

**COUNCIL'S RESPONSE TO CONSULTATION**

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Dear Anne,

**Review of Housing Finance – Consultation response by Wandsworth Council**

Thank you for the opportunity for this Council to respond to the initial stages of the Housing Finance Review.

As you know, this Authority currently and successfully operates probably the only example of a self-financing HRA in the Country, and has done so for some years. It has achieved decency standard without government support, secured enthusiastic tenant support for stock retention under stock options appraisal, and is possibly alone in having a genuinely balanced though tightly drawn 30-year HRA business plan despite having to budget for £1.6 billion of negative subsidy payments over the life of the plan.

Crucial to this success has been the ability to raise local amounts of rent (£16/week in total) above the subsidy guideline. Within the HRA ring-fence this has been applied to increased levels of management and maintenance spend which are currently £10 million a year ahead of what would be available from existing notional subsidy allowances.

Capital receipts re-circulated from voluntary sales of high value dwellings and the active identification of miscellaneous sites for disposal have underpinned a significant major works programme of improvements, and even enabled some new-build of “Hidden Homes”. This despite the complete absence of any subsidy funded capital allocation in recent years. The Council has generated existing HRA capital reserves that enable it to take the whole life cost-in-use view when considering capital investment, anticipated as one of the major advantages to be gained in the six authority self-financing pilot study.

These outcomes achieve many of DCLG's aspirations. It is therefore of concern that a number of assumptions and possible options being discussed in the Review appear to run counter to, and to endanger, this self-financing model that has been proven to work.

The Council rejects the redistributive principle that gives rise to negative subsidy. Tenants not in receipt of benefit in one authority are considered an inappropriate tax base to fund a housing deficit in another authority. It is particularly inequitable where tenants are already paying extra to maintain their own stock in good condition and other authorities may not be using all the options available to resolve their own shortfalls. Similarly, it is not appropriate that tenants not in benefit should fund the social housing subsidy of national new-build projects, other than in the context of developments in the local area where they could be considered to have an interest. Meeting this

from the broader national tax base would be fairer than hypothecating responsibility to other tenants by charging them negative subsidy.

The Council strongly rejects the contention that HM Treasury has a right to tax council rents as a return on past subsidy assistance, either by negative subsidy or through introduction of a rate of return charge on housing stock. Nor does it recognise a right to increase rents as a source of national taxation within parameters that the Government deems to be affordable but without regard to the cost of local housing provision. The Council believes that rent levels should be set to cover the cost of provision within the local HRA.

To ensure viability, self-financing authorities need the ability to determine and retain rents locally. This can be within continuation of a mechanism to protect DWP as the contributor on behalf of tenants in benefit, and could be subject to value for money overview by the Regulator, but should not be excluded outright by an “equal rents” policy or limited to some token margin.

- Surpluses should stay with Councils to dispose in consultation with tenants. This could include service and stock improvements, retention in reserves to ensure viability in the less certain later stages of the Business Plan, or improvement and local new-build projects. The possibility of discounting rents should not be excluded by an equal rents policy. The strongest accountability to tenants is achieved by relating rents to cost of provision and ensures meaningful decisions when jointly setting specification levels and standards in contracts, striking the balance between what tenants want and what they can afford. Treating housing as a standard commodity at a standard price loses this dynamic relationship.

The Council believes that the best measure of “equal rents” is market rental value as this takes account of all aspects on which the relative value of a property may be judged. The high weighting given to regional earnings within the Government preferred formula rent has the effect of compressing differentials to inadequately reflect different property types, sizes, condition, location, environment etc. We welcome the indication given recently to ARCH that the possibility of local policies for distribution of the rent debit within a target acceptable to DCLG remains an option under consideration.

The Council recognises that a general dissolution of the subsidy system would be better controlled than piecemeal opt-out. However, if the HRA subsidy system were to be closed down, and it is clearly no longer relevant to its original objectives, the Council would object strongly to any arrangement that sought to project the continuance of negative subsidy for thirty years and its payment up front in a commuted sum that created new external debt of up to £600 million for this Authority and a capital receipt for the Treasury. In that context, and still resisting a continuing tax on tenants by Treasury in any guise, a revenue return on capital charge would avoid the creation of actual debt. However, we would not wish to see a new material redistribution of resources and creation of winners and losers arising out of any such fundamental changes to methodology that you might develop as the result of the review.

The Council is concerned that any meaningful self-financing and tenant accountability arrangement would be impossible given the straitjacket of initial assumptions used in the commutation of subsidy for either opt-out or the dissolution of the HRA subsidy system. If embedded in debt, or within some new equalisation of surpluses arrangement, this would pre-empt future decision making and force implementation of the commutation assumptions, long after tenants would assume that the decisions were the Council’s own.

In this context it is wholly inappropriate for any commutation of subsidy or other exit mechanism to assume future real-terms increases of 0.5% a year, or any higher increase that the Treasury may deem affordable. Any scope for real terms rent increase should be part of the freedoms and flexibilities available to self-financing authorities and not anticipated for Government in the level of capital receipt or rate of return.

If negative subsidy commutation were to be forced it would be preferable to convert annual revenue negative subsidy payments into equivalent annual revenue payments calculated on an annuity at the interest rate assumed in the subsidy commutation. This would avoid creating actual external debt and substituting future interest rate risks on actual debt for the unacceptable volatility of the existing subsidy system.

The work of the six authority self-financing pilot identifies the need for material increases in notional management and maintenance allowances in any commutation of subsidy to leave self-financing HRAs in a viable situation. Wandsworth is in the position where local rent increases are funding higher M&M spending, effectively anticipating both the Government policy to increase formula rents and the now recognised need to address the funding shortfall in M&M allowances. If past local rent additions were to be reclaimed by Government then an equivalent negative subsidy reduction would be needed through rectifying allowances in line with realistic spending requirements.

If the Government agrees to allow an assumption of higher spending need in any subsidy commutation then to avoid new redistributive effects this should be implemented as a general uplift in the existing M&M/MRA formulae. It should certainly not be the result of a bidding process by individual authorities for constructed shortfalls as that would be open to widespread manipulation. If a general increase in M&M/ MRA allowances does not deal with the future viability of a minority of councils with ongoing stock condition shortfalls then these should be the subject of separate support arrangements funded by national taxation. You indicated to ARCH that DCLG are currently undertaking a detailed re-working of allowances to try and reflect something nearer to current landlord costs and responsibilities in relation to different property archetypes, build, age etc., and even to build in some scope for improvements. It is welcomed that this approach ignores historical maintenance backlogs and projects the long-run cost of major repairs to keep currently decent properties in continuing decent condition. We are concerned, however, that government estimates of need appear to have consistently undervalued the cost of running and maintaining high-rise properties, of which this authority has a large number. We would not wish to see this perpetuated or exacerbated in any new assessment that claimed for its justification the assurance of sustainability under self-financing arrangements.

The present ring-fencing of the HRA has worked satisfactorily. There will always be issues at the margin but these are matters for the Director of Finance under his fiduciary duty and approved annually by the external audit process. Tenant support and tenancy conditions enforcement are areas considered integral to proper and effective housing management. The Council would not wish to see any cost shunting to council tax payers or to tenant service charges in order to mitigate the funding shortfall that DCLG are being asked to make good. A new raft of prescriptive detailed guidance is not welcomed. You indicated to ARCH that greater transparency in reporting of where costs lie between HRA, General Fund or tenant service charges, coupled with continuing local judgments within broad ring-fence regulation may be an alternative, but the Department may struggle to arrive at succinct prescriptive definition of expenditure at the margin. These are matters of interpretation and judgment best left to Directors of Finance and auditors within broad guidelines and have not been a particular concern of tenants here to date.

The Council urges the Review to seek ways of maximising the freedoms and flexibilities of self-financing authorities to make these a workable reality and genuinely accountable to tenants, rather than seeking greater prescription of standard rents, tenant service charges, HRA ring-fence, etc. as the means of securing a fiscal income for the Treasury.

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