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Waverley District Council Lobbies for Housing Finance Reform

Following the publication of the government's consultation paper on the reform of council housing finance, Mary Orton, Chief Executive of Waverley District Council and co-ordinator of the campaign to abolish housing subsidy and write off council housing debt, has written to the Chief Executives of all local authorities. What follows is an extract from the letter:

> ***"Following publication this week of the Government's consultation paper on reform of council housing finance I am writing to set out the campaign's initial view on the proposals.***
>
> ***First, we very much welcome the commitment to local control. The change to a self-financing system is long overdue and we have all been campaigning strongly for it. The Government's commitment to 'dismantle the Housing Revenue Account subsidy system and replace it with a devolved system of responsibility and funding' is very welcome.***
>
> ***However, there is a serious problem with the Government's proposals that undermines the commitment to localism and fairness and delivers a serious blow to hopes of boosting housing supply by the numbers predicted. This is the proposal to re-allocate historic housing debt across all councils rather than cancelling it. This means that councils who are currently debt free, or have lower than average housing debt, will receive a one-off lump sum of debt – in effect a new mortgage on their housing stock.***

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While in one move the Government is promising to free local councils to spend the money we collect in rents and receipts, it is at the same time imposing new debt burdens which will have the effect of seriously curtailing the freedom of councils to invest in local housing.

The consultation paper rejects debt-write off by saying the debt was incurred in building and maintaining council housing so it should continue to be serviced from council rents, and it would be unaffordable and unfair to ask the general taxpayer to support this debt in future.

We think the Government is wrong, for the following reasons:

First, the proposals are unfair to tenants. Why should we expect poor tenants in one area to pay for debt incurred decades ago in another part of the country under a defunct system?

Second, this approach continues to treat council housing as one national system, directly contradicting the commitment to giving council's local freedom to manage and invest in their own housing stock.

Third, a substantial proportion of this debt should already have been paid off, had councils been allowed to retain 100% of the receipts from Right to Buy sales.

Fourth, debt write off is practical and affordable. It is already government practice to write off large amounts of historic housing debt in order to improve delivery of local social housing – the government has written off over £3bn over the last 5 years to allow councils to complete stock transfers. Why should it be any different on this occasion?

Fifth, cancelling the debt would have no impact on the national debt, as it is an intra-governmental debt. The government is perfectly at liberty to draw a line through both sides of the equation.

Sixth, cancelling housing debt would deliver huge economic benefits – the LGA estimate this to be £72bn over 10 years. This economic boost would also benefit the exchequer through a massive increase in tax revenues and a reduction in benefit payments,

> ***easily outweighing any cost to the general taxpayer.***
>
> ***The proposed changes promise to deliver radical reform, giving councils freedom to manage their housing assets in the interest of their tenants and invest in much needed social housing. In practice the reforms will fail to deliver unless Government resolves the debt issue.***
>
> ***Instead of paying the Treasury through our rents most local councils will soon be the proud recipients of our very own mortgages on our housing stock – with interest rates controlled by, guess who, the Treasury!***
>
> ***Let's not forget, this debt is both historic and notional - i.e. made up by accountants.***
>
> ***The only fair and practical solution is for the Government to write it off entirely.***
>
> ***We will be developing a more detailed response over the summer and would welcome your input into this. As part of this, we intend to hold a discussion meeting during September - all welcome - to seek to agree common lines of response. We are very keen to maintain unity across the sector and will be working closely with the LGA to ensure a strong and cohesive view back to Government."***

The points made in this letter are quite fundamental. Waveney District Council are effectively arguing for the Scottish system to be introduced in England where all rents and debt are held locally and local authorities with high levels of debt usually have to raise their rents to meet higher capital financing costs while authorities with low debt are able to set low rents. The UK government, though, do not wish to introduce this system in England and see a continued role for central government in ensuring that resources are distributed around the country in a way that central government considers equitable. Following abolition of the housing subsidy system they are proposing to achieve this through a redistribution of debt.

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AWICS is holding a series of regional seminars on 'Developments in Local Authority Housing Finance in England 2009' at various venues between September and November 2009. The consultation paper on housing finance will feature strongly in these sessions. More information is available on our website. http://www.awics.co.uk/developments-course.html

Adrian Waite

Recession and the Homes & Communities Agency: The position in Northwest England

The recession continues to affect housing markets despite some signs that the decline in house values is levelling off. Affordability remains a problem with the ratio between house prices and incomes still historically high and access to mortgages constrained by the banking crisis.

Housing Associations continue to have difficulty in putting together funding for new affordable housing. This is particularly because of the limited opportunities to use market housing to cross subsidise affordable housing and the reluctance of the banks to lend on the favourable terms that were available until 2008.

The Homes and Communities Agency has committed £22million in the first quarter of this year to deliver affordable homes in the North West, resulting in the completion of nearly 600 new homes and the start on site of many more. This builds on last year's record investment of £194.5million that went towards completing 3,256 new homes and starting a further 3,243. Funding comes from the Homes and Communities Agency's National Affordable Housing Programme that is providing high quality affordable homes in sustainable communities.

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The National Affordable Housing Programme has supported several key North West developments throughout the start of 2009/10, including:

- In Cheshire, Upton Dene, a former hospital site, is being developed to provide 200 new homes in an area where affordability has long been a major concern for the local community

- The Homes and Communities Agency has stepped in to provide new funding of £3.9million to secure eighty affordable homes and maintain the momentum of the development, ensuring that local people are able to access vital new homes

- In Ribble Valley, 27 units for Low Cost Home Ownership and twelve units for rent were funded where there is high demand for both social rent units and Low Cost Home Ownership. This scheme is on the main road into Clitheroe, one of the two market towns in Ribble Valley, and was made possible with £2million funding from the National Affordable Housing Programme

- Victory Crescent, located in Allerdale, West Cumbria, received National Affordable Housing Programme funding of £800,000 to provide fourteen units for rent and two units for Low Cost Home Ownership within the West Cumbria Housing Market Intervention area

Deborah McLaughlin, North West Regional Director of the HCA, said:

> ***"Last year's record was a fantastic achievement, to be able to provide so many new homes in the current economic climate has made a real difference so many communities in our region. We are aiming to exceed it significantly this year and it's even more important that we work closely with partners and local authorities to ensure we do.***
>
> ***These schemes clearly demonstrate the importance of the Homes & Communities Agency support in creating vibrant and sustainable communities across the North West, where people choose, and can afford, to live."***

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Adrian Waite

Housing Market Renewal

The aim is to deliver sustainable and permanent solutions to market failure through a comprehensive approach to renewing neighbourhoods and creating desirable places to live

As part of the government's strategy for creating sustainable communities, CLG invited nine Market Renewal Pathfinders in the North and West Midlands to develop 10 to 15 year strategic schemes to reinvigorate the housing market in their areas. The Pathfinders are partnerships between local authorities and other key stakeholders in the region. The aim is to deliver sustainable and permanent solutions to market failure through a comprehensive approach to renewing neighbourhoods and creating desirable places to live. Radical and sustained action will be needed to replace obsolete housing with modern sustainable accommodation, through demolition and new building or refurbishment, together with neighbourhood management approaches.

In its Communities Plan (February 2003) the government announced £500 million to fund the nine Pathfinders in the period up to March 2006. The Pathfinders identified were:

- Manchester Salford
- Newcastle Gateshead
- New Heartlands (Merseyside)
- South Yorkshire (Transform South Yorkshire)
- East Lancashire (Elevate East Lancs)
- Oldham Rochdale (Partners in Action)
- Birmingham Sandwell
- North Staffordshire
- Hull/East Riding

When its negotiations over funding are finalised, each Pathfinder partnership enters into a formal legal agreement with CLG, the Market Renewal (Implementation) Agreement or MR(I)A. This sets out the responsibilities of both the Pathfinder partnership and CLG in respect of the payment of funding and the delivery of the scheme and includes a set of delivery targets for the Pathfinder.

Specifically, the grant-funded authority (as identified in the MR(I)A) submits a combined financial claim on a monthly basis to CLG to recover eligible expenditure incurred by the parties involved in the Pathfinder. Once CLG has reviewed the claim a payment is made in full to the grant-funded authority which then arranges for payment of grant to be made to the other parties in the Pathfinder.

In addition to the monthly claim process, the Pathfinder must submit an annual report and statement of grant usage by 31 July each year. This report, which is to be collated and submitted by the grant-funded authority as part of its accountable body role, will provide an annual update on the progress of the Pathfinder programme and its significant achievements to date. This annual report complements the quarter end commentaries that are submitted during each financial year.

Seven of the Pathfinders areas have received Growth Point status and the two programmes need to be closely coordinated.

CLG has recognised that a long-term commitment will be required to turning around the Pathfinder areas. Between 2002 and 2008, the Government invested around £1.2 billion in the Housing Market Renewal programme, with approximately £1 billion available for 2008-2011. This funding is used to finance capital investment in the housing market and supporting infrastructure that other regeneration programmes have not been able to make. The allocations are made 90% at the beginning of the year and 10% based on an assessment of performance. In addition to market renewal funding, the pathfinders draw on a wide range of other funding streams from local authorities and other public bodies, as well as significant investment from private sector sources.

Two reports have been produced by the Audit Commission assessing the performance of the Pathfinders "The Credit Crunch and Regeneration: Impact and Implications" published in January 2009 and "Housing Market Renewal Programme Review" in May 2009.

The main conclusions regarding the impact of the credit crunch are that housing markets were the most badly affected with the Pathfinders finding themselves adjusting their delivery plans to accommodate this market change. The experience is of falling sales, prices and land values. Private developments for sale have slowed or ceased and properties developed by RSLs are being converted to social renting rather than outright sale or shared ownership. Difficulties are being experienced by buyers in acquiring finance or in raising the deposits now required. This has particularly impacted in pathfinder areas as they provide for the lower end of the market serving first time buyers, shared ownership and smaller buy to let.

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Many private developments have slowed or ceased. Government announced in the budget additional funding to Housing Associations to acquire homes in the open market to reduce the levels of empty properties and to developers to continue with stalled developments (Kickstart). The pathfinders have made a range of responses including restructuring development agreements and mortgage schemes. In the city pathfinders apartment developments have suffered the most from the poor market conditions and pathfinders have used this opportunity to reconsider the stock mix for these areas.

As well as first time buyers, marginal existing owners are at risk in the current market climate. Councils and ALMOs have seen a significant increase in the number of Right to Buy owners approaching them to buy back their home.

The review of the programme concluded that the programme is maturing from preparation phase to delivery. They have gathered a great deal of intelligence and expertise regarding neighbourhoods and markets and used it to advantage. They have developed good partnership arrangements within the areas and in moving forward clear objectives have to be set and agreed with the Homes and Communities Agency. The future focus should be on maintaining all that has been done so far and securing rapidly growing material outputs and outcomes.

Hilary Vaughan
Associate Consultant

The Taylor Review of the Rural Economy and Affordable Housing

The government has responded to the Taylor review of the rural economy and affordable housing.

The government agrees with Taylor that a community could decide to leave a brown field site and direct new development elsewhere through their local development framework. The government also agrees that a review of the Homes and Communities Agency's targets is required to ensure that it is still relevant in a rural setting. The government supports a good practice project to enable the Homes and Communities Agency to provide encouragement and support to poorly performing local authorities to improve their performance in rural housing. The government enthusiastically supports the suggestion that local authorities should engage with their rural communities to decide on exception sites for residential development, the government also backs the suggestion that local authorities should be active in enabling residential development.

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The government agrees that Community Land Trusts can play a larger role in affordable housing, but add that a clear definition is already available in the 2008 Housing and Regeneration Act. The government has other information to consider from consultations conducted in 2008 before any changes to the operation of Community Land Trusts are made.

The government makes clear that local authorities have the ability to set site size thresholds to lower than 15 if they choose to, local authorities can also use rural exception site policies.

The government does not believe that the approach suggested by Mr Taylor to second homes is the most prudent. This recommendation was to use planning powers to restrict the change of use for a home from a main dwelling to a second or holiday home. The government criticises this particular recommendation, stating that "there are more innovative ways of providing the affordable homes rural communities need without interfering with the legitimate rights of second home owners."

Amy Elliott

If an inappropriate advisor is appointed at the outset there is a considerable risk of a fraught options appraisal that will result in a poor decision being taken about the future of the housing stock

The Appointment of Advisors for Housing Stock Options Appraisals

The appointment of appropriate advisors to assist with a housing stock options appraisal is a critical task, whether it is a lead advisor, financial advisor, independent tenants' advisor or any of the other advisors. In each case it is important to appoint a person or company who has the ability to carry out the role adequately, who is objective and who will retain credibility with the Council, the tenants and other partners and stakeholders.

If an inappropriate advisor is appointed at the outset there is a considerable risk of a fraught options appraisal that will result in a poor decision being taken about the future of the housing stock.

The criteria on which the appointment is to be made should be agreed clearly before consultants are commissioned. As part of this there is a need to identify the weighting to be given to the different criteria including quality and price. As with any consultancy project the greatest value for money will not necessarily be secured by choosing the lowest price. You may save a few thousand pounds initially but the implications of poor advice could cost you millions in the long-term. Quotations that are too low to be credible should be examined carefully.

Beware the consultants who have their own agendas. Some independent tenants' advisors have preconceived opinions about what is good for tenants and see their role as educating the tenants to adopt their point of view rather than facilitating a process in which the tenants make up their own minds. Some lead and financial consultants also have preconceived ideas – it is sometimes possible to predict the outcome of an appraisal as soon as it is known who the advisor will be!

Some lead and financial consultants are specialists in stock transfer. Significant profits can be made by consultants who win contracts to advise on stock transfers and cynics have been known to suggest that such consultants have a potential conflict of interest when they act as an advisor during a stock options appraisal process. This can undermine the whole credibility of a stock options appraisal where the conclusion is to recommend a stock transfer. Some consultants preserve their integrity by adopting a policy of not tendering for stock transfer work where they have acted as lead advisor in the stock options appraisal. It may also be advisable for authorities to specify when they commission consultants to assist with a stock options appraisal that the successful contractor will be ineligible for consideration as the lead advisor in a stock transfer – should one occur.

A good team of consultants who retain credibility with the Council, tenants and other partners can help to ensure that a stock options appraisal is thorough, impartial and retains credibility

A good team of consultants who retain credibility with the Council, tenants and other partners can help to ensure that a stock options appraisal is thorough, impartial and retains credibility. This should help to ensure that the best decision for the council and its tenants is taken. Getting the right consultants in place at the start of the process is critical.

Adrian Waite

Achieving the Welsh Housing Quality Standard

Studies of the condition of social housing in Wales show that a large proportion of social housing failed the decent homes standard in 2001 and that this problem was particularly acute with regard to council housing. This conclusion was supported by housing stock condition surveys carried out by local authorities. Furthermore, most councils reported that the amount of money that would be required to fund the Welsh Housing Quality Standard was greater than the resources that they expected to have available.

The National Housing Strategy stated that there was an estimated backlog of at least £750million worth of essential repairs and modernisation in the Welsh council stock in 2001. The cost of investing in improvements and modernisation of the neighbourhoods in which these homes were located took this figure to well in excess of £1billion. Furthermore, a significant number of households were considered to be in fuel poverty. Half of these were in the social housing sector, a major cause of which was the poor energy efficiency of the stock. The Welsh Assembly Government wished to overcome these problems to ensure that, by 2012, all council estates are places where people wish to live and are able to do so in good, well-built and affordable homes.

Although the Welsh Assembly Government have been able to make some modest increases in housing capital provision, they recognise that this is far from sufficient given the scale of the problem faced. They therefore obliged Local authorities to examine seriously all credible options to secure investment for improvements. It was recognised that all communities would have a unique set of problems and challenges so the Welsh Assembly Government endeavoured to promote a variety of investment options to local authorities.

The Welsh Assembly Government effectively controls the revenue and capital resources that are available to local authorities. It therefore appeared that the government had set a target for the Welsh Housing Quality Standard that required more expenditure than it was prepared to finance. This resulted in an 'investment gap' at national level that was reflected in many local authorities. The Welsh Assembly Government are reported to be unsympathetic to Councils that have financial difficulties as a result, suggesting that past under-investment has probably been a major factor, and suggesting that Councils re-visit their business plans.

Some Welsh local authorities are reporting difficulty in achieving the Welsh Housing Quality Standard by the deadline of 2012. This includes authorities where tenants have rejected proposals from the local authority for a stock transfer including Swansea and Wrexham.

A survey carried out in August 2007 by 'Inside Housing' identified the cost of bringing all Welsh council homes up to the Welsh Housing Quality Standard by 2012 at £1.9billion compared with available resources of £1.0billion. Only Cardiff, Carmarthen, Pembrokeshire and Powys were identified as having sufficient resources to meet the standard.

A briefing paper on local authority housing finance in Wales is available on our website: http://awics.co.uk/documents/briefing_papers/housing/Local_Authority_Housing_Finance_in_Wales__20-07-2009.pdf

Upcoming Regional Seminars

We will be holding a number of our Regional Events around the UK over the upcoming months.

- Budgets and Financial Management in the Public Sector for Non-Financial People
- Developments in Local Authority Housing Finance in England
- All You Want to Know about Welsh Housing Association Finance
- All You Want to Know about Scottish Housing Association Finance
- Opportunities and Challenges for Arms Length Management Organisations
- All You Want to Know about Local Authority Finance in Scotland

You can find more information about all of these regional courses on our website : http://awics.co.uk/RegionalSeminars/Overview/.

You can also find a copy of our In House Training Courses Guide for 2009 which includes information on all the courses we can provide. These are available specifically for England, Wales and Scotland from our website: http://awics.co.uk/View/Page/in_house_training_courses/

Other Services

In addition to our in house and regional seminars AWICS also provide a range of other services including:

- Management Consultancy including:
  - Business and Best Value Reviews
  - Advice on Procurement
  - Housing Finance
  - Housing Stock Options Appraisals
  - Housing Association Finance
  - Performance Management
- Independent Tenants' Advice
- Publications

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