Executive

Legislation affecting Housing in London: proposed influencing activity

Item no: 6

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Summary

This paper updates London Councils Executive on work on the Government's housing policies, particularly:

- Housing association Right to Buy (RtB)
- Forced sale of high value council properties
- 1% social rents cut
- Welfare changes affecting housing

Recommendations

This paper recommends that the Executive:

- supports London Councils' proposals for engagement with officials and parliamentarians in relation to the Housing Bill to propose alternative options that will ensure the interests of London are protected in the implementation of the extended Right to Buy and forced high value council stock sales in the capital.

- supports London Councils engaging with parliamentarians through the passage of the Welfare Reform and Work Bill to seek to amend the 1% cuts to social rents to reduce the negative impact on London's housing.

- supports London Councils engaging with parliamentarians through the passage of the Welfare Reform and Work Bill to mitigate the impact of the lower benefit cap on homelessness and temporary accommodation in London

- notes the potential cumulative impacts of these policies and others discussed in this report and supports London Councils pursuing a range of options for mitigations with government, examples of which are set out below.

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1. This paper updates London Councils Executive on work on the Government's housing policies, particularly:

- Housing association Right to Buy
- Forced sale of high value council properties
- 1% social rents cut
- Welfare changes affecting housing

2. At the previous meeting on 23 June 2015, London Councils Executive discussed the implications of the new policy to extend the right to buy to housing association tenants and require councils to sell their high value properties to fund it. The Executive agreed to explore alternative options that could mitigate any adverse impacts on London.

3. The Executive agreed that the policies must deliver:

- An increase in housing delivery
- A net increase in affordable housing
- Protection for London's social mix
- No outflow of funds from London.

These policies are expected to form part of the Housing Bill to be introduced in the Autumn.

4. More recently, the Summer Budget in July announced further housing changes, in particular including a 1% cut per year to social rents over four years. This introduces further challenges for stock-holding boroughs' and housing associations' investment capacity, and is likely to have significant impacts on London's housing supply pipeline and investment in existing stock.

5. The Budget also included a number of measures designed to reduce expenditure on working-age benefits. Some of these – namely freezing Local Housing Allowance rates, lowering the level of the benefit cap to £23,000 and restricting eligibility to housing benefit for 18-21 year olds – could increase homelessness pressures and the use of temporary accommodation.

6. This report does not cover measures in the Budget to make savings from tax credits.

RtB and high value council stock sales: challenges for London

7. Technical modelling has taken place to explore the extent of stock that may be required to be sold, the likely impacts on London, and the viability of replacing sold stock.

8. The current policy poses considerable risks and challenges for London. Early estimates suggest that between 2,100-4,500 council homes may be required to be sold per year, however this is subject to further detail on the policy from government. To date, estimates suggest a significant outflow of funding to the rest of the country to pay for the policy nationally.

9. We understand that Government is expecting sales to cover the costs of the Right to Buy extension discounts. The higher the number of local authority homes sold, the easier it will be to raise the money needed for Government as well as retain enough to pay for viable replacements. A smaller number of homes sold – although this may reduce the impacts on boroughs' temporary accommodation – would be likely to see a larger proportion of each receipt going towards the Right to Buy, leaving less for replacements.

10. There remains very little detail publically about how the Government intends to implement the stock sales policy, but officers have been in regular discussions with officials. Boroughs may need to be prepared for options that differ from that published in the manifesto briefings before the election. Required sales may be concentrated in the highest value boroughs or spread more evenly across London, which would be likely to necessitate a higher number of sales overall to generate the same funds. Given the contribution needed to pay for housing association Right to Buy, councils may be in a position where they would need to sell more homes if they want to retain sufficient receipts to compensate the HRA and pay for viable replacements after contributing the expected amount for the Right to Buy extension.

Recent activity

11. London Councils Homes for London board members have written to Greg Clark, Secretary of State for Communities and Local Government to set out our position in relation to the asset sales and Right to Buy proposals and raise our concerns about the policy. We requested a meeting to discuss this further, including how it interacts

with the rent cut announcement. The letter was clear about our desire to work with DCLG and Treasury and find a solution that could work better for London.

12. Officers are working closely through a project group that has been convened jointly with GLA, to undertake technical work to assess the impacts of the policy and potential mitigations.

13. London Councils officers have been collating information from boroughs on the anticipated impacts on HRA business plans, borough development capacity, wider housing supply, local temporary accommodation budgets, the housing benefit bill, and London's tenure mix. We have shared this information as appropriate with DCLG and Treasury officials in order to demonstrate the scale of the challenges this policy introduces for London.

Managing replacements

14. It is clear that if forced asset sales go ahead, London boroughs will face considerable challenges in supporting a replacement programme at sufficient scale.

15. Housing associations have completed around 6,000 homes per year in London over the last three years, and councils have completed 850 homes in total over those three years. These numbers demonstrate the extent of the challenge for associations and councils to scale up delivery in a very short space of time in order to deliver a replacements programme potentially of thousands of additional new units per year. In this context there is a risk that replacements will happen at the expense of completions that would otherwise have come forward as additional affordable housing supply.

16. When combined with welfare reforms, reductions of social housing rent, and continued cuts to local authority budgets, the context for delivery is very challenging. It is likely to be difficult to find the sites to replace sold homes, and find partner organisations with the capacity to deliver those homes in a short timescale.

17. Ideally all homes would be replaced within the borough in which they were sold. This would be necessary to ensure retention of London's social mix and avoid creating new complexities of out-of-borough nominations. However, for this to happen there would need to be a close correlation between the location of high value council

homes sold on the one hand, and capacity (physical and financial) to deliver new homes on the other hand. This is unlikely to be possible in many cases, particularly if the design of the policy means that most homes are sold in inner London, where there is likely to be a shortage of available or affordable land.

18. If higher value central London boroughs are required to contribute more sales, then out-of-borough delivery is likely to be necessary if London is to achieve sufficient replacements. This may result in boroughs with lower value land being asked to provide capacity for a significant proportion of replacement homes. The policy may also necessitate a review of homelessness and allocations rules if an increasing proportion of central London boroughs' nominations were to be to outer London.

19. If the sales required are distributed more evenly across London boroughs, which may help support more local replacement, it is likely that a higher overall level of sales would be needed in order to raise the funds the Government requires to pay for the Right to Buy extension.

20. Currently there is a significant time-lag between the sale of council homes through RtB and their replacement. The new policy may exacerbate this trend given the anticipated challenges of replacement, with associated impacts on Temporary Accommodation and housing benefit costs.

21. In addition a significant proportion of the costs of replacing sold homes may need to come from borrowing, given that full receipts won't be retained. This is likely to be difficult for several boroughs because of HRA borrowing caps. This implies that a significant proportion of replacements may need to be undertaken by off-balance sheet delivery vehicles or through partnerships with other housing providers.

Alternative proposals

22. It is clear that this is a complex policy agenda and that any alternative proposals are likely still to contain some challenging implications for London local government.

23. There may be an opportunity to present an alternative deal for London to advance the principles agreed by the Executive in June and as set out earlier in this report, where receipts are ring-fenced so that funds remain in the capital. In this scenario, it can be envisaged that Government would require a substantial commitment from

London to use the receipts to increase the supply of housing, for example by delivering more than 1 for 1 replacements.

24. This would be likely to require a very considerable uplift in delivery, and may require some compromises in order to make this achievable. For example, it would be easier to deliver more than 1 for 1 if more replacement homes were built in lower value areas, and it would also be likely to require flexibilities on the rent level or tenure of some replacements. Alongside this, London government would be likely to require a series of other flexibilities that would support boroughs and GLA to work together to deliver a sufficient programme of replacements at an ambitious scale. A partnership approach would be likely to be needed in order to manage these decisions equitably across London and, were it to be considered, London would be likely to want maximum freedom to manage these decisions ourselves within London government – involving the Mayor and boroughs jointly.

Other flexibilities and mitigations

25. London Councils has been exploring a range of other flexibilities that could help make a replacements programme more viable to deliver. These could include:

- Making loan finance available to boroughs who wish to start the development pipeline before sales have taken place, reducing the impacts on temporary accommodation – to be paid back on achieving sales receipt
- Suitable exemptions such as properties in schemes with long-term potential for significant regeneration, new build properties, sheltered and supported housing
- More support for facilitating land assembly and ensuring faster access to public land owned by central Government departments
- Better resourced planning departments supported by more local freedoms on planning fees
- Suitable levels of funding for homelessness prevention, TA and DHP to ensure TA remains viable given likely increases in demand
- Legislate to remove complexities on homelessness placements and discharge of duty, for example those created by the recent Westminster judgment

Other Budget measures

26. In the summer Budget July 2015, the Chancellor also announced a series of additional reforms that have a bearing on housing in London. These include a 1%

annual cut in social rents for 4 years from 2016, replacing the previous CPI+1% rent increase guidance; the four-year freeze in LHA rates; the lowering of the benefit cap from £26,000 to £23,000 in London; and the restriction of eligibility for housing benefit for 18-21 year olds.

Reduction in social rents

27. The Chancellor announced that from 2016/17, social rents would be cut by 1% on the previous year's rent level. The measure was introduced in the Welfare Reform and Work Bill which has already had its second reading in parliament.

28. This policy introduces a new scale of challenge for boroughs in terms of managing their Housing Revenue Account, reducing the revenue they were expecting over the life of the business plan. This introduces a considerable change to the original self-financing settlement which was predicated on higher-than-inflation rent rises over 30 years, and means boroughs will have to rework their investment plans.

29. This reduction in income is likely to make it more difficult for councils to invest in stock improvement, potentially leaving tenants with poorer housing conditions. It will also lead to stock-owning councils having to review their development plans, reducing their ability to invest in new housing at a time when London's housing shortage urgently needs addressing. It is likely to make it harder for both associations and boroughs to finance the replacement of stock that is sold through other policies.

30. London Councils has estimated that the cut could mean that over the 4 years London could see a cumulative loss of around £800m in cash terms to HRA business plans, and an estimated £13bn over the lifetime of the business plan if rents return to CPI + 1% after 4 years. These numbers are based on broad assumptions and officers are currently carrying out further analysis to test the detail. There may be exemptions introduced during the Bill that alter these calculations. It is important to note that we do not yet know what the rent settlement would be after 4 years - it may be that if rents do not return to CPI + 1% then boroughs would be set to lose more.

31. There will be scope to pursue amendments during the passage of the Bill after recess which would mitigate the impact, for example securing exemptions for particular types of properties, or introducing the cut in guidance rather than legislation, which could allow councils to retain more local discretion.

LHA freeze

32. The Budget also included a pledge to freeze a number of working age benefits for four years. This would include the Local Housing Allowance (LHA) rates which determine how much housing benefit can be paid to a household in the private rented sector.

33. LHA rates were reformed in 2011 to link rates to the 30th percentile rent in an area, rather than the 50th percentile rent. This means that theoretically the cheapest 30% of properties in an area should be affordable to a housing benefit recipient rather than half. However, the introduction of caps on different LHA rates, and the limiting of annual increases to 1% in recent years mean that they have not kept pace with rent levels. There is a strong possibility that freezing these rates for the rest of the Parliament will exacerbate this problem to the extent that many parts of London will become essentially unaffordable to private renting households in receipt of housing benefit – the majority of whom are in work.

34. Ministers have confirmed that some of the savings from this policy will be recycled back into housing benefit through the continuation of the 'Targeted Affordability Fund' which has previously allowed some of those LHA rates that had fallen furthest behind rents to increase by more than 1%. London has received a significant share of this fund – which London Councils lobbied for - over the past two years.

35. London Councils is analysing the effect of a freeze on LHA rates with a view to engaging with civil servants and ministers to explore amendments to the policy, and potentially the operation of the Targeted Affordability Fund – that will ease the issue of the unaffordability of London's private rented sector.

Lower benefit cap

36. The Summer Budget also confirmed the Government's intention to lower the benefit cap that applies to the total level of benefit income that certain out-of-work households can receive. From Autumn 2016, that level will be reduced from £26,000 to £23,000 for households in Greater London or £20,000 for those in the rest of the country (and to lower levels for single people without children).

37. London’s high rent levels mean that the benefit cap has so far had a particularly pronounced effect in the capital. London currently accounts for almost half of all capped households, but London households have also experienced significantly higher benefit reductions than those in other regions of the country.

38. The proposed differential level of the cap is likely to go some way towards evening out this effect – for example, the Government’s impact assessment anticipates London’s share of the overall number of capped households to be a little under a quarter once the new levels are introduced. However, lowering the cap from £26,000 to £23,000 will still have a significant effect on London. It is likely that the number of capped households will increase from a current level of around 10,000 to something closer to 29,000.

39. An evaluation of the existing benefit cap has already found that it was having an impact on the homelessness and housing options services of the London boroughs that it examined, whilst also making it harder to source sustainable tenancies for households in temporary accommodation. Indeed, when a household in temporary accommodation is made subject to the benefit cap, this can bring a direct financial burden to the local authority to pay the difference in order to sustain the accommodation. These effects would be amplified by a lower cap level.

40. It is also possible that the number of households in social rented tenancies that fall within the scope of the lower cap level could also begin to increase. If a household in a council tenancy were to be capped and begin to build up rent arrears, the local authority would face a choice of either evicting them – in which case they would become homeless and the borough may have a legal duty to rehouse them – or allowing them to remain in their tenancy whilst arrears build up. Growing arrears would clearly have a further impact on the borough’s HRA account therefore investment plans.

41. London Councils is working with a number of officers to better understand the effects of lowering the benefit cap on boroughs. Officers are investigating potential amendments to the policy which would mitigate its effect on homelessness and temporary accommodation use in London whilst also encouraging out-of-work households to find work. Broadly the options for amendments include:

- Proposing the cap level remains unchanged in London
- Proposing that households in temporary accommodation be exempt from the cap

- Proposing that single parents of young children be exempt from the cap
- Making the case for London Government to be given an enhanced role in commissioning employment support in the capital – particularly for those furthest from the labour market

Eligibility for housing benefit for 18-21 year olds

42. The other Budget measure with the potential to affect housing in London is the proposal to remove housing benefit eligibility from most childless 18-21 year olds who are out of work.

43. Whilst this policy holds the potential to increase homelessness amongst young adults, the Government has pledged that exemptions will be in place for "certain vulnerable groups" so it is currently not possible to predict which groups might be at risk of homelessness. It should be noted that Budget costings stated that the policy is projected to save the relatively small amount of £25m a year by 2017-18, compared to pre-election projections of around £100m.

44. London Councils officers are engaging with civil servants over the exemptions and will revisit this policy once the regulations defining them have been tabled.

Next steps

45. The social rent cut and lower benefit cap policies are introduced in the Welfare Reform and Work Bill which began in the House of Commons and has already had its second reading in parliament. The committee stage of the Bill is scheduled to begin on 10th September which will offer an opportunity to table amendments and engage with Parliamentarians.

Financial Implications for London Councils
There are no financial implications for London Councils.

Legal Implications for London Councils
There are no legal implications for London Councils.

Equalities Implications for London Councils
There are no equalities implications for London Councils.