

<u>Committee and Date</u>
Cabinet 18 <sup>th</sup> November 2009
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<u>Item/Paper</u>
<b>9</b>

Public

## **CONSULTATION ON REFORM OF COUNCIL HOUSING FINANCE**

### **Responsible Officers**

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### **Summary**

#### **1. Purpose of Report**

- 1.1 To outline the main proposals made by the Government for reform of Council Housing finance as identified in the recent Communities and Local Government consultation paper, and to advise Members of the technical response submitted by this Council on 27 October 2009 following consultation with the Leader and Portfolio Holder. If Members wish to change any aspects of the response we will submit a revised version for consideration.
- 1.2 This is a significant issue from a Treasury Management perspective therefore advice has been sought from the Council's Treasury Advisor, Sector Treasury Services. Housing debt inherited from Oswestry Borough Council totalled £1.1 million, Bridgnorth District Council were debt free. Under the new proposals Shropshire Council could inherit around £60 million of debt.

#### **2. Recommendations**

- 2.1 The report and response to the consultation be noted.

#### **3. Background**

- 3.1 On 22 July 2009 the Government published its consultation paper on the outcome of the review of Council Housing Finance following the announcement made to parliament on 30 June by the Housing Minister John Healy to set out plans to radically overhaul the financial system for Council Housing in England.
- 3.2 The Government's proposal is to dismantle the current national housing system and replace it with one based on a self financing Housing Revenue Account (HRA) following a one-off adjustment to the debt held by each HRA.

3.3 Under the current arrangements, all Local Councils that continue to directly provide social housing fall within the Housing Subsidy System. This is an annual determination made by Communities and Local Government (CLG) concerning the financing of Council Housing. In simple terms CLG make an annual assessment of the estimated cost to manage and maintain the housing stock, the cost to service the assumed HRA debt and an estimation of the level of income that will be generated from rents. The difference between the total assumed expenditure and income is the value of subsidy appropriate to any individual authority. Where estimated costs exceed income, the authority will receive an annual subsidy payment from CLG. Where estimate income exceeds costs, a payment will be demanded by CLG (negative subsidy). Currently 75% of local authority housing providers including Shropshire Council are in negative subsidy. It is acknowledged that not all of the money that is paid by way of negative subsidy is redistributed within the system, and the Government currently gain annual benefit from the overall surplus of funds.

3.4 A significant feature of the subsidy system is the assumption made on the level of notional debt carried by each housing authority. The assessment of this debt is complex and based on historical information determined largely on which authority was building at what time under which financing regime. The total level of notional debt is around £18bn and is unevenly distributed with higher levels in London, the North West and in Metropolitan Councils.

3.5 The main proposal within the consultation document is that this debt would be distributed amongst all housing authorities in a one-off settlement based on a calculation of the value of the landlord business. In practice this would mean that authorities who are currently in negative subsidy are likely to receive a debt allocation and those authorities that currently receive subsidy would be given a one-off payment. In return the annual determination for payments to or from CLG via the subsidy system would end and housing authorities would meet the costs of managing and maintaining their housing stock and servicing the HRA debt through retention of all rent income. It is suggested that in broad terms the annual cost of servicing the debt allocation would equate to the saving in negative subsidy payments and thus be cost neutral. Any subsequent efficiency savings could potentially create headroom in the HRA to allow for investment in service improvements.

3.6 Other issues identified in the paper include:

- A proposal that local authorities retain 100% of the capital receipts arising from the sale of council homes under Right to Buy. Currently 75% of all such receipts are paid to the Government.
- The current backlog of repairs estimated at £6bn be addressed by capital grant programmes.
- Views are sought on the ring-fence that prevents cross subsidy between the HRA and the General Fund.

- Views are sought on a number of technical accounting matters concerning the treatment debt and loan repayment and the consequences on the HRA and General Fund.

3.7 Whilst the paper gives indicative proposals for the method of determining the value of the landlord business which would in turn influence the level of debt allocation, until more specific details are available it is not possible to calculate the figure for any individual council. As such the response to the consultation is restricted to the principles rather than the specific consequences.

3.8 The timetable for change indicates a likely implementation date of 2012/13.

3.9 The consultation paper sought comments on 17 specific questions and responses were required by 27 October 2009. A copy of the response submitted by this Council is attached as appendix 1.

#### **4. Position for Shropshire Council**

4.1 As stated in paragraph 3.3 above, Shropshire Council is in negative subsidy and based on the latest estimate, the amount payable in the current financial year will be £4.68m. To put this in context, the total estimated income from tenants rent for the year is £13.519m which means around 35% of Shropshire rent is taken by CLG via the subsidy system. Under the consultation paper proposals all of this income would be retained, but new debt would be allocated and the subsequent revenue cost of supporting that debt would be carried by the HRA.

4.2 Until further details are available it is not possible to determine the level of debt that would be allocated to this Council under these proposals. An indicative figure based on general assumptions would suggest that this could be in the region of £50m to £60m. However, these figures must be viewed with caution at this time and may be subject to significant variation in light of future developments and the availability of more specific information.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

CLG consultation paper on the reform of council housing finance.

**Human Rights Act Appraisal**

The recommendations contained in this report are compatible with the provisions of the Human Rights act 1998.

**Environmental Appraisal**

Not applicable.

**Risk Management Appraisal**

Not applicable.

**Community / Consultations Appraisal**

Not applicable

**Cabinet Member:**

Cllr Keith Barrow, Cllr Malcolm Price

**Local Member**

All Members

**Appendices**

Appendix 1: Response to Consultation Paper.