



# HRA Reform consultation

To: Chief Executives and housing contacts in England  
For info: Contacts in Wales, Scotland and Northern Ireland

## Key issues

HRA review underway

Significant changes proposed

Major impacts for local authority stock retainers and ALMOs

Outcomes from APSE consultation events

## 1. Introduction

The review of the Housing Revenue Account was announced in December 2007. John Healey, Housing Minister has made announcements recently and spoken in terms of dismantling the current funding arrangements.

APSE issued briefing 09/39 titled 'Reform of Council Housing Finance: Consultation' in August which addressed the main issues from the consultation paper, noted the consultation questions and provided some contextual information.

This briefing provides an updated APSE commentary based on views collated from the APSE consultation events (held in conjunction with ARCH). Two events were held in London on 21<sup>st</sup> September and 5<sup>th</sup> October aimed at informing officers about the technical details of potential changes in the financial regime and at providing officers and members with a chance to contribute to a response.

The consultation document refers to England and is available at <http://www.communities.gov.uk/documents/housing/pdf/1290620.pdf>

## 2. Options

There are two main options considered within the paper. The first option is an improvement to the existing national system in which revenues continue to flow between local and central government with a move to longer determination periods and so more certainty. A further change may be for central government to take on the entire debt and charge councils for servicing an amount equivalent to that which they would have been allocated. A national ring fence could ensure that all money paid into the system would remain in the system or be reinvested in housing if there was a surplus.

The second option which describes self-financing is welcomed by APSE as the best way forward. This would mean that each local authority would keep money raised locally from rents, involve a one-off re-allocation of housing debt after which councils would be expected to manage their own service, maintain properties, ensure decency standards, carry out investment programmes and service any debt.

The detail of each option is found on page 31-34 of the consultation paper.

## 3. Commentary

APSE welcomes the general approach of the consultation document which is a move towards more local control of resources, enhanced accountability and clarity within the financial system. This is a topic APSE has been vocal on over many years and we have consistently called for changes to the system which will make it simpler for tenants, council officers and members and enable councils to break away from strict borrowing limitations which mean they are unable to invest in or expand the stock.

APSE is keen to work with Government on this topic to ensure the changes proposed are implemented.

### Allowances

APSE supports the increased investment proposed. The figures of a 5% increase in M&M allowances and an average 24% increase in MRA are welcome. APSE appreciates that these figures have not reached the 10% increase for M&M (argued for on the basis that this is the figure for housing associations so an uplift of 10% would bring the two into line) nor the recommendation made by BRE of a 43% increase for MRA. However these are significant increases bearing in mind the current economic context and the move to reduced public spending.

### Capital grants

Government has offered to pay capital grants to address the backlog of repairs which still exist at a level of approximately £7 billion. This element of funding has not been built into the uplift in MRA (noted above) and this has led to concern about whether it will be forthcoming. APSE feels that government must provide some surety about this funding. It is difficult to see a reason for keeping this funding outside of the MRA uplift and it means that there is a greater likelihood that it will not be provided, that it may be cut or be part of a bidding process. None of these scenarios is welcome. This is a significant element of funding and without it business planning is made more difficult and plans may be unsustainable.

### Debt levels

The overriding feeling at the consultation events was that reform of the HRA was overdue and that councils needed to provide a united approach if they are to make progress. There was also a call for more detail with regard to the actual level of debt each council would need to take on. It is unrealistic to ask councils to agree to a way forward without notifying them of the level of debt they will be managing.

This is a fundamental issue and the criteria upon which the calculation to set the level of debt is based on is critical. Assumptions about the date of rent convergence, allowance levels and inflation rates will alter the debt settlement. As mentioned below the total debt settlement should not be higher than the existing level of national debt.

The paper notes that there is currently approximately £18 billion of debt with a further £2 billion if ALMO debt is added. The paper also states that the total debt allocated to councils under the self financing option could be greater or smaller than the current level of debt in the system. APSE can see no justification for re-allocating a higher amount, an outcome which the consultation paper claims may happen. Debt levels must be set at a level which reflects existing debt and enables sustainable business plans to be put in place as well as avoiding calls that tenants would be subsidising other spending if the total settlement is larger than the actual debt.

APSE realise that although there has been a call from some quarters to write off the entire debt, this is unrealistic. Nevertheless there are councils who are currently debt free as a result of prudent financial management and will have to take on significant debt after re-allocation.

### New build

APSE has promoted the idea of local authorities as council house builders for a number of years and the current lack of supply in the housing sector justifies this argument. The potential role that councils and ALMOs have in building and managing homes should be maximised (as should that for RSLs) and self financing will help to enable this. If councils have greater control over funding the likelihood of them being able to build new council homes will be increased. However central government must not fall into the trap of providing greater local responsibility at the same time as denying them the opportunity to borrow. The ability to borrow is vital if stocks are to remain in a good state of repair and further investment is to be made.

### The HRA ring fence

Over recent years there have been a number of services which have come to be considered by tenants as 'core' which were previously 'non-core'. This is important because it has an impact on what should be paid for through the HRA and what through GF. Government should provide guidance identifying those services which should be covered by the HRA to provide clarity for councils. It is important that flexibility is built into how non-core items are paid for and that the choice of whether these come from HRA or GF is a local one.

Local councils should be free to decide whether they separate housing debt from the GF. It would have no impact on the GF and if spending is separate, councils should have the opportunity to treat debt in the same way.

### Aids and adaptations

There is a estimated backlog of £5 billion for aids and adaptations which is not covered in the calculations and would leave a significant burden on local authorities. These remain a major issue not only because they must be funded but also because the aging population means the need for aids and adaptations will grow over years to come. This issue must be addressed and a way over building it into calculations should be found.

### Right to Buy receipts

A change to enable councils to retain 100% of RtB receipts from council properties which are new, renovated long term void and purchased was introduced earlier this year. The consultation paper suggests that 25% of RtB receipts be used for any capital projects as is currently the case. The remaining 75% would be retained locally and have to be used for housing or regeneration purposes. This change is welcomed by APSE as a further move to local management of housing resources.

### Consultation

APSE would encourage all members to be prepared to contribute to this consultation process. The announcements from the Housing Minister point to this being an offer to radically change the system but one which must be agreed soon if

it is to be successful. He has provided councils with the changes they had asked for and it is up to them to show they are willing to work with government to suggest and implement change. APSE realises there is a responsibility on local councils to play their part but highlights the need for government to deliver change soon.

#### **4. Consultation Response**

APSE will be sending a joint response to this consultation document on behalf of its members and all comments to be put into a joint APSE response should be sent by 19 October 2009 by e-mail to [pbrennan@apse.org.uk](mailto:pbrennan@apse.org.uk). All responses to the consultation paper need to be returned by 27 October 2009.

#### 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 to 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?

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