Leeds CITY COUNCIL

Agenda Item 11

Originator:	Richard Ellis
Tel:x74291	

Joint Report of the Director of Environment and Neighbourhoods and the Director of Resources

Executive Board

Date: 14th October 2009

Subject: Reform of council housing finance – The Council's response to the Consultation paper / Update on the Future of council housing in Leeds

Electoral Wards Affected:	Specific Implications For:
	Equality and Diversity ☐
	Community Cohesion ☐
☐ Ward Members consulted (referred to in report)	Narrowing the Gap ☐

Eligible for Call In ☐ Not Eligible for Call In (Details contained in the report) √

EXECUTIVE SUMMARY

On the 21st July 2009 the Government published the consultation paper "Reform of council housing finance".

The consultation paper sets out the difficulties with the current housing finance system and explores options to reform it. It seeks views from all social housing stakeholders in respect of the preferred option, which is "to dismantle the current Housing Revenue Account (HRA) subsidy system and replace it with a devolved system of self financing for all local authorities". The closing date for consultation is the 27th October 2009.

This report sets out a brief context to issues the Government is seeking views on, together with the Council's proposed response. It also provides an update on the work currently being done to determine the future of council housing in Leeds.

The consultation is primarily seeking views on principles, and therefore, a detailed assessment of the proposals and their impact on Leeds City Council cannot readily be undertaken.

In summary, however, the Council welcomes the proposals to reform council housing finance and the principles upon which they are based. The self financing model should offer more certainty in terms of funding which could allow more robust planning of works and facilitate more efficient procurement. The proposals could generate sufficient resources to maintain

the decent homes standard, and repay outstanding debt whilst ensuring there are sufficient resources to support Leeds City Council's strategic housing objectives.

1 Purpose Of This Report

1.1 To inform Executive Board of the Council's proposed response to the Government's consultation paper "Reform of council housing finance".

2 Background information

2.1 Current housing finance system

2.1.1 The current housing finance system has been in place for 20 years. Under the 1989 Local Government and Housing Act, each Local Authority is required to keep a Housing Revenue Account (HRA) and is subject to annual housing subsidy determinations.

2.1.2 The current system works on the basis of a "notional" HRA. This means that the Government, based on its own assumptions, makes an assessment of each council's need to spend, levels of rental income receivable and repayment of historical debt. Of the 205 Local Authorities in the HRA subsidy system, 75% pay over resources to the Government, with the remaining 25% receiving a net payment.

2.1.3 Based on the Government assumptions above, in 2009/10 Leeds would need to pay back to the Government almost £45m of its rental income. However, taking into account the Major Repairs Allowance (MRA), which the Council receives to cover its long term maintenance costs, plus the ALMO allowances that Leeds receives to fund the debt associated with the Decent Homes programme, and the grant payable for PFI schemes Leeds is a net recipient of resources.

2.2 The Review of council housing finance

2.2.1 The Housing Finance Review commenced in March 2008 in response to wide acknowledgment that the current subsidy system is complex, lacks transparency and that the annual determinations make it difficult to plan and invest in housing at a local level.

2.2.2 Working groups were set up to examine various aspects of the current system and several pieces of research were commissioned by the Government to inform the review. The conclusions from the research are detailed in the consultation document (published on the 21st July 2009), together with options for reform to the system.

2.2.3 All social housing stakeholders have been asked for views on the consultation paper, particularly on the preferred option which is "to dismantle the current Housing Revenue Account (HRA) subsidy system and replace it with a devolved system of self financing for all local authorities".

2.2.4 Responses to the consultation are due back to the Government on the 27th October 2009. Given this deadline, there is insufficient time for Call In processes to be concluded. This means that the report is not eligible for Call In.

2.2.5 In addition to seeking views on the self financing proposal, the consultation paper sets out 17 specific questions grouped into 6 areas – core and non core services, standards and funding, leaseholders, debt, capital receipts and equality impact assessment. These questions are attached at Appendix 1. Section 3 below deals with each area in turn. It sets out where necessary, a brief context to each issue, followed by the Council's proposed response ***(shown in italics)***. In formulating the proposed response, account has been taken of the views of a number of bodies representing the interests of local housing authorities and tenants. (Appendix 2).

3 Main Issues

3.1 The move towards a devolved self financing system

3.1.1 The Government's preferred option is a self financing option with each local authority retaining its rental income to deliver the housing services to tenants and maintain the stock. This is subject to a one-off distribution of debt between councils.

3.1.2 The Government makes it clear within the consultation document that it is not proposing any changes to rent policy and that rent convergence will continue.

3.1.3 Nationally, the housing debt is £18bn which the Government has stated will not be written off. Costs associated with servicing this debt are currently met through the subsidy system but as this debt is not equally distributed, councils with higher debt get more support. A move to a self financing model will require a one-off reallocation of national housing debt in order to ensure all councils are in a position where they can support their stock from rental income. Without this redistribution of debt, self financing will not work. (3.5 deals with this proposal in more detail).

3.1.4 Leeds has the highest level of debt in the country, partially due to its success in attracting additional funding for Decent Homes and PFI schemes.

The Council agrees that the current HRA subsidy system is complex, hard to understand and lacks transparency, as it is based on notional assumptions in respect of spending needs in order to reallocate resources around the country. This has impacted upon local accountability for housing finance. The annual nature of the process also means that long term planning is difficult, because it is problematic to project future subsidy determinations.

The Council welcomes the principle of a move towards a self financing model, as it should offer more certainty in terms of funding which will allow for better planning of works and facilitate more efficient procurement. This in turn, will facilitate more robust asset management strategies.

The Council notes that there is no proposal to change the rent convergence policy or to allow councils to determine their own rent increases. This effectively means the Government will retain control over rents. This, together with the lack of a certain timeframe for convergence, may impact on long term planning and strategies.

The consultation does not provide sufficient details to calculate what the specific implications are of the self financing option for Leeds. Currently, Leeds is a net recipient of resources and under the current system, this flow of resources from Government to Leeds is set to increase as a result of additional PFI grant for Beeston and Holbeck, Little London and Lifetime Homes. It is not anticipated that RTB receipts will recover sufficiently to offset this flow of resources. Clearly, it is important to the Council that any proposals for the reform of the current subsidy system should not be to the financial detriment of Leeds.

3.2 Core and Non Core Services (Questions 1 & 2 - Appendix 1)

3.2.1 The research recognises that the guidelines in respect of what can be charged to the HRA i.e. "the ringfence" need revision, however, it appears that the Government does not intend to be prescriptive but provide guidelines/principles enabling authorities to respond to local demands with the ultimate test for what costs fall to the HRA being who benefits.

3.2.2 The principles set out in the paper include: - retaining a separate landlord account for revenue and capital expenditure; that services provided by a landlord should be paid for through the HRA; and, that some defined services, e.g. housing advisory services should be paid from the General Fund. In addition it proposes that standards set by the Tenants Services Authority (TSA) will fall on the HRA.

The Council welcomes the continuation of the ringfence and supports the "principle based approach" which will allow local flexibility. There is however, a lack of clarity regarding the premise that non core services such as anti social behaviour should be provided by the landlord but funded from other sources. It is unclear what these sources are. Whilst the Council accepts that they are a key service which should be funded from the HRA, the lack of freedom in rent setting may lead to core landlord services being underfunded.

3.3 Standards and Funding (Questions 3 & 4 - Appendix 1)

3.3.1 The paper confirms the Government's commitment to delivering and maintaining the Decent Homes Standard and states that future funding will be provided to at least maintain this standard. In addition, funding will be provided for lifts and communal areas. Additionally, there is a commitment to energy efficiency in housing, with new financing mechanisms to be developed.

3.3.2 Research commissioned as part of the review concluded that the Major Repairs Allowance (MRA), which is the allowance to maintain the condition of the housing stock, should be increased on average by 24%. It was also concluded that nationally there is a an estimated backlog of approximately £6 billion for time expired elements in addition to a backlog to achieve decency of between £1,400m to £2,900m. The Government proposes that this will be funded via capital grant.

The Council welcomes the recognition of the scale of the challenge, and the increase in MRA, however it would question whether a 24% increase is sufficient given that it has been previously reported that MRA needs to increase by an average of 40%. Furthermore, the 24% uplift represents a national average and as no detailed information is available regarding the way in which this will be distributed at a local level, it is difficult to determine the impact upon the Council.

The Council would urge the Government to introduce revised MRAs with effect from 2010/11, particularly as it is likely that the introduction of any proposed changes to the current system will not be implemented until 2012/13 at the earliest, unless all councils agree to the redistribution of debt, which is considered to be highly unlikely.

The Council welcomes the Governments commitment to delivering and maintaining the Decent Homes Standard and the proposal to recognise the previous omission of lifts and common areas. However, there is a lack of clarity as to how the Government commitments regarding additional funding will be resourced and impact on the Council.

The Council currently has three PFI schemes (all at different stages). It is unclear how funding in relation to these will be treated under the proposals. The Council's view is that it is essential that satisfactory arrangements must be put in place to ensure the continuation of support for these schemes, and would like a commitment from the Government that any changes to the overall system will not have a detrimental impact on the Council with regard to the future funding.

The Council notes the proposal to fund backlog from capital grant. On this, the Council has a number of points/questions to raise: -

(a) Capital grant has traditionally been less flexible than other forms of funding i.e. it has to be used in the year it is received. It can also be cumbersome to apply for. The Council would like the Government to consider allowing greater flexibility in respect of these grants and make the process for application and receipt as straightforward as possible.

(b) How will these grants be funded – are there likely to be additional resources for housing or will grants be top sliced from the overall national resources for housing?

(c) Will funding for disabled adaptations to council properties be funded from capital grants? This is a growing area within Leeds and the current proceeds from Right to Buy (RTB) sales are insufficient to meet the demand.

3.4 Leaseholders (Question 5 - Appendix 1)

3.4.1 The paper proposes allowing local authorities to set up sinking funds for works to leaseholders' stock. This is to enable the smoothing of the costs of repairs and improvements which can be quite significant.

The Council does not currently operate a sinking fund for leaseholders. It has no objection to making the operation of a sinking fund optional to leaseholders, however, it would not welcome this being imposed under the terms of a lease. Existing leases do not provide for the levying of a contribution, and changes to these would require agreement from leaseholders which is considered unlikely. The establishment of a sinking fund has been raised at leaseholder forums in the city and there was no support for operating such a fund. The Council currently offers a number of loan options which are considered to meet the various financial means of individual leaseholders.

The Council believes that there are several practical difficulties with operating a sinking fund, such as determining the right balance between "adequate" contributions and affordability, (particularly if works do not progress as planned), issues arising when leasehold properties are sold on and the additional administration costs involved.

3.5 Debt (Questions 6 to 11 - Appendix 1)

3.5.1 The Government has made it clear that the £18bn national housing debt will not be written off. It is also clear that the move to a self financing model will require a one-off reallocation of housing debt in order to put all councils in a position where they could support their stock from rental income (see 3.1.2). Although the Government have given no indication of how debts will be redistributed, it is almost inevitable that as Leeds has the highest level of debt in the country, some of this will be transferred to other councils.

3.5.2 The Government plans to develop a national model to calculate how much debt each council would be able to service. This model will work along similar lines to the model used for stock transfers whereby assumed Tenanted Market Values (TMVs) of properties will be adjusted for estimated management, repair and maintenance costs in order to arrive at an amount which could be considered appropriate to supporting a given level of debt liability.

3.5.3 Research supporting the review concluded that current spending on management and maintenance was nationally on **average** 5% above the current allowances. This will be reflected in the calculation outlined above as will the 24% increase in MRA (see section 3.3.2).

The Council welcomes the increase in management and maintenance levels. However, as the 5% uplift represents a national average with no detailed information available regarding the way in which this will be distributed at a local level, it is difficult to determine the impact upon the Council.

The Council would urge the Government to introduce increased allowances with effect from 2010/11, particularly as it is likely that the introduction of any proposed changes to the current system will not be implemented until 2012/13 at the earliest. It is proposed that this is funded from the rent surpluses in the system.

With regard to the calculation of debt, the Council has a number of points: -

The consultation paper does not give any indication of critical assumptions which will be used in the model to calculate debt for individual authorities.

The proposal that the pooling of debt between the HRA and General Fund should continue is welcomed by the Council, subject to an assurance from the Government, that the reallocation of debt will not result in a negative impact on the Council's General Fund.

Decisions on reallocation of debt must be taken with due regard to how loan portfolios of individual authorities will be affected.

The proposed changes must be announced with sufficient time to enable local authorities to identify and seek approval to any prudential indicators that need to be amended.

3.6 Capital receipts (Questions 12 to 14 – Appendix 1)

3.6.1 Currently, 75% of all capital receipts from Right to Buy (RTB) sales are paid over to the Government, with the other 25% being retained by councils to fund either HRA or General Fund expenditure. It is proposed that councils retain 100% of their capital receipts. It is however, the Government's preference that 75% is used for housing, with the split of the remaining 25% between the HRA and General Fund down to local discretion.

3.6.2 Had this proposal been introduced in 2004/2005, then £66.9m of capital receipts would have been available to Leeds City Council rather than the £16.8m it was allowed to retain. With the decline in RTB sales, the comparative figures for 2008/2009 would have meant that £5.1m would have been retained rather than the £1.3m that was received.

The Council welcomes the proposal that the Local Authority retains 100% of the capital receipt but would prefer there to be greater flexibility in respect of local discretion.

Given this proposal does not require any primary legislation, the Council would ask the Government to amend the Capital Financing Regulations in order that it could be implemented as soon as possible.

3.7 Equality Impact Assessment (Questions 15 to 17)

3.7.1 The Government have asked local authorities to assess whether any of the proposals in the paper would have a disproportionate impact on particular groups of people.

It is the Council's view, that in general terms the proposals would not have a disproportionate impact on particular groups of people. However, the implicit proposal that disabled adaptations should be funded via capital receipts may, given the continuation of declining RTB sales, lead to insufficient resources to meet demand.

3.8 Additional issues

3.8.1 **Borrowing under self financing**
Council housing funding is within the definition of public sector spending and as such the Government proposes to limit "additional" borrowing by councils.

The Council notes the proposal to limit "additional" borrowing, however, this seems in conflict with the benefits of the proposed reforms particularly in relation to the ability to plan long term. It is also unclear how the Government plans to do this i.e. by annual announcements or as part of spending reviews?

3.8.2 **Council New Build**
Using powers in the Housing and Regeneration Act 2008, newly built or newly acquired dwellings will be excluded from the HRA subsidy system. For Leeds this would make the purchase of new build properties more affordable, as the Council would retain all the rental income derived from letting these properties.

3.8.3 **Timescales**
The consultation period closes on the 27th October 2009. The Government has indicated that it would be possible to implement the changes from spring 2010 subject to gaining the agreement of **all** Authorities in the current system to sign up to self financing. Given the current lack of detail, particularly around redistribution of debt this is extremely unlikely. Without total consensus, any changes will require primary legislation, and therefore the general view is that self financing proposals will not be operational until 2012/13 at the earliest.

4 Impact on council housing and Leeds ALMOs/BITMO

4.1 The potential implications of the reform of council housing finance is a key consideration in the work currently being done to determine the future of council housing. The scope of this work was agreed at the January Executive Board with a recommendation to carry out an appraisal around four main options:

1. Return the stock to the Council

2. The continuation of an ALMO model

3. Transfer the ownership of the stock to a Housing Association created for the purpose of the transfer
4. A mixed approach that could involve ALMOs, PFI, transfer and return to the Council parts of the stock.

4.2 Significant progress has been made. The Council, in conjunction with the ALMOs/ BITMO, has targeted resources to bring the stock condition information up to the level required to carry out the detailed financial modeling and option appraisal. The aim is to complete the detailed stock condition work by the end of November 2009.

4.3 A project board has been set up to manage the work needed to carry out the review. Clear governance and communication arrangements are in place to oversee the project effectively. Ultimate decision making responsibility rests with the Council and there will be reports to Executive Board at all key stages of the project.

5 Implications for Council Policy and Governance

5.1 There are no specific implications at present given that the Government are seeking views on proposals. As more details emerge the implications for the Council will be considered.

6 Legal and Resource Implications

6.1 Specific legal and resource implications are covered in the section 3 of this report.

7 Conclusions

7.1 The Council welcomes the proposals to reform council housing finance and the principles upon which they are based. The self financing model should offer more certainty in terms of funding. This will allow for better planning of works and facilitate more efficient procurement. This in turn will facilitate more robust asset management strategies. The proposals could generate sufficient resources to maintain the decent homes standard and repay outstanding debt, whilst ensuring there are sufficient resources to support Leeds City Council's strategic housing objectives.

7.2 Whilst welcoming the proposals, the lack of detail in the consultation paper makes it extremely difficult to assess the impact of the proposals upon the Council. Currently Leeds is a net recipient of resources and this flow of resources from Government to Leeds is set to increase as a result of receipts of PFI grant for Beeston and Holbeck, Little London and Lifetime Homes. Clearly it is important that any proposals for the reform of the current subsidy system should not be to the financial detriment of Leeds.

7.3 There is a lack of clarity regarding the Governments commitment in terms of additional funding and grant for capital investment, and how this sits alongside the self financing principle. Equally it is not clear how PFI grant will be dealt with in the proposals.

7.4 The announcement that newly built and newly acquired properties, available for social rent, will be outside the current subsidy regime will contribute towards improving the affordability of these properties. The non pooling of capital receipts is less attractive now, given the low level of RTB sales, than it was few years ago.

8 Recommendations

8.1 That Executive Board agree the proposed response to the Governments consultation paper "Reform of council housing finance".

Appendix 1

List of consultation questions

Core and non-core services

1. 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 in paragraph 3.28?

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

Standards and funding

3. 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)?

4. 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?

Leaseholders

5. 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?

Debt

6. We propose calculating opening debt in accordance with the principles set out in paragraphs 4.22 - 4.25. What circumstances could lead to this level of debt not being supportable from the landlord business at the national level?

7. Are there particular circumstances that could affect this conclusion. about the broad level of debt at the district level?

8. 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?

9. 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 o be the mechanism for supporting interest payments. Are there any technical issues with this?

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

11. 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?

Capital receipts

12. 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)?

13. Should there be any particular policy about the balance of investment brought about by capital receipts between new supply and existing stock?

14. Are there concerns about central Government giving up receipts which it currently pools to allow their allocation to the areas of greatest need?

Equality impact assessment

15. 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?

16. What would be the direction (positive or negative) and scale of these effects and what evidence is there to support this assessment?

17. What would be necessary to assemble the evidence required?

Appendix 2

Reference documents

1. Reform of council housing finance - Consultation - Department for Communities and Local Government - July 2009
2. Reform of council housing finance – Consultation and briefing paper - CIPFA Housing Advisory Network - September 2009
3. CLG HRA Finance Reform Paper – SECTOR – 16th September 2009
4. The reform of council housing finance – Robin Tebbutt (HQN) – September 2009
5. HRA Reform : the really big issues – CIH Briefing - September 2009