Rent cut: compensate Councils for the losss of income

First the good news. The government is proposing to cut Council (and Housing Association) rents by 1% a year for 4 years starting in 2016. Tenants will welcome the proposal, especially after many years of above inflation increases. However, the motivation of the government is certainly not the interests of tenants. It will save on its housing benefit bill an estimated £1.445 billion by 2020/21. Moreover, tenants will be adversely affected because the loss of rental income to the Councils will mean that they will have to cut their expenditure on the upkeep and maintenance of our homes. To understand why this is the case 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. Under this system central government decided how much rent each Council could keep. A majority of them had a 'negative subsidy'. In other words they had to hand over a large part of their rental income to the government rather than being able to spend it on tenants' homes. Under the new system Councils were able to keep all their rental income which was why most of them supported its introduction. But there was a price to pay.

Council Housing Revenue Accounts (HRAs), contrary to the assumptions of many, do not receive any subsidy. The only income, apart from a few minor items (e.g rent from shops they own) is from the rent and service charges that tenants pay. This income has to pay for the maintenance and management of the stock and the 'debt' imposed by central government. The government set a level of 'debt' which was supposed to enable Councils to maintain their stock over 30 years. However, it did not fund them to the level which their own research indicated was needed.

HRAs Under-funded

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 the 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”. Council HRAs were under-funded.

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[1]. 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 would be uprated only by 24% and the M&MA by only 5%.

Under the new system what was said to be the national housing debt, supposedly the result of borrowing for building homes, was divided up and shared out amongst Councils.

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

This was not the result of actual borrowing but a product of 'creative accountancy' by the Treasury. The amount of debt for each local authority was based on the condition of stock and the income from rents. So, for instance, Swindon Council found itself acquiring an extra £138.6 million debt. The 'debt' and the annual interest payments for this mythical borrowing are paid for by tenants through their rent. Obviously the repayment of this bogus debt means that money which could go towards the housing stock goes instead to the Treasury.

Moving the goal-posts

To prepare for 'self-financing' Councils had to draw up 30 year business plans, which included an estimate of rental income over that time. The estimate of rent income was based on the national rent formula of the New Labour which Councils had to follow; RPI + 0.5% plus a maximum extra £2 a week. Having launched the new system and apportioned debt according to an estimate of rental income based on this formula the coalition government moved the goal-posts. They decided to replace the previous rent formula with a new one; an annual increase of CPI plus 1%. This meant that the income of which the 'debt settlement' was based would be much less than estimated in the 30 year business plan. Yet the government offered no compensation to Councils. Both Councils and Housing Associations complained about this. Unfortunately, instead of pressing for a reduction of the debt as a result of the loss of income, most of them demanded the right to continue raising their tenants' rent higher than the CPI + 1% formula would allow.

Today the government is changing the terms of the 'self-financing' system for the second time. The proposed rent cut will eat into the income from rent even more. The HRA's will not only fail to increase their income in line with inflation but it will *fall absolutely*. According to the Office of Budget Regulation housing providers will lose 12% of their expected income. The Chartered Institute of Housing has estimated that 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 has a lower estimate but it is still £2.1 billion. They reckon that to accommodate this loss would imply a reduction of 21.5% in spending per unit of housing. The consequence of this will be that Councils will have insufficient money to maintain their housing stock. A back-log of work will build up and the condition of stock will decline.

It should be borne in mind that if the government's proposal for the extension of 'right to buy' is passed through Parliament then Councils will be forced to sell 'high value' homes on the open market to pay for the give-away. Unlike RTB they will not receive a penny for their sale. They will have to hand over *all* the receipts to the government. This is tantamount to stealing our property. In addition the proposal to make 'high earning' households earning £30,000 pay up to a market rent will probably mean more homes will be lost to RTB. Faced with the prospect of having to pay anything up to double their Council rent, tenants will look to RTB to avoid that prospect. Even in the case of those who can't get a mortgage and would be forced to pay extra rent it will have to be handed over to the government. Councils will not get a penny of it. If implemented these policies will eat into rent income worsening the under-funding.

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 the changes to the rent formula been taken into account. Swindon Tenants Campaign Group, together with the Defend Council Housing Campaign, and even the Local Government Association, has long believed that there was a strong case for writing off the so-called debt. Tenants have paid more in rent than this bogus 'debt' which is a creation of the Treasury which has milked our rents for many years (see Appendix). The Tories won't do this, of course. However, we should certainly demand that, *at the very least* Councils are compensated for the loss of income resulting from the cut in rent.

Compensate Councils

One way that Councils could be compensated for the loss of rent income would be for some of the 'debt' to be written off, cutting the annual payment of the 'loan' and interest. Otherwise the rent cut will come at the cost of a worsening of the condition of our homes. However it is done Councils should be demanding that they are *compensated for the loss of income* rather than meekly accepting the consequences of government policy which will lead to a decline in the living conditions of Council tenants. Those Councils that refuse to press the government on this will themselves be responsible for a deterioration in the condition of their housing stock.

Martin Wicks
31st July 2015

Appendix

Despite having to pay for Council borrowing through their rent, for many years Council tenants were fleeced by central government:

- Between 1994/5 and 2008/09 Council tenants paid £91 billion in rent but Councils were only given 'allowances' of £60 billion by the government.
- For seven years from 1994/5 local authorities suffered a 'negative subsidy' of £5.2 billion (University of York Housing Review). For six years after that when Major Repairs Allowance was available there was a subsidy, though less that £1 billion in total, and then the subsidy went negative again. Most of the £31 billion held onto by central government went towards paying off 'debt'. However, between 1994/5 and 2008/09 'negative subsidy' cost Councils £7.854 billion over and above debt payments.
- Compare this with the last six years of Mortgage Interest Relief, from 1994, when even with the reduction in the amount of MIRAS to each home owner, they were subsidised by way of tax relief to the tune of £14.8 billion.
- From 1990 until 2004 local authorities whose income exceeded their expenditure received reduced 'subsidy' from the government for rent rebate (housing benefit). Hence tenants not in receipt of rebate helped to pay the rebate of tenants who did receive it, rather than it just being paid from central taxation.

No wonder the House of Commons Council Housing Group said that the government "has milked council housing like a cash cow for decades...Tenants have already been forced to finance more than the total amount of current historic debt."