AWICS Independence.....Integrity.....Value
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AWICS Housing News

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Offices of Calico Housing Association in Burnley, Lancashire.

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Welcome to the July newsletter

Our July newsletter begins with a review of the summer budget's implications for housing. Amongst the many announcements, a 1% reduction in social housing rents over the next four years has come as a surprise to the sector. The articles in this newsletter consider this in combination with a range of other matters. For example, our second article summarises the proposal to extend 'Right to Buy' to housing associations financed by a sell-off of high value council homes. We outline our thoughts on the possible financial arrangements for this scheme. Our fourth article focuses on the benefit cap that has implications for the ability of social landlords to raise sustainable rents. We conclude with a piece on the recent local government association conference and the debate on devolution.

Osborne's summer budget and its implications for housing

On 18th March, George Osborne announced the last budget of the previous Coalition government. It was a pre-election budget that he introduced as a 'budget for Britain', a 'budget that works for all'. The central premise was the reduction of the deficit and the emphasis was on spending cuts to departmental budgets and welfare. Reductions in public spending of £30billion until 2017/18 were announced to reduce expenditure to 2000 levels. For 2019/20, a surplus of 0.2% was planned. The March budget included the announcement that £12billion would be cut off total welfare expenditure, but it remained unclear how this £12billion would be achieved.

The summer budget

This summer, George Osborne was able to present his first all-conservative budget. In his speech, he focused on the dismal productivity figures of the British Economy and pointed to an imbalance between the increases in welfare compared to the increases in salaries. Taking the Greek economic crisis as an example, he demonstrated the need for solid public finances and outlined his goal for transforming Britain from a "low wage, high tax, and high welfare economy; to the higher wage, lower tax, lower welfare country".

He argued for a sustainable welfare system and he outlined how he proposes to cut £12billion from the welfare budget, including a further reduction in the welfare cap that he had first announced on the Andy Marr show on 5th July. He justified welfare cuts by criticising the working tax credit system as having become economically unsustainable. This was also suggested by an article in the Independent at the end of last year in which Andrew Grice pointed out that tax credits cost the taxpayer £30billion that year[1]. The government argues that tax credits have indirectly subsidised the generation of low paid work and have not as intended supported low-income earners into better work. Hence, George Osborne argues it was unfair to cut public services without plugging this imbalance in welfare expenditure.

There was also some good news for the government as the economic recovery has picked up last year and resulted in greater tax receipts. The Office for Budget Responsibility has revised its economic growth for 2014 from 2.6% to 3%. For the year ahead a growth of 2.4% is expected — faster than the United States or Germany. As a result, Osborne can afford to ease the pace at which he cuts the fiscal deficit. In his new budget he expects a budget surplus in 2019/20, a year later than originally forecast. The local government settlement for 2015/16 will not be reopened but settlements for 2016/17 onwards are expected to include further reductions in funding.
Overall, the budget indicates a shift in economic philosophy. Combined with measures such as the increase in the national minimum wage, reduction in tax credits, greater investment in apprenticeships, Osborne seems to be setting a new course.

Key points for housing and welfare

The key points for housing and welfare include:

Housing:

- Social housing rents reduction: Rents for social housing will be reduced by 1% a year for four years. It is not clear how this will be enforced but the National Housing Federation estimates that housing associations will lose £3.9billion in income compared with their business plans and that his will adversely affect their development programmes. The effect on the business plans of local authorities will be similar.

[1] The article reports on a £900million increase in working tax credits due to a rise in low-pay job generation throughout 2014. The full article can be accessed here: link

- Full rent for high income earners: Tenants on incomes over £40,000 in London and over £30,000 outside London will be required to pay market rate, or near market rate, rents. The government calculates that this will raise £250million a year by 2018/19. It is thought that this could affect 340,000 households. It is not clear how local authorities and housing associations will be able to identify which of their tenants have incomes that exceed these thresholds.
- Confirmed Right to Buy: The extension of the 'right to buy' to housing association tenants and the sale of high value council houses was confirmed.

Welfare

- Freeze of work-age benefits: Working-age benefits, including tax credits and Local Housing Allowance, will be frozen for four years from 2016/17 (this doesn't include Maternity Allowance, maternity pay, paternity pay and sick pay).
- Household benefit cap: The household benefit cap will be reduced to £20,000 (£23,000 in London). According to the Treasury the benefit cap is likely to affect 89,000 households and save £1.67billion over the next five years. There are concerns that this will increase child poverty and oblige social tenants to leave high value areas.
- Limits to child tax credits: Support through Child Tax Credit will be limited to two children for children born from April 2017. There are concerns that this will also increase child poverty. It is not clear whether this means that the government now has a policy of limiting family sizes.
- Reduced benefits for 18-21 year olds: Those aged 18 to 21 who are on Universal Credit will have to apply for an apprenticeship or traineeship, gain work-based skills, or go on a work placement six months after the start of their claim. Commenting on the policy, Adrian Waite wrote in his blog: "Many people in this age group are very vulnerable and the assumption that they can all return to a parental home is not always the case. I hope that the detailed implementation of this policy will reflect this."
- Introduction of "national living wage": Minimum hourly pay will be set to £7.20 by April 2016 and further increase to £9 by 2020

Implications for the Sector

The reduction of the total benefits cap will be felt by social landlords who would find a reduced level of available housing benefit. The reduced benefit cap will have implications on the affordability of the homes they have on offer and therefore have an implication on the business plans of providers. 'Inside Housing' has reported that a total of 1.9million tenants in housing associations currently claim an average of £90.81 per week towards their rent. Calculating the total, they find that overall £9billion is paid to social landlords a year. They conclude that the cap could impact social landlords by £900million.

Some landlords, particularly in London and the southeast, have warned that the reduction in the cap could render some social housing as unaffordable for the affected households. They have warned that the reduction in the benefit cap could result in uncertainty and greater risk for the supply of social housing and possibly result in a reduction in investment for new affordable housing. It can be expected that this reduction in investment is likely to be felt more in areas with an otherwise high average rent.

George Osborne said that he was "confident that Housing Associations and other landlords in the social sector will be able to play their part and deliver the efficiency savings needed" to shoulder the 1% annual rental cuts until 2020. The announcement has had a critical reception from housing sector representatives.

David Orr, chief executive of the National Housing Foundation, said:

> *"Given changes to working age benefits, a cut in rents over the next four years will be a real help for some tenants, but will massively constrain housing associations' ability to meet the shared ambition of themselves and government to drive housing growth and new jobs. At the very least 27,000 new homes will not now be built, though that figure could be much higher. The right to buy for housing association tenants further compounds this."*

Terrie Alafat, the chief executive of the Chartered Institute of Housing, suggested that tackling the increase in rental prices and the ballooning housing benefit bill should instead be addressed by its root cause — by building more homes:

> *"Cutting housing benefit simply penalises people who are struggling to afford a place to live, rather than tackling the root cause of the problem. Freezing working age benefits for four years fails to reflect the reality of the housing crisis – we have failed to build the number of homes we need for decades, which means the cost of housing and therefore the housing benefit bill is going up.*
>
> *"Social landlords built almost 60,000 homes in 2014/15 and have also made significant investment in employment and training support. We understand the government's desire to manage the cost of the housing benefit bill – but undermining their income by cutting social housing rents by one per cent a year over the next four years is going to make it much tougher to build new homes at a time when we desperately need to do so."*

Campbell Robb, the chief executive of Shelter UK said:

> *"Today's cuts to housing benefit will be a huge blow to the millions of private renters who depend on it to keep a roof over their heads. Cutting housing benefit altogether for 18-21 year olds could be nothing short of catastrophic, and lead to a rise in homelessness.*
>
> *"It's good to see the removal of some tax breaks for wealthy landlords and any move, however modest, that helps hard-pressed social renters is positive. But, as the OBR (Office for Budget Responsibility) predicts, this will mean housing associations build fewer new homes.*
>
> *"With nothing in the budget on building more affordable homes, the Autumn spending review really is this government's last chance to deliver on their promise to turn the housing crisis around."*

Speaking to the Financial Times[2], a chief executive of a housing association said that the policy represented a reversal in past government statements. He said "it was only last year that they said our rents would increase based on CPI for 10 years, and we have all gone out and borrowed billions of pounds based on that

Conclusions

The budget can be seen as an attempt to achieve lower rents in the social housing sector. This change of approach is an attempt to reduce welfare expenditure. Otherwise, we could not explain the imposition of a 1% cut to rents of social landlords for the next four years.

[2] Access the article here: link

For housing providers the 1% cut is a challenge for business plans and comes as a surprise reversal of the government's previous policies that foresaw gradual increases in rent. The National Housing Federation estimates that the policy could mean a loss of £3.9billion in income compared with the previous business plans. The revaluation of expected rent income also has an implication on development programmes and the ability to secure investment against the value of the existing housing stock. There will be similar effect for local authorities. The government has put the ball into the court of social housing providers who now need to find the required efficiency savings.

However, the measure also needs to be seen in the context of other policies. For example, the proposal to extend the Right to Buy to housing association tenants, the reduction in the welfare cap, and a new national minimum wage indicate a shift in the way welfare is managed. As discussed in our next article, the government argues that 'Right to Buy' could result in increased investment for housing associations. In combination these policies provide a complex landscape for social landlords that is likely here to say.

The full budget speech can be found here: link

During the autumn we are holding seminars on:
- All You Want to Know about Housing Association Finance
- All You Want to Know about Local Authority Housing Finance

For further information please see below or visit our website at: http://www.awics.co.uk/seminars2015.asp

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Right to Buy in housing associations / Sale of high-value council homes

In June, AWICS published briefing papers on the extension of the statutory 'Right to Buy' to tenants of housing associations and the proposed associated off-sell of high value council-owned homes. This affects housing associations in England as social housing is a devolved matter in Scotland, Wales, and Northern Ireland. In this article, we summarise these briefing papers and identify sources of further information.

In the United Kingdom, tenants in housing associations have had the statutory 'Right to Acquire' their home at discounts of up to £16,000[3] since 1997. It largely followed the arrangements for council tenants, who have had a 'Right to Buy' since 1980. In 2012, the maximum 'right to buy' discounts on council homes were further increased to £103,900 in London and £77,900 in other places far exceeding the discounts possible under Right to Acquire.

During the 2015 election campaign the Conservative Party proposed to extend the 'Right to Buy' to Housing Association tenants at similar discount levels. The Conservative manifesto reads:

> *"We will extend the Right to buy to tenants in Housing Associations to enable more people to buy a home of their own. It is unfair that they should miss out on a right enjoyed by tenants in local authority homes."*

Following the election of the majority Conservative government the proposal, that has received a mixed and largely negative response in the sector for social housing, was included in the Queen's speech. Now as plans on this legislation are advancing, many critics warn of the consequences that it might have for the business plans of housing associations[4].

[3] Applies to tenancies longer than five years
[4] For an extensive review of commentary from around the housing sector, have a look in our briefing paper: download

Right to buy for housing association tenants

In our briefing paper, we reviewed the effects of the statutory Right to Buy in local government historically to draw some conclusions on the likely effect of Right to Buy for housing associations. In figure 1, the historic level of social homes developed by local government is shown for England. The statistics show a 'boom' in the development of council-owned social housing throughout the 1950s and 1960s until the turn around in the 1980s[5] when the original 'Right to Buy' was introduced. Since the introduction of 'Right to Buy', 1.87 million homes have been sold[6], mostly during the 1980s.

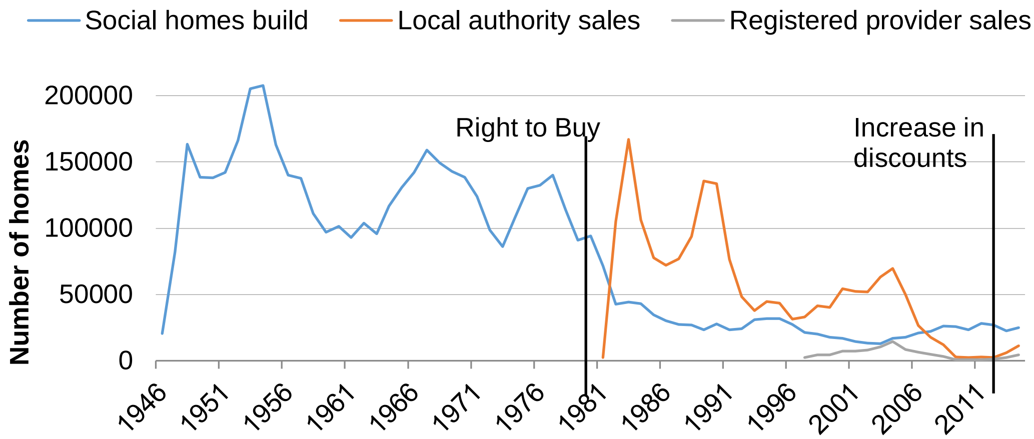

Figure 1: Social homes built by local authorities in England since 1946 and the number of home sales since the introduction of the original Right to Buy in 1980.

To draw some conclusions from the historic case of 'Right to Buy' in local government, we drew on a report by the Joseph Rowntree Foundation from the late 1990s. It identified at least four outcomes in relation to 'right to buy'[7]. We indicate below the potential implications for housing associations.

Experiences in the existing RTB	*Implications for housing associations*
• First, a depletion of the stock of council-owned homes in comparison to pre-1980s levels.	• Housing associations would be pushed to focus on opportunities for rebuilding and sourcing of development land.
• Second, 'right to buy' had varying effects locally and regionally: 'right to buy' sales have been prominent in areas with favourable employment and high demand for housing.	• It is likely that housing associations in places with favourable economic context and housing demand will be affected most by the extension of 'right to buy'
• Third, early users of 'right to buy' tended to be long-term residents who intended to live in their own home; in the 1990s, those who bought their homes under the 'right to buy' tended to plan selling their homes	• Given that a rebate scheme underlies the 'right to buy', long-term residents may be more likely to make use of the extended 'right to buy' first.

[5] Before the introduction of 'Right to Buy', council owned homes could be sold to tenants at the discretion of the local authority. The number of homes sold grew from 7,000 in 1970 to 46,000 in 1972.
[6] Shelter England. Housing supply. link For example, 170,000 homes were sold in 1983 and 130,000 homes in 1989 and 1990 respectively.
[7] Joseph Rowntree Foundation. Research report on Right to Buy. 1998.

- *Fourth, the patterns of purchasing and reselling, has led to an increasing number of low-income households being found in the social-rented sector.*
- *While purchasers would have to repay any discounts on the property if they sold too soon, in high value areas there may be a greater incentive for fast resell.*

Questions for the sector and the government

It has been suggested by Luke Cross of 'Social Housing' that housing associations should go beyond striking a 'defensive chord' to seek a dialogue with the central government. This should include making a passionate plea for their importance to housing supply. This calls for critical thinking and innovative ideas about the role of housing associations. Luke Cross calls on housing associations to show how many homes the sector is building – and commit to building more; Show the financial return on grant – do this by quantifying the contribution housing associations are making to local economies, and to local communities; and show unity and call for government to meet urgently with the sector to discuss how the policy can be amended and its deficiencies addressed.

We appreciate that 'right to buy' is generally recognised to have some advantages in that it helps people into home ownership and to create mixed tenure estates. However, there is a strong argument that 'right to buy' should not be allowed to result in a reduction in the number of social homes (homes sold should be replaced) and this argument has been accepted by the government. In our briefing paper, we propose the sector should bear the following issues in mind:

- **Valuation of benefits against costs**: The discounts represent a public subsidy and therefore should there not be an evaluation of the benefits that they bring against their costs and a comparison of this cost-benefit analysis with the costs and benefits of other public investment in housing?
- **Legal nature of housing associations**: Housing Associations are not owned by the state so the proposal that they should be forced to sell their assets raises civil liberties issues as well as financial issues. In what circumstances should the state be able to take control of privately owned assets? This proposal raises questions about the legal status of housing associations. Is this part of a process of 'nationalising' housing associations? If so, their loans would become part of the public borrowing and the basis on which they are financed would be called into question.
- **Role of private landlords:** If these proposals are justified on the grounds that the government supports housing associations financially through housing benefit, could or should the same argument be applied to private landlords?
- **Effects on assets used as securities:** If the compensation handed out to housing associations exceeded their losses on disposal, it could address many financial concerns of housing associations. However, how would RtB sales affect those properties used as security for bank loans? If an association sold a property used as security for a loan, could the bank recall or re-price the loan? There is also the question of maintaining effective asset management on an estate where homes are being sold.

Sale of high-value council homes

The government proposes to fund the extension of 'right to buy' by obliging local authorities in England to "manage their housing assets more efficiently" by selling 210,000 'high value' properties to generate a projected receipt of £4.5billion "as they fall vacant". Councils will be forced to sell about 5% of their most valuable housing once it becomes vacant. The proceeds will be used to compensate housing associations for providing discounts to 'right to buy' purchasers and to construct new homes. The government argues that this will mean the number of affordable homes will double for each home sold, thereby increasing the national housing supply.

This will be hard to achieve in some areas. The sale of high value homes would also lead to a reduction in the number of social homes in high value areas forcing social tenants to leave places like Central London and this may be considered to be a social dis-benefit. For example, in May this year, four Labour-led London Councils published research showing that 3,500 homes would have to be sold off in Camden, Haringey and Islington in the first five years of the new policy. The report's findings indicate that:

- Selling off empty properties is not likely to be enough to pay for the 'right to buy' discounts, to compensate housing associations for loss of asset, to build replacement homes and also contribute to a brownfield fund.
- Even if the government's proposal for replacing homes works, there would be an estimated time lag of at least two years from the sale of homes to replacement ones being built. The report uses Department for Communities & Local Government data to estimate that this would result in 579 families with children and 385 homeless households being unable to get a council tenancy in the first two years.
- Many families unable to get a council tenancy would face the prospect of remaining in overcrowded homes, whilst households who are under-occupying would likely remain in their home for longer before downsizing.
- Homeless households would have to enter or remain in temporary accommodation. This is likely to have an effect on the private rented sector and on other council services in outer London boroughs as inner London boroughs rent homes for use as temporary accommodation outside of their own boroughs.

The proposal that local authorities should sell high value council houses when they become vacant could be seen as having disadvantages. High value properties usually have high rents and low management and maintenance costs and from a business point of view are not the properties that a council should consider disposing of. Properties that are in low demand and that have high management and maintenance costs are probably the ones that councils should be disposing of.

One implication of the policy is that any new homes that will be built will be in low value areas. This raises the prospect that the monies raised by councils selling stock in high value areas could lead to replacement homes in cheaper areas served by different authorities. Boris Johnson, Mayor of London, has identified this as a potential issue and has told the London Assembly that it would be 'the height of insanity' if money raised from selling stock leaves London. However, the Policy Exchange has argued that the use of a regional definition of a high value council home would prevent the need to build replacement homes outside of the region in which the high value homes were sold.

Potential Financial Arrangements

In the briefing paper, we consider several options for how the policy might be put in place. Local authorities will be obliged to sell their high value homes when they become vacant. Presumably the government will provide guidance regarding how vacant homes should be valued and in practice there may be some scope for dispute around whether specific homes are sufficiently valuable for them to be sold. The government expects that the proceeds of these sales will exceed the sums that will be required to compensate the housing associations and presumably the proceeds will be divided into three:

- The Council will retain sufficient of the receipt to repay debt associated with the home that has been sold and their administrative expenses.
- The Department for Communities & Local Government will receive sufficient to compensate the housing associations for the discounts on the right to buy sales.
- The balance will be used to fund replacement homes in lower value areas.

There will obviously be a problem if receipts are not sufficient to cover the first two calls on them. We are keenly interested to see how the government will propose to manage the third call on the receipts. Two options come to mind. One option would be to estimate what proportion of receipts will be needed to compensate the housing associations and to require councils to pay a fixed proportion of their receipts, but it would not guarantee that sufficient resources would be provided to compensate the housing associations, and would not ensure that resources were targeted at the places where the cost of new homes would be lowest. Alternatively, the government could take all the receipts (apart from the Council's share to cover debt and administration) and then distribute any surplus receipts, effectively as Affordable Housing Grant.

Conclusion

The assertion that local authorities would be able to generate sufficient usable capital receipts from the sale of high value properties to compensate the housing associations fully for selling homes at a discount still needs to be proven. Would the receipt from selling a high value council house be sufficient to repay debt, compensate a housing association for a right to buy sale and then pay for building two new homes to replace the one sold by the local authority and the one sold by the housing association? Even if it was, would this be the best way to use the receipts given the shortage of resources for building social and affordable homes. This raises the following questions:

- Will the sale of high value homes lead to 'social cleansing' of high value areas?
- Will the sale proceeds be sufficient to repay debt and compensate housing associations for lost assets?
- Will housing associations have the financial capacity to replace high value homes and homes sold under right to buy?
- Will sufficient sites be available for replacement homes especially in rural areas?

Briefing papers and Seminars

If you wish to read more on this, please follow the links to our two briefing papers. The links are below:

- Right to Buy: Extension to Housing Associations in England (June 2015): http://www.awics.co.uk/dynamicdata/data/docs/right%20to%20buy%20-%20extension%20to%20housing%20associations%20-%20briefing%20paper.pdf
- Sale of High Value Council Homes (June 2015): http://www.awics.co.uk/dynamicdata/data/docs/sale%20of%20high%20value%20council%20homes%20-%20briefing%20paper.pdf

We will also hold a seminar on the extension of 'right to buy' and its implications for housing associations and local authorities. For details please see below or contact enquiries@awics.co.uk

Right to Buy in Scotland and Wales

A different philosophy underlies the debate on Right to Buy in Scotland and Wales. In both countries, governments have moved towards the abolition of the Right to Buy of council homes after such policies had received broad support in consultations. The extension of the Right to Buy to housing associations has been rejected by the Scottish and Welsh governments.

Right to buy in Wales

In the July edition of our Wales newsletter[8], we reported on the abolition of Right to Buy in Wales after the Welsh government already allowed some local authorities with particular housing pressure, such as Swansea, to suspend the Right to Buy.

In Wales, fighting deprivation in several areas, Right-to-Buy has depleted the supply of affordable housing. While the supply of private homes has increased by 9% since 2000/01, that of social homes has decreased by 8%. In Wales, 134,000 council-owned homes and 2,400 housing association homes were sold to tenants between 1980 and 2007. At its peak, in 1982 15,000 homes were sold in a year. In the past five years, sales have come in at 188 homes per year, slowly eroding the public affordable housing stock.

In January 2015 the Welsh Government opened a consultation on the Right to Buy in Wales to widen debate and seek the views on the reduction in Right to Buy discounts and its potential full abolition. A White Paper on 'The Future of the *Right to Buy* and *Right to Acquire*' went out for consultation followed by a consultation that closed in mid-April.

The consultation found that 76% of respondents were in favour of reducing the available discounts and 73% were also supporting their abolition.

Discounts available via the Right to Buy will be halved by the summer of 2015. The Welsh government plans to abolish Right to Buy discounts completely by 2016. Lesley Griffith, the Welsh minister for Communities and Tackling Poverty, said:

> *"The consultation on our proposals has brought to the fore some interesting views on Wales' housing needs and demonstrated people's support for protecting our social housing stock. The decisive action we are taking will go some way towards easing the pressure on our housing supply and protecting our social housing stock."*

Right to Buy in Scotland

The Scottish government consulted on the future of 'right to buy' in Scotland as far back as 2012. Back then, 164 formal comments were received in response to the consultation. The final consultation report reads similarly to the outcomes in Wales. The report lists the main findings as:

> *"Most (87%) of those providing a view considered that there should be further restrictions to 'right to buy' legislation. The vast majority (83%) favoured ending right to buy altogether. This included 92% of Registered Social Landlords, 81% of local authorities, 75% of tenant groups and 73% of individuals.*
>
> *"Should 'right to buy' end, 73% of respondents who commented recommended a notice period of two years or less.*
>
> *"Around three-quarters (76%) of those who expressed a view considered that over the longer term the financial effect of the proposed changes on social landlords would be either neutral or beneficial.*
>
> *"Among the other 'right to buy' issues which respondents considered should be tackled, the most common were: family members other than the tenant financing the purchase of the property for future financial gain and ensuring standards of maintenance and repair are kept up in mixed tenure blocks"*

[8] The Welsh newsletter is accessible here: download

On 3rd July 2013, as a response to the consultation, the Scottish Government announced its intention to phase out 'right to buy' in Scotland. The Housing (Scotland) Act 2014, abolished 'right to buy' in Scotland after 1st August 2016, but eligible tenants can still make use of their right to buy until 31st July 2016. With the abolition of 'right to buy', the Scottish government plans to keep 15,500 properties in council ownership over a 10-year period.

Statistics show a sharp increase in the sales of council property before the looming deadline. In 2014, 1,596 households made use of their Right to Buy, 70% more than in the year of 2012 (990 sales). Cities showed increases. Glasgow climbed from 85 to 156 (46%); Edinburgh from 69 to 97 (41%); Aberdeen from 100 to 177 (77%); and Dundee from 58 to 70 (21%). Speaking to the Scotland Express newspaper, Eben Wilson, of Taxpayer Scotland, said:

> *"What we seem to be seeing here is a panicked reaction by less well-off tenants who don't want to miss out, and the temptation may be to borrow beyond their means. As we get closer to the 2016 deadline, this rush may well turn into a frenzy"*

The abolishment of 'right to buy' has substantial support in Scotland. The SNP and Scottish Labour are critics of the further expansion of 'right to buy' to housing association tenants as is proposed to be the case in England. For example, in April Annie Mauger, executive director of the Chartered Institute of Housing for Scotland, Wales, and Northern Ireland, said:

> *"Right to Buy in Scotland is due to come to an end next year after the Housing (Scotland) Act was passed in 2014. CIH Scotland fully supports the abolition – we need to be doing everything we can to maximise our supply of affordable housing for people on lower incomes, not selling it off.*
>
> *"We would have grave concerns about the measure being proposed by the Conservative party in England, to extend the right to buy to housing associations. As CIH deputy chief executive Gavin Smart has said, it is not going to tackle the housing crisis – in fact it could make things worse for people on lower incomes who are already struggling to access a decent home at a price they can afford.*
>
> *"Individual tenants might benefit from the opportunity to own a home, but we would be very concerned that it would result in a dramatic loss of vital social and affordable housing."*

Conclusion

Social housing is a devolved matter in Scotland, Wales, and Northern Ireland. In Scotland, where SNP and Labour have traditionally been strong, laws to abolish the 'Right to Buy' were already introduced last year. The measures are now coming into effect in August 2016 giving eligible tenants a grace period until July 2016. Judging by the figures, many current tenants are or are considering to make use of their Right to Buy before the measure expires.

In Wales, the political support for abolishing Right to Buy exists, too. A consultation on the scheme there has turned out with surprisingly similar results to the earlier consultation in Scotland. 73% of respondents to the consultation were in favour of abolishing Right to Buy. After the Right to Buy has already been suspended in high pressure areas, such as Swansea, the Welsh Government is now acting fast to legislate a ban in 2016.

Right to Buy in Scotland will be considered at our seminar 'All You Want to Know about Scottish social housing finance'. For details please visit our website at: http://www.awics.co.uk/scotfin15.asp

The impact of the benefits cap on families in low-income households

In 2012, the Coalition government introduced a total benefits cap to increase work incentives and to contribute towards reducing the fiscal deficit. The regulation capped the maximum claimable benefits per household to £26,000 for a family and £18,200 for individuals with no children. About 27,000 families were affected once it was fully rolled out in later 2013.

More recently George Osborne announced that the welfare cap will be reduced to £23,000 per household in London and £20,000 elsewhere. Housing benefits for those aged 18 to 21 are to be removed altogether. At the same time, the Government proposes to scrap child poverty targets in the Child Poverty Act (2010) for new child poverty measures focused on skill attainment and persons-in-work per household.

In this article we consider the link between the reduction in the benefits cap and the government's reforms to child poverty. It is likely that the cumulative effects of both policies will have to be addressed by local government and local service providers.

<u>Effects of the benefit cap on families</u>

Recent evidence on the social effects of the benefit cap suggest that benefit caps were most felt by low-income families. A parliamentary report published in June 2015, concludes that the original welfare cap had affected 58,700 households since its introduction until February 2015 of which a disproportionately high share were large families and claimants in high-rent areas. For example, 45% of the affected households were in London.

Arguably, the evidence suggests that the welfare cap has worked as a facilitator for child poverty as opposed to a facilitator for work. Helen Bernhard of the Joseph Rowntree Foundation mentions statistics of the Institute of Financial Studies that show that 2,000 families on benefits had someone move into work 12 month later[9]. Given that 27,000 families were affected by the original cap, this means that only a very small percentage (7%) moved into some form of paid employment while the rest did not. She concludes that the measure is poor on tackling the root cause of the benefit bill that is the lack of social housing and the abundance of low-income jobs.

It is likely that the additional reductions in the cap will be felt by those in high-rent areas. For example, the London borough of Islington expects that 600 homes will be affected by the new benefit caps — especially families with many children. Here, the reduction equates to £1.6million in lost housing benefits putting large low-income families at risk of abandoning their home, Councillor Andy Hull of Islington Bough Council warned. Further, Andy Hull urged the government to profoundly reconsider the effects of the policy on families:

> *"According to the government, the benefit cap is meant to reflect the average income. But average earnings haven't dropped by £3,000, so why are they cutting this support from families who need it?*
>
> *"This national, one-size-fits-all policy takes no account of local realities. Rents in London are much higher than elsewhere, and yet the same caps and cuts apply.*
>
> *"With such a shortage of affordable housing in the capital, cutting the benefit cap won't drive down rents; it will just drive people into poverty. At a time when the council's budget is stretched to breaking point, we can't guarantee to cover the loss.*

[9] Judged by claims of working tax credit

"We call on the government to stop this cut in its tracks. Failing that, we need the government to provide us with additional discretionary housing payment funds to help us cover the shortfall."

Other reports suggest that there is little protection from welfare cuts to children in low-income families. According to the Child Poverty Act (2010), child poverty is measured and defined through the median family income. If a family's household income is 60% below the median income in a particular household type, a child was defined as living in poverty. According to government figures, 2.3million children in the United Kingdom lived in poverty in June 2013.

A report by the United Kingdom's children's commissioners presented to the United Nations suggests that the reduction in the benefit caps could worsen the situation by its disproportionate impact on families with children and increased dependency on food banks for the most disadvantaged. The report states:

"Under current government policies, child poverty is projected to rise from 2012−13 with an expected 600,000 more children living in poverty by 2015/16. This upward trend is expected to continue with 4.7million children projected to be living in poverty by 2020. The Children's Commissioners consider this to be one of the most critical concerns for children's rights across the UK at the current time, requiring urgent attention from the UK and devolved governments."

"Benefits sanctions have also led to severe losses in household income for families already living in poverty." […] "The situation is likely to be worsened by the United Kingdom Government's announced emergency Budget on 8 July 2015, which is likely to include £12billion of welfare spending cuts, many of which the Children's Commissioners expect to fall upon families with children. Although the Government has committed to protecting pensions from these cuts, the same commitment has not been made to protecting benefits to children."

Calling for a protection of children from any additional benefit cuts, Tam Baillie, a co-author on the report and Scotland's children's commissioner, warned:

"The government's short-term budgetary policies will have long-term, corrosive effects on children across the whole UK, affecting their health, educational attainment and life expectancy. The government must reconsider its policy of austerity measures for the sake of children across the UK."

So, what does the government plan to do to tackle child poverty?

<u>Reforms to the Child Poverty Act (2010)</u>

The government argues that median household income is flawed as a measure for child poverty. It captures a symptom but not the cause of child poverty. Instead, the government intends to abolish poverty reduction targets based on the income measure and their replacement by measures that would focus on parents in work and skill attainment as outlined in their Children's Life Chances Strategy[10].

[10] In 2012, the Coalition government already undertook a consultation on new measures for Child Poverty. The argument largely followed to the current debate. Additional measures for Child Poverty were proposed, such as; "lives in a workless household; lives in a family with problem debt; lives in poor housing or a troubled area; lives in an unstable family environment; attends a failing school; has parents without the skills they need to get on; or has parents who are in poor health." See: "Measuring Child Poverty: A consultation on better measures of child poverty" **link**

David Cameron, in a speech to an audience in Runcorn in June criticised the established approach to measuring child poverty as causing distortions if benefits for a family are increased. He said:

> *"Just take the historic approach to tackling child poverty. Today, because of the way it is measured, we are in the absurd situation where if we increase the state pension, child poverty actually goes up."*

However, others such as Julian Unwin of the Joseph Rowntree Trust warn of the removal of the income measure to establish and track child poverty and argues for its combination with measures proposed by the government. He calls for a combination of the income measure with the measures that the government proposed:

> *"Evidence shows that income matters to children's outcomes and removing the measure from government policy would be a mistake. The current two proposed measures will miss the many families who have one or more parents in work but have very low incomes which damage children's lives now and prospects for the future. We therefore urge the government to reinstate an income measure, ideally linked to a cost of living measure, to give a proper focus on families' real ability to afford the basics of life in a decent society."*

He also called for participants in the debate to focus on the substance and actions and the establishment of a commission with a wider remit for tackling poverty across all ages:

> *"This country needs a comprehensive strategy to reduce poverty across all ages otherwise poverty is likely to rise. Arguing about the measure does not equate to action to reduce poverty. Removing poverty from the remit of the Social Mobility and Child Poverty Commission is a backwards step. JRF wants instead to see a Poverty Commission whose remit would be to hold governments to account on their plans and actions to reduce poverty for all ages."*

Conclusions

The reduction in the benefit cap is likely to affect low-income families (especially if they live in high-rent areas) most. The cap will have implications on the ability to of low-income households to cope and pay their rent and will put greater burden on local local authorities to support those families. In London, the Borough of Islington expects that up to 600 households will be affected by the increased cap. Existing evidence fails to make a convincing case for the benefits of the welfare cap for employment. Where parents go into employment it may result in a reduced ability to provide sufficient child care[11].

The proposed abolition of the existing Child Poverty measures, measured by income alone, in exchange for measures that focuses on parents in work and skill attainment may not contribute towards a true reflection of child poverty. It seems reasonable to combine income measures with measures of employment situation and skills attainment to provide a better reflection of a household's progression towards improved economic footing.

Some commentators are asking whether the abolition of the income measure will obscure the fact that the reduction in the benefit cap is likely to result in an increase in child poverty.

The full commissioners report to the United Nations can be downloaded here: link

[11] The government's budget includes the premise for free child care from September 2017. Osborn suggested that all working parents of 3 and 4 year olds will receive free childcare of up to 30 hours a week which may help some parents towards securing a job while raising their children.

We will be holding a seminar on: Welfare Reform — the Implications for Local Authorities and Housing Associations in the autumn. In this session we will consider the total benefits cap and other matters that will affect local authorities and housing associations. This session will look in detail at the financial implications for local authorities and housing associations of the government's welfare reforms including those initiated in the Welfare Reform Act 2012 but focusing on the new proposals to save an additional £12billion by reducing welfare entitlements. For further information please see below or contact enquiries@awics.co.uk

Devolution of powers to English councils

The government has introduced a Cities Devolution Bill to the House of Lords that governs the transfer of fiscal and political powers to local authorities in England. At this year's Local Government Association conference, Greg Clark, the new secretary of state for communities and local government, made an impassionate speech for a renewed sense of localism. Matching the government's emphasis on building the Northern Powerhouse, the conference and his speech took place in Harrogate, North Yorkshire.

Greg Clark's address to the Local Government Association

In his speech, Greg Clark thanked his predecessor Eric Pickles, who he described as the "godfather" of localism. Pickles made many offers local authorities couldn't refuse while he also abolished over 4,000 performance criteria and other measures that controlled local government's operations. Commenting on the renewed enthusiasm for localism felt across all parts of the public sector, Greg Clark, said:

> *"(Localism is) not a matter of sentiment. It's a hard-headed judgment. As we recover from the recession and look to the future, it's clear that for our country to succeed to the maximum extent possible, for us to fulfil our potential, every part of the country needs to be successful – not London alone.*
>
> *"Since no two places are the same – South Holland cannot be confused with Dudley, nor Cornwall with Middleborough – it should be obvious that a central plan for everywhere won't work anywhere. To have ministers and officials calling the shots from the centre is to miss out on the knowledge, the drive, the connections, the leadership that local government can give."*

He recognised the need for integrated government at local level:

> *"An intelligent approach lies in recognising that while Whitehall may be organised along neat departmental lines, meeting the needs of real people in real places is a very different matter. For instance, in the real world, health and social care are intensely related: people's health needs calling for care support; and the availability of that support determining what the NHS needs to provide."*

To achieve this goal what was most important for him was unity between parts within the local area, being sure of the common purpose, participation of businesses in any devolution deal, and ambition for local authorities to stand up for the wide range of powers that the City Devolution Bill includes. Saying that *"We must be a nation of muscular communities – north and south, east and west, town and country."* In his next devolution deals, he calls for benefits for local authorities beyond cities.

As expressed in Clark's speech to the Local Government Association, the government will expect local enterprise partnerships to be on board in any devolution deal. When making a deal with any local authority the national government will look for the involvement of the private sector. He said that devolution has already resulted in a much better relationship between local businesses and local authorities working together.

Greater Manchester as an exemplary devolutionary deal

The deal between the Greater Manchester Combined Authority and the government is often cited by government officials when talking about the future promises of devolution for local authorities across Britain. However, unlike the neighbourhood planning guidelines [12]introduced with the Localism Act (2011), the devolution of powers under the City Devolution Bill is rather bespoke. The deal that Manchester obtained contains the following:

Powers given to an elected mayor for Greater Manchester

- **Transport:** Responsibility for a consolidated transport budget, with a multi-year settlement to be agreed at the next Spending Review. Responsibility for franchised bus services (subject to consultation by Greater Manchester), for integrating smart ticketing across all local modes of transport, and urgently exploring the opportunities for devolving rail stations across the Greater Manchester area.
- **Planning and housing:** Powers over strategic planning, including the power to create a statutory spatial framework for Greater Manchester. This will need to be approved by a unanimous vote of the Mayor's Cabinet. Control of a new £300 million Housing Investment Fund.
- **Policing:** Take on the role currently covered by the Police and Crime Commissioner.

Powers given to the Greater Manchester Combined Authority:

- **Business support:** Responsibility for devolved business support budgets, including the Growth Accelerator, Manufacturing Advice Service and UK Trade and Investment (UKTI) Export Advice.
- **Training:** Control of the Apprenticeship Grant for Employers in Greater Manchester and power to reshape and re-structure the Further Education (FE) provision within Greater Manchester.
- **Employment:** Control of an expanded Working Well pilot, with central government funding linked to good performance up to a fixed DEL limit in return for risk sharing. Opportunity to be a joint commissioner with Department for Work and Pensions (DWP) for the next phase of the Work Programme.
- **Health and social care**: GMCA and Greater Manchester Clinical Commissioning Groups will be invited to develop a business plan for the integration of health and social care across Greater Manchester, based on control of existing health and social care budgets.

Practical challenge for devolution

While the Cities Devolution Bill is not specific as to which powers may be devolved across all local authorities, it is quite clear about the prerequisites for any devolutionary deal. The bill requires local authorities to reorganise around a mayoral system with a mayor as a key accountable person for all devolved matters.

This requirement provides a critical challenge for a devolutionary effort, as someone once said: "It's easy to paint Whitehall as oppressive but a vast city region could look equally oppressive from the viewpoint of a ward or estate." Local government has to balance the power struggles within their region. For example, Liverpool that has quite similar devolutionary aspirations as Manchester, has so far failed to subscribe to the mayoral model. Councils within the Merseyside area will have to discuss which powers they forgo as a result of such changes and the process has not been easy.

[12] For an introduction to neighbourhood planning, we have provided a briefing paper: link

Pointing to the need for engagement during the preparation of a devolutionary deal, Jacqui McKinlay, the executive director of the Centre for Public Scrutiny, pointed to the importance of putting transparency and accountability to the most local level possible:

> *"In order to work well, we believe all public services should operate in a way where you can, fairly easily, establish who is accountable for what. Accountability and transparency of decision-making should also be as local to the delivery as possible; those that understand their communities are often best placed to recognise what is needed.*
>
> *It should also recognise that the democratic mandate that comes from being elected and other important governance roles such as school governors, lay members or tenant representatives gives legitimacy and accountability."*

Greg Clark has also emphasised the requirement to engage with the local Enterprise Partnership. Two recent surveys of the opinion of business leaders in the North pointed out that devolutionary ambitions may be hampered by lack of a joined up approach in the North as well as a lack of people with the right skills to fulfil the government's ambition for a Northern Powerhouse.

In a recent report by the IPPR North, respondents from businesses located in the North, found that there were still too many local rivalries. They called for councils to work together better in countering the economic competitiveness of Scotland in the North and the London region in the South. There should be a joined up approach to things such as transport and infrastructure investment to ensure a balanced economic recovery throughout the North.

Lord Bob Kerslake, the newly elected President of the Local Government Association, welcomed the government's efforts to devolve powers to local authorities. In a commentary in the Guardian, he said that local authorities should embrace the opportunities from greater devolution by being ambitious and taking on greater responsibility and scrutiny:

> *"It is up to the local government sector to reach out rather than retrench, working with other councils, businesses, communities and with other public sector organisations to redesign public services to meet their specific, local needs.*
>
> *"They need to bring a coherent, persuasive case for the change they can offer to central government, and demonstrate that they are more than capable enough, and accountable enough, to deliver on that offer.*
>
> *"With the chance of greater responsibility, there will undoubtedly come greater expectation and greater scrutiny. The upside of the buck stopping with local government is that we can really make a difference.*
>
> *"The potential risk is that councils will carry the can if things do not happen as they would hope. This is a trade-off most people in local government would grab with both hands. I have no doubt that councils will rise to this challenge."*

David Orr, Chief Executive of the National Housing Federation has said that housing is an important aspect of devolution not least because of the need to have an integrated approach to housing, social care and health:

"Devolution offers real opportunities to tackle the housing crisis which plays out differently across the country. As housing is one of the key factors that make places work, it is important that housing and planning powers feature in devolution deals.

"Housing associations are already working closely with areas earmarked for devolution in future and are keen to develop their role in driving economic growth, providing programmes to help people into work and training, and delivering health and social care services."

Housing features prominently in some existing devolution deals including Manchester and Cornwall. The '*Case for Cornwall'* has called for control over bus services, partial localisation of fuel duty income to pay for roads, a greater role in energy generation and devolution of health and housing.

Following the budget statement, Local Government Association chair Gary Porter said that without radical devolution:

"The government's aims to boost housebuilding, abolish youth unemployment and find £12billion of savings from working-age benefits cannot be achieved".

And in a statement the Local Government Association said:

"The progress being made on devolution deals announced in today's budget is good news. Devolution across all parts of England is the best way to create jobs, build homes, strengthen communities and protect the vulnerable. We know many more places will come forward with proposals in the next year and we are keen to work with the government to meet the scale of the ambition of local areas."

Conclusions

Greg Clark has emphasised the broad and open nature of the Cities Devolution Bill. He called for ambitious proposals from local authorities that would like to tap into greater fiscal autonomy and responsibility for their electorate. The example of the deal between the national government and the Greater Manchester Combined Authority is often mentioned as a good example of how the resources of the local authority, the government, and local businesses may be combined within one ambitious devolution deal.

However, unlike the fairly systematic process for local communities to draft and implement planning policies introduced by neighbourhood planning under the Localism Bill (2011), the Cities Devolution Bill is rather more open and discretionary as to what powers local government may obtain over time. To some extent the bespoke nature of deals possibly contributes towards a climate of competition amongst local authorities that works against the urge for local authorities to work together on projects.

The title of the Cities Devolution Bill may misleadingly suggest that it is for local authorities of urban areas. While this may have initially been the government's focus, local authorities of rural areas can also apply for devolution but there is a requirement to establish an elected mayor. However, there may be distinct challenges. For example, in shire areas where there are a number of district authorities as well as a County Council, it may be difficult to establish agreement.

In the autumn we will be running a seminar on: Devolution in England – the financial implications. This session will look in detail at the financial implications for local authorities of the government's proposals for devolution in England including the 'Northern Powerhouse' and the 'DevoManc' arrangements. If you would like more information or to make a booking please see below or contact enquiries@awics.co.uk

Letters

Adrian,

"You say on p3 of your paper "Housing Revenue Account – Valuations, Depreciation and Impairment" of June 2015 that: 'It is possible to have non-dwelling assets in the housing revenue account which, if they are generating market income, would meet the definition of Investment Property'.

I've always worked on the basis that Investment Property is held ***solely*** *(per Code) for income generation and/or capital appreciation, and that since there's no element of service provision there can be no connection to housing revenue account housing, and that consequently there can't be any Investment Property in the housing revenue account. This is reinforced, in my mind, by the absence of any reference (in Code, Sercop, Housing Manual or Determinations) to housing revenue accunt Investment Property. I don't find this 'unclear' (as you put it in your preceding paragraph) but as a clear indication that the two categories ('housing revenue account' and 'Investment Property') are mutually exclusive. I think 'most practitioners' are misdirecting themselves.*

"I was though, as a local authority practitioner myself, pleased to see on p8 that my observations on the Department for Communities & Local Government's tardiness in addressing the issues were deemed by you as worthy of quoting!

"PS. In your paper on the forced sale of high-value council housing, when raising the possibility of the 30% maximum being applied to these receipts also, you could have pointed out that previously the government has suggested the sale of high-value council housing as a resource to fund the missing 70% … ever-decreasing circles, anyone?"

Mark Smith
Housing Finance Manager, Milton Keynes Service Partnership (writing in a personal capacity)

Editor's note: We are aware that there are different views about investment property in the housing revenue account. If any other readers would like to write in we would gladly publish their views.

Autumn seminars and workshops

Our autumn seminars and workshops will be as follows:

<u>All You Want to Know about Scottish Social Housing Finance</u>
- Falkirk – 15th September.

This is our regular introduction and overview of Scottish social housing finance. If you would like more information or to make a booking, please visit: http://www.awics.co.uk/scotfin15.asp

<u>Extension of Right to Buy: Financial Implications for Housing Associations and Local Authorities</u>
- London – 22nd, 23rd or 24th September.
- Oldham - 30th September.

This session will look in detail at the financial implications for housing associations and local authorities of the government's proposals to extend the 'right to buy' to tenants of housing associations in England. If you would like more information or to make a booking please contact enquiries@awics.co.uk

All You Want to Know about Housing Association Finance

- Oldham – 29th September 2015

This is our regular introduction and overview of housing association finance in England. If you would like more information or to make a booking please visit: http://www.awics.co.uk/hafin15.asp

Welfare Reform: Implications for Local Authorities and Housing Associations

- London – 20th October.
- Oldham – 3rd November.

This session will look in detail at the financial implications for local authorities and housing associations of the government's welfare reforms including those initiated in the Welfare Reform Act 2012 but focusing on the new proposals to save an additional £12billion by reducing welfare entitlements. If you would like more information or to make a booking please contact enquiries@awics.co.uk

Devolution in England: the Financial Implications

- Oldham – 4th November.
- London – 11th November.

This session will look in detail at the financial implications for local authorities of the government's proposals for devolution in England including the 'Northern Powerhouse' and the 'DevoManc' arrangements. If you would like more information or to make a booking please contact enquiries@awics.co.uk

All You Want to Know about Local Authority Housing Finance

- London – 10th November.

This is our regular introduction and overview of local authority housing finance in England. If you would like more information or to make a booking please visit: http://www.awics.co.uk/lahfin15.asp

Local Authority New Build: The Financial Implications

- London – 1st December.
- Oldham – 8th December.

This session will look in detail at the financial implications for local authorities in England of building new council housing. If you would like more information or to make a booking please contact enquiries@awics.co.uk

Further information will be posted on our website as it becomes available.

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SERVICE CHARGES IN SOCIAL HOUSING 2015	This book is designed to give an introduction and overview to service charges in social housing and is fully up to date with all developments. Service charges are an integral part of landlords' work in financing value for money services and sustaining customer satisfaction. They have always been relatively complex but with increased financial challenges and legal and financial complexity there is an increased need to understand how service charging works.	**Buy**

LOCAL AUTHORITY HOUSING FINANCE 2015	The 2015 version of 'All You Want to Know about Local Authority Housing Finance' has been fully updated this year and is the latest version of our useful introduction and companion to the complex and important subject of Local Authority Housing Finance. It is published in March 2015 and has 100 pages. Information about all our books is available at: http://www.awics.co.uk/publications.asp	**Buy**

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Editorial notes

This edition of the Housing newsletter was edited by Sebastian Weise. Sebastian is a freelancer and PhD student at the Centre for Digital Innovation at Lancaster University. He is knowledgeable about participatory urban planning, local government, government reform, and geospatial services.

The AWICS Housing News is published by 'AWICS' Limited. Articles are written by Adrian Waite unless otherwise stated. However, the views expressed in articles are not necessarily those of 'AWICS' or Adrian Waite unless expressly stated.

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