



Briefing 09/58 November 2009

Response to Reform of Council Housing Finance consultation

To: All housing email contacts

Key issues

Proposals for dismantling of the current national HRA subsidy system

Introduction of self financing for local councils with local control of rental income

Increases in allowances as part of proposed new arrangements

Proposal for the retention of 100% of Right to Buy receipts for local use

1. Introduction

This briefing details APSE's response to the Reform of Council Housing Finance consultation which closed on 27th October 2009.

2. APSE's response to the consultation paper

The Association for Public Service Excellence (APSE) represents officers and members involved in the management and provision of quality public services. APSE's mission statement positions the organisation as "networking organisation which consults, develops, promotes and advises on best practise in the delivery of public services". APSE is currently working with almost 300 authorities within the United Kingdom.

In order to respond to the issues contained in this paper, the Association has consulted its' members on the points raised. This response is partly based on the comments that members have made. Individual APSE member authorities will have forwarded their own

detailed responses direct to you. This response incorporates input from our members which were collected from two meetings held over the past 6 weeks with a combined attendance of over 120.

Comment

APSE welcomes the general approach of the consultation document which is a move towards more local control of resources, enhanced accountability and clarity within the financial system. This is a topic APSE has been vocal on over many years and we have consistently called for changes to the system which will make it simpler for tenants, council officers and members and enable councils to break away from strict borrowing limitations which mean they are unable to invest in or expand the stock. APSE remains a strong supporter of those tenants who have decided to vote for the council as their landlord and the officers and councillors who deliver vital housing services.

APSE is keen to work with Government on this topic to ensure the changes proposed are implemented.

APSE is about to finalise a piece of work highlighting the holistic benefits of stock retention, how wider community benefits emerge because a range of linked services are delivered from a single organisation and how tenants and other parties benefit.

Allowances

APSE supports the increased investment proposed. The figures of a 5% increase in M&M allowances and an average 24% increase in MRA are welcome. APSE appreciates that these figures have not reached the 10% increase for M&M (argued for on the basis that this is the figure for housing associations so an uplift of 10% would bring the two into line) nor the recommendation made by BRE of a 43% increase for MRA. Allowances need to be as high as possible if councils are to be in a position to put forward a sustainable business plan. Omitting the cost of backlog repairs from the uplift in allowances makes the position more difficult for councils.

The level of allowance increases are high bearing in mind the current economic context and the move to reduced public spending. The business plans councils will put in place are long term and the level of allowances set should reflect the duration of the business plans as well as current wider financial circumstances.

Capital grants

Government has offered to pay capital grants to address the backlog of repairs which still exist at a level of approximately £7 billion. This element of funding has not been built into the uplift in MRA (noted above) and this has led to concern about whether it will be forthcoming. APSE feels that if this element of funding is to remain grant based, government must provide some surety about it. It is difficult to see a reason for keeping this funding outside of the uplift and it means that there is a greater likelihood that it will not be provided, that it may be cut or be part of a bidding process. None of these

scenarios is welcome. This is a significant element of funding and without it business planning is made more difficult and plans may be unsustainable.

Debt levels

The overriding feeling at the consultation events was that reform of the HRA was overdue and that councils needed to provide a united approach if they are to make progress. There was also a call for more detail with regard to the actual level of debt each council would need to take on. It is unrealistic to ask councils to agree to a way forward without notifying them of the level of debt they will be managing.

This is a fundamental issue and the criteria upon which the calculation to set the level of debt is based on is critical. Assumptions about the date of rent convergence, allowance levels and inflation rates will impact upon the debt settlement for each council. As mentioned below the total debt settlement should not be higher than the existing level of debt in the subsidy system.

The paper notes that there is currently approximately £18 billion of debt with a further £2 billion if ALMO debt is added. The paper also states that the total debt allocated to councils under the self financing option could be greater or smaller than the current level of debt in the system. APSE can see no justification for re-allocating a higher amount, an outcome which the consultation paper claims may happen. Debt levels must be set at a level which reflects existing debt and enables sustainable business plans to be put in place as well as avoiding calls that tenants would be subsidising other spending if the total settlement is larger than the actual debt.

The impact of a settlement which puts councils in a worse financial position than they are currently in would be a greater reliance on extra borrowing and grants and the idea of self financing would be reduced as a result.

APSE realise that although there has been a call from some quarters to write off the entire debt, this is unrealistic. Nevertheless there are councils who are currently debt free as a result of prudent financial management and will have to take on significant debt after re-allocation. If new arrangements mean some of these councils have to take on 'new' debt, this approach is only justified if the level of debt is less than or equivalent to the amount paid to Treasury as part of the current national HRA scheme. To expect councils to take on extra debt is unjustifiable.

Once criteria have been established, settlements arranged and business plans drawn up, no doubt circumstances will change impacting on both individual councils and the sector as a whole. Councils must have flexibility to manage assets and finances within a flexible framework in times of change. Self financing should mean local decisions made within the prudential borrowing code without micro management from an external body.

New build

APSE has promoted the idea of local authorities as council house builders for a number of years and the current lack of supply in the housing sector justifies this argument. The potential role that councils and ALMOs have in building and managing homes should be maximised (as should that for RSLs) and self financing will help to enable this. If councils have greater control over funding the likelihood of them being able to build new council homes will be increased. However central government must not fall into the trap of providing greater local responsibility at the same time as denying them the opportunity to borrow. The ability to borrow is vital if stocks are to remain in a good state of repair and further investment is to be made.

The HRA ring fence

We welcome the intention to retain the ring fence on the basis that it would help ensure locally raised money is spent locally.

Over recent years there have been a number of services which have come to be considered by tenants as 'core' which were previously 'non-core'. This is important because it has an impact on what should be paid for through the HRA and what through GF. Government should provide guidance identifying those services which should be covered by the HRA to provide clarity for councils. It is important that flexibility is built into how non-core items are paid for and that the choice of whether these come from HRA or GF is a local one.

Aids and adaptations

There is an estimated backlog of £5 billion for aids and adaptations which is not covered in the calculations and would leave a significant burden on councils. This remains a major issue, not only because they must be funded but also because an aging population means the need for aids and adaptations will continue to grow. This issue must be addressed and a way of building it into calculations should be found. It remains too important an issue to be left unaddressed prior to agreeing new arrangements.

Right to Buy receipts

APSE welcomes the change suggested in the consultation paper which notes that 25% of RtB receipts be used for any capital projects as is currently the case and the remaining 75% would be retained locally and have to be used for housing or regeneration purposes. The paper points to flexibility as to how the funds are spent – either on new build, renovation or purchase and APSE appreciates this level of flexibility. There are no risks in leaving this resource with landlords.

Stock surveys

The need for resources to tackle outstanding repairs and expected investment programmes must be based on up to date stock condition information. There have been debates about the level of funding and whether all relevant factors have been included.

A significant factor in those discussions has been the availability of relevant stock condition data. As part of any new arrangements, councils must hold current and detailed stock information both to support operational management and inform central government about the strategic picture at the local level.

Next Steps

APSE appreciates that a significant amount of work has gone into this review to date and that progress has been made over recent months. We are concerned that the work involved in establishing the formula to finalise settlements has the potential to take a long time.

APSE is keen to stress the importance of haste at this point in the process to ensure the work accomplished to date does not get sidelined in the political machinations of the impending general election.

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