



Policy Study No. 68

# Trust the Tenant

## Devolving Municipal Housing

Alex Henney



CENTRE FOR POLICY STUDIES





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1985

## The Author

Alex Henney, the chairman of the group, has experience of housing in both the public and private sectors. He was formerly Chief Housing Officer of the London Borough of Haringey, and special (non-political) adviser to the Department of the Environment for the review of housing policy in the mid-1970s. Subsequently he was Housing Development Manager for a building company. His book, *Inside Local Government: a case for radical reform* was published by Sinclair Browne in 1984.

## The Group

The working group on Housing at the Centre for Policy Studies comprised: Teddy Taylor MP; John Barnes; Robin Martin; Tom Baron; Ian Pasley-Tyler; Colin Coulson-Thomas; and Alex Henney. The author is deeply grateful for all their advice and encouragement – without which this Policy Study could not have been written.

Responsibility for his views and arguments, however, rests with the author alone. The Centre never expresses a corporate opinion in its publications.

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## Summary of recommendations

We have chosen to consider council housing because (despite the success of the government's policy of giving people the right to buy their own home) there remain many council tenants who are unable to take advantage of that policy and yet are dissatisfied with their present form of tenure. Rented council housing has not been one of the successes of the Welfare State.

Provision of housing by local authorities sprang from horror at slums and concern over sanitary conditions. It blossomed under the banner of 'homes fit for heroes'. During the 1960s and in the Indian Summer of the early '70s it became the principal form of rented accommodation, and indeed grew at the expense even of owner occupation. But given a free choice only half those who rent council houses would choose to do so – *even at the subsidised rents they pay*. Council housing is for many becoming an obsolete form of tenure.

We cite the enormous sums of money which have been spent on slum clearance (some of it unnecessarily) and on the building of new housing, too much of which has turned into new slums. Quality for quality, council housing has been more expensive to develop than private housing, sometimes costing over twice as much. Worse, a great deal of the stock is defective.

Many estates built in the '60s and '70s are now being demolished, many others (possibly up to a million dwellings) need repairs which will run to billions of pounds. Too often the management of housing – especially in large authorities – is remote and bureaucratic: too often again, maintenance is inadequate, slow and expensive. Can anyone be surprised that a sixth of council tenants are dissatisfied with their lot?

The constraints of consumers' preference and cost control are lacking. These are the shortcomings which have allowed politicians to give free rein to their ambitions: to play, for example, the 'numbers game' in which houses were built in unsuitable, expensive locations in order to alter the electoral balance, and rents kept down in order to influence voting. The same lack of constraints allowed architects to pursue the latest fads and fashions, heedless of tenants' preferences and ratepayers' bills. Provision of housing has simply not been accountable. That is the fault at the heart of things. One group has commissioned housing, another has designed it, another has managed



it, another has occupied it, another has paid for it – and none were responsible for the cost (nor even knew it).

Then there is the question of size. Some of the larger local authorities have over-reached themselves with their building programmes – trying to build and manage too many dwellings for any single body (however competent). They would not be up to a job half the size. Their ambitions are too great, their competence too slight.

We therefore propose ways of re-organizing the ownership of municipal housing stock so that tenants will have more control over, and responsibility for, their housing. Politicians will have less scope for patronage, people will have more choice and local authorities will be able to pay greater attention both to the problems of the citizens who need municipal housing – and to those of the defective housing which remains under their control.

We recommend:

- (i) outright sale, equity sharing and homesteading as at present;
- (ii) transfer of some of the sheltered housing owned by the larger councils with poor management to charitable housing associations;
- (iii) the right to be given to tenants to acquire assignable short leases;\*
- (iv) the right to be given to tenants to set up management cooperatives – which implies a strengthening of the provisions of the 1980 Housing Act; and
- (v) the transfer of most of the present council stock to Housing Management Trusts, each of 500-2000 dwellings.

These new Housing Management Trusts (HMTs) would be in the form not of a housing association but of a statutory trust. They would typically be composed of nine trustees, of whom five would be elected by the tenants in staggered periods of three years each: one would be nominated by the local authority, one would be a representative of the financial backers and the remaining two would be coopted. The duties of the trustees would include managing and renovating of stock (but *not* the building of more stock), appointing and dismissing staff, and allocating three-quarters of the tenancies – the local authorities retaining the right to nominate the remainder. HMTs would operate within a clearly defined legal framework to prevent abuse and to ensure that dealings were as fair as possible both with tenants and with

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\* This proposal goes beyond the provisions of the Housing and Building Control Act 1984, which provide a right to exchange.



applicants for tenancies. They would, by the same law, be accountable both to the public and to the tenants.

We considered three possible financial bases for transferring stock and setting rents. These were replacement cost, adjusted historic cost and market value. Market value was the base we finally preferred – but one which assessed a property not with vacant possession but rather in the way offices and factories are valued as *investments* with sitting tenants. The capital value of the rent roll would be calculated and allowance made, both for the net current value of the receipts which would be expected if the dwellings and land were sold and for the liabilities of maintenance and repairs. This method would demand careful planning and strict financial discipline; would be fair to both ratepayers and tenants; and clears the way to refinancing the HMTs with private funds. It would also prevent sudden, drastic changes in the level of rentals. Building societies should have a major role to play and the plan for legislation which controls them (the Building Society Act 1962) should be amended to allow them (a) to lend on second mortgages; (b) to provide limited unsecured loans to HMTs; and (c) to hold and develop land for housing. We are pleased to see that the proposals are incorporated in the Green Paper 'Building Societies: A New Framework'.

The total rent roll of an HMT would be calculated by taking one year over another to allow for:

- (i) the cost of servicing and debt on the original transfer, and on any further loans raised for renovation; and
- (ii) everyday costs of management and maintenance.

In order to make it impossible for the trustees to exercise favouritism by setting unduly low rents for any property, the Rent Officer, who is independent of both the local authorities and the tenants of HMTs, would determine the relative rentals of the dwellings. As at present, tenants with low incomes would receive housing benefits so that this would create no new problems.

On the one hand we believe that unless a proper framework is set up little will happen. The current *ad hoc* methods used to create private housing trusts are unsatisfactory for the purpose. On the other hand, we do not advocate wholesale and dramatic transfer. Authorities should be encouraged to experiment and to set up facilities gradually. Progress should be reviewed after a few years and only then should the government take powers, if necessary, to force authorities to transfer stock.

# 1 Municipal Housing – the first three phases

'It is a great achievement to get slum-dwellers into decent houses, but it is unfortunate that, owing to the peculiar temper of our time, it is also considered necessary to rob them of the last vestiges of their liberty.' *The Road to Wigan Pier*, George Orwell (Penguin ed., 1962).

The story of municipal involvement in housing divides into four phases. First, there was the slow evolution up to 1914, in which local authorities cleared slums and built new dwellings on a modest scale. Second, a massive programme by councils of slum clearance and building after the First World War – and still more after the Second World War. These programmes resulted from the belief in the need for, and effectiveness of, state action if the housing conditions of the 'masses' were to be improved – and this belief was common to all parties for 50 years from 1920-70. Then the third phase was a sort of Indian Summer during the '70s.

And now we are in the fourth phase. We have come to recognize that council housing is in many respects an obsolete tenure. How should we face the challenge which this presents?

## 1 Sanitary Origins

Public intervention in housing conditions stems from the movement for sanitary reform which began in the late 1930s. The Poor Law Commission set out to combat 'the nuisances by which contagion is generated and persons reduced to destitution'. The Inquiry into the 'Sanitary Conditions of the Labouring Population of Great Britain' published in 1842 laid great stress on poor housing. The Torrens Act of 1868 imposed a duty on owners to keep their houses in good repair and empowered local authorities to act in default and close insanitary dwellings. The Public Health Act of 1875 imposed standards on new housing – for example, laid down that houses must have piped water supply and sanitation, and empowered local authorities to pass by-laws determining minimum widths for streets. Another act in 1875 empowered local authorities to demolish slums.

In 1869, Liverpool Corporation became the first authority actually to build houses but it was not until the Housing of the Working Classes Act of 1890, which gave a general power to councils to buy land and build houses, that municipal house building began on any



appreciable scale. Yet although housing conditions were poor – the Census of 1911 found that some 15 per cent of all households were sharing accommodation – local authorities in England built only about 20,000 dwellings before the First World War.

## **2 Homes for heroes and sons of heroes**

The First World War radically altered ways of thinking. Rent control, introduced in 1915 in order to forestall a Glasgow rent strike, undermined the viability of building low-cost housing. The setting-up of a 'command economy' went hand in hand with a belief in the advantages of state intervention. When the Royal Commission on Housing in Scotland reported in 1971 that private builders had been unable to provide enough houses for the working-class population because few could afford them, the authors concluded 'who is to house them? It can only be the local authority'. Dr Charles Addison, Minister for Reconstruction, accepted that a national housing programme was an essential element in post-war social policy and concurred with Seeböhm Rowntree's opinion that such a programme should be a 'partnership of responsibility between central and local government, rather than private enterprise'. After the war the government encouraged – and subsidized – local authorities to build 'homes fit for heroes'.

Between the wars policies on subsidies\* to the private and public sectors vacillated so as to give the greater emphasis now to replacing slums, now to building to meet general needs. During the 1930s, the fall in building costs, the low interest rates and the availability of cheap land stimulated a marked increase in new private building – and subsidies were concentrated on slum clearance. Altogether about 300,000 slum dwellings were cleared, and 1.1 million council houses built in England between the wars.

The virtual cessation of house building during the Second World War, coupled with bomb damage, inevitably created an acute housing shortage. For the following thirty years the political parties outbid each other with targets for new housing. The Labour government of 1945 was determined to control not only the production of houses but also their allocation on the criterion of need rather than on the ability to pay. It did not however achieve its target of 240,000

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\* The subsidy provided under the 1919 act was a deficit one but it ran out of control and was replaced in 1923 by a flat rate subsidy of £6 per dwelling paid for 20 years. This form remained with variations until 1967.

houses a year, and the promise of the Conservative Party of '300,000 houses a year' contributed to Labour's defeat in 1951. The government thereafter adopted an expansionary policy of *minimum* targets for local authorities, and in 1953 redeemed its pledge by completing 327,000 dwellings in Britain – 262,000 of them built by public authorities.

In 1954 the government changed the emphasis from building for general needs to slum clearance. Starts in the public sector declined from the 1953 peak of 270,000 in Britain (about 76% of the total) to 124,000 in 1958. Clearance increased to 62,000 in 1961.

And then in December of 1963 the government published the circular which had the dire consequences we all know of – 'Industrialised Housebuilding' – which encouraged authorities to use 'systems' and provided subsidies for building high-rise blocks of flats.<sup>1</sup>

The incoming Labour government of 1964 raised the stakes higher. It sought to build 500,000 dwellings a year by 1970, and increased the standard to which council dwellings had to be built – the 'Parker Morris Standard'. In the face of rising interest rates and rising costs it abandoned the system of flat-rate subsidies and introduced an interest rate subsidy – i.e. one which kept the rate to 4 per cent. Finally it curbed rent increases – so that, taken together with the rapid increases in costs and interest charges, Exchequer subsidies for new buildings more than doubled from £82 million in 1966/67 to £186 million in 1971/72.

### **3 The Indian Summer**

The subsequent Conservative government of 1971, recognizing public hostility towards indiscriminate subsidies of council houses, introduced a new set of policies. This was based on 'the principle of fairness' and 'parity of treatment' between council and private tenants. The Housing Finance Act of 1972 abolished the interest rate subsidy and replaced it with a system whereby deficits were subsidised after fair rents had been charged. This act also provided for rent rebates for both public and private tenants. Although the broad objective of the act was sound (to give subsidies to *people* rather than to bricks and mortar), it met with widespread opposition from local councils – they did not like losing their responsibility for setting rents – and also focused tenants' dislike of rent increases on to the government. Above all, it was insensitive to inflation, and the system met its demise under the Labour government in 1975.

Despite these difficulties, council housebuilding continued during the early and mid-70s with ever more extravagant schemes and

ever more ambitious political claims. By 1975 there was much talk of 'equity' between the various housing sectors, of facilitating interchange between them, of matching policies on subsidies with the tax and social security systems. But this 'Indian Summer' neglected one crucial fact. Although the costs of housing were often enormous, tenants were becoming more and more dissatisfied with the results. The greater prosperity and greater feeling of independence of the post-war years were reflected in changed housing aspirations. Although about a third of the housing stock is still municipally owned, only a tiny minority of younger people actually prefer to rent:

Age range Years		Actual Proportion in Tenure %	Proportion Preferring Tenure %
25-29	Own	51	92
	Rent from council	29	5
30-44	Own	62	91
	Rent from council	28	6
45-59	Own	53	77
	Rent from council	37	17
60-64	Own	48	63
	Rent from council	39	28

Source: Table 4.23, General Housing Survey, 1978, HMSO, 1979.

Most recently (1983) a survey by the British Market Research Bureau<sup>2</sup> for the Building Societies Association, revealed that when people were asked what would be their ideal tenure in two years' time, only 16% wanted to rent from a council, against 77% who wanted to own. The younger the interviewees, the greater the difference. Only 10% of those aged 20-54 wanted to rent from the council – while 85% wanted to own their own homes. Of those who do rent from councils only 50% wanted to. Again the proportions among younger age groups were lower. We are faced with a colossal mismatch between what is available and what people want. For most, municipal renting is a forced choice.



## 2 Present problems, future liabilities\*

After education, council housing is the largest service provided by local authorities – and a political minefield. One-third of Britain's population still live in council dwellings. No less than 22% of local authority expenditure – equal to 9% of all public expenditure – was devoted to municipal housing in 1974, when construction was at its peak. A third of capital expenditure on housing (about £1500 million at 1984 prices) and nearly half of the total revenue subsidies went into London. The GLC was spending £500 million capital annually – with boroughs such as Camden, Lambeth, Islington and Southwark spending about £70 million each. This figure is lower now but housing is still the largest item of local capital expenditure, with just over £2.5 billion gross spent on building and renovating council housing in England in 1983/4.

Seldom has so great an expenditure yielded so little satisfaction. A significant proportion of the slum clearance was unnecessary. Much of the new housing has been expensive – yet much is defective. And too often the stock has been poorly managed and poorly maintained. One in six council tenants are displeased with their homes. Compared to the NHS, council housing is no jewel in the crown of the Welfare State – for, whereas 74% of the population at large think that the former is 'good value', a mere 42% think the same of council housing.<sup>3</sup>

To look more closely at slum clearance, in the late-60s to the mid-70s, there was an unholy alliance of political ambition and professional and commercial interests: this led to programmes on far too large a scale, which took little or no heed of popular preference, little or no heed of scope for improvement rather than clearance, little or no heed of the likely social and economic consequences. For example, a GLC survey in 1972 found that *only* 37% of the houses demolished in London during the previous five years had been designated as having useful lives of less than eight years; and 33% had been estimated to have lives of over sixteen years.<sup>4</sup> As much as one-third of the 76,000 houses demolished in London between 1967 and 1976 should probably have been renovated instead. The financial saving alone would have been some £300 million (1984 prices). Similar figures emerge from a

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\* Much of this and the succeeding chapter draws on material in Alex Henney, *Inside Local Government – a case for radical reform*, Sinclair Browne, 1984.



study of clearance in Liverpool: there it was estimated that £65 million (at 1984 prices) was spent to create 600 acres of vacant and derelict land in a city that was already fast declining.<sup>5</sup> Some three-quarters of this money was spent on demolishing houses and commercial premises which were in sound order. The effect of this on employment is not hard to imagine.

And to turn to the extravagancies of much new development, the Department of the Environment has estimated that, *quality for quality*, council housing is as a rule up to one-fifth more expensive than private housing.<sup>6</sup> And some even more expensive than that. In 1976, for example, in a comparison between average unit costs of GLC and private housing in London, the former was shown to be *half as much again* as the latter. Some boroughs were even worse. Over four years in the late '70s Camden built 2750 dwellings at an average cost of £66,000 (1980 prices) compared with the £32,000 which was then the average price of new houses in London purchased with mortgages.<sup>7</sup> And council housebuilding has not only been much more expensive, it is also much slower. In one large site in Hampstead Camden took six years to start work – in another, seven years. And then once on site, Camden took an average of about 3.8 years to construct dwellings, longer than any other authority in England and Wales, though facing fierce competition for the booby prize from Islington, Lambeth and the GLC itself.

Some authorities chose to exacerbate their difficulties by using Direct Labour Organisations (DLOs). From April '80 to December '81, the GLC's DLO produced work with a value of £11.4 million at a cost of £22 million – i.e almost twice as much as a private contractor would charge.

Alas, expensive and slow does not mean good. It is ironic that the paper which the DOE's internal housing research published immediately before its disbandment was entitled 'A Survey of tenants' attitudes to recently completed estates.'<sup>8</sup> This report studied tenants' satisfaction with a large sample of traditionally built low-rise developments completed in the mid-70s. Some of these schemes were designed by architects employed by local authorities, others were bought by local authorities from private developers. Tenants were more satisfied with the latter schemes *and they were cheaper*. The National Consumer Council's<sup>9</sup> (NCC) survey also found that many more council tenants (20%) were dissatisfied with the design of their home than were owner-occupiers (12%). Even harder to forgive, some

councils have repeated the construction of designs known to be unpopular.

Worse follows. Much of the stock is defective. The failings of tower blocks and industrialised building systems are now commonly acknowledged. The liabilities of one such system alone have been estimated to be at least £100 million. Nevertheless, it may be that the scale of the problem is still under-estimated. All over England, councils are busy demolishing estates which were completed as late as the '60s and even '70s. The London Borough of Hillingdon is demolishing all 1198 low-rise concrete-system dwellings built between 1967 and 1971. Leeds is demolishing 1249 flats and maisonettes, Manchester 913 concrete-system dwellings, Hackney seeking to demolish the Trowbridge estate designed by the GLC: this comprises 566 flats in 21 storey towers and 193 'patio' houses, completed between 1967 and 1971. Rain penetrates the buildings through panel joints and windows of balconies; and many flats have 'damp stains and mould growths on walls, floors and ceilings'.<sup>10</sup>

Small wonder that the DOE estimates informally that about half a billion pounds is being spent annually on rectification and arrears of maintenance. Defects on estates built by the GLC alone are now thought to require £12-15 million a year, over the next ten years, to remedy them – a sum which *excludes* the £20 million required to put into order a low-rise estate of 3000 dwellings which the GLC built in Andover.<sup>11</sup>

All-in-all at least half a million and possibly as many as one million council dwellings may suffer from serious faults. An estimate by the Association of Metropolitan Authorities put the cost of rectification at about £5 billion.<sup>12</sup> It is not surprising that 5% of the stock is *officially* classified as 'difficult to let' and 'unpopular'. Some councils have, unfortunately, built new slums for old.

The inadequacies of maintenance and management are as bad as those of construction. One study by the NCC opens by quoting the case of a tenant who moved into a house in Nottingham.<sup>13</sup> The tenant said that on the arrival of winter 'it was like living in a perpetual draught. Then the ceiling started to drip on us. The walls streamed with water, the ceilings were one wet mass. There was green and black mould everywhere'. Another unfortunate tenant in Hackney had to go to court, where it was held that the council was causing a nuisance and must remedy it. The council however, failed to carry out the necessary repairs, and was duly fined £10,000 on the tenant's further application



to the court. These were extreme cases – but a survey in the NCC report showed that one-third of council tenants complained of damp, condensation, or both. They were dissatisfied too with at least one or other aspect of maintenance.

	% Dissatisfied
Time taken by council to reply .....	43
Time for work to be done .....	42
Quality of work .....	34
Appointments made and not kept .....	37
General performance .....	35

The report also commented 'it seems to us astonishing when so much is spent on the repair and maintenance of council dwellings (£915 million in 1980/81 in England and Wales) that so little coherent attention has been paid to the economics . . . of providing these essential services'.

Great difficulties have also arisen in the day-to-day management of council estates. As one report commissioned by the DOE put it: 'Management became locked within the town hall system. Odd-job repairs men, door-to-door rent collectors, resident caretakers became a survival from the small scale past'.<sup>14</sup> Another DOE study commissioned from the City University reported that 'the results confirm that authorities are often unreliable as landlords both in the provision of services to tenants and the performance of routine landlord's tasks'.<sup>15</sup> A survey by the National Consumer Council of tenancy conditions found that many agreements were restrictive, a few even abrogating the landlords' responsibilities.<sup>16</sup> In *Liverpool City Council v. Irwin*, Lord Denning observed that the tenancy agreement 'contained all sorts of things which the tenant was to do or not to do. There were long paragraphs headed "the tenant shall not" and "the tenant shall", but there was not a single word as to anything the corporation was to do or not to do'. It required the 'tenants charter' of the 1980 Housing Act to ensure that council tenants obtained basic rights from their landlords.

Can anyone, then, be surprised that so many surveys carried out in the '70s show that tenants of local authorities are much less pleased with their housing than are owner-occupiers?

One survey for the NCC found that 19% of council tenants were dissatisfied. Though this is the same proportion as those who rent privately, only 5% of owner occupiers were dissatisfied<sup>9</sup>. In 1974

another survey<sup>17</sup> found that on a 0-10 scale of satisfaction (measured on a variety of counts such as numbers of rooms, privacy, kitchen, insulation, etc.) outright owners scored 8.7, mortgagees 8.2, council tenants 7.2 and other tenants 7.1. And the government's 1978 General Household Survey echoed these findings.

	Satisfied		Dissatisfied	
	Very	Fairly	Little	Very
Outright owners	72	22	3	2
Owners with a mortgage	56	36	5	1
Local authority tenants	43	37	9	7

## 3 The reasons for failure

Not all housing authorities are inefficient. Not all estates are badly designed and incompetently run. But the examples we have cited in the previous pages are not isolated. Evidence of faults in municipal housing programmes is abundant. What are the causes?

### 1 Little consumer influence

Customers, thankful their days on the waiting list are over, have been slow to complain. And tenants' political weight was light in the period when public housing was uncritically 'a good thing'.

### 2 Lax cost control

Costs were not reflected in rents. Neither ratepayers nor taxpayers were told the true cost of their housing. For example, councils failed to show the interest cost of work in progress (which, in London, amounts to one-fifth of the total<sup>6</sup>). Councils seldom presented total costs publicly. Controls set by government were fragmentary, complicated, time-consuming – and ineffective. Until 1980 there was no incentive to examine the total costs of a scheme nor to compare them with the private sector. The architects' scale of fees (no longer operative) was subsidized – which encouraged complex design. And interest charges on work in progress were concealed, which effectively *subsidized delay*.

Both the DOE and the District Audit Services, which according to the Local Government Audit Code of Practice<sup>18</sup> was supposed to report on 'the possibility of loss due to waste, extravagance, inefficient financial administration, poor value for money', took a very relaxed attitude to poor performance.

### 3 Political ambitions

Subsidies were paid to local authorities, who to all effects were monopoly suppliers of cheap rented housing. Who can be surprised if the interests of ratepayers, taxpayers and tenants were not always paramount?

Of course many authorities did act responsibly. But some politicians took advantage of the system to play the 'numbers game', others to site estates and maintain population levels for electoral reasons. And, on completion of the estates, there were councillors who took a close interest in the potential for patronage offered by council housing and tried to acquire votes by allocating housing to their friends and supporters, by keeping rents down, and by supporting DLOs –



even when they must have known the service provided was expensive and poor.

#### **4 Professional and commercial ambitions**

Again, many architects *did* design housing which tenants liked and which was economical to build and maintain. Too many however took advantage of the absence of pressures of cost and consumers' attitudes in order to design housing which pandered to fashion and which aimed to earn the esteem of other architects. Expensive pursuits! Also, when building systems came into fashion, strong commercial interests were soon involved and corruption flourished.

#### **5 Lack of accountability**

We have observed, in our summary, how council housing has been commissioned by one group of people, designed by another, managed by another, occupied by another, paid for by another. Decisions have often been taken behind closed doors. Costs have been obscured. The public has been kept in the dark. Accountability for performance is diffuse.

#### **6 Too big a problem**

The scale of responsibility undertaken by public housing authorities is just too big. How can a city as large as Manchester redevelop a fifth of its entire housing stock in just over ten years – or suppose that all its rented housing could be managed by a single organization?

To quote a report commissioned by the DOE, 'As local authorities have grown in size from running 1400 properties (on average) after the war to running 1400 each by 1975, so relations between landlords and tenants have become more remote'<sup>14</sup>. The difficulties inherent in the scale of the job have been exacerbated by the weak management structures of local authorities. There is no clear direction, responsibility and accountability at the top. Decisions are fuzzed.

Professional demarcations and jealousies further fragment management. Incentives, rewards, penalties scarcely exist. Targets are subjects for discussion, not action. Part-time councillors, few of whom know much about the needs or mechanics of housing development, are supposed, in their ignorance, to control huge operations. We believe that many of the most serious problems faced by housing authorities are due to the scale of the undertaking. It is not enough to 'improve' administration. The problems are too large to be resolved within the present framework.



## 4 What should be done

Selling council houses certainly helps to make the problems more tractable. But at the 1983 rate of about 140,000 sales in England and Wales it will take many years to reduce the council stock from its present level of almost *six million dwellings* to manageable proportions. Since we believe that no organization, however efficient, can manage more than a few thousand dwellings with the desirable degree of competence and care, there will be many councils who perforce will continue to shoulder an impossible burden into the 1990s and beyond. And so we need to devise policies in addition to the ones the government is already pursuing; and must consider how to reorganize the ownership of municipal housing in a way that reduces people's dependence on 'the local state'.

Our recommendations are concerned solely with the existing stock – and do not seek to establish how many or what types of council housing should be built in the future.

The objectives of our policies are to:

- (i) give people more responsibility for, and control over, the houses in which they live;
- (ii) reduce the opportunities for patronage and electoral engineering;
- (iii) introduce more choice – and hence more competition – into the provision of housing; and
- (iv) lighten councils' burden of managing housing on a large scale, and thereby give them more time to attend to the 'core' problems of those who need or want municipal housing.

Whatever policies are devised, it must be remembered that there exist between a half and one million dwellings which are in such a poor condition that they are virtually unsaleable (even with a subsidy of indemnity for contingent liability). Councils willy-nilly must continue to own and manage such properties.

Given these objectives, we propose the following measures:

- (i) outright sale; sale on the basis of equity-sharing and homesteading to continue as now;
- (ii) sheltered housing to be transferred to charitable housing associations which specialize in the housing of the elderly – wherever a council owns a large stock and fails to manage it properly. (Fortunately councils seem to manage sheltered housing more carefully than general housing, and so any such transfer should have regard to local circumstances.) But

councils should themselves enjoy the option of transferring stock if they so wish. Any interested parties could make representations to the minister (who would be empowered to order a transfer) if they thought a scheme was badly run;

- (iii) municipal letting to continue in the traditional fashion – but with the important proviso that tenants should have a statutory right to acquire assignable short leases (i.e. for periods of up to 21 years). The local authority would remain responsible for structural and external maintenance and the operation of common services: tenants would be responsible for internal repairs and decoration. (This would constitute an extension of the rights of assignment to exchange which are included in the Housing and Building Control Act of 1984); and
- (iv) council tenants to be given the right to set up tenant-management cooperatives (under the provision of the Housing Act 1980), should two-thirds, say, of those on an estate be in favour. Such co-operatives would assume responsibility for expenditure on maintenance and management services, for allocating half the vacancies and for collecting rents. The council should continue as owner, determine the debt charge attributable to the estate, and remain responsible for capital works.

These are not revolutionary proposals but they would bring a great deal of satisfaction to tenants, giving them an important share in the running of their homes.

However, in order radically to reduce council ownership of housing, a radical measure is needed. A major part of the stock should be transferred at a steady rate and in blocks of, say, 500-2000 dwellings, to independent bodies. These would be charged with the management and improvement of housing (but *not* be empowered to build new dwellings).

Where a council is satisfied with the proposals, such transfer might sometimes be affected by outright sale to a private company operating as a non-profit-making trust in the manner pioneered by the Stockbridge Village Trust (see Appendix 1). But such schemes are legally complex, and will work only when the council is willing. And, since trust law is not all that it should be, they might be open to abuse. It is therefore desirable to set up, under new legislation, a new statutory form of body which we shall call a Housing Management Trust (HMT).

## 5 Housing Management Trusts

### 1 The legal framework of HMTs

An HMT is *not* a variant of a housing association – but rather an extension of a tenant-management cooperative. The crucial difference is that ownership of the dwellings, together with responsibility for outstanding debts on them, would be vested in the trusts, which would be set up under their own statutory provisions. An HMT would have a board of nine trustees of whom six would be elected by the tenants for staggered periods of three years; one would be a co-opted representative respected in the community (e.g. a teacher or vicar), another a co-opted professional with relevant expertise (e.g. a solicitor, surveyor, accountant, architect), and another a nominated representative of the local authority. This latter would attend to the authority's statutory duties, ensuring that the homeless and the difficult cases were given a quota of the allocations.

Trusts would be set up:

- (i) On the initiative of a local authority – but subject to a secret ballot of tenants which showed that two-thirds of them were in favour;
- (ii) on the initiative of the tenants themselves, who would have the statutory *right* to set up a trust if two-thirds were in favour;
- (iii) on the direction of a minister – this, however, would be a reserve power.

The board of trustees would be responsible for managing the affairs of the trust, namely maintenance of the buildings, allocation of the dwellings, management of the debt, collection of the rents, disposal of land and buildings, hire and dismissal of staff and so on; but they would *not* be empowered to build new dwellings. To assist the trustees in their duties there might be a committee consisting of some of the elected tenants, together with two or three co-opted members.

Meetings of the trustees would be open to all the tenants, and the agenda and minutes of all meetings made freely available. Independently audited accounts and full reports would be published annually. On all major policy issues the trustees would have to consult the tenants by means of a referendum, and a two-thirds majority would bind their decisions. Tenants would have a right to petition for a referendum demanding the removal of the trustees.



Legislation would be required *inter alia* to:

- (i) provide the legal framework within which local authorities can organize a transfer;
- (ii) enable transfers to be effected either in response to local demand made by tenants or the local authority, or by ministerial direction;
- (iii) define the basis of the transfer price;
- (iv) define the basis for the setting of rents, and ensure that relative (*not* absolute) levels be determined by the Rent Officer (with appeal to a Rent Assessment Committee);
- (v) grant tenants a continuing right to buy;
- (vi) define the constitution of an HMT, and the main duties of the trustees;
- (vii) require trustees to allocate quotas on the bases of housing need\*, and to ensure that expenditure on renovation and maintenance is as fair and as strictly *necessary* as possible;
- (viii) provide for the control of assets when a trust is debt-free or wound up;
- (ix) provide safeguards against corruption and other potential abuses such as failure to declare interests; and
- (x) provide for ultimate accountability to the public and the tenants *via* the Chief Registrar of Friendly Societies. He would be the supervisory officer of the HMTs and have laid upon him the duties:
  - (a) to prepare the statutory fiduciary duties of the trustees
  - (b) to draw up model conditions which would include the right of tenants to appeal against the trustees' decisions
  - (c) challenge any dereliction by trustees, in the courts if necessary.

## 2 The financial framework of HMTs

Three financial bases are possible for transferring the stock†:

- (i) cost of replacement of building;
- (ii) historic cost (adjusted); and

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\* Great care would have to be taken to ensure that the allocation systems of both the HMTs and the authorities did not exacerbate social difficulties but rather contributed to alleviating them. There are no general rules that can apply as the variety of circumstances is too great. Some groups in the community prefer to congregate together, while others are disadvantaged by such a policy.

† We discarded transfer at capitalised fair rent as an even more inappropriate and arbitrary concept than fair rents themselves.

(iii) market value (related).

The same three bases apply for the setting of rents. Although in principle they could be permuted with the bases for transfer, in practice the bases would be better if they were linked – rental based on historic cost would be related to transfer based on historic cost, etc. (Appendix 2 explains the concepts in detail.)

But whichever basis of transfer is chosen, in order to prevent trustees exercising favouritism when rents for properties are set the *relative* rentals of dwellings would be determined by the Rent Officer, who is independent of both local authorities and the tenants of the HMT. There would be provision to appeal to the Rent Assessment Committee. Also, as at present, tenants with low incomes would receive housing benefits.

The choice of method of transfer and of setting of rents will depend upon the answers given to the following questions:

- (i) how simple and practicable is the transfer and the subsequent operation?
- (ii) how easy is it for electors, tenants, council members and officers to understand?
- (iii) how fair is it to tenants, to owner-occupiers – and to the local authorities?
- (iv) how will tenants like it, in view of the level of rents and their ability to pay?
- (v) who gains the inflationary 'benefits' from the past and future erosion in the real value of debt?
- (vi) is it desirable for local authorities to make sudden large surpluses on transfer?

Appendix 3 shows how the methods meet the criteria. To summarise:

A. *Transfer and renting on the basis of replacement costs* appears to offer no advantages compared with transfer at market value. And there are severe disadvantages:

- (i) costs would in many instances be difficult to estimate (especially where an estate is of such a design that replacement is inconceivable);
- (ii) the calculation of rental from replacement cost involves either computing a notional real rate for the cost of debt (e.g. 3.4 per cent) or applying a 'year's purchase factor', and both are to an extent arbitrary;

- (iii) the concept has an economic rationale in that it is related to current costs; but it results in obvious anomalies where replacement costs exceed market value. And it begs the question why the price of land should not be brought into consideration;
- (iv) the concept is not widely understood. And the uncertainty of outcome would lead to confusion and opposition; and
- (v) finally the surplus on transfer (which would often occur) might be open to political and emotional criticism.

B. *The adjusted historic cost* basis of transfer-and-rental has the advantages of:

- (i) administrative simplicity and lack of arbitrary judgements and calculations. The calculation of transfer value would be straightforward. The calculation of rents would be simple too;
- (ii) comprehensibility; and
- (iii) acceptability to tenants. The rentals would be similar to the current levels.

The method has modest claims to equity but implies (as do the current rental arrangements) a hidden subsidy from erosion in the value of debt. It resolves in a simple way who should be the beneficiary of both past and future inflationary gains – namely the tenants. In this respect the approach provides by-and-large parity with owner-occupiers, who gain from the inflationary effects of the erosion of debt and from the increasing price of housing in relation to other prices.

C. *Transfer at market value* offers the advantages of:

- (i) comprehensibility;
- (ii) equity between the tenants of an HMT and the ratepayers of a local authority in the disposal of public assets. And economic rationality, too (assuming that the constraints of security of tenure, current rental levels and the right-to-buy discounts are taken for granted); and
- (iii) acceptability of arrangements to tenants. The rental would be very similar to current levels.

The disadvantages of the method are, first that it requires skill to assess values and, second, that, compared with historic costs, it would result in surpluses and losses on disposal of estates.

We reject the replacement cost method and put forward the other two methods for consideration. *Adjusted historic cost is simple; but on balance we favour the market value approach.*



### 3 Funding the HMTs.

In the example shown on page 31, the value of the estate (£680,000) is considerably greater than the loan of £318,000 which could be supported by a net rental of £40,600 repaying a conventional annuity mortgage over 25 years at an interest rate of 12 per cent. Prior to transferring an estate it would be necessary to draw up a plan for its development and for its financing. The plan should show how much capital is required for investment in the stock and the environment, and what receipts can be expected from grants and disposals of dwellings and land over the first three years. The basic funding of an HMT should be mortgage loans secured upon the stock from the local authority, and from building societies. If, as will often be the case, there is a gap between the value of the estate and the initial basic loans which can be raised on conventional financing terms, it will be necessary to see whether further loans can be raised on deferred repayment terms, or whether inflation-linked loans or deferred purchase terms for the estate will be necessary to make the transfer viable.

We look to building societies to play a major part in what is (in effect) privatising a large part of the municipal housing stock. To achieve this end it will be necessary to alter the legislation which controls them (the Building Societies Act 1962) in order to allow them to loan second mortgages, to own land and to fund housebuilding on it. And also (possibly) to lend some small amounts of money on unsecured terms to provide overdraft facilities for the HMTs. We are pleased to see that these proposals are in the recently published Green Paper, 'Building Societies: A New Framework'.<sup>19</sup>

## Conclusion

We believe that our package of proposals would help to make tenants more satisfied with their housing. But we do not pretend that all the problems would be solved. Some indeed are insuperable, especially the ones to do with allocation – who gets which housing? – which involve complex and often indeterminate social questions about segregation, ghettos for certain groups of tenants, and so on.

Our proposals then, are not a panacea. They focus on the performance of management, the satisfaction of tenants and the physical aspects of municipal housing – not on the grave social issues which confront us. Nevertheless they would mitigate some difficulties. They would give people more control of the houses in which they live and eliminate many of the extraneous factors which now contribute to poor performance. Finally, the proposals would relieve councils of a task which has become too great for them to perform properly. If they were adopted, councillors could turn to dealing with their legacy of unpopular and defective stock, ensuring that those in need are decently housed and providing for difficult cases. These are the problems upon which they should concentrate.

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## *Appendix 1*

# STOCKBRIDGE VILLAGE TRUST LIMITED

A non-profit private company limited by guarantee

Stockbridge Village Trust Ltd was set up in 1983 to manage and improve the Cantrill Farm Estate. The estate was developed in the mid 1960s by Liverpool City Council to rehouse families from slum clearance areas in the central districts of the city. Of 3600 dwellings built by Liverpool, some 3500 were transferred to Knowsley MBC on local government reorganisation in 1974. Since the transfer, a number of dwellings have been sold or demolished, leaving 3084 which were transferred to the trust. The population, which reached 13,000 in the mid 1970s, has since fallen to under 9000. The estate suffered from design problems, including multi-storey flats and a Radburn-type layout that did not work, a poor record of lettings and repairs, and a lack of shopping and social facilities. The shortcomings resulted in a poor environment, migration, vacancies and vandalism, which have been allied with a high rate of unemployment, rent arrears and crime. These problems cost the council one million pounds a year, a figure which was expected to increase. But on the positive side the estate contained a considerable amount of under-developed land.

A trust was set up in the form of a non-profit making company. The chairman is an experienced housing developer, and the trustees include representatives of Knowsley MBC, the Abbey National Building Society, and the local community. The estate was sold to the trust for £7.4 million, as valued by the District Valuer, about half the historic cost of construction. The purchase was financed by mortgage loans of £3 million from the Abbey National Building Society, £2 million from Barclays Bank and £2.5 million from Knowsley Borough Council, each as a first charge on different parts of the estate, with cross agreements linking them. In addition Barclays Bank provided an overdraft facility of £2 million.

The trust's proposals include the demolition of 700 flats and maisonettes, the sale of three 22 storey blocks to Barratts for

refurbishment and resale, the building of 600 houses for sale, the elimination of the Radburn layout (and, where possible, underpasses), an extensive programme of remodelling and renovation and a major improvement in security.



## Appendix 2

# HOW DIFFERENT METHODS OF TRANSFER OF STOCK WOULD WORK IN PRACTICE

### Replacement Building Cost

The stock *could* be transferred at this price (i.e. excluding any valuation for land) and a rental fixed which took one year with another to cover at least:

- (i) a real return of (say) 3% on the replacement cost; plus
- (ii) the everyday costs of management and maintenance.

This method would be similar in principle to the way in which Area Electricity Boards set tariffs in order to achieve a financial target – such target being expressed as a return on current cost valuation of assets before interest charges.

**Example** Suppose the average replacement 'as for new' cost of building on an estate of 100 houses is estimated at £22,000 each, while the average dilapidation allowance is £2000 a house. Thus the replacement building cost of the houses in their current state averages £20,000 each, or £2 million for the whole estate. Suppose the cost of management and maintenance is £4,000 annually for the estate, then the total annual rent role will have to equal £0.03 by £2,000,000 plus £45,000 = £105,000 which is an average annual rent of £1050 per house (£20.2 per week).

### Adjusted historic cost

It would rarely seem appropriate to transfer an estate on the basis of its debt outstanding in the authority's books. One needs simply to think, on the one hand, of some of the high quality pre-war cottage estates which have a very low debt outstanding, and on the other of some modern estates which are far less attractive but have a much higher debt outstanding. Under present municipal accounting the lower debt costs of earlier estates are pooled with the higher ones of later estates. It would be possible, when transferring stock, likewise to 'pool' debts, transferring them to the various HMTs created by the authority *pro rata* to the assessed market value of each estate. The debts might at first be treated as a mortgage loan from the authority, and later on be refinanced by private institutions. The total rent roll would be

calculated taking one year with another to cover:

- (i) the cost of servicing whatever debts were incurred (a) by the original transfer, and (b) by raising subsequent loans for renovation; and
- (ii) the everyday costs of management and maintenance.

**Example** Suppose an authority has a stock of 20,000 dwellings and a debt outstanding of £110 million (i.e. an average of £5500 per dwelling) while its total stock is valued at £300 million (i.e. an average of £15,000 per dwelling) and the proposal is that 15,000 dwellings are to be transferred to 10 HMTs.

Suppose further that one HMT will be composed of 1000 dwellings valued in total at £11 million (i.e. an average of £11,000 per dwelling), and another of 1400 dwellings is valued at £28 million (i.e. £20,000 per dwelling), then the debt transferred to the first HMT will be:

$$\frac{£11 \times 110 \text{m}}{300} = £403 \text{m or } £4030 \text{ per dwelling}$$

and to the second HMT:

$$\frac{£28 \times 110}{300} = £10.27 \text{m or } £7733 \text{ per dwelling.}$$

If the debt is financed by a 25 year loan at 12 per cent, then the average annual debt charged per dwelling on the first estate is £513 and on the second estate, £986. Suppose the average cost of management and maintenance per dwelling is £450 per annum on both estates, then the total annual rentals will be £963 (£18.50 a week) and £1,436 (£27.06 per week) respectively.

This method which we call the 'adjusted historic cost' basis reduces, if not altogether eliminates, anomalies *within* an authority's stock. (But it does nothing to correct anomalies *between* one authority and another.)

### Market value

The stock to be transferred to an HMT would *not* be valued on the basis of vacant possession – but more in the manner in which offices and factories are valued as *investments* with sitting tenants. This sum reflects:

- (i) the rental income (net of management and maintenance) over the next few years. This net rental should be assessed allowing for inflation;
- (ii) the present value of future sales to tenants under right-to-buy provisions;

- (iii) the present value of future sales of dwellings with vacant possession and disposal of land; and
- (iv) capital commitments (such as dilapidations and modernisation) and the likely increase in income which might arise from such expenditure.

**Example** Suppose an estate of 100 dwellings is to be transferred. The average weekly rental of each dwelling is £20 and the cost of management and maintenance £9. Thus the net rental = £11 weekly.

Suppose, for simplicity's sake, it increases at 3% over the next few years. The value of that income is valued at 10 years' purchase. The average open market of the dwellings is £20,000 each – the average discount under the right-to-buy provisions comes to 40% or £8000. At the time of transfer suppose the dwellings are empty and for sale: ten tenants are negotiating to buy: a further ten wish to buy a year from now. Thirty of the tenanted houses need new roofs at £1000 each – the rental will not increase until the work is completed. The value of the estate is therefore:

- (i) the net rental from the 75 dwellings which will remain tenanted (allowing for voids of 5%) equals  $£71 \times 11 \times 52 = £40,612$  annually. At 10 years' purchase this income is worth £406,000;
- (ii) the receipts from the sale of 20 dwellings at £12,000 each under the right-to-buy provisions will total £120,000 this year and £120,000 next year. The latter sum is worth £107,000 at a discount rate of 12% and so the total present-day value of the sales is £227,000;
- (iii) the receipts from the sale of the five vacant dwellings total £100,000 spread over a year and will incur selling expenses of £3000. This will produce a net revenue of £97,000 (worth at present-day values £91,000);
- (iv) the liability for the re-roofing contract is £30,000 and will be incurred immediately.

Thus the value of the estate equals:

$£406,000 + £227,000 + £91,000 - £30,000 = £694,000$  less the cost (say 2%) of transferring the stock, giving a value of £680,000 for the estate.

The rent roll would be set taking one year with another to cover:

- (i) the cost of servicing the debt for the original transfer and for any further loans raised for renovation works; plus
- (ii) the everyday costs of management and maintenance.



# HOW DIFFERENT METHODS OF TRANSFERRING ESTATES AND SETTING RENTS MEET THE MAIN CRITERIA

BASIS OF TRANSFER AND RENTAL			
Criteria	Replacement building cost based transfer/replacement cost based rent roll.	Adjusted historic cost transfer/historic cost based rent roll.	Market value based transfer and rent roll to cover ensuing costs.
Administrative simplicity	The estimate of replacement costs would in principle involve assessing dilapidations, which will in some cases be difficult. There would also be difficulties in assessing the replacement cost of schemes of unpopular design that would not be replaced.	The simplest method because it would involve the least assessment, and the numbers would automatically work out.	Would put a premium on the assessment of capital value and preparing a development/financial plan.
Comprehensibility	Not a common notion.	Easy to understand.	Easy to understand.
Acceptability	Until the implications of the method were spelt out there would doubtless be concern that the change would result in increases. Furthermore, the transfer would in most cases throw up a large surplus for the authority, which would be unpopular with tenants.	As there would be little change, opposition should be limited.	The approach would lead to little change in rent level but would result in profits and losses on the book value of estates that might be unpopular with some councillors and the public.



Replacement building cost based on transfer/replacement cost based rent roll.

Adjusted historic cost method/  
historic cost based rental.

Market value based rental/  
and rental to cover ensuing costs.

## Equity

The equity would depend upon the closeness of replacement cost to market value. For many traditional types of dwellings the two should be relatively close – replacement cost would generally be about 75-85% of market value. But for modern estates replacement cost is not a meaningful concept. Again there might need to be an interest rate subsidy.

There is no strong claim to equity. Indeed on the contrary, the (continuing) provision for housing based on historic costs, which reflect not the quality of the housing in a local authority's area but the age at which it was built, can be argued as being inequitable.

## The beneficiary of inflationary gains

The local authority would benefit from some past inflationary gain to the date of transfer, the amount depending on the discount. Thereafter, arrangements would have to be made, presumably for the authority (or more likely the Treasury) to benefit from surplus of future gains.

Tenants would be the beneficiary of most past and all future inflationary gains, and thus as a group on a par with owner occupiers as a group.

## Economic rationality

Replacement building cost excludes land, hence scarcity. It thus has an economic rationale to the extent that it relates to a current cost. But in part it is not economically rational – why exclude land? Also how should the situation be handled when replacement costs exceeds value?

Little economic rationality, and implies a hidden subsidy.

The strongest rationale in principle, especially for the basis of transfer. But the market value is determined by security of tenure, current rentals and right to buy discount.

