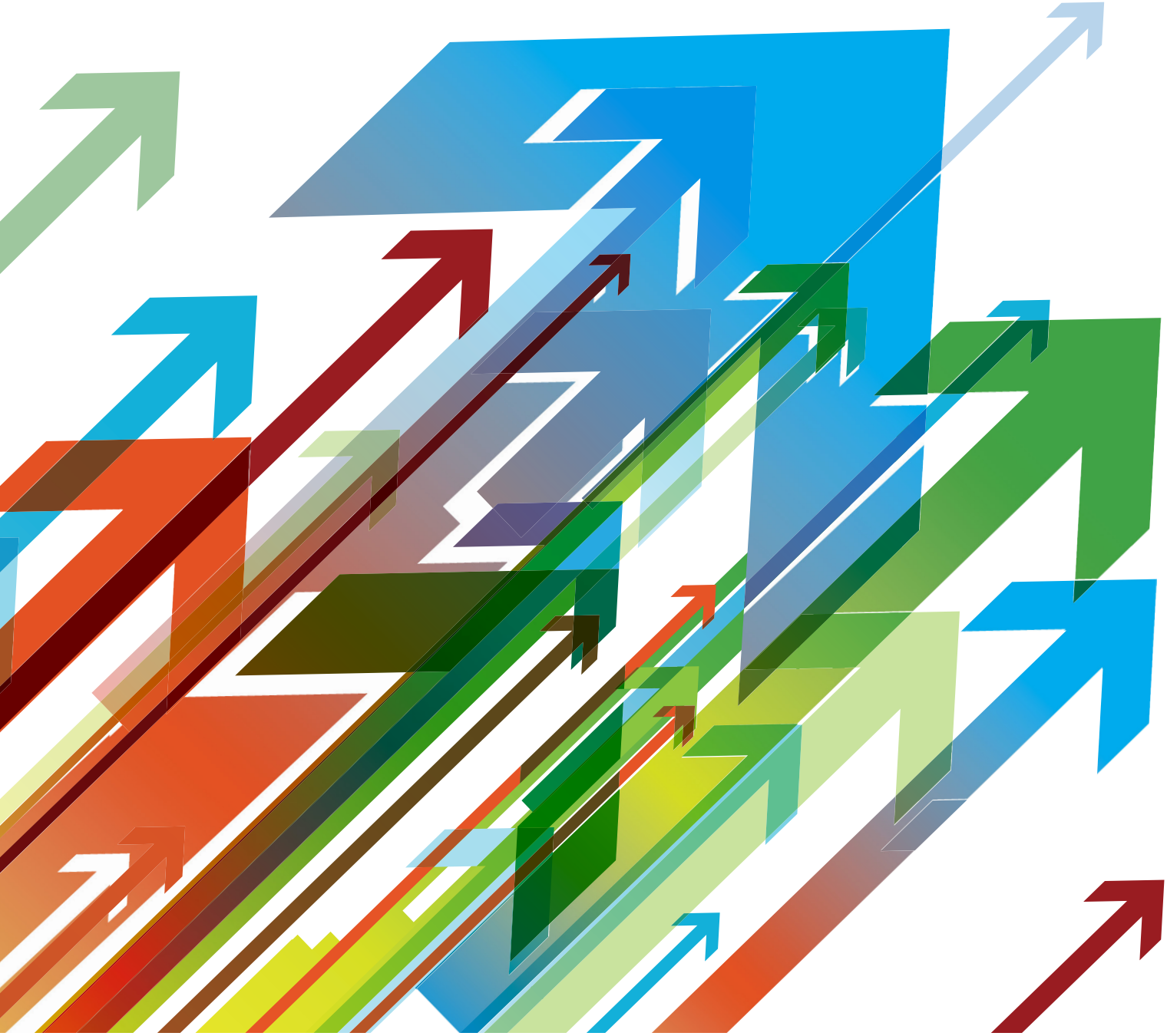
Executive Summary

Arch
ASSOCIATION OF RETAINED COUNCIL HOUSING

Innovation and Ambition:
the impact of self-financing on council housing



cwag
Councils with ALMOs Group

HouseMark
Performance Improvement

Local Government Association

National Federation of ALMOs
championing better homes and communities

Introduction

April 2012 saw the biggest change for a generation to the way English local authority housing is financed. The housing revenue account subsidy system was abolished and replaced with a system of self-financing for council housing. Each council is now free to keep rent income in full and invest it as agreed with tenants and residents locally.

This is a momentous change which has released extra resources and is allowing councils to undertake long-term business planning free from disruption by a volatile annual subsidy settlement.

The Association of Retained Council Housing (ARCH) together with the Councils with ALMOs Group (CWAG), the National Federation of ALMOs (NFA), Local Government Association (LGA) and HouseMark has commissioned this research to answer two key questions:

What impact has this made?

How are councils responding?

The research consisted of two main elements. Firstly, all 167 stock owning councils were asked to complete a structured survey. This was followed up at seven authorities by a research visit to provide a more in-depth understanding of the local response. These visits formed the basis of case studies appended to the report. Survey responses were received from 81 councils (49%) covering 57% of the total local authority stock. This gives a sound basis to draw conclusions about the sector as a whole.

The survey found that councils are responding well to the new framework and are taking sensible and prudent decisions to manage and improve their housing stock and invest in new build. Councils are ambitious to do more and could safely afford to take on additional new build if current artificial restrictions on borrowing were lifted.

Councils have responded appropriately to the new self-financing framework

The survey responses and research visits demonstrate a sound approach to the new framework.

- The overwhelming majority (99%) of responding councils that responded have prepared a formal business plan based on a set of sound and reasoned assumptions and underpinned by a 30 year financial model.
- Nearly all councils (95%) are planning rent increases in line with the rent restructuring formula[1] to safeguard long term investment in stock. The average rent increase in 2012/13 was 6.24%, but because inflation is expected to fall, the average planned increase in 2016/7 is half that.
- Councils have begun to increase provision for bad debts in anticipation of the impact of welfare reform. They may be increased further as evidence accumulates on the impact of changes to the benefits system.
- Average interest rates on borrowing continue to remain low for the first five years rising from 3.48% to 3.82% and well below the costs of funds in the private sector.

Councils are investing responsibly

The move to self-financing replaced a subsidy system based on annual payments to or from government with a one-off adjustment to council debt.

The debt settlement was intended to allow each council, from rent income, to manage its stock and maintain it in a good state of repair for 30 years, or replace it where necessary, with enough over to meet debt interest and repay the debt over the same period. However, the time profile of planned investment and debt repayment varies significantly, reflecting local needs and circumstances.

[1] RPI + ½% + convergence factor

- All councils have put time and resources into understanding their financial position and have put together investment plans that reflect their individual circumstances and priorities.
- The majority of authorities are choosing to invest additional resources in expanded programmes of investment while managing their housing debt at a relatively stable level, ensuring the council remains in a prudent position to manage business plan risks.
- The top priority for the majority (over 60%) of councils is investment in their existing housing stock to ensure it meets and maintains the decent homes standard. In many cases authorities are going beyond this standard. Other activities featuring most often in the top three priorities are:
    - new build (71% of authorities);
    - regeneration (46%) and
    - the green agenda (39%).

This reflects the different positions that local authorities found themselves in at the start of self-financing. For some, the condition of their stock means that investment in the stock is the only priority. For those authorities that have achieved the minimum decent homes standard, the clear priorities are around achieving a full modern standard along with the development of new council homes and addressing energy efficiency/green issues.

- Over the next 5 years[2] councils will be investing at least £15 billion in their existing housing stock, an average of nearly £9,000 per property.
- Three quarters of councils are planning to provide new council housing - 20-25,000 units over the next 5 years. Local authorities are using a variety of approaches towards new build with regeneration (46% of councils) and garage and infill sites (24%) making up the majority.
- Of those authorities that have indicated they are planning to undertake new build, 50% are planning to use Affordable Rents to help finance the new homes. The other 50% are planning to continue to use Social Rents.

Councils and ALMOs have the capacity to deliver more

The self-financing settlement also involved the imposition of a cap on local borrowing. The cap is set significantly below the amount of borrowing councils could safely afford to repay. Most councils have some headroom within the cap to undertake additional borrowing, but 28 do not. The availability of headroom bears no relation to a council's need for additional borrowing or to its housing needs.

- Councils are planning to finance 75% of their planned investment either from their major repairs reserves (52%) or directly from revenue (22%).
- Some councils are also planning additional borrowing: £507million of borrowing is planned in the first five years. This is equivalent to 37% of available headroom and represents 6% of total planned investment.
- A significant number of local authorities (39%) are considering new build outside of the HRA although many of these schemes are at an early stage. These include building through ALMOs, through Housing Association partners and through special purpose vehicles.
- If debt caps were not in place, 25 councils in our sample estimate that they could build an additional 6,913 units over the next 5 years and 16,208 units over the next 10 years. Even this small sample clearly demonstrates that there is capacity to gear up investment programmes over and above the caps in place.
- The figures in this report are a snap shot of council plans six months after the start of self financing. Council plans are continuing to develop and restraints on borrowing are likely over time to become an obstacle for more and more councils.

It is for this reason that ARCH, together with the LGA, NFA and CWAG are arguing for restrictions on borrowing to be removed to enable councils to gear up their investment programmes to meet housing need. We estimate that, with the cap removed, councils would have the capacity to deliver up to an additional 60,000 homes over five years. This would require an additional £7 billion of borrowing which would be well within what councils could reasonably afford to borrow.

[2] based on an extrapolation of the survey data

Interest in the Right to Buy is increasing

While it is still early days in terms of the reinvigoration of Right to Buy, the effects are beginning to be felt and plans adjusted accordingly.

- 96% of respondents had experienced an increase in enquiries, 92% an increase in applications and 52% an increase in sales.
- In time, it is likely that the increase in applications will filter through to a greater increase in sales.
- Despite the increase in sales only 56% of respondents envisaged having additional receipts for reinvestment and these have been factored into local authority plans..

Councils and ALMOs are starting to deliver and gathering momentum

The findings paint a picture of a sector that has made a positive and proportionate start to the self-financing regime. There is scope to do more in many places and a number of authorities have been taking stock of the new landscape before committing further.

There is a considerable amount of good work in financial planning and risk management. This needs to continue as risks develop around welfare reform and new risks emerge around development or regeneration.

Overall, the sector has the financial capacity to do more within the constraints of the debt caps and even more if they were removed. There is a growing sense that councils and their ALMOs are beginning to expand their programmes and deliver against their priorities

Full version of this report available on: www.arch-housing.org.uk

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Report prepared by CIH Consultancy

Published by ARCH, in association with the Councils with ALMOs Group, HouseMark, the Local Government Association and National Federation of ALMOs

Publication Date: June 2013

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