

NEWSLETTER ISSUE NUMBER NINETEEN

CIPFA LOCAL AUTHORITY
HOUSING PANEL

SPECIAL EDITION:
HOUSING FINANCE: TIME FOR
REAL CHANGE?

April 2008

AT THE HEART OF
PUBLIC SERVICES 

Welcome to the nineteenth edition for finance practitioners and CIPFA members working in local authority housing. This newsletter has been prepared by CIPFA's Local Authority Housing Panel.

The launch by Ministers in March of a wide-ranging review of the Housing Subsidy system in England provides the opportunity for a fresh, unblinkered look at local authority housing finance - and its underlying principles. Officials have confirmed to CIPFA that "nothing is being ruled out and nothing is being ruled in." The challenge now is not to add on more patches to mend it, but rather to replace it with something more logical and thought-out.

The whole issue of council housing is clearly very much a "live" one – Gordon Brown suffered one of the biggest backbench revolts since he became prime minister last night as 28 Labour rebels backed an amendment to a housing bill, on 31` March, calling for more resources for council house building and repair. In the end, the rebellion failed to check the bill's progress because opposition MPs voted with the government. Nevertheless, it provided a clear signal of backbench unease that the government is not managing to meet the demand for social and affordable housing.

This special edition of the Housing Panel newsletter aims to stimulate discussion and thinking around the issues in England. Some fundamental questions need to be posed - and answered. If, on reading the articles that follow, you would like to add your thoughts for the attention of the Housing Panel – and possibly for publication in the next edition of the newsletter, just email Lesley Lodge at: lesley.lodge@cipfa.org

THINKING OUTSIDE THE BOX?

A "thinkpiece" article by Ken Lee, Director of Resources, Wigan and Leigh Housing Company and Chair of CIPFA's Local Authority Housing Panel

The Housing Revenue Subsidy System review is gearing up now. Terms of reference have been drafted and expert workshops are being set up. The big question now is, where to start? There is widespread agreement - everyone, including the department of Communities and Local Government, now realises what many in housing finance have been saying for years: the system, put simply, is broken.

The aim of the system as it stands is to redistribute surplus rents from authorities with low needs to those with high needs. The fundamental problem with this is that no council believes it has "surplus" rents. A recent answer to a Parliamentary Question put by Austin Mitchell admitted that the system was in overall and growing surplus, that is, that local authorities are putting more rental income into the system, in total, than they are getting out in subsidy.

A number of previous attempts have been made to simplify the system in recent years and make it more transparent, e.g removal of rent rebate subsidy, introduction to resource accounting, rent restructuring, and a specific subsidy simplification initiative.

Even after rent rebate subsidy – which had further masked what was really happening to tenants' money – was taken out of the equation, the extreme complexity of the system made it extremely difficult for professionals to understand what was going on, let alone explain to tenants just how and why not all their rent was being used locally on their housing in their authority.

The recent work undertaken by a group of pilot authorities and ALMOs on the possibility of authorities going out of the subsidy system and self financing their own housing has clearly reinforced the point: the HRA subsidy system is no longer fit for purpose. The Housing Minister, Yvette Cooper, was convinced. Yvette Cooper has since moved to the

Treasury but new Housing Minister Caroline Flint has also seen the force of the argument. Both Ministers announced the launch of the Review but are they taking up a challenge or more of a poisoned chalice?

But where do you start? There are, broadly, three approaches: Analyse what is broken in the old system and mend it; fundamentally review housing subsidy; or go much wider to look at the whole needs of tenants and their communities. There has been plenty of research to show that those who live on council estates have shorter lives, are less likely to hold down a job, leave school earlier with fewer academic achievements and are likely to have more medical problems. Should the review ensure that its scope can pull all the players on this wide agenda into the frame? Or is this too much to expect the HRA subsidy to be involved with? Some will argue that the scope should be as wide as possible - housing policy has never been simply about bricks and mortar. What really matters is people and people's lives. This is the reality behind the saying that the system is broken.

If we are to have a fundamental review of housing finance then should we not examine why in some European countries public expenditure on housing does not count against the public sector borrowing requirement? We move towards European and International Accounting standards - so why can't we follow the French model on borrowing for housing? This would, at a stroke, resolve the problem for most local authorities - exit the subsidy system, as they have significant equity in their properties to be able to borrow to fund repairs, build new council housing - and even retro fit for sustainability. Tenants' money, up or down the land, can be focused on their area, not "raided" for national priorities. It would lead to greater local decision-making - an aim most often seen only as a mantra. But - and there is always a "but" - some might see this as losing control of a national service!

If such a move is not an option, then we are back to looking at what is wrong with the current system. Well, firstly it is too complicated and perceived as unfair. But how far can simplicity and fairness go hand in hand? Local government has long experience of special case pleading. Perhaps, if we cannot make it simple - because we all value fairness - could it not at the very least be made transparent so that explanations can be made? Could we demystify the various elements? Let me ask, have you ever tried explaining the various rent targets that there are? Formula rents, for example, are based on historic property values - just think of the problems historic property values are causing with Council Tax - but take account of regional average wages. Think how wages in impoverished rural areas compare with those in the thriving regional town or city, whose very success pushes up the house price in the rural area and exacerbates demand for social housing!

Then again, rent levels are supposed too to act as signals, so that, for example - to use the example most often quoted, an archetypal elderly lady who has continued renting her 4 bedroom house long after her husband has died and her children left home, should be encouraged by comparative rent levels to move to a smaller dwelling, freeing up the larger accommodation for bigger families. Then there is the whole topic of rent convergence. For this year only we have put off the completion of this until 2017 - why? Could it be that to reach the original date either rents would have to rise significantly above inflation or else CLG would be locked into paying out a subsidy top up because their assumed rents are not affordable? Clearly rents policy has problems - what else is broken?

Historic debt from housing spend is generally believed to be about £7,500 per property. This is already public sector debt. Much of this is funded from the Public Works Loans Board (PWLB). Yet if all authorities had opted to transfer their housing stock to a Registered Social Landlord, as encouraged by the Government, then large elements of

that debt would have been picked up by the Treasury anyway. Why shouldn't something then be done centrally about local authority housing debt?

Another question is whether the Major Repairs Allowance (MRA) should be revisited and updated? This allowance was originally meant to reflect the amount needed to maintain properties on a longer timescale. It was calculated by taking the cost of replacement of various building elements (roofs, kitchens, bathrooms) of various property types and dividing by their life expectancy to produce an annualised sum to ensure their replacement. This allowance was supposed to keep pace with inflation. There is, however, a wealth of evidence to suggest that it has not; even the Audit Commission will not allow a reliance on the MRA to represent the amount of depreciation that occurs in an asset - something the original MRA was able to do.

Then there are the management and maintenance allowances! (Would it be wise to roll the resources used on the maintenance allowance to ensure that MRA is sufficient?) London authorities generally complain that they do not get enough maintenance allowance while northern authorities protest that London authorities have been protected for a number of years from losing even more resources in this area.

What about the perverse incentives? One of the factors for the management allowance is based on total crime level as this is a proxy for the cost of dealing with anti-social behaviour. So if the authority manages to reduce crime, it loses money.

I know that everyone realises that when it comes to sharing out a pot you will not please all of the people all of the time. But the subsidy system seems to please none of the people any of the time!

And another issue – everyone is familiar with the sanctity of the “ring fence” and the need to maintain it strictly. But while at a council level local authority officers spend hours arguing about whether maintaining stretches of footpath and paying for street lights should be paid for from the Housing Revenue Account or from the General Fund, yet nationally CLG and Treasury are quite happy to see tenants' money not just redistributed amongst other tenants but they are also apparently happy to see the “ring fence” broken as tenants money is used to support non local authority social housing.

So if we are going to have a change, why don't we get back to original principles, to where we started from? **"Homes fit for heroes to live in"** was the theme behind the 1919 Act that introduced housing subsidy (a subsidy that was based on support of a deficit). This approach was about central encouragement of local action rather than centralised control. So what would fit this? How about:

- Rents controlled locally, within an overall envelope if you insist, but set to reflect the improvement that the local tenants want to see – full tenant participation and fairness in their eyes!
- A good look at the loan debt of local authorities relating to housing.
- A proper allowance not just for keeping properties in a good state of repair but ensuring sustainability.
- And – most of all – a freedom to get on doing the job that our tenants want to see done.

Ken Lee, Director of Resources, Wigan and Leigh Housing Company and Chair of CIPFA's Local Authority Housing Panel

Any thoughts on Ken's ideas? Or about the issues with regard to Scotland, Wales or Northern Ireland?

Email lesley.lodge@cipfa.org

Some Alternative Thoughts

From Adrian Waite, Director, AWICS and a member of CIPFA's Local Authority Housing Panel.

It appears to me that the main issues are:

- Should there be a redistributive system that moves money in or out of housing revenue accounts nationally and moves money between housing revenue accounts?
- If we accept that there should be a redistributive system:
 - o Should central government be a net contributor or a net receiver of funds?
 - o How should the level of funding received/lost by individual authorities be calculated?
 - o How should major repairs allowance be calculated and managed?
- Should local authorities be free to set rents at levels of their choosing to provide either revenue or capital resources to achieve locally determined standards?

The argument in England about housing subsidy appears to accept a continued need for a redistributive system. The proposal is that rather than achieving this through an annual housing subsidy payment it would be achieved through making one-off payments that result in a restructuring of debt. The idea that tenants in all authorities should have levels of rents and services determined in a consistent way seems to be universally accepted in England and it is difficult to see how this could be achieved without some form of redistributive system. Do we want to challenge this assumption?

In Scotland there is no housing subsidy but there is a Housing Support Grant that is designed to assist authorities with capital financing costs in specific situations. In practice very few receive this grant and only the Shetlands receive any significant amount (£2.1million). However, housing revenue accounts do not make a contribution to central funds. It may be worth mentioning Scotland as an alternative model. However, adoption of this model in England would seriously reduce the resources available in positive subsidy authorities – principally in Inner London and increase the resources available in negative subsidy authorities – principally in the East, South and West. It would involve acknowledging that there would be inconsistencies in services in different places.

It is easy to argue that government should not 'tax' tenants through the subsidy system. However, if the system is based on the idea that councils' resources are adjusted to the level of their assessed need and this means negative subsidy what is the problem? The argument against negative subsidy therefore needs to include a case that the total resources allowed to housing revenue accounts are insufficient. It therefore becomes an argument for increased resources that could only be provided at the expense of other budgets. A fair question might then be what other budgets we would like to reduce to allow negative subsidy to be eliminated! (It is of course tempting to suggest that money spent on Northern Rock could have been better spent on social housing).

If we accept that there should be a redistribution of resources between authorities it follows that there needs to be an assessment of relative need to spend against relative rent receipts. This implies some form of subsidy system. The argument then becomes one of how to calculate relative need to spend and this is an argument with which we have become familiar since 1989. The system could be simplified, as it is in Wales, but the principles of the system and perceived injustices would remain.

In addition to the argument that the major repairs allowance is often found to be inadequate in comparison with the need to spend as identified in stock condition surveys, there is an argument that many authorities do not receive major repairs allowance anyway. This is because they are in negative subsidy and are effectively

obliged to fund major repairs by revenue contributions rather than through receiving an allowance. This is increasingly becoming the case.

In Wales, the major repairs allowance is a capital grant and it may be an option to make it a capital grant in England also. This would mean that authorities would actually receive the cash. However, the fact that the major repairs allowance is a capital grant does not stop the Welsh Assembly Government from taking money out of housing revenue accounts through negative subsidy. The principle of negative subsidy at a national level would remain to be tackled.

The argument about borrowing against capital values is less clear. It is possible to borrow against capital values, but there is still a need to find a revenue stream to meet interest payments. If a revenue stream can be found then prudential borrowing is possible whether or not borrowing against capital values is permitted.

Rent policy therefore appears to be the issue. Should a local authority be able to raise rents to fund either prudential borrowing or revenue contributions to enable it to resource the level of capital expenditure that is shown to be necessary by the stock condition survey or is needed to meet tenant aspirations? This option would involve ending the rent restructuring policy and rent rebate subsidy limitation. In Scotland, there is neither a national rent policy nor a housing subsidy system so local authorities do take their own decisions on rents and, in practice, are making real increases in rents to fund investment to meet the Scottish Housing Quality Standard. This has two implications for the United Kingdom finances. First, most of the cost of the additional rents falls on the Department for Work & Pensions through Housing Benefit subsidy. Second, the borrowing counts against the Public Sector Borrowing Requirement. The government could argue that this would cause them to have to divert resources away from other services.

My overall conclusion is that the bottom line is what matters rather than the detail. All the options that are put forward that would achieve anything are either proposals to redistribute money between authorities, or proposals to increase the total resources available to housing revenue accounts. If government is not prepared to move on the latter all that remains is a depressing argument about the former and continuing decline. Perhaps we need to recognise that there is insufficient funding for council housing and the government should put more money in (or take less money out). The complexities of the current system create a 'fog' that hides this central problem.

Adrian Waite, Director, AWICS and a member of CIPFA's Local Authority Housing Panel

AWICS is an ethical management consultancy, providing support principally to those who provide public services.

Any thoughts on Adrian's ideas? Or about the issues with regard to Scotland, Wales or Northern Ireland?

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What Ministers have said

Yvette Cooper, Chief Secretary to the Treasury, and Caroline Flint, Minister for Housing and Planning, formally launched the review of the Housing Revenue Account Subsidy system together in March. The review was launched at the House of Commons before an invited group of key stakeholders. It will build on the work of the pilots, conducted with six local authorities, which looked at the costs and benefits of councils operating outside the Housing Revenue Account subsidy system.

Yvette Cooper, when she herself was Minister for Housing and Planning, had announced the review in December 2007 as part of a wide ranging package of measures designed both to deliver the new homes the country needs, plus making existing homes fit for the 21st Century.

Yvette Cooper said:

"It [the Review] will consider evidence about the need to spend on management, maintenance and repairs. It will consider rent policy, including the relationship between council rents and rents set by other social housing providers. It will also consider how the self-financing model developed in the pilot exercise would fit with the aims of the review and, if it is consistent with these, how it could be implemented. And it will consider whether the rules which govern the operation of the HRA need to be changed in order to fit with a new system of financing."

The review commenced with a constructive debate on the draft terms of reference and, to take the work forward, the Ministers announced that the Chartered Institute of Housing would be hosting a number of expert workshops on the main themes of the review to gather evidence to inform the review.

Caroline Flint said:

"The Housing Revenue Account Subsidy system is very complex and I know that people are unhappy with it because of its seeming unfairness and lack of transparency. I want the system to work so that it delivers for tenants and local authorities - and to get it right in the long term. This review, with the active engagement of key stakeholders, is essential to that. I also welcome the work of the Self-Financing Group, which will contribute significantly to the review."

The Labour Rebel MPs' view

Michael Meacher, Labour MP for Oldham West, has said that demand for social and affordable housing in the UK "far exceeds" the government's plans and it is "unrealistic" to rely on the private sector to build the required homes.

The government plans to have 3m new homes built by 2020 at a rate of 240,000 a year, but Meacher says that with problems in the sub-prime mortgage market spreading to the UK, there is no chance that private firms would build this many.

CLG publishes Self-financing summary report

Communities & Local Government have now published a key and long-awaited report on the Self-Financing Project (an exercise to test the costs, benefits and practicalities of operating outside the Housing Revenue Account subsidy system).

The report sets out the findings of the project and summarises the evidence from model 30 year business plans prepared by the local authorities and ALMOs about the viability of 'self-financing'. It also addresses legal, accounting and other issues which would have to be resolved in order to implement self-financing.

The findings of the self-financing project will provide key evidence for the review, announced in December, of the HRA Subsidy system and there is a clause (currently Clause 297 but likely to be renumbered again) in the Housing and Regeneration Bill which allows for the Secretary of State to enter into an agreement with a Local Authority to move all or some of its properties out of the HRA subsidy system.

CIPFA has been involved, together with a number of other bodies, in the work with CLG on self-financing. The report can be downloaded from the CLG website at: <http://www.communities.gov.uk/publications/housing/selffinancingservices>.

2 Day Certificated Masterclass *Plus*: in Target Contracts and Open Book Accounting
A Specially Designed Course for Social Housing professionals with experience of Open Book Accounting Techniques

The CIPFA Housing Advisory Network would like to invite you and your colleagues to attend a unique *Masterclass* event exploring the ways in which housing organisations can maximise the realisation of the benefits of this type of working, whilst minimising the risks associated with 'open' partnering contracts.

This 2-day event is aimed at social housing professionals who are required to deliver efficiencies using target contracts and open book accounting. The Masterclass will provide detailed hands-on guidance, about how to develop appropriate procurement strategies, through to agreeing the final cost of a project and associated savings or overspend.

The dates and locations for these events are as follows:

3 rd and 4 th June	LONDON
10 th and 11 th June	MANCHESTER
3 rd and 4 th July	YORK

Please contact Louise Dunne, Senior Housing Advisor on 0208 3023462 or by e-mail Louise.Dunne@ipf.co.uk or visit our web-site: www.cipfanetworks.net/housing/ for more information and booking forms.

THE HOUSING PANEL

CIPFA's Local Authority Housing Panel meets three times a year and is responsible for all financial management and policy issues that affect housing finance. The Panel:

- develops Institute responses to Government, professional bodies' and other bodies' consultation / discussion papers and exposure drafts
- develops, promotes and maintains best practice, standards and guidelines
- produces and disseminates relevant advice and material for members and employers in local authority housing

Further information about the Panel's activities, publications, seminar events and any vacancies is available on the panel website at: <http://www.cipfa.org.uk/panels/housing> or from Julian Smith by emailing julian.smith@cipfa.org Tel: 020 75435795.