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| <b>Title:</b><br><br>Welfare Reform and Work Bill: Impact Assessment of Social Rent Reductions<br><br><b>Lead department or agency:</b><br>Department for Work and Pensions<br><b>Other departments or agencies:</b><br>Department for Communities and Local Government | <b>Impact Assessment (IA)</b>   |
|   | <b>Date:</b> 28 September 2015  |
|   | <b>Stage:</b> Final   |
|   | <b>Source of intervention:</b> Domestic   |
|   | <b>Type of measure:</b> Primary legislation   |
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| <b>Summary: Intervention and Options</b> | <b>RPC Opinion: Not Applicable</b> |
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**What is the problem under consideration? Why is government intervention necessary?**

The Government has made clear its objective of tackling the deficit and rebalancing the welfare state, whilst sharpening work incentives and supporting the vulnerable. Social housing rents are set according to Government's rent policy which includes a limit on annual rent increases for private registered providers. Over a decade to 2014, social rents have risen by an average of over 60%, outstripping those in the private sector, which increased by 23% between 2005 and 2015.

Housing benefit paid to the social sector have increased in real terms by around 20% over the three years from 2010-11 taking the bill to £13bn. Local Housing Allowance curbed the spiralling housing benefit bill in the private sector, but without the same restraint in the social sector where social housing providers build up surpluses.

The existing rent policy from April 2015 puts greater restrictions on rent increases in the social sector, but to bring public finances under control it is necessary to go further, whilst protecting claimants who will see no change to their household finances as a result of the rent reduction policy.

**What are the policy objectives and the intended effects?**

The objective of this policy change is to further limit the growth in social housing rents which have been contributing to the rapid growth in the housing benefit bill. It is not fair that tenants in private sector housing have had restraint on their housing benefit whilst social landlords have seen large increases in rental income from housing benefit. The Government aims to reduce the housing benefit bill in the social sector while protecting the income of claimants who are already reacting to the incentives set out in other welfare reforms and moving into work and those vulnerable claimants who are not able to do so.

To achieve savings and bring rent increases within the social sector back into line with the private rented sector the Government will reduce rents in social housing in England by 1% a year for four years from 2016. This will reduce average rents in the social housing sector by around 12% by 2020, from the current forecast. By 2020/21 there will be an in-year housing benefit saving of £1.995bn, which translates to an in-year net saving to the taxpayer of £1.445bn by 2020/21 once the impact on local authorities is taken into account.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

We have considered three options (1) continue the current policy of annual rent increase limit of CPI + 1% for ten years between 2015/16 and 2024/25, and (2) reduce social housing rents annually by 1% for four years from April 2016 and (3) reduce amounts of housing benefit paid to cover rent in the social sector.

The current policy has already resulted in some housing benefit savings compared to that in place previously, but the rise in social rents in the past five years has largely been due to relatively high inflation rates in certain years between 2010 and 2014 as a result of applying the rent increase formula of RPI plus 0.5%, plus an additional £2 where rents were below the formula. We have further restricted the limit on rent increases to CPI +1% under the policy from April 2015, but to bring public finances under control we now need to go further.

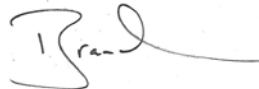
These savings are, however, set alongside the rapid increase in housing association surpluses in recent years. We do not think that continuing with the current policy is fair at a time when we need to show restraint in public finances. Option one does not provide a fair outcome for the taxpayer or indeed to the hard working families paying all, or part of their rent, to also have to face ongoing increases in costs.

We also do not consider that option three is appropriate as this would reduce income for housing benefit claimants, but allow rents to keep increasing above inflation. It would not be fair to other social housing tenants and would decrease the incentives provided by other welfare reform measures to move into work if they are able to. The reductions set out in option two will reset the levels of social rent, help to restore fairness to the welfare system and thereby benefitting families in the social sector.

**Will the policy be reviewed? It will be reviewed. If applicable, set review date: 2020**

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister:



Date: 28/09/2015

## Introduction

Social housing rents are set according to Government's rent policy which includes a limit on annual rent increases; determining what the fair level is for social housing providers, for social tenants and for the taxpayer who funds the housing benefit bill. In the last Parliament the Government looked to curb the growth of the housing benefit bill and published the new ten-year rent policy in May 2014. However, to bring public finances under control we need to go further.

Under this policy registered providers of social housing in England must reduce the rents payable by their individual tenants by 1% per annum for four years. The rent baseline is calculated by reference to the rent payable on 8 July 2015, or, with the consent of the Secretary of State, an alternative permitted review day.

The four year period commences on 1st April 2016, except if a registered provider's rent year for the greater number of its tenants runs from a date other than the 1st April. Where that is the case then the rent reductions will be applied on that date and relevant years run from that date.

The policy also requires that when rents for new tenants are set these should reflect the 1% per annum reduction.

This policy change is to apply further restraint to social housing rents. The scale of the housing benefit bill means that we need to go further to reduce welfare spending while helping those on low income who pay their own rents. Therefore it is fair to ensure that we protect hard working families and return fairness to the taxpayer by reducing this growth in the housing benefit bill. Social housing is a well regulated sector and we judge that they are able to manage the financial impact of further rent reductions, given recent increases in budget surpluses across the sector as a whole.

The housing benefit bill in the social rented sector in England is £13bn, up 20% in real terms over the last 10 years. This is a sensible and fair measure which will result in an in-year housing benefit saving of £1.995bn by 2020/21<sup>1</sup>, as the majority of social housing tenants receive housing benefit and most of these have their rent paid in full. The reduction is equivalent to £12 off the average weekly social rent / over £600 per year by 2020-21 based on the current forecast, and will reset the levels of social rent, which over recent years have become out of kilter with private rents.

## Exceptions and exemptions to the policy change

There will be a number of exceptions from the rent reduction requirements including low cost home ownership and shared ownership, and where there is a mortgagee in possession or the successors in title. This mirrors the current policy and is designed to prevent adverse impact on the valuation of existing social housing stock for security purposes.

Further exceptions will be set out in regulations. This may include the types of accommodation and tenants that are currently exempted from the Rent Standard will continue to be exempted – these include specialist supported housing, temporary social housing, PFI accommodation, student accommodation, Intermediate Rent accommodation, care homes and nursing homes.

The Regulator of Social Housing will have the power to grant a full or partial exemption to a private registered provider, where it considers that complying would jeopardise the financial viability of that provider and with agreement from DCLG Secretary of State. Statutory guidance will set out the circumstances in which a waiver will be considered.

## Estimated costs and benefits of the policy change

### Impact on social tenants (tenants of private registered providers and local authorities)

- This will reduce rents for households by around 12% by 2020, in comparison to rising rents under the existing regime. For the third of households in social housing who pay their own rent this is equivalent

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<sup>1</sup> This translates to an in-year net saving to the taxpayer of £1.445bn by 2020/21 once the impact on local authorities is taken into account.

to a reduction in rent of £12 of the average weekly social rent / over £600 per year in comparison to rising rents that would have occurred by 2020-21 under the previous policy.

- For the two thirds of tenants who claim housing benefit to pay their social rent they will have no impact. Reduction in rent will reduce housing benefit payments and hence benefit the taxpayer but with no change to their disposable income.
- This policy therefore protects those who are vulnerable and most have a low income and are unable to access housing (without housing benefit). 28% are aged over 65; around a quarter describe their status as inactive, which includes those who have a long-term illness or disability and those looking after the family or home. The policy will therefore benefit those in the protected groups who are social housing tenants, and not impact on those who are in receipt of housing benefit.

### Housing benefit savings

The table below presents the estimated housing benefit savings as a result of downrating social rents relative to current rent policy which allows uprating rents by CPI+1% each year. The housing benefit savings are across both local authority and housing association stock. These figures are in line with the Office for Budget Responsibility (OBR) certified policy costing as published in the Summer Budget 2015.

### Housing Benefit Impact (£m)

|              | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|--------------|---------|---------|---------|---------|---------|
| Savings (£m) | 240     | 685     | 1,250   | 1,860   | 1,995   |

### Impact on housing associations

The new policy will reset future rent levels in the social housing sector. It will reduce housing costs faced by working families on low income in social housing and housing benefit costs funded by the taxpayer by around £2 billion a year by 2020/21 as demonstrated in the 'Housing Benefit savings' section above (approximately 63% of social housing tenants receive housing benefit, English Housing Survey 2013/14). But it will also reduce the rental income received by social landlords.

The table below estimates the change in rental income likely to be incurred by housing associations as a result of the policy in comparison to the previous policy of above inflation increases.

This is based on OBR (Summer Budget round 4 economic determinants) forecasts of weekly housing association rent level both before and after the policy change. The weekly rent figures are multiplied by the total number of social dwellings forecast, which includes expected new builds but not those which will be exempt from the policy, to give a total rental income.

| £m, cash                                      | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---------|---------|---------|---------|---------|
| Total rental income, no policy change         | 12,155  | 12,575  | 12,925  | 13,295  | 13,685  |
| Total rental income, with 1% downrating       | 11,910  | 11,940  | 11,830  | 11,715  | 12,055  |
| Impact on total Housing Association rent (£m) | -245    | -635    | -1,095  | -1,580  | -1,625  |

### **Risks and mitigation, the role of the Regulator**

This policy change could have wider impacts on spending decisions and the amount of expenditure by landlords who made their spending plans based on previous funding arrangements. The Government is engaging the housing association sector as they develop plans to manage the change.

The 2014 Global Accounts of social housing providers published by the Regulator of Social Housing ("the Regulator") demonstrated that the sector is financially robust. They recorded strong financial results in the year ending March 2014, turnover increased by 5% to £15.6 billion and the operating margin also increased

from 25.9% in 2013 to 26.5% in 2014. Surpluses for the sector have continued to rise to a total of £2.4 billion for 2014, an increase of 22% compared to 2013.

We recognise that the reductions will have an impact on housing associations' finances. However, the strong balance sheets mean they are well placed to manage these reductions and have proved themselves to be more than capable of adapting and responding to change. With a large surplus of £2.4 billion in 2014, the Government is confident they will be able to find efficiencies to accommodate the rent changes

The Budget also includes a complementary measure that would create additional rental income for housing associations to help mitigate the impact of rent reductions. Social tenants with a household income of over £40,000 in London and over £30,000 outside London will be charged higher rents allowing housing associations to retain the additional incomes. It is estimated that hundreds of millions pounds per year of additional rental income will be available to support their business plans to invest in services for their tenants, maintaining and improving existing homes, or delivering more new affordable homes.

Where complying with rent reductions would jeopardise the financial viability of a housing association, the Regulator will still have the power to issue a full or partial exemption, with the Secretary of State's consent. Other circumstances where exemptions may be considered will be set out in regulations. However, we expect the circumstances in which housing associations will receive a waiver will be limited and do not expect housing associations to plan on the basis that they will receive one.

Housing associations need to ensure that they have a credible business plan in place and that these remain fit for purpose for the environment in which they operate. Some associations might need to adapt their business plans and operating structures in response to budget measures. The Regulator is seeking assurance that housing association boards have properly considered the implications of these changes for their businesses, and that there are effective plans in place should this be required.

The Regulator is currently collecting information from large private registered providers (which own more than 1,000 units), requiring a revised annual Financial Forecast Return (FFR) which reflects the impact of the changes in government policy and mitigating actions they propose. Housing associations have also been advised that if they anticipate exceptional challenge to adapt they should inform and discuss the matter with the Regulator. The Regulator will work collaboratively with them to explore how any difficulties might be resolved.

The Government has also considered whether the rent reduction measures would impact on the supply of affordable housing. The Government is continuing to engage with the housing association sector and it remains confident that they will be able to find the necessary efficiencies to manage this change. At the same time the Government remains committed to delivering 275,000 affordable homes over the course of the Parliament, and to supporting the most vulnerable in our society to have a decent place to live, as well as being committed to taking steps to increase home ownership.

The Government has a wide number of levers at our disposal to ensure that this country has the right homes to meet people's needs and legitimate aspirations to own. 200,000 Starter Homes will be built encouraged by an improved planning system. The Affordable Homes Guarantees Scheme has delivered over £1.5bn of guaranteed borrowing at record low levels for 41 housing associations to deliver 11,000 homes so far – with more in the pipeline. There continues to be an important role for housing associations in delivering the mix of housing supply this country needs.

### **Impact on Income for Protected Groups**

Households that include someone with a protected characteristic (as defined by the Equality Act 2010) will be affected by this policy if they receive one or more of the affected benefits. Overall, those groups who are more likely to be in receipt of affected benefits are more likely to be affected by this policy change, though these groups will not see a change in benefit income in cash terms. The protected groups according to the Equality Act 2010 are:

- Age
- Disability
- Gender
- Race
- Gender reassignment
- Pregnancy and maternity
- Sexual orientation
- Religion or belief
- Marriage and civil partnership

Overall this policy has no impact on the majority of social housing tenants as they have their rent paid by housing benefit. The remaining proportion of social tenants who do not have a high income will benefit from lower rent payments over the duration of the policy. This increase in disposable income will continue to benefit the household as rent increases after the period affected by the policy will be from a lower base. We do not therefore envisage any negative impact on the more vulnerable social tenants in protected groups whilst those that are in work, other than high income earners, and paying their own rent will directly benefit from a reduced rent and have a greater disposable income.

Concerns have been raised that the rent reduction measures may disproportionately impact on supported housing and may cause a reduction in service provision given these housing providers tend to operate on lower profit margins and have higher rents. The Government has included clauses in the Bill to allow exceptions from the rent standard by regulation. We expect that the reductions will apply only to social housing properties currently subject to the Rent Standard. The types of accommodation that are exempted from the Rent Standard are likely to remain exempted – these include specialised supported accommodation and residential care homes and nursing homes.

We are considering whether the existing definitions are appropriate in light of the revised policy and will be setting out details in secondary legislation and working with the sector to ensure regulations laid under clause 20 of the Bill protect vulnerable groups.

A complete exception for supported accommodation has been considered but is regarded as disproportionate. Housing providers will be able to apply for an exemption from the rent reductions where financial viability is threatened. Excluding specific vulnerable groups on the face of the Bill from the rent reduction policy change with no prior evidence that it was needed, would raise serious questions of fairness and lead to negative impact on protected groups.

## **Life Chances**

The new Life Chances legislation (incorporated into the Welfare Reform and Work Bill) proposes to remove a number of the legal duties and measures set out in the Child Poverty Act 2010 and to place a new duty on the Secretary of State to report annually on children in workless households and the educational attainment of children. This is because evidence shows these to be the two main factors leading to child poverty now and in the future (respectively).

The social rent reductions is supportive of the Life Chances legislation in that this policy will protect vulnerable tenants who are not able to go out to work from savings to their housing benefit bill. Alongside reducing the rent for hard working families who have had above inflation rises in rent over previous years. This will increase the incentive for people to make the choice to move into work by making paying their own rent more affordable. Reducing social rent for four years will increase the gains from moving into employment as the difference between the potential disposable income from earnings after payment of housing costs and income from benefits grows. In this way the number of children living in workless households could fall over time.