(8)

Kettering
Borough Council

TENANTS FORUM

10th March 2011

A NEW FUNDING SYSTEM FOR COUNCIL HOUSING

The Government has announced that it will abolish the Housing Revenue Account (HRA) subsidy system and introduce a new funding mechanism for council housing in April 2012.

The objectives of these reforms, in the words of the Government's policy document, are:

- To give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long term and to drive up quality and efficiency.
- To give tenants the information they need to hold their landlord to account, by replacing the current opaque system with one which has a clear relationship between the rent a landlord collects and the services they provide.

The main features of the new system are:

- A new self-financing system will be introduced in which council landlords will support their own stock from their own rent income and will no longer be part of an annual subsidy relationship with central Government.
- The national housing debt of £6.5 billion will be transferred from the Government to 160 stock-retaining local authorities.
- The amount of debt to be transferred to individual councils will be calculated on the basis of a projection of future rents and costs over a 30 year period.
- 75% of capital receipts arising from future Right to Buy sales will go to the Government. (This is a change from the original proposals where local authorities would have been allowed to retain all the income from sales.)
- A cap on the total amount of housing debt that a local authority can take on will be set at the start of the new funding regime.
- Rents will continue to be subject to the rent restructuring regime with rents converging by 2016.
- There will be uplifts in expenditure allowances of around 14% including a new allocation for aids and adaptations.

What does self-financing mean for Kettering?

Under the Government's proposals, the Council will take on debt of £68.8 million which equates to £18,048 per dwelling. In comparison, under the current system, it is estimated that the Council would have been required to make payments of £93 million over that time.

Business Plan

The Council will need to prepare a long-term business plan which will set how rent income over the next 30 years will be used to fund expenditure including debt repayments and the costs of maintenance and management. The business plan will assist the Council and tenants in making key business decisions and will also play a role in mitigating the risks to which the service will be exposed.

It is clear that self-financing and the discipline of business planning will place the management of council housing on a more business-like footing than was possible under the HRA subsidy system.

Pros and cons

Both the Council and its tenants have previously expressed concerns about different aspects of a self-financing regime.

Fundamentally, the system will remain vulnerable to changes in national political priorities over the next 30 years. The Government has stated that it will reserve the right to reopen the debt settlement in certain circumstances and this will no doubt have an impact on the viability of the self financing deal.

In addition, a number of key variables will remain outside the Council's influence. In particular, the Government will retain control of rent levels through the rent restructuring regime and will decide annual rent increases. Also, the 30 year self-financing business plan would be affected by variations in interest rates, house sales, bad debts, general inflation and increases in construction costs. In effect, the Council would have to manage the risk associated with these key variables through the business plan.

More positively, the new system will offer some significant advantages for both the Council and its tenants. The volatility and uncertainty that were part and parcel of the HRA subsidy regime will be no more. Instead we will be able to plan stock investment and service improvement over the long term with some confidence that the resources to deliver our plans will be available.

For tenants, a more open and transparent regime will enable them to hold the Council to account for the delivery and cost of services. Tenants will also, for the first time, be able to take part in real decisions as to how their rent payments will be used.

A criticism of the HRA subsidy system has been that it has been underfunded over a long period. This has been recognised by the Government who are increasing management, maintenance and major repairs allowances, and introducing a new allowance for aids and adaptations. With over 60% of our tenants aged over 60 and many having a longstanding illness or disability, the additional allowances for aids and adaptations will help to ensure that this important area of work is better resourced in future. The impact of these increases will be to hold down the valuation of the stock, reduce the amount of debt taken on by the Council and ultimately increase the proportion of rental income available for management, maintenance and stock investment.

Conclusion

After much debate over the past two years, the Government has now pledged to introduce a more transparent and accountable structure for funding council housing.

In the early years of the new regime, there will be limited ability to invest more in the housing stock or to pay for improved services but, as debt is repaid, there will be more headroom to do both.

Although there are concerns about how the system will operate in practice, the new arrangements for funding council housing represent a major step forward. The new system will see the Council's housing service operating more like a business and being increasingly accountable to tenants for its performance.

John Conway
Head of Housing