



New housing powers for local authorities

Key issues

Investment in housing increased to £2.1 billion Changes to allocation policies Consultation on dismantling the HRA system

1. Introduction

Announcements have been made by the Prime Minister Gordon Brown and Housing Minister John Healey outlining changes to housing policy in response to continued lobbying around the problems with the supply of affordable housing and concerns about the Housing Revenue Account system.

Reform of the Housing Revenue Account has been the topic of debate for a number of years. In 2007, the then housing minister, Yvette Cooper, said the way the HRA worked in practice made it "less viable" for councils to build affordable homes, as they don't directly benefit from rents. She indicated the Government wanted to take away obstacles that prevented local authorities building more affordable homes. Complexity and lack of transparency has been a regular criticism of current HRA arrangements and the review of the financing system has been in place for a number of months.

2. Funding for new council homes

In the Prime Minister's statement on Building Britain's Future, Gordon Brown stated that in the next 2 years investment in housing will treble from the £600 million announced in the budget to a total of £2.1 billion providing 110,000 affordable homes to rent or buy over the next 24 months and helping create 45,000 construction related jobs.

The increased funding will mean an extra 20,000 affordable homes will be built on top of the 90,000 already in the pipeline and there will be an emphasis on energy efficiency.

A further 10,000 properties will be delivered through the private sector.

The £1.5 billion housing investment includes

- extra funding so councils and housing associations can build around 15,500 new affordable homes, of which over 11,000 will be available for social rental and the rest will be affordable housing. More may be built if greater value for money can be achieved.
- extending the Kickstart programme to get stalled housing sites back on track, to deliver an additional 13,000 homes, of which 4,000 will be affordable.
- investing in the development of public sector land owned by the HCA, local authorities and other public sector bodies to deliver up to 1,250 units of which 500 could be affordable.

This investment will be matched with further reforms to deliver value for money and recognises the rights and responsibilities for those in social housing. While preserving security of tenure these reforms will include:

- changing the current rules for allocating council and other social housing by enabling councils to give more priority to local people and those who have spent a long time on a waiting list.
- expanding Choice Based Lettings to help residents to move nationwide, and support to tenants who need to move to take up the offer of a new job.
- clamping down on fraud within the sector, freeing up more homes for those in need.
- consulting on reforming the council house finance system to allow councils to keep all the proceeds from their own council house sales and council rents with a bigger role and responsibility for councils to meet the housing needs of people in their areas.

3. Review of the Housing Revenue Account System

Consultation on the HRA Review has been ongoing for a number of months with specific parties and John Healey's statement notes that he would consult before the summer on proposals for changes to the system.

Under the proposals the Housing Minister announced his intention to dismantle the HRA subsidy system and replace it with a system that will give councils greater independence and freedom to manage their own housing resources with councils being able to keep all their rental income and gain the freedom to manage their housing to meet local need. Responses to the review showed strong support for a more devolved approach to financing council housing.

The Minister says that a devolved national system for self financing "would remove the need to redistribute revenue nationally, whilst continuing to ensure that all councils had sufficient resources. With these reforms, councils would finance their own businesses from their own rents, in exchange for a one-off redistribution of housing debt. By freeing councils from the annual funding decisions in the current system, this will enable councils to plan long term and to improve the management of their homes, secure greater efficiencies and improve the quality of service to their tenants."

The statement notes that such a change will take time but that new build council homes will be excluded from the HRA subsidy system immediately so councils will retain rent and any capital receipts from these homes.

The statement says that the Minister wants to provide flexibility in finances and transparency in the way the systems operates as well as devolving control from central to local government. In return, local responsibility and accountability for long term planning, asset management, and for meeting the housing needs of local people will increase. The Housing Minister confirmed he would consult before the summer on proposals for councils to become self-financing and free to manage the needs of their housing stock as well as provide more efficient services for their tenants.

4. APSE Comment

APSE welcomes any moves which provide local councils with greater resources to increase the supply of affordable housing. The increase in funding is especially welcome as it can be directly transformed into homes on the ground, transform the lives of individual families and reduce the size of housing waiting lists.

The Minister's intent to show "councils the green light to start building more homes in their area" is to be applauded but it must be backed with resources. Recent initiatives to exempt new build, long term vacant and purchased properties from the HRA subsidy system and the allocation of £100 million for new council properties have been welcome steps but are small scale changes in the context of the level of need.

The apparent move to provide local authorities with greater control of their rental and capital income is a significant change not only in terms of current practice but also in terms of culture. Giving councils the ability to build new homes through borrowing on income will only be beneficial if they are able to make repayments. The statement is not clear about the detail of any one-off payments to be made if councils are to come out of the system or if the existing debt is to be equalised in some way across all councils. Any formula to be used for such financial charges could potentially have a dramatic impact on local HRA finances and on whether councils are able to maintain decency standards, undertake investment programmes or build new homes.

There is no doubt that councils wish to take on more responsibility for managing their own resources locally and meeting local needs where necessary but this will depend upon local circumstances and priorities. There are differing circumstances across the country and different levels of debt with a number of councils benefitting significantly from the current subsidy arrangements. The financial position in those organisations will have to be addressed as part of any changes which could mean the Government finding some new money to pump into the system either to enable those likely to 'lose' from new arrangements to have access to adequate resources to fulfill their functions or to make the changes attractive enough to tenants and members of other councils who could potentially see their debt levels rise as a result of the equalisation of existing debt.

As well as enabling transparency in management of locally raised rent, changes to the system must provide the environment within which affordable housing can be built in significant numbers by councils and other providers. The Housing and Communities Agency has started to allocate funds and some public land to meet this need but the changes noted yesterday will hopefully encourage councils to directly build homes again. Some councils have done so in small numbers and showed that energy efficient, well

designed homes to meet local demand can be provided and at the same time have deflected the arguments that councils no longer have the skills to build. Councils which have not build homes for a number of years may have lost some of the skills necessary but through apprenticeship schemes, partnering between councils and with private companies and by employing technical and craft workers who have lost their jobs as a result of the economic downturn, councils can regain those skills in the short term.

APSE awaits the detail to be added to these announcements and encourages Government to make it as straightforward as possible for local authorities to access the extra resources without unnecessary bureaucracy or tight return deadlines. Equally providing councils with responsibility for managing their own affairs should not include the need for too much reporting back to Government. It is to be hoped that the recent trend away from Government inspection and reporting will be maintained but with an ability for intervention and support for any councils where needed.

APSE is happy to see changes to the current rules for allocating council and other social housing by enabling councils to give more priority to local people and those who have spent a long time on a waiting list. However circumstances vary in different parts of the country and once given the powers councils must be left alone to allocate homes as they see fit within the rules. Furthermore, existing and upcoming equalities legislation partly shape the actions that councils can take when allocating homes and must be borne in mind when the rules for allocating council housing are altered.

The statements note that the extra funds will come from re-allocation of existing budgets from within the Department for Communities and Local Government and other departments. It is hoped that funds which would otherwise have been spent on the housing stock are not being shifted to enable this initiative. A significant amount of money and effort has gone into ensuring Decent homes Standards are met and it would be a negative step to see some councils be unable to upgrade their stock because funds have been transferred to another initiative.

APSE has long argued that managerial arrangements should have no impact upon the resources available to the provider. Councils have been unable to access some funding whilst other providers have. The statement notes that the first council schemes to be funded through capital subsidy through the Social Housing grant will be confirmed in September. This is a further positive step and APSE is encouraged to hear the Minister say that "there should be equity in the terms of public funding whether they (the housing stock) are transferred or retained (with the council) in the future under self financing." The advantages that some have claimed result from stock transfer are likely to disappear as a result of the changes announced.

APSE sees these announcements as justification for its approach to council house funding arrangements and in calling for new council housing. It is an argument we have been making for over 10 years and we are happy to see moves in the direction which we believe tenants and council members have been looking for are now being made.

Depending on the outcome of consultation the Government will pass over a greater level of responsibility to local authorities and will expect to see them manage their resources effectively, provide for tenants and improve the condition of the stock at the same time as

improving performance and making efficiency savings. APSE would encourage all councils to take up the baton and begin to make the most of this opportunity to fulfill their role as place-shapers and housing providers, one of the most fundamental service areas.

5. Previous relevant briefings by APSE

09/22 'HCA proposals for local authority new build'

09/15 'Investing in affordable housing – a consultation response'

09/03 'Consultation on changes to revenue and capital rules for new council housing'

07/70 'Housing and Regeneration Bill'

07/48 'A review of social housing regulation'

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