

# Starving Council housing of funds:

## *An update*

Swindon Council's June Cabinet meeting had before it a Medium Term Financial Plan for the Housing Revenue Account (HRA), the separate account for Council housing. Since there is no government subsidy for the HRA it is entirely dependent for its income on rent and service charges paid by its tenants. However, the rent it charges is determined by central government. So it has no direct control over its income. For instance, the current government decided that Councils would have to cut rent by 1% each year for the next four years. This has completely disrupted planning to maintain the standard of housing. Government rent setting regulations had previously set increases for ten years at the level of the Customer Price Index + 1%. However, this commitment was abandoned and the rent cut imposed. As a result the loss of rent was expected to be £22.8 million. Subsequently the government decided to allow Councils to exclude supported accommodation for elderly and disabled people from the rent cut (at least for this year) and allow them to increase rent under the old formula. Swindon increased rent for these people by 0.9%. However, the loss of rent overall during those four years is still estimated at around £22 million.

We have previously written about how government policy is [starving Council housing of the funds](#)<sup>1</sup> it needs to maintain the stock. This under-funding is the result of:

- the new housing finance system introduced in 2012 which saddled Councils with 'debt' which was not the result of actual borrowing but of what might be described as creative accountancy by the Treasury, and
- government policies introduced since then which (like the rent cut) are responsible for the loss of planned income.

As well as the rent cut other policies which have led to a significant loss of rental income include:

- Changing the rent formula from RPI + 0.5% plus up to £2 a week extra, to CPI (generally lower than RPI) + 1%;
- Introducing the 'enhanced right to buy', with higher discounts on the sale price. This has increased the number of homes sold in Swindon from 34 in the three years before the change to 161 in the three years after. The amount of 'debt' Swindon was given was based on the much lower sales figures.

As we have pointed out before, the 'debt' which was imposed in 2012 was based on an estimate of income from rent over the 30 years of the business plan and of the number of homes likely to be sold under Right to Buy<sup>2</sup>. Since the amount of 'debt' given each local authority was based on an estimate of rent income which is out of line with what is actually being taken in today, this loss of income has *completely undermined the 30 year business plan*. That's why **Swindon Tenants Campaign Group**, together with the Council's own

---

<sup>1</sup> <http://keepyourcouncilhomes.wordpress.com/2015/08/25/starving-council-housing-of-funds/>

<sup>2</sup> Each home sold means the loss of rental income. The more homes sold, the greater the amount of rent lost in future years.

**Housing Advisory Forum** called for a reopening of the 'debt settlement' of 2012, something which the government can do under the legislation it brought in. In other words it should reassess the level of 'debt' it gave to local authorities in the light of the much lower level of rent income than was factored into the settlement. At the very least the 'debt' should be cut in line with the loss of rent income resulting from government policies introduced since 2012<sup>3</sup>.

To give an idea of the scale of rent lost so far compare the original estimate of rent income in the 2012 business plan, with Swindon Council's 2016 Medium Term Financial Plan.

	Net Rent Income 2012 Business Plan	2016 MTFP	Difference
2016-17	£49,333,000	£43,190,000	- £6,143,000
2017-18	£50,282,000	£42,492,000	- £7,790,000
2018-19	£51,214,000	£41,781,000	- £9,433,000
2019-20	£52,115,000	£41,910,000	- £10,205,000
2020-21	£53,114,000	£41,852,000	- £11,232,000
<b>Total</b>	<b>£256,058,000</b>	<b>£211,225,000</b>	<b>- £44,833,000</b>

As you can see in the five years from 2016-17, the rent income which the Council now expects to receive, as compared to its planned income in 2012, will be **£44,833,000 less**. Over what remains of the the lifetime of the original plan, from 2016 to 2041, rent was expected to raise £1.627 billion. Based on current calculations, over the remaining 26 years of the original plan rent collected will be **£362 million less**. There are so many variables involved in a plan over such a long time-frame that it is little more than a 'guesstimate'. However, this comparison does give an indication of the scale of lost income for which central government policy is responsible.

In fact this figure does not take account of other changes due because we still await government regulations, for instance, in relation to the enforced sale of 'high value' homes to finance the introduction of right to buy in the housing association sector<sup>4</sup>. Depending on what is determined to be 'high value', the estimate of 60 sales a year made in the new Medium Term Financial Plan could be on the low side, in which case the shortage of funds would be even worse.

## Stock Condition

Recently the Council employed a company to do a Stock Condition Survey to make an estimate of costs of maintaining our housing over the next 30 years, based on a 10% sample. The results suggest that over the next 10 years there is a minimum investment requirement of £354.2m, an average annual requirement of £35.4m. Over the same

<sup>3</sup> Swindon Council was given an extra £138.6 million 'debt' to add to its £11.8 million of outstanding debt related to previous building programmes.

<sup>4</sup> The government is intending to force Councils to sell 'high value' homes when they become vacant, when a tenant leaves or dies, and the money will go towards compensation Housing Associations selling their homes at the same level of discount as Councils sell theirs under right to buy.

period, a total of £278.2m of funding is estimated to be available, although that's dependent on rent policy from 2020. That's a shortfall of £76 million over 10 years. The Cabinet document said:

“At present, the short fall in available budget means that we will not be able to fully undertake the Catch-up Repairs and Future Major Works (£14.8m and £271.9m respectively as detailed at Addendum 2) and identified as the investment need whilst delivering the exceptional extensive structural repairs to our non-traditional housing stock. This leads to *a key risk* that single components such as kitchens and bathrooms are kept serviceable, *but are not really fit for purpose* leading to claims for disrepair, increase in complaints and tenants that are dissatisfied with the standard of accommodation on offer. (Our emphasis)”

Over the next four years it is estimated that there will be a shortage of £28.4 million. As a result of the impact of the rent cut, the 3 year works programme which went before the Housing Advisory Forum in March of this year, included a proposed cut in spending on renewal of kitchens, bathrooms, roofs, central heating, aids and adaptations, of more than £5 million in the next two financial years. Renewal of some of these components will be cut in half. Delay in renewal will lead to a deterioration of the stock. This is what the document means when it talks of “a key risk” being that components will not be “really fit for purpose”.

However, suspension of the £5 million 'debt' payment would provide **an extra £19 million**, mitigating the financial impact of the rent cut. Whilst the Lead member for Housing, Emma Faramarzi told the Swindon Advertiser that the Council “may well need to repay less debt”, no decision to do so has yet been made. (See “[Suspend 'debt' payment](#)”<sup>5</sup>) The Council is obliged to pay the annual interest on the 2012 'loan' but it can chose how much of the original 'loan' it pays and when. So it does have the power to suspend the £5 million annual payment.

### **Long-term funding**

Whilst suspending this 'debt' payment is necessary to deal with the short-term funding gap we also need to address the long term funding issue.

What's clear in this situation is that if the Council wants to prevent the deterioration of its housing stock then it should

- Suspend payment of the £5 million debt for the 4 years, giving it £19 million extra and
- press for the reopening of the 'debt settlement' of 2012 because government policy has completely undermined the financial basis of that settlement.

Without action along these lines the living conditions of tenants will worsen and the long term costs of renewal will increase. Work deferred will cost more in the future. Moreover, it is completely unjust to make tenants pay for 'debt', the level of which was based on an estimate of rental income which bears no comparison to the actual level of income today; a loss which is neither the fault of the Council nor the tenants. The under-funding of Council

---

5 <http://keepourcouncilhomes.wordpress.com/2016/03/17/suspend-debt-payment/>

housing is the direct result of policies introduced by the coalition and by this government.

## **New building**

Building more homes would provide more rent income. However, the government has abandoned support for 'social housing' except on a very small scale (see below). Swindon Council bid for and won some money from the government's Affordable Homes Programme. Yet at most this will only provide 104 homes. When you take account of demolition of homes in Sussex Square the number falls to around 70. This is insufficient even to replace homes lost under right to buy.

The Council was intending to bid for money from the next round of the Affordable Homes programme for 2016-21. It was looking to win funds from this to help build a further 162 homes by March 2020. However, this target is unlikely to be realised because the AHP only offers funding for 8,000 rented homes nationally for supported accommodation, i.e. for elderly and disabled people. Other than this there is no money available for social housing to rent. What is available is for 'starter homes' to buy and part-ownership for which the lucky people get to pay for a mortgage and rent, at the same time.

So without a change of national policy the prospect we face is one of a decline in the number of Swindon's Council housing stock. The pace at which we lose them will depend on the definition of 'high value' homes which Councils will have to sell when they become vacant.

These policies can only make the housing crisis worse at a time when, according to government statistics house prices in Swindon have risen by 10.5% over the last year, and as **Swindon Housing Action Campaign** has reported, [private rents have risen by up to 15% in the last two years](#)<sup>6</sup>.

Fundamentally, the decline of stock numbers resulting from government policy is starving the HRA of the funds needed to maintain the standard of existing housing stock. The abandonment of financial support for building 'social housing' by this government means that Swindon Council only has the very limited receipts for right to buy sales, to spend on new homes. This is completely insufficient for replacing the ones we lose, never mind increasing the numbers we have. Without a nationally funded Council house building programme then current government policies will only make the housing crisis, nationally and locally, even worse. If Swindon Council does not challenge national government policy then it will share responsibility with central government for making the housing crisis worse rather than resolving it.

Martin Wicks  
June 23<sup>rd</sup> 2016

---

6 <http://swindonhousingaction.org/swindon-private-sector-rents-rip-off>