Tory war of attrition against Council housing

Just before the general election the Tories announced that they were going to extend 'right to buy' to Housing Associations and to force Councils to sell off so-called 'high value' Council homes to fund it. Not only will this mean that Councils will lose scarce housing stock but it will undermine the finances of Council housing for reasons we will explain below. Only 6,600 Council homes were built in the five years of the coalition government. *More than double that number were demolished:* 13,530 in the first four years of the coalition (we don't have a figure for the last year yet). The coalition introduced an 'enhanced right to buy' scheme with higher discounts which increased sales significantly (see Appendix). Over the first four years of the coalition government Council housing stock shrank by 104,000 in England alone.

The extension of 'right to buy'

The proposal to extend 'right to buy' to Housing Assoications was announced late in the day before the General Election at a time when the Tories seriously doubted that they would win the election. It was a vote seeking proposal. It was not, therefore, a policy which they had thought through. It's ironic that a government that lauds the 'free market' is proposing to force independent businesses, most of them with charity status, to sell their housing stock. If Labour had suggested extending 'right to buy' to the private rental sector the Tories would have denounced it as expropriation. Selling their properties threatens to undermine the finances of Housing Associations which borrow money at commercial rates. The loss of homes will cut the value of their stock which stand as collateral for the loans, whilst the loss of rental income as well may drive up interest.

Even more outrageous is the government's proposal to force Councils to sell off 'high value' homes on the open market when they become vacant. The receipts will effectively be *stolen* from Councils and used to compensate Housing Associations for the difference between the sale price (set by the government at the same level of discount as RTB for Council homes) and the market value[1]. The government has said that there will be 'one for one' replacement of homes sold. Yet even if Housing Assocations were able to replace their homes sold that still leaves Councils with their stock lost. Shelter has described this as losing two for the price of one. The receipts from the sale of 'high value' Council homes would have to be spread three ways: compensation to Housing Associations, supporting a Brownfield site fund and possibly some going back to Councils, although we don't yet know whether Councils would receive any receipts nor whether the government would claim any of it. In areas where there is no Council housing owing to stock transfers, compensation to Housing Associations will have to be funded from the national pot.

The only indication we have of what 'high value' is, is a table[2] published before the election by the Tories. In some areas, notably London, *most* of their void stock would have to be sold off, decimating their income from rents. In some areas there may be few lost because of low values. However, at the national level large numbers of scarce Council homes would be lost.

1 We don't yet know whether Housing Associations will be given 100% compensation.
2 http://keepourcouncilhomes.wordpress.com/2015/06/16/right-to-buy-2-throw-out-the-bill/#more-1025

One of the aims of the 'bedroom tax' was to free up larger family homes for families on the housing list who might live in overcrowded conditions. But the 'high value' homes are precisely the 'family homes', three or four bedrooms, which would be sold off under this proposal. In Swindon of the homes sold off under the already existing 'right to buy', three quarters of them are three or four bed properties. Selling off even more of them will mean that families on the waiting list will have to wait even longer than they currently do.

Starving Council housing of income

A number of other policies which the Tories are proposing to introduce will have a detrimental impact on the finances of Council housing. Firstly, the government is proposing to cut the rent of 'social' tenants by 1% a year for four years. The motivation for this proposal is not concern for tenants but to save on housing benefit payments. It's estimated that the cut will save £1.445 billion per annum by 2020/21. Tenants will welcome the cut, especially after many years of above inflation increases. However, the proposal has a sting in the tail. The consequence for tenants is that the service provided to them will have to be scaled back because of the loss of income from rents. The cuts will not only mean that rental income will not keep place with inflation but Housing Revenue Accounts will have an *absolute* loss of income. The Office of Budgetary Regulation estimates that by 2020 Councils will have lost 12% of the income they had previously budgeted for.

'Self-financing'

To understand the impact of this cut we have to look at the new Council housing finance system which was introduced in 2012, so-called 'self-financing'. The national 'housing subsidy system' was wound up in 2012. The name was something of a misnomer because there wasn't necessarily any subsidy. Councils were given a certain amount of 'grant' each year. What this meant in reality was that the government determined how much of their rent Councils could keep. A majority of Councils were paying money to the exchequer from their rent which was re-distributed around the various local authorities. A majority of Councils suffered a 'negative subsidy'. However, towards the end of this system the overall 'subsidy' was negative. Tenants' rent was subsidising the Treasury. It was predicted that if the 'housing subsidy system' continued then all Councils would have ended up with 'negative subsidy'.

The positive feature of 'self-financing' was that it enabled Councils to keep all their rent income. This was why it was largely welcomed by Councils and Housing Associations. However, the price they had to pay was that the so-called 'national housing debt' was divided up and shared out amongst them. Based on a valuation of each Council's housing stock (in England), 136 authorities took on new 'debt' (around £13.2 billion), while 34 received payments from the government (£5 billion) to reduce their housing debt. It was a nice earner for the government which took a receipt of just over £8 billion. Councils 'borrowed' money from the government's Public Works Loan Board and 'paid' it to the government on 31st March 2012. The 'borrowing' and interest payments would have to be paid back over 30 years. Councils had some discretion on how it would be paid back. Swindon Council, for instance, determined to pay £5 million of the 'loan' a year together with the annual interest. Of course, in reality no money changed hands. It was just an accountancy exercise between government departments.

The Association of Retained Council Housing explained:

"The debt settlement was designed to leave each council with a debt equal to a formula-based calculation of the net present value of its housing stock, roughly equivalent to the amount the council could afford to repay over 30 years from rent income, after allowing for the costs of managing the stock and keeping it in a good state of repair over that period."

However, "No account...was taken of the actual condition of the stock on the day of the settlement, which varied widely among different local authorities."

Henceforth rental income would have to pay not only for the management and maintenance of the stock but for the increased debt and interest. For instance, Swindon Council was given an additional £138.6 million. Its outstanding 'historic debt' was only around £12 million.

It's important to understand, as well, that under-funding was built into the new system. The New Labour government had asked the Building Research Establishment to examine the Management and Maintenance allowance (M&MA) that councils received. They found that in 2001-02 M&MA should have been £5.5 billion (to measure up to the needs of the work required) but it was only £3 billion. In 2004, in answer to a Parliamentary Question, the government admitted that “the 2004-5 level of allowance would have to increase by about 67% in real terms to reach the estimated level of need”.

They then followed this up with a pilot of 6 authorities to estimate how much they would need if they 'opted out' of the Housing Revenue Account[3]. Just these six authorities would require £4 billion over 30 years as compared to the £2.6 billion they would receive under the housing subsidy system. However, the government ignored its own research and eventually determined in the run-up to 'self-financing' that the Major Repairs Allowance[4] would be uprated only by 24% and the M&MA by only 5%.

When the 'debt' levels for each Council were decided by the government the estimate of their income from rent was based on the national rent formula of the previous government; RPI + 0.5% plus a maximum extra £2 a year. Since then, beginning in 2015, the government changed the rent formula to CPI plus 1%. Both Councils and Housing Associations complained about this because the debt level had been determined on the basis of the previous rent formula. Changing it meant that they would not have the income which they built in to the 30 year business plans which they had to draw up. Unfortunately, instead of calling on the government to fund the difference by reducing the 'debt' most Housing Associations and Councils called for the right to keep on charging their tenants above inflation rent increases!

Now, the proposed rent cut will make the under-funding worse still. According to the estimate of the Chartered Institute of Housing, Councils will lose £2.56 billion over four years and £42.7 billion over the 30 year life of their 'business plan'. The Association of Retained Council Housing (ARCH) has a lower estimate but it is still £2.1 billion. ARCH

3 There was a discussion at the time about the possibility of individual Councils opting out of the national system.

4 The Major Repairs Allowance was introduced to enable Councils to modernise their stock, bringing it up the 'decent homes standard' but it was ended under 'self-financing'.

estimates that by the fourth year to accommodate this loss of income would require a reduction of 21.5% in spending per unit. The consequence of this will be that Councils will have insufficient money to maintain their housing stock. A back-log of work is likely to build up and the condition of stock will inevitably deteriorate.

The industry magazine Inside Housing reported that David Hall, an independent consultant who was involved in the creation of the original 'self-financing' agreement said that the debt settlement would have been £10 billion lower had these rent cuts been taken into account.

Tenant and campaign organisations like Defend Council Housing have for many years argued for the housing 'debt' to be written off. At the time of the discussion on the introduction of 'self-financing' even the Local Government Association supported such a call. The level of 'debt' was not the result of actual borrowing but, in large part, the result of 'creative accountancy' by the Treasury. Over the years tenants have paid more in rent than this bogus 'debt' through which the Treasury has milked our rents for many years. [5]

More theft of Council rents

The coalition government introduced 'pay to stay' whereby Councils could charge higher rents for households earning £60,000 or above. Most Councils didn't adopt this scheme because it would involve means-testing all those people not in receipt of housing benefit and because Councils would probably spend more on administration than they would take in from higher rent, given the low numbers of households with such an income.

However, the new Tory government is now proposing to *force* Councils to introduce 'pay to stay' but with an household income cut by half, of just £30,000, *less than the average household income*. According to the English Housing Survey this would affect around 10% of households. Currently Councils have no legal right to ask people who pay full rent what their income is, so the government would have to change the law either to enable Councils to means-test all tenants or to make it a legal obligation for tenants to report their income going above this threshold. Initially we were told that they would have to pay a market rent but it's now been said by 'government sources' to Inside Housing that there will be a 'taper'.

Taper or not a household income of £30,000 hardly qualifies as 'high earners'. As ARCH point out a family with two full time earners on the minimum wage already has a total income of £27,000 and would pass the £30,000 mark if the so-called 'national Living Wage' is introduced as planned. Households just under the £30,000 threshold would have an incentive not to increase their wages, or take a promotion, if the result was that they would be worse off because of a steep increase in their rent.

The government said in the recent budget document that the increased rent "...will ensure they pay a fair level of rent, or make way for those in greater need." Yet any household faced with a steep increase in their rent (it could be up to double) is likely to apply to buy it under 'right to buy' if they can manage to get a mortgage. This will further cut the rental

5 See www.defendcouncilhousing.org.uk/dch/resources/HOCCHG_TimeToInvest3.pdf in which the House of Commons Council Housing Group examines housing 'debt'.

income which was planned for in the 30 year business plan.

Any idea that 'pay to stay' would at least bolster the income of Council Housing Revenue Accounts is wrong. The Budget documents indicate that this extra rental income will have to be *handed over to the Treasury* and used to contribute to 'deficit reduction'. In contrast Housing Associations will be able to keep the extra rent to reinvest in new housing. The government doesn't bother to explain why tenants' rent should be paying off the 'deficit'.

The government calls this extra money a 'rent subsidy'. In one sense, and one sense only, it is, because it means *tenants will be subsidising the Treasury*. One of the selling points of 'self-financing' was that Councils would henceforth be able to keep all their rental income. The government is reneging on that commitment and undermining the resources available within Housing Revenue Accounts.

At the very least Councils should be demanding of the government that their Housing Revenue Accounts are *compensated for the loss of income* resulting from the rent cut. This could be done easily by readjusting the 'debt' which was part of the 'self-financing' settlement. Otherwise the result will be the deterioration of the housing stock.

Throw out the extension of 'right to buy'

We are expecting a housing bill in the autumn on which the government will consult. We will see the detail of their proposals in the consultation paper. The extension of 'right to buy' would be disastrous both for Housing Associations and for Council housing. **Defend Council Housing** has called for a campaign to oppose the proposals and for MPs to vote against it. It has produced a statement signed by amongst others MPs Jeremy Corbyn and Caroline Lucas and trade union leaders Paul Kenny and Matt Wrack.

The Tories only have a Parliamentary majority of 12. Already the House of Lords has pushed through some amendments which would undermine the government's proposals. However, we need to campaign to try and have the Bill voted down by the Commons. This possibility, even if slim, depends on Labour, by far the largest opposition party voting against it. Around the time of the budget, during Prime Minister's Question Time, Cameron demanded to know whether Labour supported the extension of 'right to buy'. Interim Leader Hariet Harman refused to answer the question. Two of the candidates in the Leadership election, Jeremy Corbyn and Yvette Cooper have said they will oppose the extension of 'right to buy'.

Another factor which relates to the Parliamentary arithmetic is the position of the swollen ranks of SNP MPs. Even if Labour votes against, if the SNP abstains, then the Tories will be able to get their legislation through easily. Notwithstanding the debate on 'English votes for English laws', if the SNP could decide to vote against fox hunting in England (forcing the government to withdraw its Bill) then it should commit to vote against the extention of 'right to buy' to Housing Associations in England and the enforced sale of 'high value' Council homes. Given that the SNP is getting rid of 'right to buy' in Scotland it would be an elementary act of solidarity to oppose the Tories proposal for England, an act of support for the victims of the housing crisis.

Conclusion

When it introduced 'self-financing' the 'one-off debt settlement' was supposed to enable Councils to maintain stock to keep the 'decent homes standard'. That was never really the case, but now the situation is worse as government policies undermine the finances of the 30 year business plans of each Council. Rent income will be considerably less than estimated because of

- The change from Labour's rent formula to CPI + 1%;
- The 1% cut of rents for four years;
- The enhanced 'right to buy' which has increased sales above the estimates in the business plans;
- The proposed enforced sale of 'high value' Council homes will reduce stock numbers even further;
- The compulsory introduction of 'pay to stay' will promote further 'right to buy' sales.

Each of these measures will cut rent income massively (£30 billion or more over the rest of the business plans). Rent and service charges are the only source of income for Housing Revenue Accounts. Councils will have insufficient income to maintain the standard of their stock, never mind improve it. That's why a campaign to reject the extension of 'right to buy' is critically important. If it goes through it will mark a major step up in the war of attrition against Council housing.

You can download a copy of the statement here:
http://www.defendcouncilhousing.ork.uk/dch/resources/RTB2signup.pdf

Martin Wicks
August 10th 2015

Appendix

Council homes built and RTB sales

	Council Homes built: England	Demolitions	Right to buy sales: England
2010-11	1,140	4,580	2,758
2011-12	1,960	2,720	2,638
2012-13	1,360	1,870	5,944
2013-14	910	4,360	11,238
2014-15	1,230	Not available	12,304
Total	**6,600**	**13,530**	**35,062**

Continued overleaf

Dwellings built

Financial Year	UK	England	Wales	Scotland	N.Ireland
2006-07	219,070	167,680	9,330	24,260	17,800
2007-08	218,530	170,610	8,660	25,790	13,480
2008-09	178,780	140,990	7,120	20,950	9,720
2009-10	152,940	119,110	6,170	17,110	9,750
2010-11	137,400	107,870	5,510	16,380	7,640
2011-12	145,930	117,600	5,580	15,960	6,800
2012-13	135,400	107,820	5,460	14,080	8,030
2013-14	140,880	112,400	5,840	14,740	7,900
2014-15	n/a	125,110	n/a	n/a	n/a