Briefing Paper

Budget July 2015: Implications for Housing

July 2015

St. Vincent's Housing Association offices in Manchester

Introduction

The Chancellor of the Exchequer, George Osborne, delivered his first post-election budget on 8th July 2015. It contained a number of significant and controversial announcements many of which are relevant to housing. The purpose of this briefing paper is to summarise the budget with particular reference to its implications for housing, to identify the response of the sector and to provide appropriate comment.

Overview

The budget contained the following key announcements:

- Introducing a new National Living Wage of over £9 an hour by 2020
- The government will run a surplus in 2019-20
- The tax-free Personal Allowance will be increased from £10,600 in 2015-16 to £11,000 in April 2016
- Protecting defence spending
- Reforming the welfare system to make it more affordable
- Reforming dividend tax
- Taking the family home out of Inheritance Tax
- The amount people with an income of more than £150,000 can pay tax-free into a pension will be reduced
- The higher rate threshold will increase from £42,385 in 2015-16 to £43,000 in 2016-17
- Corporation Tax will be cut to 19% in 2017 and 18% in 2020

- The annual investment allowance will be set at its highest ever permanent level at £200,000
- The Employment Allowance will increase by a further £1,000 to £3,000
- The standard rate of Insurance Premium Tax will increase to 9.5%
- Clamping down on nuisance calls from claims management companies
- Restricting tax relief for wealthier landlords
- Ending permanent non-domestic status
- Reforming the way banks are taxed
- Three million new apprenticeships
- £30 million of funding for Transport for the North
- Thirty hours of free childcare for three and four year olds
- Student maintenance grants will be replaced with loans
- Road tax will be reformed and the money raised spent on the road network
- Public sector pay increases will be limited to 1% a year
- Making sure individuals and businesses pay what they owe

Rents:

Rents for social housing will be reduced by 1% a year for four years. This will be enforced through legislation and the National Housing Federation estimates that housing associations will lose £3.9billion in income compared with their business plans and that this will adversely affect their development programmes. The effect on the business plans of local authorities will be similar.

High income tenants

Tenants on higher incomes (over £40,000 in London and over £30,000 outside London) will be required to pay market rent, or near market rate, rent. This will be compulsory for all social landlords. 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 but the government intends to legislate to oblige tenants to declare their income. The government calculates that this will raise £250million a year by 2018/19. Housing associations will retain the additional income but local authorities will be obliged to hand it over to the Treasury.

Right to Buy

The extension of the 'right to buy' to housing association tenants and the sale of high value council houses was confirmed.

Rents are considered further below. 'Right to Buy' is not considered in detail in this briefing paper because it is considered fully in two recent briefing papers:

- Extending the Right to Buy to Housing Association tenants – 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 – http://www.awics.co.uk/dynamicdata/data/docs/sale%20of%20high%20value%20council%20homes%20-%20briefing%20paper.pdf

Welfare

The main implications for welfare are:

- The planned £12billion reduction in expenditure on welfare is now to be spread over a longer period.

- 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).
- 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.
- 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.
- 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. 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.
- There will be reductions to tax credits for people on low incomes. The government considers this to be a 'very expensive' system, costing £30billion. It is calculated that more than seven million children in 45% of working families will be affected by this.

<u>Local Government</u>

The main implications for local government are:
- It had already been announced that the 2015/16 local government finance settlement would not be re-opened. The budget set out £17billion of savings some of which have implications for local government but deferred announcements on another £20billion to the autumn's Comprehensive Spending Review. This is when most of the specific announcements for local government will come.
- There were announcements on devolution with more powers being devolved to Greater Manchester, including a land commission and employment services. Devolution is to be extended to Cornwall. Councils will also be offered the right to vary Sunday trading hours
- Public sector pay increases will be capped by 1% a year for four years from 2016/17.

This briefing paper will not consider the implications of the budget for welfare or local government as I intend to publish separate briefing papers on these subjects in the near future.

<u>What has NOT happened</u>

Prior to the budget there was much speculation about what might be included. However, some of the options that were discussed were not actually included in the budget.

Young people between 21 and 25 will not have their entitlement to housing support removed. The rumour that tenants would have to pay the first 10% of their housing benefit has not materialised. There are no plans to claw back from housing associations the additional income generated from 'pay to stay'. The National Affordable Housing Programme has not been reduced but has been protected.

The Chancellor did not outline the £30billion in departmental spending cuts that the Institute for Fiscal Studies says he will need to find over the next three years in the budget - these will be set out in the spending review that is expected to be announced in November 2015.

Rents

In the full Budget document published after the chancellor's speech, it states:

"The government will reduce rents in social housing in England by 1% a year for four years, requiring housing associations and local authorities to deliver efficiency savings, making better use of the £13billion annual subsidy they receive from the taxpayer. Rents in the social sector increased by 20% over the three years from 2010-11. This will allow social landlords to play their part in reducing the welfare bill. This will mean a 12% reduction in average rents by 2020/21 compared to current forecasts."

This proposal surprised many, and given that central government has itself controlled social rents for some time it appears illogical for the government to complain that these rents have increased during recent years. Local authorities and housing associations have business plans that are based on real increases in rents, confirmed by the government only recently at the consumer prices index plus 1% a year. In the case of local authorities they were recently obliged by the government to accept a significantly increased level of debt as part of the self-financing settlement on the basis that they could afford to because of projected increases in rents. This leaves many in the sector worrying about their ability to continue to develop new homes or even about their continued financial viability.

George Osborne said housing associations and local authorities would have to 'find efficiencies' to pay for the cuts in rent. He added:

"We are going to end the ratchet of ever higher housing benefit chasing up ever higher rents in the social housing sector… These rents have increased by a staggering 20% since 2010… This will be a welcome cut in rents for those tenants who pay it and I'm confident housing associations and other landlords who operate in the social housing sector will be able to play their part and find the efficiencies needed."

Unlike previous government policies on social rent, this policy is to be introduced through legislation rather than through guidance.

The rent reductions will start from April 2016. After four years the rent formula will return to the consumer prices index plus 1%.

The budget briefing documents assume the change will save £165million in 2016/17 and £1.45billion in 2020/21 from the housing benefit bill, saving a total of £4.3billion over five years.

This will be taken forward via the Welfare Reform and Work Bill and will apply to both social and affordable rent. The Government indicates this will result in a 12% reduction in average rents by 2020/21, compared to current forecasts.

According to the Homes and Communities Agency's global accounts for 2013/14, the sector generated turnover of £13.1billion from social housing lettings, up £646million from the previous year. A global 1% reduction in rent would therefore reduce housing association income by around £130million. There would be a similar reduction in local authority income.

Some commentators have argued that the policy is for five years rather than four. This is because rent changes occur in April of each year and so the 2020/21 reduction of 1% occurs In April 2020 and applies until end of March 2021.

A spokesperson for the Department for Communities & Local Government said it is 'confident that [housing associations and local authorities] will be able to find and make efficiencies to accommodate this new settlement.'

My briefing paper on the government's previous policy on social rents can be freely downloaded from: http://www.awics.co.uk/dynamicdata/data/docs/guidance%20on%20rents%20for%20social%20housing%20-%20briefing%20paper.pdf

In view of the fact that rents in the private sector are higher than in the social housing sector and are increasing more rapidly than social rents, some may consider it surprising that the Chancellor has not also taken steps to control private rents and thus control increases in the local housing allowance!

Effect on Development

Social landlords are preparing to reduce their development schemes. The National Housing Federation predicts that 27,000 fewer homes will be built as a result of the change, which it said will reduce associations' earnings by £3.9billion over four years. Housing associations build homes by borrowing against their future rents and forcing them to reduce rents by 1% a year will therefore make it more difficult for them to build.

The Office for Budgetary Responsibility, an Independent financial watchdog established by the government said that restrictions on housing association rents would have a knock-on effect on building saying:

"The Government's decision to impose 1% annual rent reductions in the social rented sector for four years from April 2016 will directly reduce social landlords' rental income, and therefore their financing for, and returns to, investing in new housebuilding… The adjustment would be broadly consistent with reducing housebuilding by housing associations by around 4,000 in 2019/20, when the full effect of the policy on their rental income has been reached… Over the forecast period, our assumptions suggest around 14,000 fewer 'affordable homes' will be built."

The predicted reduction in total homes output at 4,000 a year represents a reduction of more than 10% compared with the 37,000 affordable homes currently being built annually by housing associations.

Sue Chalkley, Chief Executive of Hastoe Housing Association told 'Inside Housing' that:

"I'm in a state of shock. We don't yet know the details but the changes will inevitably reduce housing associations' development programmes. We now have no confidence in what's happening from five years onwards, the government's done a U-turn so we're going to lose confidence and our credit agencies are going to lose confidence."

Paul Hackett, Chief Executive of Amicus Horizon, said:

"It will take around 12% out of our income assumptions over the next four years. This is a big change and we weren't expecting it. There will inevitably be an impact on our ability to develop."

Paul Tennant, Chief Executive of Orbit, said that his organisation's plan to build 12,000 homes by 2020 - one of the largest pipelines in the sector - is now 'under question'.

It has been established that London housing associations will 'review' commitments to build homes made under the Affordable Homes Programme in light of the Right to Buy extension and new requirements to cut social rents. Ric Blakeway, Deputy Mayor for housing at the Greater London Authority told a housing committee meeting in July 2015 that the 18,000-home 2015/18 programme part-funded by £404million of affordable housing grant (mainly provided to housing associations) from the Greater London Authority could come under pressure. He told the committee that:

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"The primary [programme] we want to focus on will be Affordable Housing Programme. And I just want to say we will clearly work with providers to review the commitments they have… It (rent reform) will clearly impact on ability to raise finance [for housing associations]."

Mr Blakeway said he would make an assessment of its impact on the Affordable Housing Programme. He suggested that associations might have to 're-invent' themselves in the future. When pressed on what he meant by this, he said some landlords might review whether they still had development programmes.

James Clark, housing policy manager at the Greater London Authority, added that associations' development schemes may 'involve less affordable rent or social rent and more low cost home ownership'.

Effect on Regulation

The Homes and Communities Agency responded to the announcement by saying it would write to housing associations to 'seek assurance' that they are addressing the issue. A spokesperson for the Agency said:

"Providers will need to look at their business plans in the light of the announcements at budget and decide what action they need to take."

The Homes & Communities Agency has asked associations to submit fresh information about their finances in the wake of the government's rent reduction announcement. Julian Ashby, Chair of the Agency's Regulation Committee has written to the Chairs and Chief Executives of all 255 English housing associations that own more than 1,000 homes. The letter calls for providers to submit a fresh Financial Forecast Return by no later than noon on 30th October 2015. The Homes & Communities Agency wants to be assured that associations:

- Understand the scale of the changes
- Have the 'remedial plans' they need to be able to carry on trading through the changes
- Have considered 'all relevant issues', including the impact on cash flow, covenant compliance, security and re-financing
- Understand which actions are under the organisation's control
- Have carried out 'stress- testing' of their business plans

Mr Ashby warns that failure to provide accurate Financial Forecast Return returns 'will give rise to cause for regulatory concern' and said:

"It is for you to decide whether and how you will need to reconfigure your business in the light of these changes. We anticipate that most associations will wish to look at their cost structure and consider areas where it is possible to re-prioritise expenditure."

The full text of the letter is as follows:

"I apologise for the impersonal nature of this letter, but I am sure you will appreciate our need to communicate quickly with the whole sector.

"As you will be aware, the budget announcement on reducing rents in the social housing sector by 1% each year for four years from April 2016 and other welfare reform policies will have a substantial impact on most associations' business plans. In addition you will be aware that government has a manifesto commitment to extend the 'Right to Buy' scheme to registered providers that will impact on your organisation. It is for you and your board to determine how to adapt your business plan and priorities to this changed environment and determine the best way of meeting your objectives. We are sure that you will be addressing any challenges to your business as a matter of priority.

"Given the changes to the external environment and risks faced by registered providers, it is important that we review our current regulatory approach and, where appropriate, seek additional assurance to ensure that our published view of providers remains robust and up to date. As is our usual practice, we will be focusing on the assurance boards have of compliance with the standards, in particular the viability aspect of the Governance and Financial Viability Standard.

"We understand that some consequences may be difficult to predict at this stage, and clearly market conditions will also be difficult to predict for some time. While all associations are likely to feel the effect of these changes, we recognise that for some, the impact will be more challenging. If you believe that your business is not able to adapt to these changes then we expect you to discuss this with the regulator straight away, so that we can look at the strategic options and how we can work with you. We continue to work with the Department for Communities & Local Government on all the policy areas announced in the budget and manifesto and further information will be supplied as soon as possible.

"It is for you to decide whether and how you will need to reconfigure your business in the light of these changes. We anticipate that most associations will wish to look at their cost structure and consider areas where it is possible to reprioritise expenditure. However we will require further information from organisations:

1. *Last month you submitted your annual Financial Forecast Return to us based on pre-budget assumptions. Given the potentially significant changes, we require that a revised Financial Forecast Return is submitted, updated to reflect the impact of the changes in government policy including rent reductions, welfare changes etc., and taking account of mitigating actions you are proposing to take and have agreed with your board. Revised Financial Forecast Return returns, along with the Board papers (both report and minutes) setting out your proposed plans to cope with the impact of changes must be submitted as soon as possible and in any event by no later than noon on 30 October 2015. This should give you time to consider an initial response to the changed circumstances and approve a revised business plan. This will enable us to assess the impact on individual providers and to work through the consequences of the changes. We will contact you again shortly setting out the process and timetable for submitting the revised Financial Forecast Return in more detail. Through these returns we will be seeking assurance that:*
   - *In considering its response to the budget, the board understands the scale of the changes;*
   - *You have deliverable plans for any remedial actions needed to be able to trade through those changes;*
   - *You have considered all relevant issues, but in particular the impact of the proposed changes on cash flow, covenant compliance, security requirements and re-financing;*
   - *You understand which actions are under your control and where you will need the cooperation of other stakeholders;*
   - *You have tested those plans with robust stress testing.*

2. *The additional assurance sought does not alter our intended regulatory approach (as set out in 'Regulating the Standards'). However, we will use the October Financial Forecast Return information provided, along with your statutory accounts, to undertake the first Stability Check.*

3. *Over the summer we will engage with individual associations where we consider that an early discussion will be beneficial to understand whether an association may find the changes particularly challenging.*

4. *If necessary we may ask other providers for early sight of their board papers if we have reason to be concerned that they are not addressing the changes in the operating environment resulting from this policy.*

"Please note that, as with any data return, failure to provide accurate Financial Forecast Return returns duly considered and approved by the Board will give rise to cause for regulatory concern. We also understand that whilst the broad thrust of the changes is clear there is still further detail to come about the rent regime, pay to stay, and the extension of right to buy and understand that in October, revised plans will not yet have fully developed mitigations for all these changes, particularly where the detail is unknown.

"Finally, may I reiterate that if, at any point during the course of developing your revised business plan and approach, you anticipate that you may not be compliant with the viability aspects of the Governance and Financial Viability standard, in particular if you identify either potential covenant compliance or liquidity problems, then you must get in touch with us as soon as this becomes apparent, as required under the governance standard, and in line with co-regulation. In that event we would work with you to consider how the matter might best be resolved."

Effect on Valuations

As social homes are valued on the basis of the income that they can generate, it is likely that the change could reduce the value of social homes on balance sheets by up to 25% - presenting a big challenge for landlords with small surpluses. However, it is not so clear whether the change will affect valuations for lending.

Nonetheless, valuers have entered into urgent talks with the Homes and Communities Agency to work out how the government's new rent policy will impact on valuations, as confusion emerged over the effect on loan covenants.

Savills have said that while the value of stock on association's accounts could drop by up to 30%, the changes would not significantly reduce values for loan security purposes. However, JLL – the other major valuer in the sector – is not as confident that loan security valuations will be unaffected, and has held conversations with Savills and the Homes and Communities Agency to clarify the position. Richard Petty, lead director of residential advisory at JLL, said:

"I very much hope we will be able to clarify it. We have never had a position where we significantly disagree about the principles of what we do. We compete with them on everything except what is a tenable position for valuation."

Mr Petty also said the changes would have an impact on valuations for stock transfers between organisations, and rescue mergers – although this was unlikely to be as stark as the impact on accounting.

JLL's doubts are around the wording of the exemption in section twenty of the Welfare Reform and Work bill that will introduce the changes, aimed at protecting lenders from the change in the event of a default. It is not sure lenders would be allowed to sell the units on free of the rent reduction, unless the bill is amended.

The effect on valuations for loan security is crucial for housing associations' ability to raise debt and meet covenants with lenders.

It appears to me that the new rent policy will inevitably reduce income. It is therefore likely that it will also reduce the rate of return on investment and therefore the value of social housing from the point of view of lenders.

Effect on Credit Ratings

There have been contrasting initial reactions from the two main credit rating agencies operating in the sector:

- Moody's considers the combination of the proposed changes to be credit negative with concerns that suspension of the ten year rent settlement and the rent reduction are likely to have a significant adverse impact on revenues and margins. Moody's has also questioned the continued strength of the sovereign link with housing associations.
- Standard and Poor's is less concerned about the temporary reduction in rents, anticipating limited impact over the four years. It expects that, with the right response from management teams, associations will have the capacity, flexibility and know-how to cope. In other words landlords will succeed in reducing development, management and maintenance costs and levels of profitability will be unaffected by reduced rents.

Standard and Poor's that rates twenty housing associations said that ratings would be likely to be affected if landlords absorbed decreased rent revenues by posting lower surpluses. Robin Froggatt-Smith, a credit analyst at Standard and Poor's, told 'Inside Housing*'* that:

'"We expect that many housing associations will respond to this cut to rental revenues by cutting spending on development and on maintenance, which we believe most can do without weakening demand for their properties among those on low incomes… Our ratings would more likely be affected if [housing associations] absorb lower revenues by posting lower earnings before interest, tax, deductions and amortisation after capital repairs – which we focus on when assessing profitability and debt burden."

Roshana Arasaratnam, Vice President of Moody's Public Sector Europe that provides ratings to 44 landlords, said:

"The impact of yesterday's Budget announcement is credit negative on the housing association sector. The unexpected reversal of the rent formulae with future reductions combined with the changes to tenants' benefit caps will reduce housing associations' revenue streams and suppress operating margins… Overall the impact of these changes show less predictability in social housing policy leading to a more challenging operating environment."

In a statement published within days of the budget Moody's said the policy:

"Accelerated the weakening of credit positive ties between [housing associations] and the United Kingdom sovereign… (And will) erode revenues and put pressure on interest coverage ratios.

"A traditional credit strength of English [housing associations] has been the predictability of the policy environment and the sector's strong ties to government. This stability has been eroded by the sudden removal of the rent-setting formula, which was preceded by limited consultation… In the past, Moody's has viewed the sector's close relationship with government as credit positive due to a settled and supportive policy environment. This is no longer the case, with changes in government policy creating a more challenging operating environment for [housing associations]."

In June 2015, Moody's had already warned that the extension of 'right to buy' to housing associations would 'fundamentally change housing associations as businesses' and that the reduction in the benefit cap 'would increase the likelihood of a build-up of arrears and bad debts, eroding cash flows'. Standard and Poor's also downgraded the outlook of some housing associations because of the planned referendum on the European Union.

Ratings from credit agencies are crucial for housing associations' ability to raise cheap long term debt to finance development. The comments reflect an increasingly pessimistic outlook from credit agencies in the light of recent government policies.

One major lender to the sector, who preferred not to be named told 'Inside Housing' that:

"We're not closing our books. For most well run organisations, this will not be a challenge in terms of viability, but it will be a challenge in terms of how much they develop."

He added that the fact that the government had gone back on an arrangement could undermine confidence in the sector.

<u>Effect on Borrowing Capacity and Capital Financing Costs</u>

Terry Frain, director at Savills financial consultants has estimated that housing associations' ability to raise debt will be reduced by an estimated £28billion by 2020 as a result of the changes. This is a result of income streams falling by up to 15% if associations are unable to find the necessary efficiencies to offset the changes. Mergers could follow as a result if they were unable to reduce costs.

Investors reacted to the new rent policy by increasing the price on housing association bonds. Bonds sold on the secondary markets – sales between investors after a bond issue – increased by between five and ten basis points (tenths of a percent) as investors digested the announcements. Henrietta Podd, head of debt advice and origination at Canaccord Genuity, told 'Inside Housing' that:

"Straight after the budget there was very little reaction, but over the weekend we did see spreads widen quite considerably across the board… When we got the last burst of jitters about the 'bedroom tax' and the first 'welfare cap' we had two or three bond issues where the whole world turned up. Investors wanted to understand the impact of the changes."

She said that the next time a housing association issues a new bond, it will be required to clearly demonstrate the impact of the changes on their business plan to investors to secure investment.

Affordable Rent

Housing associations will be allowed to convert socially rented properties to affordable rent under the new rent regime. The Welfare Reform and Work bill, under section 19(4) restricts landlords from increasing the rent when new tenants move in. However, the Department for Communities and Local Government has confirmed that conversions will still be allowed, with the mechanism for doing so to be set out as the bill progresses. A spokesman said that:

"Housing associations will still be able to convert socially rented void units to affordable rent through the affordable homes programme. The rental reductions will then apply as if the unit had been an affordable unit not a social unit. The mechanism for allowing the conversion through the new rent policy will be set out as the welfare reform and work bill progresses."

Effect on Local Authorities

The Local Government Association and Chartered Institute of Housing have both calculated that the rent reductions will cost local authorities a total of £2.6billion in lost revenue. They calculate that the measure would initially cost councils £234million in year one through lower rents in council homes. The amount lost would rise to £508million in the second year, then to £795million in year three, and more than £1billion by 2019/20. The total of £2.6billion lost will represent 60% of local government's total housing maintenance budget, and is the equivalent of funding to build almost 19,000 new homes.

Local Government Association Chair, Councillor Gary Porter (Conservative) has argued that any decrease in rents would not be felt by tenants, but would be reflected in the Department for Work and Pensions' budget. This will leave councils to cope with the additional financial burden as a result of the move to Housing Revenue Account self-financing. He said that:

"Many councils have already agreed long-term housing investment plans based on the future rent levels announced in March's Budget… It is right that rents are kept as low as possible, but our analysis shows reducing rents in this way over the next four years will cost councils £2.6billion by the end of the decade and lead to a further funding gap of £1billion per year from 2020/21 onwards… It is therefore vital that these costs are considered by the government as part of the wider debate of council funding to avoid the capacity of councils and housing associations to invest in this much-needed housing being put at risk."

"There are millions of people on social housing waiting lists and councils want to get on with the job of building the new homes that people in their areas desperately need, which is the best way to reduce the housing benefit bill and boost growth."

The Local Government Association has also called for councils to be able to keep all receipts from the sales of their own housing stock as well as reiterating its call to raise the Housing Revenue Account borrowing limits imposed on town halls. However, these requests have been made in the past and it is considered unlikely that the government will agree to them now.

The Chartered Institute of Housing's projections, estimated over the thirty year life of business plans, revealed a total £42billion 'black hole' as a result of the change. The Institute has also warned that the rent reduction will make it impossible for some councils to fund the building of properties to replace homes sold under 'right to buy'.

Many councils, particularly those close to reaching their housing revenue account borrowing caps, were relying on expected increases in rental income to fund one-for-one replacements for homes sold off under the current 'Right to Buy' policy. Under 'Right to Buy' councils can use sales receipts to fund 30% of the cost of replacing a home and have to find the remaining 70% themselves. If they do not replace the home within three years the council has to repay the money back to the Treasury with interest. The problem will particularly affect councils in London, which are more likely to have built up one-for-one replacement cash pots due to larger property values.

Councillor Khevyn Limbajee (Labour), cabinet member for housing at Waltham Forest Borough Council, said the rent reduction will lead to £22million of lost income over four years. Councillor Limbajee said he thinks many councils will now look to transfer their 'Right to Buy' receipts to housing associations.

Effect on Public Finances

The Office for Budgetary Responsibility has warned that the measure could add £60billion to the national debt because forcing new policies on housing associations could make them count as part of the public sector rather than as private bodies. The office said that:

"There is a risk that Government policies – including the social rent measure in this Budget and the Right-to-Buy proposals that are not yet firm enough to be included in this forecast – could prompt the Office for National Statistics to reconsider ... classification… If housing associations were to be classified as part of the public sector, their approximately £60billion of debt would be added to public sector net debt, while the social rent reduction policy announced in the Budget would increase rather than reduce public sector net borrowing because the full amount of the rent reduction would then reduce public sector income."

The Office for National Statistics had previously said that if it considered policies led to greater control over associations it would have to reconsider the current classification.

Possible Exemptions

It is hoped that exemptions will be made for housing associations where rent reductions would threaten their financial viability. A clause in the Welfare Reform and Work Bill says that social landlords could be exempted from the rent decrease if complying would 'jeopardise' their finances. However, the exemption would need to be approved by the secretary of state.

Tony Stacey, Chair of 'Place shapers' that represents 100 housing associations, said the potential for exemptions was 'better than nothing' but predicted that getting the Secretary of State's approval would be 'difficult' and could come with strict conditions. He has also written to communities minister Greg Clark, calling for an exemption from the policy for supported accommodation.

Supported housing is expected to be exempt from the new rules forcing social landlords to reduce rents by 1%. This exemption will relieve landlords who have expressed concern that the rent cuts were likely to have a bigger impact on supported housing, which is more expensive to run.

Department for Communities and Local Government officials have told 'Inside Housing' that they are likely to exempt specialised supported housing, temporary accommodation, student accommodation, residential care homes and nursing homes from the new rules. Civil servants are considering whether these definitions are appropriate in light of the policy, with details expected to be laid out in secondary legislation. The bill allows some scope for certain accommodation to be exempt from the change.

Jean Templeton, chief executive of St Basils – which provides supported housing for homeless young people across the West Midlands told 'Inside Housing' that:

"Supported housing is more expensive to run – they have additional management costs, higher turnover, additional communal and shared facilities… We only have a 1% margin anyway and that 1% margin is also dependent on something like 13% charitable fundraising."

Potential for Legal Challenge

When the policy was first announced, some lawyers advised that the new policy could be the subject of legal challenge in the High Court. For example, Devonshire's said that the policy is 'significantly susceptible for a judicial review application by the sector' and that there could be an application for a judicial review of the policy based on 'legitimate expectation'. This is a doctrine in law which protects interests when public bodies rescind on previously promised course of actions. In a briefing note Devonshire's said that:

"The 10-year commitment was an express promise which associations have relied upon… You cannot get much closer to the requirements of legitimate expectation than a rent settlement made as recently as 2014 and heralded by the government itself as a 10-year settlement… We therefore regard the announcement as significantly susceptible to a judicial review application by the sector."

However, Devonshire's also advised that the government would have a defence in that the rent policy relates to 'high policy' and is not so 'manifestly unreasonable' as to make it amenable to judicial review. Subsequently the government's decision to introduce the policy through legislation makes it even more unlikely that the policy could not be challenged. Consequently, Nick Billingham, a partner at Devonshire's told 'Inside Housing' that:

"We are pretty sure the government introduced it by primary legislation to make it harder to challenge. It also removes the need for lengthy consultation… Challenging primary legislation is a very, very high bar for a claimant. You need to show that it is manifestly unreasonable… This is going to happen."

Response of the National Housing Federation

David Orr, Chief Executive of the National Housing Federation 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 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.

"The housing association sector will be faced with a £3.9billion hit as a result of this announcement. Housing associations are the most successful public-private partnerships in history and have created their business plans based on the current rental formula. A reduction in their rental income will damage their capacity and ability to keep building. At the very least it will prevent them from building 27,000 desperately needed homes, but that figure could be much higher. We are making it clear that housing associations want to work with the Government to meet its housing ambitions, but this policy will make it much harder for them to do so."

The National Housing Federation argue that in practice the number of new homes lost could be much higher, particularly when considering other factors such as changes to working age benefits and extending the Right to Buy to housing association tenants.

They consider that the impacts on housing associations are likely to be varied and that:
- Most if not all associations will need to revisit their business plans
- Some may move developments away from affordable housing towards home ownership
- Loan covenant compliance may be under threat for some
- Increased perception of risk among some investors which may impact cost and availability of finance.

<u>Response of Shelter</u>

Shelter said:

"The big surprise today was the reduction in social rents by 1% for four years. This is good news for those on low incomes in social housing whose rent will be reduced – something we welcome. And it brings massive savings for the Department for Work & Pensions, at a time when we've long said the best way to reduce Housing Benefit spending is to reduce the cost of housing. However, it is likely to come at the cost of new affordable homes – which are desperately needed by those struggling private renters facing a cut in support. Housing associations will be particularly hit as their revenue drops, undermining their ability to borrow and build – even the Office for Budgetary Responsibility think this could mean as many as 14,000 fewer homes. The Government should ensure direct investment in building through an increase in the Affordable Homes Programme as soon as possible to offset this risk.

High income tenants

The government intends to oblige housing associations and councils to charge tenants earning more than £30,000 (or £40,000 in London) market rents rather than social rents. This approach has been dubbed 'pay to stay'. The Budget papers state that:

"The government believes that those on higher incomes should not be subsidised through social rents… Therefore, social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England, will be required to 'Pay to Stay', by paying a market or near market rent for their accommodation… This will ensure they pay a fair level of rent, or make way for those whose need is greater. Local authorities will repay the rent subsidy that they recover from high income tenants to the Exchequer, contributing to deficit reduction.

"Housing associations will be able to use the rent subsidy that they recover to reinvest in new housing. This could raise up to hundreds of millions of pounds in additional rental income for housing associations. The government will consult and set out the detail of this reform in due course."

In presenting the budget George Osborne said:

"We are also going to require those on higher incomes living in social housing to pay rents at the market rate… It's not fair that families earning over £40,000 in London, or £30,000 elsewhere, should have their rents subsidised by other working people.

"The benefits system should not support lifestyles and rents that are not available to the taxpayers who pay for that system. It's not fair that families earning over £40,000 in London, or £30,000 elsewhere, should have their rents subsidised by other working people."

The government expects the move to raise up to £250million a year by 2018/19. It is thought that this could affect 340,000 households.

This change - that will cost affected tenants on average up to £70 extra a week - will build on measures introduced under the coalition government that enabled housing associations and local authorities to charge market rents to those on incomes of more than £60,000. The Government estimates that higher income social tenants benefit, on average, by over £3,500 per household from reduced rent and represent approximately 9% of all social tenants in England. This includes over 40,000 social rented tenants with household incomes in excess of £50,000 per year; and a further 300,000 with incomes over £30,000 per annum.

Government sources have told 'Inside Housing' that the policy is 'likely' to contain a taper. This means social tenants earning just above the threshold may not immediately have to pay market or near market rent. Instead, rent will be gradually increased as household income rises further above the threshold.

The Treasury cannot confirm if the policy will require legislation. However there will be a consultation on the measure, which is due to come into place by 2017/18.

In the government's announcement, it was unclear whether the policy would apply to existing social renters. However, the Department for Communities and Local Government confirmed to 'Inside Housing' that the new rules would apply to both existing and new tenants.

Critics complain that the policy is designed merely to highlight the fact that some prominent people with relatively high incomes live in social housing. For example, Frank Dobson, who lives in a council flat near the British Museum, despite serving as a Cabinet Minister under Tony Blair and earning a six-figure salary; and the late Bob Crow who lived in a council house in east London while he was the leader of the RMT union with a pay package of more than £140,000.

At face value the proposal that people with reasonable means should not have their rents subsidised by people on lower incomes seems reasonable and is likely to be popular with many voters. However, consideration needs to be given to the probable outcome of the policy. When a tenant with a relatively high income is faced with a choice of paying market rent or buying their council home with a discount of between £70,000 and £100,000 what would you expect them to do? I expect that many will buy their homes. This will have two consequences: First, the taxpayer will be giving the person on a relatively high income a subsidy through 'right to buy' rather than through a social rent; and second, all the evidence demonstrates that the result of 'right to buy' in the long-term is not usually an increase in owner-occupation but an increase in private landlordism. Consequently the policy is likely to result in the taxpayer providing subsidies for tenants on relatively high incomes and for homes to transfer from social housing to private landlords.

Response of the Sector

Social landlords say relatively few of their households earn £30,000 and £40,000. 'One Housing' that operates across London, estimates that even their highest-earning tenants earn just £15,000 on average.

Tony Stacey, chair of 'Place shapers' that represents 100 housing associations, said the policy ran contrary to the government's attempts to get people into better-paid work because a higher-paid job could now mean higher rent or eviction. He said:

"It just seems a bit perverse compared to government's other policy of making work pay."

Paul Hackett, Chief Executive of Amicus Horizon, highlighted that few landlords hold data on their tenants' earnings saying:

"We just don't have that information so I think if it were to work we would need help from the tax office."

Commenting on the chancellor's 'pay to stay' plans, housing lawyer Giles Peaker, wrote:

"One hitch with Osborne's plan. £40,000 income in London means you can't afford market rent. Add £23,000 benefit cap & London is simply unaffordable."

Some commentators have suggested that the 'pay to stay' rules will be an 'administrative headache'. There is currently no mechanism for a social landlord to force their tenants into disclosing their income, and that changing individual tenancy contracts would be problematic. However, the government has stated that social tenants will be forced to disclose their income to their landlords and that legislation will be passed if necessary.

The government intends to give more detail in the forthcoming Housing Bill. Brandon Lewis, housing minister, said:

"We're introducing 'pay to stay' to ensure that high income social tenants pay a fair rent that better reflects their ability to pay."

David Orr, Chief Executive of the National Housing Federation said:

"Given the scale of the housing crisis, it is understandable that Government is looking for higher earners to pay what they can afford for their housing. Housing associations would like to work with the Government to find a way to make sure tenants pay a rent that reflects their household earnings, but would encourage them to avoid more red tape or blanket approaches to dealing with housing and welfare challenges. As independent businesses, housing associations need the flexibility to set their own rents in a way which reflects government spending constraints, their own charitable status, local housing markets and people's ability to pay."

Rod Cahill, Chief Executive of Catalyst, said:

"In high rent areas there is going to have to be some tapering, because it is not practical for [tenants] to pay full market rent."

However, Michael Gelling, chair of the Tenants' and Residents' Organisation of England, dismissed suggestions that the taper would mitigate the impact saying:

"[The policy] says, 'if you've got a bit more money, we're going to screw you for a bit more'"

Shelter said:

"Whilst some in social housing will see their rents reduced, others will see the opposite – substantial hikes. Those households earning over £40,000 in the capital and £30,000 elsewhere will now have to start paying market or near market level rates. These thresholds seem incredibly low at a time when rents are so high – so low in fact that households could now find they need housing benefit after years of paying their rent independently. Instead of bringing social renters in line with private tenants they should really focus on building affordable homes we desperately need."

The Social Market Foundation commented that:

"Critics are right to point to risks associated with this move. Perhaps the most obvious is that it may contribute to the long-term residualisation of the social housing sector. In the post-war era, the social housing sector represented a third of the United Kingdom's housing stock now down to a fifth; and it was dominated by earners – and quite high earners at that. In 1979, 20% of households in the top decile of the income distribution lived in social housing, compared to close to zero by 2004/05. The increasing focus on the poorest in society has had detrimental consequences for the popular political perception of social housing and social tenants, has affected the mix of neighbourhoods, and, indeed, has had knock-on implications for housing supply itself. This downward spiral may worsen if higher earners flee.

"But, it is also easy to overstate this argument. The theoretical advantages of social housing are threefold – subsidised rent, lower marginal deduction rates (because tenants are less likely to be in receipt of housing benefit and therefore do not have this subsidy withdrawn as they earn more) and security of tenure. Even if they have to pay up to the market rent, it is not obvious that higher earners would flee their social homes in favour of the private market, losing as they would their security of tenure and a subsidised home in the event of loss of job or income. They might also lose other advantages: the average social dwelling scores much higher on various quality metrics than the average private rented home. A much higher proportion of the former meet the 'Decent Homes' standard and average energy efficiency is also much higher. From the opposite point of view, there may be advantages if tenants do move – with evidence showing low mobility amongst social tenants. The latter is a symptom at least in part of tenants' risk aversion about losing the benefits associated with social housing if they were to move house. Reducing the losses to which a tenant is exposed may mean that more are ready to move to take up better-paid work.

"In overplaying the argument against the government's new policy, we may also miss important subtleties that will matter a great deal.

- *The starting threshold for this co-payment must be set at the right point. Too high (George Osborne might worry) and the revenue will be modest; but too low and work incentives for tenants will be damaged severely. The sweet spot is likely to be somewhere between the point where most households lose entitlement to tax credits (£32,900 for a household with two children) and the higher rate tax threshold. In this interval, the co-payment will be levied on those exposed to only modest marginal deduction rates from basic rate tax and national insurance contributions. On this analysis, the Treasury may be getting it about right by setting the threshold at £30,000.*
- *The co-payment of rent must be tapered in – rather than tenants experiencing a sudden jump in their payments – so as to flatten any significant humps in the work incentives. Given the overall thrust of Universal Credit is to simplify and improve work incentives, any other policy is irrational.*

- *The co-payment must relate to equivalised resources. In adopting co-payments for higher income tenants, the Government is applying the principle of means-testing (that applies to Local Housing Allowance for private tenants) to social housing. In doing so, the Government must ensure that it is assessing not just the income of the household but also the needs of the household which will vary depending on the composition of the family and the number of children. Successive reforms have failed to follow this rather basic logic: Child Benefit was withdrawn on the basis of the highest earner in a household rather than household income; the Benefit Cap (shortly to be £20,000) takes no account of family size. Furthermore, the 'sweet spot' in terms of Marginal Deduction Rates varies for different sized households, meaning that the threshold for co-payment should vary as the number of children increases.*
- *The reform also raises more objective questions about 'market rents' in social housing. The sector is highly regulated and access restricted; as such, it is not part of the mainstream market. For instance, a true 'market rent' for a social housing property should be higher than that of an identical private dwelling because of the comparatively generous security of tenure that residents enjoy (as well as potentially other advantages described above). As such, the 'value' of social housing is reflective not only of the stock but of the regulation that confers additional rights on its tenants. It doesn't appear that the Government wishes successful social tenants to pay for this advantage – otherwise they probably* would *all leave.*
- *Finally, we are in danger of diverting attention away from the major problem in social housing, namely high levels of unemployment and economic inactivity, and low pay for those that do work. Average pay for social housing tenants is much lower than for those in other tenures. Almost half of all employees in social housing are on low pay compared to nearer a fifth for the rest of the population. Even taking an individual with similar characteristics, social housing hourly wages are way below other sectors. Arguably, therefore, the much larger problem is how to increase the earnings and productivity of social tenants."*

Overall Reactions of the sector

Chartered Institute of Housing

Prior to the budget the Chartered Institute of Housing had called on the government to build more affordable homes, boost standards for private renters and help councils to tackle rogue landlords. They said that the government should establish a national set of standards for private landlords and encourage them to sign up with targeted tax breaks. And when councils take legal action against rogue landlords for housing-related offences, they should be able to keep any resulting fines to fund further enforcement rather than having to hand them over to the Treasury, as is currently the case. Their Deputy Chief Executive Gavin Smart said:

"More and more people are living in private rented homes, including more older people, more families with children and more vulnerable people from the housing waiting list. So it's vital that we look at new ways to raise standards and make sure cash-strapped councils get more help to tackle the minority of rogue landlords… As we continue to face a housing supply crisis, it's critical that the government does everything it can to support housing associations and councils to develop new affordable homes, to maximise the role they can play in building new homes alongside private developers. A welcome first step would be to confirm that the commitment in last year's autumn statement to fund 275,000 new affordable homes remains in place. We think the government should also be looking at other steps it can take to support new affordable house building, including by local authorities."

The institute's submission also called on the government to:

- Remove stamp duty when older home-owners who receive Pension Credit down-size to smaller properties. This move would make downsizing more affordable for older people on low incomes and free up bigger homes for larger families.
- Set up a £100million fund to support vulnerable people living in the private rented sector. Councils could bid for cash from the challenge fund to support vulnerable tenants, which would help reduce homelessness caused by private rented tenancies coming to an end (currently the most common cause of homelessness) and give landlords more confidence to let to households they see as 'higher risk'.
- Help housing associations and councils build more affordable homes. In last year's autumn statement the government committed to provide 275,000 homes up to 2019/20 (55,000 homes a year) through the Affordable Homes Programme. CIH said this commitment must be maintained and strengthened to help the increasing number of people who are struggling to access a decent home at a price they can afford. It is vital that the resources committed to it are not reduced as the government looks for further spending cuts.
- Review the current programme and consider increasing its funding from 2016/17 onwards to help social landlords maximise the part they can play in tackling the housing crisis by building at least 85,000 homes a year. Its submission also calls on the government to allow councils to borrow more so they can build more homes.

As we have seen, the government did not take this course of action.

Following the budget, Terrie Alafat, the Chief Executive of the Institute, made the following statement:

"We support the government's ambition of building more homes and helping people realise their aspirations of home ownership and work – but not at any price.

"We welcome the announcement of the new national living wage, which could help reduce the number of working people being drawn into the benefits system. But we are concerned that some of the measures announced today such as the far-reaching benefit cuts are going to make it more difficult for people to keep a roof over their head and affect the number of new homes built.

"Our housing crisis means that millions of people have no choice but to rely on housing benefit to secure a roof over their head – including an increasing number of people in work, which has more than doubled from around 445,000 to just over a million in the last five years.

"And cutting the benefit cap risks making large areas of England unaffordable for larger families on benefits.

"Action to restrict entitlement to benefits is at best a stop gap measure and at worst increases poverty and misery for already poor and vulnerable people. Long-term, effective action would focus on increasing our housing supply not further restricting access to our already insufficient and inadequate supply of 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.

"We know the government wants to tackle this issue, and housing professionals across the United Kingdom are ready to work with them on the solutions that could make a real difference. But we're concerned that some of the measures announced today are going to make it more difficult for them to play their part in building the new homes we need and supporting people into work or training.

"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."

National Housing Federation

David Orr, National Housing Federation Chief Executive said:

"Housing associations share the Government's vision of homes as a foundation for getting on in life. Like this Government, we want to see more homes built, more people working and more families with a home of their own. And like this Government we want to help people off the merry-go-round of benefits, ensure that hard work pays and reduce the benefit bill.

"Housing associations share and deliver on the ambitions of helping people into homeownership and building more homes, and have already helped 275,000 into ownership.

"Housing associations also help people who aspire to live in a good quality affordable home to rent rather than to buy.

"With the support of Government, housing associations could do much more. They want to help more people, including our own tenants, into homeownership but we need to work with Government to find a way to do that without limiting their independence as businesses, which is crucial to achieving the shared ambition to boost housing supply."

At the same time, he wrote to all housing associations as follows:

"I promised to write to you after the Budget with a full response on the changes we knew were coming our way, including further cuts to welfare. As expected, the cuts will be deep and will hit the sector hard. The 1% cut to social rents may be the biggest challenge we have faced in decades, and I am fully aware just how serious it is for many of your businesses. With the Right to Buy and further reductions in benefits also affecting your tenants and your revenue streams, I know that this will be a severe test of the sector's resilience.

"The Federation's top priority now is working with you to mitigate the impacts of the last few weeks' announcements. Our first step is to gather intelligence and model the effects on the sector to take to Government.

"We are also investigating alternative offers the sector could make to the Government that would achieve its aims while not destroying our capacity to build and thrive. This will take some time and will of course involve consultation with you, but we believe solutions must be found that work for both parties.

"In the meantime, we will continue to talk to ministers and civil servants to reiterate how damaging this is for housing associations and emphasise our ambition to work with the Government in partnership rather than opposition. I met with Greg Clark and Brandon Lewis immediately after the Budget last week – a significant prioritisation of their time – and have another meeting with Brandon next week, where I will be setting out the impact of the new measures.

“Brandon has also committed to attend our parliamentary event this afternoon where we will be launching ‘A Plan for Homes’, a statement of intent that sets out what housing associations could deliver if the external environment were right. It sets how we’d achieve the vision for 2033 outlined in ‘An Ambition to Deliver’ – and, crucially, the policy changes we’d have needed to get there, which are based on the work we did with members over the last year.

“Of course, the developments of last week make it now virtually impossible for housing associations to deliver this if the Government follows through on its plans. So we’ll be presenting ‘A Plan for Homes’ as an illustration of what could have been, and what still can be, if the Government works with us to enhance rather than inhibit your businesses. It is a vivid portrait of how bold, effective and valuable housing associations are, and will help us maintain that crucial positive narrative alongside the difficult conversations we’ll now be having.”

<u>Place shapers</u>

Tony Stacey, Chief Executive of South Yorkshire Housing Association said:

“So what of the impact on associations’ business plans? A combination of the 4% rent reduction, a prospective hike in interest rates next year, the loss of control of our assets that ‘right to buy’ constitutes and the impact on cash flows of welfare cuts means many boards will see no alternative but to cut their new development programmes.

“How easy will it be for associations to find the required efficiency savings is a question which all must now address. Many will feel that they have already driven out costs through their work on value for money to compensate for reductions in grant. How much more is left? This will be tough – really tough, but it should not lead to a rash of bankruptcies.

“Nevertheless, savings on this scale cannot be found by better process management. Jobs, services and community investment will inevitably be cut back. Some associations will feel they cannot continue in their present form, and will look to alternative structural solutions including mergers and demergers. Do not assume that the large associations will be exempt from these pressures.

“A critical issue which is still to be decided, is whether rent rebasing will affect rents for supported housing. This will be far more difficult to accommodate as over 80% of costs relate to staffing, and commissioners impose specific requirements on staff input. The campaign on this issue begins today.”

<u>Chartered Institute of Public Finance & Accountancy</u>

Ken Lee, the Chair of the Housing Panel at the Chartered Institute of Public Finance & Accountancy wrote that:

“Last week’s Budget saw George Osborne mount an audacious swipe at Housing Revenue Account funds. The impossible just got harder.

“Popular legend has it that it was Marie Antoinette who said: ‘Let them eat cake’. Fast forward a couple of centuries and another member of the ‘ancien régime’ is certainly looking to not only have his cake but very much wants to eat it, and some of the icing on the top as well. And the providers of these comestibles are to be the least well off members of society.

"It is no more than three years since local authorities and their tenants, via the Housing Revenue Account, were asked to pay considerable sums to effectively buy the rental streams for the next thirty years in their housing revenue account. The idea was to give them resource certainty so there would no longer be a decline in the standard of local authority social housing. The amount paid into the Treasury was around £9billion!

"At the time of self-financing it was promised that, if any of the components that were used to calculate the buy-out price changed, then this once-and-for-all settlement could be reopened. Since then, there have been a series of changes that have made housing revenue accounts more difficult to operate: bedroom tax; rent increases guidelines changed from the retail price index measure of inflation to the consumer prices index; removal of rent convergence; increased discounts on Right to Buys; Universal Credit – to name but a few. Yet in the face of all this, local authorities have continued to increase efficiency, improve their property services and even managed to start building some new houses to try and meet the 200,000+ per annum target. The shedloads of money applied to the private sector has so far not produced the goods.

"However, the election introduced the challenge of selling off the best housing revenue account properties (some estimate this will be £4.5billion per annum handed over to the Treasury) to enable the… dream of everyone owning their own home, yes even housing association tenants. This means the local authority stock's income is reducing possibly to the point when it starts to become questionable if they all can continue.

"And now the very same chancellor who received that dollop of cash is looking to take another £1billion from the housing revenue accounts in a four-year hit because he claims social housing receives a subsidy. Projections over the remaining life of the thirty year settlement show many billions of pounds will be lost – the impossible just got harder. As to a subsidy, his fist-waving colleague Mr Iain Duncan-Smith's Universal Credit now sees the decoupling of the money paid in benefit from the housing landlord accounts. The money is paid to the tenant and the landlord now has to extract the rent. A really efficient approach for rent collection – NOT!! And yet Mr Osborne claims this £1billion can be found by being even more efficient.

"Poor old Marie Antoinette lost her head in the end and now I fear it will be housing revenue accounts that die – a death of thousand cuts. As for Mr Osborne, well time will judge if has provided us all with a living wage and he can reign supreme… Meanwhile, where are those at the bottom of the pile going to live? In a cardboard box in the middle of the road?"

<u>Shelter</u>

Shelter said:

"Overall, it's a bad budget day for housing and those struggling with housing costs. By definition, people in receipt of support do so because they are unable to afford what the State has previously designated as the bare minimum to live.

"It's welcome that the government appears to have realised the impact of rising housing costs on the benefit bill. But they need to go much further, committing to the big, bold programme of affordable housing needed to reduce high housing costs and further ease pressure on the benefits bills. Until they get these under control, they will never meaningfully get on top of welfare spending.

"Only if you invest in affordable homes by rebalancing investment and having a housing strategy that recognises house building, rents, benefits, and homelessness are part of the same problem, can you permanently bring down the welfare bill.

"If you just slash and burn benefits in the hope people in genuine need will miraculously find well paid jobs, cheaper homes or fewer children, you're unlikely to succeed in anything but making more people homeless."

Joseph Rowntree Foundation

Julia Unwin, Chief Executive of the Joseph Rowntree Foundation, said the labour market produced very little progression for the bottom 25% of workers and that:

"It looks to me that social housing may well become the last resort, the Accident & Emergency of housing, where you go in a crisis but don't stay for long… Social housing [risks] becoming a temporary place, it is no longer part of the infrastructure, it's no longer part of the platform which we build stable lives and raise the next generation. It's an emergency response.

"We need strategies that involve people who are living in poverty because they would understand the most about what it takes to get out of poverty."

Conclusions

The budget contained a number of measures relevant to housing. The proposals for the extension of 'right to buy' to housing association tenants and the sale of high value council homes were confirmed. A package of welfare reforms to reduce expenditure and therefore entitlements by £12billion was outlined. However, the reductions in social rents and the requirement to charge near market rents to tenants on higher incomes were not so widely expected.

It is clear from statements made by the government and the social housing sector that there is a 'gulf' between them in terms of their analysis of the 'housing crisis' and what they are trying to achieve. In this situation it is essential that the sector comes to understand where the government is coming from if it is to frame an effective response.

Prior to the budget the Prime Minister and the Chancellor of the Exchequer announced the core elements of their 'one nation' housing plan that will feature in the planned Housing Bill that will be introduced in the autumn. The measures include building discounted homes for first-time buyers, measures to release public land for housebuilding, support for small and self- builders and changes to the planning system. The focus of the plan is on supporting people into home ownership at a time when market forces are pushing home ownership into decline for the first time in living memory. The focus is NOT on meeting housing need as traditionally understood in the sector.

The tone of the Prime Minister's comments is very much along the lines of 'You are either with us or against us!' Writing in the 'Times', the Prime Minister and Chancellor said:

"Having your own place is an important stake in our economy. It's also one of the best expressions of the aspirational country we want to build, where hard work is rewarded. We don't want this to be a country where if you're rich you can buy a home, but if you're less well off, you can't. We want it to be one nation, where whoever you are, you can get on in life.

"In the last five years, we got builders building, lenders lending, and government-backed schemes alone helped more than 200,000 people on the property ladder. The next five will be about going much further. Of course, there will be opponents – but we are determined to take them on.

"It's simple: you are either pro-reform or not; for building homes, or not; on the side of young people, or not. We know our position. As a one nation government, we will always be squarely on the side of those who want to get on."

The challenges faced by housing associations and local authority housing services are considerable both in terms of responding to the government's requirements and initiatives and in managing in a changed political and financial landscape. This budget is only the start of a process that will see significant changes in housing, many of which will not be welcomed in the sector. There is clearly a need for housing associations and local authorities to gain a full understanding of the new environment and then to revisit and revise their business plans both in terms of their strategies and their financial projections.

Adrian Waite
July 2015

Right to Buy Extension, Sale of High Value Council Homes and Rent Reform

September 2015

The Government was elected on a commitment to extend the 'right to buy' to housing association tenants and to fund this through the sale of high value council homes. In its July 2015 budget it also announced new policies for social rents including 1% annual reductions and market rents for tenants with high incomes.

These 'reforms' will have a significant effect on the business plans of both housing associations and local authorities. In particular there is concern about the continued ability of housing associations and local authorities to develop new homes – and even some concern about their continued viability. There is therefore a need for those involved in managing the finances of housing associations and local authority housing services to understand the inter-relationship between these policies.

This seminar will examine the government's proposals in detail and consider all the implications for housing associations and local authorities and the options available for managing those implications.

The seminar will address the following issues:

- Extension of 'Right to Buy' to Housing Associations
- Sale of High Value Council Homes
- Reductions in Social Rents and Market Rents for tenants with high incomes
- The cumulative impact of these changes on Housing Association and Local Authority Housing Business Plans

Who should attend?

All those with an interest in housing association or local authority housing in England, including Managers in Housing Associations, Local Authorities and Arm's Length Management Organisations, Councillors, Housing Association and ALMO Board Members, Housing Accountants and Tenant Representatives.

The session is accompanied by a very useful book entitled: **"Right to Buy Extension, Sale of High Value Council Homes and Rent Reform"**

Venues and Dates:

London: Novotel Hotel, Waterloo – Tuesday 22nd September 2015
North: Clough Manor Hotel, Oldham – Wednesday 30th September 2015

For more information or to make a booking please visit: http://www.awics.co.uk/rtb.asp

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Other AWICS Seminars – Autumn 2015

All You Want to Know about Scottish Social Housing Finance

- 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

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 visit http://www.awics.co.uk/welfare15.asp

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

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About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about us and our services please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk

Services that we offer include:

- Management Consultancy – http://www.awics.co.uk/ManagementConsultancy.asp
- Interim Management – http://www.awics.co.uk/interimmanagement.asp
- Regional Seminars — http://www.awics.co.uk/Seminars2015.asp
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