



**Review of Council Housing Finance: submission on
final review options**

March 2009

The Association of Retained Council Housing was set up for councils whose tenants have chosen the local authority as their landlord. ARCH brings councils who own and manage housing together to get the best deal for their tenants. These are crucial times for social housing. The way affordable homes are delivered, financed and regulated is changing. Around 100 local authorities own and manage 800,000 properties and ARCH wants to make sure that a brighter future for council tenants is secured.

Introduction

The Association of Retained Council Housing (ARCH) is pleased to submit its comments on the Review of Council Housing Finance now that the review is nearing its completion and the 'big picture' options are emerging.

ARCH welcomes the review and government's commitment to finding a system which will ensure a long term viable financial future for council housing in which direct management will continue to play a central role.

This paper follows a series of consultation events held for members and sets out ARCH's response to the main issues and questions which have arisen and been consulted on during the review, based also on what are understood to be the main options for future models being developed by government.

Establishing principles

ARCH welcomes the overall objective of the Review to secure a long term sustainable financial future for council housing and the commitment to a continuing retained-management council housing sector. The playing field has been too heavily weighted in favour of Housing Associations and the decline in our sector has been a direct result of inequitable government policies.

Essentially, housing is a local service and we support the government's initiatives to encourage community empowerment and tenant engagement. The current national system disempowers councils from key financial decision making, therefore tenants and residents are unable to hold their landlords properly accountable.

ARCH has serious concerns about the continuation of negative subsidy implicit in any redistributive system. We support full funding to national standards for

“positive subsidy” authorities and urge that this should be met most equitably from national taxation rather than hypothecated to other tenants.

ARCH wants to re-establish council housing as a locally-based, vibrant, dynamic growing sector able to make a sustained contribution to the health and well being of vulnerable people in housing need with a platform based on the following:

- The financing of council housing must be transparent to tenants and residents, to landlords and to the wider community, with a clear sense of where the money comes from and how it gets spent.
- As a matter of principle, income (revenue and capital) generated from council housing should be spent on council housing.
- All councils should have the resources they need to meet the management, maintenance and investment needs of the stock.
- To encourage accountability and community empowerment, there should be greater control over the income raised through rent, how it is spent and the local standards for services and for the stock.
- Local standards should be set within a framework of national minimum standards for:
 - a. The standard of housing - which should extend beyond the physical fabric of properties to the environment and neighbourhood
 - b. Service standards (for enforcement via the new regulator)
 - c. Rent levels.

Review research and issues

ARCH members have engaged positively within the review. Our views on the key issues raised within each review area as set out below.

The operation of the Housing Revenue Account (HRA)

Income generated from council housing should be spent on council housing. This principle should apply at the national level and locally. Yet given the pressure on waiting lists and the growing support required for those in housing need, councils need to retain some flexibility to respond positively to local conditions.

ARCH therefore supports the retention of the revenue ring-fence for the HRA with updated guidance which takes account of the diversity of modern service provision. We are uncomfortable with the suggestion that so called “non-core” services such as tenant support might be a cost ‘shunted’ to the General Fund. The key principle is transparency so that tenants and residents are able to review and influence policies locally.

We support a move towards greater flexibility in the use of receipts generated from the disposal of HRA assets with the ability to reinvest in existing or new

council housing. Current treatment of Right to Buy (RTB) receipts is increasingly anomalous in the context of 100% usability of Social Homebuy, voluntary sales and the proposed exemption for new-build and highlights the preferential treatment of Residential Social Landlords (RSLs) who are allowed to retain receipts and factor capital appreciation into their development funding.

Rents and service charges

ARCH accepts the need for a national framework of rent setting in order to protect both tenants and the Department for Work and Pensions (DWP) benefits contribution. This could set a broad envelope within which local decision making and engagement of tenants on service levels, rents and service charges could flourish. Rents should be set according to formulae which reflect size, location and the availability of facilities and amenities. Some damping for relative incomes in rent targets remains necessary as these are social rents.

However, the current rent setting formulae are excessively rigid, leading to an unacceptably 'flat' structure for example between larger and smaller properties. In consultation with tenants, there should therefore be greater flexibility to vary rents using agreed tolerance levels to achieve locally agreed standards and a discretion for alternative distribution of rents locally within the national envelope.

Rent policies should therefore encourage local accountability by linking amount paid and annual increases to changes in the level of services so that tenants can make genuine choices about rents and service standards.

Policies towards the setting of service charges need to reflect the wide variety of different services and service levels desired by local people. Whilst we support moves to seek greater clarity in service charge setting and there is a role for the regulator in enforcing good practice, councils should retain sufficient flexibility to respond to local conditions. We have serious concerns about any suggestion that rents might be attributed to funding only core provision of dwellings and those "outside the door" communal areas, services and estate costs might be funded by additional service charges.

Costs and standards

ARCH members have welcomed the setting of a minimum housing standard and look forward to this being developed in the future, to include:

- 'Decent Homes Plus' with greater clarity on requirements
- A higher standard to include both environmental issues and eco-standards as national policy develops.

ARCH also supports the development of minimum standards for housing management and services with a role for the Tenant Services Authority in promoting and enforcement.

It is essential that increases to minimum standards are reflected in increases to the resources available to councils. There are already shortfalls in financing against current standards, shortfalls which have at least partly been met through greater council efficiency; In many cases essential funding for decent homes, tied to the stock option appraisals process, stops in April 2011, whilst the need to improve and maintain standards is ongoing. There must however be recognition that increased standards cost money and resources distributed accordingly:

- If a national redistributive system through increased allowances
- If a devolved/local system, through rent levels and targeted investment resources.

The finance system

The current system lacks transparency for tenants; there is a desire from residents to have rents spent locally, and certainly not nationally.

It is well established that current funding within the system is insufficient to maintain minimum standards of management, maintenance and major repairs going forward. However the new system is formulated, the distribution of both revenue and capital finance must be transparent and must be linked to the costs of meeting minimum standards.

The current nationally redistributive system inhibits long term business planning as future resource levels are both insufficient and unpredictable. A nationally redistributive system is likely to be necessarily complex and volatile. However reformed, the system must be less volatile and promote business planning.

Given the housing needs of our tenants, it is completely inequitable that an element of both revenue and capital resources generated by council housing are diverted to other expenditure areas. This must be addressed and corrected in the reformed system.

ARCH has profound reservations about the redistributive principle, that increases rents above the level needed to provide services locally in order to fund shortfalls elsewhere. This applies equally to both negative subsidy and to redistribution of historic debt that achieves the same result, but attributes debt to tenants from which they perceive no service value.

We view the engagement of tenants in real decision taking, to balance service demands and related rent consequences, as being of much greater value than the arguments in favour of mobility and consistency that underlie the “equal

rents” principle. In many areas demand is such that choice does not exist and allocations reflect priority need.

ARCH welcomes the flexibility to carry out unsubsidised borrowing under the Prudential Code. However, meaningful investment is inhibited by the fact that such borrowing must be prudent, affordable and sustainable in the long as well as the short term. In a sector that is subject to RTB and a Government requirement to pay 75% of the net proceeds to the Department of Communities and Local Government (DCLG) this cannot be achieved. Housing is an income-generating asset and there must be a proper role for controlled investment through borrowing which can then be repaid from future rental streams.

The level of historical debt within the system has been acknowledged as a key issue within the review and a key driver for the amount of subsidy received or paid. The consequences of leaving in place a long term system to redistribute resources to meet debt payments are the difficulties and unpredictabilities all too readily associated with the current system. DCLG is therefore proposing ‘dealing with debt’ and addressing the redistribution issue ‘in one go’.

Although the effect of this may be to replace negative subsidy with a differently named, but no less contentious, charge ARCH members are interested in exploring further the options for government taking debt centrally as the basis for a sustainable system moving forward, particularly if this is accompanied by a reduction in the national level of debt to create headroom for investment. Further research is needed to assess the impact of these models and any transitional arrangements which might be required. We remain concerned about the creation of any new actual debt arising from redistribution of debt and the volatility of interest rates if these were allowed to vary from the assumptions in any financial settlement.

Model options

We understand that the government is working up three ‘model’ options which could form the basis of consultation following the conclusion of the review.

ARCH agrees that the current system does not meet the needs of a vibrant viable council housing sector and that fundamental change is required to the system. Retention of the system in its current form is not therefore an option.

Model 1: National System

ARCH supports the move towards greater devolution of financial control to local authorities. However, should the government not accept this case, a reformed national system must incorporate the following:

- An improved and more predictable method for the allocation of allowances
- Increased revenue funding to meet service and stock investment needs in line with the research undertaken for the review
- Widening of the base for eligibility to Social Housing Grant to include all local authorities with stock.

ARCH favours the retention of RTB receipts locally. If a national revenue redistribution system is retained, there is still a strong case for the de-pooling of receipts. It is inequitable that authorities which choose stock transfer retain their future RTB receipts locally and those favouring stock retention have their receipts redistributed nationally, including to authorities which have transferred.

Model 2: Revenue ‘self financing’ with continued central allocation of ‘surplus’ resources

This model appears to retain government intervention in the distribution of rents and revenue resources following a redistribution of debt and debt-charge contributions. However it is not clear how the mechanism through which government would carry out redistribution would be different to the current subsidy system.

ARCH believes that this model represents the worst of all worlds:

- It is not clear how authorities would benefit from the redistribution of future rental surpluses.
- Many authorities will have taken on additional debt-charge contributions but would still not be able to retain full rent income locally.
- It is not clear how this approach could enhance scope for long term planning.
- Whilst the ‘taxation’ of rent income would be more transparent, it would not be any more popular or justifiable.

Model 3: Self financing with all resources retained locally

ARCH supported the introduction of Clause 313 of the Housing and Regeneration Act and we want to encourage members to develop locally self reliant, viable and sustainable business plans based on a realistic settlement with government. Research undertaken for the review (which has included ARCH members) demonstrates a strong case for local HRA financial resources to be retained where they arise, including all rents and Right to Buy receipts, providing there is an appropriate and sustainable adjustment to HRA finances upon leaving the system.

ARCH supports a national move to self financing with individual authorities able to set their own timetable according to local circumstances. Many members

support the case for a single formula-based national settlement. Such a settlement could be based on:

- Assumptions of future rents and expenditure in line with the research outputs from the review
- A single redistribution of debt with government taking housing debt centrally and levying a debt-charge contribution.

The advantages of a single settlement are that protracted negotiations with individual authorities are avoided, as well as the position arising where some are 'out' and some are 'in'. This latter situation would feel like two systems rather than the long term sustainable solution desired by government and authorities.

There will be a number of authorities where a formula based settlement might not deliver the resources locally to sustain the long term maintenance of their stock. These could include those with particularly difficult stock conditions (for example those with high amounts of non-traditionally built stock) or those with continuing backlogs of works after the decent homes standard has been met.

Mechanisms exist to target capital resources to areas of greatest need and these should be retained to address these conditions. Currently these take the form of Supported Capital Expenditure to ALMO authorities; ARCH believes that future allocations of capital resources should be based on need rather than whether any particular management arrangements have been adopted. Future alternatives could include the use of supported borrowing, capital grants or the raising of resources locally within self financing business plans.

Summary

Around 4.5 million people rely on council housing sector for the quality of their lives. Our tenants and residents rightly expect and deserve high performing services in modern and well-maintained accommodation. ARCH supports the development of council housing with a dynamic future able to respond to the changing needs of our tenants and residents.

Only an adequately resourced, effectively regulated sector committed to tenant and resident empowerment can deliver what people need. The government has a once-in-a-generation opportunity to get it right for council housing. We are committed to working with government to provide the future that our tenants and residents need.

ARCH recognises that the current system is complex and acknowledges that whichever option emerges as favourite will clearly require further work to. ARCH is committed to working with the government towards a fair and equitable housing finance system for the future.

**Association of Retained Council Housing
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