



**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 4 INTERIM VERSION**

## **Ring-fencing the money that belongs to council housing**

### **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 existing 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

## Introduction

1. The case for council housing
2. Fully funding allowances: calculating 'level of need'
3. The money's there: debt write-off, gap funding and receipts
4. **Ring-fencing the money that belongs to council housing**
5. Housing finance : National HRA or Self-financing?
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**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.**

# 4. Ring-fencing the money that belongs to council housing

In 2005 we called on government to:

“Ring fence the national Housing Revenue Account and ensure that, as a principle, all council tenants’ rents are spent on our homes.”

This has been taken up and repeated by trade unions and Labour conference year after year:

“Conference re-affirms the decisions of the 2004 and 2005 party conferences and our commitment to a ‘level playing field’. This should include ring-fencing all the income from tenants rents, capital receipts...” (Motion passed at 2006 Labour conference)

## 4.1 National ring-fencing

The overwhelming message from our inquiry was that council rents and receipts should be ring-fenced for council housing:

**“I don’t have such a big problem about the money taken from our HRA to give to councils who don’t have... The problem I have is the great deal of money that is taken and not used for housing... To put a ring fence round the HRA locally and not allow any more our councils to spend our rent on building a new leisure centre was a very good idea until someone in government realised that there’s a little pot sitting there that he could come along and rob.”** (Anne Harris, Chair of Tenants Advisory Panel, Hinckley and Bosworth, oral evidence)

As well as bringing an end to the robbery nationally, the government needs to strengthen the rules to ensure that tenants are not robbed locally either.

## 4.2 Ring-fencing the money for council housing locally

There is supposed to be a strict ring-fence between a council’s housing fund (the Housing Revenue Account or HRA) and its general fund, collected from council tax. However this ring-fence is not well controlled and is one of the issues being considered in the Review of Council Housing Finance.

Before the current system of pooling was introduced, local authorities were able to make a surplus from their rents and pay it into their general fund. A paper from the House of Commons Library written in 2000 when the current system was being proposed explains the situation well:

“Some 60 authorities in 1999/2000 had a surplus on the Housing Element of their HRAs that was greater than the Rent Rebate Element.

...For some ‘negative subsidy’ authorities transfers to the General Fund involve significant sums which represent a substantial proportion of their General Fund income... In these authorities council tenants are subsidising council tax payers; there is also concern that this money (£100m in 1999/2000) represents a significant drain on housing resources.” (*Rent Rebates and Local Authority Housing Revenue Accounts*, HOC Library, November 2000)

With this history, it is not surprising to us that tenants are suspicious of the motives of some local authorities calling for self-financing. Defend Council Housing say:

“Council tenants will be pleased that more housing experts and local authorities are now joining us in protesting about the robbery from tenants rents but there will also be suspicions that some have ulterior motives! ...tenants will want to scrutinise their authority’s HRA to make sure that all ‘useable’ capital receipts from right to buy and other sales are being reinvested in council housing and that no charges are being made to the HRA (tenants’ rents) that should properly be charged to the General Fund (all council tax payers).”

Discussions during the Review of Housing Finance explain clearly the kind of problems suffered by tenants when the local ring-fence is abused.

“...there is still a lot of movement across the ring fence that is not transparent to tenants. Tenants feel that they are paying twice for some services, through council tax and through their rents.... It could be argued that these practices distort the real costs of council housing but also affect affordability.” (*Review of Housing Finance Narrative No. 5: HRA Rules*, May 2008)

The review narrative highlights some of the areas where tenants may subsidise leaseholders/owner-occupiers on estates or sometimes the whole general fund:

- “...significant costs associated with work on Anti-Social Behaviour (ASB) is routinely charged to the HRA but should be borne by the General Fund”;
- “...services such as some grounds maintenance, highway services, refuse collection, recycling”;
- “...corporate and democratic costs...the apportionment of council support costs and overheads to the HRA”;
- “...the tenant participation service or the →

**“The problem I have is the great deal of money that is taken and not used for housing”**  
**Anne Harris, chair Hinckley and Bosworth Tenants Advisory Panel**

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→ costs of the residents association, which benefits everyone”.

We would also add to this list from information received from tenants:

- the costs of running offices, which are shared between housing and other council services;
- the costs of building and maintaining playgrounds on estates, which are used by the general public;
- inadequate recharging in leases signed off by councils.

A Bristol tenants’ focus group considered issues raised in the review, and one of the conclusions was:

**“Extra services should not be paid for from the HRA e.g. ASB, the question was asked ‘Why all cost for ASB were not covered by Council Tax?’”** (Bristol City Council, report from focus group, written evidence)

The evidence we received supports the view that the ring-fence must be strengthened. Whatever the new housing finance system looks like, it must contain a reinforced ring-fence to ensure that tenants’ rents and other resources raised from council housing are spent on council housing and not used to subsidise other services.

**“Councils need to be accountable in terms of what the HRA is expected to fund. With a significant reduction in the number of council properties, the HRA continues to fund many services for which the costs should be split between the HRA and the General Fund. This does already happen with some services (e.g. grass cutting and grounds maintenance in Stroud DC) but does not seem to happen for other services. Examples of this include costs associated with work on trees; anti-social behaviour; highway services; refuse collection and recycling.”** (Stroud DC Labour Group, written evidence)

We heard the same view in oral evidence:

**“Why should I pay twice for anti-social behaviour ... Why tax the council tenant twice for those services? The hidden taxes are phenomenal.”** (John Pemberton, Wolverhampton council tenant, oral evidence)

**“Already council tenants pay twice for certain services like rubbish collections... Why should we be paying for the pavements and that when you’ve got home owners there that aren’t paying twice?”** (Janette Bobey, Milton Keynes Tenant, oral evidence)

At a meeting with the department of Commu-

nities and Local Government in November 2006, we raised the question of how the local ring-fence is enforced. CLG officials said this was the responsibility of the District Auditors. Further questioning revealed that there is no requirement on local authorities to account for how they split expenditure between the general and housing funds – the District Auditor would check that ‘grounds maintenance’ for example is an appropriate item for housing expenditure but would not question how grounds maintenance is apportioned.

The Chartered Institute of Public Finance Accounts (CIPFA) support the continuation and strengthening of the ring-fence:

“CIPFA believes that the underlying principle behind a landlord account, that tenants should neither subsidise nor be subsidised by general council taxpayers, is still valid today and holds for the future. Either the HRA should be retained – in a clearer and more flexible form – or councils should be required to set out the landlord account in a clear memorandum or note to the main accounts.” (Lesley Lodge, finance and policy manager, local government, CIPFA, *Public Finance*, 12 September 2008)

Councils which siphon off tenants’ rent money (and right-to-buy receipts) to subsidise council-tax payers are helping to create a situation where their council housing is unsustainable.

### 4.3 Ring-fence right-to-buy receipts

Government siphons off three-quarters of receipts from the sale of council housing through ‘Right to Buy’. This money belongs to council housing and should be used for council housing and nothing else. This should be true locally as well as nationally. Councils should not use their 25% useable receipts outside council housing.

The HRA review narrative on the ring-fence comments:

“...The local ring fence does not extend to capital. When tenants exercise the right to buy, the HRA loses income but does not gain the capital receipt. Councils vary considerably in their practice and whether they give retained capital receipts back to housing. A significant amount of investment is lost from housing to other services as a result despite the high long term requirement for investment in council housing.”

We welcome the proposal by government that right-to-buy receipts from new council housing should be 100% retained by the →

This money belongs to council housing and should be used for nothing else – locally or nationally

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→ local council and ring-fenced locally for council housing (*Changes to the revenue and capital rules for new council housing*, CLG, January 2009). This should be the case with all right-to-buy receipts, not just those from future homes.

### 4.4 Recommendations

1. Ring fence the national Housing Revenue Account and ensure that, as a principle, all council tenants' rents are spent on their homes.
2. Ring fence all right to buy receipts to be used to improve existing and build new council housing.
3. Introduce and enforce a set of accounting rules and standards to ensure that the costs of all shared services are correctly apportioned between the Housing Revenue Account and the general fund. Tenants should decide on incurring any extra charges for enhanced services.