NFA

Championing better homes and communities

Council landlords unable to meet tenant and government expectations on investment in homes due to cost pressures

NFA MP briefing

About the research

- Savills Affordable Housing Consultancy was appointed by the Local Government Association (LGA), the Association of Retained Council Housing (ARCH) and the National Federation of ALMOs (NFA) to undertake research into various aspects of the policy, financial and technical operation of the Housing Revenue Account (HRA).

- It has produced three reports, which cover the Right to Buy, social landlords' expenditure and social landlords' income. The research was carried out between August 2022 and January 2023.

Sector struggling with increased costs

- Social landlords support the Government's efforts to keep down costs for social housing tenants and few were intending to raise rents beyond 8% before the 7% rent rise cap was imposed.

- Social landlords are working to ensure that the delivery of key services to tenants are sustained, despite challenging economic circumstances and rising inflation.

- To meet a number of key commitments, such as maintaining housing stock quality and meeting energy efficiency requirements, local authorities and social landlords may be forced to borrow more, if there is not increased support from central government.

- Savills has estimated that there is likely to be an 8% increase in the total amount needing to be borrowed by social landlords in England. This equates to around £2.2 billion over 30 years. There would be additional headroom instead to allow social landlords to invest in their housing stock if authorities are able to increase rents in line with CPI+1% beyond 2024, provided inflation and economic circumstances allow.

- The cost of meeting building safety standards for tall buildings and housing vulnerable residents who need to be moved to new accommodation is set to be £7.7 billion across the sector, of which £1.8 billion relates to re-cladding work. Unit costs continue to rise as a result of inflationary pressures.

- Across the sector, the cost of all homes reaching an energy performance rating of at least a C by 2030 is set to be £3.5 billion, whilst the cost to meet net zero targets over the next 30 years is estimated to be £78 billion.

- Delivery costs for regeneration schemes are also increasing and the inability to draw on Affordable Housing Grant funds for anything other than additional housing is a significant barrier to bringing schemes forward.

Sector incomes not matching costs

- The average that social landlords needed to increase their rents by in April 2023 was 8.2%, slightly above the 7% rent increase cap imposed by the Government for 2023 to 2024. It is therefore likely that many local authorities will need to increase rents by the maximum available amount, to ensure that costs can be met.

- The long-term impact of social landlords not being able to meet cost pressures would be exacerbated if landlords are only able to change the rents they are permitted to charge (formula rents) when reletting to a new tenant.

- Equally, if landlords were able to make changes to formula rents over a shorter period of time (for example, ten years) this could help build resilience in the HRAs and limit budget deficits.

- Capping service charge increases at 7%, when costs are significantly above this level, could cost authorities 14p per property per week across the entire sector.

Current Right to Buy settlement is not working

- Social landlords are keen to support their tenants into home ownership and as such are supportive of a sustainable Right to Buy system.

- However, at present, replacement homes have consistently failed to match the loss of social housing stock through the Right to Buy. Between 2021 and 2030, there are expected to be an additional 100,000 social rented properties sold under right to buy, but replacements are unlikely to be above 43,000, resulting in a net loss of 57,000 social rented homes.
- The replacement rate nationwide will be around 0.5 homes built for every 1 sold. This varies by region, with net stock loss in the North and Midlands expected to be highest, with a replacement rate of one third of a property for every 1 sold.

- The gross level of Right to Buy discounts since 2012 substantially outweighs the level of rent paid by tenants who purchased their property, to the tune of £2 billion. This could have funded an additional 10,000 social rented homes between 2012 and 2022.

- Savills estimates that the discounts do not have to be as large as they currently are and that by offering a smaller one, especially in the North and Midlands, this would not substantially impact demand. This is backed up by analysis of London house prices versus right to buy sales, which showed no correlation between the two measures.

The research points to the need for the following:

1. **The Government needs to review the long term financial sustainability of the Housing Revenue Account. It is needed as a result of many government interventions on rents since the self-financing settlement back in 2012 and new demands being placed on councils in terms of building safety work, energy efficiency and net zero targets.**

2. **Social landlords should be permitted to increase rents by CPI+1% from 2024 and a longer term review of rent setting should be undertaken by the Government to place the sector on a more secure financial footing.**

3. **Councils should be able to use up to 50% of retained Right to Buy receipts on social housing to make new build viable for councils struggling to cover additional borrowing costs and other commitments.**

4. **Affordable/Social Housing Grant funds should be made available for replacement housing as well as net additions on regeneration sites to remove a significant barrier to bringing schemes forward to replace stock no longer fit for purpose.**

5. **Right to Buy discounts should be reviewed to ensure they allow for one-for-one replacements for social housing that is sold, without dampening demand for the scheme.**

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