

The Gateshead Housing Company Response to the consultation paper on the Reform of Council Housing Finance

Introduction:

The Gateshead Housing Company (ALMO) welcomes the opportunity to respond to this very important issue. Our response to each of the questions is set out below.

Core and non-core services

- 1. *We propose that the HRA ring fence should continue and, if anything, be strengthened. Do you agree with the principles for the operation of the ring fence set out in paragraph 3.28?***

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

Given that the research conducted identified that 40% of general management costs are additional to core management costs as defined by HouseMark, it is perhaps impossible to develop a nationally recognised definition of 'traditional' landlord services. Effective housing services are those that are flexible and adaptable to local issues and priorities. One would imagine that such 'additional' costs are seen as essential to the locality. Undoubtedly the Audit Commissions KLOE's have muddied the water due to their comprehensive and wide-ranging nature. This situation could be further exacerbated by the standards being developed by the Tenant Services Authority (TSA). There needs to be some realism around what Council housing management can afford to provide. There is a limit on the degree of choice possible within a rationed service. Council housing estates are no longer mono-tenure and it is extremely difficult to assess what should be paid for from the HRA and what should be paid for from the general fund. What is inequitable is the situation where rent payers (via the HRA) are subsidising general fund activity and indeed in some cases paying for the service twice via council tax and rent.

What are core and core plus services should be determined locally following consultation with customers.

We agree that there should be a separate local authority landlord account which is transparent in identifying the transfer of resources between the HRA and the general fund.

We agree that landlord services should be provided through the HRA but these services should be agreed locally.

We disagree that defined services such as housing advisory services, administration of the common housing register should be paid for from the general fund. Using the 'who benefits' test our view is that given that the benefit is realised by tenants and leaseholders and the general public then these costs should be shared proportionately.

We agree that the strategic housing functions should be a general fund responsibility.

We have some concerns as to the role of the TSA in potentially increasing the financial burden on landlords. The paper accepts that landlords willingness to embrace the comprehensive nature of the KLOE's had increased the cost of housing services. The TSA may view the KLOE's as a baseline above which further standards will be introduced. These will not be resource free and invariably will have a wider benefit than just tenants and leaseholders. In such cases the costs should not fall solely on the HRA.

Whilst we support giving influence and choice to tenants there needs to be some realism about the true extent of choice within a financial system which will continue to be rationing a scarce resource.

The proposals will result in the same situation emerging whereby a significant percentage of management costs will be expended on non-core activity. The proposal will increase the current confusion rather than reducing it.

Standards and funding

- 3. *We propose funding the ongoing maintenance of lifts and common parts in addition to the Decent Homes Standards. 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)?***
- 4. *Is this the right direction of travel on standards and do you think the funding mechanisms will work or can you recommend other mechanisms that would be neutral to Government expenditure?***

We support the Governments Commitment to maintaining the Decent Homes Standard and funding these items missing from the original standard such as lifts and common parts. Feedback from tenants would suggest that these 'other' items are every bit as important to them as the basic decent homes items. We would however also include wider estate works in the expanded definition.

We would support the funding of backlog works via capital grant and ongoing maintenance through the reformed HRA system.

Leaseholders

- 5. *We propose allowing local authorities to set up sinking funds for works to leaseholders' stock and amending HRA rules to permit this. Will there be any barriers to local authorities taking this up voluntarily, or would we need to place an obligation on local authority landlords?***

We support the notion of sinking funds, not just for infrequent large scale works, but also for common parts redecoration and cyclical maintenance. It would benefit leaseholders by allowing them to spread the cost over a number of years rather than having to pay substantial one off payments. What is important however, is the need to communicate to leaseholders the true cost of purchase including likely future major works. We would support the proposal to add a lump sum to cover these costs by way of a sinking fund on future sales.

The major challenge to setting up sinking fund from leaseholders will be the inability of some to afford the sinking funds and the unwillingness to contribute from others. Whilst this would be possible on future sales as long as the extent of the contribution was specified prior to sale and therefore becomes an obligation, it may be difficult to persuade exiting leaseholders to contribute to a sinking fund.

Debt

- 6. *We propose calculating opening debt in accordance with the principles set out in paragraphs 4.22-4.25. What circumstances could lead to this level of debt not being supportable from the landlord business at the national level.***
- 7. *Are there particular circumstances that could affect this conclusion about the broad level of debt at the district level?***
- 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?***
- 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?***
- 10. *Do you agree the principles over debt levels associated with implementing the original business plan and their link to borrowing?***
- 11. *In addition to the spending associated with the original business plan, what uncommitted income might be generated and how might councils want to use this?***

The issue of reallocation of housing debt is contentious. One of the criticisms of the current subsidy system is the requirement of many authorities to contribute a proportion of their rental income to Central Government for redistribution to other areas. The proposals for debt allocation between authorities may not be well received and may simply reinforce views about the current flaws in the redistribution process.

Inevitably any redistribution of debt will depend on the robustness of an authority's 30 year business plan. Hence the fairness of the system would be dependant on the accuracy of the assumptions made about spending needs and the value of the stock. This would appear to potentially repeat one of the flaws in the current system.

Any premia for repayment of loans in the self financing option should be funded from Central Government as part of the settlement.

We agree that the level of debt associated with the move to self financing should be outside of the prudential borrowing framework. Any surpluses generated by landlords once commitments made within the business plan have been met should be for landlords in partnership with tenants to decide upon.

There should be little central control over what these surpluses could fund. It would appear that efficient landlords would be potentially penalised by being unable to invest in locally agreed priorities.

Capital receipts

- 12. *We have set out our general approach to capital receipts. The intention is to enable asset management and replacement of stock lost through Right to Buy. Are there any risks in leaving this resource with landlords (rather than pooling some of it as at present)?***
- 13. *Should there be any particular policy about the balance of investment brought about by capital receipts between new supply and existing stock?***
- 14. *Are there concerns about central Government giving up receipts which it currently pools to allow their allocation to the areas of greatest need?***

We support the proposal to end the pooling of housing capital receipts. It would enable councils to develop a comprehensive asset management strategy. If councils are to take direct responsibility for managing debt on their housing assets then it would be equitable to allow them to keep capital receipts arising from the disposal of their assets.

However, the key concern here, is about the principle of the right to buy discount. The receipt received (net of discount) is unlikely in the North East to generate sufficient capital to fund the building of a replacement dwelling. It should be for individual landlords to decide on whether capital receipts are invested in new supply or in existing stock depending on the priorities and needs in the local area.

Equality impact assessment

- 15. *Would any of our proposed changes have a disproportionate effect on particular groups of people in terms of their gender or gender identity, race, disability, age, sexual orientation, religion or (non-political) belief and human rights?***
- 16. *What would be the direction (positive or negative) and scale of these effects and what evidence is there to support this assessment?***
- 17. *What would be necessary to assemble the evidence required?***

The proposals relating to core, core plus and non-core services could impact negatively on those tenants with support needs. Local priorities agreed with

tenants may create a situation where 'core' services divert funding from core plus services thereby creating difficulties in funding these sometimes 'unpopular' areas of activity. However such services can enable vulnerable tenants to maintain their tenancy and have wider community cohesion benefits.

It is difficult at this stage to assess the potential scale of this effect.