

WAVERLEY BOROUGH COUNCIL

COMMUNITY OVERVIEW AND SCRUTINY COMMITTEE - 7 SEPTEMBER  
EXECUTIVE – 29 SEPTEMBER

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**Title:**

**HOUSING REVENUE ACCOUNT SUBSIDY REVIEW - UPDATE**

[Portfolio Holder for Housing: Councillor Keith Webster]

[Wards Affected: All]

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**Summary and purpose:**

This report, which was considered by the Community Overview and Scrutiny Committee at its meeting on 7 September, sets out important proposed changes to the financial management arrangements for councils' Housing Revenue Accounts, and provides an update on the progress of Waverley's Campaign for Fair and Local Housing Finance. The Committee is asked to note the report and consider any comments it wishes to make to the Executive.

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**How this report relates to the Council's Corporate Priorities:**

The level of finances available within the HRA, and our ability to manage it effectively, are fundamental to our ability to deliver subsidised affordable housing. This also affects our ability to deliver value for money to council tenants and improve their quality of life.

**Equality and Diversity Implications:**

Waverley tenants are proportionately much more likely to be old (50% are over 65 years old) or disabled (50% have a registered disability). Those groups will therefore be disproportionately more likely to be affected by our ability to deliver quality social housing in Waverley.

**Resource/Value for Money implications:**

The government's proposed changes to council housing finance would have significant implications for the management of Waverley's HRA, and the level of funds available within it. These implications are set out in greater detail in the attached paper.

**Legal Implications:**

The Government has indicated that primary legislation would be needed to enforce the proposed debt reallocation, should councils refuse to take it on voluntarily.

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## **Summary**

1. This paper sets out important proposed changes to the financial management arrangements for councils' Housing Revenue Accounts, and provides an update on the progress of Waverley's Campaign for Fair and Local Housing Finance.

## **Background**

2. The basis of the current system for council housing finance is the national redistribution of revenue from those councils that are deemed to have surplus income to those councils that are deemed to not have enough. This system is known as the HRA subsidy system.
3. Although intended to act as a positive redistributive tool, today one of its major functions is to support a minority of councils in servicing their historic housing debt. Waverley is one of the councils hardest hit by this system – in 2009/10 47% of the rental money paid by our tenants is redistributed away from Waverley by means of 'negative subsidy'.
4. As well as the devastating effect negative subsidy has on councils such as Waverley, the HRA subsidy system has a number of other serious faults, including preventing councils from undertaking any serious long-term planning, and removing the clear link between rents paid and services provided locally. In April 2008 the Government announced that it would launch a review of this system.
5. In response, Waverley has been leading a campaign – The Campaign for Fair and Local Housing Finance – to lobby the Government to change this system. The Campaign has three aims:
  - The abolition of the HRA subsidy system
  - The creation of a local system for council housing finance, in which councils retain 100% of their rental income
  - The cancellation of national historic housing debt
6. Over the last few months the campaign has gained significant momentum:
  - Gaining the support of over half of all councils with retained housing stock
  - Playing a key role in shaping the LGA position paper on the issue
  - Putting forward our case in person to Ministers, civil servants and MPs
7. The Tenants' Panel has also had a significant input, in raising signatures for a petition, which they took to 10 Downing Street.

## **The Government's proposals**

8. On 30 June this year, the government announced its proposals for the future of council housing finance. It agreed to the first two of the Campaign's demands in announcing its intention to dismantle the existing subsidy system and to replace it with a localised system of self-financing for all councils. This is a significant victory for the Campaign, and for Waverley.

9. However, crucially, the government is not currently intending to cancel the historic housing debt held by some councils. Instead, the government is proposing to allow councils to move to this new system *in exchange for a one-off re-allocation of debt between all the councils currently within the system*. In other words, Waverley would be offered the opportunity to manage its own housing finances and retain 100% of its rental payments, providing it agrees to take on some of the debt currently held by other councils.
10. There is a lack of clarity in the Government's consultation document as to exactly how this debt, which amounts to up to £18bn, will be reallocated, and therefore it is difficult to assess the potential impact for Waverley. The Government asserts that no councils would be worse off under the new system, but it is clear that Waverley would be expected to take on a significant amount of debt, perhaps as much as £200 million.
11. There are a few clear benefits to this proposal:
  - It would allow us to manage our own finances and plan for the future, free from annual subsidy settlements
  - In the long-term, assuming government-set rent rises continue to exceed the inflation of other costs, this will generate additional headroom in our HRA, and allow us to deliver more for our tenants
  - We would be able to manage the debt ourselves, as opposed to indefinitely paying interest on debt held elsewhere
12. However, these benefits would have to be weighed against a number of significant drawbacks:
  - The council would have to take on a significant level of debt
  - There is a large degree of risk attached to owning this level of debt, primarily connected to the future direction of interest rates
  - In the short term, it is likely that Waverley would be only marginally better off, if at all, and there is no guarantee that future rental increases would outweigh increasing costs
13. It is our view that, although it is preferable in many ways to the existing system, this is not a good deal for Waverley, nor is a good deal for council housing nationwide. If the government were to cancel the national housing debt, it could release many millions of pounds in investment in local economies.

#### **Dealing with the historic national housing debt**

14. We believe that debt write-off is a feasible option for the government. The debt itself is intra-governmental (taking the form of loans from the Public Works Loans Board to local councils) and therefore counts as a zero net debt on the government's accounts – writing it off would have no impact on the national debt. The issue is really about who bears the burden of servicing or writing off that debt; central government or local councils?
15. It is our contention that this burden should be wholly or partly covered by central government and certainly should not be passed to councils such as Waverley that did not take on the debt in the first place. Those councils that

did take on debt did so under a more national system, firmly reassured that the national system would support them in servicing that debt.

16. We believe that writing off the historic national housing debt would also bring about a significant boost to local economies – it would be worth about £10m p.a. in Waverley alone. The LGA estimate that this would be worth £72bn nationwide over 10 years. This economic boost would also benefit the exchequer through a massive increase in tax revenues and a reduction in benefit payments, easily outweighing any cost to the general taxpayer.
17. Finally, we would point out that it is already government practice to write off large amounts of historic housing debt in order to improve delivery of local social housing – the government has written off over £3bn over the last 5 years to allow councils to complete stock transfers.

### **Next steps**

18. After discussions with other councils, we are keen to continue with the campaign and to call for the Government to cancel historic housing debt. Many councils are looking to us to lead on this issue, and we are well placed to do this; we have close contact with the LGA, have forged strong links with MPs and Ministerial advisers, and our voice is sought out for comment on the issue by the national press and conference organisers.
19. We are planning to host a meeting of interested councils on 2 October this year, and will use that as a basis for planning the next stage of the Campaign.

### **Community Overview and Scrutiny Committee**

20. The Community Overview and Scrutiny Committee welcomed the government's proposals for the future of council housing finance in as far as it had agreed to the first two of the demands of the Waverley-led campaign – The Campaign for Fair and Local Housing Finance – to lobby the Government to change this system.
21. However, the fact that the government was not currently intending to cancel the historic housing debt held by some councils but redistribute it to other local authorities was considered by the Community Overview and Scrutiny Committee to be unjust and members wished to strongly object to the proposal on the following grounds:
  - that as a matter of principle it seemed unfair to burden prudent local authorities who had not incurred significant debt with debt incurred elsewhere; and furthermore our local community had not benefited from the investment which had given rise to the debt;
  - that the government had not clarified how the debt would be distributed and it would therefore be difficult to assess the impact for Waverley, although it was expected to be significant. As an example £200million of debt equated to £40,000 per council house in Waverley

and an interest charge of £10million per year if interest rates stayed at 5%;

- that there was a large degree of risk attached to owning this level of debt due to the uncertainty of interest rates in the future.
- that the debt Waverley incurred would not necessarily be offset by the saving made from the abolition of the housing subsidy system;
- that the calculations did not take into account any investment required to bring the Council's housing stock to meet the decent homes standard and other necessary investment requirements in the housing stock; and
- that the debt would be unevenly distributed, with some Council's refusing to accept the debt.

22. The Community Overview and Scrutiny Committee agreed the officer recommendation as set out below and that their observations be passed to the Executive.

### **Recommendation**

It is recommended that the Executive:

1. commend the officers and tenants involved for the excellent progress already made on this issue; and
2. commend the proposed next steps set out in paragraphs 18 and 19 of the report, taking into account the observations of the Community Overview and Scrutiny Committee, and in particular that Waverley continues to make the case nationally that the government should take on the burden of the historic national housing debt.

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### **Background Papers (CEx)**

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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