

## **THE WAY FORWARD FOR HOUSING CAPITAL FINANCE – CONSULTATION PAPER**

### **1 INTRODUCTION**

- 1.1 The Government has issued the above Consultation Paper. Comments are to be made by the 18 October.
- 1.2 The Paper, which can be described as fairly technical, sets out what are described as radical reforms of the Finance Regime and to initiate a full and unconstrained debate. The Paper covers changes to the capital receipts arrangements together with the implications for housing subsidies and also Local Authority Social Housing Grants

### **2. CAPITAL RECEIPTS - BACKGROUND ISSUES**

- 2.1 Before considering the Consultation Paper, it is essential to understand the current system.
  - When the Council sells land and property, the money it gets is a capital receipt.
  - Where the asset belonged to the General Fund, the Council can spend all of the proceeds. Therefore, these sums are built into the Capital Programme and used for capital purposes. (This is broadly for new capital assets.)
  - Where these assets are properties within the Housing Revenue Account (e.g. through the Right to Buy scheme) the Council must set aside 75% of the receipts and can only use 25% for new capital purposes. These receipts can be used for any purpose and are not restricted to housing.
  - At the moment, nearly all capital receipts are used for General Fund expenditure. This policy was adopted as housing gets either the majority of credit approvals issued by the Government or more recently, the major repairs allowance.
- 2.2 Set aside of 75% is subject to two processes. Housing has historic debts relating to the provision of accommodation. The Housing Revenue Account pays interest and principal repayments on this debt. The value of the capital receipts set aside reduces the amount of outstanding debt. This is obviously a cost reduction to the Housing Revenue Account, however the majority of debt is supported by housing subsidies. Therefore, this reduction in debt leads to a

reduction in subsidies and therefore a fairly neutral effect within the Housing Revenue Account.

- 2.3 The actual cash from the set aside is put into an account, which is used to repay debt for the Authority or to avoid new borrowing. Interest is received on the investment of the sums, which remain within this account, and this interest is credited to the General Fund.

### **3 LOCAL GOVERNMENT BILL**

- 3.1 The Local Government Bill contains a new proposal in that the Secretary of State may by regulation, make provision about the use of capital receipts by a Local Authority requiring an amount equal to the whole or any part of the capital receipt only to be used to meet capital expenditure, or to be paid to the Secretary of State. Therefore, the Secretary of State can make regulation to vary the amount of any set aside and make regulation for that set aside to be paid to him into a central pool.

### **4 CONSULTATION PAPER**

- 4.1 The stated objectives of the Consultation Paper are to provide stronger incentives to a more active management of the nation's Council housing stock, to encourage better management of Council housing, to simplify the current system and to ensure greater transparency.
- 4.2 It should be noted that the Consultation Paper is not about 'should the reserved capital receipts be paid into a pool', but how this can operate.
- 4.3 The proposals contained within the Consultation Paper will particularly affect those Authorities who are debt free as under current rules, they have greater freedom as they do not have to set aside the 75% of capital receipts received. In this way, all Right to Buy receipts will be useable for debt free Authorities.
- 4.4 It is possible that this Authority could be debt free in about 6 years time, however the response to the Consultation Paper is based on our current position.
- 4.5 The following shows the questions raised by the Consultation Paper together with the suggested proposed response.
- Should certain types of receipt be exempt from the pooling arrangements provided they are used for specific purposes.
  - Which receipts should be excluded from pooling?

- What limitations should there be on expenditure on which excluded receipts might be spent?
- What pooling rates apply?

**OFFICER COMMENTS**

- 4.6 At the moment, all of Rochford's Housing capital receipts are subject to the 75% set aside. Other Authorities who are debt free are not. Our response should therefore be for the Secretary of State to include all receipts in the pooling arrangements so that the size of the pool does not depend solely on Authorities like Rochford but brings all Authorities into the calculation.
- 4.7 As previously mentioned, the set aside is used to repay external debt, therefore an exclusion to the pooling of set aside should be the actual repayment of external debt. This will ensure that funds are available to actually make the debt repayment.
- 4.8 As regards the pooling rate, our response should be that the current split of 75% set aside and 25% usable should be changed to something like 80% usable and 20% set aside. By changing the percentage of usable receipts, this will ensure that the Decent Homes Standards are introduced and, as part of this proposal, the Government could remove all credit approvals. Currently this Council does not receive significant credit approvals, e.g. in 2002/03, the Council received £324,000.
- 4.9 This Council would favour a grant funded allowance for capital investment viewed as an extension of the major repairs allowance. This should be formula based as the Authority does not score high on needs assessment.
- 4.10 Without the reserved capital receipts being used to reduce housing debt, the Authority is in favour of locking the existing housing debt into an agreed period of support, so that the effect of debt charges remains fairly neutral as now.

**5 LOCAL AUTHORITY SOCIAL HOUSING GRANT (LASHG)**

Background

- 5.1 This refers to the support given by Local Authorities to Housing Associations etc. At the moment, where a Council agrees to support a particular scheme, it approves a sum from the Capital Programme. The Housing Association acting on that approval makes a submission to the Housing Corporation for funding as agreed by the Council.

When the Housing Corporation agrees the scheme, it pays the grant to the Council and at that point, the Council pays the Housing Association.

- 5.2 What has happened is that the ability to spend from the Capital Programme has been used, however, the Council has a nil effect as regards cash. Cash is in effect taken from the Capital Programme and put into the account used to repay borrowing previously mentioned in this report.
- 5.3 The advantage of LASHG is not only in the grant funding of Rochford's expenditure, but also in the funding that the Housing Association usually provides towards the scheme.
- 5.4 In the past, the Housing Corporation have been fairly relaxed about LASHG as it is regarded as Local Authority capital and not Housing Corporation funding, even though they actually pay the cash. This is assumed to be because there is no additional effect on the public sector borrowing requirement.
- 5.5 Under the Consultation Paper, it is proposed that this arrangement should end. The Paper puts forward the following two options.
- 5.6 The first option is to provide resources through the development programme of the Housing Corporation. This would be directed at the priorities in the Regional Housing Statement. This option does not identify how resources will be made available. This appears to suggest that the only funding will be the normal arrangement between the Housing Corporation and Housing Associations. This Authority has already seen this type of funding come to a virtual standstill following the applications made in the current Financial Year.
- 5.7 The second option is for Rochford to support Housing Associations without grants from the Housing Corporation. Whilst this is still a real option, to state the obvious, the scheme would not be as attractive to the Council as the existing scheme.

#### **OFFICER COMMENTS**

- 5.8 It is suggested that our response should be that the Council values the current system in that it encourages the partnership between Housing Associations and the Authority. We as an Authority have already seen the problems this year of Housing Associations who are active within our area relying on Housing Corporation funding.
- 5.9 It is suggested that the real problem with the current scheme is with the debt-free Authorities, as under the current rules, they can approve

LASHG schemes without any effect on their total Capital Programme. It is therefore suggested that if the problem is with debt-free Authorities, then this is the part of the legislation that should be changed.

**6 RECOMMENDATION**

That Members agree to the comments suggested within this report.  
(HFS)

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**Background Papers:**

None.

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