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

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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 a million council homes, nearly two thirds of the social housing in England.

Council Housebuilding

Further to our original submission, in which we argued for a return to the policy of CPI plus 1% for social rents, we have very much welcomed the announcement earlier this month to do just that and allow increases to social housing rents up to the Consumer Price Index (CPI) plus 1% for five years from 2020. We agree that this will give councils and ALMOs some of the certainty and flexibility needed to run their self-financed business plans effectively to, not only invest in the quality of the existing stock, but to deliver new council housing.

However, there are a number of other issues that are still acting as a brake on development plans for many councils. They are:

1. Continuing uncertainty about the levy on higher value housing assets introduced by the Housing and Planning Act.

2. Problems caused by the current Right to Buy levels and arrangements for 1:1 replacements.

3. The artificial, and to some extent arbitrary, limits to investment in social housing placed on councils by the HRA debt caps.

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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 to councils from central government for RTB discounts given to tenants. 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. At this time of acute need for affordable housing, especially in high demand, high value areas, we do not believe we should be selling off existing social rented housing unless a council decides itself it is the best use of that asset and can plough 100% of the receipt back into social rented homes in their local area. We encourage all of our members to make best use of their stock and to have robust asset management strategies but do not support the payment of a levy to central government from those efforts, depriving the local area of the resources they need to provide more affordable housing.

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 the 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 and instead deliver the promise in the Housing White Paper to "back councils to build" by supporting more council housebuilding through the self-financing HRAs.

Right to Buy

Research undertaken by the CIH, LGA and NFA in 2015 found that while the in-principle commitment to replace homes sold under the RTB was welcome by the sector, in practice a lack of flexibility in the system was hindering attempts to replace the homes that have been sold. Since that time we have heard of more councils having the same problems and having reluctantly to pay the money back rather than anything changing for the better.

The report also highlighted that under the current system not all homes sold through right to buy will be replaced. This is damaging council's desire to build more homes that they are in danger of losing at less than the price they paid to build them and acts as a further brake on investment plans for social housing.

We recommend that the current commitment is expanded to ensure that individual local authorities are each able to replace all homes sold under the RTB scheme in their local

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area. To achieve this we suggest that the government allows local authorities more flexibility to make maximum use of the receipts from RTB sales. The following specific changes would help build more new council homes:

1. Allowing Councils to retain 100% of the revenue raised from sales to be reinvested locally in social rented housing.

2. Giving authorities the freedom to use RTB receipts to meet more than 30% of the cost of building replacement homes, to combine RTB receipts with grant funding, other capital receipts held in the housing revenue account (HRA) or public land and to pass RTB receipts to an arm's length management organisation (ALMO) or another council owned company (provided the money is still reinvested in new homes.

3. Extending the cost floor ceiling, which prevents new council homes from being sold at a loss, from 15 to 25 years.

4. Extending the three-year time limit within which RTB receipts must be committed to five years.

5. Allowing local authorities freedoms to reduce RTB discounts locally, where they are able to demonstrate that:

    - they will otherwise have insufficient receipts to enable them to replace homes sold, and
    - a reduction in the discount would be unlikely to significantly impact on the volume of sales.

HRA Debt Caps

In 2012 the Conservative led coalition government introduced a new regime of HRA self-financing under the Localism Act 2011 which was supported at the time by all political parties. Under this, councils were relieved of any future need to give to or receive from government any payments of housing subsidy. This was in exchange for a one-off debt settlement based on the net present value of its housing stock. In return, councils won the right to keep rent income in full and invest it.

This reform lead directly to council house building starts in England being at a 23 year high two years ago. However, the good work started by local authorities in managing their housing stock more efficiently and effectively over the long term is now being reversed as a result of a number of policy changes introduced by the previous government as well as the artificial

limits set at the time of the settlement on each authority's ability to borrow to invest in new social housing.

Although there have been limited offers by government to allow some flexibility on the debt caps there were too many restrictions attached to the offer for it to be of use to most councils. The NFA and ARCH have recently commissioned some analysis of the available HRA headroom to try to find out where the problems lie and initial findings indicate that the majority of headroom is tied up in authorities relatively close to their cap and that the number of authorities operating significantly below cap is very small. Nearly half of all LAs are within 10% of their debt cap and 139 of 162 LAs are within 20% of their debt cap. This means that 62% of the headroom is in LAs within 20% of their debt cap.

Councils have been criticised in the past for asking for the debt caps to be raised whilst not fully utilising all of the headroom at their disposal but this needs to be seen in the context of prudent and sensible business planning, something which the Treasury surely would commend.

Comparing Council HRA debt levels with those of Housing Associations can provide some insight into how well councils are managing their business plans.

All Housing Associations negotiate funding agreements and capacity with their funders driven by their business plan. They are assessed on these agreements by the regulator and given viability ratings from V1 (the best) to V3 & V4 (which are non- compliant with the viability standard and a serious concern). Our initial results indicate that only a minority (one third) of headroom is in HRAs which would be unequivocal V1. Three-fifths of headroom is in HRAs which might be classed as V2-V3-V4. One fifth of headroom is in HRAs which would almost certainly be classed as V4.

This analysis indicates that councils are taking a very pragmatic and prudent approach to their investment plans and are holding an appropriate buffer against known or unknown risks. Two thirds of HRA headroom is in LAs where, were that capacity to be in housing associations, there would also be a reluctance to invest. Three-fifths of HRA headroom is in LAs where, were that capacity to be in HAs, not only might HAs not invest, the regulator might criticise them for doing so.

Some of the uncertainties come from Government housing and welfare polices such as the High Value Levy and the impact of RTB sales discussed above, as well as the risk of substantial increases in rent arrears and rent recovery costs as a result of the roll out of Universal Credit and the application of LHA rates into the social sector. Others are for unknown risks such as health and safety issues for which any prudent landlord would hold a reasonable contingency, the need for which is just becoming clear in the aftermath of the Grenfell Tower tragedy.

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We believe that councils were just getting to grips with the new self-financing regime and starting to invest in new council housing when previous governments increased the uncertainties and risks for councils by introducing a reinvigorated RTB with substantially higher discounts, imposing a 4-year mandatory rent reduction and signalling the introduction of an as yet unspecified HVA levy thus preventing them from prudently investing any more. We would urge the government to re-instate the original self-financing principles and allow local authorities more control and flexibility to make the best use of their assets and resources locally given the evidence is that with the right long term, stable framework that is what they were starting to do and will be able to again.

We ask that Local authorities and ALMOs should be empowered to build more homes by:

- Giving councils back control of their housing assets and revenue by committing to the principles of HRA self-financing for council housing under the Localism Act 2011 which has the potential to drive a real revival in public investment in council housing if properly supported.

- Lifting the HRA debt caps for new build purposes and relying instead on prudential borrowing rules to enable councils to invest in new homes and pay back the money from their rental income.

- If Government is still not willing to commit to the above points then approving a number of bespoke deals as quickly as possible which are already being discussed across the country to create a group of “market leaders” who could share experience and good practice with others.

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