“Opportunities and bear traps”

The Government’s Plans for reforming Council Housing Finance

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Hope to cover…

- How "Council Housing Money" works at present…
  - including a few numbers
  - And where your rent goes
- What the planned changes are:
  - Including "what looks good"
  - What is less good
  - And what the "bear traps" might be
- And – *if you wish* – how the Governments "New Build" programme will work…

Where we are now…

- 1990's Government stopped Council's subsidising tenants rents
  - Huge variations in rents and spending between different Councils
  - Very erratic subsidy system to different Councils
- Early 2000's – current rules emerged
- Original aims:
  - Rents for all tenants to be set the same way
  - Level playing field in terms of funding (between Councils)

Current system “now broken”

- “This system is unsustainable. It will not deliver sufficient funding to maintain council homes to a good standard, and … it makes long term planning difficult for authorities”

Council Housing: A real future – Impact Assessment. CLG

A few Numbers

- 181 Councils still own Council Housing

  For these:-
- Total “Housing Debt” £18,000,000,000 (£18bn)
- 160 Councils with Housing Debt
  - Average £7,000 per property
  - Up to £30,000 per property
- 20 Councils “Debt Free” (no housing debt)
- 44 Councils *receive* Government subsidy
- 137 Councils *contribute* to Government

  (numbers approximate)

Current Rules

Housing Money in Your Council

Where your rent goes
(very approximately, one ARCH Council)

	Per home, per week	Per home, per year
Average rent (over 50 weeks)	£88.51	£4,425
Management Allowance	£13.34	£667
Maintenance/Repairs Allowance	£26.18	£1,308
Major Repairs Allowance	£16.22	£811
Debt repayment, rent loss etc	£10.10	£505
Paid Back to Central Government	£22.67	£1,133
Total amount paid back to Government in year:		£15.9m
NB – Council can spend more on management if spends less on maintenance, and vice versa…		

The Housing Revenue Account

- All the *revenue* finances of running and managing the Council Houses are carried out through the *Housing Revenue Account*
- "ring fenced" from other Council expenditure
  - But can pay for services received
- Main sources of income are:
  - Rents
  - Service charges

Housing Money rules always changing…

- Two examples of "adverse" rent increases:

1. "Depooling" of service charges –
   1. I.e. Tenants pay "formula rent", PLUS service charge
2. Equality with Housing Association rents
   1. Increased "formula rent" by between £3pw and £5pw (or more)

   NB Rents due to reach housing association rent levels in April 2015 – but later for some Councils and tenants.

(in simple terms)

The Government sets..

- How much rent your council should charge
- How much rent can be kept to spend on:
  - Management
  - Maintenance
  - Major Repairs
  - Repaying mortgages/loans taken out to build/improve the properties
- **For 44 Councils the rent set not enough…**
  - So the Government gives a subsidy (getting less each year)
- **For 137 Councils rent set more than enough…**
  - the surplus goes to the Treasury (growing each year)

The New Proposals

Reform of
Council Housing Finance

What has Changed?

- Up to three years ago…
  - Government was subsidising Council Housing (More money to Councils as subsidy than came back as surplus)

- Now
  - The other way round (Government is collecting more money from Council HRAs than is giving back)

- And surplus set to grow year by year…

Government is legislating to:

- Scrap current rules
- Move all Councils to a system where:
  - they have enough money to fund management, maintenance and Decent Homes "for ever".
  - And free from Treasury clawback of any surpluses…
  - And can build (if can afford to…)
- Sounds Good?
- How is it proposed to work?
- What are the catches?

The Proposed New System

- NB: Legislation in the "Localism Bill"
- Properties, tenancies etc stay with Council
- Government exercise carried out to prepare a 30 year financial business plan for each Council, which will:
  - Show all income due (from rent etc)
  - Show "all"(?) expenses and investment needed for future years

Calculation then made:

- Council keeps all rent money (etc)
- Works out costs of necessary investment
- If not enough money –
  - Debt moved to Government/other Councils
- If surplus –
  - Council takes on extra debt from other Councils/Government

Winners

- All council tenants *should* (eventually!) live in a home where landlord has enough money to properly fund all management, maintenance and major works
- All Council's will have the resources (if properly applied!) to fund their properties
- Councils keep all rent money, and have freedom to manage investment and spend needed (no clawback or "negative subsidy")
- Councils keep all money from market sales of homes or land (IF spent on new homes or improvements) –
- **ALL** Councils will get more to spend
- Government (see later)

Losers?

- Many Councils have low or no housing debt.
  - They will now have to "max out" on debt (including "debt free" Councils)
- Councils will (probably) no longer be able to benefit from "windfalls" if they transfer their properties to a Housing Association

And the Government?

- As proposed rules require all Councils to take on "as much debt as they can prudently afford"
- Initially calculated that Government will probably be better off by at least £6.700,000,000 (£6.7Bn) once all has gone through…
- & Government will no longer be "blameable" for failings of Council Housing – all funds with Councils…

And some wider benefits…

- Better planning
- More money invested in housing (and during a recession) = jobs etc
- Improvements to quality of life, health and work opportunities (and education)
- Increased ability to build more homes
- Existing homes kept to higher standard
- Funding for environmental work

The new finance rules…

- Council keeps all rent income…
- Income <u>must</u> ≥ (Revenue) Expenditure
- Increased borrowing OK, but…
- **Debt <u>must</u> be repayable**
  (from own resources)
- “No” revenue “subsidy”, except:
  - “Housing Benefit” (via tenants)
- Can keep money from selling homes or property at market value (if spend on new homes etc)
- BUT $^{3}/_{4}$s Right to Buy money goes to Govt.

Does this kill transfer?

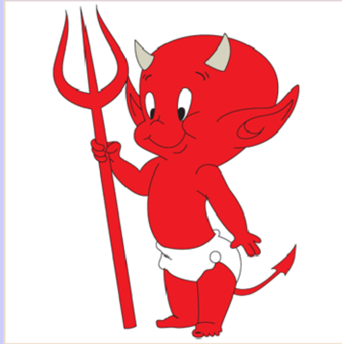
- If goes ahead…
  - Level playing field – transfer and retention calculation "will be the same"

(Probably?)

Winners and Losers

Council	Existing Debt	New Debt	Change
South Lakeland	£13m	£77m	+ £64m
Camden	£548m	£475m	-£73m
Newcastle	£663m	£330m	-£333m
Dacorum	Nil	£343m	+£343m
ALL	**£28,138m***	**£21,428m**	**+£6,710m**

Winners



"Devil in the detail…", but:

- All council tenants *should* live in a home where landlord has enough money to properly fund all management, maintenance and major works
- All Council's will have the resources (if properly applied!) to fund their properties (Inc "real" increase in allowances)
  - Money to spend up £545m pa or 8%-20%pa
- Councils keep all rent money, and have freedom to manage investment and spend needed (no clawback or "negative subsidy")
- Councils can keep all money from property and land sales
- ALL Councils will get more to spend
- Government

+ve Changes from original proposals

- Extra money for adaptations £116m pa (or average £60 per property pa)
- Extra money if Councils face "early repayment" penalties on their borrowing
- Extra money to help Council's manage the extra debt (where this applies)
- Debt calculation now allows for homes to be demolished e.g. in Regeneration Schemes
- Councils *should* be able to make their housing finances "more transparent" to tenants

-ve Changes from original proposals

- Government still keeping 75% of “Right to Buy” money
- Borrowing rate – if from Public Works Loan Board – increased by 0.8% (to “1% margin”)
- Government can “revisit” Council Borrowing levels (I.e. make Council borrow more, or stop borrowing more. This is called “*reopening the settlement*”)
- Borrowing levels capped (at level of new debt)
  - ***limits opportunity for investment in early years***
- HRA “Ring Fence” not tightened
  - Principle that “who benefits, pays”
- Lower “Decent Homes” standard? (at first)
- Scrutiny relaxed

Key Dates

Event	Date
Localism Bill becomes law	?
Forms to collect data to Council's	June 2011
Data returned to Government	August 2011
Consultation on "determinations"	Nov-Dec
Final Determinations	Jan 2012
"Self Financing" goes live	April 2012

"Bear Traps"

- Danger of Councils "milking" HRA
- After April 2012 "borrowing levels capped", so:
  - Problems with Councils building new homes
  - Early years cash squeeze where rents slow to reach "target" levels(?) [see next slide]
- Can Government really keep its fingers out of local government???
- What happens if "things go wrong" at Council?
- Exposure to changes in interest rates
  - Councils now have to manage this risk

Para 3.23 of proposals:

- We recognise that limiting borrowing will place pressures on some landlords, particularly in the early years of self-financing. These pressures [reflect…] a very tight fiscal position across the public sector over the next few years and … a deal which significantly increases the spending power of all local authority landlords…. **We expect all councils to be able to manage these pressures.**

(abbreviated and emphasis added)

Other issues…

- Will the “Decent Homes” standard be high/good enough for the future?
- Funding of “Green Improvements”
- New rules for Council House Building – Grant funded, very similar to housing association?
- Can Government really keep its fingers out of local government???

Mini Case Study
Runnymede DC (simplified!)

- Currently “debt free”
- Paying **£6,686,000** pa in “negative subsidy”
- Allowances – up 16% (from £2,668pa to £3,094?)
- “Determination” - £100m new borrowing
- If borrow at “floating rate” might borrow at 4.0%, so repayments = £5.78m pa (nearly £1m pa better off!)
  - BUT – if floating rate went up to 7%
  - Payments would go up to £8.05m pa (£1.3m worse off!!!)
- If “Fixed” might get 5.5% - £6.8m pa…
  - Worse in first year, gets better in longer term…
- Decisions, decisions….

Further reading…

- **Council Housing: A Real Future –** Prospectus (2009)
- **Council Housing: A Real Future –** Impact Assessment (2009)
- **Implementing Self Financing for Council Housing** (Feb 2011)
- **Modelling business plans for council landlords** (Feb 2011)
  - And user guide

All published by Communities and Local Government

Thank you…

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The New Development and Letting Regime

As it applies to Housing Associations

(And most probably Councils)

New Homes to be funded by:

1. Money that can be borrowed against rent of new home – with rent set at 80% of Open Market Rents
    1. (These are called “Affordable Rents”)
2. Extra Money that can be borrowed by landlord by increasing rents on relet homes from social rents to 80% of market rents
3. Government grant

How are "Intermediate" rents to be set?

Anyone for a Jargon buster?

- Expected guidance would appear to be:
  - 80% of "Local market rents" for equivalent property, as informed by e.g. local estate agents
  - 80% cap includes any service charges
  - **AND -** Rent must be below £20,000pa
    AND - Rent must be no higher than "Local Reference Rent" [Set by the rent Service at the "30th Centile of Open Market rents" (from 1 April 2011)]
- (Anyone for a "Jargon buster…?)

Which Properties will now be let at "Intermediate Rents"

- Appears that landlords will have to ASK (Homes and Communities Agency) for *permission* to let at Intermediate Rents
- Will have to show:

1. They are making savings in running costs
2. Money from higher rents "all" goes to fund new development

– Only a <u>proportion</u> of relets to be at Intermediate rents

The New Development Regime
How "Tower Hamlet" *Might* Work

- Total Cost of one property - £230,000
- Intermediate rent = £240pw = £12,000pa
- Less running costs (£1,500pa)
- Gives £10,500pa to support mortgage(!)
- If borrowing at 5.25%
- Needs income of £230,000 x 5.25% = £12,000pa to cover interest on loan
- Shortfall of £12,000 - £10,500 = £1,500pa
- Get this from raising rent on a relet to Intermediate level.

How Development *Might* Work
Exeter

- Total Cost of one 3 Bedroom property - £150,000
- Intermediate rent say = £170pw
  - But capped at £155.77pw = (say) £7,800pa
- Less running costs (£1,200pa)
- Gives £6,600pa to support mortgage(!)
- If borrowing at 6.5%
- Needs income of £150,000 x 6.5% = £9,750pa to cover interest on loan
- Shortfall of £9,750 - £6,600 = £3,150pa
- Get this from raising rent on a relet to Intermediate level.

Hope this last bit useful(!?)

Thanks

Any more questions?