“The Inquiry will need to examine all relevant circumstances leading up to and surrounding the fire at Grenfell Tower, its spread to the whole of the building, and its effect on residents.”

Defend Council Housing has campaigned since 1997 against privatisation of council housing and in favour of direct investment, without strings, in existing and new decent, secure, affordable and accountable council homes.

We strongly submit that national and local government policies relating to the funding, management, maintenance and supervision of council housing in England, is a central issue which must be addressed by the Inquiry, if it is to make a meaningful contribution to avoiding further disasters.

To change the context in which the Grenfell Fire happened, the government should:

- Fully fund all fire safety reviews and implementation of recommendations
- Cancel the inflated and fictitious debt loaded onto council tenants via the HRA
- Fund the backlog of major repairs to achieve decent safe home standards in all council homes

The former leader of Kensington and Chelsea council has said Grenfell tenants were offered a choice, of a sprinkler system or modernised kitchens and bathrooms. This is an example of the unacceptable ‘choices’ presented to council tenants and leaseholders, and described as ‘consultation’, over three decades.

This has often taken the form of what we call blackmail: funding for improvements, conditional on privatisation (stock transfer, PFI) or a step towards it (arms length management organisation, TMO) . Such bartering between safety and essential improvement work, undermining accountability, helped create the Grenfell disaster.

They are based on unjustified financial constraints, and must be exposed and ended.

Governments have for 35 years promoted privatisation, out-sourcing, Private Finance Initiatives and arms-length management of council housing, reducing direct funding and investment, and accountability, while squeezing available sources of income.

We believe these policies contributed directly and systemically to what happened at Grenfell Tower. Without excusing poor and contemptuous local management, the inquiry needs to investigate the unjustified financial pressures on local authority Housing Revenue Accounts, which threaten the future of many more council homes.

Kensington & Chelsea Council documents confirm that Leadbitter was the proposed contractor for the work on Grenfell Tower, quoting a price of £11.278 million. This was £1.6 million above the council's proposed budget, so the work was re-tendered. A council update on the Grenfell Tower work says: “Particular focus has been required to ensure that the project representing value for money and can be successfully delivered to the satisfaction of residents.”

Did this “value for money” decision lead to the deaths of Grenfell Tower residents? The contract went to Rydon for £8.77 million, 22 per cent less than Leadbitter's tender.

Underfunding of council housing
In the context of austerity and the reduction of local authority budgets “value for money” is driven not by the quality of work done but by shrinking funding. Therefore a central questions is to what extent underfunding of council housing contributed to this life destroying cost-cutting.

Council housing is not funded by central government. Each local authority which maintains ownership of council housing stock has a separate ring-fenced account, the Housing Revenue Account (HRA). More than 90 per cent of HRA income comes from the rent and service charges which tenants (and leaseholders) pay. (Individual tenants of all tenures may receive housing benefit which covers all or part of their rent. The Housing Revenue Account, however, receives no government support, with the exception of some support for 'supported housing' for people with disabilities.)

No subsidy
Since HRAs have no subsidy, the maintenance and renewal of housing stock which councils are able to carry out is entirely dependent on how much rent councils take in. Any decline in rental income results in cut backs on the work they can do on the homes they own. All stock-owning local authorities have less income than they planned for as a result of government policies.

Paying for fire safety work
If it proves necessary to replace the type of cladding used on Grenfell Tower and other buildings, since it was legal to use such materials, then central government should commit to funding it. Making council HRAs and existing leaseholders do so would be unjust and impossible to implement, with legal challenges and funding problems delaying necessary work. It could otherwise mean other similarly-vital work would be postponed or cut due to funding limits, contributing to further problems and potential disasters.

Income cut
As a result of central government instructing them to cut rents by one per cent a year for several years, council HRAs now face an absolute decline in their income at a time when inflation is increasing. The rate of building work costs inflation is usually higher.

2012 Self-financing
In 2012 a new council housing finance system, 'self financing', was introduced. The centralised council housing finance system was ended. What was nominally national housing debt was redistributed amongst all the housing-owning councils.

When 'self financing' was introduced councils were told by government that the 'debt settlement' would guarantee sufficient income to maintain their housing stock over 30 years. This was highly questionable. Tenant organisations, the House of Commons Council Housing Group, and even the Local Government Association called for the writing off of the so-called debt because in reality tenants had paid more in rent than the cost of the actual borrowing for the building of housing stock.

Goverment undermine council housing finance deal
No sooner had the system been introduced than government undermined

the 'business plans' of councils with a series of measures which significantly reduced their planned for rental income. These changes included:

- Replacing the previous rent formula with a new annual increase of CPI plus one per cent, reducing income over the 30 year business plan. Government offered no compensation to councils.

- New 'right to buy' (RTB) legislation, increasing discounts and cutting the qualifying period from five to three years, meaning a large increase in RTB sales. Councils therefore lost projected rent income from those properties

- A government- imposed further rent cut of one per cent a year for four years from 2016.

Housing Revenue Accounts will not only fail to increase their income in line with inflation but it will *fall absolutely*. According to the Office for Budget Responsibility housing providers will lose an estimated 12 per cent of their expected income by 2020.

These measures alone mean that councils are losing billions of pounds of income over the lifetime of their 30 year business plans. As a result there would be lower surpluses available to maintain housing stock.

Such government interventions, imposing unplanned cuts to rent and other income, without any compensatory reduction in debt burden or other amelioration, results in **pressure to spend as little as possible on maintenance work and major repairs to council homes.** The underfunding of HRAs creates a financial crisis in which decisions on funding of work such as that at Grenfell Tower are made.

Not a single council which owns housing stock has sufficient funds to maintain them to a decent standard. The current funding of council housing does not provide sufficient money to maintain the standards and living conditions of existing tenants, let alone investing in the much-needed new generation of council housing, needed to replace homes lost at Grenfell and across Britain.

Accountability

The privatisation/out-sourcing of council housing and maintenance also needs addressing as a matter of urgency. One part of the motivation for government promoting stock transfer and PFI, was to shift what was public debt and spending ‘off balance sheet’. This reduced public expenditure on paper, while inflating actual costs to the public sector, and crucially, undermining public accountability.

The beneficiary organisations including housing associations, PFI companies, arms length management organisations and some of the larger Tenant Management Organisations (TMOs) have strangulated chains of accountability. MPs complain that through their advice services to constituents they are effectively forced to run customer complaints services for some large housing associations. Councils struggle in many cases to hold these organisations accountable for the (present or former) public assets and funding they receive. For tenants and leaseholders accountability is obscured and undermined badly.

Finance - background
In 2005 the Audit Commission reported that 82 per cent of local authorities were subject to 'negative subsidy', meaning they received no subsidy and had to make a payment to central government from their rent income. In the four years from 2008 tenants' rents *subsidised the Treasury* to the tune of almost £1.5 billion.

In April 2012 a new system of 'self financing' for council housing was introduced. Rather than "correcting decades of underfunding", as the then-housing minister claimed, underfunding was built into the new system. Overt central government levies on council housing revenue accounts (referred to as a 'negative subsidy') ended, so councils appeared to receive more money than under the previous system.

'Debt' and the underfunding of Council housing
Government research established that by 2012 an estimated £19 billion backlog of work was necessary to bring homes up to an adequate standard, requiring a 67 per cent funding increase. In fact the 'self financing' changes saw a 27 per cent funding increase for Major Repairs, and 5 per cent for Management and Maintenance Allowance.

The so called housing debt was something of a moveable feast. In 2004-5 it was £12.7 billion. However, national spending on the ALMO programme was simply added to the 'historic debt', inflating the rent paid by all tenants.

In 2009 the debt was estimated to be £17 billion, yet in March 2010 the government published a prospectus that proposed launching self financing with an increase in debt at national level from £21.49 billion to £25.1 billion. The coalition government proposed a greater increase in the debt level to £28.14 billion.

The House of Commons Council Housing Group, in a major report showed how the Treasury had milked council rents for years. Between 1994-5 and 2008-09 council rent paid was £91.382 billion, but after Government levies, the amount council housing received was only £60.052 billion.

The value of discounts on Right to Buy sales, financed out of council HRA accounts between 1979 and 2009 was £32.557 billion. Since the introduction of Right to Buy (RTB) in 1980, approximately 1.8 million council properties have been sold. Councils are only able to keep 25% of the sales receipts with 75% going to the Treasury for general spending. Prior to 2004, councils could use sales receipts to pay off debt. Since 2004, the revenue from council house sales in England has been £6.2 billion of which councils have only been able to keep £1.5 billion.

The Defend Council Housing group and others had long argued the case that the 'debt' should be written off. The Local Government Association on behalf of all councils, called for debt write off at the time of the consultation on 'self financing'. They said: "We will continue to press for cancellation of the historic 'debt' which Councils spend more than £1.3 billion yearly servicing. Councils have repaid a large proportion of this historic 'debt' and will within eight years have spent more money servicing that debt than the debt itself."