Consultation Paper
Council Housing: A Real Future – Prospectus
Response from the Borough of Poole

Questions

1. What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business?

The Council is concerned that the calculation of the value of the business is overestimated, not least because the official 'Decent Homes' standard does not set a sufficiently high or comprehensive standard. The Decent Homes standard does not include essential improvements to communal areas, energy efficiency improvements, and improvements to tower blocks, as required by current legislation. It also excludes works to utility supplies, essential drainage, and items of other capital expenditure such as disabled adaptations. It also allows non-compliance in one major component. For example, there would be no need to invest in both the kitchen and the bathroom in a home. This difference is evidenced by the gap between the Major Repairs Allowance under the proposal of £28k per dwelling over 30 years, compared with Poole's assessed need based on stock condition data of £43k per dwelling. To meet the actual required standard more headroom is required to free up additional investment and/or more certainty is required around any future Government Capital Grants that may be available. The data used for the debt calculation should be based on independently verified local stock condition data.

The Council notes the increase in allowances but the increase in the Borough of Poole's Management and Maintenance allowances should be set in line with other Local Authorities in the region. The Council does not understand why Poole has the lowest increase in the region. In line with the new Government's drive for greater transparency and accountability, it is essential that the Government releases the supporting data for the calculations of the uplift in allowances to enable Local Authorities to comment on whether the assumptions can be considered valid.

2. What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?

The Council is concerned about the remaining ambiguity surrounding a number of extremely complex technical issues, each of which could have an adverse impact on the HRA Business Plan as set out in the self financing option and potentially on the Council's General Fund.

The Council would therefore support the Government's continued work with both CIPFA and the Audit Commission to ensure there is a robust framework relating to these technical issues prior to implementation.

Our concern also includes the fact that the Government retains the right to 'open up' settlements without clearly setting out the circumstances in which this might take place. Additionally, the Council is concerned that the Government appears to retain the right to control rent levels, which could impact on the viability of the Business Plan.

Separation of Housing Debt

The consultation document proposes a full separation of loans between the Housing Revenue Account and the General Fund. In general, we support a move away from the complexities of the current system and the current mechanism for the calculation of the consolidated rate of interest (CRI).

However, the lack of certainty around the CRI proposals means that it is difficult for the Council to assess how exposure to interest rate and refinancing risks will impact on either the HRA or General Fund.

The Council has, at least in part, used its reserves and balances in lieu of external borrowing to hold the debt below long term capital borrowing requirements. A separation of loans would, therefore, increase the exposure of both the HRA and General Fund to interest rate and refinancing risks.

Depreciation and Debt Repayment

The treatment of depreciation could potentially have an impact on the cash position in the business plan and the self financing HRA. The self financing option will discontinue the Major Repairs Allowance which is currently used as the proxy for depreciation. Therefore the continued work must:

a) clarify the process which will be used to establish the value of depreciation
b) consider the cost and process for obtaining such information
c) consider the issue of consistency with the approach used in the Council's General Fund and
d) ensure that the solution has no cash hit on HRAs as this would obviously reduce the Council's ability to fund its capital investment programme.

Under the current debt proposals the Borough of Poole would have insufficient resources to repay debt in the early years of the business plan. Any statutory guidance which dictated debt repayment (along the lines of the approach established for Council's General Funds – 4% Minimum Revenue Provision) would further reduce our ability to fund essential repairs to the housing stock.

Borrowing by self financing landlords

The proposal is based on a 7% discount rate as opposed to a 6.5% rate, the theory being that the difference creates headroom to support additional debt to enable the Council to contribute to the Government's objective of building additional homes. However, the concept of a cap on borrowing at the self financing debt level would leave no means of obtaining these additional resources. If the discount rate used to calculate the debt settlement, leaves scope for additional borrowing, the priority for Poole, based on local circumstances, would be to borrow to meet the high investment requirements of the Council's current stock during the first 5 years of the business plan. Even at 7% this backlog still cannot be met.

The Council is concerned that any cap on borrowing would run counter both to the principle of the self financing proposal (i.e. a locally governed and managed housing stock) and also to the principles of the prudential code which the Government accepts have worked well. There is a need to review the way in which the Council can borrow in the future. If new homes are to be built, then the code and rules need to be reviewed and mechanisms put in place to allow Council's to borrow against the HRA.

ALMOs

The Borough of Poole and Poole Housing Partnership welcome the statement in the consultation paper that the Government sees a strong future for ALMOs. We appreciate the support given by Government in recent years to the Council and Poole Housing Partnership (a 3* ALMO), but would like to emphasise that our excellent local work can only continue if the debt settlement provides sufficient resources and flexibility to invest in the stock.

HRA ring-fence

The Council welcomes the following principles to clarify whether services should be paid through the HRA or the general fund;

1. There should be a separate local authority landlord account that records all landlord income and expenditure (both capital and revenue) and the transfer of resources between the HRA and the General Fund

2. Housing services that a landlord is required to provide through statutory obligations or by the regulators should be paid for through the HRA

3. Some defined services should be paid for from the general fund (e.g. housing advisory services, a proportion of the administration of a common housing register and other strategic housing functions.)

However we would welcome a review of annex D of the Government's Consultation Paper as a number of the examples are contradictory and confusing. It would also be useful to include details of how debt management costs are apportioned between the two accounts.

The consultation states that the Government does not wish to see any adverse impact on Councils' General Funds as a result of these proposals. The above principles, particularly the third, will invariably lead to such an increase by changing long standing positions. Should there be redistribution, then the Government should support General Funds by providing additional resources to mitigate any impact on council tax payers.

Leaseholders

The Council agrees with the report's conclusions on sinking funds and agree that self financing should promote long term asset management strategies which should prove beneficial to leaseholders.

Housing Transfers

The Council feels that there should be an alternative option available. We feel that if tenants and the Council wish to explore stock transfer, and residents support this in a ballot, then this should remain an option, including the write-off of overhanging debt to support the process.

3. **How much new supply could this settlement enable you to deliver, if combined with social housing grant?**

   The debt settlement, our investment profile, and the proposed controls on new borrowing, mean that it is not possible for the Council to provide new housing in the early years through this settlement.

4. **Do you favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?**

   On balance, the Council would prefer the proposed self-financing system to the current system as it would help with greater transparency; it is easier for local residents and stakeholders to understand and it promotes long term planning and asset management.

   There are problems, however, with the current proposals which must be addressed by the Government for them to work in Poole. The settlement should reflect the actual levels of maintenance and investment required for the management of the housing stock and not just those levels as defined by the Decent Homes Standard. Independently verified local data should be used for calculating debt levels and adjustments to the Major Repairs Allowance & Management & Maintenance Allowances.

   Under the Government's self-financing proposals, the capital expenditure requirements can be financed over a 30 year period. There is, however, a significant shortfall in the first 5 years of the plan which total £27m in respect of urgent backlog and essential external work.

   The Council would also urge the Government not to seek to resolve the public sector structural deficit by adjusting the level of national housing debt.

5. **Would you wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document? Would you be ready to implement self-financing in 2011-12? If not, how much time do you think is required to prepare for implementation?**

   There are numerous ambiguities and a number of technical issues which remain to be resolved, and an unfunded capital gap of £27M, but the Council would be willing to look into the feasibility of adopting self-financing in 2011/12.

6. **If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?**

   The Borough of Poole, subject to the above, supports the self-financing proposals and would be willing to proceed.

As stated above, however, the Councils view is that due to the numerous ambiguities and outstanding technical issues, further clarification is still required.

The Council feels that due to the pressing investment needs within Poole's stock over the first 5 years of the Business Plan, the debt settlement is onerous and inflexible. The Council would urge the Government to provide more flexibility regarding a level of prudential borrowing over this period.

With a fast growing Housing Register, and a significant shortfall of affordable housing, the Council would like to explore ways of regenerating the existing housing assets with the objective of developing more homes, and better quality homes. The restrictions in capital and prudential borrowing prevent the Council from either practising good asset management of the stock or providing for those on the Housing Register.

<u>Feedback from our Residents in Response to the Consultation Paper:</u>

1. **From The Housing Strategy Panel**
   (Made up of elected tenant representatives and leaseholders from across the Borough)

- The Government's current proposals are better than the existing arrangements
- Poole will have a significant funding shortfall in the first 5 years, and no ability to borrow in order to fund or reduce the shortfall
- The old options that had been considered under our Options Appraisal Project are no longer available and this should be re-considered by the Government.
- This includes re-instating the option of stock transfer
- There is no ability to regenerate poor stock or develop new homes under these proposals

2. **From The Residents Panel (RP)**
   (Set up as part of options appraisal – open to all tenants and leaseholders)

- The principles of self-financing are seen as preferable to the current system but the cost assumptions that have been used set Poole's debt too high, resulting in large backlogs in Poole's stock investment programme.
- The debt should be set using local cost information and should not be capped because additional borrowing is needed to meet stock investment requirements as indicated by Poole's local housing stock condition information.
- Expenditure allowances should be set at the Poole Standard which is higher than the Decent Homes standard. We do not think it is reasonable that the Decent Homes standard allows one major component not to be replaced.
- The RP do think it is sensible to build new homes but any headroom should be used to overcome investment shortfalls in the existing stock. This would lead to no new build being possible.
- While supportive of self-financing in principle, the RP does not support its implementation on the proposed terms. The settlement debt should be recalculated as noted above, and the debt cap removed where necessary to support stock investment requirements.
- Voluntary housing transfer under the previous "rules" should not be withdrawn as proposed, but should be kept as an option.

Cllr Elaine Atkinson
Cabinet Member

Bill Constance
Chairman of Poole Housing Partnership Ltd

Helen Ross
Chairman of Housing Strategy Panel
Tenant and Leaseholder representative body