# Labour's Housing Green paper – Part 2

***Labour should introduce a duty on councils to build council housing in the framework of the housing revenue account***

Labour's Housing Green Paper has a fundamental flaw at its heart. It says that a Labour government "will introduce a duty (on councils) to deliver affordable homes". As we explained in Part 1 the Green Paper is proposing three types of "affordable home":

- 'social rent' (which applies to council and housing association homes);
- 'living rent' – a third of "average local household incomes", and
- low cost ownership homes.

The grant to support building these "three elements" will be available from Homes England[1]. Councils and housing associations will have to bid, and compete, for grant. At a recent meeting John Healey was asked how the £4 billion annual grant said to be available under a Labour government would be divided up between the "three elements". John's reply was that it is up to local councils.

The implication of this is that councils will be able to carry out their duty *even if they build not a single council home*. They can apply for grant for low cost ownership homes alone and that qualifies as "affordable homes". This would seem to give councils the freedom to abstain from building any council homes. Talk of the "largest council housing programme for 30 years" is meaningless if councils have *no duty to build council housing* and Labour has no commitment to fund a specific number of council homes.

Fears on this score are reinforced by the fact that the Green Paper supports Local Housing Companies. Readers will probably have heard of one such company proposed in Haringey; the Haringey Development Vehicle which proposed to knock down much council housing in a "regeneration" scheme involving the private company Lendlease. The furore over this saw members of the local Labour Parties, MPs, and tenants demanding that this proposal was abandoned. An outcome of this struggle is Labour's commitment that any regeneration scheme will be subject to a ballot of the people affected. Corbyn made reference to this type of scheme when he talked of "social cleansing" at the last Labour conference.

Whilst they may vary in the form that they take, there is a proliferation of LHCs across the country; private companies owned wholly or in part by councils. Why are they being set up? The reasons are twofold: the absence of central government grant for building council housing and the rapidly disappearing grant for council General Funds.

In the first round of the government's Affordable Homes Programme the grant available for 'social housing' could not be used by councils or housing associations for 'social rent' homes. They had to agree to charge "affordable rent" and also convert 'social rent' homes to "affordable rent" as a precondition of receiving grant from the Homes & Communities Agency. In the second round the only grant for 'social housing' was for a mere 8,000 supported housing units.[2] This had led some councils which want to build council housing to set up LHCs to circumvent the restrictions on Housing Revenue Accounts. For others they are a means of providing revenue for their depleted General Funds.

The type of building they are carrying out or intending to, is

- Councils homes charging 'social rent' (i.e. a council rent);

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1 Previously the Homes & Communities Agency.

2 The famous £2 billion extra for "affordable housing" which May announced last year has yet to see the light of day. The DCLG press release on this said that the money 'could' be used to build 25,000 social rent homes with grant at £80,000 per property, though it almost certainly won't be devoted to that.

- Charging “affordable rent”;
- Building homes for sale on the open market and/or
- Building homes for the private rental sector (PRS).

The financial benefits of building new homes, regardless of their tenure are:

- The income they can raise from market sales, the extra council tax that new homes bring and New Homes Bonus they produce;
- The revenue stream from private rented properties.

### The rise of local housing companies

The Smith Institute produced a report on LHCs in October 2017 (The rise of local housing companies [3]). It examines the concept, what companies have set up and what their various motivations are. Here are some examples.

- Swindon council has built a small number of homes for market sale and is planning to build homes for private rent. The motivation for private rental is to provide an income stream for the council's General Fund which seeks to replace the rapidly disappearing grant which councils receive for their General Fund. In the case of Swindon the Labour opposition has also indicated that they would build homes for the private rental market.
- Norwich's Labour Council LHC was established as a wholly owned company in order to enable it “to seek ways to become more financially self-sufficient by developing commercial opportunities which makes it less reliant on government funding.”
- Labour Newham's Red Door Ventures focus is on commercial development of residential homes in the PRS. The council says it wants “to increase the amount of housing as supply from housing associations declines and for us to manage the risks. But most importantly it’s for us to secure the rewards.” It will set market rents except for a third of the properties which will be at “affordable rent”. The council believes the company will generate £18m of extra Council Tax (up to 2028) and £17.5m of Community Infrastructure Levy funds, and return a dividend once it gets profitable in an expected 5-10 years.
- Inreach Birmingham Ltd is a wholly owned company established in 2014 alongside the in-house Birmingham Municipal Housing Trust. The council sells land to Inreach, which borrows from the council to develop it; the rental income services the borrowing and provides a return to the council. The company plans to delivery 300 apartments and houses for market rent (at a cost of some £36m). The aim is “to model build for rent *as a business proposition* (our emphasis), with the intention of encouraging other developers to follow”. The company aims “to raise standards across the PRS ”. The council wants to expand the company and plans to sell 200 void council properties to Inreach per year for the next four years. Inreach will then *rent these out at market rent* to finance new builds for social or private affordable rent.
- Stoke has established an LHC with a remit to develop “affordable” and “premium” properties in the PRS. The council claim the LHC “provides an opportunity to realise value from publicly owned sites and in parallel support the city council’s housing growth agenda via development of a private rented product which could bring in an income stream for future reinvestment.” In addition to building homes for private rent, the LHC will seek to address the gap in the private market by buying new properties for letting in the PRS. It is proposing to deliver 500 market rent homes “mostly developed on council owned land” (i.e. land that they could build council homes on). “...the council has

3 **www.smith-institute.org.uk/book/delivering-renaissance-council-built-homes-rise-local-housing-companies/**

committed up to £250m to the company’s capital programme, which includes an option for diversifying into market sale. The company aims to develop a portfolio of schemes, which it says, “offers the opportunity to mix and match the purely financial and place-shaping goals in different schemes. ”

- Sheffield Housing Company was set up in 2011 as a partnership between Sheffield Council, Keepmoat (construction and market sale) and Great Places Housing Group (estate management of leasehold properties). The council’s principal purpose in setting up the company was “strategic place-shaping”. During the decade 2000-2010 it had repeatedly tried and failed to secure private investment in the renewal of social housing estates, including “diversifying tenure”. The company was set up “to achieve regeneration goals” by building and selling properties for market sale in “hitherto mono-tenure social housing areas” (that's a derogatory term for council estates) on sites which had previously been cleared of “non-viable council housing”; indirectly to encourage private sector involvement by proving the concept and supporting higher land valuations. “This remains the council’s principal motivation”. However, since inception, and reflecting the council’s financial position, the council now has a stronger interest in securing early financial returns from projects. The company aimed to build 2,300 new homes over 15 years. Four years into the plan it has built only 293 new homes,193 bought outright and 70 “affordable rent”.
- **Brighton and Hove City Council** is establishing a wholly owned LHC to “meet housing needs, including delivery of homes let at Local Housing Allowance rates (rather than 'social rent') to households to whom the council owes a statutory duty to accommodate.”

In a survey of councils the Smith Institute found that 60% of them said they were motivated to establish a joint venture “because it offered a financial return”. The scale of building that these companies have managed is minuscule. Inside Housing reported that they had managed to build 528 properties of which only 35% were “affordable”. It was a survey which may have underestimated the actual numbers but the scale of what will be built is reflected by an estimated average of 50 units a year. In many towns this level of building, even if they are built as council homes, is insufficient to replace the number of homes lost under RTB.

## Labour supports LHCs

Labour's Housing Green Paper refers to LHCs. It says that

“By building on council land and offering a mix of housing for private rent and sale they're able to cross-subsidise affordable homes in a similar way to housing associations.”

It says that research suggests the number of local housing companies could reach 200 by 2020, collectively providing an estimated 10,000 homes a year, with around 30-40% going to “low income households”.

It appears that Labour is proposing to allow these companies to continue and is committing to “remove the threat of right to buy from local housing companies”. It adds

“Our plans for a sustained increase in affordable homes will create new opportunities for alternative affordable housing providers, including community-led housing, co-op housing, local housing companies and and tenant and employee co-owned mutual housing societies.”

There is a certain sleight of hand here, because the key vehicle, in terms of scale, is LHCs. The others are liable to be marginal.

The crucial question in relation to LHCs is this. If Labour is offering grant for councils to once again build council housing with 'social rent' then *why would they need to set up (or continue with) private companies to build homes outside of the Housing Revenue Account?*

If Labour was serious about large scale council house building then *it should make it obligatory for councils to build council homes within the framework of housing revenue accounts*. Councils should be barred from becoming developers/builders in the private market (see *The property game*). Adequate funding of local services cannot be secured by risky speculation rooted in the volatile private housing market.

It is one thing for Labour councils to manoeuvre in circumstances where they have little or no finance to build council housing but the move to build PRS homes is seen as a replacement for central government funding to the General Fund. Yet setting up LHCs cannot resolve the funding crisis. Its scale is such that a higher and higher proportion of council funds is going to social care, for adults and children. I have written about this issue before (see *Local Government Funding Crisis* and *Breaking the link between funding and social needs*). It's beyond the scope of this article. I raise it here insofar as it impinges on housing.

Labour has said that it would provide more funding for local authorities though with no numbers. However, Labour authorities are unlikely to move away from LHCs unless they are shown that

- Labour's solution to the funding crisis involves central government grant for council house building, on a scale sufficient to begin to address their housing crises, and
- Labour commits to restoring the connection between social needs and the grant that local authorities receive. This link, assessing social needs in each authority, was abandoned in 2013.
- Given the depth of the local government crisis there is a good case for cancelling local authority debt held with the PWLB (see *Local government funding crisis*). This would give them extra spending power of around £5 billion a year.

What is clear is that the funding crisis cannot be resolved by councils taking the risky step of become builders/developers. Labour councils are taking the wrong road when they set up these LHCs. They should be demanding of the Labour leadership that it commit to providing the necessary funding for them to begin again large scale, and annual, building programmes. Building PRS homes or homes for sale on council land means that it can't be used to build council housing.

### The property game

As well as building housing councils are becoming property developers/speculators through these vehicles. In an editorial entitled “Local councils are set to lose the property game” (April 2017) the FT reported that local authorities had invested £1.2 billion borrowed from the PWLB in real estate projects, in just one year. The PWLB is an agency of the Treasury “designed to fund local capital projects”.

Warning of the dangers of this development the FT said

“The return from this manoeuvre is very welcome at the councils. Government spending cuts have made it very difficult to fund local services, from social care to libraries to child care. Yes, the loans are long term, but the yields on the investments – offices, parks, residential developments, and so on – are not guaranteed. Prices fall. Rents go unpaid or are negotiated downward. Accentuating the risk, council finances are already leveraged, through tax receipts, to the local economy. When the loan to value ratios of the loans are 100%, as some are, the leverage is amplified further. It would not, require a big correction in the real estate market to turn these investments from a source of funding into an absorber of it."

At the extreme end of these developments is Spelthorne which borrowed £380 million to fund the purchase of the BT campus in Sunbury on Thames. This is four times the size of all its other assets combined.

The FT said that the PWLB should simply refrain from lending for anything other than local capital projects.

"Equally the government itself needs to have a hard look at the local council credit expansion and recognise that it is a symptom of budgets being driven to breaking point. Speculation cannot solve the crisis in social care. But if the government ties its own hands on revenue increases, local councils, left with few other options, will give speculation a try....The Treasury should put a stop to the local council credit bubble before it grows even larger."

Labour should commit stop this dangerous rush of councils to become developers/builders. Conceived as a means of funding the GF, if an LHC fails, finding itself in financial problems then this will have knock-on consequences for other council spending. As the Financial Times said, these investments can readily become "absorbers of funding" rather than a source of it.

The housing crisis cannot be resolved by councils entering the housing market. The only way to begin to resolve it is to return to large scale council house building. That should be Labour's "first housing priority".

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