



## **FOR A COUNCIL HOUSING RENAISSANCE**

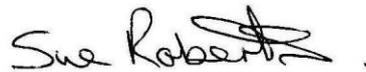
**A joint manifesto by ARCH  
and the NFA**

## Introduction

Housing will be a major issue at the coming General Election. We believe that councils and council housing can and should play much bigger roles in ensuring that there are enough adequate homes for everyone in our country, regardless of income. That is why ARCH and the NFA have come together to put forward this joint manifesto. It has the support of both organisations, which together cover over 80 per cent of council homes in England. Just as importantly, it reflects the views of our tenants, expressed through their participation in ALMO Boards, and through the work of the ARCH Tenants Group, which distilled the priorities of this year's ARCH Tenants Conference into 5 key demands.



Councillor Paul Ellis, Chair, ARCH



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# For a council housing renaissance

## A Joint Manifesto from ARCH and the NFA

We need more homes. To meet the national housing shortage we need to increase the number of new homes built each year to at least 240,000 – double the current output. The benefits would include:

- an end to the upward drift in house prices which has put home-ownership beyond the reach of millions
- significant health benefits, saving the NHS money
- a major boost to the economy through expansion of the construction industry
- the ability to forge strong and sustainable communities
- savings from reduced expenditure on housing support costs

Councils have crucial roles to play in achieving this ambition – by ensuring that land is made available and the necessary infrastructure is provided, and by enabling or commissioning the construction of new homes. They can also help to foster the necessary growth in the skills and capacity of the construction and construction materials industries. ALMOs already have a track record in project-managing large scale capital projects, including direct experience of new build and have an important role to play in supporting these ambitions.

While the majority of new homes needed will be for sale, there is also a need for homes for letting at market and sub-market rents. Around a third of the homes provided will need to be made available at rents affordable by households with the lowest incomes.

Councils and ALMOs are already demonstrating their potential to contribute to all aspects of this challenge. More new council housing is being built than at any time in the last 30 years. Councils are already showing their willingness and capacity to take on a wider role – building for sale or for market rent, directly, through arms-length companies, including ALMOs or in partnership. They have developed new ways of financing the provision of infrastructure. But they could do much more. Given Government action on the steps proposed in this manifesto, councils and ALMOs can and will play their full part in enabling the construction of the new homes we need and directly provide at least 20,000 of them each year.

Councils with housing have a particular responsibility to ensure that the homes they own are managed to the highest standards, whether directly or

through an Arms Length Management Organisation (ALMO). Councils and ALMOs are already committed to ensuring that all their homes meet the Decent Homes standard, but we now want to aim higher, particularly in relation to energy efficiency. By 2020 we aim to ensure that every council home exceeds the minimum required to make the property safe and fit to live in (Energy Performance Certificate E) but that on average they achieve the substantially more efficient Energy Performance Certificate C rating.

Local government manifestos traditionally include a begging bowl of demands for additional government funding. Ours is different. We are not asking for more money but for the freedom to make better use of the powers, assets and resources already at our disposal as councils. To help solve the national housing crisis we want to unlock the full potential of councils to act as innovators, entrepreneurs, commissioners and place-shapers – local leaders in the fullest sense of those words. Give us these freedoms and we will deliver for our tenants and communities.

## **Lifting Debt Caps**

The introduction of HRA self-financing in April 2012 freed councils with housing to plan long-term for investment in their existing housing stock and in new homes, supported by their full anticipated rent income. This change has already enabled councils to begin building new homes again, often for the first time in three decades, with an estimated 25,000 new homes likely to have been started over the first five years of the new system. But we could do more. Council borrowing to support HRA investment is currently limited by debt caps linked to historical debt; but they have the financial capacity to support an additional £20 – 25 billion in investment from planned rent income alone, without external subsidy. Removing debt caps would provide the financial capacity to expand output up to 20,000 homes a year. It would also increase councils' capacity to invest in their existing stock to meet the improved standards we envisage by 2020.

The current Government argues that additional HRA borrowing would add to public debt and compromise the Government's deficit reduction strategy. But HRA borrowing is unlike most other Government borrowing. It involves investment in a public asset yielding a rental stream – repayment of the debt is not a call on general taxation. There is a strong case for reforming public borrowing rules to classify such borrowing separately, as is the practice elsewhere in Europe as well as by the IMF, and exempting it from the deficit reduction strategy.

## **Use of Existing Headroom**

Some have argued that it is unnecessary to lift council debt caps because councils are not currently using the headroom available to them. An immediate response is that it is not reasonable to expect headroom to be used in full – a prudent council will need to retain some spare capacity to respond to contingencies. The evidence also shows that councils are still in the process of gearing up building programmes – in many cases from a standing start only two years ago. But there are more fundamental obstacles. Finance is not the only constraint acting on councils' capacity to expand investment in new homes. Government also needs to work with councils to ensure land is released for housing and the necessary infrastructure provided to accompany new housing.

## **Building Homes for sale and market rent**

In growing numbers, councils are building new homes outside the HRA through arms-length companies and partnerships. Some companies are wholly council-owned, including ALMOs and special purpose housing companies; others are established in partnership with a variety of private sector partners or housing associations. Companies are being used not only to provide homes for social renting but also for sale and shared ownership and for market rent. Many councils have identified a local need for additional homes for market rent which are well-managed and of good quality and are acting to meet this need through a variety of approaches.

But councils could do much more given a simpler and clearer legal framework for the provision of new housing inside and outside the HRA. We believe current rules are unnecessarily restrictive and should be reviewed and replaced with a framework adequate for this wider role in new provision.

## **Replacing homes sold under Right to Buy**

Increased discounts have led to an increase in Right to Buy sales unanticipated in the self-financing settlement, which is acting in many areas as a disincentive to new housing development within the HRA. The rules governing use of receipts to finance replacement homes are unnecessarily bureaucratic and inadequate to guarantee one-for-one replacement in areas where there is continuing demand. Current arrangements should be reformed to ensure that councils can be confident that business plans for new homes will not be compromised by Right to Buy sales and to enable one-for-one replacement wherever necessary.

## **Capturing Land Value Gain for Infrastructure and Affordable Housing**

The designation of land for housing from other uses normally results in a big increase in its value, which by default will accrue to the landowner. Enabling councils to ensure a fairer division of this “planning gain” between landowners and local communities is the key to unlocking infrastructure finance and winning local support for new homes. A very substantial part of the infrastructure funding needed by New Towns, such as Milton Keynes, came from successfully capturing a bigger share of the increase in land value created by the designation of land for housing. The old section 106 system, while by no means perfect, yielded over £5 billion towards the cost of infrastructure and affordable housing in 2008. Its replacement, the Community Infrastructure Levy, is yielding less than a fifth of this amount and is not available to finance affordable housing. We want to see a review of CIL and a fresh look at arrangements for infrastructure funding which would enable councils to invest in anticipation of a share of the development-driven growth in tax revenues.

## **Welfare Reform – a fairer deal for tenants**

We support the objective of a simpler, fairer welfare system that underlies the move to Universal Credit and recognise the motivation behind the removal of the spare room subsidy. However, implementation of these programmes is causing significant hardship for tenants and risks compromising the rent income needed to underpin the investment we argue for above. Because of a shortage of suitable accommodation, more than 90% of those under-occupying tenants affected by the withdrawal of benefit have so far been unable to move to smaller homes and are forced to manage on reduced budgets. This is unfair and unsustainable. We want the Government to take effective action to address this, either by enabling the provision of the necessary homes or suspending the benefit penalty.

Arrangements for direct payment of Universal Credit are widely expected to lead to an increase in rent arrears, and there is an ongoing debate between DWP and landlords about the circumstances under which direct payment of the housing element to landlords may be permitted. No-one has yet asked tenants for their views. We propose that tenants should be able to opt for direct payment if they choose, regardless of vulnerability or payment history. This would properly empower tenants to make rational decisions about how best to manage their finances.

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Working on behalf of local authorities who own and manage their properties, Arch exists to get the best deal for councils and tenants.

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The National Federation of ALMOs is the trade body for arms-length management organisations (ALMOs), representing their interests at a national level.

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