SHELTER

# Spring Budget 2023 Representation

The cost-of-living crisis is inextricably linked with the housing emergency. Tackling both in tandem must be at the top of the government's agenda.

The housing emergency has been driven by a decades-long failure to build enough homes that are genuinely affordable for households on low incomes: homes with social rents linked to local incomes. There has been such a chronic lack of social housing built that, with sales and demolitions, last year we saw a net loss of 14,100 social homes. It brings the total number of social homes lost over the past decade to 165,000. While 1.2 million households are stuck on waiting lists for a social home in England – a rise of 5% in the past two years.[1]

This lack of social housing has pushed more and more people into the private rented sector, where support for rising rents has not kept pace. The last uplift to Local Housing Allowance (LHA) was made in 2020 and based on rents in 2019. Listed rents in the UK have risen at record rates over the last year: 20.5% in Manchester, 22.2% in Newbury and 17.6% in Birmingham.[2] This has led to an average shortfall of £151 per month. Any cost-of-living support that the government has given to households in recent months has been swallowed by this shortfall and not met the original aim of supporting with increased energy or food bills.

Recent research found that 1 in 12 private renters, or 941,000 households, are currently under the threat of eviction.[3] Unless urgent action is taken, more of these households will join the 271,000 people who are currently homeless in England today.[4]

**To tackle the housing emergency and lift millions out of bad housing and homelessness, the government must use this Budget to:**

1. Restore LHA and keep in line with at least the 30th percentile of private rents to prevent homelessness in the cost of living crisis

2. Invest in a 10-year Affordable Homes Programme of £12bn per year to deliver at least 90,000 social homes a year. A minimum of 80% of grant funding in the programme should go to homes for social rent, to focus government grant money on the most affordable tenure

3. End 'the £50 rule' so that left behind places can get on and build the social rent homes they so clearly need

4. Overhaul 'Cost minimisation' so building good quality, genuinely affordable social rent homes is viable everywhere

5. Reinvest savings from the 7% social rent cap back into the social housing sector

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[1] 14,000 social homes lost last year, as over a million households sit on waiting lists - Shelter England
[2] Private rents in Britain hit record highs, with 20% rise in some areas | Renting property | The Guardian
[3] Almost a million private renters are under threat of eviction - Shelter England
[4] At least 271,000 people are homeless in England today - Shelter England

## Restore and Relink LHA to at least the 30th percentile

LHA rates which determine the amount private renters can claim in housing benefit, or the housing element of Universal Credit, have been frozen since March 2020 and are based on 2019 rents. Since then there has been rapid growth in private rents- the most recent annual growth rate in England was the highest on record.[5]

This has left more than half (54%) of private renting claimants making up average shortfalls of £151 a month between the benefit they receive and their rents.[6] Shortfalls push people towards the brink of homelessness, forcing them to use money meant to cover the rocketing cost of food and bills just to keep a roof over their heads.

Cost of living payments and the inflationary increase to the Universal Credit standard allowance are welcome but will be funnelled into plugging the rent gap left by inadequate LHA for hundreds of thousands of private renters. For many, they will not be able to avoid accruing rent arrears – we have already seen a 30% increase in the number of clients in housing cost arrears that we work with in our services.[7] Discretionary housing payments – offered by local councils to help households in need – are a sticking plaster not up to the scale of the challenge we face, with many councils fast running out of funds and the total budget for them cut by 29% (£40 million) this year.

Inadequate housing benefit also locks families out of private renting, making it incredibly hard for them to find a new home when a tenancy ends and pushing more and more to approach their local authorities as homeless. When homeless families with children and other vulnerable households cannot be offered suitable social housing or privately rented homes, councils have no choice but to place them in temporary accommodation (TA).

Our Shelter hubs across England are hearing from local authorities that in the face of rising need and an inaccessible private rented sector due to the LHA freeze, they are procuring more and more TA for families who become homeless and cannot afford new homes. In 2021/22 spending on TA was £1.6 billion, a figure which has risen by 61% in the last five years and looks set to grow further this year.[5]

Temporary accommodation is both expensive to the taxpayer and hugely harmful to the people who live in it. The majority of homeless families spend more than a year in TA and our recent research has shown just how damaging the experience is to the health, wellbeing and education of homeless children.[6]

**In the medium to long term, the way to reduce the size of the welfare bill is to invest in social housing.**

5 ONS, Index of Private Housing Rental Prices, UK, January 2022.
6 C. Berry and J. Pennington, Cover the Cost - preventing homelessness for renters in the cost of living crisis, September 2022
7 In October to December 2022 Shelter advisors in England worked with 326 clients with housing cost arrears and 523 clients struggling with any kind of cost, compared to 250 in arrears and 483 struggling with costs in the same period in 2021.

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## Investment in Social Housing

It is not possible to stem the tide of our growing housing emergency without investment. Central government funding is essential if we are to deliver the annual figure of 90,000 social homes the country needs.

But, despite repeated promises to tackle the growing need for social housing, the government's Affordable Homes Programme has allocated only very small amounts of funding to build new social homes.

As a result, social housebuilding has declined drastically, homelessness has grown, and the number of people living in expensive private renting has ballooned.

Taxpayer money is being diverted toward firefighting this mounting emergency with short-term measures that are extremely costly both in taxes and to the lives of those living in the housing emergency.

### The marginalisation of social housing

In 2011, the coalition government introduced the Affordable Homes Programme (AHP). With it, grant funding for social housing was almost entirely cut. The AHP allocated funds to new types of housing that have stretched the meaning of 'affordable' beyond recognition.

Government abandoned genuinely affordable social rent homes in favour of products far out of reach for low-income households.

Affordable Rent (costing up to 80% of market rents) replaced social rented housing as the main rental tenure funded by the AHP and "affordable homeownership" products – like Shared Ownership – increasingly became the priority for funding in the programme.

The strategy underpinning the introduction of new types of "affordable housing" was to deliver more homes of any type, whether they were affordable to those in need or not.

The shift to allocating funding toward higher rent and homeownership products has meant that councils and housing associations need much less subsidy to build each home through the AHP. As they are not as costly to finance as social housing, capital funding can be spread thinly across more homes. In this way, the focus over the last decade has been on units delivered and not the right type of housing for our communities.

Rates of homeownership haven't made the strides hoped, the private rented sector has continued to bloat, and the availability of secure, genuinely affordable rented housing has grown more and more scarce.

### A commitment to build social housing but barriers in the way

In 2018, funding for social rent was re-introduced and the 2021-2026 iteration of the AHP promises to build more social rent homes than the previous programme.[8]

But there are still too many barriers in the way of social housing delivery.

Arbitrary rules governing the way AHP funding is allocated continue to push social

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[8] NHF, What do the Affordable Homes Programme 21-26 strategic partnership grant allocations tell us?, December 2021

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housing to the side lines within the programme.

These rules stack the odds against getting grant funding to build social housing and favour other types of "affordable housing", making it impossible to build the homes that are really needed in so many places across the country.

In 1991/92 social rent made up 86% of the 'affordable homes' that were grant funded. Last year this figure was just 12%.[9]

There are two key rules that result in social housing losing out to other tenures in the AHP: "Cost minimisation" and "the £50 rule".

**Cost minimalisation**

The current AHP uses 'cost minimisation' as its primary metric to assess bids made by councils and housing associations for grant.[10]

This means the AHP prioritises bids for funding that deliver the most homes with the least amount of money – the lowest 'grant rate'.

Other tenures like Affordable Rent, Shared Ownership or First Homes require much lower grant rates than social rent.

As a result, 'cost minimisation' makes it extremely hard to get the funding needed to build good quality, genuinely affordable social housing.

**The £50 rule**

Unless local private rents are, on average, £50 per week more expensive than social rents, social housing providers can't get enough grant to build social homes.

Effectively, the £50 rule bars many local authorities outside of London from building the social housing they so clearly need.

The £50 rule flies in the face of 'levelling up'. The areas affected will be locked out of social rent funding until at least 2026.

Ambitious plans to level up 'left behind' places without building social housing risks creating a 'London and Manchester effect'. Prices will rise, low-income local people will be priced out, and homelessness will grow.

**An unfunded mandate**

With central funding cut, successive governments have tried and failed to get social housing delivered on the cheap, relying on councils and housing associations to build it without grant funding.

One approach is to boost social housebuilding through more borrowing.

In 2018, the government lifted "the borrowing cap", which had placed a ceiling on how much debt councils could secure in loans against future rental income to build new social housing.

The sector welcomed the move. Councils now have much more scope to start building social homes and tackling their local housing emergency. But in the end councils will still find themselves quickly up against another limit: their ability to repay what they've

[9] DLUHC, Live table on affordable housing supply: Table 1011C, December 2022
[10] DLUHC, Apply for affordable housing funding, December 2020

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borrowed.

Even at very low interest rates, there are real limits to the debt that councils can, or should, take on to deliver new housing.

Councils should be getting back in the business of building social homes. Many are.[11] But we'll simply never build the numbers of good quality social homes this country needs with borrowing alone.

Grant funding is essential if we want to make a dent in our housing emergency. Yet, there were less than 3,000 grant funded social homes built last year.

**A lack of funding results in poor quality housing**

When grant funding covered the cost of building homes, rental income could be used for upkeep, maintenance and the modernisation of existing social homes.

However, without grant funding, rental income is used to pay back what councils and housing associations have borrowed to build new social homes. In this way, an overreliance on borrowing to build new homes has diverted time and resources away from maintaining and improving social housing stock.

In many cases, poor management and a lack of incentives to deal with complaints is seeing tenants ignored and forced to live with damp, mould and disrepair. Shelter has been calling for tougher regulation of social landlords since the fire at Grenfell Tower in 2017 and welcomes the progress that the Social Housing (Regulation) Bill has recently made through parliament.

But better regulation cannot solve bad conditions on its own.

We must also recognise that the shrinking pot of grant funding for social housing is a root cause of poor conditions within the sector.

**Reinvesting savings from the social rent cap**

In his 2022 Autumn Statement, the Chancellor announced a 7% cap on the increases to social rent. The government's own impact assessment determined that there would be significant savings to the taxpayer of £3 billion, over a 5-year period with this cap. These savings should be reinvested back into the sector so that local authorities and other providers can build more social rented housing and maintain the safety and integrity of existing stock.

**The temporary accommodation boom**

With the marginalisation of social rent homes, government money has been diverted to much poorer forms of housing - at significant financial and human cost.

The number of households living in temporary accommodation (TA) has nearly doubled over the last decade and the cost to the taxpayer has gone through the roof. TA cost councils £1.6bn last year (2021/22). The majority of this money went to private letting agents, landlords or companies.

The government recognised in the Levelling Up White Paper that a failure to build social homes has created "a reliance on temporary accommodation for vulnerable

[11] ARCH, Local authority new build programmes and the lifting of the HRA borrowing caps, January 2020

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families".[12]

Shelter has warned for years that we are at risk of substandard, shoddy TA becoming "the new social housing".

Of the nearly 100,000 households living in TA, more than a quarter (26,110) of these households are accommodated outside the local authority area they previously lived in.[13]

Families have been forced to endure successive lockdowns in cramped, unhygienic, and uncertain living conditions, away from jobs, family, and support networks.

This is truly the opposite of 'levelling up'. And it is a catastrophically bad use of public money. If we want to level up the country, people need a stable and affordable home, to provide the foundation they need to get on in life and have pride in the places they live.

**Housing benefit picking up the slack**

With a declining stock of homes available for social rent, the private rented sector has also become bloated and increasingly expensive.

As a result, the national housing benefit bill has grown. Tenants' incomes and government money is flowing into the hands of private landlords, paying for poorer quality and less security. There are now more private renters claiming housing benefit than ever before.[14]

With fast growing rents, mounting food and energy bills, and a dire shortage of genuinely affordable social housing, freezing LHA has failed to curb the rising benefits bill. Instead, they have tipped people into poverty, destitution and homelessness. By failing to properly fund social housing over the last five decades, we've sleepwalked into this situation. Simply cutting benefits won't work. Housing benefit is the lifeline keeping people in their homes.

**Local housing allowance urgently needs restoring and relinking to at least the 30th percentile of private rents. If the government really wants to tackle the benefits bill and get families out of unsuitable, shoddy, and expensive temporary accommodation, it must address the root cause. It must invest in social housing.**

If you have any questions about the contents of this representation, please contact Shelter's Public Affairs team: public_affairs@shelter.org.uk

[12] DLUHC, Levelling up the United Kingdom, February 2022
[13] DLUHC, Statutory homelessness: Detailed local authority-level tables, September 2021
[14] CIH, UK housing review 2020, Table 108, 2020 and Shelter, Universal Credit alert briefing, December 2021

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