

**EXECUTIVE**

**DATE:** 26<sup>th</sup> OCTOBER 2009  
**SUBJECT:** CONSULTATION ON REFORM OF THE COUNCIL HOUSING FINANCE SYSTEM  
**REPORT BY:** DIRECTOR OF HOUSING AND COMMUNITY LIVING  
**CONTACT OFFICER:** TREVOR MORROW 01582 546202

**IMPLICATIONS:**

LEGAL	✓	STAFFING	
EQUALITIES	✓	COMMUNITY SAFETY	
FINANCIAL	✓	RISKS	✓

**OTHER**

**CONSULTATIONS:**

<b>COUNCILLORS CONSULTED</b>	<b>SCRUTINY COMMITTEE CONSULTED</b>
<b>STAKEHOLDERS CONSULTED</b>	<b>OTHER</b>

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**WARDS AFFECTED: ALL**

**LEAD EXECUTIVE MEMBER(S): Councillor Shaw**

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**RECOMMENDATION(S)**

1. Executive is recommended to agree the response to the government consultation on the reform of the council housing finance system.

**REPORT**

**Background and Current System**

2. Currently there are approximately 8,200 Council properties in Luton. The funding for housing is managed within a separate fund known as the Housing Revenue Account, which is ringfenced for Council housing alone. Each year central government decides on the level of funding required for each local authority with housing responsibilities, issuing a determination that covers

both the expected expenditure on housing (maintenance and management costs) and the expected income from rents and other sources. It then redistributes funds from authorities it considers relatively well off to those in need. Under this system, Luton will pay into the government £5.3million in 2009/10, a figure that is projected to grow over time.

### **Proposed Changes**

3. The fundamental change being proposed by the government is the move from a national system controlled by central government to one where each local authority has control over its own housing costs and income, that is, a self-financing system.
4. This would seem to be advantageous to Luton in that we are currently paying in £5.3million to the national system, which we would be able to retain locally. However, some of the other proposed changes will have a detrimental impact.
5. The other changes that the government are proposing include:
  - In return for allowing Councils to operate a local system, the government is proposing a one-off distribution of the national housing debt to Councils as the government will no longer have the ability to pay the interest on this debt. The total national housing debt is estimated at £18billion. No detailed proposals have yet been announced on how this would be distributed between Councils. However, the Association for Retained Council Housing (ARCH) have carried out some modelling on different scenarios. They estimate that Luton would have to take on debt of between £90million and £168million in return for leaving the national subsidy system. The Council would then need to repay this debt over the next 30 years. ARCH and other bodies are lobbying the government to reduce or write off the Housing debt. Any such decision would reduce or remove the requirement for Luton to take on debt. However the achievability of this is unlikely given the national economic climate and the overall level of government debt.
  - All receipts from the sale of Council Houses under Right to Buy would be retained locally. At the moment, 75% of the value of the receipt has to be paid back to central government. The 75% would have to be used for housing, leaving the existing retained 25% available for the general purposes of the Council.
  - The government wishes to strengthen the HRA ringfence to ensure that rents are not used to subsidise other activities. In particular, the government has identified a number of things paid for through the HRA that is says are benefiting the area generally rather than tenants in particular or are non-core services, including initiatives to tackle anti social behaviour and services to help tenants into work. The government view is that these make up to 40% of the total revenue spend within the HRA and could be transferred to the General Fund, at least in part if the benefits are shared between tenants and the wider community.

6. There is also a separate review of the rent policy. Currently, the government controls how much each Council can increase rents each year. It has had a longstanding desire to equalise the rents charged by Councils and by Housing Associations (as Council rents are generally lower) and had been gradually increasing rents for some years with the aim of convergence. This review has not yet been finalised but could have a substantial impact on the income the Council can raise from rents.

### **Detailed Consultation Questions and Proposed Responses**

7. It is only proposed to respond to those detailed consultation questions that officers believe have a significant impact on Luton. These are detailed below:

- 1) The government has said that the current system does not fully fund the costs of management and maintenance of housing stock. In fact, spend in Luton has been 13% higher than the allowances in 2007/08 and 2008/09 and is projected to be 22% higher in 2009/10. We would welcome the 5% increase in assumed management and maintenance costs at the national level but would comment that this is still inadequate to fund real needs. We would also respond that the revised allowances should be introduced from 2010/11, pending any future amendment to the subsidy system.

- 2) The current subsidy system does not allow for the costs of maintaining communal areas. This is a particular problem with flats where there are substantial costs in maintaining lifts in particular. We would welcome the proposed addition of items previously excluded from the Major Repairs Allowance, the change to component-assumed life cycles, and the associated 24% average increase. This is a reduction from the 40% increase that earlier reports suggested was needed which we consider to be more accurate and would thus request that the 40% increase should be used. (CLG question 3).

- 3) Currently, leaseholders can be hit by large bills for major works, e.g. re-roofing. To assist repayment, Luton has a policy which allows these payments to be made in installments over a period of three years. The government is proposing allowing local authorities to set up sinking funds for works to leaseholders' stock and amending HRA rules to permit this and is asking if there would be any local barriers to this.

In principle, we would welcome the flexibility to be able to set up a sinking fund but would wish any associated administrative costs to be deductible from the interest on the fund. We would also need to gauge the views of our leaseholders and review in detail any policy / technical / equality implications. (CLG question 5)

- 4) The current system does not provide any funding for disabled adaptations and there are no plans to change this. We would wish to respond that funding for adaptations is an essential part of the system and funding should be allocated to this.

5) We would wish to support the government's proposal to provide future capital grants to pay for backlog repairs after 2010.

6) The consultation asks for views on the proposal for authorities to take on additional debt. We would object to the principle of taking on additional debt as Luton has been paying into the housing system for some years. Should a requirement to take on debt be essential to a change in the system, the way the debt allocation is calculated will be crucial and it is disappointing that no details have been released by the government on this.

7) We would welcome the commitment by the government to ensure no net impact on the General Fund and to undertake further work on this (CLG questions 8 and 9).

### **LEGAL IMPLICATIONS**

8. There are no legal implications to this report as agreed with Brenda Vale in Legal Services on 25 September 2009.

### **EQUALITIES, INCLUSION AND COHESION IMPLICATIONS**

9. There could be a substantial impact on equalities, social inclusion and cohesion in relation to the proposals. However, it is too early to clearly identify what those implications would be. The Government has said that in making any changes they will assess whether they would have a disproportionate impact on particular groups of people and take account of this when implementing changes. Luton Borough Council will also undertake an EIA if these proposals become law and have to be implemented locally.

### **FINANCIAL IMPLICATIONS**

10. These are covered in the main body of the report, as far as they are known. Once the full details are available, it will be necessary to re-visit the HRA Business Plan. This report has been agreed by the Finance Manager (Housing and Community Living).

### **RISK IMPLICATIONS**

11. There are substantial risks if the government's proposals are implemented. The major risks are around the level of debt that Luton would be required to take on, the proposals to review future rent policy and the effect on the General Fund.

### **ENVIRONMENTAL IMPLICATIONS**

12. The consultation paper states that the government recognises the need to identify aspirational standards and benchmarks for energy savings and emissions reductions and is working on ways of funding this. Agreed by Jodie Colclough, Climate Change Officer on 29/09/09.

## **OPTIONS**

13. Executive can either agree the consultation responses proposed above or agree an alternative response to the consultation.

## **BACKGROUND PAPERS**

DCLG – Reform of Council Housing Finance Consultation July 2009. Available at <http://www.communities.gov.uk/publications/housing/councilhousingconsultation>