PAC REPORT 28TH APRIL 2017 – HOUSING: STATE OF THE NATION

The Public Accounts Committee published its Housing: State of the Nation report on 28 April 2017. The report discussed the relationship between housing benefit spend and the building of new homes, and whether more could be done to use housing benefit spend to influence housing supply.

Please find attached annex A, which is a note from my Department that describes work done with colleagues in the Department for Work and Pensions to identify metrics that can be used to establish the full impact of housing benefit on the construction of new homes. It also examines the scope for this financing to be used more innovatively to increase housing supply and home ownership.

I also attach annex B, which is a note from my Department that details research on how many non-decent homes in the private rented sector are being subsidised through housing benefit, the total amount of housing benefit this represents, and potential policy mechanisms for utilising this funding to raise the quality of the housing it subsidises so as to meet decent homes standards.

I hope the committee finds these notes useful.

Yours sincerely,

Melanie Dawes CB
Annex A:

A note on the metrics that can be used to establish the full impact of housing benefit on the construction of new homes, and the scope for this financing to be used more innovatively to increase housing supply and home ownership

Summary

1. The primary aim of housing support, including both housing benefit (HB) and the housing element of Universal Credit (UC) is to help people on low incomes meet their housing costs. However, by doing that it is also a key part of a wider system that enables social landlords, particularly housing associations, to finance new house building through their rental income. This note explains that overall system and the role that Government plays through housing support, rent policy, regulation and grant funding. It sets out the metrics we can use to examine the effectiveness of the whole system. However, it concludes that we cannot reliably isolate the role of housing support money.

Housing Support and Rents

2. Housing support refers to HB and the housing element of UC. It is a demand led budget - £24bn a year is spent across Great Britain, with £15bn spend in the social rented sector and £9bn in the private rented sector. It has been primarily designed as a personal subsidy to help those who cannot afford to access the housing market on their own.

3. Currently, 59% of tenants in the social rented sector in England receive an element of housing support.¹ A significant proportion of rental income in the social sector therefore derives wholly, or in part, from housing support.

4. 22% of tenants in the private rented sector (PRS) in England receive an element of housing support that they use to pay their rent.² The amount of housing support paid in the PRS is determined by Local Housing Allowance (LHA) rates. These are based on a person’s household size and were previously capped at the 30th percentile of local market rents before being frozen in 2016. Housing support is a less significant proportion of rental income across the private sector as a whole, than it is in the social sector.

Housing Support and the supply of social housing

¹ English Housing Survey 2016-17
² English Housing Survey 2016-17
5. Rental income, from whatever source, is a key part of the supply equation in the social rented sector, along with access to capital funding (for example through grant), borrowing and the ability to attract investors.

6. Most new social housing is delivered by housing associations. The key factors that influence housing associations’ ability to invest in delivering new affordable housing include:
   a. The availability and cost of borrowing;
   b. Assumptions about future rental income;
   c. The availability of subsidy, whether in the form of capital grant or cross-subsidy from their own resources;
   d. Build costs; and
   e. The cost of managing and maintaining new homes.

7. In relation to (a) housing associations are able to access significant levels of private borrowing at relatively low cost. The attractiveness of housing associations to lenders can partly be explained by their regulated status, the high demand for social housing and the fact that housing associations have relatively stable long-term income from rents. The availability of housing support through HB and UC, is a key factor in the certainty and stability of that rental income which, in turn services borrowing. Expectations about future rental income can also affect the value of properties for loan security purposes as (in some cases) valuations are based on projected social housing rental income streams.

8. In relation to (b), rental income assumptions are crucial to housing associations’ overall business planning, including their development plans, as it represents the majority of the sector’s turnover. Welfare policy is one influencing factor on assumptions about future rental income, due to the proportion of social housing rents that are met by HB or UC. However, government rent policy more strongly affects the rental income generated by social housing providers since it caps the amount of rent that can be charged. In October 2017 the Prime Minister announced plans for a long-term rent deal which would permit annual rent increases of up to CPI+1% for five years from 2020. We are currently consulting on a direction to the Regulator of Social Housing that reflects this proposal. This proposal recognises the need for a stable financial environment to support the delivery of new homes, while also protecting tenants from excessive rent increases.

9. Housing support is therefore one of several factors that enable housing associations to borrow to build new homes. While we cannot isolate the role of housing support, we do have metrics that enable us to examine the effectiveness of the overall system.
By 2017 the housing association sector had £70bn private sector debt equating to some £25,188 per home that they own. The Regulator of Social Housing’s Global Accounts for 2017 show that that the sector invested £10bn in new housing supply, including social housing, as well as investment in properties for sale, and market rent, and £1.6bn in their existing homes. Total investment of £11.6bn represents a 15% increase on 2016. Housing associations produce Financial Forecast Returns for the Regulator which set out the sources of funding for planned development. These show that the sector continues to rely on debt finance, serviced by rental income, to fund new supply. The 2017 forecasts showed that the sector was expecting to raise an additional £24bn debt to support its planned development programme over the five years to 2022.

Although it is not possible to isolate housing support and disaggregate the proportion of rental income that is used to support new supply, the vast majority of the housing association sector’s rental income goes to associations that are involved in developing new homes. There are around 240 housing association groups that own or manage at least 1,000 social homes, and these associations hold more than 95% of the sector’s stock – and therefore receive a very high proportion of the sector’s rental income. The most recent analysis by the Regulator of Social Housing found that only seven associations with more than 1,000 homes did not develop any homes in 2015-16 or 2016-17. The majority of these were specialist care and support providers or recent transfers from council ownership with significant commitments to investment in their existing homes.

Could we use housing support more directly to drive investment in new homes?

Given the potential for housing support funding to support new development, we have considered whether access to housing support could be made conditional on building new homes, and whether that would increase the supply of new homes.

The most fundamental barrier to this is that housing support is a personal entitlement of an individual, based on their personal circumstances. It would not be reasonable or legitimate for that to be determined by the behaviour of the landlord.

Even setting that aside, we do not see that there is significant potential to change behaviour this way, or that it would be reasonable to try to do so, given the independent, private sector nature of housing associations. Analysis at paragraph

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3 Regulator of Social Housing- Global Accounts 2017
4 Regulator of Social Housing- Sector Risk Profile 2017
11 shows that those social landlords who are not building, are smaller, specialist, or heavily constrained by existing debt.

**Housing support and PRS supply**

15. Although some PRS landlords do receive rental income which includes housing support, most landlords only own one or two properties and we understand that they do not typically leverage rental profits to invest in new development. The Council of Mortgage Lenders’ 2016 survey, “The profile of UK private landlords” found that 62% of landlords owned only a single rented property and only 7% owned five or more. The survey found that landlords are most likely to see their properties as investments combining capital growth and rental income, or as pensions. For this reason, rental income in the PRS, and any HB or UC that may support it, is unlikely to have a significant impact on new development.

16. The potential exception to this is if there were large-scale institutional investment in the sector, i.e. by housing associations or other build to rent landlords investing in homes aimed at people in income brackets whose rental payments are underpinned to a significant extent by housing support. In this case, it could more closely mirror the situation in the social sector, which could give some confidence in a reliable, long-term rental stream, and encourage more investment at the margin.

17. However, the proportion of tenants claiming housing support is smaller in the PRS and the amount that can be paid is capped by LHA rates. The extent to which any large institutional investor would value the security of housing support would depend on the overall viability of the development and the rental price point at which they can maximise their earnings compared to other, more profitable, alternatives. We also understand that build to rent landlords in the private sector focus primarily on an income bracket where the creditworthiness of the prospective tenant derives primarily from employment income rather than housing support.

**Metrics to establish the impact of housing support on supply**

18. The drivers of supply, and the measurement of their relative impact, need to be considered in the context of the wider housing system alongside the more central elements of supply policy. MHCLG already uses a number of metrics and analytical tools to assess and monitor the housing market, including the Housing Summary Measures Analysis from the Office for National Statistics, which brings

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5 https://www.cml.org.uk/news/cml-research/the-profile-of-uk-private/
together existing data for England and Wales from multiple sources and examines trends across the tenures.

19. The indirect nature of the relationship between housing support and supply, as set out above, mean that it is not possible to specifically measure performance in leveraging rental income, including that funded by housing support, for new supply.

20. However, the Regulator of Social Housing has recently introduced new value for money metrics that aim to shed light on how well individual housing associations are using their resources to deliver their objectives. These include metrics that measure the number of new homes a housing association delivers as a percentage of the homes it owns - there are separate metrics for social and non-social housing. This goes some way towards measuring how well housing associations are leveraging their existing stock to support new house building.

21. Housing associations are now required to publish their performance against these metrics in their annual accounts. The Regulator will review associations’ performance against the metrics as part of regular in-depth assessments. The new supply metrics also form part of the new ‘Sector Scorecard’, a sector-led initiative that aims to help housing associations measure and compare how well they are performing on value for money. In the pilot of the ‘Sector Scorecard’ more than 300 housing associations owning and managing 2.4m homes took part, representing over 80% of housing association stock in the UK. In the pilot year (2016-17), the median figure for new homes developed as a percentage of homes owned was 1.1%. The top quartile performers developed at least 2.21% of homes owned.

22. In respect of local authorities, they currently publish their housing revenue account income including that from rents, and expenditure (including that on capital). However, in line with the above, it does not outline how much of the expenditure is directly from surplus rental income. As such, MHCLG is not able to accurately measure the degree to which income derived from housing support is being used to build new homes.

Conclusion

23. Rent income, including that generated through housing support, supports new supply since it influences the ability of social housing providers, particularly housing associations, to invest in delivering new affordable housing. However, there are also other important factors to consider such as Government rent policy, the availability and cost of borrowing, the availability of government
subsidy, build costs and the cost of managing new homes. We cannot reliably isolate the role of housing support money in this wider system and do not therefore consider it viable to develop a metric to determine the overall impact of housing support on supply. However, we do have metrics which enable us to examine the effectiveness of the overall system and will continue to use these to assess the delivery of new affordable housing.
Annex B

A note on how many non-decent homes in the private rented sector are being subsidised through housing benefit, the total amount of housing benefit this represents, and the potential policy mechanisms for utilising this funding to raise the quality of the housing it subsidises so as to meet decent homes standards.

24. We are continuing to take action to reduce the number of non-decent homes in the PRS and policy interventions have seen the position improve rapidly over the past decade. The English Housing Survey (EHS) reports that the proportion of non-decent private rented sector homes has fallen from 47% in 2006 to 27% in 2016.

25. Both MHCLG and DWP have a number of sources of information to estimate the number of non-decent homes that receive money from HB spend. Earlier this year, we provided the Public Accounts Committee with an estimate of the number of working age households receiving HB in the PRS, who are living in non-decent accommodation, and the total amount of HB spend this represents by combining administrative HB caseload and expenditure data with the English Housing Survey.\(^6\) We found that a higher proportion of working age households who live in the PRS, and are in receipt of HB, live in non-decent housing than those not in receipt of HB.

26. An estimated £2.5bn of working age HB spend in the PRS was for tenants in non-decent accommodation in 2016-17. This represents 38% of HB spend on working age households in the PRS.

27. Using this information, we are working with DWP to understand how we can make best use of our financial levers and existing powers to support tenants, and to prevent landlords from abusing the benefit system to provide poor-quality housing.

28. To help us to devise additional options to improve the quality of housing stock in the PRS, MHCLG is gathering evidence that can feed into work to look at options for LHA post-2020 when the current freeze ends. For example, the Department commissioned the English Private Landlord Survey earlier this year and its findings are to be reported later this Autumn. The survey will provide much needed information on private landlords, including their circumstances, their

\(^6\) This analysis can be found at [https://www.parliament.uk/documents/commons-committees/public-accounts/Correspondence/2017-19/mhclg-gcgp-housing-300118.pdf](https://www.parliament.uk/documents/commons-committees/public-accounts/Correspondence/2017-19/mhclg-gcgp-housing-300118.pdf)
properties, their tenants, and the possible impact of legislative and policy changes in the sector. More specifically, it will also provide information about the degree to which landlords are undertaking a number of quality based interventions to their lettings - e.g. steps to ensure a working smoke alarm, annual gas checks, wiring checks etc.

**Broader context**

29. Where a property contains hazards, local authorities have powers under the Housing Act 2004 to require landlords to make necessary improvements. Where there are potentially serious risks to the health and safety of the occupants, the local authority must take appropriate action requiring the landlord to reduce or remove the risk.

30. The Housing and Planning Act 2016 strengthened the measures available to local authorities to deal with poor standards. In April 2017, civil penalties of up to £30,000 were introduced as an alternative to prosecution. At the same time, extended Rent Repayment Orders were introduced which require a landlord to repay a specified amount of rent to a local authority and/or tenants in cases of illegal eviction or failure to comply with a statutory notice requiring improvements to a property.

31. In April 2018, the Government introduced banning orders and a database of rogue landlords and property agents to help local authorities target their enforcement action against rogue landlords and ban the worst offenders from operating.

32. Licensing of properties in the PRS, whether mandatory, additional or selective, is another highly relevant tool for local authorities to improve the management of properties and poor property conditions. From October 2018, we have extended mandatory licensing to include all properties that are occupied by 5 or more people in 2 or more single households. We have also introduced regulations to prevent overcrowding and to regulate waste disposal.

33. The Government is also supporting the Homes (Fitness for Human Habitation) Bill which will require landlords to ensure that their properties are kept free of potentially serious hazards at the start of and throughout a tenancy. Where a landlord fails to do so, their tenants will be empowered to seek redress in the courts.

34. We are committed to empowering tenants to enable them to challenge poor practice. We have recently published an updated *How to Rent* and *How to Rent*
a Safe Home guide to support tenants in understanding their rights and responsibilities, along with a new How to Let guide for landlords. We recognise that for some tenants, lack of security restricts their ability to raise concerns. We recently consulted on how we can overcome the barriers to longer tenancies in the PRS. This consultation considered a longer minimum tenancy of three years and how this could be implemented to give tenants greater security. The consultation closed on 26 August and we are analysing responses