



## 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 6 **INTERIM VERSION**

## Time for Council Housing – Invest in a mass programme of new council homes

### 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

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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.**

# 6. Time for Council Housing – Invest in a mass programme of new council homes

## 6.1 Introduction

The private housing market is in crisis, and cannot deliver the homes we need. The private sector banks, builders, landlords and landowners our housing strategy has relied on, only improve and build homes when they can do so profitably – and the speculation and profiteering by ‘for profit’ housing providers is now unraveling before our eyes. Meanwhile for decades local authorities were prevented from building new council housing, existing council tenants were ‘robbed’ and homes and estates starved of investment.

Even before the credit crunch Registered Social Landlords (RSLs or housing associations), the government’s preferred vehicle for housing deregulation and privatisation, failed to deliver the new homes needed. The RSL sector is increasingly dominated by multi billion pound private companies operating across dozens of local authority boundaries; they adopted business models that built up cash surpluses and land banks; they have rents and charges higher than for council tenants; they provide ‘assured’ not ‘secure’ tenancies; and they have a reputation for being unaccountable.

With growing numbers of people unable or unwilling to take on mortgages at any cost, the current half-baked schemes for promoting shared ownership are proving a dismal failure. We need to end the dogmatic attachment to home-ownership at any price and invest in council housing to ensure the long term sustainability of the existing 2.6 million homes, and to build the new homes with secure tenancies and genuinely affordable rents, directly managed by an elected and accountable landlord which people want.

Councils have been the solution historically in crises, when housing need was acute. In the current circumstances existing and new council housing must be at the heart of a new housebuilding drive.

The government urgently needs to find cost-effective ways to create jobs and boost demand in order to avoid a continuing downward economic spiral. The current crisis has its roots in the inherent instability, inefficiency and inequality of the housing market. Now is the time when decisive, direct government intervention can achieve both short and long term economic objectives, by reducing housing need, putting people back to work and bringing more rationality and balance to the housing market. As the Chartered Institute

for Housing put it:

‘The infatuation with homeownership must be tempered. We need to talk less about housing as an investment and housing ladders, and more about ways to address waiting lists, ways to reduce housing as a polluter, and ways to close the gap between the number of homes being built and households being formed.’ (CIH Press release, 22 April 2009)

The Prime Minister has pledged to remove barriers to council house building, and, through persistent lobbying by tenants, councillors and MPs, councils are now allowed to bid for Social Housing Grant. Further proposals will exempt new council homes from ‘negative subsidy’ and loss of right to buy receipts. Important as these changes are, indicating a shift in government attitude, by themselves they are not enough. This paper spells out what is needed. It offers conclusive evidence in response to Gordon Brown’s challenge:

“If local authorities can convince us that they can deliver quickly – and cost-effectively – more of the housing that Britain needs, and if local authorities can build social housing in sustainable communities that meets the aspirations of the British people in the 21st century, then we will be prepared to give them our full backing and put aside anything that stands in their way.” (Speech to Local Government Network, 29 January 2009)

To free councils to build a third generation of new first-class council housing on the scale required government must:

- resolve fair sustainable funding of existing council homes to make new-build financially viable;
- change the way public sector borrowing is calculated;
- substantially increase the grant funding available.

The conclusion of the current government Review of Council Housing finance must open the door to decent, affordable, secure council homes as the foundation of sustainable communities for existing and future tenants.

## 6.2 Action on Investment Now

Housing should be a prime target for action because we face a triple crisis. Home building has stalled and is unlikely to see a significant revival for several years, causing massive job losses and wider economic damage.

The buy-to-let market is in trouble, and the →

The Review of Council Housing Finance must open the door to decent, affordable secure council homes as the foundation of sustainable communities.

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→ private rental sector is generally failing to deliver sufficient low cost housing. As a further grotesque illustration of the crisis, an estimated million buy-to-let properties now stand empty. And the numbers queuing for council housing are escalating fast.

The 2004 Barker Review of Housing Supply identified a target of three million new homes needed by 2020, at the rate of 240,000 a year. Even before the full impact of the recession hit the building industry, output of new homes was already below this target. In 2009 new completions look set to fall well below 100,000, the lowest since the war.

Unless current policy is changed it is impossible that the government's target can be achieved. With continuing falls in house prices, scarcity of mortgage finance and accumulated personal and corporate debt, any expectation that the private house building sector can generate the homes the country needs is unrealistic. Speculative building for homeownership and private renting is no longer the answer.

Contributors to the House of Commons Council Housing Group (HoCCHG) Inquiry (25 February 2009) stressed that despite the overall national decline in average house prices over the past year, home ownership was less accessible due to reduced mortgage availability and increased unemployment and uncertainty.

**“The Government’s obsession that we should all be home owners has done nothing to help us, and the number of repossessions is frightening to say the least. Do you live on the same planet as us? Many people today are on the border line of poverty, or struggling to stay above it, they don’t want a large mortgage around their neck, that they can’t afford.”** (Alan Rickman, Winchester Tenants and Council Together (TACT), oral evidence)

The Local Government Association predicted that the number of people on council waiting lists could rise to five million by 2010. This prediction was made *before* the true extent of the recession was known. Since 1996 the number of homeless households living in temporary accommodation has more than doubled. High repossession rates are making increasing numbers of households, often families, homeless and putting them in emergency accommodation and back on council waiting lists.

**“If they want to repossess people who can’t afford their mortgages, if their homes are being**

**“If they want to repossess people who can’t afford their mortgages, they look straight to the local council, send them to a property there – it’s just not feasible.”**  
**Maureen Inger, Chair Birmingham City Housing Liaison Board**

**repossessed, what do they do? They look straight to the local council: ‘we’ll send them to a property there,’ and it’s just not feasible.”** (Maureen Inger, Acting Chair Birmingham City Housing Liaison Board, oral evidence)

Cutting numbers in temporary accommodation by forcing families into private short hold tenancies on £400-500 a week rents, traps thousands more into dependence on housing benefit, with no long term security, and threatens a return to Rackmanism.

**“We are now having to develop the Private Rented Sector and this is causing a problem. It’s very expensive and sometimes is not a very good standard.”** (Cllr Deborah Edwards, Lead Member for Housing, Reading City Council, oral evidence)

Our Inquiry heard vivid and detailed accounts from across the country as to the growing scale, scope, causes and implications of the lack of affordable, secure rented housing.

Every contributor to the Inquiry, regardless of locality or region, highlighted the massive and growing scale of housing need in their area with evidence from local housing waiting lists that gave real meaning to the national figures of 1.8 million households (4.5 million people) on council housing waiting lists and 565,000 households living in overcrowded accommodation. Each authority reported huge and growing excesses of urgent priority demand to available supply and the word ‘crisis’ was repeatedly used to describe the situation.

**“In February 2008, the homeless register, not the council waiting list, the homeless register was 6200, that’s the number of people who are registered homeless in Kingston who don’t have anywhere to live.”** (Sadiq Mohamed, Honorary Secretary of Kingston Federation of Residents Associations.)

**“Currently we have over 8000 applicants on the council’s housing register and there is a need for an additional 624 affordable units in the city every year to keep up with existing demand.”** (Cllr Brenda Arthur, Norwich City Council, oral evidence)

Many delegations provided shocking details of what lay behind rising headline waiting list figures, including the ‘hidden housing need’ not recorded on waiting lists. Adult children into their forties are still living with their parents, unable to move out because they could not afford or access housing near their home town or workplace. →

## 6. Time for Council Housing – Invest in a mass programme of new council homes

→ **“You only have to go to any meeting of our members and ask ‘who of you here have got young men and women living with you who can’t find or afford to buy or certainly rent from a council their home? How many of you want to get rid of those young people, those sons and daughters?’ And a sea of hands goes up.”** (Gail Cartmail, Assistant General Secretary, Unite, oral evidence)

There are extreme mismatches between specific housing demand and supply. A frequent example was the case of sheltered council and RSL rented housing for the elderly, disabled and other vulnerable groups. It was reported how, despite the present large and rising demand for sheltered accommodation set against the future needs of an ageing population, small specialist RSLs are going under or discontinuing social care services because of unaffordability, while local authorities are being forced to close sheltered housing accommodation in order to cut costs, often through demolition of stock currently failing the decent homes standard, or release for general needs council housing.

**“This week the local councillors have voted to phase out seven of the local sheltered housing complexes and phase them into the general housing pool. Yet there is still a waiting list for sheltered housing in the area. Recently in a Harlow housing strategy report it was reported that the over-65 population will increase by 27% in the next 15 years so clearly it’s still a need there.”** (Mick Patrick, Harlow DCH, oral evidence)

### 6.3 Policy must change

#### Public Land

Given the scale of the problem, speed of delivery is imperative. Only the public sector has the current ability to respond to this need. The Barker Report identified the availability of land to build one million new homes. A significant proportion of this land (up to 50%) is in public ownership (e.g. local authorities, NHS, MoD and the Homes and Communities Agency). There is capacity for public bodies to quickly bring forward suitable sites for new council housing.

Local councils have no need to extract profit and don’t go bust (unlike banks and building societies), while the value of the homes they produce is retained in public ownership. By returning to council house building we can

**When councils were the main vehicle for public investment in housing, they built between 74,835 and 198,209 homes a year – RSLs have built between 10,624 and 30,888 a year.**

remove the essential provision of affordable homes from the clutches of speculation. The alternative is more subsidy and handouts to developers and RSLs, who are desperately trying to avoid the black holes in their balance sheets.

“The only way you can get the sums to add up for social housing is if the government grant, instead of putting in 40 per cent of the cost, is putting in 60, 70, 80 per cent.” (Shelter chief executive Adam Sampson, *Roof*, May/June 2009)

“The policy has been to subsidise RSLs to build new stock. The present subsidy – Housing Association Grant (HAG) – meets an average of 67% of the cost to RSLs of each new house they build... the amount of HAG per house has risen – from £52,000 in 2002-03, to £79,000 in 2006-07, an increase of 35% in real terms over four years.

“Continuing to increase the amount of subsidy per house is unsustainable. It is also incompatible with our commitment to getting better value for all public expenditure. Above all, the more steeply costs rise, the more difficult it becomes to increase the number of new houses we can build for social rent and other forms of affordable housing. If we are to meet the need for affordable housing without placing an unreasonable burden on public expenditure, we need to change radically the means by which Government subsidises, and social landlords build, new affordable housing.” (*Firm Foundations: The Future of Housing in Scotland*, The Scottish Government, October 2007)

#### Housing Associations not delivering

Over the last decade, the government has pumped £40 billion of public subsidy into housing associations (UK Housing Review), but they have failed to deliver, never getting close to the levels of new homes when council house building was at its peak.

Between 1948 and 1980, when councils were the main vehicle for delivering public investment in housing, they built between 74,835 and 198,209 homes a year. From 1980 to the present day, RSLs have built between 10,624 (in 1986) to a maximum 30,888 homes a year (in 1995) (Table 2.4, Housebuilding by tenure, CLG).

RSLs can and should continue to play a role, but they must no longer be treated as the automatic, sole or preferred providers of new affordable rented homes.

## 6. Time for Council Housing – Invest in a mass programme of new council homes

→ At a time when the government is spending up to £1 trillion of public money on other forms of intervention, we argue that direct public investment in new council housing will bring major social and economic benefits.

Our Inquiry showed that there is wide support from across the country for public money to be used to build new publicly-owned council housing.

**“Our council would build houses if given permission to do so...income would have made a huge difference and even now would make it much more practical for councils to build new homes.”** (Cora Carter, Chair, Kirklees Federation of TRAs, written evidence)

**“We have the will to deliver, and significant Homes and Communities money is available across the region, but the ‘credit crunch’ and a flat housing market have resulted in developers shelving sites, which means that delivery of new affordable homes through the planning process has slowed down. We recognise that increasingly there is a need to develop a more innovative approach in these difficult times, and we are already building a very small number of council homes to boost our own housing stock...The first signs are evident from housing associations in our area that they are becoming risk averse in the current economic climate, and are dropping out of affordable housing schemes because of the risk of securing funding at favourable rates and becoming over exposed.”** (Cllr Pauline Stott, Vice-Chairman, East Devon DC; Ted Brown, Vice-Chairman, Housing Review Board; John Golding, Head of Housing; East Devon DC; written evidence)

**“The UK government often uses the rhetoric of affordable and social housing, which we must be clear, does not necessarily mean council housing or even housing for rent... UCATT has always argued for more investment in local authority new build, but the conditions set by the Treasury often prevent councils doing this. We believe that the current economic situation offers the opportunity to move the argument away from the panacea of home ownership, to a realistic appraisal of housing needs in the UK. Council housing must be top priority for the government.”** (UCATT, written evidence)

**“I welcome the principle of allowing local authorities to build council housing which gives an opportunity for democratically controlled and locally managed affordable properties. The**

**“We believe that the current economic situation offers the opportunity to move the argument away from the panacea of home ownership – Council housing must be top priority for the government.”**  
**UCATT written evidence**

**crisis is dire and the needs immediate.”** (Cllr John Turner, Leader, Caradon DC, written evidence)

In response to the affordable housing crisis, council tenants were united with local councillors, council officers, trade unions and academics in calling on the government to change the rules and support a new generation of first class council house building and provision. Building new council housing is widely regarded as the practical solution to meeting the country’s massive housing need. It would help prevent unsustainable house price inflation when the economy starts to recover; stave off unemployment and recession, regenerate working class areas and counter the rise of the BNP by creating jobs and new affordable homes in those communities where racism is starting to gain ground.

Every single local authority criticised the government’s ‘ideological’ opposition to councils building and managing new public housing and the deliberate obstacles it places in their way

### 6.4 The Social Case for Action

We need a massive emergency programme of new council housing for social and economic reasons. On the one hand, the social costs of not acting are enormous. On the other, using councils to deliver council housing has direct benefits to society.

#### Benefit Trap

Delegations to our inquiry argued that the lack of affordable housing meant that more and more households and families were becoming dependent on housing benefit and related benefit assistance, keeping them trapped in unemployment or in enforced destitution.

**“I’ve been looking after ex-addicts, N[o] F[ix]ed] A[bode] people, who have tried to get somewhere to live that they can afford. When you go to a housing association they have to pay a percentage of that rent. Please, how would any of you out of £58 a week pay anything like £14 a week towards a rent? They can’t do it. It’s either their rent, they eat or they have no heating. Which way is it? You can’t do it.”** (Pauline Brown, Harlow tenant, oral evidence)

#### Overcrowding

Lack of affordable housing was linked to the growing problem of overcrowding, which has huge social and economic costs. Sadiq Mo- →

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→ hamed of Kingston Federation of Residents Associations, told us that the difference in life expectancy between residents living on one side of the road in a council estate was 10 years less than those living on the other side of the road, which is private housing. Professor Peter Ambrose provided evidence from his research into the educational costs of overcrowding for families attending a Battersea Primary school. 50% were overcrowded by standards of housing law, 80% were overcrowded by Wandsworth's own standard:

**“We asked, ‘how does this affect your kids?’ and it’s totally predictable: lack of space, lack of table space, home tensions, noise, can’t invite other kids round for sleepover, all the things kids enjoy doing and is of benefit to their education, all that is reduced for them and this means that the educational spending, and this is supposed to be a top government priority, is not as effective as it would otherwise be if the housing was decent.”** (Ambrose, oral evidence citing his five-year research on Stepney SRB 1996-2001)

### Sustainable communities

A major concern we heard was the disastrous impact of affordable housing shortages on local economies, communities and families. Delegations from across the country explained how young people and families were being forced to leave the area in search of housing nearer to jobs or which is simply more affordable, devastating the local economy, breaking up families, friendships and communities. This is threatening the future viability of small towns and villages.

**“I sit on the housing board in East Devon. I face the person on the doorstep who desperately needs a house... and the price of the private letting is astronomical, Mr chairman. This is what’s killing off everyone, they are having to move out, and one has to remember that East Devon is a very low income area.”** (Cllr Douglas Hull, East Devon DC, oral evidence)

**“We are chasing away our young people because they cannot find anywhere affordable to live... there are so many second homes, we are going to run out of houses for the new generation. These are the new up and coming families. As councils have a statutory obligation to house the people living within their community, unless new properties are built, how can we be expected to house the next generation of families, or should we just let them leave Cornwall and**

**end up having no younger generation to fill jobs?”** (John Bailey, Chair, Caradon Tenants Forum, oral evidence)

The narrowing of housing allocation to those in most acute current need leads to increasing geographical concentrations of deprivation and ill health, as well as growing resentment and frustration among those still very much ‘in need’ who are pushed down the queue no matter how long they have waited. We need to end the injustice for hundreds of tenants bidding each week for one property that only a handful have any chance of getting.

### Social Benefits of Action

Council housing is unique. It gives tenants a stronger ‘secure’ tenancy, lower rents and democratically elected landlord, easier to hold to account. It is not directly subject to the private market difficulties.

Investing in a new generation of first class council housing: well designed, well built and with access to good transport, shops and community facilities, would provide the secure homes with low rents that Britain needs. Public ownership and an accountable elected landlord provide the security and transparency, and encourage the active participation of communities fitting for 21st Century.

A new council house building programme would reverse the narrowing of housing allocation, and return our estates to the mixed communities they were until the 1980s, when one in three households were council tenants and estates were genuinely mixed.

### Affordability

Council housing has lower rents and charges than any other tenure. It is financially sustainable, if all tenants’ rents are ringfenced for management, maintenance and repair of council homes.

Plans to force up council rents to the same level as RSLs through rent ‘convergence’ are derailed. RSLs are pushing up rents in face of rising debt charges and financial holes in their business plans. Council rents have not increased to RSL levels due to the opposition of tenants and the pressure this exerts on elected accountable representatives.

Professor Ambrose, drawing on extensive research into the social impact of housing poverty, has developed a Housing Affordability Standard: →

**“We are chasing away our young people because they cannot find anywhere affordable to live... should we just let them leave Cornwall and end up having no younger generation to fill jobs?”**  
**John Bailey, Chair**  
**Caradon Tenants**  
**Forum**

## 6. Time for Council Housing – Invest in a mass programme of new council homes

→ **“Fully evidenced research has shown: poor housing produces huge health and policing costs (Ambrose *et al.* in Stepney 1996-2001 and BRE in 2009);**

**unaffordability squeezes other household spending (social life, holidays, food, pensions) and is a health and safety risk even for ‘middle England’ (Unison 2007);**

**rent rises far above inflation have massively increased benefit dependency and increased the cost of housing benefit from £5bn to £20bn per year” (Ambrose, Discovering the Meaning of ‘Affordable Housing’, April 2008)**

He concludes:

**“The obvious and cost-effective response is a massive increase in housing investment directed at stimulating output not rents and prices – i.e. supply side support – this should be largely directed to local authority building because:**

**– rents can be kept lower if we return to the ‘pooled historic cost’ principle**

**– there can be genuine tenant democratic involvement in management**

**– tenures can be secure and ‘community’ re-invigorated**

**– we can learn from all the design and planning mistakes of the past**

**– this cannot be left to ‘broken models’ – RSL output and s.106 agreements**

**We desperately need a big council housing building programme – NOW!” (Professor Peter Ambrose, written evidence )**

### Homes to fit need

A new generation of council housing will enable local authorities to respond creatively and flexibly to actual housing needs. Speculative private development and the current RSL model have tended to produce the wrong kind of housing failing to address specific area shortages. Local authorities with direct knowledge of local housing demand should be empowered to build homes that fit need.

Cllr Keith Bowman, Cabinet Member for Housing at Bolsover council, told our Inquiry that his council has the expertise, knowledge, ability and desire to build homes, and urgently needs to build new bungalows in place of defective properties but is being frustrated by government rules.

**“We have been to see the Housing Minister, Margaret Beckett... we say that knowing that we have the local expertise and the local knowl-**

**edge, we know where our need is, and we know we can deliver.” (Cllr Keith Bowman, Cabinet Member for Housing Bolsover, oral evidence)**

The London Borough of Islington is set to build family homes which neither the market or RSLs are developing:

“The pilot programme will seek to prioritise larger family-sized units, with gardens where possible. These are unit sizes that are often difficult for housing associations to fund and develop, as they are more expensive to build and require more grant per unit, and fewer units can be developed per site. Building larger units will allow the pilot to assist in tackling over-crowding” (Islington Council, *Report to Executive*, 13 September 2007)

Islington is using commercial capital receipts for most of the finance so all the homes can be used to alleviate overcrowding:

“The Council proposes this form of funding for the housing pilot in order that the units produced will remain fully available into the future for lettings by the Council. Were the housing to be part-funded through the Housing Corporation, in the way that RSLs develop, then only a percentage of the new stock could be used by the Council in this way. This provides a longer term value-for-money approach.” (Islington Council, *Report to Executive*, 13 September 2007)

### Councils can build now

Another advantage of direct government action to build council housing is that all the key enabling tasks (land searches, planning permission, legal services etc.) are located under the roof of the Town Hall. It is also local authorities that bear the brunt of administering the housing waiting list and are therefore best placed to rapidly direct the appropriate mix and location of new homes.

### Case Study – Urgently needed family housing delayed

A private house building company in east London made a planning application to build 100 family homes in September 2007. They received planning permission in June 2008. Not long after, the Icelandic bank they’d borrowed money from went bust and their housing association partner pulled out of the deal. The company’s resulting cash-flow problems meant they had to stop the design work and lay off workers. Up to £500,000 has been spent on fees to lawyers and consultants, but eighteen months after the planning application, not a single home has been built. →

**“Were the housing to be part-funded through the Housing Corporation in the way RSLs develop, only a percentage of the new stock could be used by the Council. This provides a longer term value-for-money approach.”  
Islington Council,  
13 September 2007**

## 6. Time for Council Housing – Invest in a mass programme of new council homes

→ Sheffield Council’s decision to build new homes through a Local Housing Company (a public-private investment vehicle promoted by regional Government Offices round the country) means a likely 16 months just to find a partner through the procurement process (City seeks partner for 2,500 home scheme’, *Inside Housing*, 9 February 2009).

By contrast, Islington Council’s formal decision to build council homes was taken on 13 September 2007 and build started on site on 14 July 2008 – just 10 months later (Homes for Islington website, January 2009)

### 6.5 The economic case

#### Councils can build for less

‘Building’ magazine (20 February 2009) gave the following break down of cost estimates for building new homes in the public sector:

	Size m <sup>2</sup>	Cost £ per m <sup>2</sup>	Average building cost per home
Two bedroom terraced house	75	650 – 850	56,250
Three bedroom semi-detached	85	750 – 860	68,425
Two bedroom, low-rise flat	62	850 – 1000	57,350
Two-bedroom medium-rise flat	62	950 – 1150	65,100

NB. These are ‘all-in’ costs including demolition, site preparation, furniture, professional fees and VAT. They do not include the price of land, nor take account of the significant economies of scale that would be achieved by a large-scale, government backed, national house building programme.

Caradon DC in Cornwall, supplied to our Inquiry useful regional estimates which include land costs. They estimate current build costs for affordable housing units are around £1,250 per metre sq but could currently possibly be negotiated down to £1,100.

	Approx Sq M	£1,250 per Sq Metre	£1,100 per Sq Metre
1 Bed Flat	45	£56,250	£49,500
2 Bed Flat	65	£81,250	£71,500
2 Bed House	70	£87,500	£77,000
3 Bed House	85	£106,250	£93,500
4 Bed House	100	£125,000	£110,000

(Emma Blatchford, Housing Policy and Performance Manager, Caradon DC, written evidence)

South Holland council are recently reported to have built homes on their own land at a cost of ‘less than £60,000’ per unit. Islington’s per unit cost (on their own land) for their current first year tranche of development is approx £71,000 (£1m allocated for first year 14 units being built). Leeds City Council uses a figure of £80,000 for a ‘medium size terrace house’ not including land. (written evidence)

This compares with RSLs’ estimated cost of £200,000 per home for new build (2020 *Delivering a Fiscal Stimulus through Additional Housing investment*, p9, footnote 15)

#### Case Study – Commercial Road E14

In November 2006, Tower Hamlets Council proposed to sell a 5,500 metre square site it owned, to private developers. An alternative proposal was put forward, supported by local residents, a private home builder, academics and voluntary groups<sup>1</sup>, united in the belief that such public assets should remain in public ownership and the land used to build council housing.

The proposal demonstrated that the Council could achieve better long-term net value by building council homes, instead of disposing of the site for a short-term capital return. It would be able to achieve exactly the same mix of housing and facilities on the site as was envisaged through privatisation, but would retain ownership of the site and generate a rental stream of at least £250,000 p.a. The cost of building 50 council homes on the site would be further off-set by the cost of providing temporary housing to 50 homeless families (Written evidence: *Alternative Outline Proposal for 723 Commercial Road E14 7LA*, 7 November 2006).

The proposal was rejected by the council, who went ahead with disposal to a private developer. Two years later, the site stands empty and not a single new home has been built. The number of people on the waiting list in Tower Hamlets has reached 22,000.

With the crisis in private lending, RSLs are withdrawing from new schemes in order to stay within their loan covenants and avoid expensive refinancing of their loans. Councils can still borrow more cheaply, from the Public Works Loans Board and elsewhere, and are thus best placed to lead a revival in housebuilding.

<sup>1</sup> The supporters included London Citizens, The Zacchaeus 2000 Trust, Tower Hamlets UNISON, Professor Peter Ambrose, Tony Benn and Dr Abdul Bari from the Muslim Council of Britain.



## 6. Time for Council Housing – Invest in a mass programme of new council homes

→ The cost to government could be offset by savings in benefit payments, by increased tax revenues and the general benefits of a stronger economy.

### What we save

#### Costs of homelessness

In 2004, Shelter estimated the additional cost to the public purse of living in temporary accommodation rather than social housing at over £5000 per household per year (Shelter, *Living in Limbo: survey of households living in temporary accommodation, 2004*)

The possible direct costs, of allowing waiting lists to increase to two million households (5 million people), in terms of temporary housing provision and housing benefit could be £6 billion a year, but the indirect costs are far greater.

#### Case Study – Cornwall

Caradon District Council and Cornwall Citizens Advice Bureaux have calculated the financial cost to Government of temporarily re-housing a family for one year in their area:

Amount	Item
£10,500	Temporary Accommodation
£2,000	Support Services*
£7,000	Health Services
£1,500	Police and Criminal Justice System**
£500	Resettlement Costs
<b>£21,500</b>	<b>Total Annual Costs</b>

(Caradon District Council and Cornwall Citizens' Advice Bureaux, Submission to Communities and Local Government Select Committee Enquiry: Housing and the Credit Crunch, November 2008)

For the financial year 2007/2008, Leeds City Council spent nearly £2.8 million on temporary short-term leased accommodation / bed and

\* Support Services (for example, children develop disruptive behaviour in school that requires dedicated intervention – a Council's housing service advice and support on re-housing issues)

\*\* Police and criminal justice system (established trends towards higher crime during recessions e.g. money tight, therefore, no TV license, no car insurance, no MOT, some individuals resort to shop lifting!)

Source: "Mounting Problems: Further Evidence of the Social, Economic and Health Consequences of Social Justice Problems." Community Legal Services

It should be noted that these figures do not include the benefits that might be paid to the homeless e.g. Council Tax Benefit, Housing Benefit, Income Support, Incapacity Benefit, (Note also that in the event of a breakdown in a relationship there is the clear potential for these bills to be doubled, if there are two households as an eventual result of a house repossession.)"

breakfast accommodation; a further £78.4 million was spent on housing benefit to support private and RSL tenants. (Written evidence based on Freedom of Information disclosures)

### Housing Benefits

The pursuit of privatisation and market solutions is driving up housing benefit levels and benefit-trapping another generation:

"maximum housing benefit in most broad rental market areas rose by almost £100 a week – to a level comparable with open market rents... In the north and west inner London boroughs, maximum rent for a three-bed house has risen from £415 in April 2008 to £525 in January 2009 – a jump of 26.5%." ('Join the queue', *Roof* magazine, May/June 2009)

The neo-liberal privatisation lobby would push costs even higher. A report by right-wing think tank Localis, co-authored by the Conservative leader of Hammersmith & Fulham council, proposes further deregulation, increasing council and RSL rents to near-market levels and shifting all government funding from building to increased housing benefit spending. They repeat calls to end council tenants' secure tenure, and end councils duties to house most in need. (Localis, *Principles for Social Housing Reform*, April 2009)

**"The fact is that we're currently spending more money on housing now than ever before. But it's all on rents... we've whacked up the rents for people who are in debt with hungry families and then we provide housing benefit to try to bring it down a bit for the people who are really badly off. And it's gone up from £5bn a year to £20bn a year and nobody's benefiting from that other than the people who are working at the housing benefit office and private landlords."** Frank Dobson MP (Lab, Holborn & St Pancras, oral evidence)

### Jobs

At least 100,000 building workers are known to have lost their jobs since the recession began – the worst hit sector in the economy. An estimated 450,000 construction jobs could go between 2008 and 2010. Further jobs and businesses are being lost in ancillary trades e.g. materials, plant and equipment supplies. In better times, house building has contributed as much as £50 billion to annual GDP but given the scale of the slump, this contribution could fall by 50% or more, →

The pursuit of privatisation and market solutions is driving up housing benefit levels and benefit-trapping another generation.

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→ Reversing this loss by employing those now out of work to build council homes, could prevent much of the expected 2-3% fall in GDP this year and provide a tax boost for the Exchequer as well.

APSE (Association for Public Service Excellence) highlighted in their evidence the wider benefits of new council housing in that spending money on public services like housing has positive effects on a local economy. In research for Swindon Council APSE looked at the impact of public services on the local economy, and found for every £1 spent on procurement or direct employment by the authority 64p was generated in the local economy of Swindon to create jobs and support the local supply chain.

Gail Cartmail, Assistant General Secretary, Unite, told MPs: “What better body than councils to promote real apprenticeships that create real jobs for our young people... We’ve heard reports, chilling reports... of housing associations walking off the building site with incomplete buildings that, because of the liquidity problems, they are unable to complete and we think there is a simple equation: if those homes that were being built are of good enough quality then why isn’t there money for councils to complete that building – we think that should be welcome.”

### House price inflation

The Barker Report states that from 1996 to 2002 building costs rose by 2.6%, while house prices rose by 45%! Investing in a supply of homes built by non-profit councils will not only reduce housing need, but also reduce cyclical house price inflation.

### 6.6 Proposed changes welcome but not enough

We welcome government’s agreement to open up Social Housing Grant to councils and proposals to free new homes from rent and receipt robbery; but this is not enough.

In July 2008, as a result of pressure from campaigners during the Labour Party policy commission negotiations, Ministers agreed to allow councils to bid for Social Housing Grant directly, without needing to set up a private company or ALMO to do so. The government also conceded that new homes would be freed from the HRA subsidy system and allowed to keep all their right-to-buy receipts, and made this possible in law in the Housing and Regeneration Act, which received royal assent last year.

Investing in a supply of homes built by non-profit councils will not only reduce housing need, but also reduce cyclical house price inflation.

The January 2009, consultation paper: *Changes to the revenue and capital rules for new council housing*, sets out how this will be implemented. New council homes will be exempt from ‘negative subsidy’, the Robbery of tenants rents, and councils will be able to keep 100% of right-to-buy receipts from new homes with such receipts ring-fenced to be spent on ‘affordable housing’ (which includes the refurbishment of existing homes). This is welcome, as it would stop councils siphoning off right-to-buy money for projects outside council housing. It should apply to all council homes, not just new ones (see paper 4).

As the government’s own impact assessment states, taking new homes out of the subsidy system will only lead to building 2,500 homes a year (*Housing and Regeneration Bill – Impact Assessment*, CLG, April 2008). This is not going to solve today’s massive housing crisis or housing need for future generations.

The 2009 Budget directs three quarters of new housing funds into subsidising home ownership, with £555 million to private developers and lenders and £90 million to extend the stamp duty holiday. This follows £1.6 billion of similar subsidies in the 2008 budget. We welcome, of course, the £100 million of new funding for local authorities to build up to 900 homes over two years. But it is woefully short of what is needed.

### Case Study – Leeds

With a waiting list of nearly 25,000 and growing (almost 8 households made homeless a day through repossession or eviction in the city), Leeds City Council recently announced it would start building council housing for the first time in 20 years. But the scale of new build is small – just over 440 new council homes – while the funding models to achieve this are complex and problematic.

Some 400 new units will be built under two PFI schemes but the same areas will see over 700 council homes demolished. A further 27 new council units are being built as part of mixed developments with RSLs on 3 sites in Leeds using a combination of section 106 monies and capital receipts, with prudential borrowing if necessary but the Council is dependent on the RSL partner to bid for Social Housing Grant.

Finally, some 20 homes previously part of a stalled Bellways private development in East Leeds are to be bought by the Council at a →

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→ cost of £2.4 million (£1.2m from the Housing Revenue Account (HRA) and £1.2m from land receipts the council gained in selling Bellway the original cleared council housing land), although only 10 will be let as council houses. (Dr Stuart Hodgkinson, University of Leeds, written evidence).

To remove obstacles to investing in new council homes government needs to change public sector borrowing, put existing homes on a sustainable basis so they do not become a drain on new ones, and substantially increase the amount of development grant available to councils. We give evidence for and develop these recommendations below.

### 7 Conclusion and Recommendations

There is no justification for pouring good public money after bad. In the obsessive drive to increase home ownership, RSLs and private builders have been supported by government through the boom years in the form of direct public subsidies, disposal of public land, favourable planning gain deals, debt write-offs, grant funding financed by sales of council housing assets, and so on – yet they have not delivered the homes the country needs.

We need a complete change of policy.

“Instead of diverting public funds to subsidise the private sector and home ownership government should give democratically elected councils the powers to use available land to build first class public housing. As with empty homes, it would stop lenders, property companies and RSLs building up massive land banks. Planning (section 106) agreements should ensure at least 50% council housing as part of any new housing development – 100% on any site using publicly-owned land. Why not put a ‘windfall’ tax on super profits from land speculation and luxury house sales, and use taxation to discourage speculative land and housing hoarding.” (Eileen Short, Tower Hamlets Against Transfer, in *The Case for Council Housing*, DCH, 2006)

Councils must be freed to build a third generation of new first-class council housing; and there are three essential elements to this, which have emerged from our Inquiry.

Firstly, in order to build new council homes for a sustainable future, existing homes must be adequately funded, as we describe in papers 1-4 of our report, to stop them becoming a drain on the income from new housing.

Councils could build ‘significant thousands’ of homes if their borrowing was no longer treated as public subsidy by the HCA, says Sir Bob Kerlake.

Secondly, the arbitrary public borrowing rules must be changed. There is widespread support for this. As trade union UNISON said in their submission to the national Council Housing Finance Review:

“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.” (UNISON, *Submission – Review of the Housing Revenue Account*)

The Chartered Institute of Housing (CIH) explain what it means:

“The rest of Europe uses the General Government Financial Deficit (GGFD) to measure levels of public borrowing... CIH has been urging this change since 1995... CIH points out that a switch to the use of GGFD as the primary fiscal measure for government debt would also unfetter public sector ‘trading activities’ (such as council housing) so that they can borrow freely against their trading income (for example rents), rather than constrain them in the same way as with debt for government services.” (CIH news release, 28/10/08)

And the head of the new Homes and Communities Agency, the body which distributes the £8.4 billion of public money for building new homes, has called for such a change:

“Sir Bob Kerlake, chief executive of the Homes and Communities Agency, said Treasury borrowing rules made it hard for councils to compete with housing associations for government funding because cash that associations borrow on top of grant does not count as public subsidy... Councils could potentially build ‘significant thousands’ of homes if their borrowing was no longer treated as public subsidy by the HCA, Sir Bob said. He said that the issue made ‘the unit costs [of council housing] on paper look very expensive’.” (*Inside Housing*, 6 February 2009)

We heard further evidence of support for this change:

“We need to remove housing from the restrictions of the PSBR. This will allow us to start building again.” (Stroud DC Labour Group, written evidence)

And for these changes to be more than cosmetic, to really build our way out of recession, then we need serious amounts of funding. →

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→ The report by the 2020 Group, which includes the National Housing Federation (NHF), housing charity Shelter, the Local Government Association and the Trades Union Congress and is chaired by Bank of England economist Kate Barker, sets out a case for government funding 100,000 new homes (*Delivering a Fiscal Stimulus through Additional Housing Investment*, February 2009). This target is inadequate in face of current need. Based on Barker's own 2004 target of 240,000 homes a year, this is a half-measure and would leave millions of people in housing need, and would fail to provide an adequate stimulus to the economy.

At a time when the government is spending up to £1 trillion of public money on other forms of intervention, we believe that direct public investment in new council housing is fully justified and will bring real social and economic benefits.

Our Inquiry heard evidence of support for building new council housing, and also of demand for adequate funding. For example:

**“We are supporting our own Council to get back into building council houses... The current plans to build council houses once again, even if some subsidy is provided (note that only £25 million has been allocated to support council house building across the whole of Scotland) will require the council to build 50% of the houses for sale in order to produce a cross subsidy...the credit crunch and economic recession underlines the need for a radical change in policy...The exclusive promotion of home ownership was never credible, desirable or sustainable. It must now be abundantly obvious that this fixation must end and that the focus must be on developing the affordable rented sector and making renting a positive choice leading to the creation of sustainable mixed income communities.”** (Raymond Pringle, Chair, Edinburgh Tenants Federation, written evidence)

Even councils who have transferred their stock want access to funding to build again:

**“We are extremely keen to build new first class council housing again so we can finally do something to get the waiting lists down. Comments made recently by the head of the HCA and Gordon Brown have been extremely encouraging. Because we had no choice to engage in a controversial stock transfer...should not mean the council is discriminated against if they wish to bid for funds to build houses. Only by giving Councils the same freedoms of RSLs will**

**“We are extremely keen to build new first class council housing again so we can finally do something to get the waiting list down. ...Only by giving Councils the same freedoms of RSLs will we be able to tackle the huge housing waiting lists in Preston.”**

**Councillor Matthew Brown, Deputy leader, Preston Labour Group**

**we be able to tackle the huge housing waiting lists in Preston.”** (Councillor Matthew Brown, Deputy Leader, Labour Group, Preston CC, written evidence)

In addition to these three main changes, we also heard evidence about the need for councils to buy up homes as well as build them:

**“There has also been a drive for local government to buy homes which have been completed by private developers and cannot now be sold because of the economic downturn. Unite believes that where the completed work is of a high standard and are appropriate dwellings then local government should be able to buy these homes. While it is difficult to judge the scale of the problem, Unite is also aware of some instances where Housing Associations have had to stop construction before completing the builds because of financial constraints. Unite believes that where the completed properties would be appropriate dwellings of a high standard finance should be made available for local government to buy and complete these properties.”** (UNITE, written evidence)

### Recommendations

1. Stop the Robbery, ringfence receipts, increase allowances and provide gap funding for existing council housing so it does not drain income from new build – with 100% of all housing capital receipts retained locally and ring-fenced for council housing.
2. Free up councils to borrow by changing the calculation of public sector borrowing rules.
3. Allocate unspent funds from £8,400 million Affordable Homes Budget to councils for new council house building.
4. Support councils to re-acquire the skills, knowledge and capacity they need to commission building projects, acquire land, and where necessary set up direct labour organisations to build new council housing.
5. In the short-term, where councils lack skills and capacity to engage in new-build directly, fund them to acquire and refurbish suitable empty properties, and to commission building companies to build council housing.
6. If RSLs are failing, councils to take ownership and management of homes.

To make a meaningful contribution to solving the housing crisis and ending the recession in Britain we also call on government to:
7. Provide Development funding for a major →

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→ programme of council-house building of at least one million homes over five years.

8. Change planning law to ensure that 50% of all development land and 100% of all publicly-owned land is used to build council housing; to be applicable in each area until council waiting lists drop to the level of voids occurring in one year.