

National Federation of ALMOs' submission to the Public Bill Committee on the Welfare Reform and Work Bill 2015-16

15th September 2015

1. Introduction

- 1.1. The National Federation of ALMOs (NFA) (www.almos.org.uk) is the trade body which represents all housing Arms' Length Management Organisations (ALMOs) across England. ALMOs were first established in 2002 to manage 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. The NFA represents the interests of ALMOs at the national level, lobbying and negotiating with central government on their behalf. In addition to this the NFA runs a website, organises events and regional meetings for its members and provides advice and briefings.
- 1.2. This submission draws on independent research by international economics consultancy Capital Economics, commissioned by the National Federation of ALMOs and SHOUT and published in June 2015, *Building New Social Rent Homes: an Economic Appraisal*¹ as well as evidence from our members.

2. Summary

- 2.1. The supply and affordability of housing is a central issue for Government both because of the cost to the welfare system of supporting low income households in private rented housing, and because persistent low levels of housing development have adverse macro and micro economic consequences.
- 2.2. Recent decades have seen a shift in the tenure mix, with growth in private renting (and recently renting at Affordable Rents) substituting for renting at traditional social levels. Along with barriers to home ownership increasing because of rising prices and more cautious lending criteria, this has led to a rapid increase in the proportion of under 35s renting, of the numbers of households spending more than 35 per cent of their income on rent, and higher expenditure on private sector housing benefit paid to working households. Working household HB claims have doubled over the last six years, through a phase of static or increasing employment.
- 2.3. We believe that the most cost effective and quickest way to reverse the steady increase in Housing Benefit bills is to increase the amount of social rented accommodation available to those households who cannot afford to rent privately without financial assistance from the state or to own their own home in the foreseeable future. Capital's research projects that, unless policy changes to prevent it, the cost to the welfare system of high housing costs in the private sector will more than quadruple in real terms over the OBR's long term forecast period.
- 2.4. Unfortunately the government's proposed social rent policy of cutting rents by 1% a year for the next 4 years will do nothing to improve this situation and will conversely help to drive up costs in the welfare bill if nothing else changes to increase the supply of affordable housing. Although we understand it will help to lower overall benefit bills in the immediate term by lowering the rates paid under both Universal Credit and Housing Benefit in the social sector, our member's rents are the lowest rents across the whole rented sector already and by cutting income from

¹ Report available for download from http://www.almos.org.uk/news_docs.php?subtypeid=24 and submitted for information

Council's self-financed business plans the government will actually slow down and possibly even stop the development of new council homes across the country which could have housed low income households struggling to pay their, much higher, rents in the private rented sector.

3. Costs to welfare of not investing in council housing

- 3.1. Analysis in the NFA/SHOUT report *Building New Social Rent Homes* 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 or affordable rented homes. Please see the attached report for more detail.
- 3.2. However recent proposals to change a number of elements of the HRA self-financing settlement are actually decreasing the amount of investment going into new social and affordable rented homes and threatening Councils' and ALMOs' ability to continue their new build programmes at all. This will only further decrease housing supply across the country and push up rents in the private rented sector and house prices in the owner-occupied market.
- 3.3. The NFA supports the government's ambition to move towards to a higher pay, lower welfare society but believes that an increase supply of truly affordable rented housing is one of the best ways of doing this.
- 3.4. Although reducing social rents by 1% a year as opposed to the planned 2% increase will reduce the benefit bill in the short term it will have a long term adverse impact on Councils HRAs and therefore their ability to build more housing for homeless households in temporary accommodation and future generations requiring low cost rented housing.
- 3.5. 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 average rents are already more than double average council rents, pushing those rents up and costing the government more money in housing support through Universal Credit or LHA rates. Average local authority rents in 2013/14 were £82.44 compared to average social rents in the Housing Association sector of £86.24, Affordable Rents in the Housing Association sector of £118.59 and private sector rents of £166.15².

4. Impact on Council Business Plans

- 4.1. Discussions with members at this early stage suggest that they are all reviewing their business plans and strategies going forward will be to protect core services to customers and that savings will be delivered through a remodelled service offer to customers covering both revenue and capital expenditure. All ALMOs will be reviewing repairs and maintenance spend and many will take the decision to pause their new build programmes where schemes are not on site.
- 4.2. Some of the added value services which ALMOs currently provide may also have to stop such as helping people into work and reducing fuel poverty for example.
- 4.3. 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 the cuts, 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 and general new build may have to be reconsidered.

² UK Housing Review 2015 table 72 Steve Wilcox, John Perry and Peter Williams published by CIH & CHP

4.4. 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. It is unrealistic to imagine, as suggested in the Budget document, that the rent loss for councils can be accommodated through efficiency savings alone. By way of illustration, some of our members have estimated the loss of revenue to them as a result of the proposed rent cuts as:

4.4.1. Berneslai Homes estimates that the 1% decrease annually equates to a 4% reduction in anticipated income each year for 4 years removing £13m (from a rent income budget of £81m) by 2019/20. This lower base continues over 30 years removing £500m of rent income from the Business Plan. The reduction in rent income equates to 21% of spend by 2020/21.

4.4.2. Cheltenham Borough Homes estimate that the proposed rent reductions will reduce HRA resources as at March 2020 by £6.8m. Assuming a return to CPI plus 1% from April 2020 and no other means of recovery, the 30 year impact on the HRA will be in the region of £110 million.

4.4.3. Colchester Borough Homes estimates a loss of income in the first 4 years of the HRA business plan of £9.7m, longer term over the 30 years it is estimated to be £142.7m.

4.4.4. Solihull Community Housing estimate that the proposed rent cuts will require them to make savings of some £22m over the period from 2016/17 to 2019/20.

4.4.5. Tower Hamlets Homes' initial modelling shows that the 1% reduction in social and affordable rent for four years will lead to a loss of rental income in the HRA in excess of £26 million over those four years. Early feedback from some other local authorities in London indicates that this is not an unrealistic projection in terms of the scale of the rent loss. The modelling also suggests that the 1% reduction in social and affordable rent will – all other things being equal - lead to a loss of rental income in the HRA of over £95 million over the next 10 years.

4.5. Some councils had decided over previous years not to implement the suggested maximum rent increases and have implemented lower rent increases or no increases at all and agreed revised business plans with their tenants. Others have consulted tenants and agreed an affordable increase which would help to deliver on community priorities such as building new homes, regenerating neighbourhoods and maintaining decent existing homes. Most of our members reported average rent increases across the sector last year of 2.4%.

4.6. 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.

5. Impact on ALMO schemes to tackle worklessness

5.1. As stated previously our members are starting to review their services with a view to where savings can be made and whilst trying to save their core housing management services to tenants some of the wider initiatives may have to be pared back or cut completely.

5.2. Examples of some of the current schemes which ALMOs provide to their communities are listed below:

Wolverhampton Homes: LEAP

- The Learning, Employment and Achievement Programme (LEAP) has helped more than 150 council tenants and their families to get work experience, training and qualification opportunities.
- The three part scheme gives tenants the chance to obtain pre-employment skills which range from qualifications to acquiring skills for the workplace. The second stage is an eight-week, expenses-only work experience placement and the third stage is a twelve-month paid apprenticeship and chances to study for an NVQ.
- Feedback from the LEAP scheme has seen tenants build self-esteem and confidence, which are essential qualities that participants were missing upon commencing the programme.
- The main barriers to future expansion for the LEAP project centres on funding. Approximately 45 tenants register for LEAP every month, which requires a full time co-ordinator to conduct events, create individual programmes, deliver and arrange training and source new employment.

Berneslai Homes: Refurbishment Scheme

- The Community Refurbishment scheme provides basic construction training to people who are not in employment or training with the specific goal of encouraging them to gain a qualification and access employment or full time training. The scheme is run as a partnership between the ALMO, Barnsley College and a local social enterprise, Barnsley Community Build.
- Many of the trainees have struggled in formal education and they are given the opportunity to combine the practical skills of construction with formal training at Barnsley College to achieve an NVQ level 2 in general construction or multi skills.
- In 2012/13 the scheme had 47 apprentices who completed their training, and of those who left the scheme early, 67% are in work. The scheme also has a history of appealing to female and male participants who have looked to dispel the stereotype that the construction industry is a male dominated field.

Northwards Housing: Yes Scheme

- Yes is a community interest company established by Northwards Housing in August 2013 to provide job opportunities, training, business advice, money advice and work/voluntary experience to tenants and residents throughout north Manchester. It is independent from Northwards and has its own board of directors.
- The project is based in Newton Heath in the M40 postcode, a district with some of the highest unemployment levels in the city (10%). More than half of people who live there claim housing benefit. Yes is a critical element of Northwards' response to welfare reform. By directly helping tenants to not only gain new skills and employment, but also access the internet and learn how to use digital technology, Yes also helps tenants adapt to the "digital-by- default" approach of the welfare changes.
- Its objectives are to help to reduce the unemployment rate in the Newton Heath area and in its first nine months of operation more than 3,000 people walked through its doors and 94 people found jobs or training – that was more than two a week.
- They work with the National Careers Service, Manchester Adult Education Service, FC United of Manchester, the Probation Service, Manchester Solutions, Manchester Credit Union and Blue Orchid, who all have use of the building and offer a comprehensive service to clients.

Your Homes Newcastle: Skills to Work Strategy

- Your Homes Newcastle has an overarching Skills to Work strategy which has been in place since 2010. The strategy aims to embed tackling worklessness into the organisational culture, work in partnership to improve access to pre-employment information and support, improve the employability of residents and local people and get people into work.
- One of the key ways they have met these aims is through working with tenants and residents in the Walker ward of Newcastle. *Living and working in Walker* was an employment focused project that they piloted in the area with tenants who were out of work. The project included the delivery of a comprehensive package of support to approximately 650 residents in the Walker ward affected by the under-occupation changes to housing benefit.
- When the pilot ended in April 2014 they had achieved a number of outcomes including successfully helping people into employment and engaging with local employers. Alongside the Living and working in Walker project, they also set up the Walker Learning Hive in partnership with the Northern Learning Trust. The Hive is a community provision that provides access to a range of learning, employability and basic skills support right in the heart of a community where tenants have limited social mobility so are unlikely to access mainstream provision.

Stockport Homes: Framework of Opportunity

- At Stockport Homes they have recognised that customers seeking work usually require tailored interventions. To address this they set up a “Framework of Opportunity” to use with each customer to develop their own journey to work. This framework has three main elements, shown below;
 - Advice, assistance and skill development
 - Real work experiences
 - Creating more opportunities
- Their Employment and Volunteering Officer provides advice and guidance to increase employability skills. Their other programmes provide personal support to jobseekers for up to 12 months or help people progress towards education and employment. Their mobile construction programme provides young people with introductory training in carpentry, painting, plumbing and gives them two weeks’ work experience as well as mock interviews conducted with Repair 1st, our Repairs and Maintenance service.
- They offer real work experience to customers through a variety of routes including apprenticeships with Stockport Homes, with their grounds maintenance contractor and their social enterprise scheme, B4box. They also offer volunteering opportunities and work experience to school aged children as well as providing supported employment for those distant from the labour market.
- They create opportunities by using a dedicated officer to liaise with local employers to identify training, apprentice and job opportunities and to promote the skills of their customers.
- By 2014 their approach had already supported over 100 people into work, assisted 265 customers on their journey to work and directly provided over 3,000 hours of volunteering to Stockport Homes and Stockport communities.

6. Wider economic benefits of ALMO investment

- 6.1. Nottingham City Homes has also carried out work to evidence the impact of its investment on the local economy and local people³.

³ http://www.nottinghamcityhomes.org.uk/improving_your_home/impact_study/

6.2. Drawing on this research and associated work Nottingham City Homes states that their spending directly benefits the local economy – ranging from every £1 generating £2.10 when working through a local social enterprise, £1.70 when using their own in-house repairs service, to £1.36 when using external contractors. Taking £1.70 as the middle value then **every £1 that they don't spend will effectively lose £1.70 for the local economy.**

6.3. Working on the '1 in a Million' principle, where contractors commit to an apprentice for every £1m spent every £1m cut to capital funding will also result in one fewer apprentice and not being able to insulate further properties with external wall insulation will fail to generate the expected energy savings of approx. £200 per property each year and may serve to increase health inequalities e.g. excess winter deaths, heart attacks and strokes, respiratory conditions like COPD and asthma.

7. Conclusion

7.1. In light of the likely impact of the proposed policy change for social rents we recommend that the government recognise the negative impact that the proposed social rent cuts will have on the supply of new social and affordable housing and acknowledge the role that council housing could play in helping the government to achieve its aims of increasing housing supply, supporting aspiration and crucially decreasing the welfare bill in the long term.

7.2. We propose that the government 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 and allow councils to make the decisions with their tenants on their own future rent policy.