

MARK BOLEAT on the arithmetic
of selling local authority property

Daily Telegraph

2 May 1977

Council houses: economic facts

THE sale of Council houses is, and has been for many years, a live political issue. Because the subject is one of political controversy it is inevitable that many of the arguments used by both proponents and opponents of sales are suspect. This article seeks to examine the economic—as opposed to political—arguments for the sale of Council houses.

There is an abundance of evidence to suggest that there is a considerable unsatisfied demand for owner-occupation in Britain. Opinion surveys have consistently shown that some 70 per cent. of all households wish to be owner-occupiers while at present only some 53 per cent. are. All the political parties are committed to allowing owner-occupation to rise and the prevailing view seems to be that the level should reach 70 per cent. The question that must be asked is whether the sale of Council houses is a necessary condition for the preferences of the public to be realised. If it is not then clearly the opponents of sales stand on strong ground. Already they can point to the fact that, since the War, the proportion of houses that are owner-occupied has risen from 27 per cent. to 53 per cent. without the need for significant sales of Council houses. But this trend cannot continue.

The Government is planning to continue building Council houses at a high rate and given the decline in the need for new houses in total it seems that an ever higher proportion of new dwellings will be in the Council sector. On present trends the share of dwellings owned by Councils is likely to rise from the present 32 per cent. to about 35 per cent. by 1980. It follows that there is no way in which owner-occupation can climb above the 60 per cent. level (given that some five per cent. of houses will remain in the private rented and "other" sectors).

Owner-occupation has been increasing not only because of new building but because of the transfer of houses from the private rented sector to the owner-occupation sector. The rate of transfer must decline as the private rented sector diminishes towards nothing and unless these transfers are replaced by transfers from the Council sector then owner-occupation will not only stop rising; it may begin to decline. Therefore, in order to give people what they want it seems that the Council houses will have to be sold and that a greater proportion of new building will need to be in the private sector.

The next question is whether the sale of Council houses will lead to reduced public expenditure. There is no doubt that over the whole life of dwellings the subsidies on Council houses are greater than those on owner-occupied houses—although not by as much as some would like to believe. Thus, in the current year, the average subsidy to Council tenants (excluding rent rebates) is £186 compared with average tax relief of £108 a dwell-

ing. It follows that if Council houses are sold then there will be a considerable saving to the public purse.

Those who support Council house sales sometimes suggest that there would be an immediate saving in repairs and maintenance expenditure. But, this is being optimistic. Certainly, it is true that it costs Councils something like £100 a year to maintain each dwelling. It is also true that owner-occupiers spend far more on repairs and maintenance than do Council tenants. The Family Expenditure Survey shows that in 1975 Council tenants spent an average of just 43 pence a week on repairs, maintenance and decoration compared with a figure for owner-occupiers in the process of purchase of £2.24 a week. But, it is idle to pretend that in the short term there will be an immediate large saving through sales. Some 80 per cent. of repairs and maintenance expenditure is in the form of labour costs and unless Councils are prepared to sack workers there will be no great saving. The most that can be hoped for is that as houses are gradually transferred from the Council to the owner-occupation sector then through natural wastage local authority staff can decline and there will therefore be a saving. Thus, it will be seen that the benefit in terms of public expenditure is long term rather than short term.

Question of discount

One of the great issues in the sale of Council houses is whether they should be sold at a discount. There is a perfectly good argument for saying that Council houses should not be sold at a discount given that the occupiers have been enjoying a continuous on-going subsidy for many years. On the other hand, it can be argued that if Council houses are not sold at a discount then people will be losing a subsidy if they do transfer to the owner-occupation sector and that not only is this unjust but it will also prevent people from so moving. In fact, the main obstacle to people transferring from the Council to the owner-occupation sector is the huge difference between rents and initial mortgage repayments. Thus, the present average rent is £5 a week and average net of tax relief initial mortgage repayments on, say, a £10,000 house are £15 a week. As long as such a huge gap remains then the sale of Council houses will be limited unless a substantial discount is offered.

Perhaps one solution to the discount problem would be to establish what is the actual difference

in subsidies between the two sectors and then allow those tenants who purchase to capitalise their subsidy by allowing this as a discount. In this way it could be argued that those Council tenants who move to the owner-occupation sector would neither be losing nor receiving any subsidy compared with that which they originally had.

The main argument levied against the sale of Council houses is that it reduces the stock of rented accommodation. This is true but as an argument against sales it is not valid. If a Council tenant buys his house then the stock of homes for rent is reduced by one but the demand for them is simultaneously reduced by one and the overall supply/demand balance in both sectors is unchanged. All that has happened is that one person has now got the housing tenure which he wants instead of that which he does not want and it is difficult to see how anybody can argue against this. The consequence of not selling Council houses when people do want to move sectors is simply that prices will rise because of the increased demand in the owner-occupation sector which is not matched by an increase in supply.

Perhaps one can do no better to illustrate this than to quote from a Government study of housing in Dundee—"During 1973, approximately a fifth of all sales of owner-occupied property were to residents of public sector housing. It is interesting that the upsurge in demand and the related escalation of house prices occurred within the sub-region at the same time as a considerable relaxation of shortages and to some extent a surplus of housing in the public sector, which became manifest in the form of some empty housing within Dundee City and reduced waiting periods generally."

The arguments for selling Council houses do seem very strong. But, the main argument is not the short-term economic argument, and those who believe that a large sale of Council houses will lead to a tremendous saving in public expenditure are being unduly optimistic. Initially, sales will have to be financed by local authority mortgages (this simply involves a bookkeeping operation; no additional money has to be raised) and the savings on repairs and maintenance will only come as direct labour forces can be wound down over time. Indeed, the main argument for selling Council houses is not really the economic one at all. Rather, it is to enable the housing preferences which the people have clearly demonstrated to become reality.