

Grenfell Tower: the deadly consequences of under-funding of council housing

Kensington & Chelsea Council documents confirm reports in the media that Leadbitter was “the proposed contractor” for the work on Grenfell Tower. It gave a price of £11.278 million¹. However this was £1.6 million above the council’s proposed budget. So they put it out to tender again. A council update on the Grenfell Tower work read:

“The refurbishment of Grenfell Tower is a large and complex project and time and careful planning has been required to ensure that the proposals and design of the scheme meet the requirements of residents, RBKC and Planners. Particular focus has been required to ensure that the project representing value for money and can be successfully delivered to the satisfaction of residents.”

“Value for money”, of course, in the context of cash strapped councils often means short-cuts, cheap and shoddy work. In this case the question is posed, **did this “value for money” decision lead to the deaths of Grenfell Tower residents?** The contract went to Rydon for £8.77 million, 22% less than Leadbitter’s tender.

The type of cladding fitted to Grenfell Tower is banned in Germany and the USA for tall buildings. It has been reported that the cost of a more expensive ‘flame-retardant’ cladding would have been somewhere in the region of an extra £5,000. Omnis Exteriors told the Telegraph that it had been asked to supply the cheaper cladding to installer Harley Facades, which Rydon contracted to do the work for them.

That the use of any combustible material in cladding is allowed is extraordinary. Part B of the Building Regulations states that “the external envelope of a building should not provide a medium for fire spread...The use of combustible materials in the cladding system and extensive cavities may present such a risk in tall buildings.” BUT it only says that any insulation product should be of “limited combustibility”. Why it appears to be legal to use combustible materials is a question which will have to be answered. Why isn’t the use of non-combustible material obligatory? As long ago as 1999 the House of Commons Environment, Transport & Regional Affairs Committee produced a report, *Potential risks of fire spread of buildings via external cladding*. It said:

“We believe that all external cladding should be required to be entirely non-combustible, or to be proven through full-scale testing not to pose an unacceptable level of risk in terms of fire spread.”

This and similar recommendations afterwards were simply ignored.

Under-funding of council housing

In the context of austerity and the reduction of local authority budgets “value for money” is driven not by the quality of work done but by shrinking funding. What has yet to come to public attention is the question of **the extent to which the under-funding of council**

1 “An Update on Grenfell Tower Improvement Works and the recent power surges” July 16 2013 Kensington & Chelsea Housing & Property Scrutiny Committee.

housing contributed to this life-destroying cost-cutting exercise. What is particular about council housing is that it is not funded by central government². Each local authority which maintains ownership of council housing stock has a separate account, the Housing Revenue Account. More than 90% of HRA income comes from the rent and service charges which tenants (and leaseholders) pay. Since HRAs have no subsidy the maintenance and renewal of housing stock which councils are able to carry out is entirely dependent on how much rent councils take in. Any decline in rental income results in councils having to cut back on the work they can do on their properties. All stock owning local authorities have less income than they planned for as a result of government policies. Moreover, as a result of central government instructing them to cut rents by 1% a year for years, they now face an absolute decline in their income at a time when inflation is increasing. Building work inflation is usually higher.

In 2012 a new council housing finance system, 'self-financing', was introduced. The new system had been designed by New Labour just before the 2010 election but was introduced by the coalition government. The centralised council housing finance system was ended. What was nominally national housing debt was redistributed amongst all the stock owning councils. A large majority of councils were loaded up with over £13 billion additional 'debt', whilst a smaller number had their debt reduced by £5 billion. The £8 billion difference was pocketed by the Treasury.

In order to pay off this 'debt' local authorities were given a 'loan' by the Public Works Loan Board (PWLB) equivalent to the amount of extra 'debt' imposed on them. Councils are also charged an annual interest rate for the 'loan'. The PWLB is an agency of the Treasury. Of course, in reality there was no money involved. It was an accountancy exercise between the Treasury and the PWLB.

Under the new system council HRAs were better off than previously because what was called the 'negative subsidy' system was ended. A large majority of councils suffered 'negative subsidy' whereby they had to hand over part of their rental income to the Treasury each year. Under 'self-financing' the debt and interest on the 'loans' from the PWLB eats up a large part of their income. In 2015-16, according to the Local Government Statistics for England, local authorities paid £2.143 billion in debt charges and interest payable. This was 27% of expenditure and 25% of their total income. Only 34% of their income was spent on repairs and renewal of housing components.

Kensington and Chelsea council was given an extra £24.960 million debt, a relatively low amount compared to many councils. It had what was supposedly 'historic debt' (associated with borrowing to build homes in the past) of £185.204 million, giving it a total debt of £210.164 million. In 2016-17 its HRA paid interest on borrowing of £9.921 million, nearly 17% of its income of £58.692 million . On top of this it paid the Tenant and Management Organisation £10.825 million which was responsible for managing the work on Grenfell Tower.

When 'self-financing' was introduced councils were told by the government that the 'debt settlement' would enable them to have sufficient income to maintain their stock over 30 years. This was highly questionable. Tenant organisations, the House of Commons Council Housing Group, and even the Local Government Association called for the writing-off of the so called debt because in reality tenants had paid more in rent than the cost of the actual borrowing for the building of housing stock. But the demand was rejected both by New Labour's Housing Minister John Healey, and by the coalition.

2 Individual tenants are subsidised if they receive housing benefit which covers all or part of their rent. The Housing Revenue Account, however, receives no government support, with the exception of some support for 'supported housing' for people with disabilities

No sooner had the system been introduced than the coalition government undermined the 'business plans' of councils with a series of measures which significantly reduced their planned for rental income. These changes included:

- The introduction of a new rent policy such that councils had to put their rent up by CPI+1%, less than the previous formula which was based on RPI;
- An increased discount for RTB which led to a fourfold increase in sales. This meant that councils were losing far more rent than planned for. Each home sold is future rent lost ;
- The abandonment of the commitment to 10 years of rent increases of CPI+1% and the introduction of a 1% rent cut for each of four years.

These measures alone mean that councils are losing billions of pounds of income over the lifetime of their 30 year business plans. I don't have a figure for Kensington, but in the case of Swindon the council will collect an estimated £365 million less rent than built into their projections. This is before the policies in the Housing & Planning Act are taken account of. The Act included the imposition of enforced sale of 'higher value' homes³ (to pay for the extension of 'right to buy' to housing associations) which would cut the rental stream further. As a result there would be lower surpluses available to maintain housing stock. **The decline of rental income was undoubtedly one of the factors in the pressure to spend as little as possible on work like that on the Grenfell Tower.**

£87 million shortfall over 5 years

At a meeting of the Housing and Property Scrutiny Committee of Kensington Council in March of this year, just weeks before the Grenfell disaster, the Housing Director gave a report of the finances of the HRA. She explained that the financial outlook would be "significantly affected" by a number of policy announcements over the last 18 months. Such was the impact of government policies that there was a shortfall of resources for capital spending (renewal of key components of the properties) of **£87 million over the next five years alone**. The level of investment required for the stock is estimated at £146.1 million (including backlog work of £53 million) **but the council only has £59 million available**. The Director said:

"This level of investment will have a negative impact on the likely level of residents satisfaction with the service. In the short term it is anticipated that reduced level of investment will enable the delivery of the (Kensington Housing) standard that will meet the health and safety requirements for the stock and keep it weatherproof. However, there will be *an increasing challenge* to meet the requirements in the medium and long term."

This "increasing challenge" is diplomatic language for insufficient funds to maintain the stock. Clearly Kensington council's HRA **has insufficient resources to maintain the condition of its stock** and will be forced to spread reduced income more thinly. In this context it is very easy for a "value for money" rationale to lead to work which is cheap and shoddy and may have implications for the safety of the tenants.

One of the questions which will have to be answered relates to the difference between

3 The receipts for sales will have to be handed over to government to compensate housing associations for the difference between the sale price of their homes and the market price.

the price quoted by Leadbitter and that by Rydon for the Grenfell Tower works. Was there a difference between the components proposed, such as the type of cladding? Was the council aware that Rydon was using more flammable form of cladding? Or did it insist on its use? There are other questions relating to health and safety which I will deal with separately. But what is indisputable is that the under-funding of HRAs creates a financial crisis in which decisions on funding of work such as that at Grenfell Tower are made. Not a single council which owns housing stock has sufficient funds to maintain them to a decent standard.

Reopen the 'debt settlement' – cancel the 'debt'

As a result of this council housing funding crisis and its impact on Swindon **Swindon Tenants Campaign Group** raised with our Council the need to call on the government to reopen the 2012 'debt settlement' because the amount of debt that each council was given was based on an estimate of income completely out of line with what is actually being collected. When they introduced 'self-financing' the government gave itself the power to "reopen the debt settlement"; in other words to change the debt payments if there was some material change in the circumstances of councils.

The government document "*Implementing self-financing*" in reference to this power stated

"This provision is necessary to protect both the government and local authorities from being locked into a deal that, because of changes to policy affecting either a landlord's income or costs, no longer reflects a fair valuation and could have a material impact on viability. It could be a major change in national rental policy..."

A "major change in national rental policy" is exactly what happened, twice. Councils are "locked into a deal" which has a material impact on the viability of their HRAs.

The catastrophic events at Grenfell Tower underline the disastrous consequences of under-funding council housing. Whilst the impact in many areas will not be so deadly, the fact is that the current funding of council housing does not provide sufficient money to maintain the standards and the living conditions of existing tenants never mind building new council housing.

In November of last year **Swindon Tenants Campaign Group** produced a pamphlet, "*The case for cancelling council housing debt*", which explained the roots and the consequences of this under-funding. This so-called debt was the result of creative accountancy by central government, through which tenants have been fleeced for many years by the Treasury. Cancellation of this debt would provide councils with hundreds of millions of pounds extra each year for the maintenance of their stock and to a minor degree for building new homes.

The Grenfell Tower fire demands a range of issues to be addressed, including

- weak and dangerous building regulations which allow combustible materials to be used in cladding;
- the impact of cuts in the fire safety organisation of local Fire brigades which inspect properties;
- the sub-contracting culture which makes it difficult for council departments to keep a tight control on what is being done.

But the question of under-funding council housing also needs addressing as a matter of urgency because the sort of penny pinching which led to combustible material being used in external cladding, and a questionably low budget for the work on Grenfell Tower, is the result of the shortage of money which HRA's have.

Our pamphlet was directed at the Labour Party leadership. We called on them (sadly thus far without effect) to press the government to reopen the debt settlement and to commit to cancelling the council housing debt if elected. Grenfell Tower underlines the importance of this proposal without which the under-funding of council housing will have negative consequences, in some cases potentially deadly ones.

One final point. If it proves necessary to replace the type of cladding used on Grenfell Tower and other buildings, since it was legal to use such materials, then central government should commit to funding it. Making council HRAs do so when they are grossly under-funded would only lead to other important work being postponed.

Martin Wicks,
Secretary, Swindon Tenants Campaign Group
June 2nd 2017

PS. The sort of priorities which the Kensington & Chelsea Council have can be seen when you contrast the small sums of money involved which could have prevented the Grenfell Tower catastrophe, with the decision of the ruling administration in 2014 to give some of its richest occupants, according The Metro, those paying the highest band, a Council Tax rebate of £100.