

DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT

Council housing finance

The Minister for Housing and Local Government (The Rt Hon Grant Shapps):

For far too long, councils have been frustrated in their efforts to meet the housing needs of their tenants by a discredited system for financing council housing. The Spending Review and our recently published *'Local decisions: a fairer future for social housing'* confirmed our intention to replace this financing system with a new approach that devolves power and sufficient resources to councils to enable them to offer a better service to their tenants. This delivers a commitment in the Coalition Agreement.

Under the current system, Whitehall makes a series of complex annual decisions about what councils should raise in rents and what they should spend on their homes. On the back of this, Government redistributes income between councils. The result is that councils have no certainty about future income, no ability to plan long term, and in practice few incentives to drive up efficiency.

We will replace this opaque, centralised system with one that provides a direct link between the rents council's charge, the money they spend, and the services they deliver. Under this system, tenants and local taxpayers will be able to hold their landlord to account for the cost and quality of their housing. We also estimate moving to self-financing would produce over £6 billion of efficiency savings over 30 years as councils are able to plan more effectively for the long-term.

The Localism Bill will take powers to repeal the existing subsidy system and replace it with powers for the Secretary of State to introduce self-financing. Implementing these changes via legislation ensures all councils start on the same basis at the same time. Our intention is to bring about these changes from April 2012, subject to Parliamentary approval. For 2011/12 we will continue to run the present system and have recently published draft determinations for each council for consultation.

This statement sets out the basis on which Government intends to implement these reforms. We are satisfied that self financing is the right approach and represents a good deal for all authorities over the longer term. However, the success of self-financing depends on a fair valuation of their housing business that guarantees all councils receive a sustainable level of debt that they can afford. As such we will continue to finalise the precise details of the settlement over the next year to ensure they take account of any relevant changes in economic circumstances. The Government will then confirm that the settlement is fair and sustainable and should be implemented next year.

We propose to adopt the basic method for calculating the debt reallocation consulted upon in March, based on a 30 year notional business plan of income and expenditure for each landlord. A payment to or from each council will then be made to reflect the difference between the value of the business and the housing debt currently supported under the HRA. The income assumptions built into the valuation will be based on the

existing social rent policy for councils that their rents should “converge” with standard housing association rents in 2015/16.

We will publish a policy document in the new year setting out how these proposed reforms are envisaged to work in practice, together with the underpinning model which will include updated indicative numbers per council. This much more detailed information will provide Parliament and local authorities with the opportunity to assess these proposals and their likely impact at the same time as they scrutinise the powers proposed to support them during passage of the Bill.

This policy document will set out the updated methodology in more detail and will incorporate the following parameters:

- a discount rate of 6.5 per cent for calculating the net present value of each council’s housing business;
- providing for realistic expenditure for management, maintenance and major repairs as identified in independent research published last year, increasing the costs used in the valuation by an average of 11.7%;
- £116 million of extra funding each year for councils to pay for disabled adaptations to their stock;
- funding for Treasury Management costs and to reflect planned demolitions;
- Government continuing to pay subsidy to local authorities for the PFI schemes currently funded through the HRA;
- 75% of net receipts from any Right-to-Buy sales continuing to be returned to the Exchequer. Estimates of the loss of income from RTB sales will be built into the valuation of each council’s housing business. Receipts from other disposals will continue to be held locally to spend on affordable housing or regeneration; and
- Council landlords being subject to a cap on overall housing borrowing for each local authority. This cap will be linked to the opening debt level under self-financing.

Using today’s figures, economic assumptions and these parameters, the net receipt to the Exchequer from these transactions is projected at approximately £6.5 billion. These will be updated in the model issued alongside the policy document and before the implementation of self-financing using the latest data and economic assumptions.

This projected receipt includes £1.2 billion attributable to the decision to continue funding PFI separately. Local authorities with PFI schemes will share this extra amount but will continue to receive subsidy. This was the option preferred by all local authorities with PFI schemes.

This is a reform intended to endure for the long term. In order to ensure it continues to be viable the Government is committed to assessing over the long term the impact of policy changes that may affect landlord income and the case to make good any losses or address any gains. The Localism Bill contains a power for the Secretary of State to make a further adjustment to the debt allocated to local authorities if a future policy change has a significant material effect on their costs or income. This is designed to protect both councils and the Exchequer.

Some council may be considering taking forward housing transfer proposals with their tenants in advance of or post self financing. In order to agree a transfer in future, the financial terms of any proposals will need to be clearly comparable with what self-financing would provide. The Government will consider transfer proposals against the costs under self financing. This will include dealing with backlogs, the costs of future management, maintenance and major repairs and the costs of essential regeneration works due to be undertaken through the proposed transfer. There will be an expectation that councils must provide significant financial support for the transfer, and no assumptions of financial benefit should be made where some measure of Government support may be required. Proposals will be subject to a rigorous value for money assessment.