

# **There are no market solutions to the housing crisis: we need a Council house building programme**

## **Swindon Tenants Campaign Group submission to the Labour Party Lyons Housing Review**

The "Call for Evidence" for an "independent Housing Commission" says that to assist Labour's ambition to build 200,000 new homes a year by the end of its first Parliament in government, a Housing Commission chaired by Sir Michael Lyons has been asked to draw up "a road map that will set out the changes to housing and planning policies and practice to deliver the new homes and communities we need". Lyons is seeking evidence "on the structural barriers to, and solutions for, bringing about a step change in housebuilding". He is, apparently particularly focused on a number of "key issues". Here we deal with some of them and then look at Labour's policy during its last period in office.

### **"The land market – unlocking land for housing development."**

The document produced for this review says that "the high cost of housing is largely driven by the high cost of land". The planning system "often gifts very large windfalls to those able to get planning permission for housing", which creates "incentives to hoard and speculate in land". The Commission will consider "how do we get much more residential land to market" and what are the best mechanisms to achieve this. Labour has, of course, raised the possibility of implementing a "use it or lose it" regulation so that local authorities can discourage land banking.

Unfortunately there is a fundamental problem with the implied approach contained in this document. Whilst it accepts that "our current development industry is not capable of delivering the homes we need", it asks "how can we bring about a greater capacity, competition and diversity to ensure that it can deliver the homes our country so badly needs".

Historical experience shows that "the market" and private builders are incapable of resolving the housing crisis. In only one year under New Labour, at the height of the housing boom, were there 150,000 homes built for sale in England, and prior to that only one other year in the 1980's. Under current conditions there is no prospect of the 150,000 barrier being broken. The New Labour government set a target of 240,000 per year for England and it got nowhere near that level.

The private building industry, dominated by the big companies, does not produce homes for social need, but only to maximise their profits. This has always been the case and it was the reason why the building of Council housing as a mass tenure was necessary in order to tackle housing shortages and the endemic over-crowding which existed prior to

the Second World War.

Private house builders will only build houses if they think they can sell them. One of the reasons for the decline in house building was house price inflation above the level of earnings, such that the earnings/price ratio reached levels which priced many people "out of the market". For instance, the median earnings to median house price ratio for England was 3.54 in 1997 rising to 7.25 in 2007, before the crash. Despite the subsequent decline in prices it was still at 6.94 in 2012 (DCLG Live Table 577). There was a similar rise for the lowest quartile (cheapest) houses compared to the lowest quartile wages (DCLG Live Table 576).

Home ownership reached a high point of 71%, but began declining before the crash as a result of the phenomenal increase in house prices. The average house price in the first quarter of 1997 was £75,944, reaching its high point in the second quarter of 2007 at £232,345 (DCLG Live Table 581). This unprecedented increase was facilitated by the process of deregulation and the "irresponsible lending" through which people who could not really afford mortgages were given them. Whilst prices came down somewhat after the crash, price to earnings ratios are still around double what they were prior to the great house price inflation. So long as prices remain so high, and they are now rising again in all regions of the country, then home ownership will be beyond the reach of a great proportion of the population.

The reasons for this inflation are complicated, but they certainly include the housing shortage, used as a means of keeping prices high, and the price of land for house building. In 1997 the average valuation of an hectare of land in England was £921,288. By January 2008 it reached a high point of £4,005,118. The crash saw a decline to £2,371,541 in 2010. To understand the phenomenal level of house prices in London you have only to look at the land values over this same period. In 1997 the average per hectare for London was £2,486,641. The only other region of the country above £1 million, and only just, was the South East. By July of 2008 the average value for London was £10,490,053. Even with a steep fall as a result of the housing crash the average value of a hectare in London remained at £6,457,285 million in 2010, not far off of triple the average value for England as a whole (DCLG Live Tables: 563).

'Developers' are sitting on a gold mine for the simple reason that they buy land cheap and the granting of planning permission drives up its value. They have done nothing to add to the value and they are not taxed on it. That's why there is much discussion about the merits of a land tax being introduced, though as yet, no movement towards it.

Contrary to the perceived wisdom of many politicians the historically low level of house building is not the result of planning obstructions and 'nimbyism'. One major factor is the absence of house building activity by local authorities resulting from the introduction of 'right to buy' in the 1980's. The virtual ban on Council house building by Tory governments, was maintained by New Labour.

So long as land remains a commodity, the value of which is determined by market

conditions, and untaxed, then land values will maintain house prices at levels which are unaffordable for a large proportion of the population. Competition will not resolve this problem.

### **Local authorities and Council housing**

The Lyons Review document says that to ensure a "step-change" in housebuilding, reform of our housing and planning system is essential, but "greater investment, public and private, into housing and associated infrastructure is also crucial". It says that the current structure of the Housing Revenue Account system (of local authorities that still own housing stock) is "overly bureaucratic and is hampering sound investment in social housing". It doesn't explain exactly what is meant by this but it asks the question "what flexibilities through the HRA" can be granted to local authorities so that they can build more homes.

One of the demands that has been widely raised (by the LGA and many Councils) is ending the borrowing cap imposed on local authorities under the "self-financing" system which replaced the housing subsidy system in April 2012. Whilst Councils should be able to determine their borrowing levels the scope for new build by this means alone, is limited. Why? Because under the 'self-financing' system the only income that Councils have is rent and service charges. They receive no subsidy save for a small amount related to 'supported housing'. The advantage of the 'self-financing' system was that Councils could keep all their rent (the 'negative subsidy' system was ended) but, on the other hand, they lost the Major Repairs Allowance which had been crucial for modernisation of the stock. Therefore, if the level of borrowing is increased for new build, the increased interest charges will eat into the rent income. If they borrow too much a local authority may be unable to maintain the 'decent homes standard' of existing stock.

### **Write off the housing 'debt'**

Given the scale of the housing crisis Labour could give a significant impetus to local authority house building by the cancellation of the housing 'debt' which was loaded onto Councils as part of the 'one-off debt settlement'. Much of this 'debt' was mythical, manufactured by central government accounting tricks (See "[A debt to tenants – 'historic debt' should be written off](#)"<sup>1</sup>. £5.6 billion of it was directly the responsibility of New Labour; the cost of its ALMO programme (Arms Length Management Organisation). This sum was simply loaded onto the national housing debt, hence the cost was passed onto tenants everywhere through higher rents.

The cost of writing off the debt loaded onto Councils in 2012 would be around £13 billion. It would have the advantage of giving hundreds of millions a year extra to local Councils, by way of the loss of interest payments and the principle loans, which they could spend on maintenance and new build. Its impact would be to put back to work redundant building workers, drive up the new build and improve the quality of stock. In the case of Swindon it

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1 <http://martinwicks.files.wordpress.com/2012/11/housingdebt.pdf>

would mean nearly £10 million a year extra to spend. Even if the debt payments were suspended for a number of years it would give a significant stimulus to councils and would provide jobs which would deliver money to the government by way of increased tax income.

One of the reasons for the reluctance to return to a Council house building programme, on a large scale, is that by decreasing the housing shortage, it might well drag prices down for those who wanted and were able to buy a home. Of course, this conflicts with the bizarre orthodoxy that rising house prices are a good thing. In reality the rise of house prices way above the level of earnings has prevented whole swathes of the population from being able to buy, and, even where they were just about able to buy, as a result of "irresponsible lending", their finances are precarious. The only thing which has prevented a high level of defaults is the historically unprecedented low level of interest rates. When rates start to rise as they must, we could face a wave of defaults.

### **New Towns ...again?**

The document says that the UK "has never delivered a large uplift in house building without large scale development, like the post war new towns". This is not true. The post war house building programme was dominated by local authority house building. Housing need is localised. We know where need resides, as indicated by housing waiting lists. We don't need grandiose schemes to tackle the housing crisis, we need a government to facilitate the provision of homes according to social need rather than by market mechanisms.

### **"A new "right to grow"**

To impose on one local authority the use of their land by another authority is a recipe for fanning conflicts. It can only be done by negotiation. Centrally imposed edicts which will enforce 'development' of land contrary to the wishes of a local authority and its population will simply create even more disenchantment with the political system.

### **"Share the benefits of development with local communities"**

The document refers to "a mismatch between national and regional need for further house building and the incentives local communities and councils receive when granting specific developments..." How, they ask, can a larger share of the windfall gains from planning permission be ensured to go to local authorities? It also asks whether the current planning system is fit for purpose?

The system which was introduced by the previous government was one whereby housing targets were imposed on local authorities by unelected regional bodies. These targets took no real account of local conditions and were imposed on communities over their heads. The new system introduced by the coalition government is biased in favour of 'development'. This means that quantity will be the criteria rather than the type of housing which is actually needed, in particular genuinely affordable homes for rent.

## **Breaking with the housing policy of New Labour**

If Labour is to tackle the housing crisis, which is being exacerbated by the policies of the coalition government, it needs to make an honest assessment of the policies which New Labour pursued in its 13 years in office. When Thatcher introduced 'right to buy' Labour opposed the policy. However, it subsequently accepted it. Whilst it did eventually reduce the discount on RTB, it allowed Council housing stock to decline as more and more homes were sold off. Even worse, New Labour consciously set out to *eradicate* Council housing. It set itself the target of 'transferring' 200,000 homes a year. It offered to write off housing debt, but only if tenants voted the 'right' way, in favour of 'transfer'. The House of Commons Parliamentary Housing Committee described this as blackmail.

The consequence of this policy can be seen in the housing statistics. Council homes numbered 4,421,000 in 1997. By 2010 there were only 2,325,000 (in the UK). New Labour's prejudice against Council housing was reflected in the policy which made grants for 'social housing' available to Housing Associations but not to Councils. As a result the number of Housing Association homes increased from 1,147,000 in 1997 to 2,591,000 in 2010. However, combine these figures and 'social housing' overall *declined* from 5,568,000 to 4,916,000 over the same timescale.

RTB sales under New Labour meant that 484,799 homes were lost to Councils (DCLG Table 687, Social House Sales) in England alone. Hence the government was responsible for a massive loss of genuinely affordable homes for rent.

Come the credit crunch and housing slump New Labour was forced to change its policy. It did finally accept the right of Councils to apply for 'social housing' grant, but the number of homes they were able to build was puny; less than 2,000 in New Labour's last two years in office.

Why did New Labour adopt a policy which, if 'successful', would have seen Council housing eradicated? Undoubtedly it sought to wipe housing debt off the country's balance sheet. More than that though, it partook in the worship of home ownership and stigmatisation of Council housing. It abandoned Labour's historic commitment to Council housing as a means of providing genuinely affordable housing *outside of* 'the market'. Whatever its limitations, the post-Second World War Labour government recognised that 'the market' and the private builders would not build for the mass of the working population. Its Council house building programme produced 4 Council homes for every private home built.

The most positive thing it did was to introduce the Major Repairs Allowance which enabled Councils to take major steps towards modernising their stock, though it was widely recognised that the level of MRA was insufficient for the task at hand.

Many years ago, after long years of Tory government, Harold Wilson wrote:

"For twelve years the Tories have sought to solve the housing problem on the basis that it

can be and should be an instrument for private profit. We believe that it cannot be solved unless it is treated as a social service, as a problem of priorities, until we have taken the profit out of land speculation by the community itself owning the land on which the buildings have got to be put up, and until we have geared our national interest rate policy to social needs.”

Whilst the policy of the Labour government did not measure up to Wilson's rhetoric, it did recognise the *social need* for a new Council house building programme. Today, if Labour is to tackle the housing crisis it needs to recognise that *there are no market solutions* to the housing shortage. A new round of Council house building is necessary because the big house builders and the developers are not interested in building for need, but will do so only to maximise their 'bottom line'. Unless Council house building is carried out on a large scale, private rented accommodation will continue to spiral, with its exorbitant rents and absence of controls, pushing up the Housing Benefit bill.

### **The coalition government**

The coalition government's housing policy has been disastrous. It began with a 60% cut in the “affordable homes” programme, with a massive cut in subsidy. The grant per home was cut from £60,000 to £20,000. No wonder that house building has remained at historically low levels. In addition the coalition has launched a policy which will inevitably lead to a decline in the available Council housing stock numbers, whilst 'social rent' is being slowly replaced by the misnomer “affordable rent”.

The coalition governments' policy in relation to 'social housing' is cutting the number of 'social rent' homes available. For instance,

- it has imposed conditions on the use of 'right to buy' receipts. To use their 25% receipts Council are forced to use their own resources or borrow 70% of the cost of any home built with these receipts, whilst they are forced to charge “affordable rent” if they use these receipts. Unless a Council accept these dictats then the paltry receipts from the sale of their homes are *confiscated* by the government. Whilst 'right to buy' exists Labour should be demanding of the coalition government that Councils be allowed to use the receipts as they see fit, rather than having central government conditions imposed on them, and the money confiscated if Councils refuse to accept these conditions. (See “[Westminster robbery of 'right to buy' receipts](#)”<sup>2</sup> ).
- bidders for the "affordable homes programme" have to agree to convert existing stock from Council rent to "affordable rent" and sell void Council stock on the open market.

The consequences of these policies are a continued decline of Council housing numbers

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2 <http://keepyourcouncilhomes.wordpress.com/2014/01/07/westminsters-robbery-of-right-to-buy-receipts/>

and the replacement of Council rent for "affordable rent". We believe, therefore, that Labour should **commit to ending "affordable rent"** (See "[More evidence of the need for affordable rent to be abandoned](#)"<sup>3</sup>). We need more 'social rent' homes not less. Labour should stop the process of driving of 'social rent' homes up towards market rents.

The application of all these policies by the coalition government, adds up to the slow death of Council housing, through RTB, conversion of homes to "affordable rent" and the selling of Council stock through the "affordable homes programme".

'Help to Buy' (See "[Help to Buy](#)" – "[a mortgage debt escalator?](#)"<sup>4</sup>) has been widely condemned for pushing up house prices. What has not been so widely recognised is that it is a form of 'subprime' mortgage. Its main attraction is a 5% deposit, but the buyer owes the government, through the Homes and Communities Agency a 20% 'equity loan'. Whereas with a mortgage you borrow a definite amount, the equity loan is given on the basis that the buyer will owe the government 20% of the value of the home, whatever it is, either at the end of the mortgage term or when the house is sold. So if a house increases, say from £200,000 to £300,000 then the equity loan that will have to be paid off will be £60,000 rather than £40,000. There is also a sting in the tail because although the 'equity loan' is free of interest charges for the first five years, from year six there will be an annual fee which will increase by 1% above inflation. When interest rates rise some of these buyers may well find themselves in difficulties. For these reasons Labour should end this policy if elected.

## **Conclusions**

The roots of the housing crisis are clear.

- There is a wide gap between house prices and earnings levels;
- Private rented accommodation is very expensive (up to twice the level of Council rents) and dominated by lack of secure tenancies;
- There is a massive shortage of 'social housing'.

The key to changing this situation is Council house building on a scale large enough to begin to cut the numbers on the waiting lists. The absurdity of a situation where investment in housing is not in 'bricks and mortar' but in housing benefit, is widely recognised. Local authorities should be free to determine their own borrowing, which is by the way, paid for by tenants' rent rather than national government. Yet so long as there is no national subsidy, the scale of building they would be able to achieve would be insufficient to seriously erode the shortage of genuinely affordable homes for rent.

Writing off the bogus 'debt' they had imposed on them would give Councils more scope for building, even in the absence of national subsidy. Much of the debt was the result of

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<sup>3</sup> <http://keepourcouncilhomes.wordpress.com/2013/10/14/more-evidence-of-the-need-for-affordable-rent-to-be-abandoned/>

<sup>4</sup> <http://keepourcouncilhomes.wordpress.com/2013/11/19/help-to-buy-a-mortgage-debt-escalator/>

central government accountancy tricks. In reality most of the debt had already been paid for.

"Competition and diversity" will not "deliver the homes our country so badly needs" for the simple reason that a third or more of the population do not have the resources to take on a mortgage, at least so long as the gap between prices and earnings remain so great. The problem of insufficient house building is not one which can be resolved by "getting more land to market". The right to housing should be one of the fundamentals of any society which professes to be civilised. So long as housing remains dominated by commodity production then many of those who want to buy will not be able to afford to whilst there will remain a shortage of genuinely affordable homes to rent.

The worship of home ownership and the corollary that not owning a house is a sign of 'failure' is an outlook which should be rejected. **Labour should end 'right to buy' as has been done in Scotland** (See "[Why the 'right to buy' should be abandoned](#)"<sup>5</sup>). RTB has been one of the main drivers of the housing crisis. It has helped to create a massive shortage of 'social housing'. Before he was removed from his post as shadow housing minister, Jack Dromey defended RTB on the grounds that "Labour is the party of aspiration". In fact Labour was founded as a party of *collective aspiration* which sought social rather than personal solutions to the social and economic circumstances which working people faced. The reluctance of Labour to end RTB is based on its fear that it will be attacked by the Tories if it committed to ending it, for opposition to "aspiration". Yet the continuation of RTB simply guarantees a decline in desperately needed homes. Labour should recognise that there are no market solutions to the housing crisis and that collective provision of housing with genuinely affordable rent is a necessary means of tackling it.

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5 <http://martinwicks.wordpress.com/2012/02/01/why-the-right-to-buy-should-be-abandoned/>