CIH Briefing Paper

NEW RULES TO ENCOURAGE COUNCILS TO BUILD MORE HOMES

The government has announced new measures to encourage councils to build new homes. This paper summarises the changes and assesses their likely impact.

What types of housing are covered by the changes?

The new rules concern housing built by councils themselves (not by ALMOs, local housing companies or through joint ventures). Any housing built for rent by a local authority is normally financed from within their Housing Revenue Account (HRA), let on a secure tenancy at an affordable rent, and subject to the right to buy (RTB) and to rules about pooling of capital receipts.

What changes are proposed?

The consultation paper[1] proposes to change two of these rules in their application to newly built (or newly acquired) housing – these are the rules relating to including properties in the HRA 'subsidy' calculation and to pooling the receipts from sales under RTB. The first change is possible because of the Housing and Regeneration Act 2008.[2] The second will be made by regulation.

What changes are proposed to rules about rental income?

The proposal is to allow councils to apply to exclude newly built or newly acquired property from the HRA subsidy system. This would mean that rental income from the properties would be kept by the council, rather than being taken into account in its annual 'subsidy' determination. The government assesses the likely additional income to be about 28 per cent. On a typical rent of £65 per week, this would be extra income of about £18 over and above management and maintenance costs.

What would be the effect of the change?

The actual extra income will depend on each council's rent levels and management and maintenance costs, which are often different from government assumptions. However, an extra £18 per week will only finance a small proportion of the cost of a new unit. Other forms of subsidy will be required. Councils will not have the option to raise income by setting significantly higher rents on new units, because the government says that it will expect schemes to comply with policies about affordability.

---

[1] *Changes to the Revenue and Capital Rules for New Council Housing: Consultation on excluding new council housing from Housing Revenue Account Subsidy and Pooling* (January 2009) available at www.communities.gov.uk/publications/housing/capitalruleschanges

[2] Section 313 of the act inserted a new section 80B in the Local Government and Housing Act 1989, providing for agreements between the Secretary of State and a local authority which would exclude either a council's whole housing stock or specified properties (including future properties) from the operation of the HRA 'subsidy' system.

What other ways are available to subsidise new build?

The other ways in which councils can subsidise new build are:

- prudential borrowing, financed from HRA surpluses (if any);
- capital receipts, eg from the sale of council buildings;
- planning gain (via section 106 agreements); or
- providing free land for the development.

The government also plans to allow councils to bid for Social Housing Grant (SHG), but details are still awaited. Without SHG, the HRA rule change will not be very significant. Even with SHG, councils will still have to finance the balance of the cost of new build in one or more of the ways mentioned above.

Are there examples of councils building new homes already?

Yes, but usually on a small scale. For example:

Islington LB is currently building ten new council houses using a combination of the methods listed above. The homes will be at affordable rents within the HRA, and will be managed by its ALMO, Homes for Islington.
Stockport Homes (an ALMO) is to receive £1.02m in SHG to build 17 new homes, subsidised by the council through free land and prudential borrowing. The ALMO-owned units will not be in the HRA and or subject to the RTB.

How would exclusion from the HRA system operate?

Applications will be needed from local authorities. They can cover whole schemes or bundles of schemes. Any resulting agreement with CLG will have to ensure that schemes conform to all government policies regarding council housing, including rents and allocations. Agreements will also be judged against their impact on public borrowing. It is therefore through the agreement (rather than through the HRA system) that the government will secure adherence to its policies.

What changes are proposed to the capital receipts rules?

The other change proposed is to exclude properties covered by these agreements from the rules about pooling of RTB receipts. At present, authorities have to pool 75 per cent of the value of RTB receipts. Keeping the receipts would enable them to (partially) repay the debt on the property, if sold under the RTB.

What are the expected effects of the changes?

CIH expects the changes to facilitate the kinds of small-scale new build scheme mentioned above, especially if SHG is made available. Although the proposals are therefore very welcome, it would be wrong to expect them to lead to a big increase in council house building. More significant progress will depend on the outcome of the overall review of council housing finance, whose report is due later this year.

The CLG paper is open to consultation until 17 April 2009. CIH will be responding and would welcome views from members, by 9 April, to john.perry@cih.org