

Briefing Paper

Reform of Council Housing Finance

July 2009

Introduction

In December 2007 the government announced that Communities & Local Government and HM Treasury would jointly carry out a review of the financing of the Housing Revenue Account. The review had a particular focus on the option that had earlier been piloted in six authorities of making the housing revenue account self financing based on a redistribution of debt.

Four working parties were established to consider aspects of the study and Adrian Waite was invited to be a member of the working party that considered the future mechanisms for the funding of council housing. On 29th June 2009 the Minister of Housing, John Healey MP, laid a written statement before Parliament that announced his conclusions from the review of council housing finance. This announcement is considered in my briefing paper 'Housing Revenue Account Review' that can be downloaded from the website at: <http://www.awics.co.uk/BriefingPapers/ViewCategory/housing/>

On 30th June 2009, Simon Connell of 'Communities & Local Government' wrote to Adrian Waite, Managing Director of 'AWICS' to say:

"We would like to thank you again for all the hard work that you put in and for your patience over the last few months whilst we worked on the emerging models. Completing the review would not have been possible without your knowledge, contribution and keen interest. And we look forward to hearing your views when the consultation document is issued."

On 21st July 2009 Communities & Local Government issued a consultation paper 'Reform of Council Housing Finance'.

In the foreword to the consultation paper, John Healey MP, Minister for Housing and Planning, said:

"As a Government we remain fully committed to completing our comprehensive Decent Homes programme and to seeing this standard maintained. The reforms proposed in this consultation will safeguard this commitment. We will also improve the common areas of estates and will ensure that there is sufficient funding in the system to do so."

"If we are to maintain these improvements for the long term then it is imperative to reform the system that finances council housing."

“My intention is to dismantle the Housing Revenue Account subsidy system and replace it with a devolved system of responsibility and funding. This consultation sets out the steps required to do so, together with the timescales on which changes can be made. I want to provide more flexibility in finances and more transparency in the operation of the system. I want to devolve control from central to local government. And, in return, I want to increase local responsibility and accountability for long term planning, asset management and for meeting the housing needs of local people.

“I am therefore proposing a devolved self-financing alternative to the current system which will remove the need to redistribute revenue nationally while continuing to ensure that all councils have sufficient resources. With these radical reforms, councils will finance their own businesses from their own rents and revenues, in exchange for a one-off allocation of housing debt.

“I aim to make this a once-and-for-all settlement to create a new baseline for all local authorities currently in the HRA subsidy system, from which each will be able to sustain and maintain their homes on an equitable basis. By freeing councils from the annual funding decisions in the current system, councils will be able to plan long term and improve the management of their homes, secure greater efficiencies and improve the quality of service to their tenants. This will be a financial framework in which councils can plan and manage for the long term, in the same way that we expect of other affordable housing providers, like housing associations. It will give councils greater capacity and more freedom to respond to local needs and, in doing so, increase their responsibility and accountability to local tenants and residents.

“With greater freedom comes greater responsibility and accountability. The Tenant Services Authority will in future play a major role in ensuring that local authorities are seeking efficiency and value for money in their service delivery, providing greater openness on costs and making sure that every penny of tenants’ and taxpayers’ money is spent well.”

The purpose of this briefing paper is to summarise and comment on that consultation paper. The consultation ends on 27th October 2009.

The consultation paper is divided into five sections, each of which is considered below:

The Review

This section describes the background to the review, its terms of reference, working methods and the ways that Communities & Local Government have engaged with stakeholders.

The Current Housing Finance System

This section provides an overview of the current system for financing council housing, covering the ring-fenced landlord account (the Housing Revenue Account) and the system for redistributing income between councils (the Housing Revenue Account subsidy system). It describes the current distribution of housing debt within the system and the rules that apply to capital receipts and borrowing. It also provides an overview of the Decent Homes Standard and social rent policy.

The consultation paper states with regard to the ring-fence that:

“DoE circular 8/95 provides guidance on the operation of the ring fence but it... reflects the provision of housing and housing services 15-20 years ago. Many services and facilities on estates which were originally provided specifically for council tenants are now available to the mixed tenure households living on the estates.”

This suggests that the government believes that housing revenue accounts are currently being charged too high a proportion of the costs of providing services on mixed tenure estates and that these costs should be borne by the General Fund.

The consultation paper states with regard to rents and housing subsidy that:

“The notional in the system also ensures that local choices about rents do not influence the amount of subsidy a council is eligible to receive. It is assumed that all councils will set rents in line with national policy. As with costs, a decision by a council to set rents above or below this amount will not increase or reduce its entitlement to subsidy.”

This is a strange observation as rent restructuring has effectively removed local choices about rents while rent rebate subsidy limitation has ensured that where councils increase rents above the government’s limits they are penalised through receiving lower levels of housing benefit subsidy.

It also states:

“The evidence on rents is being published as part of the review. This consultation document is not however proposing any changes to rent policy. It will be necessary to establish long term rent policy in advance of implementing any changes to the system for financing council housing. But we expect to deal with future council rent policy separately, in the context of the HRA subsidy determination for 2010-11 and a future direction by the Secretary of State to the Tenant Services Authority on council rents.”

The government is therefore deferring a decision on future rent policy until the publication of the housing subsidy determination for 2010/11 but as expected is linking this with the standards for rents that are being consulted on by the Tenant Services Authority.

The consultation paper summarises the problems with the current system as follows:

- The fairness of the system depends on the accuracy of the assumptions it makes about spending needs in over 200 councils. It is difficult to manage this information nationally
- Over time, the balance of deficit and surplus authorities has changed. The system is now roughly in balance nationally, but three-quarters of councils pay notional surpluses into the system, with only a quarter receiving subsidy
- The requirement for many authorities to contribute from their rent income back to central Government for redistribution to other areas is particularly unpopular especially now it is projected that the national system as a whole will begin to move back into surplus
- The annual nature of the process, and the volatility this brings, militates against longer term planning by councils. Currently there are annual changes in allowances, rents and borrowing allocations at short notice

- Pursuit of fairness within the system has led to increasing complexity and less transparency, with lots of subtle adjustments to reflect local circumstances. This has made the system hard to understand and its outcomes sometimes unpredictable. The assumptions it makes about rent levels are also highly complex
- Local responsibility and accountability is weak and the system adds a great deal of operational detail into what should be a strategic relationship between council landlords and central Government.

Costs and Standards of Council Housing in Future

This section covers the future costs and standards of council housing. It describes the allowances within the current system and the evidence gathered during the review about the need to spend in future. It proposes changes to the framework for allocating costs between the Housing Revenue Account and a local authority's general fund. It sets out a proposal for continuing the Decent Homes Standard in future and how we might address energy efficiency. It also proposes changes to the Housing Revenue Account which would allow sinking funds to be set up for works to leaseholders' homes.

The consultation paper states with regard to management and maintenance that:

"The research drew the following conclusions:

- *The need to spend on management and maintenance at a national level is about 5 per cent higher than current allowances. However, further work is needed to understand how this is distributed at a local authority level*
- *Around 40 per cent of management costs are spent on what were traditionally 'non-core' services e.g. initiatives to tackle anti-social behaviour or services to help tenants into work*
- *There is a lack of transparency in the treatment of the administration of the maintenance function within the allowance methodology. Even allowing for differential treatment between authorities it is estimated that expenditure on management exceeds allowances by about 8 per cent and on maintenance by about 3 per cent*

"The Government has concluded that provision nationally for management and maintenance needs to increase by 5 per cent above current levels and that this level of need should be assumed in the financial provision for whichever model is taken forward. However, further work is needed to understand how this is distributed at the local level."

These conclusions are significant in that, unless rents are to be increased significantly, they would necessitate an increase in central government funding for council housing. However, the further work that is needed to understand how this is distributed at the local level suggests that a further dispute about the factors that drive expenditure on management and maintenance can be expected.

The consultation paper states with regard to the major repairs allowance that:

"The review commissioned Building Research Establishment (BRE)¹¹ to update the estimates of the resources required to maintain the stock in a decent condition beyond 2010, looking forward on a 30 year planning basis to 2040, by revising the existing MRA model to bring it into line with Decent Homes. As a result:

- *Prices used in the model have been revised, with some significantly higher and some significantly lower*
- *A number of previously excluded elements (notably lifts, garages, CCTV, TV reception, alarms, play areas, external lighting, walls and fences, and grass and planted areas) have been included*
- *The assumed lifetime for some elements, including kitchens, bathrooms and roof coverings, were changed*

“BRE concluded that the MRA tackling newly arising need should be uplifted by an average of 24 per cent to £825 per unit per year over 30 years, made up of £734 for the main home elements and £91 for lifts and common parts. The asset lifetimes used in this scenario were the most consistent with Decent Homes.

“Regional factors still need to be addressed, and the initial results reported here are subject to caveats and revisions.”

Again this is significant in that the government are proposing putting additional resources into council housing. Again, the addressing of ‘regional factors’ will give scope for dispute between authorities in different regions about the factors that drive expenditure on major repairs.

The consultation paper states with regard to capital resources that:

“After 2010 there will, in addition, be a backlog that requires ongoing capital grant separate from the MRA. The backlog assessed in this report is the backlog of time-expired elements already in place and is estimated to be approximately £6bn.

“Separate analysis has estimated that the costs needed to deal with the non-decent backlog in 2010 will be between £1,400m to £2,900m based upon modelling from local authority predictions, English House Condition Survey (2006) data and Business Plan Statistical Appendix (2006) data.

“Our approach... will be based on combining a national formula (which may be revised) with some scope for local adjustments.”

The government had previously stated that Supported Capital Expenditure would cease to be provided to housing revenue accounts after 2010 as this had been the target date for achieving the decent homes standard. Again, this is significant as the government is proposing increased resources for council housing and again the matter of determining a national formula and the scope for local adjustments is deferred.

The consultation paper finds that local authority landlords have been extending their activities beyond traditional core landlord functions into non-core functions and core-plus functions. The consultation paper therefore states:

“We would prefer to establish a series of principles to enable local authorities to decide whether the service should be paid for through the HRA or the general fund. These decisions should reflect changes to Circular 8/95 and the new role of the Tenant Services Authority.

“The principles we propose are that:

- 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*

“Beyond these standards, if there is ambiguity as to whether a particular cost should fall on the HRA, the test should be ‘who benefits?’ 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.”

These proposals would strengthen the housing revenue account ring fence and in some cases would shift costs from the housing revenue account to the general fund.

The two questions posed on core and non-core services in the consultation paper are:

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

The consultation paper confirms the government’s commitment to the decent homes standard and proposes that this be extended (and funded by government) to include items such as lifts and common areas. Again, this is a commitment to increased expenditure. It also suggests that councils could fund improvements in energy performance through private capital grants, energy savings or contributions from tenants.

The two questions posed on standards in the consultation paper are:

- 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)?
- 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?

The consultation paper favours sinking funds for leaseholders' service charges and poses the following question:

- 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?

While most local authorities do not operate sinking funds in this way I am not aware of any reason why they should not do so under existing legislation.

The section on costs and standards of council housing in the future is chiefly notable in that it proposes a significant increase in expenditure on council housing. This is apparently at odds with one of the original constraints on the study of council housing finance which was that there should be no change to existing government housing budgets. Securing government recognition of the inadequacy of current housing revenue account revenue budgets and capital programmes represents a significant achievement for the sector. However, achieving this will require additional resources either from central government or from significant increases in rents.

Options for Fundamental Reform of the System

This section describes the options for fundamental reform of the council housing finance system. It covers improvements to the current system which the government considers would reduce volatility and improve long term planning – in particular through multi-year subsidy determinations and/or debt allocation. It also sets out an option for a devolved system – self-financing – which would remove the need for redistribution of revenues in return for a one-off allocation of debt. It describes methods for assessing the level of debt each council would be required to support under self-financing and how this debt would be allocated. It also identifies some potential costs to the general fund from debt allocation and how these could be mitigated or funded.

In addition, this section sets out proposals for managing the amount of new borrowing councils might undertake under self-financing, so that this is consistent with overall public borrowing and spending policies. It considers risks arising from self-financing and how these could be managed. It also includes a proposal to end the pooling of capital receipts, subject to a condition that the currently pooled amounts are reinvested locally in housing.

Finally it describes the implications of the proposed changes on disabled adaptations, on transfer and arms-length management organisation policy and programmes and on local housing companies. It also invites views about any impact on equalities.

The consultation paper considers the scope for making improvements to the current system, in particular by introducing three to five year subsidy settlements. Reallocation of debt between authorities is considered. However, the government rejects the option of writing off debt, saying:

“It has been suggested that Government should pay off all the housing debt held by local authorities (currently in excess of some £18bn), leaving rents to support only the day to day running costs of the stock. This debt was incurred in building and maintaining council housing. It is therefore right that it should continue to be serviced from council rents. It would be unaffordable and unfair to ask the general taxpayer to support this debt in future.”

The consultation paper states with regard to self-financing options that:

“Under self-financing, each local authority would keep the money raised locally from rents and use it to run their stock.

“Self-financing would require a one-off reallocation of housing debt in order to put all councils in a position where they could support their stock from their rental income in future. Without this reallocation of debt, some councils would either have to cut services or increase rents. But with this settlement on debt, the review found that rents set in line with current social rent policy would generate sufficient income to sustain the stock in all local authorities at the higher funding levels identified as necessary in Section 3.

“Under self-financing we will move to a sustainable funding model for council housing:

- *Councils will have enough money from the rental income from their stock to be able to service debt over time and to pay for ongoing maintenance at the Decent Homes Standard as well as works needed to maintain lifts and common parts*
- *Because of this certainty of funding councils will be able to plan ahead for works and procure them efficiently; and*
- *Councils will be better able to plan longer term for the management of their assets and manage them on a portfolio basis because they will be able to keep more of the capital receipts from Right to Buy sales and to reinvest this in replacement stock. There should be tangible improvements in service delivery and tenant engagement*

“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.

“The opening debt level would be one based on the tenanted market value of the stock. Under this option:

- *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*

We envisage that the 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.”*

This proposal follows closely the system that was modelled in the self financing pilots except that it is based on a higher level of expenditure than had previously been the case. Despite the observation in the consultation paper that ‘the total debt allocated to councils under self-financing could be higher or lower than the current level of debt in the system’ and the suggestion that total debt levels could increase by up to 40%, it is difficult to see how the increases in expenditure could be achieved unless levels of debt were lower and a significant write off of housing revenue account debt occurred. The assumptions that are made in the business plans will be critical as the self financing model will be able to deliver only the level of expenditure included in the business plan. Careful consideration will have to be given to how these assumptions will be arrived at. The assumptions that are made about rent increases will be especially important and the consultation paper is silent about these.

The consultation paper recognises that self financing could have a negative impact on the general fund and states that:

“The review has identified some potential administrative and transactional costs from this activity:

- *The debt attributable to housing is part of a council’s overall debt portfolio. The council’s general fund charges interest to the HRA at the consolidated rate of interest (CRI) on the amount of debt attributable to housing. New borrowing attributable to either the HRA or the general fund will therefore have an impact on the CRI and on charges to both the HRA and the general fund. A significant increase in debt attributable to the HRA as a result of reallocation of debt could have a positive or negative impact for the general fund, depending on whether the new borrowing is above or below the CRI*
- *There might be premia payable for early repayment of loans*
- *There could be extra debt management expenses incurred in borrowing and managing additional amounts of debt, particularly in councils which are currently debt free*

“Our intention would be to identify any additional costs which would fall on either the HRA or the general fund as a result of the debt reallocation and to provide a settlement that funds these.”

The consultation paper suggests some ways in which these costs could be met.

The consultation paper suggests that there should be a mechanism to reopen the debt settlement in the event of major policy changes.

The consultation paper also recognises that there are detailed accounting and treasury management issues to be worked through if self financing was implemented.

The four questions posed by the consultation paper on self-financing are:

- We propose calculating opening debt in accordance with the principles set out (above)... What circumstances could lead to this level of debt not being supportable from the landlord business at the national level?
- Are there particular circumstances that could affect this conclusion about the broad level of debt at the district level?

- 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?
- 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?

The consultation paper considers that ending the current subsidy system and moving to a self-financing model without constraints could enable a significant increase in prudential borrowing and that if this was not controlled it would be of serious concern to government. The consultation paper states that:

“Allowing unlimited prudential borrowing would be inconsistent with the Government’s overall fiscal and macroeconomic policy. The department would therefore need to ration or limit in some way any additional borrowing over what was implied by the notional initial business plan and would have to adjust its expenditure on other housing programmes to accommodate this.

“The Government is considering how to ensure that the overall fiscal position for itself is not undermined under self financing and the consequences for controls on additional borrowing over the debt profile associated with the original business plan.”

The two questions posed by the consultation paper on borrowing under self financing are:

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

The government clearly does not want the freedoms and flexibilities offered by self-financing to extend to authorities using efficiency gains to fund additional prudential borrowing to improve housing beyond the standards envisaged when the original business plans were prepared and debt transfers made. This position is not unexpected but is inconsistent with the principles of ‘prudential borrowing’ and the stated objective of creating a ‘level playing field’ between local authorities and housing associations. Housing associations have no constraints placed on their borrowing other than the need to remain financially viable.

The consultation paper notes that self-financing would increase the exposure of local authorities to risk – including the risk of increased interest rates. It is envisaged that the Tenant Services Authority would provide the framework for managing these risks.

The consultation paper proposes that local authorities should retain all their capital receipts. However, this would have the implication that Communities & Local Government would have to reduce their capital budgets for other programmes. Consequently, the consultation paper suggests that Councils would be required to invest a proportion of their receipts in new supply or regeneration. There would be a requirement for 75% of receipts to be reinvested in housing.

The three questions posed by the consultation paper on capital receipts are:

- 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)?
- Should there be any particular policy about the balance of investment brought about by capital receipts between new supply and existing stock?
- Are there concerns about central Government giving up receipts which it currently pools to allow their allocation to the areas of greatest need?

The consultation paper suggests that this would result in local authorities being able to fund more disabled adaptations in both the Housing Revenue Account and General Fund but no new resources are offered.

There is a suggestion that funding available for stock transfer will be less advantageous than in the past. The consultation paper states:

“We will only fund transfers at standards materially the same as those proposed for self-financing.”

The government sees a strong future for Arms Length Management Organisations. They consider that under self-financing they should have the financial flexibility and resources to plan ahead and prosper and should be able to utilise their experience and local knowledge to broaden and enhance their role.

The government will work with the Homes and Communities Agency to explore opportunities to make progress across the pilot programme of Local Housing Companies whose plans for new development have been adversely affected by the recession.

With regard to equality impact assessment, the consultation paper asks the following questions:

- 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?

Implementing Reforms

This section covers implementation of reforms. It describes the measures being taken immediately on new council homes in order to remove disincentives to council house building, the powers which would be required to implement self-financing across all councils and stock, and an indicative timetable for implementing the revenue and capital reforms.

The government wishes to move swiftly to have a self financing option up and running. They have already moved to create a self-financing mechanism for local authority new build properties using powers contained in the Housing and Regeneration Act 2008 and secondary legislation.

The Housing and Regeneration Act 2008 also provides for individually negotiated agreements between local authorities and central government to exclude specified stock from the subsidy system. This could be used to introduce voluntary self-financing through the following:

- An agreement about the costs of running the stock at the local level
- An understanding about the operational practicalities of the Housing Revenue Account ring fence in the context of self-financing
- Any significant transaction costs from taking on or writing off debt to be reflected in the proposed debt settlement

The government considers that it would be possible to set out the terms of such an offer by the spring of 2010. However, they do not propose to negotiate with each authority individually and consider that this option would only be possible if all local authorities accepted the terms offered. The Local Government Association is expected to attempt to achieve agreement on this among local authorities but it is unclear whether they will be successful unless authorities believed that an earlier voluntary settlement could be financially more advantageous than a later compulsory settlement.

The government states that if unanimity is not achieved following their offer in spring 2010 primary legislation would be required. The government considers that, subject to parliamentary time, a self-financing system could be legislated for and be in operation from 2012/13.

Reactions to the Consultation Paper

Grant Shapps MP, Conservative Shadow Minister of Housing, was quoted in 'Inside Housing' as saying:

"Everyone agrees that housing finance is urgently in need of reform and we strongly support the principle of the level playing field with councils being able to get the benefits of managing their own housing funds... I will, however, await the detailed proposals and we will be on our guard for hitherto efficient councils being forced to adopt high levels of debt."

This suggests that some form of self-financing could be introduced whether or not there is a change of government in 2009 or 2010. However, it suggests that the Conservatives would be reluctant to redistribute significant amounts of debt.

Ruth Lucas, Policy Consultant at the Local Government Association, was quoted in 'Inside Housing' as saying:

"There are negotiations to be had... and I need to negotiate with my membership. But we are concerned that this paper does not address the issue of any debt cancellation."

Developments in Local Authority Housing Finance 2009

'AWICS' is holding a series of seminars on 'Developments in Local Authority Housing Finance in England' at various venues around England between September and November 2009. The proposals in 'Reform of Council Housing Finance' will feature prominently. More information is available on our website at: http://www.awics.co.uk/RegionalSeminars/ViewCourse/developments_in_local_authority_housing_finance_in_england_09.

We also offer management consultancy support, regional seminars, in-house training and publications that are relevant to those with an interest in local authority housing finance. Details are available on our website at: www.awics.co.uk .

Conclusions

This consultation paper is potentially good news for local authority housing services and their tenants. Not only does it propose the introduction of self-financing but it proposes doing this on the basis of increased funding for housing revenue accounts. This increased funding will be aimed at management costs, maintenance costs, major repairs and achieving and exceeding the decent homes standard.

The proposed mechanism is a one-off redistribution of housing revenue account debt. This would be done by assessing each authority's capacity to raise income and its need to spend and therefore its capacity to fund debt. On the whole, negative subsidy authorities with low (or no) debt would find their debt increased; while positive subsidy authorities with high debt would find their debt reduced. There is also a proposal to introduce capital grants to fund investment.

It had earlier been believed that total housing revenue account debt would remain the same, but the consultation paper states that it is uncertain whether total debt would increase or reduce. The government's debt paper table shows an increase in total housing revenue account debt at the point of redistribution of £7million (40%). However, it is difficult to see how self-financing could be achieved at the proposed levels of expenditure without a significant reduction in total housing revenue account debt and/or significant increases in rents.

There are a large number of complex technical matters to address not least of which is how the increased levels of expenditure are to be calculated at an individual authority level. This could have a significant effect on the geographical distribution of debt and resources following self-financing. The government's proposals for controlling local authority borrowing after self-financing will also require close examination as this implies a departure from the principles of 'prudential borrowing'. Local authorities would therefore be wise to respond to the consultation paper, to participate in discussions about the detailed implementation of self-financing, to lobby for changes that would be in their best interests and to participate in the Local Government Association's attempts to secure agreement on a voluntary system of self-financing.

The consultation paper does not address the question of social rent policy but this is clearly an important part of the picture for local authorities and their tenants. With self-financing any increases in rents would be retained locally so policy on social rents becomes even more important to local authorities.

With implementation planned for 2012/13 it is certain that a general election will intervene. This consultation paper is clearly part of the government's 'offer' to local authorities and their tenants at that general election. The Conservative Party, however, also appears supportive of self-financing but with some reservations about increasing the debt of low debt, negative subsidy authorities. This suggests that they may consider implementing self-financing but with a more limited redistribution of debt.

The implementation of self-financing will also take place in the context of the Comprehensive Spending Review of 2010. It is generally accepted that, whatever party is in power in the autumn of 2010, they will have to make difficult decisions about making significant reductions in expenditure and/or increases in taxation. Whether a significant increase in expenditure in the housing revenue account or a write-off of housing revenue account debt could be contemplated at that time is open to doubt.

However, these uncertainties should not discourage local authorities from seizing the opportunities presented to them by a consultation paper that offers them self-financing and increased revenue and capital resources. After many years of discussion, local authorities should do their best to ensure that self-financing is now finally implemented.

Adrian Waite
July 2009.