



# Council housing: a real future

## Prospectus



Council housing: a real future  
**Prospectus**

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# Foreword



Council housing is central to the Government's support for people in this country. It provides secure homes for our most vulnerable, as well as for hardworking people who can't afford to buy a home of their own. More than 4 million people live in council housing, and the way their homes are paid for and maintained should be fair and affordable and allow councils to provide the best possible service to their tenants.

The far reaching changes set out in this prospectus will bring council house funding up to date – replacing a system which was introduced before the Second World War and has operated in its current form since 1989.

My plan will give councils the freedom to fund and run their council houses, without annual government decisions over subsidy. It will release at least 10 per cent more money in every council for maintaining and managing their homes. And it will create the funding capacity to build over 10,000 new council homes a year. Above all, it will mean tenants getting better homes and better housing services from their council.

This is a once and for all settlement between central and local government.

The Housing Revenue Account (HRA) subsidy system is a funding system of £6bn a year which services 1.8 million homes for over 4 million people in 177 council areas. In today's tight fiscal climate, we need to use public money in the best way that we can, giving councils the certainty to plan and manage for the long term.

Under the new self-financing system, councils will keep all of the rent they collect from their homes and all the receipts from any sales of housing or land. Not a single penny will go to Whitehall and not a single penny will subsidise other councils, as the current HRA system dictates. In return, councils will accept a share of the overall £25bn debt, though no council will take an allocation of debt which is not sustainable for the long term.

This plan is highly technical. But it is not simply an administrative change in the funding system. The changes set out in this prospectus will change people's lives.

Councils will be able to do more to meet the housing needs of their communities. From the outset, they will have £500m more to spend on their tenants' homes – giving every council at least 10 per cent more money for maintenance than they have under the current system.

Tenants whose homes have been upgraded with investment through our Government Decent Homes programme, will have the guarantee that their homes will be funded and maintained to this standard for the future, backed by the new national regulator – the

Tenant Services Authority. The Government remains totally committed to completing the Decent Homes programme and recognises that £3.2bn of works are still needed to meet its Decent Homes commitment. Meeting this investment need will therefore be a central element of our decisions on investment priorities at the next Spending Review.

Of course, as we maintain and improve existing council homes, we must build more homes for the next generation of council tenants too. We have underway this year schemes in 47 areas to build over 2,000 new council homes – the largest council house building programme for nearly two decades. Over 4,000 homes will be started by councils this year and next. This programme has demonstrated the will and capacity of local authorities to build new homes. But we can do more. With the reforms in this prospectus we can create the funding capacity to build more than 10,000 new council homes each year before the end of the next Parliament.

This is a good deal for councils. They will keep the money they raise through rents and receipts in full to reinvest in their areas. They will be able to plan for the long term. And they can improve the quality of the housing services they provide to their tenants, and build new council homes.

This is a good deal for tenants. Councils will have at least 10 per cent more to spend on maintaining and improving their homes. More council homes will be built to meet the needs and aspirations of future tenants. And they will have a guarantee that their council homes in future will never fall below the Decent Homes standard.

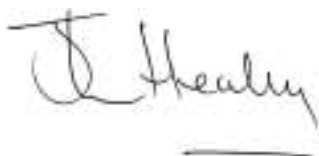
And it is a good deal for central government. It removes the complex annual round of cross-subsidy decisions making the funding system clearer and fairer. And it devolves from Whitehall responsibility and accountability for the funding, management and standards of council housing to elected local councils.

Local government has long criticised the HRA subsidy system and long called for reform. The plan set out in this prospectus goes the full mile to dismantle the current system and set up a new self-financing settlement.

This is a once in a generation chance for radical change.

I hope this prospectus will launch a period of serious examination and debate on the plans I am publishing for consultation.

I look forward to receiving responses from a wide range of local authorities and others by the closing date of 6 July.

A handwritten signature in black ink, appearing to read 'J Healey', with a horizontal line underneath.

**The Rt. Hon. John Healey MP, Minister for Housing**

# Scope of the consultation

## Topic of this consultation

The Review of Council Housing Finance aimed to find a long term, sustainable system for funding council housing that would be fair to both tenant and taxpayer and fit with wider housing policy.

## Scope of this consultation

The consultation sets out proposals for dismantling the current Housing Revenue Account subsidy system and replacing it with a devolved system of funding and responsibility.

Externally commissioned research reports are published alongside this document. You are asked for your views on the proposals for self-financing.

## Geographical scope

This consultation applies to England.

## Impact Assessment

Impact assessments are needed where proposals impact upon business or the third sector, or have significant costs (above £5m p.a.) for the public sector. An impact assessment accompanies this consultation.

We have undertaken a screening of the reform of council housing finance for race, disability and gender equality. On the basis of the screening, which included analysis of responses to the consultation in July last year, we do not believe that any specific equalities impacts will arise. However, we are aware that this decision has been taken on the basis of limited evidence and respondents are invited to provide details of any likely differential impact on different equalities groups. Local authorities are also reminded to consider the need for Equality Impact Assessments when making policy decisions under self-financing.

# Basic Information

## Target audience

This consultation is aimed at social housing stakeholders, including:

- local authorities
- relevant non-departmental public bodies (including the Tenant Services Authority, Homes and Communities Agency, Audit Commission)
- bodies representing the interests of tenants of social housing
- bodies representing the interests of housing associations or other private providers of social housing
- bodies representing the interests of local housing authorities
- tenants
- bodies representing equalities groups

## Responsibility for the consultation

The Local Authority Housing Finance Division in the Department for Communities and Local Government is responsible for this consultation.

### **Duration**

The consultation starts on 24 March 2010 and finishes on 6 July 2010.

## Enquiries

For all technical or other enquiries about this consultation please email:

[councilhousingfinance@communities.gsi.gov.uk](mailto:councilhousingfinance@communities.gsi.gov.uk)

or telephone: 0303 444 3722 if there are consultation process questions.



## How to respond

Consultation responses should be submitted by email to:

councilhousingfinance@communities.gsi.gov.uk

Or by post to:

Review of Council Housing Finance  
Department for Communities and Local Government  
Zone 4/H4  
Eland House  
Bressenden Place  
London SW1E 5DU

## Additional ways to become involved

You can request a hard copy of this consultation by writing to the address above.

## After the consultation

The Government will publish a summary of the responses to the consultation and its own response later in the year.

## Compliance with the Code of Practice on Consultation

This consultation document and consultation process have been planned to adhere to the Government code of practice on consultation issued by the Department for Business Enterprise and Regulatory Reform and is in line with the seven consultation criteria. The period of consultation will be 15 weeks.

# Background

## Getting to this stage

The joint CLG/HMT Review of Council Housing Finance was announced in December 2007 and launched in March 2008.

## Previous engagement

Following the review the Department issued a consultation paper in July 2009, which can be found on the Department's website.

## The consultation criteria

This consultation document and consultation process have been planned to adhere to the Code of Practice on Consultation issued by the Department for Business Enterprise and Regulatory Reform and is in line with the seven consultation criteria, which are:

1. Formal consultation should take place at a stage when there is scope to influence the policy outcome;
2. Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible;
3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals;
4. Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach;
5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained;
6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation;
7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please contact:

Kavian Thompson  
CLG Consultation Co-ordinator  
Zone 6/J10  
Eland House  
London SW1E 5 DU

or email: [consultationcoordinator@communities.gsi.gov.uk](mailto:consultationcoordinator@communities.gsi.gov.uk)

# Section 1

## The vision for self-financing

- 1.1 Council housing is a substantial public asset that has been created by investment of public funds over many years by central and local government. 1.8 million council houses are home to around 4.2 million people. Local authorities spend around £6 billion each year on managing, maintaining and repairing those homes and on financing the costs of construction and other capital investment. It is an asset that needs strong management and investment to ensure it continues to meet people's housing needs in future.
- 1.2 But the current redistributive system for financing council housing was established in the 1930s and has continued in its essential form since then. It is no longer fit for purpose. We are proposing to replace this centralised, redistributive system with a new system that devolves financing and accountability to local authorities. This will give councils more flexibility to respond to the needs of local people and more ability to plan long term, driving up services and improving efficiency.
- 1.3 This new system will be created by a once and for all new settlement between central and local government. In exchange for a one-off allocation of debt between local authorities, Central Government will stop the annual redistribution of rental income.
- 1.4 Councils will have a predictable income stream, their own rents, which they can use to maintain their own stock. Local authorities will also be able to reinvest all of their own capital receipts as part of a comprehensive asset management strategy.
- 1.5 The new system is based on a fair starting point for each local authority that will free it from Central Government control. This starting point will be established by estimating the income and expenditure for each local authority using new evidence of spending needs. Local authorities will need different levels of funding depending on the future costs of managing, maintaining and repairing their stock. But all local authorities will have more to spend than they would under the current scheme, and all will receive the financial independence necessary to provide an improved service to existing and future tenants.
- 1.6 If councils were prepared to take on a greater role in developing and delivering new council housing we believe that ought to be reflected in the valuation we place on the self-financing business. We are therefore proposing to include in the self-financing settlement some headroom to enable councils, after they have met the spending needs of their existing stock, to deliver a substantial new build programme

without increasing borrowing above the opening level under self-financing. We want to test the ability and willingness of local authorities to use this extra capacity to build new homes.

- 1.7 Under this lead proposal, Government would use a 7% discount rate in valuing the business, rather than the 6.5% discount rate typically used in housing transfer. This would reduce the receipt for Government from self-financing by around £1.2 billion. This should enable councils to deliver 10,000 new homes each year from the end of the next Parliament. We want local authorities to set out their ability and willingness to use this headroom to deliver new housing, so that we can decide whether this is an efficient way to deliver this extra funding.
- 1.8 Self-financing will provide a framework within which all local authorities can sustain their stock in a good condition in future. Alongside these reforms, the Government is totally committed to completing the Decent Homes programme. Since 2001, 1.4 million council houses have been improved to make them vastly better homes. In that time Government has invested £18.8bn and councils have added a further £4.4bn. The Government recognises that £3.2bn of works are still needed to meet its Decent Homes commitment. Meeting this investment need will be a central element of its deliberations on investment priorities at the next Spending Review.
- 1.9 Rather than coping with annual uncertainty about subsidy arrangements and rent policy assumptions, local authorities will have long term certainty about their income and wider financial position. This provides new opportunities for local authorities, working with their tenants, to support the local authority's strategic housing role. It will help local authorities to:
  - set and work towards medium and long term local priorities for housing within a clear financial framework
  - manage their homes better and improve quality of services
  - respond to local housing priorities
  - involve local communities in deciding what money is raised in rents and how it is used
- 1.10 This should result in real improvements for tenants. There will be more resources available to maintain council housing and tenants can, and should, be involved in a meaningful dialogue about priorities. The lines of accountability between tenants and landlords will also be clearer.
- 1.11 The challenge to local authorities is therefore to take the opportunities that increased financial independence provides. For many years local authorities have expressed frustration at their dependency on annual subsidy decisions, often made close to

budget-setting deadlines. The annual process makes forward planning difficult and limits the ability of local authorities to use their housing assets and revenue in the most effective way. Under self-financing, local authorities will be able to underpin the locally driven vision for housing with a robust 30 year business plan, and then to deliver on that plan.

- 1.12 All local authorities which own council houses will need to get ready for this new approach. Many will need to develop new skills and capacity so they can fully grasp the benefits of self-financing. New, or stronger, financial and corporate skills are likely to be needed in:
- **Business planning** – developing scenarios, deciding between them, planning to a longer term horizon and monitoring changes and risks arising.
  - **Asset management** – taking a long term view on asset lives, depreciation and timing of planned repairs and replacements.
  - **Managing a loan portfolio** – Although most authorities will already have in-house treasury management expertise, some debt-free authorities will need to develop skills to manage a new loan portfolio.
  - **Procurement** – financial independence will give local authorities more flexibility to enter into longer term relationships where these can deliver better value for money.
  - **New build** – managing a substantial new build programme
- 1.13 These are not new skills for many local authorities. Local authorities whose stock is managed by Arms Length Management Organisations (ALMOs) should be especially well placed to take forward these reforms. There is also potential to share experience and learning between local authorities and housing associations.
- 1.14 Local authorities will also want to consider the governance arrangements needed to operate effectively under the new approach. It will also prove a fresh opportunity for engaging and involving councillors and tenants in long term decision making. ALMOs already have tenant and external board members contributing to decision making. Others may wish to create similar opportunities. Involving tenants in decision-making enhances value for money and improves satisfaction with services.
- 1.15 The Tenants Services Authority has put tenants at the heart of the regulatory system. The self-financing system will give local authorities more ability to respond to local priorities.

# Section 2

## The self-financing settlement

- 2.1 Self-financing will put all local authorities in a position where they can manage their homes from their own income in future. This section describes how we propose to calculate the income and spending needs of local authorities who own council houses. It then shows how this leads to a calculation of the sustainable level of opening debt for each local authority. Alongside this document, we are publishing the model used to calculate the sustainable level of debt for each local authority. The key assumptions about rents, discount rates and timing of implementation will be subject to confirmation at the next Spending Review.
- 2.2 The model is designed to deliver a fixed level of spending capacity for each local authority based on the new analysis of spending needs. Under our proposals, every council will have at least 10% more to spend on managing, maintaining and repairing their stock than at present. So for example a higher or lower assumed income from rents would lead to a higher or lower opening debt level, in order to enable every local authority to spend the amount on their stock that the research indicated is needed.

### Income

- 2.3 The only income assumed in the model is income from rents. Under self-financing, local authority landlords will still be required to follow national social rent policy. The model therefore assumes adherence to this policy.
- 2.4 Under the current rent policy, local authorities are expected to move their rents gradually to a formula social rent level, so that all tenants of social housing pay a similar rent for a similar property in a similar area. This process is called 'convergence'. In order to prevent excessive rent rises for individual tenants during the period leading to convergence, the rent formula limits any annual rents to  $RPI + \frac{1}{2}\% + \text{£}2$  each year until they reach the formula level.
- 2.5 Government has not fixed a date for convergence to be completed. In setting the guideline rents in annual HRA subsidy determinations, Ministers have taken into account a number of factors, including the affordability of rises for tenants.
- 2.6 In 2010/11, local authority guideline rents will be on average 7.5% below the formula level. For the purposes of modelling, we have assumed a convergence date of 2015/16. This would require real annual increases of 2.2% in 2011 and 2.1% in each of the following four years.

- 2.7 The model includes an estimate of the foregone income for local authorities who would be affected by the limit on annual increases in individual rents. Current policy is to compensate local authorities who keep annual rent increases within the national rent policy, where this is lower than the rent rise assumed in the convergence trajectory. We will expect local authorities to use this extra funding to keep individual rent rises within the limits in the national policy.
- 2.8 The model is designed to deliver a fixed level of spending capacity for each local authority based on the evidence of spending needs described below. A higher or lower assumed income from rents would lead to a higher or lower opening debt level, allowing local authorities to deliver the same amount of investment in their stock.
- 2.9 Under self-financing, adherence to rent policy would be secured through:
- **continuation of the limit rent.** This provides a mechanism for protecting public expenditure by providing a cap on the level of Housing Benefit an authority will receive for its tenants. The limit rent would continue to be set at a level that allows local authorities to recover all income from rents which are set in adherence with social rent policy.
  - **Tenant Services Authority regulation.** Subject to consultation, we expect to direct the Tenant Services Authority (TSA) to set a rent standard that will apply to local authority landlords. This will enable the TSA to regulate compliance with national rent policy, including through the use of enforcement powers where necessary. (We have already issued such a direction in relation to non-local authority social housing landlords.)
- 2.10 Local authorities who build new council homes are already benefiting from a recent change which allows them to retain the full rental income from those homes. Those homes are effectively invisible for HRA subsidy purposes. The self-financing valuation will similarly not take any account of income from those homes, so those local authorities will continue to receive this extra income.

## Service charges

- 2.11 Service charges are intended to cover costs of specific services not funded separately through the HRA subsidy system. Income from service charges is therefore not included in the self-financing valuation.
- 2.12 Government rent policy includes restrictions on the levels of service charges. These ensure that tenants do not face large increases in their overall housing costs as a result of a decision by their landlord to separate out rents and service charges –

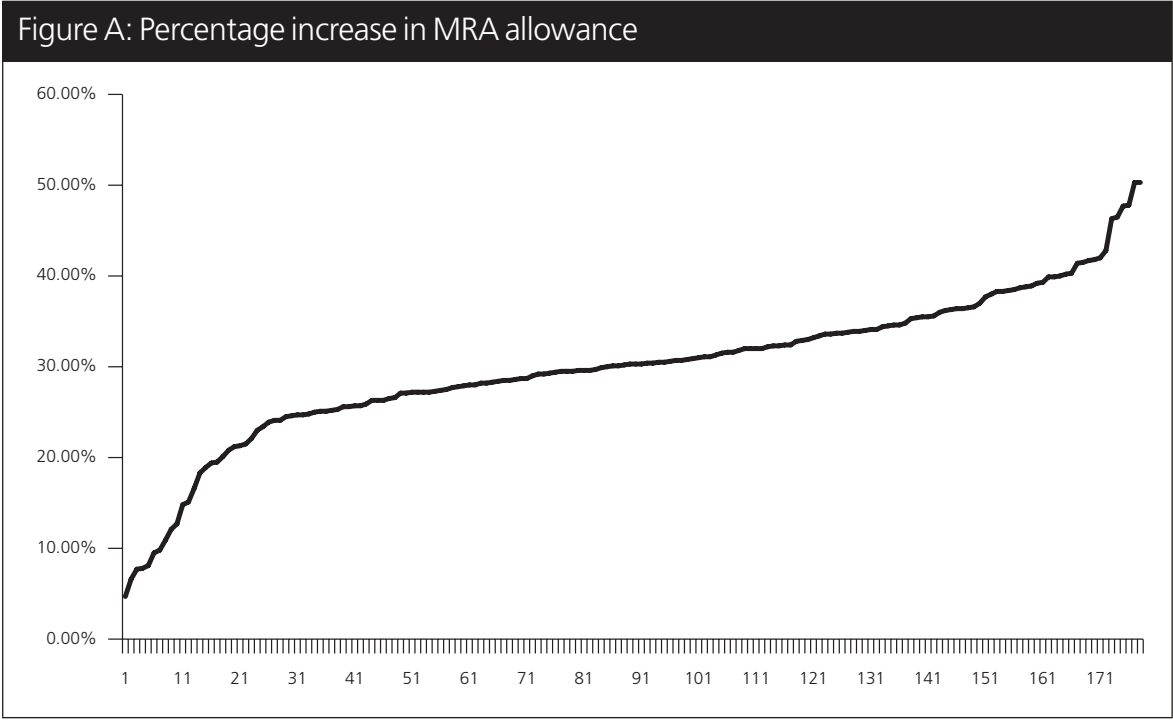


termed 'unpooling'. It also ensures that in the years following the unpooling of rents and services charges the combined charge to tenants does not rise faster than it would have done if service charges had not been unpooled.

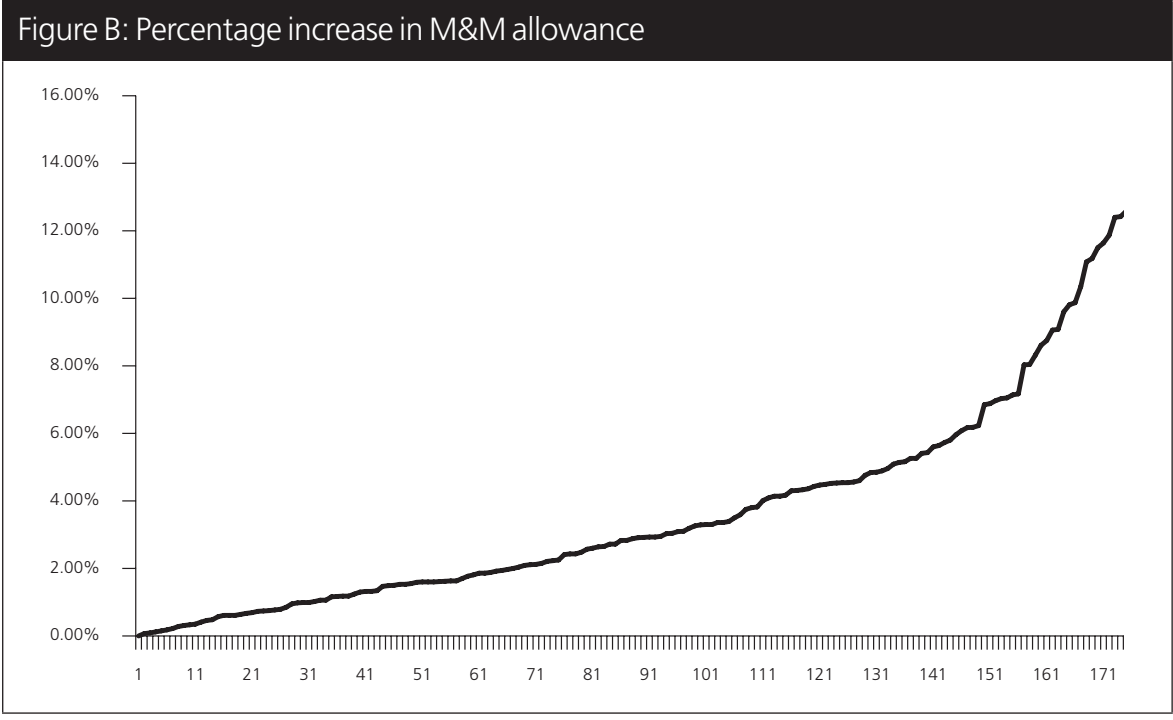
- 2.13 Under self-financing, we would expect service charges to continue to be set in line with national policy and in a fair and transparent manner. The Tenant Services Authority is proposing to require all social landlords to provide clear information to tenants that explains how any service charges are set, and that tenants should be given information about choices relating to services and their cost.

## Spending needs

- 2.14 In July last year we published research on the amount local authority landlords need to spend on major repairs, management and maintenance and to deal with the remaining backlog of works. The reports by BRE and HQN are published on the department's website. These reports identified a need to spend around 5% more nationally on management and maintenance and around 24% more on major repairs. The reports included some principles for distributing these uplifts but indicated a need for further work to establish the best approach.
- 2.15 Since publishing those reports we have commissioned further work on how this extra funding should be distributed. A report by PricewaterhouseCoopers (PWC), titled *Modelling Business Plans for Council Landlords: Report on model inputs, assumptions and outputs*, is being published alongside this prospectus. The report proposes a methodology for distributing the uplifts recommended in the earlier research reports. It also makes some recommendations for changing some of the weightings for different elements in the earlier reports. The tables below show the pattern of distribution of uplifts created by this proposed methodology.
- 2.16 We are proposing to include these substantial uplifts to spending on management, maintenance and major repairs as part of our reforms. This will mean that self-financing gives all councils more to spend on their stock as well as more flexibility to spend this money more efficiently.
- 2.17 **Figure A** shows the increase we are proposing in spend on Major Repairs, shown as a percentage of the current Major Repairs Allowance (MRA) per unit for each local authorities. The PWC recommendations include one significant change to the earlier BRE work, by proposing that 100% of works should be funded, rather than 95%. The impact of this change is to increase total funding for local authorities by around 27% rather than the 24% proposed in the BRE report.

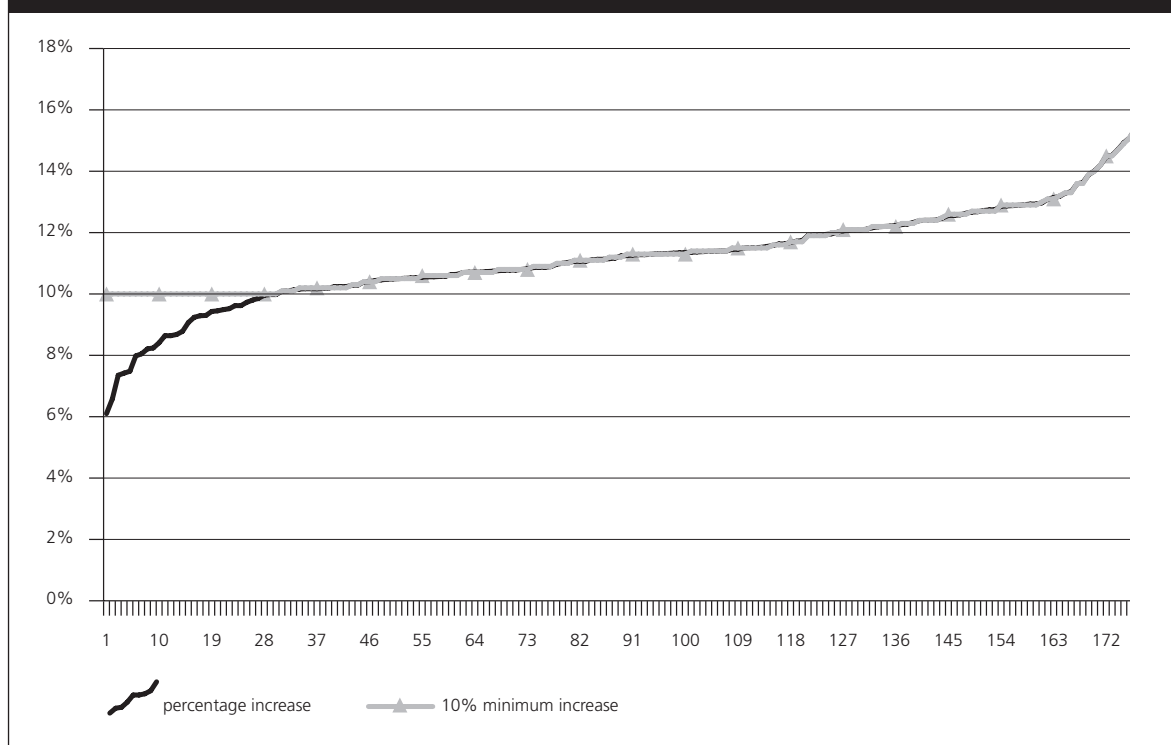


2.18 **Figure B** shows the increase in spend on Management & Maintenance (M&M) under the methodology proposed by the PWC report, again shown as a percentage of current funding per unit.



2.19 **Figure C** shows the combined increase of the MRA and M&M uplifts as a percentage of current allowances. This produces a relatively flat distribution, with 27 local authorities getting less than 10% and 8 getting more than 14%. The average uplift is just over 11%.

Figure C: Combined Allowance Percentage Increase by Local Authority



2.20 We propose to implement a 'collar' which would ensure that all local authorities get a minimum 10% aggregate uplift in their combined allowances. The net present value of this collar would be around £50m at a 7% discount rate. The net cost to Government of this 'collar' proposal will be considered as part of the next Spending Review, alongside evidence of councils' willingness to use this extra capacity to build new homes.

2.21 **Annex C** shows the increases in allowances for each council produced by this proposed methodology.

## Housing Private Finance Initiative schemes

2.22 Local authorities with a signed HRA Housing Private Finance Initiative (PFI) scheme receive a fixed annual subsidy with no annual inflationary impact for the operational length of the contract. This subsidy is currently paid within the HRA Subsidy System. The local authority continues to receive M&M for the properties covered by the PFI contract but does not receive MRA for them.

2.23 There are two main options for the treatment of PFI schemes under self-financing:

- include them in the calculation of the self-financing settlement
- or continue to pay PFI subsidy

2.24 We are proposing a different treatment according to whether or not the contract has been signed at the date of the self-financing settlement.

## Signed schemes

2.25 We have included these schemes in the calculation of the self-financing settlement by including the annual subsidy payments as costs for the length of the contract. MRA is not paid for the properties covered by the PFI contract while PFI subsidy is being paid. No adjustments have been made to M&M. Subsidy payments and MRA reductions have been adjusted for the final year of the PFI contract where appropriate. The full MRA for the PFI properties is re-instated from the year after the contract ends.

2.26 The model converts the flat nominal rate of PFI subsidy to a declining real payment using the annual RPI assumptions in the model. The model then includes the PFI subsidy payments in the NPV calculation using the discount rate that is used for other costs.

2.27 Government would reserve the right to re-open the self-financing settlement in respect of the PFI subsidy element in the unlikely event that the level of PFI subsidy a local authority is entitled to is reduced before the end of the PFI contract, for example because of a significant change in the level of assets to be delivered under the contract.

## Schemes that are due to sign before self-financing commences

2.28 Schemes that sign before the start of self-financing would be included in the settlement on the same basis as already signed schemes. In the current model, the start date, level of subsidy and unit numbers for these schemes are based on current estimates. These would change to reflect actual signed schemes. Any scheme that has not signed by the start of self-financing would not be included in the settlement – subsidy would be paid as described in the paragraph below.

## Schemes due to sign on or after the transition to self-financing

- 2.29 No costs relating to these schemes would be included in the self-financing model. The Department will pay PFI subsidy for these schemes alongside General Fund PFI subsidy. The PFI subsidy would be calculated using the same formula as is currently used. The amount that is paid would then be reduced to take account of MRA that has been included in the self-financing settlement in respect of properties covered by the PFI scheme. The annual amount will be fixed at the time the PFI contract is signed.

## Arms Length Management Organisation funding for Decent Homes

- 2.30 Arms Length Management Organisations (ALMOs) can be divided into two groups with regard to the way they are funded by Government to deliver Decent Homes. Rounds 1 and 2 ALMOs receive an ALMO allowance in the subsidy calculation, while Rounds 3 onwards have the debt added to the local authority's Subsidy Capital Financing Requirement (SCFR).
- 2.31 The department had previously announced that after 2010-11 it will convert the allowances paid to ALMOs under Rounds 1 and 2 into supported debt. The self-financing model reflects this decision by converting Rounds 1 and 2 ALMO support into debt rather than showing it as a cost allowance.
- 2.32 This means that for these ALMOs, the ALMO Decent Homes investment support allocation is not included in the costs in the model, but is covered by an increase in the level of existing notional debt against which the debt adjustment is made.

## Completing the Decent Homes programme

- 2.33 Self-financing will enable landlords to maintain their existing stock from their own resources in future. It will put landlords in a position where they can deal with local issues related to their particular stock as part of a local asset management strategy. However, we accept that there will still be some landlords who have a backlog of works needed to achieve the Decent Homes standard which will require extra capital funding in the early years. Government remains committed to completing this programme and to providing the funding necessary to do this.
- 2.34 The July consultation paper included an estimate of the cost of dealing with the backlog of major repairs. This was separated out from newly arising need over the next 30 years. This separation allows us to take a formulaic approach to uplifts to newly arising need, as standard assumptions about the lives and costs of different

elements can be applied to all stock in a good condition. Costs of dealing with a backlog of works cannot be allocated formulaically as part of the model as they are, by definition, based on local circumstances.

- 2.35 The consultation paper included an estimate of the cost of the Decent Homes backlog in 2010 of around £3bn, based on modelling from local authority predictions, English House Condition Survey data and Business Plan Statistical Appendix data.
- 2.36 The Government is totally committed to completing the Decent Homes programme and recognises that £3.2bn of works are still needed to meet its Decent Homes commitment. Meeting this investment need will therefore be a central element of its deliberations on investment priorities at the next Spending Review.
- 2.37 For local authorities with ALMOs, funding would be on the basis of the agreed ALMO funding and a continuation of the level of funding presently provided for Local Authority Supported Capital Expenditure (LASCE) through the regional housing pot for the planned life of the ALMO programme.
- 2.38 The higher allowances and the flexibility under self-financing should enable most local authorities to put in place an asset management strategy which improves and maintains homes without the need for extra support from Government.
- 2.39 Many of the responses to the July consultation paper raised other spending pressures on housing, notably the issues of adaptations for disabled local authority tenants, asbestos removal, and the Housing Health and Safety Rating System. These spending pressures, which are not funded through the HRA subsidy system, will be considered as part of the Government's next Spending Review.

## Treatment of housing receipts

- 2.40 The self-financing model used does not take account of any capital receipts, either in valuing the business or assessing the viability of the opening debt level. We are however proposing to end the pooling of all capital receipts as part of a self-financing settlement, subject to some conditions. This will support the creation of a full local authority asset management strategy which covers both revenue and capital.
- 2.41 Currently, the rules determining what receipts authorities may retain and what receipts must be 'pooled', i.e. paid over to Government, are complex. They are governed by such factors as what types of housing assets are being disposed of, the amount of administrative costs involved in the disposal, and the amount of expenditure on improvements in previous years.

- 2.42 Under self-financing we propose to allow authorities to retain all their housing receipts from houses and land that fall within the HRA, provided 75% of those receipts have been or will be used for affordable housing and regeneration projects. The remaining 25% may be used for any capital purpose.
- 2.43 We propose to require each authority with over £125,000 of housing receipts in any one year to submit a return to its auditor indicating that 75% of its housing receipts has either been spent on eligible expenditure or has been irrevocably committed to be spent on eligible expenditure. Authorities receiving less than £125,000 would only be required to submit a form signed by its chief finance officer ('section 151 officer'). This exercise would be on similar lines to the certification exercise that currently takes place for the pooling of housing receipts, but it would be much simpler and take up less time.
- 2.44 This change represents a transfer of funds from central to local government and so would reduce the resources available for centrally funded housing programmes. A proportion of local authority expenditure which is currently supported by capital grant would instead be financed by a local authority's own housing receipts.

## Allocating debt

- 2.45 The self-financing model indicates a sustainable level of opening debt for each local authority, based on the above assumptions about income and expenditure. In order to allocate the appropriate amount of debt to each local authority, an assumption must be made about the housing debt which each currently holds. We propose to use the Supported Capital Financing Requirement (SCFR) figure for this purpose.
- 2.46 The SCFR is what the subsidy system currently supports. Any difference between that figure and the debt locally attributable to the HRA reflects local borrowing and debt management decisions often made in the light of local circumstances and changing national policies.
- 2.47 If the debt level generated by the model was lower than the SCFR, Government would pay that local authority a capital sum equivalent to the difference between the two. If the debt level was higher than the SCFR, the local authority would pay the Government the difference.
- 2.48 By using the SCFR figures as the basis for the debt allocation, rather than the debt attributed locally to the HRA, local authorities who have elected to hold housing debt at a lower figure than the SCFR in recent years will retain the headroom they currently have. Using the HRA debt figure would penalise those who used their own resources to reduce debt.

2.49 There are likely to be premiums payable for early redemption of loans by local authorities who will receive a capital sum from Government to reduce existing debt. Government would fund these costs outside the self-financing settlement. These costs could be offset in whole or in part from discounts for early redemption of loans. For local authorities who receive a capital sum from Government to repay housing debt, we propose to repay a percentage of each authority's Public Works Loan Board loans that are attributable to housing related debt, in line with current policy on dealing with overhanging debt in transfers. If there are any local authorities with insufficient PWLB loans we will discuss the way forward on a case by case basis.

## Costs of financing the debt allocated under self-financing

- 2.50 Local authorities who need to borrow to make a payment to Government under self-financing will all face similar costs for that new borrowing. However, under self-financing, many local authorities will retain all or part of their existing loan portfolio and will continue to charge the HRA for its share of this borrowing. The rates of interest charged to the HRA on this borrowing will vary according to the loans and on the rules which apply to how charges are calculated. It is possible that some local authorities will have a substantial amount of existing debt which continues to be charged at a relatively high interest rate. This will not place any additional burden on the General Fund in those councils, but would be an extra cost which would have to be met from within the HRA.
- 2.51 We recognise that, for local authorities with a high proportion of HRA debt, there have been disincentives within the HRA subsidy system to some forms of treasury management which could have reduced these costs.
- 2.52 The self-financing model uses a single discount rate for all local authorities. This is intended to give all local authorities sufficient scope to manage their own risks under self-financing. We do not think that it is sensible to attempt to set a discount rate for each local authority which attempts to take account of all the unique local factors, including interest rates on existing debt.

## The debt model

- 2.53 Alongside this document we are publishing a model produced by PWC which shows the level of debt that each local authority would be allocated under self-financing. The report by PWC includes more detail about the model. We are also publishing guidance on how to use the model.



- 2.54 The model is populated with the most recent data on stock numbers, allowances and rents. It includes the proposals in this document for distributing the uplifts in allowances for Major Repairs and Management and Maintenance. The model indicates the level of debt which would be allocated if self-financing were implemented from April 2011 based on these assumptions and on some projections about changes in variables in the next year.
- 2.55 Our aim in issuing this model is to allow all local authorities to get a clear indication of what self-financing would look like for them and to enable local authorities to test this against their own business plans.
- 2.56 The PWC report exemplifies the impact of a 6.5% discount rate. This values the total local authority stock at £26.35 billion. This is the discount rate typically used in housing transfer valuations. It is suggested in the report that a similar discount rate is appropriate for the self-financing valuation. However the model built by PWC and issued with this consultation also includes the facility to use a discount rate of 6% and 7%.
- 2.57 A higher discount rate reduces the valuation of the business and therefore the amount of debt that local authorities would start with under self-financing. In this report we set out a case for a 7% discount rate, subject to evidence that the sector would use the extra capacity this provides to deliver new homes. A 7% discount rate would increase the funding for local authorities in the new system by around £1.2bn, compared to a 6.5% discount rate, by reducing the valuation of the stock to £25.13 billion and the receipt for Central Government to £3.65 billion.

**What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business?**

## Section 3

# The financial, accounting and regulatory framework

- 3.1 Self-financing would fundamentally change the relationship between central Government and local authority landlords. It both strengthens local accountability and allows for a more strategic relationship between local authorities and central Government. The accounting, financial and regulatory framework within which local authorities operate self-financing should reflect this new relationship. It must also provide assurance that, under a devolved financing system, there will be sufficient safeguards for tenants and local and national taxpayers
- 3.2 Reforms to the framework should:
- improve understanding about how income is raised and on what it is spent
  - increase the transparency of the ring fence between the housing account and the general fund
  - support good management and planning

## A housing balance sheet

- 3.3 The self-financing settlement is largely concerned with replacing the housing revenue support system. However, it is essential that local authorities develop a longer term full asset management strategy that brings together revenue and capital streams of funding. CIPFA's 2008 consultation – Back to Basics – did not produce uniformity regarding the removal of the need to keep HRA accounts separate. CIPFA indicated a willingness to work with the Government after the review. The Government believes that it is important that local authorities are able to account fully to their principle stakeholders for the actions they take regarding the assets, utilising tenants' money.
- 3.4 A separate balance sheet would help the TSA see how the asset standards they set are impacting in the local authority sector. Funders may also find this helpful.
- 3.5 The Government therefore proposes that all council landlords should maintain a council housing balance sheet that sets out the assets and liabilities that support the Housing Revenue Account. We envisage that this should be a memorandum balance sheet and would work with the TSA and CIPFA to develop this proposal.

## Unpooling housing debt

- 3.6 At present, the debt attributable to housing is part of each local authority's overall debt portfolio. Interest on the HRA debt is charged at the consolidated rate of interest (CRI). New borrowing attributable to either the HRA or the general fund therefore has an impact on the CRI and on charges to both the HRA and the General Fund.
- 3.7 This system gives local authorities flexibility to seek treasury management efficiencies by operating freely across the whole debt pool. However it leaves both the HRA and the General Fund exposed to interest rate changes which are driven by investment decisions and the consequential borrowing from the other side of the ring-fence.
- 3.8 We see merit in a clearer separation between HRA debt and other local authority debt, which would limit the impact business decisions in one area have on the other. This would also provide the opportunity to eliminate complexities in the existing rules for calculating the HRA's share of debt charges, and leave a more robust system which is less vulnerable to significant changes in the economy. However we want to balance these gains against any possible loss of efficiency in treasury management.
- 3.9 Under self-financing, many local authorities will take out a substantial amount of new borrowing to fund the cost of the settlement. These new loans, and any subsequent borrowing for housing purposes, could be earmarked to the HRA. Interest charged to the HRA on this debt would reflect the actual charges on the loans. Any costs related to subsequent decisions to repay part of this debt (i.e. premiums for early repayment) would also fall to the HRA as the HRA would get all the benefit from lower interest rates.
- 3.10 New borrowing for non-housing purposes would similarly be earmarked to the General Fund and would not form part of the debt pool or affect the CRI.
- 3.11 This would leave a pool of existing debt for many local authorities which still included amounts attributed to both housing and to the general fund and which was still charged to both at the CRI.
- 3.12 One option would be to split these loans between housing and the General Fund. It is unlikely, but not impossible, that the loans could be matched exactly to the values of the capital financing requirement in the two areas, or produce an exact match to the CRI for both. But it might be possible to obtain an approximation of the housing debt that is acceptable locally.
- 3.13 Another option would be to fix the interest rate charged to the HRA on the pooled debt at the consolidated rate of interest which applied at the date of self-financing. From that date on, the General Fund would gain all the benefit of debt restructurings

and take on all the risk of interest rate movements. Over time there could be opportunities to reduce the amount of debt attributed to the HRA in the debt pool, leading to a full separation of loans.

- 3.14 The Government is aware that current guidance from CIPFA on Treasury Management promotes the benefit of a single loans pool. The first proposal above would indicate a need for two loans pools and the second proposal would create three loans pools. However, the Government also notes the quantum of new debt that many authorities will take on under self-financing and the need for certainty of costs over a substantial period. If a memorandum balance sheet is to be drawn up to provide the significant benefits outlined above, this would also require the full separation of the loans.
- 3.15 On this basis, the Government is attracted to a full separation of loans and would like to work with CIPFA and the Audit Commission to ensure that a suitable framework could be put in place.

## Depreciation and debt repayment

- 3.16 The principle of self-financing extends to the management of assets and liabilities, including making sound long term provision for maintaining and replacing the time-limited elements of homes such as windows, heating systems, kitchens and bathrooms.
- 3.17 Local authorities are required to make a charge for depreciation of the dwelling stock and other property within the HRA that complies with *The Code of Practice on Local Authority Accounting in the United Kingdom*, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Additional guidance on the charges is given in the Department's *Guidance on Stock Valuation for Resource Accounting*, which is currently being updated.
- 3.18 The HRA subsidy system currently ensures that a fixed level of HRA income, the MRA revenue stream, is used either for capital investment or to pay off debt. Under the current framework (by the 'Item 8 determination') any difference between the depreciation charge calculated in accordance with the Accounting Code and the Major Repairs Allowance figure is reversed out of the HRA so that only an amount equal to the MRA has to be financed. In addition, impairment charges required by the Accounting Code are also reversed out.
- 3.19 Under self-financing we propose an approach to depreciation that is based on accounting and financial principles and that is rooted in prudent local management. Under this framework, it will be for local authorities to balance investment in major repairs and repayment of council housing debt. We considered introducing a

separate requirement to repay debt. This approach would have benefits, but does not allow sufficient local flexibility to deal with peaks and troughs in major repair cycles. Under the self-financing framework we propose, local authorities would have a long term incentive to reduce debt, but no obligation to do so.

- 3.20 In setting the right provision for depreciation and debt repayment, local authorities should take account of the evidence about investment needs in this report and in the research published last year for the review of council housing finance, alongside their knowledge of local circumstances. It will be for each local authority to satisfy itself that its approach to depreciation and debt repayment meets the requirements of the Accounting Code. In the longer term, local authorities should develop a local bottom-up understanding of their housing stock, as depreciation and debt repayment will be a core part of their ongoing business planning and asset management. This approach should ensure that a backlog of capital works does not build up in future and that, if there is an identifiable need for higher levels of capital spending at a later point in the 30 year business plan, provision is made for this.
- 3.21 We propose to continue working with CIPFA, the Audit Commission and others with an interest, to put in place an effective framework for self-financing and to resolve the technical issues related to this change.

## Borrowing by self-financing landlords

- 3.22 Local government has a good record on managing debt. The prudential regime has worked well and many local authorities have chosen to actively manage their borrowing and debt portfolios to deliver better value. There is good reason to believe that under self-financing local authorities will continue to look for opportunities to minimise the need to borrow and prudently manage borrowing and debt.
- 3.23 But alongside local affordability and the viability of local business plans, we also need to take account of the potential impact of borrowing on national fiscal policies.
- 3.24 There are a number of constraints over the amount of new prudential borrowing that self-financing local authorities might undertake:
- the new debt allocated in the self-financing settlement will restrict the amount of income available for prudential borrowing.
  - local authorities will need to satisfy their chief finance officer that extra borrowing for housing is affordable within the prudential borrowing rules.
  - the HRA ring fence will continue under self-financing. This ensures that borrowing for HRA assets is charged to the HRA and that HRA income can only be used to finance borrowing for housing purposes.

- the amount of income that local authorities can raise to support borrowing will be limited by social rent policy. Subject to consultation, we intend to direct the TSA to set a regulatory standard that reflects the policy.
  - in addition, we are proposing a cap on borrowing at the self-financing debt level.
- 3.25 However, over time, the capacity of self-financing landlords to borrow is likely to increase. The July consultation signalled the need for control over borrowing which ensures that this borrowing is affordable nationally, in terms of total public debt and fiscal rules, as well as locally.
- 3.26 The model used to determine the appropriate level of opening debt for each council under self-financing makes assumptions about spending needs and income based on national formulae and policies.
- 3.27 The self-financing model generates a notional business plan and 30 year borrowing profile for each council. This is based on the opening level of debt indicated by the self-financing valuation and on a 30 year notional income and spending profile.
- 3.28 We expect councils to test the opening debt figure proposed under self-financing in a local business plan which reflects local information about actual income and spending needs and borrowing costs. A number of factors will have an effect on the borrowing profile in these individual business plans, including
- interest rates on existing and new debt
  - investment needs and the timing of this spend
  - difference between current actual housing debt held by a council and the level of debt supported by the subsidy system
  - capital receipts and any HRA reserves which can be used to supplement the revenue in the business plans.
- 3.29 The spend on major repairs in the modelled notional business plans assumes a flat real level of spend over each of the 30 years. This contrasts with the BRE research on which the uplifts in major repairs are based, which suggested that given the lifecycles of the various components of the major repairs costs, most of the increase in spending is needed in the later years of the business plans. Consequently, if a local authority's actual projected major repairs spending profile was similar to that outlined in the BRE work it would significantly reduce the borrowing needed in the early years relative to the notional business plan generated by the self-financing model.
- 3.30 Control over public sector borrowing is a high priority for Government. In implementing self-financing, we will need to retain tight control over the contribution housing makes to overall levels of public sector borrowing. We are therefore proposing to make a self-financing settlement that should enable most

councils to fund their businesses without the need to increase local borrowing above the opening debt level set for self-financing. This is being achieved through a combination of a relatively high discount rate in the self-financing valuation, higher assumptions about need to spend on management, maintenance and major repairs, and a continuing capital programme to fund the backlog.

- 3.31 This should enable councils to operate within a borrowing limit for housing set at the self-financing debt level, subject to individual arrangements for those councils that currently have a HRA capital financing requirement that is higher than their SCFR level, and for those whose self-financing valuation is negative.
- 3.32 Given a realistic profile for expected major repairs spend, we believe this settlement should allow most councils to start to pay off debt from the first year of self-financing, creating an amount of borrowing 'headroom' up to the opening level of debt which could be used to fund new supply. The size of this headroom will depend on a number of factors which are set out above, but it would provide a capacity to deliver a substantial new build programme, when combined with Social Housing Grant.
- 3.33 We want local authorities to use this extra capacity to build new homes. In responding to this proposal, we would like all local authorities to indicate what size of new supply programme they could deliver at a valuation based on a 7% discount rate. In light of these responses, we will consider whether this is an efficient way to deliver this extra funding for housing.
- 3.34 We propose to enforce the borrowing limit through the Item 8 determination and the HRA ring fence. The 'Item 8' determination enables the Secretary of State to define what may be charged to the HRA, including by way of debt charges. This is currently used to define the types of charges attributable and how they are calculated (rather than the quantum). Under self-financing we propose to use powers to specify the amount of debt that could be supported.
- 3.35 The controls would restrict the amount of housing debt which could be taken on by a local authority, not the amount of interest that could be serviced from the HRA. The General Fund would not face any risk that changes in financing costs could prevent it recovering the appropriate amount from the HRA to pay for its share of local authority-held debt.

## ALMOs

- 3.36 The Government sees a strong future for ALMOs. The governance and accountability in the ALMO model should make them well placed to take advantage of the flexibilities that self financing would provide. ALMOs have had considerable experience of operating as a separate business unit and delivering major investment programmes.

- 3.37 The Government will ensure that all ALMOs who have yet to complete their Decent Homes investment programme will be able to do so with the right level of funding support. The model for the self-financing settlement proposed in this paper does not take account of any profile of ALMO capital allowance support beyond 2011-12 that was agreed as part of an ALMO's accepted funding bid. The section on future funding of the Decent Homes programme sets out how we propose to deliver this support.
- 3.38 The Government expects that all ALMOs who have yet to secure funding through a 2\* Audit Commission housing management assessment will achieve that performance level before self financing is introduced.

## Transfer policy before introduction of self-financing

- 3.39 A local authority may consider that transfer of its housing stock either in whole or in part should be taken forward prior to the implementation of self financing, on the basis that it would deliver more than self financing can offer.
- 3.40 The local authorities that are currently proceeding with transfer proposals are set out in the statement to the House of Commons made by the housing minister on 16 December 2009. Those proposed housing transfers should proceed to completion on terms agreed with the Homes and Communities Agency, subject to tenants approving the change in ownership through the formal consultation and ballot process.
- 3.41 The statement to the House made clear that there should be equity in terms of public funding between transfer and retention in the future under self-financing. A local authority should fully consider the self-financing proposals and assess this alternative carefully. It should also spell out the options available, in clear terms, as part of any consultation with its tenants.
- 3.42 Any proposed transfer would require formal consent by the Secretary of State.
- 3.43 For other transfer proposals prior to the implementation of self-financing, Government would require the transfer valuation for the purposes of assessing the level of financial support from Government or the leviable net receipt to Government to be based on the self financing settlement value.
- 3.44 Government would not provide a higher level of funding based on a different transfer valuation in order to make the transfer affordable to the Registered Provider of Social Housing. This is consistent with the policy set out in the July consultation document.
- 3.45 Local authorities considering transfer should also take account of any capital support that the council would expect to receive to complete its Decent Homes programme.



Section Two sets out the commitment to provide an appropriate level of financial support to complete the Decent Homes programme for ALMOs.

- 3.46 Government would continue the policy of not making any funding support available for new negative value transfers. It would, however, be prepared to consider making payments to clear attributable overhanging housing debt where the self financing debt valuation is below an authority's attributable housing debt. This would take account of the capital support it would expect to receive to complete the Decent Homes programme.
- 3.47 Where a transfer valuation is sufficient to leave a net receipt after covering any attributable housing debt and council set up costs, there is a requirement to pay a Large Scale Voluntary Transfer levy to the Exchequer upon completion of the transaction/sale to the Registered Provider.
- 3.48 The levy was introduced by section 136 of the Leasehold Reform and, Housing and Urban Development Act 1993 to compensate for some of the public expenditure costs of housing transfer. The levy is currently set at 20% through a statutory Instrument. It can be varied by a new regulation through Parliamentary procedure after due consultation.
- 3.49 Further work will be undertaken to establish the appropriate Large Scale Voluntary Transfer levy for stock transfers which take place before a local authority moves to self-financing. This will ensure that Government receives an appropriate level of receipt, taking into account the receipt it would expect to receive if the local authority proceeded to self-financing.

## Housing transfer under self-financing

- 3.50 The information in this prospectus should enable local authorities to make a clear and informed assessment about what the self-financing model would mean for future ownership of their housing stock, in terms of financial sustainability and maintaining standards.
- 3.51 After a local authority has moved to self-financing it will be in a position to make its own assessment of the benefits of a transfer of housing stock to a registered provider and the impact on the local authority's finances. No Government financial support would be made available to clear debt or provide grant support through gap funding, other than any grant support which the Homes and Communities Agency might provide for estate regeneration or new supply.
- 3.52 Further work will be undertaken to establish whether it would be appropriate to retain a Large Scale Voluntary Transfer levy under a self financing system.

## The Housing Revenue Account and the ring-fence

- 3.53 It is a legal requirement for local authorities that own their own housing stock to keep a Housing Revenue Account (HRA). The HRA is a record of revenue expenditure and income relating to a local authority's own housing stock. Wider housing and homelessness initiatives, in which the authority takes a facilitating role rather than acts as a provider, are not charged to the HRA but to the general fund. Items that must be accounted for in the HRA are defined in Schedule 4 of the Local Government and Housing Act 1989.
- 3.54 It is not always clear how individual items of income or expenditure fit within the statutory definitions. With this in mind, the former Department of the Environment published guidance on the operation of the HRA 'ring-fence' in DoE Circular 8/95 in 1995. The Circular reflects the provision of housing and housing services as it was at the time of publication. In the intervening period provision of housing and the make up of housing estates has changed greatly: Many services and facilities which were originally provided specifically or exclusively for local authority tenants are now available to a wider mix of tenures on the estates. Increasingly too, services and support provided go beyond the bricks and mortar of the home.
- 3.55 Research commissioned from HouseMark for the review of council housing finance and published last July alongside the consultation document distinguished between 'core' and 'non-core' services. Under this definition, core management costs are traditional landlord services, including rent collection, repairs and lettings management. Non-core services include tackling antisocial behaviour, debt and employment advice. The research showed that at least 40 per cent of general management costs are now incurred for non-core services. Only a proportion of the non-core costs are paid from income streams such as service charges or the general fund, so a significant part is being met by rents.
- 3.56 To improve the transparency of the system, the review of council housing finance sought to identify and classify core and non-core services, using a variety of sources including a sample of landlords and the tenant surveys. It was however difficult to gain a consensus around a strict definition of core and non-core.
- 3.57 A third category, core-plus, was therefore proposed to cover a range of services where there is now a general expectation that landlords will provide a service, for example on anti-social behaviour and tenancy sustainment. These services are directly related to the landlord function and can help reduce management and repair costs. Both core-plus and non-core activities can attract funding from a variety of external sources to supplement the funding from the HRA, including non-rent charges, other funding streams and grants, and the general fund. As a general approach, the net cost of core-plus services to the HRA could be funded from rents.

Over time, it was proposed that non-core services should be regarded as services provided by the landlord but funded from sources other than rent.

- 3.58 In response to the consultation, there was almost universal support for maintaining the HRA ring-fence and for improved and updated guidance. There was also a widespread view that the guidance should leave flexibility for local decisions, particularly given the changing expectations of landlord services and the need to provide services that meet the wider needs of tenants or address local community issues.
- 3.59 The favoured approach to updating the guidance given in DoE Circular 8/95 was to suggest certain core items of income and expenditure that properly belong in the HRA, whilst preserving as much flexibility as possible for authorities to react to local circumstances.
- 3.60 We are proposing a series of principles to enable local authorities to decide whether the service should be paid for through the HRA or the general fund. These decisions should reflect changes to Circular 8/95 and the new regulatory role of the TSA. A draft revised circular is attached at Annex D. The draft circular is based on the following key principles:
- there should be a separate local authority landlord account that records all landlord income and expenditure (both capital and revenue) and the transfer of resources between the HRA and the general fund
  - housing services that a landlord is required to provide through statutory obligations or by the TSA should be paid through the HRA
  - some defined services should be paid for from the general fund e.g. housing advisory services, a proportion of the administration of a common housing register and other strategic housing functions.
- 3.61 Any requirements placed on landlords should either arise as statutory obligations or through standards set by the TSA as cross-domain regulator of social housing or be directly funded. When TSA sets standards (whether or not it is the subject of a direction by the Secretary of State) it will need to take into account the consequences for tenants, for new supply and for public expenditure. All TSA standards are built on tenant choice and influence, so tenants will be involved in any decision concerning the allocation of new services to the HRA.
- 3.62 It is also important to make clear that transfers across the ring-fence will continue to be governed by Schedule 4 of the Local Government and Housing Act 1989, as amended. Communities and Local Government does not at this stage intend to review or amend Schedule 4, which provides the underlying structure to the HRA ring-fence and controls the flow of resources across that ring-fence. The current

intention is to work within the framework the legislation provides and to structure guidance accordingly. But we remain open to a review of Schedule 4 if comments on the revised guidance highlight the need to adjust the definitions contained in the legislation.

## Managing Performance and Risk

- 3.63 Local leadership must set and finance the right long term council housing policies. There should be no assumption of transfer back to Government if a local authority misjudges its business plan and fails to manage the risks, as there will no longer be an HRA subsidy system.
- 3.64 The TSA will have an important role to regulate delivery and rents to protect current and future tenants. Where a local authority is consistently failing as a landlord the TSA will be able to take enforcement action.
- 3.65 Under the Local Performance Framework the Audit Commission publishes scored judgements about value for money in the use of resources in respect of local authorities as part of Comprehensive Area Assessment. This assessment considers how well organisations are managing their resources to deliver value for money and better and more sustainable outcomes for local people.
- 3.66 In enabling the TSA to regulate local authorities we wish to avoid setting up a regulatory framework which conflicts with or duplicates other processes. Accordingly, we do not propose that the TSA would hold a power to set standards for local authorities relating to the management of their financial and other affairs. While the TSA will need to involve itself in assessment of the funding of local authority landlords and their governance, they will co-operate with the Audit Commission and Government Offices and refer on evidence regarding financial management should any problems come to their attention.
- 3.67 This arrangement would be subject to review to ensure it is fit for purpose in ensuring the long-term sustainability and financial viability of self-financing HRA arrangements.

## A full and final settlement

- 3.68 Self-financing is intended to provide stability of funding so that local authorities can plan long term. Our aim is to achieve a one-off, full and final settlement, which ends the annual funding relationship between local authorities and central Government.

3.69 Self-financing cannot however guarantee that future Governments will not make changes to policies which have an impact on the income that local authorities can raise or the costs of meeting standards or other obligations. The self-financing settlement should be robust enough to withstand a range of movements to key variables including interest and inflation rates. We would expect self-financing local authority landlords to plan for and manage these normal business risks without recourse to Government. If there were major policy changes then we would consider the consequences for council landlords and deal with these as separate transactions.

## Leaseholders

- 3.70 Following a Right to Buy purchase, a leasehold owner of a former council home is liable for a proportion of the cost of works on common areas associated with their home. These costs can be significant, particularly for leaseholders on low or fixed incomes. Sinking funds can help spread these costs. Leaseholders can make regular payments into a sinking fund, which can then be drawn upon when work needs to be done.
- 3.71 The July consultation received a range of views from local authorities and some leaseholders on sinking funds. The principle of reducing hardship arising from repair bills was generally supported. However, a number of problems in running sinking funds were pointed out. Some said that compelling leaseholders to contribute to sinking funds could create hardship in itself. It was also noted that a suggestion that a payment could be built in to the Right to Buy purchase price might raise issues with mortgage lenders.
- 3.72 Further difficulties arise from the terms of leases. Existing leases do not in most cases provide support for the operation or, where necessary, the enforcement of sinking funds. Changing the terms of existing leases is not generally considered practical. New leases could include suitable clauses but, particularly in areas with a high leaseholder to tenant ratio, this would only help in a minority of cases and the time when this could have been usefully introduced may have passed.
- 3.73 Other problems with sinking funds that have been suggested include the administrative burden, difficulties with leaseholders contributing to work that is not done before they move, and funds that are too small to pay for work needed in the early years.
- 3.74 Whether sinking funds would be beneficial and successful appears to depend largely on local circumstances. There was a widely expressed view that they could be useful in some places, but that their use should be a matter for local decisions made with the full involvement of leaseholders.

- 3.75 The Audit Commission is planning a piece of work on best practice in leaseholder management, based on findings from their inspection activity. In the meantime, the option to use sinking funds remains open to local authorities and their leaseholders.
- 3.76 Self-financing will help local authorities develop long term local asset management strategies. The predictability of longer term local investment plans for maintaining and improving homes and their surroundings should place authorities in a better position to manage the impact on leaseholders. This should help leaseholders to prepare for future costs and enable local authorities to provide better information on costs for prospective leaseholders.

**What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?**

**How much new supply could this settlement enable you to deliver, if combined with social housing grant?**

# Section 4

## Implementing reform

- 4.1 Local government has been calling for reform of the council housing finance system for many years. There has been strong, broad support for a developed system which ends the need to redistribute income between councils. The responses to the consultation in July 2009 confirmed this strong support for the principles of self-financing, and a desire for the Government to make a firm proposal. Many local authorities were keen to proceed quickly towards implementation once details of the proposal were known.
- 4.2 However it is also recognised that self-financing is a major task and all aspects of the proposal need to be fully worked through and considered by central and local government before implementation. New skills and capacity will be needed for some local authorities to make a success of self-financing. New risks and opportunities will certainly emerge.
- 4.3 This paper now provides the information local authorities need to decide whether they would wish to proceed and implement this new system.
- 4.4 If there is agreement, Government proposes to work towards voluntary implementation from 2011/12, subject to confirmation at the next Spending Review. This would be achieved through existing powers in the Local Government and Housing Act 1989 (inserted by section 313 of the Housing and Regeneration Act 2008) which allow for individual agreements between local authorities and Government to exclude specified housing stock from the HRA subsidy system. Such agreements would need to be in a standard form, reflecting an offer that was available to all local authorities. It would not be possible to enter into bespoke agreements based on individual negotiations.
- 4.5 Alternatively, we will seek to implement self-financing through new primary legislation. Subject to Parliamentary time, this could be as early as 2012/13.

## Other changes

### **HRA ring-fence**

- 4.6 This paper seeks views on further proposed update to guidance on the HRA ring-fence, which is attached at Annex D. The issue of the ring-fence was addressed in the Review of Council Housing Finance. Consultation responses indicate a broad consensus that the ring-fence should remain and any new guidance should retain as great a degree of local flexibility as possible consistent with national standards. Unless this consultation raises significant concerns, we propose to issue revised guidance in the summer.

## Capital receipts

- 4.7 Changes to the rules on capital receipts would be achieved by amendments to the Local Authorities (Capital Finance and Accounting) Regulations 2003 (SI No 3146), the detail of which will be consulted upon at a later date.

**Do you favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?**

**Would you wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document?**

**Would you be ready to implement self-financing in 2011-12? If not, how much time do you think is required to prepare for implementation?**

**If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?**



# ANNEX A

## Consultation questions

We have undertaken a screening of the reform of council housing finance for race, disability and gender equality. On the basis of the screening, which included analysis of responses to the consultation in July last year, we do not believe that any specific equalities impacts will arise. However, we are aware that this decision has been taken on the basis of limited evidence and respondents are invited to provide details of any likely differential impact on different equalities groups. Local authorities are also reminded to consider the need for Equality Impact Assessments when making policy decisions under self-financing.

### Questions

- 1. What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business?**
- 2. What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?**
- 3. How much new supply could this settlement enable you to deliver, if combined with social housing grant?**
- 4. Do you favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?**
- 5. Would you wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document? Would you be ready to implement self-financing in 2011-12? If not, how much time do you think is required to prepare for implementation?**
- 6. If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?**

# ANNEX B

## Glossary of terms

Actual debt	Actual HRA debt is unknown as authorities manage their debt portfolios in aggregate and do not keep track of loans taken out specifically for the HRA. The General Fund meets all costs initially and receives a contribution towards them from the HRA.
Actual rent	The rent charged by an authority to its tenants.
Arms Length Management Organisation	An independent body established by and outside a local authority to manage all or part of the council's housing stock.
Capital Receipts	Payment received on the sale of a capital asset, e.g. the 25% un-pooled part of Right to Buy proceeds. Also receipts from LSVT, Social Homebuy or the sale of an authority's land, which are not pooled if used for specified purposes such as affordable housing.
Circular 8/95	Circular established the principle of the HRA as a landlord account. It is based on a 1990's outlook and needs updating to allow for change mechanisms and practices, and modern views on the widening role of the landlord, the services the landlord should provide and the appropriate allocation to HRA or General Fund.
Consolidated Rate of Interest	The average interest rate for the year on all money borrowed by an LA (not just relating to the HRA), including temporary borrowing. It is unique to each LA and depends on the proportion and level of fixed and variable interest rates, the historical profile of borrowing and the LAs debt management policy over the years.
Core (landlord) services	Core or essential services include letting, rent and charge collection, maintenance and tenancy management. Non-core services include managing community facilities & open space, unadopted roads, housing register, community safety and family support. Examples of more grey areas are anti-social behaviour and routes into employment.

Decent homes	Government defines a Decent Home as one which is weather tight, warm and has modern facilities. A universal set of standards is applied in the national programme to make all social housing decent, and Government is working to a target of 95% made decent by 2010, with the rest following soon after.
Determination	The annually set package of allowances given by Government to each local authority for the management, maintenance and repair of council housing.
Formula rent	The rent arising from the application of the national formula, which is being implemented over a 10 year period from 2002. The formula is based partly on the relative capital value of the property, partly on local manual earnings and partly on the number of bedrooms.
GDP deflator	An index used to estimate the real price of goods and services in the economy, calculated by dividing the total value of GDP by a measure of the real volume of GDP in the same period.
General Fund	This includes most of an authority's day to day spending and income, including some housing related elements (e.g. homelessness and maintaining the housing register). All spending and income relating to the management and maintenance of the housing stock is kept separately in the HRA, which is ring fenced from the General Fund.
Gross Domestic Product	The value of the national aggregate production of goods and services in the economy over a time period, usually a year.
Guideline rents	The notional rental income of an authority, used for calculating HRA subsidy.
Housing Revenue Account	A ring-fenced local authority account of all housing income and expenditure, required by statute.
Item 8	Item 8 of Parts I and II of Schedule 4 to the 1989 Act, requiring LAs to credit/debit their HRA using a formula. Credits are made for interest and debits for capital charges.
Large Scale Voluntary Transfer	The transfer of all housing stock, following a positive vote by tenants, from an authority to an existing, or newly established housing association.
Leaseholder charges	Charges to leaseholder made by the owner of the freehold, e.g. by an authority to the Right to Buy owner of a leasehold flat, for the maintenance of common areas.
Limit rents	The maximum rent for which DWP will fund Housing Benefit.

Major Repairs Allowance	The annual allowance provided by the Government for an authority to meet the ongoing capital costs of maintaining the current condition of its housing stock.
Major Repairs Reserve	Authorities are required to set up a Major Repairs Reserve and transfer into it a sum equal to the Major Repairs Allowance. This reserve can be used for capital expenditure on HRA assets or to repay borrowing and unspent money can be carried over to the following year.
Management and Maintenance Allowance	A part of the notional expenditure element of the HRA subsidy calculation which represents an estimate of each LA's relative need to spend on the management and maintenance of its housing stock.
Negative subsidy local authority	One that makes payments into the national subsidy system that redistributes surplus rental income.
Notional debt	A separate version of the HRA debt which is used for the purpose of assessing an LAs entitlement to HRA subsidy. This entitlement is the HRA Subsidy Capital Financing Requirement.
Opening debt, self financing	The level of an authority's debt at the outset of self financing, after payment of the self financing settlement.
Options appraisals	To provide the investment needed to make all social housing decent, CLG gave all authorities three options. These were establishing an ALMO, transferring stock to an RSL or entering into a PFI contract. Some authorities have opted for a mixture of these, or to retain their stock and to make it decent using their own resources.
Overhanging debt	Where the net receipt from a Large Scale Voluntary Transfer is not sufficient to cover the authority's notional housing debt the shortfall, or overhanging debt, can be paid by the Government.
Pooling, of capital receipts	A proportion of capital receipts from the sale of housing land and dwellings is pooled nationally – 75% of receipts from Right To Buy sales but not receipts from Large/Small Scale Voluntary transfers. For all other housing receipts, 75% is pooled from sales of homes, 50% from sales of land other HRA property.
Pooling, of rents & service charges	In 2004 authorities were advised by Government to de-pool, or separate, service charges and rents. Authorities vary in the extent to which they have done so.

Positive subsidy Local Authority	One that receives subsidy payments from the national subsidy system that redistributes surplus rental income.
Private Finance Initiative	In housing private finance initiative (PFI) schemes local authorities contract with private sector firms to improve, manage, maintain and build social housing.
Prudential code	A statutory system that combines self regulation and external audit, to control levels of local government debt by means of cyclically set prudential indicators.
Registered Social Landlord	Government funded not-for-profit organisations that provide affordable housing. They include housing associations, trusts and co-operatives. They work with local authorities to provide new affordable housing and perform a landlord function for their own stock.
Rent restructuring	The process whereby social rents are adjusted over time, with a view to achieving target rents on completion. Policy has been to work towards fair and affordable rents that are similar for similar properties in the same area, by gradually reducing the gap between local authority and RSL rents, and between RSL rents, to achieve rent convergence by 2012. Formula rents take account of the size and value of the property as well as local earnings.
Retail Prices Index	The monthly Index in the UK that demonstrates the movement of retail prices. It effectively shows the cost of living as it tracks the prices of UK consumer goods and services, including mortgage interest and rent.
Ring-Fence	The ring-fence prevents cross-subsidisation between the general fund and the HRA. Transfers across the ring-fence are exceptional and not routinely allowed.
Subsidy system, HRA	The system whereby an authority's assumed housing costs and income are assessed annually and deemed surplus income or shortfall is paid into or drawn from a national redistributive system, with national surplus or shortfall going to or being met by Government.
Target rent	<i>See rent restructuring.</i>
Tenanted Market Value	A method of valuing housing stock by valuing the associated future income and expenditure needs.

## List of acronyms

ALMO	Arms Length Management Organisation
BRE	Building Research Establishment
CFR	Capital Financing Requirement
CIH	Chartered Institute of Housing
CIPFA	Chartered Institute of Public Finance and Accountancy
CLG	(Department for) Communities and Local Government
CRI	Consolidated Rate of Interest
DFG	Disabled Facilities Grant
DWP	Department for Work and Pensions
GDP	Gross Domestic Product
HCA	Homes and Communities Agency
HMT	Her Majesty's Treasury
HRA	Housing Revenue Account
HRACFR	HRA Capital Financing Requirement
HRAS	Housing Revenue Account Subsidy
KLOE	Key lines of enquiry
LSVT	Large Scale Voluntary Transfer
MRA	Major Repairs Allowance
NHF	National Housing Federation
PFI	Private Finance Initiative
RPI	Retail Prices Index
RSL	Registered Social Landlord
SCFR	Subsidy Capital Financing Requirement
TSA	Tenant Services Agency

# ANNEX C

Uplifts in allowances for each council under the self-financing proposals relative to untransitionally protected allowances in the 2010/11 determination, based on a 7% discount rate.

	Management and Maintenance Uplift	MRA uplift without 10% Floor	MRA uplift with 10% Floor	Combined Allowance Uplift Without 10% Floor	Combined Allowance Uplift With 10% Floor
Adur	4.1%	24.6%	24.6%	10.5%	10.5%
Arun	2.6%	25.4%	26.6%	9.6%	10.0%
Ashfield	1.5%	32.4%	32.4%	10.2%	10.2%
Ashford	1.5%	34.6%	34.6%	11.4%	11.4%
Babergh	0.5%	38.3%	38.3%	12.4%	12.4%
Barking	6.2%	40.2%	40.2%	14.9%	14.9%
Barnet	7.0%	26.3%	26.3%	12.6%	12.6%
Barnsley	0.3%	42.8%	42.8%	12.1%	12.1%
Barrow	1.9%	21.7%	30.9%	7.4%	10.0%
Basildon	3.3%	27.2%	27.2%	10.7%	10.7%
Bassetlaw	1.6%	36.0%	36.0%	11.4%	11.4%
Birmingham	4.5%	25.9%	25.9%	10.2%	10.2%
Blackpool	4.5%	10.4%	25.1%	6.1%	10.0%
Bolsover	0.0%	38.9%	38.9%	11.0%	11.0%
Bolton	1.5%	34.6%	34.6%	10.4%	10.4%
Bournemouth	5.3%	25.7%	25.7%	11.2%	11.2%
Brent	9.6%	21.3%	21.3%	12.9%	12.9%
Brentwood	3.3%	22.4%	24.1%	9.5%	10.0%
Brighton & Hove	7.1%	21.5%	21.5%	11.3%	11.3%
Bristol	5.7%	31.6%	31.6%	12.7%	12.7%
Broxtowe	1.6%	22.9%	29.6%	8.0%	10.0%
Bury	0.9%	32.4%	33.8%	9.6%	10.0%
Cambridge	1.2%	26.3%	30.7%	8.7%	10.0%
Camden	12.9%	8.1%	8.1%	11.6%	11.6%

	<b>Management and Maintenance Uplift</b>	<b>MRA uplift without 10% Floor</b>	<b>MRA uplift factor with 10% Floor</b>	<b>Combined Allowance Uplift Without 10% Floor</b>	<b>Combined Allowance Uplift With 10% Floor</b>
Cannock Chase	0.3%	36.2%	36.2%	10.7%	10.7%
Canterbury	2.4%	28.2%	28.2%	10.5%	10.5%
Castle Point	0.6%	24.7%	28.7%	8.6%	10.0%
Central Beds UA	1.6%	29.4%	29.4%	10.1%	10.1%
Charnwood	2.9%	24.7%	27.3%	9.2%	10.0%
Cheltenham	5.6%	32.4%	32.4%	12.9%	12.9%
Cheshire West UA	2.0%	32.0%	32.0%	10.7%	10.7%
Chesterfield	3.3%	34.5%	34.5%	11.5%	11.5%
City of London	13.3%	4.7%	4.7%	11.0%	11.0%
City of York	3.3%	31.1%	31.1%	11.4%	11.4%
Colchester	1.6%	23.9%	29.0%	8.4%	10.0%
Corby	2.2%	34.0%	34.0%	11.1%	11.1%
Cornwall UA	0.6%	39.9%	39.9%	12.9%	12.9%
Crawley	2.2%	29.6%	29.6%	10.6%	10.6%
Croydon	6.9%	27.5%	27.5%	12.9%	12.9%
Dacorum	2.5%	30.1%	30.1%	11.3%	11.3%
Darlington	1.3%	21.5%	30.3%	7.3%	10.0%
Dartford	3.6%	29.9%	29.9%	11.1%	11.1%
Derby	1.6%	38.3%	38.3%	11.3%	11.3%
Doncaster	1.5%	41.7%	41.7%	12.2%	12.2%
Dover	1.0%	32.0%	32.0%	10.9%	10.9%
Dudley	3.1%	35.3%	35.3%	12.1%	12.1%
Durham UA	0.4%	39.9%	39.9%	11.7%	11.7%
Ealing	9.9%	18.9%	18.9%	12.4%	12.4%
East Devon	0.5%	42.0%	42.0%	13.6%	13.6%
East Riding	1.0%	28.0%	30.3%	9.3%	10.0%
Eastbourne	4.3%	28.0%	28.0%	11.3%	11.3%



	<b>Management and Maintenance Uplift</b>	<b>MRA uplift without 10% Floor</b>	<b>MRA uplift factor with 10% Floor</b>	<b>Combined Allowance Uplift Without 10% Floor</b>	<b>Combined Allowance Uplift With 10% Floor</b>
Enfield	8.6%	22.1%	22.1%	12.6%	12.6%
Epping Forest	3.1%	25.6%	25.6%	10.1%	10.1%
Exeter	4.9%	30.5%	30.5%	12.3%	12.3%
Fareham	3.4%	19.0%	24.7%	8.2%	10.0%
Gateshead	2.8%	31.1%	31.1%	10.9%	10.9%
Gloucester	1.8%	33.6%	33.6%	10.8%	10.8%
Gosport	3.0%	28.5%	28.5%	10.4%	10.4%
Gravesham	4.6%	27.8%	27.8%	11.5%	11.5%
Great Yarmouth	3.8%	27.1%	27.1%	10.4%	10.4%
Greenwich	9.8%	20.8%	20.8%	12.7%	12.7%
Guildford	1.9%	28.6%	28.6%	10.2%	10.2%
Hackney	12.4%	9.8%	9.8%	11.7%	11.7%
Hammersmith	12.4%	12.1%	12.1%	12.3%	12.3%
Haringey	9.1%	27.7%	27.7%	14.0%	14.0%
Harlow	4.1%	26.3%	26.3%	10.9%	10.9%
Harrogate	0.7%	22.3%	30.3%	7.5%	10.0%
Harrow	6.2%	31.6%	31.6%	13.6%	13.6%
Havering	4.8%	24.7%	24.7%	11.2%	11.2%
High Peak	0.7%	33.7%	33.7%	10.6%	10.6%
Hillingdon	4.5%	31.5%	31.5%	12.5%	12.5%
Hinckley	0.4%	33.9%	33.9%	10.5%	10.5%
Hounslow	9.1%	24.1%	24.1%	13.3%	13.3%
Ipswich	3.5%	34.4%	34.4%	12.2%	12.2%
Isles of Scilly	1.0%	21.1%	33.4%	6.6%	10.0%
Islington	13.0%	9.5%	9.5%	12.2%	12.2%
Kensington	11.5%	6.5%	6.6%	10.0%	10.0%
Kettering	1.6%	30.5%	30.5%	10.2%	10.2%
Kingston U Hull	2.6%	39.3%	39.3%	11.9%	11.9%

	<b>Management and Maintenance Uplift</b>	<b>MRA uplift without 10% Floor</b>	<b>MRA uplift factor with 10% Floor</b>	<b>Combined Allowance Uplift Without 10% Floor</b>	<b>Combined Allowance Uplift With 10% Floor</b>
Kingston u Thames	7.0%	19.4%	19.4%	10.7%	10.7%
Kirklees	1.9%	29.5%	31.3%	9.5%	10.0%
Lambeth	11.1%	14.8%	14.8%	12.1%	12.1%
Lancaster	3.4%	32.9%	32.9%	11.5%	11.5%
Leeds	4.2%	30.2%	30.2%	11.2%	11.2%
Leicester	4.5%	35.4%	35.4%	12.3%	12.3%
Lewes	2.7%	30.4%	30.4%	11.3%	11.3%
Lewisham	10.3%	16.6%	16.6%	11.9%	11.9%
Lincoln	5.3%	27.2%	27.2%	11.1%	11.1%
Luton	6.0%	24.5%	24.5%	11.3%	11.3%
Manchester	5.1%	29.5%	29.5%	10.5%	10.5%
Mansfield	0.9%	38.4%	38.4%	10.8%	10.8%
Medway Towns	3.8%	25.7%	25.7%	10.2%	10.2%
Melton	2.7%	28.7%	28.7%	10.5%	10.5%
Mid Devon	0.6%	47.7%	47.7%	15.1%	15.1%
Mid Suffolk	0.2%	47.8%	47.8%	14.7%	14.7%
Milton Keynes	2.2%	38.0%	38.0%	12.2%	12.2%
NE Derbyshire	0.3%	46.3%	46.3%	13.9%	13.9%
New Forest	1.1%	35.6%	35.6%	12.1%	12.1%
Newark	1.5%	34.1%	34.1%	11.4%	11.4%
Newcastle u Tyne	5.4%	25.2%	25.2%	10.8%	10.8%
Newham	8.0%	20.1%	20.1%	11.1%	11.1%
North Kesteven	0.6%	46.5%	46.5%	14.2%	14.2%
North Tyneside	1.7%	32.3%	32.3%	10.6%	10.6%

	Management and Maintenance Uplift	MRA uplift without 10% Floor	MRA uplift factor with 10% Floor	Combined Allowance Uplift Without 10% Floor	Combined Allowance Uplift With 10% Floor
North Warwick	2.6%	36.4%	36.4%	12.7%	12.7%
Northampton	5.6%	30.4%	30.4%	12.4%	12.4%
Northumbria UA	0.8%	41.8%	41.8%	13.1%	13.1%
Norwich	4.8%	29.5%	29.5%	11.4%	11.4%
Nottingham	4.4%	37.0%	37.0%	12.2%	12.2%
Nuneaton	3.4%	30.0%	30.0%	10.9%	10.9%
NW Leicester	0.2%	36.3%	36.3%	11.1%	11.1%
Oadby & Wigston	4.6%	23.9%	23.9%	10.2%	10.2%
Oldham	5.1%	24.3%	24.8%	9.9%	10.0%
Oxford City	5.2%	32.2%	32.2%	12.6%	12.6%
Poole	3.0%	25.1%	25.1%	10.1%	10.1%
Portsmouth	8.8%	15.1%	15.1%	10.5%	10.5%
Reading	4.3%	25.2%	27.2%	9.5%	10.0%
Redbridge	8.0%	21.2%	21.2%	12.0%	12.0%
Redditch	2.4%	33.7%	33.7%	11.5%	11.5%
Richmondshire	1.2%	32.0%	32.0%	10.6%	10.6%
Rochdale	4.1%	26.3%	27.1%	9.8%	10.0%
Rotherham	1.9%	35.5%	35.5%	11.5%	11.5%
Rugby	2.9%	28.2%	28.2%	10.3%	10.3%
Runnymede	1.9%	34.1%	34.1%	12.1%	12.1%
Salford	6.9%	25.0%	25.0%	11.5%	11.5%
Sandwell	2.9%	32.0%	32.0%	10.6%	10.6%
Sedgemoor	2.9%	36.5%	36.5%	12.9%	12.9%
Selby	0.1%	38.8%	38.8%	12.0%	12.0%
Sheffield	6.2%	25.6%	25.6%	11.3%	11.3%
Shepway	3.0%	31.0%	31.0%	11.4%	11.4%

	<b>Management and Maintenance Uplift</b>	<b>MRA uplift without 10% Floor</b>	<b>MRA uplift factor with 10% Floor</b>	<b>Combined Allowance Uplift Without 10% Floor</b>	<b>Combined Allowance Uplift With 10% Floor</b>
Shropshire UA	1.0%	36.4%	36.4%	11.7%	11.7%
Slough	5.0%	25.3%	25.3%	10.8%	10.8%
Solihull	4.5%	19.9%	23.0%	9.1%	10.0%
South Cambridge	0.1%	50.3%	50.3%	15.4%	15.4%
South Derby	0.6%	32.3%	32.3%	10.6%	10.6%
South Holland	0.1%	50.3%	50.3%	14.5%	14.5%
South Kesteven	1.3%	41.5%	41.5%	13.0%	13.0%
South Lakeland	1.2%	26.9%	29.2%	9.3%	10.0%
South Tyneside	2.1%	32.8%	32.8%	10.8%	10.8%
Southampton	8.3%	18.3%	18.3%	11.0%	11.0%
Southend-on-Sea	5.8%	17.6%	19.5%	9.4%	10.0%
Southwark	11.6%	10.9%	10.9%	11.5%	11.5%
St Albans	1.6%	29.5%	29.5%	10.5%	10.5%
Stevenage	2.4%	30.1%	30.1%	11.1%	11.1%
Stockport	4.4%	19.3%	23.4%	8.8%	10.0%
Stockton	2.3%	29.1%	29.2%	10.0%	10.0%
Stoke-on-Trent	1.2%	40.0%	40.0%	11.4%	11.4%
Stroud	1.3%	39.2%	39.2%	12.7%	12.7%
Sutton	4.8%	40.3%	40.3%	14.5%	14.5%
Swindon	2.1%	38.5%	38.5%	12.7%	12.7%
Tamworth	3.2%	34.8%	34.8%	11.9%	11.9%
Tandridge	1.8%	21.7%	27.2%	8.2%	10.0%
Taunton Deane	0.8%	41.4%	41.4%	12.9%	12.9%
Tendring	2.0%	21.9%	28.3%	8.0%	10.0%

	Management and Maintenance Uplift	MRA uplift without 10% Floor	MRA uplift factor with 10% Floor	Combined Allowance Uplift Without 10% Floor	Combined Allowance Uplift With 10% Floor
Thanet	7.2%	29.3%	29.3%	13.3%	13.3%
Thurrock	4.5%	28.4%	28.4%	11.6%	11.6%
Tower Hamlets	12.6%	7.8%	7.8%	11.3%	11.3%
Uttlesford	0.2%	36.6%	36.6%	11.9%	11.9%
Waltham Forest	7.0%	29.7%	29.7%	13.2%	13.2%
Wandsworth	11.2%	12.7%	12.7%	11.6%	11.6%
Warrington	1.1%	33.8%	33.9%	10.0%	10.0%
Warwick	4.0%	26.5%	26.5%	10.6%	10.6%
Waveney	1.6%	33.0%	33.0%	11.3%	11.3%
Waverley	0.7%	31.8%	31.8%	10.8%	10.8%
Wealden	0.8%	24.4%	28.5%	8.6%	10.0%
Welwyn Hatfield	2.6%	35.5%	35.5%	12.6%	12.6%
West Lancashire	2.9%	27.9%	27.9%	10.2%	10.2%
Westminster	11.9%	7.7%	7.7%	10.7%	10.7%
Wigan	1.3%	37.7%	37.7%	11.3%	11.3%
Wiltshire UA	1.6%	38.7%	38.7%	12.9%	12.9%
Winchester	0.7%	30.6%	30.6%	10.2%	10.2%
Woking	2.8%	25.4%	26.3%	9.7%	10.0%
Wokingham	1.2%	33.6%	33.6%	11.3%	11.3%
Wolverhampton	3.8%	28.0%	28.0%	10.2%	10.2%
Wycombe	2.0%	30.8%	30.8%	10.7%	10.7%

# ANNEX D

## Draft revised guidance on the operation of the HRA ring-fence

### Introduction

1. This guidance is an updated version of Circular 8/95 published by the former Department of the Environment (DoE) and was developed with stakeholders as part of the joint CLG/HMT Review of Council Housing. It gives advice to local housing authorities in England on certain aspects of the Housing Revenue Account (“the HRA”).
2. DoE Circular 8/95 provided valuable advice and gave clarification as to whether various items of expenditure and income should be accounted for inside or outside the HRA. However, while that document was a useful expression of council housing management at the time, circumstances have changed. Estates are no longer purely council estates and it can be the case that council tenants are in the minority on some estates. The rising expectations of tenants and residents have also placed increasing demands on housing services, which are frequently being called upon to provide services to meet the needs of communities and neighbourhoods which are beyond the traditional remit of a landlord service.
3. This paper restates Ministers’ established policy for the HRA and introduces no new issues of principle. However it does highlight the need to be fair to both tenants and council tax payers and that there should be a fair and transparent apportionment of costs between the HRA and General Fund. Therefore this guidance serves to re-emphasise the already existing requirement for authorities to make contributions from the General Fund to the HRA when services are provided out of the HRA to the benefit of the community as a whole.
4. It is intended to be a helpful reference document for authorities, tenants and auditors alike. *This guidance is not intended as an authoritative statement of the law on the keeping of the HRA. Authorities should take their own legal and accounting advice as necessary and will need to satisfy their auditors about their decisions.*
5. At its most basic, when taking any decision on whether an item of expenditure or income potentially related to the administration of the housing stock should be accounted for in the HRA, the test that should be applied is “Who benefits?” That is to say, who is the major contributor of the item of income, or the major beneficiary of

the expenditure under consideration; should the HRA bear the full cost or only part, or should it benefit from the entirety of the income, or is some of it applicable to the General Fund?

6. In some cases, such as rental income, or expenditure on housing repairs, it is clear that the HRA is the correct accounting vehicle. Transactions concerning rent rebates and Housing Benefit are clearly placed in the general fund, but there is a substantial 'grey area' of items of income and expenditure where differing and perhaps unique local circumstances will suggest different solutions. These are the decisions where local flexibility is best employed using the "who benefits?" approach.

## Statutory Background

7. Expenditure and income relating to property listed in section 74 of the Local Government and Housing Act 1989 ("the 1989 Act") must be accounted for in the HRA. This comprises mostly housing and other property provided by authorities under Part II of the Housing Act 1985 ("the 1985 Act"). Schedule 4 to the 1989 Act (as amended by section 127 of the Leasehold Reform, Housing and Urban Development Act 1993) specifies the debit and credit items to be recorded in the HRA. The Housing (Welfare Services) Order 1994 specifies the welfare services which must be accounted for outside the HRA.

## General Principles

8. The statutory provisions referred to above reflect the Government's policy that the HRA remains a ring-fenced account within the General Fund and should still primarily be a landlord account, containing the income and expenditure arising from a housing authority's landlord functions.

## Property in the HRA

9. The main consideration when deciding whether the costs and income associated with a particular property should be accounted for in the HRA is the powers under which the authority is currently providing that property, Section 74 of the 1989 Act sets out the property which must be accounted for in the HRA, by reference to the powers under which it is held.
10. A property has to be accounted for within the HRA if it is currently provided under Part II of the 1985 Act or any of the other powers specified in section 74 of the 1989 Act ("Part II housing"); the account also extends to any outstanding debts or receipts which arose when a property was so provided and which are still outstanding

following its disposal. If a property is not provided under the powers listed in section 74, or in directions under that section, the authority must not account for it in the HRA. The HRA (Exclusion of Leases) Direction 1997, made under section 74(3)(d) of the 1989 Act, requires that all leases for dwellings for a period of 10 years or less, must not be included in the HRA.

11. If an authority wishes to include in the HRA property which is ancillary to Part II housing but not up to now provided under Part II, it will be necessary to obtain consent from the Secretary of State under section 12 of the 1985 Act (see also section 15 of the 1985 Act for London authorities). Such applications will be considered on their individual merits.
12. Equally, properties which may originally have been provided under one of the powers in section 74 of the 1989 Act (or their predecessor powers) may no longer fulfil their original purpose. In these circumstances, the authority should consider their removal from the HRA. Examples of properties which might fall into this category are estate shops and other commercial premises, such as banks, post offices, workshops, public houses, industrial estates and surgeries, where there is no longer any connection with the local authority's housing. The decision is for the authority to take, though they should be able to explain the basis of the decision to their external auditor and tenants, if called upon to do so.
13. Authorities should have regard to the powers available to them to hold property when they are considering whether to appropriate it out of the HRA. Section 19(2) of the 1985 Act requires authorities to obtain the Secretary of State's consent before a house or part of a house can be appropriated for any other purpose. If a property is transferred between the HRA and any other revenue account within the General Fund, this will involve adjustments to HRA and HRA subsidy capital financing requirements, in accordance with the relevant determinations under Part VI of the 1989 Act.

## Amenities

14. These include play and other recreational areas, grassed areas and gardens and community centres. In each case it is for the authority to form their own judgement on whether provision is proper under Part II of the 1985 Act and the extent to which the costs should be charged to the HRA. Much will depend upon local circumstances. Among the issues to be considered are the purpose of provision and the use made of the facilities by tenants and other people. There can only be a charge to the HRA where the amenities are provided and maintained in connection with Part II housing accommodation.



15. Where an amenity is shared by the community as a whole, the authority must have regard to paragraph 3 of Part III of Schedule 4 to the 1989 Act. This requires a contribution to be made from the General Fund to the HRA reflecting the general community's share of the amenity.

## Management and Maintenance Services

16. The landlord is often best placed to provide wider services for neighbourhoods and communities that go beyond their traditional remit. Housing Quality Network (HQN) research into HRA management and maintenance costs found that *"A large and growing proportion of management costs, perhaps up to 40%, are being incurred in 'non-core' service areas and whilst a proportion of these costs are recovered through a diverse range of income streams including grants, service charges and other contributions, the net cost of these services is significant and growing."* In the light of this evidence there is a clear need to demonstrate transparency to both tenants and council tax payers that there is a fair apportionment of costs between the HRA and the General Fund.
17. To assist in determining what should and what should not be charged to the HRA management and maintenance services can be expressed as core, core plus or non-core services. This approach was developed by HQN in their above mentioned research.
18. While core-plus and non-core activities may attract funding from a variety of external sources to supplement the funding from the HRA, including non-rent service charges, other funding streams and grants, and the general fund. As a general approach, the net cost of core-plus services to the HRA should be taken into account through locally programmed management and maintenance provision, funded primarily from rental income.
19. Over time, non-core services should be regarded as services provided by the landlord but funded from sources other than rent. The degree to which these non-core activities attract alternative sources of funding, together with the degree they are taken up by the council's own tenants will also influence any decision on where they should be accounted for under the "Who Benefits" principle.
20. Where a council landlord is taking decisions concerning the correct place to account for new services, or is reviewing existing practice in the light of evolving circumstances, Communities and Local Government would expect that tenants should be consulted or otherwise involved in the decision-making process.

## Core Services

- Repair and maintenance
  - Responsive
  - Planned and cyclical
  - Rechargeable repairs
- General tenancy management
  - Rent collection and arrears recovery
  - Service charge collection and recovery
  - Void and re-let management
  - Lettings and allocations of HRA properties only, any work carried out in respect of non HRA properties should be charged to the General Fund
  - Management of repairs
  - Anti Social Behaviour: low level
  - General advice on tenancy matters
- General estate management<sup>1</sup>
  - Communal cleaning
  - Communal heating and lighting
  - Grounds maintenance
  - Community centres
  - Play areas
  - Estate officers and caretakers
  - Neighbourhood Wardens
  - Concierge
  - CCTV
- Policy and management
  - HRA share of strategic management costs
  - Setting of rent levels, service charges, and supporting people charges
  - Administration of the Right to Buy

<sup>1</sup> If any of the above services provided from the HRA in connection with Part II housing accommodation are shared by the community as a whole then a General Fund contribution to the HRA must be made to reflect the general communities share.

## Core Plus Services

- Contribution to corporate Anti Social Behaviour services. Where the service is entirely charged to the General Fund it may be appropriate for the HRA to contribute to these costs
- Tenancy support
- Supporting people services – HRA housing related support services only e.g.
  - Sheltered accommodation wardens
  - Alarm services

## Non-Core Services

It is the view of CLG that it is inappropriate to charge these services to the HRA. Their costs should be met from the General Fund.

- Administration of a common housing register – costs should be split between the HRA and General Fund
- Maintenance of tenant gardens – unless a separate charge is made for the service
- Street lighting
- Dog wardens
- Personal care services
- Homeless administration
- Housing advisory service

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