

does council housing have a future?

A Smith Institute opinion survey
of councillors in England with lead
responsibility for housing



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Contents

Foreword	3
Executive summary	6
Findings	10
1. Introduction	10
2. Housing priorities	11
3. Housing investment	13
4. New council housing	15
5. Funding new build	17
6. Housing Revenue Account	18
7. Borrow to build	19
8. Rents	21
9. Partnerships	22
10. Further information	24

Foreword

Stock retaining councils all over England are now familiar with the new Housing Revenue Account (HRA) framework, which allows for the self-financing of council housing. Although the new regime has its critics, it is generally considered to be much better and more 'fit for purpose' than the centralised subsidy system it replaced. The HRA reform (Localism Act 2011) in fact achieved cross-party support and is widely viewed as an opportunity for councils to improve their housing management and maintenance, strengthen local housing partnerships, enhance accountability, and support new build (including new council homes).

This survey takes a snapshot of how the new HRA system is performing and asks what it has to offer councils and council tenants. It is distinctive in that all the respondents are elected councillors who have lead responsibility for housing in their area. The survey therefore provides a unique political perspective on the future of council housing, capturing views from councillors across the country from all political parties.

The results make for interesting reading, not least in highlighting the priority councillors give to social housing. New build council housing is seen as a top priority and there is overwhelming support for abolition of the debt cap on HRA borrowing. The survey also shows the strong opinions councillors have on rents and partnership working. By all accounts the survey shows that council housing has a future under the HRA system, albeit perhaps on a more modest scale than is sometimes suggested.

We would like to thank Housing Voice for supporting this project, and to everyone who has participated in the survey. The quality of the responses and comments we received (some of which we included alongside the survey results) demonstrates the depth of knowledge and enthusiasm that councillors have towards council housing. We hope that councillors (and local government officers, opinion formers, policy makers and all those involved with social housing) find the results interesting and useful.

*Paul Hackett, Director, Smith Institute
Lord Whitty, Chair, Housing Voice*

Executive summary

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The survey of 45 councillors with lead responsibility for housing in their council is focused on the Housing Revenue Account (HRA) and the future of council housing. The survey included a mix of stock retaining councils and councillors from all the political parties. The headline results are:

- 64% said social housing is a top priority
- Private housing for sale and rent is a low priority (7%)
- Councillors plan to build new homes under the HRA regime – 93% said they had plans to build new council homes
- New build council housing was the main investment priority (60%) followed by 'decent homes' (18%)
- But the aspirations to build over the next ten years are relatively modest - most councillors hope to build up to 1,000 homes over the next decade
- There were mixed views on whether councils could compensate for the loss of existing homes - nearly 40% said their HRA plans would not make up for loss of stock, but 37% said it would provide additional new homes
- 75% said they would borrow to build under the HRA
- 34% said they would use planning gain to build, and 24% said they would use asset sales
- 73% of councillors said they were very satisfied or satisfied with the HRA reforms
- There were different views on HRA debt management – only 9% said they would seek to increase the level of housing debt, nearly 60% said they wanted to pay off the debt or reduce it
- Councils with less housing stock were far more likely to be working towards reducing debts: 57% plan to pay off all debts and not take on any new loans, compared to those with more than 5000 units (10%)

- 75% said they think the government should abolish the HRA debt cap
- Councils with smaller stock are less keen about abolishing the debt cap (57%), compared with larger councils (86%)
- 78% said that if their borrowing headroom was to double they would use the extra capacity to build additional new homes
- 81% said they feel under pressure to keep rents low
- 77% said they were raising rents in line with target rents¹
- 64% said they have or would make use of 'Affordable Rent'²
- Around 95% of councillors said they were working in partnership with housing associations and other partners

1 Target rent (formula rent) is calculated by government to which actual rents for each council and housing association home would converge by 2015. The formula is based on a combination of property values and average earnings in an area. Because of the inherited HRA debt councils are subject to the rent formula.

2 Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent. In contrast, social rents are according to a government formula - typically at less than 40-60% of market rent levels.

Findings

Findings

1. Introduction

This online survey on what councillors with lead responsibility for housing think about the future of council housing in their area provides a fresh insight into how attitudes are changing under the reformed Housing Revenue Account (HRA) regime.³ As the survey shows, social housing is a priority for councillors and most have an appetite to invest in new council housing.

It is more than 18 months since HRA self-financing of council housing commenced. In that time local authorities have been reviewing their options and making decisions about the long term management and funding of council housing.

Despite the backdrop of fiscal austerity and sharp reductions in affordable housing subsidy, the mood among councillors engaged with HRA reform from all political parties has been generally optimistic. The new HRA system has been broadly welcomed and the expectation, particularly in high housing demand areas, is that councils will seek to positively use the new freedoms and flexibilities to build more homes as well as replenish their existing stock.

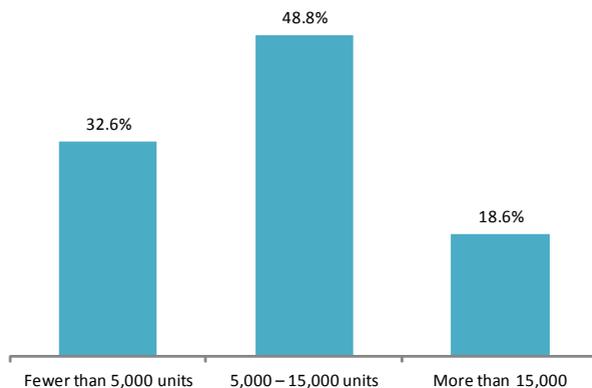
Whilst the survey cannot claim to represent a consensus view of councillors holding the housing brief, it does cover 45 different stock retaining councils and thereby offers a good indicator of opinion. At the very least it provides a sense of the direction of travel and nuances some of the difficult challenges that face stock retaining councils, such as constraints on borrowing to build.

Alongside the responses to the set questions, we have also included anonymous quotes taken from the many observations and comments that councillors submitted with their survey form. These offer some interesting thoughts on some of the addressed in the survey.

The survey was conducted between July and October 2013 and was undertaken by the Smith Institute. It includes a range of stock retaining councils across England. Nearly half of respondents are with councils with medium stock (between 5-15,000 units); a third oversaw small stock (less than 5,000 units); and 19% oversaw large stock (more than 15,000 units).

³ Under the reformed HRA (which took effect in April 2012) councils are able to fully retain the income they receive in rents in order to plan and provide services to their current and future tenants. The HRA budget is ring-fenced within a council's General Fund and the council is responsible for its own housing debt. Additional borrowing is capped.

How many tenanted council homes does the council you represent own?



2. Housing priorities

Respondents to the survey were asked to rank their housing priorities for their area. The top priority was more social housing (64% saw it as their first preference), followed by intermediate housing⁴ (at 22% of the total). The second priority was more intermediate housing followed by more private housing for rent.

Social housing ranked highest overall out of the five options, with more private housing for sale and rent as the lowest priority for councillors. Almost all councillors expressed a preference for some new housing.

What's the housing priority for your area?

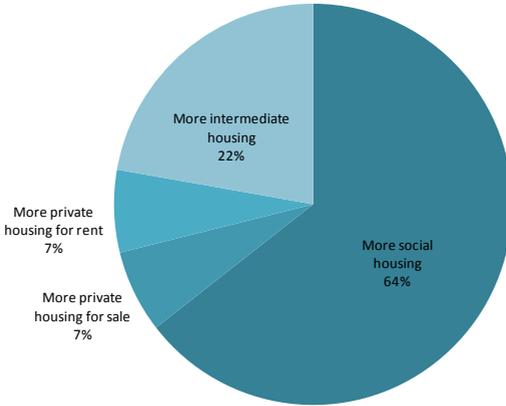
Answer options (ranking 1 as the highest)	Top priority	2nd Priority	3rd	4th	5th	Rating average
More social housing	29 (64%)	8 (18%)	6	2	0	1.58
More private housing for rent	3 (7%)	12 (27%)	17	12	1	2.91
More private housing for sale	3 (7%)	4 (9%)	14	23	1	3.33
More intermediate housing	10 (22%)	20 (44%)	6	8	1	2.33
No new housing	0 (0%)	1 (2%)	2	0	42	4.84

Note: 'Rating average' sums and averages the scores. The closer to 1 the higher the priority.

⁴ i.e. housing for sale, shared ownership and rent provided at a cost above social rent, but below market levels

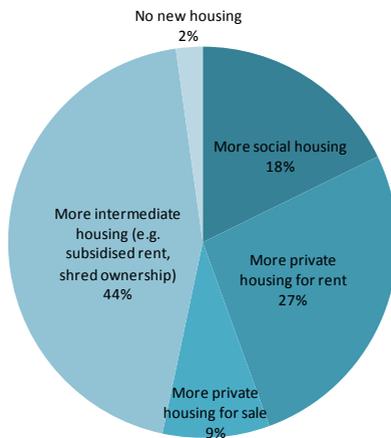
"Keep national politicians away from local housing as they keep making policy on the hoof and have little or no understanding of how things happen"

What's the top priority for your area?



"Much of the new housing produced by housing associations will be beyond the pockets of those in greatest need with few resources. Who will house the poor? The waiting list just gets longer"

What's the second housing priority for your area?



"There's a very strong need to use existing stock more effectively through fixed-term tenancies and major reform of allocations policies"

Councils that own less than 5000 tenanted homes were more likely to prioritise building new council houses (72% described this as their top housing priority), compared to those with 5000 or more units in their housing stock (62%). (Total average is 64%).

3. Housing investment

In terms of priorities for HRA investments, councils with less than 5000 tenanted homes highlight maintenance as their second major priority (57%) after new build. For councils with more than 5000 tenanted, estate regeneration was the second major priority (48%) after new build.

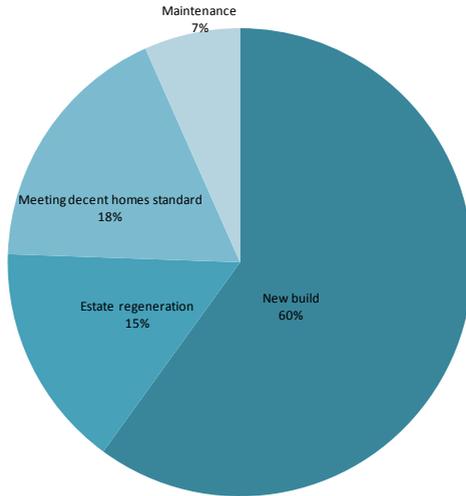
The majority of councillors ranked investing in new social housing as the key investment focus for their area under their HRA (60% said it was a top priority). This was followed by meeting the decent homes standard (18%) and estate renewal (16%). Overall the preference was for new build and estate renewal.

What are the key investment focus areas for your HRA?

Answer Options (ranking 1 as the highest)	Top Priority	2nd Priority	3rd Priority	4th Priority
New social housing	27 (60%)	5 (11%)	10	3
Estate regeneration	7 (16%)	17 (38%)	10	11
Meeting 'decent homes' standard	8 (18%)	6 (13%)	13	18
Maintenance	3 (7%)	17 (38%)	12	13

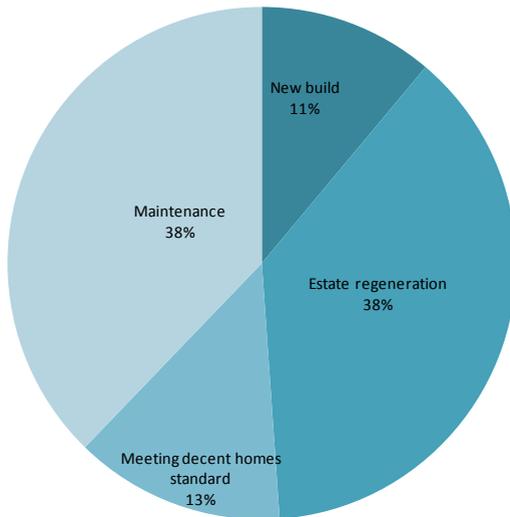
"We live in a low income area with high house prices. How will government help us? The recent changes in S106 agreements (allowing 'Affordable Housing' to be deleted on viability of development) work against new investment."

What's the top priority investment focus area for your HRA?



"A key priority for us is to build more social housing for pensioners, so we can cut their under-occupancy"

What's the second priority investment focus area for your HRA?

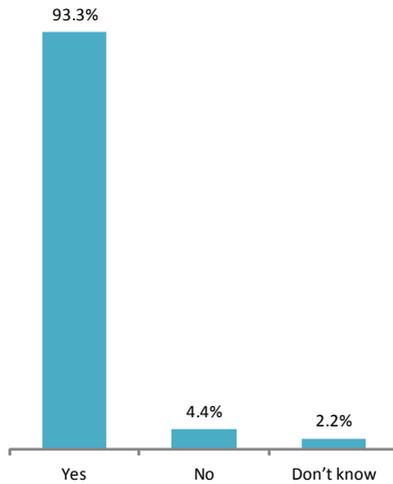


"We need a lot more smaller houses to allow downsizing"

4. New council housing

Respondents were asked what plans their council had to build new housing under the HRA regime. The vast majority (93%) said they were planning to build new council homes.

Given the new freedoms, have you plans to build new council homes?

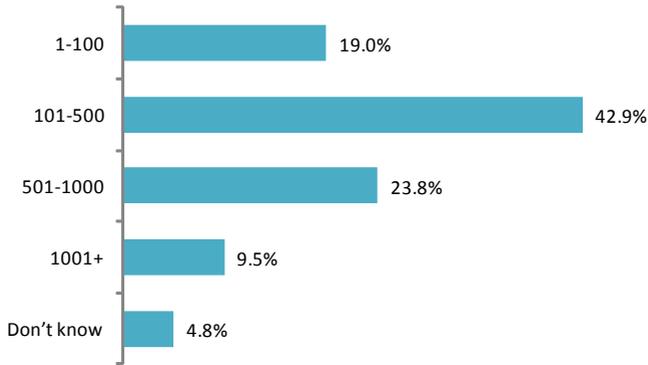


"We are bidding for a City Deal in which housing would play a big part. This would alter the answers"

Given the desire to build new council homes, we asked how many new council homes councillors expect their council to build over the next decade. Some 19% replied between 1-100 units; 43% between 101 and 500 units; 24% between 501 and 1,000 units; and nearly 10% said over 1,000 units.

It should be noted that that the preferences are not indicative of a total build rate as those councils planning to build more than 1,000 could be building many times that rate.

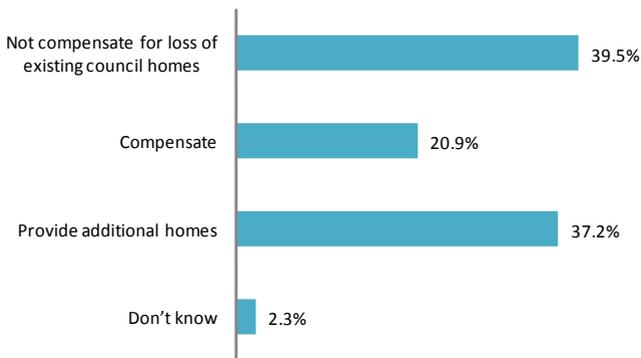
How many new council homes do you plan to build over the next 10 years?



"We need to invest in new homes to save on care costs through the General Fund, this is where our priority will be so it becomes an invest to save approach"

Respondents were divided in their views as to whether investment in new build social housing will offset the loss of existing council homes through Right to Buy, void sales, estate regeneration etc. Nearly 40% of councillors thought that over the next ten years new build social housing would not compensate for the loss of existing council homes. Some 21% said it would, and 37% said in their area new build under the HRA would provide additional homes.

Given the loss of homes through Right to Buy, void sales and estate regeneration, over the next 10 years do you believe the plans for new build will...



"We need more than 30% receipts from RTB if we are to replace each RTB sale given our fixed debt cap as a District Council"

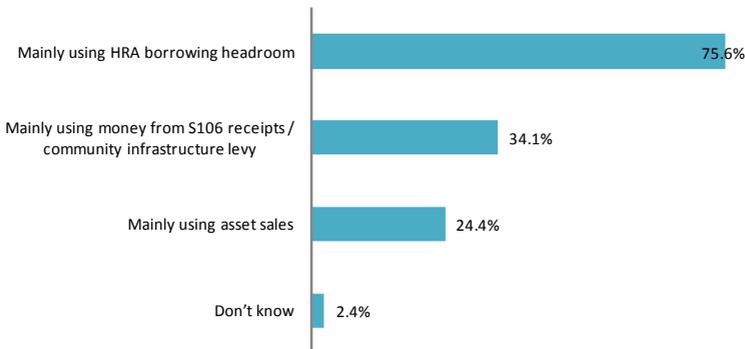
5. Funding new build

The survey asked councillors how their council intended to finance new build social housing. Three quarters of respondents said they would mainly be using HRA borrowing headroom.⁵ Just over a third said they would mainly use funds from planning gain (Section 106 receipts/the Community Infrastructure Levy), and 24% said they would direct funds from asset sales.

"We are using our reserves within the HRA to fund new build"

"New build requires innovation: contributing land to development deals, self-build using council owned land, and setting up council owned housing companies"

How are plans for new build to be funded?



"We are looking at pension fund investment and working with housing associations to build council houses"

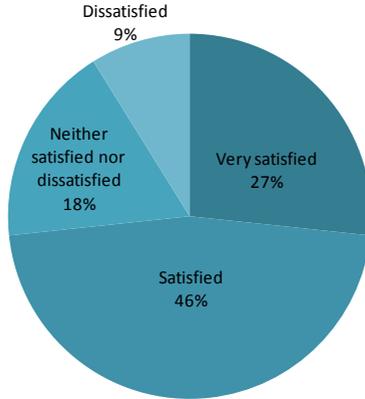
Councils with less than 5000 tenanted units were more likely to fund new build funds from planning gain (Section 106 receipts/the Community Infrastructure Levy) (35%), compared with councils owning more than 5000 units (19% planned to fund new build from planning gain).

⁵ Councils are free to borrow against their housing assets, but the borrowing is capped (under fixed cash limits) by the Treasury. The gap between the debt level and the debt-ceiling is called 'headroom', and represents the amount of additional borrowing that can be utilised for new council housing.

6. Housing Revenue Account

We asked councillors how satisfied they are with the HRA reforms since they came into effect. Nearly three quarters (73.4%) said they were either very satisfied or satisfied, and only 9% said they were dissatisfied.

Overall, how satisfied are you with the HRA reforms?



Management of the HRA debt is part of a stock retaining councils new responsibilities. We asked councillors what they wanted to achieve in respect of debt management. Nearly a quarter said they would like to pay off all HRA debt and not take on any new loans; a third said they would like to reduce overall levels of debt; another third said they were content to see debt levels maintained at the same levels; and 9% said they would like to increase the level of overall housing debt. Overall, 57.7% said they wanted to pay off their housing debt or reduce it.

In respect of debt management, by the end of your HRA business plans do you intend to?

	Response
Pay off all debt and not take on any new loans	24.4%
Reduce overall levels of debt	33.3%
Maintain at similar levels	33.3%
Increase the level of overall debt	8.9%

When broken down by size of tenanted housing stock, councils with less housing stock were far more likely to be working towards reducing debts: 57% plan to pay off all debts and not take on any new loads, compared to those with more than 5000 units (10%); and only 7% of small councils planned to maintain their debt at similar levels, compared to 41% of larger councils.

In respect of debt management, by the end of your HRA business plans do you intend to?

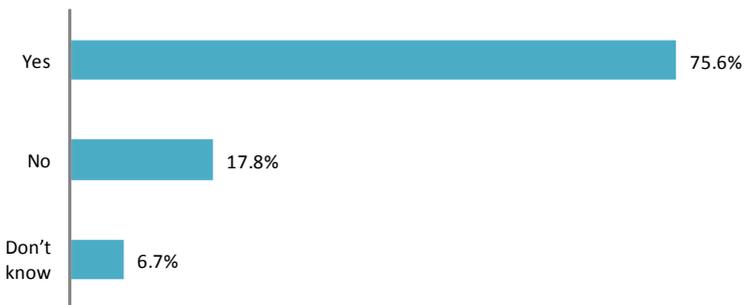
	More than 5000+	Less than 5000>
Pay off all debt and not take on any new loans	10%	57%
Reduce overall levels of debt	34%	36%
Maintain at similar levels	41%	7%
Increase the level of overall debt	14%	0%

"The restrictions on us running the HRA as a proper business are very damaging i.e. the debt cap, restrictions on spending Right to Buy receipts, and rent controls. We need greater flexibility"

7. Borrow to build

The scope for borrowing under the HRA to build is currently constrained by government. We asked councillors if the government should abolish the cap on HRA borrowing. Three quarters of respondents said the cap should be lifted; and 18% said the cap should stay.

Do you think the government should abolish the debt cap?



The follow up question to lifting the debt cap was to ask councillors what they would do with any extra borrowing capacity. We asked, if you borrowing headroom were to double, what would you use the extra borrowing for? Some 78% said that they would borrow to build new homes, 7% would invest in existing homes, and 9% would not borrow at all.

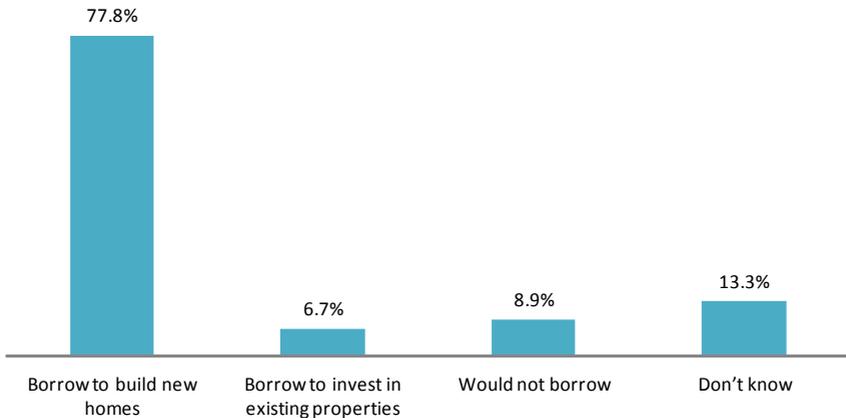
Small councils are less strongly in favour of abolishing the debt cap (57%) compared to larger councils (86%).

Do you think the government should abolish the debt cap?

	5000+	Less than 5000
Yes	86.2%	57.1%
No	6.9%	35.7%
Don't Know	6.9%	7.1%

"We need to see a lifting of the HRA debt cap, explore how to spend more of the Housing Benefit funding on bricks and mortar, and a strong commitment to the continuation of central government grant"

If your borrowing headroom was to double, would you use the extra capacity to...

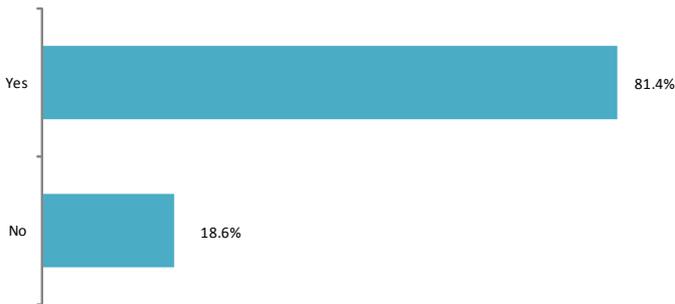


"Lack of finance is not our only constraint. The biggest constraint is now tight authority boundaries that prevents expansion. A neighbouring authorities "duty to co-operate" is not sufficient enough to deliver new homes"

8. Rents

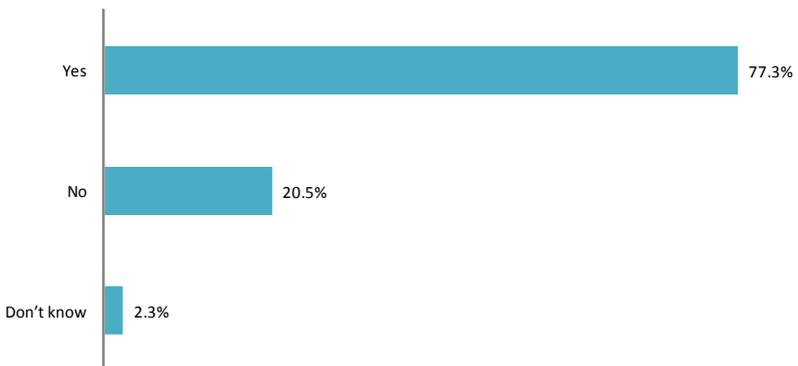
Rent levels are central to HRA business planning. We asked councillors if their council feels under pressure to keep rents low. Just over 81% said yes, and nearly 19% said no.

Is there pressure for you to keep rents low?



We asked if councils were raising their rents in line with target rents. Just over three quarters said they were, and around 20% they were not.

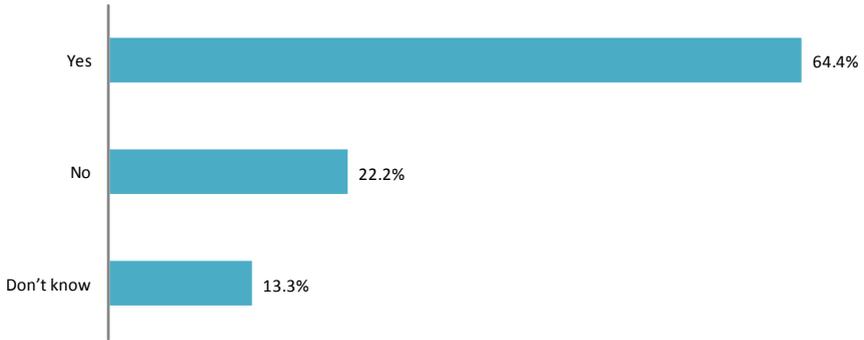
Are you raising rents in line with target rents?



"We have a lot of fairly poor privately-rented homes. More ability to ensure standards are improved would be helpful as would some form of rent control"

We also asked if councils have (or would like to) make use of 'Affordable Rent'. Some 64% said they would and 22% said they would not.

Have you or would you make use of Affordable Rent?



Councils with less stock are much more in favour of using Affordable Rent (93% say they are using, or would use the scheme) compared to councils with greater stock (52% of which are, or would use the scheme; 31% would not make use of it).

"Private landlords are nervous because placing council tenants is risky for them. We will need to guarantee their rent to make serious inroads into this private rented supply"

9. Partnerships

We asked councillors if they were pursuing other or complimentary policies in order to meet the housing needs of people in their area, such as partnerships with housing associations. Some 95% of respondents said they were.

10. Further information

The survey follows on from previous Smith Institute studies on social housing, including 'Making the Most of HRA reform' (2013), which discussed the prospect of investment in new council housing.

The survey was supported by Housing Voice, the campaign alliance which champions the need for more affordable homes to buy or rent. Housing Voice published the results of its 'affordable homes crisis inquiry' in 2012.

More information on the Smith Institute and its work on housing matters can be found on its website www.smith-institute.org.uk.

More information on Housing Voice can be found on www.housingvoice.co.uk.

The Smith Institute

The Smith Institute is an independent think tank which provides a high-level forum for thought leadership and debate on public policy and politics. It seeks to engage politicians, senior decision makers, practitioners, academia, opinion formers and commentators on promoting policies for a fairer society.

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