

## Social Housing We Can All Be Proud Of

### ARCH's views on the future of social housing

#### Introduction

1. The Association of Retained Council Housing (ARCH) represents councils in England and Wales that own and manage housing. There are 165 councils in England owning over 1.6 million homes. Around three quarters of these councils manage these homes directly; in the others the stock is managed by an ALMO (Arms Length Management Organisation).
2. One important and necessary consequence of the Grenfell Tower tragedy has been a widening public debate on the future of social housing. The Government has announced the forthcoming publication of a Social Housing Green Paper. The Labour Party has launched its own review of social housing policy, as have Shelter and the Chartered Institute of Housing. This paper is ARCH's initial contribution to the debate.
3. In announcing the Social Housing Green Paper in a speech on 19 September 2017 the then Secretary of State Sajid Javid referred back to the 1950s, when:

“Living in social housing carried no stigma, no shame, quite the opposite, in fact. For many, it was seen the gold standard for accommodation, not a final safety net for the desperate and destitute but something you could genuinely aspire to, housing you would actively choose to live in; and as a country we were all rightly proud of it”,

and he said:

“We need to return to the time, not so very long ago, when social housing was valued. It was treasured. Something we could all be proud of whether we lived in it or not. I know that's exactly what many of you in the sector have been trying to achieve for many, many years. Well, I'm proud to stand here today and say that you have a Secretary of State who's totally committed to the cause.”

4. Social housing we can all be proud of is an ambition ARCH is proud to share and we want to work with this and any future government to make it a reality. In this paper we set out how we think it can be achieved.

## Key Points and Recommendations

### The need for social housing

- The housing market is broken. Not enough new homes have been built for too many years. The Government's ambition of 300,000 new homes a year, announced in the 2017 Budget, should be regarded as a minimum requirement.
- There is a particular need for more social rented homes open to households on lower incomes who cannot afford to buy or rent privately. At least 100,000 new homes a year should be for social rent.
- Current definitions of affordable housing include both intermediate housing such as starter homes, shared ownership or rent-to-buy as well as housing provided at below-market "affordable" or social rents. "Intermediate" housing provided by councils and housing associations should be treated as additional to the target of 100,000 homes for social rent.
- The mix of market, intermediate and housing for social or affordable rent required in different areas varies widely; local authorities should be tasked to plan for the right mix to meet local needs.
- In areas where market rents are high, "affordable" rents (i.e. defined as up to 80% of market rates) are not affordable by the majority of those in need of social housing; each local authority should be tasked to ensure that the rents charged on social housing in their area are genuinely affordable by the tenants it is provided for.

### Backing councils to build

- The target of at least 300,000 new homes a year will not be reached without councils taking the lead in enabling development and, more importantly, by taking a much bigger role in direct provision than they have done since the 1980s.
- Councils are responsible for ensuring that all housing needs in their areas are met, not only the need for social housing. Consequently, council involvement in house-building is not confined to the provision of homes for social rent; increasingly, they are involved, normally through partnerships of various kinds, or through local housing companies, in the provision of new homes for sale, shared ownership and market rent.
- The number of local housing companies, including partnerships and wholly-owned companies, has risen rapidly over the past 5 years, and around 200 are now thought to be operation. However, most are, as yet, operating on a relatively small scale and have completed relatively few new homes. The Smith Institute estimates that they could have the capacity, once fully operational, to deliver 10-15,000 homes a year.
- Councils that have retained their council housing have, in addition, unique potential to expand house-building using the financial strength of their Housing Revenue Accounts (HRAs).
- The HRA self-financing settlement, which took effect in April 2012 with broad cross party support should have enabled the 165 councils with housing to maintain their existing stock to Decent Homes standard and build around 20,000 new homes a year for 30 years. These reforms were intended to endure for the long term, enabling council landlords to plan for the long term through the development of robust and sustainable 30 year housing business

plans. However this potential has been undermined by subsequent Government decisions.

- To restore the full potential of the original settlement the Government should:
  - Lift HRA debt caps to give all councils the scope to borrow up to the level they can safely expect to repay from rental income (the prudential limit);
  - Allow councils to retain the receipts from selling any of their housing assets, including those sold under the statutory Right to Buy, in order to re-invest them in improving the existing stock or building new homes;
  - Scrap the mandatory 1% rent cut planned for 2019/20 and extend the period covered by the new rent policy of CPI + 1% to ten years from 2018;
  - Consider whether to reimburse councils for the loss of rental income since April 2016 by a one-off payment to reduce HRA debt, or freedom for councils to increase rents by more than CPI + 1% to the level they would have reached but for the rent cuts;
  - Give councils explicit powers to build for sale and market rent within the HRA, to help cross-subsidise the provision of homes for social rent;
  - Scrap plans to introduce a levy on Higher Value Assets;
  - Review the statutory Right to Buy and the arrangements for “one for one” replacement of homes sold under the Right to Buy.

### **Investing in council housing**

- The original self-financing settlement was designed to ensure that all councils would be able to bring their stock up to the Decent Homes standard and keep it there, allowing for planned replacement of key elements such as windows and roofs. Many councils planned to do more, often to improve thermal insulation and reduce energy consumption, adopting and planning to meet locally agreed standards higher than the Decent Homes Standard. In many cases, the 4 year mandatory rent reductions have forced these plans to be cut back or deferred.
- The recently published Independent Review of Building Regulations and Fire Safety points to the need for significant investment both within high rise dwellings and in common parts of other multi-occupied dwellings to provide an absolute guarantee of fire safety. The outcome of the Grenfell Public Inquiry may well point to further investment needs. In parallel, substantial improvement to the energy efficiency of the stock is essential if the UK is to meet its targets for reducing carbon emissions and provide affordable warmth for tenants. In returning to the original principles of the HRA self-financing settlement, the Government should be expected to ensure that councils have the resources to meet all these needs for investment in the existing council stock.

### **Review of the statutory Right to Buy**

- In announcing the Social Housing Green Paper the Secretary of State promised that the Green Paper “would be the most substantial report of its kind for a generation” and promised “a wide-ranging, top-to-bottom review of the issues facing the sector”. Many ARCH member councils support the Right to Buy; others don’t. However, it would be wrong to conduct a “wide ranging, top to bottom review” of social housing without including a comprehensive review of the Right to Buy and its impact, particularly at a time when other

devolved governments in the United Kingdom in Wales and Scotland have undertaken similar reviews. All ARCH members can agree that the review should ensure workable arrangements for at least one-for-one replacement of homes sold.

### **Giving tenants a stronger voice**

- Social housing tenants need a stronger voice in how their homes are managed, both in shaping policy and planned maintenance or improvements, and, when they complain when things go wrong, in getting prompt and effective responses & redress from their landlord.
- Councils are expected to follow the Tenant Involvement and Empowerment (TIE) Standard set by the Social Housing Regulator. The requirements of the Standard are clear and comprehensive, and describe well what a good landlord should strive to do, but there is no systematic evidence to show how well landlords are performing against the Standard or allow tenants and their landlords to compare their performance with others across the sector.
- ARCH remains committed to the principles of co-regulation. We do not see a major extension of the powers of the Regulator as the answer but would like to see steps that will improve transparency and strengthen the capacity of landlords to compare their performance with others and encourage sharing of experience and exchange of good practice, and enable tenants and their representatives to do the same. These should include investment in developing good practice in handling and responding to complaints and in particular in the use of complaints procedures to identifying service failures and improving services would bring dividends. There is a potential role for an appropriately funded regulator in promoting, disseminating and monitoring such good practice.
- Consideration should be given to a requirement on all social landlords to undertake and publish the outcome of an annual survey of tenant satisfaction along the lines of the HouseMark “Star” survey and to report the outcome of such surveys to the Regulator for national publication.
- A renewed focus on the landlord’s responsibility under the TIE Standard (paragraph 2.1.2) to report publicly on the number and nature of complaints received, and how they have been used to improve performance, may help improve organisational focus on learning from complaints. A requirement on all landlords to report annually to the housing regulator on the issues raised by tenants and how their landlord has responded might also be useful and would enable the regulator to identify issues of concern and consider support and intervention where necessary.
- ARCH supports the call from the major national tenant organisations for reinstatement of a “National Tenant Voice” at the heart of government policy making; the form & nature of which should be subject to wide consultation with tenants and social landlords.

## The Need for Social Housing

5. In 2017 the Government's Housing White Paper acknowledged that the housing market is broken and no-one disagrees. Not enough new homes have been built for too many years. This chronic shortage of housing has helped to drive up house prices and market rents across the country, putting home ownership out of reach for four out of five newly forming households. Rising homelessness is further evidence of a particular lack of secure and affordable accommodation.
6. The Government's 2012 housing strategy was based on an estimated demand for 232,000 extra homes a year over the following 20 years. This estimate was similar to the minimum annual target of 231,000 proposed in a previous appraisal for the Government in 2008. But, since 2008, output has fallen woefully short of these numbers. In the four years from 2009 to 2013 annual new house completions averaged only 111,000 compared with 152,000 a year in the previous four years. Output has slowly increased since 2013 but, taking the last decade as a whole, around a million fewer homes have been built than were needed.
7. The latest household projections, based on 2014 data, show a slightly reduced demand for 227,000 extra homes each year. The encouraging increase shown in the 2016/17 figures brings new home completions and other additions to the housing stock to within 10,000 of this figure. But a level of output that just matches household growth does nothing to meet the backlog of housing need by permitting a reduction in the numbers of concealed and sharing households, or make provision for any rise in the numbers on second homes or vacancies arising from turnover in the additional stock<sup>1</sup>. Against this background, the target of 300,000 homes a year announced by the Government in the 2017 Budget should be regarded as a minimum requirement.
8. As important as the number of new homes added to the housing stock is the match between the make up of demand and the type of housing supplied; there has been an acute shortfall in the supply of affordable, and particularly affordable rented housing. In 2012, respected forecaster Alan Holmans estimated, based on the characteristics of the households making up the demand for new housing, that around a third of the total new supply should be for rent at social rent levels or within Local Housing Allowance limits<sup>2</sup>. There is good reason to expect that this broad estimate remains valid, as it is consistent with other evidence on the need for social housing.
9. The number of council-owned homes has declined by over 2million from 3.67million homes in 1994 to 1.6 million in 2017. Despite a parallel growth in the number of homes owned by housing associations, the overall stock of social housing has decreased from 4.39 million in 1997 to 4.12 million. The total number of social lettings by local authorities and housing associations reached its lowest level for 10 years in 2016/17. Annual lettings by local authorities declined by 9% on the previous year to 103,000 and housing association lettings declined by 11% to 231,000. Partly in consequence, there were 1.16 million households on local authority waiting lists in April 2017, and as at 30 September 2017 there were 79,190 homeless households living in temporary accommodation – including 121,360 children or expected children.
10. There is a strong economic case for investing in social housing. Research commissioned from Capital Economics by a coalition of housing organisations including ARCH in 2015, updated in 2016 to reflect the potential impact of Brexit, shows that investment in social housing would bring substantial long-term savings to the Exchequer in reduced spending on benefits<sup>3</sup>.
11. Taken together, this evidence makes the case for an annual target of 100,000 new homes for social rent to be provided by local authorities and housing associations, as an integral part of the Government's overall target of 300,000 new homes a year.

12. Holmans made no separate estimate of the demand for “intermediate” housing, such as shared ownership, for households with incomes high enough to pay market rents but with an inability to raise a deposit to buy outright. If, as at present, councils and housing associations build for shared ownership or other low-cost home ownership initiatives, or for market sale or rent, these homes should be counted as additional to the supply of social rented homes that are needed. The number of affordable homes needed, in the broad sense of “affordable” used in the Housing and Planning Act 2016, and elsewhere, which embraces starter homes for discounted sale, shared ownership and rent-to-buy alongside homes for social and affordable rent, is more than a third of the annual requirement – more than 100,000 a year.
13. These are national estimates; it is clear that the proportion of affordable homes needed varies widely in different parts of England, and within the different categories of affordable homes the relative demand for social and affordable rent and for intermediate products such as shared ownership will vary. In Greater Manchester the councils have estimated that, although the social housing stock needs substantial investment to improve its quality, there is no need for a net increase in the number of social rented homes. In parts of the Midlands and North of England, where market rents are lower, social and affordable rents are not far apart, and either is accessible by prospective tenants on low incomes. In London, the position is again different, the gap between “affordable” rents at up to 80% of market rates, and social rents can easily be £100 per week, putting Affordable Rents far out of the reach of many lower income working households. We would argue that each local housing authority should be tasked to base its plan for new housing in the area on an assessment that treats the demand for each of the relevant types of affordable housing separately, recognizing that they are not interchangeable categories.

## **The Role and Purpose of Social Housing**

14. The current role of social housing is best described as a “safety net’ for households unable to pay the market price – whether to rent or buy – for housing adequate to their needs. This is reflected in access and lettings policies giving priority to low income households in high housing need, including councils’ statutory duties towards homeless people.
15. It was not always so. In putting councils at the forefront of the post-war house-building drive, Labour’s Housing Minister, Aneurin Bevan, set out to remove what he regarded as the “ridiculous inhibition” that council housing should only be for the working classes<sup>4</sup>. From the late 1940s to the end of the 1970s, while, under both Labour and Conservative governments, councils consistently built more than 100,000 new homes each year, lettings went to a spectrum of households, among them young families escaping overcrowded conditions in private lodging houses or with friends or relatives, former slum dwellers of all ages and incomes and households taking up new jobs in New Towns or Garden Cities. The author of *The Housing Survey in England and Wales* reported in 1964 that council tenants “tended to be in the middle of the income range”.
16. This is the period described by Sajid Javid, in his speech launching the Green Paper, as a time when social housing was treasured, when living in it “carried no stigma, no shame, quite the opposite, in fact. For many it was the gold standard of accommodation, not a final safety net for the desperate and destitute but something you could genuinely aspire to, housing you would actively choose to live in; and as a country we were all rightly proud of it.”
17. While there were some notorious examples of poorly designed council housing – most notably the system-built high rise blocks exemplified by Ronan Point – the fact is that most were of a quality of design and construction at least as good as those of the volume housebuilders. Standards were often higher, with private builders criticized for skimping on space standards

and building uninspiring “little boxes”. Equally important to public perception of the new council homes was the difference from what they replaced. For many thousands, a new council home was their first experience of an indoor bathroom and toilet and a front and back garden.

18. Much has changed. Two major factors explain why. The first is the collapse in affordable housebuilding, which has not exceeded 50,000 homes a year since 1982, and has often been much less. 72% of council homes were built between 1945 and 1980 and are now at least 38 years old. With the consequent fall in new lettings, councils have been obliged to focus increasingly on applicants in the greatest housing need, often homeless, and with least prospect of access to any alternative form of accommodation. The second factor is the sale of almost 2 million homes under the Right to Buy, predominantly to the tenants with the highest household incomes. The result is that the demographic profile of social housing tenants today is profoundly different from that prevailing in the 1960s. Two thirds need help from housing benefit to pay the rent. According to the 2011 Census, only half of social tenants are either working (41%) or unemployed (8%); of the rest, 28% are over 65, and the remainder either full-time carers or have a long-term sickness or disability.
19. As the council housing stock has aged and council tenancies have become restricted to a narrower range of households, attitudes to council housing and council tenants have shifted. Council housing and council tenants now have a poorer reputation than they deserve. While 52% of council homes are houses or bungalows, the predominant public perception is of grim high-density blocks of flats. While, council housing is, on average, in a better state of repair than privately-owned or rented homes the fact is seldom recognised. Media comment and public debate about council tenants are too heavily dominated by unfair stereotypes based on ignorance and prejudice. Government, councils and policy-makers should do more to promote the value of social housing and the contributions that social housing tenants make to society. To this end ARCH is a supporter of the “Benefit to Society Campaign”.
20. With Right to Buy sales continuing to outstrip new additions to the council stock, the ‘safety net’ role of council housing is becoming unsustainable in many local authority areas, as evidenced by the number of homeless households in temporary accommodation, which rose by 60% between March 2011 and March 2017, and now stands just below 80,000 households. Two futures are possible. One accepts the diminished supply of new council housing and narrows the eligibility criteria for council tenancies to match. This would bring council housing closer to what has been described as an “ambulance service”<sup>5</sup>, with the key change being the expectation that a council tenancy would be a form of temporary assistance provided on the understanding that the tenant should make every effort to improve their household circumstances, particularly income, to the point where they could move on to market renting or home ownership.
21. The other future involves a major expansion in council house-building. A modest expansion to, say, 30,000 homes a year could ensure the replacement of homes sold under the Right to Buy, elimination of the use of unsatisfactory forms of temporary accommodation for homeless households, and the sustainability of the ‘safety net’ role. A more ambitious expansion could, over time, bring council housing closer to the role it used to play in providing affordable housing for a wider range of households.
22. The council housing drive of the 1950s was founded on a rejection of the idea that poorer people deserve only poorer accommodation. Equally it reflected a view that poorer people should not be isolated from the rest of the community by the segregation of affordable from market housing. One expression of this view was Bevan’s vision of “the living tapestry of a mixed community” where “the doctor, the grocer, the butcher and the farm labourer all live on the same street”<sup>6</sup>, in the expectation that this would bring communities together and promote social cohesion. And, to a significant extent, the council housing programme of the 1950s and 1960s, under Bevan and his successors, notably Harold Macmillan, did begin to realise this vision, particularly in the New Towns celebrated by Sajid Javid in his references to this period.

23. Since Bevan and Macmillan's time the proportion of households owning their own home has doubled. But it was never essential to the vision of mixed communities that the doctor and butcher, as well as the grocer and farm labourer, should all be council tenants. What was important was that each community contained enough social housing to ensure that no household was priced out of the area, avoiding the consequent social segregation of every town and settlement into separate areas for rich and poor.
24. Councils are well-placed to ensure the creation of thriving, sustainable mixed communities in every area. In their capacity as strategic housing authorities they are tasked with ensuring an adequate supply and mix of housing tenures to meet future housing needs. Their planning and enabling powers can and are being used to shape and steer investment in new housing by private developers and others. But there are good reasons why councils should now be encouraged to once again take on a much greater role in direct provision of new housing, not just for social rent but for other tenures as well.

### **Backing councils to build**

25. New home completions have not exceeded 300,000 in any year since 1972/73, when 300,250 were completed, of which 90,550 were built by local authorities. The fall in output since that time is largely attributable to the decline of council house-building. Annual construction of private homes for sale has not passed 200,000 a year since the 1960s, and has averaged around 120,000 a year since the 1970s. Housing association output has never passed 40,000 homes a year. This strongly suggests that the new target of 300,000 new homes will not be achieved without councils playing a much larger role – a conclusion that is reflected both in the Government's Housing White Paper of 2017 and by the Labour Party in its proposal for a new programme of council house-building.
26. Councils can do more both by taking the lead in enabling development and by taking a much bigger role in direct provision than they have done since the 1980s. There is a case for all councils to start building again; there are particularly strong arguments for the 165 English councils which still own council housing to do more. Many are already building on a small scale or have begun to develop the skills and capacity needed to run new-build programmes and there is significant scope to provide additional homes by making more intensive use or redevelopment of land already occupied by council housing. Most importantly, the national stock of 1.6 million council homes yields an annual rental income of £9.5 billion, which provides an important resource that could be made available to support part of the cost of providing new council housing, supplemented of course by the additional rental income from any new council housing. But there are obstacles, in part created by successive Government policy and legislation, which need to be removed if councils are to fulfil their full potential.
27. Councils are not only responsible for meeting the need for social housing in their areas, but for ensuring that all housing needs in their areas are met. Consequently, council involvement in house-building is not confined to the provision of homes for social rent. Increasingly, councils are involved, normally through partnerships of various kinds, or local housing companies, in the provision of new homes for sale, shared ownership and market rent.
28. Partnership arrangements come in a variety of forms, usually involving a partnership or joint venture between a council and one or more partners, typically a developer and often a housing association, sometimes an institutional investor. These arrangements involve a formal long-term partnership or the establishment of a company in which the council is normally a minority shareholder. This enables the risks and rewards of development to be shared appropriately among the partners, so that the council benefits from any planning gain associated with the development and does not need to rely on s106 or similar arrangements. Homes may be provided for sale, including shared ownership, or letting at market or sub-market rents. If let, they are generally let at market rents on assured tenancies and the right to buy does not apply.



29. The application of this approach is, however, limited by the willingness of private partners to invest in housing development and the rate of return they expect on their investment. Set-up and governance costs associated with special purpose vehicles can be substantial, and the associated legal issues are complex and require specialist advice and support.
30. In an increasingly popular alternative approach, councils have set up arms-length companies they wholly own or control to develop housing for sale or rent, sometimes in conjunction with the development of commercial property. Alternatively, councils with ALMOs have extended their remit to include development of new homes. Housing provided through such arrangements is outside the HRA and, if let, is let on assured tenancies and not subject to the Right to Buy. Such housing development is classed as a trading activity, which means that councils can only do it through a company. However, the set-up and operating costs of such companies can be much lower than a joint venture with a private partner, particularly where the council is the only shareholder. While borrowing by the company counts as public borrowing, and is, in effect, part of the council's borrowing and subject to prudential guidelines, it is not subject to the debt caps imposed on HRA borrowing.
31. The number of local housing companies, including partnerships and wholly-owned companies, has risen rapidly over the past 5 years, and around 200 are now thought to be in operation. However, most are, as yet, operating on a relatively small scale and have completed relatively few new homes. The Smith Institute estimates that they have the capacity, once fully operational, to deliver 10-15,000 homes a year. However, these homes should not be seen as replacing the provision of housing for social rent through council HRAs. Local housing companies in the main provide a mix of homes for sale and shared ownership, for letting at market rents and for use as temporary accommodation for homeless people. This is partly because companies have been set up in response to a range of housing needs, not only the need for housing at social rent, and partly because most companies are operating without access to grant assistance through the Affordable Housing Programme. This means that the deliverable amount of housing for social rent is limited by the cross-subsidy available from homes for sale or market rent. A few companies have registered as social landlords in order to access the AHP, but many have not wanted to be subject to the requirement to charge affordable rents.
32. Council HRAs provide an additional resource that can be tapped to support the provision of new homes. The self-financing system introduced by the Localism Act in 2012, with the support of Government and Opposition parties in Parliament, gave councils with housing the opportunity to make a substantial contribution to new house-building. As enacted, it devolved long-term planning and investment to councils with housing, whether managed directly or through an ALMO, and, by allowing them to retain rent income in full, provided sufficient resources to bring all homes up to the minimum Decent Homes Standard and, overtime, build a significant number of new council homes.
33. The settlement incorporated limits on HRA borrowing ("debt caps"), restricting overall local authority housing debt to £29.8 billion. The formula used to calculate each authority's debt cap left most authorities with some "headroom" for new borrowing, although in three out of four authorities this was less than £20 million. 28 authorities had no headroom at all. An ARCH survey in summer 2012 suggested that councils were planning to invest an average of £9000 per unit in their existing stock and build 25,000 new homes by 2018, but could potentially increase output by a further 60,000 homes if borrowing limits were lifted.
34. These reforms were intended to endure for the long term, allowing councils to plan for the long term through robust and sustainable 30-year HRA business plans. However, they have been undermined by subsequent policy decisions by successive governments. The original settlement was premised on the assumption, used by the Government in deciding how much debt each council could afford to take on as part of the settlement, that rents would rise annually by 0.5% above inflation, as measured by the Retail Prices Index, throughout the business plan period of 30 years. However, since April 2012 successive Government

decisions have significantly reduced the rental income expected to be available to councils, with corresponding impact on investment, both in the existing stock, and in construction of new homes:

- From April 2012, “reinvigoration” of the Right to Buy with significantly increased discounts led to a sharp increase in Right to Buy sales, currently running at around 15,000 a year; the loss of rent income from homes sold is only partially offset by savings in management and maintenance spending, and arrangements for the promised “one for one” replacement are not working.
- In June 2013, the Government announced that from April 2015 the rent increase formula would be based, not on the Retail Price Index, but on the Consumer Prices Index plus 1%, and the allowance of an additional £2 per week per unit to achieve convergence with housing association rents ended.
- In July 2015, the Government announced plans, later enacted in the Welfare Reform and Work Act 2016, to reduce council and housing association rents by 1% a year for four years from April 2016. By April 2020 rents will be around 12% lower than they were in April 2016
- In October 2017, the Government announced that, from April 2020, local authorities will once again be able to raise rents annually by no more than CPI + 1% for at least 5 years; however, this implies that rents will remain 10% below where they would have been before the rent reductions were applied.
- Since 2012, successive welfare reforms – the under-occupation charge, benefit cap, and roll-out of Universal Credit – have made it more difficult to collect rent from growing numbers of council tenants. Continuing roll-out of Universal Credit is likely to exacerbate this position.
- The Housing and Planning Act 2016 included provision for a levy to be raised from councils with housing to pay for discounts to housing association tenants exercising their proposed right to buy; the levy would be calculated by reference to the “higher value” stock owned by each council. While no levy will be payable before April 2019 at the earliest, uncertainty about future liabilities continues to blight councils’ investment planning.

35. The 2016 CIH and CIPFA Report *Investing in Council Housing*<sup>7</sup> estimated the cumulative impact of these changes as follows:

“The original self-financing model showed potential capacity for authorities to build more than 550,000 units over 30 years. After taking into account the effects of inflationary changes (i.e. the switch from RPI to CPI) this capacity for building new units reduced to 160,000. ... The effects of the rent reduction mean that the capacity to build drops to just 45,000 units (or 8% of the capacity at the time of the settlement).”

36. Nevertheless, were the original principles of the 2012 self-financing settlement reinstated and councils given the long-term certainty needed to plan new investment, this analysis suggests that stock-owning councils have the potential to deliver around 20,000 new council homes a year without external subsidy in the form of Affordable Housing Grant. To make this happen the Government should:

- Lift debt caps to give all councils the scope to borrow up to the level they can safely expect to repay from rental income (the prudential limit);
- Allow councils to retain the receipts from selling any of their housing assets, including those sold under the statutory Right to Buy, in order to re-invest them in improving the existing

stock or building new homes;

- Scrap the mandatory rent cuts planned for 2019/20 and extend the period covered by the new rent policy of CPI + 1% to ten years from 2018;
- Consider whether to reimburse councils for the loss of rent since April 2016 by a one-off payment to reduce HRA debt, or freedom for councils to increase rents by more than CPI + 1% to the level they would have reached but for the rent cuts;
- Give councils explicit powers to build for sale and market rent within the HRA, to help cross-subsidise the provision of homes for social rent;
- Scrap plans to introduce a levy on Higher Value Assets;
- Review the statutory Right to Buy and the arrangements for replacement of homes sold under the Right to Buy.

### **Investing in the existing stock of council housing**

37. The Decent Homes programme initiated by the Government in 2003 was designed to ensure that all council homes met a basic decent standard within 10 years. It focused on replacing bathrooms, kitchens and windows but did not cover thermal insulation, common parts or the external environment. The programme has been largely successful, and the number of non-decent council homes has fallen sharply and, according to the latest council returns, is now below 5%. The original self-financing settlement was designed to ensure that all councils would be able to bring their stock up to the Decent Homes standard and keep it there, allowing for planned replacement of key elements such as windows and roofs. Many councils plan to do more, often to improve thermal insulation and reduce energy consumption, adopting and planning to meet local standards, developed and agreed with their tenants, that were higher than the basic Decent Homes Standard. In many cases, the rent cuts have forced these plans to be cut back or deferred.
38. The Grenfell Tower tragedy has given urgency to substantial investment to guarantee fire safety, going far beyond the removal and replacement of unsafe cladding for which the Government has now made funding available. If councils are to fund these works from HRA resources, alongside the other improvement works mentioned above that go beyond the current decency standard, these costs need to be quantified and acknowledged in a long-term rent settlement that gives councils the certainty and confidence to make long-term investment plans.
39. In the coming years, a proportion of the council housing stock will reach the end of its useful life, either through deterioration of the fabric or dwelling, or because the particular dwelling or estate design and layout are no longer appropriate for future needs. There may be other reasons why major remodelling or demolition and redevelopment of estates is desirable or opportune, sometimes to increase supply through re-provision at higher density or facilitate more mixed communities by providing homes for sale or shared ownership alongside social housing. But it is essential that the mix of new dwellings in such regeneration schemes is driven by local housing need, not the need for sales receipts to generate enough cross-subsidy to fund the costs of redevelopment. We want to see the funding arrangements for regeneration schemes to explicitly recognise this point.

### **Review of the Right to Buy**

40. Since its introduction in 1981 the Right to Buy has given hundreds of thousands of council tenants the opportunity to own a home they may not otherwise have been able to afford. But, because few of the homes sold have been replaced with new council or housing association

homes, the total social housing stock has fallen and the number of new lettings available to those on council housing waiting lists or the statutorily homeless has collapsed. Many households waiting for a council home are trapped in insecure, unsatisfactory and expensive accommodation in the private rented sector. Meanwhile, as Right to Buy purchasers move or sell on, an estimated four out of ten ex-council homes have found their way into the buy to let market and are now let privately at rents significantly higher than would have been the case had they remained in local authority ownership.

41. Since 2012, when the Right to Buy was “reinvigorated” with increased discounts and a national promotional campaign, Government policy has aimed at one-for-one replacement of homes sold (strictly, this applies only to the additional homes sold as a result of reinvigoration) by recycling a portion of the sales receipts, either through the HCA Affordable Housing Programme, or by giving councils the opportunity to invest receipts in new housing within three years. However there is no guarantee receipts handed to the HCA will be used in the local authority area they came from. These arrangements are not working. While Right to Buy sales have risen rapidly and are now running at around 15,000 a year, the number of replacements so far provided is only around a fifth of those sold. Many councils complain that restrictions on the use of receipts, in particular the timescale for spending the receipts and the requirement that they may contribute at most 30% of the cost of providing a replacement home makes it increasingly difficult, if not impossible, to use them. Some have returned receipts to the Government unused after three years. A review of these arrangements is overdue.
42. In announcing the Social Housing Green Paper the Secretary of State promised that the Green Paper “would be the most substantial report of its kind for a generation” and promised “a wide-ranging, top-to-bottom review of the issues facing the sector”. Many ARCH member councils support the Right to Buy; others don’t. However, it would be wrong to conduct a “wide ranging, top to bottom review” of social housing without including a comprehensive review of the Right to Buy and its impact, particularly at a time when other devolved governments in the United Kingdom in Wales and Scotland have undertaken similar reviews. All ARCH members can agree that the review should ensure workable arrangements for at least one-for-one replacement of homes sold.

### **Giving tenants a stronger voice**

43. The tragic and fatal fire at Grenfell Tower has renewed attention on how to give social housing tenants a stronger voice in how their homes are managed, both in shaping policy and planned maintenance or improvements, and, when they complain when things go wrong, in getting prompt and effective responses from their landlord.
44. The way forward on this issue should take full account of the findings of the Grenfell Public Inquiry, when published. In the meantime, Dame Judith Hackitt’s Review of Building Regulations & Fire Safety has made recommendations, which we support, to require landlords to provide better information for all residents on fire safety and to involve them more closely in decision-making, including through the support of residents associations and tenants panels. We believe this approach should not be confined to residents of high-risk residential buildings nor fire safety issues, but should be undertaken as an integral part of a wider drive to improve tenant and resident involvement in all relevant decisions about their homes. Similarly, Dame Judith’s recommendations on Government funding for national and local organisations providing advice, guidance and support for residents and landlords on effective resident involvement, and on a no-risk redress route should be implemented as part of a broader initiative to strengthen tenant and residents’ voices and access to redress, without, however, losing a sharp focus on the fire safety issues that have brought these issues to the top of the public agenda.

45. Current regulatory requirements for social housing make it clear that social landlords are expected to give tenants a real say in the way their homes are managed. Local authorities and housing associations are both expected to follow the Tenant Involvement and Empowerment (TIE) Standard set by the Social Housing Regulator. This includes a requirement for landlords to make arrangements to enable tenants to be effectively involved in all significant decisions about their housing, to offer a range of ways for tenants to complain and have clear service standards for responding to complaints. The requirements of the Standard are clear and comprehensive, and describe well what a good landlord should strive to do. It may now be appropriate to amend the Standard to include specific requirements in relation to fire safety issues, but we do not see a broader case for amending them. If tenants' voices are not being heard, it is not because the TIE Standard is inadequate, but because landlord performance falls short of what is required. There is currently insufficient evidence to provide a comprehensive picture of how well landlords are performing against the Standard. The evidence that is available, including the experience of Grenfell Tower tenants, suggests that performance is variable, with some landlords falling short of the required standard.
46. Good landlords recognise the business case for tenant empowerment, that not only will tenants be more satisfied but also their homes better managed if their views are listened to and acted on. Most councils will recognise that they can improve their arrangements for tenant involvement by learning from others, and for this reason we support the creation or strengthening of centres of expertise that can provide advice and support both to landlords and tenants, along the lines proposed by the Hackitt Review, not, however, confined to fire safety but with a broader remit covering the full scope of tenant involvement and empowerment. We recognise, however, that to provide assurance that all landlords will raise their performance to the required level, action is needed to address those who, for whatever reasons, are unwilling or unable to improve. Here, we see two basic options – to increase regulation, or to strengthen the powers of tenants. We favour the second option.
47. Current regulatory arrangements reflect the principle of co-regulation: landlords are not primarily accountable for their performance to the Regulator, but to their tenants. This is expressed in the expectation that landlords should “support tenants to shape and scrutinise service delivery and hold boards and committees to account”. ARCH remains committed to this principle; councils should treat, and be expected to treat, the TIE standard as something they “own”, and not something imposed on them by the Regulator. The onus is on them to mobilise tenants locally to scrutinise performance against the Standard. We believe this should continue to be the approach. Reform of the regulatory arrangements to require, for example, regular reporting of specified performance information to the Regulator or periodic assessment of each landlord's performance against the consumer standards, risks displacing management's focus from actually listening to their tenants to meeting the regulatory requirements or “performing to the indicators”. Any regulatory reform should focus on strengthening local accountability to tenants and enhancing their capacity to shape and scrutinise service delivery.
48. Such reforms could include a requirement on all social landlords to undertake and publish the outcome of an annual survey of tenant satisfaction along the lines of the HouseMark “Star” survey and to report the outcome of such surveys to the Regulator for national publication. This would provide a common basis, albeit crude, for comparing performance, to act as a “can-opener” for further investigation.
49. A renewed focus on the landlord's responsibility under the TIE Standard (paragraph 2.1.2) to report publicly on the number and nature of complaints received, and how they have been used to improve performance, may help improve organisational focus on learning from complaints. A requirement on all landlords to report annually to the housing regulator on the issues raised by tenants and how their landlord has responded might be useful and would enable the regulator to identify issues of concern and consider support and intervention where necessary.
50. The Hackitt Review makes two important recommendations on strengthening tenants' and residents' voices. The first is that tenants and residents associations should be encouraged

and supported and that, in this context, tenants and residents, or their representatives, should have better access to advice and support on effective tenant involvement, not only landlords. We agree, and, as argued above, this should not be confined to fire safety issues. The second is the creation of a more effective, no-risk route to redress when things go wrong. Again, we believe this should not apply only to fire safety concerns. ARCH supports the creation of a single Housing Ombudsman, and believe it has the potential, if properly resourced and supported, to play this role.

51. ARCH supports the call from the major national tenant organisations for reinstatement of a “National Tenant Voice” at the heart of government policy making; the form & nature of which should be subject to wide consultation with tenants and social landlords.

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<sup>1</sup> Stephens, M et al, *2018 UK Housing Review*, Coventry, Chartered Institute of Housing, page 48.

<sup>2</sup> Holmans, A (2012) *Interim Revised Estimates of Future Demand and Need in England in 2006-2026*, Cambridge CCHPR

<sup>3</sup> Capital Economics (2016) *Building new social rent homes*, SHOUT

[https://d3n8a8pro7vhmx.cloudfront.net/4socialhousing/pages/1/attachments/original/1475255900/SHOUT\\_Building\\_New\\_Social\\_Rent\\_Homes\\_V3.pdf?1475255900](https://d3n8a8pro7vhmx.cloudfront.net/4socialhousing/pages/1/attachments/original/1475255900/SHOUT_Building_New_Social_Rent_Homes_V3.pdf?1475255900)

<sup>4</sup> Quoted in Foot, M, *Aneurin Bevan, Volume 2, 1945-1960*

<sup>5</sup> Perry, J and Stephens, M, *How the purpose of social housing has changed and is changing*, in Stephens, M et al, *2018 UK Housing Review*, Coventry, Chartered Institute of Housing, pages 29-39

<sup>6</sup> Foot M, *ibid*

<sup>7</sup> John Perry and Glenn Smith (2016) *Investing in Council Housing: the impact on council business plans*, London, CIPFA and CIH