



Submission Review of the Housing Revenue Account

Introduction

UNISON is the biggest public sector trade union in Britain with 1.3 million members. It represents people who work in public services, in the NHS, in local authorities, in voluntary organisations, and in private companies providing services to the public, the utilities and transport.

In housing management UNISON is the largest trade union with membership in local authority housing departments, ALMOs, RSLs, Co-operatives and on PFI contracts.

UNISON strongly believes in the provision of high quality, properly resourced, democratically accountable public services.

UNISON warmly welcomed the announcement of the Review of the Housing Revenue Account and the Government's commitment *"to ensure that we have a sustainable, long term system for financing council housing"*

The Economic and Social Significance of Council Housing

For more than a century (since the Housing of the Working Classes Acts of 1895 and 1890) local authorities have played a crucial role in the provision of housing. Time and again local authorities have been agents of change, building good-quality affordable rented housing.

The new millennium brings new challenges to the provision of affordable rented housing, on quality, space standards, climate change, sustainability and energy efficiency.

The debate about council housing often takes place within a narrow technical context. UNISON argues that the provision of high quality affordable public housing has wider economic and social significance.

Investment in council housing demonstrably has a significant impact on health, education, community safety, social cohesion, the environment and the economy and investment needs to be seen within this wider context and take account of the consequences of investment in council housing on other public expenditure (e.g. eliminating damp and installing central heating will reduce expenditure related to ill-health; addressing overcrowding may reduce expenditure related to mental ill-health).

The Review of Council Housing

Principles

UNISON believes that the following principles should underpin the outcomes:

1. *A national housing revenue account should be maintained*
2. *Allowances for management; maintenance and major repairs should properly reflect the financing needs of ensuring well managed and maintained housing stock in good repair*
3. *The cost of capital investment should form part of the HRA but there is a powerful case for addressing historic investment patterns that create large anomalies within the current system*
4. *Consideration should be given to the treatment of housing expenditure under the European System of National Accounts and public expenditure definitions (GGFD) to establish whether changes that are consistent with those definitions would have benefits to the financing of council housing and its sustainability*
5. *Pooling and redistribution should continue to underpin the housing revenue account in order to achieve:*
 - *resource distribution based on relative housing need*
 - *affordability*
6. *The separation of service charges from rent at a local level should be minimized and restricted to services that are eligible for housing benefit*
7. *The rental income assumptions that inform subsidy calculations should be at made at a local authority level (informed by property data) and not at an individual property level. Local authorities should, in consultation with tenants, determine the actual structure and level of rents*
8. *An additional 'new build' allowance should be created within the HRA subsidy system to enable local authorities to use the prudential framework to finance the building of new council housing to assist in meeting housing need within their localities*
9. *The ring-fence between the local housing revenue account and the General Fund needs to be strengthened*
10. *Ring fencing nationally of the housing revenue account so that it is not used to subsidise non council housing functions*

Principle 1

Maintaining a national housing revenue account

Public or Council Housing has always operated at a national level enabling resources to be targeted at the areas of greatest housing need. This system has incorporated an element of cross subsidy between local authorities but in recent years (as the number of authorities with functioning housing revenue accounts has fallen due to stock transfer) unacceptable situations have developed that need to be addressed.

Several attempts have been made to explore the requirements of and consequences for local authorities leaving the Housing Revenue Account and recent legislation has enabled local authorities and the Secretary of State to reach agreement on the basis on which some or all of the stock would leave the HRA either for a fixed period of time or indefinitely.

The effect of all these measures has and will continue to be to weaken the national system.

Principle 2

Allowances for management, maintenance and major repairs should properly reflect the financing needs of a well managed and maintained housing stock in good repair

The current levels of allowances for management, maintenance and major repairs do not reflect the actual costs. Evidence from various bodies including the Building Research Establishment supports this view. The decision to update the BRE research as part of the Review of Council Housing is very welcome.

UNISON believes that a significant uplift in these allowances is necessary. The effect of a significant uplift would be to move the national HRA from a position of overall surplus, increase the number and proportion of local authorities in positive subsidy and reduce the amount of negative subsidy paid by authorities that remained in that position.

Principle 3

The cost of capital investment should form part of the HRA but there is a powerful case for addressing historic investment patterns that create large anomalies within the current system

Debt is a major factor in the determination of different HRA subsidy outcomes for different authorities. The Government could consider the following:

- writing off a proportion of housing debt held by local authorities in order to create a situation where on a per property basis the HRA subsidy calculation makes similar assumptions for each authority
- writing off all historic debt over a given threshold to create a level playing field between authorities

Principle 4

Consideration should be given to the treatment of housing expenditure under the European System of National Accounts and public expenditure definitions (GGFD) to establish whether changes that are consistent with those definitions would have benefits to the financing of council housing and its sustainability.

Several financial commentators have argued that there are differences about the treatment of public housing expenditure on housing between different members of the European Union. Given the significance of the Review to the long term future of council housing these matters should be fully explored.

Principle 5

Pooling and redistribution within the housing revenue account both nationally and locally that is designed to achieve:

- **resource distribution based on relative housing need**
- **affordability**

Within a national framework the concepts of pooling and redistribution are sensible provided they are able to command broad support from individual local authorities, tenants and representative trade unions.

UNISON believes that such support can be broadly secured provided resource distribution is demonstrably based on relative housing need and affordability.

Principle 6

Separation of service charges from rent

Pooling also operates at a local level and in recent years local authorities have been encouraged to disaggregate rents and introduce service charges. The policy on rent increases is linked to the RPI which has seen substantial changes in its structure.

In some authorities the dis-aggregation has been used to increase the overall yield. Where the service charge is ineligible for housing benefit, households on low incomes, who may already face cost pressures as a result of other inflationary pressures (e.g. energy and food) are likely to be faced with additional hardship

Principle 7

The rental income assumptions that inform subsidy calculations should be made at a local authority level (informed by property data) and not at an individual property level. Local authorities should then, in consultation with tenants, determine the actual structure and level of rents.

The current methodology provides for subsidy calculations that are made at an individual property level. It was originally envisaged that convergence

would be achieved by 2012 and that this new structure would create 'incentives' for tenants to reduce under occupation and increase mobility.

In practice convergence has been delayed and in at least one area the gap between the local authority and RSL rents has widened. The new framework does not appear to be a factor in addressing under-occupation or mobility and authorities and tenants report that there is no tenant engagement in discussion of rent level decisions at a local level because the model with the subsidy constraints effectively determines the outcome. It also appears to be contrary to the Government's 'empowering communities' agenda.

In order to re-establish tenant involvement it is suggested that the rental assumptions are made at the local authority level and not an individual property level.

Principle 8

An additional 'new build' allowance within the HRA subsidy system to enable local authorities to use the prudential framework to finance the building of new council housing to assist in meeting housing need within their localities

It is essential that local authorities have the ability to build new council housing and the current difficult housing conditions merely serve to underline that fact. Local authorities may need to build new council housing to contribute to meeting housing needs in their localities; to respond to changing needs (e.g. the development of two bedroom bungalows may allow a local authority to meet the needs of a family that is underoccupying thereby releasing large accommodation that can meet the needs of a household that is overcrowded which in turn releases a property to meet the needs of a homeless household) or as part of the redevelopment of existing accommodation that may need renewal or replacement.

A revenue allowance to support prudential borrowing (in the past local authorities borrowed over periods of 50 or 60 years although 30 years is more common today) may be more cost effective than capital grant.

Council tenants have always had the legal right to acquire their homes. Local authorities are discouraged from building new council homes by the discounts that are available under the Right to Buy, not only because the benefits of significant capital investment can be lost through the tenant exercising their (right to buy) discount but also because the local authority only retained 25 per cent of any capital receipt. In Scotland the Scottish Parliament is considering removing the availability of (Right to Buy) discounts from new council housing. Given the development of a plethora of homebuy initiatives now may be an appropriate time to replace the discounts associated with the Right to Acquire and the Right to Buy with the homebuy framework.

Principle 9

Ring fencing of the local housing revenue account from the General Fund

The Local Government and Housing Act 1989 introduced the principle of a 'ring fenced' housing revenue account in response to a widely developed practice whereby local authorities were using council tenant's rents to subsidise ratepayers. Sch 4 set out the framework and it was tested in the courts resulting in the 'Ealing judgement'.

The vast majority of local authority estates are mixed tenure and comprise a mixture of owner occupied and or leasehold properties, privately rented and local authority rented properties. The nature of the mix has changed significantly since 1 April 1990 when the current framework came into force and there is evidence that the practical operation of the ring fence is weak and that tenants are not afforded sufficient protection.

Principle 10

Ring fencing nationally of the housing revenue account

The same principle applies to the operation of the HRA at a national level. The previous government built into the operation of the HRA a means of cross subsidizing rent rebate expenditure. UNISON argued that this was unjust and iniquitous and welcomed the (belated) decision by the Government to remove housing benefit expenditure and subsidy from the Housing Revenue Account from 1 April 2003.

After a short period where the Government provided an overall subsidy the national HRA has now moved back into surplus (estimated as £214m in 2008/09). It is not immediately clear what happens to those surpluses and transparency is needed. One option might be to establish the national Housing Revenue Account in a similar way to the National Non Domestic Rating Pool.