

Annex A

Summary of self-financing for tenants

Changes to how council housing finance is managed

The Government is proposing changes to the way it and your council share the cost of council housing. This document sets out what those changes will be. None of these changes affect your tenancy or the rent you pay.

Introduction

The Housing Revenue Account Subsidy System is the current system for managing the financing of council housing. Under this system, major financial decisions about council housing management are made by central Government and there is comparatively little control in the hands of councils. This makes it difficult for councils to plan for the long term to ensure that decisions about what and how services are delivered are linked directly to local needs.

The Government has committed to replacing the current system with a new arrangement that will enable councils to keep all the money they receive from rent and use it to maintain their homes. This means that council housing will be focused on what is needed locally and councils can make best use of their housing resources.

How is the current system working?

Under the current system – the Housing Revenue Account Subsidy, the Government calculates the spending needs of each local authority and compares it with their rental income. If a council's rental income falls short of its spending needs, the Government provides subsidy to make up the shortfall. If a council's rental income exceeds its spending needs, the excess is fed back into the subsidy system to help provide for those councils requiring subsidy. If any money is left over, it is returned to Government – this is increasingly the case as costs have been assumed to be fixed and rental income assumed to increase above inflation each year.

Why the Government wants to change this system

- The current system is complex and does not deliver sufficient funding for councils to manage and maintain their homes to a good standard
- It does not support tenant involvement in decisions about their homes and locality
- Councils can not undertake proper business planning due to the annual nature of the system
- The system assumes unrealistically low expenditure needs and so generates a large surplus for central government and accommodation that is not always adequately maintained.

Local authorities say, and the Government agrees, that every council is different and no two councils have the same needs. Services need to be right for each council. Government wants a solution that will work for all and is fair to both tenant and taxpayer. Government is therefore shifting power from the centre to councils through the new self-financing system.

The objectives of the self-financing system

The objectives of self-financing are to:

- make the system more flexible and fair, giving councils the power to make the best use of their housing stock, in a way which best meets the needs of individual households in their local area
- enable tenants and local taxpayers to hold their landlord to account for the cost and quality of their housing.

How will the new housing finance system be introduced?

The Government is changing the law to deliver this change from April 2012. The new Localism Bill contains provisions that will bring in the new self-financing system and abolish the current annual system.

How will the Self-financing system affect councils?

- Self-financing will affect the housing revenue account of the 171 councils, who have council housing stock, but will not impact on their general finances, or on other councils
- Implementing self-financing involves a reallocation of housing debt based on whether the valuation of each council's housing business is higher than their existing debt. Where the value is higher than the level of debt, the council will pay the difference to central government. Where it is lower, central government will pay the difference to the council
- Councils will only be asked to take on extra debt if their council housing will generate sufficient income to meet it after costs are met. The debt will not impact on what is delivered to you as tenants
- In order to ensure that the country does not get into any more debt than we can afford at least initially, councils will be given a limit to how much more money they can borrow (a borrowing cap)
- Her Majesty's Treasury have announced that the payment to government of 75 per cent of the net receipt from Right-to-buy sales will continue. This was a necessary decision taken during a difficult Spending Review. Local authorities will still keep 25 per cent of the receipt and 100 per cent of the receipt from other sales provided it is spent on new social housing, regeneration projects or paying off debt. The Department for Communities and Local Government has reduced the level of debt that local authorities will take on under self-financing by £862 million as compensation for the likely loss of rental income from Right-to-buy sales (based on historic sales patterns).

How will the Self-financing system affect you personally?

- You will benefit because self-financing provides the opportunity for business planning to be guided by local priorities, rather than central government rules
- You will benefit because councils will have more money to spend on council houses
- You will also be able to trace a clear connection between the rents charged locally and the service provided. Councils will publish annual, transparent information on charges and costs.

What won't change?

- Your rights as tenants – such as right to repair, and right to buy/acquire will not change
- Your landlord will not change – self-financing does not change your housing provider in anyway
- Your rent – the level of rent you pay will continue to be a decision for your council.

For more information – Ask your council housing officer or see the Department's website: www.communities.gov.uk/publications/housing/socialhousing/ for further details.