Defend Council Housing

Briefing: Councils need compensation for rent cut

Government's decision/proposal to reduce Council rents by 1% a year for four years has a sting in the tail. Tenants will welcome a cut in rent, after years of above- inflation increases.

But this will undermine repairs and maintenance, paid for by rents through Council's Housing Revenue Accounts (HRAs).

Councils need to challenge the impact of rent cuts and other measures which will undermine the 30-year 'self-financing' deal negotiated with Treasury in 2012. Government needs to compensate for the loss of income to HRAs.

HRAs receive no subsidy from central government. The rent cut will mean that income will fall absolutely.

The Chartered Institute of Housing estimates Councils will lose £2.56 billion over four years and £42.7 billion over the 30 year 'business plan'. This would leave insufficient money to maintain the housing stock, adding to the disrepair backlog.

The Local Government Association and Chartered Institute of Housing have both calculated that the rent reductions will cost local authorities a total of £2.6 billion in lost revenue...£234million in year one...rise to £508million in the second year, then to £795million in year three, and more than £1billion by 2019/20. The total of £2.6billion lost will represent 60% of local government's total housing maintenance budget, and is the equivalent of funding to build almost 19,000 new homes... The Chartered Institute of Housing's projections, estimated over the thirty year life of business plans, revealed a total £42billion 'black hole' as a result of the change. The Institute has also warned that the rent reduction will make it impossible for some councils to fund the building of properties to replace homes sold under 'right to buy'.
(AWICS briefing p11: Effects on Local Authorities)

The 2012 debt settlement would have been an estimated £10 billion lower had these rent cuts been taken into account.

When the new Council Housing 'self-financing' system was introduced in 2012, an inflated national housing 'debt' was apportioned to local authorities, according to their 30 year projected rent income. The 'debt' and the annual interest payments for this mythical borrowing are paid for by tenants through rent.

The 30-year rent estimate was based on a national rent formula: RPI + 0.5% plus a maximum extra £2 a year. Government then amended the rent formula to CPI plus 1%. Now, the proposed rent cut will make the under-funding built into the system, worse still.

DCH has always argued the historic housing 'debt' should be written off. Tenants have paid more in rent than this bogus 'debt' created by the Treasury to continue milking our rents.

One way Councils could be compensated would be by writing off some of this bogus 'debt'. The 'debt' settlements of 2012 should at the very least be amended so that Council HRAs are not sabotaged by later Government intervention. Otherwise these policies which will siphon off yet more funding and undermine tenants' homes.

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