Shelter Submission: Budget 2020

Shelter's Recommendations:

1. **Government should use its Budget to commit to increasing capital investment in social rent housing.**

2. **Government should use its Budget to commit to ensuring Local Housing Allowance (LHA) payments cover the costs of private rents by re-aligning LHA rates with at least the 30th percentile of local rents from financial year 2020-21.**

Decent homes affordable to households on low incomes are a crucial part of how our country functions. They can eliminate rough sleeping and homelessness by ensuring affordable alternatives are always available. They can anchor local communities and labour markets, enabling workers on low wages to live close to the jobs that need their skills and to family and care networks. They can improve people's lives, giving people freedom from financial stress, bad housing and insecurity, and more choice over where to live and how to use their skills. When thinking about how to invest in the infrastructure that people across the country need to thrive, the government must think about social housing.

Our submission to the government's Budget evidences the costs of our current housing emergency, the consequence of a severe shortage of social homes at rents affordable to low-income and low-wage households on the one hand, and the failure of Local Housing Allowance (LHA) to cover private rents on the other. Increasingly, low-income households are slipping through the growing cracks in social and market provision.

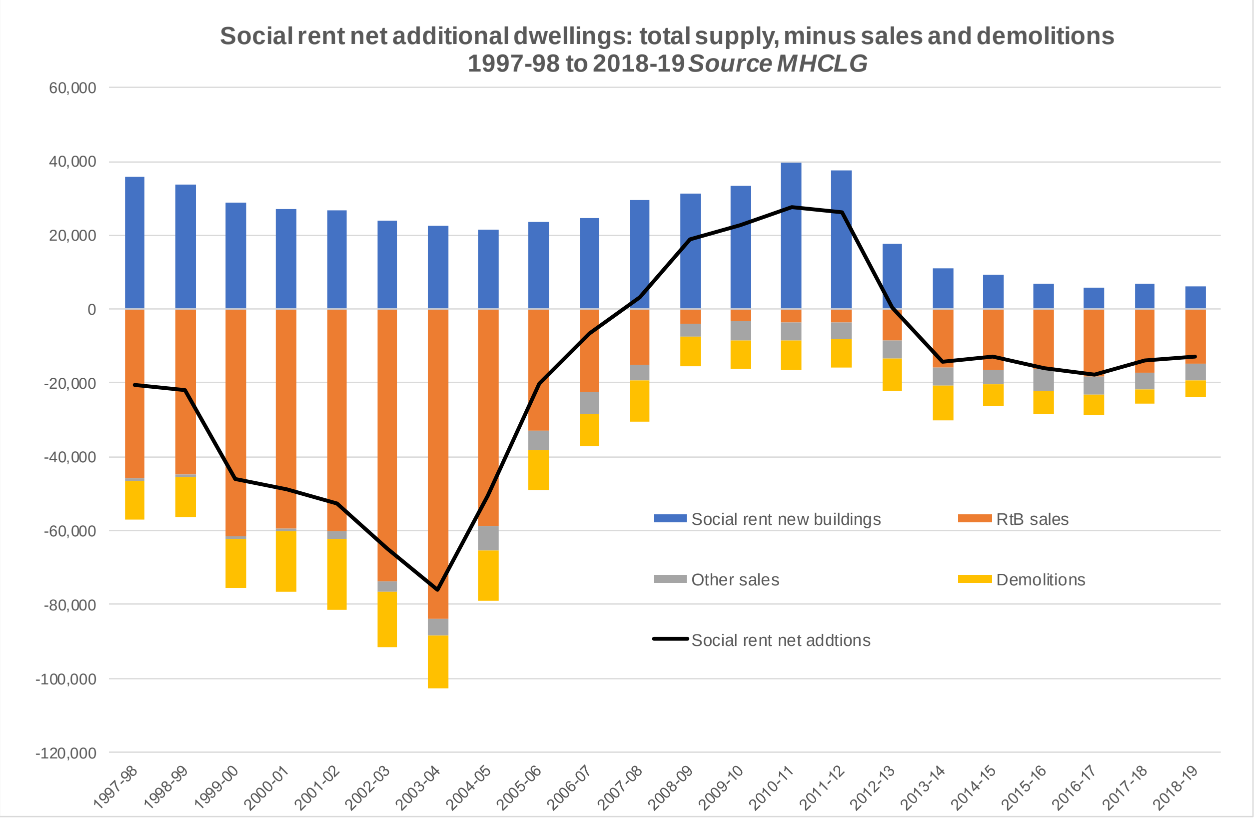
Our solution is urgent investment in both capital grant for social housing supply and in LHA rates, to rebase payments to at least the 30th percentile of local housing markets. A commitment to increase capital investment in social housing should also be backed up by other measures to support the delivery of social housing, such as lower borrowing costs for council housebuilding from the Public Works Loan Board, allowing local authorities to use grant funding to play their full part in ending the housing emergency.

Our recommendations will:

- Tackle affordability pressures for low-income households at source, producing savings for local and central government over the long-term.
- Reduce and prevent homelessness and underpin the government's plan to end rough sleeping by the end of the parliament in 2024, delivering a step change in security and stability for many households.
- Contribute to economic growth through housing development activity and by underpinning local labour markets.
- Allow government to achieve its target of 300,000 net additions by the mid-2020s.

1. The housing emergency

Our country faces a national housing emergency, driven by a decades-long failure by successive governments to build enough homes affordable to low-income households - above all social homes with rents pegged to local incomes. Not only has there been a chronic lack of social housing built, but much of the remaining stock of social housing has been sold off. Overall the past 22 years have seen a net loss of nearly 400,000 social rent homes.[1]



Every day, Shelter Services see the human impact of the national housing emergency affecting communities across the country. More and more households are simply unable to meet their housing costs and are having to rely on LHA to subsidise their private rents instead of being able to access social housing. LHA is the form of housing benefit provided to those renting privately. The results of these failings are stark:

- There are 277,000 homeless people in England, including 83,700 homeless households living in temporary accommodation, 61,700 of them families. That means there are more than 126,000 children growing up in England today with no permanent home.[2]
- Home ownership is in decline. The English Housing Survey shows that 63.5% of households owned their own homes in 2017/18, down from 68% a decade ago.[3] The average market sale home in England costs eight times more than the average annual pay packet.[4]
- At the same time, private renters spend on average 40% of their household income on rent, more than any other tenure.[5] 63% of private renters have no savings at all,[6] making home ownership a distant dream, and making the government's homeownership schemes completely pointless for most renters.

[1] Analysis of MHCLG data on social rent additions and sales and demolitions show that on average 18,000 social homes are lost each year.
[2] Shelter, Homelessness in Great Britain: the numbers behind the story, 2018.
[3] English Housing Survey 2018-19, Annex Table 1.1, Trends in tenure, 1980-2017-18.
[4] Office for National Statistics, Housing affordability in England and Wales: 2018, House price to residence-based earnings ratio dataset.
[5] MHCLG, English Housing Survey, 2018-19, Annex Table 1.13
[6] English Housing Survey 2017 to 2018, Private rented sector. Annex table 2.7: savings among all households

- As a result, the share of income that young families spend on housing has trebled over the last 50 years.[7]

Declining support with housing costs through LHA

1.4 million[8] households now use LHA to help meet some or all of their housing costs, including an estimated 500,000[9] households in work claiming LHA. Under the new benefit system currently being rolled out, Universal Credit, the housing element for those renting privately will remain as LHA. The sharp rise has in LHA claimant numbers has led to cuts and reforms, starting in 2011 and culminating in the four-year benefit freeze (2016-2020) [10], intended to control the rising housing benefit bill.

The very basic consequence of the series of changes made to LHA is that they have just not kept pace with rising private rents. Rents in England have increased by 15% since 2012. However, the average LHA rate has only increased by around 6%, or £8, in the same time.[11]

The LHA rates are designed to cover at least the bottom 30% (or 30th percentile) of every local rental market. The impact of the cuts and four-year freeze mean they now fail to do so in 97% of areas in England. In a third of areas in England (32%), they do not even cover the bottom 10% of the rental market for a modest family home.[12] The chance of one of those 10% of homes being available to let, located where the household requires it, with a landlord who accepts tenants in receipt of benefits, and no one else beating them to it is incredibly slim.

Because the rates do not cover adequate levels of local rents, people have no choice but to accept incredibly high shortfalls between their housing benefit and the rent. For those on passported benefits[13], these shortfalls are on average £113 per month[14]; a staggering amount to have to make up out of other limited means of income. Families are having to cut back on essentials such as food, heating or school uniforms as well as having to borrow money, put money on credit cards or sell possessions just to cover the cost of their rent.[15] Those on LHA are also almost twice as likely to be overcrowded than those in the rest of the private sector and they are much more likely to rent a home classed as 'non-decent'.[16] Living in overcrowded

[7] Corlett, A. and Judge, L., Home Affront, Resolution Foundation, 2017.
[8] DWP StatXplore: Family type for households on Universal Credit by housing entitlement Private rented sector and Family type for housing benefit claimants by detailed housing type Private deregulated tenant (LHA) (PRS) August 2019.
[9] A large proportion of households on LHA are in work. Over one-third (38%) of households claiming LHA in the UK work. In total, 293,337 households claim LHA while working. We do not have access to data on the number of households subject to the LHA rates on Universal Credit who are in work. However, we know that there are 588,710 private renting households claiming the housing element of UC, and if a similar proportion of this group are in work (as would be a reasonable assumption), there are likely to be a further 200,000 households in this situation [38% of 588,710 is 223,710]. This would bring the total likely number of working households claiming LHA up to around half a million households.
[10] The changes saw LHA rates dropped to cover roughly the bottom third of rents, or the 30th percentile. At the same time, national caps were introduced for different sized properties and the age at which someone is eligible for a housing allowance at the one-bedroom rate (instead of the shared accommodation rate) was raised from 25 to 35 years old. The maximum household entitlement was also reduced from five bedrooms to four bedrooms. In April 2012, the rates were frozen for one year, in 2013, they were lifted by the Consumer Price Index measure of inflation (CPI) which doesn't include rents, in 2014 and '15, the rates rose by just 1% which was lower than the rate of rental inflation in England. Then in 2016 they were frozen for four years as part of the benefit freeze.
[11] Kleynhans, S. Weekes, T. *From the Frontline: Universal Credit and the broken housing safety net*, Shelter, 2019
[12] Ibid.
[13] https://www.entitledto.co.uk/help/Passported-benefits
[14] Butler, P., *Benefit-rent gap for poorest tenants widens to £113 a month,* The Guardian [online], 2 December 2019
[15] YouGov, survey of 828 private renters in receipt of housing benefit in England, online, August - September 2019 Survey results are from a YouGov survey of 3,995 private renters in England, online, weighted according to official statistics provided by Shelter, Aug-Sept 2019
[16] *LHA impact assessment*; Shelter (February 2020)

accommodation puts its inhabitants at far greater risk of infectious diseases and respiratory problems.[17]

The initial aims for restricting LHA rates since 2011 have not been fulfilled. Firstly, LHA rate restrictions were, in part, implemented to try and stop rental inflation. It was suggested that the rising cost of the overall LHA bill may be a result of landlords putting their rents up in response to previous increases in the rates. However, the evidence clearly shows that the rising cost of LHA is down to the rapid increase in the numbers of claimants in the private rented sector, rather than landlords increasing their rent in response to LHA rate changes.[18]

When maximum LHA entitlements were reduced, 89% of the effect of the reforms was felt by tenants, while just eleven per cent was on landlords.[19] In other words, for every pound reduction in entitlement, landlords lost out on just eleven pence by reducing rents. Tenants had to make up 89 pence – hitting them hardest. Analysis from the Chartered Institute of Housing (CIH) also found that inflation in the average rent levels that were being paid out from LHA in the period prior to March 2011 was "entirely due to changes in the caseload composition"[20], rather than landlords 'gaming' the housing benefit system.

Secondly, the government wanted to 'ensure greater fairness'[21] and 'assist people into the right level of home'.[22] This was based on the perception that LHA claimants were renting larger and more expensive homes than low-income households not entitled to claim LHA. However, the impact of reductions in LHA payments has evidently been to push claimants towards homes that are too small or non-decent.

Impact on homelessness

The government is understandably concerned with reducing homelessness as it has increased hugely in all its forms since 2010. The number of statutory homeless acceptances in England increased by 28%[23], the number of households living in temporary accommodation has increased by 74%[24] and rough sleeping in England has increased by 165% and by 94% in the last five years alone[25]. Inadequate LHA rates are a leading contributor to this rise in homelessness. Since 2011/12, homelessness triggered by the ending of an Assured Shorthold Tenancy (AST) has risen by 66% and more than doubled in London.[26]

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[17] Harker, L., *Chance of a lifetime – The impact of bad housing on children's lives*, Shelter, 2006
[18] Weekes, T., *The relationship between Local Housing Allowance rates and rents*, Shelter, 2019
[19] Brewer, M., Emmerson, C., Hood, A., Joyce, R., *Econometric analysis of the impacts of Local Housing Allowance reforms on existing claimants,* Institute for Fiscal Studies for DWP, 2014
[20] Chartered Institute of Housing (2011) *Leading the market? A research report into whether Local Housing Allowance (LHA) lettings are feeding rent inflation*
[21] Department for Work and Pensions, *Housing Benefit equality impact assessment: Increasing the Shared Accommodation Rate age threshold to 35*, DWP, Revised August 2011
[22] Duncan-Smith, I., *Capital Gains Tax (Rates) Debate in House of Commons*, 28 June 2010
[23] We have compared data from 2017/18 with 2010/11. We have used pre-HRA data because the new prevention and relief duties mean that acceptances after 2018 Q1 cannot be compared with previous years. This is because most households are now being supported through the new duties. MHCLG, Live tables on homelessness, Acceptances and decisions, Table 770
[24] We compared data from 2018 Q4 with 2010 Q4. MHCLG, Live tables on homelessness, Temporary accommodation, TA1
[25] The government's rough sleeping count is based on estimates and counts of the number rough sleepers in England, carried out by local authorities between 1 October and 30 November 2018. The 2018 figures show a 94% increase from five years ago and 165% since 2010. MHCLG, Rough sleeping in England: Autumn 2018, 31 January 2018
[26] The ending of an AST as reason for loss of last settled home increased by 105% in London between 2011/12 and 2017/18. MHCLG Acceptances and decisions live tables: January to March 2018 (revised) 2019

With very restricted social housing available for local authorities, increasingly they are sending people to the private sector, and therefore on to LHA, to relieve homelessness.[27] This fails because LHA does not cover rents, leading them to have to place more and more people in expensive and unsuitable temporary accommodation (TA), negating the efforts to save money through the benefit freeze. In 2018-19 councils spent almost £1.6 billion on homelessness, including £1.1 billion on temporary accommodation (TA); an increase in England of 77% since the changes to LHA were first implemented. The amount spent on TA has increased by 86% over the same period.[28]

On top of this, because of increasing homelessness, nearly 7 in 10 council homelessness services in England are having to spend more than they budgeted for on homelessness support. The total overspend was £140 million for 2018/19 alone; increasing from just over £50 million in 2015/16, the year before the LHA rate freeze started.[29]

Impact on local labour markets

The housing emergency also creates additional barriers for those that want to move to new locations for work. Evidence shows that the lack of housing that is affordable is having an impact on labour mobility - labour mobility is on the decline, and when households do move they more frequently move to less costly areas.[30] Higher productivity areas usually have far higher housing costs, diminishing the wage benefits of moving and therefore discouraging people from moving even when they could find work or advance their careers.[31]

We know from our services that the few social or privately-rented homes that are affordable and available to households on the lowest incomes are often in a state of disrepair and / or in undesirable locations that are poorly serviced by public transport with few employment prospects. LHA rates are so inadequate they do not cover appropriate levels of rent anywhere in the country, and this is exacerbated in areas of high housing cost such as London or Bristol.[32]

Crucially, this can hinder people's ability to move freely for employment opportunities or, for the approximately half a million LHA claimants who are already in work, keep them trapped in low paid work.

2. Our recommendations to end the housing emergency

Communities across the country are now suffering from a lack of housing affordable to low-income households, with impacts for individuals, local labour markets and local and central government finances. The government must use its Budget to take urgent action to end this housing emergency once and for all - by investing in LHA to meet the costs of market housing, and committing to deliver a new generation of social rent homes. Our recommendations will together ensure low-income households can access the homes they need while producing savings for local and central government over the long-term, as well as short-term economic benefits.

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[27] Fitzpatrick, S., Pawson, H., Bramley, G., Wilcox, S., Watts, B., Wood, J., *The homelessness monitor: England 2018*, Crisis, Heriot-Watt University and University of New South Wales, 2018

[28] MHCLG, Local authority revenue expenditure and financing England, Revenue outturn housing services (RO4)

[29] Mills, D., *Over two-thirds of council homelessness services pushed into the red,* Local Government Association, 29 January 2020

[30] Resolution Foundation, in Moving Matters (June 2019), show that housing cost differentials matter and moreover, mobility in the PRS – a key benefit from this flexible tenure – has dropped by half.

[31] The Industrial Strategy Council in UK Regional Productivity Differences: An Evidence Review (February 2020) highlights that housing costs are impacted by local levels of productivity while the wage differences do not compensate fully for higher living costs.

[32] Kleynhans, S. Weekes, T. *From the Frontline: Universal Credit and the broken housing safety net*, Shelter, 2019

Recommendation 1: Government should use its Budget to commit to increasing capital investment in social rent housing.

By far the most powerful action the government can take to tackle the housing emergency is to commit to increasing investment in social rent homes, the tenure England most needs and most neglects. In 2018, Theresa May's government made some capital grant available for building social rent homes in some parts of the country. However, many areas remain ineligible for government investment in social housing, and the overall pot available for social rent is intended to deliver only 12,500 homes over an unspecified period.[33]

Together with the decision to lift the cap on local authorities' borrowing under their Housing Revenue Accounts, the investment committed to social rent housing in 2018 was a welcome first step towards a new programme of social housing. However, on their own these actions can never add up to the increase in social housing needed to ensure low-income households have access to decent, affordable, secure housing at a sustainable cost to the taxpayer. **What is needed now is an ambitious commitment from government to increase capital investment in social rent housing from its current low levels at the earliest opportunity.**

The case for re-prioritising social rent

For generations, social housing played a vital role in meeting the housing needs of ordinary people, giving millions the quality and dignity of life that insecure and unaffordable private renting could not. Today, England's much-reduced stock of social housing is shrinking, tightly rationed and unable to play the same role. Last year, total new build social rent housing across England continued to stagnate at 6,287 homes – fewer than were supplied in Scotland the same year for a population less than a tenth the size of England's. Nearly 60% of these 6,287 social rent homes were delivered by developers through section 106 agreements, rather than through government capital investment[34]. Even this small source of the homes we desperately need is under threat from government's "First Home" proposals, which propose to use section 106 to deliver homes for market sale, which will be unaffordable for even average earners, let alone those on low incomes who need help the most. This threat to current delivery makes committing to put more capital investment into social housing even more essential. With only 6,287 delivered last year, at the same time, 23,740 social rent homes were sold or demolished in England, amounting to a net reduction of 17,453 social rent homes in 2018/19.[35]

Recent governments have increased the supply of other sub-market tenures including shared ownership and Affordable Rent. 63% of private renters and 83% of social renters have no savings at all,[36] and will be left behind by low-cost homeownership schemes shared ownership and First Homes because of the need to save for a deposit. While Affordable Rent homes can meet the needs of small numbers of households on modest incomes in some parts of the country, Shelter does not believe these homes can be considered truly affordable.

Rents in social housing are set using a formula pegged to local incomes as well as market prices, a crucial principle for setting genuinely affordable rents for low-income households. By contrast, rents in Affordable Rent housing can be set at up to 80% of local market rents – themselves increasingly unaffordable in many areas of the country. Even if social housing providers try to maintain real rent levels below this cap, they are fighting against the context of declining grant rates and rising land and building costs. As a result, 'Affordable' rents for typical

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[33] MHCLG press release, 'Brokenshire confirms social housing investment boost', June 2018
[34] Shelter analysis of MHCLG Table 1000C Additional affordable housing, provided by type of scheme, completions, England.
[35] MHCLG, Live tables on affordable housing supply, Table 1000: additional affordable homes provided by type of scheme, England
[36] English Housing Survey 2017 to 2018, Private rented sector. Annex table 2.7: savings among all households

two-bed properties work out at 30% more expensive than social rents, amounting to a huge £1,400 per year more on average, pricing out many who need social rented housing.[37] Where social rent housing is affordable by design, Affordable Rent housing is sometimes affordable by accident – and too often is not affordable at all.

Two-bedroom rents	Social rent as a proportion of mean rents	Affordable rent as a proportion of mean rents
England	46%	91%
North East	65%	97%
North West	55%	94%
Yorkshire & the Humber	57%	88%
East Midlands	55%	84%
West Midlands	54%	78%
East of England	47%	81%
London	27%	59%
South East	43%	82%
South West	47%	82%

Source – Local Authority Housing Statistics & VOA private rental market statistics (2018-19) and Shelter Analysis

Social housing is affordable in all parts of England and offers families the security and stability they need to put down roots. It is the only tenure affordable to minimum-wage earners across much of the country.[38] Because it prioritises local incomes over house prices in setting rents, social housing has an important role in supporting local labour markets to flourish by ensuring that workers on modest wages can afford to live in and close to areas which need their skills.

Yet while in 1996/97 75% of all affordable housing delivered in England was at social rents, by 2018/19, this had fallen to just 11%.[39] **If the Government aims to build housing to meet the needs of low-income renters, the focus of investment in new affordable housing supply must be switched back to social rent housing.**

The case for re-prioritising social rent across the country

Since new social rent homes are required in every area of England, the government should also make clear that increased investment in social housing will be made available across the country. In June 2018 Theresa May's government reintroduced grant for social rent homes only in 'areas of high affordability pressure', defined as those where there is a difference of more than £50 a week between average private sector rents and social sector rents. As a result, only 10 local authorities across the North have been able to bid for capital grant to build social rent homes since 2018.[40]

Measuring average rents by sector across entire local authorities obscures the different affordability pressures which often exist *within* local authorities. For example, relatively affordable private rents in more urban parts of Eden District Council drag down measures of average rents across the local authority, even as workers find themselves priced out of rented homes within commuting distance of jobs which need their skills - often in villages, rural areas or

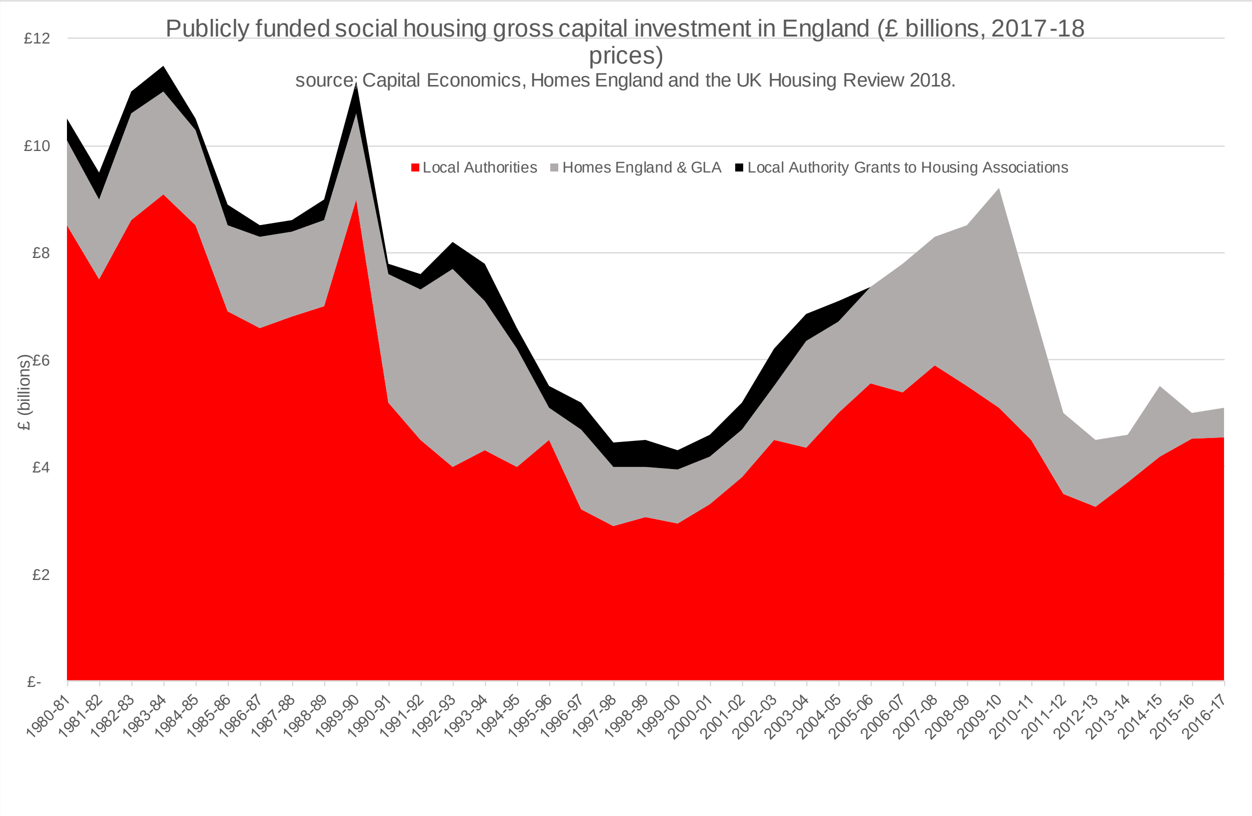
[37] JRF, Affordable Rents compared to traditional social rents, 2018 https://www.jrf.org.uk/report/affordable-rents-compared-traditional-social-rents
[38] Baxter, D. and Murphy, L., Priced Out?, IPPR, 2017
[39] MHCLG, Live tables on affordable housing supply, Affordable housing completions
[40] MHCLG, Shared Ownership and Affordable Homes Programme 2016 to 2021, Addendum to the Prospectus, June 2018

within the Lake District National Park. Communities across the country, in local authorities including Ryedale, Scarborough, Shropshire, Ipswich and Norwich, have been unable to grant-fund new social homes since 2011. This is despite evidence of acute and growing affordability problems for low-income households using LHA to access the private rented sector in these areas.[41]

In 2018, Professor Glen Bramley, Crisis and the National housing Federation (NHF) published detailed work to assess the need for different housing tenures.[42] Of the social rent homes they concluded are required to meet housing need in England, 8.5% need to be delivered in local authority areas which are currently ineligible for social rent grant funding.[43] The NHF have also reported that housing associations have been prevented from delivering much-needed social rent homes in developments just across the local authority boundary from an area eligible for grant for social rent.

A different approach is needed, one which recognises the role grant-funded social rent housing can play in responding to different priorities in different places, including: meeting the need for specialist housing for older people, homeless people or other groups whose needs are neglected in local housing markets; de-risking large housing developments; and wider economic and social regeneration.

The case for investing in social rent



The lack of a sustainable and adequate source of funding is at the heart of our current inability to deliver social homes to meet need. While at the beginning of the 1990s grants covered around three-quarters of the costs of building new sub-market homes, this fell to 39% after the financial

[41] Crisis, Cover the Cost: How gaps in Local Housing Allowance are impacting homelessness, May 2019, pp. 48-50
[42] Bramley, G., Housing supply requirements across Great Britain, November 2018
[43] Calculated by the National Housing Federation from figures in Historical Statistics of Housing in Britain, cited in National Housing Federation, Capital grant required to meet social housing need in England 2021 – 2031, p. 4

crash and to around 14% in the following years.[44] This has had enormous consequences for social housing supply because grant rates have simply been too low for many prospective social housing schemes to go ahead.

Many social housing providers have responded to the decline of grant by building more market homes for sale or rent, the income from which can be channelled into social housing. The 'cross-subsidy model' has undergone rapid growth in recent years. However, the model leaves social housing providers more far exposed to market risk, it is less effective in areas with low market prices and leaves sub-market supply worryingly dependent on a housing market which will turn down as well as up.[45] Housing providers have flagged serious concerns that they are reaching the limits of the cross-subsidy model, particularly for delivering social rent, and that capital grant is now needed to drive up the supply of homes at costs affordable to low-income households.[46]

Because the government has access to the cheapest finance available to any actor in the social housebuilding process, capital grant is the best mechanism available to the country to meet this subsidy gap. A commitment from government to increase capital investment in social rent in the Budget would give providers and investors confidence that future residents will be able to reliably pay rents and that those rents will cover ongoing costs of borrowing. Most importantly, it would give those who go on to live in new social homes the security and freedom that comes from genuinely affordable ongoing housing costs.

The role of social housing in reaching 300,000 net additions

Sir Oliver Letwin's Independent Review of Build Out Rates concluded that diversifying the tenure mix and increasing affordable housing delivery is vital to increasing build out rates on large sites; that the need for social rented housing is 'virtually unlimited' in areas of high housing pressure; and that the market for this kind of housing is separate from the price-constrained market for open market sale homes.[47] All these point to a necessary role for additional social rent homes if the Government is to reach its 300,000 homes per year target.

Elsewhere, Shelter has recommended ways government can increase delivery of social rent through the cross-subsidy model by reforming the Land Compensation Act 1961.[48] While this would reduce the costs of building social housing, capital investment will always be needed to avoid the need for ongoing subsidy through housing benefits. Grant plays a unique function among social housing funding sources, enabling rents to be pushed down to levels that will be genuinely affordable to future residents. Homes built in recent years with limited grant and more debt have charged higher rents as a result. If investors do not have confidence that prospective residents will be able to afford these higher rents, this can make schemes too expensive to come forward at all.

Crucially, investment must increase the levels of grant available for each home, creating a system open to all areas that need social housing and that reflects the different costs of building and managing social homes in different parts of the country. This will leverage government investment to support development viability across the country, expanding overall supply and speeding up the rate at which homes are built to help meet the 300,000 target.

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[44] J. Chaloner, A. Dreisin and M. Pragnell, Building New Social Rent Homes: An Economic Appraisal, report by Capital Economics for SHOUT and the National Federation of ALMOs, 2015, p.11
[45] Savills, Affordable Housing: Building through cycles, 2018
[46] Network Homes, Why aren't housing associations building more social rented homes?, 2019
[47] Rt Hon Sir Oliver Letwin, Independent Review of Build Out Rates – Draft Analysis, 2018, p.16
[48] Bentley, D., Aubrey, T., Grayston, R., "The flaw that will torpedo the government's housebuilding ambitions", Centre for Progressive Policy, 2019

Helping local authorities to borrow to support delivery of social housing

Government can also take further steps to support social housing delivery. By lifting the cap on councils' borrowing for housebuilding under their Housing Revenue Accounts in October 2018, the government signalled that councils should be playing their full part in meeting the country's housing need after decades of undersupply. Town halls across the country used their new borrowing freedoms to start putting in place new and expanded housebuilding schemes.[49]

In October 2019, the government announced a 1% increase to borrowing rates for new loans to buy land and commercial properties from the Public Works Loan Board (PWLB), taking the rate from 1.81% to 2.82% overnight. PWLB is the main and cheapest source of finance for local authorities' housebuilding programmes. Private finance tends to be more costly and often comes with additional covenants, restrictions, delays and administrative costs compared to loans from PWLB.

By increasing councils' borrowing rates by 1% overnight, with no time for councils to prepare for this change, the government has put councils' housebuilding programmes at risk. Higher interest costs will require higher revenues to pay back, forcing councils to substitute the social housing we need most urgently for less affordable tenures or otherwise scale back their plans.

Non-housing infrastructure projects already have a discounted rate of 60 basis points above gilts - the Local Infrastructure Rate. This discount should now also be extended to housing and regeneration schemes, as recommended by the Society of District Council Treasurers,[50] to support councils to scale up their housebuilding plans. Extending the lower rate specifically for housing and regeneration schemes will avoid the risk of encouraging extensive commercial investments of the kind criticised in recent years, backed up by recent new guidance from the Chartered Institute of Public Finance and Accountancy placing new limits on borrowing for commercial property under the prudential code.[51]

Together with a commitment to increase capital investment, announcing lower borrowing rates from the PWLB for housebuilding in the Budget would give social housing providers the confidence to plan and deliver ambitious housing programmes.

Recommendation 3: Government should use its Budget to commit to ensuring Local Housing Allowance (LHA) payments cover the costs of private rents by re-aligning LHA rates with at least the 30th percentile of local rents from financial year 2020-21.

The only way to tackle rising homelessness immediately is to lift LHA rates back up to at least the 30th percentile. While a new generation of social homes will provide genuinely affordable options, it took decades of undersupply to reach the current crisis and it will take time to build the homes we need in the places they are needed. **Rebasing LHA to at least the 30th percentile is the only solution that will immediately relieve the pressure** on families with shortfalls and on local authorities trying to prevent and relieve homelessness. The government's serious and welcome target to tackle homelessness and end rough sleeping by the end of the parliament in 2024 will not be achieved without taking this important step.

[49] Barker, N., "Council housebuilding: back with a vengeance", Inside Housing, 21 October 2019
[50] Barker, N., "Councils ask for housing discounts following PWLB rate rise", Inside Housing, 17 October 2019
[51] CIPFA, Prudential Property Investment, November 2019

When the rates were initially lowered from the 50th percentile to the 30th percentile in 2011, the Work and Pensions minister then responsible for housing benefit delivery, Steve Webb MP, stated that the reason the 30th percentile was chosen was because it was 'more or less the typical rent for a low-income working household'.[52] This allowed LHA claimants to appropriately self-serve in the private market by being able to access at least a third of it, instead of having to rely on local authority homelessness services. Their ability to do this has now been completely eroded but bringing the rates back up to the 30th percentile will allow claimants to adequately compete and self-serve in the private market. It will allow freedom of choice and the ability to move to take up employment opportunities.

Previous governments have also put some funding into trying to mitigate the worst impacts of the restricted rates. These have not worked. The previous government committed to £800m in Discretionary Housing Payment (DHP) over the five years to 2020/21 alongside a separate pot of Targeted Affordability Funding (TAF) to ease the impact to the worst affected areas. In the last two years of the freeze alone, the government committed £125m towards TAF. However, neither of these funding streams are suitable in the face of the true impacts of the restrictions to the LHA rate. DHPs, for example, are not long term solutions as they are often only awarded for short periods of time and high proportions of applications for DHPs are refused.[53] TAF was very limited in its ability to lift the rates as each top-up was capped at just 3% of the LHA rate. Additionally, as it was a limited pot, it was allocated down a ranked list until the money ran out, instead of the amount needed being calculated based on total areas in need.[54] For example, in the final year TAF was available, places like Northants Central, Milton Keynes and Coventry still needed an additional 18%, 15% and 10% respectively on top of their TAF allocation before they would cover the 30th percentile for the two-bedroom rate. Even with TAF added on, in other areas such as Southern Greater Manchester, South-West Essex and Swindon only the bottom 6%, 3% and 3% respectively of the local rental markets were covered by their two-bedroom LHA rate.[55]

The amount of additional money spent on these unsustainable solutions has been vast and their impact have been incredibly limited. The only investment required is to lift the rates back up to the 30th percentile, rather than spending more on mitigations. We know the benefit freeze is coming to an end in April 2020 and the recent announcement to lift LHA rates by 1.7%, or Consumer Price Index (CPI), is welcome in that it recognises an increase is required. However, with LHA rates so out of touch with market rents, an extra £10 per month[56] will do very little to truly counter the erosion – in fact in many areas, rents have increased more than this so it will make no difference. A continued increase in homelessness will ensue as a result.

Rebasing the rates back to at least the 30th percentile also supports other government policy aimed at offering security to renters. Together with the government's plans to reform private renting by ending Section 21 no-fault evictions, which we warmly welcome, lifting LHA rates would deliver a step change in security and stability for households that are privately renting. With nearly 470,000 single parent households and over 235,000 couples with children claiming LHA and renting privately, this two-pronged approach will provide much needed security to families raising children. Currently, insecure tenancies and huge shortfalls between incomes and rents leave private renters with uncertainty, and many having to move often, unable to put down roots or provide stable homes for their children to thrive.

Rebasing the rates back to at least the 30th percentile will also improve stability and certainty for all stakeholders. Residents, landlords, local authorities and the government will all benefit from increased certainty around future levels of support likely to be available for housing costs.

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[52] Webb, S., *Housing Benefit (West Ham) Debate in the House of Commons*, 22 November 2010
[53] Kleynhans, S. Weekes, T. *From the Frontline: Universal Credit and the broken housing safety net*, Shelter, 2019
[54] Ibid.
[55] Ibid.
[56] Will Quince MP, *Welfare Update*, Written Statement HCWS29, Department for Work and Pensions, 13 January 2020

Renters can put down roots, landlords can predict revenues and be sure of receiving adequate rents and local authorities will feel able to rely on the private sector to meet the housing needs of low-income groups.

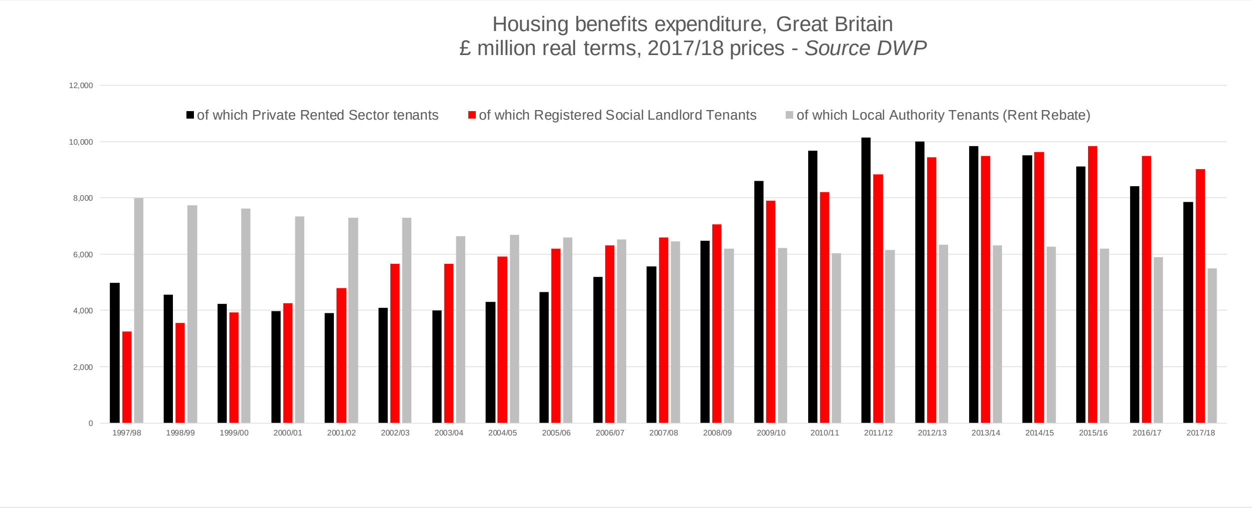
3. The impact of our recommendations - a sustainable end to the housing emergency

Taken together, our recommendations will tackle affordability pressures for low-income households at source, producing savings for local and central government over the long-term. Demand for support with housing costs through LHA will fall over time as social rent homes are delivered to provide a more affordable alternative to private renting, fuelled in part by social landlords' use of revenue from benefits to finance further social rent supply. At the same time, LHA investment will reduce demand for homelessness services from local authorities as fewer households will ever reach crisis point. By comparison, continuing with a system of declining social housing stock and ever more households struggling to afford the private rented sector promises only rising costs for government and misery for millions.

The current system stokes demand

The past forty years have seen a deliberate decision to allow housing benefits, most recently LHA, to "take the strain"[57] for declining investment in social housing. This strategy to disinvest from bricks and mortar and instead target support at individuals has inflated annual expenditure on support with housing costs through the benefits system, which now stands at £21 billion in England. The increasing reliance on the private rented sector to house families on low incomes has been a significant driver of this increased expenditure.

1.4 million households[58] now use LHA to help meet some or all of their housing costs. The rise has not just been caused by overall growth in the private rented sector. In an independent analysis for Shelter published in 2019, Capital Economics showed that expenditure on housing benefit had risen disproportionately to the overall claimant count because more of these claimants are in the private rental sector and therefore cost more. Had the share of private renters in the housing benefit claimant count remained at levels seen in the late 1990s – around 22.6% of all claims – rather than 30% seen since the financial crisis of 2007, government would have spent £6.2 billion less in housing benefit.[59]



57 https://publications.parliament.uk/pa/cm199091/cmhansrd/1991-01-30/Orals-2.html
58 DWP StatXplore: Family type for households on Universal Credit by housing entitlement Private rented sector and Family type for housing benefit claimants by detailed housing type Private deregulated tenant (LHA) (PRS) August 2019.
59 Capital Economics; Increasing Investment in Social Housing; January 2019.

Because of the decline in social housing availability, the cost of housing benefit expenditure to the private rented sector has grown from £5 billion in 1997-98 to nearly £8 billion.

The most recent data from DWP on average housing benefit claims (including those provided via universal credit) shows that the average weekly housing benefit payment for claimants in the private rented sector is 23% higher than those renting with registered social providers. Presently a third of housing benefit claimants are in the private rented sector, meaning that because of the loss of social housing stock, DWP presently spends approximately £31 million more in housing benefits each week.[60] This is directly caused by the lack of appropriate LHA rates and a lack of social housing.

Leveraging government expenditure

The costs set out above have a clear conclusion: the only credible way to reduce the size of the benefits bill for housing, without causing harm or further inflating long-term costs, is to increase social housing supply. In addition to reducing the number of households needing support with their housing costs and the value of the payments required, our recommendations would allow government to leverage additional advantages from its expenditure on housing benefits, channelling it into new supply and so gradually reducing the pool of people living in high-cost private rented homes.

Unlike in social housing, revenues from housing benefits in the private rented sector are rarely reinvested in new supply that is affordable to low-income households. Although the private rented sector has undoubtedly grown from its 1980s slump, it has failed to respond to government-supported demand by increasing supply at the affordable end of the sector.[61]

Better value for money could be obtained from expenditure directed at social housing, where rents are redeployed to finance new supply and manage and maintain existing homes. Historically the ability of housing benefits to cover actual rents at all levels in the social sector has supported long-term business planning and access to preferential borrowing rates for providers, further bolstering new social housing supply. If done again, this virtuous cycle would bring an end to the housing emergency.

It is important to note that both of these measures are needed. Until a new generation of social homes can provide a genuinely affordable, decent, secure housing option for low-income households wherever one is needed, investing in LHA is the only policy tool currently available to the government to ensure low-income households can afford to meet their housing costs in the market. It must be raised to the 30th percentile to ensure it covers rents, otherwise homelessness will increase. It must be kept at this level so that it covers rents for those who need it, such as through a sudden loss in employment, a period of sickness or childcare difficulties. With a fully functioning LHA system, households in these situations and others can remain in their homes, avoid crisis and continue to thrive under changing circumstances.

Supporting economic growth

The long-term savings in benefits expenditure from investing in social housing are obvious. Yet successive governments have failed to act in the long-term interest and invest in future savings, perhaps put off by the prospect of paying for new social homes which will require time to come on stream and to deliver benefits for occupants and savings for government. This fails to take into account the short-term benefits that can be attained by investing in new supply.

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[60] Using DWP Stats-xplore, we combined the average housing benefit payment for claimants, with the housing element payment of Universal Credit to estimate the typical housing benefit payment by tenure. Estimates are based on August 2019 reported benefit payments.
[61] Marsh, A, 'Promoting a healthy private rented sector', in Marsh, A, and Hills, J, Housing Finance Aspects of the Green Paper, 2000

In addition to direct employment, expenditure on suppliers (i.e. providing goods, services and materials) adds to the impact of housebuilding on the economy. Construction is a very local industry, impacting greatly on the local economy, and with very little investment leaking from the national economy. A UK Contractors Group report estimated that a pound spent on construction generates £2.84 in gross domestic product. Of this, 56 pence returns as benefit to the exchequer from transaction and additional employment tax collection[62]. Another study suggests that the scale of employment created by each new home built is equivalent to between 2.4 and 3.1 jobs[63].

Social housing can offer an affordable option for those looking to move to areas of high employment, and can therefore support labour market mobility - research has shown that the number of moves in the private rented sector has dropped significantly in the preceding decade while moves in social housing have remained steady. Without housing that people can afford, high housing costs in more productive areas have, according to the Resolution Foundation, "acted as a headwind to labour market mobility". They found that among 25-34 year olds, moves for work have dropped by 25% despite demographics suggesting that mobility should have increased.[64]

Moreover, once social housing is built, it offers employment opportunities in a local area which impact on the local economy, as well as support to individuals and communities through the provision of subsidised housing, and coordination of wider support offerings. The University of Strathclyde showed that Glasgow Housing Association, through the management of their 40,000 units, have created 2,500 jobs, contributing £2bn to the local economy over 15 years of provision and spent £45 million on the local community.[65]

Conclusion

Together, our recommendations will ensure low-income households have access to decent, affordable, secure housing at a sustainable cost to the taxpayer, now and into the future. They will reduce and prevent homelessness and underpin the government's plan to end rough sleeping by the end of the parliament in 2024. They will be the foundations of an end to the housing emergency, ensuring families and individuals in England are never again forced to live in miserable housing conditions, or on the streets, for wont of any affordable alternative. Crucially, our solution tackles affordability pressures for low-income households at source, producing savings for local and central government over the long-term by managing down demand for support with housing costs.

Our recommendations also have a role to play in delivering on other key government priorities. Combined with the government's action to end Section 21 "no fault" evictions and drive up property conditions through the Renters' Reform Bill, investing in LHA will deliver a rapid step-change in security and stability for private renters. Capital investment supported by low-cost borrowing to increase social housing supply is the investment we need across the country – it will promote economic growth and speed up build our rates, and help the government achieve its target of 300,000 net additions by the mid-2020s.

What is needed now is an ambitious commitment from government to increase investment in social rent housing and LHA at the earliest opportunity.

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[62] L.E.K. Consulting, Construction in the UK Economy: The Benefits of Investment (The UK Contractors Group, London), 2009
[63] Lichfields (July 2018) The Economic Footprint of House Building in England and Wales https://lichfields.uk/media/4313/the-economic-footprint-of-uk-house-building.pdf
[64] https://www.resolutionfoundation.org/app/uploads/2019/06/Moving-Matters.pdf
[65] The economic contribution of Glasgow Housing Association; Fraser of Allander Institute; University of Strathclyde (January 2019).