence mechanism, relating to capital receipts.

## **7.0 ISSUES FOR CONSIDERATION**

### **7.1 Costs and Standards of Council housing in future**

- 7.1.1 The review investigates current levels of funding through management and maintenance allowances and concludes that these need to be increased by 5% overall. The Government accept that further work is necessary in certain areas like regional differences.
- 7.1.2 The review recognises that the Decent Homes Standard should be a long term minimum standard and recommends that certain changes be made to improve the methodology and to extend the remit to things like lifts and communal areas. Overall there is a recognition that the allowance needs to be raised by £157 per property per annum on average to fully meet the Decent Homes Standard. Additionally, £116 per property to tackle backlog in components requiring replacement in

2010 and a further £91 per property to cover statutory compliance with disabled adaptations and asbestos.

## 7.2 Rents Policy

7.2.1 There are no proposals to move away from the current methods of assessing rents.

## 7.3 Options for fundamental reform of the system

7.3.1 The Government offer two modules for reform:

- (a) Improvements to a National System for funding Council Housing.
- (b) A devolved system (self-financing).

7.3.2 All options would share the same characteristics:

- Costs, standards and rents would be based on the same principles.
- Local Authorities would be required to draw up 30 year business plans based on updated stock condition surveys following the completion of their Decent Homes Programmes.
- All Housing Capital Receipts would be retained locally and would be accounted for alongside housing revenues.
- Any option which is taken forward will be fully compliant with the Government's new burdens procedures.

7.3.3 The proposals for improvement to the current system would:

- 3-5 year determination of finance where no annual charges would be made.
- Some safeguards would be put in place to protect against inflation etc.
- Debt would **NOT** be written off.

Either

- Debt would be reallocated to Local Authorities in proportion to the value of their stock.

Or

- Debt would be held centrally and Government would charge each Council for the cost of servicing this based on the assumption made if debt had been reallocated.
- All monies paid into system would be redistributed.

7.3.4 The proposals for the self financing options are:

- Local Authorities to keep rents.
- Local Authorities would accept a "one-off" reallocation of housing debt based on its ability to service this.

- Debt allocated could be higher or lower than the current debt in the system. This would be dependent on the value of the stock and the assumptions made on costs and income.
- Debt would be allocated on the tenant market value of the stock.

#### 7.4 **Other matters**

7.4.1 The Consultation Paper then looks at potential models for debt allocation, borrowing under self-financing, managing risk under self-financing, capital receipts, disabled facilities in local authority housing, implication of self-financing for transfer and ALMO Policy, implication for ALMOs, Local Housing Companies and Equality Impact Assessments.

7.5 I have deliberately not gone into too much detail on the issues raised in the above paragraph as I believe the fundamental issues highlighted in 7.1 – 7.3 are of significant interest. However, I am more than happy to go into those matters if Members wish.

#### **8.0 COMMENTS OF THE EXECUTIVE MANAGER HOUSING AND PROPERTY MAINTENANCE SERVICES**

8.1 Overall, I agree that the current system is not fit for purpose and that change is necessary.

8.2 I agree that the costs associated with management and maintenance together with Major Repairs Allowance need to be increased to reflect the issues highlighted within the Appendix to the Consultation Paper.

8.3 I feel that there should be a national framework for rent setting but think there is some scope for local flexibilities and the Government should be asked to reconsider their approach.

8.4 I welcome the Government's approach to ensuring that any surpluses within the system will be used for housing.

8.5 In principle I support a devolved system (self-financing) but this would need to be conditional on a number of points being agreed as part of the process. The areas of concern that will need to be satisfied are:

- (i) That the debt associated with self-financing is no more than would have been the case if stock transfer was the preferred route.
- (ii) Any debt would need to be serviced by payments from the HRA only and no cost fall on the General Fund.
- (iii) Any historic debt associated with an enhanced Decent Homes Standard, Private Finance Initiative or leasing arrangements should be removed from the system.

Subject to the above being agreed this would allow tenants to benefit from the new system in a similar way to the benefits that stock transfer would have brought.

8.6 I had intended, as part of this report, to draw a comparison between the proposed system and that of stock transfer but the Consultation Paper appears to have closed the door to this possibility, although I am seeking clarification on this point.

## **9.0 SUSTAINABILITY IPLICATIONS/COMMUNITY STRATEGY**

9.1 The current HRA Subsidy System is not sustainable and the proposed system, subject to the concerns that need to be addressed in 8.5, would provide a system which allows tenants to benefit from financial stability.

9.2 The Community Strategy recognises that residents of West Lancashire want good quality homes and the new system, subject to amendment, will provide a financial vehicle which starts to deliver this in the public sector.

## **10.0 FINANCIAL AND RESOURCE IMPLICATIONS**

10.1 The current proposals, if implemented unamended, would create a burden on the General Fund. It is estimated that this would have an annual revenue consequence of at least £600,000. Clearly this is unacceptable.

10.2 In 8.5 alternatives are suggested that would, rightly, in my opinion, allow any debt to be serviced from rental income from the HRA.

10.3 If the Government were not prepared to amend this aspect the Council would need to oppose the self-financing model and request that the improvements to a national system be implemented.

## **11.0 RISK ASSESSMENT**

11.1 A devolved system (self-financing) carries greater risk but would allow the Council to manage these and be the masters of their own destiny.

11.2 In any business planning model these risks need to be factored in and managed.

11.3 The fact that the Council has a good track record of prudent financial management gives a degree of comfort and balances the risks associated with taking redistributed debt.

## **12.0 CONCLUSION**

12.1 Overall, the proposed changes are broadly welcomed. However, the devil will be in the detail. However, providing the Government address the concerns in 8.5, I believe we could commit to this system. However, if the concerns cannot be negotiated then we should oppose the new system and force the Government to legislate.

---

---

## **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

There is no evidence from an initial assessment of an adverse impact on equality in relation to the equality target groups.

### **Appendices**

Appendix 1 – Cabinet Report Review of Council Housing Finance – 30 October 2008 +  
Appendix

Appendix 2 - ARCH Briefing Report – July 2009