

## A debt to tenants - why 'historic debt' should be written off

**A**s part of its proposal to introduce a new Housing Finance system the government is proposing a 'one-off settlement' of what it calls 'historic housing debt'. Currently it is saying that this debt should rest on the shoulders of Council tenants who have benefited from Council house building and maintenance. They say it would be 'unaffordable' and 'unfair' to the general taxpayer to cancel this debt.

The irony of this position is that since it came to office in 1997 the government was intent on transferring all Council housing to Housing Associations or private companies. Amongst other inducements aimed at pressuring tenants to vote for transfer the government was prepared to write off the debt of each authority transferring its stock. Since 1988 when transfer began almost £4 billion has been spent writing off debt in England. In Scotland a further £1.3 billion has been spent likewise. Yet such a write-off has been denied those tenants who have chosen to remain with their Council.

The government says this debt is around £19 billion, yet when you examine it carefully, all is not what it seems. In 1996-7 the total Council housing debt was £20 billion. By 2004/05 it had been reduced to £12.7 billion. How did it rise to £19 billion when virtually no Council house building was taking place? The government 'performed a sleight-of-hand' in relation to ALMO's (Arms Length Management Organisations - a half-way house to privatisation which had the advantage that no ballot of tenants was required to set one up). It announced in 2000 that it was making additional resources available for 'high performing' ALMOs. This eventually added up to £5.7 billion. *Yet the government didn't finance it.* They simply added the borrowing onto the historic council housing debt. So all Council tenants were subsidising additional money for the ALMO's out of their rent!

### Robbing the tenants

New research carried out for the Parliamentary Council Housing group shows that government has "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 government took 75% of all receipts from Council house sales to pay off the historic debt costs of building these homes. Councils that became debt free were able to keep all their receipts. These tended to be the result not of brilliant management but where Councils sold off a higher percentage of their stock.

From 2004/5 this changed. 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 HRA in this way. Some of this money was used to pay for home ownership schemes and grants to Registered Social Landlords (Housing Associations).

### Right to Buy Discounts

The total value of the discount given to tenants buying their council house between 1979 and 2009 was £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 cost of the discount themselves.

The House of Commons Council House group is right when it says:

"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.”

So more than £37 billion was lost to the national HRA as a result of discount policy and siphoning out receipts - more than enough to pay the current supposed £19 billion debt.

### **Robbery from rents**

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 the 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 supporting debt, but between 1994/5 and 2008/9 the government's 'negative subsidy' system cost council housing £7.8 billion *over and above debt payments*.

### **Why should tenants pay the debt?**

Council housing is a public asset like hospitals and schools which are subsidised from general taxation. Yet tenants are being told that they should pay the debt. Government does not attempt to recover public subsidy from any other form of housing tenure, so why from council housing?

RSLs received 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.

The government subsidises profit-making companies, consortiums and private individuals involved in buy to let, through tax breaks.

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.

### **'Investment earnings'**

Treasury officials justify the money they have taken from tenants as a 'return' on investments'. But the government does not seek a 'return' from schools or hospitals, so why from council tenants? The House of Commons CHG says 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."

### **Cancel the debt**

It is clear from the foregoing that the 'right to buy' not only involved giving away public assets on the cheap. It had consequences for the remaining council tenants, by increasing the costs of managing and maintaining the stock.

Even if you accept the £19 billion figure at face value, writing it off would cost just over £1 billion a year, giving councils money to invest in their stock (they would no longer have to pay to 'service' the debt). When you consider that the government has provided £125 billion in 'quantitative easing' and now a further £50 billion in a second tranche, then the assertion that it is not affordable to write it off is put in perspective.

Writing off the debt would have the added advantage that in making money available for new

build. It would play a role in putting redundant building workers back to work, helping to tackle the recession.

In abandoning the housing revenue account subsidy system the government has overturned some aspects of its housing policy. It has said it will end financial inducements to transfer of stock. It has abandoned the 'negative subsidy' system, accepting the right of Councils to keep all their rent raised from their tenants. It has abandoned its opposition to Councils building new Council housing allowing councils to apply for 'social housing grant'.

However, it owes a debt to tenants for continuing the policy begun by Thatcher. It continued discrimination against tenants; a 'philosophy' based on worship of home ownership as a 'natural' aspiration. It's proposed 'self-financing' system has abandoned its defeated attempt to put an end to Council housing.

Cancelling the debt - much of which is not the result of historic council house building - is affordable and would provide an act of justice for tenants, even if somewhat belated.

The deadline for responses to the consultation is October 27<sup>th</sup>. Trades unions and tenants organisations will be demanding the cancellation of the debt. To do so either:

Email [councilhousingfinance@communities.gsi.gov.uk](mailto:councilhousingfinance@communities.gsi.gov.uk)

**Or by post to:**

Review of Council Housing Finance, Communities and Local Government, Zone 1/J9, Eland House, Bressenden Place London SW1E 5DU

**Note:**

The figures quoted in this article are based on the document *Council Housing, Time to Invest* by the **House of Commons Council Housing Group**. To read this document go to the **Defend Council Housing campaign** website:

[www.defendcouncilhousingcampaign.org.uk](http://www.defendcouncilhousingcampaign.org.uk)

**Martin Wicks**

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