

**Press Release**  
**7<sup>th</sup> March 2006**



The Northern Housing Consortium has recently announced the publication of their report "Robin Hood or Robbin' the Housing Revenue Account?" which examines the impact of the 2006-07 subsidy settlement on local authorities.

Allan Kelley, the Director of Resources at the Consortium, commented, "A lot of our member authorities have been saying that the 2006-07 subsidy settlement was creating a severe detrimental financial impact on their Housing Revenue Accounts. They initially thought that it was due to the reductions suffered in management and maintenance (M & M) allowances from draft to final stage. Therefore we commissioned further research into the reasons why the HRA resources appeared to be in such scarce supply, especially considering that the new rent restructuring data and factors result in very high rent increases. The research has shown that the changes from draft stage merely compounded what was a very harsh settlement for all authorities."

Richard Bramley, the independent housing finance consultant and Policy Adviser to the Consortium, who prepared the report said, "Tenants are due to pay probably the largest ever increases in rents in April 2006, an average increase of 4.7%. However, the Housing Revenue Accounts appear to have insufficient net resources to even pay for inflationary increases, with only 74p of the average weekly rent increase of £2.59 being retained within the HRA to fund running costs, the rest is being paid to Government via the subsidy system. The main reason for such a large subsidy withdrawal is that in 2005-06 the actual rent increase of 4.3% was deducted from the guideline rent, offset by a real increase in allowances of 6%. For 2006-07 5.4% was deducted, offset by 0% real uplift to the allowances.

Even after redistribution of subsidy to those authorities deemed to have the highest need, most tenants contribute net subsidy, of an average of £1,256 each, to Government. Therefore every disposal, either transfers or right to buy sales, means a loss of income to the Government. It would appear that as the overall cost to the Government in 2006/07 will be lower than the £207m paid out in 2005-06, and that they are recouping the extra costs of their policies from the remaining council tenants. An extra £200million plus is being withdrawn from the local authority revenue accounts in 2006-07, although some £32m is being returned as increases to the major repairs reserve, some £57m to fund additional supported debt charges, £13m extra to the ALMOs and £6m for PFI schemes, all to fund the costs of new capital works. Therefore nearly £100m is being used to offset the loss of resources to Government due to reducing stock numbers, held in reserve for potential new PFI schemes, or to be transferred to the Treasury."

Allan Kelley concluded, "We want to work closely with the officials at the ODPM to ensure that each element of the subsidy system is fair and achieving the aims as intended, especially the re-basing of the allowances which should reinstate the correct levels to the northern authorities. We had real concerns that the large rent increases, due to the restructuring arrangements would merely be withdrawn from the revenue accounts and despite assurances to the contrary this appears to be happening. Each tenant will receive a similar level of rent increase for the next six years, and if withdrawal of resources continues at the current level every Authority in the country will probably have an overdrawn business plan."

## Note to editors

The Housing Revenue Account (HRA) subsidy is a complicated mechanism of re-distributing resources, paid for by tenants through their rents, to fund the running costs of the housing service together with the financial consequences of housing capital spending. The Major Repairs Allowance (MRA) has a net nil impact on the resources of the HRA as it is transferred out to a reserve to fund major replacements of components as they wear out. The cost of additional supported capital reimburses the HRA for the additional costs of debt charges being incurred.

Overall the national HRA generally will contribute an average of some £620 per dwelling to the ODPM in 2006/07, to offset most of the costs of other Government policies such as the MRA, ALMO and PFI funding. The ODPM estimates that a net payment to authorities of some £207m will be made in 2005/06 and some £136m paid out in 2006/07 with a further £53m held in reserve for potential new PFI schemes.

However, as each dwelling contributes £620 to Government, a problem occurs to the ODPM every time a dwelling is disposed of via demolitions or right to buy sales. Therefore, the cost to Government in 2006/07 would, all other things being equal, have risen from £207m to some £234m, merely due to the impact of disposals and ignoring any inflation.

It should be noted that transfers of dwellings to Registered Social Landlords usually generate repayment of outstanding debt which means that overall a disposal due to transfer practically breaks even.

## Financial Reconciliation

<b>COST TO GOVERNMENT</b>	£'s millions
<b>2005/06 Net Subsidy paid by ODPM</b>	<b>207</b>
loss of subsidy paid to ODPM due to stock disposals in year say - £620 per dwelling x 135,000 dwellings	84
less savings on Supported Capital Finance	<u>-57</u>
Net cost of Subsidy to ODPM (reduced stock no.) would be	234
Less overall savings	45
<b>ODPM forecast 2006/07 net Subsidy paid by ODPM</b> (includes a provision for an extra £53m for new PFI schemes)	<b><u>189</u></b>

**Amount withdrawn from running costs of HRA** **252**

Used to fund

Additional cost of MRA	32	
Additional cost of supported capital plus ALMOs via SCFR	57	
Additional cost of misc subsidy changes	6	
additional cost of new Government policies (ALMO +PFI)	19	
additional new Government policy (rent compensation)	<u>40</u>	154

held in reserve if new PFI schemes come to fruition	53	
used to fund loss of subsidy to ODPM due to disposals	27	
actual savings to ODPM in 2006/07	<u>18</u>	98

**Net total** **252**

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