To Swindon Borough Councillors **From Swindon Tenants Campaign Group**

Dear councillor

The need for compensation for Council housing rent cut

As a result of the government's proposed 1% rent cut for social housing for four years from 2016, Swindon's Housing Revenue Account is expected to lose £20 million in rental income over that period. The loss of money for our Capital budget will be £21 million. This is a serious situation which will mean a significant reduction in the work that can be carried out to maintain the quality of our housing stock and the living conditions of our tenants. As you can see from the table below it would mean our capital programme falling from £16.8 million today to £11.34 million by 2019-20, a 32% cut. A £5 million cut in capital programme is equivalent to renewing 1,000 *less* kitchens. Obviously the cutback would be spread across the various stock components that are renewed. Each one has a certain lifetime. The consequence of the loss of income is that key components will not be renewed in line with the requirements of the Decent Homes Standards. In short the reduction in our income will lead to the deterioration in the condition of our stock. Work delayed, if it is done later, will be more expensive.

This situation was discussed at the October meeting of the **Housing Advisory Forum** which agreed the following resolution.

“In the light of the significant loss of income which would result from the proposed rent cut the HAF calls on the Lead member to write to the government and our local MPs, calling for compensation to local authorities for that loss. To that end we believe the government should reopen the 'debt settlement' of 2012. Without such compensation we will have insufficient funds to prevent the deterioration of the stock.”

The 'debt settlement'

As you may recall, when the new Housing Finance system was introduced in 2012, as part of the 'debt settlement', Swindon was given additional 'debt' of £138.6 million to add to its existing 'historic debt' of just under £12 million. The level of 'debt' which each Council was given was, amongst other things, based on an assessment of how much rental income we would receive over 30 years. At that time the coalition government told us that the 'debt settlement' would give us enough money to maintain our stock over 30 years. That was questionable, however, since then a number of measures have led to a loss of projected rental income and hence the resources which were programmed into our 30 year 'business plan' have been depleted.

The coalition government introduced these changes:

- The 'business plan' projections of income from rent were based on the rent formula of RPI + 0.5% plus up to £2 a week extra. The government changed this formula to CPI + 1% which meant less income than was projected in 2012.
- Also built into the 'business plan' was an estimate of the number of homes expected to be sold under 'right to buy'. However, the government increased the discount and

cut the qualification from 5 years to 3 years. As a result there has been a significant increase in RTB sales from 13 in 2011-12 to 40, 67 and 54 in the following years. The estimate of sales built into the 'debt settlement' was based on just 18 sales in the 2 years before the 'enhanced right to buy' was introduced. Hence we are losing a great deal more rent than was projected in the 'debt settlement'. For 54 sales last year we lose approximately £232,000 each year. The higher sales undermine the financial basis of the business plan.

Now the current government is introducing the rent cut as a means of saving on its housing benefit bill, with the consequences shown above. In addition, the new housing bill currently going through Parliament is proposing to force Councils to sell on the open market its 'high value' properties. We don't yet know the final criteria for 'high value'. Yet any homes sold sold by this means will increase the loss of rental income further still. Add these different measures together and you can see how the 30 year business plan is being completely undermined.

Reopen the 'debt settlement'

When the new financial system was introduced in 2012 the government gave itself the power to 'reopen the debt settlement'. Swindon tenant groups and the Council's Housing Advisory Forum are calling for the government to do just that, as are other organisations. The Association of Retained Council Housing (which includes more than 30 Conservative Council affiliates) has called for £6 billion of the 'debt settlement' to be 'given back'. Some Councils have called for £10 billion to be written off. This isn't a case of the government actually giving us money, but of foregoing 'debt' and interest payments in future years.

It's important to point out that the 'debt' is not the result of actual borrowing. It was the product of 'creative accountancy' by the Treasury. In 2012 136 Councils were given additional 'debt' whilst 34 had their 'debt' cut. On one day in March of that year the government made a 'profit' of £8 billion pounds when all these 'transactions' were added up. The 'debt', since it sits within the Housing Revenue Account, is paid for by tenants through their rent. Not far short of a quarter of income from rent is eaten up by servicing this bogus 'debt' instead of being spent on our homes. As rent income decreases then the percentage of it used to pay off the 'debt' rises.

With the new financial system there is no subsidy for local authority Housing Revenue Accounts. The only income they receive are the rent and service charges that tenants pay.[1] Therefore anything which reduces the rental income reduces the resources available for maintaining the stock. Because the coalition government and this government have introduced policies which cut rental income then the 'debt' payments determined in 2012 were *too high*[2]. Council housing is progressively being starved of the resources that were projected in 2012.

Without compensation for the loss of rental income resulting from government policies and the rent cut to come, the inevitable consequence will be the undermining of Swindon's

1There are a few minor sources of income like rent from shops and garages.

2 Historic borrowing for building programmes has long since been paid off by tenants. That's why even the Local Government Association was calling for the writing off of what was bogus 'debt'.

business plan and the deterioration of our housing stock. That's why the HAF was correct to call on the Council to press the government to reopen the 'debt settlement' and to compensate Councils for the loss of rent income. We are calling on you individually and collectively to support the call for Swindon Council to challenge this starving of the Housing Revenue Account of the resources necessary to maintain the standard of our housing stock.

It is both logical and just that 'debt' levels based on income which is lower today than projected in 2012, should at least be readjusted to take account of the loss which is the direct result of government policies and beyond the control of Councils. At the very least Councils should be no worse off than at the time the new system was introduced in 2012.

Regards

Martin Wicks
Secretary Swindon Tenants Campaign Group
November 15th 2015

PS. If tenants had voted for a housing association we would be facing the same funding crisis as housing associations face the same rent cut and the extension of 'right to buy'.

Income from Rent

Business Plan rent income projections		**Impact of 1% rent cut**	**Loss**
2015-16	£43,927,000	£43,927,000	
2016-17	£45,322,000	£43,488,000	-£1,834,000
2017-18	£46,937,000	£43,053,000	-£3,884,000
2018-19	£48,588,000	£42,622,000	-£5,966,000
2019-20	£51,344,000	£42,196,000	-£9,148,000
Total	**£236,118,000**	**£215,286,000**	**-20,832,000**

Capital Spending

	Projected	**Impact of rent cut**	**Loss**
2015-16	£16,809,000	£16,809,000	
2016-17	£17,735,000	£15,816,000	-£1,919,000
2017-18	£18,365,000	£14,396,000	-£3,969,000
2018-19	£19,077,000	£13,027,000	-£6,050,000
2019-20	£20,586,000	£11,354,000	-£9,232,000
Total	**£92,571,000**	**£71,401,000**	**-£21,170,000**

Extracted from a document provided for the Housing Advisory Forum Finance sub-committee.