

# INVESTMENT TO BEAT THE HOUSING CRISIS

*Autumn Budget 2017 submission*



September 2017

## **Investment to beat the housing crisis**

### Summary

- Current policy and allocation of public spending on housing low-income households is not fiscally sustainable or economically efficient, and is a significant contributor to rising homelessness.
- Lack of housing supply is a longstanding, and very serious, weakness in the British economy.
- Government investment in new housing at rents which are genuinely affordable to those on lower incomes would be good value for money for the taxpayer and is an essential part of boosting total housebuilding to economically sustainable levels.
- The Budget needs to set out a fair, sustainable and consistent settlement for rents and welfare entitlement in the social housing sector.
- This should include a specific housing allowance for care and supported housing, at a level which enables providers to continue provision and develop new stock. Not doing so risks significant cost-shunting into already overstretched social care and health budgets.

## 1. Introduction

SHOUT ([www.4socialhousing.co.uk](http://www.4socialhousing.co.uk)) is a volunteer-run campaign making the case for investment in genuinely affordable homes and demonstrating the positive effects that such housing has on people and communities. In partnership with other housing organisations, we have commissioned research on the case for investment in sub-market rental housing<sup>1</sup>, and on policy on setting social rents after 2020 (forthcoming).

We trust that our evidence and arguments will assist with the Budget process. We would be happy to provide any further information. Please contact Martin Wheatley, SHOUT, ([martinwheatley10@virginmedia.com](mailto:martinwheatley10@virginmedia.com), 07722 997246) to arrange this.

## 2. Why housing matters for the Budget

Housing matters for themes which the Chancellor has emphasised strongly in his 2016 Autumn Statement and Spring 2017 Budget: building an economy which works for everyone, investing for the future, and prudent management of the public finances.

Our core proposition, a commitment to a long term government-sponsored programme of developing 100,000 new units a year of housing at genuinely affordable rents, alongside other tenures, would:

- bring down the cost to government of supporting low-income households;
- address the under-supply of housing which has been so resistant to other policy approaches;
- via Right to Buy or formal rent to buy schemes, offer a pathway towards home ownership;
- help address pressures on public services, notably health and social care.

This submission also addresses two other important issues: the need for a stable, fair and sustainable settlement for social housing rents, and ensuring that existing and new supported housing is viable. Both require policy to be set consistently across both CLG and DWP programmes.

## 3. Current policy of increasing reliance on private rented sector and allowing the stock of sub-market rental housing to dwindle is not “fiscally sustainable and economically efficient”

*Tenure mix: home ownership and renting*

We support the Government’s desire to ensure that as many households as possible can access home ownership. In section 4 below, we suggest some ways that increasing the stock of genuinely affordable rental housing could play a part in that. However, the analysis of spending options also needs to recognise that, for the foreseeable future at least, for many households, those in work as well as those who are not working, incomes are not high enough either to buy, or to rent privately without support through the welfare system. In some cases, this is permanent: notably low-income retired people and sick and disabled people whose conditions restrict their earnings, or prevent

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<sup>1</sup> *Building New Social Rent Homes: an Economic Appraisal*, Capital Economics for NFA and SHOUT, June 2015 [http://d3n8a8pro7vhm.cloudfront.net/themes/5417d73201925b2f58000001/attachments/original/1434463838/Building\\_New\\_Social\\_Rent\\_Homes.pdf?1434463838](http://d3n8a8pro7vhm.cloudfront.net/themes/5417d73201925b2f58000001/attachments/original/1434463838/Building_New_Social_Rent_Homes.pdf?1434463838) *Building New Social Rent Homes: an Updated Economic Appraisal*, Capital Economics for SHOUT, ARCH, NFA and LGA, October 2016 [https://d3n8a8pro7vhm.cloudfront.net/4socialhousing/pages/1/attachments/original/1475255900/SHOUT\\_Building\\_New\\_Social\\_Rent\\_Homes\\_V3.pdf?1475255900](https://d3n8a8pro7vhm.cloudfront.net/4socialhousing/pages/1/attachments/original/1475255900/SHOUT_Building_New_Social_Rent_Homes_V3.pdf?1475255900)

them from to working at all. In other cases, particularly working age households, there may be a reasonable expectation that incomes could improve at some point in the future, but they are indisputably not in a position to enter owner-occupation in the short term.

#### *Costs to welfare of private, social and Affordable rents*

Such households currently live both in housing owned by social landlords, normally at significantly sub-market rents, and in the private rented sector, in most parts of the country at significantly higher rents. Despite Local Housing Allowance rates constraining the levels of private rent which can be supported through housing benefit, the cost to the welfare system of supporting a household renting privately is almost always greater than supporting a similar household in sub-market social landlord accommodation. Annex A, based on analysis in *Building New Social Rent Homes*, compares the costs to the welfare system of supporting a number of different household types in different locations in private sector housing and social rented housing. In 31 of the 36 cases, benefit spending is higher in the private rented sector than in social rented housing, in 14 cases by more than 20 per cent, and in four cases by more than 50%.

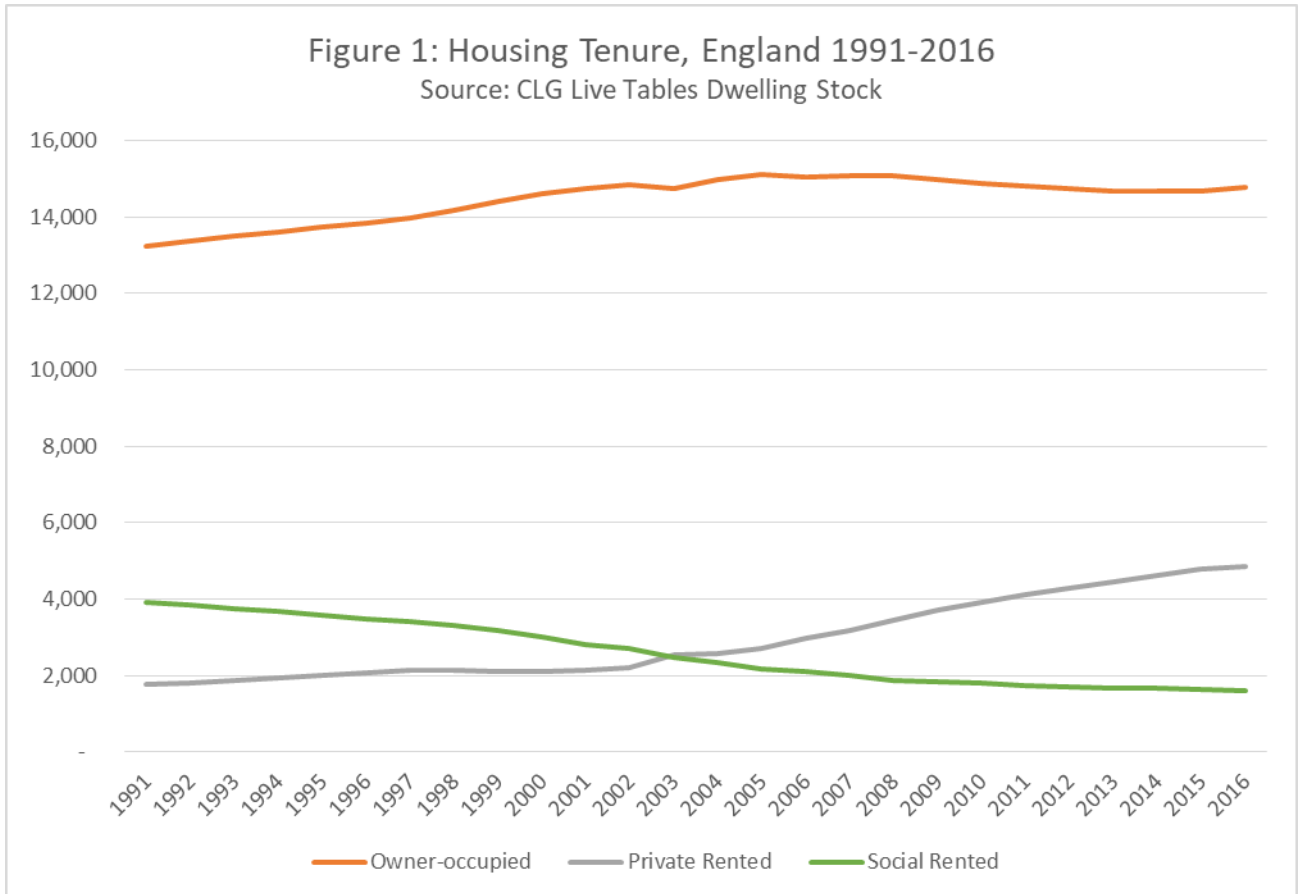
Under the 2011-2015 Affordable Homes Programme, most new social landlord homes were provided at Affordable Rents, up to 80% of local market rates. Existing social rent properties which become void are also, in some cases, being converted to Affordable Rent. Analysis in *Building New Social Rent Homes* shows that, in 21 out of 36 cases, the cost to the welfare system of Affordable Rent is higher than social rent, by up to 80 per cent.<sup>2</sup>

#### *The changing tenure mix*

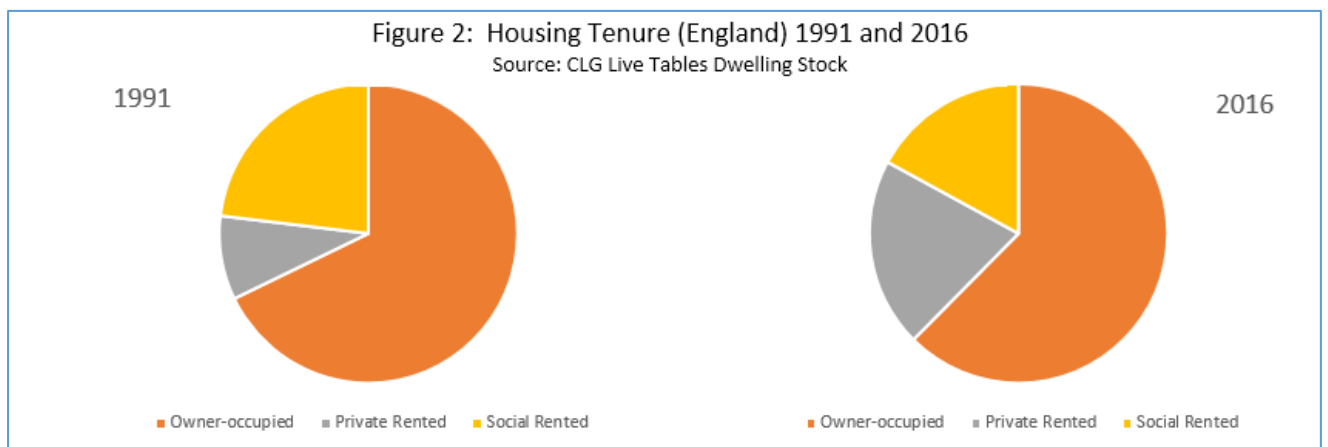
As Figure 1 shows, the stock of social rented homes has been declining, the stock in 2016 being 10% lower than that in 1991. While the number of homes rented from social landlords has stabilised since 2008, an increasing proportion of those will be at Affordable, rather than traditional social, rents. Owner-occupation declined between 2007 and 2012 and has remained broadly constant since. Ever greater numbers of the increasing total number of households have therefore been living in private rented housing, with 4.8 million households renting privately in 2016, two and three quarters times more the 1.8 million renting privately in 1991.

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<sup>2</sup> *Building New Social Rent Homes: an Economic Appraisal*, Capital Economics, June 2015, p48-52



As Figure 2 shows, the proportion of homes which are owner-occupied has fallen by 2 per cent since 1991, and the proportion rented by social landlords by 4 per cent. Private renting has made up the difference. In 1991, a little over a quarter of renting households were in the private sector, in 2016, well over half.



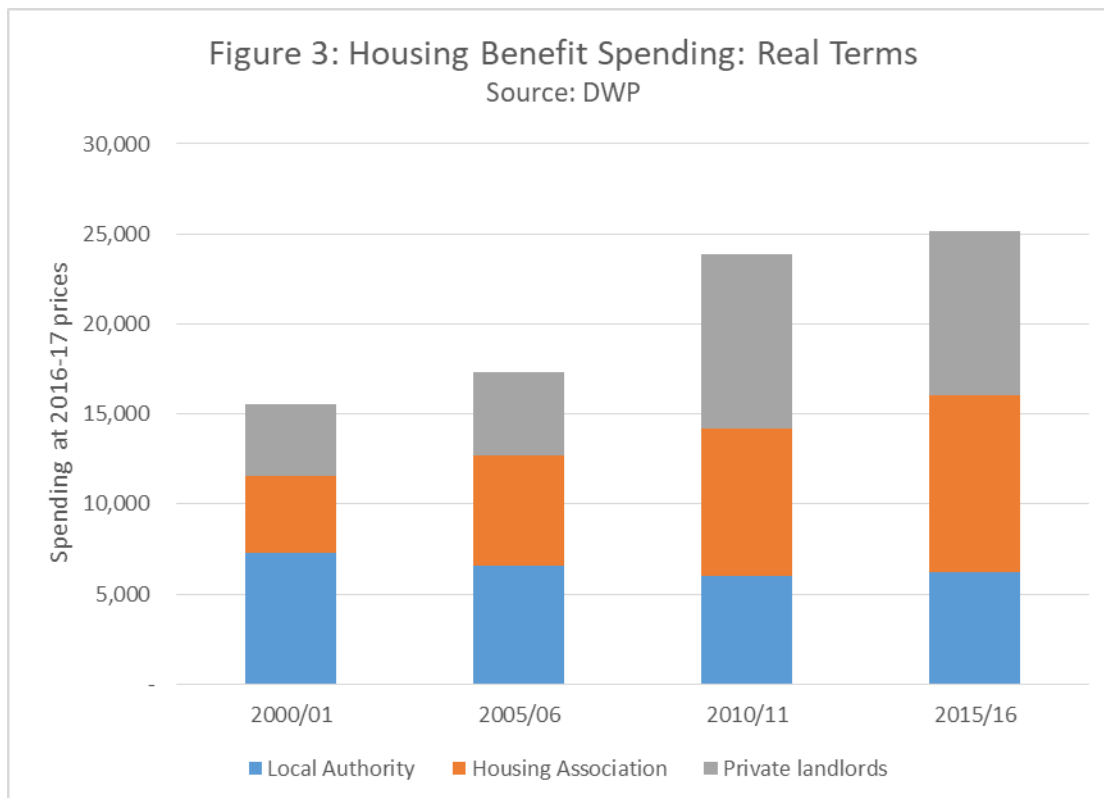
The consequences for middle to low income households of this significant and rapid tenure shift is explored in analysis by the Resolution Foundation,<sup>3</sup> which concludes, that 1.3 million low/middle income households face housing costs more than 35 per cent of household income – nearly all of them private renters or owner-occupiers. Over the last 10 years, the proportion of people under 35

<sup>3</sup> *Home Truths: How affordable is housing for Britain's ordinary working families?* Resolution Foundation, July 2013

renting privately has increased from under 30 per cent to over 50 per cent, while the proportion in social rented housing has declined slightly. In half of local authorities, a couple with one child, earning £19,000 a year, and living in a two bed home would face housing costs more than 35 per cent of household income. In a third of local authorities, a couple earning £22,000 a year would face similar excess housing costs. In 16 per cent of local authorities, even a couple earning £28,000 a year would face similar excess housing costs. (This analysis was carried out on 2011 data, and the subsequent stagnation in earnings relative to rents is likely to have worsened the position.) Over the last five years, the number of households accepted as homeless because of the breakdown of a private sector tenancy has more than tripled, accounting for two third of the rise in homelessness over that period<sup>4</sup>.

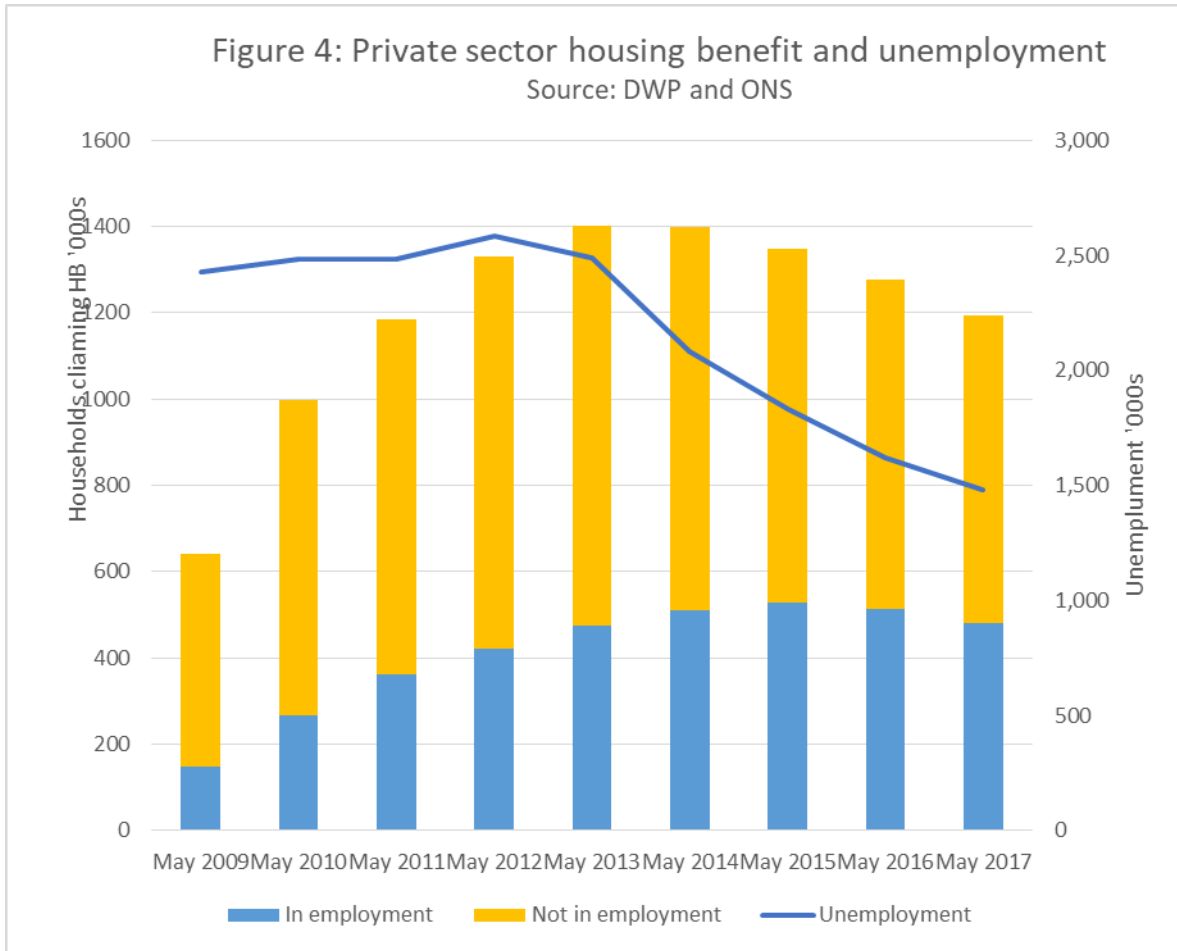
### *Consequences for welfare spending*

So it is no surprise that there has been a significant increase in housing benefit caseload and spending. Figure 3 shows that housing benefit paid in private sector housing has well over doubled in real terms in the last 15 years, and now accounts for well over a third of housing benefit spend, compared with a quarter in 2000-01. Over half the real terms increase in housing benefit spending is accounted for by the private rented sector, though it comprises less than a third of the caseload.



The increase in private sector HB is not the consequence of higher unemployment. As Figure 4 shows, the number of working households claiming HB in the private sector increased more than three and a half times between 2008 and 2015, while non-working households increased by only two thirds. Total claims have fallen since 2015, but much more among non-working than working households.

<sup>4</sup> CLG *Homelessness Statistics*



The increase in private sector housing benefit among working households has adverse social and economic consequences beyond the impact on welfare spending. Households in receipt of income-related benefits normally face very high marginal deduction rates. These can currently be up to 100 per cent in extreme cases. Under Universal Credit, the very highest such rates will be eliminated, but most claiming households will still be subject to deduction rates of over 70 per cent.<sup>5</sup> This has an adverse impact on work incentives, and is inconsistent with the Government's correct ambition that aspiration and working harder should be rewarded.

#### *Consequences for homelessness*

These trends feed into rising levels of homelessness. As the recent NAO report on homelessness shows, homelessness has increased by nearly 50% since 2009-10; households in temporary accommodation have increased by 70% since 2011; homelessness tends to be higher where private rented sector accommodation is more expensive; and a growing proportion of homeless acceptances arise from the end of a private sector tenancy (as a predictable consequence of a higher proportion of low income households renting in the private sector).

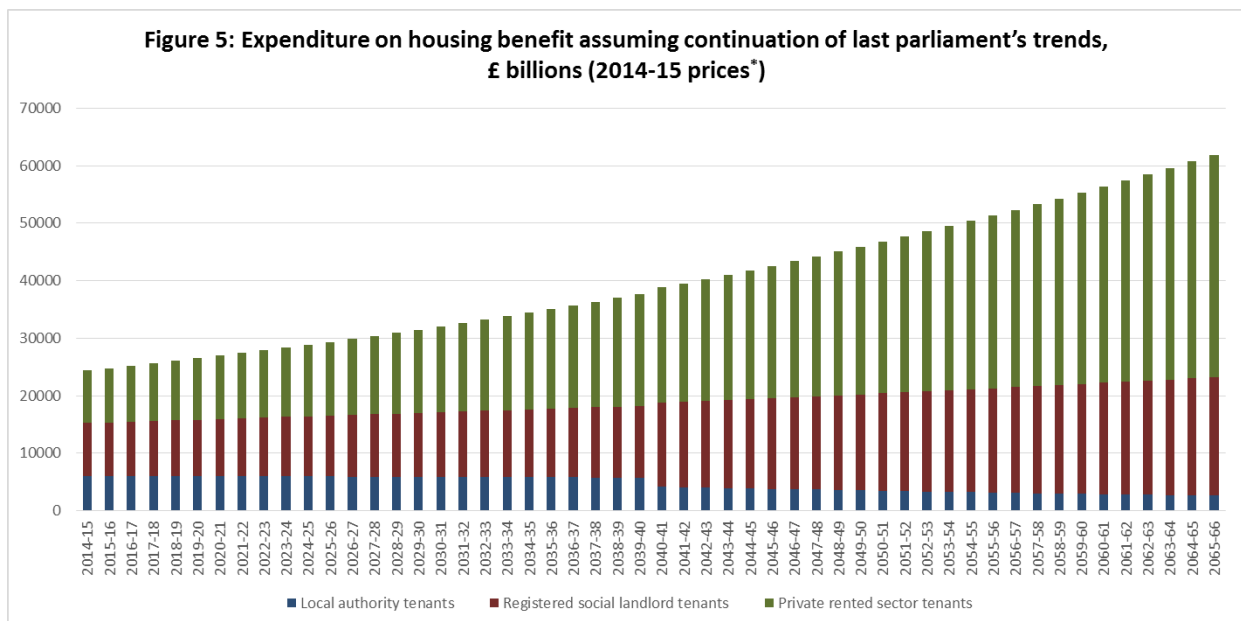
#### *Future trends*

Without policy interventions to alter recent trends significantly, it seems likely that:

<sup>5</sup> *Universal Credit: a policy under review*, Resolution Foundation, August 2014, p19.

- the mix in rental tenures will continue to shift away from social landlords (especially stock let at social rent) and towards private landlords;
- as a result, the number of private renting households claiming benefit will continue to account for a higher proportion of housing benefit caseload. On the trend of recent years, even further employment growth will not lead proportionately to a reduction in caseloads and spending;
- the change in the tenure mix of the caseload will continue to lead to large real terms increases in expenditure on housing benefit;
- homelessness will continue to worsen.

Capital Economics' analysis for *Building New Social Rent Homes* includes illustrative projections of the impact on housing benefit spending of a continuation in recent trends, assuming there are no policy changes to alter them. As Figure 5 shows, spending on housing benefit is set to increase steadily and significantly, to nearly £62bn a year at today's prices by the end of the OBR's long term review period in 2065-66. The private sector component is the driver of this growth, more than quadrupling to £38bn at today's prices. Even during the lifetime of the current Parliament, expenditure on private sector HB is set to rise by over £2.8bn in cash terms. Capital describe this as "fiscal myopia."<sup>6</sup>



\*GDP deflator assumption 2.3% (as OBR *Fiscal Sustainability Report 2015*)

### Policy options

Help to Buy and other policies which are being implemented to improve the affordability of owner-occupation, will assist some households currently renting into owner-occupation. However, the numbers they will help are modest compared with the number of private renting households (4.8 million and rising). However, even if such programmes were to be extended programmes offer, housing affordability has worsened so far that owner-occupation is not affordable at the lower end of the income distribution. In just 18 out of England's 326 districts is a lower quartile home affordable to a household with one person on lower quartile earnings.<sup>7</sup> While many households'

<sup>6</sup> *Building New Social Rent Homes: an Economic Appraisal*, Capital Economics, June 2015, p5

<sup>7</sup> *Live Tables on housing market and house prices*, CLG, Table 576; affordability defined by methodology in



earnings are dynamic, and may increase over the course of a few years to the point where owner-occupation is affordable, there are significant numbers of working age households for which that will not happen, including disabled people and those with caring responsibilities who cannot work more than part time, and even full time workers who do not find opportunities to increase their earnings.

Accepting that renting is the only accessible option for a substantial proportion of households in the short to medium term, there are a number of possible ways of reducing the expenditure implications of these trends:

- reducing welfare entitlement. In addition to the reduction in local housing allowance rates and other changes made during the 2010-15 Government, the July 2015 Budget includes further restrictions, notably a freeze in LHA rates, a reduction in the benefit cap and removing young people's entitlements completely. However, the rise in spending over the last five years shows that even significant changes in entitlement are more than outweighed by the consequences of the changing tenure shift and rising rents. We estimate that the Budget 2015 reductions in entitlement will, roughly, save only the amount by which underlying expenditure on private sector housing benefit will rise. Further restrictions in entitlement may prove extremely difficult to achieve without unacceptable impacts on social justice, rising homelessness and increasing numbers of households living in unacceptable conditions, and perverse upward pressures on public services, notably on councils' homelessness functions;
- curtailing private sector rents through direct regulation. The current Government has, however, made clear that it does not consider this to be a workable approach;
- enabling private sector development, especially of units for rent, at a scale which makes a real impact on supply, and hence rents. As we explore further in section 5 below, however, policy experience of recent decades suggests it would be extremely challenging to design and implement a set of policies to achieve this.

At best, these options appear only to offer a partial answer to the fiscal and economic risks associated with the current policy mix. We argue, therefore, that a programme of investment in housing at genuinely affordable rents would offer "a solution that is fiscally sustainable and economically efficient."<sup>8</sup> Section 5 explores the spending implications of such a programme further.

#### 4. Growth and productivity: housing supply is a key economic weakness

##### *Housing development and the economy*

There is a very widespread consensus that the persistent failure of new housing development in the UK to match the increasing number of households is a very significant economic weakness, and risk to economic stability. Figure 5 shows that, since 1945, there have been two main phases: from the late 1940s to the late 1970s, when typically 2-300,000 new homes were built a year, with very high levels of both private and social development; and the period since. In the last 30 years, new housing development has averaged less than 150,000 a year, less than 60% of the 1948-1978 average. In the last 15 years, it has been lower still, around 136,000 a year. There is a very strong consensus that the level needed to match the increase in the number of households is between 200,000 and 250,000 a year. The difference between the two phases is principally caused by the fall

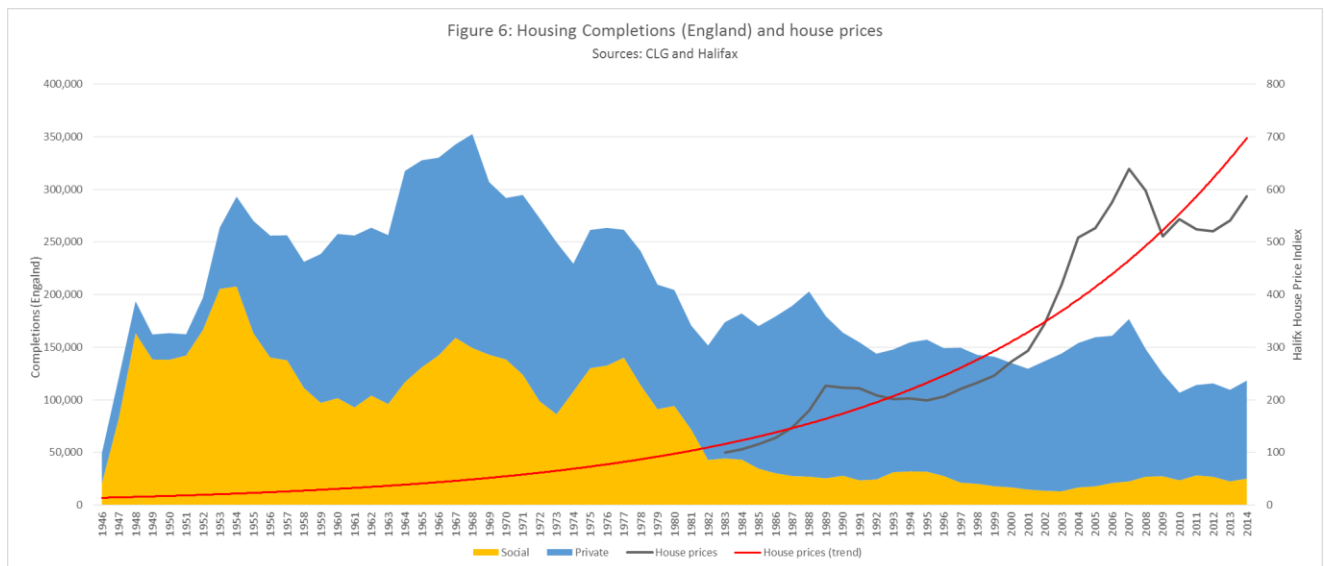
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*How much of the housing market is affordable? Analysis of homes for sale*, Shelter, June 2014

<sup>8</sup> *Building New Social Rent Homes: an Economic Appraisal*, Capital Economics, June 2015, p5

in new social housing building from 140,000 units in 1977 to levels which have ranged between 13,000 and 32,000 since 1985.<sup>9</sup>

Figure 5 also shows house price increases over the same period. Price increases have accelerated as the trend in completions has fallen. There is no sign of the market responding effectively in line with normal expectations of the impact of a price increase on supply. Indeed, if anything, private sector completions have slowed down at the same time as the trend rate of price increases has accelerated. Average completions in the 15 years 2000-14 were 115,000 a year, 15 per cent below the average for 1985-1999.



The consequences of these trends for the economy and society are very extensive and significant, in addition to the higher levels of private renting and pressure on welfare spending described in section 3 above:

- affordability of homes for purchase has worsened, particularly so in the last 15 years. Figure 7 shows that, subject to short term cyclical fluctuations, the ratio of prices to average earnings is over 50% higher than in the previous peak of the late 1980s;
- personal debt is increasing: national total personal debt levels now stand at £1.4 trillion or £53,000 per household, almost double the levels of a decade earlier and well above total government debt;<sup>10</sup>
- buying a home increasingly relies on the 'Bank of Mum and Dad', with nearly two thirds of first time buyers in 2011 depending on such assistance, compared with a third in 2005.<sup>11</sup> Affordability increasingly depending on the chance of access to family wealth undermines social mobility and decouples access to home ownership from hard work and success;

<sup>9</sup> Figures in this section are England-only

<sup>10</sup> *Building the homes we need: A programme for the 2015 government*, KPMG, in partnership with Shelter, 2014, p24

<sup>11</sup> *ibid*, p24

- home ownership rates among younger people are declining steeply, with home ownership among 25 to 34 year olds declining from over 70 per cent to around 40 per cent in the 20 years to 2012;<sup>12</sup>
- pension saving is likely to fall with consequences for future pensioner poverty and dependency on benefits, since private renting is strongly correlated with not making provision for a pension.<sup>13</sup>

**Figure 7: Affordability ratio as a proportion of gross nominal salary 1953 – 2012**  
Source: KPMG, based on CLG\*



\* In *Building the homes we need: A programme for the 2015 government*, KPMG, in partnership with Shelter, 2014

Most seriously of all, the increasing volatility associated with the increase in trend house price growth is a clear risk to macro-economic stability and, alongside the growth in lending to households for house purchase, to the stability of UK financial institutions also.

Looking ahead, there are downside risks to the volume of housing development, especially a further decline in social landlords' building: OBR suggest that the change in the social rent assumption announced in the 2015 Budget will reduce social landlords' output by 14,000 units, with sector bodies suggesting a greater impact.<sup>14</sup> Although it is the intention that the extension of Right to Buy to housing association properties and the sale of higher value council properties should increase supply through the replacement of units sold, experience since 2012 suggests that one for one replacement is extremely difficult to achieve in practice.

#### *Policy response*

Over the last 15 years, governments have tried to intervene via: changes to the planning system, to make it speedier and more effective, and reduce the impact of regulation and planning contributions on developers: through attempting to secure the release of more public land, by promoting larger

<sup>12</sup> *ibid*, p25

<sup>13</sup> *ibid*, p30

<sup>14</sup> The National Housing Federation suggests 17,000: *Briefing: Summer Budget 2015*, p5 [http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Summer\\_Budget\\_2015\\_-\\_Member\\_Briefing.pdf](http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Summer_Budget_2015_-_Member_Briefing.pdf)

and smaller areas for housing growth, and by supporting both developers and buyers in the private market. So far at least, these interventions have not succeeded in shifting the trajectory of development significantly towards the 200,000 or more new units required a year in England. All are subject to risks and countervailing pressures:

- proposals to liberalise planning, and specifically to ensure that local plans make greater provision for housing, and schemes make it through the planning process more speedily, are in tension with other policy aspirations to increase the autonomy of local councils and communities, and have repeatedly run into well-orchestrated opposition from opponents of development outside existing urban areas. Planning permission is also a necessary, but not sufficient, condition for development. A 2013 Local Government Association analysis found that 400,000 permissions had not been implemented<sup>15</sup>;
- so far, and despite repeated attempts, no government has found a fully effective way to put into practice the apparently common sense proposition that more public sector land should be made available for housing, and that public bodies should co-operate better over the management and disposal of their land;
- subsidies for buyers, especially when the supply side remains very weak, risk helping to drive up prices, rather than stimulate new supply.

Against this background, and in the light of the way policy in earlier decades brought about sustained very high levels of development across all tenures, it is surely time to consider whether a resumption of direct government intervention, through funding or guaranteeing the construction of new housing, is an essential element of an effective policy response to the risks created by low levels of housing development.

## 5. Building new genuinely affordable housing: benefits and costs

### *The proposal and assumptions*

*Building New Social Rent Homes* models and costs a programme of new development building up from current levels to 100,000 from 2020-21. On this basis, it would deliver approximately 270,000 new homes in the five years to 2019-20.

#### *Modelled policy: key assumptions<sup>16</sup>*

Of 100,000 new units:

- 3,000 delivered via planning obligations
- 12,000 self-financed by councils and ALMOs
- 12,500 delivered by councils and ALMOs with central government grant
- 72,500 delivered by housing associations with central government grant
- 80% of new properties occupied by households who would otherwise be claiming HB in private sector
- rents set according to rent formula in force in March 2015
- new homes allocated geographically according to current relative demand for housing benefit
- underlying economic assumptions (short term) OBR March 2015 and (long term) OBR July 2014

<sup>15</sup> *An analysis of unimplemented planning permissions for residential dwellings 2013*, LGA, 2013

<sup>16</sup> *Building New Social Rent Homes*, p32-34

Capital Economics judge that a steady build-up to this level would be reasonable, bearing in mind the lead times for development and for the necessary expansion of supply chains and labour supply.<sup>17</sup> We would add that any policy commitment of this kind would need to be supported by:

- a robust delivery plan, including such issues as maintaining land supply, and ensuring sufficient vocational training for the construction sector;
- ensuring that responsibility for delivery is clear, and those responsible have the powers and capability to make it happen. A strong option, in areas where devolution to combined authorities takes place, would be to make delivery part of the role of the combined authority, building on the model of the devolved arrangements already in place in London, and agreed for Greater Manchester.

Capital's analysis is also based on extremely cautious assumptions. It would have been possible, for example, to make higher assumptions about delivery via developer contributions, or the provision of land at less than full market cost.

#### *Direct benefits and costs*

The weighted average scheme viability is shown in Figure 8 below. The NPV per new social rent unit is £68,000 (if housing a household otherwise in the private rented sector) and £55,000 (if housing a household otherwise paying Affordable Rent). Even disregarding the market value of the property at year 25, there is a small positive NPV for units housing a household otherwise in the private rented sector.

**Figure 8: National weighted average of scheme viability by estimated distribution of current housing benefit claimants' bedroom requirement and location<sup>18</sup>**

	Building new homes for social rent instead of tenant renting privately	Building new homes for social rent instead of tenant renting at affordable rent
Present value over 25 years (£ thousands); a discount rate of 3.5 per cent per annum is used for government contribution and 4.7 per cent per annum elsewhere		
Building cost (including land)	-118	-118
Government contribution	62	49
Revenue contribution from social landlords (first 25 years)	59	59
<b>Sub-total</b>	<b>3</b>	<b>-10</b>
Recognition of social landlords' asset value in year 25	65	65
<b>Total</b>	<b>68</b>	<b>55</b>

Sources: Capital Economics

The PSBR benefit or detriment of the policy is calculated as:

Savings in welfare expenditure + higher tax revenues from construction activity – grant aid and additional borrowing by councils

The analysis also takes account of the interest savings or costs of lower or higher government borrowing resulting from the policy.

<sup>17</sup> *ibid*, p33

<sup>18</sup> *ibid*, p34

On that basis, Figure 9 shows the impact of the proposal on the public finances. In the policy's earliest years, the additional cost of financing new units will exceed the policy's benefits, peaking at a net addition to PSBR of £2.9bn (0.13 per cent of GDP). Break-even is estimated to be reached in 2034-35. Thereafter the net benefits increase, to reach more than 0.6% of GDP by 2065-66.

**Figure 9: Impact on annual public sector net borrowing as a percentage of nominal gross domestic product**

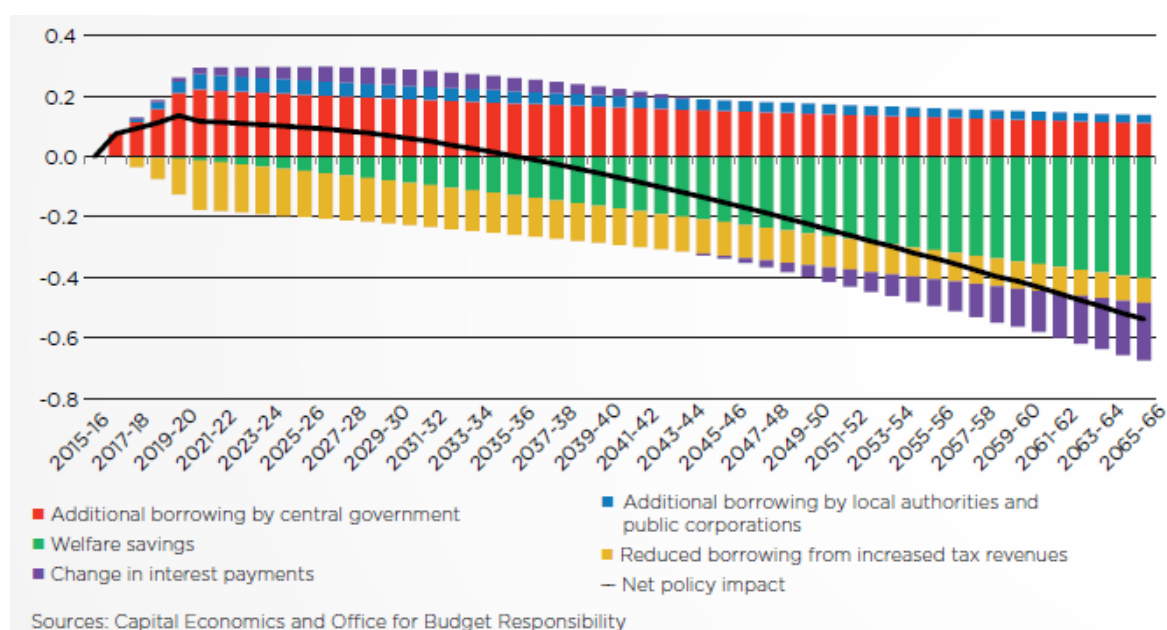
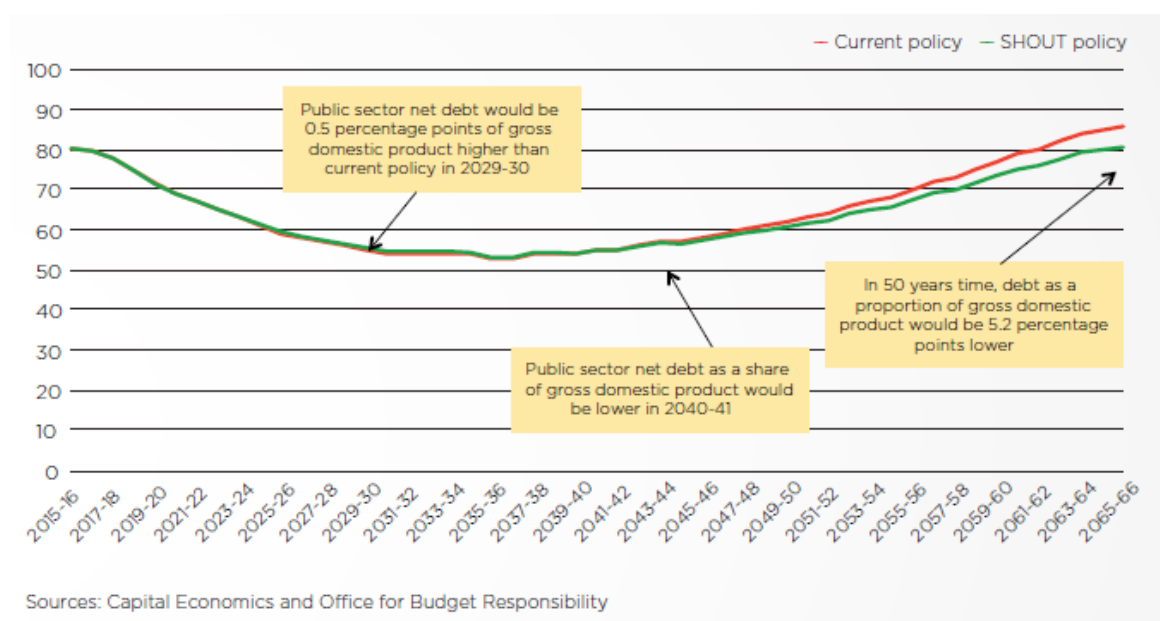


Figure 10 shows the benefits to public sector net debt. The impacts are negligible in the early years of the policy. At peak, in 2030-31, net debt would be just 0.5 per cent of GDP higher; by 2065-66, it would be 5.2 per cent lower.

**Figure 10: Public sector net debt as a percentage of nominal gross domestic product**



While there is, of course, a strong focus in spending plans on the next five years, it is also important for decisions to have an eye to the longer term. OBR's *Fiscal Sustainability Report* shows very clearly that the public finances face very significant risks over the next quarter century, arising from the ageing population and declining North Sea Revenues.<sup>19</sup> A policy approach which has such a positive net present value over the same timescale should therefore be given very serious consideration, even at a modest short term net cost.

In addition to the public sector benefits, there would be benefits to households. Capital estimate the average benefit to households at £942 a year.<sup>20</sup>

### *Consequences of Brexit*

Following the 2016 referendum, we commissioned Capital to produce an updated analysis to test the validity of their analysis in a range of potential economic scenarios following the UK's exit from the EU.<sup>21</sup> They concluded that their 2015 analysis remained valid, under four different scenarios for the mid term development of the economy, though net exchequer benefits would be somewhat reduced in scenarios of lower economic growth.

### *Wider benefits*

In our view, the case for a programme of the kind we propose rests principally on the direct positive impact it would have on the public finances, and on the under-supply of housing in the economy. However, there are other significant potential benefits, for health, educational attainment, and to reduce demands on social care and health through well-designed, well-located new homes for older and working age disabled people.<sup>22</sup>

### *Short term fiscal impacts*

We recognise that a policy which, in the short term only, would increase spending poses challenges when the public finances remain under very strong short term pressures. (Our response is as follows:

- **the government is already planning to spend over £40bn to 2020-21 on a number of programmes and tax incentives intended to promote housing supply.** However, around 80% of this spending is in support of buying in the private market, with £8.6bn for rental and shared ownership products, none of it sub-market rental.<sup>23</sup> There is surely scope for reallocating resources to investment in sub-market rental, with its demonstrable superior value for money;
- **even if wholly additional expenditure, the impact would be very modest and would be viewed by the markets much more positively than incurring a similar impact for other purpose.** The PSBR impact would peak around 2020 at 0.13%. While the term 'investment' is often misused in relation to the public finances, investing in new housing is among the most genuine and sustainable investments the public sector can make. Unlike other kinds of public infrastructure, homes are a tradeable asset, with an easily realisable

<sup>19</sup> *Fiscal Sustainability Report*, Office for Budget Responsibility, June 2015, p8-9

<sup>20</sup> *Building New Social Rent Homes* p37-38, including benefits in different sizes of property and location.

<sup>21</sup> *Building New Social Rent Homes: an updated economic appraisal*, Capital Economics for SHOUT, ARCH, LGA and NFA, September 2016

<sup>22</sup> *Building New Social Rent Homes*, p46; *Are housing associations ready for an ageing population?*, Martin Wheatley, Smith Institute, 2015

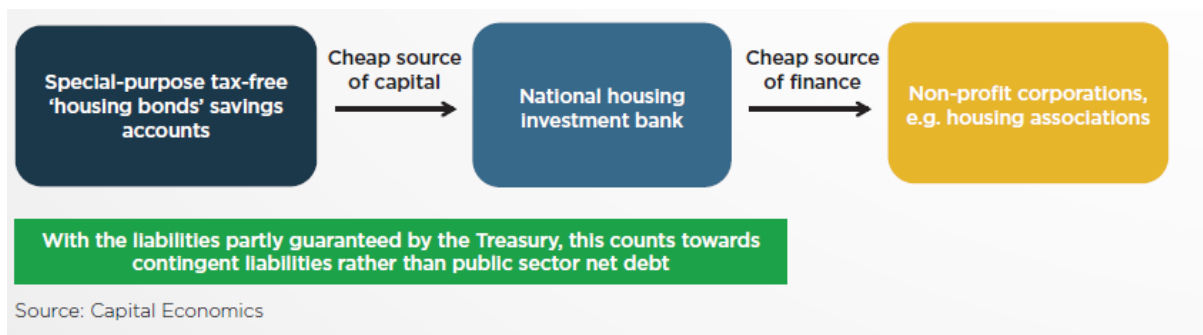
<sup>23</sup> *UK Housing Review 2017*, Chartered Institute of Housing, September 2017, Table 2.4.1

<http://www.ukhousingreview.org.uk/ukhr17/commentaries-tabs-figs/pdf/Table-2.4.1.pdf>

market value. Once built, the management, maintenance and debt service associated with social homes are met via the rent which tenants pay. Capital's advice, based on their experience of the bond markets, is that additional borrowing for this purpose would be positively viewed in the City, both because of its clear benefits in terms of medium term fiscal sustainability, and because the under-supply of housing is recognised as a key economic risk;<sup>24</sup>

- **there are ways the policy could be implemented without any short term upward pressure on the PSBR.** There is a strong case, based on international practice, for excluding public corporations' borrowing from the target definition of PSBR. The policy case for this is the very different character of borrowing to invest in an income-generating asset with a realisable market value, as opposed to borrowing for welfare or public sector pay, or even spending on less marketable forms of infrastructure.<sup>25</sup> Such a reclassification would unlock the very considerable investment capacity in the balance sheets of council and ALMO landlords, enabling, on very cautious assumptions the delivery of 60,000 new homes over 5 years without central government grant or any impact on target PSBR. Using the full potential balance sheet capacity could enable the delivery of up to 230,000 new homes.<sup>26</sup> Finance for additional council or ALMO homes, and for housing association homes, could be provided through a housing investment bank partially backed by the Treasury (see Figure 11). Finance provided through such a mechanism would not impact on the PSBR.<sup>27</sup>

**Figure 11: Funding platform to mitigate the impact of additional borrowing on public sector net debt**



## 6. A consistent and fair settlement for social housing rents and welfare entitlement

For many years, there was a stable settlement for rents and welfare entitlement. A series of rent settlements from around 2000 onwards provided for modest real terms increases in rents, and, with certain limited and defined exceptions, the rents of those on the lowest incomes were supported by housing benefit. These policies, in combination, provided certainty and security for tenants, while enabling housing associations and council landlords, as long term investing businesses, to plan ahead with a high degree of certainty.

<sup>24</sup> *Building New Social Rent Homes*, p41

<sup>25</sup> *ibid*, p41 and *Let's Get Building*, John Perry, National Federation of ALMOs, 2012

<sup>26</sup> *Let's Get Building*, p19-20

<sup>27</sup> *Building New Social Rent Homes*, p42 and *Increasing Investment in Affordable Housing*, Capital Economics, 2014



Under the Coalition, welcome reforms to council housing finance increased the ability of council landlords to plan on a stable medium to long term scenario. The rent settlements for both councils and housing associations were refreshed in 2013, with a clear commitment by the Government over the following 10 years.

However, changes in the welfare system began to affect both tenants and landlords adversely. For social housing, the most significant change was the introduction of the under-occupation deduction (“bedroom tax”) from 2013. As of May 2017, over 300,000 tenants in England were affected, about one in thirteen social housing households.<sup>28</sup> Arrears and evictions have increased as a result.<sup>29</sup>

Since 2015, risks to households and landlords’ income streams have worsened, as a result of three important sets of changes to policy on rents and welfare:

- the replacement, in the 2015 budget, of the 2013 rent settlement by a 1% annual reduction in rents;
- further reductions in welfare entitlement (removal of entitlement for under 21s, restriction of entitlement for under-35s to the shared accommodation rate, the reduction in the overall benefit cap, and the restriction of HB in social housing the frozen LHA rate);
- the transition to universal credit, ending direct payment to landlords and introducing (effectively) a five week phase of non-payment at the beginning of claims. The transition to universal credit is resulting in nearly three quarters of affected tenants being in arrears, 40% of whom were not in arrears before the change.<sup>30</sup>

We are concerned that decisions on rents, welfare entitlement and administration, as they affect the social housing sector, are not being taken on a “whole system” basis. Short term savings in DWP spending are being achieved at the cost, not just of impoverishing and increasing the vulnerability of low income households, but without regard to the impact on social landlords’ cash flow, and hence ability to manage and maintain their stock, and invest in new supply.

We urge the Government to ensure that decisions for the autumn Budget on housing investment, rents and welfare are properly co-ordinated. In particular, any settlement on rents needs to be consistent with future policy on welfare entitlement. The Government should also consider seriously both slowing down the roll-out of universal credit and reconsider previous decisions on entitlement, including those which have resulted in waits of five weeks or longer at the beginning of claims.

SHOUT, with ARCH and LGA, has commissioned research from Capital Economics about future rent and welfare policy. We will submit it to the Treasury, CLG and DWP as soon as it is ready. Its starting point is that policy on social rents needs to work for three players:

- it needs to make sense for government as the paymaster;
- of course, it needs to work for existing tenants, as they are the ones who have to pay rents out of increasingly constrained incomes. SHOUT thinks their perspective should count for more than it appears to have done in a lot of recent debate. The market position of customers in social housing is so constrained that there has to be some kind of regulation to

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<sup>28</sup> *Housing Benefit Caseload Statistics*, DWP

<sup>29</sup> *Impact of the under-occupation deduction from Housing Benefit (social housing)*, House of Commons briefing paper, February 2016, p13-15

<sup>30</sup> *Pause for Thought: Measuring the impact of Welfare Reform on tenants and landlords – 2017 Survey Results*, ARCH and National Federation of ALMOs, July 2017

counteract what is, especially in high housing cost areas, landlords' dominance of the relationship;

- of course, it also needs to work for landlords, not as an end in itself, but if we are to have any social housing at all, the business model for delivering it has to be viable.

The project is therefore looking at the impacts, for tenants, government, and the sector, of a number of scenarios for rents. It'll be looking at a range of scenarios for a continuation of a formula, from continued cash reductions to real terms increases, as well as a version of "rent freedom" for the housing association part of the sector.

The early phase of the work has brought out a number of challenges. To mention just three:

- How far is it right to see real terms increases in rents on existing properties as a legitimate source of finance for new housing? The inflation + x% approach emerged in the very different economic context before the financial crisis. If earnings are, at best, stagnant, and the income of welfare recipients falling in real terms, how valid is a policy requiring real terms increases in rents? There is also a moral argument about how much existing tenants on low incomes should be paying beyond what is needed to manage, maintain and service the debt on their homes;
- The need for future policy on rent to appreciate the very different market contexts in which landlords are operating. Even if some version of "rent freedom" were a good thing, its benefits are likely to be very skewed towards landlords in places where the margin between social rents and private rents is very high, as opposed to those where they are not far apart. Rent policy can only therefore take so much strain alongside other policy instruments in enabling landlords to achieve what is needed in different local markets, above all public investment;
- If one objective of rent policy is to maximise the amount of social rented stock in the system before government intervenes further through grant and borrowing approvals, subject to not exploiting existing tenants, how is this best done: by continuing to control rents pretty well property by property, or by letting landlords manage rents across their whole portfolio flexibly, subject to the latter approach demonstrably supporting more social rent units net than a more conventional approach?

## 7. Care and Supported housing

It is vital that the Government ends the uncertainty about the financial viability of supported housing created by the announcement in the July 2015 Budget that benefit would be limited to then local LHA rate. We agree with the conclusions and recommendations of the DWP and CLG Select Committees in their report earlier this year, that the he LHA rate is an inappropriate starting point for a new funding mechanism for supported housing, and the Government should instead introduce a Supported Housing Allowance, banded to reflect the diversity of provision in the sector and sufficient to ensure supported housing tenants will only require recourse to top-up funding in exceptional circumstances<sup>31</sup> The Chancellor should announce this in the Budget and remove the anxiety many elderly and vulnerable people are now experiencing.

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<sup>31</sup> *Joint Report on the Future of Supported Housing*, DWP and CLG Select Committees, May 2017  
<https://publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/867/86702.htm>

The effect of the Government's proposals on new supply have been serious. Research for the National Housing Federation shows that housing associations have cut the number of supported housing homes they plan to build by 85% due to the uncertainty that the proposed reforms have created.<sup>32</sup> The implications for new housing supply go further than this. The proposed changes undermine the financial viability of many developing associations. Many will cut back not only their new supported housing schemes, but other new house building plans in order to mitigate the damage to their risk profiles. This cuts across the whole thrust of the Government's policy to build more homes as set out in the Housing White Paper, and would result in an increase in cost pressures on the already overstretched care and health systems, as frail and vulnerable people do not have access to suitable and safe housing.

Existing provision has also been affected. One of the largest national providers of care and supported housing plans to close 150 of the 550 projects for which they currently provide the care and support. Another, in the Midlands, has already closed 40% of their services.

The proposals create a postcode lottery. Providers in high value areas will not be "caught" by the new regime at all. Housing associations working in these areas have nothing to fear. By contrast, associations working in lower value areas are likely to be capped at around 50% of our current income levels. This is both unfair and irrational. It will mean that there is an incentive to provide services for homeless people and other vulnerable groups in the highest value areas. Schemes in lower value areas could close, and a migration of vulnerable people could result.

The Government is trying to address a housing management issue, and it needs a housing management solution. There is a workable national solution which would meet the Government's objective of controlling costs and creating a sustainable providers market. It is simple, fair and transparent. Linking supported housing rents and service charges to rents for unsupported housing in the private rented sector makes no sense. This proposal should be replaced by a national Supported Housing Cap which would be linked to supported housing rents and service charges.

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<sup>32</sup> *Supported and sheltered housing survey: The impact of the Government's proposed new funding model on housing associations*, National Housing Federation, August 2017 [http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Supported\\_and\\_sheltered\\_housing\\_survey\\_research\\_briefing.pdf](http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Supported_and_sheltered_housing_survey_research_briefing.pdf)

## Annex A

### Benefits payable to example households in social rented and private housing

Drawn from *Building New Social Rent Homes: an Economic Appraisal*, p48-52, which gives complete details of each example.

Analysis completed before July 2015 Budget. Does not therefore take account of proposed reductions in entitlement, notably reduced Overall Benefit Cap. Households which could be subject to the reduced cap shown with pink shading.

	Household type	Household income (per year)	Benefits at social rent (per week)	Benefits at private rent (per week)	Additional benefits cost for private rent*
Camden	Single, 2 children	£0	£392.04	£518.30	32.2%
	Single	£6000	£129.08	£249.26	93.1%
	Couple 1 child	£12000	£230.57	£384.18	66.6%
	Couple, retired	£3000	£333.62	£453.80	36.0%
Brent	Single, 1 child	£12000	£194.34	£299.17	53.9%
	Single	£0	£205.89	£179.01	-9.8%
	Couple, 3 children	£6000	£384.93	£520.83	35.3%
	Single, retired	£0	£288.62	£360.61	24.9%
Milton Keynes	Single, 2 children	£12000	£281.27	£336.63	19.0%
	Single, 1 child	£6000	£249.14	£304.50	21.4%
	Couple	£0	£222.11	£253.72	14.2%
	Couple, retired	£0	£342.53	£374.14	9.2%
North Devon	Single	£6000	£67.88	£49.49	27.1%
	Single, 1 child	£12000	£194.34	£201.91	3.9%
	Couple, 2 children	£0	£380	£425.33	14.6%
	Single, retired	£3000	£199.04	£209.46	5.2%
Leeds	Single, 3 children	£6000	£453.91	£510.95	12.6%
	Single	£0	£161.56	£152.85	-5.4%
	Couple, 1 child	£12000	£176.84	£204.21	15.5%
	Couple, retired	£3000	£272.99	£293.68	7.6%
Allerdale	Single	£12000	£53.33	£53.33	-
	Single, 2 children	£6000	£351.95	£55.82	1.1%
	Couple, 1 child	£0	£308.40	£312.27	1.3%
	Single, retired	£0	£253.56	£247.01	-2.6%
Oxford	Single	£6000	£97.43	£152.31	56.3%
	Couple, 1 child	£0	£335.16	£417.14	24.5%
	Couple, 4 children	£12000	£440.51	£616.25	28.5%
	Single, retired	£3000	£222.62	£277.50	24.7%
Leicester	Couple, 3 children	£12000	£329.79	£356.08	8.0%
	Single	£0	£169.50	£151.15	-10.8%
	Single, 1 child	£6000	£245.73	£246.25	0.2%
	Couple, retired	£0	£337.92	£340.22	0.7%
Gateshead	Single	£6000	£62.38	£78.39	25.7%
	Single, 2 children	£0	£325.24	£347.23	6.3%
	Couple, 1 child	£12000	£244.04	£260.80	6.4%
	Couple, retired	£0	£326.69	£342.70	4.9%