HOUSE OF COMMONS
COUNCIL HOUSING GROUP

Council Housing: Time to Invest

Fair funding, investment and building council housing

Our report to the Government's Review of Council Housing Finance

Paper 3 INTERIM VERSION

The money's there: debt write-off, gap funding and receipts

REVIEW OF COUNCIL HOUSING FINANCE

"The purpose of the review is to ensure that we have a sustainable, long term system for financing council housing... [it will] consider evidence about the need to spend on management, maintenance and repairs." Yvette Cooper, 12 December 2007

"Housing Minister Margaret Beckett said she wanted local authorities to play a bigger role in the delivery of council housing." (DCLG, *New freedoms to increase council house building*, 21 January 2009)

Preface

by Austin Mitchell MP, chair of the House of Commons 'Council Housing' group

Ministers launched a 'Review of Council Housing Finance' in 2007 with the promise to "ensure that we have a sustainable, long term system for financing council housing" and "consider evidence about the need to spend on management, maintenance and repairs". The Housing Minister is now also consulting on new rules that will enable local authorities to start building new council housing again.

This Review is due to report this spring. It will, we hope, provide for the 'Fourth Option' so long campaigned for. It must create a level playing field freeing councils to invest in existing and new homes, on equal terms with Housing Associations.

To influence the outcome of these consultations our group issued a call for evidence to identify the level of funding required to manage, maintain, repair and improve exiting council housing and to start building a third generation of first class council homes.

We have received written evidence from a wide range of organisations. On 25 February 200 tenants, elected councillors, council officers, trade unionists and academics took part in our inquiry session at Westminster. We heard verbal evidence from 26 delegations during the day.

To take the debate forward we are publishing a series of interim papers with the aim of printing a full report. We welcome comments and call for additional evidence to strengthen the arguments. We hope to maintain the dialogue we have started with Margaret Beckett and have also asked to meet the Prime Minister to put the case.

If you would like to contribute to this 'work in progress' please send submission to my office.

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Papers

This report is dedicated to Alan Walter, chair of Defend Council Housing. Alan proposed and organised our Inquiry, worked tirelessly to make it the success it became, and died working on this Report. We trust this Report is the final 'heave' to win a secure future for council housing. Without Alan it would not have been possible – we are committed to winning in his name.

3: The money's there: debt write-off, gap funding and receipts

3.1 Introduction

Nationally all council tenants are being robbed. The real problem is not how this robbery is distributed but the fact that it leaves all councils unable to provide the standard of housing that tenants need. Whichever way you assess the level of need to spend on council housing, it is much more than the current level of management, maintenance and repair allowances. Years of robbery have left council homes with a huge backlog of disrepair (see *Paper 2: Fully funding allowances: calculating 'level of need'*).

Tenants are demanding a fair return for their rent. For decades they have paid more to Government than is spent on the upkeep of council homes. In this paper we identify how much money has been taken, where it went, and where the money should now come from to meet the huge investment backlog to bring council homes up to decent standards now, and to fully fund allowances for the future.

Ministers claim much of the robbery from rents is used to pay for 'historic debt'. This paper explains what council housing debt is (3.2) and why there is no justification for tenants' money being used to finance historic debt in this way (3.4).

Not only are tenants being robbed now, but the money which has been taken by government in the past 30 years from rents and right-to-buy sales is a staggering £68,652,000,000 – £68.6 billion (see page 5). The government has already taken enough from council housing to pay off the total debt and provide enough gap funding to more than meet the investment backlog. We show how much has been taken and the cumulative impact (3.3).

In section 3.5 we highlight the discrepancies in the treatment of council housing and the government's other 'options' for bringing homes up to standard.

Finally we look at how to solve the problem of debt (3.6). Government action to take over or write off HRA debt and end the associated rent robbery, would free up £1.7 billion a year towards fully-funding allowances. Any additional funding needed to create a sustainable future for council housing, along with one-off gap funding to meet the investment backlog, would be a just return of some of the money siphoned off in the last 30 years.

3.2 What is council housing debt?

Most of the robbery taken from council tenants rents (£1.2 billion in the current year) is spent on servicing council housing debt.

The government has already taken enough from council housing to pay off the total debt and provide enough gap funding to more than meet the investment backlog.

The bulk of the current £19 billion historic debt was incurred in building existing homes. A small number of councils carry most of this, while many councils are debt-free. This has little or nothing to do with good management and everything to do with land values and geographical accident.

"Councils' historic housing debts – which are the legacy of a discontinued system and beyond the control of current local authority administrations – are a key driver in the system…The way that the system provides ongoing support for outstanding debt could be regarded as perverse…" (Audit Commission, *Financing Council Housing*, June 2005)

Councils incurred 'historic debt' on their borrowing to build council housing. In the early years land was cheap and councils mainly built houses with gardens which were very popular: great numbers were sold under the right-to-buy. Councils were initially forced to use right to buy proceeds ('receipts') to pay off housing debt – instead of replacing homes. The higher the level of right-to-buy in those years, the more debt was paid off.

Urban councils facing high housing need had to go on building into the 1960s and 1970s when land became much more expensive. They were pressured by government and developers to build high-density developments, mainly flats; and often to use experimental building methods and materials which resulted in high-maintenance poor-quality homes. Much lower levels of right-to-buy here, meant less of their debt was paid off.

For councils inheriting housing from 'New Town' developments debt was written off by government (House of Commons research paper 00/87, November 2000).

The £19 billion figure is not made up of 'historic debt' only, however.

In 1996-97 the total council housing debt was £20 billion. When council housing is taken over by a Registered Social Landlord (RSL or housing association) in a large-scale voluntary transfer, any debt the council has associated with that stock is paid off. Where the selling price of the stock is less than the debt government makes up the difference.[1] ➜

[1] We remain unclear how debt write-off on transfer is implemented: whether government takes over the debt (Parliamentary Question 165562 11 December 2007); or actually writes off the debt (Parliamentary Question 186840, 25 February 2008). The mechanism makes no difference in terms of local authority finance so we refer to 'debt write-off' throughout.

➜ As a result, historic debt steadily fell to £12.7bn in 2004/05 (answer to Parliamentary Question 18 December 2006 Ref 0439 06/07).

However, in 2006/07 the total debt had increased to £14.5 billion (answer to PQ 26 February 2007 Ref 1127W). It has gone on increasing ever since, despite more transfers, up to the current £19 billion. This is because government has performed a sleight-of-hand in relation to housing ALMOs (Arms-Length Management Organisations).

"Government announced in July 2000 that it was making available additional resources… for high performing ALMOs."(*Local Authority Housing Finance – A Guide to the new Arrangements*, ODPM April 2003)

"Communities and Local Government offers additional resources towards the cost of achieving the decent homes target to councils who set up ALMOs... expected to total £5.7bn" (Homes and Communities Agency website, page updated 9 December 2008)

But government did not finance the new ALMO investment. The supported borrowing granted to councils has instead been added onto the historic council housing debt. Government has put no new money into ALMOs; rather council tenants *pay out of their own rents* for the capital costs of the decent homes programme! A large proportion of the £19 billion total debt is actually new debt finance for the ALMOs.

This makes more outrageous government withholding investment, or permission to borrow, from councils and their tenants who did not want to set up ALMOs. Because they opted for directly-owned and managed council housing they were denied investment funds

3.3 Past robbery: how much?

New research carried out for our group shows that the government has siphoned out a total £68.6 billion from council house rents and 'right to buy' sales since 1979.

• Right-to-buy Receipts

Government takes a share of all money ('receipts') from the sale of council homes through right-to-buy, introduced in 1980.[2]

From 1990-1 to 2003-4 government 'reserved' 75% of all RTB receipts, to pay off the historic debt costs of building these homes. Councils which became debt-free were allowed to keep all their right-to-buy money.

From 2004/5 this changed. Government 'pooled' the 75% of RTB receipts and no longer used this money to pay off HRA historic debt, nor recycled it into HRA allowances. Between 2004-5 and 2008-9 a total £4,762 million was lost to the HRA by this means (see table a).

Government claims to put more investment back into 'housing' than the money it takes from pooled RTB receipts. But this is deliberately misleading.

They told us:

"Government have consistently invested more in housing than they have received in receipts. In 2005-06, the amount paid to Government from all housing receipts is estimated to have been nearly £1.1 billion. The amount invested in housing was nearly £5.2 billion" (Parliamentary Answer 21 February 2008 Column 906W)

But 'housing' does not mean 'council housing'. That £5.2 billion for example includes home ownership schemes, grants to RSLs and money spent by councils on private sector housing. Even the amount they claim is invested in local-authority owned housing is borrowing paid back out of council tenants' rents!

"Government investment in council owned housing stock has primarily been provided through the Housing Revenue Account (HRA) subsidy system in the form of local authorities supported capital expenditure (SCE), ALMOs supported borrowing allocations and major repairs allowance (MRA)" (Parliamentary Answer 17 December 2007: Column 1141W)

• Right-to-buy Discounts

Government also gave a 'discount' reduction on the sale price of council homes sold individually to council tenants (most but not all through Right to Buy). The total value of the discount on individual council house sales between 1979 and 2009 was £32,557 million (£32.5 billion). When a housing association home is sold, the cost of the discount is borne by general taxation. But councils had to bear the loss of the discount themselves.

Sukvinder Khalsi, Assistant Director Finance, Birmingham City Council, told us:

"The discount is a tenant based incentive and there is a good case for continuation but ➜

Government has put no new money into ALMOs; rather council tenants *pay out of their own rents* for the capital costs of the decent homes programme!

[2] Government can also take a share of money raised from the sale of housing assets and land, depending on the circumstances.

➜ **should be funded from national resources as a national policy."** (written evidence)

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. Government has in effect benefited while leaving councils to carry the loss resulting from discount. The lost money could have been used to repay debt, replace homes or improve stock; either way tenants and councils would be better off.

A total £37,319 million (£37 billion) was lost to the HRA as a direct result of Government right to buy discount policy and siphoning out receipts (through 'pooling'). This would have paid off the current £19,000 million of historic debt almost exactly twice over. It is not acceptable that today's council tenants continue to pay the cost.

• Robbery from Rents

Between 1994/95 and 2008/09, council tenants paid a total of £91 billion in rent. Of this, councils received back from government in allowances just £60 billion to spend on management, maintenance and repair of council homes. Over this period government withheld £31 billion – the total Robbery.

Table b) Rents Robbery

Year	Notes	Rent	Allowances	Robbery
1994/95 – 2003/04	1	60,478,290,737	36,246,216,757	24,232,073,980
2004/05 – 2008/09	2	30,904,051,423	23,806,534,555	7,097,516,868
		===========	===========	===========
TOTAL		91,382,342,160	60,052,751,312	31,329,590,848

NOTES 1. Figures from answer to Parliamentary Question 04350436 06/07.
2. Figures from CLG subsidy determination schedules – 98% of (Guideline Rent * Stock Numbers).

Most of the £31 billion Robbery has been diverted into supporting debt. However, new research for this Report shows that from 1994/5 to 2008/9 government's negative subsidy system cost council housing £7,854 million of 'outright robbery' over and above debt payments. Even if you accede to tenants paying for historic debt, government taking this additional sum from council tenants' rent is a further outrage. (The figure is calculated to include the cumulative impact of losing HRA surpluses which could have reduced HRA debt over the years. See details at www.support4councilhousing.org.uk/report/resources/PastRobbery.xls)

This does not include the amounts siphoned out over the years in Scotland and

Table a) Past Robbery from Right-to-Buy Sales

	Notes	Overall Amounts £ms	Lost to HRA housing £ms
1979/80 to 1997/8			
Total value of properties sold		45,988	
Receipts kept by councils or reserved to pay off debt	1 , 2	24,059	
Discounts	3	21,929	21,929
1998/9 to 2003/4			
Total value of properties sold		15,708	
Receipts kept by councils or reserved to pay off debt	1	7,817	
Discounts	4	7,891	7,891
2004/5 to 2008/9			
Total value of properties sold	5	9,086	
Receipts kept by councils	5	1,587	
Government pooled 75%	5	4,762	4,762
Discounts	5	2,737	2,737
			=======
Total			37,319

NOTES
1. Assumes 'reserved' receipts are in effect available as they can reduce outstanding HRA debt.
2. Assumes HRA Finance pre-1990 in effect allows use of capital receipts to pay off debt or otherwise on HRAs.
3. Value of discounts allowed on completed disposals by LAs and New Towns England 1979 to 1995 from PQ HL Deb 22 May 1996 vol 572 c98WA 98WA.
4. From CLG Table 648.
5. From CLG Table 648 plus estimate for 08/09 – assume RTB in 08/09 is running at 1/6 level of 07/08.

Table c) Compounding the Robbery

c) i) Total Robbery

£ millions	
£32,557	Right-to-buy discount 1979/80 – 2008/09
£4,766	Right-to-buy receipts 1979/80 – 2008/09
£31,329	Rent robbery 1994/95 – 2008/09 (difference between rents and allowances)
=====	
£68,652	TOTAL

c) ii) 'Outright' Robbery (excluding rents used to support historic debt)

£ millions	
£32,557	Right-to-buy discount 1979/80 – 2008/09
£4,766	Right-to-buy receipts 1979/80 – 2008/09
£7,854	'Outright' robbery 1994/5 – 2008/9 (incl. projected cumulative impact of putting HRA surpluses into HRA)
=====	
£45,177	TOTAL

➜ Wales. In Wales the UK government robs tenants' rents as it does in England through a pooled 'negative subsidy' regime. Almost £100m was taken from tenants in Wales in 2006/07 for example, the difference between £450m rents and only £350m in allowances (figures from HRA Subsidy Determination 2006-07, Welsh Assembly Government). In Scotland there is no pooling but the government robs council tenants by forcing each authority to pay for its own historic debt. Across the UK there is a big gap between the rents council tenants pay and the amounts spent on their homes.

These figures point to ongoing disinvestment from publicly-owned council housing. Tenants rightly demand justice: writing off the remaining debt and providing gap funding to meet the investment gap. The Robbery from rents and receipts must be ended and the funding gap must be met.

3.4 Why Council Tenants Should Not Pay for Historic Debt

3.4.1 Council housing is a public asset

Council tenants neither own their homes (the asset) nor control capital receipts from the sale of council housing. Like hospitals and schools, council housing belongs to the public and since council tenants do not have a financial 'interest' in the asset they should not be responsible for servicing the debt, which should be met through general taxation:

"Currently the government regards council housing as a national asset. Council tenants do not have any equity stake in their home. Therefore it is not appropriate that they should be expected at the national or local level to contribute to the asset value of their home i.e. the debt charges on investment in that asset." (*paper from Labour ALG members to John Prescott in September 2004 negotiations prior to Labour Party Conference*)

Evidence to our inquiry made the same point:

"It is UCATT's policy that there is a need to free up local authorities with a designated housing account. The historic debt should be written off and councils freed from Treasury repayments to invest in decent local council housing for the communities they serve." (UCATT, written evidence)

"Council tenants do not have any equity stake in their home. Therefore it is not appropriate that they should be expected at the national or local level to contribute to the asset value of their home i.e. the debt charges on investment in that asset."
Labour ALG members, September2004

3.4.2 Wrong to discriminate against council housing.

Government does not attempt to recover public subsidy on housing from any other tenure. If government subsidises many forms of housing why are only council tenants expected to bear the cost of financing this investment?

"The key issue is: why should council tenants subsidise the rest of the country?... many generations in my community have paid for their property many times over" (John McDonnell MP)

Government doesn't 'recover' public subsidy paid to private developers, home owners or Registered Social Landlords so there is no justification for government fleecing council tenants to pay for an asset that remains in public ownership.

"Housing associations are generally able to retain receipts as cash for investment, and LSVT associations also do not have to pay back into a national pot." (Hall, Hilditch, Partridge, Perry, Wilcox, submission to the Review of Council Housing Finance May 2009)

Registered social landlords received a total of £33.5 billion of public subsidy between 1986/87 and 2007/08 in England alone – £40.6 billion in Great Britain as a whole. (Source: Table 59, UK Housing Review, 2008/09 – includes subsidy from the Housing Corporation and its equivalents in Scotland and Wales, and from local authorities)

The government subsidises profit-making companies, consortiums and private individuals involved in buy-to-let, through tax breaks. The bank bailout is the biggest home ownership subsidy of all time.According to Professor Hills, home-ownership is the most heavily subsidised form of housing tenure in the UK:

"The most familiar form of support for owner-occupation in the UK was the system of mortgage interest tax relief, now abolished, under which mortgage interest was deductible against income tax, reducing its effective cost to the owner. But owner occupation still benefits from favourable tax treatment ... the return to ownership comes in two forms, the value of living in one's own home (the "imputed rent") and a potential or actual capital gain. Neither of these is taxed." (*Ends and Means: the future roles of social housing in England*, February 2007)

Mortgage interest tax relief (MIRAS)
1986 – 2000 £59 billion (UK Housing Review 2008/09). ➜

➜ *Tax Concessions*
"the value of Capital Gains Tax Relief to owner-occupiers has risen over tenfold since 1996/97… The cost of Capital Gains Tax exemption more than outweighs Exchequer gains from stamp duty and council tax" (Zacchaeus 2000 Trust – *Memorandum to the Prime Minister*, May 2005)

Professor Hills gives a figure of £15.7 billion as the "net tax advantage of owner-occupiers" in just one year (2004/05).

Grants for home improvement
1990/91 – 2006/07 £9 billion (*UK Housing Review* 2008/09).

Income Support for Mortgage Interest (ISMI)
1980 – 2007 £14 billion (UK Housing Review 2008/09).

Subsidies to purchase homes
Subsidised "shared ownership" or "shared equity" schemes, cost £0.3 billion in 2004/05 (Hills). These homes are often sold on the open market thus the value of the public subsidy is lost.

3.4.3 Level playing field.

Government takes over any outstanding debt when councils stock transfer their homes. Between 2000-01 and 2006-07 alone £2,436 million – nearly £2.5 billion – was spent writing off overhanging debt for councils which transferred (Parliamentary Question 25 February 2008). To respect the choice of tenants who choose to stay with the local authority government must offer the same write-off of debt – a 'level playing field':

"If all authorities had opted to transfer their housing stock to a Registered Social Landlord, as encouraged by the Government, then large elements of that debt would have been picked up by the Treasury anyway. Why shouldn't something then be done centrally about local authority housing debt?" (Ken Lee, Director of Resources, Wigan and Leigh Housing Company and Chair of CIPFA's Local Authority Housing Panel, April 2008)

Sheffield Council's key housing revenue problem is debt, according to (then) Performance and Resources director Philip Taylor. With debt costs of £53 m in 2009/10 he says a "Positive subsidy authority" should not be confused with "an Authority that's positive about Subsidy"; and that for a sustainable future for council housing "The route has to be dealing with historical debt" (Philip Taylor, presentation to LGA housing conference, February 2009)

"If all authorities had opted to transfer their housing stock … then large elements of that debt would have been picked up by the Treasury anyway. Why shouldn't something then be done centrally about local authority housing debt?"
Ken Lee, Chair of CIPFA's Local Authority Housing Panel, April 2008

This point was emphasised in the evidence we received:

"We constantly call for a wiping out of existing debt – the same deal that was on the table when the previous administration went for stock transfer in 2005 and the tenants rejected it. That alone, a level playing field, would enable the Council to meet the requirement to bring all council houses up to the Scottish Housing Quality Standard by 2015 and develop a programme of council house building…" (Raymond Pringle, Chair, Edinburgh Tenants Federation, written evidence)

3.4.4 Government has already had a return on its investment

Government should not single out council tenants to provide a 'return' on historic investment.

Treasury officials justify the 'robbery' from tenants' rents as investment earnings: "This charge would effectively represent the value of past and present investment by central government into council housing that it ought to be entitled to earn a return on." (The Cost of Capital, Keith Jackson, HM Treasury, June 2008)

This is unjust and iniquitous. Does government seek such a 'return' from school pupils or hospital patients? These, like council housing, are public services. Tenants' rents are payment for the service – not 'earnings' for government.

"The 'historic debt'...in any event is not a debt for which today's tenants can justifiably be charged on a weekly basis. We are not a milch-cow for Councils or Government." (Meric Apak, Chair, Camden Federation of Tenants and Residents Associations, oral evidence)

Despite the iniquity, government has milked council housing like a cash cow for decades. Council tenants have already been forced to finance more than the total amount of current historic debt (see 3.3).

Just how much of a return on its investment does the government think it is entitled to? Most of the council houses sold through the right-to-buy were built at costs well below their selling price. The average price of a house in 1930 was £590; £2,021 each for those built between 1930 and 1969. By then 4.5m houses – three-quarters of the total stock – had been built. So £23,596 per home in 1980, even with discount, represented a very considerable profit on the government's investment. (Source: CLG table 502, house prices from 1930; CLG table 2.4, housebuilding by tenure) ➜

➜ 3.5 Meeting the investment gap: gap funding and a level playing field

3.5.1 The investment backlog

A huge backlog of disrepair has built up across UK council homes as a result of the systematic disinvestment detailed above. This is in addition to the ongoing problems with underfunding (see Paper 2: *Fully Funding Allowances*).

To add insult to injury, government offer money back for investment – but only if tenants accept a change in the ownership or management of their homes! Because many tenants have refused this blackmail, insisting on direct investment to bring their homes up to standard, the backlog remains and needs to be resolved.

How much is the backlog?

The then Housing Minister Ruth Kelly claimed it would cost £12 billion to improve all council homes (Labour conference 26 September 2006). Our subsequent questions found this figure was not based on detailed costings or related to meeting the Decent Homes standard.

In a Housing Quality Network report Hal Pawson calculates 239,277 non-decent council homes in 2010 (*Inside Housing*, 27 February 2009). Using typical ALMO funding calculations of around £10,000 per Decent home, this makes a total backlog of around £2.4 billion – the minimum investment gap.

Somewhere between £12 billion and £2.4 billion then is the cost of carrying out the backlog of work to reverse decades of disinvestment, robbery and neglect. Peanuts in comparison with what the government has stolen over the years. But a substantial obstacle to councils and tenants who want to retain their housing in public ownership and democratic control.

3.5.2 Why we demand a 'Fourth Option'

Labour's 1997 Manifesto made a commitment to bring all council homes – not just some of them – up to a 'Decent Homes' standard. In its 2000 Green Paper, *Quality and Choice – a Decent Home for All*, government promised extra investment if tenants were prepared to accept one of three 'options': 'transfer' to a housing association; 30-year PFI (Private Finance Initiative) hand over of refurbishment, management and maintenance to a profit-making company; or transfer the management of homes into a council-owned Arms Length Management Organisation (ALMO). The government imposed a duty on councils to carry out an 'options appraisal' by July 2005; and to choose between these three options if extra funds were needed to achieve Decent Homes.

Valuation for transfer is based on tenants getting higher standards of repairs and improvements than provided by council maintenance and MRA allowances. A positive valuation means councils receive a capital receipt which goes towards paying off housing debt; any 'overhanging' debt is written off by government. In many cases (where the valuation is negative) millions of pounds of dowry payments or 'gap funding' is poured in as well. Councils retaining their stock or where tenants vote no to transfer are denied these subsidies. For PFI and ALMOs government made extra finance available, though it was to be financed by tenants at the expense of day to day maintenance (see 3.2 above). There is no level playing field between council housing and the other 'three options'.

Opposition to privatisation crystallised in the demand for a 'Fourth option' – to retain directly owned and managed council housing and get access to the extra investment needed. Despite the blackmail, over 100 councils in England chose to retain their homes under direct ownership and management, with tenants voting by huge percentages – typically over 90% – to stay with the council. Tenants in another 20 areas voted NO in transfer ballots since July 2005.

In Scotland, 20 of 29 authorities submitting options appraisals chose retention; only seven chose large-scale transfer and in four of these tenants voted NO.

In Wales widespread opposition to transfer means the process of forcing councils to submit options appraisals and/or ballot tenants has been slow. NO votes in Wrexham and Swansea, and large minorities voting NO in Conwy and Merthy Tydfil (where they had only a 14-vote majority 'Yes'), indicates ongoing hostility to transfer.

Tenants voting to stay with the council put government under real pressure. It is clear council housing is here to stay. Tenants' campaigns have won wide backing from trade unions, councillors and MPs, and have pushed the issue to the top of the political agenda. The current Review of Council Housing Finance, promising a 'sustainable' future for council housing, is a product of this determined opposition to privatisation. ➜

To add insult to injury, government offer money back for investment – but only if tenants accept a change in the ownership or management of their homes!

➜ Ministers are trying to sweep the problem of the backlog under the carpet; they told the Labour Party policy subgroup, set up in response to party conference demands for the 'Fourth Option' and a 'level playing field':

"the vast majority of councils have the means and strategy in place to deliver Decent Homes, there remain a handful of local authorities who have yet to find a way to do this." (Affordable Housing Sub-Group, *Report to Conference 2008*)

Not so – 239,277 council homes are predicted to be still non-decent in 2010! (*Inside Housing*, 27 February 2009)

Despite Ministers' talk of 'moving on' from Decent Homes, the 'Fourth Option' of direct investment to bring council housing up to decent standards is as much a necessity as ever.

3.5.2 Money spent subsidising the government's 'three options'

Government is prepared to dig deep to subsidise privatisation. Since transfer began in 1988, £3,967 million – nearly £4 billion – has been spent writing off overhanging debt for English councils which transferred. A further £811 million has been spent on gap funding; a total of nearly £5 billion. Another half a billion – £492 million – was spent on set-up costs. (Figures from http://www.communities.gov.uk/documents/housing/xls/completedlsvts.xls)

In addition billions of pounds are available for PFI credits; and billions of public borrowing is available to local authorities with ALMOs – which tenants' pay for !

"The Homes and Communities Agency has £1.8 billion of PFI credits available from the comprehensive spending review settlement for 2007/08 to 2010/11. Over the previous five rounds, the government has allocated £2.75 billion to schemes." (*Inside Housing*, 13 February 2009)

In Scotland, the Treasury has spent a further £1.3 billion subsidising debt write-off, and was prepared to spend another £0.7 billion. An Audit Scotland report showed writing off debt costs the public nothing:

"This form of debt repayment is not in itself a cost to government in cash terms... there is no net effect (cost or benefit) for the Exchequer or the taxpayer when the Treasury provides grant aid to allow repayment of a council's PWLB loan debt." (*Council housing transfers*, Auditor General for Scotland, March 2006)

The Scottish Executive was prepared to spend a further £95m on 'gap funding' to make the transfers viable; and £303m on other inducements (such as £200m in Edinburgh for new housing or £32m in Stirling for 'regeneration').

Money promised to subsidise privatisation in Scotland

	Debt write-off	Gap funding & set-up costs	Other inducements	Total
Edinburgh	£320m	£0m	£200m	£520m
Highland	£166m	£0m	£50m	£216m
Renfrewshire	£172m	£76m	£21m	£269m
Stirling	£25m	£19m	£32m	£76m
TOTAL	£683m	£95m	£303m	£1,081m

(Figures from transfer business plans and reports to local authorities)

Tenants in all these areas voted NO to transfer; there is no financial justification for the Scottish or UK governments withholding much-needed investment. As the Scottish Tenants Organisation told us:

"Four recent major anti-transfer votes show that tenants in Scotland reject the policy of trying to get rid of council housing.... tenants and councils alike want the unfair burden of housing debt to be written off by the Treasury." (John Carracher, Convenor, Scottish Tenants Organisation, written evidence)

In Wales the picture is similar. The UK Treasury is prepared to spend millions of pounds to write off housing debt if tenants agree to transfer, and then let the new housing association landlords keep all of the rents to spend on the homes. The Welsh Assembly Government will add 'dowry' payments to the new landlords.

Conwy will receive £26.9 million in debt write-off, and a dowry of £5.48 million; Merthyr Tydfil will receive a dowry of £87 million. In Gwynedd, £15.5 million of debt will be wiped out and an undisclosed gap funding payment will be made (Figures from the Welsh Assembly Government).

Tenants in Swansea, who voted to keep the council as their landlord, pay £8 million funding their housing debt every year – the debt would have been written off if tenants had voted Yes to transfer. The UK government could write that debt off for Swansea tomorrow, releasing £8 million a year for much-needed spending on tenants' homes.

"Four recent major anti-transfer votes show that tenants in Scotland reject the policy of trying to get rid of council housing.... tenants and councils alike want the unfair burden of housing debt to be written off by the Treasury."
John Carracher, Convenor, Scottish Tenants Organisation

3.5.3 Time for a 'level playing field'

The Review of Council Housing Finance indicates Ministers' acceptance of the need to ➜

➜reverse the years of disinvestment in council housing. There is a watertight case for public investment now to reverse the decline. As the "leading council housing finance experts who have been at the centre of research carried out for the government's review" (*Inside Housing*, 22 May 2009) put it:

"Massive expectations… ride on the current review, and if options which offer long-term viability are not clearly available as an outcome of it… It will drastically reduce choice for tenants. And – not least – it will put pressure on the government to use the available resources to finance one-off transfers of the remaining council stock. 'Doing nothing' is therefore neither a policy-neutral nor a cost-neutral option." (*Paying its own way: a sustainable future for locally managed council housing*, Hall *et al.*, May 2009)

Ministers are prepared to put billions into taking over or writing off debt; billions into cash payments for gap funding; billions into borrowing permissions. So the money's there. They must now ensure equal funding is available for council housing in the direct ownership and control of local authorities.

This would finally create the 'level playing field' between the four options which tenants, councils and others including Labour's party conference have long demanded. It would give tenants real choice and return council housing to a proud position at the heart of sustainable mixed communities.

The demand for a level playing field was repeated frequently in our inquiry:

"We've been arguing since 1999 for a level playing field… the problem is that the rules governing treatment of debt and borrowing creates an uneven playing field against local authorities yet at the same time over 100 English local authorities have made the business case to manage their own stock and there are something like two million properties still managed in England through local authorities either directly or through their ALMOs." (Mark Bramah, Chief Executive, APSE, oral evidence)

Debt has played a large role in the Review of Council Housing Finance discussions. As the Chartered Institute of Housing say:

"Dealing with the issue of historic debt is vital to achieving a new system which is viable across the board …and will be sustainable in the long term. CIH will not support a new system of council housing finance which only deals with the surpluses being generated by the majority of 'negative subsidy' authorities, and which does not resolve the historic debt currently supported (in part) by 'positive subsidy' payments to the minority of authorities. The review must lead to a viable future for all authorities on an equitable basis." (Chartered Institute of Housing, Submission To The Review, September 2008)

"CIH will not support a new system of council housing finance which …does not resolve the historic debt… The review must lead to a viable future for all authorities on an equitable basis."
Chartered Institute of Housing, Submission To The Review, September 2008

The current system is deeply unpopular and unsustainable. There are attempts to find a new formula. Some of these centre on re-packaging and maybe redistributing charges for historic debt. This is not good enough; responsibility for financing historic debt must be shifted from local authorities altogether to create a level playing field and allow for fair funding in the future.

Government must also ensure the backlog of investment need is met. In our last report we suggested an 'investment allowance' – a revenue stream allowing councils still in investment need to make use of prudential borrowing, giving a level playing field with ALMOs. An investment allowance was first outlined by the government in *The Way Forward For Housing Capital Finance* in 2002. Alternatively the government could provide the cash payments it is prepared to make to gap fund transfers. Combined with debt write-off and/or an end to negative subsidy, this would provide the resources necessary to make homes decent and sustain improvements over 30 years.

3.6 Recommendations

The government should:

• **Debt**. Write off or take direct responsibility for the cost of historic debt and remove this element from the housing subsidy system altogether, making housing finance fairer and much simpler.

• **Gap funding**. Where tenants have chosen to remain under the ownership and management of the council and the authority is unable to meet the 'Decent Homes' standard, the government should provide sufficient gap funding to enable them to do so.

• **Receipts**. Ring fence all right to buy receipts to be used to improve existing and build new council housing.