Brighton & Hove City Council
Formal Response to Council Housing: A Real Future

1. What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business?

Brighton & Hove supports the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business. We support the use of the 6.5% discount factor and acknowledge that this rate would ensure that the self financing settlement should be robust enough to withstand a range of movements to key variables including interest and inflation rates.

The proposed methodology excludes backlog of works and remains silent in respect of communal areas, disabled aids and adaptation and improvements. We would welcome detailed proposals for grants to deal with existing backlogs of works and also further information concerning future funding proposals for communal areas, disabled aids and adaptations and improvement works.

We understand that the self financing settlement is a full and final offer and that there would be not future recourse to government for funding. However, the consultation prospectus highlights in paragraph 3.69 that if there were major policy changes then the government would consider the consequences for council landlords and deal with these as separate transactions. The proposed methodology assumes that rental income will increase by 3% per annum over the 30 year period. Our main concern is that rents will continue to be regulated by the government (or the TSA in future) and that any changes to the proposed increases would have a significant impact on the viability of our Business Plan. Therefore, we would expect that any departure from these assumptions to be recognised as major policy changes which would result in some recourse from government.

2. What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?

Brighton & Hove supports the move to greater transparency in the operation of the HRA as part of a wider move to empower tenants.

Brighton & Hove agree with the principles of the operation of the HRA ring fence and find the revised guidelines detailed in Annex D of the consultation helpful. A separate memorandum balance sheet will provide more transparency for tenants and provide useful information regarding the assets and liabilities that support council housing. We would welcome further joint proposals from the Government and CIPFA to develop this idea further.

Brighton & Hove supports the improved transparency and clear accountability achieved through the use of two separate pools for the future management of the HRA and the General Fund debts. However, we do not support the use of the fixed interest rate over the long term for servicing residual debt and believe local authorities should retain flexibility locally to manage their debts.

Brighton & Hove holds historic debt premia in relation to the HRA which would have been funded through future subsidy settlements. This consultation does not appear to provide funding for these and we would welcome proposals for financing historic debt premia in the final self financing settlement.

Brighton & Hove believes that the proposed approach to impose a cap on borrowing undermines the principles within the CIPFA Prudential Code for Capital Finance and will constrain 'spend to save' types of investment where up front spending is repaid from future revenue savings. This is likely to restrict in the short term Brighton & Hove's future potential for delivering new homes and regeneration projects as detailed further in response to question 3. We would request that the government recognise that borrowing for self financing HRA's needs to be treated differently with a longer term approach to borrowing in a similar way to housing associations, which operate borrowing levels through the use of suitable ratios and covenants.

3. How much new supply could this settlement enable you to deliver, if combined with social housing grant?

Brighton & Hove welcome the opportunities offered in the self financing proposals to offer 'headroom' to enable council's to deliver new homes and to enable retention of HRA capital receipts for affordable housing and regeneration projects.

The use of the 7% discount factor will provide Brighton & Hove with funding, when combined with 50% social housing grant, to deliver in the region of 130 new homes over a five year period from 2014.

It is difficult to determine at this stage how many additional homes could be delivered within the existing Business Plan due to the following factors:

- It is unclear what funding will be available for backlogs, communal areas, disabled aids and adaptations and improvements.

- Our longer term asset management strategy is being developed. This will include future regeneration proposals that will require funding from within existing resources at unit costs which will differ from standard new build unit rates. These costings will need to be evaluated before determining new build proposals.

- The headroom imposed by the cap on borrowing may need to finance, firstly backlogs of works, improvements (identified as local priorities by tenants) and proposed new build from the 7% discount rate. These items combined will significantly limit the level of borrowing headroom available for other new build.

We are prepared to take on a greater role in developing and delivering new council housing and have already pre-qualified with the Homes & Communities Agency as an Investment Partner (subject to procurement of delivery partners to provide requisite technical expertise) for future development of new council homes.

This is in the context of:
- Significant identified housing need in the city
- A relatively small council housing stock
- Overall citywide delivery target of 230 new affordable homes per annum
- A requirement to support delivery of more family homes (target mix of 30% one bed, 45% two beds and 25% three beds for new affordable housing).

4. Do you favour a self-financing system for council housing or the continuation of a nationally redistributive subsidy system?

Brighton & Hove favour a self financing system for council housing using either the 6.5% discount factor of 7% factor with new build. We strongly believe that this system will provide the opportunity for the council to develop a robust medium and long term strategy based on local priorities within a clear financial framework.

5. Would you wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document? Would you be ready to implement self financing in 2011-12? If not, how much time do you think is required to prepare for implementation?

Brighton & Hove would wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document in 2011/12.

6. If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?

This question is not applicable for Brighton & Hove.