

## AFFORDABLE HOUSING COMMISSION

### NFA Submission

(April 2019)

#### Introduction

The National Federation of ALMOs (NFA) is the trade body which represents all arms-length management organisations (ALMOs) across England. The NFA represents all 31 ALMOs which manage just under 420,000 council homes across 34 Local Authorities.

ALMOs were first established in 2002 as not-for-profit companies, wholly owned by their parent councils, to manage council housing on behalf of their local authority and to help deliver the Decent Homes Programme. The establishment of ALMOs along with the performance regime which supported the movement led to a considerable improvement in housing management services, housing conditions and a new positive working culture within council housing organisations. The model has been embraced by councils of all political colours and enjoys cross-party support within parliament.

A defining feature of all ALMOs is that tenants have a significant say in how their homes are managed. Typically, one-third of all ALMO Board members are tenants with the remaining positions filled by councillors and independents. In addition to formal roles in boards and committees, tenants can influence services and performance through a range of tenant engagement activities depending on how engaged they wish to be. There is a clear progression to support tenants to develop the skills and experiences to become more formally engaged where they choose to, with considerable investment in training, mentoring and support.

Once the self-financing reforms to the Housing Revenue Account (HRA) subsidy system were implemented, with cross party support, in 2012, ALMOs led the council sector in delivering both new build and regeneration schemes through their Council's HRAs. As a result, over the last 5 years ALMOs have built over 7,000 new homes across all tenures and 7,000 more were planned before the lifting of the HRA debt caps last autumn. New homes built by ALMOs have been developed to the highest standards, meeting the needs of their local communities.

#### 1. Understanding the affordability challenge?

##### Q: What does affordability mean for different people in different places?

There is no universally accepted method of assessing affordability, and it is arguably different for different housing options i.e. between renting and buying as one provides the household with a place to live over the period of the tenancy and the other both a place to live and a capital asset over their lifetime.

There has been much work looking at various options over the years and we recommend a review of the academic and sector led work in this area which the NFA has contributed to over the years but not led. In terms of affordability for social rent we would particularly recommend a review of the work carried out by Steve Wilcox for DCLG in 2009 when the Government was looking into the possibility of self-financing for the council Housing Revenue Accounts<sup>1</sup>.

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<sup>1</sup> <https://webarchive.nationalarchives.gov.uk/20120919233213/http://www.communities.gov.uk/documents/housing/pdf/1290130.pdf>

Whilst there is generally a broad consensus within the social housing sector that social sector rents should be 'affordable' for households in low paid work, how that should be calculated is not agreed upon. In his 2009 paper Steve Wilcox looks at three measures of affordability in relation to rents:

- gross rents as a proportion of net income (including housing benefit)
- residual incomes
- extent of housing benefit dependency

The main focus of the affordability analysis in his report is on households in low paid work – for which he uses the proxy of the lowest decile earnings by region.

Depending on the aim of any affordability policy and which segments of society and household types it aims to help there is certainly merit in re-visiting the issue of "affordability" for housing given the term's recent devaluing by a government "Affordable Rents" policy which, by most people's standards, was unaffordable in the high house price areas of England.

Affordability is certainly different for different households in different areas and is affected by the cost of housing in their area, the level of earnings available to the household in their region for their skills and qualifications and the costs of the needs of the household for essentials such as food, space, childcare, other care, travel and essentials for the whole household to live at an accepted minimum level within our society.

However, we also have a benefit system in place that includes an element for housing costs which at the moment covers the full amount of a social rent and limited amounts of a private sector rent. This revenue subsidy for low or non-earning households helps mitigate some of those affordability issues for rented properties at an individual household level so the setting of rents can predominantly be based on the property characteristics which tend to be more stable rather than the individual household characteristics which can change more quickly.

Whilst the NFA would be interested in a wider review of affordability across the whole housing sector, in the short term we would recommend a return to investment in significantly more new homes at social rent levels, a stop to conversions to Affordable Rent for existing stock and an uplift on LHA rates to cover the lowest 30% of the PRS market in all areas as originally intended. This would provide an increase in options for the most in need of affordable housing.

However, in the medium to long term it would also be good to review affordability for the social housing rented sector, especially as our existing framework is based on data from 1999 with annual uplifts and incorporates various policy changes over the years.

We believe that the main principle of affordability for social housing to rent is that the rents should be affordable for low income working households. Unfortunately, this is not the case for many working families now even with a "social rent" either because sufficient hours of work are unavailable for those people or that wages have not kept up with inflation. Although as stated earlier there is no universally accepted method of assessing affordability the simpler proposals state between 25% to 35% of gross income on housing costs is affordable.

The original basis for the current social rent policy, introduced in 2002, was a formula which consisted of 30% of the rent levied being based on the existing use value of the property and 70% based on average weekly manual earnings, based on county data derived from the New Earnings Survey. There was also a

weighting for the number of bedrooms in the property. These were annually updated by RPI plus one per cent initially and then plus half a per cent, rather than a by a link to earnings or a mechanism for reassessing the capital value. There was also a framework for allowing local authority rents to increase up to a “target” rent as traditionally council rents had been much lower than housing association rents and there was a desire to work towards fairness and equality between the two social sectors for tenants.

This formula for setting social housing rents is still in place for the vast majority of rents in the council and housing association sector however, there are now a number of issues which mean that this no longer focuses clearly on affordability:

- The policy of above-inflation annual increases in rents from 2002 onwards worked well when average earnings increased in real terms from 2002 to 2008 but may have caused affordability problems for some families since 2008 when rents have been increasing faster than earnings. Between 2002 and 2008, council rents increased by 25% but average earnings increased by 28%. Between 2008 and 2014, rents rose by 19% while average earnings increased by only 9%. The rent reductions planned until 2020 will, for tenants in work and not dependent on benefits at least, help to compensate for the sluggish increase in incomes since 2008.
- The introduction of higher “Affordable Rents” (up to 80% of market rents) for many new homes and relets which are being charged for properties still being allocated principally to people on very low incomes.
- According to research carried out by Savills and the JRF on living rents “there is now improved, more localised data on earnings available than was the case when the formula was originally drawn up”.
- The existing rent setting regime is muddled and no longer explicitly linked to household incomes or earnings. Research commissioned back in 2015 by the National Housing Federation and Joseph Rowntree Foundation and undertaken by Savills proposes a ‘living rent’ which we think is a useful starting point for future discussions on ensuring social rents are set at truly affordable rates. An alternative would be to keep the existing social housing rent formula but update it with the improved data and to explicitly link increases to earnings.

### Q: Why is housing unaffordable?

As our society ages and changes the number of households are growing and the needs of those households are changing but the housing market has not kept up with that demand. We have been building a lot less social and council housing since the 1980s and private housebuilding has followed our economic cycles of boom and bust over time but remained fairly constant. Through the Right to Buy policy many previous social homes are now in the owner-occupied market or, increasingly in the private rented sector and the buy to let trend has significantly increased the proportion of the housing market which is now in the private rented sector with typically much higher rents than the social sector.

There has been unequal economic growth across the country during that time with many more jobs and higher wages in London and the South-East attracting more people to the area and lower growth and de-industrialisation in some areas of the Midlands and the North. Changes to work, especially in the rise of the gig economy, combined with low wages and the tightening up of the mortgage market post the financial crash have also impacted on the ability of many people to afford or access homeownership.

There has been little over-arching direction in government strategy for affordability in housing over that time and it has been left to the market to provide owner-occupied options with changes to planning policy to try to help developers and/or local communities at various points. The trend in government investment

in social housing since 1980 has been generally one of significant decline albeit with some growth from 2000-2010.

Changes to welfare benefits have also impacted on people's ability to afford housing. The introduction of the bedroom tax in the social sector and the overall benefit cap for families as well as most significantly the restrictions on LHA rates for housing costs in the private rented sector have also meant that some of the poorest people in society cannot now access any type of housing.

The costs of other basics such as heating have an impact on the affordability of housing and some older, badly insulated properties are more unaffordable due to their high heating costs than newer or refurbished properties.

All these factors have combined to mean that finding affordable housing options in many areas of the country is now increasingly difficult for more people.

### **Q: Costs and consequences of unaffordable housing – what's at stake and who are the priority groups that most need support?**

Since 2010 there has been a stark increase in homelessness in England<sup>2</sup> and a noticeable rise in street homelessness across most of our major towns and cities in England. The end of an assured shorthold tenancy is cited as the reason for the vast majority of homeless cases and as many of these people are accepted as "in priority need" the numbers of households in temporary accommodation has also risen significantly over the same period and was at 79,000 in September 2017.

Other signs are overcrowding in existing homes and households not forming as young adults cannot afford to move out of the family home and set up on their own. At the more extreme end of the spectrum Housing Women Cymru's campaign against rogue landlords advertising "Sex for Rent"<sup>3</sup> illustrates just how desperate and vulnerable the housing crisis has made some people and how those with housing assets are able to exploit them.

Given the cost to both national and local government, the families involved and society at large providing safe, secure and stable homes to homeless households needs to be the number one priority but we also believe that people badly housed in the private rented sector and young adults stuck at home with their parents should be given the option of an affordable, decent home too.

### **Q: What's being done and is it working and what are the implications and policy trade-offs?**

Most of the current government's subsidies for housing are still going into the private sector to help with homeownership which we do not believe is helping to make housing any more affordable for the vast majority of people who need help. What money that is left for housing after that has mainly been going to Affordable Rent homes rather than Social Rent homes and we would like to see much more of this investment going directly into helping to build more Social Rent homes via housing associations, ALMOs and councils to ensure better affordability of new homes. As shown in research commissioned by us and SHOUT<sup>4</sup>

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<sup>2</sup> 2018 UK Housing Review CIH

<sup>3</sup> <https://www.whg.org.uk/2018/12/03/call-for-action-to-end-sex-for-rent/>

<sup>4</sup> Building New Social Rent Homes: An Economic Appraisal – Capital Economics

increased investment in social rented homes would “achieve better value for taxpayer’s money, as well as improve the living standards of many low-income households”.

We have welcomed the recent lifting of the HRA debt caps, the abolition of the forced sale of High Value Assets and the new rent policy post 2020. All these things should help provide a more favourable financial framework for long term planning by councils to build more council housing. However, councils are still having to sell many of their homes under the re-invigorated RTB policy at a significant loss which leaves them unable to re-provide replacement social rented homes on a one for one basis.

We want to see discount levels reduced back to sensible levels and eligibility criteria lengthened again to ensure that the Right to Buy policy is sustainable for local councils, communities and better value for money for the public purse. To help make the policy sustainable we are arguing for:

- Extending the cost floor to 30 years to cover the debt for new build so that new investment within the HRA is not disincentivised as 30 years is the typical length of time a council will borrow over for new build.
- That the Treasury agrees to forego its share of receipts so that 100% of the revenue raised from sales is retained and reinvested locally.
- That the government reviews discounts and eligibility again and looks to reduce them to sensible levels for each local housing market so that tenants still have the ability to purchase their home at a discount but that councils are able to replace all homes sold and there is more equity between the subsidies available to council tenants to own and those living in private rented sector or at home with their parents.

## **2. Towards a new affordable housing offer?**

**Q: What role should housing providers play and what products old and new should be backed by government and how?**

We believe that as many routes as possible to should used to increase overall housing supply in England and that Government should invest significantly more in providing new Social Rent homes through Housing Associations, Councils, ALMOs and other council owned housing companies.

Our members have been building since 2008 when they were able to access social housing grant, and many have a wealth of skills and experience now to share with others and use to continue to deliver a steady pipeline of new council homes. As mentioned previously over the past five years our members have built and acquired over 7,000 new homes and plan to do at least the same again over the next five years.

Whilst the majority of ALMOs do not have large scale developments, they excel at bringing back into use smaller, more challenging sites such as infill and former garages. Considering the increasing difficulties around sourcing affordable land for development, this expertise is something which will become more valuable for the sector and should be fully utilised alongside the bigger developers.

### Empty homes or badly maintained private rented homes

Councils and ALMOs should be incentivised to specifically fund an acquisition and conversion of empty homes and badly maintained PRS homes. The investment should be tested against a business case assessment and if viable should be given go-ahead.

Owners of qualifying homes within the lowest council tax band could be encouraged to lease their homes to an accredited landlord or an ALMO by making them eligible for a grant so the property achieves the local housing quality standard.

We need to develop solutions for the most common reasons why properties are left empty for more than 12 months in the private rented sector. From our members' experience this is often due to a sole owner occupier moving into care and lasting power of attorney has not been granted or has yet to be sorted out or because a sole owner occupier has died intestate and it takes months to sort out. Options could be developed to provide temporary solutions for those properties whilst legal issues are fully resolved and ALMOs could provide a management service to the families, letting them out to provide both a social benefit and some income to the family.

**Q: What planning reforms would deliver more affordable housing?**

Not our area of expertise.

**Q: How can government support the funding and financing of affordable housing and what needs to change with the current system?**

As stated earlier we believe the government should significantly increase its investment back into Social Rent homes via housing associations, ALMOs and Councils. The research carried out by Capital Economics for SHOUT in 2015 clearly showed that the building of 100,000 new social homes a year would create a net surplus for the Exchequer by 2035. The report showed the savings would come from a burgeoning housing benefit bill which currently stands at £24.4 billion but is forecast to rise dramatically to £197.3bn by 2066 without action being taken to boost social housing supply. For every £1 invested in building new social housing, £2.84 of economic output would be stimulated - of which 56p would go straight to the exchequer.

**Q: What needs to change to ensure the skills and capabilities are in place to deliver more affordable housing?**

The capacity of both the construction industry and the strategic oversight of local authorities to deliver the necessary increase in housebuilding is clearly an issue. In the longer-term increased funding for local government would help rebuild capacity within teams which have been hollowed out in recent years and in the short term more sharing of staff regionally, and more training up of apprentices within the social housing sector specially for construction skills would help.

If government could commit to long term investment in social housing delivery our members and others in the sector could commit to training and keeping staff, helping to move away from the boom and bust nature of current housing delivery and a reliance on skilled labour migrating from abroad to fill gaps towards a more sustainable and stable approach of training and retaining skilled staff.

**3. Towards a new affordable housing offer: managing demand**

**Q: What tax and macro-economic policies and changes in mortgage lending would help ensure housing is more affordable?**

Not our area of expertise.

**Q: What regulatory reforms and new products/schemes are needed to make both social and private housing more affordable?**

The rent standard in the social sector works well in terms of keeping rents at an agreed affordable level. As discussed earlier the methodology could be changed if an affordability review recommended a different approach to affordability but we don't think there is a need for any different regulation in relation to rents for the social sector, just a return to building more new Social Rent homes and the subsidies required to make that work.

There should however be a link to quality standards in return for that subsidy and a return to the higher levels of the Code for Sustainable Homes Levels 5 and 6 as well as better space standards and the standards encapsulated in the Lifetime Homes Standard.

The NFA is also supportive of a review of the Decent Homes Standard for existing stock. We believe that improved energy efficiency and increased use of renewable energy should be set as a minimum standard and would support the Government's proposal to update the standard to consider the outcome of the Government's consultation on 'The Clean Growth Strategy' on whether the energy performance of social homes should be upgraded to Energy Performance Certificate Band C by 2030 where practical, cost effective and affordable. However, we would also like to see them include an element of looking to the longer term 2050 goal of low to zero-carbon and how property owners might get their properties to that goal over time.

There is often a conflict between measures that might be quick and fairly cheap in the short term to improve energy efficiency slightly and deeper retrofit measures which may be required to meet the longer-term goals of reducing our carbon emissions as a country. Some of the interim measures can actually make it harder to complete a full retrofit and some are just not good value for money if the aim is to bring the property up to low or zero-carbon eventually. It would be good for property owners to understand the options and the value for money over certain time periods especially when considering major work or refurbishment projects.

However, if there are to be improvements to the Decent Homes Standard councils and ALMOs will need more resources in order to be able to implement them at a time when there is nothing further to cut from elsewhere due to the recent effects of continued efficiency savings over the years plus the impact of 4 years of rent reductions.

**Q: How can we ensure the better use of existing stock?**

We believe that providing attractive homes for older people to downsize to at an affordable price with support to manage the move would help persuade more people to downsize and release family sized accommodation for young families.

There has been some success in the past within the social sector which could be built on. For example, developing homes for older downsizers which specially meet their needs and building much liked bungalows in some areas as well as allowing an extra bedroom in the allocations policies have all been shown to work.

Housing Associations or developers could offer to buy the old home at the market price to make the move as easy as possible, offer shared ownership and provide hand holding through the process so people have someone to help sort out problems along the way.

**Q: How can the welfare system ensure that those on low incomes with particular needs or those experiencing financial shocks have the right level of support in a timely way to reduce housing stress.**

The NFA and ARCH have carried out annual surveys into the impact on tenants and landlords of the welfare reforms and the roll out of Universal Credit<sup>5</sup>.

We have welcomed the policy changes to Universal Credit (UC) which were announced by Government in the Autumn Budget 2017 and were particularly pleased to see the removal of the seven-day waiting period from February 2018 so that entitlement to UC starts on the first day of the claim, as well as those already on Housing Benefit continuing to receive their housing benefit award for the first two weeks of their UC claim from April 2018.

However, the overall picture from last year's survey "Carrying the Debt" is that the vast majority of people moving onto Universal Credit either go into arrears or their existing arrears significantly increase during the first 6-8 weeks of their claim. We will be carrying out an update survey later this month to find out if anything has changed since.

The key message from last year's survey was the length of time it can take for tenants to clear the arrears built up in the transition to UC with the knock-on effects for both the tenant and the landlord. We are very concerned about the legacy of debt being left behind by the transition to UC. Evidence from early adopters such as Your Homes Newcastle suggest that it can take between 18-24 months to repay the arrears created by the move to UC.

Continuing feedback from members is also highlighting that the current UC system is a real problem for people on zero hours contracts, temporary or seasonal work. This indicates that the current design of UC is not fit for purpose for the modern, insecure, low paid, working environment.

Although for many tenants the ability from January 2018 to access up to a month's worth of UC within five days via an interest-free advance is very welcome we are concerned about the longer-term impact on the tenant's finances of this loan which still needs to be repaid.

In our opinion UC needs to be paid in advance rather than in arrears in recognition of the fact that most people in need of UC are already financially vulnerable, transferring from other benefits, often with rent arrears and other debts.

Our 2017 report "Pause for Thought" also looked at the impacts of other welfare reforms and showed that the under-occupancy penalty and the benefit cap continued to have a considerable negative impact on vulnerable households.

The under-occupancy penalty was affecting 9% of households as at the 31st March 2017. This position has not altered significantly from 2014/2015, indicating that the policy is not achieving its stated aim of making better use of stock and increasing mobility within the social sector. Of those subject to the under-occupancy penalty 40% were in arrears despite discretionary housing payments being used mainly to support this group of tenants.

The benefit cap has affected 1.5% of working age council tenants in receipt of housing benefit or UC on average across the country. However, it has mainly affected single parents with multiple children: just under two thirds (63%) of the cases concerned a single parent with 3 children or more, who are more likely to find it difficult to get into work or be able to make up the difference.

We would like to see an ending to both the under-occupancy penalty and the overall benefit cap.

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<sup>5</sup> [http://www.almos.org.uk/guidance\\_docs.php?subtypeid=458](http://www.almos.org.uk/guidance_docs.php?subtypeid=458)



#### 4. What else needs to change?

**Q: What other policy areas need to change such as reforms to the machinery of government, governance of housing providers, place making and public realm.**

We completely support the Government's aim in the Social Housing green paper to create a sector that "we could all be proud of whether we lived in it or not" which chimes with our members' core values to:

- aspire to provide excellent value for money and customer-led services for residents in partnership with local councils

and

- develop innovation and continuous improvement in providing, managing and maintaining affordable homes in sustainable neighbourhoods

We believe that if the social housing sector was properly invested in by national and local government as well as housing associations it would be able to play a full part in a mixed tenure housing market and provide decent, good quality homes for all in neighbourhoods residents can be proud of.

**Q: How can an agenda for change get backing from the public and what should others be doing to help?**

WE believe that a combination of good design, decent space standards and well-planned neighbourhoods with the necessary infrastructure new homes require such as roads, doctor's surgeries, schools etc. as well as a radical programme of new homes fit for 21st century seniors which could incentivise downsizers would really help get local communities on board.

If communities could be promised high quality new developments which they could see as affordable we believe many more people would be in support of new house building. Many of our members work closely with existing communities to get planning permission for difficult sites and have the community engagement expertise to ensure residents are listened to and plans are adapted to get communities on board where necessary. As we have said before not all of the new build needs to take place on large sites which can take a very long time to get developed, we should be making the most of all of the opportunities for infill, disused garage sites etc. in existing residential areas as well.

**Q: Do you have any other thoughts about what could help ensure housing is more affordable including examples of best practice from UK and overseas?**

No further comments but best practice briefings, evidence reports and further information about ALMOs, social housing and welfare reform can be found on our website: [www.almos.org.uk](http://www.almos.org.uk)

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