The impact of funding building safety

Briefing on analysis carried out for the National Housing Federation

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Summary

Modelling by Savills for the National Housing Federation estimates that funding £3.8bn worth of fire remediation works could free up the financial capacity for affected housing associations to build an additional 91,000 homes over ten years.

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Introduction

The National Housing Federation (NHF) believes that social landlords should have the same access to government funding for building safety works as private building owners. A report by the National Audit Office stated that the cost of cladding works among social landlords is around £3.8bn. With other safety defects, the overall cost to the sector could be much higher.

Currently, social landlords can only access government funding for building safety works to pay for the proportion of costs that would otherwise have been passed to leaseholders, or if the organisation would be made financially unviable by meeting the costs of works. This means that around 90% of available funding has been allocated to private building owners.

We believe that the current settlement for building safety funding is unfair for social housing tenants, who are picking up the costs of building safety works through their rents. However, we also believe there is a sound economic argument for providing more building safety funding for social landlords: providing this funding would increase the capacity of housing associations to contribute to meeting the government's target of building 1.5 million new homes.

To demonstrate this, the NHF engaged Savills to undertake modelling to estimate the impact that a building safety funding programme totalling £3.8bn over five years would have on housing associations' financial capacity to deliver new affordable homes. This paper presents the findings of that modelling.

Impact on capacity - approach

Savills have developed a national model to project forward key financial aspects of the housing association sector. The modelling is underpinned by the following key baseline assumptions:

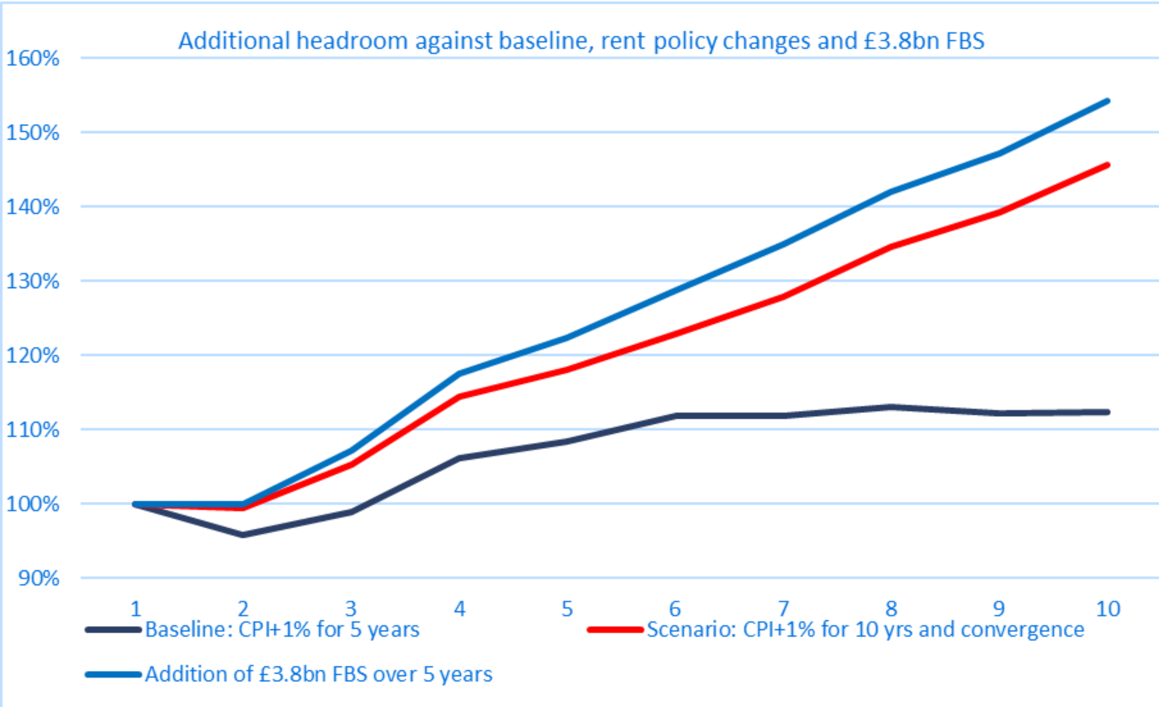
- A national sector projection based on forward forecast of activity "as is".
- Operating costs are projected from the 2023/24 base.
- Asset Management investment profiles based on latest stock survey aggregated average outputs.
- Development delivery as it was in the 2022/23 and 2023/24 financial years (tenure and grant/s106 splits).
- Inflation forecasts per latest OBR projections.
- Interest rate forecasts for new and refinanced debt based on Savills Financial Consultants forecasts (broadly that base rates will reduce to c3% by the end of 2026).

The model extrapolates the improvements in the interest cover ratio (ICR) - a key financial performance measure – which could be achieved by variations in the policy environment (rent settlements, rent convergence, extra funding etc). A higher ICR means that housing associations have the capacity to borrow more money which they can then invest in activity such as building new homes. This increased borrowing capacity thus yields an estimate of the number of additional affordable homes which could be delivered over a period of time.

This iteration of the modelling looked at the addition of £3.8bn of building safety funding (over 5 years, from 2026-2031) to a projection which includes rent increases at CPI+1% for 10 years and rent convergence at £3/week. A further underlying assumption is that the entire headroom created by this £3.8bn subsidy would be available to invest into additional new homes, rather than being used for other purposes.

Impact on capacity – output and moderation

The chart below highlights the increased capacity generated by the receipt of £3.8bn in fire and building safety subsidy. Additional headroom of c7-8% in interest cover is generated over 10 years, as a projected c146% rises to c154% (the gap between the red and blue lines).



If all of this additional capacity is utilised to generate additional investment into new homes, the total potential for additional new homes is **82,000** at the aggregate national level. This estimate is based on a split of tenure in new supply of 80% social rent, 10% intermediate rent and 10% shared ownership, reflecting what we understand to be the government's ambitions towards the tenure mix of new affordable homes going forward. Capacity would vary for alternative tenure mixes. The build-up of delivery recognises the build-up of capacity over time and therefore implies 20% in 5 years and 80% in years 6-10. The percentage of delivery is thus distributed as follows:

Year	1	2	3	4	5	6	7	8	9	10
Delivery	0%	4%	4%	4%	8%	8%	16%	16%	20%	20%

This national projection is based on national average values. However, the distribution of subsidy for fire and building safety remediation would be focused on those housing associations in need of it.

The national modelling is therefore moderated to reflect that differential assumptions would apply if we were able to formulate a projection for those potentially in receipt of the subsidy. To this end, a typology was developed by looking at a group of housing associations with outstanding remediation programmes. These associations:

- Tend to be larger than the average.
- Tend to have larger development programmes – and therefore could derive enhanced benefit from fire and building safety remediation within their business plans.
- Tend to have greater stock levels located in and around London – where development costs are higher.

These factors are summarised in the table below:

Moderation factors	
No. of focused HAs included	32
Proportion of national stock	40%
Proportion of new build programmes undertaken by these HAs	50%
London focus of HAs in receipt of fire & building safety subsidy	45%
Which compares to the baseline delivery programme in London	40%

The national average estimate of 82,000 has thus been moderated as follows. While these associations account for 40% of all housing association stock nationally, they carry out 50% of the sector's development activity. To account for this overperformance, the initial national estimate of 82,000 is revised upwards to 102,500, a 25% increase (reflecting the fact that 50% is a 25% increase from 40%).

This increase needs to be offset by the fact that these associations are focused more towards London, which would imply a lower delivery given proportionately higher development costs. This is factored in by reducing the 102,500 figure by the same proportion as the difference between the London stock focus of this group of associations and the proportion of baseline delivery located in London. This drop is around 11%, resulting in a rounded figure of 91,000.

Overall, these factors, taken together, still increase the potential for fire and building safety subsidy to unlock investment into new homes as a result of the recipient associations being, on the whole, those that are the biggest developers.

The aggregate moderated total estimate is therefore **91,000** homes delivered as follows:

- 3,640 homes in years 2-4;
- 7,280 homes in years 5-6;
- 14,560 homes in years 7-8;
- 18,200 homes in years 9-10.