

 <b>Northwards Housing</b> North Manchester's Council Homes	<b>Report to:</b>  Northwards Housing Board  10 <sup>th</sup> November 2009	<b>Item No:</b>  <h1>9</h1>
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<b>Title:</b>	HRA Subsidy Review		
<b>Date:</b>	28 <sup>th</sup> October 2009		
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<b>Confidential:</b>	NO		
<b>For:</b> (Please tick action required)	<b>NOTING</b> ✓	<b>DISCUSSION</b>	<b>APPROVAL</b>

**PURPOSE OF REPORT**

The consultation on the future of the HRA Subsidy system set up by Communities and Local Government closed on 27<sup>th</sup> October 2009.

The attached response was submitted by Northwards on behalf of the North West ALMOs following a piece of work led by the Chief Executive.

**RECOMMENDATION**

The Board are asked to note the consultation response.

<b>IMPLICATIONS</b>	
<b>Equality &amp; Diversity:</b>	None directly although issues of impact assessment were included in the consultation
<b>Financial:</b>	The consultation paper envisages a revised financial future but until the details are known the consequence on the revenue finance of Northwards are unknown
<b>Staffing:</b>	None directly
<b>Decency Target:</b>	Future financing proposals will have a significant effect on the ability to maintain decency in the future
<b>Governance:</b>	None directly
<b>Risk Assessment:</b>	Future subsidy arrangements and their effect on the finances of Northwards are included in the risk register

<b>Equality Impact Assessment</b>	
Function being assessed	Not applicable
Section	
Date of assessment	
Person Responsible for assessment	
Is this a new or existing policy?	

If there are significant implications in terms of equality please append a summary report.	
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**Consultation/Consideration:**

	Yes, No or N/A:	Name:	Date:
<b>Sub-Committee:</b>			
<b>Area Panel:</b>			
<b>Task Groups:</b>			
<b>Ward Councillors:</b>			

## Reform of Council Housing Finance: Consultation

### North West ALMOs Response

The ALMOs in the North West welcome the principles for reform described in the Communities and Local Government (CLG) consultation paper *Reform of Council Housing Finance* and developed in the accompanying documents.

We believe that the proposals meet many of our requirements for a sustainable financial future for Council Housing and the HRA and this is the opportunity to replace the broken system for the future.

In saying this, we do also believe that there are still details to be worked out and we refer to some of these queries in our specific responses below. However, the broad thrust of the proposals and the direction of travel are welcomed.

In moving forward past the consultation period, we would urge Communities and Local Government (CLG) to implement the revised allowances reflecting perceived under-funding now for 2010-11.

We also would request clarity on the future of stock transfers. The current proposed transfers should be allowed to proceed under the rules in place at the time that the decisions were made. Into the future, however, if the eventual settlement results in a deteriorating financial position for the Local Authority as a result of the nationally agreed assumptions, is it fair to block the tenants' choice for transfer?

It is also disappointing that the Paper is completely silent on the proposed future of rent policy. This needs some urgent clarity as it will be a key assumption for the formulation of the 30 year business plan models.

### 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 principles for the operation of the ring fence set out in paragraph 3.28?
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As a point of principle we believe that tenants' rents should be spent on the management and maintenance of their homes and neighbourhoods.

We agree that setting a consistent framework is important. Clearer definitions are needed which in particular would assist ALMOs in discussions with their Councils over the treatment of items within the HRA.

However, we believe that definitions should not be restrictive and that local flexibility within the framework is imperative.

Flexibility is important as it supports the rights of tenants to choose priorities, linked to the National Conversation set up by the TSA where tenants described what they believed were core services. Visibility of these costs is important going forward.

We therefore believe that the ring-fence should be defined in a way that sets the minimum as a set of rules but allows flexibility over and above this. The framework established should be transparent and open to scrutiny.

2. Are there any particular ambiguities or detailed concerns about the consequences?

We note that the issue of service charges is not considered within the proposals and believe that this should not be ignored. Would any increase in core services be reflected in increased allowances? This issue clearly links to definitions of core and non-core services as well as being a key driver around levels of income within individual HRAs. Some clear guidance within a proper HRA framework would bring all Local Authorities in line.

The Paper and the proposals are also silent on the treatment of HRA PFI. This requires some clarity within the eventual guidance as it materially affects the financial position of a number of HRAs including some in our region. We believe the HRA PFIs already in place, and those to be established in the future and their funding streams should be separately ring-fenced and excluded from the discussions and calculations for self-financing.

### 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 around funding any backlog through capital grant and the ongoing maintenance through the HRA system (as reformed)?

The Paper implies that funding is available through the uplift in MRA and the additional funding for lifts and common parts to maintain decency. We believe, however, that this is predicated on the basis that everything about the needs of homes is known.

The reality is that there are unknown requirements and the funding implications that Local Authorities would become responsible for in their housing stock need to be factored into the base position. Proposals around energy efficiency and fire regulation requirements for example may well be required in the near future; if all the funding headroom is factored in from the initial calculations then there is no flexibility in the system. As tenants get more involved with setting standards alongside the TSA, their aspirations and requirements will increase.

It is disappointing that the Paper ignores the work done through the Review indicating that increases in MRA of nearer to an average of 43% are required just to maintain the status quo and that higher increase might be required depending on life cycles. Early round ALMOs are in a very different position to those from later rounds and still require a substantial amount of investment to maintain decency. We reflected on the fact that despite all the funding at whatever level, made available, Stock Transfer still delivers a higher standard than that proposed in the Paper.

The general concern is that an average uplift of MRA by 24% would differ in level across the country and that some Authorities may get next to no increase. This would obviously have a significant effect on their ability to maintain decency when it is accepted that the general level of allowances needs to increase for all Local Authorities, not just the headline figure.

This is similarly true for proposals to increase Management and Maintenance Allowances by an average of 5%. Such uplift to the overall average masks the individual local and regional differences. Tapering systems for Local Authorities that historically overspent are still in place and, if maintained, would mean other Local Authorities would lose out.

If funding for lifts and common parts is not coming through the MRA, where will this funding come from and on what basis will it be distributed? Will the mechanism for distribution allow for catch-up where this has not already been funded through the Decent Homes Programme?

4. Is this the right direction of travel on standards and do you think the funding mechanisms will work or can you recommend other mechanisms that would be neutral to Government expenditure?

We believe that there should be recognition that we have been delivering against the Decent Homes Standard, but that this standard is a relatively low one and doesn't fully meet tenant expectations. There should be, therefore, recognition that the current standard was a "floor" and that tenants expectations continue to rise over time generating an increase in the "ceiling". This growing expectation needs funding and it is not just backlog works. The funding mechanism needs to support the level of Stock Condition Surveys.

The proposals for energy efficiency are welcomed, but we believe that more detail is required. How the funding for these falls on tenants needs careful consideration.

The indications from the Review show that there is sufficient funding from within the system at the present time to release additional funds to ensure that properties do not fall back into non-decency. We believe that these funds should be released now to ensure that backlogs of work do not start building up.

There is also a belief amongst the ALMOs that there should be some long-term thinking in terms of the proposals. There might be an additional cost in the early years to get a proper settlement for self-financing, but this might be neutral or cost efficient over the whole 30 year period.

### **Leaseholders**

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?

We don't really see that this is a major issue as it is our understanding that Local Authorities can already do this. The problem is, we believe, that it is too complicated to manage such funds under the current rules and therefore these arrangements need simplifying.

We believe that there should be an obligation on the HRA to maintain sinking funds to protect the interests of leaseholders and that this should be a statutory requirement so it can be applied retrospectively.

### **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?

From the Paper it is clear that there are still a number of uncertainties and clarifications required in respect of the calculation of opening debt. Clarity on the figures would be

helpful; is it Subsidy debt or CFR debt? We believe that there is a fundamental principle that no more debt than is actually held by housing should be redistributed.

The opening debt position will be affected by the level of investment made in the past and for early round ALMOs, this funding was too low to take into account all their investment requirements. Calculating debt based on proper Stock Condition Surveys (as required by the Audit Commission) rather than predictions of MRA would balance some of the inequities.

It is our view that housing debt should be ring-fenced within the HRA so it is clean.

7. Are there particular circumstances that could affect this conclusion about the broad level of debt at the district level?

We believe that managing debt in the way proposed by a Local Authority itself is the right way forward and allows for long-term decisions to be made in a transparent and open way after consultation with tenants.

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 others? Are there other ways that these issues could be addressed?

There are concerns in the group about limits on prudential borrowing that might be imposed and the need to minimise the effect of exit costs of existing loans. With no premia for redeeming PWLB debt, how is parity achieved with how debt was written off before? Would opening debt include previous redemption premia? Is there an accounting discussion with CIPFA that could take place around writing off premia over the term of the loan rather than in the year of redemption?

9. We propose that a mechanism similar to the Item 8 determination that allows interest for service borrowing to be paid from the HRA to the GF should continue to be the mechanism for supporting interest payments. Are there any technical issues with this?

No further comments.

10. Do you agree the principles over debt levels associated with implementing the original business plan and their link to borrowing?

We believe that it would not be difficult for Local Authorities to enter into funding arrangements that monitor and report the level of debt as a ratio of asset value (gearing) and produce some form of interest cover ratios. These mechanisms would have the effect of ensuring that HM Treasury fears over unrestricted borrowing are measured as well as ensuring that business plans going forward are sustainable, protecting the interests of tenants.

There is concern about getting the initial calculations correct in setting opening debt assumptions and these being fixed then for the next 30 years. The importance of getting the model right is imperative and therefore, for Local Authorities to take on the future unforeseen obligations, there should be some protection through the calculation of opening debt that liabilities have not been grossly underestimated and that income is not over-forecast. If there is no capacity through sensitivity analysis for borrowing headroom at

all then circumstances not under the control of the Authority (e.g. Rent Policy) would cause business plans to begin to unwind.

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?

The future sustainability of the business plan is important and critical to the 30 year success of these proposals. As the Balance Sheet of the HRA grows over time then a Local Authority, under a self-financing regime, will make decisions to meet its current obligations guided by discussions with tenants on priorities.

Where additional income is derived this should be kept within the HRA and should be available to the Local Authority to determine how best to use it; either for spending on priorities or for backing future sustainable borrowing. Given the need under the proposals to plan for future uncommitted liabilities (e.g. Housing Benefit or Supporting People Grant changes) it would only be fair for unknown future income to remain with the Local Authority for it to determine its use.

### **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)?

We welcome this proposal and believe that in addition to the 25% already retained, the 75% of capital receipts should now be kept by Local Authorities and should be available for reinvestment in social housing and housing related regeneration.

13. Should there be any particular policy about the balance of investment brought about by capital receipts between new supply and existing stock?

No. This should be at the discretion of the Local Authority in line with agreed priorities.

14. Are there concerns about central Government giving up receipts which it currently pools to allow their allocation to the areas of greatest need?

Some clarity may be needed over how Local Authorities who currently gain from the system of central pooling will manage possible reductions in funding.

### **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 believe that the changes proposed in the Paper would positively affect the lives of some of the most deprived and low income people in our society.

We believe that more clarity is required on the proposals around funding Disabled Adaptations. There is concern about using just potential Capital Receipts to fund this work as in a number of Local Authorities this will mean that supply will be nowhere near demand.

As increasingly larger numbers of people categorise themselves as being disabled, pressures on these budgets is being continually stretched. If the MRA increases do not match potential forecasts of Stock Condition Surveys providing for a element of this funding, then it is difficult to see how sufficient funding will be available.

Funding of disabled adaptation work for non Council Housing should be fully met from the General Fund and should not be funded by Council tenants.

16. What would be the direction (positive or negative) and scale of these effects and what evidence is there to support this assessment?

In current customer profiling (required by the Audit Commission) ALMOs in our region are now seeing over 25% of their tenants categorising themselves as disabled, and in one case this figure is 39%.

17. What would be necessary to assemble the evidence required?

No further comment.