YOUR HOME
YOUR DECISION

REFORM OF COUNCIL HOUSING FINANCE

RESPONSE TO GOVERNMENT'S CONSULTATION PAPER

Consultation question	**Response**
Core and Non –Core Services	
1 We propose that the HRA 'ring fence' should continue and if anything be strengthened. Do you agree with the proposed principles for the operation of the ring fence? (These are set out in paragraph 3.28 of the Consultation Paper).	**We agree in principle with the continuation and strengthening of the HRA ring fence.** There is logic for a specific account for a service that has its own income stream. **We would like more detailed guidance on the definition of landlord services**, particularly in relation to the administration and management of housing registers and the housing allocations process, part of which could be defined as landlord services. We are also concerned about any possible impact on the level of resources available for tackling anti-social behaviour. The proposals provide an opportunity to achieve a level playing field between Councils and Housing Associations in terms of resources for management and maintenance of the stock. **Under any system, however, resources need to be adequate to achieve good standards of management and maintenance.** <u>Feedback from resident consultation</u> The HRA should only fund services that are solely for the benefit of tenants. The General Fund should generally fund any services that benefit a wider public than just Council tenants.
2 Are there any particular ambiguities or detailed concerns about the consequences of these HRA ring-fence principles	There are some ambiguities about the management and administration of the housing register function and possibly around services such as grounds maintenance but the Borough is already well positioned to be able to apply the 'who benefits' rule. There are concerns about the possible impact on the general fund and in turn on Council Tax payers. We would suggest a phased introduction to soften this impact. **If the application of stricter ring fencing rules has a negative impact on the**

	general fund we ask the Government to consider the extent to which this can be compensated and would recommend the application of the 'new burdens' principle to provide additional financial support to Authorities to address this financial impact. The landlord function plays a prominent role in tackling anti-social behaviour as the landlord function has implicit powers and influence in this area and should be funded adequately to reflect this. **Management allowances must reflect this and there should be some local flexibility on how to fund services tackling ASB.** In Poole, Supporting People Grant reductions of 5% each year put tenancy sustainment work at risk. There should be flexibility in the definition of landlord services to include tenancy sustainment work. Again, management allowances must reflect this. Will Housing Benefit be payable in respect of services provided through the HRA for tenants and residents that are not Landlord requirements?
Standards and funding	
3 We propose funding the ongoing maintenance of lifts and common parts in addition to the Decent Homes Standard. Are there any particular issues about committing this additional funding for lifts and common parts, in particular about funding any backlog through capital grant and ongoing maintenance through the reformed HRA?	**We require greater clarity on the type of communal works that would be included in the enlarged decent homes definition.** Would both internal and external works be eligible? Would the definition allow for the installation of new or replacement lifts, entry door systems etc? **We would strongly recommend the inclusion of all backlog work in the initial business plan used to determine the debt settlement.** We have serious concerns about the impact of a capital grant system on long term financial planning. Capital grants are generally ring fenced and cannot be carried forward to the following year. If the government does decide to opt for capital grants to fund backlog works we would strongly recommend they are not ring-fenced so as to provide flexibility on how to spend the grant each year. We would also ask for reassurance that the capital grant funding will not replace other funding. Would there be consequences for other government funding programmes? We would like more detail on the level and period of capital grant funding if this is Government's preferred approach. **Tackling fuel poverty and achieving carbon reduction requires real financial resourcing;** savings in energy bills cannot fund it. In Poole we are committed to reducing our carbon footprint and reducing fuel poverty. We can see the logic of funding energy efficiency works through contributions from residents in recognition of lower energy costs but we think this is too complex to administer, as any potential savings will depend on accommodation type, size and the life style of individuals. We have, moreover, already achieved a high SAP rating and significant further savings in household bills may be difficult to achieve. Any new system of funding

	must not prevent sensible 'invest to save' schemes. <u>Additional feedback from resident consultation</u> There is too much uncertainty in relying on Capital Grants for additional amenities and improvements. These costs should be included in the initial HRA Business Plans and taken into account in the debt calculations. It is essential not to disadvantage residents who use their heating systems frugally whose savings would be relatively small. If rent increases are the solution to partly fund investment in more energy efficient homes, the increases should be less than the savings in fuel bills.
4 Is this right direction of travel on standards? Will proposed funding mechanisms work or are there other ways?	The Audit Commission report 'Building Better Lives' claims: "Improving the housing stock that already exists will help more people than building new homes" **Yes, it's the right direction of travel on standards but we cannot stress too highly our view that it does not go far enough. The decent homes standard does not include essential improvements to communal areas, neighbourhood improvements, energy efficiency improvements, improvements to tower blocks and adaptations. It also excludes works to utility supplies and essential drainage. It also allows non-compliance in one major component. We have major concerns about preparing a business plan based on achieving 'decent homes' standards.** In Poole we have developed a local standard that provides better value for money over a 30-year period. We recommend the adoption of a similar standard as the national standard. The 'Poole standard' includes essential capital works not covered by the decent homes standard, for example the timely replacement of all crucial components and 'just in time' essential works to services and the external structure/fabric to meet landlord obligations. The standard embraces longer life components. **All this guarantees much better value for money and a reduced percentage of responsive repairs.** At Poole responsive repairs have been reduced to just 12% of the overall capital, planned and repairs programme. **As a minimum, the 'Poole standard' should be built into the initial business plan assumptions used to calculate the debt settlement.** We believe inclusion of these works would still create a viable national debt settlement. **We are also concerned that the proposed self-financing model provides no opportunities for landlords to redevelop estates to achieve higher quality homes and estates, nor does it facilitate the involvement of the landlord in regeneration work. We believe the landlord function has a wider remit than just**

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	the management and maintenance of its estates; landlords have a responsibility to their local communities and should be empowered to contribute positively to the creation of safe and sustainable neighbourhoods. Additional feedback from resident consultation Residents strongly support the principle that the Poole Standard is considered as the new national Decent Homes and Estates Standard.
LA leaseholders: service charges and sinking funds	
5 We propose allowing local authorities to set up sinking funds for works to leaseholders' stock and amending HRA rules to permit this. Will there be any barriers to local authorities taking this up voluntarily, or would we need to place an obligation on local authority landlords?	In Poole we already run a sinking fund facility for some leaseholders but lessees in Poole are not in favour of compulsory sinking funds. There are concerns about foregone interest, individuals relinquishing control of their finances, and the cost of establishing and administering the fund. If the sinking fund is insufficient to meet the full cost, the LA needs to be able to recover this cost, for example, by being able to borrow and charge an interest payment to the leaseholder. We also need legal advice on how to enforce such payments if not included in leases (Govt may need to pass legislation). We would also welcome any measure to help standardise leases. There is support for the idea of better quality information to leaseholders about their potential liabilities. We think the idea of adjusting the initial sale price to take account of future investment needs has some merit but there is a likelihood that the sale price would then be too far in excess of the mortgage offer for the transaction to proceed.
Debt	
6 We propose calculating opening debt in accordance with the principles set out in paragraphs 4.22-4.25. What circumstances could lead to this level of debt not being supportable from the landlord business at the national level?	The proposals for calculating the opening debt are based on assumptions of the cost of managing and maintaining the stock and achieving the decent homes standard. **At Poole we think the decent homes standard does not offer sufficient value for money and does not enable the landlord to meet all statutory obligations in a timely manner.** Our calculations suggest that adopting a standard similar to the 'Poole Standard' is nationally viable. **We are very concerned that using the decent homes standard across the country might result in a debt settlement calculation in excess of the existing national housing debt. This would continue to undermine the national ring-fencing of the national housing account and would in effect be a 'tax on tenants'. <u>We would not support the self-financing model if it resulted in an increase in the national housing debt.</u>**

	We would welcome worked examples to reach a clear view on the debt fixing proposals. We would like to reiterate our aspiration that any debt settlement enables Poole and PHP to continue to reach the housing management and investment standards achieved in recent years. Assumptions on costs must be adequate and reflect local circumstances. The proposals transfer the business risk of changes in inflation and interest rates from central to local government. We would welcome further clarity on whether the HCA/TSA /CLG would have the 'step-in' powers and resources to assist failing HRA Business Plans, similarly to how the TSA operates in respect of housing associations. We have concerns about the potential prospect of the General Fund having to bear the cost of unexpected increases in inflation and interest rates. **We prefer the self-financing model to the current national housing subsidy system because the self-financing model offers greater resources, certainty and freedom to manage our own affairs without continued Government involvement.** Assuming the resource implications were neutral, we would still favour a self-financing system over a national housing finance subsidy system. <u>Additional feedback from resident consultation</u> **Local authorities must have adequate margins to manage the risks and take account of future uncertainties**. Allowances must be sufficient and discount rates must be set at rates that support a sustainable business plan, based on achieving reasonable standards of management and maintenance, taking local circumstances into account. This should be a robust exercise, not simply based on minor adjustments to national averages.
7 Are there particular circumstances that could affect this conclusion about the broad level of debt at district level?	The Government is proposing that a 30 year business plan is used to determine the debt settlement, based partly on national calculations of: a) Management and maintenance allowances, b) The major repairs allowance, c) Future rent levels and d) The discount factor used to commute the 30-year plan into a present value sum. **These calculations must be robust and appropriate.** We require the detail on assumed rent collection rates, as these are sensitive to national and local economic trends. The consultation document explores 2 alternative ways of dealing with the issue of current debt costs. The government's preferred option in 4.22 is to ignore the current debt financing costs in assessing the present value of future cash flows, whereas 4.25 suggest that these cash flows reflect the cost of servicing existing debt.

	The Council's preference would be in line with 4.25, i.e. the inclusion of the costs of servicing existing debt in the calculation, although worked examples of the alternative approaches would be welcome. The Housing Revenue Account must be sustainable. The annual cost of servicing the debt must be no more than the annual surplus in the present value calculation. The proposal transfers responsibility for HRA debt repayment from the Government to the Council. Currently there is no requirement for the HRA to make an annual provision for debt repayment, whereas the General Fund is required to make a 4% minimum revenue provision (principal debt repayment). **The Council need to be assured that the required HRA debt repayments will be factored into the debt settlement position with the Government.** For example a debt settlement of say £70m at a repayment rate of 4% per annum would imply annual repayments of £2.8m.
8 We identified premia for repayment and market debt as issues that would need to be potentially adjusted for in opening debt? How would these technical issues need to be reflected in the opening debt? Are there any other ways that these issues could be addressed?	We need assurance that the CLG consider a number of technical accounting rules and their application, and the current differences between the HRA and the General Fund: a) Local Authorities such as Poole, who have not taken on market debt, should not be penalised at the expense of those Councils who may have been benefitting from the specific profile of principal and interest charges associated with this market debt. b) Premia & Discount rates and different rules of period write-down: the penalty impact in regards to premia should be on the basis that it is consistent for both the General Fund & HRA. **c) Cash flows and any additional debt management costs under self-financing should be included in the initial valuation for the system to work.**
9 We propose that a mechanism similar to the item 8 determination that allows interest for service borrowing to be paid from HRA to general fund should continue to be the mechanism for supporting interest payments. Are there any technical issues with this?	A self-financing model will transfer the interest rate risk to the Council. The additional debt the Council may have to take on might be more expensive than the current rate of interest paid by the Council on the housing debt and this needs to be taken into account when calculating the level of debt that can be supported The HRA may have benefited in the past from borrowing against funds set aside in the Council's General Fund reserve at a relatively low CRI. Under self-financing the HRA would have to support more actual external debt at potentially higher rates and this could affect the overall cost of borrowing. We are also concerned about the potential exposure to both the General Fund and the Housing Revenue Account that a significant variation in the Consolidated Rate of Interest (CRI) could pose. Will the Government consider the case for specific earmarked debt which would

	provide greater certainty? **Any costs of modelling of cash flows on a 30-year business plan should reflect the additional costs of managing any additional debt taken out by the Council.**
10 Do you agree with the principles over debt levels associated with implementing the original business plan and their link to borrowing?	The ability of the Council to borrow will be key to the success of the self-financing system. 'Prudential borrowing' by the Council has to accord with the principles of the prudential code, it has to be affordable to tenants and the business case has to be approved by the Council. **The Council is concerned that any further Government restrictions on borrowing would impede local choice and contradict the aims of a self-financing system.** **Such restrictions on borrowing could prohibit 'invest to save' proposals, and limit the Council's potential to deliver significant efficiencies**. Any restrictions on councils' prudential borrowing would need to in line with the legislative framework for prudential borrowing.
11 In addition to the spending associated with the original business plan, what uncommitted income might be generated and how might councils want to use this?	There is limited scope for the generation of uncommitted income. Apart from income from 'Right to Buy', the only uncommitted income that might be generated under the self-financing system would be from: a) interest and inflation rates being more favourable than when the initial debt settlement was calculated b) efficiency improvements the organisation would be able to achieve. **There should be local discretion on how this additional income is spent.** The priority in Poole might depend upon the standards on which the 30-year HRA business plan is based. If based on the 'Poole standard', our priority for uncommitted income would probably be for new homes, but if based on the current, albeit slightly broadened, decent homes standard, it is likely we would prioritise additional investment in the stock to support sustainability and/or environmental improvements.
Capital receipts	
12 We have set out our general approach to capital receipts. The intention is to enable asset management and replacement of stock lost through Right to Buy. Are there any risks in leaving this resource with landlords (rather than pooling some of it as at present)?	Currently 75 % of receipts are paid to central government. The 25% retained by Poole is allocated to the new homes programme. We acknowledge the delicate balance between national spending priorities but **we favour retaining receipts locally and having local discretion to invest them according to local priorities.** We acknowledge the risk of national resources not being distributed according to housing need. This policy could be reviewed after a reasonable period (5 years say?) to investigate whether there was any imbalance caused by the new arrangements. We require clarification on whether income from capital receipts would be expected to feature in the initial business plan assumptions. The number of recent sales under

	RTB in Poole is negligible.
13 Should there be any particular policy about the balance of investment brought about by capital receipts between new supply and existing stock?	We recognise the need to strike a balance to meet new housing needs, particularly in Poole where the level of housing need is so high. Additional feedback from residents The existing stock should be maintained before there is investment in new stock. Investment in safer communities and better quality housing impacts on the general well-being of the community and represents a better return for government. **There is no point developing new housing if existing housing is allowed to deteriorate.**
14 Are there concerns about central government giving up receipts that it currently pools to allow allocation to areas of greatest need?	We acknowledge the risk of this but the income Government receives from RTB receipts constitutes only part of the overall national housing investment programme.
Equality Impact Assessment	
15 Would any of our proposed changes have a disproportionate effect on particular groups of people in terms of their gender or gender identity, race, disability, age, sexual orientation, religion or (non-political) belief and human rights?	We are committed in Poole to achieving the highest standards of management and maintenance of the housing stock. We want to provide good quality, safe and environmentally friendly homes for our residents, many of whom are elderly or have physical disabilities. Over 50% of residents in the Council's housing stock are over 60; Currently we are aware of the needs and disabilities of 66% of all tenants, and of these 27% have a recorded need that may potentially affect their ability to live independently in their homes or require some form of support or assistance. Just under a fifth are single parent families (18.3%). **If we are unable to reach high standards of management and maintenance this affects the most vulnerable people in Poole and those on lowest incomes.** **We are very concerned about funding for adaptations.** Adaptations will continue to be crucial to meet the needs of vulnerable people and putting the adaptations programme at risk would be socially unacceptable. In Poole, adaptations in council properties have been funded from the HRA and we would wish to continue to be able to fund them in this way. **This is why we believe the adaptations budget should be included in the initial business plan assumptions.** The recent inquest into the tragedy in Leicestershire highlights the need for sufficient resources to tackle hate crime, harassment, anti-social behaviour and tenancy sustainment. Again, it is the most vulnerable members of society who are at risk. It is important that resources for tackling anti-social behaviour are sufficient and do not fall into a funding vacuum between the general fund and the housing account.
16 What would be the direction (positive or negative) and scale of these effects and what evidence is there to support this assessment?	See above

17 What would be necessary to assemble the evidence required?	See above
Other	
Self-financing will create a level playing field between transfer and stock retention in terms of level of public funding. For the future we envisage support available for transfer would be no different from that on offer for self- financing	Poole faces a serious shortfall in its capital programme within 2 years. We face the prospect of having to reduce service standards and cut our investment programme to a bare minimum. Until greater details are available on the self-financing proposal, there appears to be no alternative route. We believe it is in the national interest to achieve good standards of management, maintenance and investment in the council housing stock and council estates across the country. **If a self-financing model does achieve these standards residents should have an alternative option to achieve these higher standards.** **We are very concerned about the proposals regarding stock transfer. We do not have a preferred option at present but the medium term economic outlook is such that the transfer of the housing stock from the public to the private realm could potentially provide greater financial certainty, promote greater investment and thereby serve as a better economic stimulus.**
'Sees a strong future for ALMOs'. Many ALMOs are now seeking to secure funding from external sources to increase investment levels. ALMOs able to take on management of stock of other social landlords	Poole has a 3 star ALMO that has been described as one of the strongest housing organisations in the country. It also achieved no. 46 in the Sunday Times list of 100 best small companies. Poole wishes to build on this success. **We are strongly committed to the idea of achieving good standards of management and maintenance. We also believe local management arrangements provide better opportunities to achieve these standards and it would be appropriate for ALMOs to take on the management of other stock where these standards could not be achieved otherwise.**
Will explore opportunities for Local Housing Companies	Our current understanding is that the Local Housing Company model is aimed at partial solutions, not the whole stock. We would welcome any alternative model if it helps Poole meet its housing objectives
Other observations	We strongly recommend: **a) If self financing cannot be achieved by 2010-11 we would ask Government to base the subsidy determination for 2010-11 on the new higher allowance levels, in line with the conclusions of the Government's own research and** b) **The government should consider the potential for housing borrowing to be treated in the public accounts in line with European accounting rules and removed from the public sector net borrowing need**.