

Report to: **East Sussex Strategic Partnership**

Date: **9<sup>th</sup> May 2016**

Report of: **Andrew Palmer & Ian Fitzpatrick**

Title of report: **Reforms to Welfare, Housing and Planning**

Purpose of report: **To provide an outline of new welfare, housing and planning legislation and a summary of their impact**

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## **Recommendations:**

That the contents of the report is noted.

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## **Background**

The Government put forward a range of proposals in the 2015 Summer Budget and Autumn Statement that set out their direction of travel in terms of reforms to welfare, housing and planning. A number of these are being brought forward through new legislation, including a new Housing & Planning Bill. The government's key objectives are to increase housing supply and stimulate employment growth, whilst maintaining its public sector spending reduction targets

## **Welfare Reforms**

1. The Welfare Reform and Work Act 2016 received Royal Assent on 16<sup>th</sup> March and introduced a range of new reforms, including:
  - A reduction in the Benefit Cap from £26,000 a year to £20,000 a year (outside of London)
  - A four year freeze on benefits
  - The ending of the family element of child tax credit and restricting payments of the child element in tax credits to two children (and the equivalent changes to Universal Credit)
  - Changing Support for Mortgage Interest from a benefit to a loan and the time JSA and ESA claimants must wait before they become eligible from 13 weeks to 39 weeks
  - Abolishing the Employment and Support Allowance (ESA) Work-Related Activity component
  - Reducing social housing rents by 1% compared to the preceding year, every year for the next four years
2. There are also new regulations/orders, including:
  - A freeze on LHA rates at the April 2015 level (or at the 30<sup>th</sup> percentile of market rents if lower) over the next four years
  - A reduction in the backdating of Housing benefit for working age claimants and the removal of the family premium for all new Housing Benefit entitlements after April 2016
  - The introduction of a cap on Housing Benefit payments for social housing at LHA rate

3. Also announced in the Budget, was the withdrawal of housing benefit entitlement for some 18-21 year olds, which is expected to be implemented by further regulations.
4. Whilst the government's aims are consistent and clear, the reforms are likely to pose considerable challenges for local authorities and at least in the short term may impact negatively upon the poorest households in East Sussex. This seems likely to create additional housing pressures for those on very low incomes and potentially increase the number of households who are homeless or at risk of becoming homeless. Particularly concerning for housing security is that any benefit payment above the new £20,000 benefit cap threshold will be deducted from households' Housing Benefit payment (or Universal Credit if applicable).
5. Across East Sussex, it has become increasingly difficult for people in receipt of benefits to secure private rented accommodation. The previous reduction in LHA from the 50<sup>th</sup> percentile of market rent to the 30<sup>th</sup> percentile has deterred many landlords from renting to those on benefits at a time when they are facing ever greater competition from working households who are unable or in some cases not wishing to become owner occupiers. The four year cap on LHA will mean that the gap between LHA and market rent will widen even further, making accessibility into the private rented sector for benefit recipients even more problematic.
6. The removal of Housing Benefit for 18-21 year olds is likely to be problematic for those younger, unemployed people not able to live with family. There is concern that this might lead to higher youth homelessness, particularly in light of the higher youth unemployment and limited employment opportunities for younger people in some parts of the county. One of the consequences being that without a stable home, the likelihood of getting a job may be greatly reduced. There are also serious safety concerns regarding young people and rough sleeping.
7. The impact of the reforms on young people is not limited to private sector housing. The introduction of social housing rents pegged to LHA will mean that single under 35 year olds will only be entitled to the Single Accommodation Rate (SAR). Using Hastings as an example this would be £69.77 per week at present, and in all but very few cases would result in single under 35s being required to pay a 'top-up' in order to meet the rent on a 1 bed self-contained flat. For many this will render the accommodation unaffordable, and may prohibit their access to this tenure.

### **Council Tax Changes**

8. Back in 2013 the government gave local authorities responsibility for devising their own Council Tax charging schemes. Recent reductions in Government funding to deliver Council Tax schemes have resulted in changes to the way East Sussex local authorities have approached Council Tax income.
9. Wealden, Eastbourne, Lewes and Rother have introduced a 20% minimum charge for all working age Council Tax payers, irrespective of incomes, and introduced changes to how self-employed customers' incomes are treated. In line with proposals for Universal Credit, people who have been self-employed for over 12 months will be determined to have a minimum income that will be calculated on the basis that they should have at least 35 hours a week work and be receiving at least the minimum wage.

10. Hastings made the decision not to adopt the new charging proposal as it was felt that due to the different demographic, particularly the high proportion of households in receipt of benefits, that the cost of recovering the new charges would exceed the income it would generate.

## **Housing and Planning Bill**

11. A new Housing and Planning Bill is currently being debated in the House of Lords and is due to receive Royal Assent on 8 May 2016. The Bill has a key objective of increasing home ownership, and consequently will redirect resources away from traditional forms of affordable rented housing. Measures being introduced to support this include the building of Starter Homes, improved facilitation of self/custom build housing and the Right to Buy (RTB) being extended to housing association tenants.
12. In addition to the Bill, recent changes have already been introduced by central government that peg future Housing Association and local authority rental increases and require HAs to convert a substantial element of their vacant stock from social to higher affordable rents in order to balance their business plans and continue to develop new homes.
13. Under the Act, Planning authorities will be expected to promote and increase the supply of Starter Homes, which will be available for first-time buyers under the age of 40 and discounted by 20% of the market value. However, even with a discount, Starter Homes will not be accessible to those on the lowest incomes and in the most acute housing need. Debates within the House of Lords have recommended a number of amendments to the Bill including significant changes to the Starter Homes scheme. It remains unclear how many of the amendments will finally be accepted by Government.
14. An increase in the supply of starter homes for sale is likely to be accompanied by a reduction in the number of new homes for affordable rent. At present nearly one-third of all new affordable housing nationally is funded via developer contribution on market housing sites through Section 106 obligations. In future many developers will opt to provide starter homes, instead of homes for rent. These are now included in a wider government definition of affordable housing within planning guidance and is likely to be far less costly for developers to provide. Compounding the problem will be a lack of grant funding with the Homes & Community Agency confirming that no grant funding will be available over the period 2016-18 for general needs rented housing.
15. The Bill also proposes to extend the RTB to housing association tenants on a voluntary (non-statutory) basis. Housing Associations will be eligible for grants to compensate them for sales at the discounted rate and are expected to replace each home sold with at least one new home. It should be noted that there will be no obligation on where the replacement homes are provided and a risk therefore is that social housing stock could be depleted in some areas. Further, there is no requirement that replacement properties need to be on a like for like basis. This could result in homes previously let at social rents (the lowest rents) being replaced with affordable rented homes (higher rents), Starter Homes, or shared ownership homes.
16. The extension of RTB to Housing Association properties is to be funded through the sale of higher value local authority properties being sold when they become vacant. Please note this only impacts upon stock holding authorities with a Housing Revenue account; namely within East Sussex, the Wealden, Lewes and Eastbourne Council areas. It is being proposed that local authorities may be given the option of paying a Levy in lieu of selling high value stock. Further details are set out in appendix A.

17. The methodology for calculating the levy is not yet clear and will set out in guidance once the Act is in place. Councils and the LGA have been calling on the Government to release details of the methodology for the Levy in order that they may revise their 30 year HRA Business Plans. The LGA is particularly concerned that Councils have not made sufficient provision within their plans for the proposed Levy. Indications suggest that exemptions may apply possibly for sheltered accommodation/new build properties and properties adapted for people with disabilities. Further exceptions have been sought for wider exemptions covering rural areas, regeneration schemes and scarce large family type accommodation.
18. It seems likely that Councils will be given a choice of whether to sell their high value stock or pay the Levy. The receipts from the sale of higher value properties are to be effectively pooled. The impact of this over the life of this parliament could be significant and possibly render some business plans unviable. Councils will still be required to meet the Decent Homes Standards and let their properties to higher standards than apply in the private sector. See Appendix A for additional details of the potential impact upon East Sussex Local Authority areas.
19. If Councils elect to follow the disposal route then it will typically be larger family houses, and those in more rural areas that will be lost. This could lead to local authority housing stock becoming increasingly residualised and concentrated in lower values areas thereby exacerbating the imbalance in tenures.
20. As tenants in more expensive areas are less likely to be able to exercise the RTB, they risk being priced out of more expensive areas of the county over time. Lower value areas may therefore become increasingly attractive to low income households and benefit recipients. Other implications include the impact on the reduced level of social housing stock within the county, the impact on the economy and the impact on the general fund of longer waiting times on housing registers and potentially in emergency accommodation.
21. Some councils are exploring options for establishing companies into which they might transfer vacant stock into as a means of safeguarding their housing investments. Whilst this is far from straightforward, it might provide an alternative to selling homes on the open market. There is concern that once sold on the open market many will subsequently be let privately at a later date on higher private sector rents. The recent Public Accounts Committee (February 2016) reported that 40% of all ex-council homes have become private rented homes.
22. Also being proposed is a 'Pay to Stay' scheme. Social landlords will be required to charge tenants with an annual income of £40,000 plus a year in London and £30,000 plus elsewhere market rents or similar. Local authorities would be expected to pay the additional rent to the Government. Housing Associations would have the benefit of being able to invest the additional income in new housing.
23. A number of practical concerns have been raised around the administrative burden that would be placed on social landlords. It's not clear how they will monitor tenants' income. There is also a concern expressed regarding household budgeting and debt. Tenants may for example have made other financial commitments on the basis of their current rental costs which they previously understood to be relatively fixed. It also has the potential of creating a work disincentive for social housing tenants who might have to pay higher rents as their income increases.

24. Lifetime tenancies will be phased out for local authority tenants and replaced with new secure tenancies, lasting for between 2 and 5 years. Tenancies will be subject to a review at the end of the fixed period and tenants could potentially be evicted. This will not apply to existing tenants, but if a family member has the right of succession, the local authority will convert their tenancy to a new fixed term period.
25. Less contentious for private rented tenants is a commitment to tackling 'rogue' landlords and to increase the quality of the offer available from the private sector. A number of new mechanisms are being introduced to improve the management of private sector properties, including:
- Banning orders, which will prevent a person/letting agent from letting or managing properties if they have been convicted of banning order offences; local authorities will also be able to impose financial penalties for breaching orders
  - The establishment of a database of rogue landlords and letting agents
  - More stringent 'fit and proper' person test
  - The extension of Rent Repayment Orders (RROs), for instance, in cases where a landlord is in breach of a banning order or has committed an offence, e.g. unlawful eviction of a tenant
26. In order to provide balance for landlords there is also support to help landlords recover properties more effectively in cases where tenants have moved out without serving notice.
27. The Bill also includes a number of planning reforms aimed at increasing the supply and delivery of additional new housing. These are not outlined in this briefing.

### **Summary of impact**

28. The Government's direction of travel is clear and at its heart is the overriding priority of increasing overall housing supply and extending home ownership. This is consistent with a view that the benefits of working should be readily apparent and supported and that households should not be incentivised by government to remain in receipt of welfare benefits. At least in the short term, this may be a painful transition for some of the most financially disadvantaged households locally and the may be far reaching. In summary the changes seem likely to result in :
- More homes being available for first time buyers and those who can afford to pay higher rents
  - Over time fewer LA and HA properties being available at social and affordable rent levels,
  - Reduced security of tenure for social housing tenants
  - Reduced income for some benefit recipients
  - Increasing residualisation of local authority housing stock
  - Increased difficulty accessing the private rented sector for people on benefits
  - Greater administrative burdens upon housing associations
  - Reduced income and stock for housing associations and therefore less borrowing capacity for new developments
  - Increased pressure upon local authority Business Plans and HRA accounts
  - Less government funding for affordable rent in the foreseeable future
  - Increasing levels of homelessness, particularly amongst young people

## Appendix A

### Council Housing Levy (HRA)

Please note this will only apply to Eastbourne, Wealden and Lewes Council areas. The example given relates specifically to Wealden but is likely to be applicable to other two authority areas.

It is believed at present that the Levy will be an annual charge made to the HRA for at least the life of this parliament. It will be calculated on the top 30% of council housing stock (actual Tenanted Market Value) multiplied by the actual annual void turnover rate for all of that council's housing stock. However, indications are that due to the gap between the need to raise finance to cover the RTB2 for housing associations and the likely income raised by the high value sales, the Government will need to increase the number of council homes sold/levy request. It is possible that the methodology for the levy is likely to be altered to ensure more homes are affected by the 'high' value definition, hence why there has been a proposed amendment in the Lords to change the wording to 'higher'.

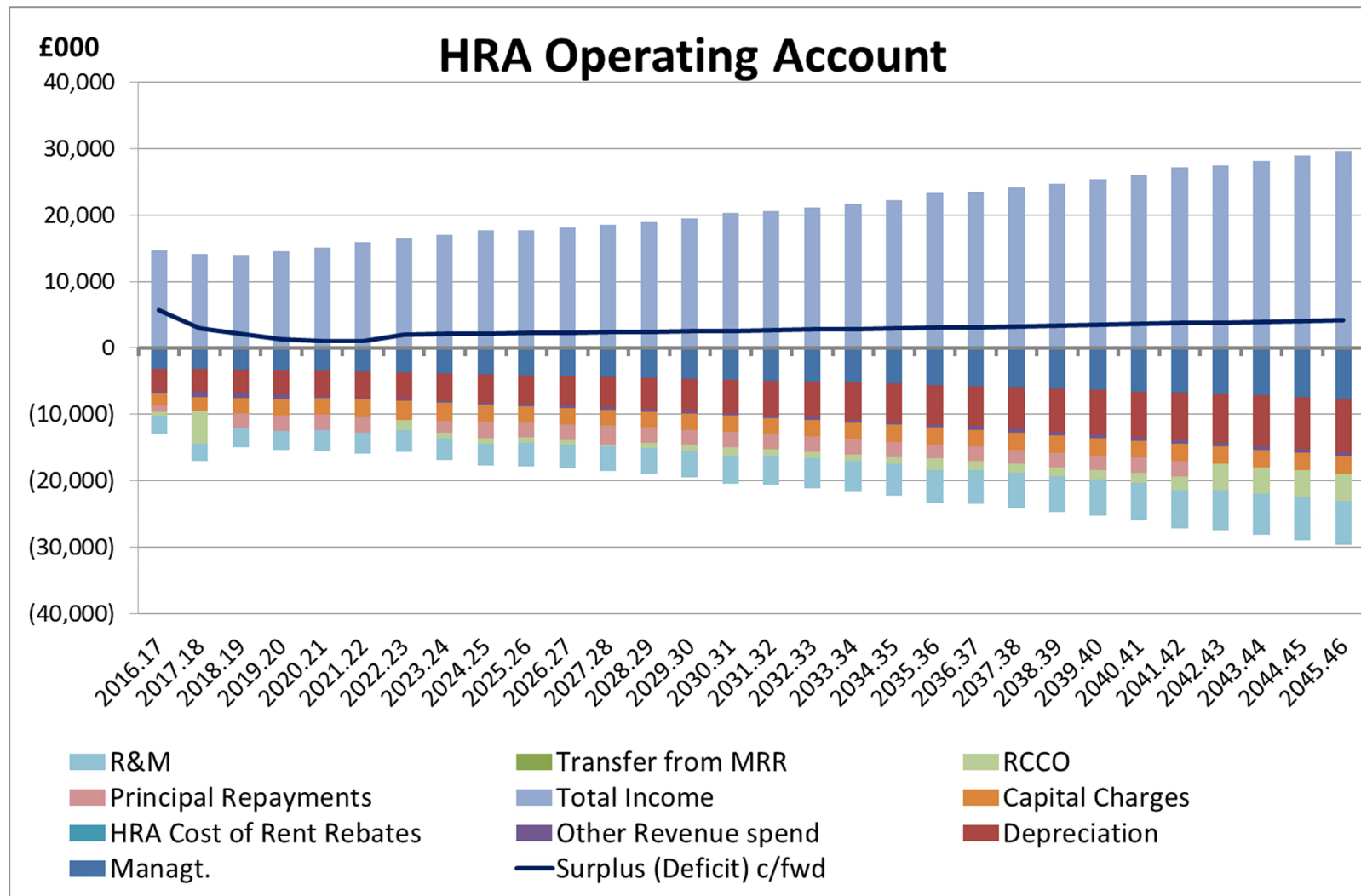
Officers have carried out some modelling of the levy based on their updated cash flow programmes developed by Capita (as advised by Government) and have calculated the following:

#### Levy modelling

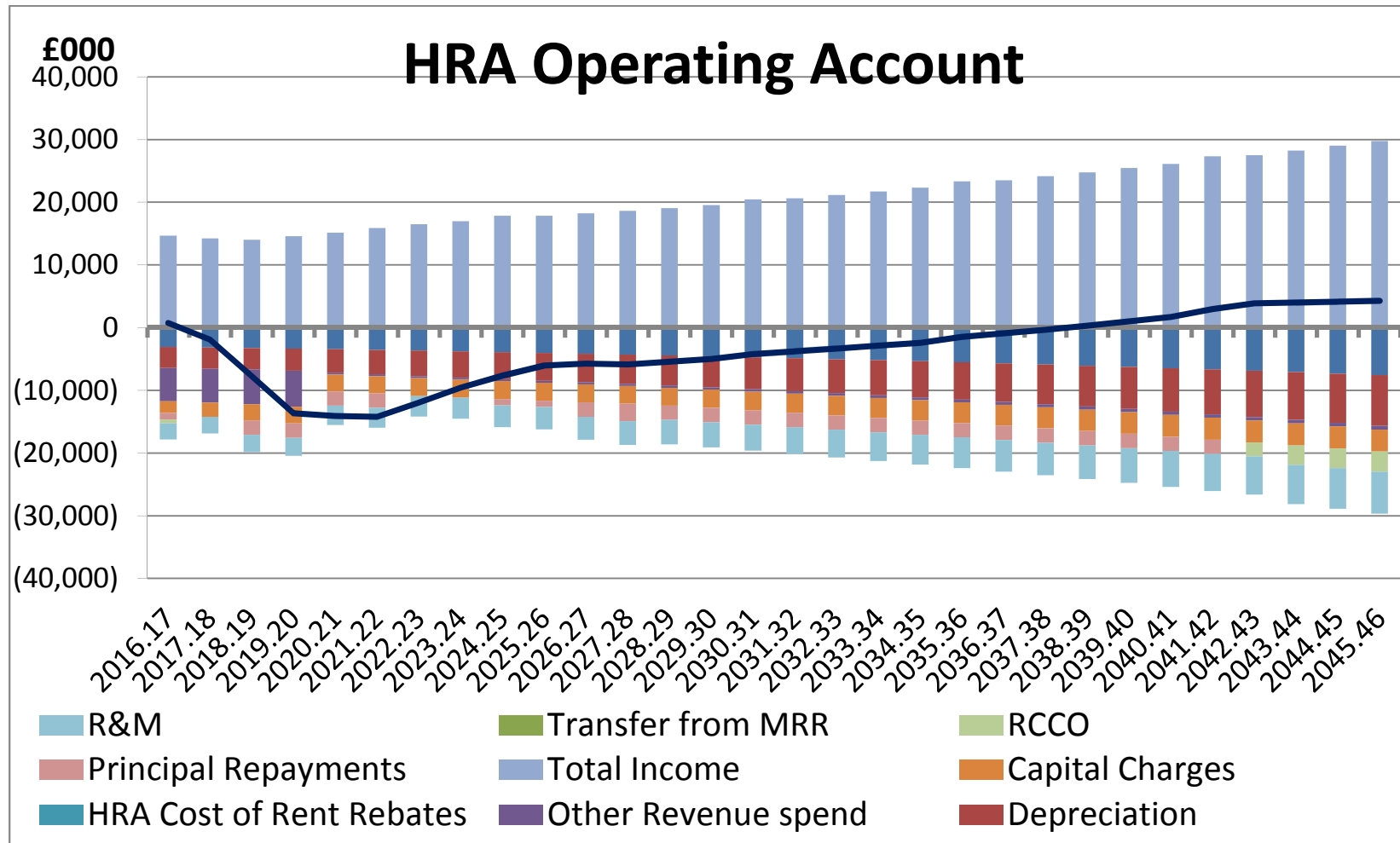
	<b>Total Stock</b>	<b>Option 1 Estimated no. of high value properties sold per annum</b>	<b>Option 2 Levy calculation  Annual Levy</b>
Eastbourne	3,400	80	£6m
Lewes	3,300	30	£5.5m
Wealden	3,100	40	£5m

To give you some indication of impact of this annual debit to the business plans, Wealden is used as an example and the impact upon the operating account pre and post levy assumptions is shown below

Graph showing no levy imposed



Graph showing with a levy for 4 years





It is clear the HRA business plan would quickly become unviable. Wealden would be able to maintain the levy in year one through the use of reserves. After this date, like the other East Sussex authorities, they would have to sell stock in order to raise the capital to pay the levy. This would require them to consider first those assets that perform less well in terms of business plans, which would likely mean assets such as sheltered housing would be at risk.

If many authorities across the country decide to enter into the 1-4-1 receipt agreement this may mean less money is available nationally to pay for the RTB2 for housing associations, which may result in a larger contribution towards the levy.

### **Other policy changes**

The High Value disposal of stock or Levy has also got to be considered alongside the other housing policy changes proposed by Government such as:

- 1% decrease on social/affordable rents for next 4 years
- RTB increased maximum discount
- Fixed term tenancies for all social tenants
- RTB2 for housing associations
- Starter Home policy

You will be aware that this rental income is reducing by 1% per annum over the next four years, thus any additional financial burden such as the proposed levy or the loss of stock will be significant for authorities. Councils still have to meet Decent Homes Standards and let their properties to higher standards than the private sector. We have lower rents in order to ensure the most vulnerable in society are able to afford to live in safe and secure accommodation. Due to the vulnerability of the clients that we house, we provide higher level support to ensure they sustain their tenancies, which is at a higher cost than the private sector. Whilst we will be able to make some savings on the HRA to compensate for the Levy or loss of stock, it is unlikely this will be viable in the long term.