

# London Tenants Federation

Briefing / HRA Review – July '08

## Review of the Housing Revenue Account Subsidy System

**Purpose of the Review** The government announced its review of the Housing Revenue Account (HRA) subsidy system in December 2007.

It said the purpose of the review was to ensure:

- a sustainable, long term system for financing council housing
- a system that is fair to both tenants and tax-payers
- a transparent system – giving a clear and accurate picture of the balance of support from local and central government.
- an affordable system which does not expose government to fiscal risks

**Focus of the Review** Government said the review would:

- consider evidence about need to spend on management, maintenance and repairs
- consider rent policy
- consider how its pilot studies on councils operating outside the HRA. carried out in six local authorities and published in March this year - ([www.communities.gov.uk/publications/housing/selffinancingservices](http://www.communities.gov.uk/publications/housing/selffinancingservices)) would fit with the aims of the review
- consider rules which govern the operation of the HRA and if they need to be changed to fit with a new system of financing

**Review Timescales** A final report is to be made in Spring '09, but the review is also to provide advice in 2008 to inform decisions about council rents and 'subsidy' determinations for the next two years.

**Tenants Involvement in the Review** Despite government's rhetoric about tenant empowerment, it has failed as yet to engage the organised tenants' movement in the review or to facilitate them contributing their own suggestions for improvement or alternatives to the current system.

A few months ago it commissioned the Chartered Institute of Housing (CIH) to consult 'stakeholders' about the review. CIH set up a series of workshops. It engaged only three tenants amongst the 60 or more members of these workshops. None were there with a specific remit to represent the views and concerns of other tenants, nor to feed back to them.

The CIH has held two additional invite only 'workshop events' this month.

**What is the Housing Revenue Account 'Subsidy System'?** It is a national system through which government determines annually how much funding (tenants' rent) each council will have in its own HRA to spend on management, maintenance and repairs to its homes.

## Can the current HRA Subsidy System achieve?

### 1. A sustainable, long term system for financing council housing

Currently the management, maintenance and repairs of council tenants homes is, according to Government's own research, under funded by £2.25 billion a year.

Management and Maintenance The most comprehensive analysis of the amount of money required to adequately manage and maintain council tenants' homes was commissioned by government and carried out in 2003 by the Building Research Establishment. It assessed then that there was inadequate money going into management and maintenance allowances and this is still the case. ([www.communities.gov.uk/publications/housing/estimation](http://www.communities.gov.uk/publications/housing/estimation)). Updated figures suggest that nationally management and maintenance allowances are under funded by £1.3 billion a year.

Major Repairs The under funding of major repairs allowances nationally is £950. This was identified in the 'modelling of repair needs over 30 years in six localities' published by government in March this year.

Unless the huge under funding for management, maintenance and major repairs is addressed, decent homes or no decent homes, council housing cannot be managed, maintained or repaired in a sustainable fashion.

### 2. A system that is fair to both tenants and taxpayers Government defines the HRA as a 'subsidy system' suggesting that the tax payer subsidises council tenants. However, close analysis shows the opposite.

Each year government makes an assessment on how much each local authority will collect in rents and how much each will need to spend on managing, maintaining and repairing its homes. Where it is assessed that a council will collect more in rents than it requires for the purposes of managing, maintaining and repairing its homes, government redistributes the extra to the councils where it assesses less will be collected in rent than is required to manage, maintain and repair their homes.

Government also insists rents are also used to cover debt repayments on loans taken out to build and improve council homes (**capital costs**).

This is clearly unfair, since council tenants don't own their homes, gain nothing from any increased value of their homes and the majority of the proceeds of right to buy sales (**capital assets**) go directly to the treasury. £1.2 billion of rents has been contributed to these capital costs this year.

Under the current HRA system, tenants' rents of 162 local authorities are redistributed to another 52 local authorities. This has led many local authorities to argue that the 'redistributive' element is 'unfair'.

However if tenants rents were used exclusively for the purposes of managing, maintaining and repairing their homes and the treasury (and thus the tax payer) covered the capital costs, the redistributive element

would be minimal and the HRA system actually appear a much fairer one; ensuring all council tenants homes have improved levels of management, maintenance and repairs.

Government also makes a direct profit from the HRA system / tenants rents; £194 million this year and a total of £4.65 billion since 1995.

If tenants' rents were used exclusively for the management, maintenance and major repairs to their homes, current under funding would be reduced by two thirds.

If government fairly returned the profit it has made from tenants' rent payments plus the amount of council tenants' rents that have been used to cover repayment on loans taken out to build and improve council homes, since this government has been in power, there would be an additional £19 billion + to ensure sustainable levels of management, maintenance and repairs to council homes for many years to come.

3. **A transparent system – giving a clear and accurate picture of the balance of support from local and central government** Currently the HRA 'subsidy system' is far from transparent. Most tenants assume that all their rent goes to pay for the management, maintenance and repairs to their homes. Most tenants assume failures to properly manage, maintain and repair their homes are entirely the fault of their council or council's managing agents.

Most tenants have no idea that they are paying capital costs whilst the majority of the proceeds from the sale of council homes go to the treasury or that government makes an additional direct profit from their rents.

Few would know that this year they are subsidising the general tax payer to the tune of £13 per household per week through their rent payments.

The system currently leads tenants and councillors in local authorities where rents are being redistributed to other councils to conclude that it is the redistributive element that is unfair, but what is actually unfair is government's misappropriation of and profit making from tenants rents.

The review so far has not been held in a transparent fashion; CIH workshops and events have been 'invite only' and minutes from meeting have been conspicuously absent from their website.

### **Responses to the HRA review so far:**

**From tenants:** A number of tenants' federations have been very vocal about central government's direct profit making from tenants rents this year (since this has gained some housing press coverage). A number have also been vocal about the large amounts of their rents leaving their boroughs. Sutton Fed is one such example in London.

The Moonlight Robbery Campaign has been given a new lease of life. It has a new website ([www.moonlightrobbery.org.uk](http://www.moonlightrobbery.org.uk)) and has had letters and

comments printed in Inside Housing Magazine. It was also mentioned in a Guardian Society section article in early June this year. The campaign is supported by a growing number of tenant's organisations. As well as the LTF and individual London borough wide tenants federations, it is also supported by TAROE (Tenants and Residents Organisation of England), Leeds and Bradford tenants Federations, individuals and individual TRAs.

A Winchester tenant, Alan Rickman is taking the government to the European Court of Human Rights about tenants' rents subsidising the treasury.

**From Councils:** Waverley council has gathered together about 60 councils to argue that the redistributive element of the HRA should go.

Their campaign has been reported in Inside Housing and the Guardian.

The Local Government Association (LGA) has recently published 'My rent went to Whitehall position paper'. It sets out how the LGA, London Councils, The Chartered Institute of Housing, CIPFA, the Councils with ALMO's Group and the Nat Fed of ALMOs believe local authority housing finance should be changed. They say that in the coming months they will be working to develop in greater detail their proposals for a new housing finance system.

**'My rent went to Whitehall position paper':** The paper suggests:

1. councils should have the same rights to self-determination as housing associations and should have sufficient resources to enable them to manage their properties and areas efficiently and effectively in perpetuity
2. the current in-built redistribution element is unfair and unjust
3. tenant's rents should not subsidise the treasury (the paper though focuses only on the £194 million government profit making this year and of future years; not of previous years and make no comment on tenants rents covering debt repayment on loans taken out to build and improve council homes)
4. all resources within the housing system should be spent on homes and housing related services e.g. neighbourhood management and not redistributed to other policy areas
5. councils should have the right to dispose of all revenue generated by council housing.

Criticisms made of the current system are that:

1. it is neither transparent or accountable
2. management, maintenance and major repairs allowances are inadequate
3. it does not allow for efficient management of housing stock
4. it fails to reward positive management practice and innovative approaches to stock investment
5. it does not address government's priority of building more homes
6. long term, more councils will go into negative subsidy and more rent will be paid into the treasury

The following principles are proposed:

1. councils have a vital role to play as housing providers and managers
2. tenants rents should be entirely spent on housing needs and the needs of the local community within the local authority in which the rents are collected
3. local management and local-decision making best suits local needs
4. the redistribution mechanism should end; where there is need for subsidy this should be met through general taxation
5. decisions on resource allocation should be made at the local level
6. freeing councils from the constraints of what they call a 'defunct system' would allow them to deliver more housing to their communities and deliver new homes

The following demands are made:

1. ring fencing – councils should have the freedom to decide (in agreement with their tenants) how to spend the HRA funds, but the principle of ring fencing should operate at the national level (this is confusing – since they also seem to be arguing that these should no longer be a national system)
2. resources – local authorities should have self determination, with sufficient resources raised from grants, borrowing, rents and 'pro-active asset management' to enable them to manage their properties and their areas efficiently. Local authorities should have a level playing field with HAs and the redistributive system should end.
3. capital receipts – local authorities should be able to maintain 100% of the capital receipts from the Right To Buy
4. rents – should be determined locally. Support for the principle of equity between the social rented sectors is noted. Overseeing of rent levels and any challenges by tenants should be through the new housing regulator.

**Problems for tenants with the proposal:**

1. The proposals fail to substantially address the under funding of management, maintenance and major repairs to tenants homes
2. Whilst in part they attempt to address the use of tenants' rents for capital costs by suggesting that all right to buy capital receipts should stay with the local authority were they are raised. However given that there are now minimal levels of new right to buy in London, this proposal is of little benefit to the London boroughs.
3. The proposals fail to provide for a fair and equal level of management, maintenance and repairs to all council tenants homes.
4. The proposals fail to set clear boundaries around what tenants' rents might be used for – leaving the potential for tenants' rents to subsidise the general council tax payer at the local level.

*LTF is an umbrella organisation bringing together London's borough wide council tenant federations and organisations*

London Tenants Federation, C/o Camden Federation of T&RA, 11- 17 The Marr, Camden St, London NW1 0HE  
 E-mail [info@londontenants.org](mailto:info@londontenants.org) Tel 020 7874 5464 Web Address [www.londontenants.org](http://www.londontenants.org)