

Housing: Key Current Issues

Summary

This paper offers a summary of the main housing issues that will affect the Board this year:

- Decent Homes funding
- council-led development
- social housing regulation
- allocations policy; and
- housing finance reform

Recommendations

Members are asked to note the report and to comment on proposed actions and objectives.

Action

To progress the proposed further action programme subject to comments from the Board.

Housing: Key Current Issues

Background

1. While the LGA's housing campaign itself is being stood down, having yielded success on both the council-led development and housing finance reform fronts, housing issues will continue to figure prominently on the Board's agenda over the coming year.

Funding for ALMOs Decent Homes Programmes

2. On 29 June, the Government announced £1.5 billion package to support increased supply of housing as part of *Building Britain's Future*, to be funded by efficiency savings by the Homes and Communities Agency (HCA) and through efficient and flexible management of its housing and regeneration programmes.
3. Arms Length Management Organisations (ALMOs) were subsequently told that funding under the ALMO capital programme would be deferred for those that have not yet achieved 2* status.
4. The decision affects 11 councils in total, 6 of whom are in London. The total funding deficit over the next five years is in the region of £970 million¹ Withdrawing funding at short notice significantly damages ALMOs' and councils' ability to plan and deliver vital services and will amount to real and immediate cuts to services for tenants.
5. The LGA has been working with the affected authorities, their ALMOs, London Councils and the National Federation of ALMOs (NFA) to seek a solution to the withdrawal of funding. The objectives are two-fold:
 - a. To seek an immediate reinstatement or replacement of funding for those ALMOs who are on course to achieve 2 stars and have planned programmes of work in 2009/10 and 2010/11.
 - b. To seek commitment to continued investment in improving the condition of council owned housing in the post 2011 period and to identify a preferred mechanism for delivering this investment. This will need to be considered in tandem with LGA policy on reform of council housing finance.
6. To date, LGA activity includes:

¹ This estimate is based on information provided by affected councils to the LGA.

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- A joint letter from Margaret Eaton, NFA and the Councils with ALMOs Group to Housing Minister, John Healey MP to express concern on this issue and seek a meeting to discuss possible ways forward.
- Hosting a roundtable for affected authorities and their ALMOs to coordinate lobbying activities and to share information.
- Liaison with London Councils on the Decent Homes Task Force (check title) set up to look at potential solutions for the London Authorities. This Task group was set up with CLG and HCA London regional team in recognition of the fact that London authorities have been disproportionately affected by the withdrawal of funding. The LGA is clear that if a solution is found for London, it must also apply to affected councils elsewhere.
- Raising the issue in the LGA's submission of written evidence to the Communities and Local Government Select Committee enquiry into Decent Homes.

Update on council-led development

7. This section provides an update on LGA's work in relation to council-led development. Members are invited to comment on proposed actions in paragraphs 9, 10, & 12.

HCA funding for Local Authority new-build

8. A £100m package to fund 900 local authority-built affordable homes was announced in the Budget in April 2009. In June, the package was extended with the aim of delivering a further 3,000 homes by March 2011. The first bidding round to access the funding closed on 31st July. Government is yet to divulge how many bids were received, but have confirmed that response from councils was extremely positive and exceeded expectations. We expect successful bids from the 1st round to be announced in advance of the Board meeting. A further bidding round will take place in autumn, closing on 31st October.
9. Given the enthusiastic response from councils, there is a very real possibility that the funding pot will be oversubscribed. If this were to be the case, we propose that the LGA should make the case to Ministers that to make use of the flexibility within the "Building Britain's Future" package to increase funding available for councils to build.

Grant Agreement

10. LGA officers, working with finance and housing advisers from councils have been working with HCA officials on a revised version of the Grant Agreement that councils would have to sign to access the funding available from HCA. Previous versions of the Grant Agreement were extremely burdensome (and 260 pages), legalistic and placed councils at considerable risk in event of delays of problems with delivery. We believe that the revised version of the agreement will be a considerable improvement on previous versions removing considerable barriers to

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councils access grant funding. In the long term, we propose that the LGA should continue to lobby for a more streamlined approach to the processes and documentation involved to better reflect the partnership between HCA and Local Government.

LGA case studies publication - “Very much up for it - How councils can build the homes we need”.

11. Following the submission of bids for funding from the HCA, the LGA published a set of case studies featuring examples of these bids and development projects already undertaken by councils to showcase their ambitions and ability to deliver new homes quickly to meet local needs. The document also sets out the LGA’s position on changes that are required to unlock the potential for councils to build affordable homes, including our position on HRA reform and accessing housing grant on an equal footing with Housing Associations and Private Developers. Copies of the publication will be available at the meeting.

Proposed activity on Council-led development:

12. Members are invited to comment on proposed LGA activities on council-led development for the next six months, as summarised below:
 - Continue to engage with councils developing bids – September 2009
 - Update case studies work with successful bid examples – Sept / October 2009
 - Continue to work with councils and HCA to streamline processes, documentation for grant funding
 - Make case for additional funding to be made available if existing funding pot is oversubscribed – October 2009
 - Continue to make the arguments that bigger obstacles to councils building need to be removed to unlock council’s potential to deliver the homes we need and help create local jobs, through media work, political and officer meetings.
 - LGA conference on Council Led Development to showcase good practice and raise awareness of LGA lobbying on longer term changes Feb / March.

Update on Tenant Services Authority

13. This section provides an update on the LGA’s work in relation to the regulation of social housing landlords by the Tenant Services Authority (TSA).

Cross-domain regulation

14. The Housing and Regeneration Act 2008 established the TSA as the new regulator for all social housing landlords. The order to bring councils formally under the remit of the TSA went out for consultation on August 7, and is expected to be laid in Parliament in October. The TSA is expected to start regulating councils in April 2010.

15. The TSA have released a discussion paper on its proposed standards and regulatory approach, proposing a “co-regulatory” approach, which encourages landlords to self-regulate by working with their tenants, while providing for the regulator to intervene on a “by exception” basis.

Relationship with the TSA

16. The LGA has strong concerns about how the TSA has been operating, falling essentially under two themes: its engagement with the sector and its approach to regulation. On both counts, these concerns are echoed by all of the other landlord representative bodies.
17. The TSA’s relationship with the sector did not start strongly and has not significantly improved. In addition to regular officer-level contact, housing portfolio holders from Environment Board meet TSA Board members on a quarterly basis. However, it has been a challenge to get the TSA to follow through on actions agreed at the meetings.
18. A protocol setting out how the TSA and LGA would work together in support of domain regulation was agreed at the last Board liaison meeting in May. However, TSA Board members have since requested an amendment that appears to soften their commitment to the LPF.
19. While the regulatory approach and standards proposed in the discussion paper are broadly satisfactory, many of the standards are now being elaborated with a very high level of detail and the TSA are proposing in addition, Codes of Practice that undermine the co-regulatory principle.
20. Housing portfolio holders will be able to report back on discussions at the Board liaison meeting on September 10.

Proposed activity on social housing regulation:

21. Members are invited to comment on proposed LGA activities on social housing regulation for the next six months, as summarised below:
 - Arrange meeting between LGA Chairman, CLG Minister and TSA Chairman to confirm that regulation is to operate as part of the LPF – Sept / October 2009
 - Continue joint working with other landlord bodies
 - Help local authorities prepare for regulation in April 2010
 - Push for the TSA to recognise councils’ strategic housing role by enabling councils to offer feedback and sharing information on RSLs in their area
 - If needed, publicise concerns about TSA’s direction of travel

CLG Consultation on allocations

22. The CLG has issued a consultation on new statutory guidance on social housing allocation, essentially in response to public concerns about the ability of local people to access local homes.
23. The guidance affirms that priority should be given to those in the greatest housing need, but also reinforces the flexibilities that allocations legislation provides councils to address local needs and priorities.
24. It highlights the implications of a recent House of Lords judgment which, among other things, removes the requirement to provide for cumulative preference to be taken into account in prioritising applicants
25. It also emphasises the importance of communicating facts about allocations (including regular updates on how properties have been allocated), to tackle false perceptions which may arise about the way social housing is allocated.
26. The consultation closes on 23 October and the LGA is working with the IDeA to develop our response to this consultation. Following on from the consultation it is the Housing Minister's intention to issued revised allocations guidance in November.
27. CLG will also produce a written practice guide for members and officers to illustrate how local authorities can deliver local flexibilities and community engagement around allocations.
28. The LGA, IDeA and CIH will use our networks to help track down case studies and examples of where councils are doing good work on this area to help inform the CLG's guidance.

Housing Finance Reform

Introduction

29. On 21 July, John Healey launched the Government's consultation paper on HRA reform. The paper entitled *Reform of council housing finance* sets out the Government's intention to dismantle the Housing Revenue Account subsidy system and replace it with a devolved self financing system.
30. The consultation covers the cost of housing services and describes how the Government believe a self-financing system could work, how housing debt will be dealt with and proposals on how councils could manage their borrowing.

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31. The consultation closes on 27 October. This part of the Board paper sets out the key issues outlined in the consultation paper, makes recommendations and seeks members' views on the line we should take on key issues in the consultation paper.

Key Issues

Debt

32. The CLG consultation paper notes that there will be a one off payment for councils to leave the HRA. The CLG have stipulated that the one off payments will need to be fiscally neutral for the Government. This will in effect mean a redistribution of debt between councils, with lower debt authorities taking on additional debt to 'buy themselves out' of the system, whilst some high debt authorities will be given a 'payment' by Government to allow them to leave the system.
33. The consultation paper offers a notional debt figure of around £18bn, which we contest. Our calculations put current (real) debt position of councils is some £15.5bn. (See attached spreadsheet)
34. The current debt distribution is uneven (averaging approximately £5k per property for Districts, £11k for Metropolitan authorities and £20k for London councils. The national average of debt is about £10k per property.
35. At the individual authority level there is a great variation from debt free authorities to Brent with debt of £36k per property. Out of the thirteen authorities whose debt per property is greater than £20k twelve are London authorities.
36. Currently around £1.1bn of the £6bn of income raised annually in the HRA subsidy system is used to service the £18bn of notional housing debt held by councils.

Proposals for debt

37. The LGA's line as set out in our HRA publications *My Rent Went to Whitehall (2008)* and *Local Housing, Local Solutions: the case for self-determination (2009)* has been that housing debt should be written off. However, total debt cancellation will be difficult to achieve.
38. To ensure that our proposals are fiscally neutral for Government any proposed line that we take needs to show how debt cancellation will allow the £1.1bn debt servicing to be managed. There is additional research to be done to look at how the numbers will stack up. Officers are looking at the national housing budget to see what arguments we can make for reallocating the budget to councils to allow them to use this money more effectively. For example, we are looking at if the money was allocated directly to councils, than through the HCA would this increase efficiency.

39. The CLG consultation paper does not yet give indicative numbers for councils to be able to number crunch their position effectively enough to work out what this will actually mean for them. There is still a significant amount of work and information that councils need from Government to be able to work out what these proposals will mean for them. It is important that councils have enough headroom to service any debt that is associated with their housing account. Members are asked to indicate the line they would like officers to pursue on debt.
- a) Councils should be allocated some of the national housing budget and this should be used to reduce their debt
 - b) The remaining debt should be taken centrally and serviced by Government. If the HRA is not fixed councils will continue to transfer and the Government would have to give them a dowry for this, which would cost them significant amount of money. In the last 5 years the Government has written off £3bn worth of debt to councils in through the LSVT process.

M&M and MRA Uplift

40. The paper notes that both M&M and MRA need more funding and note that there is a backlog on MRA which will be paid for by grant in future years.
41. The paper also notes that total debt to be redistributed could include the uplift payments. Which could make the total debt to be redistributed increase by some £6bn, taking the total debt to £24bn.
42. Advisers have indicated that it is unacceptable for uplift to be included in the debt redistribution.

Proposals for the Uplift

43. Members are asked to indicate the line we should take on the uplift.
- a) That we should argue that the uplift should be included in this years determination
 - b) That debt redistribution should not include the uplift and should be restricted to the real debt figure i.e. £15.5bn (it should be noted that debt cancellation will reduce the need to argue for debt distribution to be restricted to £15.5bn)

Pooling of Capital Receipts

44. The paper proposes the end to pooling of capital receipts, subject to the condition that the currently pooled amounts are reinvested locally in housing. This is the line that the LGA has pushed for and officers would recommend that we welcome this proposal and argue for it to be brought in as soon as possible.

Proposals for Pooling

45. Members are asked to indicate the line we should take on pooling.
- a) Do members agree that pooling should end at the earliest opportunity?

Rent Setting

46. The paper proposes that rent setting policy should continue as per the current arrangements i.e. that the Government decide rent levels and continue with rent convergence policy. It has been the LGA's contention that rent setting policy should be localised. Without this, true flexibility can't be achieved. It has been our line that where tenants or councillors have an issue with the rent levels charged by a council that the TSA should be brought in to regulate on this and that rents should be locally decided.

Proposals for Rent Setting

47. Members are asked to indicate the line we should take on rent setting.
- Do members still agree that we should argue that rents should be locally decided?
 - Do you agree that the TSA should regulate on this where there are issues of complaint about rent setting policy?

The Ring Fence

48. The paper notes that the ring fence can continue. It is the LGA's contention that there should be both a local and national ring fence for housing and we welcome the proposals to maintain a ring fence. We would also argue that where debt is incurred by a housing authority, this debt should be ringfenced to housing. This will give comfort to councillors and auditors that the General Fund and Council Tax payers will not be subsidising council housing.

Proposals for the Ring Fence

49. Members are asked to indicate the line we should take on the ring fence.
- That our line on the ring fence remains that we welcome a national and local ring fence
 - That we argue that housing debt should be ring fenced to housing

Prudential Borrowing

50. The paper talks about restrictions on the ability of councils to borrow. However, it does not make clear and the Government is still considering how to ensure that the overall fiscal position for itself is not undermined by self-financing.
51. The LGA believes that we can offer them solutions that would allow them certainty but still allow councils considerable freedom to finance their housing stock.
52. The consultation paper comments in Para. 4.35 that 'allowing unlimited prudential borrowing would be inconsistent with the Government's overall fiscal and macroeconomic policy'. There are a number of lines we could take. We could for example argue that the paper's reference to

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'unconstrained' prudential borrowing is misconceived given that prudential borrowing is actually constrained by the CIPFA code. Or we could propose our own restrictions on borrowing. For example, we could propose that councils should not be able to borrow more than 50% of their stock value. (National mortgage ratios to value average about 70% in the private sector). 50% should allow for suitable investment, but still give Treasury/lenders comfort that it is manageable e.g. if your stock value is £160m you'll be able to borrow £80m to invest in your stock (new build and stock improvements).

53. It must be noted that taking that the freedom of a self-financing model has associated risks for councils. They will no longer be protected from the vagaries of the financial markets. For example, they will be subject to the risks associated with the rise in interest rates on any new borrowing that they take on. Work on this area needs to be developed, but officers are working with advisers to undertake some work on public accounts treatments and what proposals we could make on this issue.

Proposals for the Prudential Borrowing

54. Members are asked to agree the following for the issue of prudential borrowing
 - a) That officers do more work on this area and report back proposals to members

Sink Funds

55. The paper proposes that councils operate sinking funds, to allow enable leaseholders to manage their repair costs.
56. Whilst in principle this is a welcome idea, advisers have indicated that the administration of this is not viable, as you would have to rewrite, consult and reissue every leaseholder agreement that you had undertaken. Leaseholders would have to agree to the change and this would not be enforceable. Advisers are preparing some information on this issue for officers.

Proposals for Sinking Funds

57. Members are asked to indicate the line we should take on the ring fence
 - a) That whilst the idea is welcomed in principle the practicalities of administrating the system make it an unviable proposal.

Process and tactics

58. The LGA will be formulating a response as an individual organisation, but are looking at the option of a cross sector.

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59. We are consulting councils on our response and are considering the viability of operating regional consultation events.
60. The Housing Conference on the 20th October will be used to test out our proposals with the sector.
61. The final consultation response will be sent to members of the Environment Board and the LGA group leaders for sign off and agreement.

Financial Implications

62. Lobbying activity on housing issues is likely to be drawn from within existing LGA Group resources, with an increased emphasis on coordinating work through the LGA Group Housing Programme.

Implications for Wales

63. Council housing finance is devolved to a great extent but Welsh authorities follow our work closely given the likelihood of an element of parallel policy development.

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