

The case for investment in local authority housing: 2020 Budget 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 31 Arm's Length Management Organisations managing around 420,000 homes in 34 local authorities. Together we represent over a million council homes, one third of the social housing in England.

About this submission

This submission builds on our 2019 Spending Review Submission "Social Housing We Can All Be Proud Of". We have not attempted to reproduce all the evidence included in that submission, a copy of which is enclosed herewith, but to focus on the key changes in the policy environment since the election of the new Conservative Government, and their implications, and on new evidence relevant to our case for investment in a new generation of council housing. Our Key Asks remain the same.

Summary of Key Asks

Council House Building

- **To invest in social rented housing, increase grant levels and the total grant available to build new social rented homes.**
- **Continue to support a council housing renaissance allowing local authority control over the self-financing HRA.**
- **Reform right to buy to ensure one-for-one replacement and an equitable and sustainable home ownership offer for council tenants into the future.**

Building and Fire Safety

- **The Government to work closely with local authorities and ALMOs to establish any costs that may be incurred by changes in building safety legislation and ensure that these are covered by central government.**

Tackling Climate Change

- **Strategies to be developed to help property owners and managers meet the 2050 zero-carbon target, with the provision of seed funding where necessary.**
- **Improved energy efficiency and increased use of renewable energy to be part of any Decent Homes Standard.**

- **Alignment between a new DHS and the Clean Growth Strategy bringing all social homes up to an EPC Band C by 2030.**

Improving the welfare system and tackling homelessness

- **Removing the five-week wait for Universal Credit and paying the benefit at the beginning of the claim.**
- **Making improvements to the APA system.**
- **Funding effective on-going support for claimants, including advice on debt management and personal budgeting.**
- **Restoring Local Housing Allowance rates to the 30th percentile of local rents again to ensure that low income households can access and remain in private rented accommodation where that is suitable.**

A New Generation of Council Housing

Alongside the Queen's Speech, the new Government made a commitment to build "hundreds of thousands of new homes for a range of people in different places", a commitment we welcome and support. We continue to believe, however, that this commitment should be underpinned by reiteration of the ambition to increase overall housing output to 300,000 homes a year by the mid-2020s, with an annual target of 100,000 homes for social rent to be included within that number. We argue that local authorities should be tasked to provide at least a third of these, rising to at least half over time.

The economic case for such a plan is strong and is set out in detail in our Spending Review submission. Here we want to supplement that case by arguing that an increased supply of council housing is essential to the achievement of the new Government's aim to end rough sleeping within five years and to eliminate the use of often unsatisfactory privately-provided temporary accommodation for households accepted as homeless by local authorities, currently costing £1.1 billion a year. Councils have in theory been able for a number of years to discharge their duties towards homeless households by securing privately-rented accommodation for them. However, in many areas there is a dearth of satisfactory accommodation available at rents within Local Housing Allowance levels, leading to increasing numbers of out-of-area placements causing inevitable disruption to employment, children's education and family support arrangements. Further, a private tenancy may only provide a temporary solution, with the household becoming homeless again when the tenancy comes to an end a year or two later. Termination of a private tenancy remains the most frequent cause of homelessness. While some households may be able to surmount these difficulties and navigate their way to a new home, regular employment and a good education for their children, many are not, particularly those in most need of support. It is self-evident that the way out of this crisis must include an increased supply of homes available on secure long-term tenancies at genuinely affordable rents.

Rough sleepers are among those to whom it is most difficult to deliver the right package of help unless it includes settled, secure and affordable accommodation on which they can rely while they re-learn the skills of managing a home and personal budget and, ideally, find their way back into work.

An increased supply of suitable council housing would also help reduce pressure on NHS beds and expenditure by providing for patients who no longer need hospital care but cannot be discharged to inadequate or insanitary housing. Provision of supported housing and extra-care housing schemes would also reduce the pressure on social care budgets.

In the last decade, councils and ALMOs have started to build on a small but growing scale. We have evidence that this trend has accelerated since the abolition of HRA borrowing caps in October 2018.

In January this year, we published the results of a joint CIH-NFA-ARCH survey reviewing the building plans of a sample of 22 stock-owning councils including 5 London boroughs, large cities in the Midlands and North, and several medium and smaller authorities. A copy of the full publication is enclosed with this submission. Key findings included:

- Based on the evidence in this survey and others, most councils which still have housing plan to expand their housing delivery. Plans range widely, from around 5 homes or less per year, to more than 500. No responding councils planned to build no homes at all.
- The plans of councils surveyed, if typical, suggest that the Budget 2019 estimate that local authority housebuilding will soon rise to 10,000 homes a year is likely to be met, or exceeded.
- A majority of councils rely on government grant to help fund homes for social or affordable rent, but a substantial minority are relying on local resources, including RTB receipts or cross-subsidy from homes for sale.
- Councils face a variety of obstacles to further expansion of their programmes; some are more important to some than others. The most important are:
 - Restrictions on rent increases to 2025 and uncertainty thereafter;
 - the pressures of RTB and restrictions on the use of RTB receipts
 - scheme viability and the need for more grant funding
 - land shortages and planning constraints
 - building industry constraints
 - shortages of skilled staff
 - competing priorities for resources, such as the need for investment in the existing stock.

Our survey confirms that local authorities have the ambition, and are developing the capacity, to make a major contribution to the national increase in housebuilding that is needed to resolve the current housing crisis. They are likely, within a few years, to be contributing more than 10,000 new homes a year, more than at any time in the last 30 years. But this is still less than the 12-13,000 homes sold annually since the reinvigoration of Right to Buy in 2012. In our Spending Review submission, we estimated that expanding council housebuilding, over time, to 30,000 a year, would enable both the one-for-one replacement of RTB sales which has been the unachieved aim of Government policy for the last 7 years and a gradual reduction of the use of unsatisfactory temporary accommodation for homeless people. The additional objective of ending rough sleeping points to the need to push further to aim for a continued expansion to reach 50,000 homes a year no later than the end of this Parliament.

We are confident that this is achievable if the Government initiates swift and decisive action to address the obstacles to expansion identified by respondents in our survey. Some of these, such as skills shortages and building industry constraints, are common to the construction sector as a whole. Local authorities are among those making increasing use of modern methods of construction to partially circumvent these obstacles. Other obstacles are specific to the statutory and policy framework for local authority housing. In our Spending Review submission we argued for three key changes:

- a substantial increase in Affordable Housing Grant available specifically for the provision of housing for social rent;
- reform of the current rules on the use of Right to Buy receipts, in the context of a wider review of RTB discount and eligibility rules;
- greater flexibility for council rent increases to 2025 and a clear policy for rents thereafter.

Our survey confirms that these remain significant obstacles to building. The Budget is the obvious opportunity for a clear five-year commitment on Affordable Housing Grant, and for the Government to respond to the consultation it launched on the use of Right to Buy receipts in Autumn 2018.

A New Deal for Social Housing – Building Safety

We welcome the Government's confirmation, at the time of the Queen's Speech, that it will publish a White Paper on Social Housing, taking forward the issues covered in the Green Paper "A New Deal for Social Housing", published in Summer 2018. The Queen's Speech also announced two Bills, on Fire Safety and Building Safety, to take forward the conclusions of the Hackett Review and the outcome of Phase 1 of the Grenfell Inquiry. There is not yet sufficient detail on any of these to attempt a costing of their implications for local authority housing, other than to note that they are likely to be very substantial. We argue below that it is unlikely that local authorities will be able to resource the necessary investment and management reforms with current business plan envelopes without compromising other essential investment.

Whilst social housing leads the way in safety work, demonstrated by the high number of social blocks that have completed remedial work on cladding, there is still much work to be done on other fire safety work in some areas with multiple high-rise blocks.¹

We urge the next government to push ahead with measures to make homes safer for residents to live in but want to make clear that social landlords must be involved.

The NFA and ARCH remain concerned that some proposals made by the Independent Review of Building Regulations and Fire Safety are unnecessarily bureaucratic and feel that proposals should instead be risk-based, especially in the occupation phase of high-rise buildings. Within the current building regulations review, we are calling for clarity for builders and housing managers on product safety and reliability.

Whilst it is important for housing managers and landlords to be compliant with safety, we also believe that tenants and leaseholders have a responsibility too. For social landlords and managers to be able to manage health and safety properly, we need our residents and lessee landlords to cooperate with those responsible for building safety.

Tackling climate change

In May 2019, an environment and climate emergency was declared by Parliament, supported by MPs from all major parties. Many local authorities have followed this lead by declaring their own climate emergencies.

One of the last acts of the last administration was to set a target of net zero carbon emissions by 2050 at a national level. We welcome the ambition of this target and believe that social housing providers are well-placed to help achieve significant carbon emission reductions through wholesale retrofitting existing social housing and ensuring new homes are built to the highest standards possible.

¹ Building Safety Data Release. Published October 2019. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/846341/Building_Safety_Data_Release_October_2019.pdf.

However, the Science and Technology Select Committee has said that, without a change in government policy, the UK is unlikely to achieve this target.² It called for the Government to offer incentives for social rented homes to ensure they are upgraded with energy efficiency improvements. Whilst the Government has pledged to invest £9.2 billion in the energy efficiency of homes, schools and hospitals, some of this funding must be for social rented homes.

ARCH and the NFA agree that, as a route to help achieve this target, the Decent Homes Standard needed to be updated and extended, among other things to include improved requirements for energy efficiency: we support the aim to ensure that all dwellings reach EPC Band C by 2030 at the latest and are looking forward to consultation on how the government propose to deal with existing buildings as opposed to new ones being subject to the Future Homes Standard.

Any retrofitting has significant financial implications: figures from the Energy Saving Trust suggest that only 55% of social rented homes currently meet EPC Band C or above. It may be particularly difficult to achieve Band C in medium and high-rise blocks without cladding. There will be further implications for future expenditure if Government sets challenging targets for the replacement of fossil fuel cooking and heating systems with lower carbon alternatives.

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 documented in our Spending Review submission how successive Government tweaks to council rent policy after 2012 undermined the resource base available to local authorities and thus the volume of investment they can support. None of the investment discussed above was envisaged in 2012, and it is therefore highly unlikely that most local authorities will be able to finance it from within their depleted resource base without compromising other necessary investment. Local authorities have no desire to return to the old system of dependence on Government grants and subsidies. The alternative is to revisit the rent settlement, both the current policy of increases up to CPI +1% up to 2025, and to establish a policy for the years beyond 2025.

Consideration should be given to make it easier and give the flexibility to landlords to increase the rents where energy efficiency work reduces household's outgoings on fuel, looking at saving sharing options like those envisaged through the EnergieSprong projects being piloted across the country at the moment.

Current rent policy is perverse in that it applies a maximum increase of CPI+1 % to all social and affordable rents regardless of their relationship to the formula rent originally calculated to balance local incomes and property values and ensure a genuinely affordable rent for all social tenants. This means that some tenants pay rents that are more, or less affordable than others in the same financial circumstances occupying similar properties but landlords are powerless to change this. A return to the pre-2015 policy that included an allowance for "convergence" would both lead over time to a fairer – and no less affordable – pattern of rents, while providing many local authorities with a significant increase in rent income to fund future investment needs.

Establishment of a rent policy beyond 2025 is equally important. It is not reasonable to expect, on the one hand, that councils should plan for future investment over a 30-year period, but, on the other, to provide no guarantee, or even guideline, on their major source of income beyond the first five years of this period. In our Spending Review submission we called for a rent policy covering at

² Science and Technology Select Committee. *Clean Growth: Technologies for Meeting the UK's Emissions Reduction Target*. Available here: <https://publications.parliament.uk/pa/cm201719/cmselect/cmsctech/1454/145402.htm>

least the next ten years; as the scale of necessary future investment becomes clearer, the case for a longer-term policy for rents becomes stronger.

Improving the welfare system to tackle homelessness

It is not just housing policy that can help alleviate homelessness but welfare policies too. The migration to Universal Credit has led to significant difficulties for both tenants and ALMOs.

The ARCH/NFA annual survey of members demonstrates the impact that the rollout of Universal Credit has had on our members and the tenants we provide homes for.³ Of note, it found that amongst tenants in our homes:

- 32% of households in rent arrears whilst receiving Universal Credit did not have arrears before moving on to the benefit.
- 67% of households in receipt of Universal Credit were in rent arrears in 2019, compared to 21% of households who are receiving Housing Benefit.
- Universal Credit rent arrears are increasing. Households in receipt of Universal Credit owed an average of £564 in 2019, approximately 7 weeks rent. This is higher than the £520 owed in 2018, approximately 6 weeks rent.
- Of those who owe more than a month of rent arrears, the average amount owed has increased from £794 (9 weeks rent) to £922 (11 weeks rent).

Once a tenant falls behind in their rent, it can be difficult to catch up and ever easier to fall further behind, possibly leading to eviction and homelessness. The five-week wait can immediately leave some tenants with over a month's rent arrears before they even receive any funds at all. Tenants may be able to get an advance of their benefit to cover this cost but many claimants do not end up doing so as it is seen as accruing further debt that they will then have to pay back through reduced Universal Credit payments later on.

The NFA and ARCH therefore call for the Government to review the five-week wait and paying claimants in arrears and instead pay claimants from the beginning of their claim to ensure they do not end up in debt before they have even begun.

Both organisations are keen for tenants to be supported in the management of their housing costs as much as possible. Our report into Universal Credit found that many social housing providers used Alternative Payment Arrangements to sustain the tenancies of those in social housing and prevent evictions.⁴ It found though that many respondents felt APAs had issues that needed rectifying. Amongst these included:

1. APAs being paid every four weeks rather than monthly, putting them on a schedule which is out of sync with how housing costs are deducted from claimants.
2. APAs not being useful for those on variable incomes.
3. Landlords not being informed if an APA amount is less than expected.
4. Delays in receiving APA payments, contributing to rent arrears.
5. Overall functionality of the Landlord Portal.

³ NFA & ARCH, *Patching the Safety Net*. Available at: http://www.almos.org.uk/news_docs.php?subtypeid=24.

⁴ NFA & ARCH, *Patching the Safety Net*. Available at: http://www.almos.org.uk/news_docs.php?subtypeid=24.

We recommend the following changes to be made to the APA system to make them more useful and help prevent arrears accruing in the future:

- Move to 12 payments paid every year on a monthly basis
- Pay APAs on the same day that claimants receive Universal Credit
- Speed up the process for approving and making the first APA payment
- Ensure landlords receive better information including confirmation that an APA request has been received, authorised or refused with reasons, amount and start date, ongoing pay dates, notice of delay to payment, changes to circumstances and notification if APA has been cancelled
- APAs should be reviewed jointly with landlords
- The Landlord Portal should have greater functionality to manage APAs and all communication with landlords should be made through the portal

The NFA and ARCH are additionally concerned about the Universal Support service and how personal budgeting, digital support and on-going support to claimants will be provided. Many ALMOs previously provided this service before responsibility for it moved to the Citizens Advice Bureau. We believe that this support must continue to be funded in the future as the advice and support can help get, and keep, claimants out of arrears and therefore allow them to avoid eviction.

One of the main causes of homelessness⁵ is the loss of a private rented tenancy⁵. Since the government froze the LHA rates in 2016 a growing number of low-income households are facing an unaffordable shortfall between their benefit entitlement and their rent.

LHA rates have been frozen since 2016 and had risen slower than rents for several years prior to that. CIH research⁶ shows that, as a result, where LHA rates would previously allow a household receiving housing benefit (HB) or universal credit (UC) to afford any property in the bottom 30 per cent of their local market, this is no longer the case in 90 per cent of local authority areas. In the worst affected areas, as few as 5-10 per cent of properties are now affordable for tenants in receipt of LHA.

We welcome the recent announcement to allow LHA rates to be updated by CPI from this April, but we believe that this does not go far enough to make up for the divergence in LHA rates with real rents. Therefore, in addition to improving the Universal Credit system we are calling for a restoration of LHA rates to at least the 30th percentile of the local market, as was previously the case and to ensure that these keep pace with rent increases in the future.

We also support the CIH's call for the government to carry out a complete review of the relationship between housing and welfare policy, to properly consider the cumulative effect of these cuts.

⁵ <https://www.gov.uk/government/statistics/statutory-homelessness-in-england-january-to-march-2019>

⁶ [http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Gap between LHA and rents putting private rents out of reach](http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Gap+between+LHA+and+rents+putting+private+rents+out+of+reach)

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