NFA

Championing better homes and communities

Future funding of council housing

Independent analysis of the indebtedness of the Housing Revenue Account

An NFA briefing for policymakers, practitioners and stakeholders

October 2024

The future funding of council housing will be a significant factor in delivery of the current government's promise to create 1.5 million new homes by the next parliament. It is therefore essential to understand the financial issues and challenges facing councils that have Housing Revenue Accounts (HRAs).

Over the last two years, independent consultants Savills have exhaustively examined the HRA - the way local authorities and government describe the ring-fenced money, incoming and outgoing, that pays for council homes and housing services.

Unlocking the 1.5m new homes target

Council housing managers can now only just meet the needs of existing stock and residents – capacity and finances are stretched to the limit.

More council housing must surely play a key role in the delivery of the government's ambitious new homes target. Yet councils and council housing, as currently funded, can do nothing to help.

So – a sustainable financial framework for council housing is vital.

A real-world financial settlement

Savills' latest analysis, published October 2024, concludes:

Council housing managers desperately need a sustainable financial framework. This must include:

- **rent increases** that reflect real-world housing management costs – CPI + 1% is a step in the right direction but cannot reverse the debt HRAs have been saddled with.
- **a new financial settlement** that, over the next ten years, brings rents back to where they would have been had government not capped increases in 2023.
- **a substantial cash injection** from Government to cover the short-term black hole left in HRAs by the 2023 rent caps.

- **a revised debt settlement** to reduce the proportion of rent that goes to meet interest charges.
- **a consistent, sustained programme of grant funding** to cover the increasing asks of council landlords, such as the decarbonisation of homes.
- **sufficient grant funding for a generation of new council homes.**

The crumbling footings of council housing

- Council housing finances face a perfect storm of challenges. But turbulent economies and global markets, the pandemic aftermath, high inflation and interest rates, skills shortages, and spiralling construction and material costs are only part of the story.
- The 2012 settlement was based on set of assumptions about HRA investment and debt levels which are now wildly out of line with reality.

Regulation

- A raft of new regulation rightly followed the tragedy at the Grenfell Tower. But for councils, funding for those changes has had to come from already constrained, capped and shrinking budgets.
- For instance, the 2012 settlement estimated the need for increased capital investment in council homes over the next 30 years at around **£64.2bn** (in today's prices). This was to cover demands such as a new Decent Homes Standard, improved building safety, energy efficiency and net-zero targets.
- The reality now is that the extra demands of regulation and improved standards that council homes need will cost around **£96.1bn**.
- Councils must therefore fill a **£31.8 billion black hole** in their HRAs.

Income caps and freezes

- HRAs have been emptied by government social housing policy and welfare interventions since 2012, including a four-year rent freeze and the holding of council rents below inflation for the last eight years.
- It has been suggested that a ten-year settlement to allow rent increases of up to 1% above CPI is enough to put things right.
- But the Savills research says it would be **30 years before this level of extra income balanced the HRA books**.
- Over the first five to 10 years, CIP +1% would still leave HRAs with **financial hole of between £6-7 billion** – only a government cash injection can resolve this.

The stark choice

- A significant number of councils could be driven towards a Section 114 notice if HRA debt leaves their General Fund without enough money for statutory services – an impossible choice between bankruptcy and good, safe housing.

For further information, please contact the NFA Head of Policy at info@almos.org.uk

What is an ALMO?

The first ALMOs were created in the early 2000s in response to a central government push to improve the quality and management of council-owned social housing.

Grant funding to update council homes was offered on condition that local authorities set up specialist 'arms-length' housing management organisations governed by independent boards, and allowed their service delivery to be assessed and rated by inspectors from the Audit Commission.

Most ALMOs geared up to earn the maximum three-star rating and were able to draw down central government funding to upgrade homes to meet the 2001 Decent Homes Standard.

ALMOs are wholly owned and overseen by their parent council.

- The local authority remains the landlord, and ALMOs manage council homes with secure tenancies
- ALMOs foster expertise-led housing management without the loss of democratic accountability or control
- They benefit from the strategic oversight of an independent board made up of tenants, councillors and independent members who offer a range of additional expertise
- They are tenant-focused, offering residents a range of channels and levels of involvement to make sure their views are heard and acted upon
- Unlike many larger housing providers, they are embedded in their communities and have a deep understanding of local issues
- Through their independent, housing-focused data collection processes, they can conclusively demonstrate to their parent councils and the Regulator of Social Housing that their services are compliant, high quality and value for money.

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