

Strong foundations

The value of regenerating social housing
– and how we can pay for it

Shreya Nanda
John Asthana Gibson

SMF

**Social Market
Foundation**

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ABOUT THE AUTHORS

Shreya Nanda

Shreya is the Chief Economist at the Social Market Foundation, where she leads the organisation's economic policy work. Prior to this, she was an economist at the Institute for Public Policy Research, and a government economist. She has published research on wide range of UK domestic policy areas, including macroeconomics, fiscal policy, and housing and transport.

She is an advisor to Tax Justice UK, the Women's Budget Group, London YIMBY, and *Taxing the Rich*, as well as a spokesperson for the New Economy Organisers Network. She regularly appears in national print and broadcast media.

John Asthana Gibson

John is a Researcher at the Social Market Foundation, having joined the organisation in March 2023. Prior to this, John worked at the Centre for Cities, where he conducted research on topics including transport policy, devolution and the geography of the innovation economy. He holds a BA Hons in Economics from the University of Manchester.

EXECUTIVE SUMMARY

Though standards in social housing are higher than privately-rented and owner-occupied homes, there are still almost 400,000 social homes that do not meet the decent homes standard. Moreover, there are substantial challenges ahead to improve energy efficiency and help the social rented sector make the transition to net zero.

Social housing providers are taking steps to address these issues, including spending around £9 billion per year on maintenance and repairs. But it is clear that more investment will be needed to address these issues fully. What form this investment should take will vary from case to case – from routine repairs and maintenance to refurbishment and retrofitting to wholesale demolition and replacement. But this investment is necessary to ensure that tenants are living in safe and adequate conditions; that social landlords are meeting their legal responsibilities to tenants; and that problems that will be more expensive to fix later do not go unaddressed.

We estimate that it would cost £2.3 billion – a modest sum relative to the government’s £8.9 billion annual capital spending on social housing – to bring all social housing units up to the government’s current decent homes standard. This should be taken as a baseline.

In addition, we find that it would cost around £11 billion to bring homes currently just below the government’s minimum standard for energy efficiency up to this standard.

As well as the core benefits this would carry for tenants, such investment also has wider economic, environmental and social benefits. Poor conditions and inefficient homes inflict considerable costs on society, and addressing many societal problems – whether it be unemployment, poor health or the climate crisis – rests in part on improving the homes where people live. We estimate that every £1 spent on social housing regeneration creates an additional 20p of value for the local economy beyond this initial investment. Unlike private investment in the housing market, this investment has the potential to be used as a countercyclical tool to fight economic downturns. According to our analysis, splitting these investments over three years would generate:

- £0.9 billion in gross value added and around 10,500 jobs a year to bring all homes up to the Decent Homes Standard
- £4.5 billion in gross value added and around 52,000 jobs a year to bring all EPC D-rated homes up to EPC C.

Our research suggests that improving social housing conditions could bring substantial benefits to people’s lives. For example, we find that the presence of damp, mould or condensation in a home is correlated with lower levels of wellbeing, and that this reduction in wellbeing is equivalent to an annual income loss of £4,000.

Investing in energy efficiency would also make a meaningful contribution to addressing climate change. We find that bringing all EPC D properties up to EPC C would reduce emissions by almost 330,000 tonnes of CO₂ equivalent – around 3% of total annual emissions from the social rented sector.

Given all these benefits, why has this investment not been made? We found that government policy has prioritised the construction of new social and affordable housing, setting explicit targets and nominating housing associations as “strategic partners” to deliver these. The government grant environment has also been much more focused on new supply of social housing than investing in the regeneration of the existing stock. Funds such as the Affordable Homes Programme and the Housing Infrastructure Fund (approximately £3.2 billion per year) were, until recently, only available for new construction. Funds such as the Social Housing Decarbonisation Fund and the Homes Upgrade Grant (approximately £1 billion per year) are available to fund some forms of regeneration, but are limited to the installation of energy efficiency measures. Dedicated funding for more expensive forms of regeneration, such as the demolition and like-for-like replacement of existing homes, is not available.

The regulatory environment facing providers has also been insufficiently focused on living conditions, though this is being addressed via the Social Housing Regulation Bill. We believe that there should be stronger enforcement of the legal responsibilities social landlords have to their tenants, and of the financial management required to achieve this.

Providers face significant financial pressure. Some of this is from changing macroeconomic conditions, such as rising interest rates and high construction cost inflation. Some is from funding and policy shifts:

- The overall level of government investment into social housing per annum in England has fallen by £2.3 billion in real terms since 2009/10, a reduction of 21%.
- Since 2015/16, average rents in the social housing sector have been cut by the Regulator of Social Housing by 10% in real terms – equating to a shortfall of £2.3 billion per year.
- Dealing with the building safety crisis will cost providers an estimated £15 billion–£20 billion in total, or £1.5–2 billion per year over ten years, according to the National Housing Federation.
- Reaching net zero will cost providers an estimated £99 billion in total, or £3.7 billion per year between now and 2050, according to Inside Housing.
- Meeting social housing need will cost an estimated £46bn per year, according to the National Housing Federation.

Many of the experts and practitioners we spoke to also argued that social housing providers have prioritised investment in new construction and development over investment in their existing stock; though there is also a social case for doing so, in order to benefit those in need but not currently in social housing.

We asked whether this meant that government should broaden out some existing support for new construction, to allow it to also be used for regeneration. Many we spoke to were in favour of this, arguing that social housing providers’ first duties should be to their existing tenants. Some pushed back, arguing that it was wrong to pit one against the other. There was widespread support for increasing spending on both.

We agree that current grants should be broadened out, and that overall spending on social housing should increase. We recommend the following:

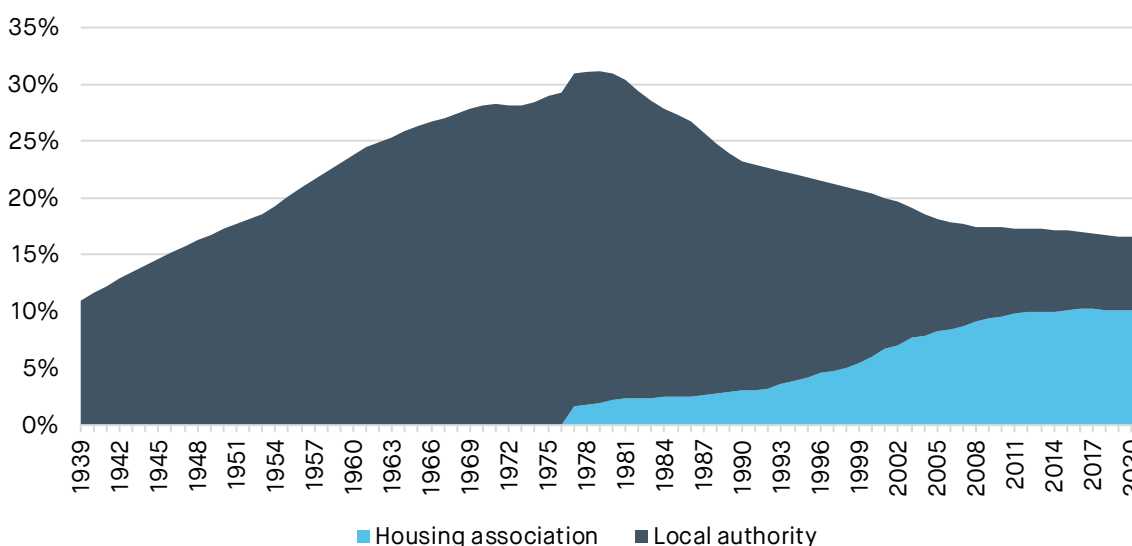
- Existing funding for the construction of new social and affordable housing, such as the Affordable Homes Programme and the Housing Infrastructure Fund, should be broadened out so that it can also be used to fund regeneration. We welcome the recent announcement from Homes England that funding from the Affordable Homes Programme can now also be used for regeneration as an important step in this direction.
- Existing grants for social housing construction and regeneration should be made easier to access. Funding streams should be consolidated, and allocated on the basis of need rather than via a bidding process.
- The Affordable Homes Programme should be increased by £1.5 billion per year for three years, and £2.3 billion per year thereafter.
- The government should introduce a one-off spending program to bring all social homes up to decent standards. At minimum, this should be at the level of £0.75 billion per year over three years.
- Funding for building safety and decarbonisation should increase, in recognition of the fact that providers will now be spending a greater proportion of their own resources on maintaining living conditions in the existing stock.
- Greater long-term certainty should be provided over policy regarding the rent regime, with all changes set out at least five years in advance (with the exception of caps to address unanticipated high inflation). Where rents are capped below inflation, the shortfall should be made up by government.
- Given this additional funding, social housing providers should be required to set aside rent revenue to fund major works and repairs over the lifespan of the property. This could be based on the sinking fund model currently used in the leasehold sector.
- There should be stronger legal enforcement of the rights of tenants to safe and adequate living conditions. We welcome the changes proposed in the Social Housing Regulation Bill to provide stronger regulation and enforcement in this area.

CHAPTER ONE – INTRODUCTION AND BACKGROUND CONTEXT

Standards in social housing have consistently been better than in the private rented sector

Social housing – accommodation provided by local councils, and by housing associations – dates back to the mid-19th Century. It was developed to provide decent, secure, affordable housing, primarily for working-class people. The number of social homes rose over most of the 20th Century, peaking in 1979. After this, numbers fell – both as a result of the Right to Buy policy, which allowed council tenants to buy their properties, and as a result of a policy shift away from building new council housing stock.

Figure 1: Social homes as a share of the total housing stock in England, 1939-2021



Source: DLUHC, English Housing Survey; DLUHC, Live tables on dwelling stock

Council homes made up the majority of the social housing stock for most of this period – it was only in 2008 that the number of housing association homes overtook the number of council homes to become the largest social housing category in England. This occurred both as a result of large-scale voluntary transfers of stock from local authorities to housing associations, and as a result of new construction by housing associations themselves.

The tenure mix of social housing continues to change. 59,000 social and affordable homes were added in 2021/22 – 1% of the total, and 25% of total additions across all tenures in that year.¹²³ In 1991/92, 87% of additional social and affordable homes built were for social rent – the cheapest social housing tenure, with rents historically set at around 50% of market rents.⁴⁵ By 2021/22, just 13% of new social and affordable homes were for social rent. 45% were in the form of ‘affordable rent’, where rents are set at up to 80% of market rents; and 33% in the form of shared ownership, where residents purchase a share of the property and pay a subsidised rent on the remaining share.⁶ In short, the composition of social housing is shifting over time towards less affordable tenure types, with fewer available at social rents than before.

Social housing arose partly due to concerns about poor living conditions in the private rented sector – slum clearances, and their replacement by council housing, were pursued by local authorities throughout much of the 20th Century.⁷ As a consequence, socially rented homes have typically been better-quality than their private rented equivalents. For the period for which data is available (1971 onwards), we know that social homes were significantly less likely to be unfit for human habitation than homes in the private rented sector – and for the period 1971-81 were also less likely to be unfit than homes in the owner-occupied sector. More recent data on performance relative to the government’s Decent Homes Standard also shows that social homes are less likely to be non-decent than homes in the private rented or owner-occupied sector.

The Decent Homes Standard

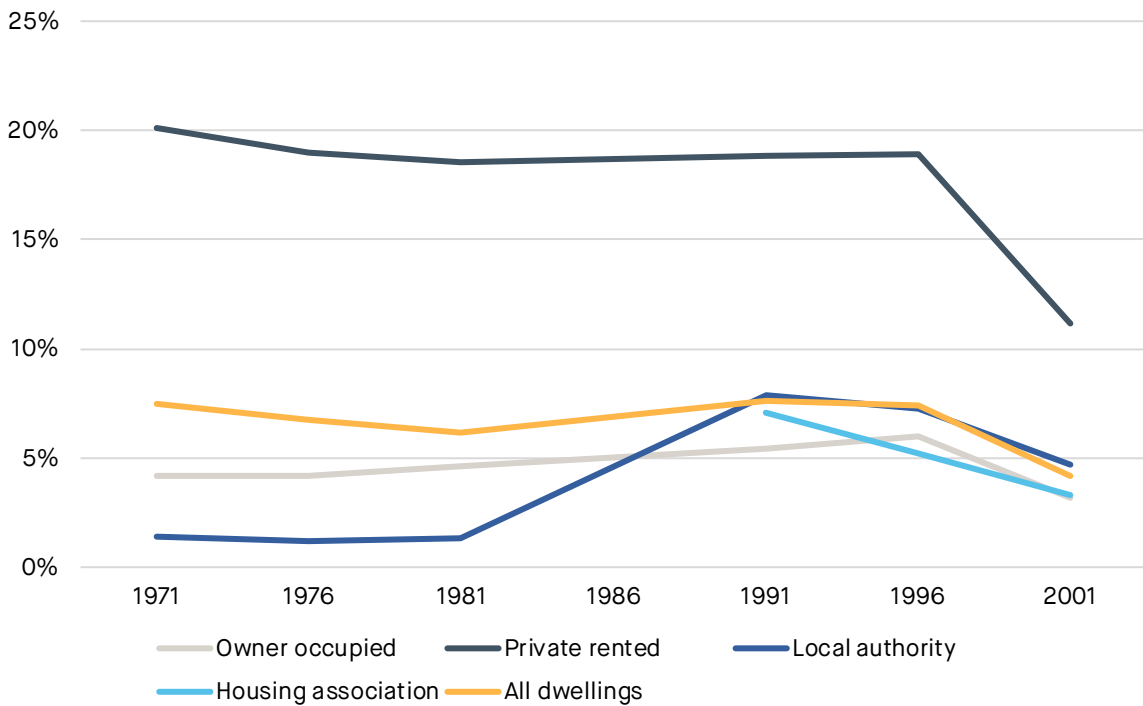
The Decent Homes Standard was created by the government in 2000, as part of its Decent Homes Programme, which set a target to bring all social homes up to the Decent Homes Standard by 2010. It assesses homes against four criteria:

- Whether the home avoids potential safety hazards
- Whether the home is in a reasonable state of repair
- Whether the home has reasonably modern facilities and services
- Whether the home has a reasonable degree of thermal comfort.

In 2022, the Government set a target to halve the number of non-decent private and social rented homes by 2030.

There is a general consensus that the standard is outdated, and that a review is needed.⁸ Particular criticisms include the need to strengthen standards on damp and mould, and on insulation and energy efficiency.⁹ The government is currently reviewing the Decent Homes Standard, to broaden its scope, and consulting on extending it to the private rented sector.

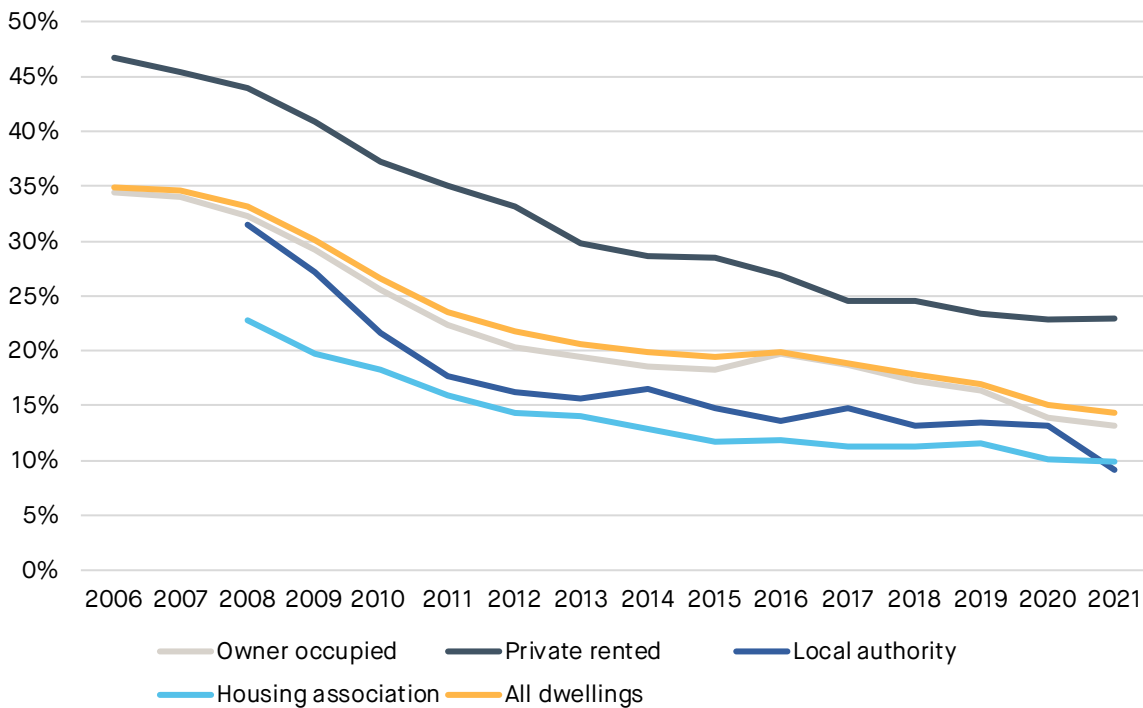
Figure 2: Share of homes which are unfit by tenure in England, 1971-2001



Source: Holmans, *Historical Statistics of Housing in Britain*; DLUHC, *Live tables on dwelling stock*

Notes: The category “local authority” also includes homes in new towns. Data on housing association homes is not available before 1991.

Figure 3: Share of homes which are non-decent by tenure in England, 2006-21



Source: DLUHC, *English Housing Survey*

The 400,000 non-decent social homes remain the subject of political concern

Though standards in the social rented sector are higher than other tenures, 9% of local authority homes and 10% of housing association homes are non-decent. That amounts to almost 400,000 homes that fail to meet the Decent Homes Standard, which have tended to receive significant political attention in recent years. The issue of poor conditions in social housing has received greater attention following the tragic death of the toddler Awaab Ishak from exposure to mould, as well as media reporting on other examples of poor and uninhabitable conditions.

This political attention comes despite a number of political initiatives to improve conditions in social housing. As far back as 1988, Housing Action Trusts were created for the purpose of regeneration in some of England's poorest council estates. 1998 saw the establishment of the New Deal for Communities programme, again aimed at regeneration and tackling deprivation, and with a budget of approximately £2 billion (£3.5 billion in current prices).¹⁰ⁱ As described above, in 2000 the government created the Decent Homes Standard, and sought to bring all social homes up to this standard by 2010 (by late 2009, it was estimated that £22 billion had been spent (£33 billion in current prices), though the target was not and still has not been met).¹¹ In 2001, a £1.6 billion Major Repairs Allowance for local authorities was introduced (£2.7 billion in current prices).¹² In 2014, the government launched a £0.2 billion Estate Regeneration Fund (£0.3 billion in current prices),¹³ followed by the publication of its 2016 National Strategy for Estate Regeneration, which aimed to transform up to 100 housing estates.

The Social Housing Regulation Bill, currently making its way through parliament, is set to increase requirements on social landlords further. It aims to ensure accountability, improve housing conditions, and promote transparency in the social housing sector. The bill will enhance the powers of the Regulator of Social Housing in a number of ways, including:

- Enabling the regulator to regularly inspect registered providers, and with 48 hours' notice, to ensure expected standards are being met;
- Ensuring housing association tenants will be able to request information from their landlords;
- Removing the cap on the fines that the regulator can impose on landlords failing to provide adequate conditions for their tenants;
- Providing powers for the regulator to arrange emergency repairs of tenants' homes where landlords are failing to act;
- Making safety, transparency, and energy efficiency part of the regulator's fundamental objectives.

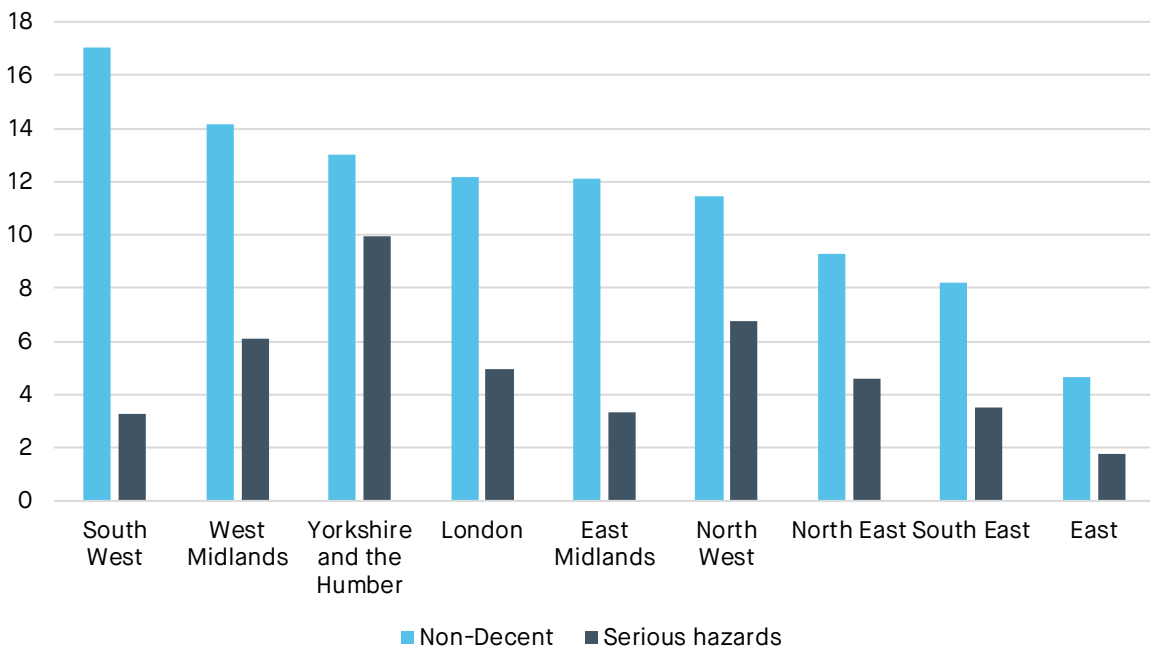
ⁱ All monetary values are given in 2023/24 prices unless otherwise stated.

The stock of poor social housing is unevenly distributed around the country

There are regional differences in the prevalence of non-decent homes in the social rented sector. According to the English Housing Survey 2020, the East of England has the lowest rates of non-decent social homes at 5%, whilst the South West has the highest with 17% of social homes failing to meet the Decent Homes Standard (see Figure 4). Housing association homes are less likely to be non-decent than local authority-owned homes in all regions other than London; this is because local authority homes tend on average to be older and are therefore more likely to be non-decent.¹⁴

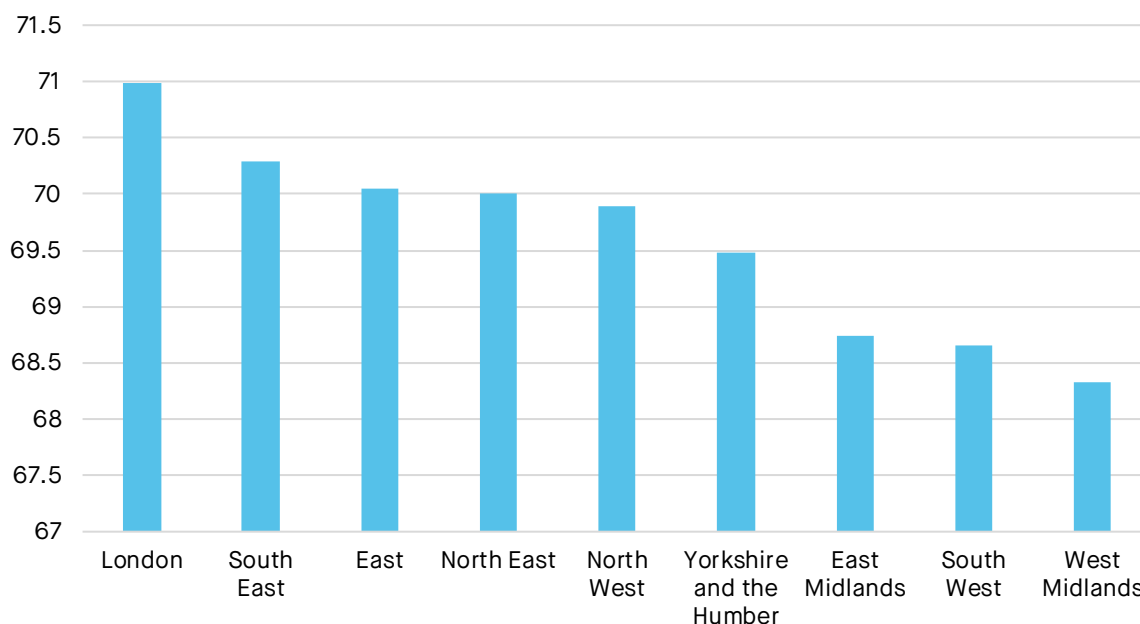
There are also regional differences in the reasons why homes fail to meet the Decent Homes Standard. In Yorkshire and the Humber, 77% of non-decent social homes exhibit one or more serious hazards, whereas in the South West only 19% do (here, homes are more likely to be categorized non-decent for other reasons, like being too cold).¹⁵

Figure 4: Percentage share of social and affordable homes that are non-decent or have serious hazards in England by region, 2020



Source: DLUHC, English Housing Survey 2020-21

Levels of energy efficiency in the social rented sector also vary between different parts of the country. London’s social homes have the highest average energy efficiency rating, whereas the West Midlands has the lowest levels of energy efficiency. This reflects the greater prevalence of flats and terraced housing in London.

Figure 5: Average energy efficiency rating of social and affordable homes by region, 2020

Source: DLUHC, *English Housing Survey 2020-21*

Levels of overcrowding in the social rented sector also vary between different parts of England. The local authorities with highest rates of overcrowding in the social rented sector tend to be located in the country's economically thriving urban areas where housing unaffordability is most acute, a trend that is also seen in other housing tenures. All 50 local authorities with the highest rates of overcrowding in social housing are classified as urban, and 39 of these are in London and the South East.¹⁶ Similar geographical differences are seen with social housing waiting lists – the areas with the longest social housing waiting lists tend to be located in the country's biggest cities.¹⁷

The transition to net zero poses further challenges for the social housing sector

Concerns around the condition and quality of social housing are long-standing. Climate change and energy insecurity have brought new challenges. Like the rest of the housing sector, social housing providers have to reckon with the difficulties of retrofitting older housing stock, and ensuring new stock is up to modern standards – both in terms of decarbonising energy sources, and in terms of efficiency.

Carbon emissions from buildings, resulting from use of fossil fuels (primarily gas) for heating, were 88 million tons of CO₂ in 2019, 18% of UK total emissions and more than any sector other than surface transport (23%). As of 2019, 77% of building carbon dioxide emissions were from homes.¹⁸

For the UK to meet its legally binding target of net zero carbon emissions by 2050, social housing providers must drastically reduce the carbon emissions of the homes they manage. The Climate Change Committee's sixth carbon budget, which sets out the steps the UK needs to take to achieve net zero, requires all homes in the socially rented sector to meet the energy efficiency standard of EPC C by 2028.¹⁹ The government has set a more modest target for all dwellings to achieve EPC C or better by 2035.

This is far from straightforward. As with housing standards and conditions, social rented homes tend to be more energy efficient than other tenures – primarily because social housing contains a higher proportion of flats, which tend to be more energy efficient and better insulated. Yet over a third of social housing – 1.4 million homes – has an energy efficiency rating of C or below.²⁰

Moreover, progress on installing energy efficiency measures has slowed in recent years, in part because of changes to policy and in part because the 'low-hanging fruit' where retrofitting is relatively straightforward has already been picked. In particular, certain homes are relatively difficult to decarbonise – for example, those with solid walls, with flat roofs, on terraces, or with bespoke features.²¹ After significant falls in carbon emissions from 1990 to 2015, the rate of emission reductions from buildings has stagnated, according to the Climate Change Committee.²²

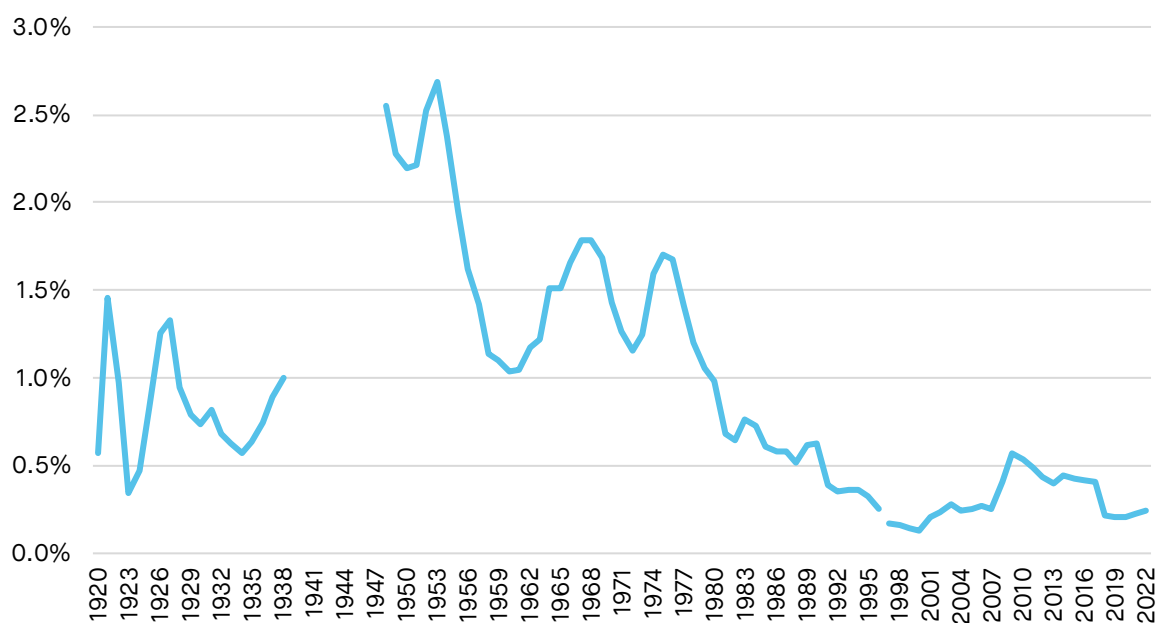
Accelerating progress will not be cheap: Inside Housing has estimated that decarbonising the existing social housing stock in England will cost £99 billion in total.²³ Specific funding for decarbonisation is available – in particular via the Social Housing Decarbonisation Fund and the Homes Upgrade Grant – but as we discuss below, these funds are in practice not always easy for providers to access.

Squeezed funding means that social housing providers are having to do more with less

Social housing providers continue to invest in their estates. Housing associations are currently spending a total of £6.5 billion a year, or £2,370 per dwelling, on maintenance and major repairs, while local authorities are spending £2.4 billion per annum, or £1,650 per dwelling, on repairs.ⁱⁱ

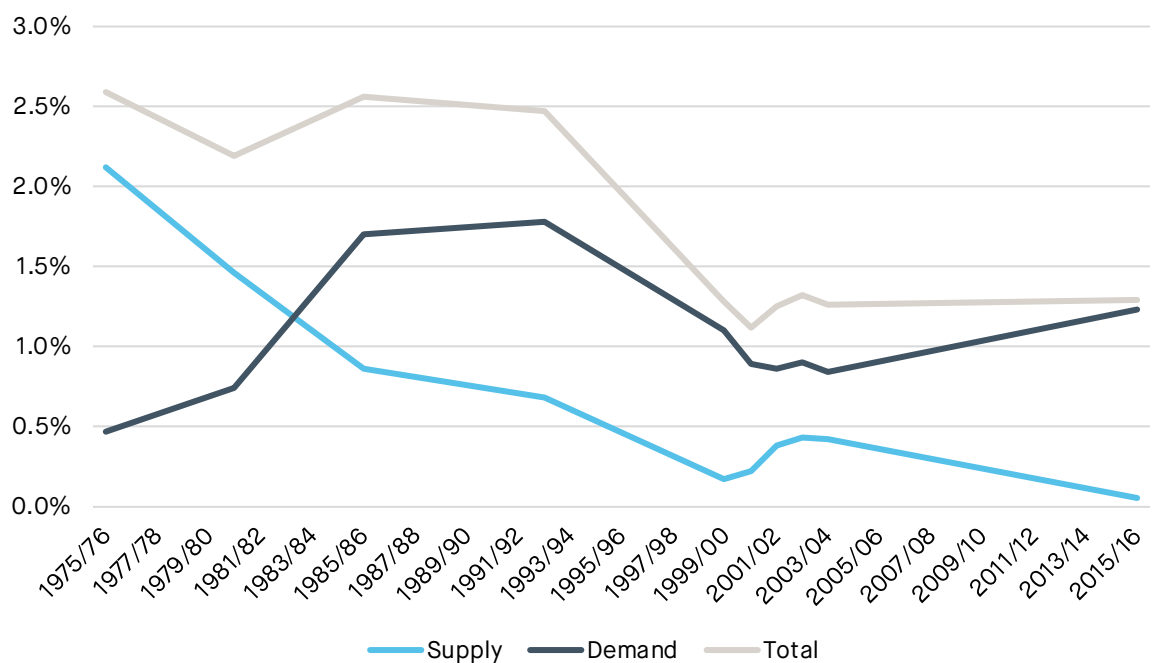
Yet public investment has slowed and been diverted – again, the culmination of a long-term process. In 1953, overall public investment in housing accounted for 2.7% of GDP. By 2022, this had fallen to just 0.2% – down substantially even from the more recent peak of 0.6%.

ⁱⁱ Source: SMF analysis of Regulator of Social Housing, Global accounts of private registered providers; Chartered Institute of Housing, UK Housing Review 2023; DLUHC, English Housing Survey; DLUHC, Live tables on dwelling stock; HM Treasury, GDP deflators at market prices. Figures for housing associations are for England, whereas figures for local authorities are for the whole of the UK.

Figure 7: Public sector investment in housing as a share of GDP in the UK, 1920-2022

Source: Holmans, *Historical Statistics of Housing in Britain*; ONS; Bank of England; SMF analysis

Moreover, what money the government does spend has shifted dramatically in composition. While in 1975/76, 82% of total subsidy went towards increasing housing supply, and only 18% towards boosting demand, by 2015/16, these figures were 4% and 96% respectively.

Figure 8: Government housing subsidies by category as a share of GDP in England, 1975-2016

Source: Hills, *Ends and Means*; Perry & Stephens, *How the purpose of social housing has changed and is changing*; ONS; Bank of England; SMF analysis

In recent years, there have been significant cuts to funding for social housing. Capital investment into social housing currently stands at 21% less than its 2009/10 peak. Funding to housing associations has particularly suffered, with Homes England investment into affordable housing standing at 77% below its 2009/10 peak. Social rents have declined by 10% in real terms since 2015/16. Further, new policy requirements on building safety and net zero are imposing new financial costs.

This has affected the delivery of new social and affordable housing – as above, new homes are now largely for ‘affordable rent’ and shared ownership rather than the more affordable social rent. It has also hit the level of funding available for regeneration.

This has led to calls for additional funding for regeneration – potentially at the expense of new construction

Funding for improvements to social housing has been scarce in recent years, with greater focus directed towards new construction of housing. Approximately 87% of funding available for social housing in recent years has been targeted at the construction of new social housing, while only 13% has been available for regeneration. Of the funding that has been available, its scope is narrow – primarily targeted at decarbonisation; it is insufficient to fund large estate regeneration projects on its own; and its delivery in the form of individual short-term pots makes it difficult for providers to access. This lack of dedicated funding for regeneration has made action to deal with poor living conditions slower and more difficult. This is particularly the case for homes that are in need of extensive changes to make them habitable, and where demolition and rebuilding may be the best or only option available. Demolition and rebuilding is an expensive process, and without dedicated funding it is difficult for providers to finance. This has led some – notably the National Housing Federation and the Levelling Up, Housing and Communities Committee – to argue that grants should be redirected from new housing towards regeneration. As a result, Homes England recently announced that funding for the Affordable Homes Programme would now be available for regeneration, as well as new construction – a welcome step in this direction. We discuss the case for this in more detail in Chapter Four.

What do we mean by regeneration?

In general, the first line of defence against poor housing conditions in the social housing sector and elsewhere is maintenance and minor repairs, undertaken by the property owner. The next step beyond this involves refurbishment – replacing old features of the property that have worn out – and retrofitting – adding in new features, particularly those relating to energy and energy efficiency. Beyond this are major works and repairs – particularly large, complex and expensive work on the property, such as the replacement of a roof. Finally, there is demolition and rebuilding – knocking down the property and building a new structure in its place.

Regeneration is typically used to refer to the last of these – the demolition and rebuilding of existing social housing estates. It can also be used to refer to infill projects – projects where new homes are added to existing estates – and to conversions from non-residential to residential use. The demolition and construction of new housing may also be accompanied by wider changes to the estate landscape, including the provision of new green space. It may involve changes in the number of homes on the estate, and to the tenure mix of those homes – including the type of social housing provided.

Its use can also be wider than just the demolition and construction of new social housing – regeneration as a term is also used to refer to investment into the renewal and redevelopment of town centres and high streets, or the building of new facilities such as the Queen Elizabeth Olympic Park in east London. The regeneration of social housing may be one part of a wider package of measures that also encompasses these elements. Regeneration programmes may also involve investment aimed at increasing local employment, or addressing social issues such as anti-social behaviour or poor health.

For the purposes of this report, we are interested in investment in social housing in a relatively wide sense – to cover activities that seek to address poor conditions in existing social housing, whether that be through refurbishment, retrofit or demolition and rebuilding. We are interested in these investments insofar as they do not add new additional homes to the housing stock. Throughout this report, we will consider this type of investment under the broad heading of “regeneration”.

Estate regeneration case study: North Prospect Estate in Plymouth

North Prospect Estate was built in the 1920s following the Housing Act of 1919, designed to improve housing conditions and accommodate soldiers returning from the First World War. Originally a desirable place to live, the estate fell into disrepair during the post-war period and gained a reputation for high unemployment, crime and anti-social behaviour. Poor construction standards meant homes were hard to heat, and damp and mould were prevalent.

In 2009, Plymouth City Council transferred ownership of the estate to a newly formed housing association, Plymouth Community Homes. This kickstarted a ten-year regeneration programme that involved the demolition of 794 poorly constructed and energy-inefficient dwellings, replaced by 1,102 new high-quality and energy-efficient homes of various types, sizes and tenures. The regeneration involved moving 741 households out of North Prospect over several phases of the project whilst the work was undertaken, with more than 70% of the residents electing to move back into new homes in the neighbourhood.²⁴²⁵

Table 1: Our definition of regeneration

	Examples	Included in our regeneration definition?
Maintenance & minor repairs	Plumbing, electrical issues	
Refurbishment	Replacing doors and windows	✓
Retrofitting	Installing insulation	✓
Major works & repairs	Replacing roof	✓
Demolish & rebuild		✓
Local redevelopment	Upgrading high street	

Housing associations and local authorities have different funding models, but we have considered them together

Housing associations are private, not-for-profit organisations set up to provide affordable homes and support local communities. Their day-to-day activities are funded by rent and service charges payments made by, or on behalf of, those living in their properties. In this sense, housing associations are run as commercial entities. Critically, they make no profits but invest any income they make into delivering on their social purpose. Local authorities also provide social housing in England. As above, local authorities were responsible for the provision of the vast majority of social housing until the 1980s, when over the following decades much of their stock was transferred voluntarily into the control of housing associations.

There are some differences in how housing associations and local authorities are funded to provide social housing. Until 2018, when the government lifted the Housing Revenue Account borrowing cap, councils were heavily restricted in the levels of borrowing they could undertake to fund the provision of social housing. Since the borrowing cap has been lifted, local authorities have had greater freedom to borrow from the Public Works Loan Board or Municipal Bond Agency. However, each local authority must set a total borrowing limit for itself related to the revenue streams available to the local authority, with which it can repay the debt.²⁶ Meanwhile, housing associations have the ability to borrow from private investors. As such, housing associations in general have a greater capacity to borrow to fund investments in social housing.

There are also differences in how housing associations and local authorities finance their core capital expenditure. Capital grants are provided to local authorities by government departments and other organisations. Most of these grants are not ring-fenced, giving authorities flexibility to choose how to spend this money, provided it is used for capital purposes. Housing associations have a more diversified funding base. They also receive government grants, but lean more heavily on cross-subsidy from the sale or rent of market rate homes to finance the delivery of new social housing.

Furthermore, local authority tenants have a statutory right to buy their properties, whereas most housing association tenants do not (only those in secure council tenancies transferred to housing associations have a legal right to buy). Government rules have meant that local authorities can only use a small proportion of the proceeds from the sale of council homes to fund new properties, with the rest taken by the Treasury. This has limited the ability of local authorities to fund the development of new homes. However, the government recently announced that local authorities will be able to retain 100% of their right to buy receipt for the 2022/23 and 2023/24 financial years, a move widely welcomed by the sector.²⁷²⁸

Throughout this report, we examine local authority and housing association social housing together as one, despite the differences in their funding models.

This report explores the potential benefits of social housing regeneration, and how it might be funded

To determine whether additional public investment in social housing regeneration is warranted, we need to understand what we would get for our money. This report therefore explores the potential benefits of investment in social housing across three domains – individual and social wellbeing, the economy, and the environment. We have reviewed the literature and modelled the impact of social housing regeneration in each of these domains. We have interviewed a range of experts in social housing: eight academics, three policy researchers, two practitioners, and one politician; as well as holding a roundtable discussion where we tested initial findings of our research.

In addition, we have sought to understand how further investment in social housing might be funded, and to explore the question of whether funding for regeneration ought to come at the expense of additional construction.

The rest of the report is structured as follows:

- **Chapter Two** explores the potential benefits of social housing regeneration
- **Chapter Three** looks at the barriers to regeneration
- **Chapter Four** sets out policy implications and recommendations.

CHAPTER TWO – THE BENEFITS OF SOCIAL HOUSING REGENERATION

The UK's housing crisis is often viewed through the lens of a housing shortage, rising unaffordability, and a generation unable to get on the property ladder. Also important, but often overlooked, is the state of the existing stock. Poor conditions and inefficient homes inflict considerable costs on society, and addressing many societal problems – whether it be unemployment, poor health or the climate crisis – rests in part on improving the homes where people live. Regenerating social housing, which accounts for 17% of England's housing stock, and serves many of the most vulnerable and disadvantaged in society, is a key part of this puzzle.

This section will set out the principal benefits – social, economic and environmental – that investment in social housing regeneration can generate for society, and examine the size of these benefits. It will then compare these benefits of social housing regeneration with the benefits of new construction of social housing.

Social and wellbeing benefits of regeneration

The impact of regeneration on wellbeing

Poor conditions in housing are linked to lower levels of wellbeing and a range of social problems. Regeneration that improves conditions in social housing, creating quality homes where residents take pride in the place they live, therefore has the potential to improve the wellbeing of residents.

Certainly, poor housing conditions can have significant detrimental impacts on residents' lives. People living in non-decent housing have lower average levels of wellbeing than those living in decent homes (although our own research did not find this relationship to be statistically significant once relevant third variables were controlled for), and research has shown that overcrowded households experience a similar hit to quality of life.²⁹

Analysis by the Health Foundation has shown that those living with housing problems are more likely to be in poor health – which in turn can have detrimental effects on wellbeing (although this relationship will partly be explained by confounding factors, such as deprivation).³⁰ For example, poor levels of insulation mean it is hard to maintain the heat of homes, with damaging consequences for health. Children living in cold homes are more than twice as likely to suffer from respiratory problems than children living in warm homes.³¹

Poor housing is associated with poor mental health and wellbeing, both directly and via these sorts of physical health problems.³² A 2014 report by Ulster University found that living in cold and damp housing contributes to a variety of different mental health stressors, including persistent worry about debt and affordability, thermal discomfort, and worry about the consequences of cold and damp for health.³³ Good insulation (a warmth and comfort issue with health implications) has a significant positive link with mental wellbeing, and the same research found that improvements to energy efficiency are often associated with significant improvements in mental wellbeing.

Regeneration often aims to improve access to nature and outdoor space, and this too is linked with improved mental health and wellbeing.³⁴ Improved housing conditions not only raise the wellbeing of residents individually, but can collectively benefit an entire community – leading to more vibrant and social neighbourhoods where residents feel civic pride in the place where they live.

A lack of accessibility for people with disabilities can also have significant detrimental effects on their wellbeing, with evidence of serious deterioration in mental wellbeing for disabled people in unsuitable accommodation.³⁵ Research has also shown that for people living in deprived areas, living in better quality and more beautiful homes and neighbourhoods is positively associated with mental wellbeing.³⁶

Regeneration can also improve residents' lives through lower energy bills. Improving the energy efficiency of homes can help reduce the amount of fuel needed to maintain a home's heat, reducing fuel bills, and so taking financial strain off residents. A study in the North East found that tenant financial satisfaction (the extent to which respondents feel their financial resources are adequate or inadequate) improved by 6.8% one year after receiving housing improvements (a new energy-efficient boiler and double glazing).³⁷

Social housing regeneration schemes can also reduce crime. This can be through improvements in mental health or better access to employment opportunities. Some also argue that the elimination of spaces that allow criminal behaviour to flourish can lead to a reduction in crime³⁸. The approach taken to regeneration matters considerably here. Large-scale schemes involving the demolition of social housing estates could have significant implications for crime reduction, whereas retrofitting activities are likely to be less impactful.

Regeneration can have costs to the wellbeing of residents as well as benefits. As the literature on estate regeneration has highlighted, past estate regeneration projects have in some cases caused residents stress relating to a disrupted living environment, relocation, and prolonged uncertainty.³⁹ For some schemes, the time it takes to go from the decision to regenerate and demolish dwellings to the rebuilding of housing can take many years, or even decades. Despite these potential issues, improving homes through regeneration generally brings substantial benefits to residents.

New analysis of the relationship between housing conditions and wellbeing

To better understand the relationship between wellbeing and poor housing conditions, we created a linear regression model of the association between physical conditions of dwellings and the life satisfaction of those who live in them, controlling for factors that are likely to influence life satisfaction. We looked across all housing tenures, not just social housing – both because our research indicated that the relationship between conditions and wellbeing was similar across different housing tenures, and in order to ensure a larger sample size.

To do this, we used English Housing Survey 2019/20 data on wellbeing. We also incorporated variables relating to the physical and living conditions of the dwelling in which they live. In terms of control variables, we used Green Book supplementary guidance on wellbeing to determine which factors to include.⁴⁰ We included a variety of demographic and socioeconomic characteristics that are likely to influence personal life satisfaction – including income, health, age, education, marital status and employment occupation.

Our full results are presented in Appendix C, but in brief, we found that the presence of damp, mould, or condensation in a home has a statistically significant negative effect on life satisfaction, after taking into account confounding factors.

To contextualise the effect (a 0.269 point reduction on a 10-point life satisfaction scale), we have used HM Treasury guidance on converting changes in wellbeing to monetary values.ⁱⁱⁱ We estimate that the impact on personal life satisfaction of living in a home where there is damp, mould or condensation present is equivalent to an annual income reduction of £4,001, with upper and lower bounds of £4,924 and £3,077 respectively.

We also looked at the relationship between wellbeing and other living condition measures. We found no statistically significant relationship between life satisfaction and levels of overcrowding in dwellings, nor between life satisfaction and whether a dwelling meets the Decent Homes Standard or not. It should be noted, however, that there are limitations to our analysis, including limits to the data available. As such, our findings should be considered preliminary and treated with a degree of caution.

Economic benefits of regeneration

Beyond these social and wellbeing impacts, regeneration has the potential to bring economic benefits. These benefits can be split up into two broad categories:

- Primary economic benefits: The immediate boost to incomes and employment resulting from spending on regeneration activities, and the *process* of improving them, i.e. demand side effects.
- Secondary economic benefits: The secondary gains to the economy from having better social housing stock, i.e. supply side effects.

ⁱⁱⁱ A number of approaches are used to do this, including using evidence on the impact of changes in income on wellbeing, and using survey data on people's "willingness to pay" for higher wellbeing.

Evidence on primary economic benefits

Regenerating social housing is a way of investing in local economies, and can produce an immediate economic uplift. Companies engaged in regeneration activities see higher demand for their goods and services. This in turn boosts the demand for labour to carry out these activities, boosting employment and incomes. These economic benefits will be felt far beyond those in the construction sector. There will be more tradespeople with more money in their pockets. These workers will spend a portion of their higher incomes on goods and services in the wider economy, generating economic gains above and beyond whatever was initially invested.

Previous research has found empirical evidence for these effects. A study by Leeds University found that a package of £183 billion capital investment in energy efficiency in buildings would lead to an additional cumulative increase in UK GDP of 1.27%, and in wages of 0.56%, over the ten years to 2030.⁴¹ And a 2014 paper by Cambridge Econometrics estimated that raising every home in the UK to EPC level C would create at least 108,000 new jobs between 2020-2030.⁴²

There are some circumstances in which greater investment in regeneration may not fully bring about these positive economic returns. If the economy is at its productive capacity, with complete utilisation of labour and capital (e.g. unemployment is very low), further investment may mainly result in increased inflationary pressures rather than stimulating new activity. During an economic downturn, however, investment in social housing (whether in regeneration or in new construction) can have positive countercyclical effects for both the construction industry and the economy as a whole. Currently, there does seem to be potential for a positive economic impact – while cost pressures in the construction sector are high, housebuilding construction activity is at its lowest level since 2009 (excluding the pandemic-related slowdown).⁴³

Economic impact case study: Packington Estate, Islington

Packington Estate was previously a 538-home estate built by Islington Council in the 1960s. The local authority had purchased Victorian terraces and squares, and proceeded to tear them down and build brutalist six-story blocks, following what was the typical approach of the time. Poor building techniques meant that, by the 2000s, surveyors deemed the buildings to be unsafe. As works to strengthen the structures would have been prohibitively costly (and still would have involved the temporary rehousing of residents), the decision was made to demolish and rebuild the estate, and the stock was transferred to Hyde housing association.

In total, 790 homes have been built on the new estate. The number of social homes fell slightly, from 538 to 490, with the remaining 300 being built for private sale.⁴⁴ The overall amount of floorspace increased, and the new homes were of considerably higher quality than the homes they replaced.

The scheme has been held up as a shining example of regeneration.⁴⁵ A community was largely kept intact with residents' wishes heard. The local economy around the estate has also benefitted, with the high design quality positively enhancing the neighbourhood and thus making it a more attractive place to live. Residential properties in the area were selling at double the price per square foot after the scheme had completed.⁴⁶ The higher densities in this well-connected part of north London have also helped to increase the supply of housing and therefore have contributed to the agglomeration effects businesses in the capital benefit from. It is clear that targeted government funding made this scheme possible, with the £150 million project receiving a £33 million upfront grant to support this type of regeneration.⁴⁷

New analysis of primary economic benefits

To better understand the potential economic uplift that could arise from investment in social housing regeneration, we have modelled the impact on jobs and incomes of the following two sets of scenarios:

- Bringing 25, 50 or 100% of properties currently at EPC D up to EPC C
- Bringing 25, 50 or 100% of non-decent homes up to the Decent Homes Standard

The first set of scenarios explores the economic benefits of environmental retrofit; the second set of investment in housing conditions.

In order to estimate the total investment needed to achieve these targets, we used estimates of the cost per dwelling to upgrade or make decent, and combined these with data on dwelling stock numbers.^{48,49} We then used an input-output model to estimate the impact of investment in the social housing sector on other sectors of the economy, with the regional distribution of the impact differing due to variations in investment allocation among regions.

Our analysis suggests that it would cost £11 billion, or £3.7 billion per year for three years, to bring all social homes currently at EPC D up to EPC C. This equates to £6,000 per dwelling. We also find that it would cost £2.3 billion, or £0.75 billion per year over three years – a modest sum relative to government capital spending on social housing – to bring all units up to the Decent Homes Standard. In total, this £2.3 billion equates to £5,900 per dwelling; it is also equal to 25% of total government annual capital spend on social housing (£8.9 billion).

We find that the £3.7 billion annual investment required to bring EPC D homes up to EPC C would boost output by £4.5 billion and create 52,100 jobs. The £0.75 billion annual investment required to achieve the Decent Homes Standard across the social housing sector over three years would boost output by £0.9 billion per year, and create 10,515 jobs.

Overall, we estimate that every £1 spent on social housing regeneration creates an additional 20p of value for the local economy beyond the initial investment. In other words, investment in regeneration has the potential to generate substantial economic gains.

Table 2: Economic impact of bringing social homes from EPC D to EPC C

	Target %		
	25%	50%	100%
Investment p.a. (£bn, 2023/34 prices)	0.9	1.9	3.7
Gross value added p.a. (£bn, 2023/24 prices)	1.1	2.2	4.5
Employment p.a. (Full-time equivalent)	13,000	26,000	52,100

Source: SMF & WPI Economics analysis

Table 3: Economic impact of bringing non-decent social homes up to the Decent Homes Standard

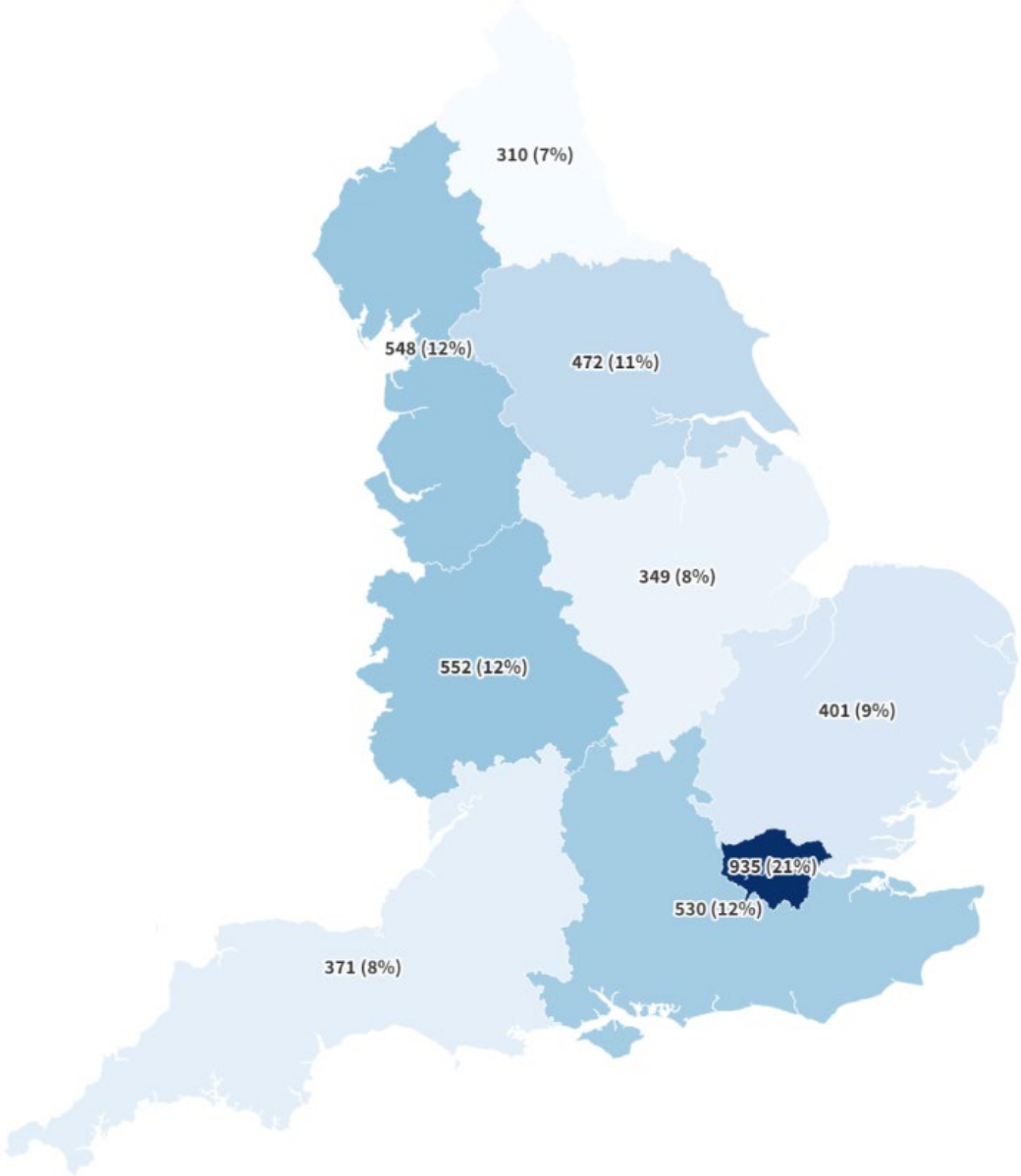
	Target %		
	25%	50%	100%
Investment p.a. (£bn, 2023/34 prices)	0.2	0.4	0.8
Gross value added p.a. (£bn, 2023/24 prices)	0.2	0.5	0.9
Employment p.a. (Full-time equivalent)	2,600	5,300	10,500

Source: SMF & WPI Economics analysis

Social housing in need of retrofit or improvement is not evenly spread across the country. Figure 9 and Figure 10 detail how the economic benefits of investment in social housing vary by region. As the maps shows, London receives the greatest uplift from both regeneration proposals, though the North West and West Midlands also do relatively well. This is because London has the largest social housing stock of any region.⁵⁰

Figure 4: Regional GVA impact of bringing social homes from EPC D to EPC C, £m, 2023/24 prices (% total)

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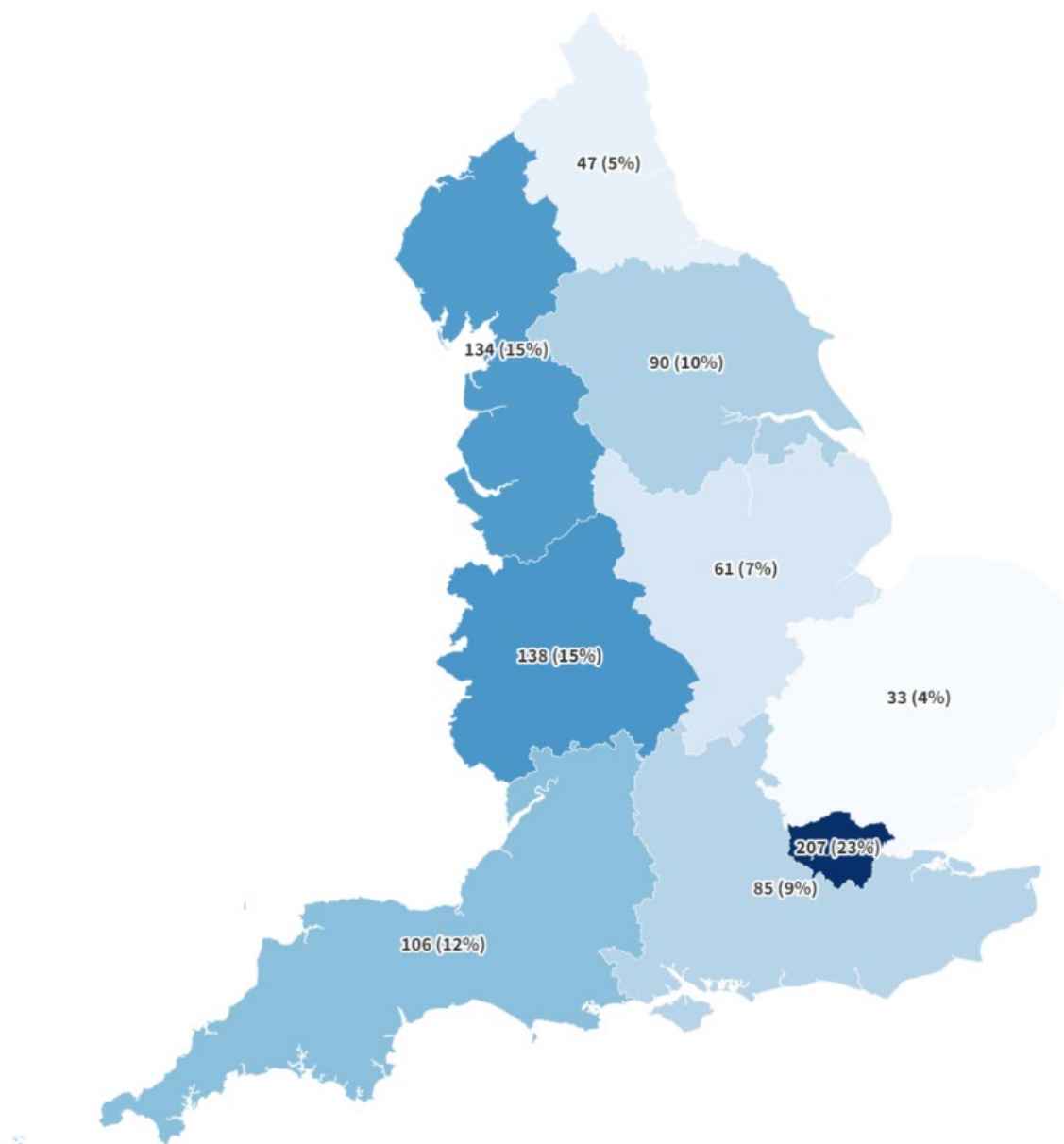


Source: ONS Open Geography Portal, ONS

Source: SMF & WPI Economics analysis

Figure 5: Regional GVA impact of bringing all social homes up to the Decent Homes Standard £m, 2023/24 prices (% total)

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Source: ONS Open Geography Portal, ONS

Source: SMF & WPI Economics analysis

Secondary economic benefits

The primary economic effects laid out above reflect the benefits of stoking demand by investing in the process of regeneration. However, improved regeneration can also have longer term benefits on the supply side of the economy by making it easier for people to get into work and be more productive in the jobs they do find.

As discussed in the previous section, poor housing conditions and inefficient homes lead to myriad social problems and thus inflict significant costs on the economy. The indirect benefits from regeneration largely result from reducing these significant societal costs of poor housing, in particular relating to health and energy; and from the positive impacts to the construction sector supply chain. There are also fiscal benefits resulting from reduced need for government services and support.

Benefits from improved health

The health impacts of poor housing are significant. It leads to lost economic potential – diminished educational attainment, reduced productivity, higher economic activity – for those suffering from poor housing conditions.

A report by the Building Research Establishment looks specifically at the fiscal impact of poor housing conditions. It found that it is costing the NHS some £1.4 billion per year to treat people who are affected by poor housing in all tenures, for just the first year of treatment costs alone.⁵¹ According to the report, removing steep stair hazards would pay for itself through reduced healthcare spending in under three years. Improving conditions in social housing could thus have significant benefits to the taxpayer in reduced NHS expenditure.

Not counted here are the costs of long-term care, and those from worsened mental health. When factoring in the wider effects of poor health, the BRE estimates that the full cost to society of people living in poor housing is some £18.5 billion per annum.

Benefits from reduced crime

Crime reduction stemming from social housing regeneration has some key economic benefits. Less crime could make a local area more of an attractive place to live, work or visit, with positive effects on inward investment and economic activity. There are reductions in policing costs – less crime leads to fewer police call outs and less resources needed to aid the victims of criminal behaviour. And there are benefits from reducing the costs of damage caused by crime. As such, social housing regeneration that is able to bring about crime reduction will in turn generate significant benefits to both local economies and to government finances.⁵²⁵³

Benefits from reduced energy bills

Improving the energy efficiency of social homes brings not only environmental benefits (see "Environmental benefits of regeneration" section below), but also economic benefits to tenants, and savings in terms of government finances. The National Housing Federation estimates that upgrading all social and affordable homes to EPC A, B, or C could save residents more than £700 million per year in heating costs, equating to an average saving of £567 per household per year.⁵⁴

Reduced fuel costs also have positive impacts on government finances, as less funding is required to support households with their energy bills. With the current level of energy bills support costing £78 billion across 2022/23 and 2023/24, improving the energy efficiency of social housing will likely result in considerable savings for the exchequer.⁵⁵

Reduced long-run expenditure on repairs and maintenance

By investing in the regeneration of social housing, providers can in some cases save money over the long term by preventing small issues from escalating into big ones. For example, structural issues with buildings can lead to problems with damp and mould⁵⁶, which can in turn cause costly damage to furniture, decorations and even the structure of buildings themselves. By investing in housing improvements, social landlords can reduce costs they face in the future to maintain the condition of their stock.

Supply chain innovation

Significant state-led investment in social housing regeneration can also help to drive innovation in construction supply chains. Many social housing providers operate at a large scale, allowing the coordination of upgrading, retrofitting and other regeneration activities. This allows strategic procurement and thus economies of scale to take place, and could incentivise innovation in regeneration supply chains. An equivalent degree of coordination would be difficult to achieve in the private rented or owner-occupied sectors, where stock ownership is considerably more fragmented.

Any resulting efficiency gains from such investment will likely bring spillover benefits to the private sector. Efforts to retrofit and improve conditions in private housing will benefit from any reductions in cost and improvements in quality achieved in the social housing sector.

Environmental benefits of regeneration

British homes are a major cause of carbon emissions, in part because of their age. Britain's housing stock is the oldest in Europe. As a result, and because of slow progress on energy-efficiency measures, Britain has some of the least energy-efficient homes in Europe.⁵⁷ Thus, even though social housing is on average more energy-efficient than other tenures, the transition to net zero places substantial burdens on providers.

Regeneration can improve the energy efficiency of dwellings in the socially rented sector. This can be achieved either through retrofitting existing homes with greater levels of insulation, new heating appliances and so on, or by demolishing dwellings and rebuilding new ones with improved energy efficiency levels. Improved efficiency means less energy is needed to achieve the same desired level of thermal comfort, consequently reducing carbon dioxide emissions.

New analysis of environmental benefits

To better understand the environmental benefits that could accrue from investment in social housing regeneration, we have modelled the carbon emission reductions that would occur by bringing various proportions of EPC band D social homes up to EPC band C.

To work out the emission savings that can be achieved under each retrofitting pathway (25, 50 or 100% EPC D properties brought to EPC C), the energy consumption of EPC D and EPC C properties was estimated, and also the reduction in energy consumption resulting from retrofitting properties under the defined pathways. The reduction in carbon emissions was then calculated by finding the carbon emissions generated from gas and electricity consumption, then applying these calculations directly to the reduction in gas and electricity consumption resulting from the retrofit proposals.

Table 4: Carbon impact of bringing social homes from EPC D to EPC C

	Target		
	25%	50%	100%
Investment p.a. (£bn, 2023/34 prices)	0.9	1.9	3.7
Reduction in CO2 emissions p.a (tCO2e)	-82,200	-164,000	-328,000

Source: SMF & WPI Economics analysis

The analysis shows the significant environmental benefits that could be generated from programmes of social housing regeneration. The model finds that under the proposal to retrofit 25% of EPC band D social homes to EPC band C (a programme costing £0.9 billion a year for three years), carbon emissions would fall by 82,200 tonnes of carbon dioxide equivalent. If the proposal to retrofit all EPC band D properties to become EPC band C is taken up (requiring an investment of £3.7 billion per year for three years), the emission reductions could amount to 328,800 tonnes of carbon dioxide equivalent. We estimate that this equates to around 3% of total carbon emissions from the social rented sector.

How does refurbishment compare to demolition and rebuilding?

In general, regeneration projects can be split into two categories: those involving the retrofit or refurbishment of dwellings, and those where poor-quality dwellings are demolished and rebuilt. The decision over which of these two approaches to take has significant implications for some of the most fundamental aims of social housing regeneration: the improvement of residents' wellbeing, the provision of social housing, the decarbonisation of the social housing stock, and the growth of the economy.

As discussed above, the process of demolishing and rebuilding social housing can have disruptive effects on people's lives, and expose them to uncertainty for long periods. It is important to take these effects into account, and to ensure that regeneration is handled in a way that minimises disruption and uncertainty for residents. But where regeneration is done well and in a way that tenants are happy with, it has the potential to significantly improve wellbeing and living conditions.

Demolition and rebuilding is also controversial where it affects levels of social housing provision. As noted in the previous chapter, social housing is declining as a share of the UK housing market, and new social homes today are less likely to be homes for social rent (the most affordable social housing tenure) than new social homes built in previous years. While providers usually attempt to rehouse existing tenants on a like-for-like basis, some demolition and rebuild schemes do still result in a net loss of social and affordable housing, or a net shift away from homes offered at social rent.⁵⁸ Research by the London Tenants' Federation found that between 2012 and 2022, 23,000 socially-rented homes were demolished, while only 12,000 new ones were built.⁵⁹ Schemes involving a net loss of socially-rented homes therefore raise concerns over their impact on the total stock and composition of social housing. This, however, is not an inevitable feature of demolition and rebuilding projects – with greater funding available for estate regeneration, potentially alongside stricter requirements on providers, this trend could be reduced or even reversed.

The debate over whether to demolish and rebuild, or to retrofit, social housing also has relevance to the UK's efforts to decarbonise the social housing stock.

Some experts argue that demolishing energy-inefficient buildings can have long-term environmental benefits if the operational emissions (the carbon emissions produced from a building's energy consumption) of replacement stock are significantly lower than those of the buildings they replace.⁶⁰ There are limits on how energy-efficient certain buildings will be able to become through retrofit. Across the socially rented sector, some 8% of homes are assessed to have a potential rating (the energy efficiency rating that could be achieved through retrofit) of below EPC C, meaning they will be unable to meet the Government's own energy efficiency standards.⁶¹ In urban areas, if regeneration projects result in higher densities by knocking down and rebuilding homes, there can also be environmental benefits from this shift in living patterns via an increase in sustainable transport use, reducing transport-related emissions. So in some cases, demolishing social housing and replacing dwellings with new energy-efficient stock may make environmental sense.

However, because of the large amounts of embodied carbon emissions (the carbon emissions produced from the construction of buildings) embedded in dwellings, and the typically carbon-intensive nature of building new homes, some experts argue that a retrofit approach should be preferred – for example, University of Manchester academic Nick Thoburn argues that the demolition of social homes should be “the very last resort... used only when buildings are proven to be structurally unsound”, while a campaign by the Architects' Journal calls for a “Retrofit First” approach.^{62 63}

There is also great potential to decarbonise the process of constructing new housing, though there is no doubt that retrofit efforts also need to be ramped up in order to keep to the ambitious timelines of reaching net zero emissions by 2050.^{64 65 66}

It is true that there are potential environmental costs, as well as benefits, from demolition and replacement that should be taken into account. But there are often limits to the extent to which retrofit and refurbishment activities can improve the physical condition of dwellings. In some cases, it is almost impossible (or hugely costly) to make ageing buildings energy efficient or comfortable to live in, and so in the absence of demolition residents either have to continue suffering from poor housing conditions, or leave their properties altogether. In these cases, it is right that a demolition and replacement approach should be taken.

In terms of economic impact, the ‘demolish and rebuild’ approach to social housing regeneration may confer more economic benefits than the refurbishment and retrofit approach. If demolished estates are rebuilt to higher densities, this allows social housing providers to increase housing supply. A greater supply of housing will have positive consequences for economic growth, especially if concentrated in the UK’s most economically dynamic and least affordable cities. Given that the undersupply and unaffordability of housing in these places is a significant constraint on growth, demolishing estates and rebuilding at higher densities could play a significant role in boosting overall economic growth.⁶⁷

Overall, it is important to consider the potential social and environmental costs of a demolition and replacement approach to regeneration, and ensure that these costs are minimised. Where a retrofit or refurbishment approach is a viable option to address problems with living standards, it should be considered in the first instance. But the optimal approach to regeneration is highly dependent on the context of each project. Location matters greatly, as does the characteristics of the dwellings involved (e.g. high-rise flats versus semi-detached houses). In many cases, a demolition and replacement approach will be the more suitable option. Moreover, some of the benefits we have identified above, such as densification, reductions in overcrowding, and structural energy efficiency improvements, are specific to a demolition and replacement approach.

The benefits from social housing regeneration are significant, but given that one option for increasing investment in regeneration is to draw on some of the existing government expenditure currently only supporting new construction, we will now also review the benefits of investment in new construction.

The benefits of new social housing construction

Social and wellbeing benefits of new construction

As with investment in the regeneration of social housing, investment in the construction of new social housing can also have significant benefits, both for current and new tenants and for society at large. This is because new construction of social housing enables more people to shift from the private rented sector to the social rented sector, where they will be able to enjoy lower rents, secure tenancies and better housing conditions. Private rented sector homes are less energy efficient, more likely to experience problems such as damp and mould, and more likely to be classed as non-decent. Given that socially rented homes are considerably more affordable than market-rate privately rented homes, investment in new social housing construction is likely to bring significant benefits to those low-and-middle-income households that are able to become social tenants, whose wellbeing would likely improve as a result of better housing conditions and increased financial stability. Current social residents living in poor housing will also benefit if they are able to move into homes that are bigger or more comfortable. Given the social and wellbeing benefits social housing generates, whether reducing homelessness, improving health or enhancing educational attainment, greater construction of social housing is a national policy priority.

Economic benefits of new construction

Whilst there are considerable economic benefits from regenerating the existing stock of social housing in the UK, investing in new social housing construction could bring similar gains. As with regeneration, there are two types of benefits to consider: primary and secondary.

Again, the primary benefits come via economic stimulus through the construction sector. A 2020 report by Shelter and Savills attempted to quantify the macroeconomic impact of investing £6.1 billion per year for two years, and then £12.8 billion per year for two years, into new social housing construction.⁶⁸ This spending was in addition to current government expenditure on social and affordable housing via the affordable homes programme. The report found that this increase investment would result in an overall increase in output of £13.8 billion in net present value terms, with tens of thousands of construction sector and supply chain jobs created each year.

There are also significant potential fiscal benefits from increasing the stock of social housing. Perhaps the greatest of these benefits is the reduction in housing benefit costs to the government. Housing benefit provides assistance towards housing costs to those who are on low incomes, are unemployed, or are in receipt of other benefits. Whilst building social housing does require significant investment, given that rents are considerably lower in the social rented sector than the private rented sector, if people renting privately shift to newly built social housing, there will be significant savings on housing benefit spending, which in 2021/22 totalled £17.5 billion.⁶⁹ Shelter and Savills estimate that a shift of 86,500 households from the private rented sector to the social housing sector would result in reduction in housing benefit spend of £0.1 billion per annum. Considerable savings are also likely to result from reduced use of temporary accommodation for people experiencing homelessness. Therefore, although building

social housing is no doubt costly for the government, it is likely to be cost-effective over the long term.

Increasing the supply of social housing will also help to address the UK's wider housing shortage, improving the affordability of homes and tackling what is arguably the country's biggest constraint on economic growth. A recent Centre for Cities report estimates that the UK has a shortage of over 4 million dwellings.⁷⁰ This shortage crimps growth by reducing labour force mobility, diverting capital away from more productive uses, and dampening demand in other areas of the economy.⁷¹ New construction in major urban areas will also enable those areas to benefit from agglomeration effects, further contributing to productivity gains and sustained economic growth.⁷²

Environmental benefits of new construction

Whilst building new homes can often be a carbon-intensive process, there are also potential environmental benefits from the construction of new social housing. Firstly, there are cases where homes are built to poor standards or are in such a state of structural disrepair that fundamental changes to the building are needed to improve energy efficiency. New construction of energy efficient homes, whether in the social sector or otherwise, will advance the modernisation of the UK's housing stock, raising its average level of energy efficiency, which will lead to reductions in carbon emissions over the long run.

New construction, in the right places, can also bring environmental benefits by encouraging sustainable transport patterns. When built at reasonable densities close to active travel routes and public transport stops, new housing development can help to drive the use of sustainable forms of transport. In this way, it has the potential to reduce car use and 'bake in' sustainable transport habits, leading to reductions in greenhouse gas emissions over the long run.

CHAPTER THREE – BARRIERS TO INVESTMENT

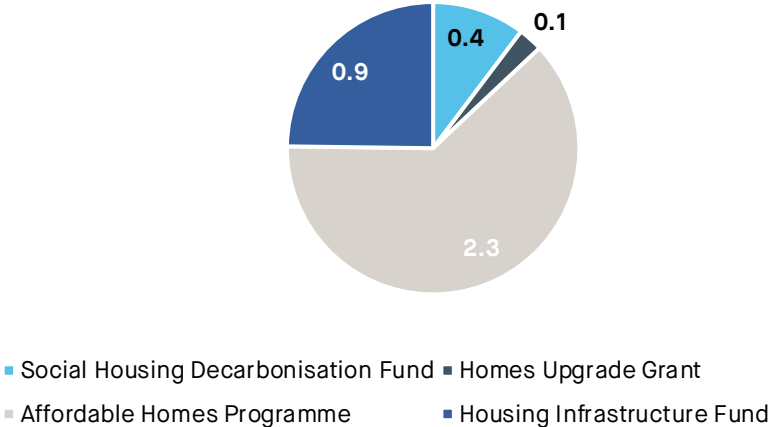
Given the substantial benefits of regeneration, laid out in the previous chapter, why has this investment in some cases not happened, with poor living conditions instead left unaddressed? This chapter sets out the three main explanations we have encountered in our research: government policy priorities, the funding landscape and provider strategy and culture.

Government policy priority

A key barrier to investment in regeneration cited by experts and providers is the fact that most existing government support available for social housing is targeted at supporting new construction, rather than investment in the existing stock. As Figure 11 shows, until recently, of the four major grants currently available to social housing providers, just 13% has been available for funding regeneration (the Social Housing Decarbonisation fund and the Homes Upgrade Grant), while 87% has been available for new construction (the Affordable Homes Programme and the Housing Infrastructure Fund). And what funding there is for regeneration is targeted towards decarbonisation and energy efficiency, versus addressing poor conditions more generally.

This is a particular problem for projects involving demolition and rebuilding, which require a significant amount of upfront investment. As a result, organisations including the National Housing Federation have called for some government funding currently available for new construction to be broadened out so that providers can also, where appropriate, use it for regeneration.⁷³ That proposal has been endorsed by the Levelling Up, Housing and Communities Committee.⁷⁴ And as of June 2023, the Affordable Homes Programme has been broadened out so that it can under some circumstances be used to fund regeneration, as well as new construction.

Figure 11: Government social housing grants per year in England, £bn



Source: BEIS, Press Release; BEIS, Home Upgrade Grant, Guidance for Local Authorities; DLUHC, Scoping report for the evaluation of Affordable Homes Programme 2021-2026; UK Housing Review, Summary of planned government support for affordable and private market housing investment in England, 2019/20-2023/24

Notes: We have assumed that spending is apportioned uniformly over the duration of each scheme. For the Homes Upgrade Grant, we have assumed that the fund is distributed across tenures in proportion to the number of households in each tenure – the actual distribution across tenures is unknown.

Funding streams for social housing

The principal source of funding for social housing regeneration is the **Social Housing Decarbonisation Fund**. This program was announced in 2019, promising £3.8bn in funding over ten years in order to assist social housing providers to reduce fuel poverty and carbon emissions, improve tenant wellbeing and support the retrofit sector. The scheme requires at least 50% of total eligible costs to be provided by the applicant.

The **Homes Upgrade Grant** is another source of funding for regeneration. The Government has so far allocated £1.1 billion to the scheme, with a further £700 million expected to be delivered from early 2023 to 2025.⁷⁵ The scheme provides funding for energy efficiency upgrades and low carbon heating for low-income households of all tenures which are off the gas grid and have an Energy Performance Certificate between D and G. Private landlords must contribute at least a third of the total cost of the upgrade, whereas social landlords must contribute at least half of the total cost.

The principal source of government grant funding for social and affordable housing construction is the **Affordable Homes Programme**. This programme provides £11.5 billion in capital funding between 2021 and 2026 (£2.3 billion per year) to enable the supply of approximately 162,000 new affordable homes across England. £4 billion of this is allocated to the Greater London Authority, while the other £7.5 billion is delivered by Homes England outside London. About 50% of these homes are expected to be for sub-market rent (including social rent and affordable rent) with a Right to Shared Ownership attached, and about 50% are planned to be for low-cost homeownership⁷⁶. As of June 2023, this programme can be used to fund spending on regeneration as well as new construction, though only for schemes which deliver regeneration alongside some level of new construction.⁷⁷

Further support for new construction is delivered by the **Housing Infrastructure Fund**.⁷⁸ This scheme aims to unlock new housing supply with grant funding for new infrastructure in areas of greatest housing demand. Funding is used to buy land, build connecting roads and to improve rail capacity. The programme provides £5.4 billion over the period 2018/19–2023/24, with most of that sum having already been allocated to local authorities.

Housing associations can also use the **UK Shared Prosperity Fund**, and **recycled capital grant funding** from sales of homes funded by the Government, for affordable home ownership. This funding can be used to fund new social housing or improvements to the existing stock. In 2022, the Government confirmed that the Recycled Capital Grant Fund can be used to fund fire safety works arising from the Fire Safety Act 2021.

Affordable housing supply has been prioritised via wider policy decisions beyond funding streams. Successive governments have set explicit housebuilding targets, in an attempt to tackle the UK's housing supply crisis. In 2007, following the 2004 Barker Review of housing supply, the then government set a target of increasing housebuilding levels to 240,000 additional homes per year by 2016, including 45,000 additional social rented homes and 25,000 other kinds of affordable homes per year by 2010/11.⁷⁹ By 2015, this had become a target to build one million new homes by 2020; and in 2017, it became 300,000 homes per year.⁸⁰⁸¹ The 2016 Affordable Homes Programme committed to deliver 153,000 new homes, later revised to 250,000; the 2021 programme committed to delivering 180,000.⁸²

Conversely, government policy has been insufficiently focused on the issue of poor living conditions. Tenants lack sufficient legal recourse when raising issues of poor quality housing with their landlords. As the recent select committee report on the regulation of social housing laid out, provider complaint handling processes have at times been inadequate; thresholds determining when the Regulator of Social Housing should step in to address problems directly have been too high; and levels of compensation set out by the ombudsman have been too low.⁸³ Many of these issues are now being addressed via measures in the Social Housing Regulation Bill, as well as actions taken by providers themselves – for example, installing sensors, carrying out property MOTs, and analysing the root causes of damp and mould.⁸⁴

Fines or other punitive measures for poor performance are another important issue here. Participants in our roundtable argued that creating greater financial pressure for providers to address issues with the existing stock would ensure that there is a stronger financial case, alongside the already existing social and legal case, for investment in this area. The proposals in the Social Housing Regulation Bill to remove the cap on fines on social landlords for poor performance are an important and welcome step here, though this must be accompanied by adequate funding to ensure providers have the resources to make necessary investments.

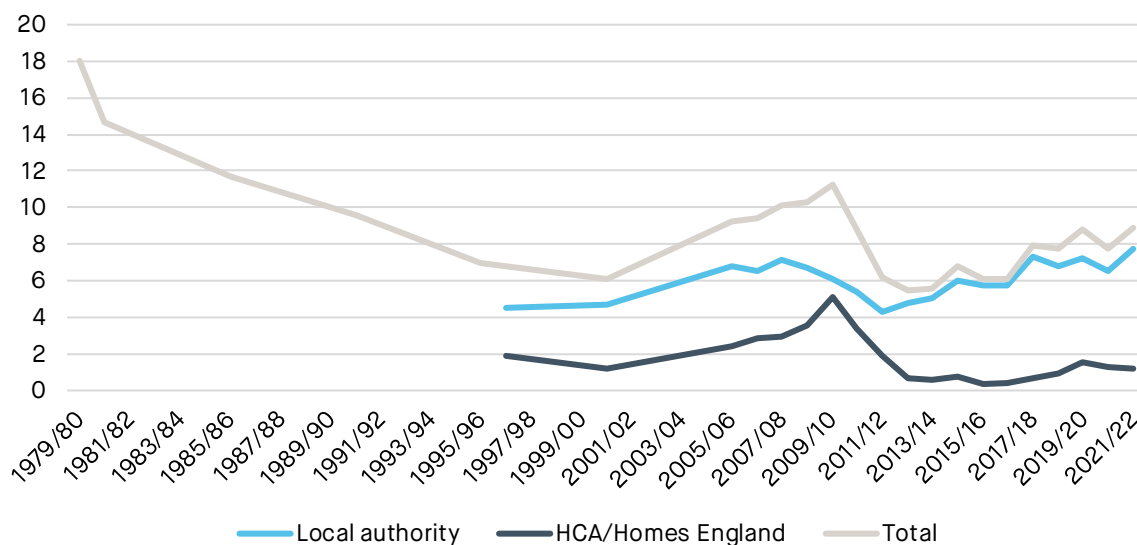
Funding and financial pressures

Another key reason why there has been inadequate investment in social housing regeneration is because providers have not had enough money. They have faced a range of financial pressures – starting with declining and changing government support available for providers, but also wider contextual factors.

Government support

As Figure 12 shows, the level of gross government capital investment into social housing is considerably – 50% – lower than in 1979/80. It was also cut by 51% between 2009/10 and 2012/13, and has since risen to a level 21% below the 2009/10 peak – a gap of £2.3 billion per year in current prices. The average real-terms shortfall relative to the 2009/10 peak over this period was £4.1 billion per year in current prices. Homes England (previously the Homes and Communities Agency) investment into affordable housing has particularly suffered – it was cut by 87% between 2009/10 and 2012/13, and currently stands at 77% below the 2009/10 peak – or £3.9 billion per year in current prices.

Figure 12: Total real government capital investment into social housing in England, 1979-2022, £bn, 2023/24 prices



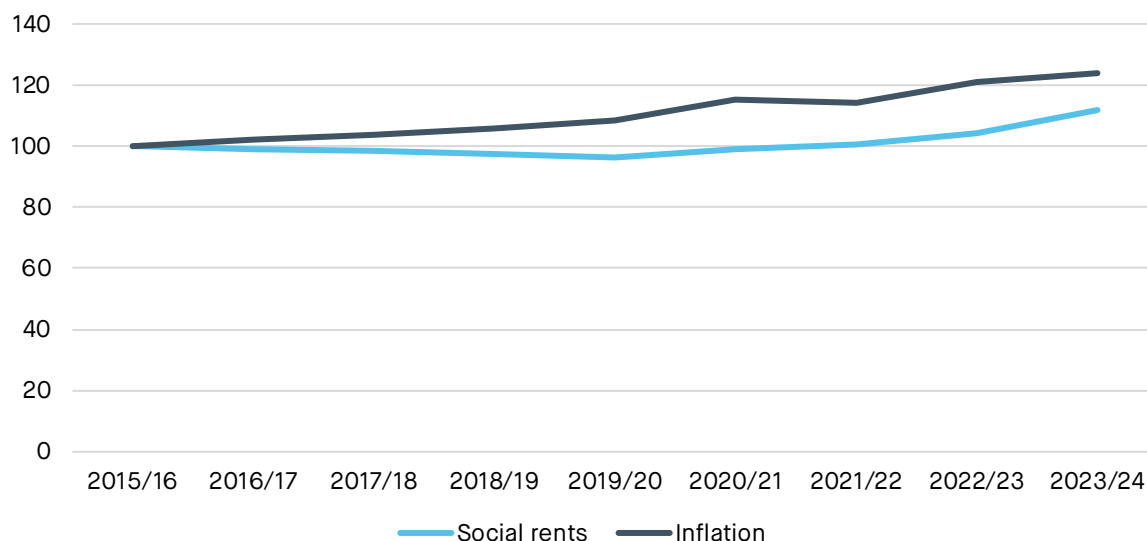
Source: Chartered Institute of Housing, UK Housing Review 2023; HM Treasury, GDP deflators; SMF analysis

As well as the level of funding available, there are also problems relating to its delivery. A drawback of the current funding framework for the social housing sector identified in literature and frequently raised in expert interviews is the fragmented and short-term nature of the funding pots available. This creates uncertainty that limits both regeneration activities and the delivery of new homes. Research by University College London found that doubling the duration of the Affordable Homes Programme from five years to ten would have a transformative effect on the ability of housing associations to deliver affordable housing.⁸⁵

The social rent regime

As well as receiving less direct support for investment from the government, social housing providers have less capacity to invest because their revenue has been squeezed, due to falling rents. Social rents – still the type of rent paid by the majority of households in social and affordable housing – are set according to a formula, and increases in rent are regulated by the Regulator for Social Housing.^{86,87} For the period 2001/02 to 2015/16, rents were allowed to increase at inflation plus a flat percentage, typically 0.5%. For the period 2016/17 to 2019/20, however, providers were required by the Government to reduce rents by 1% per year in nominal terms – more in real terms. For the period 2020/21 to 2022/23, rents were again allowed to increase at inflation plus 1%. In 2023/24, they were capped at 7% – well below the rate of consumer price inflation, which stood at 10.1% in the relevant period (the year to September 2022).⁸⁸ Overall, this has resulted in social rents falling by 10% in real terms between 2015/16 and 2023/24. Rent revenue for social landlords is currently £2.3 billion per year lower than it would be if rents had been maintained in real terms since 2015/16 – £1.5 billion lower for housing associations and £0.8 billion for local authorities.

Figure 13: Index of social rents and inflation, 2015-24



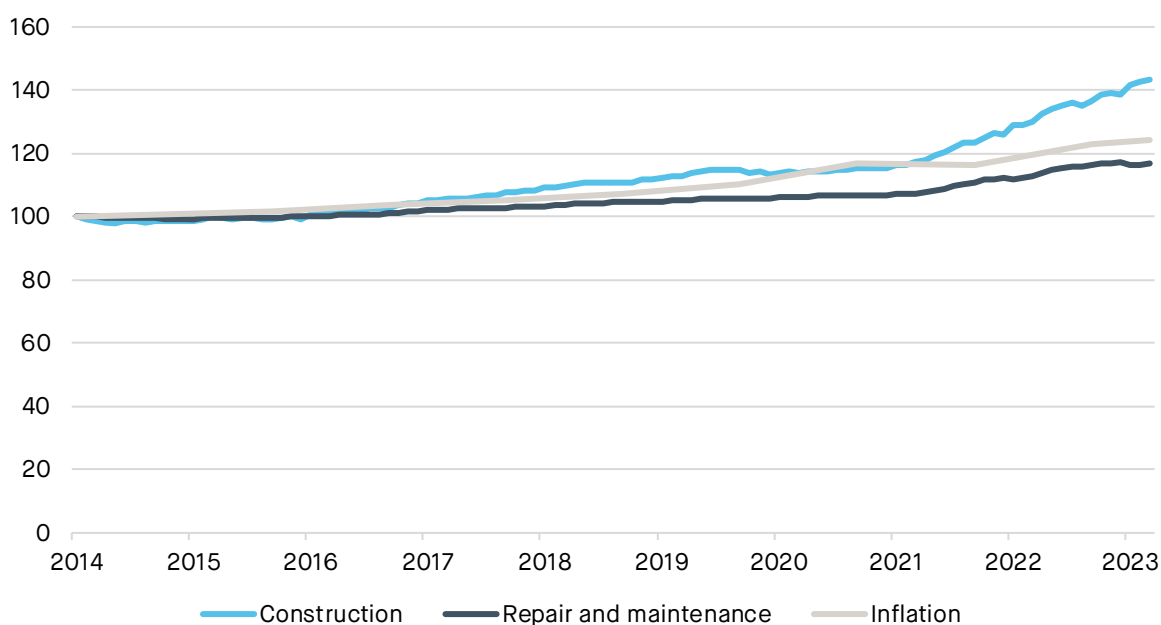
Source: DLUHC, *Rent standard and guidance*; Shepherds Bush Housing group, *Changes to your Rent 2023/24*; HM Treasury, *GDP deflators*; DWP/DCLG, *Supported accommodation review*; RSH, *Registered provider social housing stock and rents*; SMF analysis

Note: The GDP deflator is used here as to measure inflation

Most – 57% of – social tenants are in receipt of government support to help with their housing costs – housing benefit, or the housing element of universal credit.⁸⁹ In total, housing benefit accounts for around 80% of the total rent revenue received by social landlords. In other words, the above changes to the social rent regime have significant implications for expenditure by central government on housing benefits, as well as for tenants and for social housing providers.

Construction cost inflation

So far, we have considered how revenues for social housing providers have fared relative to general inflation (measured using the GDP deflator). But the cost pressures faced by providers are in some cases higher. While the cost of repair and maintenance work for housing has risen broadly in line with general inflation since 2014, the cost of constructing new housing has risen faster than inflation since late 2021. This puts additional pressure on the budgets of social housing providers that are currently engaged in the construction of new housing.

Figure 6: Construction output price indices, 2014-23

Source: ONS, Construction output price indices; HM Treasury, GDP deflators; SMF analysis

Note: The GDP deflator is used here as to measure inflation

House prices

While house prices have risen by 4.8 per annum on average since their most recent trough in 2009, more recently this trend has started to turn. Between December 2021 and May 2023, the Bank of England has raised its base rate from 0.1% to 4.5%.⁹⁰ There is some evidence that this is starting to feed into house prices, with the average price of a home in England falling from £310,000 in November 2022 to £307,000 in February 2023 (the latest period for which data is available).⁹¹ This has implications for the balance sheets of social housing providers. The housing association sector currently holds £187 billion in housing assets, and total debt of £89 billion (2022/23 prices).⁹² If the value of their balance sheet shrinks, associations may find it harder to access private finance. In addition, changes to the value of land and housing during a development project can result in returns being lower than expected.

Broader policy environment

Following the 2017 fire in Grenfell Tower, a new set of building safety measures have been passed, requiring the owners of high-rise buildings to carry out remediation works to ensure that their buildings are safe for residents to live in. Research by Savills estimates that the cost to local authorities of achieving “full compliance with the highest possible standards” is £8.8 billion across ten years.⁹³ The National Housing Federation estimates that the cost to housing associations of addressing building safety issues is close to £6.5 billion and possibly above £10.8 billion.⁹⁴ This amounts to a total cost for providers of between £1.5 billion and £2 billion per year.

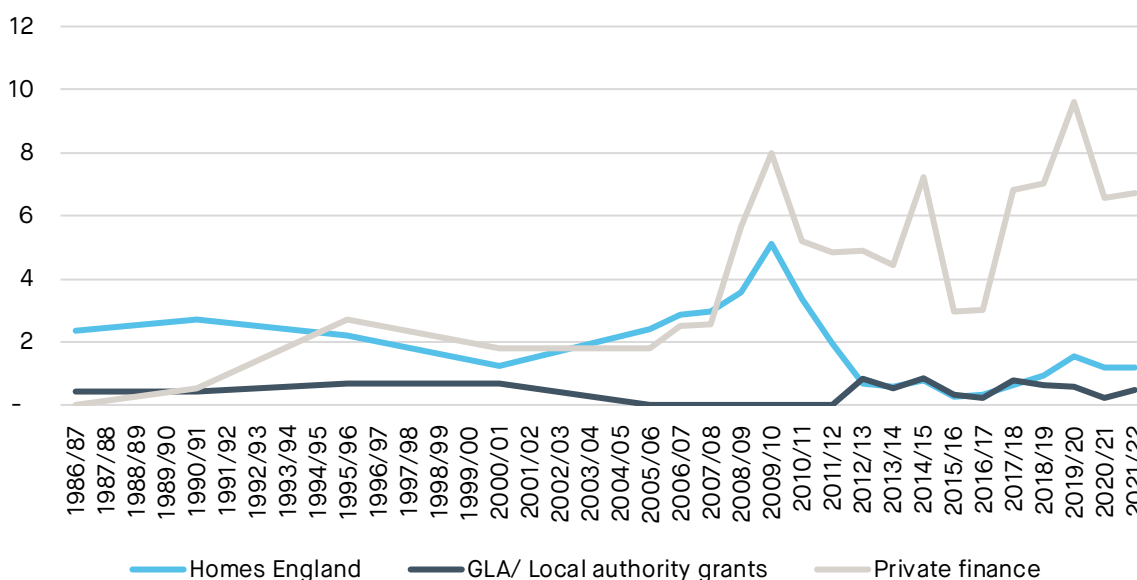
The government’s targets for net zero, and the associated requirements for social housing providers, also create the need for additional expenditure. Research by *Inside Housing* puts the cost of decarbonisation within the social housing stock at £20,700 per home.⁹⁵ This equates to £99 billion across the entire social housing stock at current prices – or £3.7 billion per year between now and 2050.⁹⁶

Finally, social housing providers play a role in the construction of new social and affordable housing to meet housing needs. There are currently 1.2 million households on the official social housing waiting list,⁹⁷ and the National Housing Federation estimated in 2021 that there were an additional 0.5 million households missing from the list but in need of social housing.⁹⁸ In 2018, Professor Glen Bramley produced an estimate of social housing “need”, based on the number of households living in poverty, experiencing serious affordability problems, or living in overcrowded or unsuitable properties.⁹⁹ He estimated that an additional 145,000 social homes per year should be built over ten years to meet this need. According to research by the National Housing Federation, this would cost providers £460 billion to deliver, or £46 billion per year.¹⁰⁰ They estimate that this would require £14.6 billion per year in grant funding from government – or £101,000 per dwelling – with the remainder financed by providers.

The shift to private lending

Among housing associations, there has been a shift towards a greater reliance on borrowing from private lenders in response to the above pressures. As Figure 15 shows, private finance has climbed as a source of housing association funding from 0% in 1986/87 to 80% in 2021/22. As the recent Regulation of Social Housing select committee report notes, this shift was an explicit aim of government policy on social housing from 2010 onwards.¹⁰¹

Figure 7: Housing association real investment by funding source in England, 1986–2022, £bn 2023/24 prices



Source: Chartered Institute of Housing, *UK Housing Review 2023*; HM Treasury, *GDP deflators at market prices*; SMF analysis

This shift has created new pressures for housing associations – maintaining this access to credit becomes a competing interest for them to manage alongside their responsibilities to tenants, access to finance from Homes England, and other stakeholders. The same select committee report argued that this shift has driven commercialisation within the sector (see below).

This shift also makes housing associations more exposed to rises in interest rates, which as noted above have recently risen. Over the past year, several major housing associations have seen their credit ratings downgraded, with rising interest rates cited alongside other economic and policy factors.¹⁰²¹⁰³

Provider strategy and culture

Many of the experts and practitioners we spoke to argued that part of the reason for a lack of investment in conditions in the existing stock was a decision to prioritise investment in new construction.

The financial implications of investment in new construction vary depending on the type of investment made. Building new market-rate housing can be a profitable activity, which providers can then use to cross-subsidise other activities. Conversely, building new social and affordable housing, particularly with a more affordable tenure mix, is typically not fully-funded by government grants, and so requires providers to draw on some of their own financial resources, often including private borrowing.

The situation that experts described to us was one where the construction of new social and affordable housing was prioritised over investment in the condition of the existing stock – both in terms of organisational focus, and in terms of financial resources. Some argued that providers were effectively cross-subsidising new construction with rent revenues from existing tenants, or taking borrowing capacity that could be used to finance investment in the existing stock and instead using it to finance new construction. Some of these claims should be taken with a pinch of salt – access to credit is likely to vary based on whether the borrowing is being used to finance the creation of a new revenue stream or the maintenance of an existing one. But to the extent that providers are putting their own financial resources into new construction, there is a genuine trade-off between investment in new construction and investment in the existing stock.

Why were these decisions made? Much of the discussion here centered on decisions made by housing associations, though some of the same factors are present for local authorities. Some, we were told, were driven by perceptions of success within the sector, with activity around development seen as more prestigious; and with control of a larger housing stock seen as a marker of success. Some of our interviewees also described a shift within housing associations towards a more “commercial” way of thinking, possibly driven in part by a greater prevalence of employees and board members with private sector backgrounds, in light of the need for expertise to manage the £89 billion of debt currently held by housing associations; as well as in response to pressures from private lenders.¹⁰⁴

However, there are also other potential drivers of the decision to increase investment in new construction that are not driven by simple “commercialisation”. The recent Regulation of Social Housing select committee report linked this trend explicitly to government funding cuts since 2010 and the concurrent rise in reliance on private finance as a source of funding.¹⁰⁵ For providers, expanding the size of their balance sheet by building new stock can give more scope to access credit from private lenders. And most importantly, decisions to prioritise the delivery of new social housing may also be driven by housing associations’ understanding of their own social purpose as encompassing not just duties to their existing tenants, but also a responsibility to build new homes to house some of those in need but not currently in social housing.

Scale was also mentioned as a factor by many of the experts we spoke to. Within the sector, there has been a trend towards mergers in recent years. Between 2016 and 2020, the number of registered housing associations fell by 9%.¹⁰⁶ The Regulator of Social Housing reports that “[s]ince 2016, there has been a steady shift of social stock ownership towards providers each owning a larger number of units”.¹⁰⁷ Again, this was in part a response to financial concerns – it was felt that greater scale would increase organisations’ ability to access private finance, as well as access economies of scale. But experts also pointed to potential downsides – larger organisations, we heard, had been particularly likely to pursue investment in new construction over investment in the existing stock. Some argued that organisations becoming larger and more centralised also had implications for the experiences of residents, with associations having less of a local presence and potentially being less responsive to complaints. Again, this argument was also cited in the Regulation of Social Housing select committee report.¹⁰⁸ However, a 2012 study by the Chartered Institute of Housing found that “[t]here is no evidence that size, better quality services and lower costs are linked”.¹⁰⁹

Finally, the same select committee report cited a lack of respect for tenants, and a stigma attached to being a social housing resident, as a potential cause in some cases of a lack of responsiveness by providers to complaints about poor conditions and requests for repairs.¹¹⁰ Media reporting has also highlighted examples of providers blaming tenants for poor housing conditions as a way of avoiding taking action to address them. The Housing Ombudsman has previously drawn attention to the same issue, as well as highlighting the actions taken by landlords to address damp and mould.¹¹¹¹¹²¹¹³

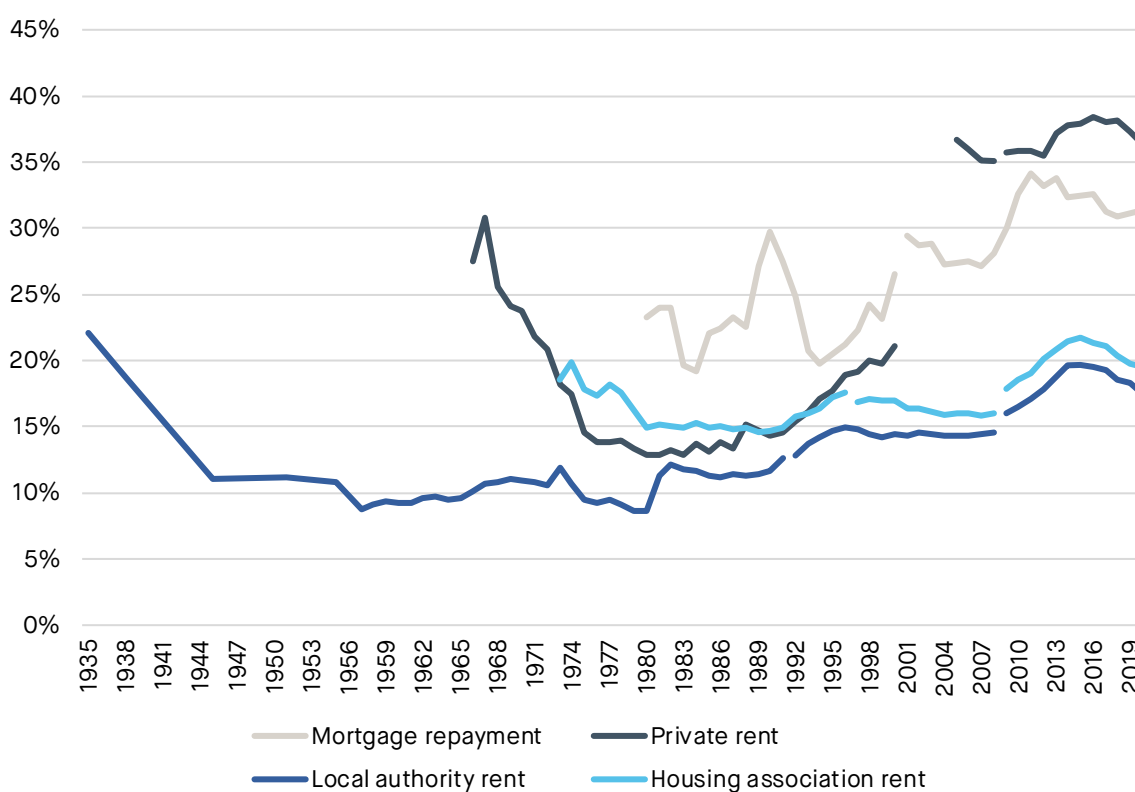
CHAPTER FOUR – POLICY SOLUTIONS AND RECOMMENDATIONS

Should government support for new construction be broadened to include regeneration?

A prominent policy proposal to address the difficulties of investing in regeneration, argued for by organisations including the National Housing Federation and endorsed by the Levelling Up, Housing and Communities Committee, is to broaden the scope of some of the government investment currently aimed at supporting the construction of new social and affordable housing to allow it to also be used to fund regeneration. Steps in this direction have also recently been taken by Homes England, in their move to make Affordable Homes Programme funding available for regeneration under some circumstances.

Should this be taken further? Part of the context here is a wider crisis of supply and affordability. Our economy has become more spatially concentrated, but our housing stock has not followed suit, leading to a housing shortage across much of the country.¹¹⁴ While social rents have stayed broadly flat as a share of earnings, private rents and mortgage repayments have both increased. Similarly, while floorspace per person has stayed relatively flat in the social rented sector, conditions in the private rented sector have become more cramped.¹¹⁵ The Centre for Cities estimates that the UK has a shortfall of four million homes, relative to comparable European countries.¹¹⁶

Figure 16: Housing costs as a share of earnings, 1935-2020



Source : Holmans, *Historical Statistics of Housing in Britain*; DLUHC, *English Housing Survey*; Chartered Institute of Housing, *UK Housing Review 1999/00*; Chartered Institute of Housing, *UK Housing Review*

2003/04; Chartered Institute of Housing, UK Housing Review 2023; Bank of England; ONS; HM Treasury, GDP deflators at market prices; SMF analysis

So action on housing supply – of all tenures – is sorely needed. This – coupled with the potential economic benefits from increasing housing supply in our major cities – is part of the motivation for the government’s policy focus on new construction.

On the other hand, an argument made by many we spoke to was that providers’ first duty – legally and morally – is to their existing tenants, not to potential future ones. We agree with this. While it is true that the same is not the case for government, it is perverse for government to impose legal responsibilities on providers and then fail to enforce them adequately; and to leave providers without adequate funding to fulfil their core responsibilities. It is also potentially costlier in the longer run, if problems of disrepair are left inadequately addressed. And the failure of some social landlords to provide adequate living conditions for their tenants can drive a breakdown of trust between tenants and providers, which has wider corrosive effects.

Moreover, demolition and rebuilding-style regeneration projects often include the construction of additional homes alongside the replacement of existing ones. Providing sufficient funding for such projects ensures that this can take place, and in a way that is financially sustainable for providers.

So we welcome moves to extend existing funding streams such as the Affordable Homes Programme to be broadened so that they can also be used to fund regeneration; and we support calls to extend this further. However, as it stands, this change to the Affordable Homes Programme only applies to regeneration projections which contain some element of adding new additional affordable housing units. It also only applies up to the end of the programme in 2026. It is right that the policy should retain some pressure on providers to densify their housing stock where possible; however, there is a case for loosening this requirement in areas of lower housing demand, where the condition of the existing stock is the main policy concern. It would also be beneficial to extend this policy beyond the end of the programme, to provide more certainty to providers.

But we also support calls for increased funding across the board – existing funding streams alone are insufficient to address poor living conditions where they exist; decarbonise the social housing stock; address the building safety crisis; and build new social and affordable homes at the levels needed.

Recommendations

Beyond this, what is needed to solve the problems we identify above, and ensure that regeneration is properly funded? We recommend the following changes.

Recommendation 1: Allow existing funding for the construction of new social and affordable housing, such as the Affordable Homes Programme and the Housing Infrastructure Fund, to also be used for regeneration

Addressing poor living conditions is an important goal in its own right, and as our research has shown, carries key social, economic and environmental benefits. Investment in regeneration is a key part of this. But the current financial pressures facing providers have made this more difficult. We therefore think that more funding should be made available for regeneration.

As above, we also do not believe it is right for government to impose legal responsibilities on providers to provide safe and adequate living conditions without ensuring that they are able to access the financial resources to fulfil them. Making regeneration projects more financially viable may also potentially ‘unlock’ the delivery of additional units alongside the replacement of existing ones. Therefore, we welcome recent changes announced by Homes England to allow Affordable Homes Programme funding to be used for regeneration as well as for new construction; and we recommend that this change should be retained beyond the life of the programme, and applied in general to funds available for new construction of social and affordable housing.

Recommendation 2: Make existing funding for social and affordable housing easier to access

The fragmented and short-term nature of existing funding streams makes them more difficult to access, creating a barrier to investment in regeneration and new construction. Having to bid for funding creates uncertainty for providers – again making long-term planning and accessing credit more difficult.

Instead of being allocated via individual pots which providers must bid for, funding streams should be consolidated, and allocated according to need. This would be a fairly fundamental change to the way funding is currently allocated, and would require new assessments of need to be made by government. Care would need to be taken to ensure that this did not disrupt the allocation of funding in the short term. In the medium to longer term, this would lead to a more secure and sustainable funding stream.

The government should also provide greater certainty over the long-term path of funding – for example, by publishing the spending profile of the Social Housing Decarbonisation Fund for the entire length of the programme, rather than releasing it in waves. The planning horizon of the Affordable Homes Programme should be extended from five years to ten, in line with recommendations from the National Housing Federation, Shelter, and the Consortium of Associations in the South East.¹¹⁷ In addition to increasing certainty, this would also make social housing spending more countercyclical in nature, helping to protect the economy during downturns.

Recommendation 3: Increase the Affordable Homes Programme by £1.5 billion per year for three years, and £2.3 billion per year thereafter

To address poor living conditions in social housing where they still exist, as well as to meet social housing needs, providers will need additional funding. To meet new social and affordable housing need, an estimated £15 billion per year in grant funding is needed.¹¹⁸

We recommend that funding for the Affordable Homes Programme should be increased by £1.5 billion per year for three years, and £2.3 billion per year thereafter. An additional £2.3 billion per year would roughly double the programme from its existing level. It would also restore total government investment into social housing to its 2009/10 real-terms level.

Recommendation 4: Introduce a one-off spending program to bring all social homes up to decent standards

380,000 social homes currently fall below the existing Decent Homes Standard, which is unacceptable, as it represents the minimum tenants ought to be able to expect. The government should introduce a new spending programme aimed at bringing all of these properties up to decent standards. Particular attention should be paid to problems of damp, mould and condensation, which our research shows have a statistically significant impact on wellbeing.

We find that bringing all non-decent social homes up to the existing Decent Homes Standard would cost £2.3 billion, or £0.75 billion per year over three years. However, the government is currently reviewing the adequacy of the Decent Homes Standard, particularly with respect to damp and mould and to energy efficiency. We welcome this review, and ideally any new spending program should be based around a revised Decent Homes Standard. It is not yet known what any new standard will look like, and what implementing it will cost. But our above estimate should give a baseline idea of the level of investment needed to bring all social homes up to a minimally decent condition. It is likely that the Decent Homes Standard will be superseded, but before it departs, the government should aim to finally achieve the goal originally set for 2010 and ensure that all homes meet the standard.

Recommendation 5: Increase overall funding to safeguard delivery on building safety, decarbonisation and new construction

As we argue above, there is a need for providers to spend a greater proportion of their own resources on improving and maintaining the condition of their existing stock. This means that their ability to deliver other major policy goals – addressing the building safety crisis, achieving net zero, and increasing the supply of social and affordable housing – will be reduced.

And even on the face of it, current funding streams for these goals are inadequate – the funds available from government fall well short of the levels of expenditure required. On building safety, a total of £5.1 billion is available across all housing tenures, whereas an estimated £15 billion to £20 billion is needed to address the problem in the social housing sector alone.¹¹⁹ On decarbonization, roughly £1 billion per year is available from the Social Housing Decarbonisation Fund and Homes Upgrade Grant, whereas an estimated £3.7 billion per year is needed.

Overall levels of funding to providers should therefore be increased to ensure that these important goals can be delivered.

Recommendation 6: Provide greater certainty on the rent regime

While social rents rose faster than inflation between 2001/02 and 2015/16, since 2015/16 they have fallen by 10% in real terms. This creates financial pressure for providers. Moreover, the ad hoc nature of changes to the rent providers are able to charge creates uncertainty, damaging providers' ability to plan for the future and to access credit from private lenders.

To combat this, greater long-term certainty should be provided over the rent regime. With the exception of caps to address unanticipated high inflation, all changes to the rent regime should be set out at least five years in advance of their implementation. Where rents are capped below inflation, the shortfall in provider income should be made up with additional government funding on an ongoing basis.

Recommendation 7: Alongside this additional funding, require social housing providers to set aside rent revenue to fund major works and repairs over the lifespan of the property

As above, increased financial support is needed to ensure that providers have adequate funds to be able to address problems with the existing social housing stock. To ensure that this is being invested effectively, and protected from extraction by private lenders or other actors, we propose that alongside this, social housing providers should be required to set aside a portion of rent revenue to fund future major works and repairs, including refurbishment, and potentially demolition and rebuilding at the end of the life of the property. This would ensure that, in future, sufficient resources are available to fund these works, and poor conditions can be addressed.

This should be based on the sinking fund model used in the leasehold sector. This involves a portion of the service charge paid by leaseholders being put aside by the freeholder or property manager into an interest-bearing account. This is then built up and retained until expenditure on major works or repairs is needed. The size of the contribution should be determined based on the expected lifespan of the property and its components, and the expected cost of future works and repairs.

In time, mandatory sinking funds for social housing providers will ensure they have the resources required to fulfil their legal and social obligations to provide tenants with decent living conditions. However, this will not happen immediately – it will take a significant amount of time for these funds to accrue sufficient revenue to fund the works needed. In the interim, other action is needed, such as our proposal above for additional funding to bring all homes up to the Decent Homes Standard.

This recommendation assumes that sufficient additional funding is made available to providers, to ensure that they are able to meet this new demand on their resources on top of existing demands – including routine maintenance and repairs; addressing the building safety crisis; preparing for net zero; contributing to the supply of new social housing; and wider investment in the community. If this is not the case, the imposition of a sinking fund requirement will highlight these gaps, ensuring that they receive attention now rather than the issue of insufficient funding being kicked down the road, potentially for decades.

However, diverting funds away from these other important issues would not be a desirable outcome. Therefore, we propose that this reform should only be introduced alongside a significant increase in funding to providers, in line with our recommendations above. In the absence of this additional funding, we would not recommend that this reform be introduced, as it would do more harm than good.

Recommendation 8: Strengthen the legal enforcement of social tenants' rights to safe and adequate housing

The current regulatory environment governing living conditions in social housing is not adequate to address poor living conditions. The cases highlighted in recent media reports demonstrate this, as does the Regulation of Social Housing select committee report, which noted that “too many [providers] are guilty of... not responding quickly enough to requests for repairs or investigating the structural causes of disrepair”.
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As a result, we recommend that the enforcement of tenants' rights to safe and adequate housing is strengthened. We welcome the regulatory reforms recommended in the select committee report, particularly making clear the duty of local authorities to investigate all unsafe homes, and scrapping the ‘systemic failure’ test that the regulator currently sets as a threshold for its intervention.¹²³ We also welcome the regulatory measures in the Social Housing Regulation Bill, particularly those on increasing inspections, arranging emergency repairs, time limits to address problems with damp and mould, and removing the cap on fines for landlords. Action on fines and financial penalties is particularly needed, to ensure that providers face the right financial incentives when making decisions over whether to invest in addressing poor living conditions in their existing housing stock. However, attempts to strengthen the legal responsibilities of social landlords are likely to be of limited effectiveness if not accompanied by action to ensure that they have the financial resources needed to fulfil them. This recommendation is likely to be most effective if implemented alongside our recommendations on funding above.

APPENDICES

Appendix A: Economic model methodology

The economic model investigates the economic benefits associated with investing in social homes upgrades and operates as follows:

1. Estimation of Eligible Social Homes: The number of social homes eligible for retrofitting in each local authority is estimated.
2. Retrofitting Investment: The total investment required to retrofit all eligible social homes in each local authority is calculated.
3. Derivation of GVA and employment impact: The 2018 Input-Output Analytical Tables (IOAT) in the UK is used to estimate the GVA and employment generated by a specific investment level (e.g., £2 billion) or investment target (e.g., bringing 25% of EPC Band D homes up to EPC Band C).

Deriving social home stocks eligible for retrofitting

To determine the social homes eligible for retrofitting, data on the social housing stock owned by local authorities (LAs) or housing associations (HAs) is obtained from the Regulator of Social Housing¹²⁴.

For upgrading social homes with regard to EPC banding, we focused our study on social homes with an EPC Band D rating only. The reasons of excluding homes with EPC E or below include:

- a. Low market share. The data showed that social homes generally exhibit higher energy efficiency compared to owner-occupied and privately rented properties. In 2020, approximately 62% of social homes already achieved an EPC Band C rating, while around 31% were classified as EPC Band D. Social homes with lower EPC ratings accounted for a relatively small share, approximately 3.6%.
- b. Cost considerations. Upgrading homes from EPC Band E or below to EPC Band C is significantly more expensive than upgrading homes with an EPC Band D rating.

To determine the number of EPC Band D social homes at the local authority level, we multiplied the corresponding social home stocks by the percentage of social homes with an EPC Band D rating or below in 2022¹²⁵.

Obtaining data on non-decent stocks reported by housing associations at the local authority level is challenging due to incomplete reporting and potential data discrepancies. The non-decent stocks reported by housing associations are not available at the local authority level. Although the local authority Housing Statistics in England contains a dataset for non-decent LA homes¹²⁶, not all LAs reported their figures.

As such, to derive the number of non-decent in each LA, we tried to use LA's reported figures as far as possible. The missing gaps were filled by firstly obtaining the non-decent social homes owned by local authorities in England in 2021¹²⁷ (with no regional breakdown). We then applied a uniform decline rate to the 2020 region data on non-decent homes (the latest available data)¹²⁸. We made further adjustments by distributing the number of homes to various local authorities based on their respective total stocks. Meanwhile, non-decent homes owned by housing associations in a local authority are allocated according to the housing association stocks.

Setting investment scenarios

To assess the economic impacts of investments in upgrading social homes, two investment scenarios are examined:

1. **£ Level of Investment:** Specific investment amounts of £2 billion, £5 billion, and £10 billion are considered.
2. **Investment target:** Investment targets are defined, such as upgrading 25%, 50%, or 100% of currently EPC Band D homes to EPC Band C, or upgrading 25%, 50%, or 100% of non-decent homes to meet the Decent Homes Standard. These investments involve one-off spending spread across three or five years.

To calculate the implied total investment required for retrofitting homes, we multiply the total number of EPC Band D / non-decent social homes by the total costs associated with upgrading the homes. Average costs for improving homes to an energy efficiency rating (EER) of Band C are obtained from the English Housing Survey¹²⁹, and adjusted to 2023/24 prices. Similarly, average costs for making homes decent are available by region and tenure in 2020¹³⁰, and these are also updated to 2023/24 prices.

The distribution of investment across local authorities depends on their respective stocks of EPC Band D social homes or non-decent homes. For example, a £2 billion investment aimed at upgrading EPC Band D properties to EPC Band C would result in a £1.93 million investment in Adur, a local authority in the South East.

Deriving GVA and employment impacts

The input-output model is employed to estimate the impact of investment in the social housing sector on other sectors of the economy, providing insights into the direct, indirect, and induced effects of retrofitting social homes.

Since a further breakdown of the construction sector is unavailable, the economic impact of spending on social home upgrades is assumed to be equivalent to spending on the construction sector as a whole.

- **Direct Impact:** The direct impact focuses on the construction industry.
- **Indirect Impact:** The indirect impact encompasses other industries that supply goods and services to the construction industry.
- **Induced Impact:** The induced impact refers to other industries affected by the spending of construction workers and individuals employed as a result of retrofitting social homes.

To derive the indirect and induced output multipliers, Type I and Type II Leontief Inverse matrices are employed. Full-time equivalent (FTE) employment figures from the Business Register and Employment Survey are utilized to determine employment/output ratios.

Investments in EPC upgrades or upgrading non-decent homes to decent homes yield the same aggregate economic impact with the same investment amount. However, the regional distribution of the impact may differ due to variations in investment allocation among regions.

By considering the direct, indirect, and induced effects on GVA and employment associated with housing investments, the total GVA and employment impact in England can be calculated. These impacts are proportionally allocated to individual local authorities based on their investment inputs.

For example, upgrading 25% of EPC Band D social homes to EPC Band C within five years requires an annual investment of £559.5 million in 2023/24 prices. According to the model, this investment would generate a total GVA impact of £669.9 million per year (including direct, indirect, and induced impacts).

Appendix B: Environmental model methodology

The environmental model assesses the potential environmental impact of investment in regeneration by focusing on upgrading EPC Band D properties to EPC Band C.

The model operates as follows:

- Estimation of Upgradable Homes: The number of homes that can be upgraded by a specific investment level (e.g., £2 billion) or investment target (e.g., bringing 25% of currently EPC D social homes up to EPC C) is estimated, considering the inflation-adjusted costs provided in the English Housing Survey.
 - For example, Adur received £1.93 million aimed at upgrading properties currently rated as EPC Band D to EPC Band C. Given that 66% of social stocks are owned by the local authority (LA) and 34% by housing associations (HA), the investment would further be divided into £1.27 million for LA stocks and £0.65 million for HA stocks. With improvement costs estimated at £6,230 and £5,941 for LA and HA homes, respectively, this allocation would result in 204 LA homes and 110 HA homes being retrofitted.
- Energy consumption estimation. Average gas and electricity consumption of an EPC C and EPC D house followed The National Energy Efficiency Data-Framework (NEED)¹³¹, and the gas and electricity saved can be calculated.
- Carbon Emissions Estimation. Carbon emissions by utilizing CO2 emission factors provided by BEIS and Defra's "UK Government GHG Conversion Factors for Company Reporting 2022." These factors measure CO2 equivalents per unit. The emission reduction is calculated by applying these emission factors directly to the reduction in gas and electricity consumption resulting from the retrofit.

It is important to note that these calculations provide a rough estimate of the energy consumption decline and carbon emission reduction resulting from the upgrade, as

they disregard factors such as house size, type, and age that may influence the actual outcomes.

The model can potentially look into the energy consumption and carbon emissions resulting from upgrading non-decent homes to decent homes, but this is more complex due to a lack of evidence linking them. However, according to the English Housing Survey, there is a strong relationship between energy efficiency and housing quality. In 2020, 96% of homes with an energy efficiency rating (EER) of band F or G failed the Decent Homes Standard, while 38% of homes in EER band E also failed¹³².

Therefore, the carbon reduction associated with upgrading a non-decent home to a decent home is assessed based on its relationship with the EER. Assuming a direct translation of EER to EPC rating, the model estimates the average energy consumption of a decent home and non-decent home based on the National Energy Efficiency Data-Framework (NEED), and calculates corresponding carbon emissions by considering that upgrading a non-decent home to a decent home would reduce energy consumption by 1,475 kWh and electricity 440 kWh per year.

Appendix C: Wellbeing analysis outputs

Figure 17: Summary of results from simple linear regression model predicting association between given variables and the life satisfaction score of Household Reference Persons (HRPs)

Variable	Coefficient	Std. Error	P-Value	Sig.
Intercept	3.060	0.956	0.001	**
Presence of damp, mould or condensation in home	-0.269	0.089	0.002	**
Suffering from mental health problems (reference: no mental health problems)	-0.949	0.096	< 2e-16	***
Good health (reference: in very good health)	-0.022	0.181	0.904	
Fair health (reference: in very good health)	-0.637	0.180	0.000	***
Bad health (reference: in very good health)	-1.403	0.195	9.17e-13	***
Very bad health (reference: in very good health)	-2.664	0.236	< 2e-16	***
Annual income of HRP and partner (logarithmic transformation)	0.398	0.083	0.000	***
Age finished full time education	0.005	0.006	0.421	
Marital Status: married (reference: single)	0.479	0.120	0.000	***
Marital Status: separated (reference: single)	0.034	0.180	0.851	
Marital Status: divorced (reference: single)	0.034	0.116	0.768	
Marital Status: widowed (reference: single)	-0.360	0.194	0.064	.
Marital Status: other (reference: single)	1.207	1.150	0.294	
Age of HRP	0.011	0.004	0.006	

Socioeconomic classification	0.010	0.022	0.659	

Significance levels: '***' 0.001 ; '**' 0.01 ; '*' 0.05 ; '.' 0.1

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