Underfunding of council housing – the impact on Bristol

Swindon Tenants Campaign Group has shown how the coalition and Tory governments have under-funded council housing. We have explained the impact on Swindon's Housing Revenue Account (HRA). All local authorities that own council housing are being starved of funds as a result of 'self-financing', the new council housing finance system introduced in 2012 and policies implemented since then. More than £13 billion of extra 'debt' was loaded onto 136 councils in what was described as a 'debt settlement'. What was said to be the national council housing debt, though largely fictitious, was redistributed amongst stock owning councils. The amount of debt each authority was given was based on an assessment of how much rent income they would collect over 30 years, the cost of managing the stock, and the number of homes expected to be sold under RTB (each one being rent income lost). To enable them to pay off this 'debt' each one was given a loan from the Public Works Loans Board (PWLB). To service this debt they are obliged to pay an annual interest charge to the PWLB. They have discretion on how they deal with the 'loan' itself, how much they pay each year towards paying it off. They were told that the settlement would ensure that all councils would have sufficient money to maintain their housing stock over 30 years. However, the 30 year business plans which councils had to draw up have been blown out of the water by changes which the coalition and Tory governments introduced. Here we look at the situation facing Bristol council's HRA.

Bristol Council's housing 'debt'

The 2012 'debt settlement' for Bristol meant taking on an extra £45.489 million 'debt', much lower than many other councils (Swindon was given an extra £138.6 million). However, it had a supposed historic debt of £199.092 million, associated with the cost of building its homes. So its debt overall was set at £244.581 million. Its borrowing limit was set at £257.052 million which meant that it could only borrow an additional £12.071 which would probably build less than 100 homes. Bristol Council, unlike Swindon, appears to have decided not to pay off its debt, but it has to make an annual interest payment of £11.3 million each year to the PWLB. If it had decided to pay off this debt over 30 years that would have meant an annual payment of £8.152 million. Then debt servicing would start off at £19.452 million a year. If you pay off the 'principal' (the loans) then your interest comes down every year. Bristol appears to have decided that they could not afford to use that much money from its income to service the debt; money which would be lost to renewal of housing components such as roofs, bathrooms and kitchens. So the interest payment remains the same each year.

In the case of Swindon it's estimated that over the remainder of the 30 year business plan income will be £360 million less than planned for in 2012. From the Bristol papers available its not clear how much they will lose over the lifetime of the business plan. However, they estimate that the loss of income as a result of the 4 year rent cut is likely to be around £188 million. The budget document for Bristol's HRA for 2017/18 says that

- "...there is insufficient funding from year 17 onwards and by 30-years the total funding gap of capital investment is £210m. This shortfall is despite using all of the current £90m held in reserves" ;

- it's necessary to make a 24% cut in capital expenditure compared to 2016/17, £16.606 million;
- the repairs and maintenance budget will be cut by 18%;
- income is expected to fall by £5.561 million.

So overall they will reduce the budget in 2017/18 by £22.16 million as compared with the previous year.

The impact of the 'enhanced' Right to Buy

The government's 'enhanced RTB' increased the discount on the sale of homes and reduced the qualifying period from 5 to 3 years. Up to 2015-16 Bristol lost 18,841 council homes to RTB. In the last 4 years before the increased discounts were introduced 335 homes were sold. In the four years since, 651 have been sold. The level of debt which was distributed in 2012 was based in part on calculations of the number of homes that would be lost over 30 years as a result of RTB (lost rent). A near doubling of sales has meant that Bristol has lost far more rent income than was planned for in 2012. The Council estimates a loss of 200 homes under RTB in 2017/18. They expect the stock numbers to fall to 27,202 properties.

Bristol Council was planning to build 1,000 homes in the first 15 years of the business plan, but because of declining income owing to increased RTB sales and the 4 year rent cut, they have scaled this back to 785. That's just over 50 homes a year which will get nowhere near the loss of homes from RTB at around 200 a year. Clearly without an end to RTB and/or central government grant for new building the city will see stock numbers dwindle by somewhere in the region of 150 homes per year. Bristol Council's Housing Strategy 2016-20 identified a need for 940 "affordable homes" every year, but it will be losing stock rather than increasing it.

"Private housing delivery company"

The new Labour administration is intending to set up its own development company with a view to building homes for sale and rent. Other councils have set up these vehicles or are considering doing so as a means of circumventing the loss of homes through RTB. However, the government has declared that any social housing built in this way will be subject to the RTB or some equivalent. Bristol's council cabinet will take the decision to launch a "private housing delivery company" at it meeting on March 7th.[1]

The steady decline of Bristol's housing stock reduces the money available for maintaining their stock. If the extension of RTB to housing associations and the enforced sale of 'higher value' council homes[2] go ahead then stock numbers will fall more steeply and councils will not have the resources to renew housing components in good time (the decent homes standard specifies x number of years life for the various components and hence when they should be renewed). As a result the condition of homes will deteriorate and the living conditions of tenants with them.

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1 The scale of building is not very large, 386 units by 2023. The documents don't mention building for rent.

2 The Housing Act included a provision whereby 'higher value' council homes would be sold on the open market when they become vacant (the tenant dies or moves) and the money would in effect be confiscated to compensate housing associations for the difference between the discount price and the market value.

Reopen the 'debt-settlement'

Swindon Tenants Campaign Group has raised the issue of reopening the 'debt settlement' of 2012 because the amount of debt each authority was given was based on an estimate of income which is not matched by what they are actually collecting. STCG in its pamphlet, *The case for cancellation of council housing 'debt'*, has called on Labour to do two things:

1. To press the government to use its power to reopen the 'debt settlement' in the light of the loss of income resulting from coalition and Tory government policies. The government document *Implementing self-financing for councils* explained:

“The powers to implement self-financing in the Localism Bill provide for further settlement payments between local authorities and Government under certain circumstances. It limits such payments to cases where there has been a change in one of the factors taken into account in calculating the previous payment (i.e. expenditure, income and debt). This provision is necessary to protect both the Government and local authorities from being locked into a deal that, because of changes to policy affecting either a landlord’s income or costs, no longer reflects a fair valuation and could have a material impact on viability. *This could be a major change in national rental policy* (our emphasis) or a significant increase in the environmental standards expected of council housing.”

“A major change in rental policy” has been implemented twice. First the rent formula of RPI + 0.5 % plus up to £2 a week was changed to CPI + 1%[3], and then the government imposed the four year rent 1% cut. They are responsible for starving council housing of funds and they should be put under pressure to reopen the debt settlement and cut the debt in line with the loss of income resulting from their policies.

Cancel the fictitious council housing debt

2. To commit Labour to cancel council housing 'debt' if elected to office. As we explain in the pamphlet the so-called debt was not the result of actual borrowing but of 'creative accountancy' by the Treasury which has been ripping off tenants for years. Tenants have more than paid for the cost of building homes. Between 1994/5 and 2008/9 council tenants paid a total of £91 billion in rent but councils only received £60 billion for management, maintenance and repairs.[4]

For Bristol the cancellation of the debt would immediately provide them with £11.3 million a year extra which they could spend on their homes rather than handing over to the PWLB.

The other policy which would impact on local authority finances would be ending RTB, one of the key causes of the housing crisis. Labour's policy is currently to suspend it. We would want them to go further and end RTB as is happening in Scotland and Wales. This would mean that instead of the stock declining it could be increased for the first time since 1980.

3 Central government still determines what rents councils can charge.

4 Councils were given an annual 'allowance' but this wasn't government money. Westminster determined how much of the rent councils collected they could keep.

Central government grant for house building

The final piece in the jigsaw would be the reintroduction of central government grant. Under New Labour, towards the end of it years in office, it gave grant to local authorities for new build of around £60,000 per property, although they had to compete for money from a small pot. It was on a puny scale, with only 1,800 council homes built in England at the high point. For Labour to carry out its commitment to build 100,000 homes a year the grant required would be £6 billion a year, or £30 billion over five years. Whether on this scale or less, without the reintroduction of grant and an end to RTB, the the decline in council housing stock will continue. In England there are now only around 1.6 million council homes left.

What is clear from this brief glimpse at the finances of Bristol's HRA is that council housing is being starved of funds. Without a change of national policy there is no way that any local authority will have the resources to maintain their stock to a decent standard never mind build new housing on a large scale.

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