June 2004

THE CASE FOR THE 'FOURTH OPTION' FOR COUNCIL HOUSING

Report by the House of Commons Council Housing group

More than 3 million council homes in Britain provide vital secure, affordable and accountable housing for over 8 million people.

Council housing is an asset worth well over £100 billion (ODPM August 02). This is around £40,000 per home in England and Wales.

In 2004 1.1 million of these homes are in urgent need of improvement to reach a decent standard. £19 billion was the estimated cost of repair and improvements in 2000 (Housing Green Paper).

The National Audit Office (March 2003) and Public Accounts Committee (July 2003) enquiries into stock transfer show that the cost to public funds are greater if housing investment is channelled via a transfer RSL.

NAO estimate £1,300 extra cost to public spending of investment via stock transfer. PAC say this is an underestimate, which fails to take full account of the undervaluation of the transferred asset. It also ignores the rental income after 30 years.

Public subsidy is supporting transfer RSLs to create an asset improved at public expense, with all historic debt transferred to government. This creates for the RSL a 20-30 year income stream subsidised by higher housing benefit costs. UNISON estimates the extra housing benefit bill from stock transfer at £249 billion a year since 1997. For the public sector this cost is no longer offset by any rental or receipt income.

There is no clear evidence of 'unquantifiable' benefits in either landlord efficiency or tenant satisfaction.

Investment in directly-managed council housing would make more effective use of available funds.

Council housing generates surpluses. Government has taken a total of £13 billion from HRA (through negative subsidy) since 1990. And each year the Treasury continues to take more than £1.5 billion from the total HRA.

CONCLUSION

To address the remaining investment backlog of around £12 billion over six years would require an annual revenue stream of £0.75 billion a year for 30 years.

The annual negative subsidy of £1.5 billion and £0.55 billion profit from Right to Buy more than covers this level of investment.

The historic disinvestment of capital receipts has created both a reserve and a justification for supporting this revenue stream.

The 'fourth option' is financially viable—and makes sense.

MONEY SIPHONED OUT OF COUNCIL HOUSING EACH YEAR

All figures England 2002/3. The picture is similar for Wales & Scotland

REVENUE

Government take from HRA (Guideline rent)	= £6.0	billion
Management & Maintenance Allowance	= £3.0	billion
Major Repairs Allowance	= £1.5	billion
Remainder taken out of council Housing Revenue Accounts	= £1.5	billion

CAPITAL

RTB receipts	= £2.0	billion
Basic Credit Approvals	= £0.75	billion
Usable receipts	= £0.7	billion
Government profit	= £0.55	billion

STOCK TRANSFER (per home average)

Asset value	= £40,000
Avg transfer value	= £4,000
Private investment	= £7,000
Loss	**= £29,000**

HISTORIC LOSS

'DAYLIGHT ROBBERY'

Government has taken a total of £13 billion from HRA (through negative subsidy) since 1990. This explains a large part of the £19 billion backlog.

ACCUMULATED CAPITAL RECEIPTS

Right to Buy receipts set aside between 1980-97 have not been reinvested. Further RTB and stock transfer receipts have also been accumulated.

COUNCIL HOUSING MAKES SENSE—AND THE MONEY IS THERE TO PAY FOR IT

Council housing provides an essential public service. There are over 3 million council tenants in Britain—the biggest tenure after mortgage-payers. There are many millions more who would like a council home.

The care for council housing is:

ECONOMIC Council housing is cheaper to build, manage and maintain than the alternatives. It could pay for itself if all the income from tenants' rents and housing capital receipts along with current subsidies to privatisation were redirected and invested.

POLITICAL Council housing is the 'choice' many existing tenants (and others in housing need) want. If choice is to be at the centre of public services, council housing has to be an available option. It offers a greater degree of democracy, accountability and participation in public services.

SOCIAL Investment in housing owned and managed by the local authority offers the best opportunity for a 'joined up' strategy through which housing investment produces targeted and measurable health and education benefits.

SUMMARY OF KEY FINANCIAL ARGUMENTS

The Investment backlog

The Housing Green Paper 2000 estimated that council housing needed £19 billion of investment programmed over the next few years. Ministers say the only source is through stock transfer, PFI or ALMOs. This is not true.

Where it went

£13 billion has been siphoned out of council Housing Revenue Accounts to the Treasury by Tory and Labour governments through the 'Daylight Robbery' tax. It's no wonder there is a backlog.

Protests have led to the ring-fencing of housing benefit payment outside the HRA, but government continues the principle and practice of 'negative subsidy', taking net funds out of council housing revenue accounts.

Surplus still generated

In 2003/4 tenants on average paid £2650 in rent but only received £1773 in services (England and Wales 2003/4averages: rent £2650, M&M £1190, average MRA £583 source ODPM statistics). That leaves £877 per tenant (£2.2 billion per year for England and Wales) that could be used to fund a massive investment programme.

Capital receipts surplus

Receipts from 'Right to Buy' accumulated as 'set-aside' funds held by local councils between 1980-1997. The phased release of all £5 billion was an unambiguous pledge in Labour's 1997 General Election manifesto. After 1997 receipts were released in full for debt-free Councils (covering less than 10% of council tenants), but only in a very limited trickle elsewhere. The 'Capital Receipts Initiative' was closed in April 2000, after £1.3 billion had been released, leaving £ 2.5—£ 3.0 billion as set-aside from 1980-97 held by councils today.

These cannot be used for non-housing purposes—except for the very considerable interest earned, and except in the case of whole stock transfer. Many councils have used them for expensive non-housing projects after transfer.

Post-1997 usable housing capital receipts are not ring-fenced to housing and are widely used to subsidise non-housing capital spending, even in areas of acute housing need.

The proceeds of housing capital receipts set aside in 2001-2 were £1,248m (of which £976m came from Right to Buy receipts and £272m from transfer receipts), funding most of the £1,580m housing capital investment in that year. ***(ODPM 'The Way Forward For Housing Capital Finance', page 9 August 2002)***

Subsidising transfer

Public money is being diverted to subsidise stock transfer. £800 million was budgeted for 2003/4 to write off debt to make sell-offs profitable (although several 'NO' votes meant less was employed).

This is almost as much as the total £842 million budget for housing credits to fund investment in all council homes that year. The government has pFfrom public funds to improve tenants' homes via stock transfer. The Commons Public Accounts Committee's report on stock transfer (24 July 2003) went further: 'The additional cost of transfer is likely to be larger than the £1300 per home calculated by the Office [NAO]'. Transfer has 'led to the undervaluation of the homes transferred so far, resulting in a greater contribution from the taxpayer than was necessary to deal with, for example, the backlog of repair.'

Transfer increases benefit costs

Privatisation drives up rents and charges resulting in the Treasury paying out more in Housing Benefit. UNISON estimates that stock transfers since 1997 have cost the Exchequer £249 million a year in additional housing benefit support.

This money could be used instead to fund a new 'investment allowance' to provide a revenue stream enabling councils to borrow to fund investment themselves. It would make the new 'right to borrow' in the Local Government Bill a practical solution to give tenants real choice.

Transfer is an ineffective way of tackling housing priority need

The 2000 Spending Review set a decent homes target with the objective of 'most of the improvements taking place in the most deprived local authority areas'. Stock transfer does not achieve this: most of the transfers to date have taken place in the least—not most—deprived areas. Only six whole stock transfers were in the top 100 most deprived local authorities (ILD 98); only nine using ID 2000 (Hansard 4.7.2002 col 563W).

In addition, the level of investment in each home is largely governed by the business plans negotiated between the RSL and lenders, concerned to protect their investment. This produces large amounts of investment in relatively small numbers of homes—not the most effective prioritisation of investment.

Strategic inefficiencies

The 'transaction' costs involved in transfer are very heavy and unnecessary as a means of getting new investment in housing. Stock Transfer is a wasteful means of getting housing borrowing 'off balance', and is not a prudent long-term use of public resources (including valuable land) and funds.

Transfer means:

a) Overprotected borrowing with investment directed not according to housing need or effectiveness, but to reassure lenders

b) Funding is allocated according to where lenders and tenants say 'yes'; this ends up directing public funds to Salisbury and Chichester, and not to Southwark or Birmingham

c) Pressures toward group structures and other economies of scale leading to transfer RSLs operating across local authority boundaries and not responsive to local housing strategies or needs

d) Huge surpluses for new landlords in c20 years, to meet lenders' demands that they become 'cash positive'. No way of directing these in any way, and certainly not towards future housing investment where it is most needed

PFI means underwriting financial risks with yet more public money. Tenants are more directly exposed to other risks. Tenants have no right to a ballot on PFI proposals. Public land is often 'gifted' to developers with homes demolished to increase profits.

Arms Length Management Organisations is the government's latest proposal to break up council housing. It was introduced in the face of tenants' growing resistance to stock transfer and PFI. A separate company is set up to run homes which remain at this stage council owned. The carrot is an uncertain amount of extra funding for five years. ALMOs involve large set up costs, undermine democratic control and accountability (with a board on which tenant reps are outvoted and bound by corporate responsibility).

ALMO can be privatised by the "levering in" of private finance (high interest loans from banks) with no transfer of stock and no requirement for a ballot.

The best-managed council housing with 3-star audit rating is being pushed to this structure, despite the wish of tenants to remain in directly-managed council housing.

ALMO expenditure is money taken from council housing as a whole. It is 'on balance sheet' public expenditure.

If this money is available to help achieve decent council housing standards, why can't it go into council housing directly?

OTHER KEY ARGUMENTS

No proven benefits of separating housing strategy from housing management

There is no evidence available to substantiate ministers' assertion that there are benefits from forcing councils to separate overall strategic housing responsibilities, with separate companies (RSLs, ALMOs, PFI consortium, etc) taking on day to management and maintenance. The ODPM select committee and the Chartered Institute of Housing find no evidence to support this claim.
***(ODPM Select Committee report May 2004)*.**

Democracy and accountability suffer

Tenants are less empowered under the new companies, contrary to the other suggested 'unquantifiable' benefit put forward to justify breaking up council housing. The strong tradition of independent tenants organisation among council tenants is not replicated with RSLs. A tenant or two on the board does not provide mechanisms for tenant involvement or empowerment. Company law (obligations and confidentiality clauses) and expulsion of board members who criticise senior management make tenant board members only token.

Accountability through the ballot box is effectively lost. Housing is less 'joined up' with other council services (Shelter have highlighted the detrimental effect this has on the homeless) and policy is increasingly concentrated in the hands of unaccountable professional board members, the 'great and the good' and lenders (see Cairncross 2004).

Blackmail—not choice

There is no evidence that tenants voluntarily choose to change landlord. 'Yes' votes are only obtained after councils put a one sided argument telling tenants this is the only way they will get repairs and improvements.

All sorts of promises are made to tenants, many of them vague, not delivered on and largely unenforcable. Of the five-year rent guarantees the Public Accounts Committee says: 'Tenants voting for transfer may not realise that the capped period is so short.'

The process of promoting and setting up transfers wastes £430 per home (NAO Report, March 2003). This does not include the cost of council staff time trying to secure a 'Yes' vote.

The stock transfer and other ballots process is adversarial, but with all publicly-funded resources devoted to the pro-transfer campaign.

There is no 'balanced debate' and many tenants don't even hear the arguments against privatisation. Councils avoid public meetings or debates, deploy council officers to take down any anti-transfer material and start ballots before the publicised date, so tenants are forced to vote before they may have read material putting the alternative arguments. This is appaling example of democracy in practice.

Tenant satisfaction largely unchanged

Ministers suggest that tenant satisfaction increases significantly after transfer but the Public Accounts Committee findings contradict this conclusion.

They find only a 3% increase in tenants satisfied with the condition of home (81%-78% before transfer). Only '85% of tenants considered that housing services were at least as good as before transfer'-even after £millions have been spent by the new landlord.

Satisfaction on rents remains static-but most stock transfer landlords are still within the five-year rent guarantee period after which rents are likely to rise. Satisfaction with quality of repairs is down (63% against 68%).

Real choice means a 'level playing field'

To make real choice a reality, government has to provide a level playing field for council housing and tenants need to hear both sides of the argument. To make choice a reality for tenants requires:

1. a level playing field between the different options available the right of tenants to choose between all of the options

2. any decision to change from one option to another should be tenant led

3. public access to all the relevant information

4. the guarantee of a 'fair and balanced debate' before tenants make a decision

5. there is a full ballot of all tenants before any decision is made

CONCLUSION

Money is there—why not invest?

If money is available, why not use it to invest in council housing which is what we all need, what tenants want, what trade unions are demanding and growing numbers of councillors and MPs understand is necessary?

Necessary action for government

Real choice for tenants requires that the government create a level playing field for council housing removing the discrimination that only this form of tenure faces.

1. Stop using public money to subsidise privatisation (debt write off, setup costs, consultants and legal fees, etc)

2. Ring fence the national housing revenue account and ensure that all tenants rents are spent on their homes. Stop 'negative subsidy'.

3. Ring fence all the money from housing capital receipts for reinvestment in council housing.

4. Enable councils to borrow like other landlords on their rental income and stock.

5. Take up the ODPM proposal (in 'The Way Forward For Housing Capital Finance' consultation paper) to provide an 'investment allowance' as a revenue stream to support council borrowing for investment.

6. Avoid higher housing benefit costs after transfer by redirecting funding into investment in council housing.

The introduction of the prudential borrowing framework means that the government has now accepted in principle councils 'right to borrow' to fund investment.

The recent ODPM consultation on housing finance directly addresses allowing councils to use the Major Repairs Allowance as a revenue stream to support Prudential Borrowing.

Along with the introduction of a modest 'investment allowance' this would provide the 'fourth option' and enable councils to clear the backlog and improve our estates.

As the ODPM Select Committee argued 'Local Authorities hold the potential to manage housing stock just as effectively as RSLs, ALMOs or PFI schemes. Consequently, Government financial support available for investment in Decent Homes under those schemes should be available on an equal footing to Local Authorities managing their own stock.' And therefore 'We recommend that the Government reconsider adopting the principle of investment allowances to Local Authorities.'

On 28 January 2003 Housing Minister, Keith Hill, told MPs 'there were simply no takers' for the proposed 'investment allowance'. He has now admitted (17 May 2003) that 20% of local authorities welcomed the proposal in the ODPM's earlier consultation. This is a significant number taking into account those who have no interest either because they have privatised their stock or because they can meet the decent homes standard using existing resources.

As our own enquiry found there is growing support amongst tenants, councillors, trade union and MPs for the 'fourth option' and a determination to defend council housing.

It is time that government recognised the strong case for investing in council housing and keeps faith with the much publicised principle of 'choice' in public services by agreeing the 'fourth option' to allow council tenants to chose to remain with the council and have their homes improved.

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