Shelter Briefing: Spring Budget 2020

Shelter is the UK's largest housing and homelessness charity. Last year we gave information, support and advice to millions of people experiencing bad housing and homelessness.

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. A steep decline in social housebuilding has contributed to an increase in homelessness and a huge increase in private renting as more and more cannot afford to buy a home. Councils are spending over a billion pounds a year on temporary accommodation to house homeless households.

This years Budget offers an opportunity to turn the tide on the housing emergency by:

1. Committing to increasing capital investment in social rent housing.

2. Committing 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.

Snapshot: the national housing emergency

In England, we face a national housing emergency, one driven by a long-term failure to build enough homes, particularly enough social and affordable homes, and compounded by a housing benefit system that all too often fails to enable people to pay rent. The results of this are stark:

- There are more than 281,000 homeless people in England on any given night, which includes 236,000 people living in temporary accommodation of whom more than 135,000 are children
- 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. At the same time the average home in England costs eight times more than the average annual pay packet and the share of income that young families spend on housing has trebled over the last 50 years.
- Private renters spend on average 40% of their household income on rent, with these high costs meaning more and more will never be able to save enough to buy a home of their own –two thirds of private renters have no savings at all.

In this parliament there is an opportunity to turn this around and begin tackling the national housing emergency we face.

How we got here – Local Housing Allowance

1.4 million households now use local housing allowance (LHA), the housing benefit for private renters, to help meet some or all of their housing costs. This includes an estimated 500,000 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 at LHA rates. The sharp rise in LHA claimant numbers has led to cuts and reforms, starting in 2011 and culminating in the four-year benefit freeze (2016-2020), intended to control the rising bill.

As a result of these changes the rates have 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.

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 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.

Because the rates do not cover adequate levels of local rents, people often cannot find a home they can afford. They have no choice but to accept incredibly high shortfalls between their housing benefit and the rent. For those on passported benefits, these shortfalls are on average £113 per month. This is leading to debt, poverty, and homelessness.

We know the benefit freeze is coming to an end in April 2020 and the recent announcement to lift LHA rates the 1.7% 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 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.

The initial aims for restricting LHA rates since 2011 have not been fulfilled. 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. This is itself the result of an increasing reliance on the private rented sector to house low-income households as England's stock of social housing has shrunk.

Governments have put some funding into trying to mitigate the worst impacts of the restriction on LHA rates. However, these have not worked. For example, 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. Neither of these funding streams are suitable in the face of the true impacts of the restrictions to the LHA rate.

How we got here – Social Housing supply

As a product social housing is affordable in all parts of England and offers families the safety and stability, they need to put down roots and to save. **Yet, in 2018/19 just 6, 287 new social homes were delivered in England - despite 1.1 million people being on housing waiting lists.** Overall the past 22 years have seen a net loss of nearly 400,000 social rent homes as homes have been sold and demolished much faster than they have been built.

This stands in stark comparison with the three and a half decades after the end of the Second World War, when local authorities and housing associations built 4.4 million social homes at an average rate of more than 126,000 a year.

This can change. Past successes should encourage us that solving this is possible. Increasing the supply of social housing is also the only way that the government will reach its 300,000 homes per year target – indeed, only when councils and housing associations have built at scale has this level of net additions to housing stock **ever** been reached in the past.

Social housing also has an important role in supporting local labour markets to flourish because it is the only type of housing that ensures that local workers can afford to live in and close to areas which need their skills.

The stability that is inherent in social housing is also vital to the building of sustainable communities. By providing a long-term and affordable home social housing can enable families to flourish and put down roots. In light of the government's intent to 'level up' the country this should not be ignored.

Impact of the housing emergency on homelessness

The government is understandably concerned with reducing homelessness as it has increased hugely in all its forms since 2010. In this context the pledge to end rough sleeping by the end of this Parliament is welcome, but this is both a huge challenge and only the tip of the iceberg. Since 2010, the number of statutory homeless acceptances in England increased by 28%, the number of households living in temporary accommodation has increased by 74% and rough sleeping in England has increased by 165%.

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, which mainly goes to pay high nightly rates to private landlords, has increased by 86% over the same period.

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.

Our recommendations to end the housing emergency

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.

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. This can now be built upon to reach the level of 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.
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.

However, 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. Local authorities have relied on PWLB as the main and cheapest source of finance their 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, 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.

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 for and deliver ambitious housing programmes.

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.**

The only way to tackle rising homelessness immediately is to lift LHA rates back up to at least the 30th percentile. While investing in a new generation of social homes will provide genuinely affordable options across the country over time, 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 will immediately relieve the pressure on families with shortfalls and on local authorities trying to prevent and relieve homelessness.**

Investment is desperately required to lift the rates back up to the 30th percentile, rather than spending more on mitigations.

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 provide more stability for private renters by ending Section 21 no-fault evictions, which we warmly welcome, lifting LHA rates would deliver a step change in affordability 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.

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, including in funding for DHPs. Renters can put down roots, landlords can predict revenues and be sure of receiving adequate rents and local authorities will know how they can use the private sector to meet the housing needs of low-income groups.

Making this the parliament that ends the housing emergency

The emergency we face in housing today does not have to continue. This government and this parliament can – and must – take the steps that will turn the tide and ensure everybody has access to a safe, secure and affordable home.

We know that the new government is committed to investing in a new generation of infrastructure across the country. At the same time though it is vital that we also see investment in the genuinely affordable social housing that is needed in communities up and down the country. Infrastructure and housing are inevitably intertwined and a failure to invest in both together would be a long-term disaster.

On March 11th the Chancellor has the chance in his first Budget to begin this process and announce the changes that can make this vision a reality.

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