Arch
ASSOCIATION OF RETAINED COUNCIL HOUSING

National Federation of ALMOs

Together we serve the interest of more than a million homes in England

Budget Submission 2017

About ARCH and the NFA

165 councils in England own over 1.6 million homes, either managing them directly or through Arm's Length Management Organisations. ARCH represents councils that have chosen to retain ownership of council housing and manage it directly. The National Federation of ALMOs represents 34 Arm's Length Management Organisations managing around 470,000 homes in 38 local authorities. Together we represent over a million council homes, one third of the social housing in England.

Fixing our broken housing market

In February of this year the Housing White Paper *Fixing our Broken Housing Market* set out the Government's plans to tackle years of under-supply and increase the number of new homes built annually to around 250,000. A key element in these plans is action to diversify the house-building market, including several proposals under the heading *Backing local authorities to build*. Introducing this section, the White Paper stated:

> Local authorities' role in delivering new housing goes beyond using their planning powers. They also have an important role in delivering homes themselves. We want to make sure that they have the tools they need to get homes built where the market isn't coming forward with enough.

It went on to acknowledge that councils can contribute to new construction through both traditional council house-building and innovative models such as local housing companies, and to offer support to provide support to local authorities looking to expand their house-building activities and work with them to "understand all the options for increasing the supply of affordable housing". Further, it invited discussion on the scope for bespoke housing deals to increase supply in high demand areas.

ARCH and the NFA warmly welcomed this endorsement of local authorities' potential role in delivering new housing and the proposals to support and develop it. To demonstrate that local authorities and their ALMOs have both the appetite and capacity to deliver new homes, some recent examples are included in the Appendix to this submission. We have worked with DCLG officials on implementation issues and brokered the first proposal from a group of local authorities for a bespoke housing deal.

Since February there have been two events of huge importance for housing policy – the General Election and the Grenfell Tower tragedy. All authorities, most particularly those with high-rise council blocks, have had to urgently re-assess their investment plans to ensure that resources are made available to ensure the safety from fire of all their tenants. They will be expecting to respond as a matter of urgency to the findings of the Public Inquiry and the ongoing review of building regulations. But the Grenfell Tower tragedy also raises wider questions about the provision, allocation, maintenance and management of council housing around which we are expecting the Housing Minister to promote a public debate. We welcome the Secretary of State's announcement that this will culminate in a Green Paper on social housing. This, too, is likely to have implications for investment in the existing council housing stock. We recognise that, in the first instance, local authorities should look to their own resources to fund the necessary investment.

The outcome of the General Election has required the Government to consider carefully which of its policies, including manifesto commitments, should receive priority for the limited Parliamentary time available. We support its continued commitment to implement the Housing White Paper in full. We believe that councils with housing, such as those ARCH and the NFA represent, have a particular contribution to make. They have an asset base of 1.6 million homes yielding an annual income of £9 billion which can be used both to support additional investment in fire safety in the existing stock, and also the provision of new homes. However, realising the full potential of this asset base is currently frustrated by three areas of Government policy that, we argue, should be reconsidered. They are:

1. The social rent reductions introduced by the Welfare Reform and Work Act, coupled with continuing uncertainty about Government policy on council rents after 2020;
2. The proposal to limit, from April 2019, benefit availability on council rents to applicable Local Housing Allowances;
3. Continuing uncertainty about the levy on higher value housing assets introduced by the Housing and Planning Act.

The Case for More New Homes at Genuinely Affordable Rents

We welcome the White Paper's confirmation of a shift in emphasis away from an excessively narrow focus on the construction of new homes for sale to a more balanced programme of homes for rent and sale. This programme needs to include a proportion of affordable homes for sale and shared ownership, plus a significant proportion of homes at genuinely affordable rents.

To examine the case for building more homes at genuinely affordable rents ARCH and the NFA joined with SHOUT and others to commission independent analysis by Capital Economics of the impact of building 100,000 new affordable rented homes a year. The analysis was published in June 2015 as *Building New Social Rent Homes: an Economic*

Appraisal, followed by an update in October 2016 re-evaluating the analysis in the light of the European referendum result.[1] From our perspective the key conclusions are that expansion of the development programmes of councils and housing associations on that scale would:

- offer a pathway out of expensive and insecure private renting, and on towards ownership – in part via the Right to Buy – for those hardworking households who are “just managing”;
- over time, reduce the cost to government of meeting the housing needs of low-income households;
- make a major contribution to the Government’s ambition of 1 million new homes by 2020 and address the chronic undersupply of housing in the UK;
- help address pressure on public services, notably health and social care, driven by poor housing conditions.

100,000 new homes was chosen as an indicative figure in line with national data on household incomes, housing needs and affordability to illustrate the impact on the national housing shortage and public finances. We do not envisage that every area needs the same proportions of new homes for sale, market and affordable rent. We believe that local authorities, in line with their strategic housing responsibilities, should be charged with determining, in consultation with local people, the appropriate mix of new development to meet identified and expected local housing needs, and with ensuring its delivery through their planning, enabling and commissioning powers.

Nor do we offer a prescription on the national balance between the numbers of homes to be provided by councils and by housing associations, although we envisage that councils should play a much bigger role in direct development than in the last three decades. One of the objectives of the introduction of HRA self-financing in April 2012 was to allow councils to plan for long-term investment including the provision of new homes. Since then, many councils with housing have restarted house building programmes, albeit on a relatively small scale. ALMOs also built just under 5,000 homes up to the end of 2016 on behalf of their local authorities and as the White Paper notes, twice as many new council homes were completed between 2012 and 2017 than from 1997 to 2010.

Research led by ARCH in 2012 showed that councils were planning to build around 25,000 new HRA homes a year by 2018, and had the financial capacity from HRA resources alone to build 60,000 if HRA debt caps were lifted. In 2014, LGA research reported council plans to build 28,000 homes by 2020, with the potential to increase this number to 76,000 if

[1] Capital Economics for SHOUT and the NFA *Building New Social Rent Homes - An Economic Appraisal,* 26 August 2015; *Building New Social Rent Homes 2016 Update*d**,** 2 October 2016
http://www.almos.org.uk/news_docs.php?page=1&subtypeid=24

borrowing restrictions were removed[2]. These plans were already adversely affected under the Coalition Government by the 2013 decision to change the inflation assumption underlying permissible rent increases. This has been compounded by the rent reductions imposed by the Welfare Reform and Work Act. Continuing uncertainty about the Government's social rents policy after 2020 and the scale and timing of any levy on higher value assets adds to the problem by undermining long-term investment planning.

The CIH/CIPFA report *Investing in Council Housing* estimates that the original self-financing model showed potential capacity for councils to build more than 550,000 units over 30 years.[3] After taking into account the change in the inflation assumption, this capacity for building new units reduced to 160,000 (or 28% of the capacity at the time of the settlement). The effects of rent reduction mean that the capacity to build drops further to just 45,000 units (or 8% of the capacity at the time of the settlement).

We would argue that, if the Government wants councils and housing associations to make their full potential contribution to increasing housing supply, it should reconsider whether to continue with the remaining two years of the planned social rent reductions and, at the very least, make an early announcement setting out a new ten year social rent policy to enable local authorities and housing associations to build robust business plans. We consider that the short-term increase in welfare expenditure this would imply would be more than compensated in the long term by the benefits generated by the additional new housing supply it would facilitate.

Future council rents

The Housing White Paper sets out the Government's intention to continue to reduce council and housing association rents by 1 per cent a year until April 2020, but it promises discussions with the sector before setting out, in due course, a rent policy for the period beyond 2020.

To inform these discussions ARCH and the NFA, in conjunction with the Councils with ALMOs Group (CWAG) consulted member councils and ALMOs earlier this year on options for rents policy after 2020. Respondents were asked what rent policy would be necessary from April 2020 to enable their existing housing stock to continue to be maintained to the Decent Homes Standard and for HRA debt to be repaid by 2042, as envisaged by the self-financing settlement in April 2012. Responses from 22 councils ranged from annual increases in line with CPI to CPI plus 1.5 %, with a median of CPI + 1%. The survey was

[2] Details of both research studies are included in *Investing in Council Housing,* see next footnote.

[3] CIPFA/CIH, *Investing in Council Housing*, July 2016 http://www.cih.org/resources/PDF/Investing%20in%20council%20housing%20CIH-CIPFA%20July%202016.pdf

conducted prior to the Grenfell Tower fire, so these estimates include no allowance for the cost of fire safety work now determined to be urgent.

Respondents were also asked to state a preference for rent policy from 2020, and whether their preferred option would support a new build programme, and if so, on what scale. Council responses were unanimous on the need to return to an annual rent increase of at least 1% more than CPI – with half of the responses arguing for an increase of more than CPI + 1%. Most responses indicated that their preferred rent policy would allow for some new building, although several said that this would involve a decision not to repay debt as quickly as envisaged by the self-financing settlement. One response pointed out that, even if their preferred rent option were permitted, they would need an increase in their debt cap to create headroom for investment in new homes; although other responses were not explicit on this point, this is likely to be an issue for other councils, too.

The social rent reductions were motivated, according to Government statements at the time of their imposition, by the need to reduce both rents, which were claimed to have been rising faster than private sector rents (not true in some regions) and benefit spending. However, these policy objectives were not well-served by the method chosen to enforce the reductions, which was to reduce the actual 2015/16 rent of individual council and housing association properties, whatever it might be, by the same percentage. Rents on council and housing association properties provided before 2011 have, since 2002, been expected to converge to a formula rent intended to ensure that council and housing association tenants pay the same rent for similar properties. In most cases, this has involved council rents, which were historically significantly lower, increasing faster than housing association rents. Because of limits placed by Government on the rate of convergence many council rents remain below formula. Yet they have been reduced by exactly the same percentage as, higher, formula rents. An even starker anomaly applies to properties provided since 2011, which have been let on affordable rents which, at up to 80% of market value, are normally significantly higher than formula rents. Yet these, too, have been reduced by the same percentage. This approach was both unfair and unnecessary: it would have been entirely feasible to allow local authorities (and housing associations) to continue to determine the rents of individual properties within an overall envelope, yielding the rent and benefit reductions desired by the Government while preserving a much greater degree of fairness among tenants.

Respondents to our survey were unanimous in wanting to see, after 2020, a return to the legislative framework for rent-setting that applied before enactment of the Welfare Reform and Work Act, where councils were free to set rents subject to guidance from DCLG and limits on benefit availability set by DWP. We cannot see any possible justification for not meeting this aspiration. HRAs in all local authorities are under pressure, but councils vary widely in the scale and timing on necessary investment in existing housing, the need for new building, level of indebtedness and debt repayment profile, as is illustrated by their responses to our survey. This variation necessitates a degree of local flexibility over rents, albeit within national guidelines.

Respondents were also asked to estimate the impact of the proposed restriction, from April 2019, of benefit support for council rents to the applicable Local Housing Allowance, including the proposal that the applicable LHA for most single tenants under 35 should be the single room rate. Responses showed significant regional variation, as would be expected, given the degree of regional and local variation in the relationship between social and market rents. There was widespread concern about the impact on single tenants, who were estimated to be relatively small in number; the problem, however, is that there is no supply of council shared accommodation that they could be expected to occupy, nor any realistic prospect of making it ready by April 2019. Respondents were also concerned about the impact on much supported accommodation. We therefore await with interest publication of the Government's detailed proposals for a new funding model for supported accommodation.

In relation to the wider proposal to limit benefit for general needs accommodation, our evidence suggests that the impact from April 2019 when the proposals first take effect, is likely to be very limited, affecting only a few local authorities. However, the impact in subsequent years is entirely dependent on the Government's decisions on future social rent policy, on the one hand, and future levels of Local Housing Allowances, on the other. An inappropriate decision on future levels of Local Housing Allowances could easily frustrate a sensible rents policy for the sector. To ensure the continuing supply of private rented homes accessible to tenants on benefits, we believe there is a strong case for restoring the connection between LHAs and actual rents, with LHAs linked to at least the 30th percentile, as was previously the case. Regardless of this, however, we do not accept the justification for imposing LHA limits on council rents.

Levy on higher value assets

ARCH and NFA have never supported the proposal for a levy on HRA assets to pay for RTB discounts for housing associations. Right to Buy was introduced for council tenants without any form of reimbursement for discounts from central government. Councils, and council tenants, were expected to absorb and manage the impact on HRAs without central government help. It is doubly unfair that they should now be expected to pay for extension of the policy to housing association tenants. We welcome the Government's decision to test a regional pilot of HA RTB before wider roll-out of the policy, and to fund this directly. We also welcomed the decision not to impose a levy on higher value assets in 2017/18. However, continuing uncertainty about amount and timing of future levies is frustrating council business planning and making it prohibitively risky to commit to significant investment plans, whether in improvements to the existing stock, or new building. We urge the Government to make an early statement dropping plans for a levy, or at least deferring them pending the completion of the HA RTB pilots, which are funded until 2021.

Removing other obstacles to council building

In line with the White Paper commitment to explore all the options for expanding the supply of affordable housing, we are keen to pursue a discussion with Government on how best to remove other obstacles that are currently inhibiting councils from making their full potential contribution to the supply of new homes. Chief among these are the rules that currently restrict the use of RTB receipts and HRA debt caps, which remain an obstacle to new investment for a substantial number of councils.

Case Studies – ALMOs Delivering Quality Housing

A1 Housing, Bassetlaw District Council and contractor Woodhead Living have embarked on the first major building project to deliver social housing properties within Bassetlaw in around 25 years.

The £7.5m project is predominantly being funded by the Local Authority with additional funding from the HCA totalling around £1.7m

The total scheme will replace 43 Airey Homes which have now reached the end of their usable life with 71 new, modern, energy efficient homes. This scheme comprises two, three and four-bedroom detached and semi-detached houses, two-bedroom semi-detached bungalows and flats.

Smith Square development, Bassetlaw – before and after

Through careful and considerate planning and working closely with tenants whose homes had been earmarked for demolition, A1 Housing were able to keep an already close knit community together, even going as far as to allocate properties so that former neighbours can still live next door to each other in their new properties.

In addition to providing greater fuel efficiency and ultimately lower energy bills for tenants, the first 25 properties were tailored for the specific needs of the tenants who have been re-housed.

For example; building homes to accommodate families who were previously living in overcrowded accommodation and providing them with homes that meet their needs; installing wet rooms in properties where tenants have mobility problems; building sheds in the gardens of each property to accommodate for the loss of outbuildings in the previous properties.

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Cornwall Housing has previously demolished a number of disused garage blocks in Bodmin to construct 9 new council homes.

Bodmin development, Cornwall – before and after

The development was able to house some of the neediest local families. The properties are heated by under floor heating from an Air Source Heat Pump offering tenants huge savings in their fuel bills.

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Stockport Homes – A development consisting of 11 two and three bedroom new build homes in Cheadle Hulme, available for shared ownership and social rental.

The scheme's success is a result of a unique partnership between Stockport Council, The Scouts Association, Stockport Homes and the Homes and Communities Agency. This led to the development of a valuable community facility and low cost homes in Cheadle Hulme, one of Greater Manchester's most expensive neighbourhoods.

As well as helping create additional affordable housing, the scheme also helps address issues around spatial inequality which are a key concern within the Borough. Social Housing tends to be very focussed in neighbourhoods with these high levels of deprivation and relatively low levels of owner-occupation, and this scheme aims to develop a more mixed tenure approach in an area with an acute shortage of affordable homes.

Stockport Homes and the Councils ambition to provide, affordable homes also aligned with the needs of the Scouts for a new facility and the development replaced two run-down Scout huts a new one.

The completed development of contemporary homes

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