



Briefing 10/30 July 2010

Response to HRA Review – Council Housing: a real future.

To: Chief Executives and housing contacts in England
For info: Contacts in Wales, Scotland and Northern Ireland

Key issues

Proposed introduction of a self financing scheme to replace subsidy system
Debt settlement proposed
Significant changes and major impacts for local authority stock retainers and ALMOs

1. APSE's response to the consultation paper

APSE has responded to the HRA Review 'Council Housing: a real future' on behalf of its membership. APSE has been vocal on the issue of council house financial arrangements for a number of years and this response follows the pattern of the arguments made over that period. APSE appreciates the need for a range of management options to deliver housing.

2. General comments

APSE welcomes the general approach of the prospectus as a move towards more local control of resources, enhanced accountability and clarity within the financial system. Introducing a self financing system to replace the national HRA subsidy system is fully supported. This is a topic APSE has been vocal on over many years and we have consistently called for changes to make it simpler for tenants, council officers and members as well as enabling 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. We do however appreciate the benefits of a range of management arrangements for housing delivery.

APSE is keen to work with Government on this topic to ensure the changes proposed are implemented. We were supporters of the HRA review under the previous Government and remain supporters under the new Government.

APSE has recently produced 'Under one roof', a document which highlights the holistic benefits of retained council housing, how wider community benefits emerge because a range of linked services are delivered from a single organisation and how tenants and other parties benefit. We believe top quality local council services are fundamental to maintaining sustainable communities and that housing is central to ensuring local people are happy and healthy. Making sure that local council housing has a future which can be planned and managed with security is vital to the future of those that live in it and that is the general basis upon which APSE supports the review.

3. Consultation questions

3.1 What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business?

We support the allocation of debt based on individual valuations of the net income stream arising from council rents reflecting local circumstances. Although in support of the overall principal 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.

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 total amount paid to Treasury as part of the current national HRA subsidy scheme. To expect combined councils to take on extra debt is unjustifiable.

There is a need to ensure property numbers within local authorities are accurate to ensure the level of debt matches properties owned. The decisions being taken by local authorities as proactive asset management should not mean they are penalised as part of this process.

Local retention of rent is welcome as the way that it is spent will reflect local priorities. This should be accompanied by the power to set rents and service charges locally reflecting local circumstances. This would generate greater accountability and be more likely to support self-financing over the longer term.

The commitment to allow for uplifted allowances in the debt settlement calculations are supported by APSE to ensure properties are maintained to an appropriate standard. Putting off maintenance and repair until a later date is a false economy and would undermine the resources invested to meet Decent Homes standards over recent years.

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 is too important to be left unaddressed.

It is unclear how significant Right to Buy income will be for councils in the future. 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.

3.2 What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?

APSE has regularly highlighted the complexity of the existing system and the sense of alienation tenants especially feel at how the system operates. Local management will make it more transparent and accountable.

Clearly arrangements which are introduced to support self-financing will be new to local authority staff, members and tenants. To ensure best possible management, guidance should be issued on topics such as debt management and separation of debt between the general fund and HRA, to aid those involved. The prevailing financial climate demands that as much support as possible is given to those managing council financial resources. However this should not be in such a format as to inhibit flexibility. Local accountability will not work if the accountable body is simply following centrally dictated instructions and unable to take locally informed decisions.

The debate about which services are core, non-core or core-plus is clearly relevant due to the impact on whether they are allocated to the General Fund or the HRA. 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 General Fund should be a local one.

3.3 How much new supply could this settlement enable you to deliver, if combined with social housing grant?

APSE has long argued for a greater level of council new build than local authorities have been able to invest in over recent years. Although we realise that different geographical areas have different circumstances, we feel that the lack of supply of properties is the biggest problem in housing to date. The impacts that too few houses have on cost, overcrowding and the pressure it puts on other services are too great to ignore. This is not a call for only local authorities to build houses - the supply from all providers should

increase. In order to realise such an increase local authorities should be encouraged and enabled to build their share as much as possible. APSE would hope the Government can continue the aim to allow headroom to develop as part of self financing which can then be used to invest in new properties if this is a local priority.

APSE has noted previously the impact of providing greater local responsibility at the same time as denying the opportunity to borrow. Although the paper notes allowances to meet existing maintenance and management needs, any requirement to borrow will come from those unforeseen circumstances which emerge purely from the fact that different places have different needs and circumstances. The paper promotes the concept of locality as a justification for local accountability but government must appreciate that locality means uniqueness and so avoid an approach which limits flexibility in the new arrangements. Councils are in the main financially responsible organisations but if they need to borrow, as a result of local conditions and needs, they should not be restrained from doing so. Clearly national economic circumstances will place limitations on the level of overall public sector borrowing and under current regulations local councils will be subject to these limitations. However APSE has argued for a long time for a review of housing finance with regard to public sector borrowing and that we should fall into line with the majority of European countries and exclude investment in housing from being classified as public sector borrowing.

3.4 Do you favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?

APSE welcomes the dismantling of the subsidy system and the intention to provide local accountability and transparency in terms of housing finance through a self financing system. APSE has been working towards this point for a number of years and supports the approach outlined within the document.

3.5 Would you wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document? Would you be ready to implement self-financing in 2011-12? If not, how much time do you think is required to prepare for implementation?

Clearly each local authority will have circumstances which dictate the time which is best for them to move to a self financing system but the need to move en bloc will cause more concern for some than others and this should be borne in mind by Government. This is a significant move for local authorities especially those taking on debt whilst currently being debt free. Making changes to the arrangements being consulted upon prior to the end of the financial year would be a mistake and only lead to doubts amongst involved.

Local authorities were quite rightly unwilling to debate whether they would be happy with the self financing option without adequate detail about the level of debt they would expected to take on. Having received that information they have had a chance to make a decision but it highlights the need to keep councils and tenants fully informed about the immediate, medium and long term implications of a move to self financing.

3.6 If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?

The offer has been promoted by the previous Government as a once and for all offer. There are councils for whom this option is not ideal but who may well accept it as the least worst option. Government should not look upon the situation as 'solved' if self financing is adopted but should be willing to look at arrangements within individual councils to address problems which may remain and impact upon tenants in future.

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