LOCALIS

Policy Platform

A NEW ERA FOR COUNCIL HOUSING?

DOES THE END OF THE HRA MEAN A RETURN TO THE HEYDEY OF LOCAL AUTHORITY HOUSE BUILDING?

Introduction

Alex Thomson, Localis

Everyone knows we need to build more houses and the Government's recent Housing Strategy outlines a number of policies to encourage this to happen. But could it be another Government policy that opens the door to local authorities playing a major part in housebuilding? Specifically, the forthcoming changes to the Housing Revenue Account (HRA) system, which has long controlled – from the centre – how councils finance their housing.

From April next year, local authorities will gain 'self-financing' control over their housing stock and the rental income it brings in. This long hoped for reform is arriving with two caveats however – the amount councils retain from right to buy sales will remain fixed at the current 25% level (with the remainder going to the Treasury), and authorities will be required to take on billions of pounds worth of debt to buy out of the HRA, which they will of course need to finance.

In the 1950s, councils in England were building almost 150,000 homes a year. While recreating that kind of activity isn't likely to happen, reform of the HRA seems to offer local authorities the chance to once again contribute to developing the new housing the country desperately needs – will they be allowed to seize it?

This policy platform sets out three distinct perspectives on this important issue, yet there are some common themes that emerge. This month's contributors all envisage a continued key role for local authorities in the development of new affordable housing.

And they are in agreement in offering constructive, qualified endorsement of the forthcoming reforms, although they question whether authorities will gain enough financial autonomy to manage their stock effectively.

Firstly, Gary Porter, Leader of South Holland District Council, sets out the case that HRA reform should be but a stepping stone to wider changes. By retaining 100% of Right to Buy monies, he argues, councils would be empowered to invest in new affordable housing much quicker than any process of centralisation and redistribution could achieve.

John D Synnuck, Chief Executive of Swan Housing Association, emphasises the role of the local authority in helping to deliver mixed housing communities. By working in partnership with Registered Providers (RPs) – whether by providing funds to the RP or directly purchasing homes from the open market – the case is made for a more dynamic, innovative form of council in the coming years.

Tim Coleridge, Cabinet Member for Housing and Property at the Royal Borough of Kensington and Chelsea, then concludes with a snapshot of the experience of his particular authority. Rising house prices, the new affordable rent regime, and the position of the registered provider are all touched upon in an analysis that argues that whilst the heyday of local authority building may not imminently be on the horizon, authorities are set to be given greater powers to place shape.

We hope these perspectives provide some interesting insights into a debate that is of the utmost importance.

South Holland DC

Cllr Gary Porter, Council Leader

10am, 30th June 2009: Members of the LGA Environment Board were gathered in Harrogate. It was the day before the LGA conference, and we had a phone call from a member of LGA policy staff back in London. There was a rumor that John Healey (Labour Housing Minister) was going to announce at the conference that he was going to end the HRA subsidy system. When we were able to confirm this by 12 o'clock, the atmosphere was electric. We had been campaigning for this for a number of years and whilst everybody agreed the system was corrupted, very few of us thought that a Minister would be strong enough to take on the Treasury Civil Servants to kill it off. However our euphoria was only to be short lived. When the Minister did make the announcement, we got more information about how the death of the HRA would be played out. Those clever Cambridge firsts in the Treasury who know the price of every thing and the value of nothing had decided that it would be a wicked wheeze to tax most landlord councils for the failure of central government housing policy. The civil servants lit smoldering fires and deployed their looking glasses to create a bazaar system for costing the proposed buy out of notional debt. The upshot of this was that councils would need to find between £13bn and £21bn to gain their freedom.

However, a year later the scale of the financial crisis that Government had created was clear for all to see and most of us doubted that an incoming Conservative Minister would be able to drive a stake through the heart of the HRA. Much to his credit ,Grant Shapps has been almost able to do just that, albeit the civil servants have upped the price several times to what is now approximately £27bn. The passing of the Localism Act last month could finally sound the death knell for the old complex centralised system of pooling and subsidies and deliver a new, local model of self-financing for council housing from April next year. As positive as this news is for all stock owning councils, I would argue, it needs to go further still, to fulfill our ambitions to provide the housing the country so clearly needs and to allow us to build our way out of recession.

Not only was the old system hugely complex and opaque, it was unfair. It effectively involved an ever increasing proportion of rents disappearing into Treasury coffers leaving council landlords with inadequate funds to maintain, improve and replace the asset. With the settlement calculated on an annual basis, councils could have no certainty about income and could not therefore make long term plans to invest in decent, well-managed, affordable homes.

Government has listened to councils' calls for change and we have welcomed the reforms that mean rents will now be retained and invested in local housing. Councils will now be able to make long term investment plans to meet local housing needs. Better homes mean better opportunities for the people who live in them and can save significant costs to the public purse down the line. In short, the reforms will deliver a better deal for taxpayers and tenants.

That is not to say that government has got it completely right. As I have already said, the reforms have come at a price with councils taking on debt that could, by the new financial year, total nearly £30 billion. The LGA has argued that that level of debt is too high – every pound spent servicing debt under the new system is a pound less spent on laying bricks. The price grew larger for some authorities who saw significant increases in the debt they are facing when the revised settlement was published alongside the Housing Strategy last month. Despite these challenges, councils remain largely confident that with sensible plans in place for their housing business over the next 30 years, they will be able to manage the debt. There remain, however, other elements of the policy which will inhibit councils' flexibility to be creative and ambitious with those business plans and miss a huge opportunity for investment in housing and particularly for building to meet the growing need for affordable homes.

The first of these issues is the cap imposed on the amount each council can borrow for their housing business which will seriously constrain their ability to mobilise investment locally. There is no clear rationale for capping councils' borrowing for housing purposes when no such restriction applies to borrowing for other purposes. Unlike central government in the past, Councils have a strong record of sound financial management. They adhere to CIPFA's prudential code which has proved to be an effective approach to managing borrowing. The cap will effectively switch off a significant stream of funding that could be available to build the homes that the government has agreed we need.

Secondly, the principles of self-financing would logically mean that when a council house is sold, the money from that sale should be reinvested locally to meet local housing needs. However, that principle has not been translated into practice and currently councils must hand over 75% of the income from Right to Buy to the Treasury. That was due to continue under the new system much to the concern of councils. The recent announcements about reinvigorating the Right to Buy scheme make it more important than ever for the money to be retained locally and provide an opportunity for government to rethink the policy. They have said that the new Right to Buy policy will result in a like-for-like replacement of affordable homes lost through the scheme. Allowing councils to retain the full receipts from sales would mean that the money could go directly into development projects and new home construction. I would argue that having a centralised bidding process would waste time and see money being wasted on completely unnecessary bureaucracy and it would run contrary to the principles of localism. It also runs the risk of recreating a national system of pooling and redistribution of subsidy that sounds horribly like the one we are about to succeed in abolishing.

There are a number of ways councils could innovatively invest to bring forward new affordable housing quickly making use of pockets of public land and redevelopment sites that would not be unlocked through other means. But all of this requires councils to have access to the full sales receipts. When combined with the cap on borrowing, any creaming off of Right to Buy proceeds will severely constrain councils' ability to deliver any step change in the future provision of decent, affordable social housing. Self-financing should be an opportunity to give councils the freedom they need to be innovative and ambitious in how they manage, maintain and improve the existing stock, and to invest in new homes. If there is an increase in Right to Buy sales and receipts are clawed back then councils will find themselves presiding over a fast dwindling level of council housing which could undermine the very premise of self-financing because they will not have sufficient resources to invest in new housing stock and related regeneration projects.

"...the reforms to the hosuing finance system are not taking place in isolation from the wider housing and economic context."

Of course, the reforms to housing finance system are not taking place in insolation from the wider housing and economic context. Government knows that to meet its ambitions for economic growth we need more jobs, more houses and more infrastructure. That is why housing is emerging again as a priority for this government – something I strongly endorse. Last month's Housing Strategy included a range of policies aimed at tackling the housing shortage: helping builders, helping first time buyers and setting out ambitious plans for more affordable housing. Councils have a key part to play in making a success of most of those policies whether through their planning role or by putting in land, bringing empty properties back into use, or providing expertise and advice.

However, government is missing a trick by not recognising that councils have the appetite and the capacity to play a greater role in building new homes. Councils understand local housing markets and local housing needs far better than central government officials, so it makes no sense that decisions about funding for housing are made in Whitehall when it could be more efficiently and effectively used locally. Councils have shown they can deliver excellent value for money in building new homes – about £10,000 less per home than housing associations. They also recognise the importance of working in partnership with developers and housing associations to make the best use of resources, expertise and opportunities for development locally.

We have seen a lot of positive steps that will promote housing development: the New Homes Bonus provides a powerful incentive to councils to facilitate new housing; the Government's planning reforms will give local areas more control over development locally; the Community Infrastructure Levy will help bring forward the infrastructure we need to support new homes. All of these will require councils to provide strong local leadership. We are up for that challenge, government must allow us the freedom to rise to it.

Swan Housing Association

John D Synnuck, Chief Executive

I have been fortunate enough to work in the local authority and housing association sectors for over 40 years, and I have both witnessed and been a part of many changes.

The latest development, the dismantling of the Housing Revenue Account (HRA) system and introduction of self-financing in April 2012, brings a number of benefits. Local authorities will gain full control of their housing income, expenditure, how and in what way they invest in tenants' homes, as well as having the option of building new homes using surplus rental income.

My local authority partners are hopeful that the proposals will bring much needed flexibility and transparency, enabling councils to plan and respond to local need. Councils will be able to plan their service provision long term and explore more creative ways to deliver their landlord services. This more commercial self-financing model also represents a real opportunity for change – encouraging efficiencies at a local level with councils, tenants and the local community reaping the benefits. Finally, it will remove much of the complexity for tenants as well, providing them with an easier to understand and transparent service.

However, local authorities will also need to appreciate the tensions that come with this new flexibility and transparency. They will be faced with difficult decisions as to how to improve the quality of their stock whilst also making provision for new homes. This in turn will impact on their relationship with existing tenants - councils should be under no pretence that the priorities held by their tenants will match the council's wider strategic vision. Swan Housing works hard to improve resident involvement but when it comes to benefits for the wider community, tenants can be apathetic.

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In terms of meeting existing tenants' needs and aspirations, the uplift in Major Repairs Allowance (MRA) for maintenance and management costs will go some way to enabling councils to meet the Decent Homes Standard. The Government has also got it right when it comes to the allocation of disabled facilities grant. There are significant benefits to enabling someone to remain independent in their own home and stay in the community they know. The health and wellbeing benefits are clear to all and I am pleased to see the £116m granted for these adaptations over the lifetime of the business plan.

However, while this type of funding makes an immediate and positive difference to tenants (and any additional resource dedicated to these schemes is encouraged), it should be realised that it only serves to improve the landlord function of councils and does not help councils to fulfil their strategic enabling role.

The ability of councils to deliver new homes will depend on the approach they take and the soundness of their business plans: councils will need to overcome the limitations of a cap on borrowing; consider to what extent their rental income calculations are accurate; and prepare for the introduction of Unviersal Credit which could introduce revenue instability.

The self-financing model requires councils to move into business planning, similar to that of a housing association. As a housing association, it is essential to Swan, that we have a prudent business plan and conduct risk analysis which cushions us against external changes in the market. Although councils will have greater flexibility, they are ultimately driven by the decisions of central government. This has the potential to impact on their main source of revenue: rental income. However, the rental income calculation made by the Government is based on assumptions, which do not always prove accurate.

For example, the Department for Communities and Local Government (DCLG) states that the rental income assumption for local authorities is based on landlords collecting 100 per cent of rent owed by tenants and property being void for 2 per cent of the time. Even with my optimism as a former housing officer, I would commend any council which is able to continually achieve this. This rather hopeful estimation could have a significant impact on councils' major source of income. It is essential that this is accounted for in business plans if councils are to maintain their stock and deliver new homes in the future, otherwise such it could unintentionally restrict the flexibility of councils and limit the potential of freedom the new model offers.

Another change which is likely to have an impact is the introduction of Universal Credit. Up until now, local authorities and housing associations have enjoyed direct weekly payments of housing benefit. This arrangement provided both local authorities and housing associations with some certainty over their rental income; something they will most likely lose now that it will be paid on a monthly basis, directly to the tenant.

This loss of control of housing benefit poses a risk to both local authorities and housing associations' rental income and will require increased support for tenants to minimise the risk of rent arrears increasing. Housing associations are well placed to deliver this but it will be an additional burden. At Swan we have welfare benefit officers, we fund a housing benefit officer at the local authority and we appreciate the importance of having a good relationship with the tenant to ensure rent is paid on time. The local authorities too will now need to take a much more proactive approach to cope with the new debt management required to ensure housing benefit payments are received so as to maximise their income.

However, despite all this there is still the potential for councils to finance new homes in the medium to long term from any surplus that is generated by rent and reduced costs.

When doing so, I would encourage local authorities to work with developing housing associations and private developers to build mixed tenure developments, and share expertise.

As one of the major regenerators of the Eastern and London region, Swan's mission and my ambition is to 'create homes and communities where people want to live'. Central to this is understanding the locations people want to live in and what facilities and services they see shaping their community. History tells us that we should steer clear of mono-tenure estates.

The ability for councils to solely build council housing would lead to stigmatised communities and we are at risk of reliving our failures, ultimately paying for them in the future. The challenge is to build mixed tenure developments which create opportunity and encourage sustainable communities.

For example, developing housing associations - and indeed private developers - could develop sites in conjunction with local authorities, likening to a section 106 agreement where the local authority purchases a percentage of the site. Equally local authorities could go into business with a housing association or developer to identify a site with the council providing some or the entire social housing element. If local authorities do not wish to develop the homes themselves, they could provide funding directly to housing associations for the provision of affordable homes. Councils may even look to purchase homes from the open market with any surplus generated from the new HRA arrangements.

> "The challenge is to build mixed tenure developments which create opportunity and encourage sustainable communities."

These, of course, are all subject to central government legislation and it is not clear which options will be available but we should start exploring them now. We welcome any opportunity which aims to meet some of the demand for new housing and the chance for housing associations to be involved.

Such partnerships also bring efficiencies. Housing associations that already have a development arm of their organisation have established expertise in design, project management and new technologies, which can be drawn upon. Alternatively, housing associations could outsource their services to local authorities, for example, contract and site management. Finally, there is potential to share back office functions and indirect overheads to reduce the costs for both, and delivering area wide housing solutions with the costs spread over a number of developments.

I would encourage any housing association with these skills to start thinking now about how they can assist local authorities to deliver new homes in the future.

In conclusion, whilst a return to the heyday of council house building is unlikely, this more commercial, self-financing model represents a real opportunity for change, encouraging efficiencies at a local level with councils, tenants and the local community reaping the benefits.

The value of both council housing and that provided by housing associations must not be underestimated, nor the synergy between the two ignored. We all need to look creatively at how we can support local authorities to face this new challenge and deliver a value for money service for residents that addresses local housing need.

Royal Borough of Kensignton and Chelsea

Cllr Tim Coleridge, Cabinet Member for Housing

The working title presupposes a big bang in local authority housing will soon be upon us, and that a return to the days of the post war social housing boom is just around the corner. As an elected Member of an Inner London Local Authority I can only look at our current situation and then make an informed assessment as to how the changes to be made to local authority housing finance will affect our ability to provide new affordable homes locally. The Localism bill, due to become legislation in April 2012, sets out fundamental reform of social housing. The reality of its impact in any given area however will depend largely on where you are.

Affordable Housing has for a long time been too far down the national agenda. A consequence of this has been a system that has drifted, whilst the supply of inner London social housing has become an ever scarcer and more precious commodity. Thought should have been given well over a decade ago as to who should be eligible and what should determine the length of their tenancy or the level of rent to be paid.

In Kensington & Chelsea (RBKC) we have approximately nineteen and a half thousand socially rented homes, split between 7,500 owned by the local authority and managed by our tenant management company and another 12,000 that are owned and managed by predominately twenty Registered Providers (RPs) such as Notting Hill Housing Trust, Kensington Housing Trust and Peabody, to name a few.

Land prices have soared in the past twenty years and the cost of renting and buying property has increased by 700% since 1992. The borough is therefore divided into two distinct categories of residents: those that bought property many years ago when prices, although expensive for the time, were more realistically in line with local incomes; those that are buying property today at current prices that requires either enormous city incomes for those purchasing with a mortgage, or extreme wealth for those in a position to purchase property with capital. It is not uncommon for a three or four bedroom house to be sold for in excess of three million pounds and larger houses can soon climb well above twice this amount. The average cost of a two bed flat in RBKC is £736,750 compared to £306,057 for London as a whole and £151,000 for England (Land registry House price index February 2011) .

"Affordable housing has for a long time been too far down the national agenda."

Due to the high cost of purchasing land suitable to build on, and the absence of suitable land owned by RBKC the number of new affordable homes built each year has remained modest compared to other local authorities around the country over the past two decades. Almost all our new housing has come from planning gain (Section 106) with somewhere between 50 and 100 new homes being completed each year in recent years. From time to time a very large development will double the usual number of new affordable homes, but it puts us at the mercy of the market and requires skilful negotiation.

So in what way can the new reforms help an inner London borough like ours to provide new affordable homes and to take care of our ageing stock in RBKC? Firstly, the working title suggests that the HRA is about to vanish: it is not. We will still have to maintain a 'ring fenced' HRA to which all incomes and costs associated with our stock are charged. The key change is the end of housing subsidy and the introduction of the self-financing regime which gives us more certainty around the HRA position. In recent years we have been very restricted in our ability to raise revenue, resulting in our current capital programme being limited to only £7M a year, and being restricted to health and safety and maintaining decent homes. Investment is badly needed to fund further works that have not been possible due to resource constraints. With self financing we are still expected to adhere to rent restructuring – at this stage a number of assumptions are having to be made but we are confident that healthy surpluses will arise in future years. These surpluses will need to be redirected to undertake capital works, and it must be assumed in the early years capital works to existing stock will take priority for most of the surplus generated by higher income levels received.

House building requires land to be identified which in Kensington & Chelsea is at best a rarity. The most likely route to new house building will be the regeneration of existing land or the redevelopment of large sites that are owned by developers and not the Council itself. These sites we would almost certainly develop in conjunction with registered providers, as we have been doing to date, not least of all because as a borough we simply do not have the in house resources or expertise necessary to manage such projects. As a borough we do have a number of street properties currently occupied by tenants on secure tenancies. In due course when these tenancies come to an end we will make a decision as to whether to sell these properties and to reinvest the money raised in new stock on small available sites in other parts of the borough. We calculate that we have at least ten street properties with a value of well over £2m each, the yield on these homes is less than 0.5% per annum, and the value raised from each home could build five times as many homes in high quality materials and suitable for a range of special housing needs.

The effect of the other changes in housing legislation will have far reaching effects on Kensington & Chelsea, some almost immediately and some will take several decades until the full effect is fully felt and understood. In our borough we have nearly three thousand households who rent homes in the private sector, almost all of these tenants will find that the new LHA levels are insufficient to cover their rents as they go into 2012, and there will therefore be a big exodus of households looking for accommodation further afield in outer London. At the same time as we have the LHA caps coming in we have big changes being made to the rents permitted to be charged by our local registered providers, who will now be able to charge rents for new and relets of up to 80% of the local market rent, capped at the LHA rate. Since over 60% of our social housing stock will fall within the new 'affordable rent regime' we will begin to see considerably higher rents being charged from next year on by our RP partners. These RPs have little choice as they all, quite rightly, have ambitions to develop new homes, but with little available land locally here in Kensington & Chelsea we may well see considerable surpluses accruing over the years ahead by RPs, and little of this surplus going into new development locally. There will clearly be a benefit for the development of new homes nationally, and we would be a lot more sanguine about this likely state of affairs if we were to be guaranteed nomination rights for new homes built from the rents provided by our borough tenants.

So for us in Kensington & Chelsea what can I conclude? Firstly, the good news is that self financing should enable over the long term a greater degree of certainty over how we are to manage more effectively our ageing housing stock. Much will need to be done to regenerate our estates and these ambitions have a greater chance of being realised under the new freedoms than under the old. However for an inner London borough like ours we do not expect to see a 'return to the heyday of local authority house building'.

We will continue to work with our RP partners and do all we can to identify opportunities to build new affordable homes in our borough, but these will continue to be as and when sites, largely not owned by the local authority, are redeveloped and the community benefits from planning gain. Finally the re-lets in our RP stock will be considerably more expensive than the current 'target rent' rents and therefore over time much of the socially rented stock will move to what most people would consider 'intermediate rent homes', many of which will be out of reach to those on capped universal benefits.

About Localis

Localis is an independent think-tank dedicated to issues related to local government and localism more generally. We carry out innovative research, hold a calendar of events and facilitate an ever growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.

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