

## **Decision Session – Executive Member for Housing and Adult Social Services**

### **Report of the Director of Housing and Adult Social Services**

#### **Consultation Response - Reform of Council Housing Finance**

##### **Summary**

1. The Government is consulting on a proposal to dismantle the current Housing Revenue Account subsidy system and replace it with a devolved system of self financing for all local authorities. The system will depend on a national reallocation of housing debt, after which council's will be able to retain all their rental income and capital receipts.

##### **Background**

2. The current Housing Revenue Account (HRA) is a national housing finance account and HRA subsidy is the current system for redistributing resources between council's based on an assessment of each council's notional deficit or surplus. York is in negative subsidy in that it's notional income exceeds it's notional expenditure. As a result we pay money to the Government (expected to be £5.8m in 2009/10), which then redistributes this to those authorities who are in positive subsidy. Currently some 75% of councils pay in to the system with the remaining 25% receiving subsidy.
3. The problems with the current system are that
  - It is complex and not easy to explain to tenants
  - The fairness of the system depends on the accuracy of government assumptions about the spending needs of over 200 councils.
  - It doesn't allow for long term financial planning as there are changes made at short notice (such as the change in rent increase this financial year)
  - There is no local accountability as so much of the decision making is undertaken by central government
  - The overall national housing account is in surplus, which means rents are being used to subsidise other government departments
4. The council currently produces a 30 year business plan for the landlord service, and reviews this on a regular basis. Although a viable investment plan is in place to deliver the Decent Homes Standard by 2010/11, it has always been apparent from the business plan that there would be longer term problems in sustaining the capital investment needed in the fabric of the homes. The investment profile in future years shows a significant increase in the investment needed to maintain the stock beyond 2010. This creates a funding problem, as the revenue surpluses that have supported the achievement of the Decent

Homes Standard will not be available in the longer term, as the business plan takes into account increasing costs such as job evaluation and the rising costs in relation to gas servicing.

5. Whatever the final outcome of this consultation we will need to thoroughly review the assumptions in the current business plan. There is a need to update both the estimate of the spending required to maintain the stock at the Decent Homes Standard or above and the revenue streams to ensure we continue to provide a level of service in line with tenant expectations. The current More For York blueprint for Housing Services includes a major project to integrate Building Maintenance in to the housing service which will generate substantial savings and these will also need to be factored into the overall assessment of the resources available to support council housing.

### **Consultation**

6. None undertaken at this time.

### **Options**

7. Not applicable

### **Analysis**

8. Supplemented by several background reports, the consultation paper proposes that the Government moves forward to implement a self-financing model for councils with a start date of April 2012. In order to achieve this it will be necessary for debt to be redistributed by assessing the present value of the cash flows in the business, excluding any existing housing debt, and either making a payment to each LA, or requiring a payment from each LA, depending whether its current debt is higher or lower than the assessed value.
9. The paper also recognises that management and maintenance allowances should be 5% higher than current levels and major repairs costs should be based on an uplift of 24% for newly arising need. It concludes that the national ongoing post-decent homes backlog of works is £6 billion and that the non-decency backlog is between £1.4 billion and £2.9 billion and acknowledges that this backlog will need to be funded from additional capital grants.
10. Other key principles include
  - the current ring-fence be retained and strengthened
  - abolition of pooling so that 100% of capital receipts are retained locally, with 75% having to be spent on housing.

### **Particular issues for York**

11. As a relatively low debt council it is likely that we would be taking on additional debt. Provided the debt can be managed and serviced, this would not necessarily be a problem. However, there is a considerable amount of detail

required in order for us to effectively assess the financial implications on both the HRA and the General Fund. Concerns include

- how would this debt redistribution work in practice
- would it fit with our treasury management policy
- what would the impact be on the General Fund

12. Initial assumptions suggest that the HRA could be better off under a self financing option, as despite the high probability of us taking on additional debt, it is unlikely the cost of servicing this would be as high as the current negative subsidy payment.
13. The current situation with Right To Buys (only 1 in total last year, and 1 so far this year) means the abolition of pooling has limited impact, although should sales pick up this would be an additional source of funding.

### **Corporate Priorities**

14. The consultation relates to the Council as a landlord and it's ability to improve the quality and availability of decent, affordable homes in the city.

### **Implications**

#### **Financial**

15. The financial implications of this paper could be significant for, but it is too early to calculate the potential impact. The treatment of debt will be a key issue for York.

#### **Human Resources (HR)**

16. There are no HR Implications for the council in this report.

#### **Equalities**

17. There are no equalities implications.

#### **Legal**

18. The Government has made it clear that all councils will need to agree the proposals and that they will not be negotiating individual settlements. The redistribution of debt is likely to cause some difficulties, especially if there is to be an actual transfer of debt from one authority to another. If not all council's sign up to the national settlement it is likely that the system will need primary legislation which would delay implementation.

#### **Crime and Disorder**

19. There are no crime and disorder issues

#### **Information Technology (IT)**

20. There are no IT implications

## Property

21. There are no property implications.

## Other

22. There are no other implications.

## Risk Management

23. There are no risk management issues associated with this report.

## Recommendations

24. That the Executive Member agrees that the attached document (Annex 1) be submitted as the Council's response to the Government's consultation paper.

Reason: In order that the Council is able to contribute towards the consultation exercise.

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**Wards Affected:** *List wards or tick box to indicate all*

**All**

**For further information please contact the author of the report**

## Annexes:

Annex 1 – City of York Council response to CLG consultation on the reform of council housing finance

## Background Papers:

Reform of Council Housing Finance