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

The economic and fiscal case for investment in local authority housing: 2021 Spending Review Submission

About ARCH and the NFA

165 councils in England own nearly 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 the Arm's Length Management Organisations managing the council homes on behalf of their parent councils. Together we represent over a million council homes, one third of the social housing in England.

Key points

Council housing is a major public asset, providing a home for over 3 million people in England and currently yielding over £7bn a year in rental income. Adequately maintained, and with appropriate investment to cut the sector's contribution to carbon emissions, the great majority of existing council homes can be expected to go on providing decent accommodation to 2050 and beyond. Building up to 100,000 new council homes a year would help meet the acute shortage of genuinely affordable homes for households who need them, contribute to the post-pandemic recovery of the national economy and yield a substantial return to the public purse. Councils need additional financial help from central government both to improve existing homes and build new ones, but, as we show in this submission, this expenditure would, over time, be more than matched by savings in welfare benefits, health and care costs. Just as importantly, Government can also help by reducing uncertainty about the future so that councils can confidently plan ahead and schedule investment without need to make excessive provision for financial contingencies in case of future shifts in Government policy affecting rent income, Right to Buy sales, or other key parameters.

Since the introduction of self-financing for council housing in 2012, local authorities have been encouraged to take a long-term view of management of their housing assets and plan investment over a 30-year business plan. This should have enabled them to reap the efficiency benefits of a whole-of-life approach to management of their housing assets and allocate resources in anticipation of future investment needs before they arise. In practice this ambition has been undermined by a succession of changes in Government policy driven largely by short-term considerations, some, in our view, less justifiable than others. That is why, in our submission to the 2020 Spending Review we argued that the Government could most effectively enable local authority housing to make a major contribution to post-pandemic recovery by taking a long view; policies to provide an immediate stimulus to the economy should be shaped by a vision of the housing market in 2050.

We fully understand why the decision was made to limit the scope of SR2000 to a single year; the immediate priority was to respond to the expected impact of the second wave of the pandemic. We are pleased that the Government now believes it has scope to plan for a full three-year period but make no apology for repeating our previous argument that such plans should be informed by clear ambitions for the housing market looking much further ahead.

The Government's goal of a zero-carbon economy by 2050, which we wholeheartedly support, is already helping to shape and focus plans for council housing investment over the next decade. We believe that the Government's broader housing policies should also be shaped by a clear vision of where we want housing to be by around the same time. While an argument for clear long-term goals can be made in many policy areas, it is particularly strong in housing where we are planning investment in assets that are expected to endure for many years. We suggest the following ambitions should be regarded as both reasonable and achievable by 2050:

- Alongside the goal of a zero-carbon home, every household should be able to enjoy a home which is both safe from fire and structural risks and meets a new Decent Homes standard;
- The Government's ambition of 300,000 new homes a year from the mid-2020s should not be dropped or diluted, but include a specific commitment that a third of these new homes should be provided by councils or housing associations for a genuinely affordable rent;
- Four out of five households aspire to be home-owners – and this proportion has remained broadly constant for decades. The over-50s have achieved this aspiration; younger households have seen it slip increasingly beyond their reach. By 2050 this trend should have been halted and reversed. However, to achieve this turnaround we believe a fresh look is needed at policies to support and sustain home ownership.
- Those who do not wish or are not able to become home-owners, whether for now or forever, should not be condemned to second-class housing, but enjoy the same standards, dignity and esteem as others, at a rent they can afford.

Our submission focuses on the steps necessary from Government to enable local authorities to play their part in delivering these ambitions. These fall into three areas:

- Support for investment in the existing local authority housing stock to meet the requirements of the new building safety legislation, a new Decent Homes standard,

and to ensure that all council homes reach EPC Band C or better by 2030 as a key step along the road to full decarbonisation of housing by 2050.
- Support for a major new council building programme focussing on homes for social rent coupled with a reformed, sustainable Right to Buy scheme which gives every tenant fair access to the opportunity of home ownership while guaranteeing one-for-one replacement of every home sold so long as need continues.
- The inclusion of the social housing sector in government funding programmes and policy development on tackling unemployment and helping to level-up our communities.
- Welfare reforms to ensure that all local authority tenants have an income sufficient to sustain a reasonable standard of life and pay their rent.

Making council housing fit for the future

The HRA self-financing settlement introduced in 2012, with the support of both Government and Opposition parties in Parliament, was intended, as the title implies, to free local authorities from dependence on a Government grant and subsidy system and allow them to plan long-term for investment in their stock, and, if resources permitted, to build new homes. We remain committed to the ambition and principles underlying this settlement, but it is important to note that two of the most significant assumptions on which the settlement was based have been superseded. The settlement was designed to enable local authorities to bring and maintain all their homes to the Decent Homes Standard; it made no provision for improvements beyond the Standard. It also assumed a modest increase in real rent levels in each of the 30 years of the planning horizon underlying the settlement; but the 9 years since the settlement have seen significant erosion of the local authority rent base.

The Government has begun a review of the Decent Homes Standard, and, while there has not yet been any formal decision to amend or update it, other Government policies in relation to housing standards already require substantial investment in council housing going well beyond the requirements of the existing Decent Homes Standard.

Firstly, the Government has declared its ambition to see all social housing reach EPC Band C or better by 2030, with arrangements for allocation of the first wave of the Social Housing Decarbonisation Fund recently announced. Secondly, investment to make sure all council homes are safe from fire and structural risks has begun in anticipation of the requirements of the Fire Safety Act 2021 and the Building Safety Bill currently before Parliament. The latter have the biggest implications for the relatively small number of authorities with large numbers of high-rise blocks, but all authorities have significant work to do. Following completion of the Government's current review of the Decent Homes Standard we are expecting to see the introduction of a new Standard which incorporates the energy efficiency and decarbonisation improvements and the safety requirements already mentioned but it seems likely to contain further new standards requiring new investment. All three policy streams have major financial implications that need to be factored into local authority long-term financial planning. Just as importantly, they must be planned together to avoid unanticipated conflicts or diseconomies, exemplified by the need to avoid “putting the scaffolding up twice”.

Forty years after introduction of the Right to Buy, council estates are no longer wholly, or even, in some cases, mainly, occupied by council tenants. Most are mixed-tenure estates including substantial numbers of homes now owned freehold or leasehold and occupied either by their owners or on a private tenancy. Councils planning investment to improve energy efficiency or make homes safe cannot afford to focus on the tenanted stock alone but need to consider each estate as a whole. In blocks of flats this will normally be essential because the safety or thermal efficiency of each flat depends on that of others in the block. Even when this is not the case there will often be advantages in carrying out works to all dwellings in a block at the same time as part of the same contract. In estates of houses in terraces or groups the same arguments may apply even where homes have been sold freehold. We therefore want to see the Government’s funding for decarbonisation and energy efficiency deployed to councils so that it can be used flexibly across tenures to meet the ultimate objective of decarbonisation of the whole housing stock by 2050.

We welcome the Government’s ambition to ensure that all council homes reach EPC Band C or better by 2030; the Conservative manifesto commitment to make £3.8 billion available to support this objective is an important step towards achieving it. We have some reservations about the approach to deploying this funding that is proposed in the arrangements for Wave 1 of the Social Housing Decarbonisation Fund:

- No clear rationale has been given for allocating the first £160 million of the Fund through a bidding process with a single, extremely short, deadline for bids and the expectation that allocations will be spent in full by January 2023. This gives councils little time to consult tenants and potential partners before compiling bids and leads them to prioritise easy-to-improve properties rather than adopting the worst-first approach that would otherwise seem most appropriate. Given current shortages of both relevant building materials and suitably-skilled labour, insisting on completion of works within barely 12 months seems particularly perverse.
- We understand the logic of a fabric-first approach that focuses for the next decade primarily on the energy efficiency improvements that will cut energy use regardless of fuel source, thus both beginning the necessary reduction in carbon emissions and ensuring lower fuel bills for residents. This appears to be the reason for setting the maximum Government contribution to Wave 1 improvements to £10,000 per unit for EPC Band D properties or £12,000 for Band E. This implies a maximum per unit cost of improvements per unit of £15,000 - £18,000 compared with £29,000 per unit in the SHDF Demonstrators. In consequence, the bidding guidance for Wave 1 suggests that most bids will focus on energy efficiency measures alone. This defers the large-scale replacement of heating systems with low carbon alternatives until later, when presumably the technology has proved itself at scale and unit costs have fallen.
- Social housing is, however, the most suitable test-bed for developing the skills and techniques needed to scale up current technology. Part of the Fund at least should be used to support local authorities to work with local partners to develop the

capacity to deliver low-carbon retrofit at scale, train up suitably skilled installers and develop approaches that will work with all the most common building archetypes. This will not be achieved through an annual bidding round for money to be spent within a year, but requires long-term commitment from all partners, including Government.
- The Wave 1 bidding guidance allows for bids to include improvements to leasehold or freehold properties on an estate provided at least 70% of the properties are tenanted by social tenants. This acknowledges the reality that council housing is predominantly made up of mixed tenure estates but is unnecessarily restrictive and side-steps the real difficulties involved in securing co-operation from leaseholders and freeholders by requiring that councils meet the cost wherever leaseholders fail to contribute their share of the costs, normally a third.

We trust that SR 2021 will confirm that at least £3.8 billion will be provided to support social housing decarbonisation over the remaining years to 2030. A full three-year review provides the opportunity to break from annual allocations and provide the certainty that local authorities need to plan confidently for future investment that is securely based on an up-to-date appraisal of stock condition, a clear approach to prioritisation, normally worst first, meaningful engagement with residents and a good fit with other investment priorities such as ensuring building safety. We also need to point out that £3.8 billion, while very welcome, is unlikely to be sufficient to meet the objective of raising all social housing to EPC Band C or better by 2030. While 55% of social homes are estimated to be already Band C or better, 1.8 billion are not, including 800,000 council homes. Spread equally, £3.8 billion provides £2,100 per home toward the cost of improvement. The maximum per unit contribution of at least £10,000 proposed in the Wave 1 funding arrangements suggests that the Government is already aware that costs are likely to be much higher.

We are not necessarily looking for Government grant aid to meet the other investment needs identified above. We do, however, want the Government to give some attention to the other leg on which the self-financing settlement rests, that is, reasonable certainty about the future rental stream.

Current policy allows councils to plan for rent increases up to CPI + 1% until 2025; no indication, however qualified, has been given about policy beyond that date. This leaves councils which need to plan investment over a 30-year period with a substantial margin of uncertainty, particularly given the changes in Government policy over the last decade. We would like to see a firm commitment that the CPI + 1% policy will continue for at least a further 5 years. There is also a case for tackling the anomalies arising from previous rent policies by allowing increases above CPI + 1% to bring rents up to formula rent where they currently remain below.

Councils are also reliant on Government providing qualifying tenants with enough help through Universal Credit to ensure they can afford to pay the rent. Our concerns about the current operation of Universal Credit are detailed in the final section of this submission.

Building 100,000 New Council Homes

We welcome the fact that the Government remains committed to its pre-COVID ambition of increasing overall housing output to 300,000 homes a year by the mid-2020s. But, as we have consistently argued over recent years, at least a third of these homes need to be homes for social rent to meet the current and expected future need for affordable housing. This implies the need for a substantial increase in the scale of the Affordable Housing Programme administered by Homes England and the Greater London Authority, and in the balance between social rented provision and other affordable rent and home ownership schemes.

Recent pre-COVID assessments of the need for affordable housing point to the need to provide around 100,000 new homes for social rent each year. For example, research for Crisis and the National Housing Federation in 2018 estimated the need for social rent housebuilding at 90,000 units a year[1]. The impact of COVID has only added to this need:

- Council waiting lists total 1.1 million households and are expected to rise further;
- 1 in 10 applicants on council lists have been waiting for more than 5 years;
- Almost 8 million people in England are estimated to have some form of housing need; for 1.6 million of these, social rent is the most appropriate tenure, implying that around 500,000 households are missing from council lists;
- The 2019 Conservative manifesto promised to end rough sleeping by the end of this Parliament. This will not be achieved by increasing the availability of temporary shelter; there is an urgent need to increase the supply of long-term housing solutions for rough sleepers if this commitment is to be met;
- It is widely expected that homelessness will increase as households are evicted from private rented accommodation they can no longer afford to occupy once furlough schemes come to an end;

These factors indicate the scale of the need for additional council housing, but some of the existing council stock will also need to be replaced by new homes. It is increasingly clear that it will be impossible or uneconomic to improve a substantial proportion of the existing council stock to meet new safety or low carbon standards; demolition and replacement will be the better option.

In summer 2020, shortly after the commencement of the COVID pandemic, we, with the LGA, commissioned Pragmatix Advisory to assess the economic and fiscal impact of increasing council house-building to 100,000 homes a year[2]. This report was only able to take into account the economic and social impact of the first few months of the pandemic, and in May this year we therefore asked Pragmatix to update and extend their assessment using the latest data and, in addition, to explore the contribution council house-building could make to the Government's ambition to level up regional and local disparities. A copy of their report is attached with this submission.

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Its main conclusion is that, as well as helping to address key housing, COVID recovery, levelling-up and climate emergency challenges, building new homes for social rent would bolster government finances and help ease the fiscal hangover from COVID. It argues that:

- Councils cannot finance the building of new homes by borrowing against the future social rent income alone, but the costs to central government of bridging the funding gap are more than outweighed by the benefits to the public finances;
- These benefits include:
    - Savings in the housing element of Universal Credit when families reliant on benefits move from private to council homes;
    - Tax receipts from builders and the building supply chain when homes are built;
    - Improved health, education, employment and environmental outcomes consequent on better housing which translate into lower Government spending, for example on the NHS and Jobseekers Allowance.

- Over 30 years, after the costs of construction and ongoing management and maintenance are taken into account, every 100,000 new social rent homes built delivers the equivalent of £24.5 billion in today's money to the Government.
- Funding needs vary by region and house size, but the building of new social rented homes delivers a real rate of return to the public sector across all regions and house sizes and on a wide range of alternative assumptions

A major programme of new council homes for social rent would imply a shift in the emphasis in Government policy away from Help to Buy, First Homes and shared ownership, but need not imply any diminution in Government support for home ownership. On the contrary, coupled with a reformed, sustainable Right-to-Buy scheme for council tenants, it is the most practical and equitable means of widening the opportunity to buy to include households with savings and incomes currently too low to allow them to buy even with help from one of the current Government schemes. By providing them with secure, decent homes at a genuinely affordable rent it would give many thousands of young households the only realistic prospect of home ownership they are ever likely to have, by giving them realistic scope to save and the eventual prospect of a discounted purchase price.

As presently configured, however, the Right to Buy scheme is an obstacle to council housebuilding. The key to a sustainable scheme is that the receipts from Right-to-Buy sales are sufficient to finance the construction of replacement homes on a one-for-one, like-for-like basis, and that local authorities are free to use them for this purpose. We welcome the reformed arrangements for the use of receipts introduced earlier this year but argue that the Government now needs to go further, to review the level of discounts which, in some regions, are higher than needed to make purchase affordable to eligible tenants, and to agree that the full amount of sales receipts should be retained by local authorities for reinvestment.

Delivering this programme would require a new level of cooperation and partnership between central and local government, housing associations and developers. While local authorities have responded positively to the removal of HRA borrowing constraints with plans for many more new homes, they need encouragement and support from central government and elsewhere to scale up construction to the volumes we propose. We think Government should respond accordingly. Current policy is too constrained by silo thinking, which obscures the merits of building new council homes, as demonstrated in this research, because the costs and benefits are split between local and central government, where they also accrue to different Government departments. We urge the Government to invest in a new generation of council housing and would welcome further dialogue on the fiscal benefits this would bring as highlighted in the research we have commissioned.

Housing and employment

As landlords with a social purpose, many of our members also provide additional support to help tenants improve their skills and education and find employment. As the Government aims to level up communities across the UK it is vital that sustaining and supporting the work that is being carried out by housing providers to enhance employability, and to train and progress people into work, is continued.[3]

We have been working closely with Communities that Work to identify the key areas of government policy and financing which would help achieve this and we are supporting their calls to:

1. **Include housing providers' voice and views in shaping the new UK Shared Prosperity Fund (UKSPF):** Housing providers have an extensive history of actively engaging with and working alongside Government to successfully deliver programmes that reduce inequality. Our strong local networks combined with our understanding of the needs of people and places across the UK give us unparalleled insight into how to level up communities. We have trusted relationships with the people and places who UKSPF is aimed at and can shape the Fund with their needs in mind, optimising its impact.

2. **Ringfence funding within UKSPF for housing providers:** UKSPF can harness housing providers' unique ability to co-invest in people and place alongside Government by setting aside funding for the sector. Doing so will amplify the Fund's ability to deliver at scale and speed to reach those most in need of support and ensure it delivers with impact through joint investment.

3. **Put housing providers at the heart of UKSPF delivery:** Housing providers deliver bespoke support that grows local economies based on specific resident and community needs. Greater use of this kind of tailored support which focuses not only on employment opportunities, but also finding out what the individual wants and how

to actually get them into a job and give them confidence in their work can help people overcome barriers to employment and in-work progress.[4]

4. **Cut the red tape:** EUSF was overly bureaucratic and siloed in both its access and delivery. Government has the opportunity to give communities of all regions and sizes the chance to level up by designing UKSPF with less bureaucracy and a flexible, place-based approach.

5. **Eradicate digital exclusion to improve employment outcomes**: The ability to function as an adult in society now requires digital access and skills in order to engage, get support, job search and meet employment requirements. Digital access and skills are imperative for social housing tenants to obtain the services they need, secure employment and progress in work.

6. **Provide further skills and job opportunities to get people into work:** This includes:
    - Contracting and commissioning that encourages joint housing and employment service partnerships.
    - Accelerating the tender process and considering grant support to deliver urgent support, fast.
    - Supporting an expansion of existing employment support services, enabling Job Centre Plus and housing to work together locally.
    - Supporting Jobs Plus pilots which provide a proven, community-based approach to addressing employment issues with social landlords in the lead[5].

Ensuring that every tenant can afford to pay the rent

As two thirds of local authority tenants rely on help from Housing Benefit or Universal Credit to pay their rent, local authority landlords are heavily reliant on the adequacy of these schemes to provide tenants with timely help to pay their rent. ARCH and the NFA have tracked the roll-out of Universal Credit to council tenants with an annual survey of members since 2016[6]. The surveys show a consistent pattern of increased arrears when tenants first take up Universal Credit, for several reasons:

- Tenants becoming unemployed or suffering a loss of income often do not immediately apply for Universal Credit, and fall into arrears while they look around for alternative sources of work or income, hoping to avoid claiming;
- The 5-week minimum delay from application to first payment built into the Universal Credit system; often the delay is longer because of administrative difficulties or other problems with the application;
- The arrears of tenants receiving UC do not start to fall until a regular payment to reduce arrears is negotiated and sustained. Rent arrears are seldom the only debt

faced by new claimants, and arrears reduction must compete for priority with other urgent needs. Experience to date suggests that it is seldom less than two years before arrears which arose when a tenant first started claiming UC are repaid.

The latest survey assesses the impact of a year of COVID, comparing data from April 2021 with the position a year earlier. There is clear evidence that tenants are experiencing greater hardship: 80% of responding authorities reported higher rent arrears; 77% had seen increased demand from tenants for support services and 74% reported increased demand for hardship funds. However, the overall percentage of tenants in arrears (29%) had not changed from 2020 and the rise in average arrears from £395 to £419 was broadly proportional to the increase in rent levels, thus equivalent in both years to around 5 weeks' rent. The proportion of tenants on Universal Credit in arrears fell slightly from 63% in 2020 to 58% in 2021, as did the average amount owed, from £548 to £502. It is likely that the £20 uplift in Universal Credit provided during the COVID period contributed substantially to this result, and we are particularly concerned about the impact of its impending removal. We would also urge the Government to reconsider the five week wait for payment which continues to plunge new UC claimants into arrears from which they take years to recover. A copy of the full survey report is enclosed with this submission[7].

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[1] Cited in *UK Housing Review 2020*, p12.

[2] Pragmatix Advisory, *Building post-pandemic prosperity: the case for building 100,000 new council homes each year*, October 2020 https://www.almos.org.uk/wp-content/uploads/2021/09/Report-to-Arch-LGA-and-NFA-from-Pragmatix-Advisory.pdf

[3] *Improving Opportunities: How to support social housing tenants into sustainable employment. Report to the APPG on Housing and Social Mobility, (CaCHE 2020)*

[4] Ibid

[5] https://learningandwork.org.uk/resources/research-and-reports/developing-a-jobs-plus-model-for-the-uk/

[6] https://www.almos.org.uk/category/publications/welfare-reform-and-uc/

[7] https://www.almos.org.uk/wp-content/uploads/2021/07/NFA-Universal-Credit-Survey-2021_finall-1.pdf