

**a fair deal for all our residents**

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Grant Shapps MP  
Minister of State for Housing and Local Government  
Eland House  
Bressenden Place  
London  
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Dear Mr. Shapps,

ARCH members were pleased to note your announcement on Tuesday 5<sup>th</sup> October 2010 that you were committed to reforming the Housing Revenue Account (HRA) subsidy system. We and others in the sector have long campaigned for this change and support a move that will allow councils the freedom to manage their housing stock effectively.

ARCH members are net payers in to the national subsidy system. Our 56 members are likely to contribute an estimated £255m in net negative subsidy payments in 2010/11.

The system is as you say is 'no longer fit for purpose' and should be reformed at the earliest opportunity to allow stock retaining councils the opportunity to retain their rents and receipts to provide sustainable housing solutions for our residents.

Whilst we welcome the commitment to move to self financing, ARCH would like you to note that there are a number of issues that should be addressed ahead of the detailed proposals you will issue at the time of the spending review. Namely:

- the proposed starting level of debt identified in the Prospectus is too high. Any increase in the starting debt risks making many retained councils business plans less viable and making them unable to pay for the necessary improvements to their existing and new stock. Unsustainable business plans will make these councils more reliant on Central Government grant going forward
- at its maximum the national debt allocation should be no greater than the current level of debt so that tenants get 100% of the benefit of all future rental increases
- the tenants of stock retained councils have not had the advantages of additional Decent Homes funding that the rest of the sector has enjoyed in the last ten years. This means that for many stock retained councils our stock needs considerable investment to bring it up to standard. Whilst the Prospectus identified backlog maintenance funding as an issue the funding identified was below the level of the British Research Establishments research for the review. ARCH believes that all backlogs should be funded. Not funding it will deplete the asset base and lead to inefficiency and waste
- the discount rate used in the calculation of the settlement should remain at 7%; to reduce it will make business plans less viable

- that the Prudential Code is sufficient for Government to 'manage' councils' debt and there should be no additional cap on borrowing. The limitation on borrowing must be seen in the context of there being no similar process in place for Housing Associations (other than their own assessment of their ability to repay and/or service their borrowing), despite the fact that the asset base and income streams are similar. ARCH continues to support the case for a suite of pre-determined borrowing ratios and covenants (similar to those applied by lenders to Housing Associations) that would have to be met (and reported on as part of the council's annual report), allowing sensible and sustainable additional borrowing.

If the Coalition Government's plans, are as you say to replace the HRA subsidy system with a new, more transparent system that devolves greater power to councils to better meet the housing needs of their local communities these issues need to be dealt with,

Whilst a great deal of thought is and will be going into the self financing option, it is clear that if we are going down the legislative route then councils will not move to the new financial system in 2011. Attention therefore needs to be given to the subsidy determination for 2011-12. If the normal subsidy rules apply councils will lose subsidy next year and the system will again be in surplus with Treasury taking this surplus to spend nationally. ARCH believes that the rent that tenants pay to their council landlord should be entirely spent on their housing needs and the needs of the local community. None of it should be paid over to central government. In the 2011-12 settlement this 'surplus' should not be taken by Treasury but should be included in the subsidy determination allocation to councils.

Council's plans for 2011 have been worked out using the modeling applied in the Prospectus consultation. Any changes to the rules and methodology will mean expensive and time consuming reworking of business plans. To ensure efficiency and to reduce waste ARCH would recommend that the arrangements for next years' determination calculation should be based on the Prospectus methodology. This would have the added benefit of creating consistency and certainty as councils move towards self financing.

Members of the ARCH Executive would be happy to meet and discuss these issues with you further.

Yours sincerely,

John Bibby  
Secretary ARCH