The case for *cancelling* council housing 'debt'

A Pamphlet by
Swindon Tenants Campaign Group

November 2016

Swindon Tenants Campaign Group

Website:
http://keepourcouncilhomes.wordpress.com

Email:
stcg@btinternet.com

Introduction

Council housing is being starved of funds as a result of policies implemented by the coalition and Tory governments. One of these policies was the introduction of a new council housing finance system known as self-financing. The coalition government ended the national council housing subsidy system which operated before 2012. It divided up what it said was the national housing debt, giving each stock-owning council a share of it. In the case of Swindon the government imposed an extra £138.6 million. To pay off this debt the government's Public Works Loan Board (PWLB) gave councils a loan equal to the amount of debt they were given. Councils have to make annual interest payments on this loan whilst they have some discretion as to how they pay off the loan itself.

Overall more than £13 billion was loaded onto 136 councils. Tenants pay this debt through their rent. Money which could be spent on maintaining homes, renewing housing components, or building new stock, has to be paid to the PWLB instead.

The amount of debt each council was given was in large part based on an estimate of the rental income they were expected to collect over 30 years. However, since then changes in government policy have meant that the amount of money collected is much less than the 2012 estimate. As a result Councils are cutting back on planned spending on the upkeep of homes. This will result in a deterioration in their quality and the living conditions of tenants. We show the consequences for Swindon as an example of the impact of this loss of income.

This pamphlet argues that in order to tackle this funding crisis it is essential to **cancel** council housing 'debt'. The quote marks indicate that this is not real debt resulting from council borrowing, but the result of what might be described as creative accounting by the Treasury. We show how tenants have long been fleeced by central government. Cancellation will enable councils to keep all the income from tenants' rent and service charges and spend it on the stock rather than subsidising the Treasury. We explain why this should be done and the consequences of failing to do so.

Cancellation is an essential step to begin to tackle the chronic housing crisis and to open the way to a national council housing building programme without which millions of people will have no choice but to live in the expensive private rented sector, around a third of which fails the Decent Homes Standard.

We ask the reader to help us to campaign to commit Labour to cancelling this so-called debt. We explain on Page 16 what we are asking you to do.

'Self-financing'

> ***Grant Shapps "correcting decades of under-funding"***

In April 2012 a new council housing finance system, called self-financing, was introduced. The new system had been designed by the New Labour government before the 2010 General Election but was implemented by the coalition government. Tory Housing Minister Grant Shapps said that the new system would "give councils the resources they need to manage their own housing stock for the longer term - correcting decades of under-funding". In fact under-funding was not corrected but *built into the new system*. The previous system, the Housing Revenue Account Subsidy System, was a complicated one, in which nominally councils were given an "allowance" for each year. This was not money gifted from central government. In reality this system involved central government deciding how much of the rent each council collected could be kept by them and how much would be taken by Westminster.

Under the new system most councils would have more money than they had under the previous one because what was known as 'negative subsidy' was ended. In 2005 the Audit Commission had reported that 82% of local authorities were subject to 'negative subsidy', meaning *they received no government subsidy* but had to make a payment to central government from their rent income. The Audit Commission estimated that this totalled some £630 million a year at the time. Whilst some of this was redistributed to other councils, in the four years from 2008 tenants' rents *subsidised the Treasury* to the tune of almost £1.5 billion[1]. In other words central government took in more than it paid out in "allowance". The Audit Commission predicted that if the housing subsidy system continued then eventually *all* local authorities would suffer from 'negative subsidy', largely as a result of year on year rent increases above the level of inflation.

Most councils supported the introduction of self-financing because of the ending of 'negative subsidy'. It was said that they would be able to keep all their rent income. In fact they could keep more of their income but not all of it. There was a price to pay for ending 'negative subsidy'. In winding up the old system the government carried out what it called a 'debt settlement'. What was said to be the national housing debt was split between home-owning local authorities.[2] The term 'debt' implies that this was money

1 UK Housing Review 2015.

2 The level of debt for each local authority can be seen here: http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6252/2077606.pdf

borrowed. However, this was not the case. Much of the 'historic housing debt' (the original borrowing to pay for the cost of building programmes) had long since been paid off. The so-called debt was in large part the result of creative accounting by the Treasury, fleecing tenants who would pay for it through increased rents.

A subsidy for the Treasury from council tenants

A government document explained how the level of debt for each council would be determined. It said:

“In order to bring about this change, there will be a readjustment of each local authority’s housing debt. This will give each local authority a level of debt it can support, based on a valuation of its council housing stock. If this valuation is lower than the amount of housing debt which is currently supported through the Housing Revenue Account subsidy system, Government will pay off the difference. If the valuation is higher than the debt supported by Housing Revenue Account subsidy, the local authority will be required to pay Government the difference."

When they carried out the calculations on this basis 136 authorities had to take on extra 'debt' whilst 34 received payments[3] from the government to reduce theirs. Those that had to take on extra debt were given a 'loan' by the Public Works Loan Board (an executive agency of the Treasury) which councils 'paid' to the government. It was a paper transaction between the PWLB and the Treasury rather than real money changing hands. **The 'debt settlement' produced an £8 billion surplus which the Treasury pocketed**. This was in effect a subsidy to the Treasury taken from council tenants' rent. Councils have to repay this 'loan' to the PWLB, together with annual interest charges. Rent used to pay it off is money that cannot be spent on the upkeep of tenants' homes.

Moving the goalposts

To prepare for the introduction of self-financing councils had to draw up 30 year business plans which were based on

- An estimate of their rental income over 30 years. Councils had to follow the national rent formula; annual increases in line with the retail

3 Even those authorities which were not given extra debt pay a significant sum in debt servicing. For instance Leicester Council pay over £9 million a year.

price index (RPI) plus 0.5% + a maximum of £2 extra per week[4];
- An estimate of the management and maintenance costs;
- An estimate of the number of homes that would be sold under 'right to buy' and hence the amount of rent income which would be lost over the 30 years. Each home sold is rent income lost.

Undermining the financial basis of the business plans

Since local Housing Revenue Accounts *receive no subsidy* their only income is from the rent and service charges paid by tenants and leaseholders[5], with a few minor sources such as shop or garage rents and central government support for supported housing (for elderly and disabled people). Consequently anything which reduces their income from rent depletes resources and has an impact on what can be spent on the maintenance of their housing stock. Since the introduction of self-financing other government policies have *undermined the financial basis of the business plans by reducing the income that was expected and planned for.*

- Firstly, the coalition government decided to replace the rent formula with a new one; an annual increase of Consumer Price Iindex (CPI) plus 1%. The income from this formula is less than the original one in operation at the time of the 'debt settlement'. CPI is generally lower than the Retail Price Index.
- Secondly the coalition increased discounts for Right to Buy (RTB) and cut the qualifying period from five to three years. As a result there has been a large increase in RTB sales. Sales in England were less than 3,000 a year prior to these changes but increased steeply to 11,216 in 2013-14 and 12,304 in 2014-15 (DCLG Housing Statistical Release 25th June 2015). In the case of Swindon only 34 homes were sold in the three years before the increased discounts. This rose sharply to 161 in the three years after. The level of debt allocated was based on estimates of the much lower sales prior to increased discounts.
- Thirdly, the new government has cut rents by 1% a year for four years

4 The extra was associated with the New Labour government's policy of 'rent equalisation' by which council rents would be increased until they reached the higher level of housing association rents. The rationale seemed to be that if council rents and housing association rents were the same then council tenants wouldn't bother voting against 'transfer'. See Page 10.

5 Around 91% of HRA income comes from rent and service charges.

from April 2016. As a result rent receipts will not only fail to increase in line with inflation but will *fall absolutely*. The Office for Budget Responsibility estimated that housing providers will lose 12% of their expected income by 2020. The Chartered Institute of Housing 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 (ARCH) had a lower estimate but it was still £2.1 billion over 4 years. They reckon that to accommodate this loss a reduction of 21.5% in spending per unit of housing will be necessary. In the case of Swindon the impact of the 1% rent cut alone is expected to be **the loss of over £22 million** income over 4 years, leading to a cut in spending on renewal of key components.[6]

Councils to lose 12% of their income from rent cut

Now further proposals which the Tory government has introduced in its Housing & Planning Act will blow an even bigger hole in the finances of councils' Housing Revenue Accounts.

- It is extending RTB to housing associations. In order to pay compensation to them for the difference between the discounted sale price and the market value of their homes they are making it obligatory for councils to sell "higher value" council homes on the open market when they become vacant; when the tenant leaves or dies. This will mean that councils will lose even more rental income. It now appears that the government will determine 'higher value' homes not by a regional price threshold as it originally intended but in relation to each council's stock. This is likely to increase the number of homes that would have to be sold. We will find out when the government provides its somewhat delayed regulations, due now in the winter.
- It is introducing a compulsory 'pay to stay' policy whereby 'high earning' households (£40,000 in London, £31,000 elsewhere) will have to pay up to a market rent[7]. This is likely to raise little money whilst placing an administrative burden on local authorities who will have to monitor the earnings of all tenants not on housing benefit. Whilst the

6 See http://keepourcouncilhomes.wordpress.com/2016/03/14/underfunding-of-council-housing/

7 This is actually below the average household income. As ARCH has pointed out 2 adults working full-time on the minimum wage would earn together £27,000.

extra rent is being limited to 15 pence in the pound above this threshold[8], it is likely to lead to more RTB applications since, given the big discount, in some places it would be cheaper to buy than to pay market rent. Increased RTB sales mean the loss of yet more rental income for councils. Anybody facing a big rent increase who was unable to gain a mortgage would have to find the extra or move into something cheaper, if they could find it.

Government should reopen the 'debt settlement'

Reopen the 'debt settlement'

When the coalition government introduced self-financing it said that it would retain the power to reopen the 'debt settlement' "if a change is made that would have a substantial, material impact on the value of the landlord's business". Clearly the loss of 12% of expected income would have such a material impact on its value as will other government policies. The estimated value of the stock was one of the key factors in the 'debt settlement'. *Inside Housing* reported that David Hall, an independent consultant who was involved in the design of the self-financing system, said that the 'debt settlement' would have been *£10 billion lower* if the changes to the rent formula had been included in the calculations.

In light of the financial impact of policies introduced since 2012 there are clear grounds for revisiting the 'debt settlement' and we are calling on Labour to demand that the government reopens discussion on the 'debt' which was distributed to councils in 2012. The easiest way to deal with the problem of significant loss of rental income would be to write off some of the 'debt'. This would cut the amount of annual payments each council has to pay to the PWLB. Pressing the government on this focuses on *their responsibility* for the loss of rental income since 2012.

Compensating each council for the lost income (the difference between the original estimates and the loss of rent resulting from government policy) is *an absolute minimum*, without which councils will have insufficient funds to maintain their stock to a decent standard. A decline in income will produce a backlog of work as councils have to cut back on their spending. This is not just a financial or economic question. These are people's homes. Failure to fund them adequately will adversely affect the quality of life of existing and future tenants. The government is starving council

8 Household earnings of £10,000 a year above the threshold would mean paying an extra £1,500 rent a year.

housing of the funds under self-financing which it said would "give councils the resources they need to manage their own housing stock for the longer term..."

Rent collected will be £362 million less than planned

The impact on Swindon's HRA

To give an example of the impact of government policy on local Housing Revenue Accounts, this is the situation in Swindon shown by the council's Medium Term Housing Financial Plan. We compared the income estimates of the 2012 Business plan with the latest estimate in the MTHFP.

	Net Rent Income 2012 Business Plan	2016 MTHFP	Difference
2016-17	£49,333,000	£43,190,000	- £6,143,000
2017-18	£50,282,000	£42,492,000	- £7,790,000
2018-19	£51,214,000	£41,781,000	- £9,433,000
2019-20	£52,115,000	£41,910,000	- £10,205,000
2020-21	£53,114,000	£41,852,000	- £11,232,000
Total	£256,058,000	£211,225,000	- £44,833,000

As you can see in the five years from 2016-17, the rent income which the council now expects to receive, as compared to its planned income in 2012, will be **£44,833,000 less**. Over what remains of the lifetime of the original plan, from 2016 to 2041, rent was expected to raise £1.627 billion. Based on current calculations, over the remaining 26 years of the original plan, rent collected will be **£362 million less**. Of course, there are so many variables involved in a plan over such a long time-frame that it is little more than a 'guesstimate'. However, this comparison does give an indication of *the scale of lost income* for which central government policy is responsible.

In fact that figure does not take account of other changes due because we still await government regulations on their recent Housing Act, including the enforced sale of 'higher value' homes to finance the introduction of RTB in the housing association sector. Depending on what is determined to be 'higher value', the estimate of 60 sales a year made in the new MTHFP, could be on the low side, in which case the shortage of funds would be greater.

It is clear that changes in government policy since 2012 give the lie to Grant Shapps assertion that councils would have “sufficient funds to manage their own housing stock for the longer term”.

'Key risk' that housing components will not be fit for purpose

Stock Condition

Recently Swindon Council employed a company to do a Stock Condition Survey to make an estimate, based on a 10% sample, of the cost of maintaining our housing over the next 30 years. The results suggest that over the next 10 years there is a minimum investment requirement of £354.2m, an annual average of £35.4m. Over the same period, a total of £278.2m of funding is estimated to be available, although that's dependent on rent policy from 2020. That's a shortfall of £76 million over 10 years. Yet this estimate is based on the assumption that after the 4 year rent cut there will be a return to the CPI + 1% formula. Whether or not it will be is anybody's guess. At any rate the Swindon Cabinet document said:

“At present, the shortfall in available budget means that we will not be able to fully undertake the Catch-up Repairs and Future Major Works (£14.8m and £271.9m respectively as detailed at Addendum 2) and identified as the investment need whilst delivering the exceptional extensive structural repairs to our non-traditional housing stock. This leads to *a key risk* that single components such as kitchens and bathrooms are kept serviceable, *but are not really fit for purpose* leading to claims for disrepair, increase in complaints and tenants that are dissatisfied with the standard of accommodation on offer. (*Our emphasis*)”

As a result of the impact of the rent cut, the 3 year works programme, which went before the Housing Advisory Forum in March of this year, included a proposed cut in spending in the next two financial years of more than £5 million on renewal of kitchens, bathrooms, roofs, central heating, aids and adaptations. Spending on renewal of some of these components will be cut in half. Delay in renewal will lead to a deterioration in the condition of the stock. This is what the document meant when it talked of “a key risk” being that components will not be “really fit for purpose”.

Swindon Tenants Campaign Group and the council's own Housing Advisory Forum called for suspension of the £5 million annual 'debt' payment. When interest payments are taken into account, this would provide **an extra £19 million**, mitigating the financial impact of the rent cut. Whilst the then Lead Member for Housing, Emma Faramarzi told the Swindon Advertiser that the council “may well need to repay less debt”, no decision to do so has yet been made. (See **“Suspend 'debt' payment”**[9]) The council is obliged to pay the annual interest on the 2012 'loan' but it can chose how much it pays of the principal (that is the loan itself) and when. So it does have the power to suspend the £5 million annual payment.

Council “may well need to repay less debt”

Without action along these lines the living conditions of tenants will worsen and the long term costs of renewal will increase. **Work deferred will cost more in the future**. Moreover, it is completely unjust to make tenants pay for 'debt', the level of which was based on an estimate of rental income *which bears no comparison to the actual level of income today*. The under-funding of council housing is the direct result of policies introduced by the coalition and by the current government.

New council house building

Building more council homes would provide more rent income. However, the government has abandoned support for 'social housing' except on a very small scale. Swindon Council bid for and won some money from the coalition government's Affordable Homes Programme (AHP). Yet at most this will only provide 104 homes. When you take account of demolition of homes in Sussex Square the number falls to around 70. This is insufficient to replace homes lost under right to buy; 216 over the last four years.

The council was intending to bid for money from the next round of the AHP for 2016-21. It was looking to win funds from this to help build a further 162 homes by March 2020. However, this target is unlikely to be realised because the AHP only offers funding for 8,000 rented 'social housing' homes *nationally*, for supported accommodation, i.e. for elderly and disabled people. Other than this there is no money available for social housing to rent. What is available is for 'starter homes' to buy, subsidising a 20% reduction on the market price; and part-ownership, for which the lucky people get to pay a mortgage and rent at the same time.

So without a change of national policy the prospect we face is one of a continuing decline in the numbers of council housing stock. The pace at which we lose them will depend on the definition of 'higher value' homes which councils will have to sell when they become vacant.

9 http://keepourcouncilhomes.wordpress.com/2016/03/17/suspend-debt-payment/

> **New Labour blackmailed tenants to vote the 'right' way**

These policies can only make the housing crisis worse at a time when, according to government statistics house prices in Swindon have risen by 10.5% over the last year and, as **Swindon Housing Action Campaign** has reported, private rents have risen by up to 15% in the last two years[10].

Fundamentally, the decline of stock numbers resulting from government policy is starving the Housing Revenue Account of the funds needed to maintain the standard of existing housing stock. The abandonment of financial support for building 'social housing' by this government means that Swindon and other councils only have the very limited receipts for RTB sales to spend on new homes. Even if they use this money to build replacement homes the government only allows them to use RTB receipts to cover 30% of the cost of each new home. The other 70% has to be raised from Council resources or from more borrowing, placing more pressure on shrinking resources. If a council cannot find the money to cover this other 70% and cannot spend the receipts within three years then central government *confiscates* them.

Labour and the 'debt'

When New Labour was proposing to introduce self-financing it responded to calls for debt cancellation by saying that this debt should rest on the shoulders of council tenants who have benefited from council house building and maintenance. The government said it would be ‘unaffordable’ and ‘unfair’ to the general taxpayer to cancel this debt. Yet it had been operating a policy of debt cancellation for councils that transferred their housing to a housing association. New Labour's policy was nothing less than *trying to eradicate council housing*. It set itself a target of transferring 200,000 council homes a year to housing associations. Gordon Brown wanted council housing debt taken off the public sector balance sheet.

A transfer could not take place without a ballot of tenants. However, there were a number of inducements designed to cajole tenants into voting for transfer, of which debt cancellation was one. Why would they deny debt cancellation to tenants who decided to remain as Council tenants? In the words of the House of Commons Council Housing Group it was a form of blackmail designed to pressure tenants into voting 'the right way', that is in favour of transfer.

10 http://swindonhousingaction.org/swindon-private-sector-rents-rip-off

From 1988 when transfer began under Thatcher to 2009 almost £4 billion of debt was cancelled in England, in Scotland £1.3 billion. The debt itself was something of an elastic figure *which governments manipulated* to bring in more money to the Treasury. In 1996-7 the total council housing debt was said to be £20 billion. By 2004/05 it had been *reduced* to £12.7 billion. Yet it would rise to £19 billion despite the fact that New Labour did not support council house building. Most of the increase was the cost of spending on the housing of Arms Length Management Organisations (ALMO's)[11]. In 2000 the government announced that it was making additional resources available for ALMOs. The overall cost of this programme eventually added up to £5.7 billion. *Yet the government didn't finance it.* They simply added the cost onto the historic council housing debt. So all council tenants nationally were subsidising the cost of the ALMO programme out of their rent!

Debt – an elastic figure which governments manipulated

The Defend Council Housing campaign and the House of Commons Council Housing group had long argued the case for the 'debt' to be cancelled. Even the Local Government Association (the organisation of local authorities) under Tory leadership called for debt cancellation at the time of the consultation on self-financing. It said:

"We will continue to press for cancellation of the historic 'debt' which Councils spend more than £1.3 billion yearly servicing. Councils have repaid a large proportion of this historic debt and within eight years will have spent more money servicing that debt than the debt itself.

Since the introduction of Right to Buy in 1980, approximately 1.8 million council properties have been sold. Councils are only able to keep 25% of the sales receipts with 75% going to the Treasury for general spending. Prior to 2004, councils could use sales receipts to pay off debt. After 2004, the revenue from council house sales in England has been £6.2 billion of which councils have only been able to keep £1.5 billion. If councils had been able to retain the additional £4.7 billion and use it to reduce their debt this could have been reduced to less than £9.3 billion.

Cancellation of council 'debt' would allow the provision of 80,000-90,000 new affordable homes over the next five years, delivering approximately £35 billion additional investment to the English economy, over a 50% return.

11 ALMOs were a half-way house towards privatisation. One of their advantages for the government was that they were not subject to tenant ballots as were transfers, so tenants could not prevent them being set up.

With nearly two million people on council house waiting lists, debt cancellation would also help to reduce housing benefit bills and the public cost of homelessness, and would allow councils to house homeless families more quickly."

Governments withheld £31 billion of tenants' rent

However, the coalition government *increased* the debt, which was like a moving target perpetually out of reach no matter how much money was spent towards paying it off.

Milking council housing like a cash cow

Research carried out for the Parliamentary Council Housing group in 2009 showed that governments had "siphoned out a total of £68.6 billion from council house rents and receipts from 'right to buy' sales since 1979." From 1990-1 to 2003-4 the government took 75% of all receipts from council house sales supposedly to pay off the historic debt costs of building these homes.

From 2004/5 the government 'pooled' the 75% of RTB receipts and no longer used it to pay off historic debt, nor recycled it into Housing Revenue Account allowances. Between 2004-5 and 2008-9 a total of £4.7 billion was effectively stolen from the national HRA in this way. Some of this money was used to pay for home ownership schemes and grants to housing associations.

Between 1994/5 and 2008/9 council tenants paid a total of £91 billion in rents. Yet the 'allowances' which were given back to councils by government were only £60 billion for management, maintenance and repair of homes. In other words they withheld £31 billion of tenants' rent. Most of this went towards debt payments, but between 1994/5 and 2008/9 the government's 'negative subsidy' system cost council housing £7.8 billion *over and above debt payments*. 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."

The total value of the discount given to tenants buying their council homes between 1979 and 2009 was £32.5 billion. When a housing association home was sold, the cost of the discount was borne by general taxation. But councils had to bear the cost of the discount themselves. The House of Commons Council Housing Group was right when it said:

“Today’s council tenants are being penalised to carry the cost of Governments’ decisions to discount the sale of council housing. Councils lost housing without being able to replace it, rent from fewer properties had to pay the same overhead costs, making council housing more expensive to run.”

Tenants paid more in rent than the cost of historic debt

Tenants had paid more in rent than the cost of historic debt. They were fleeced by central government.

For all the talk of subsidised council housing, home ownership was subsidised on a grand scale. Between 1986 and 2000 a subsidy of £59 billion was spent on MIRAS (mortgage interest relief). Capital Gains Tax relief to owner occupiers rose ten-fold between 1996/7 and 2005. The “net tax advantage of owner-occupiers” for just one year, 2004/5, was estimated at £15.7 billion. Income Support for Mortgage interest between 1980 and 2007 was £14 billion. Housing associations also received substantial subsidies; a total of £33.5 billion of public subsidy between 1986/7 and 2007/8 in England alone - £40.6 billion in GB as a whole.

Cancel the 'debt'

Since Jeremy Corbyn was elected Labour leader there has been something of a shift in Labour housing policy. It has committed to ending the bedroom tax and to launching a large scale council house building programme. Corbyn himself has recently spoken of 500,000 being built over 5 years. This is welcome. However, Labour has yet to address the structural underfunding of local authority housing resulting from the policies of New Labour, the coalition and Conservative governments.

According to *Local Government Financial Statistics England 2015,* in 2014-15 slightly over £2 billion of local authority HRA income of £8.533 billion was spent on debt charges and interest payments. The 1% rent cut for four years will drive up the percentage of income spent on the 'debt' even further.

We are calling on Labour to adopt a policy of **cancelling** this fictitious debt, thus providing local authorities with hundreds of millions extra each year to spend on their homes. Swindon Tenants Campaign Group wrote to Jeremy Corbyn, John McDonnell, the Shadow Chancellor, and John Healey (shadow housing minister until he resigned but now apparently back) calling for a commitment to cancel the 'debt'. John Healey replied to us saying that this was “an interesting idea” but failed to indicate that it was one that Labour would seriously consider. Now that Jeremy Corbyn has won the leadership election we are pressing the issue again.

Corbyn:

End Right to Buy "full-stop"

Obviously cancelling this 'debt' will mean that the PWLB will lose the annual payments. However, cancellation would be a recognition of the injustice of imposing this fictitious 'debt' on tenants and the £8 billion windfall it delivered to the government. It would mark a recognition that tenants have paid more in rent than the actual cost of 'historic debt'. Cancellation would have socially and economically positive results, enabling more work to be carried out by councils, improve the homes of tenants and create jobs and extra income for the Treasury via tax and national insurance. It would give councils some scope for house building.

Time to end Right to Buy

The housing crisis to a large extent has its roots in the introduction of RTB by Thatcher in 1980. The shortage of genuinely affordable homes for rent has resulted from the sale of council homes and the failure to replace them. In England there are now less than 1.7 million Council homes left. New Labour abandoned opposition to RTB and worshipped at the altar of home ownership. Whilst opposing council house building it introduced tax breaks for buy to let landlords facilitating the growth of the exploitative private rental sector.

RTB has already been abandoned in Scotland by the SNP government and now in Wales by a Labour administration. Interviewed during his leadership campaign of last year Jeremy Corbyn said *his* policy was to end RTB, "full stop". Yet somehow this policy (which is also personally supported by John McDonnell) did not find its way into the campaign document on housing. It talked only of giving councils the right to suspend RTB and possibly lowering the discount. It spoke of *minimising* the damage which RTB causes. This showed a hesitance to make a clean break with New Labour's housing policy. Home ownership was identified as a core part of its philosophy as "a party of aspiration". New Labour's support for RTB was a reflection of its abandonment of *collective* aspiration for *personal* advancement. It refused to recognise the social consequences of giving council housing away on the cheap and not replacing it. It supported self-interest, 'getting on', in place of collective interest and social solutions to a housing crisis which resulted from the domination of the housing market by private builders. Labour was petrified of the Tories accusing them of "being opposed to aspiration".

Labour commits to suspending Right to Buy

So long as RTB remains in place then councils will continue to lose desperately needed homes for those on the waiting lists and lose rental income, undermining their ability to maintain and renew their existing homes. Ending RTB is necessary not only to stop the loss of homes but to stop the haemorrhaging of rental income. What is the sense of investing in building new homes which can be sold to the sitting tenant after three years? The investment would be wasted and the revenue stream lost.

At the recent Labour conference Teresa Pearce, Shadow Housing Minister (at the time), announced that the party will *suspend* RTB indefinitely. This is better than individual Councils having discretion to do so since Tory Councils would maintain the policy. She said that at a time of shortage there is no justification for RTB. This marks a significant step forward from New Labour's policy, even if it does not abandon RTB in principle.

Borrowing to build?

One of the means of funding a council housing programme proposed by some is ending the 'debt ceiling' for council borrowing which was imposed as part of self-financing. However, those calling for the ceiling to be ended and for councils to be able to "borrow more to build" **fail to take account of the new finance system**. Adding more debt to the 2012 'debt settlement' would add to the injustice suffered by council tenants. So long as this debt remains in place, increasing local authority borrowing would mean that *existing tenants alone would be funding new building* because it's only they who repay this debt through their rent. Moreover, with councils' rent income falling, the additional cost of more borrowing will mean *less money available for the maintenance and renewal of existing stock*. The cost of servicing new borrowing would render councils' income insufficient to renew key components in the time-scale that is necessary to maintain the Decent Homes Standard.

In 2012 the Local Government Association reckoned that debt write-off would provide councils with the resources to build 80-90,000 homes over 5 years. This would be building on a larger scale than currently but it would still be insufficient to address the housing crisis. Certainly, Corbyn's declared policy of building 100,000 social rent homes a year for five years, would be impossible without central government subsidy. Cancellation of the fictitious debt is a necessary step in tandem with central government subsidy for new build on a large scale.

Debt burden an injustice against tenants and those on waiting lists

The imposition of the debt burden on local authorities was an injustice against existing tenants and the many people on local authority housing waiting lists whose needs cannot be catered for without a large scale council house building programme. As the only possible alternative government to the current one, Labour has a responsibility to ensure that local authorities have sufficient funds to maintain and improve existing stock, and to provide the resources necessary for new building, rather than allowing the cost of new build to fall onto the shoulders of existing tenants.

An aspiration to build 100,000 council homes a year is good. However, what is required is a definite plan which needs detailed research, the involvement of those who work in the industry, councils that want to build them, and tenant activists. Too often in the past Labour has made commitments to build a certain number of homes and got nowhere near their target. A working party representing those who support such a programme is necessary to turn the aspiration into a detailed plan.

Help us campaign to commit Labour to cancelling the 'debt'

If you agree with our case for debt cancellation we are asking you to write to Jeremy Corbyn, John McDonnell (Shadow Chancellor, the man with the purse strings if Labour is elected), Teresa Pearce (Shadow Secretary of State, Communities & Local Government – responsible for housing) and John Healey (Shadow Housing Minister) calling on them to commit Labour to cancelling so-called council housing debt. Get your tenant organisation, your trade union or your Labour Party to do likewise. You can email them at:

jeremy.corbyn.mp@parliament.uk
mcdonnellj@parliament.uk
teresa.pearce.mp@parliament.uk
john.healey.mp@parliament.uk

or write to them care of the **House of Commons, London SW1A 0AA**

Here is a a suggested **model resolution.**

“This branch/organisation recognises that council housing is facing a serious funding crisis as a result 'self-financing' and coalition and Tory government policies since 2010, which have led to a significant loss of rent income.

We call on the Labour Party to

1) Press the government to reopen the 2012 'debt settlement' and demand that it reduces the debt given to local authorities in line with the loss of income resulting from government policies since then.
2) Make a commitment that in government Labour will cancel the so-called council housing debt which is draining resources as rental income declines significantly.”

If you get this resolution passed please let us know.

The case for *cancelling* council housing 'debt'

Council housing is suffering a severe financial crisis as a result of government policies, including the 2012 'debt settlement' when what was said to be the national housing debt was redistributed amongst local authorities. This largely fictitious debt was not the product of actual borrowing but of what might be described as creative accounting by the Treasury. The cost of paying it off is preventing councils from spending the money they need to preserve the condition of their stock at a time when their income is falling.

The debt imposed on councils in 2012 was based on estimates of rental income over 30 years. However, as a result of government policies councils are taking in far less rent than planned for. Council housing is being starved of funds. A 1% rent cut for 4 years will alone result in a loss of 12% of expected income. Each home sold under Right to Buy is rental income lost. As a result councils are cutting spending on maintenance of homes and renewal of key housing components such as bathrooms, kitchens, roofs, etc.

This pamphlet explains why the debt should be cancelled as a key step in providing councils with the funding they need to maintain and renew their stock, and to begin to build the new council homes that are desperately needed in order to address the shortage of homes with rent which is genuinely affordable.

Price £1