

Submission

## **Shelter response to MHCLG consultation**

### **Rents for Social Housing from 2020 - 21**

November 2018

Shelter helps millions of people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

We're here so no one has to fight bad housing or homelessness on their own.

Shelter welcomes the opportunity to respond to this consultation on rents for social housing from 2020 – 2021. We are responding to emphasise the importance of ensuring rents are genuinely affordable for those currently living in social housing and for future social tenants. An affordable rent settlement is fundamental both for the wellbeing of social tenants and for encouraging investment in building vital new social housing stock. Social housing as an investment product relies not only on there being a long-term rent settlement, which gives providers certainty over how rents can change, but also on rent levels being affordable so providers have confidence that there will be effective demand for any new housing stock. When considering rent levels, the government must also consider grant funding as it's vital to ensure that adequate grant funding per unit is provided to enable providers to charge genuinely affordable rents.

***Social housing must remain affordable:***

Shelter and British Gas's Living Home Standard in 2016 found that affordability was rated by the public as among the most important aspects of an acceptable home.<sup>1</sup> A home was defined as affordable if people were able to pay their rent or mortgage without regularly cutting spending on essentials and without worrying that these payments would rise to a level that would be difficult for them to pay. Other research has highlighted how housing being unaffordable can have a major impact on people's well-being. Housing affordability has been shown to impact on all aspects of life, including developing and maintaining relationships, spending on food and essentials, and the ability to pay for things without borrowing on credit cards.<sup>2</sup> Polling by ComRes and Shelter in 2017 also found that housing affordability was the most frequently referenced issue by those who saw housing pressures as having had a negative impact upon their mental health.<sup>3</sup>

Social housing is designed to be affordable for those that need it and over two-thirds of social renters find it easy to pay their rent.<sup>4</sup> However, a significant number of social tenants struggle to afford the rent and according to the English Housing Survey, almost one-third of social tenants report a difficulty in paying their rent (similar to in the private rented sector), with 7% of those renters saying they find it very difficult.<sup>5</sup> Unsurprisingly social tenants on low incomes are most likely to be affected and recent research for Shelter has suggested 48% of social tenants on low incomes report struggling to keep up with their rent payments.<sup>6</sup>

The affordability of social housing has been undermined in recent years by changes in government policy which have led to higher rents and a reduction in benefits for some tenants in social housing. For example, Affordable Rent - where rents reach up to 80% of market levels and tenancies are less secure than those found in social rent – is not suited to the needs of those it is expected to house.<sup>7</sup>

Other social tenants have faced difficulty due to welfare reforms which have reduced support with housing costs. For example, the Removal of Spare Room Subsidy (often known as 'bedroom tax') has reduced housing benefit payments by 14% for those tenants in social housing who have a spare bedroom. With a lack of smaller social homes available, many

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<sup>1</sup> Shelter, Ipsos Mori and British Gas, [Living Home Standard](#), 2016

<sup>2</sup> Shelter, [The Human Cost](#), 2010

<sup>3</sup> Shelter and ComRes, [The impact of housing problems on mental health](#), 2017

<sup>4</sup> English Housing Survey Social Rented Sector Report, 2016-17, Annex Table 2.4

<sup>5</sup> English Housing Survey Social Rented Sector Report, 2016-17, Annex Table 2.4

<sup>6</sup> Britain Thinks, Survey of 1,000 social tenants, 2018

<sup>7</sup> J. Bibby, [Does Affordable Rent really mean the end of social housing?](#), Shelter blog, 2014 and Shelter, [Response to Tenant Services Authority Consultation](#), 2010

tenants have found it impossible to downsize, leaving them with no other option but to see their benefit payments cut. An evaluation of the 'bedroom tax' policy found that 78 per cent of people affected said they regularly run out of money by the end of the week or the month.<sup>8</sup> More than half of affected tenants were in rent arrears one year on from the introduction of the policy. 46% of affected households cut back spending on energy, 76% cut back on food.<sup>9</sup>

The above highlights how the affordability of social housing has come under threat in recent years. As the government sets out its rent policy for 2020 and beyond, the government must evaluate the level of rent needed to guarantee that rents are genuinely affordable and predictable for all those living in and in need of social housing.

### ***The rent settlement and housing supply:***

As well as ensuring rents are affordable for social tenants, the government must ensure that the rent settlement offers long-term certainty for providers to secure much needed investment in social housing. The growth of private finance in social housing provision has been underpinned by comprehensive risk management in the form of a strong regulatory regime and – until recently - a stable and politically sustainable rent settlement. Crucially, the Housing Act 1988 laid the ground for housing benefit to cover the higher rents housing associations would need to charge, acting as an implicit government guarantee, that gave investors confidence that rental income will be collected and returns delivered. All this made social housing a very attractive proposition for private investors looking for stable, predictable, long-term returns. In turn, lenders have allowed housing associations to borrow over very long terms at near-sovereign rates.

In recent years, this core strength of social housing as an investment product has been undermined by unpredictable changes to the rent settlement. In particular, the 1% social rent decrease in the 2015 Budget, reductions in support for housing costs through the benefits system, and the loss of direct payments to social landlords as part of the move to Universal Credit, have all undermined investor confidence. The risk appetite of private investors has been further impacted by uncertainty around proposed changes that have not actually materialised or changes which have subsequently been reversed, such as the ban on housing benefit for 18 – 21 year olds.

Evidence of the impact of uncertainty on investment can be found in the supported housing sector.<sup>10</sup> The government announced in the 2015 Autumn Statement that housing benefit for people living in supported housing would be capped at Local Housing Allowance levels, which generally do not cover the higher service charges found in supported housing. A pot of discretionary funding to help deal with the shortfall was subsequently announced, but uncertainty over the final settlement remains, particularly for people who need supported housing for less than two years. As a result of the government's proposed changes and the subsequent uncertainty, many housing associations scaled back their plans for investing in new supported housing and a National Housing Federation survey of 69 housing associations

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<sup>8</sup> Cambridge Centre for Housing and Planning Research & Ipsos MORI, [Evaluation of Removal of the Spare Room Subsidy](#), 2015

<sup>9</sup> Cambridge Centre for Housing and Planning Research & Ipsos MORI, [Evaluation of Removal of the Spare Room Subsidy](#), 2015

<sup>10</sup> Supported housing provides specialist services alongside accommodation for older and disabled people, domestic violence survivors, care leavers and people recovering from addiction.

in 2017 found they had cut their plans for new supported housing supply by 85% in response.<sup>11</sup>

This must not be allowed to happen again in supported housing or social housing more widely. It is vital that the rent settlement gives providers certainty about what they will be able to charge over the long term. Rental income plays a central role in servicing the borrowing needed to build new social homes and to maintain and improve existing ones. However, it is equally vital that providers have confidence that the rents they are charging will be affordable to those who will be living in social housing, particularly where providers use private finance to build new social homes. The risk that rental income will be lower than expected – whether due to policy changes which reduce social rents or because of rising arrears due to the affordability problems set out above – will ultimately be reflected in providers' credit ratings and borrowing costs. Accessing private finance relies on both providers and investors being confident that the rent the provider is planning to charge will cover their debt payments, and that residents will be able to reliably pay that rent.

The sustainability of social housing also relies on grant funding per unit being provided at the right level to build homes that are genuinely affordable. If there is more grant per unit then this reduces the amount providers must borrow and brings down the cost of the borrowing that does have to happen. If grant funding is too low, then providers could consider charging higher rents to cover their costs, but if tenants are unlikely to be able to pay these higher rents then there will be no effective demand for new stock. If investors are not confident there will be sufficient demand then they will be unwilling to invest and the social housing we desperately need will not be built. Therefore, it is vital that government provides enough grant per unit to secure investment in both current and new housing stock.

The former Mayor of London's affordable homes programme is a good example of how grant funding and rents in the social sector impact on supply. The affordable homes programme offered so little grant per home that housing associations and councils knew that people from the nominations lists would not be able to afford the rents the homes would have to charge. As a consequence, the programme was significantly undersubscribed.<sup>12</sup>

With over 1 million households on the waiting list for social housing in England, it is vital that the government creates a sustainable funding model which enables the much-needed building of social housing.<sup>13</sup> The government's social rent policy plays an essential role in securing investment in social housing whilst also making sure that both current and new social housing is affordable for those that need it. Therefore, when setting its rent policy for 2020 and beyond, the government must consider a number of interrelated factors:

- Rent levels must be genuinely affordable for both current and future social tenants
- Providers must have long-term certainty over the rents that they will be able to charge
- Adequate grant funding per unit must be provided to enable the building of genuinely affordable homes

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<sup>11</sup> Inside Housing, ['Associations pull 85% of planning supported housing developments'](#), August 2017

<sup>12</sup> Inside Housing, ['Boris affordable homes programme in chaos'](#), May 2014

<sup>13</sup> The Guardian, [More than one million families waiting for social housing in England](#), June 2018

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