

Welfare Reform and Work Bill: Second Reading

For: Peers speaking at Second Reading on Tuesday 17 November 2015
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Date: 12 November 2015

1. Summary

Housing associations are committed to building the homes the country needs and will do all they can to continue with this vital work. However, it is important not to underestimate the impact of the 1% rent reduction over the next four years, enacted through the Welfare and Work Bill, on the business plans of many associations. We estimate that the reduction will result in a loss of more than £3.85 billion in rental income over that period.

This will have a significant impact on all associations. However, the rent reduction will have a particularly severe impact on the provision of supported housing for vulnerable people, including domestic abuse refuges, homelessness hostels and homes for veterans and for people with disabilities. To ensure that these schemes remain viable, 'specified accommodation'¹ should be excluded from the rent reduction requirement.

2. Impact of the rent reduction on housing for vulnerable people

Impact on vulnerable people

The impact of the rent reduction on supported housing is stark. Many housing associations are cutting back on plans to develop new supported housing, while others will be forced to close schemes or to reduce the service they offer to their client groups. This is likely to result in a serious lack of provision for people with complex problems and high support needs, leading to increased pressure on the NHS and a rise in homelessness.

The rent reduction will have a huge impact on the development of new supported housing at a time when need is growing. In five years there will be a shortfall of 29,053 supported homes and in ten years this rises to 46,771.

Greater cost to the public purse

The Homes and Communities Agency has previously commissioned work to understand where vulnerable and older people would go if specialist housing was not available, and to understand the financial benefits of it. This found a net positive financial benefit of about £640 million overall. Excluding specified accommodation from the rent reduction measure would result in a reduction in the overall savings delivered by this policy of around £93.5 million in year 4 – over six times less than the savings specialist housing offers the public.

The Government has acknowledged that "the rent reduction measures may disproportionately impact on supported housing and may cause a reduction in service provision".² The bill was amended in the House of Commons to allow the possibility for organisational waivers.

¹ 'Specified accommodation' is housing where people need and receive care, support or supervision, as defined in Housing Benefit and Universal Credit (Supported Accommodation) (Amendment) Regulations 2014

² Welfare Reform and Work Bill: Impact Assessment of Social Rent Reductions, DWP, 28 September 2015.

However, the cost-structures used by health, care and support providers who offer housing for vulnerable people are complex and vary across the sector. This would make the development of a consistent and fair formula for determining an association's financial viability, in order to issue a waiver, extremely challenging.

We are calling for housing for vulnerable people (known as 'specified accommodation') to be excluded from the rent reduction requirement and we hope that Peers will support this during the Second Reading debate.

Annex 1 of this briefing includes a number of case studies of schemes that would be detrimentally affected by the rent reduction.

3. Impact on Stock Transfer Organisations

Stock transfer organisations generally start out with a business plan that involves increasing rents in accordance with guidelines set by the regulator (the Homes and Communities Agency) and use this anticipated revenue to underpin borrowings that will allow them to undertake much-needed improvements to the stock they inherit from the sponsoring local authority.

This business model means that the organisation's finances are typically extremely tight in its early years of operation. In addition, during this initial period, the rents are typically well below Homes and Communities Agency formula rents. The rent cut will cause many of these organisations to struggle to deliver improvements promised to tenants at the time of transfer. In some cases their financial viability will be put at risk.

We are therefore calling for a targeted exception from the rent cut for relatively recent Stock Transfer Organisations.

4. The benefit cap

Housing affordability

A secure and decent home is often the starting point to help people back into work. However, the provisions in the bill to lower the cap to £23,000 in Greater London and £20,000 elsewhere will severely impact the affordability of housing for thousands of families.

This affordability challenge is not restricted to families renting in the private rented sector. Our modelling shows that a couple with three children would not be able to afford the average housing association rent on a three bed property in any region. Under the £23,000 cap in London, families would face a shortfall between benefit and rent of £27.79 per week. The weekly shortfall under a £20,000 cap ranges from £37.40 in Yorkshire and Humberside to £67.35 in the South East, based on the current rent agreement.³

Temporary accommodation

A lower benefit cap will have a particularly significant impact on families living in temporary accommodation. Temporary accommodation is a vital part of the homelessness safety net and is used by local authorities to house people who have been demonstrated to be vulnerable, at risk of homelessness, or in emergency housing need.

³ <https://www.housing.org.uk/publications/browse/benefit-cap-modelling-13-july-2015/>

The provision of temporary housing is higher because of management standards and the procurement process. However, it delivers crucial savings to the public purse by minimising the need for more costly emergency interventions such as housing people in bed and breakfast accommodation.

People placed in temporary accommodation by local authorities have little scope to move to reduce their housing costs. They are also, because of the nature of their circumstances, likely to be further from the job market and may often have a history of arrears and financial struggles. If they are no longer able to keep up with rent payments in temporary housing due to the cap they may find themselves homeless again, and it is likely that local authorities will struggle to rehouse them.

We therefore call on Peers to raise the following point during Second Reading:

- **People living in temporary accommodation should be treated in a similar way to tenants in supported 'exempt accommodation' and have their housing costs omitted from the calculation of the cap.**

5. Need for long-term rent freedoms

Housing association rents are set by government via the Regulator's rent standard and latterly the 10 year rent settlement. The reduction of rents in social housing in England by 1% a year for four years will result in a 12% rent reduction in average rents by 2020/21, compared to current forecasts. This breaks the 10 year rent settlement of CPI +1%, which had been crucial in underpinning business plans and providing the long-term certainty needed to attract private investment for house building.

The rent reduction requirement adds a further layer of complexity to what is already a rigid and confusing mechanism for regulating social rents. There is a strong case for housing associations, as independent organisations and experts in the communities they serve, to have the flexibility to set their own rents, within an overall rent envelope, set by the Secretary of State⁴. Currently rents are fixed by government, at either a percentage of the local private rent or at the lower social rent level. Because private rents vary hugely around the country and do not rise and fall in proportion to local wages, this means that housing association homes are much less affordable for customers in some places than in others.

Housing associations should be able to set rents that reflect local market conditions and customer circumstances. Rents would be set within an overall envelope, with some going up and some down to offer genuinely affordable rents whilst creating the most effective income stream. This would enable associations to provide a wide range of rents that meet local housing need and respond to different markets, whilst also maintaining some control over the housing benefit bill. All of this would be backed up with clear, transparent, published rent policies.

We therefore call on Peers to raise the following points during Second Reading:

- **The need for certainty on what will happen to housing association rents post-2020.**
- **The desirability of government giving housing associations the flexibility to set rent levels within an overall envelope set by the Secretary of State.**

⁴ National Housing Federation's written evidence to the Public Bill Committee
<http://www.publications.parliament.uk/pa/cm201516/cmpublic/welfarereform/memo/wrw23.htm>