



REPORT ON APSE AND ARCH DEBATE

FINANCING COUNCIL NEWBUILD: FROM WORDS INTO ACTION **JUBILEE ROOM, HOUSE OF COMMONS, 26TH MARCH 2009**

BACKGROUND

The debate *Financing council newbuild: from words into action*, was facilitated by the Association for Public Service Excellence (APSE) and the Association of Retained Council Housing (ARCH). It was prompted by strong signals from Government that councils would have a more significant housing role and opportunities to contribute to targets for new properties and that ministers were prepared to examine barriers that are currently preventing them building.

KEY RECOMMENDATIONS

It was apparent throughout the discussion that local authorities are keen to build and do not consider barriers insurmountable, as reported in full below. It was agreed by the panel and audience that the following issues need to be addressed by ministers, however, in order to make council building a reality:

- **Secure receipts from Right to Buy sales for investment in new homes**
- **Enable borrowing against future rental income to take place outside of the public sector borrowing regime, within a robust fiscal framework, in line with other European countries**
- **Apply a broader scope, less bureaucracy and greater freedoms to current proposals for changes to revenue and capital rules**
- **Provide pump-priming resources from the Homes and Communities Agency**
- **Provide a level playing field with other social landlords in terms of access to Social Housing Grant**
- **Reform the Housing Revenue Account subsidy system, which is currently under review, to enable council building to take place**
- **Allow historic debts – which have been repaid several times over – to be kept separate from new debts incurred to build new homes**
- **Enable councils to own and manage developments directly rather than having to use complex special purpose vehicles**

CONTEXT

Prime Minister Gordon Brown's speech to the New Local Government Network conference in February indicated that ministers are taking the potential of councils as builders of new homes seriously for the first time in decades. He said councils should be given greater opportunities to play a 'bigger role in housing' and that his Government would be prepared to 'put aside any of the barriers that stand in the way' of them doing so.

Housing minister Margaret Beckett's has also issued proposals on *Changes to the revenue and capital rules for new council housing; Consultation on excluding new council housing from Housing Revenue Account Subsidy and Pooling*. The deadline for responses to the consultation is 17th April.

The Department for Communities and Local Government and Treasury are conducting a joint review of the Housing Revenue Account (HRA) subsidy system, to which ARCH and APSE were asked to contribute as stakeholders. The APSE/ARCH House of Commons event was an opportunity to gauge appetite among local authorities to build homes and provided a forum for members and officers from English authorities to come together to examine the barriers that need to be overcome to enable them to fulfil their house-building potential. The discussion was followed by a presentation by Adrian Moran of the Homes and Communities Agency and detailed workshops at the Local Government Association headquarters.

PANELLISTS

Paul O'Brien, chief executive (chair) Nick Palmer, MP for Broxtowe, Cllr Gary Porter, housing portfolio holder on the LGA Environment Board; Sukvinder Kalsi, assistant director of finance, Birmingham City Council; and Ken Florey, head of service finance, Wandsworth London Borough Council and advisor to ARCH.

Sheila Watson, housing minister Margaret Beckett's special advisor, was also present in a listening capacity.

AUDIENCE

More than sixty local authority elected members and senior housing and finance officers were present, including members of the ARCH executive board and regional chairs of APSE.

REPORT ON DISCUSSION

Introduction

Nick Palmer, MP for Broxtowe introduced the event. He pointed out that Broxtowe Borough Council has led the way in building new homes. But the 12 new properties the authority has built amount to 10% of council building in the past year in England.

He said: 'The attitude towards authorities whose tenants have chosen stock retention has shifted lately. In Broxtowe and other stock retained authorities this is very welcome. With 1.8m on council housing waiting lists and the construction industry suffering the effects of the recession, the desire among councils to build merges with national priorities. This requires further encouragement on the Government's side and today's event is a great opportunity to look at what facilitation is required.'

Paul O'Brien, chief executive of APSE, chaired the debate. He opened it up by saying: 'Margaret Beckett and Gordon Brown's speeches have, for the first time in a generation, been talking about councils building again at significant levels. Gordon Brown specifically said at the New Local Government Network conference in February that he wanted to understand what barriers were standing in the way and address them. If the Prime Minister has pledged to remove barriers, we are here today to set down what those barriers are, so action can be taken to overcome them. The housing minister's special advisor, Sheila Watson, is here to take back local authorities' messages to Ms Beckett.

'Councils building homes an immediate way of addressing housing shortages while boosting the construction industry. Councils have land ready for development, good credit ratings, are democratically accountable and ideally placed to link building with wider social, economic and environmental goals. They must have a level playing field with other housing options, however, in order to realise their undoubted potential in this time of national crisis.'

The discussion began with each of the panellists giving their perspective on the current situation:

Birmingham City Council tenants voted in 2002 for their local authority to be their landlord. Sukvinder Kalsi (SK), assistant director finance at Birmingham City Council, pointed out that council properties are 'a tremendous asset', open to scrutiny and provide good value for money and that land is available ready for development. 'We can look forward to a bright era for council building in the future. The best way to get the momentum moving is to demonstrate that we are able to do it effectively and efficiently.'

Cllr Gary Porter (GP), housing portfolio holder on the LGA environment board, leader of South Holland DC, which is an ARCH member, said: 'Housing fits right at the heart of everything that is wrong with the country at present. ARCH was formed in response to an agenda that favoured stock transfer. We have seen a complete reversal of that agenda of late. The LGA has now

made housing a priority. The Government really want us to be successful and it's a great time to do housing.'

Ken Florey, (KF) head of service finance at Wandsworth London Borough Council and advisor to ARCH, said: 'We are now pushing at a half-open door. We all welcome the existing proposals for changes to revenue and capital rules, but we would like them to go further. The thrust of the consultation is that it is about the council's own money.'

Discussion then focused around a series of key questions on which the panellists and then the audience commented.

KEY QUESTIONS

Is the government serious about its intention to enable councils to build?

SK: 'It should be because it is not going to meet targets for new homes without councils building. Councils could do it quite quickly with the right support. But it needs to be a joint relationship between Government and local authorities.'

GP: 'The Government is more serious than ever about this.'

KF: 'The emphasis has been on Registered Social Landlords and I am worried that things are still constrained. The proposals for changes to revenue and capital receipt regulations only cover new-build and derelict properties when there are all sorts in between. We are pushing for a much lighter touch in application of the rules if the Government is serious about councils providing affordable homes. The real test will be whether they give us extra resources. Local authorities need equal access to social housing grant with Registered Social Landlords (RSLs).'

Why is council house-building important in the current economic crisis?

SK: 'The crisis was caused by conditions in the housing market, so it is very important that housing will lead us out of it, which it can do if we have a programme of new-build. Taxpayers will then have an asset that is worth far more than they paid. The skills base is there in the construction industry at present. If we lose it, it will take five years or more to get it back. We can sustain those skills by building social housing.'

KF: 'There is almost bottomless demand for social housing at present with such huge waiting lists and repossessions mounting as a result of the economic crisis. But there needs to be a process that has clarity and certainty to be able to deliver in a short timescale in which action is needed.'

Cllr Kevin Richards of South Derbyshire: 'The Government will win many points if it can deliver here. People are facing a double whammy of house repossessions and trades-people being laid off. This is a way to reduce

housing waiting lists and provide jobs. It is not a case of 'us and them' in the public and private sector but of us all working together to tackle the crisis.'

Cllr John Kerr-Brown of Warrington, a member of APSE national council: 'Social housing building needs to be in the Budget to stimulate construction. If we don't get building now the skills will be lost. There are 11,000 people on the housing waiting list in my authority. We could work with developers on projects that have been stalled. Everything is there to make this work, but we need finance.'

What are the main barriers currently preventing councils building?

Cllr Jim Smith of Bolsover DC said: 'We need a level playing field with RSLs. Right to Buy is a stumbling block. It is no use us building council houses if we have to let people buy them up in three years and don't have funds to invest in replacing them.'

Ted Czerniak, director of housing at Broxtowe Council and an ARCH executive board member: 'Access to social housing grant is crucial. Smaller local authorities get fazed by complex special purpose vehicles such as local housing companies. It needs to be kept simple.'

Brian Reilly, deputy director of housing at Wandsworth and an ARCH executive board member: 'The current range of options will not deliver house-building that is needed on substantial scale to help address shortages of affordable homes and boost the economy.'

GP: 'The process to set up a local housing company is complicated but not too complicated, in my personal view. But we need councils to be able to build alone unless the process can be streamlined. If we have to build ourselves out of the recession we need to get on with it. Treasury was previous worried about keeping borrowing for housing outside of the Public Sector Borrowing Requirement, but that is now insignificant considering the level of public sector debt we are now accruing nationally. Establishing the Homes and Communities Agency (HCA) was a good move.'

KF: 'Special purpose vehicles were all about access to social housing grant but that was about hands off ownership. We want local authorities to own and manage properties themselves and the money to go direct to them to enable them to do that. Land and planning consent are the two trump cards many councils have when it comes to building.'

Cllr Richard Williams of Southampton, APSE South West region chair: 'This is about local leadership and it is about local authorities getting out there and doing it.'

GP: 'The appetite is there. I have not met a single local authority leader of any political colour who is not wanting to build new stock. Section 106 deals previously used for RSLs to deliver are not there. It is not a case of lack of local leadership but of barriers standing in the way of doing it.'

What are the financial obstacles and where is the funding likely to come from?

SK: 'Housing debt needs to be measured in the perspective of the £18bn debt we are in nationally when housing is a national asset to the value of £80bn. That's £10k debt compared to £50-60k value for houses. It is about how to extract that value from that asset in a way that takes us forward. We need to see a range of measures and make best use of existing measures, such as the new focus on empty homes.'

Bob Livermore, executive manager of housing and property services at West Lancashire DC and an ARCH executive board member: 'That land is only there once. What happens when we give it to housing and get no capital receipts in return. We would be worried about putting our land in without getting any capital receipts back. And who says the rules are not going to change. My council would like some long-term guarantees.'

Steve Warren, head of housing services at Exeter City Council and a member of the ARCH executive board: 'The whole HRA system needs to be changed. Existing debt has been paid several times over and there is a £200m surplus.'

GP: 'The HRA review needs to come up with a positive message for all stock.'

KF: 'Lots of old debt is at historic rates and new debt will be at lower rates so that might present opportunities.'

SK: 'The review should suggest how historic and new debt are kept separate. There are opportunities to offer mortgages so you could build that into your financial model from the outset but you would need to be able to keep the receipts from sales.'

SK: 'Local authorities can do this. They have accountability and could deliver value for money. But they need freedoms and flexibilities and a level playing field with RSLs.'

What about access to social housing grant?

KF: 'RSLs have had more resources because they can recycle past social housing grant, which local authorities can't. We would like to be able to apply Right to Buy to existing stock in a way that funds new stock. The finances of building do not make sense under the current HRA system.'

SK: 'Pump-priming with small amounts of grant would help us get moving. It doesn't need any more funding than they currently give to the private sector and RSLs. Money is the obvious barrier. Bureaucracy also get in the way. Why does everything have to be so complicated. A major programme to upskill local authority staff who have not been used to building will be necessary.'

Cllr Clive Robson of Durham, APSE Northern region chair: 'The appetite in local government is there. Private developers have been throwing up housing that is not fit for purpose. We have the opportunity to take control of standards and make them environmentally friendly. We need the right partners and we need to have clarity as to what we mean by affordability, size and quality standards.'

Bob Ledger, head of housing at South Derbyshire DC and an ARCH executive board member: 'There is a presumption that the new building will take place on council land then the Homes and Communities Agency will probably assume that the land gets contributed at nil value. However, we need to avoid the mistakes of the past and ensure that the housing gets built where it's most needed. What happens in areas of high need/demand in cases where the local authority has no or little land? In these cases the land must be bought and therefore grant will be needed to support that.'

KF: 'We need fair access to social housing grant and not a protracted process.'

Bob Ledger: 'The message to Government is to make it simple and transparent.'

Is prudential borrowing a realistic option?

SK: 'If you are reinvesting to build an asset providing there are good fiscal rules, that should be sufficient.' He went on to explain: 'The average debt outstanding on a council property is £10,000 compared to RSL sector of between £15-20,000 and owner occupiers exceeding £50,000. The management of our debt to other sectors would provide the potential for additional investment headroom. We should adopt a key fiscal golden rules, namely that our debt outstanding on council properties should not exceed 30% of the value of the stock. The other fiscal rule should be that the interest payments on our debt should not exceed say 35% of our rental income much like the principle that we may adopt for our own mortgages.'

KF: 'One of the proposals in the consultation is to remove negative subsidy from new-build and this would help.' He explained: 'Negative subsidy effectively takes the net rent surplus, i.e. guideline rent exceeds M&M and MRA expenditure allowances. If we are allowed to retain the net rent surplus on new-build, then for Wandsworth that would be about £1,600 per new dwelling per year. This operating surplus could then be used to pay the loan costs on £30,000 of construction cost (at around 5% interest rate). So we still need social housing grant to fund the balance of construction cost (say £100k less £30k prudential borrowing equals £70k). If you can assume some future sales income that can be factored in to reduce the social housing grant, although I am cautious about how soon or how much we are likely to see from capital receipts.'

What opportunities are afforded by the consultation on changes to capital and revenue rules?

SK: 'Opportunities in the consultation are tremendous but there are issues in the detail that need to be tied up.'

KF: 'The constraints of the consultation on revenue and capital rules are too rigid. As it stands, it only enables a limited amount of building by councils using their own assets.'

Bill Hunt, head of housing services at Warwick DC and a member of the ARCH executive: 'The consultation itself is a fairly limited step but the wider issue is the HRA review and getting rid of the chains of negative subsidy. The current subsidy does not deliver enough to maintain investment needs for our existing stock.'

How can the skills be put in place quickly to make council building a reality?

Ted Czerniak: 'The skills are there and just need to be transferred from stalled private sector projects. People from RSLs are hungry for work. If we got access to social housing grant a consortium could build with the same people doing what they are used to doing and the council controlling the whole thing.'

GP: 'It's a case of training council staff back up to being deliverers rather than enablers.'

Ruth Lucas, senior housing policy consultant at the Local Government Association: 'The IDeA and LGA have conducted a skills audit and are putting a programme together.'

CONCLUSION

Local authorities wish to build new homes and are well-placed to do so. But action is required as a matter of urgency in order to ensure affordable properties are provided as a means of meeting mounting housing need as repossessions increase and boosting the ailing construction industry. Councils are calling upon the Government to overcome financial and other barriers to enable them to make minister's welcome words about house-building a reality.

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