

# **COUNCIL BUSINESS COMMITTEE**

## **RESPONSE TO CONSULTATION PAPER – “COUNCIL HOUSING: A REAL FUTURE” 24 June 2010**

### **Report of Head of Council Housing Services.**

#### **PURPOSE OF REPORT**

In March 2010 the Department for Communities and Local Government has issued a prospectus and consultation document which outlines proposals for reforming Council Housing Finance. The main feature of the proposal is to dismantle the current Housing Revenue Account (HRA) Subsidy System and replace it with a devolved system of funding and responsibility. Responses to the consultation are required by 06 July 2010.

**This report is public**

#### **RECOMMENDATIONS**

- (1) That members determine the council's response to the consultation paper.

##### **1.0 Background Information**

- 1.1 In July 2009, the former government issued a consultation paper – “Reform of Council Housing Finance” which sought local authorities' views on outline proposals to reform the ways council housing is financed. This was in response to growing concerns relating to the unfairness of the existing HRA Subsidy System. Under the current arrangements, of the 205 stock retaining authorities, 153 are deemed to be operating with a notional surplus and were therefore making contributions into the system (by paying a “negative” subsidy) and 52 are in a notional deficit and therefore receiving a “positive” subsidy.
- 1.2 Lancaster is currently paying a negative subsidy of £1,574,500 to the government this year, and that figure is increasing year on year.
- 1.3 The main thrust of the reform's proposals is that there would be a “one off” debt redistribution which, in effect, would result in some local authorities agreeing to take a debt in lieu of an ongoing requirement to pay negative subsidy, whilst those currently receiving subsidy would receive a one off payment. The net result of this redistribution would be that all authorities would become self financing.
- 1.4 The council's response to the original proposal was supportive, subject to further details being received relating to the methodology and assumptions to be used in calculating the level of debt we were expected to take on.

## **2.0 Current Situation**

- 2.1 In March 2010, a further consultation document and prospectus was issued (“Reform of Council Housing Finance”). This provides further details of how the debt redistribution arrangements are likely to work. The full consultation document is 60 pages long and can be accessed via the Communities and Local Government Website ([www.communities.gov.uk/publications/housing/selffinancingprospectus](http://www.communities.gov.uk/publications/housing/selffinancingprospectus)).
- 2.2 In order to ensure that the implications for the Council could be fully understood, consult CIH Ltd (a financial consultancy operated by the Chartered Institute of Housing) were engaged to work alongside officers. A briefing note is attached (**Appendix A**) which summarises the main features of the prospectus, and, in particular, how they would impact upon Lancaster. The main message is that, although the council would be required to take on £24.168m of new debt, the Housing Revenue Account would gain significantly from the proposals and, in the longer term, would be able to build up substantial balances.
- 2.3 As part of the latest consultation process, local authorities have been asked to respond to six specific questions. Officers have produced a draft response (**Appendix B**) and members are invited to comment upon its contents and to agree a final version which then needs to be submitted to the Department of Communities and Local Government by 06 July 2010.
- 2.4 At this stage, it is not clear whether the reforms will be progressed by the new coalition government, although the strong indications are that there is support to review the current arrangements.

## **3.0 Details of Consultation**

- 3.1 The District Wide Tenants Forum has been consulted regarding the general principles of the proposed HRA reform.

## **4.0 Options and Options Analysis (including risk assessment)**

- 4.1 Option 1: to support the proposals contained within the consultation paper and prospectus, including the principle of a “one off” debt redistribution.
- 4.2 Option 2: to oppose the principles contained within the consultation paper.
- 4.3 Option 1 is the preferred option as it can be clearly demonstrated that, even allowing for debt redistribution, the long term financial benefits to the Housing Revenue Account will be substantial.

## **5.0 Conclusion**

- 5.1 Local authorities have been lobbying for a number of years regarding the need to change the existing HRA Subsidy System. Under the current arrangements, the council will be facing ongoing increases in our “negative” subsidy which, ultimately, could result in the HRA Business Plan becoming unsustainable. Whilst, for many authorities, the principles of debt redistribution appears unpalatable, it is clear that it does provide an opportunity to progress the much needed reforms and, for Lancaster, will provide very clear long term benefits.

## **CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

Under the current “negative subsidy” arrangements the council could have difficulties in delivering its long term investment programmes. The proposals for debt redistribution and self financing will introduce a greater level of certainty and will ensure the sustainability of the housing stock.

## **FINANCIAL IMPLICATIONS**

The financial implications for the council are included within the briefing paper attached to the report. It should also be noted that, at this stage, the proposals are only at consultation stage and a more detailed report will need to be presented to members for consideration should the reforms move forward.

## **SECTION 151 OFFICER’S COMMENTS**

The Section 151 officer would reiterate that whilst at this stage the proposals are for consultation and do not constitute a formal offer, should the new Government decide to progress with dismantling the current subsidy system on the basis outlined, this would present real benefits and opportunities for the City Council. Whilst there are some more minor elements of the proposals for which the implications are as yet unclear (such as the treatment of other various costs under ring-fencing), it is considered that there would be sufficient room to manage these without undermining the proposals generally. That said, should Government choose to proceed on a different basis, this could give very different results. Further appraisal work would be undertaken once Government has determined the way forward

## **LEGAL IMPLICATIONS**

There are no legal implications at this stage.

## **MONITORING OFFICER’S COMMENTS**

The Deputy Monitoring Officer has been consulted and has no comments to make.

## **BACKGROUND PAPERS**

Reform of Council Housing Finance (CLG, July 2009)  
Council Housing : a real future (CLG, March 2010)

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