SHELTER

Submission: Treasury Committee inquiry into an Equal Recovery

We welcome the opportunity to respond to this inquiry. Shelter is the UK's biggest housing and homelessness charity. We exist to defend the right to a safe home and fight the devastating impact the housing emergency has on families and communities across the country.

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The pandemic has affected us all, but it has not affected us equally. The economic impact of COVID-19 has exacerbated existing inequalities: while some households have benefitted from increased savings during lockdown, others have fallen into rent arrears, debt, and homelessness. The impact has also been unevenly distributed across the country, with greater levels of need arising in areas where the cost of housing is high, and the undersupply of social housing is most acute.

The long-term impacts on inequality within the housing market are yet to be seen, but the government can enact policies now which will ensure a more equal recovery from the pandemic and protect low-income households in future economic downturns.

To prevent the pandemic from further cementing economic inequalities, Shelter is calling on the government to:

- **Build at least 90,000 social homes in England a year, to provide families in need with secure, affordable, good quality homes. This would tackle the root causes of intergenerational inequality as well as build resilience into the housing system.**

- **Unfreeze Local Housing Allowance and keep the rates in line with at least the 30th percentile of market rents.**

- **Remove the benefit cap.**

- **Remove geographical restrictions on eligibility for grant in the Affordable Homes Programme. This investment would represent a true commitment to levelling up communities across the country.**

Section 1: Disability, gender and race

How has the economic impact of the crisis affected disability, gender, and race inequality?

Without tackling the housing emergency and the inequalities that persist within it, we will not ensure an equal recovery from the pandemic. Women, People of Colour, and disabled people were much more likely to experience the sharp end of the housing emergency before the pandemic, and the crisis has brought these existing inequalities into sharp relief.

For those on lower incomes and claiming housing support to help cover their rental payments, life was already more difficult before the pandemic. After years of cuts and freezes to Local Housing Allowance (LHA - housing benefit for private renters), the rates had fallen far behind the cost of renting.[1] Before the pandemic, 25% of LHA claimants said they were unable to keep up with their bills, compared to just 7% of private renters not on LHA.[2] One in five (20%) said they had no money to pay for an unexpected expense, which was three times higher than those in the private rental sector who were not on LHA (6%).[3]

It has also been far more difficult for families, women, People of Colour and disabled people in the private rented sector well before the pandemic. Shelter's 2020 impact assessment of changes to LHA since 2011 highlighted that:[4]

- Private renters receiving a disability related benefit are three times more likely to be claiming housing benefit (45%) than private renters not receiving a disability related benefit (15%).
- Women make up two thirds (67%) of LHA claimants living in private rented homes but half (49%) of private renters. 34% of LHA claimants are lone parents (95% of whom are women) compared to 6% of all UK households.
- 33% of LHA claimants are People of Colour, despite representing only 18% of all private renters.

At the start of the pandemic the government did the right thing and restored LHA to the 30th percentile of market rents: a level it should already have been covering. But the rates have since been frozen, while rents have continued to rise. The freeze means that LHA now fails to cover the cost of a modest two-bedroom home in the majority of England (58% of areas).[5] As demonstrated, we know that certain groups are more likely to be claiming LHA, and will therefore be disproportionately affected if the LHA rates fail to cover the rent.

At the same time, the proportion of those claiming LHA to help with their rental costs has risen in every single local area of England. Even more astonishing, more than a third

[1] Sharma, R., *Local Housing Allowance rates and homelessness*, Shelter, (February 2020).
[2] Understanding Society Wave 8 2016-2018 Individual cross-sectional sample.
[3] Ibid.
[4] Kleynhans, S. and J. Pennington, *LHA Impact Assessment: The effects of the reforms since 2011*, Shelter, (March 2020).
[5] Berry, C., *Universal Credit Alert Briefing*, Shelter, (May 2021).

of England (39% local authority areas) has seen an increase of 50% or more in the year to February 2021.[6] 45% of private renters now receive LHA to help pay their rent.

The benefit cap is another demonstration of how women, families and People of Colour have been disproportionately impacted. This was the case long before the pandemic, which has again cemented these existing inequities.[7]

Lone parent families with young children are particularly at risk from the benefit cap because in order to avoid the consequences of the cap – either by moving home or increasing their working hours – they must cover all childcare responsibilities and work enough hours singlehandedly.[8] If they try to move to a cheaper area, they risk losing informal childcare support from family or friends, which can support them to work, and also risk disrupting any older children's education by moving schools. The pandemic has added new challenges – by making it substantially more difficult to find work or move home.

Since the start of the pandemic the number of benefit capped households has increased by 157% to more than 200,000.[9] Six in ten of capped households (59%) are lone parents and 83% are families with children, meaning children are disproportionately impacted by the benefit cap. Families with children are losing, on average, £59 every week from their income as a result of the benefit cap – more than the average UK household spends on food every week.[10]

Recommendation: The government must unfreeze Local Housing Allowance. Going forward the LHA rates must remain in line with at least the 30th percentile of market rents in every part of the country.

Recommendation: The government must scrap the benefit cap.

Section 2: Regional Imbalances

How has the crisis impacted on regional inequality? Are certain regions likely to recover more slowly or have longer term economic damage and greater scarring?

The impacts of the pandemic have not been spread evenly across the country. Each region has a different housing crisis and the pandemic exacerbated these problems in each local area, widening inequality between and within regions.

In London and the South East, more frequent affordability challenges have led to greater increases in those needing housing support in the short-term, while smaller

[6] Berry, C., *Universal Credit Alert Briefing*, Shelter, (May 2021).
[7] The household benefit cap prevents working-age claimants from receiving more than £23,000 per year in London and more than £20,000 outside of London, if they are earning less than £617 per month on Universal Credit, or working less than 16 hours per week on legacy benefits. The cap for single people, without children, is even lower.
[8] Those with a child under five are 19 times more likely to be affected and those with a child under two are 21 times more likely to be affected. *Submission to Work and Pensions Select Committee Inquiry into Benefit Cap*, Shelter, (2018).
[9] Berry, C., *Benefit Cap Alert Briefing*, Shelter, (June 2021).
[10] Ibid.

proportionate increases in other regions can be explained by the already high levels in need of housing support.

Where underlying housing market problems were more significant pre-pandemic the impacts on those places have been greater. The inadequate welfare safety net and a chronic undersupply of social rent housing has exacerbated these impacts. These issues must be addressed to ensure an equal recovery.

Big increases in need of support in London and the South East reflect expensive rents and the lack of social housing.

Regionally, London and the South East has seen the biggest increases in the number of households in receipt of support to pay their housing costs. In the year to February 2021 there was a 28% increase in housing support claims in London, and a 23% increase in the South East.[11] London and the South East have also seen the greatest increase in benefit capped households (a 231% increase in London and 175% in the South East between February 2020 and February 2021).[12] As is the case across the country, the majority of those benefit capped in both regions are families with children. But the increase also includes rising numbers of single people, particularly in London – who now make up almost 4 in 10 (38%) of those capped, up from 24% in February 2020 - reflecting how expensive even one bed or shared accommodation is in the city. These individuals are at much greater risk of being pushed into rough sleeping as a result of the benefit cap because they are less likely to be assessed as a priority for homelessness assistance.

These figures show that the already disproportionate levels of homelessness and rough sleeping in London and the South East are at risk of spiraling in the short term. In the last snapshot of numbers of people rough sleeping in Autumn 2020, 44% were in London and the South East.[13] CHAIN data shows rough sleeping in London up 3% last year despite the government's Everyone In scheme.[14]

The recent increases in these figures might be deemed as short-term impacts of the pandemic given expectations for economies like London's to 'bounce back'. But they represent significant long-term impacts for huge numbers of individuals and families, with knock on effects for places and their economies. This is underlined by the persistently high numbers benefit capped over the last year, with no sustained reductions even when lockdowns were eased, indicating that for many households a quick 'bounce back' via increased working hours is unlikely.[15]

For those pushed into homelessness and rough sleeping, the physical and mental health impacts are significant. The already long waits for social housing, particularly in London and the South East, stand to get longer. Insecure, often unsuitable and overcrowded temporary accommodation impacts health, educational attainment and

[11] Includes households claiming the housing element of Universal Credit and Housing Benefit. Data from DWP, *Universal Credit household and Housing Benefit statistics*, StatXplore. (Accessed 30th June 2021).

[12] All benefit cap data is taken from DWP, *Benefit Cap statistics*, StatXplore. (Accessed 30th June 2021).

[13] *Rough sleeping snapshot in England: autumn 2020 - GOV.UK (www.gov.uk)*

[14] CHAIN, *Annual Greater London Report 2020-21*, (July 2021).

[15] Berry C., *Benefit Cap Alert Briefing*, Shelter, (June 2021).

even childhood development.[16] For others, our inadequate welfare safety net and a lack of social rent homes pushes people into unsustainable debt, overcrowded housing and cutting back on essentials like food.[17]

So, despite predictions that cities like London could recover quickly economically from the pandemic, the long-term impacts on low- to middle- income households stand to be significant. The impact on low-income families is likely to be greater where the cost of housing is high, and the undersupply of social housing is most acute - most frequently in London and the South East.

Smaller increases in the North and Midlands reflect higher proportions in need of support pre-pandemic.

Other regions have seen smaller percentage increases in households receiving support for housing costs and benefit capped households. The increases are nonetheless significant. In Blackpool, for example, more than two-thirds (68%) of private renters claimed LHA to help pay the rent before the pandemic.[18] This has since risen to 86% during the pandemic.[19] The East Midlands saw a 20% increase in households receiving housing support from February 2020 to February 2021, and a 134% increase in benefit capped households. The North West saw and 16% increase in housing support and a 105% increase in benefit capped households over the same period.[20]

The smaller proportionate increase in those claiming housing support likely reflects the numbers of areas within these regions that had already high levels of renters receiving support for housing costs. Some of the highest levels are in the Northern regions. Latest figures show 59% of private rented households in the North West and 51% in the North East are in receipt of housing support, compared to 47% in London and 45% in the South East.[21]

The freeze to LHA has meant that as claimant numbers go up, many more households are facing unsustainable shortfalls between the housing support they receive and their rent. For example, in Wakefield the shortfall between a modest 3 bed house is £11.51 a week – nearly £50 a month.[22] In many areas, over half of private renters are trying to find one of the 30% of properties covered locally, meaning shortfalls are inevitable for

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[16] Pennington, J. and Rich, H., *Homeless and Forgotten: Surviving lockdown in temporary accommodation*, Shelter, (December 2020).
[17] Shelter, *Denied the right to a safe home*, (May 2021).
[18] Bhakta, T. and Bibby, J., *Building our way out*, Shelter, (October 2020).
[19] The proportion of the PRS claiming housing support in local authority areas is calculated by combining data for those on UC housing element and housing benefit with the ONS estimates on households by tenure. ONS, *Subnational estimates of dwellings and households by tenure 2019, England - Office for National Statistics (ons.gov.uk)*.
[20] For benefit cap increases see Shelter, *Benefit Cap Alert Briefing*, (June 2021). Regional increases in housing support include households claiming the housing element of Universal Credit and Housing Benefit. Data from DWP, Universal Credit household and Housing Benefit statistics, StatXplore, (Accessed 30th June 2021).
[21] The proportion of the PRS claiming housing support in different regions is calculated by combining data for those on UC housing element and housing benefit with the English Housing Survey regional estimates for households in private rented tenure. MHCLG, English Housing Survey 2019-20, Table AT 1.2.
[22] This shortfall is between a rent at the 30th percentile rate for a 3-bedroom house in Wakefield and the local housing allowance for 2021/22. Valuation Office Agency, LHA 2021-22 tables, Tables 1 & 2.

many. For those living in lower-income areas, even a shortfall of £10 a week means making impossible decisions about whether to cut back on food or fall behind on rent.

Over the longer term, concentrations of these sorts of places in the North and Midlands regions will have an impact on economic recovery both at local and regional level. High proportions of households requiring support to pay expensive private rents means that smaller numbers will have been able to accumulate savings during the pandemic. [23] Further, with increasing numbers facing unsustainable rent shortfalls many others will have fallen into debt and arrears, putting them at greater risk of eviction and homelessness. This also risks long term economic scarring beyond the pandemic and limits individuals and families' ability to participate in any economic 'bounce back'.

Long-term housing and welfare policy has weakened the response to the pandemic

In London and the South East where, on average, housing costs are disproportionately high, reductions in income brought about by the pandemic have seen large increases in the number of people struggling to pay their housing costs. For Northern and Midlands regions, high numbers were claiming housing support before the pandemic and this has increased since. Inadequate housing support compounded by the benefit cap can quickly turn a crisis of affordability into an emergency of homelessness, rough sleeping and destitution in all parts of the country.

Regional inequalities in savings pre-pandemic, exacerbated by increasing shortfalls between rent and housing support for very high percentages of local populations, also risks seeing large numbers of people and places left behind by any economic recovery from the pandemic – impacting the Northern and Midlands regions disproportionately.

How can the Government address regional imbalances and mitigate the impact of scarring in regions?

The undersupply of good quality social homes stands communities in very poor stead for withstanding and recovering from economic shocks like the COVID-19 pandemic. These crises collide head on with our housing emergency with devastating consequences for so many people. Where the undersupply is more acute, so will be the impacts of each crisis. Much lower rents and greater security provided by social housing can give individuals and families the breathing space they need to prevent potentially short-term dips in income from leading to long term crises of homelessness, insecurity and debt.

But a failure to invest in social housing has stopped us from preventing local housing emergencies long before the pandemic. Geographical restrictions in the Affordable Homes Programme further limit *where* social rent housing can feasibly be delivered, preventing social homes from being delivered everywhere they are needed – again

[23] Magrini, E. and Sells, T. *An Uneven Recovery*, Centre for Cities, (June 2021).

leaving certain communities worse prepared for crises like the pandemic than others. These places are heavily concentrated in the North and the Midlands regions.[24]

Recommendation: The government must significantly increase grant funding for social housing in order to build at least 90,000 social homes a year.

Recommendation: The geographical restrictions on eligibility for grant in the Affordable Homes Programme should also be removed. This investment would represent a true commitment to levelling up communities across the country.

Section 3: Intergenerational inequality and housing

The fiscal and policy decisions that government makes in a crisis, and critically in the years of stabilisation and recovery, shape the market for decades. Successive governments have prioritised maintaining strong house price growth, instead of tackling inequality in the housing market.

Intergenerational Inequality

Housing is a key driver of intergenerational inequality. There are some unavoidable reasons why intergenerational inequality exist – for example, young people are more likely to be on lower wages and have little/no asset wealth, having had less time and income to save for a home. These fundamentals, however, are not the sole reason for young people's disadvantage in the housing market; intergenerational inequality is exacerbated by the nature of the UK housing system and has been well-documented.[25]

Structural changes to the UK housing sector

In the 1980s the UK deregulated the financial market, including mortgages, and housing more generally. Rent controls in the private rental market were also scrapped. Greater access to mortgage finance and the increase in home ownership that resulted from Right to Buy shifted the sector from predominantly rental to majority ownership. Right to Buy was also key factor in causing the steady decline of social housing.[26] Financial deregulation opened up UK housing to foreign direct investment which continues to be a significant source of housing demand today. Intergenerational inequality in housing has arisen in the main because of this financialisaton; housing is bought as an asset and a means of making profit. The UK is now an economy with a majority (65%) of

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[24] Only places the government defines as under 'high affordability pressure' – anywhere private rents are at least £50 higher than social rents - are prioritised for investment in social housing. In local authorities where the gap between private rents and social rents is less than £50 a week, social housing providers cannot get any more grant per home than they would for the delivery of homes to be let at Affordable Rent. But Affordable Rent has higher rents, making it cheaper to deliver and therefore requiring less government grant than social rent. This rule effectively prevents viable social housing delivery in these places. See MHCLG, *List areas of high affordability pressure*, (December 2020).
[25] Corlett, A., Judge, L., *Home Affront: Housing Across the Generations*, Resolution Foundation, (September 2017).
[26] Madden, D., Marcuse, P., *In Defence of Housing*, (Verso Books), 2016.

homeowners and is reliant on increasing house prices which help to support high levels of consumption.[27]

Intergenerational inequality arising from the housing system

Older households are more likely to own property, and benefit from policies that support high house price growth. Homeowners also have an incentive to block new development.

For younger people, homeownership has become increasingly unaffordable. Younger households are less likely to be able to buy a home, because while the cost of a mortgage is far cheaper - due to low interest rates - deposit requirement for first time buyers has steadily increased over time.[28]

The rising cost of renting means saving in the private rented sector is increasingly difficult. 60% of private renters have no savings whatsoever making home ownership a distant pipedream.[29] For renters that can save, savings depreciate in relative terms because interest rates are lower than inflation.

These market factors are important in understanding how the recent crisis may have impacted on households across the generations. During lockdowns, older and wealthier households saved money by not commuting, and because they had fewer opportunities to consume. These households have seen their housing wealth rise at the tail end of 2020 when the stamp duty holiday was announced, and many households chose to move to more suburban or rural areas. Conversely, younger households did not see these gains as they were more likely to privately rent.

Housing finance and the role of the Treasury

Successive governments have seen rising house prices as a priority, and created policies to sustain them but rarely helped to support higher levels of supply. Help to Buy is recent example, where demand was increased by 37% but supply of homes only boosted by 15%.[30]

Buy-to-let mortgages were introduced to boost demand for housing, but gave greater advantage to second homeowners over first-time buyers via tax breaks. These have since been removed but will have lasting effects on the distribution of housing wealth and intergenerational inequality.

During the pandemic, government provided a guarantee offer to support the provision of high loan to value mortgages (at 95% or above). These products were retracted by lenders because of increased uncertainty in the economy, and the higher risk of negative equity. This product is sometimes seen as important for first time buyers when deposit values become a barrier to ownership. While the policy appears to support ownership among younger generations, it actually supports greater risk taking

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[27] *English Housing Survey 2019-2020: Headline Report*, Gov.uk, (December 2020).
[28] *Housing and Home Ownership in the UK*, ONS, (January 2015).
[29] The percentage (61%) of private renters who had no savings is available at *MHCLG, English Housing Survey 2018 to 2019: housing costs and affordability*, Annex Table 2.10.
[30] *Evaluation of Help to Buy Equity Loan Scheme 2017*, MHCLG, (October 2018).

among younger households (particularly in volatile economic conditions), helps to support prices for existing owners (who are probably older), while removing risk from lenders. The stamp duty holiday has also fuelled house prices to the benefit of vendors over buyers, because buyers ended up with more budget to allocate to the home rather than hold back for tax.

Build social housing

The core problem in the UK housing market is the financialisaton of housing and the failure to tackle this by building enough genuinely affordable social homes and reforming the land market. The fact that housing is now seen as an asset rather than a fundamental need has fuelled inequality and destitution, while simultaneously discouraging successive governments from intervening other than to prop up the private market and house prices in times of crisis or market correction. Meanwhile, land values have risen 583% between 1995 and 2017.[31]

Recent focus on boosting supply is welcome, but it is impossible to improve affordability by relying on the private market alone to deliver or to focus purely on homeownership. Letwin's Review of Build Out showed clearly that we need diversity of tenure on site - i.e. many more social and affordable homes – to build at scale and improve affordability.[32] The last time we built 300,000 homes a year was in 1969, when 40% of the homes were social homes built by the government. As many previous recessions have shown, as unemployment rises, demand for new private sale housing drops significantly, while need for genuinely affordable social housing remains virtually unlimited.[33] Social housing becomes a vital way to support housebuilding and help people through the crisis.

Recommendation: To tackle the root causes of intergenerational inequality and build resilience into the housing system, the government must invest in a new generation of social housing.

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[31] *The UK national balance sheet estimates: 2018*, ONS (August 2018).
[32] Letwin, O., *Independent review of build out: final report*, MHCLG and HMT, (October 2018).
[33] Bhakta, T. and Bibby, J., *Building our way out*, Shelter, (October 2020).