

Shelter Budget Representation: Autumn Budget 2017

Shelter helps millions of people every year struggling with bad housing or homelessness – and we campaign to prevent it in the first place. These policy recommendations are based on tackling the root causes of homelessness and the housing crisis. They have been informed by issues our frontline services see families face every day.

Shelter recommends:

1. **Re-aligning Local Housing Allowance (LHA) rates with the 30th percentile of local rents from financial year 2018-19, due to emerging evidence of unintended consequences of freezing rates on increasing risk of homelessness;**
2. **Government should honour the commitment made in the 2017 Conservative Manifesto to reform Compulsory Purchase, starting with a consultation on reforming the 1961 Land Compensation Act, to unlock finance for housing and infrastructure, boost supply and stabilise prices;**
3. **Follow through with proposed changes to the National Planning Policy Framework to state that policy requirements will be tested for viability at the plan-level, removing the need for site-level viability assessments. Paragraph 173 should also be amended to replace the wording “competitive returns” with “a return”. These amendments have no budget implications. They would close legal loopholes developers are using to avoid building affordable homes and infrastructure.**

If you have any questions or would like any further details, please feel free to contact charlotte_gerada@shelter.org.uk or call 0344 515 2274.

1. Welfare: Re-aligning Local Housing Allowance (LHA) with 30th percentile

Recommendation 1: Re-aligning LHA rates with the 30th percentile in financial year 2018-19

Shelter recommends re-aligning LHA with rents at the 30th percentile from April 2018. This is vital in ensuring that LHA does not fall further behind rental inflation and low-income households can access the private rented sector and avoid homelessness.

1.1 Rationale for re-aligning LHA rates with rent increases

1.1.i Impact of LHA freeze on household incomes and affordability

The government has made a number of changes to the way LHA is calculated – the most recent being a four-year freeze on rates from April 2016.¹ As a consequence, LHA rates have failed to

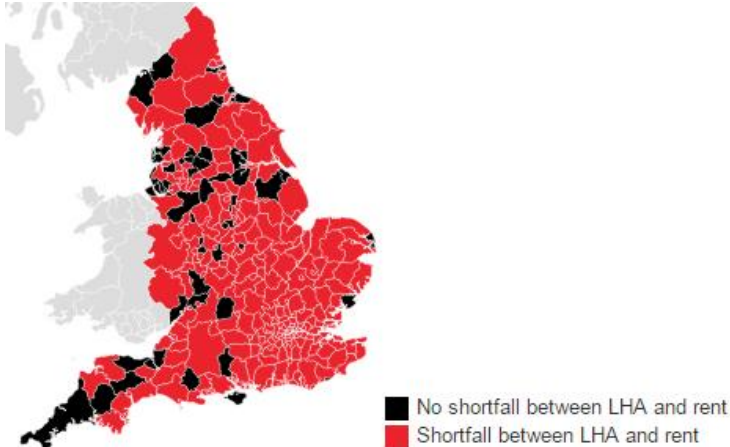
¹ Department for Work and Pensions, 2014, The impact of recent reforms to Local Housing Allowances: Summary of key findings, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/329902/rr874-lha-impact-of-recent-reforms-summary.pdf

keep pace with rents at the bottom 30th percentile of local markets. Families have seen the shortfall between their eligible LHA rate and local rents to levels grow year-on-year.²

With other benefits and average wage inflation frozen too³, these families struggle to make up shortfalls and risk falling into debt or homelessness. Families living in London face the greatest shortfalls, including those in the outer boroughs such as Brent and Croydon. In any case, this problem is not limited to the capital. In Cambridge, a family would be expected to pay an additional £531.17 a month to top up their LHA to pay for one of the cheapest homes in the area. In Bristol, the shortfall would be £217.51 a month.⁴

Shelter's research suggests that by 2019/20 if the freeze is not undone, 83% of areas in England will be unaffordable to LHA claimants.⁵ Families try their best to manage this, but with few options available to them, they are at increasing risk of rent arrears and eviction. On the surface, it may seem like families are coping, but Shelter research shows they get into formal and informal debt to cover their rent⁶. Or families try to cut down household expenditure.⁷ These coping strategies cannot be sustained in the long-term. We expect more families to be put at risk of homelessness.

Areas in England where by 2019/20 there will be a shortfall between two-bedroom LHA level and rents at the lowest quartile of the market



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² Shelter, 2017, Shut Out: The barriers low-income households face in private renting, https://england.shelter.org.uk/_data/assets/pdf_file/0004/1391701/2017_06_-_Shut_out_the_barriers_low_income_households_face_in_private_renting.pdf

³ Office for National Statistics, 2017, Analysis of real earnings: September 2017, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/supplementaryanalysisofaverageweeklyearnings/latest>

⁴ Ibid

⁵ Shelter, 2017, Shut Out: The barriers low-income households face in private renting, https://england.shelter.org.uk/_data/assets/pdf_file/0004/1391701/2017_06_-_Shut_out_the_barriers_low_income_households_face_in_private_renting.pdf

⁶ Shelter, 2015, Cuts and changes to benefits for private renters (LHA), http://england.shelter.org.uk/_data/assets/pdf_file/0020/1142183/7567.01_LHA_Briefing_Report_v4.pdf

⁷ Ibid

⁸ Shelter, 2017, Shut Out: The barriers low-income households face in private renting, https://england.shelter.org.uk/_data/assets/pdf_file/0004/1391701/2017_06_-_Shut_out_the_barriers_low_income_households_face_in_private_renting.pdf

1.1.ii There is a link between LHA rate freezes and the risk of homelessness

There has been a sharp increase in homelessness since LHA rates were first restricted in 2011. Shelter's analysis suggests that trends will increase and over a million households in Britain could be put at risk of homelessness by 2020, unless the freeze on LHA rates is lifted.⁹

Research – including the DWP's own impact assessment - shows that households, rather than landlords, have felt the vast majority of the impact of reduced payments. The intended policy objective of reducing rents in the housing benefit market has failed.

Homelessness has risen dramatically across a range of measures since 2010-11. At the end of March 2017, there were 77,240 households in temporary accommodation, an increase of 60% since March 2011.¹⁰ Rough sleeping meanwhile, has increased 134% since autumn 2010, with 4,134 rough sleepers (counted and estimated on a single night) at the last count in 2016.¹¹

Statutory homelessness has been driven by the loss of private tenancies. The National Audit Office (NAO) show that this is responsible for three quarters (74%) of the growth in households qualifying for temporary accommodation, stating:

'The ending of private sector tenancies has overtaken all other causes to become the biggest single driver of statutory homelessness in England.'¹²

There is a strong relationship between the number of households receiving LHA and the number of homeless households in an area. While homelessness rates vary significantly between local authorities, the NAO found a third (32%) of the difference is explained by the proportion of households in the area that received housing benefit to help pay their rent.

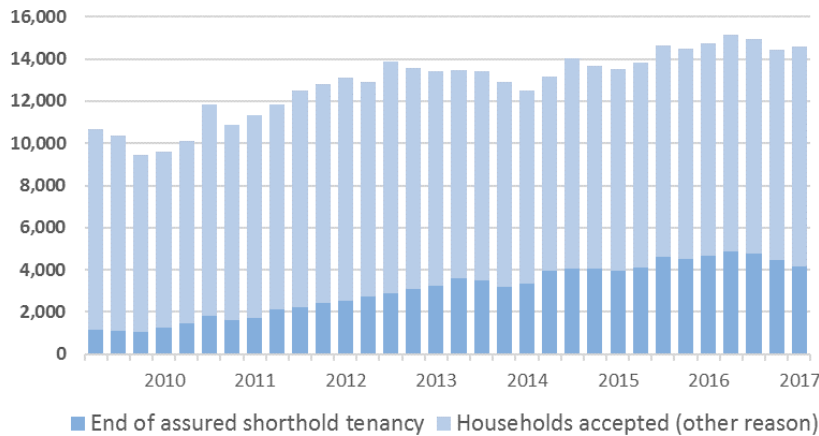
⁹ Shelter, 2017, Shut Out: The barriers low-income households face in private renting, https://england.shelter.org.uk/_data/assets/pdf_file/0004/1391701/2017_06_-_Shut_out_the_barriers_low_income_households_face_in_private_renting.pdf

¹⁰ Department for Communities and Local Government, Homelessness live tables, Table 782, 2017, <https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness>

¹¹ Department for Communities and Local Government, Homelessness live tables Rough sleeping, 2017, <https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness>

¹² National Audit Office, 2017, Department for Communities and Local Government: Homelessness Report, <https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf>

Households accepted as homeless due to the end of an assured shorthold tenancy, as a proportion of all acceptances (2009 - Q1 2017)



In 2009-10 11% of all acceptances were due to the end of an assured shorthold tenancy, by 2016/17 this had risen to 32%

Source: Shelter analysis of DCLG live table 774

The NAO's present case study and quantitative evidence shows a clear link between welfare cuts and homelessness. Frontline local authority staff interviewed by the NAO identified end of tenancies in the private rented sector as the key driver of increased homelessness. This was attributed to increased rents, and crucially, a decline in people's ability to pay them, due to welfare reforms (including the freeze).¹³

1.1.iii Low-income families are not coping

The Institute for Fiscal Studies found that 90% of the losses due to the freeze to LHA were absorbed by tenants rather than landlords (i.e. that tenants made up a shortfall rather than landlords dropping their rents).¹⁴ This is corroborated by econometric analysis accompanying the independent evaluation of the LHA changes commissioned by DWP, which found a similar result: '[Evidence] suggests that 86% of the reduction in LHA is being felt by these private sector tenants (in the sense that LHA awards are falling by more than contractual rents for a given property) and 14% is being felt by their landlords (in the sense that contractual rents for a given property are falling).¹⁵ After taking account of the lower contractual rents individuals were, on average, just over £36 per week worse off as a result of the reduction in LHA.' Analysis by Policy in Practice suggests that households affected by LHA reforms have lost an average of £50 a week.¹⁶

¹³ National Audit Office, 2017, Department for Communities and Local Government: Homelessness Report, <https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf>

¹⁴ Institute for Fiscal Studies, 2015, The incidence of targeted housing subsidies: evidence from reforms to UK housing benefit, <https://www.ifs.org.uk/uploads/publications/conferences/presentations/Housing%20Benefit%20WPEG%20280715.pdf>

¹⁵ Department for Work and Pensions, 2014, Econometric analysis of the impacts of Local Housing Allowance reforms on existing claimants, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/445618/rr871-lha-econometric-analysis-of-the-impacts-of-reforms-on-existing-claimants.pdf

¹⁶ Policy in Practice, 2017, The cumulative impacts of welfare reform: a national picture, http://policyinpractice.co.uk/wp-content/uploads/2017/06/The-cumulative-impacts-of-welfare-reform-a-national-picture_full-report.pdf

Evidence from Shelter shows that households use a range of strategies to manage shortfalls in housing benefit income relative to rent.¹⁷ These include cutting back on essential outgoings, borrowing from family and friends, getting help from the council (predominantly through Discretionary Housing Payments), or in some cases by negotiating worse conditions in exchange for lower rent. Households may also seek cheaper accommodation, though the reduction in LHA and ever rising rents mean less of the market is available than ever before.

These strategies are clearly unsustainable and the proportion of households in arrears has also been rising. Four in ten private renters on housing benefit now report that they are constantly struggling or falling behind with their rent – twice the proportion among tenants not on housing benefit.¹⁸ Just under half (47%) of landlords reported an increase in rent arrears following reforms.¹⁹

1.1.iv Landlords are less likely to rent to LHA recipients because of the freeze to rates

Shelter's survey of 1,071 UK private landlords finds over four in ten (42%) have a policy of not letting to people on LHA and a further 21% say they prefer not to.²⁰ Of the landlords who had problems when renting to LHA tenants previously, rent not being paid (23%) and delays in the council paying LHA to the tenant which then affected their ability to pay rent on time (21%) were the most commonly cited issues.²¹

Similarly, research by the Residential Landlords Association finds that of 1,966 landlords and letting agents surveyed, two-thirds would not rent to under-35s on housing benefit or universal credit.²² The main reasons cited were the difficulty in managing the accommodation and fears about financial loss – 79% of respondents attributed not renting to claimants because of the higher risk of rent arrears.²³

For families in receipt of LHA who struggle to pay their rent, the Department for Work and Pensions evaluation found qualitative evidence that landlords are responding to arrears by not renewing tenancies, backed up by the rise in households accepted as homeless due to the end of an AST.²⁴

'The interviews with landlords suggested that many preferred non-renewal of tenancies over eviction as a means of responding to situations where the tenants were in arrears, because of the time and costs involved in undertaking eviction proceedings.'²⁵

¹⁷ Shelter, 2015, Cuts and changes to benefits for private renters (LHA),

http://england.shelter.org.uk/_data/assets/pdf_file/0020/1142183/7567.01_LHA_Briefing_Report_v4.pdf

¹⁸ GFK, 2014, The experiences of families claiming housing benefit during a time of cuts and changes to housing benefit, page 25

¹⁹ The Department for Work and Pensions, 2014, Monitoring the impact of recent measures affecting Housing Benefit and Local Housing Allowances in the private rented sector: the response of landlords London, page 9

²⁰ Shelter, 2016, Research Report: Survey of Private Landlords,

https://england.shelter.org.uk/_data/assets/pdf_file/0004/1236820/Landlord_survey_18_Feb_publish.pdf

²¹ Ibid.

²² Residential Landlords Association, 2017, Access to homes for under-35s: The impact of welfare reform on private renting, <https://research.rla.org.uk/report/access-homes-under-35s-impact-welfare-reform-renting/>

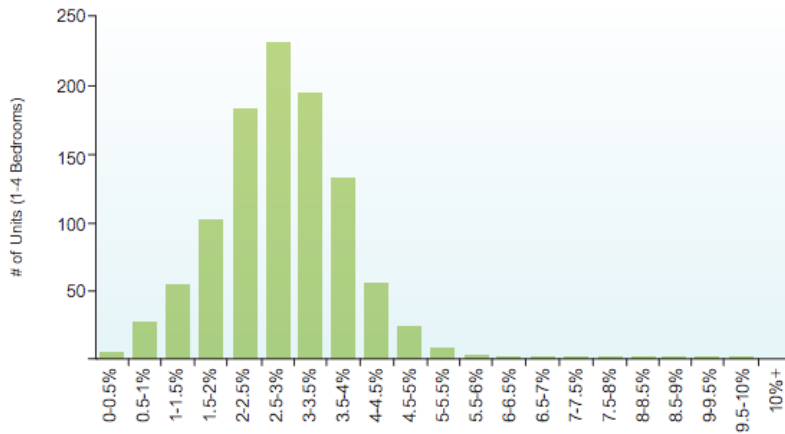
²³ Ibid

²⁴ Department for Work and Pensions, 2012, Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: final reports,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/329953/summary-lha-monitoring-impact-of-changes.pdf

²⁵ Ibid

Research from the Local Government Association suggests rental yields with LHA rents are not high enough for landlords to meet their costs in a majority of cases. The number of properties let at LHA rates with a gross yield of more than 4%, is very limited within 20 miles of London.²⁶



Source: Local Government Association, 2017

Chart 9 Unit count by gross yield (per day) at LHA rents for properties advertised for sale within 20 miles of central London in the period up to April 2017
Source: 31ten Consulting¹⁰

1.1.vi The freeze to LHA undermines the aims of the Homelessness Reduction Act

The government has supported and funded the Homelessness Reduction Act. The Act has the potential to transform the way services are delivered but legislation alone will not be enough. Councils need national housing and welfare policy to work with them. We are concerned the LHA freeze undermines the good intentions of the Act. While funding and effort is being put into ambitious targets to reduce and prevent homelessness through the Act, existing policy on LHA is increasing families' risk of arrears and homelessness and reducing options to rehouse homeless families.

The government made a manifesto pledge to halve rough sleeping over the course of this parliament and to eliminate it altogether by 2027.²⁷ But there is emerging evidence of the link between the rise in homelessness and the freeze to LHA. Single people often face significant shortfalls between their LHA rate and their rent. For example, in Oxford, an under 35-year-old would have to find an extra £219.28 a month on top of their LHA rate to pay for a room.²⁸

²⁶ Local Government Association, 2017, Council learning and innovation in housing our homeless households, https://www.local.gov.uk/sites/default/files/documents/5.12%20HOUSING%20AND%20HOMELESSNESS_v08_4.pdf

²⁷ Conservative Party, 2017, Forward Together: the Conservative manifesto, <https://www.conservatives.com/manifesto>

²⁸ Shelter, 2017, Shut Out: The barriers low-income households face in private renting, https://england.shelter.org.uk/_data/assets/pdf_file/0004/1391701/2017_06_-_Shut_out_the_barriers_low_income_households_face_in_private_renting.pdf

Councils, charities, landlords, politicians and former ministers such as Lord Freud have also made this case.²⁹ The LHA freeze is a government intervention that has failed in its policy intention to bring downward pressure on rents. Ending the freeze early would increase the scope of properties available to tenants claiming LHA and allow homelessness to be prevented in more cases.

1.2 Costs to end the LHA freeze

It would cost £1.2 billion to move LHA up to the 30th percentile in 2018. Note, this is the cost of making a one-off increase of LHA rates to the 30th percentile in April 2018.

1.3. Benefits to ending the LHA freeze

Investing in genuinely affordable housing is vital for solving the housing crisis in the long-term. However, due to the shortage of social housing and the fact that increasing supply will take time, the private rented sector and welfare safety net are central to our fight against homelessness.

Re-aligning LHA rates with rents is essential for low-income households to access private tenancies. More properties would be accessible to families and landlords would be more likely to rent to LHA claimants. It would also mean less of a reliance on temporary accommodation to house families.

Ultimately, uprating LHA reduces the risk of homelessness for some of the most vulnerable families in the UK. It would be a coherent precautionary measure to prevent homelessness, with a more cross-departmental approach to tackling the barriers for low-income families to secure homes.

2. Housing Supply: Reform compulsory purchase orders (CPO)

Recommendation 2: Shelter recommends reforming the compensation code for CPO

Government should honour the commitment made in the 2017 Conservative Manifesto to reform Compulsory Purchase, starting with a consultation on reforming the 1961 Land Compensation Act, to unlock finance for housing and infrastructure, boost supply and stabilise prices.

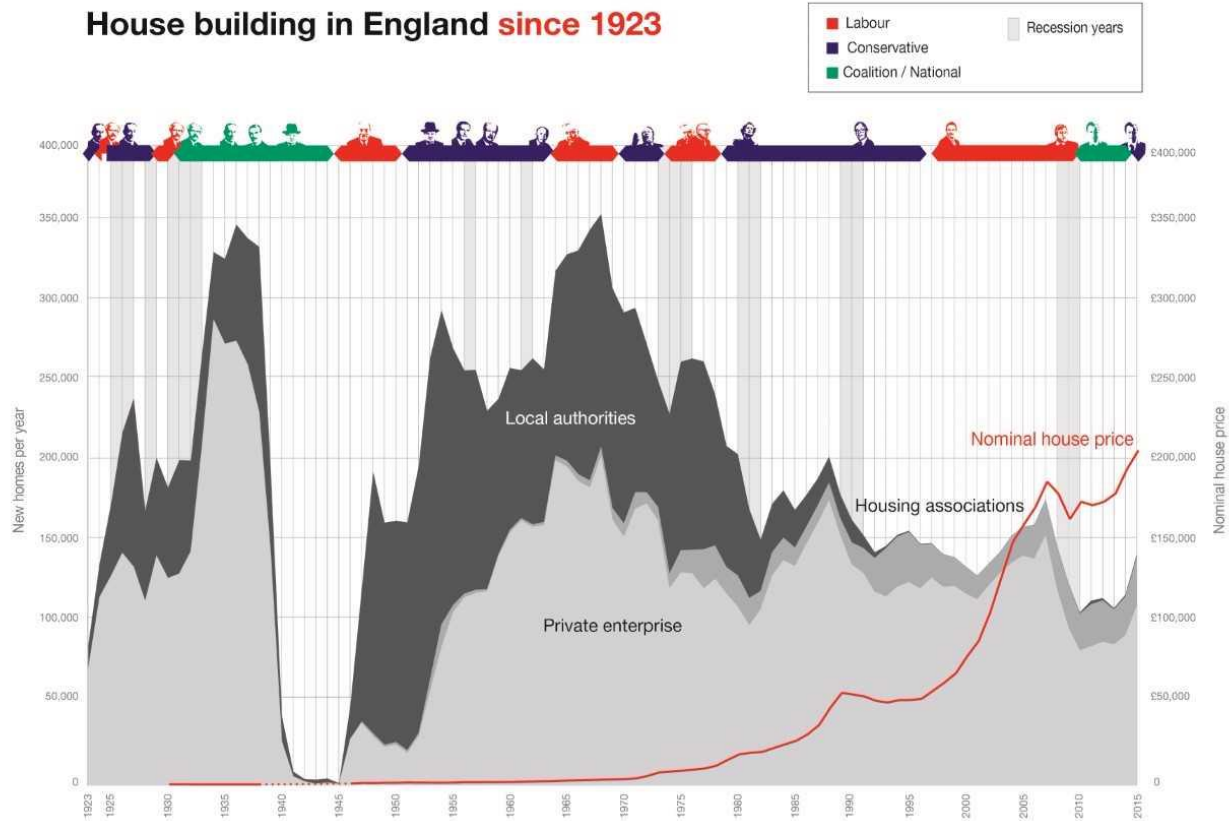
2.1 Rationale for reforming the compensation code for CPO

2.1.i Successive governments have failed to build enough affordable homes

For a generation in England we have failed to build enough homes, and particularly enough affordable homes. In 2015/16 just 163,940 new homes were built, of which just 32,630 were sub-market.³⁰ This housing shortage is at the heart of every housing problem we see, from homelessness to declining home ownership.

²⁹ Work and Pensions Committee, 2017, Oral evidence: Universal Credit update, <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/universal-credit-update/oral/46960.html>

³⁰ Department for Communities and Local Government, 2017, Live tables on affordable housing, <https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply>



Sources: DCLG, Shelter analysis
 Images (1946-2015): A Right To Build, Architecture 00/, 2012 <http://issuu.com/architecture00/docs/arighttobuild>

Driving up supply requires diversification of the way we build. We need to provide more opportunities for SME builders, promote housing across a range of tenures and price points, and unlock new land for development.

Shelter’s answer to this is New Civic House building.³¹ Our vision for building affordable, beautiful places to live – just as we used to do with places such as Bath, Letchworth Garden City and the post-war New Towns.

This is about more than government investment. Overcoming the crisis in housing supply requires a fundamental shift in the way land is brought into development in this country. One element of achieving this is reforming the CPO compensation code to incentivise more and better development.

2.1.ii The Conservative Party Manifesto is already committed to CPO reform

In its 2017 manifesto the Conservative Party rightly stated that there is a need to “reform Compulsory Purchase Orders to make them easier and less expensive for councils to use and to make it easier to determine the true market value of sites”.³²

³¹ Shelter, New Civic House building, <https://civichousebuilding.org/>

³² Conservative Party, 2017, Conservative Party Election Manifesto 2017, <https://www.conservatives.com/manifesto>

Shelter strongly supports this reform process. It would enable innovative models of development using land value capture to unlock new funding for affordable homes and infrastructure, and would have a moderating influence on price expectations in the land market as a whole.

Shelter recognises that recent changes have been made in this area through the Neighbourhood Planning Act and the extension of the ‘no scheme world’ approach.³³ However, this won’t go far enough and further reform will be needed. In our own paper we examine in detail the mechanisms and amendments needed to allow these reforms as well as the impact they would have in more detail.³⁴

2.2 Costs to reform CPO

Reforming the 1961 Act would have no cost for the Government. In fact, as outlined in a recent Financial Times piece, these reforms would increase available funding for investment in infrastructure and housing through improved land value capture.³⁵

2.3 Benefits of reforming CPO

2.3.1 A direct impact on financing infrastructure and affordable housing

A CPO compensation code based on the “true market value”³⁶ of land would create powerful incentives for landowners to put their land into development as equity. Under the current system the incentive for landowners is to hold out for the compulsory purchase to deliver a large, up-front, payment. A situation that also has a wider impact on distorting prices in the land market.

In the alternative model Shelter proposes, the increases in land value resulting from planning permission and development can be used to finance infrastructure and affordable housing: a form of land value capture in which landowners receive long-term returns rather than the up-front capital windfalls incentivised by the existing compensation code. Currently around 75% of land value is not captured in development.³⁷ This is because the land market factors in expected increases in land value possible through such things as planning consent being granted or government investment in new infrastructure. As a former Housing Minister noted, by the time this is done, ‘there is not a great deal of value in the land for providing infrastructure that... is vital to go along with housing’.³⁸

³³ HM Government, 2017, Neighbourhood Planning Act of 2017, http://www.legislation.gov.uk/ukpga/2017/20/pdfs/ukpga_20170020_en.pdf

³⁴ Shelter, 2017, Financing the infrastructure and new homes of the future, http://england.shelter.org.uk/_data/assets/pdf_file/0003/1377714/2017_05_16_Shelter_Memo_-_Financing_the_infrastructure_and_new_homes_of_the_future.pdf

³⁵ Financial Times, 2017, Major land reform urged to fix UK housing crisis, <https://www.ft.com/content/a3c94308-80dd-11e7-94e2-c5b903247afd>

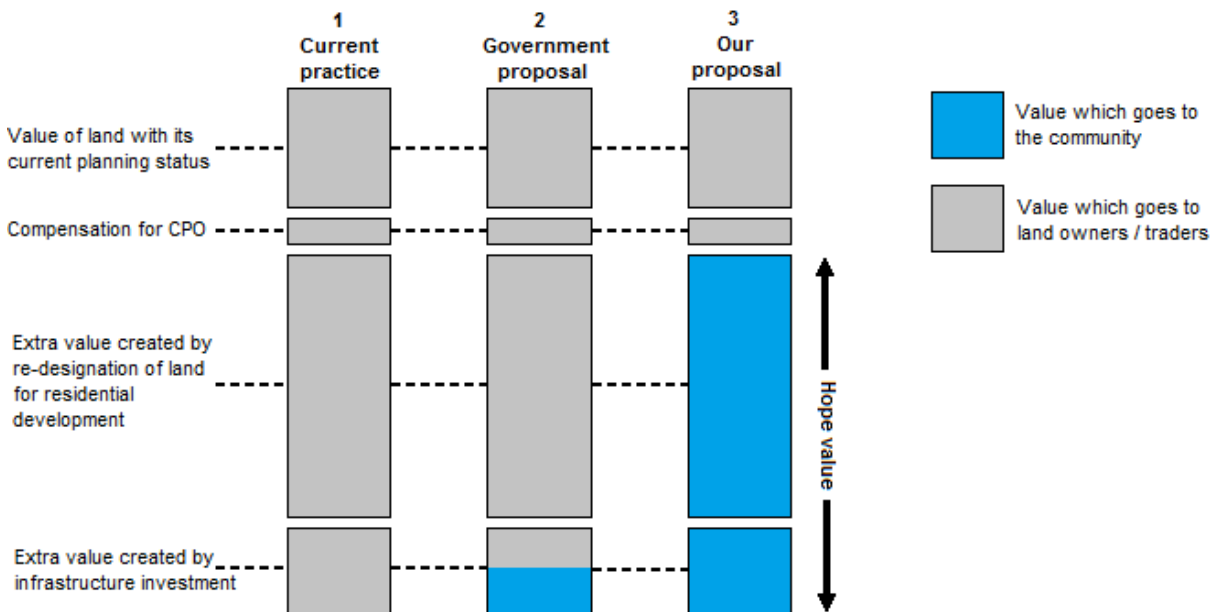
³⁶ Conservative Party, 2017, Conservative Party Election Manifesto 2017, <https://www.conservatives.com/manifesto>

³⁷ Centre for Progressive Capitalism, 2017, Estimating land value capture for England – updated analysis, <http://progressive-capitalism.net/2017/03/estimating-land-value-capture-england-updated-analysis/>

³⁸ Hansard, House of Commons, Volume 624, Column 191, 2017, 28 March

If, however, land came into development at a value that has not priced in such expectation then an extra £9.3 billion per year could be released. This would supplement the £2.8 billion currently captured from Section 106 and the Community Infrastructure Levy.³⁹

Capturing additional value uplift, rather than allowing it to flow to the landowner upfront, is, therefore, a sensible reform to consider. The diagram below shows roughly how great this impact could be in comparison to both current practice and to the government proposals around extension of the 'no scheme world'.



2.3.1 A wider moderating impact on land prices

A reformed compensation code would have an important impact on the general land market and act as a moderating influence on the price expectations of landowners.

Profit expectations, where land has been identified for strategic development, or where land may be identified for strategic development would be adjusted. This would have a stabilising effect on the land market in general and would slow the pace of land price growth. There would also be the additional impact of creating opportunity for diversification in the construction sector as SME house builders gain improved access to the land market by virtue of the price stabilisation.

³⁹ Centre for Progressive Capitalism, 2017, Estimating land value capture for England – updated analysis, <http://progressive-capitalism.net/2017/03/estimating-land-value-capture-england-updated-analysis/>

3. Housing Supply: Maximising developer contributions to affordable housing

Recommendation 3: Shelter recommends ensuring developer contributions to affordable housing are maximised

Shelter is calling for the government to follow through with its proposed changes to the National Planning Policy Framework (NPPF) in the following ways:

- Clearly state that policy requirements will be tested for viability at the plan-level, removing the need for site-level viability assessments;
- Paragraph 173 should also be amended to remove the words “competitive returns” and replace with “a return”.

These amendments have no budget implications. They would close legal loopholes developers are using to avoid building affordable homes and infrastructure.

3.1 Rationale for maximising developer contributions to affordable housing

3.1.i Changes in the approach to local plans are a step in the right direction

Shelter supports the government’s recommendation that local authorities should identify in their local plans the infrastructure and affordable housing needed in their areas; and the contributions developers will be expected to make towards this.⁴⁰

Local authorities should produce evidence-based affordable housing *policies* – not targets. Local policies should be designed to meet real housing needs, based on local incomes, household sizes and needs for specialist housing, such as for older and disabled people.

Shelter questions the need for the NPPF to protect any particular level of return. Provided a scheme delivers a return, it should be left to developers to determine what level of return they are seeking.

3.1.ii Section 106 is not operating as it should

We rely on private developers to deliver a large proportion of new affordable homes through the Section 106 system. Between 2010/11 and 2015/16, 39% of the 291,142 affordable homes built in England were delivered through Section 106.⁴¹

However, this system is not delivering the numbers of affordable homes that it should – and could. Developers are reducing numbers of affordable homes in order to offer higher bids for land up-front. In this, developers are enabled by the NPPF, which sanctions the use of site-level viability assessments to reduce or eliminate affordable housing contributions where developers can demonstrate a scheme will not deliver “competitive returns”. Developers have had wide discretion to

⁴⁰ Department for Communities and Local Government, 2017, Open consultation: Planning for the right homes in the right places: consultation proposals, <https://www.gov.uk/government/consultations/planning-for-the-right-homes-in-the-right-places-consultation-proposals>

⁴¹ Dr S. Brownill and Dr Y. Cho, March 2017, Rethinking planning obligations: balancing housing numbers and affordability: The update, p. 6, Table 1

define what level of return is “competitive”, and have responded little to the lower interest rate, low return environment that has characterised much of the property market in recent years.

3.2 Costs to amend the NPPF

Our recommendations would not require any additional funding, but would ensure that developers increase the number of affordable homes they are providing.

3.3 Benefits of amending the NPPF

Shelter recommends that the government commits to following through with the proposed changes to the NPPF to provide certainty to all stakeholders and ensure that developer contributions to affordable housing delivery are maximised:

- Clearly state that affordable housing policy requirements will be tested for viability at the plan-level (removing the need for site-level viability assessments in all but a defined set of exceptional circumstances);
- Amend paragraph 173 to remove the words “competitive returns” and replace with “a return”.

This is necessary to ensure that the affordable homes that we need are built and that the cost to the public purse in picking up the shortfall is minimised.