National Federation of ALMOs
championing better homes and communities

Arch
ASSOCIATION OF RETAINED COUNCIL HOUSING
a fair deal for all our residents

NFA and ARCH – Spending Review 2015

Summary

The National Federation of ALMOs and the Association of Retained Council Housing believe that both Councils and ALMOs could and should play an important role in helping government achieve its aims of increasing housing supply, making home ownership more affordable and accessible to more people, supporting aspiration and crucially improving productivity and economic growth through the construction sector.

We believe that by providing the framework to allow and encourage Councils and ALMOs to invest in new council housing the government could deliver just the sort of long term public sector investment which is needed to deliver the necessary infrastructure to support a dynamic economy.

However, we are concerned that many of the recent announcements on social housing policy will adversely affect both Councils' and ALMOs' ability to both maintain decent services and homes to existing tenants and more significantly, to build new homes.

We would like to urge Government to return to the principles they agreed with councils only 3 years ago on self-financing for the HRA and allow councils to retain control over both their capital assets and revenue income in order to provide the best incentives to the efficient use of public resources, long term investment in much needed infrastructure and effective local decision making.

We recommend that the government:

1. Recognise the role that council housing could play in helping the government to achieve its aims of increasing housing supply, making home ownership more affordable and accessible to a higher proportion of families, supporting aspiration and crucially improving productivity and economic growth through the construction sector.

2. Recognise the potential of the self-financed HRA business plan to deliver the most efficient use of resources to support housing growth and regeneration in local areas as part of the devolution agenda.

3. Allow councils to keep all of the capital receipt from RTB sales and other sales of HRA property to re-invest in housing and regeneration in their own local areas.

4. Allow councils to keep any additional rental income from the pay to stay proposals in order to help offset the decline in rental income from the 1% cut in rents over the next 5 years.

So that ALMOs and Councils can:

- Use their land and assets effectively to drive local growth, build new homes and regenerate neighbourhoods.
- Make the best use of the potential within the self-financing system to both manage the existing stock and build new homes for communities.
- Continue to support local businesses and provide employment and training opportunities in some of the poorest and most vulnerable areas of the country.
- Continue to tackle worklessness in their communities through tailored programmes.
- Work with government to support the roll out of Universal Credit, supporting tenants to manage their finances, find ways to increase their income and/or get into work.
- Continue to explore ways in which to further improve productivity and efficiency in service delivery so we can do more with less. Building upon the great work that ALMOs and Councils have done recently to deliver value for money in all areas of the council housing business.

Introduction

This is a joint submission by the National Federation of ALMOs (NFA) (www.almos.org.uk) and the Association of Retained Council Housing (ARCH) (www.arch-housing.org.uk), arguing the case for a strong council and ALMO role in delivering new housing, supporting aspiration and promoting economic growth and increased productivity.

Arms' Length Management Organisations (ALMOs) were first established in 2002, managing council housing at arms' length from their parent local authorities. There are currently 40 ALMOs which manage around 564,000 council properties across 43 local authorities. ARCH represents 63 councils who have retained their housing management in-house - they currently manage over 600,000 homes. Between us, we speak for two thirds of the council stock and a quarter of people living in social rented housing.

The NFA has also put in a submission jointly with SHOUT and TPAS which seeks to make the wider case for public investment in social housing and draws significantly on an independent analysis commissioned by SHOUT and NFA, *Building New Social Rent Homes: an Economic Appraisal* by the leading economic research company Capital Economics, published in June 2015.[1] This submission focuses on specific ALMO and Council housing issues related to the self-financing settlement and how we think that full implementation of the original principles of the deal would deliver on a number of key government priorities listed in the recent Treasury document; *Fixing the foundations; Creating a more prosperous nation*.

Planning freedoms and more houses to buy

Housing is central both to the core Spending Review objective of "A country which lives within its means", and to the other important theme of promoting growth and productivity. The Government clearly recognises that housing is a key economic and social challenge: as the Treasury's *Fixing the Foundations* document says: *"The UK has been incapable of building enough homes to keep up with growing demand. This harms productivity and restricts labour market flexibility, and it frustrates the ambitions of thousands of people who would like to own their own home."*[2] Although the Government's housing policies and stated objectives so far have only focused on owner occupied housing we believe that affordable and social rented housing also has a significant role to play in increasing housing supply and improving productivity in the construction industry.

We believe that affordable housing is a pre-requisite of any properly functioning economy, giving families the security and resources to then access education, training, jobs and opportunities to improve their lives in the future. 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.

Whilst we agree with the government that the majority of new homes needed will be for sale and there are important roles that councils and ALMOs can play in encouraging and enabling their provision, there is also a need for homes for letting at sub-market rents given that for the foreseeable future at least, for many households, those in work as well as those who are not working, incomes are not high enough either to buy, or to rent privately without support through the welfare system. In some cases, this is permanent: notably

[1] Report available for download from http://d3n8a8pro7vhmx.cloudfront.net/themes/5417d73201925b2f58000001/attachments/original/4463838/Building_New_Social_Rent_Homes.pdf?1434463838

[2] *Fixing the foundations: Creating a more prosperous nation*, HM Treasury, July 2015, p11

low-income retired people and sick and disabled people whose conditions restrict their earnings, or cause them not to be able to work at all. In other cases, particularly working age households, there may be a reasonable expectation that incomes could improve at some point in the future, but they are indisputably not in a position to enter owner-occupation in the short term.

A higher pay, lower welfare society

Costs to welfare of not investing in council housing

Little more than three years ago, with the support of all political parties, councils and council tenants, the last government put an end to the unfair and unpopular housing revenue account subsidy system and introduced a new regime of HRA self-financing. The essence of the new regime was that councils were relieved of any future need to give to or receive from government any payments of housing subsidy, in exchange for a one-off debt settlement based on the net present value of its housing stock, roughly equivalent to the amount the council could afford to pay over thirty years from rent income, after allowing for the costs of managing the stock and keeping it in a good state of repair. In return, councils won the right to keep rent income in full and invest it as agreed with tenants and residents locally.

The self-financing settlement was based on a valuation of each council's housing stock that gave a total value of £29.2 billion to council housing in England, and as part of the settlement 136 councils took on new debt of £13 billion. This valuation was based on the assumption that council rents would rise annually by 0.5% more than the Retail Price Index broadly in line with the expected long- term growth in tenants' incomes. It was also assumed that councils would be allowed to complete the convergence of individual rents to the target rents set in Government guidance through an additional increase of up to £2 a week where necessary.

In the 2013 Budget, the Government announced that the future basis for rent setting would be the Consumer Prices Index, with councils allowed to increase rents by 1% more than the annual change in CPI, and the allowance for convergence would be terminated from 2015-16. Although this meant a significant loss of income over the 30 year business plan period, councils accepted these changes and adjusted their business plans to accommodate them, including by making savings in spending on management and maintenance.

The new proposal to cut rents by 1% each year from 2016/17 to 2019/20 cannot be accommodated so easily. By 2020, councils will have suffered an income loss, compared with previous expectations, of £2.4 billion, and, even if rent setting returned to the previous basis thereafter, a further £30 billion would be lost from the remaining years of the business plan. If these changes had been anticipated in the self-financing settlement, council housing in England would have been valued, not at £29 billion, but at £6 billion less.

ARCH and NFA members are still in the process of reviewing business plans and identifying where further savings can be made, with the aim of protecting core services to tenants. They are looking at spending on both management and repairs and maintenance spend, both revenue and capital where cuts will impact on both the condition of the stock and the private sector firms who provide such services. Because of the uncertainty over future rental income many have already been forced to take the decision to pause their new build programmes where schemes are not on site.

It is likely that some of the added value services that councils and ALMOs provide to tenants, such as providing helping people into work and reducing fuel poverty will have to be scaled back or cut altogether, with a consequent adverse impact on the welfare spending the Government is seeking to reduce.

ALMOs and Councils will of course be looking at how services may be delivered differently, their approach to procurement, the re-prioritisation and rescheduling of repairs and maintenance programmes but, given the scale of rent loss against that currently projected and the cuts needed, there is a real risk that badly needed projects, such as supported and sheltered housing schemes which could reduce revenue cost for health and social care may have to be reconsidered. Plans to diversify into commercial activity (to generate income to ease financial pressures) may also have to be re-evaluated because the 'pump-prime' element of such a strategy might prove to be unviable.

ALMOs and Councils have already taken very significant measures to deliver savings by sharing back office services and restructuring senior management, the scope for further efficiency savings of this nature is limited. The intention is to avoid substantial cuts in frontline staffing and services but, ultimately, this cannot be guaranteed.

It is unrealistic to imagine, as suggested in the Budget document, that the rent loss can be accommodated through efficiency savings alone. Since management and maintenance expenditure equals only 60% of rent income, a 12% reduction in rent income equates to a 20% reduction in management and maintenance over 4 years. There will inevitably be a severe impact on council and ALMO investment plans, and particularly new construction. On previous rent expectations, councils were planning to build around 5,000 homes a year over the next 4 years, and with greater freedom to borrow could have built more. Early indications from members suggest that these plans will now be cut to a handful of new starts, principally on schemes where contracts have already been let.

Councils already have the lowest rents in the social sector, by forcing councils to cut their rents further the Government is inadvertently going to increase its welfare bill by cutting the number of new homes available to rent at lower rents to newly forming households and homeless households housed in temporary accommodation. This will only force more people into the private rented sector where rents are already 60% higher, pushing those rents up and costing the government more money in housing support through Universal Credit or LHA rates.

The current proposals by Government to take further resources away from councils and ALMOs by forcing them to sell high value voids to help pay for national government priorities rather than local ones, not allowing councils to retain the additional income from Compulsory Pay to Stay proposals and the barriers imposed on councils trying to replace homes sold through the Right to Buy will make these issues worse.

All of these combined create a large degree of risk for Councils and ALMOs in taking forward plans to deliver a capital programme that will shape stock provision to best support public services across both health and social care. These plans would also support economic regeneration, leading to better health outcomes and the ability to deliver more affordable housing.

Analysis in the NFA/SHOUT report *Building New Social Rent Homes* set out in our separate submission shows that the government could save a significant amount of money in the medium to long term if it facilitated more investment in new social rented homes.

Public sector productivity and long term investment

The government is rightly interested in improving public sector productivity. However we believe that through the recent self-financing reforms government found a way in which to incentivise councils to actively manage their assets more effectively, help them plan for the long term, enhance effective local decision making and deliver greater efficiencies.

We are very supportive of the government's commitment to devolution and localism and the desire to give more responsibility to local areas. We have previously welcomed the government's actions in delivering a self-financing future for council housing which has given control and responsibility to local councils, their ALMOs and their tenants in relation to managing council housing.

However, since delivering these new freedoms and flexibilities the government is introducing a number of policies which go against the wider principles of localism and devolution and the self-financing settlement agreed little over 3 years ago and take money and control away again from local authorities and their communities. This is likely to prevent and stymie long term investment by councils in their communities as they have to focus on fire fighting in the short term and have no confidence or control over future changes to their budgets and operating environment.

Conclusion

Both ARCH and the NFA support the government's ambition to move towards to a higher pay, lower welfare society but believe that an increase supply of truly affordable rented housing is one of the best ways of doing this. We would like to work with government to try to find solutions that really help meet those objectives.