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Out of Stock

Right to Buy, HRA reform and the future of London's council housing stock

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Contents	Page
1. Foreword	3
2. Executive Summary	4
3. Introduction	5
4. Forecasting the impact of HRA reform and Right to Buy on London's council housing stock	8
5. Right to Buy and investment in council housing	13
6. Distribution of Right to Buy receipts	15
7. Recommendations	17
8. Conclusions	22
9. Methodology	23
Appendix: Indicative proportion of former council properties sold through Right to Buy now let through the private rented sector (2013)	24

1. Foreword

For anyone living in London, it is now painfully clear that in recent years the capital's housing shortage has reached crisis point.

This crisis, caused fundamentally by an undersupply of new homes, is resulting in great hardship for many Londoners as the cost of renting becomes increasingly unaffordable and the prospect of homeownership an unattainable dream. But this is not just a problem for those individual households; we now know that the high cost of housing threatens to undermine London's economic development and public services, as growing numbers of low- and middle-income workers decide they can no longer afford to live in this city.



Council housing has been much maligned over the past thirty years. Yet for decades in the post-war period, London's local authorities played a crucial role in delivering the homes the city needed.

The effect of Right to Buy, introduced in 1980, was to choke off the supply of new council homes over the next two decades, to the point where the number of new council homes being built annually in London fell to zero. Preventing local authorities from replacing the homes that were lost has left a vast gap in housing supply that the private sector and housing associations have subsequently been unable to fully fill.

Recent reforms have led to a small spurt in council house building over the past few years. However, councils are still constrained by an arbitrary, government-imposed borrowing cap and – as this report highlights – the number of new homes likely to be built by councils in London is a fraction of the level built during council housing's peak in the 1970s. A reinvigorated Right to Buy policy, introduced by the current government, also means that councils are now losing much-needed homes at a faster rate.

This report seeks to build a picture of the future of council housing in London; based on the number of homes authorities expect to build and the number they expect to be sold through Right to Buy.

Despite the current government's pledge that every home sold under the reinvigorated Right to Buy would be replaced one-for-one, this report has found that London's councils expect to lose 1.5 homes for each new home they are able to build. In outer London this figure rises to two homes lost for every new home built. Thus, on current projections, councils expect to see a continued erosion of our already depleted stock of council housing over the next ten years.

With more than 800,000 households on the council housing waiting list in London, urgent action is required to maintain and grow our existing stock of council homes. This report makes a number of recommendations to the Mayor of London and government. These include radical reform of Right to Buy, lifting the arbitrary cap on council investment in housing, and measures to deliver significant extra affordable homes in London through City Hall.

2. Executive Summary

London is currently facing a severe housing crisis caused by years of failing to build enough homes in the capital. The scale of this crisis, caused fundamentally by a shortage of homes, is now such that delivering the homes this city needs should be the primary concern for government of all levels in London.

Without the full involvement of local authorities, there have never been enough homes built in this city to meet housing need. Following the localisation of the Housing Revenue Account (HRA), which has allowed many councils to build new homes again for the first time in thirty years, and the 'rejuvenated' Right to Buy, this report examines whether it is likely that we will see a renaissance in council house building and what the future holds for the council housing stock in Greater London.

To examine this, this study issued a series of freedom of information requests to the thirty-two London boroughs and the City of London, which sought to understand the impact of these two key reforms on the supply of new homes, stock levels, investment levels and the distribution of capital receipts generated from sales. While this report highlights a degree of uncertainty as to what the combined impact of the reinvigorated Right to Buy and Housing Revenue Account reform will be over the full ten year period, the findings of this report can be summarised as:

- **Continuing decline in London's council housing stock:** The data provided by boroughs highlights that new council housing completions will not return to a level anywhere near that seen prior to the reforms of the early 1980s. Based on current development plans, we can estimate that around 10,300 council homes will be completed over the decade to 2023/24, compared to an estimated 16,100 Right to Buy sales. The erosion of the council housing stock is forecast to be particularly stark in outer-London, where the boroughs currently forecast that two homes will be sold for every new home that is completed.
- **Less funding available for new housing:** Using 2014/15 as a base year, we found that the annual rental income lost as a result of Right to Buy sales is larger than the annual income generated from sales after seventeen years (by 2031/32). From this point, boroughs begin to make a net financial loss from Right to Buy compared to the income they would have generated had the homes not been sold. This report also highlighted that Right to Buy could reduce the amount of investment available for building new council housing because the reduction in rental income impacts on the amount of money councils have available to cover the fixed costs of their housing operations. Because fixed costs may not reduce as quickly as the reduction in rental income, councils may then be forced to cover their fixed costs (i.e. maintenance and other operational costs) with funding that may otherwise have been used for new build council housing.
- **Insufficient reinvestment in affordable housing:** A low proportion of the income generated from Right to Buy sales will actually be reinvested in building new council housing. Only 43 per cent of the revenue raised will actually be spent on building new homes, while 30 per cent will be transferred to central government (the remainder being allocated to items such as administrative costs and debt repayments).

This follows the report, 'From Right to Buy to Buy to Let', published in January 2014, which found that at least 36 per cent of London's former council homes that were sold through Right to Buy are now let by private landlords.ⁱ In some boroughs, this figure was more than 50 per cent (see appendix).ⁱⁱ

3. Introduction

London is currently facing a severe housing crisis that has been caused, fundamentally, by the failure over recent years to build enough homes in the capital.

Undoubtedly, increasing the supply of new homes is the single biggest policy challenge facing government of all levels in London. The Mayor's most recent survey of housing need in the city found that 62,088 new homes would have to be built every year for the next ten years to meet the housing requirements of this city, while 48,841 would address housing need over a twenty year period.ⁱⁱⁱ Despite this evidence, the Mayor's London Plan and Housing Strategy set a target for new homes at just 42,000 a year.^{iv}

However, this figure compares to data published by the Department for Communities and Local Government, which shows that just 17,720 new homes were completed in London in the last financial year (2013/14). For Londoners, the consequence of this undersupply has been a dramatic increase in the cost of housing in London, with private sector rents now averaging £1,461 a month^v and the average selling price £504,000.^{vi}

Looking at the data, it is easy to see that the roots of London's current housing crisis can be traced back to the decisions of the 1980s to prevent councils from building homes (**figure 1**).

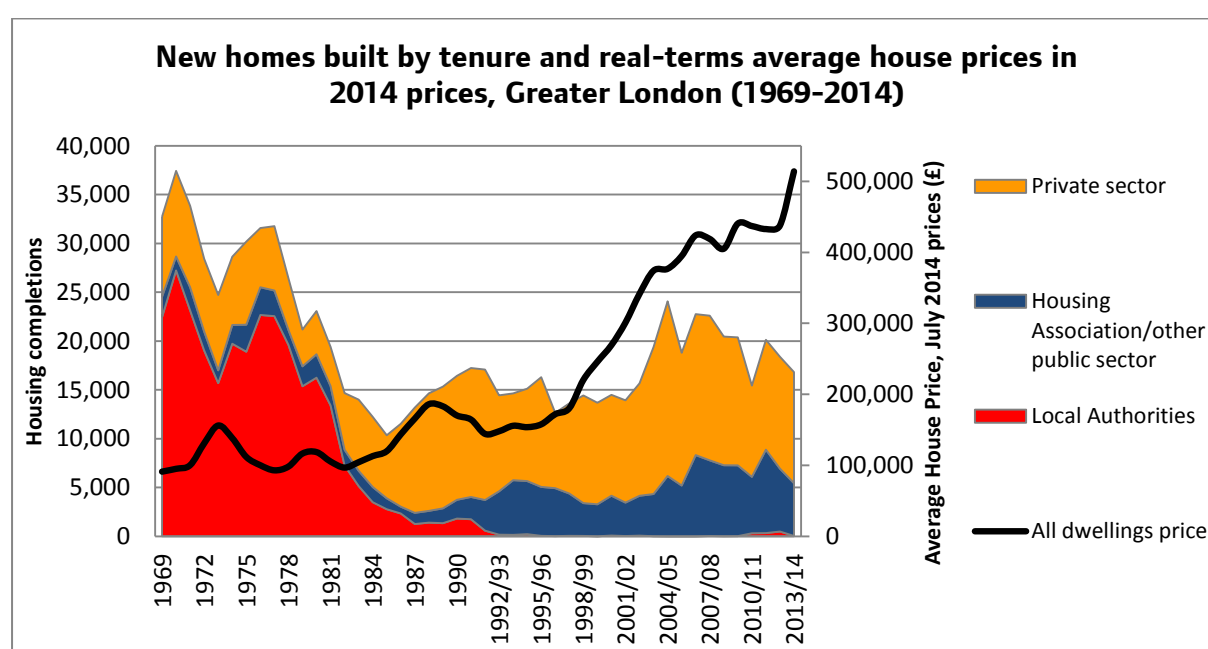


Figure 1: New homes built by tenure and real-terms average house prices in 2014 prices, Greater London (1969-2014)^{vii}

The key to delivering the number of homes needed is council housing. The historical data shows that the gap in supply that was left when councils were essentially prevented from building homes has never been filled by the private sector. To put this drop in supply in context, with the involvement of councils, more homes were being built in London every year at a time of population decline than have been built at any point since London's population started increasing again in the early 1990s. More homes were built by councils alone in 1978 than were built by all house builders – private developers, housing associations and councils – last year.

This report sets out to understand what is likely to happen to London's housing stock over the next decade; comparing the likely implications of the Housing Revenue Account reform on the number of new homes built to the number of new homes that are likely to be sold following the reinvigoration of Right to Buy.

Housing Revenue Account reform

In April 2012 the Government implemented plans made by the previous government for Housing Revenue Account (HRA) self-financing. The reform has changed the basis for HRA funding from a system of national subsidy (where rental income is pooled and centrally reallocated) to one where local authorities keep the income generated from their housing stock and are able to invest this in housing as they decide.

While this reform has enabled local authorities to invest in building new council housing for the first time in thirty years, this rediscovered ability has been severely limited by the imposition of draconian borrowing caps. The Lyons Housing Review, published in October 2014, also highlighted that the impact of reform had been highly variable, with some councils having "no or limited 'headroom' to borrow to invest [while] others have significant headroom and may not need it".^{viii}

In London, the cap has left the boroughs with borrowing headroom of £1.4 billion, but, as the London Finance Commission stated, this has prevented sustainable borrowing for investment, including for new housing development.^{ix} The Mayor's Housing Strategy argued that the borrowing cap restrictions have "massively reduced" the boroughs' capacity for new house building.^x In October 2013, the London Assembly's Housing Committee also noted that the restrictions on HRA borrowing mean that many boroughs face a difficult trade-off between prioritising the delivery of new build council housing and ensuring that the existing stock meets the Decent Homes standard, with many opting to prioritise the latter.^{xi}

Right to Buy

The Right to Buy was introduced in 1980 as part of the Thatcher Government's first Housing Act. For the first time, council tenants were given a statutory right to purchase their homes from the council. By 1999, 30 per cent of council tenants had exercised their Right to Buy.^{xii} To date, nearly 1.8 million homes have been sold across England; almost 275,000 of them in London.^{xiii}

The Right to Buy raised more money than any other privatisation undertaken by the Governments of 1979-1997.^{xiv} However, these capital receipts were never reinvested in building new council housing. A research paper produced by the House of Commons Library in 1999 noted that:

"Since the introduction of the statutory Right to Buy in 1980, the local authority associations and other housing commentators have demanded that capital receipts gained from sale of council houses should be immediately available to councils to replace lost stock. The Conservative Governments of 1979-97 rejected these demands on the grounds that if councils were allowed to spend all their receipts they would have to borrow again and this would result in increased public expenditure."^{xv}

The decision to prevent councils reinvesting in new homes led to a significant decline in council house building in the 1980s. In 1978, 19,613 council homes were built in London (more than the total number of homes built by all house builders in 2013/14). By 1987 just 1,260 council homes were completed and by 1996/97 only 20.^{xvi}

While considerably more affordable homes were built in London during the 13 years of the last Government (from 1997-2010) than in the preceding 13 years (69,180 compared to 52,301), the failure to truly free local authorities to build council housing represents a missed opportunity to deliver even more homes in London during that time.

4. Forecasting the impact of HRA reform and Right to Buy on London's council housing stock

To investigate the likely impact of Housing Revenue Account reform and Right to Buy sales on London's council stock, freedom of information requests were issued to London's thirty-two boroughs. Data was requested for the number of new council homes that are currently planned to be constructed by each authority and the forecast number of Right to Buy sales in each year from 2014/15 and 2023/24. Complete data sets for the full ten year period were provided by twenty-three of the London boroughs.^{xvii}

Forecasts of council housing supply

The data provided suggests that, on current development plans, the annual number of council homes that will be built in London is currently forecast to peak in 2015/16 before falling away again by the end of the decade.

The twenty-three boroughs currently plan to build a total 7,406 new council homes over the next decade, which would produce an indicative total figure of 10,304 new homes if this average is replicated by all thirty-two boroughs (**figure 2**).

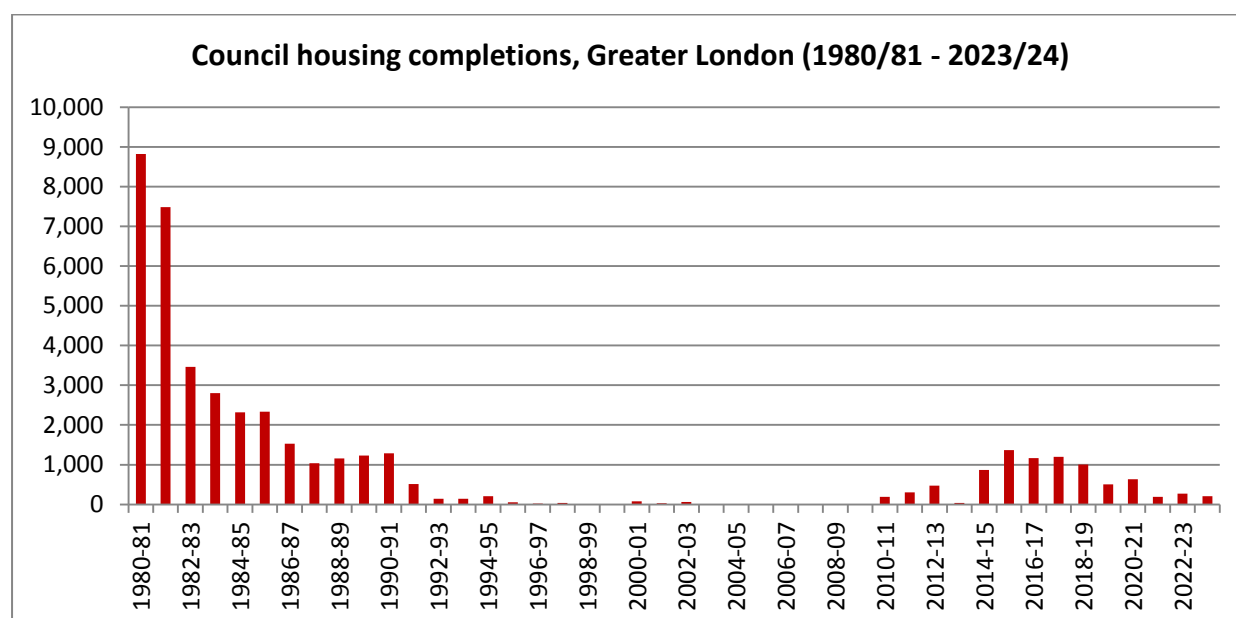


Figure 2: Council housing completions, Greater London (1980/81 - 2023/24)

On average, new developments take a year and a half to complete when at the construction stage.^{xviii} When factoring in planning and other pre-development stages, we can be confident of the robustness of the short-term forecasts. However, one explanation for the post-2018/19 decline that is currently reported by the boroughs could be due, in part, to a lack of medium-to-long-term development plans at the time of responding to the freedom of information request. It may, therefore, be that the number of new council homes built towards the end of the period (2014/15 to 2023/24) will be higher than currently stated. This is a particular possibility given the local elections in May 2014, where a number of new council leaders pledged to increase the annual rate of council house building.

Furthermore, many boroughs are still establishing the internal skills base and knowledge to deliver house building programmes after 30 years of delivering few, if any, council housing projects. The London Borough of Barnet recently told the London Assembly's Housing Committee that:

“At the moment Barnet, like Lewisham and I think Hackney... have now a council house-building programme. It is all fairly small scale at the moment. One of the things that has gone out of local authorities is that skill base. There are very few people like us who do that stuff, can actually build things, because they stopped building in the 1980s; so that skill-set has left the sector. Building up teams who can actually do development has been one of the challenges. At the moment, in the case of Barnet, we do not need more money. We need more skills to be able to do the things that we need to do. In time we will reach our limits.”^{xxix}

Regardless of the uncertainties surrounding new supply, it is clear from the data that the level of council housing being built in Greater London under the current framework will not reach a level anywhere near that seen before 1980. This represents a huge missed opportunity in the pursuit of much needed housing supply in the capital.

Right to Buy

The ‘reinvigorated’ Right to Buy, launched by the Coalition Government in April 2012, with a new maximum discount of £75,000 (later increased to £100,000 in London as part of the Government’s 2013 Budget), threatens to undermine local authority housing operations in London and further erode London’s council housing stock. At the time, the Government pronounced that, *“for the first time, every additional home sold under Right to Buy will be replaced by a new home for affordable rent, with receipts from sales recycled towards the cost of replacement”*.^{xx} However, evidence shows that the commitment to a one-for-one replacement is not working for three main reasons:

- **Record to date:** In the two years since the larger discounts came into effect in April 2012 (2012/13 and 2013/14), the number of homes sold through Right to Buy in London is 3,485 more than the number of new council homes built.^{xxi}
- **Feasibility:** Evidence submitted to the House of Commons Communities and Local Government Committee in 2012 suggests that in London it requires 1.6 Right to Buy sales to fund each new build council home. The evidence therefore shows that it is not possible to replace each home lost through Right to Buy in London by using the capital receipts generated from Right to Buy sales alone.^{xxii}
- **Genuine one-for-one:** Homes built to replace Right to Buy properties will not be like-for-like replacements.^{xxiii} While most council homes will be let to tenants at social rent levels, the Government has stipulated that replacement homes must be Affordable Rent properties, meaning they can be charged at *up to* 80 per cent of market rent.^{xxiv} The housing charity Shelter has argued that this “new definition of affordable rent... is not affordable in real terms for many people”,^{xxv} while one housing association Chief Executive described Affordable Rent as “creating tenancies that are doomed to fail” because of the high rent levels.^{xxvi} There is also no requirement that replacement homes should meet the same size and room specifications as the property sold. Consequently, a four-bed social rented home charged at social rent can be replaced by a single room property charged at 80% of market rent.

In addition to the above forecasts on house building, the twenty-three boroughs provided forecasts of Right to Buy sales for the ten year period 2014/15 to 2023/24.

Following the introduction of higher discount rates in April 2012, the number of Right to Buy sales increased to 2,318 in 2013/14. However, the data provided by the twenty-three boroughs

shows that they are currently working to an assumption that the increase in sales in 2013/14 will be a spike lasting a single year, as forecasts quickly return to a trend level of between 1,050-1,200 sales per year by 2016/17 (**figure 3**).



Figure 3: Right to Buy sales, Greater London (1998/99 - 2023/24)

For the twenty-three boroughs that responded with full datasets, a total of 11,581 homes are expected to be sold over the ten years to 2023/24. This suggests an indicative figure of 16,113 homes sold when applied uniformly to all thirty-two of the London boroughs.

However, this assumption must be considered in the context of an uncertain policy environment, given the relatively recent increase in discounts and the relatively low number of Right to Buy sales in London last year compared to the numbers in past years. In 2003/04, at a time when discount rates were decreasing, 10,552 homes were sold through Right to Buy. It may therefore be wrong to assume that sales will remain at such a historically low level. This uncertainty was highlighted in the October 2013 London Assembly Housing Committee report on council housing. This noted that:

“The reinvigoration of Right to Buy will add a further level of uncertainty to local authority business plans, as the more generous regime now in place may mean substantially greater numbers of homes will be bought than was forecast when the Housing Revenue Account debt allocations (which form the basis of the business plans) were made.”^{xxvii}

Forecasting future changes in London’s council housing stock: Greater London

When comparing the data for expected Right to Buy sales and council housing completions that has been provided by the twenty-three boroughs, we can conclude that there is likely to be a continued erosion of the council housing stock in London over the next decade. In total, the boroughs are currently expecting that 1.5 times as many council homes will be sold in Greater London through Right to Buy than are built (**figures 4 and 5**).

However, the data from the twenty-three boroughs shows that there could be a very small net increase of 186 homes in London’s council housing stock in the next three years (from 2015/16 to 2017/18), which would equate to a total of 259 additional council homes if this figure is replicated across all thirty-two of the London Boroughs.

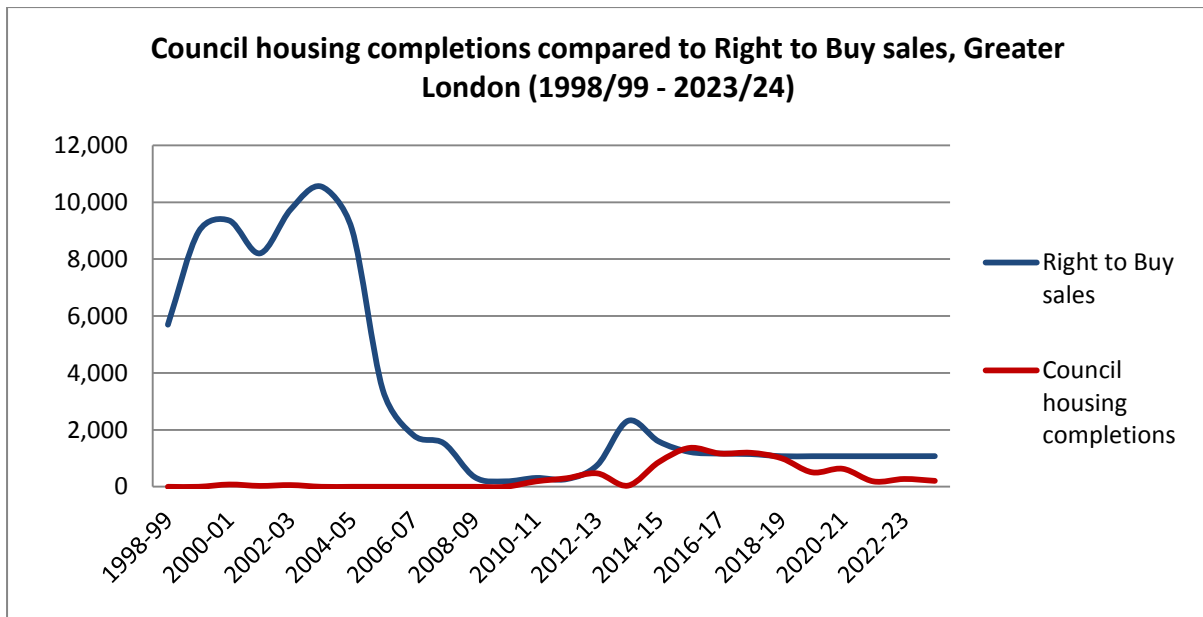


Figure 4: Council housing completions compared to Right to Buy sales, Greater London (1998/99 - 2023/24)

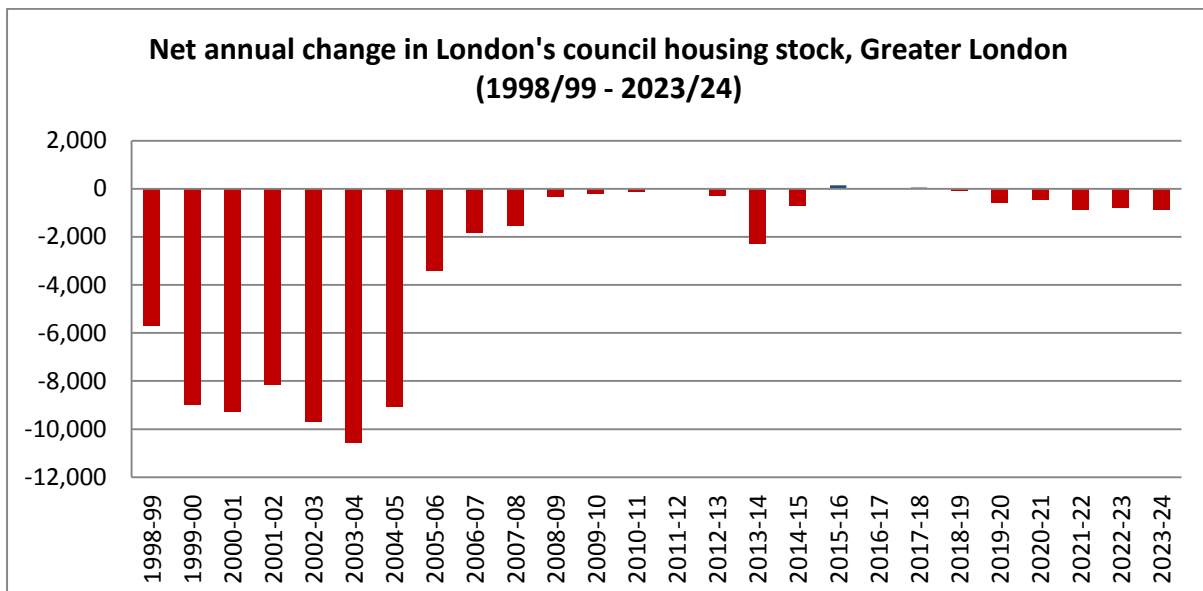


Figure 5: Net annual change in London's council housing stock, Greater London (1998/99 - 2023/24)

Forecasting future changes in London's council housing stock: Inner and Outer London

The impact of Right to Buy sales on the council housing stock is expected to be starker in outer-London, where local authorities forecast that more homes will be sold and fewer homes built. The data provided by the boroughs suggests that, on current assumptions, 1.2 council homes are expected to be sold in inner-London over the next decade for every new home built. In outer-London, this rises to 1.99.

This highlights that, not only is it not possible for each home sold through Right to Buy to be replaced through the revenue raised from that sale, but even when adding in the additional homes funded through general Housing Revenue Account spending, there will still be a net decrease in London's council housing stock as a result of Right to Buy (**figure 6**).

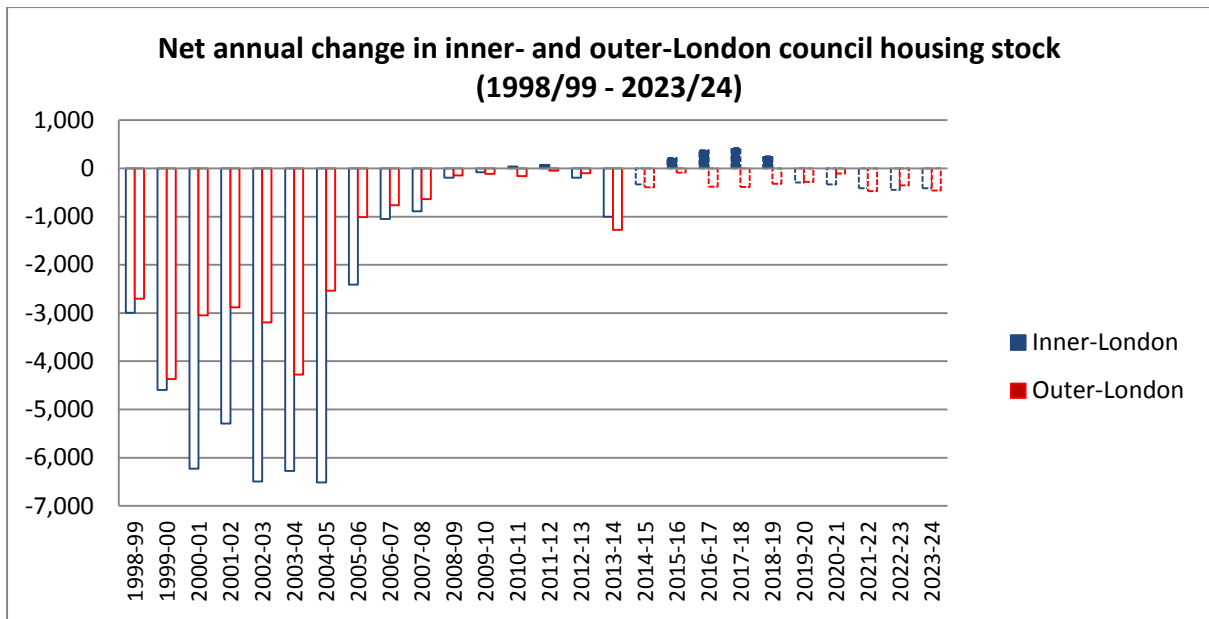


Figure 6: Net annual change in inner- and outer-London council housing stock (1998/99 - 2023/24)

5. Right to Buy and investment in council housing

The London Boroughs have highlighted that the prospect of losing new build council properties within five years of their construction is providing a significant disincentive to many councils that wish to build new housing.^{xxviii} This disincentive will be exacerbated should the Government succeed in reducing the threshold to just three years. Given the scale of housing need, and the vital role councils can play in solving the housing crisis, any disincentives to new supply need to be addressed.

Furthermore, it has been claimed that Right to Buy frees up additional finance for investing in new council housing. The Mayor's recent Housing Strategy stated that "the revised Right to Buy scheme, with its larger discounts, should also increase the amount of capital available to boroughs to invest in new supply".^{xxix}

However, this assumption is contested by a recent independent report produced by Savills for the London Borough of Southwark. This modelled the implications of a hypothetical situation where the borough's council stock reduces from 39,000 homes to 20,000 over the next 20 years as a result of void disposals and Right to Buy sales. The report found that:

"Based on the income and cost reduction assumptions in the Council's HRA business plan, a reduction to 20,000 units would lead to a significant loss of future HRA revenue which could not be matched at the same time by a corresponding reduction in costs. This means that in revenue terms the HRA would be worse off as a result of stock reduction. The... impact on the baseline HRA with full investment of a gradual reduction in stock to 20,000... shows that by year 20 reserves are reduced from £473m to £81m as a reduced income base has to manage existing housing debt and fixed costs...

The level of receipts would depend on the extent to which disposals were through RTB (where retained receipts would be lower) or void disposal. Receipts would need to be applied to reduce attributable housing debt and to manage the fixed cost burden in order to maintain a neutral position. This would effectively mean the Council would need to use capital resources to balance the revenue position, reducing the amount of capital available for any additional benefits."^{xxx}

This report highlights that Right to Buy sales can significantly reduce the revenue income generated from rents whilst doing very little to reduce the fixed costs associated with the council's housing operations. As the report noted, the key problem is that a significant loss of council housing, particularly through Right to Buy, presents a "significant challenge to reduce all costs pro rata in line with stock reductions".^{xxxi} Right to Buy sales therefore result in capital funding being diverted away from building new council housing and being used to plug gaps in revenue spending.

To analyse the financial impact of sales, and the opportunity cost of Right to Buy, London's local authorities were asked to provide ten-year forecasts for the revenue expected to be generated from Right to Buy sales and rental income lost as a result of homes sold. Of the thirty-three local authorities in London, sixteen provided full datasets for the ten-year period 2014/15 to 2023/24.^{xxxii} From the data provided, forecasts have been made into future years to identify where the amount of rental revenue lost each year becomes greater than the amount of capital receipts generated from Right to Buy. Using 2014/15 as a base year, this highlights the number of years before councils will begin losing money as a result of Right to Buy sales.

Right to Buy receipts versus lost rental income: Greater London

From the data provided by the London boroughs, we forecast that the annual rental income lost as a result of Right to Buy becomes larger than the annual capital receipts generated by Right to Buy after seventeen years (by 2031/32 – see **figure 7**).

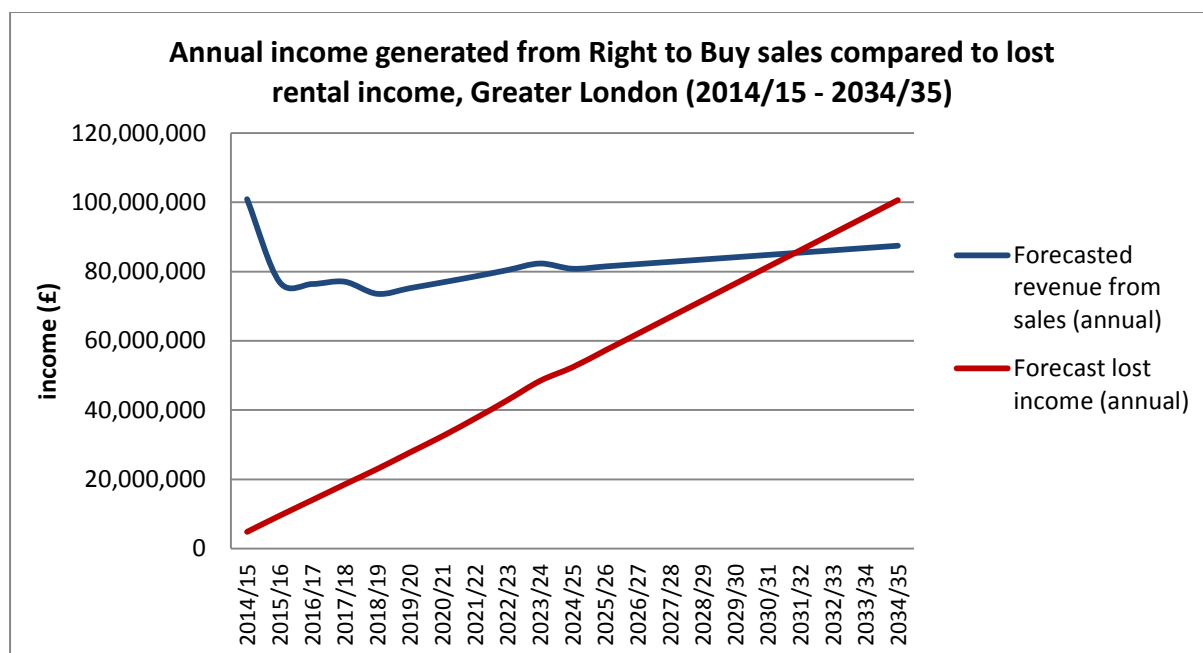


Figure 7: Forecast Right to Buy capital receipts compared to lost rental revenue, Greater London (2014/15 - 2034/35)

Right to Buy receipts versus lost rental income: Inner and outer-London

When examining the data for inner- and outer-London, the net annual income generated from Right to Buy becomes negative significantly more quickly in outer-London compared to inner-London (**figure 8**). The forecasts suggest that in outer-London, net annual income becomes negative after thirteen years (i.e. in 2027/28). In outer-London, this figure is twenty-two years (i.e. in 2035/36).

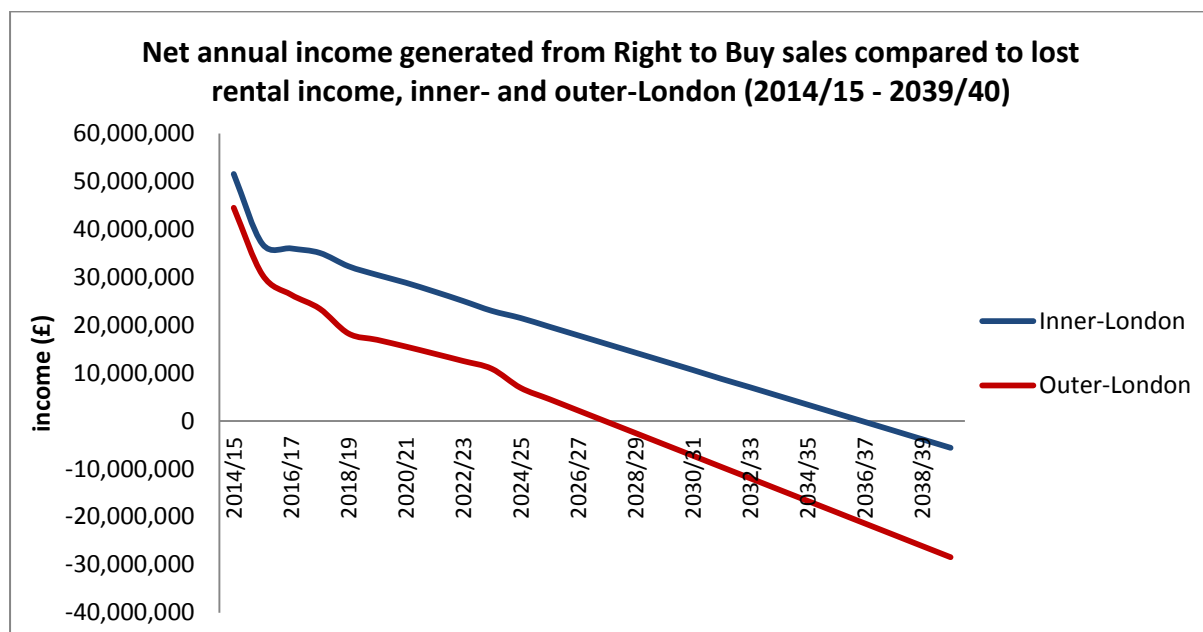


Figure 8: Net annual income generated from Right to Buy sales compared to lost rental income, inner- and outer-London (2014/15 - 2039/40)

6. Distribution of Right to Buy receipts

Finally, this report examines how capital receipts generated from Right to Buy sales in Greater London will be allocated. Fewer boroughs provided detailed data on how forecasted capital receipts would be allocated over the full ten-year period of 2014/15 to 2023/24. In total, eight boroughs (24 per cent) were able to provide figures for the full ten years, as requested.^{xxxiii}

Right to Buy capital receipts

The data provided suggests capital receipts generated from Right to Buy sales will be significantly higher in 2014/15 than in subsequent years. This is to be expected given the data presented earlier, which showed a significant spike in sales in 2013/14 that reduces towards a trend level by 2015/16 for the twenty-three boroughs that provided full datasets for the ten-year period (2014/15 to 2023/24).

The data from the eight boroughs shows that, from 2015/16, an average of £52 million is expected to be raised from Right to Buy every year. This equates to an indicative annual figure of £208 million for the thirty-two boroughs in Greater London (**figure 9**).

Despite the relatively low number of boroughs that provided detailed data on the allocation of Right to Buy receipts, the figures appear to correlate with the data provided by the larger number of boroughs (twenty-three boroughs) on the expected number of Right to Buy sales. This suggests that, while the number of boroughs providing comprehensive datasets is very low, the data itself can be considered representative.

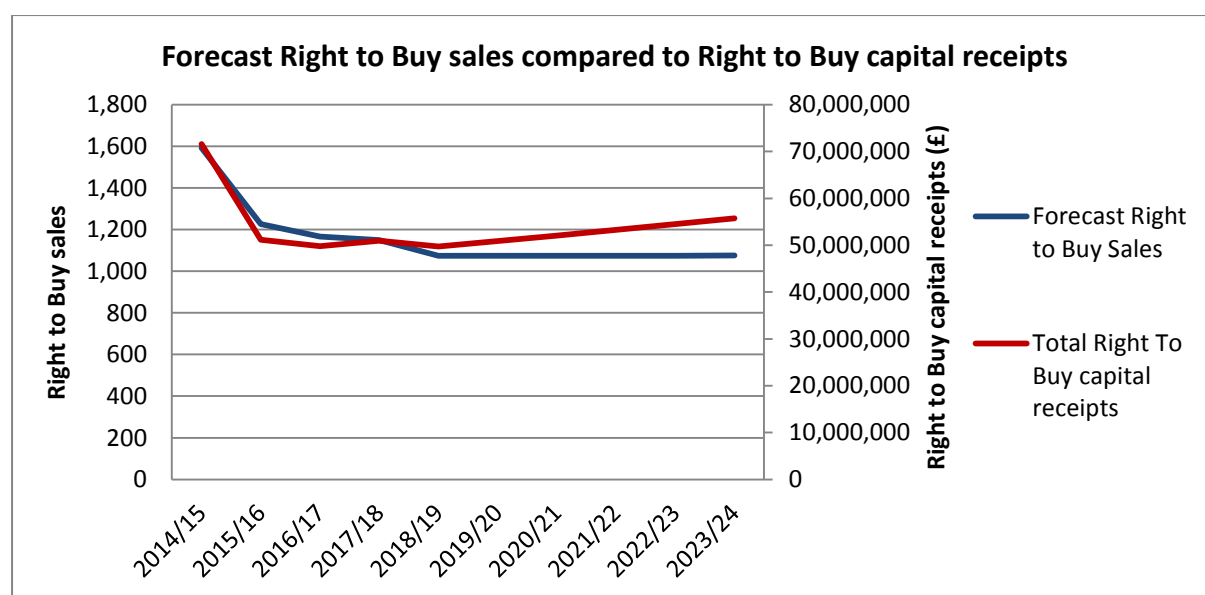


Figure 9: Forecast Right to Buy sales compared to Right to Buy capital receipts

Payments to government

The data provided by the boroughs shows that, once payments return to trend from 2015/16 onwards, around 30 per cent of annual Right to Buy capital receipts will be hypothecated to central government. This equates to an average of £15.6 million from the eight boroughs, and represents an indicative figure of around £62.4 million a year in payments to central government from the 32 boroughs in Greater London if this figure is representative.

Funding for new council housing

From the information received from the boroughs, the largest proportion of funding will be allocated to the construction of new build council housing. However, this accounts for only

around 43 per cent of the money generated from Right to Buy sales. In total, the eight boroughs that responded with full data sets will, on average, allocate around £20.54 million a year of Right to Buy receipts towards the construction of new build council housing. This figure equates to an indicative figure of £90.17 million if it is applied uniformly to all thirty-two boroughs across Greater London (**figure 10**).

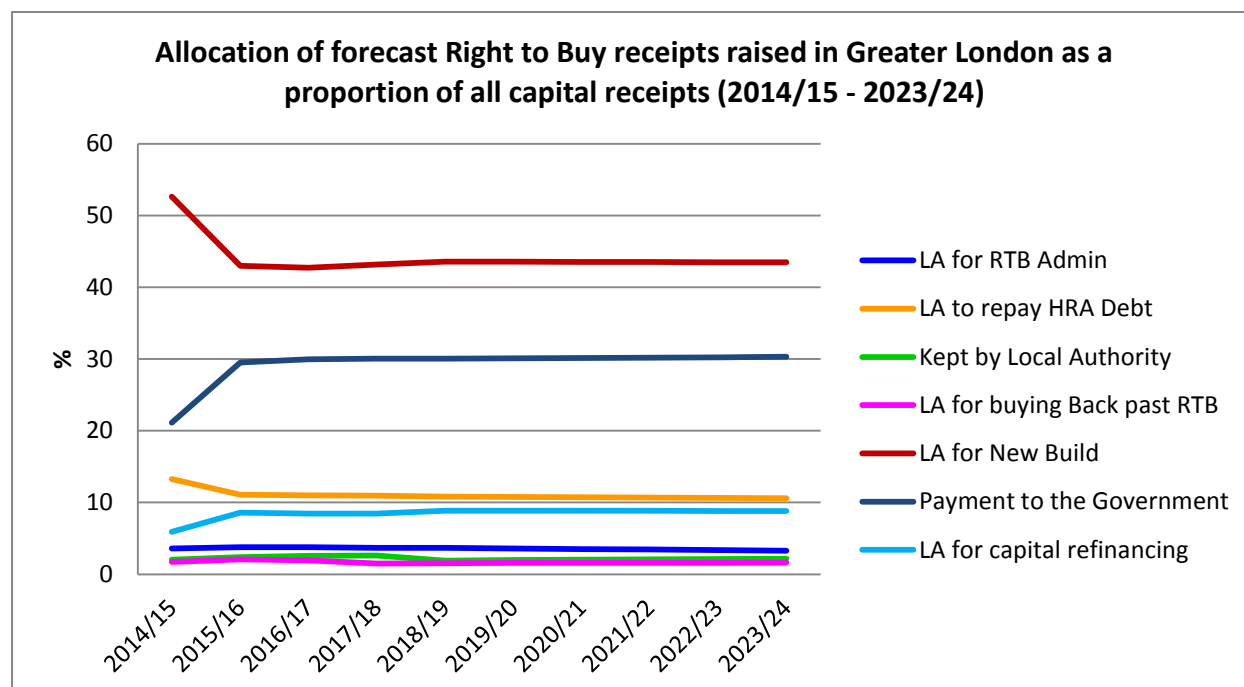


Figure 10: Allocation of forecast Right to Buy receipts raised in Greater London as a proportion of all capital receipts (2014/15 - 2023/24)

7. Recommendations

The key priority for the Mayor of London should be to deliver the 49,000 homes needed in London in each year over the next two decades. There have never been anywhere near this number of homes built in London without councils playing a leading role in delivering new homes. Since the end of the Second World War, the record for new homes built in a single year in the capital was in 1971, when nearly 37,500 new homes were built. Of these, 27,235 (72 per cent) were built by London's local authorities.

To deliver the homes we need, council housing must be a major part of the new supply being brought forward. History has shown that the private sector and housing associations alone cannot deliver the sheer number of homes needed in Greater London. Between 1961 and 1981, London's local authorities built, on average, 19,000 homes a year; more than all the homes built in London last year (2013/14). To address London's housing shortage, our goal should be that by at least 2020, the capacity and policy framework should be in place so that London's local authorities regularly deliver this number of homes every year from 2020 onwards.

To achieve this, a number of policy reforms are needed and more support must be given to local authorities.

- **Housing Revenue Account reform**

The case for reforming the Housing Revenue Account (HRA) is compelling. While it is welcome that recent reforms have enabled boroughs to start building new homes again for the first time in years, it is clear that the HRA borrowing caps are preventing London's local authorities from efficiently maximising their available resources and building the homes we need.

In evidence given to the London Finance Commission, the London Borough of Ealing commented that "the HRA borrowing caps... bear no relationship to the actual value of assets in London and act to limit access to private finance".^{xxxiv} As an example, the London Assembly Housing Committee's report on council housing found that Westminster City Council is only around 27 per cent geared (the ratio between debt and equity) in its housing operations, compared to the typical level for a housing association of around 60 per cent.^{xxxv} The committee's final report argued that the data suggests "substantial latent capacity waiting to be unlocked"^{xxxvi}, and found that lifting caps could enable an additional £2.8 billion to be invested in building new affordable housing.^{xxxvii} To put this in context, London's annual budget for affordable housing from 2015 to 2018 is £483 million.^{xxxviii}

In London, there is cross-party consensus among local government leaders on the need to treat borrowing for investment in housing differently to day-to-day revenue spending.

The recently published London Housing Strategy stated that "the Mayor would like to see new arrangements for prudential borrowing for new housing so that it is not counted as Government debt, which would distinguish it from more mainstream public borrowing, along the lines that apply in much of the rest of Europe".^{xxxix}

The London Finance Commission, supported by London Councils, also concluded that:

"Borrowing limits for housing purposes for boroughs should be relaxed or removed. Prudential borrowing rules would still apply, as would the rigour of long-term Housing Revenue Account (HRA) business plans".^{xl}

The report highlighted comments by the London Borough of Sutton, which argued that borrowing for housing is “good borrowing” that delivers “capital assets for the future and against a proven rent stream; this is not borrowing that is just offsetting a shortfall in annual tax revenues.”^{xli}

It is also clear that such a move would not be detrimental to the United Kingdom’s international standing with the financial markets. A recent report on City attitudes to housing investment by Capital Economics and Shelter found that “possible objections to extra borrowing were either not as great as claimed or that they could be resolved in time without prejudicing the market’s trust in government accounts.”^{xlii}

The London Finance Commission also noted that the increased borrowing resulting from removing the borrowing caps “would be modest compared with government borrowing overall”, but that it “would, however, allow for a significant and affordable investment in new housing schemes, which would both help meet needs and contribute to economic growth”.^{xliii} During the London Assembly’s investigation, PricewaterhouseCoopers said “we need to be rather more sophisticated in the way that we consider borrowing against an asset that has value in itself and is tradable but also generates an income stream that contributes, in large part, to the repayment of any debt associated with it”.^{xliv}

As an absolute minimum, this Government and future Governments should give consideration to allowing London to remove the caps on HRA borrowing. This would allow local authorities, within prudential borrowing rules, to maximise the amount of housing they can deliver and to ensure they are key players in addressing London’s chronic housing shortage.

The Government could also go further by bringing UK accounting rules in line with European neighbours so that borrowing for investment in affordable housing is distinguished from other forms of borrowing. At the moment, such spending is considered in the same way as borrowing for day-to-day revenue expenditure, despite the fact that housing investment generates both an asset and an income. No other European nation classifies housing investment in this way. Reclassifying housing investment would correct this anomalous accounting practice and give greater long-run certainty to housing investment.

- **Housing Investment Company**

In addition to reforms to the Housing Revenue Account, which would enable boroughs to expand the supply of new council homes, the Greater London Authority (GLA) should fund exploratory research for establishing a new Housing Investment Company (HIC). Through such an organisation, the GLA would add to the supply of housing being delivered in London by private sector developers, local authorities and housing associations by:

- Directly commissioning developers to construct new homes,
- Building housing of all tenures in order to protect and strengthen mixed communities across London, with all income generated by the GLA from rents and sales being reinvested in building more housing,
- Working constructively with developers to deliver housing on behalf of the HIC and having a specific intention to increase the number of small builders operating in London, and

By directly commissioning new housing, the GLA would be more capable of ensuring a consistent base-level of new housing supply is delivered into the London market. This is

particularly important given the huge need for housing and the underlying importance of construction to London's jobs market and regional economy. The initial research would set out the organisational and financing arrangements needed to establish the HIC and outline the level of output that could be reasonably expected. The research would also establish whether a HIC – in addition to further planning levers, such as 'use it or lose it' planning permissions and targeted use of Compulsory Purchase Orders – could be better placed to advance stalled sites.

We anticipate the HIC being funded through a range of mechanisms, but which would be in addition to the affordable housing grants currently controlled by the Mayor of London. This programme would therefore produce homes in addition those currently being constructed by Housing Associations with mayoral funding. These additional mechanisms would include borrowing against the revenue stream created by the new homes (in accordance with prudential borrowing rules). Other possible options could include a new city wealth fund and constructive work with overseas investors to better channel the £7 billion of international money spent on London homes last year into creating new supply, rather than adding more demand.^{xiv} These new funding mechanisms would also be developed in more detail during the research process.

- **Coordination between Housing Associations and local authorities**

As highlighted in this report, many of London's local authorities are starting to develop new housing programmes for the first time in thirty years. The skills gap that exists in local authorities is a significant hurdle for those that are attempting to establish new and ongoing building programmes.

The GLA should spearhead a programme that brings together local authorities and housing associations to develop the knowledge and skills needed to establish these programmes. This could be achieved through collaborating with London Councils to establish working groups hosted at City Hall and establishing a secondment scheme with housing associations (and private sector developers that wish to participate) whereby development managers and other relevant staff can help local authorities to establish the capacity to bring forward development programmes.

- **Reinvesting more of the money raised from Right to Buy into building new affordable housing**

The 30 per cent of capital receipts from Right to Buy sales that will be paid to Central Government would be put to better use if they were automatically retained by the Housing Revenue Account for reinvestment in new build council housing. If the local authority has no plans for building new homes, the funding should be allocated to the Greater London Authority so that it can fund affordable housing projects, with a particular emphasis on funding replacement homes in the areas where council properties have been sold.

- **Reforming Right to Buy**

It is clear that Right to Buy needs serious reform to make it work for local authorities, tax payers and people in need of housing; none of whom benefit from the current configuration of the policy. Combined, the reforms would devolve more power to local authorities to determine how they manage their council stock and to devise their own Right to Buy policies.

- The government has pledged that every home sold through Right to Buy would fund the building of another affordable home. However, as demonstrated, under the current policy the new homes being built are not one-for-one replacements. It should be the

case that the replacement home is a genuine one-for-one replacement, and that all new homes built through Right to Buy receipts mirror the rent, size and tenure specifications of the home lost by the council through this policy.

- The current system forces local authorities to essentially write off a huge proportion of the market value of a property through Whitehall's policy of offering substantial discounts to tenants. This should be changed so that the local authority retains an equity stake in the property equal to the discount that it offers tenants. The local authority should have the right to determine what level of discount it wishes to offer tenants, ranging from zero up to a set maximum limit as a percentage value of the property. The local authority would then retain a stake in the property if and when it is sold by the former tenant.
- In the spirit of localism, local authorities should have a 'right not to sell' council housing if it is deemed not to be in the community interest to do so. This would allow local authorities to choose whether they sell properties, rather than the current system in which Whitehall dictates that they must sell council properties and make significant financial losses in the process. This would not undermine the ambitions of aspiring homeowners, given that councils would still have a range of viable options for helping residents into homeownership, such as through part-rent part-buy.

As part of this new right, councils should be able to designate specific zones, developments and properties where council housing can and cannot be sold to tenants through a new locally determined Right to Buy scheme. For example, councils may wish to prevent the sale of certain properties for future regeneration purposes, to protect newly built homes or in order to keep accommodation in strategic locations – such as near hospitals – for key workers.

- Newly-built council housing should be exempted from Right to Buy if the borough wishes them to be. During the London Assembly's investigation into council housing, the London Borough of Camden noted that tenants' Right to Buy after five years of living in the property acts as a deterrent to local authorities building new council homes, given that the property could be sold off after only a few years.^{xlvi} This disincentive will be exacerbated should the Government succeed in reducing the threshold to just three years. Given the scale of housing need, and the vital role councils could play in meeting this, any disincentives to new supply should be removed.
- Most boroughs do not currently envisage that Right to Buy sales will impact on the viability of their HRA, or have not undertaken the relevant modelling work. However, some boroughs noted in response to the Freedom of Information request issued for this report that there would be a level of Right to Buy sales at which HRA viability would be threatened. For example, the London Borough of Croydon noted that "for the period 2014/15 to 2024/25, annual sales in excess of 99 would result in a deficit in our operating account". Havering put the viability threshold at 250 sales per year from 2015/16, while Newham said that "it is estimated a number of 425 Right to Buy sales per year for the next ten years would make the Housing Revenue Account unviable in 2024/25".

The threat to HRA viability from Right to Buy sales therefore appears small, though it does exist. The bigger impact for local authorities, as highlighted by the Savills research, is the effect of Right to Buy on reducing the amount of funding for new build council housing. Given these two factors, councils should have the right to suspend, or place

quotas on, council housing sales in circumstances where Right to Buy could threaten HRA viability and where it impinges the council's ability to fund the development of new housing.

8. Conclusions

The gap in new housing supply that was left when councils were prevented from building new homes has never been filled by the private market. It is therefore of vital importance that we seek to empower councils to deliver substantial numbers of new homes.

Time will tell what the exact impact of the reinvigorated Right to Buy and the reform of the Housing Revenue Account will be on London's stock of council housing, but the data provided by boroughs and used in this report enable us to make a number of projections and draw several conclusions.

Continuing decline in London's council housing stock

Over the next decade it is likely that there will be a continued decline in London's council housing stock as the restrictions on Housing Revenue Account borrowing artificially limits the number of new council homes being built. While the number of new homes built in the latter part of the ten-year period may be higher than currently reported by the boroughs, it is evident that the number of homes being built will not reach anywhere near the levels previously delivered across Greater London prior to the reforms that took place in the early-1980s.

Similarly, Right to Buy sales, whilst also remaining below the levels seen into the early 2000s, are likely to mean a continued reduction in Greater London's council housing stock. Previous studies have shown that homes sold through Right to Buy in London cannot be replaced one-for-one from the revenue raised by the sales alone; however, the data shows that, even when factoring in additional homes funded through general Housing Revenue Account spending, it is unlikely that all the homes sold will be replaced. This is particularly stark in outer-London, where the boroughs are currently forecasting that two homes will be sold for every new home that is built.

Reducing investment in building affordable housing

The data provided by boroughs for this report shows that the annual rental income lost as a result of Right to Buy sales is larger than the annual income generated from sales after seventeen years. From this point, boroughs begin to make a net financial loss from Right to Buy compared to the income they would have generated had the homes not been sold. This is money that could have been invested in building more affordable housing, but has instead been lost by councils.

This substantiates other research, which has highlighted that Right to Buy sales can reduce the amount of money available for building new council housing, because of the loss of rental income. The reduction in rental income impacts on the amount of money councils have available to cover the fixed costs of their housing operations (such as maintenance, administration and other operational costs). Because fixed costs may not reduce as quickly as the reduction in rental income, councils may then be forced to cover its fixed costs with funding that may otherwise have been used for new build council housing.

Insufficient reinvestment in affordable housing

Finally, the data provided highlights that an unacceptably low proportion of the capital receipts generated from Right to Buy will actually be reinvested in building new council properties. Only 43 per cent of the revenue raised will actually be spent on building replacement homes, while 30 per cent will be transferred to central government. This is clearly unacceptable given the urgent need for affordable housing in Greater London and the Government's pledge that each property sold would be replaced one-for-one.

9. Methodology

Freedom of Information requests were sent to London Boroughs in January 2014, with responses still being received to the initial and subsequent clarification requests up until September 2014.

Four of London's thirty-three local authorities – Bexley, Bromley, Merton and Richmond upon Thames – have undertaken 'large scale voluntary transfers' of their council housing stock to housing associations, meaning that these property portfolios are no longer retained by the local authority. As such, these four local authorities were excluded from this study.

It should also be highlighted that the period over which data was collected included the 2014 local authority elections, during which direct elections were held for all thirty-three local authorities in London (the thirty-two boroughs plus the City of London). As a result of these elections, seven local authorities changed political control.^{xlvi} It may therefore be that some of the local authorities in this study have, or are in the process of, revising plans, targets and strategies in relation to council housing.

Forecasts of lost rental income and Right to Buy capital receipts were produced using Microsoft Excel, based on trends associated with the data provided by sixteen London boroughs for the years 2014/15 to 2023/24.

Appendix: Indicative proportion of former council properties sold through Right to Buy now let through the private rented sector (2013)

Camden	36.29%
City of London	34.63%
Greenwich	34.08%
Hackney	Information not available
Hammersmith & Fulham	36.57%
Islington	39.44%
Kensington & Chelsea	40.32%
Lambeth	26.05%
Lewisham	32.26%
Southwark	33.95%
Tower Hamlets	50.52%
Wandsworth	38.93%
Westminster	31.00%
Inner-London	36.32%
Barking & Dagenham	41.16%
Barnet	37.28%
Bexley*	27.80%
Brent	24.94%
Bromley*	32.19%
Croydon	Information not available
Ealing	41.42%
Enfield	49.87%
Haringey	38.46%
Harrow	35.35%
Havering	37.55%
Hillingdon	30.73%
Hounslow	37.92%
Kingston upon Thames	45.63%
Merton*	32.91%
Newham	26.20%
Redbridge	27.06%
Richmond upon Thames*	35.28%
Sutton	26.75%
Waltham Forest	36.93%
Outer-London	35.62%
London	36.07%

* Denotes boroughs that have undertaken Large Scale Voluntary Transfers of their council housing stock to a housing association

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- ⁱⁱⁱ 'The 2013 London Strategic Housing Market Assessment', Greater London Authority, January 2014, p.8
- ^{iv} 'Homes for London: The London Housing Strategy', draft for consultation, Greater London Authority, April 2014, p.2
- ^v 'Private Rental Market Statistics', Valuation Office Agency data, published 10 June 2014
- ^{vi} House Price Index, October 2014, Office for National Statistics, published 16 December 2014
- ^{vii} 'Housing in London', GLA dataset, House Price Index, October 2014, Office for National Statistics, published 16 December 2014 and ONS Retail Price Index data
- ^{viii} 'The Lyons Housing Review: Mobilising across the nation to build the homes our children need', Labour Party, October 2014, p.140
- ^{ix} 'Raising the capital: The report of the London Finance Commission', London Finance Commission, May 2013, p.53
- ^x 'Homes for London: The London Housing Strategy', draft for consultation, Greater London Authority, April 2014, p.45-46
- ^{xi} 'Right to build: What's stopping councils from building more housing?', London Assembly Housing Committee, October 2013, p.14
- ^{xii} Right to Buy, Research Paper 99/36, House of Commons Library, 30 March 1999, p.5
- ^{xiii} DCLG Live Table 685: Annual Right to Buy Sales: Sales by Local Authority: 1979-80 to 2013-14
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- ^{xv} 'The Right to Buy', House of Commons Research Paper 99/36, 30 March 1999, p.11
- ^{xvi} 'Housing in London', GLA dataset available at <http://data.london.gov.uk/dataset/housing-london>
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- ^{xviii} 'Pre-Budget Report 2013', London Assembly Budget and Performance Committee, December 2013, p.6
- ^{xix} Stephen McDonald (Director of Place, London Borough of Barnet), London Assembly Housing Committee, 17 June 2014
- ^{xx} 'Reinvigorating Right to Buy and One for One Replacement: Information for Local Authorities', Department for Communities and Local Government, March 2012, p.5
- ^{xxi} Department for Communities and Local Government data for 2012/13 and 2013/14
- ^{xxii} Hometrack evidence to House of Commons Communities and Local Government Committee, Eleventh Report on the Financing of New Housing Supply, Vol II, April 2012
- ^{xxiii} 'Right to build: What's stopping councils from building more housing?', London Assembly Housing Committee, October 2013, p.11
- ^{xxiv} 'Reinvigorating Right to Buy and One for One Replacement: Information for Local Authorities', Department for Communities and Local Government, March 2012, p.5
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- ^{xxvi} 'Boris seeks affordable homes bids as appetite shrinks', Inside Housing, 2 May 2014
- ^{xxvii} 'Right to build: What's stopping councils from building more housing?', London Assembly Housing Committee, October 2013, p.12
- ^{xxviii} 'Right to build: What's stopping councils from building more housing?', London Assembly Housing Committee, October 2013, p.12
- ^{xxix} 'Homes for London: The London Housing Strategy', Draft for London Assembly, Greater London Authority, April 2014, p.46
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- ^{xxxi} 'Finance and Housing Stock Options Appraisal', Savills, June 2013, p.28
- ^{xxxii} Barking and Dagenham, Barnet, Brent, Croydon, Enfield, Hackney, Hammersmith and Fulham, Hounslow, Islington, Kingston upon Thames, Lambeth, Newham, Redbridge, Southwark, Tower Hamlets and Wandsworth
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- ^{xxxvi} 'Right to build: What's stopping councils from building more housing?', London Assembly Housing Committee, October 2013, p.15
- ^{xxxvii} 'Right to build: What's stopping councils from building more housing?', London Assembly Housing Committee, October 2013, p.16
- ^{xxxviii} Question 2014/0077, Mayor's Question Time, Wednesday, 29 January 2014
- ^{xxxix} 'Homes for London: The London Housing Strategy', Greater London Authority, June 2014, p.65

^{xi} 'Raising the capital: The report of the London Finance Commission', London Finance Commission, May 2013, p.11

^{xlii} 'Raising the capital: The report of the London Finance Commission', London Finance Commission, May 2013, p.31

^{xliii} 'The Lyons Housing Review: Mobilising across the nation to build the homes our children need', Labour Party, October 2014, p.141

^{xliiii} 'Raising the capital: The report of the London Finance Commission', London Finance Commission, May 2013, p.44

^{xliiv} 'Right to build: What's stopping councils from building more housing?', London Assembly Housing Committee, October 2013, p.14-15

^{xlv} 'London prime rental market faces saturation as developers rush in', Financial Times, 10 November 2013

^{xlvi} 'Right to build: What's stopping councils from building more housing?', London Assembly Housing Committee, October 2013, p.12

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