2025 Spending Review Submission

About ARCH, the NFA and CWAG

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. Its 65 members manage over 700,000 homes. The Councils with ALMOs Group (CWAG) and the National Federation of ALMOs (NFA) are the membership bodies for local authorities with ALMOs. The NFA represents 15 ALMOs managing around 172,000 properties across England. CWAG represents 15 stock owning local authorities where council housing is managed by ALMOs. CWAG is a Special Interest Group of the Local Government Association.

Together our members manage over one million local authority homes.

About this submission

In September 2024 we made a submission to the Autumn Budget and Spending Review covering both the 2025/26 budget and the period 2026-28 and beyond. Most of that document remains relevant and it is appended. This update draws attention to important developments that have arisen since last September:

- The lower-than-expected September CPI figure combined with the increase to National Insurance Contributions has added pressure to already struggling local authority Housing Revenue Accounts. The new burdens funding for NICs in the local authority sector will not be sufficient to cover the costs, leaving HRAs with significant unplanned shortfalls.

- Although the Government's changes to the Right to Buy have been very welcome, there was a substantial increase in Right to Buy applications in the period between the announcement of the discount reductions and the date they came into force.

Based on data from a sample of local authorities and ALMOs, we anticipate these applications yielding a volume of sales equivalent to three to four times the recent annual rate. Numbers may be even higher in some areas. This will significantly reduce rental income in the short term, adding to funding pressures in HRAs, while yielding a significant volume of receipts.

- Following publication of the Government's Future of Social Rent Policy consultation, local authority partners commissioned Savills to undertake further analysis of the impact of CPI +1% rent increases on local authority HRAs, taking into consideration the CPI figure and NICs rise. The full analysis is available here.
- In short, the analysis shows that the proposed CPI +1% over 5 years would leave local authority HRAs with a cumulative deficit of just below £8bn. CPI +1% for 10 years stabilises net rent income by 2036/7. Rent convergence at either £2 or £3 a week delivers cumulative surpluses of up to £1bn by 2036/37 without materially affecting the affordability of social rents. For this reason, in our submission we called for CPI +1% for 10 years with a full rent convergence policy.

This additional evidence confirms the case put forward in our earlier submission: expenditure pressures have continued to intensify in the sector, and it is likely that a large proportion of any additional rent income that local authorities receive will be required to address the need to spend on the existing housing stock. Beyond 2034, capacity for investment in new homes could rise rapidly, allowing for the delivery of an additional 30,000 homes from that date. However, for the next 5-10 years there is a funding shortfall that Government must address so local authorities can meet the requirements of their existing stock and contribute to the Government's ambitious new housing targets.

The detailed proposals in our earlier submission stand. In summary, we are asking Government to:

- Stabilise HRA finances in the short-term through a cash injection.
- Commit to CPI +1% for the next 10 years with full rent convergence.
- Provide funding for local authorities to meet any additional requirements not included in the original Self-Financing Deal (including the revised Decent Homes Standard, Awaab's Law, building safety, and EPC C by 2030).
- Substantially increase the AHP and LAHF to enable local authorities to play their part in delivering the 1.5 million homes the Government has promised.
- As part of a national long-term housing strategy, commit to reviewing and updating the self-financing settlement to ensure a sustainable future for council housing finance.

Our Autumn Budget Proposals

This submission argues for:

- A long-term rent settlement, to include:
    - CPI+1% rent increases for 10 years from 2025, and a convergence mechanism to help local authorities start to recoup income lost through the rent cuts and caps.
    - Long-term certainty on borrowing through a commitment to stable, low PWLB rates to allow more borrowing for investment.
    - A long-term commitment not to re-introduce HRA borrowing caps or similar restrictions on HRA borrowing.
- Immediate action to tackle emerging HRA deficits as a result of rent cuts and caps, through a cash injection or other means.

- An allocation of £1bn for a fourth round of the Local Authority Housing Fund in 2025/27 with a wider remit to tackle homelessness, to kickstart council housebuilding, pending development of a fit-for-purpose future funding model.

- An immediate review of current grant and subsidy rates for both the LAHF and AHP to reflect the continuing increases in construction industry costs.

- Immediate action to tackle claims harvesting in the social rented sector in advance of implementation of Awaab's Law to protect tenants and prevent legal disrepair costs spiralling out of control.

- A recognition of the continuing impact of the cost-of-living crisis on tenants living in local authority housing, and the continuing high energy costs; and commitment to not remove the financial safety nets that many tenants will rely on through this Winter.

Our Spending Review Proposals

- Development of a cross-tenure, national housing strategy that provides a vision of where our nation's housing should be by 2050.

- A comprehensive sustainable Financial Framework for the local authority sector which includes sustainable long-term rent increases to support net growth; tackling the upfront investment need through grant funding and/or debt write-down; and subsidy to develop a new generation of local authority homes.

- A review of rent setting policy to put local authorities on a sustainable financial footing while balancing with affordability for tenants. This includes:

    - Introducing a convergence mechanism to bring rents back to their 'real' level (i.e. to what they would have been without the 2016-2020 rent cuts, and 2023/24 rent cap)
    - Recognition of the current difference between council and RPs in terms of rent levels and factoring this into longer-term rent setting.
    - More flexibility locally within the Rent Standard where councils can evidence need;
    - Developing a rent mechanism so that local authorities can share the cost-benefits of stock enhancement work, particularly energy efficiency work, with current and future tenants.

    Provide adequate grant funding for council stock improvements not included in the original self-financing settlement, including fire and building safety work, energy efficiency and decarbonisation of stock, and future enhancements to the Decent Homes Standard.
- Action to launch 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 as long as need continues.

- Expand the size and widen the remit of the LAHF to provide a flexible funding stream based on outcomes for households rather than crude housebuilding numbers.

- Reform the Affordable Homes Programme to focus more on the provision of social rented housing and offer more flexible and longer-term support for local authority building, including more flexibility to enable funding of regeneration for those homes that have reached the end of their lifespan or where it will be uneconomic to bring properties to net zero standards.

- Develop an industrial strategy that is focused on growing both the size and the quality of the construction industry, particularly small and medium sized contractors.

- Support an enhanced role for local authorities in regulating and improving standards in the private rented sector, and to ensure a joined-up approach to homelessness, private sector regulation and decarbonisation.

- Tackle the cost-of-living crisis to move away from short-term funding pots; including a full review of the social security system, so that people can afford to live.

The need for a long-term strategy

Although the time horizon for the Spending Review is the next three years, we argue that its decisions should be informed by a longer-term strategy covering at least the next two Parliaments. Even the last Government acknowledged that the English housing market is broken, and there are no quick fixes. Our submission concurs with the conclusion of the recent Southwark report[1] that the financial system for council housing is broken, opening a 'black hole' in councils' housing budgets that will continue to widen unless action is taken. Our submission provides an independent estimate, commissioned from Savills, of the size of this deficit. There are several options for tackling it, but all involve a substantial increase in public spending in the short term, as does action to kick-start the 'revolution in council housing' promised by the Deputy Prime Minister. But, as research we have previously commissioned[2], and similar studies commissioned by – amongst others - the NHF and Shelter, the Building Research Establishment, CaCHE, Joseph Rowntree Foundation, have repeatedly demonstrated, this is investment that can save public money, perhaps not in the next three years, but certainly within the next decade[3]. The principal savings derive from increasing the number of households who can be enabled to move from expensive, unsafe and unsatisfactory temporary and privately rented accommodation into safe, secure and affordable council homes. Where households are receiving help from benefits this yields immediate savings in welfare spending as well as indirect savings from the positive impacts on households' health and safety and employment opportunities.

While our submission largely focuses on council housing, we see our proposals as an integral part of a long-term strategy covering housing in all tenures. For the last decade, the goal of a zero-carbon economy by 2050 has served as the test by which we judge policies for the short and medium term. We argue that the Government housing policy should also be shaped by a clear vision of where it wants housing to be by the same date. 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. For the fifth-largest economy in the world, we suggest the following ambitions should be regarded as both reasonable and achievable by 2050:

- As part of a zero-carbon economy, every household should be able to enjoy a home meeting a new Decent Homes standard, with the investment necessary to achieve this being a key driver of renewed economic growth.
- To achieve this, the Government will need to meet its commitment to build 1.5 million new homes over this Parliament, but this alone will not be enough.
- 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. To achieve this turnaround, we believe a fresh look is needed at policies to support and sustain home ownership.
- Those who do not wish 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.
- By 2050 we expect there to be substantially fewer, but better, homes in private renting. Private tenants should be able to expect homes that meet the same high standards as social housing; some accommodation, and some landlords will prove unable, or unwilling to achieve this. Nor can the aspirations of young homebuyers be met through new building alone.

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 make progress towards the decarbonisation of council housing by 2050.
- Action to launch 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.
- Support for an enhanced role for local authorities in regulating and improving standards in the private rented sector, and to ensure a joined-up approach to homelessness, private sector regulation and decarbonisation..

Financing Council Housing

The current system of council housing finance rests on two pillars:

1. The rent restructuring policy introduced by the Labour Government in 2002 that sought to improve fairness by ensuring that council and housing association tenants pay similar rents for similar properties and that rent differentials between properties of different sizes and in different areas more closely reflect market differentials. Formula rents were calculated for all properties and guideline rent increases set annually. The basic increase was set at ½% above RPI, but since, at that time, average council rents were significantly lower than average housing association rents, the annual increase for council tenants included an additional allowance for convergence limited to a maximum of £2 a week.

2. The self-financing settlement implemented in 2012, which redistributed council housing debt with the aim that every council could finance from rent income the long-term maintenance of its housing to the Decent Homes Standard and repay the debt over a 30-year period. The declared intention was to set councils free to plan long term for the future maintenance and improvement of their stock. The underlying assumption was that rents would continue to rise annually by RPI plus ½ % and that convergence would continue until complete.

Both pillars are broken. The Coalition Government decided that from 2010, tenants of new homes funded from the Affordable Housing Programme should be charged “affordable” rents up to 80% of market rents, in some areas double the formula rents. Subsequently the Government decided to change the annual guideline increase from RPI + ½% to CPI + 1% from April 2015, and at the same time end the allowance for convergence. Shortly afterwards, it decided to reduce council and housing association rents by 1% a year from

April 2016 until March 2020. The first policy has made some additional rent income available, mostly to housing associations, but the four year rent reduction is estimated to have reduced councils' income by £2.4 billion in 2016-20, and by £42 billion by 2042, compared with what was anticipated in the self-financing settlement[4]. A further cap on rent rises in 2023-24 is estimated to have cut income by £644 million in the two years 2023-25[5].

This massive income shortfall must be held largely responsible for the failure of a significant number of councils to ensure that 100% of their homes continue to meet the Decent Homes Standard. Calculation of the self-financing settlement included well-evidenced estimates of the costs of meeting the DHS which were blatantly ignored by the Government when it decided on the four-year rent reduction. However, the challenge faced by council HRAs is not just that income is lower than expected, but also that new expenditure needs have arisen that were not anticipated in the self-financing settlement. These include the costs of compliance with new fire and building safety requirements, the new consumer regulatory regime, the need to improve energy efficiency and make progress towards decarbonisation, and soon, the expected update to the DHS. These new expenditure needs are detailed and costed in the next section of this submission.

The remaining part of this section explores how much future rent income could be expected to contribute towards meeting these expenditure needs.

From the day in 2018 when the Government announced that council rents would be allowed to rise by CPI plus 1% in each of the five years from 2020/21, the council and housing association sector has consistently called for a longer-term settlement that gives greater certainty on future income. The argument is simple. The greater the degree of uncertainty about future income, the more must be set aside in business plans against the contingency of a change in policy, and the less that can be committed to expenditure on the stock. Councils are expected to plan their business over a 30-year period; as a minimum they should be able to expect reasonable certainty on rents for the first 10 of those years.

Most public debate on the need for a long-term rent settlement has focused on the annual increase. It is generally assumed that, as since 2015, individual rents will all be increased by the same percentage. But this completely ignores the first pillar described above. The rent reduction policy locked in a rent distribution that is both unfair and inefficient; it leaves some tenants paying significantly more – or less – than the majority of their peers for properties of a similar quality. It means that the affordability of the highest of these rents becomes the test of the affordability of the rent system as a whole, when, in fact, some tenants could afford to pay more if rents were more fairly distributed.

There are a number of areas that we believe the new Labour Government should include in its development of the long-term rent settlement and up-dated Rent Standard. We are keen to continue to work with MHCLG on developing the detail. This includes, for example:

- Looking at the over-arching principles of the settlement so that social tenants are asked to pay rents which reflect the quality and location of their homes while remaining affordable, and do not depend on who their landlord is or when they took up the tenancy.

- Whether to continue to use the existing rent formula as the basis for setting target rents to which existing rents should be expected to converge. Generally speaking, it is likely that the implications of adjusting the formula would involve an upheaval of current arrangements whose costs outweigh its potential, however this should be part of the review of the settlement.
- Policy around rent convergence (see below)
- Flexibilities within the Rent Standard to allow local authorities to adjust rents to local circumstances.

Council rents may be below formula for one of two reasons. The first is that convergence to formula had not been completed when the convergence policy was abandoned in 2015. We argue that councils should be allowed to resume convergence on the same basis as before by making an additional rent increase for affected homes capped to a reasonable annual limit. The Savills research discussed below shows that this would make a very significant improvement to the overall health of HRAs in the medium and longer term.

The second reason is that councils which have chosen, for whatever reason, to impose less than the maximum permitted rent increase in any year cannot recover their loss by an above-limit increase in any future year. This policy has no credible justification and should be reviewed in consultation with the local authority sector . The rent increase limit for all councils should be the formula rent updated annually in line with national policy, regardless of where an individual council's rents stand in relation to it, subject to a reasonable yearly cap on increases to ensure affordability for existing tenants.

The rent formula principles adopted in 2002 have a further implication not previously pursued which we believe needs reconsideration. The principle is that rents should reflect quality, tempered by affordability, but formula rents take no account of improvements. Originally, this would have been justified by the fact that the Decent Homes Standard defined the acceptable minimum that all homes should be expected to meet and tenants should not be expected to pay for having their homes improved to the minimum standard. However, improvements beyond the DHS arguably justify a higher rent, in particular where landlords undertake improvements to energy efficiency which significantly reduce tenants' heating bills. A capacity for council landlords to increase rents so that the financial benefit from the work is shared between landlord and tenant would both provide an income stream to help finance the work and still leave tenants better off as a result of it.

The need for expenditure on the existing council housing stock

Most councils are now facing pressures to spend on managing and maintaining their existing stock that cannot be met from expected rent income. Many are being forced to borrow to carry out works it should have been possible to finance from sinking funds. Some are cutting back repairs budgets to bring their HRAs into balance; others are forecasting that their HRAs will go into deficit within a few years. This is a desperate and unsustainable position, particularly when the new regulatory regime is, rightly, holding councils more closely to account for delivering on the consumer standards for social housing.

How has this desperate situation come about? The basic facts have been stated above. The self-financing settlement of 2012 was designed to give all councils sufficient rent income to bring their homes to the Decent Homes Standard and maintain them there. Later revisions to rent policy, principally the four years of rent reductions from 2016 to 2020, deprived councils of £2.4bn during 2016-2020, with an enduring loss of income that will exceed £40 bn by 2042. It is now becoming clear, as a result of national action on damp and mould triggered by the Awaab Ishak case, and new stock condition data required by the new regulatory regime, that many more council homes fall short of the DHS than was reported a few years ago. While there are individual cases where local authorities have failed to keep accurate data on the condition of their stock and focus expenditure effectively, there is no doubt that the prime cause of the investment shortfall is the lost rent income and reduced resilience across the sector.

In addition, new and pressing expenditure requirements have arisen since 2012 that were not anticipated in the self-financing settlement:

- The need to ensure all homes meet new fire and building safety standards, and the costs of operating the new building safety regulatory regime.
- The expectation that all council homes should meet EPC C energy efficiency standards by 2030, and to make progress towards decarbonisation more generally.
- The costs of complying with the new consumer regulation regime, not least the escalating charges imposed by the RSH and the Housing Ombudsman.

Further new requirements are planned:

- Implementation of Awaab's Law will pose a major challenge, particularly if its remit extends beyond damp and mould hazards.
- An updated and extended Decent Homes Standard
- Professionalisation of housing staff.

We have been calling attention to these issues for several years. In 2022 together with the Local Government Association we commissioned Savills to produce estimates of the expenditure needed, including in-depth interviews with a cross-section of authorities[6]. This research, published early in 2023, found that:

- Post-pandemic inflation in the costs of capital and day-to-day repairs has persisted , with headline inflation rates higher than those of both CPI and the BCIS maintenance and development index.
- Estimated costs of meeting Fire and Building Safety standards were an additional £7.7 billion from 2023-30.
- Estimated costs of meeting EPC (C) by 2030 and net zero by 2050 were estimated at £23 billion, with 40% of this expenditure required before 2035.
- An initial estimate of £150 million was given for the costs of professionalisation and increased regulation, but there was not enough evidence at that time to support a robust estimate of the wider costs of compliance with the requirements of the Social Housing (Regulation) Act, including Awaab's Law.

In July this year, again with the LGA, we asked Savills to revisit and update these estimates. Their research is due to be published in mid-September. We describe some of the main findings below and can supply detailed supporting evidence once the full report is published.

Savills have reduced their estimate of the costs of meeting fire and building safety standards from £7.7 billion to £6.5 billion, reflecting the work that has been done since their last report. Their estimate of the costs of meeting EPC (C) by 2030 and net zero by 2050 has been adjusted upwards from £23 billion to £25 billion. However, other expenditure needs have grown substantially. Summarising the views of authorities interviewed, they comment: "In overall terms, there is a strong feeling that the 'dial' has moved significantly further in the last 12-18 months". They report a significant increase in pressures to spend on day-to-day repairs, including damp and mould, in anticipation of the implementation of Awaab's Law, and on planned life-cycle replacements (basically the cost of maintaining the stock to the existing Decent Homes Standard), reflecting the collection of more accurate information from stock condition surveys. Authorities also report higher estimates of the cost of compliance with the new regulatory regime now it has started to come into operation.

To produce an estimate of overall capital expenditure requirements, Savills have aggregated these cost pressures into stock investment profile for each case-study authority and, together with information from their national HRA client database, estimated the aggregate national profile. Each profile estimates the aggregate spending requirement over the next 30 years and how spending is distributed over this period. Estimates range from £32,900 per unit to £101,300 per unit, with a weighted average of £62,000 per unit. For comparison, the equivalent amount implicit in the self-financing settlement, updated to 2024 prices is £41,490. Savills estimate is not only 49% higher than this, but, as importantly, significantly higher than the comparable estimates from the first Savills research based on data from only 2 years ago.

The two main reasons for these increases appear to be that building and building material costs have increased faster than CPI, particularly in the last three years, and that better stock condition data has led authorities to adjust downwards their estimates of the number of homes currently meeting the DHS.

Revenue spending is also under significantly increased pressure. In consequence of the national focus on damp and mould hazards, and in anticipation of the implementation of Awaab's Law, authorities are planning average increases in day-to-day repairs budgets of 12% for 2024/25, and it is likely that many have overspent their budgets for 2023/24. This probably underestimates the real spending needs, as some authorities are being forced to cut repairs budgets to avoid HRA deficits. These increases reflect both increases in the volume of repairs and in their unit cost.

Savills estimate the costs of professionalisation, including the cost of backfilling the posts left vacant while staff are attending courses, to be £58-67 million, or £40-45 per property per year. Added to these, the specific costs of subscribing to the Regulator and the Housing Ombudsman add £25-30 million across the council sector.

Decarbonisation and Net Zero

The need to provide safe, warm and decent homes for existing and future tenants is a core part of the work that our members do. The impact of poorly insulated and aged homes has become even more stark in recent years as energy bills have skyrocketed. An effective programme of retrofit and decarbonisation in the social rented sector will not just enable it to contribute to legally binding targets but will also help tackle poverty and cost-of-living pressures.

Local authority Housing Revenue Accounts are under such considerable pressure from existing requirements, that the costs of long-term Net Zero Carbon are currently not included in most – if not all - business plans. The additional expenditure of £25 billion estimated by Savills to be required between 2015 and 2050 will not be undertaken without adequate Government funding to support it.

Current rules for accessing the Social Housing Decarbonisation Fund are not adequate. Too many local authorities cannot take advantage of it because they lack the revenue resources to meet the matched funding requirements, and, as we explore in more detail below, an increasing number of authorities is likely to fall into this category. We want SHDF to continue and look forward to further confirmation of the programme in the Autumn Budget, but in the longer term we want to see reformed decarbonisation funding arrangements as part of the Warm Homes Plan that will offer more flexible and effective support to deliver net zero goals:

- A move towards 100% funded long-term programmes (over at least 10 years, but preferably longer) and away from short-term, competitive bidding pots of money. This will enable local authorities to plan retrofit work alongside Decent Homes works over the course of their business plans.

- A review of how to move towards neighbourhood-level, multi-tenure retrofit plans, with integrated funding and strategies.
- A review of difficult-to-decarbonise local authority homes, looking at retrofit versus regeneration.
- Explore new ways of funding energy efficiency work (for example carbon bonds) and/or sharing savings on energy bills with tenants.
- Address the retrofit industry skills gap.
- Extend the Right to Buy cost-floor mechanism to help recuperate costs from sales of retrofitted properties; explore 'comfort plan' approaches that give landlords an income stream to help fund deep retrofit borrowing.
- Review planning policy and guidance to remove planning barriers to retrofit.
- Provide mechanisms for recouping costs from leaseholder properties, especially costly measures such as external wall insulation.

The costs of underfunding council housing: claims harvesting

The financial crisis facing HRAs documented by the Savills' research is aggravated by a negative spiral that makes councils spend more on achieving less. Councils deprived of the resources to finance planned and preventative maintenance face increased expenditure on reactive repairs, which by definition can only be reported after problems materialise and, because they must be dealt with piecemeal, cost more per unit. Reported repairs are only the tip of the iceberg, there will always be tenants who, for whatever reason, fail to raise a repair, or leave the problem to get worse before they report it.

A further twist in the spiral is the emergence of claims harvesters who have become increasingly prevalent in the social housing sector over the last few years, targeting households, exploiting tenants, and draining much needed resources from Housing Revenue Accounts. We fully support the fundamental principle of a tenant's right to bring a disrepair claim against their landlord. This is an important legal option for redress for tenants where attempts have been made to get repairs done and there have been failings by the landlord to properly respond or effectively fix the disrepair. However, there are worrying cases of claims harvesters becoming tied up with organised crime, impersonating local authority staff, and using unethical (and sometimes illegal) methods to 'encourage' tenants to take cases to court, while also charging extortionate legal fees and taking a significant chunk of any compensation awarded to the tenant. As the government will be progressing with Awaab's Law in Autumn, the sector is urgently calling for government to implement changes at the same time to protect vulnerable tenants and prevent legal disrepair costs spiralling out of control.

We are calling for:

- The introduction of fixed recoverable costs in housing disrepair cases

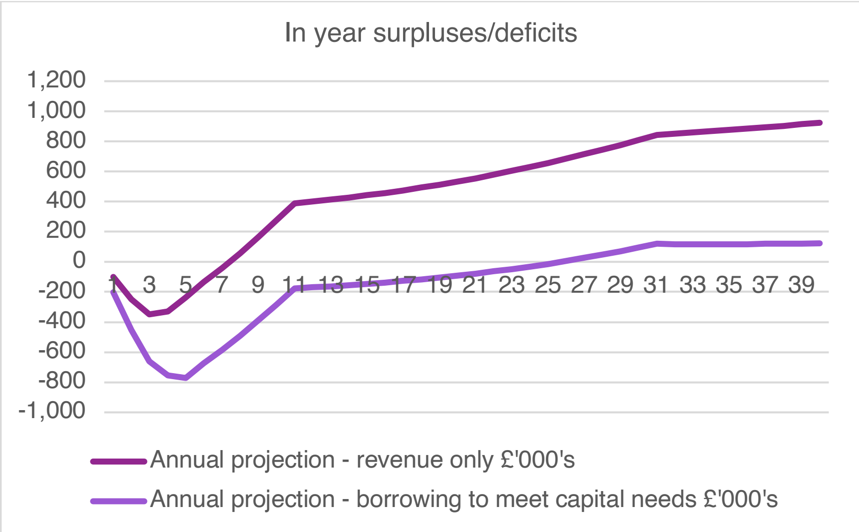
- Capping the maximum proportion of compensation award that a claims management company can take, and capping the referral fees that solicitors pay to claims management companies
- Setting out clearly in regulation the steps that must be taken before a disrepair claim goes to court, including giving the landlord a reasonable opportunity to resolve the problem and that the case has been through the Housing Ombudsman's process.
- The reinstatement of legal aid for all housing disrepair cases to drive out exploitative 'no win, no fee' practices
- Strengthening penalties against poor practice of solicitors and claims management companies.

Financing the increased expenditure needs: future rent policy

The needs for increased HRA revenue spending are immediate or relate to the next few years. But the capital expenditure requirements, while estimated over a 30-year period, are also heavily front-loaded, although there is some scope for financing these works from borrowing. Savills were also asked to do a high-level update to the work they undertook on rent policy in 2022 to assess how far estimated expenditure needs can be met from rent income. Their conclusion is that it is infeasible to balance HRAs using rent policies alone.

The most widely trailed option for future rent policy is a continuation of the existing limit of CPI +1% on annual increases for the next 10 years. The chart below compares the estimated annual expenditure need with annual rent income based on this option. The two lines on the chart show the estimated deficit/surplus on alternative assumptions, (i) that all expenditure is financed from revenue as anticipated in the self-financing settlement, and (ii) that all expenditure that can be capitalised is financed from borrowing. It shows that while CPI + 1% may result to a return to in-year surpluses after around 10 years, income and expenditure do not balance over a 30-year period, and there is net shortfall of £6-7 billion during the middle part of the period.

Chart: National HRA projection CPI + 1% for 10 years – in-year surpluses/deficits



Source: Savills Affordable Housing Consultancy

Adding the assumption that rent convergence is accelerated and completed within 10 years materially improves the financial position of HRAs in the medium and long term, with a return to an overall cumulative surplus over 30 years, but it has little impact on the increasing short-term deficits highlighted by the first option.

We therefore argue that, in addition to a commitment to an annual uplift in rents of CPI + 1% for the next ten years, the Government should commit to reintroduce phased convergence to formula rents, reinstating the policy dropped in 2015. It should also make provision through a more flexible Rent Standard to allow councils whose rents have fallen below formula for other reasons to apply phased above-CPI + 1% increases to bring them up to formula.

However, a decision on future rent policy does not address the immediate challenge. Savills conclude that current year expenditure in council HRAs exceeds income by £100 million, and that inflationary and other expenditure pressures will continue to grow faster than CPI + 1%. This situation is unsustainable, either HRAs will go into deficit as reserves are exhausted, or a growing number of councils will be forced to cut essential expenditure to avoid such deficits, likely defaulting on their obligations to meet the Decent Homes Standard or comply with Awaab's Law. Action is needed to ensure the latter scenario does not come to pass.

The Southwark report calls for an immediate cash injection of £644 million, to reflect the income lost from HRAs in 2023-25 as a result of rent increase capping in 2023/24. This could help provide a short-term fix, but other options need to be explored to ensure necessary expenditure can be financed during the deficit years identified in the Savills report. These could include:

- Direct payments or interest-free loans to eligible affected councils;

- Flexible and adequate grant support for improvements to council stock, including certain fire and building safety works, energy efficiency improvements, DHS2
- Exploring the feasibility of legitimising temporary HRA deficits (e.g. permitting borrowing to cover revenue deficits)

A New Generation of Council Homes

It is a widely accepted that England suffers from a chronic housing shortage; over recent decades, the construction of new homes has failed to keep pace with population growth, demographic and socio-geographic changes. We therefore welcome the government's commitment to boost housing supply and build 1.5 million new homes over the next 5 years, and its recognition that a significant increase in the number of new council homes should be part of this. But within this total, no firm targets have yet been set for the number of affordable and socially rented, including council, homes that should be provided. We argue that the government should plan for 145,000 affordable homes per year for at least the next 5 years, of which 90,000 should be for social rent, as recommended in the authoritative study by Glen Bramley in 2018[7].

We are a significant distance away from achieving this, with only 8,386 social rented homes built in 2022-23. Between 2010 and 2023, there were 171,114 social housing completions including new build and acquisitions, but 229,178 homes sold and 74,765 demolitions, giving a net loss of over 130,000 social homes. We warmly welcome indications that the new Government wants to see councils taking a lead in expanding the supply of new social homes, but this will require a substantial injection of public subsidy to bridge the gap between the costs of provision and what can be financed from future rent income, and reform of the Right to Buy scheme to stem the loss of new homes within a few years of their provision.

Building a new generation of council housing will require up-front provision of public subsidy to council HRAs, but, as research has repeatedly shown, this will be more than compensated in the medium term by savings elsewhere in public expenditure, principally and directly by savings in welfare spending from transferring households from expensive temporary and private rented accommodation to secure tenancies at social rents. Wider benefits to the Exchequer are harder to quantify but no less real; providing safe, secure and affordable homes will improve tenants' health outcomes and their ability to find and keep employment; the construction or adaptation of new homes will provide a substantial economic boost, although work is needed to boost the capacity of the construction industry.

Research by Pragmatix Advisory for the LGA, ARCH and NFA in 2021 calculated that building 100,000 new social rent tenure homes in the local authority sector each year would deliver the equivalent of £24.5 billion to government coffers over 30 years[8]. It would provide a £15 billion boost to the economy, with a large proportion of the money spent on the construction of new homes staying local, so being targeted at communities that need both the homes and jobs. Investment in council housing is also counter-cyclical so can be used to provide a significant boost to the economy in times of market downturns.

This study is not alone in yielding similar results. Research by CEBR published in February concludes that funding the construction of 90,000 new social rent homes could add £51.2 bn to the economy, create almost 140,000 jobs and generate ongoing savings on housing benefits, reduced homelessness, increased employment, the NHS, police, education and other public services"[9]. Similar conclusions emerge from studies by the Building Research Establishment, CaCHE and the Joseph Rowntree Foundation[10]. Earlier research by Capital Economics in 2015 reached similar conclusions, suggesting that the results are robust and not dependent on particular economic conjuncture.

The public expenditure benefits identified by the Pragmatix research are dependent on a supply of additional council homes, but not necessarily on their being newly built. Provision of additional council homes by acquisition and, where necessary, improvement or adaptation of existing homes can yield comparable savings, in some cases, more quickly. Nor does Glen Bramley's estimate of the overall number of social and affordable homes required imply that they must all be built as new homes. The Government is right to aim for 1.5 million new homes over the next 5 years, but a target of 450,000 additional social homes does not have to be met by insisting that a fixed percentage of new homes are social.

Savills' analysis of the challenges facing council HRAs from the need to spend on the existing stock effectively rules out the possibility of funding new council homes through cross-subsidy from HRAs, at least until these are returned to a healthy surplus, which is difficult to achieve within less than five years. The two main options for funding expanded investment in council homes are an expansion in either the Affordable Homes Programme or the Local Authority Housing Fund or both. We argue for both but want in particular to make the case for increasing the size and widening the remit of the LAHF to provide a funding stream to on an adequate scale to enable local authorities to meet the urgent challenge of spiralling temporary accommodation numbers and costs by whatever means are most effective. Its flexibility and focus on outcomes for households, rather than homes built, makes it more a more appropriate vehicle for this purpose than the AHP.

We also want to see the AHP reformed to focus more on the provision of social rented housing and offer more flexible and longer-term support for local authority building, including more flexibility to enable funding of regeneration for those homes that have reached the end of their lifespan or where it will be uneconomic to bring properties to net zero standards.

Grant and subsidy rates for both LAHF and AHP should be reviewed to reflect the continuing increases in construction industry costs documented by the Savills research.

The other key step needed to deliver the homes needed, including council homes is an industrial strategy that is focused on growing both the size and the quality of the construction industry, particularly small and medium sized contractors. Members frequently report that the shortage of key skills is a barrier to new build programmes, and this will only worsen as the scale of new build increases. Local authorities and ALMOs can be particularly good at unlocking difficult sites and working on in-fill sites (such as former garage sites) which are not economic for larger providers. In order to do this, they need a functioning, healthy and dynamic construction industry, with small and medium-sized contractors, good pathways for apprentices, and long-term certainty of funding.

But there is no point planning for a major expansion of council housing without action to prevent the premature loss of additional stock through Right to Buy sales. We accept that the Government is not planning to end the Right to Buy and welcome its plans to consult on root and branch reform. We argue that this should focus on:

1. **Discounts:** Even if it is accepted that council tenants should enjoy a right to buy, it does not follow that it should be a right to buy at a discounted price, let alone a discount as large as those currently provided. When RTB was introduced, it was argued that tenants should receive a discount in recognition of the rent they had paid while tenants. Current discounts far exceed the total rent income paid by many tenants exercising their right to buy.
2. **Resale**: the Right to Buy was promoted as an opportunity for tenants to own their own homes, not as the opportunity to become, or sell their home to, a landlord profiting from renting out ex-council homes at much at much higher rents than they had previously attracted. It is estimated that 40% of homes sold under RTB are now let as private tenancies.
3. **Adequate funding for replacement**: every home sold under RTB is a future new letting lost. Securing an adequate supply of council homes means that every home sold must be replaced. But, as is now generally admitted, the current arrangements do not work to secure one-for-one replacement. Sales receipts per unit sold are too low in many areas to fund replacement, because discounts are too high, and, except recently on a temporary basis, the Treasury has insisted on a 25% cut. Review of discounts should balance what is fair to tenants with what is needed to fund a replacement home; in particular, protection for newly provided homes needs to be strengthened through reform of the cost floor rules.

Strengthening councils' wider housing role

The Government's plans for housing are not confined to building 1.5 million new homes and supporting the provision of council and other social housing. The Renters' Rights Bill has major implications for the private rented sector, but also for local authorities, both because of their role as a regulator of the private rented sector and because they are heavily dependent on the private rented sector to discharge their homelessness duties, given the chronic shortage of social homes. Other government agencies are equally reliant on the private rented sector for temporary accommodation and resettlement.

Loss of accommodation in the private rented sector is already the major reason for households becoming homeless and has been for many years. While abolition of Section 21 no-fault evictions may restrict landlords' freedom to end tenancies, it is likely to increase the already-increasing number of landlords planning to leave the sector. Similarly, application of the Decent Homes Standard and Awaab's Law to the private rented sector will dramatically improve conditions for tenants of landlords who can and are willing to meet these higher standards. But in many cases – not necessarily because landlords are unwilling, but because accommodation is in poor condition and they lack the resources to improve it – we expect to see landlords deciding to exit the sector rather than face their new responsibilities.

In this situation, rather than rowing against this stream by trying to maintain the size of the private rented sector, it makes better sense for local authorities to facilitate the departure of landlords who wish, or should be forced, to leave the sector through a programme of local authority acquisitions which help to tackle the homelessness crisis. We see an expanded Local Authority Housing Fund as a key support for councils aiming to take on this role.

As part of the Warm Homes Plan, we want to see the development of area-focused, cross-tenure action to improve energy efficiency and deliver decarbonisation, led by local authorities. Targeted intervention could enable councils to help landlords meet their new DHS and Awaab's Law obligations and deliver affordable warmth for tenants currently in fuel poverty.

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[1] *Securing the Future of Council Housing: Five solutions from over 100 of England's council landlords,* commissioned by Southwark Council, https://www.southwark.gov.uk/assets/attach/293669/Securing-the-Future-of-Council-Housing-Report.pdf

[2] Pragmatix Advisory*, Building post-pandemic prosperity: the economic and fiscal case for constructing 100,000 council homes each year*, Research commissioned by LGA, ARCH and NFA, October 2021 https://www.almos.org.uk/wp-content/uploads/2021/10/Pragmatix-final.pdf.

[3] Centre for Economics and Business Research *The economic impact of building social housing: a CEBR report for Shelter and the National Housing Federation,* , February 2024. https://www.housing.org.uk/globalassets/files/cebr-report-final.pdf

Building Research Establishment, the cost of ignoring poor housing, July 2023
Housing Subsidy's long-term shift from supply to demand and what might be done about it, Prof. K. Gibb, UK Collaborative Centre for Housing Evidence, June 2024
Joseph Rowntree Foundation, the links between housing and poverty, 2013

[4] *House of Commons Library Research Briefing: Rent Setting: Social Housing (England),* 2022 https://researchbriefings.files.parliament.uk/documents/SN01090/SN01090.pdf. This excellent report also describes the origins, history and implications of the rent restructuring policy in much greater detail than is possible here.

[5] *Securing the Future of Council Housing*, p 10

[6] Savills Affordable Housing Consultancy, *Research into expenditure within the Housing Revenue Account: Final Report,* January 2023
https://www.local.gov.uk/sites/default/files/documents/5.151%20LGA%20arch%20nfa%20-%20expenditure%20research%20-%20RA.pdf

[7] Bramley, G. (2018) Housing supply requirements across Great Britain: for low-income households and homeless people, Crisis and National Housing Federation

[8] Pragmatix Advisory*, Building post-pandemic prosperity: the economic and fiscal case for constructing 100,000 council homes each year*, Research commissioned by LGA, ARCH and NFA, October 2021
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[9] *The economic impact of building social housing: a CEBR report for Shelter and the National Housing Federation,* Centre for Economics and Business Research, February 2024.
https://www.housing.org.uk/globalassets/files/cebr-report-final.pdf
[10] See endnote 3 above