

**SOUTH EAST ENGLAND  
REGIONAL HOUSING BOARD**

Date: 15 May 2008

Subject: **Regional Funding Allocation: Update**

Report of: Director of Development  
South East England Regional Assembly

**Recommendations:**

It is recommended that the Regional Housing Board (RHB):

1. Notes that, in 2008/09, South East local housing authorities contribute an estimated £184.2m to the national Housing Revenue Account (HRA) subsidy system: equivalent to £951 per tenant and 28% percent of rents collected from tenants across the region.
2. Works with local housing authorities in the region to develop and put forward views on reform to the Government review of the HRA subsidy system.
3. Encourages the review to identify an approach which will enable:
  - social housing providers to finance their own management and maintenance services
  - decent homes and sustainable communities to be achieved
  - tenants' rents to be spent on their homes.
4. Following announcement of arrangements for stakeholder engagement, the Board is recommended to consider regional advice in developing a response to the review.

**Purpose of the Report:**

To provide an update on the Board's agreed action to explore the impact that the national housing subsidy system has on the South East.

**Key Issues:**

The HRA is a distribution system through which the Government controls spending levels for council housing.

Local housing authorities in the South East are net contributors to a system which no longer redistributes all funds available. The system has moved into surplus and now pays into the Treasury.

The Government's recently announced review of the HRA subsidy system has implications for all social housing providers.

## **1. Introduction**

- 1.1 On 17 January 2008 the Board considered Ministers' final decisions on the regional funding allocations for housing and agreed to explore with CLG the impact that the national housing subsidy system has on the South East.
- 1.2 In 2007 the Regional Assembly commissioned a report from consultants, Housing Quality Network, to:
  - introduce and summarise the way in which the council housing revenue account subsidy system operates as a distribution system and
  - set out an estimate of the financial contribution made to the national subsidy system by local housing authorities (or, more precisely, their tenants) in the South East.
- 1.3 The report, which is attached as Annex 1, illustrates how rents paid by social housing tenants in the South East are used to meet the cost of managing and maintaining council-owned homes in other parts of England and how an increasing proportion of funds are retained by Government. The consultants' advice has now been updated (Annex 2) to reflect the position for 2008/09 and estimates the net South East contribution at £184.2m. The net national subsidy, i.e. the amount that is returned to the Treasury and not redistributed, is calculated at £174.7m for 2008/09.

## **2. Housing Revenue Account Subsidy Review**

- 2.1 A joint Treasury/ CLG review of the HRA subsidy system, announced by Government in December 2007, offers an opportunity for the RHB to engage with this issue on behalf of the region.
- 2.2 The review will look at whether council housing can be self-financing. It will also consider rent policy including the relationship between council rents and those set by other housing providers.
- 2.3 The initial announcement stated that the review will include opportunities for practitioners and stakeholders to put forward their views but no specific arrangements or timetable for this have been announced as yet.
- 2.4 Government's final report of the review is scheduled for publication in spring 2009 and will set out a way forward for the subsidy system, rents policy across all social housing and the spending needs for council housing.
- 2.5 The final report will be followed by a period of consultation to enable findings to be considered in the next spending review. This will therefore be relevant for the region's investment advice to Ministers for 2011/12 onwards.

## **3. Participation in the Review**

- 3.1 A number of local authorities in the South East have indicated their willingness to advise RHB on issues and possible solutions in this technically complex area.

- 3.2 In addition, local authorities are exploring the possibility of working together nationally to put forward shared views.
- 3.3 In anticipation of arrangements being announced for stakeholder input to the review, it is proposed that officers work with South East local authorities to identify common issues and solutions that can benefit the region, working with them and on their behalf to put these views forward through the review.
- 3.4 It is proposed that, the Board's response to the review be informed by advice on the regional view and structured around the following principles:
- social housing providers should be able to finance their own management and maintenance services
  - achieving decent homes and sustainable communities
  - tenants' rents should be spent on their homes.

**Martin Tugwell**  
Director of Development

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Contact: Catherine Stubbings, Housing Policy Advisor  
Tel: 01483 555216  
Email: [catherinestubbings@southeast-ra.gov.uk](mailto:catherinestubbings@southeast-ra.gov.uk)

**Report to South East England Regional Assembly  
Net Contribution to the Council Housing Subsidy System**

**1. Purpose of report**

The purpose of this report is to introduce and summarise the basis upon which housing subsidy for council housing is paid to or recovered from local housing authorities in England and set out for the Assembly an estimate of the amount of resources that authorities within the South East of England contribute to the national council housing subsidy system.

**2. The Housing Subsidy System**

- 2.1 The current system of housing subsidy was introduced in 1990 under the Local Government and Housing Act 1989 and has been updated and amended since to reflect government policy. The Treasury tightly controls the overall spending levels for housing and CLG by considering how resources should be distributed to local authorities. It is important to remember that housing is seen as a national programme and the housing subsidy system is the government's mechanism to control resources. Authorities which have transferred their stock are outside of the system.
- 2.2 In theory, rent paid by tenants is collected by a council and is passed to the government with the government giving back to the council how much it thinks the council should be spending in the form of expenditure allowances: namely Management and Maintenance Allowances and the Major Repairs Allowance. This is all done within a "notional Housing Revenue Account (HRA)" which is calculated by Government and the government either pays out or recovers the difference between rents and allowances.
- 2.3 At the same time, an authority has its actual HRA. This reflects the reality of the position locally and records the actual cost to a council of managing the service and repairs and maintenance of the stock. The net amount of subsidy which, for many councils, is negative, is charged as an expenditure item in the HRA.
- 2.4 Where government calculates that income should be more than expenditure, i.e., in subsidy surplus, the surplus is paid to the government; this is what is commonly referred to as "negative" subsidy. Where government calculates that expenditure should be more than income, subsidy is receivable. HRAs, which have low needs as per the subsidy system support other HRAs with a higher need to spend. Broadly, income balances expenditure at the national level so the system is less one of subsidy and more one of redistribution between all 200 or so authorities in the system.
- 2.5 The notional or subsidy account is based on the following calculations of notional expenditure and income:

**Income**

Rent income – Guideline Rent  
(adjusted by a factor which accounts for the fact that some authorities are unable to increase their rents sufficiently to meet rent restructuring targets in the run up to 2012 – this factor is called the Rental Constraint Allowance)

Interest receivable

## **Expenditure**

Management allowance  
Maintenance allowance  
Capital financing costs including debt management  
Major Repairs Allowance

### 2.6 Rental Income

The rent income figure within housing subsidy is calculated based on 'guideline' rents – the rents that CLG calculate that the council should be charging. Under the rent restructuring regime aiming to converge rents with the RSL sector, by 2011/12 the guideline rent will be the same as the formula rent. When rent restructuring was introduced in 2002/03, the government had to find a way of moving from the guideline rent in 2001/02 to the formula rent. As with the restructuring of actual rents the process will take ten years to complete with the guideline rent moving to formula rent in ten equal steps.

### 2.7 Interest Received

Interest receivable consists of interest received in respect of payments made by people who have bought their council houses by means of a council mortgage, and interest received from investing capital receipts.

### 2.8 Management & Maintenance Allowances

Since 2004/05 Management and Maintenance Allowances have been set on the basis of calculated need. Previously they were based on historical actual expenditure, which meant that high spending authorities benefited from the system.

The changes in 2004/05 resulted in some significant changes in the distribution of housing subsidy with authorities in London the main "losers". The impact of the redistribution would have been impossible for some HRAs to absorb without disruption to services so a system of "transitional protection" is in place. The money spent on transitional protection for councils comes from the overall total for Management and Maintenance Allowances. Councils outside London could argue that they are not receiving all the funding they are due.

#### *Management allowances*

The new formula for calculating Management Allowances has changed marginally each year since it was introduced in 2004/05. For 2007/08 it is based on:

An allowance per property adjusted for:

- The proportion of flats and houses and the proportion of high-, medium- and low-rise flats
- A crime factor based on the latest three-year data
- The number of relets and ended-tenancies
- Deprivation based on the local authority overall
- Geographical cost factor – represents regional variations in costs
- National scaling factor to ensure the total of all local authority management allowances matches the CLG allocation.

### *Maintenance allowances*

Maintenance allowances are also based on a formula, which is again an allowance per property based on archetype adjusted for:

- Responsive repairs
- Crime factor based on rolling three-year average
- Planned works
- Relets and terminations
- Crime-related damage to voids
- Geographical cost factor – representing the regional variation in cost
- National scaling factor to ensure that the allowances in total match the allocation made by the CLG.

### 2.9 Major Repairs Allowance

From 2001/02 local authorities have been paid the Major Repairs Allowance (MRA). The MRA is designed to provide funding to housing authorities that should be adequate to maintain their housing stock in an acceptable condition on an ongoing basis. This excludes any funding for the backlog of repairs and renovation that is required to council housing stock. In reality, many within the sector have argued that the MRA is in reality insufficient to maintain properties at a decent standard over the long term.

### 2.10 Capital financing costs

The costs included within the subsidy calculation relate to interest charges on historic housing debt, which is nationally around £15billion. The level of housing debt can be a significant factor in determining the overall level of subsidy – where debt is low, the amounts paid over in negative subsidy tend to be greater. The system also contains incentives to refinance borrowing to reduce interest rates by compensating authorities for any premiums on debt refinancing.

Sometimes an authority can be debt free and depending upon the precise circumstances it may be assumed within the subsidy system that there is housing money in the bank earning interest.

### 3.0 **The Annual HRA Subsidy Determination**

3.1 Each year CLG issue the annual HRA subsidy determination for each council. This identifies the level of resources available to each individual council. Each of the items identified in section 2 above is updated for the forthcoming financial year.

3.2 As a minimum each year, the Guideline Rent, Management and Maintenance Allowances and Major Repairs Allowance are updated for inflation.

3.3 In terms of changes between years, a critical issue is the rate of inflation used for each item. Nationally, the rate of rent increase is greater than the rate of increase in expenditure allowances. For example:

- As Guideline Rents are below target rents, these are increased to move towards target rents whilst target rents overall are increasing RPI+0.5%. The national increase in guideline rents was over 6% for 2007/08 (RPI+0.5%+% move toward target).

- Management & Maintenance allowances are increased by the GDP deflator measure of inflation which for 2007/08 was lower than RPI. There are adjustments to reflect the move to rent restructuring.
  - Major Repairs Allowance is increased by the GDP deflator – 2.7% in 2007/08.
- 3.4 Nationally the total Guideline Rent figure is roughly double that for Management and Maintenance Allowances and when this is combined with a higher inflationary increase there is a net increase greater than inflation in the net amount of subsidy withdrawn from the national HRA.
- 4.0 **The Regional Distribution of Housing Subsidy in 2007/08**
- 4.1 The table attached in Annex A identifies by region the amount of subsidy received regionally (or the regional level of payment into the system). For the South East region it can be seen that there is a net payment into the system of £157.7m after also allowing for ALMO and PFI subsidy receivable. This is the equivalent of £778 per year for each council house in the region and represents an average of 23% of rent income collected from tenants in the South East. *(Note: this amount does not include the SE region's share of subsidy for debt premia as there is no "public domain" information from which to calculate this on a regional basis. It is worth noting that no region receives a net subsidy if debt interest is not included).*
- 4.2 If the situation outlined in paragraph 3.4 continues into the foreseeable future then this payment into the system will continue and in fact increase year on year in excess of inflation. It is also worth noting that the overall system is moving into surplus over the next few years given the planning assumptions set out above.
- 5.0 **Conclusions**
- 5.1 Housing subsidy is a redistribution mechanism for a national resource – council housing. Where CLG calculate that an authority receives more in rental income than it calculates an authority needs to spend then the surplus is redistributed to those authorities where rental income is less than that required to be spent.
- 5.2 In 2007/08, authorities in the South East of England pay a net £157.7m into the national subsidy system or around 23% of rents collected from tenants across the region.

HQN  
March 2007

## Regional Distribution of Housing Subsidy

## Annex 2

	M & M Allowance	MRA	Debt charges and interest *	Total of expenditure allowances	Guideline Rent **	Net Subsidy	Round 1 & 2 ALMO + PFI ***	Net Subsidy with ALMO / PFI	Amount per Property
	<A> £000	<B> £000	<C> £000	<D=A+B+C> £000	<E> £000	<F=D+E> £000	<G> £000	<H=F+G>	£
Eastern	285,115	124,136	29,759	439,011	648,774	-209,762	2,857	-206,906	-1110
<b>South East</b>	<b>310,931</b>	<b>132,898</b>	<b>48,988</b>	<b>492,817</b>	<b>683,996</b>	<b>-191,179</b>	<b>6,997</b>	<b>-184,182</b>	<b>-951</b>
East Midlands	313,084	122,001	69,115	504,200	599,204	-95,005	12,200	-82,805	-398
West Midlands	338,091	131,666	105,603	575,360	655,312	-79,952	5,713	-74,239	-341
South West	179,727	73,545	31,562	284,833	357,183	-72,350	4,360	-67,990	-568
North East	243,695	100,348	92,364	436,407	425,401	11,006	8,909	19,914	129
Yorkshire and Humberside	398,508	154,377	140,722	693,608	682,170	11,437	64,248	75,686	306
North West	329,263	121,284	152,239	602,785	579,592	23,193	64,448	87,640	429
Greater London	1,006,261	356,588	542,047	1,904,896	1,808,682	96,214	81,892	178,105	395
<b>Total</b>	<b>3,404,675</b>	<b>1,316,843</b>	<b>1,212,399</b>	<b>5,933,917</b>	<b>6,440,315</b>	<b>-506,398</b>	<b>251,623</b>	<b>-254,775</b>	
Debt premium refinancing								80,000	
<b>Net National Subsidy</b>								<b>-174,775</b>	

### Notes

- \* This includes cost of interest payments on debt and interest income for debt free authorities where it is assumed that authorities have surplus rent money invested.
- \*\* This is net of the Rental Constraint Allowance which compensates authorities for not being able to achieve rent restructuring by 2011/12
- \*\*\* These amounts apply to a small minority of authorities only and are effectively being paid for from the overall system