

29 January 2016

Budget 2016

A submission from the National Housing Federation

Introduction and summary

Britain is in the midst of a housing shortage that has been a generation in the making. As a nation we have failed to build enough homes for decades and we are currently building fewer than half the number we need each year. This is holding our economy back and leaving people from all walks of life and all parts of the country struggling to afford a home of their own.

We are pleased that the Government has made housing a top priority and welcome its ambitious housing plans – including a target of one million home starts by the end of this Parliament, over 400,000 of which will be delivered through government backed interventions. Housing associations have a crucial role to play in meeting this ambition. Last year alone they built one in three of all new homes in England - 50,000 properties. The sector wants to do even more and has the drive to significantly ramp up the number of homes it builds.

Housing associations are commercially-minded, customer-focused organisations, with social purpose at their very core. They are the most successful public-private partnerships in England's history, securing £76bn in private investment for new homes over the past thirty years. This has allowed them to build affordable homes in every part of the country and add £13.9bn to Britain's economy every year.¹

The Emergency Budget and Comprehensive Spending Review did, however, come with some serious challenges for housing associations in terms of their ability to help deliver the Government's housing agenda and affordability of housing for their tenants. The year-on-year 1% rent decrease from 2016–2020 announced in July will result in a loss of more than £3.85bn in rental income over that period – money which would have been used to build homes, provide services for vulnerable people and make communities stronger.

On top of this, the decision to cap the amount of rent that Housing Benefit will cover in the social sector to the relevant Local Housing Allowance will impact heavily on new development in certain markets and of certain types of properties. Crucially, this move will hit supported and sheltered schemes particularly hard, forcing housing associations to close schemes or cut-back on plans for building new supported homes.

¹ National Housing Federation, *A Plan for Homes*, 2015

Meanwhile, the ONS decision in October to reclassify housing associations as 'public non-financial corporations' represents a significant threat to the sector's independence which could also impact on the number of homes housing associations build. We welcome the action the Government is taking to introduce deregulatory measures to try to reverse this decision.

Given this landscape, our submission to the 2016 Budget focuses on the measures the Government can put in place to expedite its housing ambitions, alongside policy changes to protect homes and services that support vulnerable people and save the wider public service money.

Housing associations have an ambition to deliver:

- a range of housing options for people at every stage of their lives, including homes for shared ownership, affordable rent, supported housing, and market rent or sale
- a significant scaling up of housebuilding to play their part in helping the Government achieve its ambition of building one million new homes over the course of this parliament
- new homes and services that support vulnerable people and save the public purse millions of pounds every year.

To help us achieve these goals we are calling on the Government to:

- protect housing for the country's most vulnerable people by:
 - applying the decision to cap Housing Benefit for social tenants at the level of Local Housing Allowance only to working age tenants in general needs housing, with provision for some vulnerable younger people to be excluded from the under 35s shared accommodation rate
 - exempting specified housing from the rent reduction being introduced via the Welfare Reform and Work Bill.
- guarantee housing associations' independence to work as effectively as possible and deliver more by:
 - pursuing a reversal of the ONS reclassification decision as soon as is possible
 - giving the sector the freedom to set its own rents so that housing associations can use their assets effectively and ensure true affordability for their tenants.
- drive supply by:
 - giving housing associations priority access to public land at a fair market price
 - allowing local authorities to plan based on local housing need
 - ensuring there is the right mix of all types of housing, from Starter Homes to homes for affordable rent
 - allowing housing associations to use Recycled Capital Grant Funds flexibly
 - extending the Affordable Homes Guarantees Programme
 - working with lenders to increase mortgage availability for shared ownership.

1. Protect housing for the country's most vulnerable people

Recommendation: Only apply the cap of Housing Benefit for social housing at the level of Local Housing Allowance (LHA) to working age tenants in general needs housing, with provisions for some highly vulnerable younger people to be excluded from the under 35s shared accommodation rate.

Supported housing is a term for a wide range of housing for vulnerable people. People in supported housing have diverse and complex needs, requiring different levels of support in various types of accommodation. Supported housing meets the needs of:

- people seeking emergency refuge or victims of domestic violence
- older people
- homeless people
- people with mental health needs
- people with learning disabilities.

Supported housing delivers net annual savings to the public purse of around £640m across all client groups or just under £1,000 per person per year. Over half of housing associations provide some homes with an element of care and support.

The complex nature of the supported housing offer means that these homes typically cost much more to run and maintain than general needs properties and, therefore, rent and service charges are higher. Recent research by Sitra for the National Housing Federation has shown that there is already a shortfall of 15,600 available places in supported housing for people of working age, representing over 14% of existing supply. On current trends, this is expected to grow to a shortfall of almost 30,000 available places in the next four years.²

The Government's plans to cap Housing Benefit for social tenants at the rate of LHA, which would mean a loss of around £68 per week for 50,000 vulnerable households, will exacerbate this situation greatly. It will seriously impact on the ability of housing associations to keep key schemes open or develop new homes to meet future need. In fact our survey of housing associations found that 82,000 specialist homes would become unviable and be forced to close. Across the sector this equates to an estimated 156,000 homes - 41% of all of this type of housing.³

² [Research for the National Housing Federation by Sitra, *Supported Housing: Understanding need and supply*](#)

³ [National Housing Federation press release, Older people, disabled people and most vulnerable to lose £68 a week in housing benefit](#)

Case study 1 – A housing association in the North East

A ten unit scheme for women with complex needs in the North East. The total loss of rent via LHA is £56k per annum rendering it unviable. An independent assessment states it **saves the public purse an approximate £250k per annum** and is a model of good practice for NHS.

Case study 2 - St Vincent's Housing Association

Cost of residential care for people with autism is three times the cost of St Vincent's scheme. Annual rent for the scheme is £4,795. Annual rent in a residential care scheme is £14,385. However there is a major shortage of residential spaces available for people with autism in the local authority. Where will these people go?

St Vincent's also has a scheme for people with severe learning disabilities and forensic cases for six tenants. If this scheme was forced to close, the alternative would be private hospital care. This would be around three times more expensive, and **would cost the tax payer approximately an additional £520,000 per year.**

Case study 3 – One Housing Group

A housing association has modelled that the shortfall to allow new build schemes which are currently under development is significant. The seven schemes cover a broad range of client groups.

On site 3, for example, 60 units of extra care and a separate 12 unit scheme for tenants with learning disabilities are currently being developed. The site benefits from having a hospital and 24 hour pharmacy adjacent to the schemes. There is 24 hour staffing with double night cover to provide the level of staffing needed for the tenants, which makes the scheme more expensive than general needs housing. The cap would lead to an annual shortfall of nearly £300,000.

Site 4 has 58 extra care homes in development. The site also has a supermarket and GP surgery being developed as part of the masterplan. The cap would lead to an annual shortfall of just over £300,000.

If the cap was implemented the viability of sites and further developments would be under threat. The total annual shortfall across the seven sites would be well in excess of £1m per year.

On 27 January, Lord Freud said of the new cap that the Government would 'put in place appropriate protections for supported housing'. However, he also confirmed that no specific measures would be announced until the Supported Accommodation Review has reported, which is due to be completed at the end of March. This is extremely disappointing as while the Housing Benefit entitlement will change from 1 April 2018 onwards, the cap will apply to tenancies signed after 1 April this year. As such, action to mitigate the impact of this policy needs to happen as a

matter of urgency as housing associations are making decisions now about the future of vital support services based on the impact the cap could have.

We disagree with any plans for Discretionary Housing Payments (DHPs) to be provided to local authorities to top up the difference between LHA levels and actual rents in supported housing. Such an approach would bring huge ongoing uncertainty to supported housing providers and would not be enough to prevent the closure of many schemes.

The only effective solution would be for the Government to protect these vital services by committing to only apply the new social housing Housing Benefit cap to working age tenants in general needs housing, with provision for some highly vulnerable younger people to be excluded from the under 35s shared accommodation rate.

Recommendation: Amend the Welfare Reform and Work Bill to exempt supported housing for vulnerable people from the annual rent reduction.

Additional to plans to cap Housing Benefit for social housing tenants at the level of LHA, the year on year 1% rent reduction from 2016-2020 will also have a huge impact on homes for particularly vulnerable people.

During the passage of the Welfare Reform and Work Bill through the Commons the Government acknowledged this impact and made provisions for individual organisations to seek waivers. While this is welcome, it will not protect supported housing schemes from closure and service reduction.

For many providers supported and sheltered housing forms only a part of their overall stock. Costs in these schemes are higher and margins much tighter. So the rent reduction may push supported housing schemes into deficit while not pushing the whole organisation to the brink of financial collapse. Given that the Secretary of State has made the intention clear that very few waivers will be granted and only on the basis of a sustained threat to the viability of an organisation, housing associations may take decisions to close specialist schemes rather than request an organisational waiver.

The Minister has since made the decision to put in place a year-long exemption to the 1% annual rent cut for all supported housing provides. This is a welcome fillip for the sector, but it does not represent a long-term solution.

A straightforward permanent exemption for specified accommodation would provide greater certainty and clarity and would also be more proportionate and cost effective. It would also bring parity with exemptions for specified housing from Universal Credit, the Benefit ap and the Social Sector Size Criteria.

2. Guarantee housing associations' independence to ensure they are as effective as possible

Recommendation: Pursue a review of the ONS decision to reclassify housing associations as public bodies as a matter of urgency.

The ONS' decision to reclassify housing associations as 'public non-financial corporations' in October not only had implications for the Government's own debt profile, but also poses a threat to the level of control housing associations have over strategic and financial decisions. We welcomed the reassurance the Government made immediately after the announcement that it would introduce deregulatory measures to support the case for the reversal of the ONS' decision to reclassify housing associations.

We are pleased that these changes have now been introduced through the Housing and Planning Bill. We want to work with the Government to ensure these deregulatory measures support housing associations to drive housing supply effectively and maintain momentum on this issue so that a review of the ONS decision can be pursued as soon as it is practically possible.

Recommendation: Give housing associations greater rent flexibility so they can offer their tenants a fair deal and use their assets as effectively as possible.

Controls over how affordable and social rents are set also continues to limit the sector's true independence, restricts housing associations' ability to maintain affordability for tenants, and hampers the sector's ability to deliver on the ambitions it shares with the Government to find innovative solutions to drive delivery and meet local and national housing need.

The rent framework is currently too rigid and confused. The premature end of rent convergence under the previous Government means that there is a disparity in rents charged for like-for-like properties across the sector. More recently, the rent reduction in social housing risks reducing housing associations' capacity to develop new homes. Elsewhere the introduction of affordable and intermediate rent has meant that housing associations are unable to flex their rented offer to meet demand and affordability. We want to work with the Government to find solutions to these challenges to ensure that housing associations can deliver on their development ambitions while also ensuring affordability for tenants.

Housing associations have an ambition to build many more homes and deliver genuinely affordable housing for people in need. Having the freedom to set their own rents would allow them to better deliver these aims. There is, therefore, a strong case, especially in light of the ONS' reclassification decision, for housing associations to be given much greater flexibility over the rents they set.

To give the Government reassurance about the overall rent roll, the total rent take could be set within an envelope or the sector could agree a new deal on how Housing Benefit is handled. This would enable associations to provide a wide range of rents that meet local housing need, and

respond to different markets, while also maintaining some control over the Housing Benefit bill. All of this would be backed up with clear, transparent, published rent policies.

3. Driving supply

Recommendation: Give housing associations priority access to public land to speed up build rates and identify ways to value land which incentivise good housing outcomes, not bidding wars.

The Government announced a number of measures as part of its Comprehensive Spending Review that will significantly increase supply by creating the conditions for housing associations to deliver thousands more homes.

Within this package was the welcome commitment to release public land sufficient to deliver 160,000 new properties. It is well known that having the right land available at the right price will be a crucial factor in how many homes can be built and at what speed. In some parts of the country land can account for half the cost of development.

Housing associations' ability to access land at a fair price will increase the number of homes they can build. Therefore, we urge the Government to reach an agreement with the sector on priority access to the public land it has made available in return for the speeding up of building rates.

Identifying ways to bring public land forward at a fair, market price to incentivise bidding on the basis of number and speed of homes built, rather than price alone would also help to drive forward supply. This should include reviewing Treasury guidance on best value.

Recommendation: Allow local authorities to plan based on local housing need and ensure Starter Homes are delivered in addition to, not instead of, traditional affordable housing.

Starter Homes have a clear role to play in some markets. We recognise that Starter Homes are a major priority for the Government in terms of making homeownership possible for many younger people who are currently locked out of the market. Many housing associations are keen to be delivery partners for these homes in the communities that need them.

However, for many people Starter Homes are not a viable alternative to an affordable rented home or a shared-ownership property. In fact, research published by Shelter and Savills⁴ has shown that Starter Homes would not be affordable for around 50% of households on average incomes – and as little as 2% of those on the new National Living Wage. As such, it is a concern that proposed

⁴ [Shelter, *Starter Homes - Will they be affordable?*](#)

changes to the National Planning Policy Framework and the Housing and Planning Bill mean that Starter Homes are likely to crowd out traditional affordable housing from new developments.

To ensure there is a mix of homes that responds to the needs of whole communities, the Federation is calling on the Government to reconsider its plans to place a duty on local authorities to deliver a set proportion of Starter Homes. Instead, local authorities should be allowed to retain the power to plan to meet objectively assessed local need. In this instance the mix of homes developed will reflect the requirements of local people, including a suitable number of homes for sub-market rent and shared ownership alongside Starter Homes sufficient to meet need.

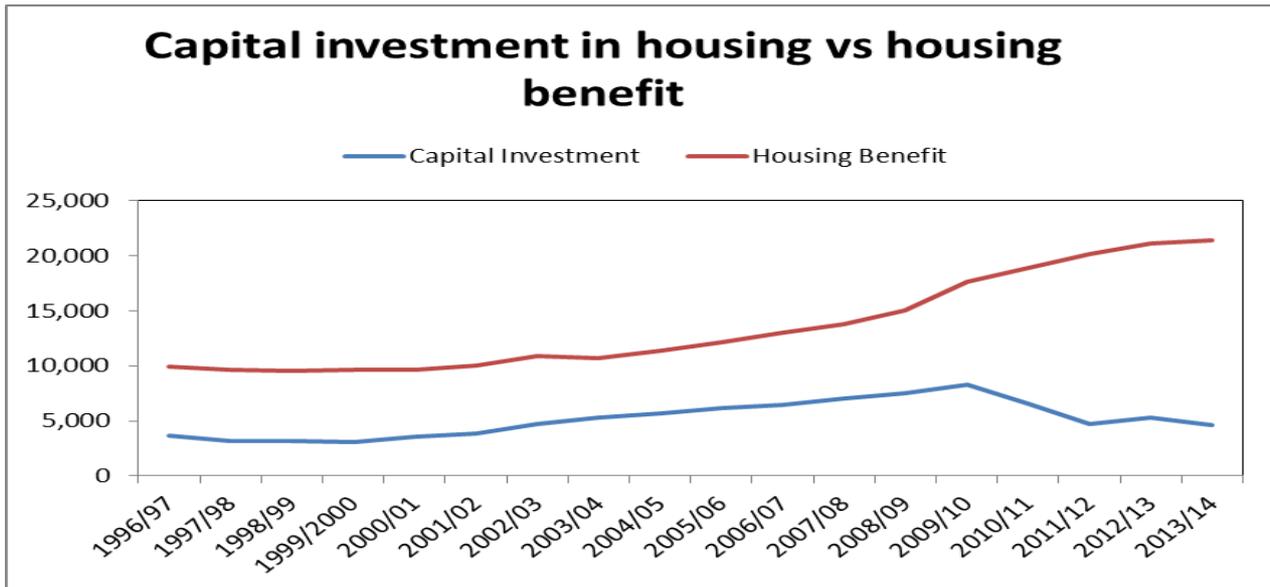
Recommendation: Allow housing associations to use Recycled Capital Grant Fund (RCGF) proceeds flexibly to deliver properties of all tenures to meet local housing need, including homes for affordable rent.

The housing association sector cares passionately about building and managing homes for people on very low incomes to rent affordably. As well as delivering on their existing commitments to new affordable rented properties as part of the current Affordable Homes Programme, many associations will look for new and innovative ways to carry on building these types of homes where grant funding is no longer available.

Not only do they provide safe and stable homes to people on low incomes, but as part of a mixed tenure approach, investing in building affordable rented homes:

- speeds up supply by helping to mitigate the sales risks and absorption rates of a homeownership programme
- avoids the peaks and troughs in development that can lead to the breakdown of the supply chain
- helps housing associations to secure private finance to build new homes of all types, so the rented options are important to lenders who finance new supply
- plays a key role to play in reducing the Housing Benefit Bill.

The graph below shows how the balance of public spending has shifted in recent years away from 'bricks and mortar' and towards personal or revenue support through Housing Benefit.



We recognise that the Government has decided to prioritise homeownership and has no plans to invest further in affordable rented homes beyond the amount already committed in the 2015-18 Affordable Homes Programme, money sufficient for 8,000 low cost rented homes for older people, and 10,000 Rent to Buy properties.

However, there remains a strong case for an increase in the building of sub-market rented properties and we urge the Government to at very least commit to allowing housing associations to use money from the RCGF flexibly to deliver all types of affordable properties, including homes for affordable rent.

Recommendation: Extend the Affordable Homes Guarantees Programme to support housing associations to deliver more homes.

The Affordable Homes Guarantee Programme (AHGP) has given a welcome boost to housing associations looking to access long-term, competitively priced finance to deliver more homes. The sector's no default record means it comes at no cost to the taxpayer, so there is a strong case for it to continue beyond 2017.

The AHGP was initially set up with capacity to issue £3.5bn of debt. So far it's issued £1.4bn for 13,500 homes and expects to issue £2bn for 19,000 homes by the end of March 2016. However, it is due to come to an end in 2017, before housing associations have been able to take full advantage of the programme and the finance it allows them to access for building new homes.

We urge the Government to extend this highly cost-effective programme by a sufficient amount of time to fill the full capacity and deliver 14,000 additional homes with an eye to a longer-term future for the AHGP as a means of supporting the delivery of all types of homes, including homes for affordable rent.

Recommendation: Work with lenders to improve mortgage availability for shared ownership.

Housing associations have a strong track record of supporting people, including their own tenants, onto the housing ladder. Housing associations created the shared ownership model and are in a strong position to significantly scale it up over the coming years.

Shared ownership homes have been built almost exclusively by housing associations who have sold over 82,000 of these homes over the last 10 years. There are now over 275,000 shared ownership properties in England's housing market, and housing associations have an ambition to build even more. The Federation was delighted by the Government's decision to boost shared ownership by investing £4bn to deliver 135,000 new homes.

Meeting the Government's and housing associations' ambitions on increasing the supply of shared ownership will require a bigger and long-term commitment from lenders to make mortgages available, on competitive terms. The Prudential Regulation Authority's (PRA) current interpretations mean that lenders have to hold a disproportionate level of capital as security to support a shared ownership mortgage. This acts as a disincentive to lending and reduces current and prospective lender appetite despite the fact that lending on shared ownership is the equivalent to lending on any leasehold property, so requires no additional safeguards.

The Federation is keen to work with the Government and the PRA to ensure a less prohibitive interpretation of how lenders should deal with shared ownership. By addressing this issue, we believe that existing lenders would be able to commit to lending on more shared ownership homes and it may also encourage new entrants in to the market. Combined, this would make more mortgages available, increase competition in the market and improve the offer to customers.