

London Tenants Federation

Housing Revenue Account Review

(Notes from LTF meeting 29.07.08)

Abigail Davies, Head of Policy at the Chartered Institute of Housing (CIH) attended the meeting to speak about progress of the Housing Revenue Account (HRA) Review.

She said the HRA is a very complicated system. She said that it doesn't work, that is unfair and needs to be changed or it will fall apart.

The review was announced by Yvette Cooper (then housing minister) in Dec '07. Its aim is to look at the long-term sustainability of council housing.

Main complaints made about the HRA are that it doesn't make sense, it is unfair, tenants are unable to engage with it and it doesn't allow councils to plan properly.

Tenants pay their rent to the council; the treasury makes a calculation which takes into account debt repayments, how much each council will collect in rent and the amount each will need to manage and maintain their homes. Tenants rent effectively goes into a national pot. Most boroughs (156) are in 'negative subsidy' - which means they pay into the collective pot whilst only around 52 are in 'positive subsidy' or receive from the national pot. Most of those in positive subsidy have large amounts of debt to pay off.

The treasury sees council housing as a national asset, yet no one else does. For the system to be sustainable it needs to be transparent, tenants need to know where their rent goes and councils need to be able to make long term plans.

The CLG is running the review and has commissioned the CIH to act as an independent facilitator to make parts of the review happen. The CIH also has a position on where things should go in relation to the review. (The CIH supports the LGA position paper – 'My Rent went to Whitehall').

The review started in May and will go on until early next year, when the cost of options will then go to ministers.

The CIH has run a series of workshops which have involved mostly local authority finance officers and a couple of tenants. The tenants are there to represent themselves rather than their organisations.

The CIH also ran two regional events, where there was some open discussion. Additionally they had an online discussion forum on their website where contributions could be made by anyone who chose to input.

There are to be consultation events for tenants arranged by CLG.

So far there are two feasible suggestions on what might happen with the HRA; to keep the national HRA system, with increased allowances and strengthened ring-fencing, or move to a locally controlled finance system.

There will now be analysis of the positions for change and from October / November there will be some testing of the ideas

There are 4 work streams

- Costs and standards
- Rents and service charges (including rent restructuring)
- HRA rules – at the local level
- Mechanisms for getting funding in

Abigail advised that a synopsis of the 4 work streams is currently being put together. She gave brief feed back from each working group.

- 1. Costs and Standards** The HRA is under funded and not sustainable. Local authorities cannot really say what they can do with the money allocated. It is difficult to compare service costs from local authority to local authority as there is insufficient consistency between councils. Government expectations on what else housing might support e.g. in relation to employment or health are high.

The new Tenants Services Authority will set standards around rents and service. Local control would lead to a better meeting of needs locally and better efficiency.

- 2. Rents and service charges** People are generally unhappy with rent restructuring. Harmonisation won't happen because of the differences between local authorities and housing associations (HA). HA rents are still higher and going up faster than council rents. There is a difficulty in linking rents to costs and to local incomes. Allowances are set at a different rate of inflation than that of rents. Lots of councils have de-pooled rents and services. But there are questions around what tenants are paying for and why they are paying for some of those things. There are questions around why the treasury isn't paying for them instead.

- 3. HRA rules and 4. Funding mechanisms** There are questions around whether the ring fencing around the HRA should be tightened. There is inconsistent practice around what happens to capital receipts. Could there be a national HRA and ensure that it pays only for housing services?

There is real support for local control. There is a desire amongst local authorities to behave more like HAs and a view that they could be more aspirational in delivering services.

The government carried out self financing pilots to analyse the possibility of councils coming out of the HRA. The pilots showed there is not enough money and that there is a massive shortfall in Major Repairs Allowances. The principle is OK – but it doesn't really work.

Another big problem is the historic debt. For some councils, this has been paid off; for others not. Councils that gain most of the 'subsidy' are those with highest debt. 'Subsidy' is then to pay off debt rather than for services.

Debt should be paid off with a line drawn under it.

If we are going to get rid of the national redistributive system, how would it work? Local authorities are already drawing up options appraisals – it appears that if this occurred, it would push more into stock transfer.

Would it be better to help the national system in a revised way to ensure fairness; i.e. keep some of the redistributive element?

Questions and comment to Abigail Davies

- There have been massive amounts of incompetence and inefficiency around maintenance of council homes, resulting in problems that would not have arisen if maintenance work had been carried out properly.
- It is significant that the project group on the Housing Green Paper has been saying that it will take 2 years for the new regulatory regime for the social housing sector to be extended to the local authority / ALMO sector, yet the Secretary of State is now, in one push, to go for this immediately and is looking for Royal Assent.
- Control of local HRA accounts is essential. How will it be controlled in the future? The HRA becomes like a political football; this has to stop.
- Now is the time to make this point. It is unlikely that it will be controlled by anyone other than local authorities – but there is clearly need for a firm set on guidance on what it can be used for. (AD)
- There should be a structure that excludes rents being used for anything other than management, maintenance and major repairs to our homes
- Surely it would be possible to fund the construction of new council housing from capital receipts – the proceeds of Right to Buy sales.
- Land values and planning control also need to be considered; they created artificial shortages in housing. Council land is escalating in value. The extra costs of building works must be acknowledged in any subsidy arrangements and those costs should not be foisted on tenants
- When councils build extensions on properties to accommodate larger families there should be some safeguard on these homes to prevent them being sold under the right to buy. We have huge shortages in family dwellings because so many have been sold and not replaced.
- There must be some addressing on the morals and principles of this review. Those involved are ‘the experts’. They are not able to change what is required to benefit tenants. Rent restructuring / rent alignment is not fair. Currently you can have two homes one owned by the council next to one owned by an RSL. The RSL rent will be massively more expensive. Why should council rents be constantly increased to reach a level which tenants cannot afford? Additionally there is rent reclassification – if your area suddenly becomes more expensive and you end up with better transport facilities / a bus stop outside where you live, you end up with your rent going up. Tenants should have more of a say in this.
- Many local authorities are aware rent restructuring problems. (AD)
- Tenants and leaseholders in London have not been properly involved in the processes of the HRA review. It seems that TAROE and DCH have had a say, at least in the housing press, yet the LTF has no formal equivalent

(despite efforts). Rent restructuring is an artificial mechanism that is of little benefit to tenants. In Kensington and Chelsea, we have Trellic Tower, our TMO / ALMO doesn't have enough money to bring it up to a decent homes standard. It appears that there is a complete failure to address the long term sustainability of council homes, particularly those like Trellic Tower that are more expensive to maintain. How exactly are local allocations to be topped up to address this? We have huge problems in London; many boroughs are in positive subsidy because of the levels of debt. Service charges are still under the umbrella of artificially set rents (even though government bribed councils so that if they de-pooled service charges they would not include them in the HRA subsidy calculation).

- Whilst I approve of Right to Buy, any proceeds must be used for building new homes and kept in the borough.
- There has been a deficit of democratic and accountable representation in the review, which makes all tenants suspect that the results will not address their concerns. Surely the input of tenants should at this stage, where they can contribute equally and forward their own suggestions, rather than being passive responders to what the experts come up with, especially since government says it is keen to empower tenants.
- The LTF could request a meeting with CLG and present written proposals. These should also be sent to the review team. This will need to be done in early autumn.(AD)

The meeting thanked Abigail for attending.

Ruth Lucas, Local Government Association (LGA) and author of the 'My Rent went to Whitehall position paper' attended the meeting to speak about the paper. She said that the HRA is a very technical subject. The current position is that the system is very unfair. It worked well in the past, but not any more.

The LGA has been speaking to government about the problems relating to the HRA for years and their position paper has been developed to help inform the work of CLG's review of the HRA.

The paper has been put together from a working group of people, from the LGA, CIH, London Councils, Councils with ALMOs Group, the Nat Fed of ALMOs and the Association of Retained Council Housing. It is a local government 'ask for'.

The launch of the paper had good reception and has gained cross party support from local authorities. The working group is developing further research on what the paper should look like.

There are some key concerns with the whole system:

- The redistribution mechanism. Some pay in and some get more out than they pay in because it is based on councils looking at assumed need. The system is falling apart and in time all councils will be in negative subsidy. The treasury is gaining surpluses from rents and there is no guarantee that these surpluses will not rise to almost a billion in the next 10 – 20 years. Council tenants should not be paying an additional tax like this.

- The LGA would like to see councils being able to borrow from the private sector, providing long term solutions for council housing.
- Government sets the rules around the finance and determines how much each local authority gets to spend on the running costs of its homes. The 'subsidy' determinations tend not to be agreed until late January each year, leaving little time to discuss with tenants, before the commencement of the new financial year.
- Councils are not allowed to set rents as we have rent restructuring. It means rents have to keep going up with no better service for tenants.
- Government gave loans to pay for council housing in the first place and argues that councils (tenants) should then pay off the loans. Yet when a council sells a home the government gets 75% of the proceeds.

Ruth said they aim to carry out further research and discussion and try to create / maintain a united position amongst the large group of organisations currently supporting the position paper. She said they also aimed to involve tenants' organisations in the process and to produce tenants' packs with post cards which tenants can send to MPs. There have been discussions with TAROE and TPAS.

The government is now looking to do another Green Paper later this year. It will enable them to make housing finance changes without going back to parliament, although some will need primary legislation. MPs need to be made aware of this.

Ruth said she would not address the paper from a London perspective, as requested, since the HRA is a national system.

Comments and questions to Ruth Lucas:

- Some tenants do not feel that their local authorities are working in the best interests of their tenants. Many feel that their influence in decision-making about their homes has reduced through ALMOs and the executive / Mayoral systems. There is fear that housing associations and ALMO's that are currently 'not for profit' will change to being 'for profit'. TAROE and TPAS represent very few tenants in London.
- There are specific issues for London. The shortfall in funds for both major repairs (MRA) and management and maintenance (M&M) allowances has huge impact here. We have a large number of tower blocks which require more of both allowances. If we refine the system so that neither MRA nor M&M exist, councils will be left on their own, to sink or swim. We are concerned about the failure to engage tenants in the review and also concerned about the notion that a national tenants' organisation necessarily represents all parts of the country. The LTF is a membership organisation, which collectively is representative of a large part of London.
- London Councils are involved with the LGAs working group. It would be good to also engage London tenants.
- Local authorities believe they are working on behalf of their tenants. Business planning processes can only be carried out by consensus and the support of tenants. I do not believe that the change from 'not for profit' is on the agenda. TPAS and TAROE are national organisations. (RL)

- What would the HRA be replaced with? Will government want to lose what they are gaining in terms of profit-making from our rents? After all they have to have their 75 days holiday and their huge allowances.
- The aim is to get consultants to look at the LGA's proposals and work on cost and benefit analysis; to model what the system would look like. They will need to look at the total cost needed and the environmental standards required. Currently debt is something we are looking at. The current system is wrong and so we end up with a wrong calculation. We want self financing and we are looking at the long-term benefits of doing this. We aim to have a next stage report by Christmas.
- Leaseholders would also like to be involved in the review process. Leaseholder charges are in fact rent being taken in advance. There is a big difference between being a leaseholder and a freeholder.
- The issue of leaseholders has been raised and the LGA aims to look at this. (RL)
- Another of the problems around rent restructuring is that council housing is quite old (nothing really has been built since the 1980's), whilst HA housing in most instances is relatively new. It is wrong that council tenants should be paying rents to meet the higher HA level, particularly since in some instances, this is almost double the cost. If the national HRA system is broken up could this not be just one or two steps away from privatisation and will it further break tenants apart?
- These concerns are understandable, but if we don't do anything about the current system then we simply won't have any more council housing. We have to find something better than the current system.
- Croydon is a bit worried about councils who do have a lot of debt. What is the cost of coming out of the HRA system and who will pay for this historic debt?
- There are options around this. There could be levelling of historic debt with deferred payments over 30 years. There could be possibilities of going into the private sector, of selling land and looking at more flexible options. This would then enable some choice for tenants around the services that rents can pay for. (RL)
- This whole discussion is disturbing. If councils are hiring consultants to look at this, are tenants paying for it through our rents? Do we as tenants get any consultation on this? In terms of consultation processes, there is certainly none at the local level. How can you suggest that councils are working on our behalf, without asking us what we want? This whole notion of choice around services is nonsense. If you live in a tower block you can't decide whether you have a working lift or not. All tenants should be entitled to a decent level of service; we pay enough for that in our rents, but don't get it. If there is more private finance borrowing, it is tenants who will foot the bill for the extra private sector costs. The point is, the majority of tenants are long term tenants and we are paying off debt on capital costs when the treasury is reaping the benefits from the capital assets. This simply has to stop. Tenants rent money should be directly benefiting the condition of our homes. What is worrying is that we won't get a

chance to comment until the politicians, officers and experts have decided what they are going to do. I'm against the idea of councils leaving the national HRA system.

- There are historic problems that need to be addressed, most of which relate to the building programmes post war. Everything we pay in rents should go back into paying for the running costs of our homes.
- The LGA doesn't disagree. We believe that nationally and locally tenants' rents should be ring-fenced for housing services. (RL)
- Your position paper is contradictory on this. In one instance it suggests that you do support this and yet in another it suggests that local authorities could decide 'with their tenants' whether to use the money on other things.
- The problem with the current system is that it does not allow for any long term planning by local authorities. They don't know year by year how much money they will have to work with for the year. (RL)
- For clarification, there are three national and six regional tenants' organisations. Regarding this debt issues, if you buy a property you pay off the costs and if the property increases in value and at the end of the day you sell, you gain the profit. In the instance of council housing, tenants are paying these same capital costs, but we gain nothing back; the treasury does. It would cost government nothing to get rid of the debt full stop, since it is revenue neutral.
- Selling council owned land is simply not sustainable. In London we are constantly losing green space, school playing fields and are surrounded by expensive new build that brings us no benefit. The escalating costs of council housing simply forces more into claiming benefits.
- I cannot comment on individual circumstances. What happens in any borough should be a local authority decision. Breaking up the national HRA would enable good asset management, which we currently don't have. I agree councils should not necessarily have to sell off land to manage their stock efficiently. (RL)
- Perhaps we could look at where there might be a common position – for councils and tenants (including London tenants). If the LGA supported the notion that council tenants' rents should be used exclusively for the management and maintenance and major repairs to their homes it would be a good start. Currently tenants are paying £1.7 billion more in rent (this year) than councils will have to spend on management, maintenance and major repairs to tenants homes. But even then there would still be a shortfall of about £650 million. If the current shortfall in allowances is not addressed it will still put into question the long term sustainability of council homes for many local authorities. If we move to a position where councils are allowed to keep all the rent raised from their tenants, some (like Waverley) will benefit a lot and others less so, particularly if the shortfall in allowances is not addressed.
- In some ways this debate is welcome, but we have to look at the way in which the discussion is being held. There must be an evaluation of council housing to present to government. We know that it is of enormous value. Much council housing is old and it is questionable whether sufficient funds

can be raised for it to be properly managed and maintained without some subsidy from central government. However if you prove that council housing is so essential to the health, education and life opportunities for those who cannot afford to buy or who don't want to, then long term regardless of the subsidy, there will be enormous savings for government in other areas. London compared to other regions has the highest levels of council housing, particularly in inner London. It is hugely important to London and the case for London must be made. If the HRA is to be removed it will have huge and potentially detrimental impact on London. There must be serious consideration of what will replace it to ensure its long term sustainability.

- Any shortfalls will have to be addressed in a variety of ways, from government, from local authority borrowing and by giving local authorities a level playing field with RSLs. (RL)

The meeting thanked Ruth for attending the meeting.

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