Council Housing

ASSOCIATION OF RETAINED COUNCIL HOUSING

A real future?

In April 2012 the Conservative-led coalition government introduced a new financial regime for council housing based on the principles of self-financing. The new arrangements were based on a prospectus issued in March 2010 entitled “Council Housing – a real future”. That future is now in considerable doubt.

Councils could have a big role to play in meeting the need for new affordable homes. Councils were planning to build at least 20,000 new council homes over the next four years. However, proposals in the Welfare Reform and Work Bill currently before Parliament, and the Housing Bill expected this autumn would force these plans to be abandoned and make councils sell vacant homes to help fund the extension of Right to Buy to housing association tenants.

ARCH urges the government to reconsider these plans and reaffirm the commitment to localism and local control of council housing made with the support of all political parties little over three years ago.

The government proposes:

- To cut council rents by 1% a year for the next four years, wiping £2.4 billion off the income available to support new investment – effectively putting an end to the construction of all but a few new council homes;
- To force councils in high value areas to sell off council housing to help finance extension of Right to Buy to housing association tenants;
- To force council tenants with a household income over £30,000 (£40,000 in London) to pay market or near-market rents; the additional income would be returned to the government;
- To review the use of “lifetime” tenancies in social housing with the threat that tenants will lose security and council housing will become, for some, no more than a short-term welfare expedient.

Council housing is home to over 1.6 million families in England providing decent, secure, affordable housing for over four million people. One hundred and sixty-two councils – exactly half the total number of English local housing authorities – still own housing From the 1990s to 2012, their rents were governed by a housing revenue account (HRA) subsidy system that meant a growing proportion of their rent was paid over to central government at a time when the rental income was sorely needed to ensure all council housing met a decent standard. Unpredictable annual determinations of subsidy payments left councils unable to plan for the long term future of their housing stock. In April 2012, with the support of all political parties and councils and council tenants, the last government put an end to this unfair and unpopular system and introduced a new regime of HRA self-financing.

The essence of the deal was that councils were relieved of any future need to give to or receive from government any payments of housing subsidy in exchange for a one-off debt settlement which was designed to leave each council with a debt equal to the net present value of its housing stock, roughly equivalent to the amount the council could afford to pay over 30 years from anticipated rent income, after allowing for the costs of managing the stock and keeping it in a good state of repair over that period. In return, councils won the right to retain rent income in full and re-invest it locally as agreed with their tenants and residents.

HRA self-financing was a central plank of the previous Coalition Government’s commitment to localism and was enacted under the Localism Act 2011. It was warmly welcomed by councils and tenants alike as opening a new era for council housing in which councils would have a secure

basis from which to plan long-term, including the opportunity to build new homes on a significant scale for the first time in three decades.

Rent cuts would wipe out council housebuilding

The self-financing settlement was based on a valuation of each council's housing stock that gave a total value of £29.2 billion to council housing in England. As part of the deal, 136 councils took on new debts totaling of £13 billion and paid this over to the Exchequer. This was based on the assumption that council rents would rise by 0.5% more than the Retail Price Index each year – broadly in line with the expected growth in tenants' incomes. It was also assumed that councils would be allowed to complete the convergence of individual rents to the target rents set in government guidance through an additional increase of up to £2 a week where necessary. In the 2013 Budget the government announced that the future basis for rent setting would be the Consumer Prices Index (CPI) with councils allowed to increase rents by 1% more than the annual change in CPI, and the allowance for convergence would be terminated. Although this meant that rents would increase by around 1% less a year than previously expected, councils accepted these changes and adjusted their business plans to accommodate them, including making savings in spending on management and maintenance.

At the Budget 2013, the then, as now, Chancellor, George Osborne, signalled his intention to set out a new rent policy to apply for ten years from April 2015. This commitment was in recognition of the benefit of long-term certainty to landlords in helping them plan for future investment and so provide more new affordable homes, improve the existing stock and provide good housing services to their tenants.

Councils' revised their business plans and implemented the new 10 year rent policy from April 2015 but just over three months later the Chancellor in the Summer Budget signalled a U-turn and announced that councils would be compelled to reduce rents by 1% pa over the next four years. The new proposal to cut rents is included in the Welfare Reform and Work Bill currently before Parliament. It cannot be accommodated so easily. By 2020, councils will have suffered an income loss of £2.4 billion, and even if rent setting returned to the previous basis thereafter, a further £30 billion would be lost from the remaining years of the business plan. If these changes had been anticipated in the self-financing settlement, council housing would have been valued not at £29 billion but some £6 billion less.

Councils are now expected to absorb these losses through further efficiency savings but to do so in full would mean cutting spending by over 20%. Given that the majority of rental income is committed to repayment of loans taken out to finance capital expenditure (including loans taken out to finance payments to the Exchequer under the HRA debt settlement) this will mean cuts in future planned investment in the housing stock and cuts in housing services. Councils were planning to build around 20,000 new homes over the next four years. These plans are now likely to be scrapped except where contracts have already been let.

Perhaps the most damaging effect of the new proposals is that, because there is no certainty about rents beyond 2020, they make long term business planning and good asset management impossible, undermining a key purpose of the self-financing settlement. The proposed 1% rent reductions may deliver £1.4 billion savings in housing benefit expenditure by 2020, but at the cost of even greater reduction in investment in new and existing stock. As a minimum, the government should make a new ten-year commitment based on the principle that rent increases will return to CPI + 1% after 2020.

Forced sale of homes in high value areas – the sums are wrong

ARCH members have varying views on the merits of extending Right to Buy to housing association tenants but all recognize that the government were elected on a manifesto pledge to do so. However, councils are extremely concerned at the proposal to help pay for this policy by forcing councils in high value areas to sell off homes as they become vacant.

Council tenants have had the Right to Buy since 1980. Councils have been expected to absorb the financial impact of sales within their housing revenue account business plans. It is particularly unfair that councils and their tenants should now be expected to cross-subsidise the costs of extending Right to Buy to housing association tenants.

The Conservative Manifesto announcement claimed that there are 210,000 council homes among the most expensive third of all homes (public and private) within their region and that selling these on the open market with vacant possession as they become vacant would yield £4.5 billion a year that could be used to replace them one-for-one with cheaper homes, help reimburse housing associations for payment of Right to Buy discounts and also fund the replacement of the housing association home, as well as finance a Brownfield Regeneration Fund worth £1 billion a year. This calculation assumes that 7% of these so called "high value" council homes will become vacant each year and sell at an average price of £300,000.

This calculation is seriously flawed. An alternative assessment by property consultants Savills suggests that the number of such high value properties is no more than 78,000. A more realistic estimate of vacancy rates for these properties is around 3.5%, so that the policy would yield little more than £1 billion a year if implemented. This assessment is consistent with a recent survey of all stock-owning councils carried out by ARCH.

The ARCH survey also shows wide variation in the impact on individual councils. The majority would not be affected by the policy, while a few would face massive disruption, being forced to sell a third or more of their stock.

The Conservative Manifesto committed to replacement of sold council homes with new affordable housing in the same area but the cost of land and associated design and build costs would in most cases mean that any replacement homes built in these areas would almost certainly exceed the high value thresholds and be required to be sold if and when they became vacant again at a future date. ARCH would urge the government to look elsewhere for the finance needed to support the proposed extension of the Right to Buy to housing associations.

'Pay to stay' should not provide a profit for central government

Councils are already free to operate 'pay to stay' schemes on a discretionary basis and to charge a higher rent to tenants with household income over £60,000. Few have chosen to do so, either on principle, because of unresolved practical difficulties or because so few tenants are affected that it is not worthwhile. Now the government proposes to compel councils to charge market, or near-market rents to tenants with household incomes above a much reduced "high earnings" threshold of £30,000 (£40,000 in London). This will affect an estimated 10% of all council tenants. Proposals to achieve this are understood to be planned for the Housing Bill to be introduced this Autumn.

This policy represents another assault on local freedom and is contrary to the principles of self-financing and devolution of powers to local authorities and the regions. Councils have different views on the principle of pricing higher income tenants out of council housing, including concern about the social polarization of council estates. Practical difficulties with 'pay to stay' schemes – including problems in determining tenants' combined household incomes and handling households with fluctuating incomes - remain unresolved to general satisfaction. Tenants with incomes near to the limit would face a massive disincentive to raise their earnings if it meant a rent increase averaging £75 a week (exacerbated by the fact that over the next 4 years council rents will fall by -1% pa whilst market rents remain uncontrolled and are expected to continue to rise). Given the announced rises in the National Minimum Wage/National Living Wage over the life of this Parliament most dual earning households working full time on NMW/NLW will find their earnings exceeding the "high earnings threshold" of £30,000pa and will face substantial rent rises. It is inappropriate and premature for the government to impose a national mandatory 'pay to stay' Scheme and decisions to introduce such Schemes and set high earning thresholds should be a matter for local decision.

Should the government press ahead with this proposal the additional rental income raised is expected to be paid over by local councils to the Treasury in contrast to housing associations, (which will be forced to adopt the same scheme) but will be free to retain the income to support new housing investment. Councils will not. There is no adequate justification for this discrimination and ARCH urges the Government to drop these proposals.

About ARCH

ARCH represents councils in England and Wales which have chosen to retain ownership and management of council housing. Our 64 members own and manage over 600,000 homes.

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