



Position Statement June 2008

Going Bust? The HRA Subsidy System

Background

In December 2007, the then Housing Minister, Yvette Cooper announced a joint Communities and Local Government and Treasury review of the Housing Revenue Account Subsidy System. The review was formally launched in March and is set to report to Ministers in spring 2009.

The funding of council housing is a key concern to the ARCH. Our members have been dealing with the problems associated with the subsidy system for years. We like other organisations who represent the interests of local authority housing believe that the system is fundamentally flawed and does not provide a sustainable long term solution to funding the management, maintenance and improvement of our stock.

To this end ARCH has been working with others in the sector to seek an overhaul of the system and we are pleased to be actively involved in the Local Government Association's (LGA) working group on finance reform.

This position paper sets out the issues and what we want from an overhauled local authority housing finance system. This is our initial position paper and we have employed a consultant to develop and research our detailed proposals on this issue. We expect to publish our full response by the end of this year.

In the Housing Green Paper (2007) the Government set councils and other social housing providers with a huge task to provide more housing and more affordable housing. However, the current housing finance system impedes councils' abilities to deliver more and better quality housing to current and future tenants.

The System

Every council that owns and manages housing is required to maintain a HRA, which is "landlord account" for council housing income and expenditure. This account is 'ring-fenced' (that is, separate) from the council's General Fund revenue account and the ring-fence is defined by a complex set of statutory rules and associated guidance that govern the operation of the account. As an additional part of the overall framework, there is a funding mechanism, the HRA subsidy system. This system is based on an even more set of complex rules. As part of this the Government makes assumptions on a councils 'need' to

spend. It also maintains a national rent setting policy. From all these calculations an authorities HRA subsidy is determined. The Government runs its national system on as redistributive pool, so it then either pays housing subsidy (positive subsidy) to those with assumed greatest need, or requires others with less 'need' to pay subsidy (negative subsidy) back to the Government and into the pool.

In the current system it is estimated that there are 206 authorities of whom 50 are in 'positive' subsidy, with 156 in 'negative' subsidy.

The figure for authorities in negative subsidy is set to increase year on year, as the impact of Right to Buy affects stock numbers until eventually all authorities will be in negative subsidy.

Whilst some tenants are subsidising tenants in other parts of the country even more worrying is the fact that at current levels the redistributive 'pool' is in surplus, with council housing rent payers contributing through the overall surplus nearly £0.2billion to the Treasury. Councils and their tenants have no guarantee that this surplus will then be spent on housing and not health, education or another area. In effect council rent payers are paying an additional tax to Government and as the table below shows this surplus is expected to increase to £0.4billion in 20011/12, £0.7 billion in 2019/20 and £0.9 billion by 2022/23.

<i>HRA subsidy (£ million)</i>	
• 2008-09	-194
• 2009-10	-216
• 2010-11	-303
• 2011-12	-421
• 2012-13	-424
• 2013-14	-376
• 2014-15	-398
• 2015-16	-434
• 2016-17	-476
• 2017-18	-543
• 2018-19	-611
• 2019-20	-680
• 2020-21	-750
• 2021-22	-822
• 2022-23	-894

Source: Parliamentary Question 18/12/2007

Problems With the Current System

1. The system is complex, not clear and not transparent
2. Tenants can't see what they get for their money, which reduces accountability
3. There is no local influence over the system. Rents levels are set by Government and not by councils or their tenants
4. The MRA is under funded and does not provide sufficient resources to manage the stock effectively in the long term
5. Is short term (2-3 year determinations) which mean councils can not make effectively long term business plans
6. Is subject to changes at short notice, thus undermining future plans
7. Does not promote effective asset management or reward innovation
8. Runs counter to the spirit of local determination set out in the Local Government White Paper and the new style LAAs

9. Only deals with existing stock and does not help to meet the Government's objectives of increasing housing supply.

ARCH's View

The system as it stands is **not fit for purpose** and should be abolished.

We share the view held by the LGA and across the sector that **councils should have self determination** on housing finance and be put on a par with housing associations on this issue. Retained authorities should have sufficient resources raised through grants, borrowing, rents and effective asset management to manage their stock effectively.

Retained authorities should be able to borrow money to manage improvements to and replenishment of their stock. This would reduce the impact of the public purse and allow authorities to plan for the needs of their communities.

We believe that **rent determination should be a local decision** which authorities decide with their tenants. This will make landlords accountable to their tenants for the service they provide and increase transparency in the system.

ARCH wants the **redistribution mechanism abolished**. We believe that local rents should be spent locally by the council on housing and local community needs and not paid to Government or redistributed to other authorities. This will ensure local accountability.

We believe that **decisions on resource allocation should be made at a local level** and not by Central Government

The new LAA framework and the Local Government White Paper put councils at the centre of local decisions. However local authority housing finance policy is highly centralised and is inconsistent with the new policy agenda. Local authority housing finance policy should be consistent with the ethos of councils' place shaping and community leadership roles, to not do so has the potential to create policy conflicts that could hinder area improvements.

Councils have a vital role to play both as sustainable community planners and as housing providers and managers. ARCH advocates finance solutions that secure the long term viability of local authority housing and the well being of tenants and residents.

Councils are important deliverers of affordable housing and community services. Freeing us from the constraints of a defunct finance system will allow us to deliver more homes to our communities and allow us to assist the Government in delivering on its Housing Green Paper pledge of producing 3 million new homes by 2020.

Over the coming months ARCH will be working with the LGA to develop our thinking further. It is our shared vision to create a system that provides a clear, transparent and accountable financial arrangement that allows councils to locally manage their resources effectively and provide good quality services for their present and future tenants.