apse membership resources

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Housing and welfare update

To: all contacts

Key issues
Changes applied under welfare reform are beginning to have an impact
The challenge to balance housing supply with demand remains
A number of other developments will have an impact on welfare and housing service areas

1 Introduction

Housing and welfare issues remain at the top of the agenda for local government whether it is developments with benefit payments, housing demand or new initiatives aimed at boosting supply. The two are linked due to changes in housing benefit being paid directly to tenants with an impact on rental income, the growing demand for housing in general and smaller properties in particular. This briefing will look at housing supply and demand as well as welfare issues and some new initiatives and announcements relevant to the sector.

It builds on APSE briefing Housing and Welfare Reform 13/13 which can be found here.

2 Context

Reforms to welfare, housing and related policy areas were introduced in April 2013. They are summarised below,

- Universal Credit - the combination of Job Seekers' Allowance, Income Support, Housing Benefit, Employment and Support Allowance, Working Tax Credit and Child Tax Credit into a single benefit payment
- Housing benefit changes to public sector tenants/the bedroom tax - social housing benefit payments based on household size.
- Housing benefit changes for private sector tenants/local housing allowance reform - maximum weekly payable rates.
- The benefit cap - workless families will not be entitled to receive more than £500 per week in benefits and £350 per week for single people.
- Council tax support - Council Tax Benefit, payable to eligible households in part or total fulfilment of Council Tax, to be abolished and the funds to be devolved to councils, minus 10%, in order to establish localised Council Tax support schemes.
- Social fund - Crisis Loans and Community Care Grants used to provide emergency support for families are to be abolished.

In terms of housing, although there may be differences in scale across the UK, the pattern is very similar with demand for housing much greater than the supply. The 2011 Census figures have revealed that England alone requires 245,000 new homes per year with around 60% of all housing demand and need in the four southern regions of the country and almost 25% of need in London. In Scotland in terms of council and RSL homes, Scottish Government research in 2005 suggested that 8,000 new homes were needed each year. Analysis suggests that just over 42,000 of the 56,000 council and RSL homes needed since then were built, a shortfall of almost 14,000 homes (Housing in Scotland – Auditor General July 2013). In Wales, estimates are that 14,200 homes are needed to meet demand yet only 4,065 were built in 2012, although this was an increase of 16% on the previous year (NHBC 2013). In Northern Ireland, there is an estimated need for 11,200 properties a year whilst in 2011/12 there were fewer than 5,000 housing starts (NI Housing Market Review & Perspectives 2013-2016 – NIHE).

Later marriage, people living longer and remaining healthier for longer, more divorce and, to a lesser degree, immigration, all add to the number of households in need of a home. Clearly circumstances are not the same across the entire UK with London and the south east showing the greatest level of need but all parts of the UK would benefit to some degree from a significant programme of house building.

2.1 Progress

The original plans for welfare reform claimed that new claims to existing benefits would close during 2016 so at that point all new benefit claimants across the country would claim Universal Credit instead of the legacy benefits like Jobseeker's Allowance or Housing Benefit. At the same time, most existing benefit claimants would be moved over to Universal Credit during 2016 and 2017.

However Work and Pensions Secretary Iain Duncan Smith announced in December 2013 that nearly three quarters of a million people will not move onto the new system by 2017 because of multiple failures in scheduling and IT with the programme left over budget. He admitted that about 700,000 claimants of Employment and Support Allowance would not transfer to the new system until 2018 at the earliest.

3 Impacts of welfare changes

The media have highlighted a number of cases where vulnerable people have been severely impacted by welfare reform such as those needing rooms for children in the armed forces or for carers for the disabled.

A number of councils are running out of the emergency funds they allocated to help people affected by the bedroom tax and other benefit cuts after being hit by a much greater level of demand than was expected. The LGA found that applications for support under the Discretionary Housing Payments (DHP) scheme are significantly higher than the money the Government made available to councils to mitigate the changes in some areas. This will of course have a significant impact on local authority budgets.

The latest figures show the large amounts which have been spent addressing the problems which have arisen due to the combined impact of the economic recession and welfare benefit changes. Over half a billion pounds has been spent by local authorities in London alone on emergency housing since 2010 with Haringey Council having spent £197 million and Westminster £111million, after residents had to be given alternative housing in accommodation including hotels and bed and breakfasts. In other areas, Leeds spent over £10 million, Cornwall more than £6 million, Sheffield £605,000, Newcastle £768,000 and Bristol £771,343.

Scottish Government figures show that spending by councils on discretionary housing payments, used by councils to help tenants affected by policies like the spare room subsidy, almost quadrupled since the benefit changes were introduced.

Changes to the welfare system have also meant that many people who were formerly exempt from paying council tax face court, as the bedroom tax adds to their tax burden. This has meant that many people are facing liability orders for arrears. The government reduced funding for council tax benefit by £500m from April 2013 and local authorities had to decide how the reduced benefit should be allocated. For example, Knowsley in Merseyside, reported a 99% increase in liability orders for arrears, whilst Enfield has experienced a 62% increase in the first six months of 2013.

A report by the Scottish Housing Regulator titled 'Early impacts of Welfare Reform on rent arrears - Research Report' (October 2013) noted that there has been an increase from 3.5% to 4.6% in local authority rental arrears between 2011 and 2013. This equates to £11million whilst the equivalent figure for RSLs in Scotland is £7.2million.

Rent arrears increased across all of the landlords who took part in the pilot exercises to varying degrees and a report by HouseMark/CIH showed that rent collection rates have dropped since the full introduction of the bedroom tax, with larger and northern landlords disproportionately hit.

The report found that that the proportion of rent collected fell from 99.5% in 2nd quarter 2013, to 98.9% in 3rd quarter. Northern landlords rent collection for the lowest quartile was slightly more than 95%, compared to between 97% and 98% for the rest of the UK.

The survey also found that rent collection costs rose by 3.5% between 2012 and 2013 as more people were employed to cope with welfare reform. They estimate that this added £19 million to the real cost of managing rent arrears and collection when extrapolated to all UK social landlords.

3.1 Homelessness

Homelessness is another long running issue which has been affected by changes to the benefits system. It continues to grow by 4.7% in the year to June 2013 and by 33% since the coalition came to power. Councils are planning to spend millions of pounds more on temporary accommodation for homeless families next year, following a spike in demand on the back of welfare reforms and rising private sector rents.

Oxford Council is expected to agree a figure of £10 million for 2014 to 2017 to purchase homes for families needing temporary accommodation which is the first time money has been allocated for the purchase of such homes. It says that the overall increase in private sector rents means private landlord are charging more to lease temporary accommodation.

London boroughs such as Lambeth, Redbridge and Enfield are also understood to be procuring more private sector accommodation to address rising homelessness and a lack of housing. Westminster Council expects to buy up to 500 units of temporary accommodation until 2020 in its procurement plans whilst Ealing Council, which has seen the number of households placed in bed and breakfasts nearly double to 702 between 2011/12 and 2012/13, agreed the purchase of 83 properties for temporary accommodation in October 2013, at a maximum cost of £21 million.

4. Housing Supply

The Government has introduced a plan to build up to 165,000 new affordable homes over 3 years as part of a long-term economic plan and to meet growing demand. If successful it will achieve the fastest rate of affordable house building for 20 years. Housing associations, councils, and house builders will be invited to bid for central government funding that, when combined with private investment, will deliver a £23 billion programme between 2015 and 2018.

The majority of the new programme will be made available as Affordable Rent and affordable home ownership where that meets local needs. Affordable rented homes will be made available to tenants at up to a maximum of 80% of market rent and allocated in the same way as social housing is at present. Landlords need to bid for the funding and must do so before the end of April 2014. The fund will include a large proportion of private sector funding and it is claimed will achieve a better deal for taxpayers.

Landlords will be asked to focus on delivering new homes that are in short supply in their local area. In many communities this could mean building more 1 and 2 bedroom homes, so that smaller households can move to more suitably-sized accommodation. There is a drastic shortage of these properties in many areas as has been highlighted by the repercussions of the bedroom tax.

Kris Hopkins, the Housing Minister, has stated that the new scheme will build on the success of the current affordable housing programme which is on track to deliver 170,000 homes by 2015, which means 335,000 new affordable homes will be delivered between 2011 and 2018. As noted elsewhere in this briefing the figure generally accepted as necessary to meet demand is 240,000 units of both affordable and market housing.

At Labour's Annual Conference in September 2013 Ed Miliband announced that Labour intend to increase the rate of house building in England to 200,000 a year by 2020. They have also announced an independent commission led by Sir Michael Lyons to examine how to achieve this objective to increase the supply of new homes in England by the end of the next Parliament. Labour have said that if they win the next election they would require local authorities to include a higher proportion of small sites open for development by including them in their five year land supply. They will also guarantee that a proportion of public land allocated for housing is dedicated to smaller firms and custom builders.

Historic investment in housing clearly has an impact on the current stock and DCLG figures note that the number of new homes built in 2012-13 totaled 107, 820, a decrease of 8% compared with the previous year - the lowest total since the 1920s in England. Over the last 4 years output in England is a little over half the housing that is required to keep up with demand has been built.

There is a more positive picture on house building starts which are up in the first half of 2013 by 22% (60,200) when compared to the same period in 2012 (49,100). The 33% rise in starts in Q2 2013 compared to the same period in 2012 has been significant in allowing the Government to rightly claim a 7% increase in house building for the year to June 2013, as opposed to 7% decrease in the year to March 2013.

However the number of completed affordable homes, across all programmes, has plummeted in 2012-13 by 29% from 51,721 to 36,672 compared to the previous year derived from both the housing association and council building programmes. Affordable housing starts have risen by 133% (from 15,528 to 36, 206) over the same period, but this needs to be set against the dramatic 68% drop in 2011-12. Local authorities built 1,610 social homes in 2012-13 to maintain their rate of house building in the two preceding years and five times the number built in 2009-10 (320 homes).

4.1 Attitude of private landlords

A survey by Spareroom.co.uk in January 2014 has found that there has already been a sharp decline in the number of landlords offering homes to benefit claimants. A poll of more than 1,500 landlords around the country found that just 18% currently had tenants on housing benefit in one or more of their properties, against a figure of a third when a similar survey was done two years ago. Almost six in 10 landlords (57%) said they refused to accept anyone on benefits now, specifically stating "no housing benefit tenants" in their adverts. Furthermore, of those landlords who do currently let to people receiving benefits, more than half said they would not take any more on after the roll-out of universal credit.

A report by the Resolution Foundation found that a third of local authority areas (across Britain) are effectively off-limits to lower-income working families looking to rent a home privately because they can no longer afford a property in those parts of the country. The highest proportion of those families with unaffordable housing costs live in London (16%), followed by the South East (15%). In comparison just 3% live in the North East.

5. Housing demand

There are currently estimated to be 2.2m households on council waiting lists looking for a home. This number must be added to those looking for a private home so it is difficult to put an accurate figure on housing demand. As noted above the number of properties built has not kept up with estimated need over recent years so higher demand than supply is a trend which is likely to continue.

DCLG figures show that the number of households in England is projected to grow by 2.2 million (10%) to 24.3 million in 2021, signifying a need for an average of 221,000 new homes per year.

National Records of Scotland figures show that between 2010 and 2035, the number of households in Scotland is projected to increase by 23 per cent to 2.89 million – an average of 21,230 additional households per year.

StatsWales projections show that the number of households will increase from 1.3 million in 2010 to 1.6 million in 2033.

Projections in England represent a decrease in average household size from 2.36 to 2.33. This is reflected across the majority of local authorities (281 out of 326). StatsWales also shows a reduction in average household size from 2.27 people in 2008 to 2.02 in 2033. This reduction is one of the factors driving up household projections and will mean the demand for smaller homes will remain high.

Within England, 40% of the total increase in households relate to couple households (with or without other adults). 28% is accounted for by one person households - with 60% of the increase in these particular households accounted for by those headed by someone who is aged 65 and over. Again there will be a need to accommodate older people with the type of new build properties reflecting these changes. These trends are likely to be replicated across the UK.

5.1 Tenure expectations

Owner occupation is still the largest tenure making up 65% of all households however this figure was previously 71% in 2003. Over the same period the number of households in the private rented sector has increased by 72%. The number of households living in the social rented sector and the private rented sector were at the same level in 2012 whereas the former had accounted for 3 million more households in 1980.

Results from the English Housing Survey maintain that there remains a strong appetite for home ownership with around 59% of private renters and 20% of social renters (approximately 3 million households in total) expecting to buy a property at some point in the future. Moreover 37% of social renters and 12% of private renters say they expect to buy their current home.

Although owner occupation is still the tenure to which most people aspire, the increases in renting over recent years have created extra pressure on the sector.

6. Recent developments

6.1 Sale of expensive council houses

Following the publicity surrounding the sale of a council house in Southwark for £3m in 2013 there has been a move to promote this idea to other local authorities. The claim is that the Government want the most valuable council houses to be sold off so the funds can be used to build multiple affordable homes. Kris Hopkins, the Housing Minister, backs this approach saying "By selling off council houses worth millions of pounds, councils can use the money to buy or build more new affordable homes in their borough and cut housing waiting lists." It may be that councils looking to secure Government funding for housing will have to show they have at least considered this option prior to being successful with bids.

6.2 Right To Buy

Right to Buy continues to be a contentious issue. The maximum discount available has been raised to 75,000 to encourage more sales which is more than 4 times the discount previously available in most parts of London. Recent commentaries about the proportion of ex-council properties now in the private rented sector in London have re-emphasised the lack of low rent accommodation in the capital. Although the issue is not as severe outside the capital, the principle applies elsewhere. However the number of people able to take advantage of the scheme is clearly impacted by the condition of the economy in general. Across England, sales under the reinvigorated scheme doubled in 2012-13 to 5,943 dwellings

This approach is in direct opposition to the approach in Scotland which has seen a move to end the Right to Buy (expected in the Housing Bill in Autumn this year). An estimated 10,000 homes will be retained by councils up to 2020 as a result of this change.

This should also be seen in the context of a double of 'Right to Buy' sales in 2012-13 from 2,638 to 5,942, which led only 844 housing starts or acquisitions under the Government's 'one for one' replacement scheme.

6.3 New Homes Bonus

A report by the National Audit Office for the Public Accounts Committee recently claimed that monies paid out to builders has been effectively a reward to those building houses who would have built them anyway. They do not feel that the Bonus has been a real factor incentivising the building of properties just that it is has been a reward for those building homes that would have been built anyway. From April 2011 until 2013, £1.3 billion worth of New Homes Bonus has been paid out and it is expected that approximately £3.3 billion will be paid out in total by 2017-18.

6.4 Planning services

The role of local authority planning services in allocating land for residential use, ensuring there is an adequate supply of housing land and that planning applications are processed quickly is central to the provision of new housing.

Kris Hopkins has said that local authority planning departments must provide more land to build new houses under Government plans to create 165,000 affordable homes in the next three years. However some organisations claim that the cuts to local government grants have left planning services unable to meet planning application deadlines nor put in place adequate development plans.

In 'Planning for Housing in England' (RTPI 2013), local authorities are warned not to rely too much on government data when compiling local demand as this study finds it has not accurately reflected household formation in the past. The need for effective local knowledge and information as part of the process is highlighted.

Central government departments such as the Department for Health and the MOD are releasing surplus land for house building.

6.5 Removal of rent convergence

The removal of plans for rent convergence has had a serious impact upon local authority long term plans to manage their own income and build homes. The policy to aim for rent convergence has been in place for a number of years although the date by which convergence was to be reached has been put on a number of occasions. It involved the rent of local authority properties coming up to the level of housing association properties in the same area. This meant the local authorities were planning for higher levels of income than they will now receive. As a result some are planning larger rent increases than they had previously planned. Rental increases Some are claiming that their HRA will be unsustainable as a result of the change in policy. Under government plans, from April 2015 councils will not be able to increase rents gradually by £2 until they meet what is known as target rent. This means 2014/15 is the last year they can use the formula of the retail price index (3.2 per cent) plus 0.5 per cent, plus up to £2 per week. Instead, for the next 10

Government claims that the policy will provide long term stability in terms of rental income but if a proportion of properties have not reached target rent, the likelihood is that significant rent increases will be set in 2014/15 to increase income. For the subsequent 10 years rents will be set using the consumer price index plus1 per cent.

6.6 Self - financing

Self financing has brought local authorities more control of their own finances but it is not without problems. Welfare changes mean reduced income flows as the amount of rent arrears increases so impacting on medium term financial plans. The cuts to local authority budgets mean the funding which might have been available to contribute towards the infrastructure or other associated costs of new housing schemes is not available. Furthermore the headroom for councils to borrow to build new properties is restricted so limiting the opportunities for them to meet local demand for poorer households to find low cost rental accommodation. The removal of rent convergence will also have a significant impact on the ability of councils to effectively manage their income levels.

6.7 Reductions in red tape

The Prime Minister is pushing for cuts to building regulations stating that over 100 rules applied to new homes will be cut to fewer than 10. It is claimed that this will save developers £60m a year, equivalent to £500 for every new property built. Rules setting out minimum window sizes, the dimensions of rooms, the strength of front doors, and arrangements for lavatories, lighting, telephone lines and disabled access will be culled. He will also announce that 80,000 pages of "green tape" environmental rules will be cut with final details announced in Spring.

There is no doubt that removing unwanted bureaucracy and red tape is to be welcomed but the difficulty is identifying that which is not needed. Removing regulations promoting the use of local materials or conditions for harvesting rain water should not be taken centrally – an opportunity must be given to allow councils to ensure that a local character is retained or that resource management policies decided locally are applied.

7. APSE comment

The fact that housing is an issue that affects all of us may be an obvious statement but because it impacts on all aspects of our lives and the degree to which many of us reach our potential later in life, access to good quality housing is critical to the way our society operates. It goes without saying that everyone needs a home and it follows that supply must meet demand.

It seems as though this is currently an unattainable situation and there is a need for both finance and capacity to build more homes. There is demand and an acceptance of the range of benefits that would come from a large scale building programme. Local authorities have a role to play through their leadership and place-shaping roles, their planning and housing services and, for some, as a landlord and builder of homes. They, alongside all other sectors, should be given access to the resources as well as the responsibility to contribute to what, at the start of the 21st century, is a shocking situation.

The new scheme announced in January 2014 to build 165,000 affordable properties in England per year is to be welcomed. However there is a world of difference between drawing up a plan and making sure it is delivered. There will have to be significant expansion within the construction sector from its current levels in order to build the numbers of properties envisaged. It is interesting to note that output in the construction industry fell by 0.3% in the final quarter of 2013, despite the economy overall growing by 0.7%.

The same principles hold true for welfare benefits. There is the potential that virtually everyone will need this kind of support at some point in their lives and a general acceptance that the concept is a good one. The difficulty is finding the correct balance. Evidence noted here and elsewhere points to emerging problems with welfare reform even though these are early days. It is hard to justify a change where many of the most needy in society end up worse off.

Changes such as those re-invigorating Right to Buy and changes to rent convergence means that the powers that local authorities inherited at the end of the national HRA, trumpeted as a return to local control, are reduced as a result of centrally applied policies. As a result local authorities must be ready to review and change their financial plans on a regular basis as issues such as these emerge.

Central government policies which apply to all areas and local authorities and treat them all in the same way fly in the face of the localism agenda and fail to take into account local knowledge and experience.

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