



ARCH Briefing

July 2009

Housing Revenue Account Subsidy Changes – Ministerial Statement

On Tuesday 30th June 2009, the Housing Minister, the Rt. Hon John Healey MP issued a written Ministerial Statement on the review of reform of the council housing finance system.

As members are aware the Communities and Local Government Department (CLG) and the Treasury have been undertaking a review of the housing revenue account subsidy system that was launched by the then Housing Minister, Yvette Cooper MP in late 2007. The review has been undertaking it's work for over a year and ARCH and other members of the sector have been working closely with the review to ensure that our members' interests are strongly represented.

John Healey's made his announcement at the Local Government Association's annual conference, confirming that the Government were committing themselves to the dismantling of the current housing finance system.

The Minister announced his intention to publish a consultation document before the summer recess on reform of council housing finance, replacing the current system with a devolved system of responsibility and funding.

ARCH view

We look forward to examining the details which will be set out in the forthcoming government consultation.

The commitment to change is a substantial step forward for retained council housing and shows that the government has listened to the arguments put forward by ARCH and other organisations representing councils that the HRA subsidy system has had its day and is an unjust and defunct system. Whilst this announcement is strongly welcomed, we do not have enough detail of the proposed changes yet to be able to assess whether they do really signal a new fairer era for Council housing finance. Needless to say ARCH will continue to work to represent the interests of retained

council housing tenants and their authorities to ensure that we can invest in our homes and our communities.

The Announcement

The Minister confirmed that the consultation will propose a devolved self financing alternative to the current system and the dismantling of the current Housing Revenue Account Subsidy System.

The Minister's statement noted that the new system would do the following:

- Remove the need for the national redistribution mechanism
- Do away with the annual round of determination and allow councils to develop long term business plans for funding their housing, similar to that currently operated by other social housing providers
- Allow councils to keep their rents to invest locally
- Increase councils' ability to respond to local needs

His statement made the further points:

- That the Government propose a 'one-off redistribution' of housing debt
- That the consultation would include proposals for the end of pooling for all capital receipts
- Councils will be able to manage directly and fund their own debt
- As of the 30th June 2009 councils will be allowed to retain 100% of any new build Right to Buy sales receipts
- Councils will be able to access and apply for Social Housing Grant (SHG)
- Primary legislation will be necessary to implement these changes.

ARCH's view

ARCH is pleased that retained authorities will no longer be subject to the vagaries of the redistributed mechanism and impact that the uncertainty that annual settlements have on councils' ability to plan their services effectively.

The Government's commitment to the local retention of rents is strongly supported, but ARCH believes that the Government need to give councils more flexibility in both setting the level of and the distribution of rents, with the Tenants' Services Authority stepping in as the regulator if the rent setting policy of a council has put their business plan at risk.

Retained councils are committed to planning for and responding to the housing needs of our communities and believe that councils are best placed to know their local housing needs and welcome the acknowledgement that housing decisions are best taken locally and that councils are key to delivering local housing needs.

ARCH is concerned that the Minister has made no concessions to the cancelling of historic housing debt. ARCH will continue to lobby for debt cancellation, as the burden of historic debt will reduce councils' ability to invest in their stock, deliver services to their customers and boost the local economy through new build in meaningful numbers. The Ministerial statement makes reference to a 'one off

redistributing' of the debt. Redistribution will mean that retained councils will be less able to invest in improving existing stock, new homes and our communities.

The redistribution of debt proposal means that a 'one off deal' will have to be negotiated between each council and central Government and the details of how this will work are expected to be confirmed in the consultation paper. ARCH is concerned that new debt should not be imposed on councils. At present it is unclear whether the calculation of debt that can be "afforded" will include forward assumptions of rental income growth implied by convergence with Formula Rent or whether this resource will be part of the flexibility needed to make business plans sustainable.

Swapping debt for negative subsidy may, in effect, be a neutral process although much will rest on the one-off settlements. The actual consultation paper must give the detail of how the calculation of settlements is to be made in order for the retained sector to assess whether the changes offer a real opportunity for a new era of housing finance.

ARCH is concerned that there has been no reference in the Ministerial statement to the significant under funding of Management and Maintenance and the Major Repairs Allowance recognised by the Review to exist within the existing subsidy system and would expect the CLG to make reference to these in this summer's consultation paper.

The proposal to end the pooling of all housing capital receipts is welcomed and we would like to see this brought into place as soon after the close of the consultation period as is practically possible.

The immediate freeing of rent surpluses and capital receipts on new-build is welcomed as is allowing councils to apply for SHG as this will allow councils to build new affordable homes and provide homes to people on our waiting lists and meet local needs.

Implementation issues

The Minister has confirmed CLG lawyers have advised that primary legislation is needed to implement these changes. Meaning that nothing will be implemented this side of the General election. ARCH will continue to lobby the Government and opposition parties to ensure that a commitment to reform of the HRA is incorporated into their party election manifestos.

The issue of primary legislation means that a new system will not be implemented quickly and ahead of comprehensive reform of the current system, we believe there should be a remission in 2010-11 and 2011-12 of the 'negative subsidy' many councils are paying.

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