CIH Response to:
Reform of Council Housing Finance:
Consultation
Communities and Local Government

“Equipping the profession for today and tomorrow”

October
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Introduction

This formal response sets out the CIH position relating to the overall proposals and detailed questions contained within the government’s consultation on the Reform of Council Housing Finance published on 22 July 2009.

Our response has been informed by a wide ranging engagement with stakeholders during the consultation period, including work directly with a number of authorities and ALMOs and conference and support work undertaken with representative bodies of local authorities. CIH also ran a round table discussion to inform our formal response and senior CIH officers have spoken at a range of conferences and seminars organised to debate the reform proposals.

CIH produced a summary briefing on 4 September to assist stakeholders in their thinking (http://www.cih.org/policy/HRA-reform-consult-summarysept09.pdf). Some of the material from this briefing is reiterated below for completeness and readability.

The course of the consultation period has allowed us to capture a sense of the really major issues and priorities affecting local authorities, ALMOs and tenants. This response therefore reiterates our views, organised around the 17 specific questions raised in the consultation paper, and draws out additional issues as they have arisen.

Summary

- CIH supports the dismantling of the current national subsidy system on the basis of an equitable and sustainable one-off settlement releasing all authorities to manage their finances locally, and is strongly supportive of moves to enable local people to take financial control over their homes and communities.

- We believe that there is consensus among authorities, ALMOs, and their representative agencies about the merits of a move to self-financing. We believe that many of those who expressed initial reservations, particularly around the reallocation of debt, have begun to see the advantages.

- Firm proposals for settlement should be brought forward as soon as practicable to allow authorities to assess the implications for their business plans. CIH therefore supports the intention to offer a voluntary move to self-financing in the spring of 2010 and the establishment of the CLG project team tasked with developing an offer. CIH will work to actively promote the development of a fair offer during that period and is willing to commit time and resources to promote such a solution within the sector.

- CIH believes that the continued inequitable financial rules applying to
council tenants compared to those of housing associations are both unjustified and counter-productive. We therefore support moves to level the financial playing field between the sectors.

- CIH believes that a self-financing financial system should lock in tenant empowerment throughout and that such empowerment should be reflected in self-financing agreements.

- CIH supports the absolute principle that housing resources should be used for housing and supports the general principle that landlords’ resources should be used for spending on landlord services. Where there is consensus locally around the more flexible use of resources to meet the full range of housing needs, there should be flexibility to act accordingly.

- CIH supports the move to fund HRA services at an increased rate as current allowances fall short of needs and do not reflect the growing diversity of service provision. We believe the government should take a further look at factoring in a greater (10%) uplift for management and maintenance services to bring council housing in line with housing associations.

- CIH calls on the government to publish updated guidance on the operation of the ring fence as soon as possible to help clarify the principles referred to in the consultation. Following a short consultation period, we feel there should be few barriers to their immediate implementation.

- CIH supports a significant uplift in funding for future major repairs at the full level identified by BRE, a minimum of 43%. Such a move would reduce the call on future capital grants. The splitting off of a large proportion of this uplift for grant funding risks under-funding the settlement and launching self-financing business plans with insufficient headroom to meet future needs. It also makes the settlement vulnerable to future spending review decisions.

- CIH believes that a commitment to the financing of capital grants is essential from the outset in order to give confidence to authorities.

- CIH believes that a self-financing system provides the best opportunity to support a standards framework in which the minimum decent homes standard remains in place and tenants are encouraged to develop additional local standards. A fair and equitable settlement will allow authorities to develop meaningful plans to meet the needs of tenants and the TSA.

- A neglected aspect of the proposed settlement is the large scale investment now required in energy efficiency over the next decade if the social housing stock is to achieve the carbon savings required by the government’s Low Carbon Transition Plan, with its associated
targets for 2020 and 2050. Without major investment in the existing social housing stock, authorities cannot meet the statutory targets.

- CIH believes that the government must address the significant funding pressures for disabled adaptations. An appropriate way would be through factoring increased spending needs into the debt settlement particularly as rising demand for this type of investment is a feature for all authorities.

- CIH supports the principle of the redistribution of current debt within the system as a fair and equitable way of developing viable long-term self-financing business plans. Allocating authorities with too much debt would, however, reduce the scope to meet tenants’ needs and the needs of the stock. The current and future public finance challenges make reliance on capital grants risky. CIH therefore supports an allocation of debt which allows authorities to ‘self finance’ as much of their future expenditure as possible.

- All future increases in rent income should therefore be available from the point of settlement for the use by local authorities and no assumption made of any continuing or rising surplus accruing to the Exchequer in making allocations of debt within the settlement. As the consultation paper says (4.13), ‘all money paid into the system would either be redistributed to authorities or, if there was a national surplus, reinvested in housing’.

- The best chance to secure the viability and sustainability of self-financing is therefore to base the settlement on the current debt supported by the system. A minority of authorities would then require a programme of capital grant support. Such a solution strikes the right balance between rent payer and tax payer.

- CIH supports the principle that all project and transaction costs should be treated in the same way as for stock transfers.

- Any adverse impact on General Funds should be made good through the process of the settlement.

- CIH believes that it is worth exploring the use of existing rules to implement elements of the settlement as soon as possible so as to keep up the momentum for change and that some of the benefits of self-financing can be realised quickly.

- CIH believes that an option to earmark specific housing debt to be ring fenced as HRA debt is worth exploring. This could provide for extra clarity between what is HRA and what is General Fund expenditure and borrowing, although some economies of scale would be lost.

- CIH believes that there is a strong case for a new policy on measuring public debt levels which would be consistent with those of other EU
countries and would place borrowing for council housing investment on the same basis as housing association borrowing.

- CIH welcomes the commitment from the government to allow borrowing to rise in line with business plans to be agreed from the outset of self-financing. We reject any imposition of restrictions on HRA borrowing that operate in addition to those in the Prudential Code. The Code provides the guarantees around affordability necessary to support long-term sustainability.

- CIH understands the government’s need to control public expenditure and the need for proper and effective controls over future borrowing levels. However, for self-financing to deliver long-term sustainable investment, there must be an acceptance that authorities can borrow in accordance with prudential rules.

- CIH opposes any measures where government may step in after the settlement to capture future surpluses as inconsistent with the principles of self-financing and the government’s own definition of the HRA ring fence. We believe that an agreement signed by authority and government would give sufficient legitimacy to the self-financing plan and offer the ability to factor in the roles and responsibilities of all parties moving forward.

- CIH believes that there will be a need to build capacity in some councils to manage the finances and assets of a fully self-financing HRA and welcomes the opportunity to work with the government on the development of that capacity.

- CIH strongly believes in the principle of local receipts spent locally and the availability of 100% of RTB receipts locally is welcome, but long overdue. The government should act without delay and make the appropriate changes to the capital accounting regulations for the 2010/11 financial year.

- For equality and diversity considerations, CIH believes that there is the potential for an indirect impact disproportionately between authorities and localities given the need for a continued allocation of capital grants. It will be important to ensure that the allocation of finance to meet investment needs cover the needs for all tenants who live in council housing, including those which have additional needs in supported housing as well as those in general needs housing.
Overall response

The current national HRA subsidy system is irrevocably broken. It is outdated, un Popular, complex, volatile, lacks transparency and has an inherent lack of accountability between landlord and tenants which is inconsistent with the need to empower communities and with the provision of modern housing services. The system has underpinned a major decline in the standard and reputation of council housing which has had far reaching social, economic and well being impacts for council tenants.

The system has reached breaking point, with a move into revenue surplus at the national level which is simply unjustifiable on the grounds of fairness and equitability for council tenants and which does not make sense on economic grounds.

At the same time, the government has supported initiatives for investment: in the decent homes standard, in wider local government flexibilities towards borrowing and most recently in supporting a limited programme of new council housing. The true potential of council housing cannot be realised without fundamental reform of the revenue subsidy system.

CIH therefore supports the government’s commitment to move to HRA self-financing in which the resources generated from housing locally are invested locally and will continue to work closely with the government to bring forward a meaningful series of proposals now that it has accepted a local financial solution is the only sensible way forward.

CIH supports the dismantling of the current national subsidy system on the basis of an equitable and sustainable one off settlement releasing all authorities to manage their finances locally.

It is the biggest opportunity for over a generation to reshape the future of the council housing sector and CIH, along with all other mainstream sector representative agencies, is strongly supportive of all moves to enable local people to take financial control over their homes and communities.

We believe that there is consensus among authorities, ALMOs, and their representative agencies about the merits of a move to self-financing. We believe that many of those who expressed initial reservations, particularly around the reallocation of debt, have begun to see the advantages when the proposals have been explained in more detail and ideas (see below) on moving forward are discussed.

It is imperative that firm proposals for settlement are brought forward as soon as practicable to allow authorities to assess the implications for their business plans in the context of their needs. CIH therefore supports the move announced by John Healey in July to offer a voluntary move to self-financing for local government in the spring of 2010 and the subsequent establishment of the CLG project team tasked with developing an offer. CIH will work to actively promote the development of a fair and reasonable offer during that
period and is willing to commit time and resources to promote such a solution within government and within the sector.

The consultation paper makes explicit reference to the financial treatment of self-financing and stock transfer.

CIH believes that the continued inequitable financial rules applying to council tenants compared to those who live in housing association housing is both unjustified and counter-productive. We therefore support all moves to level the financial playing field between council housing and housing association, including within the settlement process and in the design of the self-financing system going forward.

A move to self-financing provides an excellent opportunity to promote greater tenant empowerment in the determination of planning priorities. We were pleased to facilitate the consultation of a CLG-sponsored tenants’ focus group during September when we were struck by the enthusiasm and forthrightness of tenants.

CIH believes that a self-financing financial system should lock in tenant empowerment throughout: for example in determining standards, reviewing investment options and the allocation of resources. This is consistent with the TSA’s commitment to tenant-led self regulation. Such empowerment should be reflected in any self-financing agreements signed by authorities to gain release from the current system.

**Response to Individual Questions**

**Question 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?”

The work within the review which considered the split between ‘core’ and ‘non-core’ housing services is helpful in testing both our understanding and the financing of the growing diversification of housing services by provided by landlords. The research findings, that up to 40% of gross housing management expenditure is now on services which have been traditionally regarded as ‘non-core’, feel appropriate and it is likely that this proportion will grow in the future.

The development of the ‘core-plus’ definition to cover those services that have not traditionally been regarded as core to the housing service but which are increasingly and rightly expected of landlords by tenants is also potentially helpful, particularly given that best practice and excellent inspection results are associated with the provision of additional services.

In public expenditure terms, the matching of ‘core’ with ‘that which is funded by management and maintenance allowances’ is at best outdated and at worst risks significantly underfunding the development of services in the future. Perhaps now is therefore the right time to allow a locally based
approach to the development, provision and financing of services in line with housing associations.

The reaffirmation of the commitment to a ring-fenced landlord account is welcome and we note widespread stakeholder (particularly tenant) support for strengthening the ring fence. However, there should be scope in the system for tenants and residents to input views on the allocation of resources.

The Tenant Services Authority could play a role in assessing the costs and funding for different types of housing services and any linking of regulation to HRA or General Fund financing must therefore be seen in the context of local tenant and resident empowerment.

CIH supports the absolute principle that housing resources should be used for housing and supports the general principle that landlords’ resources should be used for spending on landlords’ services. Where there is consensus locally around the more flexible use of resources to meet the full range of housing needs, there should be flexibility to act accordingly.

CIH supports the linking of funding to the requirements of the TSA as regulator; cross domain regulation should be supported by a level financial playing field between the local authority and housing association sectors.

The review proposes to fund an increase of 5% in management and maintenance allowances and this is welcome although the research identified that allowances are some 10% short of housing association spending when compared on a like-for-like basis. It is acknowledged that there may be a differential distribution between regions and authorities and it is essential that the review work undertaken by the CLG project team develops an appropriate and supportable mechanism for the allocation of the uplift and this forms part of any settlement offer to local authorities.

CIH supports the move to fund HRA services at an increased rate as current allowances fall short of needs and do not reflect the growing diversity of service provision. We believe the government should take a further look at factoring in a greater (10%) uplift for services to bring council housing funding in line with housing associations.

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

The current guidance is woefully inadequate for the modern diverse pattern of housing services. Draft substantive guidance was developed during the government’s review and would apply irrespective of the move to self-financing.

CIH calls on the government to publish updated guidance on the operation of the ring fence as soon as possible as such a move would help clarify the application of the principles referred to in the consultation. Following a short
consultation period, we feel there should be few barriers to their immediate implementation.

Question 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 research work undertaken by the Building Research Establishment into the level and coverage of the MRA is both comprehensive and welcome. It is the right time to review the MRA as we approach the conclusion of the original decent homes deadline of 2010. The findings identify significant shortfalls in funding across a range of elements including the need to extend the definition to include lifts and common parts (ie external components), to cover outstanding backlogs and to bring assumed lifetimes in the MRA methodology in line with the Decent Homes Standard.

BRE’s recommended option for a long-term sustainable financing solution for council housing was 60%, with a minimum of 43% to cover backlogs, lifts and common parts. The proposed uplift of 24% is therefore well short of need at the national level and risks allocating higher debt settlements to authorities which may then struggle to sustain their business plans given the actual needs of their stock.

Additional backlogs of work ‘post-decent homes’ are identified in the paper at £6 billion. This estimate of needs is welcome, must be refined and made more accurate as part of the process of moving to a long-term settlement and commitments given by government from the outset to finance improvements to the full amount needed. Depending on the settlement, self-financing plans will be reliant on allocations of grants for their sustainability.

The paper makes reference to the pressures on disabled adaptations and other health and safety liabilities which are not included within the MRA calculation. Research within the review identifies a possible spending need of £5 billion but the proposals do not go far enough in terms of identifying funding for these.

Whilst all authorities will have some element of additional improvement backlogs, the distribution is likely to be quite uneven. The uplift to MRA is also likely to be unevenly distributed between authorities and property types. There is therefore the potential for differential uplifts to operate both within the settlement calculation and for the future distribution of grants to be targeted to specific groups of authorities and, as a matter of practicality, these variations could be potentially very wide.

The consultation appears to envisage individual stock survey updates undertaken for the purposes of release from the system. There is some uncertainty as to the role of such an exercise in the development of a settlement, particularly in the short term given time constraints. It would be
helpful therefore if the role of updated stock surveys were confirmed as soon as possible.

Self-financing business plans will be very sensitive to the assumption of future capital needs within the settlement and how these compare to actual stock profile spending needs locally. It is essential therefore that proposals on MRA uplifts, and an assessment of possible capital grant allocations, are made as soon as possible so that authorities are able to work through the implications.

CIH supports a significant uplift in funding for future major repairs at the full level identified by BRE, a minimum of 43%. Such a move would reduce the call on future capital grants. The splitting off of a large proportion of this uplift identified for grant funding risks under-funding the debt settlement and launching self-financing business plans with insufficient headroom to meet future needs.

CIH believes that a commitment to the financing of capital grants is essential from the outset in order to give confidence to authorities wishing to become self-financing and to accept the debt settlement. We recognise the future pressures on public spending and propose that further exploration is needed of the balance between the debt settlement and the level of grants.

Question 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?

The consultation proposes the continuation of a minimum standard for housing allowing the development of local standards in conjunction with tenants and residents. This is welcome in the context of consistency with the proposed standards from the Tenant Services Authority.

The development of headroom for additional investment, agreed with tenants, is an essential component of the self-financing approach. The new system must contain scope for tenants and authorities to develop different standards in different areas to meet differing needs.

The Decent Homes Standard programme has been successful in delivering investment to many thousands of tenants and elsewhere we have called on the government to publish a definitive report on progress now that the original 2010 deadline is approaching. There is a widespread view that the standard is below the level that tenants aspire to and that there have been ambiguities which have allowed differences in interpretation between landlords.

As many tenants have agreed higher standards with their landlords, and with the move to the new TSA framework, a detailed review of the standard may now be unnecessary. However, the increased need for energy efficiency, linked to the reducing of carbon emissions will become a key priority for landlords in the next decade. It is essential that the new system is sufficiently flexible to respond to these needs. CIH has separately made the point that if
social housing is to meet the ambitious targets set in the government’s Low Carbon Transition Plan, there will be significant resource implications.

CIH believes that a self-financing system provides the best opportunity to support a standards framework in which the minimum decent homes standard remains in place and tenants are encouraged to develop additional local standards. A fair and equitable settlement will allow authorities to develop meaningful plans to meet the needs of tenants and the TSA. Where possible, the settlement should recognise the likely large scale investment required in energy efficiency in the next decade.

CIH believes that the government must address what it acknowledges as significant funding pressures for disabled adaptations; more work is required to understand the potential shortfalls and to develop realistic proposals to meet future needs. As a matter of principle, we believe an equitable way of financing these is through factoring increased spending needs into the debt settlement (ie reducing the debt taken on so that authorities can ‘self finance’ the costs) particularly as rising demand for this type of investment is a feature for all authorities.

Question 5: We propose allowing local authorities to set up sinking funds for work to leasehold 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?

Views differ on the use of sinking funds for leaseholders. Some support their use and have lease agreements which already allow their establishment. Other believe that legislation may mean that their creation would be time-consuming, expensive and potentially contentious given the passage of time and the complexity of lease provision around the country.

CIH believes that decisions on the use of sinking funds should be made between authorities and their leaseholders and prescription should be avoided.

Question 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?

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

The redistribution of housing debt between Housing Revenue Accounts is consistent with the devolution of financial control to local authorities. Whilst there are several possible options for the calculation of the redistributed amounts, one which takes account of future income and expenditure provides a means to distribute debt according to the authorities’ ability to service it. The Tenanted Market Value (TMV) approach is therefore an appropriate
methodology, and has been used as the basis for successful stock transfers for over 20 years.

A further benefit of the TMV approach is that, providing income and expenditure moves in line with the assumptions in the settlement, authorities will gain more and more headroom for additional investment as time moves on, and as rental surpluses grow.

The outcome of the TMV calculation is critical, both locally and nationally. As many have found during the consultation period, the outcome can vary considerably depending on the assumptions of rent convergence, uplift in allowances, and whether existing debt charges are factored into the calculation.

There is therefore a major and thoroughgoing piece of work required to develop a methodology which will result in a settlement which balances the interests of tenants, taxpayers, central and local government, and which will allow HRAs to be viable when they are set free from the system. We support the move to complete this to a point of voluntary offer to local authorities next spring.

Given the pressures on the public finances, it is highly unlikely that the government will accept the case for debt write off or write down. Conversely, the use of formula-based assumptions may lead to the allocation of more debt than there is currently supported in the subsidy system.

At April 2009, including early round ALMO borrowing, the system supported £20.4billion of debt and is in revenue surplus estimated at around £100m. The allocation of a higher debt than this would certainly lead to difficulties of sustainability in the business plans, especially in the early years.

At the national level, the main impact of allocating more debt than is currently supported would be to push the entire system into deficit and enforce reliance on borrowing to support investment that would otherwise be fundable through revenue. There are potentially multiple problems associated with such an approach including the possible prospect that the system as a whole is not then able to finance future needs.

Our sense from the work we have undertaken during the consultation period is that many authorities might struggle to support a level of debt allocated on this basis and meet the spending needs of services and the stock. Nationally, and locally, higher debt allocation could have the following implications:

- Some authorities may end up having to take more debt on than would allow them to finance their own business plans, thereby reinforcing a continued dependency culture through future reliance on grants.
- Higher opening debt will inevitably mean high amounts of borrowing to meet investment needs; as the responsibility for investment has passed to local authorities, there can be no escaping the need for investment.
The government could give no guarantees that resources collected from the settlement would be allocated to cover capital backlogs for the HRA stock in the future.

CIH supports the principle of the redistribution of current debt within the system as a fair and equitable way of developing viable long-term self-financing business plans. Allocating authorities with additional debt beyond the current level will reduce the scope to meet tenants’ needs and the needs of the stock without further reliance on borrowing or a continued need to rely on centrally provided capital grants.

The current and future public finance challenges make reliance on capital grants risky for the council housing sector as a whole. CIH therefore supports an allocation of debt which allows authorities to ‘self finance’ as much of their future expenditure as possible.

All future increases in rent income should therefore be available from the point of settlement for the use by local authorities and no assumption made of any continuing or rising surplus accruing to the Exchequer in making allocations of debt within the settlement. As the consultation paper says (4.13), ‘all money paid into the system would either be redistributed to authorities or, if there was a national surplus, reinvested in housing’.

CIH strongly supports the continuation of Supported Capital Expenditure allocations converted into future capital grants as an appropriate contribution by the taxpayer to the long term sustainability of council housing neighbourhoods. To do otherwise would push the settlement too far in favour of the taxpayer with no guarantees to the rent payer that their investment would be returned to council housing.

In summary therefore, the best chance to secure the viability and sustainability of self-financing is to base the settlement on the current debt supported by the system. A minority of authorities would then require a programme of capital grant support. Such a solution strikes the right balance between rent payer and tax payer.

Question 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?

Since 2003, nearly £4billion of overhanging debt has been cleared by government to support stock transfers. The mechanisms which the government has found to support this approach have worked well and enabled significant investment in many thousands of homes.

There is a strong case for reviewing the potential to utilise these or similar mechanisms to underpin a self-financing settlement. We understand this to include a focus on the movement of Public Works Loan Board (PWLB)
borrowing and the opportunities to cover the premiums relating to such borrowing.

In relation to the inclusion of other ‘one-off’ transaction and project delivery costs into the settlement, as implied in the question, the case against such an approach is made through the stock transfer programme. Stock transfer landlord business plans are not called upon to finance these costs and we believe that a similar approach should be adopted, as far as possible, within the self-financing settlement.

CIH therefore supports the principle that all project and transaction costs should be treated in the same way as for stock transfers and that the burden should not fall on landlord business plans.

Question 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 general fund should continue to be the mechanism for supporting interest payments. Are there any technical issues with this?

Any adverse impact on the General Funds of authorities is likely to cause a problem in support for the settlement from corporate finance colleagues as well as implications for council tax and General Fund services. As acknowledged in the consultation paper, such impacts must therefore be addressed effectively.

We have identified the following key areas of possible impact:
- Where new borrowing is taken on at an interest rate higher than the current average interest rate operating within the authority
- Where an authority will go from negative or debt free status into debt as a result of the settlement.

CIH supports taking a reasonable view on the positive and adverse impacts on authorities’ General Funds through balancing the interests of the government, the HRA and General Fund together. Any adverse impact on General Funds should be made good through the process of the settlement and want to work constructively with the government to bring forward proposals to allay any outstanding concerns from corporate finance colleagues.

The current Item 8 methodology incorporates an overall debt pool operated by the authority with an apportionment of debt liabilities and costs between the HRA and the rest of the authority’s accounts. Such an approach is not inconsistent in itself with the introduction of self-financing and could be used to implement the benefits of self-financing without the need for primary legislation.

However, the strengthening of the revenue ring fence and development of a landlord account from which services regulated by a cross-main regulator will be financed, does raise the case for the earmarking of HRA debt. This may also potentially be of interest to those taking on of large amounts of HRA debt.
(for example high negative subsidy authorities with low or no debt). Earmarking HRA debt could also help to allay the fears of these authorities concerned about the implications of taking on large levels of new debt. CIPFA is understood to be examining how this might work.

CIH believes that it is worth exploring the use of existing rules to implement elements of the settlement as soon as possible so as to keep up the momentum for change and that some of the benefits of self-financing can be realised quickly.

CIH believes that an option to earmark specific housing debt to be ring-fenced as HRA debt is worth exploring. This could provide for extra clarity between what is HRA and what is General Fund expenditure and borrowing, although some economies of scale would be lost.

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

There are critical issues around the future treatment of expenditure and investment in the public accounts which could have profound implications for the way in which a self-financing system operates.

Currently, council housing borrowing of any type (supported or prudential) is treated as public borrowing. Other European countries treat the equivalent borrowing differently as generally it is able to be repaid from a future income stream, and (as with housing associations) it is only government grant which really affects public borrowing levels. CIH is working with other organisations to reopen the case for a new policy on measuring public debt levels which would be consistent with those of other EU countries and would place borrowing for council housing investment on the same basis as housing association borrowing.

CIH believes that there is a strong case for a new policy on measuring public debt levels which would be consistent with those of other EU countries and would place borrowing for council housing investment on the same basis as housing association borrowing.

However, without a change in the rules of treatment for housing borrowing, all future borrowing undertaken in self-financing business plans will need be treated as publicly funded and will ‘score’ against CLG’s Departmental Expenditure Limit. We recognise the need for government to be able to sustain and predict HRA borrowing in a self-financing system while this continues to be the case.

It is envisaged within the consultation paper that each HRA would commence self-financing with an approved base (or ‘original’) business plan which starts with the debt settlement and develops in line with the spending needs identified within the settlement. In theory, therefore, debt could rise and fall in line with this original business plan and, as the paper suggests, this movement in debt would be outside CLG spending totals. Such an approach
no doubt requires Treasury agreement that this will be the path of borrowing assumed from settlement.

It is further understood that any variation from this original plan would score as ‘normal’ prudential borrowing and need to be found from CLG spending totals. This raises two key issues:

- First that the government will accept rising borrowing post-settlement as part of a self-financing settlement
- Secondly that the imposition of controls over self-financed borrowing, however these operate, are inappropriate given the existence of the Prudential Code.

CIH welcomes the commitment from the government to allow borrowing to rise in line with business plans to be agreed from the outset of self-financing.

CIH rejects the need to impose restrictions on HRA borrowing that operate in addition to those already in place within the Prudential Code. The Code provides the guarantees around affordability necessary to support the long-term sustainability of self-financing plans.

The submission to the HRA review from five financial experts pointed out the range of controls and other limiting factors which already apply to borrowing:

- Councils have to abide by the Prudential Code, monitored by a legally designated Finance Officer, and are subject to external audit.
- Councils could undertake capital investment by exploiting the opportunities of funding it from revenue or capital receipts before turning to prudential borrowing (as has happened to an extent in Scotland).
- Agreed levels of borrowing can be included in the self-financing business plan on which the government’s settlement is based.
- Councils and ALMOs will tend to limit new investment to a relatively small geographic area, unlike stock transfer housing associations which in some cases have greatly expanded their area of operations and hence their business.
- Prudential borrowing by Scottish councils does not count against Departmental Expenditure Limits as it does in England and Wales, yet excessive borrowing by them has not yet been an issue (despite similar pressures in terms of stock standards and new housing demand in many areas).
- Once council housing becomes subject to regulation by the TSA, it can be subject to the same financial monitoring arrangements as housing associations, to ensure compliance with agreed borrowing levels. Income to service potential borrowing will also be limited by rents policy (see above).
- Finally, the Treasury retains a default power to limit borrowing levels. Although it will be reluctant to use this, it remains a safeguard which is available as a last resort, and TSA monitoring will provide the data on which any decision to use the power can be based.
CIH understands the government’s need to control public expenditure and the need for proper and effective controls over future borrowing levels. However, for self-financing to deliver long-term sustainable investment, there must be an acceptance that authorities can borrow in accordance with prudential rules.

The consultation paper includes references to an interest in how authorities will use future surpluses and what might come to pass if business plans get into trouble.

CIH opposes any measures where government may step in after the settlement to capture future surpluses as inconsistent with the principles of self-financing and the government’s own definition of the HRA ring fence.

Step-in powers for failing plans are more problematic given the obvious governance differences between housing associations regulated by TSA and local authorities/ALMOs. A key concern would be the implications for the wider local authority’s finances if the HRA were to ‘fail’. However, there is no reason why a properly regulated plan with appropriate risk management strategies should ever ‘fail’.

The Housing and Regeneration Act contains an enabling clause allowing authorities to sign self-financing agreements with the government. It is not however clear from the consultation paper as to whether the government envisages a self-financing agreement signed with all authorities at the point of settlement.

CIH believes that an agreement signed by authority and government would give sufficient legitimacy to the self-financing plan and offer the ability to factor in the roles and responsibilities of all parties moving forward. Work will therefore be required on the format of such an agreement.

A business plan matching income and expenditure with a long-term view taken around investment and asset management strategies is a fundamentally different proposition to the current HRA business planning regime which is affected by the continued volatility of the current system.

CIH believes that there will be a need to build capacity in some councils to manage the finances of a fully self-financing HRA and welcomes the opportunity to work with the government on the development of that capacity.

Question 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?

Self-financing business plans would be set out over 30 years and therefore it is difficult to be precise about the range of different income streams which might become available. However, it is not difficult to envisage that there will be additional income through non-rent charges, investment into new build and development and through becoming more efficient in service delivery.
CIH believes that authorities and tenants locally should have the opportunity to reinvest income into raising service standards, regeneration, redevelopment and new supply, or a combination of all of these, in line with housing associations. The only test that should be applied in these circumstances should be on the continued support by tenants and the affordability of investment over the lifetime of the plan.

Question 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 present)?

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

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

CIH strongly believes in the principle of local receipts spent locally and the availability of 100% of RTB receipts locally is welcome, but long overdue. The government should act without delay and make the appropriate changes to the capital accounting regulations for the 2010/11 financial year.

The proposals implicit within the consultation paper suggest that 25% of these would be available for spending on any capital purposes (as now) and that 75% would be reserved for affordable housing and/or regeneration.

CIH believes that authorities will want to retain flexibility locally as to how to utilise the receipts as and when they arise. The best people to decide on the local allocation of receipts are members and tenants locally. The balance between investment needs will be different between authorities and we see no case for continued government intervention in how these are used.

There will be a requirement for a proportion of receipts to be allocated to the HRA to compensate for lost income when a property is sold. Whilst the government is not envisaging being prescriptive about the actual %age for the HRA in each authority although it is likely that there would need to be some certainty locally, certainly over the medium term. The Capital Financing Regulations should be amended with this need in mind.

Question 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, age, sexual orientation, religion or (non-political) belief and human rights?

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

We do not believe that the proposals within the consultation paper are directly discriminatory in themselves towards any of the groups referenced in the question as the formulae which are proposed to be used do not incorporate any such factors.

CIH does however believe that there is the potential for an indirect impact disproportionately between authorities and localities given the need for a continued allocation of capital grants. It will be important to ensure that the allocation of finance to meet investment needs cover the needs for all tenants who live in council housing, including those which have additional needs in supported housing as well as those in general needs housing.

CIH also believes that the self-financing system needs to reflect from the outset the resources necessary to support the government’s supported housing policies aimed at allowing people to stay in their own home if they wish.

Question 17: What would be necessary to assemble the evidence required?

Evidence of the additional needs of elderly and vulnerable tenants living in their own homes can be gathered from the process of collecting stock condition survey information to support long term plans.

The increasing diversity of service provision with enhanced levels of personal support can also provide a useful bank of evidence on the increasing vulnerability of council tenants. Many authorities collect data on the status of their tenants and comparisons can be drawn between the incidence of vulnerability and disability in the council stock compared to the average of the country.
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