



Leicester
City Council

WARDS AFFECTED

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS: CABINET

2nd August 2010

REFORM OF HOUSING REVENUE ACCOUNT FINANCE

Report of the Director of Housing Services and Chief Finance Officer

1. PURPOSE OF REPORT

- 1.1 This report summarises the Government's proposals for reform of Housing Revenue Account (HRA) finance, as detailed in the consultation paper "Council Housing – A Real Future". Also the report seeks the Cabinet's endorsement of the action taken by the Divisional Director and Chief Finance Officer, in consultation with the Council Leader and Cabinet Lead for Housing, in responding to the consultation document.

2. RECOMMENDATIONS

- 2.1 **The Cabinet is recommended** to endorse the action taken to respond supportively to the consultation.

3. REPORT

3.1 Introduction

- 3.1.1 The previous Government published its proposal for the reform of HRA finance on 25th March 2010 in a consultation document entitled "Council Housing – A Real Future". Responses to the consultation document were required by 6th July, 2010.

3.2 The Proposal

3.2.1 'Self Financing'

The main proposal is for 'self financing' to be introduced for all HRA's, under which the current annual subsidy system would be ended in return for a one-off reallocation of debt to or from each HRA. The Government would calculate this debt reallocation by extending the current subsidy calculation for each HRA for thirty years into the future (and then discounting the resultant cash flows back to the current value). An 'indicative' debt reallocation figure was supplied to each HRA, and for Leicester this represented an approximate £40m reduction in its HRA debt, which is currently about £220m. Following this debt reallocation, Leicester's HRA would avoid future annual negative subsidy payments to Government (which, for example is expected to be £16.5m in

2010/11) but would no longer receive the Major Repairs Allowance (MRA) from Government (£13.4m in 2010/11).

3.2.2 'Right to Buy' (RTB) Capital Receipts

Under the proposed system, the current requirement for local authorities to pay 75% of their capital receipts from RTB sales to Government would be ended, as long as the additional usable receipts were used for financing affordable housing (including HRA) or regeneration capital expenditure. The proposed arrangements would give Leicester about £3m of extra usable capital receipts each year.

3.2.3 Other Aspects of the Proposals

- i) it is not intended that local authorities would be able to set their own rents – instead these would be controlled by the Tenants Services Authority (TSA).
- ii) The ending of the subsidy would expose HRAs to the risk from interest rate increases – for Leicester's HRA, a 1% increase in interest rates would increase annual capital financing costs by some £2m.
- iii) The ability of HRAs to enter into new borrowing would be strictly limited.
- iv) Capital grants would still be available from Government to tackle decent homes backlogs, but it is unclear at what level and how they would be assessed.

3.3 Impact of the Proposals on Leicester's HRA

3.3.1 The impact of the proposed new system and the indicative debt settlement on Leicester's HRA has been modelled in conjunction with outside specialists. This modelling has indicated that the proposals would be generally beneficial, subject to the following:

- i) uncertainty remains about future capital grant funding (e.g., for decent homes backlog, disabled adaptations for council stock, asbestos works, etc)
- ii) Some flexibility concerning future HRA borrowing limits would be desirable.
- iii) Any HRA debt reallocation must have no detrimental impact on General Fund finances.

3.4 Response to the Consultation Document

3.4.1 After consultation with the Council Leader and Cabinet Lead for Housing, a generally supportive response (but raising the concerns noted above) has been made to the Government. This indicates that we would like to discuss the possibility of Leicester becoming self-financing further with the Government, but does not bind us to any course of action.

3.5 The Future for the Proposals

- 3.5.1 The previous Government was considering a voluntary introduction of the new system from 1st April, 2011 with full implementation from 1st April, 2012. The new Government is currently reviewing the existing proposals, any may of course decide not to pursue them in the same way.

4. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

4.1 Financial Implications

This report is concerned solely with proposed changes by the Government to the financial operation of the Housing Revenue Account.

4.2 Legal Implications

None

5. OTHER IMPLICATIONS

OTHER IMPLICATIONS	YES/NO	Paragraph references within the report
Equal Opportunities	Yes	7.1
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	Yes	7.1
Corporate Parenting		
Health Inequalities Impact		

6. EQUAL OPPORTUNITIES IMPLICATIONS

- 6.1 Any reduction or restriction of HRA finances directly affects the Council's ability to deliver high quality services that meet the needs and aspirations of Council tenants, many of whom are elderly and/or come from disadvantaged groups.

7. BACKGROUND PAPERS – LOCAL GOVERNMENT ACT 1972

- 7.1 i) 'Council Housing – A Real Future' (CLG, March 2010)
ii) 'Reform of Council Housing Finance – Consultation' (CLG, July 2009)

8. CONSULTATIONS

8.1 This is a joint report of the Divisional Director of Housing Services and Chief Finance Officer.

9. REPORT AUTHOR

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Key Decision	No
Reason	N/A
Appeared in Forward Plan	N/A
Executive or Council Decision	Executive (Cabinet)