CASE
CONSORTIUM OF ASSOCIATIONS IN THE SOUTH EAST

The impact of welfare reform on housing

Contents

Who we are

CASE is a research group of nine major housing associations providing affordable homes in the South East of England.

The objective of the group is to share thinking on best practice, as well as to prepare and commission research on matters of common interest.

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Executive summary

The bulk of housing association income comes from rent, much of which, in turn, is dependent on Housing Benefit. As a result, a number of proposed changes are expected to have significant implications for housing providers and their residents.

In principle, we understand the need for welfare reform. The true aim of the system should always be to help people back to work and stability; CASE members agree that in order to achieve this, aspects of the system require modification.

It is also reasonable to seek to contain public expenditure under the current economic climate. There is no question that scarcity of public money means that hard choices have to be made. The challenge for us in the housing sector is how we best manage these choices in a way that does not worsen existing problems.

This paper finds a number of policy areas where perceived short-term savings are likely to be overshadowed by a set of complex problems in the longer-term.

Proposed **under-occupation** changes fall precisely under this category. Firstly, in order for CASE members to house all under-occupying residents correctly by 1 April 2013, we would need to re-build the equivalent of 7.5% of our total rented stock as one bedroom properties. With this type of property generally seen as an inefficient housing solution, this seems neither achievable or desirable.

Secondly, many of our residents who want to move to smaller properties will not be able to before April 2013. This would have the effect of punishing those who wish to do the right thing but are unable to as a result of the one bedroom stock shortage.

Thirdly, there will be a great deal of pressure on local authorities to establish multilateral frameworks between housing providers in order to address the stock mismatch across different areas. Local authorities that do not perform this function could see large numbers of people going into arrears at the point of introduction. The sheer quantum of change, combined with the pressure to manage internal budgets, will make this difficult for most local authorities.

Similarly, we expect the introduction of **direct payments** to residents to significantly increase arrears. This has previously been borne out in the *Tenant Direct* pilot by L&Q, which found that arrears increased substantially as direct payments were introduced.

Arrears are not only socially undesirable; they inevitably mean increased administrative and borrowing costs for housing providers. This has the serious consequence of affecting the sector's build capacity, which we can ill afford as we attempt to boost housing supply and economic growth.

Finally, the £500 per week **benefits cap** is expected to fundamentally change the shape of UK housing. Although social rent can be made to work within the cap, our modelling suggests that Affordable Rent does not work for larger homes. Therefore, as we stop building four bedroom properties over the coming years, we expect our ability to house larger families to be greatly diminished. Over the next few years, unless the cap is indexed for inflation, we expect that rent levels on smaller properties will also become increasingly unworkable.

Overall, there is a real danger that as the Department for Communities and Local Government (CLG) embarks on a programme to increase housing supply, the Department for Work and Pensions (DWP) is preparing to implement policies that are certain to do the opposite. This paper looks at this assertion in more detail, and provides recommendations aimed at avoiding a decline in the sector's build capacity.

Under-occupation

The Government's programme of welfare reform introduces a number of changes to the Housing Benefit system. One proposed reform is the introduction of rules governing benefit entitlement according to the number of rooms in a property – referred to as 'under-occupation' rules.

Currently, there is no direct link between the amount of Housing Benefit received, and the number of rooms occupied in a property. From April 2013, the Local Housing Allowance (LHA) size criteria will be used to determine how many rooms are needed by tenants, and Housing Benefit will be adjusted and paid accordingly. Therefore, under the changes, a person living alone in a three bedroom house would receive a reduced amount of Housing Benefit, as they would be deemed to have surplus rooms.

This policy should be seen in a wider context. Firstly, it is hoped that it will both help to minimise the number of empty rooms in social rented properties, and contain public expenditure on Housing Benefit. Secondly, it seeks to harmonise Housing Benefit with a wider shift in government policy towards exposing tenants to normal financial pressures. This shift can be seen in other welfare reform initiatives as well, such as the objective of ensuring that benefits payments mimic the receipt of a salary.[1] Ultimately, under-occupation proposals introduce the philosophy that where somebody wants a larger property, they should have to pay more to obtain it.

In principle, we support many of these points. Under the current economic climate, it is difficult to disagree with the aim of containing public expenditure. It is also necessary to try to maximise the number of people that can be housed within our stock.

Indeed, it is not the principles underlying these proposals that CASE members have concerns about – it is the detail within them. We need to take off some of the 'hard edges' to ensure that the policy achieves its objectives while minimising the risk of unintended consequences. We would also be greatly concerned if fiscal considerations were to override the effective use of housing stock.

To further understand our areas of concern, we have divided them into two main strands: 'social considerations' and 'practicalities and cost'.

Social considerations

We estimate that a significant proportion of CASE members' households of working age and on benefits will be affected by this policy. We note that the Government has taken a hard-line on this issue and has so far not accepted the argument for exemptions.

Given the vast numbers of people who are likely to be affected, it is important to analyse how residents generally come to under-occupy their properties. A significant number of people are in this situation as a result of changes to the family composition at some point in the tenancy. Most commonly, this comprises family breakdown, children leaving home, or even the death of a family member. It should be no surprise that under such circumstances, many choose to remain in their homes.

There is also a need to consider legitimate uses for an extra bedroom. Far from being a luxury, a significant proportion of our residents use the space for uses such as access arrangements following family breakdown, or providing support where young people return after moving away. This raises further questions requiring consideration around the exact point at which a change in household composition would give rise to under-occupation. For example, would a young person at college, living away from home during term time, be deemed to have left the household? Would a child or sibling serving in the armed forces be accounted for? At what point should a

Figure 1: Analysis of CASE members' stock – as a percentage of households[4]

Number of bedrooms	Households under-occupying and subject to proposed HB cut[a]	Over-crowding[b]	Current voids[c]	Properties available from under-occupying, overcrowding and voids pool[d]	Properties needed to house everyone correctly[e]	**Total mismatch[f]**
0 and 1	0%	1%	0.8%	1.8%	9.3%	**-7.5%**
2	6.2%	2.7%	0.6%	9.4%	6%	**3.5%**
3	8.2%	2.9%	0.3%	11.4%	3.1%	**8.2%**
4	1.2%	0.2%	0.1%	1.4%	2.8%	**-1.4%**
Total[g]	15.6%	6.8%	1.6%			

newly formed relationship be regarded as sufficiently stable to be considered? And exactly how would DWP become aware of any of these circumstances? There is a risk that the administration of this measure will be complex, and will almost certainly lead to an increase in the number of fraudulent claims – many of which will pass undetected without additional staff to investigate.

A further social impact concerns the sustainability of neighbourhoods and estates, and is particularly relevant to areas of concentrated social housing. The use of local lettings policies – whereby a local authority and a housing association agree to reduce child density by deliberately 'under-occupying' homes in a defined area – has become increasingly common in recent years. This approach is supported by community safety partnerships, which have had success in helping to manage anti-social behaviour, and in creating more positive living environments. This approach would be fundamentally undermined by the proposed Housing Benefit restrictions.

With an estimated 670,000[2] Housing Benefit claimants likely to be affected at the point of introduction, there will clearly be a large number of people who will not be able to move in time. This will result in people being penalised even if they *want* to move. As a result we fear that April 2013 will mark the commencement of a potentially turbulent, and unnecessarily harsh transition period.

If we are to make this policy work, statutory instruments need to be made to reflect these issues – ensuring that people who find themselves in this situation are not forced into debt. As will be further discussed, this will require the adoption of transitional arrangements.

Practicalities and costs

CASE has conducted an analysis[3] of its current residents and stock. It found that the proposed policy would lead to a chronic mismatch in housing association stock. A non-phased introduction is therefore unworkable – as shown on *Figure 1.*

There is, of course, also a cost

[a] Percentage of people that need to move out of existing property as they are under-occupying and would be subject to a Housing Benefit cut
[b] Percentage of people that need to move out of existing property due to overcrowding
[c] Percentage of current voids (major, minor and other)
[d] Percentage of available properties when residents who should not be in properties (under-occupying and overcrowding) move out, together with the current voids
[e] Percentage of properties needed if we were to house everyone correctly, moving people under-occupying and overcrowding
[f] In this context, a negative figure means that there are less properties available than what is needed, whereas a positive figure shows that there is a surplus of properties
[g] Regardless of house size.

associated with managing re-lets. There is a requirement for various checks – such as for gas and electricity – as well as the inevitable additional demand for responsive repairs on people moving in. As a result, housing associations expect to pay an average of between £1,000 and £3,000 for each re-let, including on mutual exchanges. As will be discussed in chapters to follow, this additional cost could have a profound impact on build capacity at a time when housing supply is in desperate need of a significant increase.

A number of key points emerge from *Figure 1:*

- **There are not enough one bedroom properties across the south east to make the proposed under-occupation policy work by 1 April 2013. In order for CASE members to house all under-occupying residents correctly, we would need to re-build the equivalent of 7.5% of our total rented stock as one bedroom properties. In order to make up this structural deficit, CASE members would need to do nothing but build one bedroom properties for the next two years to make the policy work.**
- When CASE sample figures are applied across the rest of England, we could be faced with a shortage of approximately 112,500 one bedroom properties in April 2013.[5]
- **We doubt that the reforms are intended to encourage the construction of additional one bedroom properties, which are, in general, an inflexible and ineffective housing solution. At one end of the age spectrum, one bedroom properties are short-sighted as the target group is likely to have children in the short to medium-term. At the other end, people will have aged care needs, and therefore use the space to accommodate carers. We therefore cannot support the construction of one bedroom properties in order to fix the structural deficit caused by under-occupation proposals.**
- The April 2013 timelines are unworkable. In reality, the majority of residents will not be persuaded to move until closer to the date, nor could we begin moving people while changes remain uncertain (until regulations are introduced). This, in turn, would not leave the necessary time required for the moves to take place – even if the stock mismatch did not exist.
- **Our annual turnover of properties is approximately between 6% to 9% of our total stock. Yet in order to realise the April 2013 date, we would need to at least double that turnover rate. This would overwhelm current mechanisms for managing such moves (generally, council choice based lettings systems).**
- Resulting from a combination of the stock shortage and the high turnover rate required to re-house residents, it is likely that many people who want to move will not be able to before April 2013. The DWP impact assessment confirms this problem, stating that:

  > *In many areas this mismatch could mean that there are insufficient properties to enable tenants to move to accommodation of an appropriate size even if tenants wished to move and landlords were able to facilitate this movement.*[6]

  As a result, the Government will, in effect, be punishing people who want to do the right thing but cannot.
- **There are likely to be large numbers of providers without the necessary stock to house every affected resident unilaterally. Therefore, it will become a priority to establish multilateral frameworks between providers across different areas. Much of the groundwork for this will need to be done by local authorities. Those who do not act with the speed and purpose required – for various reasons including resourcing constraints – are likely to see large numbers of people going into arrears at the point of introduction. At a time when**

local authorities are already under pressure, the timing of this could be lamentable.

- Finally, a recent study by the Housing Futures Network found that over a third of households (35%) believe they would be very or quite likely to run into arrears if the amount they received in Housing Benefit was cut.[7] As previously described, it is inevitable that not all people needing to be re-housed will do so by April 2013. Therefore, we expect a considerable increase in arrears – ultimately, leading to a decrease in build capacity.

Figure 2: Stock mismatch as a percentage of total rented stock [8]

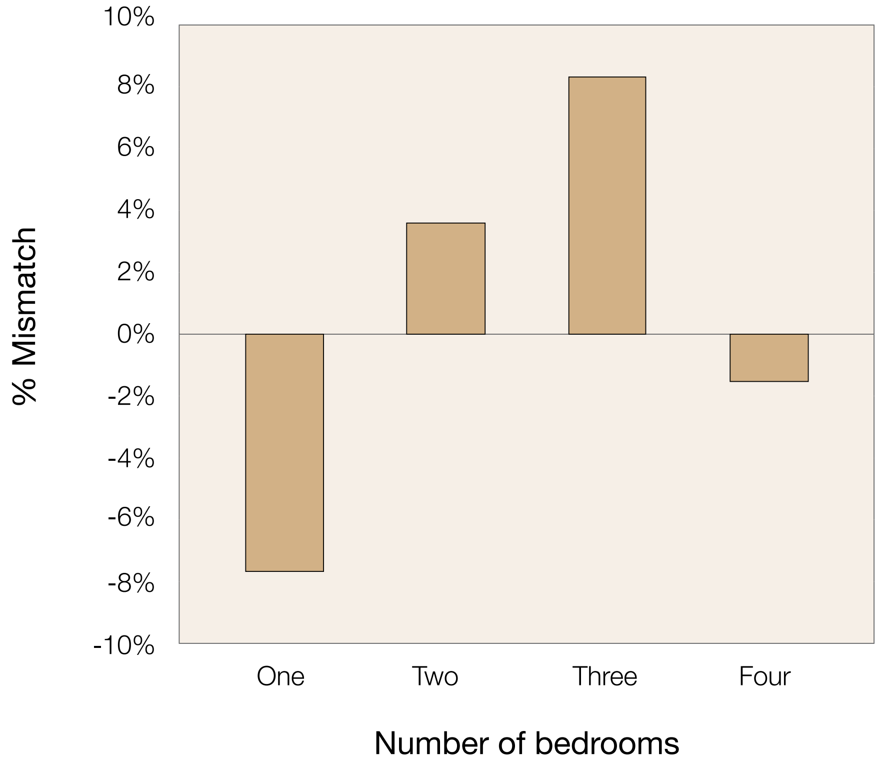


Figure 2 illustrates the extent to which housing associations are faced with a stock mismatch. As can be seen, the structural shortage of one bedroom homes makes the policy – in its current form – unworkable by April 2013.

Mitigating mechanisms

It is our view that the concerns described – both the detail of the reforms and the proposed transitional arrangements – need to be addressed in order to make the wider Housing Benefit reforms work.

At the time of going to print, an amendment to the Welfare Reform Bill was accepted by the House of Lords on the second day of the Report Stage (14 December 2011). The amendment relates to the proposed size-related restrictions, and means that social housing tenants who are deemed to have only one 'spare' bedroom will not have deductions applied to their Housing Benefit. As it is our view that two bedroom properties should never be regarded as under-occupied, we strongly support this amendment.

Secondly, assuming the Government's primary reasoning for its under-occupation policy is to make better use of existing housing stock, we also propose the introduction of a 'soft start'. This would allow sufficient time for residents to mutual exchange or make alternative plans, and would avoid immediately penalising residents trying to move, but unable to do so as a result of the structural stock deficit. The House of Lords amendment also tackles this issue by exempting people who cannot find 'suitable alternative accommodation'. It is our view that this amendment is both sensible and necessary, and ought to be incorporated into the final Act.

We note that during the debate in the House of Lords, there was some discussion about the definition of 'suitable alternative accommodation'. As this definition will have to be fleshed out in regulations, CASE members look forward to working with the Government to ensure a fair and effective solution.

Direct payments

The issue of direct payments is causing a great deal of anxiety both within the housing sector and the financial services sector on which it relies to raise capital. The proposal on the table is for Housing Benefit to be paid directly to tenants from October 2013. For clarity, when referring to payments made directly to *landlords,* we will use the term 'automatic payments'.

On 14 September 2011, the Welfare Reform Minister, Lord Freud, delivered a speech to the National Housing Federation (NHF) where he re-iterated his intention to proceed with the changes. He also confirmed that direct payments would remain the default position for all except approximately 10% of tenants who were considered the most vulnerable. Lord Freud also announced a mechanism that would trigger a return to automatic payments where tenants fell into significant arrears (eg. by a set number of weeks' arrears, which is not yet defined). However, he emphasised that the trigger would only apply to 'persistent failure'.[9]

According to Lord Freud, this mechanism is designed to protect housing providers' credit ratings and their ability to borrow from lenders. He said that he remains 'absolutely convinced that there are mechanisms available that will allow us to introduce a single universal credit while also providing protection for the housing sector.'[10]

It is in this context that we highlight the following concerns.

Social considerations

The Government has strongly indicated that this is an issue about giving people the choice and responsibility to manage their own budgets, and we broadly support the core objective of mimicking work and receipt of a salary.[11]

A 2011 survey of 1,000 social housing tenants nationally found that nine out of ten people preferred Housing Benefit payments to be made directly to their landlord.[12] We need to ask ourselves why this is the case. The reality is that many of these tenants are people on very low incomes, with extremely tight budgets; choosing a system of automatic payments should be seen as a mechanism for managing the risk of debt against multiple competing priorities.

This method for managing risk is not unusual for people on higher incomes either, many of whom use standing orders and direct debits to pay routine bills.

Practicalities and costs

Increase in arrears

The issue of direct payments is one that threatens to significantly alter management costs for housing associations.

The most comprehensive study undertaken in this area is the *Tenant Direct* pilot, undertaken by L&Q between May 2002 and October 2004. It involved a total of 700 households and consisted of two strands, each within a specific pilot area. The first strand focused on introducing new tenants to direct payments within L&Q's South West region. The second transferred all Housing Benefit payments directly to existing residents, across its Croydon stock.

The results were clear-cut. Under the first strand (new residents), rent arrears rose to 6% by the end of the final period – which compared to an average for the region of 3.8%.[13] Under the second strand (existing residents), arrears rocketed to just over 9% after 12 weeks, before settling at 7% after 12 months.[14] This compared to an overall average of just 3% arrears within the pilot area. The findings led L&Q to conclude that:

> *Tenant Direct does not work for the resident either. Between a fifth and a quarter have debt when they join us and appear to use Tenant Direct to manage their general debts. This only leads to further debt.*[15]

Critically, the current economic circumstances are even more volatile for a reform of this nature. The rapid rise in the cost of living, combined with falling wages in real terms due to high inflation, would almost certainly mean significantly higher arrears than under the pilot.

Increase in administrative costs

Numerous housing associations – both within and outside of the CASE group – have raised concerns over potential cost increases following the introduction of direct payments. Peabody argues that:

> *…We process around 12,000 direct transactions every month, totalling around £3.75million. These transactions are largely untouched by human hands. If direct payment of housing benefit ends, we will have to employ significant numbers of people to manage this process. It will also require an enormous IT project for government to implement… Is it sensible to increase costs at a time when we are all trying to reduce them?*[16]

The experience of CASE members closely mirrors that described above. Typically, housing associations have 50% or more of total rent revenues paid automatically.[17] With the introduction of direct payments, we would therefore be adding a significant element of risk to half of our rental income. Combined with the evidence presented by the *Tenant Direct* pilot, this paints an undesirable picture of increased operational and administrative costs.

A point also needs to be made about the cost to DWP of collecting rent data on all claims for housing support. Under Housing Benefit, this is overwhelmingly managed in the same way as automatic payments, through the exchange of schedules. With local authorities taken out of the equation post-April 2013, it is not clear how DWP would obtain the data without adding to both their costs and that of housing associations.

The bottom line is that costs will increase for housing associations as a result of the introduction of direct payments. The question we examine under *The implications of proposed reforms,* is the extent to which this will impact on the sector's build capacity.

Benefits cap

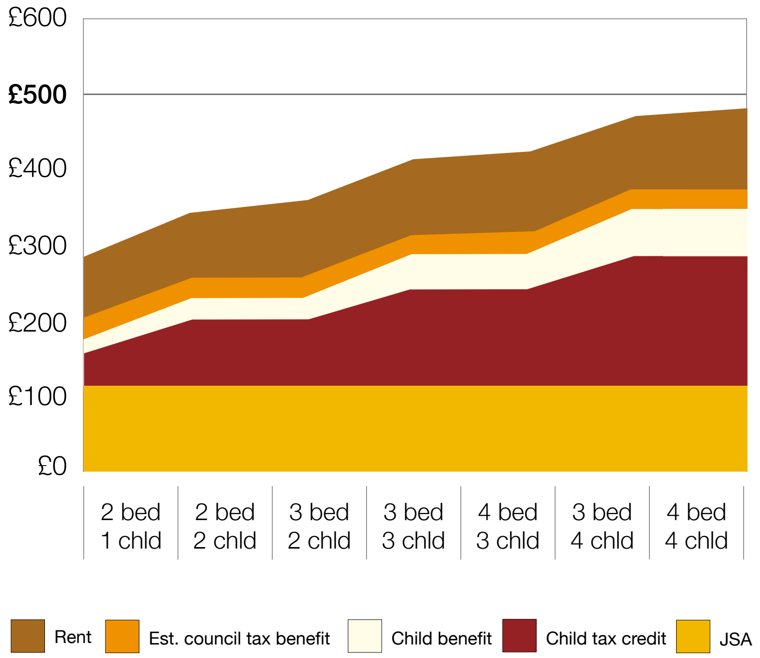
The benefits cap was first announced by the Coalition Government in 2010, to be introduced in 2013. The main rationale for the cap is that no household should claim more on benefits than what the average household earns in work. Currently, that figure is around £26,000 per annum, or £500 per week.

In principle, we support the aim of capping benefits, but are of the view that it will be problematic to implement unless proposals are amended. In particular, we are concerned about the cap's impact on larger homes, and the squeeze on family living allowances.

A smart benefits system recognises different levels of need, and ensures that the correct level of subsidy can be accessed at the right level. As the needs of single people, couples, and families with children are completely different, the most efficient use of public money would be to match entitlement to people's circumstances.

In order to make the cap work, and to ensure that Britain has the most efficient benefits system possible, we need to construct a system that gives people the help they need when they need it. A system that cuts out at the same *average* level for everyone – regardless of household composition or circumstance – is certain to give some people too much (leading to waste), and others too little (leading to poverty).

Figure 3: Social rent: breakdown of rent + benefits by house and family size (Tunbridge Wells)



Benefits cap vs Affordable Rent

Under social rents, because rent levels are typically well below 80% of market rents, very few properties outside of London place pressure on the £500 per week cap. Even larger homes (four bedrooms) can generally be accommodated without threatening the £500 barrier.

Figure 3 shows the cumulative effect of rent plus benefits as family and bedroom sizes increase. Even for the high rent area of Tunbridge Wells, a couple with four children living in a four bedroom social rent home can still be accommodated within the £500pw cap.

The picture changes vastly under Affordable Rent. As housing providers are expected to charge 80% of market rent, larger families will struggle to remain under the cap. In practical terms, four bedroom properties do not work in the south east under the benefits cap. In some areas, and depending on family composition, three bedroom properties do not work either. This is borne out in *Figure 4,* where the cap is reached by a couple with three children in a three bedroom property.

CASE members have decided on various mechanisms for ensuring their residents can still afford *Affordable* Rent once the cap is in place. The way in which the proposed cap works means that these mechanisms will have a profound impact on future build programmes. For instance, if the rent of a property is likely to cause the £500 cap to be breached, there is little reason to proceed with its development.

As a snapshot of what will happen once the cap is put in place, 100% of four bedroom properties will become unaffordable, and therefore, they will not be considered in future development plans. Likewise, CASE members are reviewing whether to continue building three bedroom properties, given that they already threaten the cap and will exceed it if the cap does not rise with inflation.

Benefits cap vs inflation

As has been discussed, the cap already makes four bedroom properties unaffordable under Affordable Rent. Over time, inflation ensures that rent on smaller properties will also become unworkable, should the cap not be increased in line with inflation each year.

Section 94 of the draft Bill does clarify that the level of the cap is to be reviewed in each tax year to determine whether it is still reflective of 'estimated average earnings'. Therefore, our interpretation is that the cap will be increased as necessary to ensure that it is still a representative average figure (although ultimately, the wording of the Bill does leave it to the discretion of the Secretary of State to determine the amount of up-rating).

The provision for an annual review gives some limited comfort that the cap will at least be reviewed and updated annually to keep pace with changes in 'estimated average earnings'. However, up-rating the cap to reflect average earnings is obviously not the same as up-rating it to match inflation. If wages do not keep pace with living costs (particularly in more expensive areas of the country where the cap is unlikely to be reflective of local conditions at the outset), or if the Secretary of State uses his discretion to not up-rate the cap, it is likely to have a deeply negative impact.

The following is a worked example (illustrated in *Figure 5)* which demonstrates how quickly a home that is feasible under Affordable

Figure 4: Affordable Rent: breakdown of rent + benefits by house and family size (Tunbridge Wells)

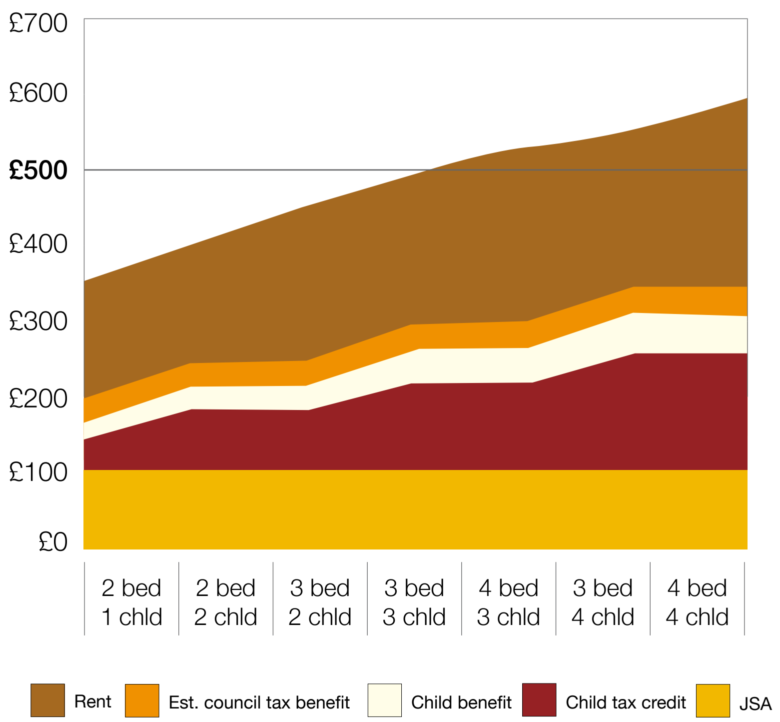
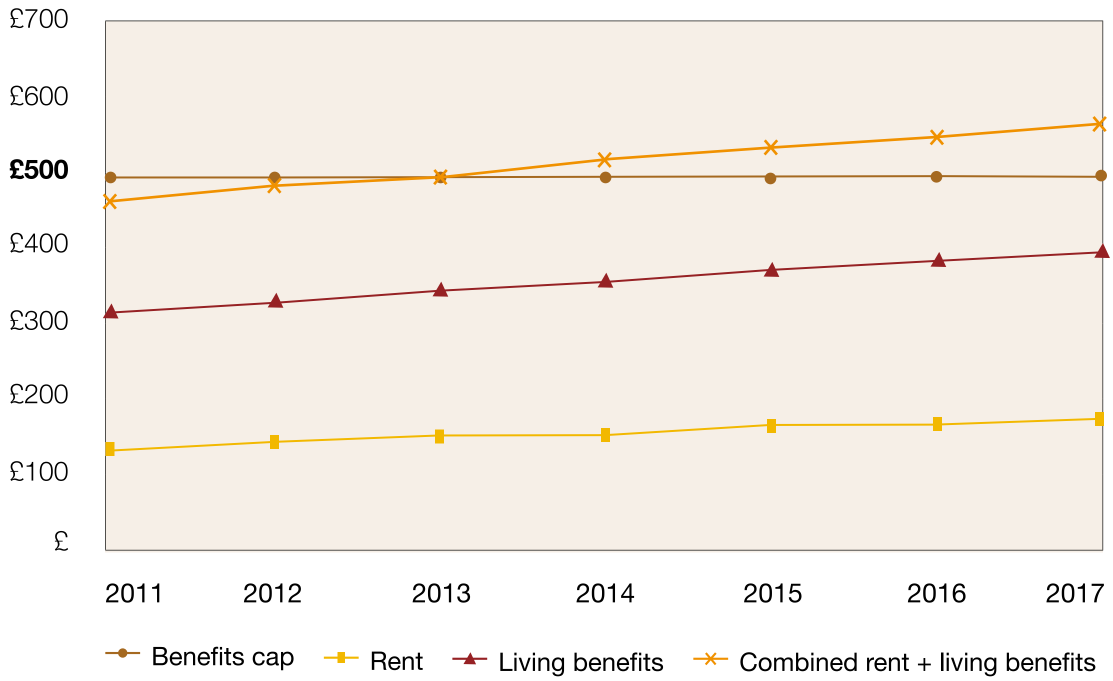


Figure 5: The benefits cap vs inflation — erosion over time



Rent will not work in future unless the cap is indexed. We have used the following assumptions:

- Rent of £140pw in 2011;
- 'Living' benefits[18] of £320pw in 2011;
- Inflation figure of 4.8% between 2011-12 and 3.5% thereafter;
- No growth in wages.

This example demonstrates the following:

- In 2011, there is a relatively generous margin of £40pw before the cap is reached;
- With the present inflation rate, that margin is cut by 57% within a year (to £17pw);
- By the end of 2013 the margin is fully eroded. This would mean that either:
  - Housing benefit would be cut, potentially forcing the tenant into debt, or;
  - The rent would need to be lowered, meaning that the build capacity for the landlord would be affected.

Although CASE recognises the need to cap benefits, it is clear that the proposed method is flawed and will have an impact on future development programmes. Without linking the cap to household size, Affordable Rent does not currently work for larger homes. Over the next few years, inflation will cause smaller homes to become increasingly unworkable unless the cap is also inflated.

A situation that must be avoided is one where the benefits cap overrides local strategic tenancy policies. These policies are set to be drafted over coming months by local authorities in partnership with registered providers. They have been included as part of the Localism Act as a way of ensuring that local needs are met in the construction of new homes.

The proposed benefits cap threatens to force development along financial factors alone, overriding local considerations. This would constitute a perverse policy outcome, and would be contrary to the aims of the Localism Act.

Implications of proposed reforms

Implications on build programme

As previously discussed, the proposed under-occupation rules will lead to a significant stock mismatch for housing providers. CASE members estimate that in order to meet the new demand on one bedroom properties in April 2013, it would need to re-build the equivalent of 7.5% of its total rented stock as one bedroom properties.

A programme of this scale is unrealistic under the current environment. Ironically, it is made less realistic by proposed reforms on under-occupation and direct payments, as both of these initiatives are expected to place pressure on the cost of borrowing. We also fundamentally believe that one bedroom properties are not a good housing solution. At a time of scarce resources, we feel that it would be irresponsible to embark on a one bedroom development programme, given its long-term inflexibility. With this in mind, the implication is that housing stock will not meet requirements in the foreseeable future.

Furthermore, the other end of the stock mismatch is a shortage of four bedroom properties (resulting from proposed under-occupation rules). CASE modelling indicates a need to re-build the equivalent of 1.4% of total rented stock as four bedroom properties. This mismatch cannot be addressed as a result of the benefits cap, which makes this type of property unworkable.

The combined impact of under-occupation rules, direct payments and the benefits cap is therefore to cause a substantial stock mismatch, whilst at the same time limiting the sector's capacity to address it. This will only limit Britain's capacity to address its long-term housing obstacles.

Implications on build capacity

Housing associations operate on a long-term financial model (business case), which generally aims to break-even at the end of a 40 to 60 year cycle. When this formula is disrupted, such as through a change in policy, capacity is lowered as costs are factored in as needed.

For example, if arrears increase, with bad debt following suit, the cost of borrowing is pushed up as lenders adjust the sector's risk profile. This cost increase then has a direct impact on housing associations' capacity to build new homes.

In order to establish the full actual impact of direct payments and under-occupation on build capacity, we have prepared the following analysis based on a CASE member's actual cost data. Using the conservative assumption that arrears double from 3.9% to 7.8%,[19] we found that:

- The cost of servicing the extra funding for the arrears balance would increase – by £12pa, per rented property.
- The cost of debt recovery would approximately double – an increase of £60pa per rented property.
- Bad debt, currently £50pa per rented property, would double – a further increase of £50pa per rented property.

The total cost of these increases on income and expenditure would come to approximately £122pa per rented property. Resulting from this, the impact on new build would be as follows:

- Revenue loss in the early years, per new build Affordable Rent property, is approximately £1000pa – losing £122pa from income and expenditure results in a **one off loss of development capacity of 122 new properties per 1000 rented properties owned. This would be spread over a 10 year period.**
- In order for the business case to work for a new home, 12% extra subsidy would need to be put into each home –

equivalent to a 12% drop in annual new homes capacity (assuming fixed total subsidy is available to the sector).

The cost of borrowing for housing associations has always been related to lenders' perception of business risk. This is even more so under current conditions. Banks, bond investors, and ratings agencies have all highlighted significant concern over the risks that direct payments could pose to a secure income stream.

As new borrowing facilities are secured, interest cost increases resulting from a loss in lender confidence would need to be compensated by an increased capital subsidy per new home. Assuming that there is a total fixed amount of subsidy for new homes – and therefore no further subsidy available – this will result in a reduction in new homes build capacity, as follows:

- An **11% drop in annual capacity** for a 0.2% increase in the cost of borrowing;
- A **28% drop** for a 0.5% increase.

Where existing loan facilities need to be re-negotiated, either as a result of their term expiring or other material changes, any increase in the cost of interest caused by lenders' perception of increased risk would immediately reduce a housing association's operating surplus – and therefore, its ability to build new homes. The numbers associated with this are:

- **200 homes** per £100m borrowed for a 0.2% increase;
- **500 homes** per £100m borrowed for a 0.5% increase.

The figures above illustrate the extent to which benefit reform and housing are working in opposite directions. It is of concern that as CLG embarks on a programme to increase housing supply, its sister department – DWP – is preparing to implement a policy that is certain to do the opposite.

Implications on the sector's financial risk profile

The low financial risk profile of the social housing sector is critical to ensuring the delivery of the Government's Affordable Homes programme. The bottom line is that **there is a direct correlation between risk and cost, and therefore, housing capacity.**

Re-directing payments to landlords following 'persistent failure' in paying rent – as stated by Lord Freud – would not be enough to alter the heightened risk profile. Automatic payments to landlords serve as a bad debt prevention mechanism; the trigger proposed by Lord Freud would not prevent bad debt – it would simply limit the length of time over which it could build. In other words, it's a cap on bad debt.

Although CASE supports the concept of mimicking a salary for people receiving benefits, the main question must be: is this point of principle worth a reduction in build capacity? Given the current undersupply of housing, it would be difficult to conclude that it is.

Recommendations

Under-occupation

- It is our view that two bedroom properties should never be regarded as under-occupied. We therefore recommend that the House of Lords amendment on proposed size-related restrictions be adopted in the final Act.

- Assuming the Government's primary reasoning for its under-occupation policy is to make better use of existing housing stock, we propose the introduction of a 'soft start'. This would allow sufficient time for residents to mutual exchange or make alternative plans, and would avoid immediately penalising residents trying to move, but unable to do so as a result of the structural stock deficit. The House of Lords amendment also tackles this issue by exempting people who cannot find 'suitable alternative accommodation'. It is our view that this amendment is both sensible and necessary, and ought to be incorporated into the final Act.

Direct payments

- We strongly recommend that proposals to introduce direct payments be scrapped, in order to avoid a serious impact on build capacity.

Benefits cap

- We recommend that the Government make an explicit commitment to indexing the benefits cap for inflation.

- In order to make three and four bedroom properties workable under Affordable Rent, we recommend relaxing the cap for larger properties. This could best be achieved through a more sophisticated system whereby income is linked to household size.

Sources

[1]DWP, Universal Credit Policy Briefing Note 2, 24 March 2011, p.1.

[2]DWP, Impact Assessment: under-occupation of social housing, 16 February 2011, p.9, pgph.29.

[3]Analysis consisted of working age, general needs residents, claiming some form of Housing Benefit – including both full and partial claims.

[4]Table based on the combined sample from L&Q, Moat, Sovereign, Thames Valley and West Kent. Other CASE members' data closely aligned with these findings, but was omitted as it was not available in a comparable format. Total sample size: 41,005 households of working age and in receipt of Housing Benefit (full or partial).

[5]Based on DWP estimate of the need for 1.5 million households in its Impact Assessment: under-occupation of social housing.

[6]DWP, Impact Assessment: under-occupation of social housing, 16 February 2011, p.8, pgph.24.

[7]Housing Futures Network, The impact of cutting housing benefit on under-occupiers in social housing, September 2011.

[8]Stock calculated on the basis of households with tenants of working age, and in receipt of Housing Benefit (full and partial).

[9]DWP Newsroom, speech by Lord Freud at National Housing Federation Annual Conference, 14 September 2011.

[10]DWP Newsroom, speech by Lord Freud at National Housing Federation Annual Conference, 14 September 2011.

[11]DWP, Universal Credit Policy Briefing Note 2, 24 March 2011.

[12]Research produced by research consultancy Policis and supported by the NHF, based on interviews with 1,000 Affinity Sutton, Hyde, and Riverside social housing residents.

[13]L&Q, Where's the Benefit, February 2004, p.2.

[14]L&Q, Where's the Benefit, February 2004, p.3.

[15]L&Q, Where's the Benefit, February 2004, p.10.

[16]Peabody, 3 reasons why the government should keep Housing Benefit direct, 13 June 2011, accessed 8 September 2011, www.peabody.org.uk/about-us/from-the-chief-executive/ceo-blog-overview/3-reasons-why-the-government-should-keep-housing-benefit-direct-.aspx.

[17]Peabody, 3 reasons why the government should keep Housing Benefit direct, 13 June 2011.

[18]In this example, 'living' benefits include Jobseeker's Allowance, Child Tax Credit, Child Benefit, and Council Tax Benefit.

[19]This assumption is consistent with the findings of the L&Q Tenant Direct pilot.

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