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Setting the record straight on subsidy

Governments, the media and others consistently make incorrect statements about social housing tenants being 'subsidised', often in a way that is used to put forward or to reinforce a negative stereotype of council and housing association tenants. This briefing provides some facts and figures on public subsidy relating to housing (much from the UK Housing Review 2015) which it is hoped will help in setting the record straight.

Social housing tenants' rents are <u>NOT SUBSIDISED</u> by the public purse. Social rents are cheaper (a lot cheaper in London) than market rents, simply because social housing landlords don't make a profit on them, while private landlords do. Social rents cover the cost of management, maintenance and repairs of tenants' homes and the paying-off of the interest on loans taken out by landlords to build the homes in the first place.

Affordable-rent tenants with rents of up to 80% market rents pay for all the above and also contribute to the cost of building new affordable rent homes. In fact they pay twice since they also contribute to this (along with everyone else) through their taxes.

Between 1997 and 2008 council tenants actually paid £1.9b more in rent (through the redistributive national Housing Revenue Account system) than the government allocated to councils to manage, maintain, carry out major repairs and repay debt on their homes. When councils became 'self-financing', in 2012, they took on the existing council housing debt plus an additional £7.6 billion of national debt (which is serviced through council tenants rents) on the basis that councils would have a better deal in terms of the future funding of management, maintenance and major repairs to their homes (which had as far back as 2005/6 been assessed, by the Building Research Establishment, as being underfunded).

Homeowners are subsidised through the public purse. Homeowners get capital gains tax relief and pay no tax on the value of their homes (except council tax, which tenants also pay). The combined effects of taxes, like stamp duty and inheritance tax and the various tax reliefs, was a net subsidy in 2013/14 of over **<u>£14 billion</u>**. A further **<u>£723 million</u>** was provided in 2012/13 in renovation grants, right to buy discounts, support for mortgage interest payments and low cost homeownership subsidy.

Buy-to-let owners currently get tax relief. Currently landlords are allowed mortgage tax relief while resident homeowners are not. This has meant that many of them pay little or no tax on the rental income they receive. It was announced in the summer 2015 budget that a change, to ensure their tax relief is only at the basic tax rate (20%), will be phased in over a four year period starting in 2017.

The building of social-rented homes (and other types of affordable housing including shared ownership) is subsidised. Current subsidy for affordable housing (for 2015-20) is **<u>£4.7 billion nationally</u>** (just under £1 billion nationally each year).

If as argued by SHOUT government reverted to subsidising the building of social-rented homes, rather than less subsidy for affordable rents that cost more in the long run through, it would be better for tenants and cost the tax payer less.

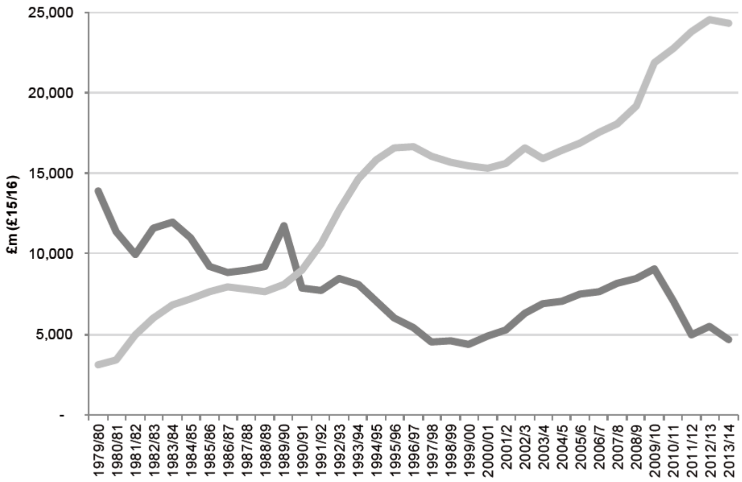
Around a third of London council homes have been sold through right to buy and nationally around 1.89 million homes have been sold since 1980. Despite the £60 billion or more capital receipts gained from RTB (principally by the Government) the majority have not been replaced and are thus no longer in supply for future tenants. Despite a commitment from the government that a new home would be built for every additional social-rented home sold under the reinvigorated Right to Buy, according to DCLG statistics there were 19,445 (additional) RTB sales and only 3,337 replacements built between April 2012 and April 2015. This is just one new affordable rent homes for six social-rented homes sold.

Private sector housing development in England is subsidised The total package of financial support from Government for private sector housing investment amounts to **more than £30 billion**. This includes £518 million in grants, £13.7 billion in loans and £16.5 billion in guarantees. It covers subsidy for help-to- buy equity schemes and mortgage guarantees, right to buy, private rented sector guarantees, built to rent, loans for infrastructure to unlock large housing sites, funds to start small housing developments, local growth fund, locally led Garden Cities, housing zones, new homes bonus, 'Getting Britain Building', Custom Build investment and service plot funds and NewBuy guarantee schemes.

Both private and social housing tenants are able to claim housing benefit to support in meeting higher housing costs than they can afford. An increasing number of housing benefit claimants are from households that are in work. Having insufficient new social-rented homes built has meant that households that might otherwise have been able to afford the cost of social rents are dependent on benefits. This necessarily increases the overall benefit bill.

Spending on housing benefit has risen by £650 million a year since 2009-10, for 2013/14 it was £24.6 billion and is expected to reach £27 billion by 2018/19. Private renters comprise 32% of households claiming housing benefit but the amount claimed by them is 38% of the housing benefit bill. See graph below showing the correlation between increased housing benefit costs and decreased delivery of social-rented homes.

Public expenditure on housing benefit and investment in social housing over 35 years[1]



[1] Graph provided in a presentation by John Perry (CIH) to London Tenants Federation November 2015