Opportunities and Bear Traps
The Government's Plans for Reforming Council Housing Finance
Report Back from Conference Workshop

Overview
The workshop covered how Council Housing Finance currently works (through the Housing Revenue Account), and the key reforms being legislated for by the Government.

The main change will be a move from the current system where Communities and Local Government decides which Councils should receive subsidy, and which Council's should pay "negative subsidy" to a system where Councils can keep all of the money their tenants pay in rents, but in exchange have to take on "as much debt as they can prudently afford". Some Councils will end up with less debt but no subsidy, other Councils will stop paying money to the Government, but will end up with greatly increased debt.

The following table illustrates the expected change in Housing Debt for a few Councils:

Council	Existing Debt	New Debt	Change
South Lakeland	£13m	£77m	+ £64m
Camden	£548m	£475m	-£73m
Newcastle	£663m	£330m	-£333m
Dacorum	Nil	£343m	+£343m
ALL	£21,428m	£28,138m	+£6,710m

The range of debt per property varies enormously between Councils. Final figures have still to be agreed, but some Councils will end up with debt of over £30,000 a property (e.g. Guilford at c£36,000) while others will end up with debt of less than £10,000 a property (e.g. Hackney at c£5,000). These figures reflect the balance of rent levels, running costs and outstanding works, and are calculated using a 30 year Business Plan model with a "discount rate" of 6.5%. [i.e. the Council should be able to run its housing services, improve its stock and be debt free after 30 years, assuming it was borrowing at a "real" (i.e. after inflation) rate of 6.5%].

Issues, Opportunities and Bear Traps

Issues

At the start of the session a short exercise was held to find out participants "Key Issues". These can be summarised as:

- Are we (tenants) going to be better off?
- How does the current Housing Revenue Account and Subsidy system work?
- How is tenants' rent spent
- How to explain new debt (to other tenants etc)
- Is there extra money – where does it come from?
- Will tenants be better off under the new system?
- What will happen to rents? – And can Councils set their own rents (and if not, why not?)
- Will Councils be able to build new homes – how will the system work?
- What is the cheapest/best way to afford new debt?
- If Councils are now fully responsible for running the finances of their Council Homes, how can we be reassured they are competent to do this? (And if they are not competent, what happens?)
- What are the pitfalls?
- How do you make savings?

Additionally a number of tenants and leaseholders wanted to know how service charges worked – this was not part of the workshop, but could be a "Hot topic" at a future ARCH Conference.

All the items flagged above work covered in the workshop except for how new homes can be built (partly covered by a handout, but time ran out).

Opportunities

The benefits and opportunities of the new "Settlement" can be seen as:

- ALL councils should have between 8% and 20% more a year to actually spend on their homes and tenants, plus an extra average of £60 per property to fund disabled adaptations
- For all Councils the amount they will need to pay in debt repayments will be less they currently pay in Debt repayments + Money to the Government ("negative subsidy").
  BUT – not necessarily in the first year or two for some councils – for these Councils it will be a case of "Jam tomorrow".
- Councils will have greater certainty over their finances so *should* be able to plan better and more efficiently
- Over time Councils will be able to pay down their debt. This will greatly increase the amount of money available for services or investment
- Over time Council's will be able to build new homes

Bear Traps (Things to worry about and be alert to)
While there are some very good opportunities and benefits which will arise from the new Settlement, there are things to worry about. The main potential concerns and "Bear Traps" are identified as follows:

- **Changes in Interest Rates** – Councils will now have to make decisions as to whether to use floating (or variable) interest rates, or to "fix" interest rates. At present floating interest rates are much cheaper than fixed interest rates (which would give the Council's more money to spend) but this could easily change quickly. If interest rates were not fixed and rose sharply Councils may struggle to pay them.

  Previously the Government took this "market risk" through the subsidy system. Now Councils have to make the decisions and carry the risk themselves. (Good news is that the Settlement includes some funds for Council's to employ specialist staff or pay for specialist advice to cover this "Treasury Management" role)

- **"Sequencing Issue, and borrowing cap"** – the is a bit "geeky", but although the Government calculation will allow all Councils the funds to manage and maintain their homes the Government has used a "one size suits all" calculation. For *some* Councils required expenditure in the early years after "the Settlement" will be greater than available funds. This is most likely to occur where Councils have a large backlog of work outstanding (e.g. for decent homes), or where rents will not reach "target" or "rent conversion" levels in 2015. In theory these Councils can *fund* the cost of outstanding works, but only if the Government were to allow them to borrow additional money in the early years (and repay it later). Most councils will not be able to borrow any more money as the Government has set a maximum cap on what councils can borrow.

  One consequence could be for affected Councils that they only work to a minimum interpretation of the "Decent Homes Standard".

  [Geek note 2 **-** A few councils will be able to borrow extra money, as they are being credited for paying off existing debt faster than the CLG calculate they should have. Also in theory Councils can borrow on an "Interest only" basis in the early years. This will increase funds available to spend in the short term, as long as they can afford to pay off debt faster in later years].

- **"Imperfect Ringfence on the Housing Revenue Account"** – The rules state that tenants rent can only be spent on council housing. However the Council is allowed to charge (the Housing Revenue Account) for services provided – e.g. legal or Information Technology. This is fair and fine as long as the charges reflect a "fair price" for what is provided. Some Councils however are very adept at working out how to recharge large sums of money in a way which favours the General Fund (Council Tax) at the expense of council tenants.

NB There were originally some proposals to make the "HRA ringfence" much tighter, but these have now been dropped by the Government

- "**Central Government Greed**" **- "Can Central Government really keep its finders out of local Government?"**
  In the short term Central Government expects councils to take on around £6.7 billion pounds extra debt as part of the settlement. This may be fair (as the Government is giving up a lot of revenue in future years).

  However if in say 10 years time Councils have invested well in their homes and paid down a lot of their debt, what is to stop the Government coming back for "a second bite of the cherry"?

  [The current proposals include a new provision allowing the Government to "Reopen the Settlement", which would allow them to do just this].

Tenants Questions at the end
At the end participants were allowed to submit (written) questions or concerns that still worried them.

The main concerns are reproduced below (with brief comment where appropriate):

- **Concern over the lowering of the decent homes standard**
  [This should only be a real issue to a minority of councils – see "sequencing issue" above]

- **"There's no guarantee that this is the final settlement"**
  [Indeed! And this I worrying]

- **What resource do tenants have if the council decides to pay off the debt, rather than invest in the stock?**
  [The broad issue of how do tenants force an issue where councils are being incompetent or going against tenants wishes was much debated elsewhere in the Conference. In extreme circumstances the CLG has power of intervention to take over the running of Council Housing from the council. This power has been used, but only rarely, and only where the council has been run very badly].

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