Centre for Homelessness Impact

Chartered Institute of Housing

October 2021

Housing for people on low incomes – how do we make the best use of government subsidies in England?

Written by John Perry and Sam Lister

Produced in partnership with the Chartered Institute of Housing

Written and researched by John Perry and Sam Lister of CIH

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The Centre for Homelessness Impact champions the creation and use of better evidence for a world without homelessness. Our mission is to improve the lives of those experiencing homelessness by ensuring that policy, practice and funding decisions are underpinned by reliable evidence.

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Housing for people on low incomes – how do we make the best use of government subsidies in England?

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Government subsidises the housing costs of those on low incomes in two distinct ways: by supporting their rents through the benefits system and by providing low-cost rented homes. Because the latter are in short supply, more and more low-income households are living in private rented accommodation, where rents are higher and, as a result, they need more support from benefits. This paper looks at the economic case for a change of priorities, towards providing more low-cost rented homes and making savings on benefit payments to private landlords.

Summary

Could better value for money be achieved by redirecting some of the £30.6bn which is currently spent on housing benefit (HB) and the housing element of universal credit (UC)? Such spending represents about 15% of the welfare budget and is expected to rise as more claimants of means-tested benefits switch to universal credit.

Around £7.9bn of the total is paid to subsidise the rents of 1.7 million tenants in the private rented sector (PRS). Most private renters on UC or HB are in-work, with some 1.2 million households having low incomes combined with high rents. This briefing assesses the potential savings if such claimants could be moved to tenancies in the social rented sector, with housing associations or with local authorities.

We estimate the costs and benefits of providing an additional 10,000 homes in the social rented sector annually:

- The capital cost in government grants for the additional homes would be £700 million, increasing the current Affordable Homes Programme to £2.44bn annually, or by 28%.
- The annualised cost of such grants over 30 years is (depending on interest rates) approximately £40 million per annum, or £4,010 per unit built.
- Moving each benefit claimant out of a private letting and into a social rented unit saves about £1,100 per year in benefit payments.
- Moving each family in temporary accommodation out of an expensive private letting into social rented accommodation saves about £7,760 per year.
- If 10,000 new social rent units were used 50:50 to house private tenants and families in temporary accommodation, revenue savings would amount to approximately £6m and £38m respectively, or £44m in total.

Our main finding is therefore that, making reasonable assumptions, the cost to the Exchequer of a new tranche of investment in social rented homes can be offset by the savings in benefit and temporary accommodation costs, if all or the majority of these homes were allocated to households who would otherwise be housed in the private rented sector.

Key findings

Expenditure on housing benefit (HB) and the housing element of UC is about 15% of the welfare budget - £30.3 billion (GB, 2021/22).[1] In total, 1.7 million private renters in England claim HB (or the housing element of UC), at an annual cost of £7.9bn, which is forecast to grow.[2] Most private renters on HB are working, but over one million households are judged to be in housing need, more than one-third of these because of affordability problems, paying rents that on average are twice those of social rents.

The housing benefit system provides no control over the quality of the housing it pays for: whereas the social sector with lower rents is regulated, the PRS with higher rents has a quarter of tenants living in conditions that fail the Decent Homes Standard. The problem is most acute for benefit recipients: 29% of those receiving HB in the PRS are in non-decent accommodation.[3]

1 See www.gov.uk/government/collections/benefit-expenditure-tables (nominal expenditure, i.e. not real terms adjusted).

2 Calculated from tables in the UK Housing Review 2021. Figure given is for England.

3 MHCLG (2021a) English Housing Survey Private rented sector, 2019-20. London: MHCLG.

Before the pandemic, evidence showed that 3.5m households in England were in housing need because of problems such as sharing, overcrowding, unaffordable rents, poor conditions or homelessness.[4] Problems have worsened since then. The English Housing Survey Household Resilience Study showed that by the end of 2020 overcrowding had increased, particularly in the PRS, where 15% of tenants are now overcrowded. Some 9% of private renters (353,000 households) are in arrears, compared with only 3% in 2019/20; more than one-fifth of private renters have lost at least £100 per month in income during the pandemic.[5]

If all recipients of HB or UC in the private sector could switch to social rented units, it would achieve considerable savings to the Exchequer, as well as making low-income households less vulnerable to homelessness. The crude saving is estimated at £3.9 billion annually, although once the assessment is weighted to take account of factors such as jobseekers and claimants in paid employment being likely to have short claims, the saving falls to £1.9 billion.

Nearly four-fifths of temporary accommodation (TA) for homeless households is met by using the PRS, especially in high-cost areas such as London. Before the pandemic, TA was costing local authorities £1.2 billion.[6] We calculate that almost half of this could be saved each year if councils were able to substitute social rented accommodation for the 73,700 PRS lettings currently used for TA.

353,000 households in private lettings are in arrears

4 NHF (2020) People in Housing Need: A comprehensive analysis of the scale and shape of housing need in England today. London: NHF.

5 MHCLG (2021b) English Housing Survey Household Resilience Study, Wave 2 November-December 2020. London: MHCLG.

6 See https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2019-to-2020-individual-local-authority-data-outturn (latest data are for 2019/20).

Pressures towards higher spending on benefits

Expenditure on housing benefit (HB) and the housing element of UC is about 15% of the welfare budget - £30.3 billion (GB, 2021/22), rising from £22.8 billion in 2011/12 and from £14.8 billion in 2006/07. Currently it is forecast to fall slightly, post-pandemic, but is expected to rise again to £31.3 billion by 2025/26. At the moment, support for housing costs is split almost equally between HB and UC but by 2025/26 UC will account for two-thirds of housing support.[7]

Part of the budgetary pressure is due to the gradual transfer of working-age HB claims to the UC housing-costs element. While there are unlikely to be any housing costs savings for claimants who are out of work (their full eligible rent is payable on HB or UC) spending on in-work claims will rise (even if rents and caseloads are static).

This is because:

- In the legacy benefits system (which is now coming to an end), tax credits were designed to boost incomes so that most in-work claimants do not get HB except for those paying the highest rents. In effect for any given earnings there is a threshold rent and HB is only payable on the excess.
- In HB the maximum benefit is just the full rent, whereas in UC it is rent and non-housing costs. The combined effect of a larger block of benefit to erode, lower withdrawal rates and higher work allowances (earnings disregards) means that benefit reaches further up the income scale.
- Take-up of in-work HB, especially among private renters, was as low as 65-75% by caseload or 75-85% by expenditure. Take-up rates for tenants in paid employment are even lower – 40-50%.[8] The rolling up of in-work and out-of-work support into a single benefit should increase these historically low levels of take-up.

Some of this additional expenditure will be offset by other features of UC that will result in savings (e.g. unearned income is tapered away at 100% instead of 65%), but overall the housing element of UC will cost more.

7 See www.gov.uk/government/collections/benefit-expenditure-tables

8 Income-related benefits estimates of take-up, DWP, https://www.gov.uk/government/collections/income-related-benefits-estimates-of-take-up--2

Pressures leading to increases in homelessness

Two key factors – the adequacy of personal housing subsidies and the availability of sufficient affordable housing – interact, with shortage of the latter putting pressure on the former as low-income households are forced into the higher-cost private rented sector (PRS). This in turn puts more people at risk of rent arrears, eviction and homelessness.

Before the pandemic, some 3.5m households in England were in housing need because of problems such as sharing, overcrowding, unaffordable rents, poor conditions or homelessness.[9] Homelessness is the most acute form of need, only partly recorded in the statutory homelessness figures. A broader measure of 'core homelessness' assesses the total numbers who do not have proper accommodation (sleeping in cars and sheds, sofa-surfing, in hostels and bed and breakfast units, rough sleeping, etc.) including those as counted as 'statutorily' homeless. In England, core homelessness is calculated to have reached nearly 220,000 households or individuals in 2019, falling to around 200,000 in 2020 as a result of the 'Everyone In' programme and other measures.[10]

Problems have worsened because of the pandemic. The English Housing Survey Household Resilience Study shows that by the end of 2020 overcrowding had increased, particularly in the PRS, where 15% of tenants are now overcrowded. Also, some 9% of private renters (353,000 households) are in arrears, compared with only 3% in 2019/20. More than one-fifth of private renters have lost income (at least £100 per month) during the pandemic.[11] A survey of landlords showed that 82% of tenants now in arrears had paid their rents normally until the pandemic began.[12]

During the pandemic, while the furlough scheme assisted those who kept their jobs, universal credit (UC) was the safety net for people who became unemployed or whose working hours fell, with claims surging in the early months of 2020 and DWP responding quickly

9 NHF (2020) People in Housing Need: A comprehensive analysis of the scale and shape of housing need in England today. London: NHF.

10 Stephens, M. et al (2021) UK Housing Review 2021. Coventry: CIH, Commentary Chapter 5.

11 MHCLG (2021b) op.cit.

12 See https://www.nrla.org.uk/news/landlords-made-scapegoats-for-covid-rent-debt-crisis

> Although lack of affordable housing is a key factor in rising homelessness, there are also issues about the benefits system itself.

to a huge increase in workload. The government decision to increase the standard allowance by £20 per week, linked to the improvement in LHA rates, was instrumental in preventing rent arrears from growing more quickly and in reducing the risk of homelessness once temporary bans of evictions came to an end.

Responding to homelessness or potential homelessness has nevertheless required greater reliance on the PRS:

- Use of temporary accommodation (TA) for homeless households is at its highest level for 15 years, largely because of the shortage of permanent affordable housing. Almost four-fifths of TA is provided using PRS lettings.
- Essential action taken during the pandemic produced a 40% increase in use of bed and breakfast (B&B) accommodation between January and April 2020 and it will now be difficult to reduce this figure given the affordable housing shortage in many parts of England.[13]

The wider causes of homelessness are known to be related to the shortage of affordable housing, inability to pay for housing because of poverty, low pay or unemployment, and personal factors such as relationship breakdown. Government cannot eliminate these causes, but its policies and spending can help considerably in preventing homelessness being the result. For example, the Homelessness Reduction Act 2017 which came into force in April 2018 had an immediate effect in reducing numbers of homeless households owed a 'main' rehousing duty; the 'Everyone In' programme during the pandemic prevented 37,000 people from having to sleep out in England.

Such measures can have a dramatic impact and are not in themselves expensive (for example allocations via the Rough Sleeping Initiative total £203 million in 2021/22). However, they must be sustained, and also depend for their success on the availability of affordable housing and on adequate personal subsidies (HB or UC) which enable those on low incomes to pay for it.

13 In past years the drive to reduce B&B use for homeless households succeeded because permanent housing was available, if necessary in the PRS and, where required, with a degree of support

Challenges of meeting need in the private rented sector

Considerable problems develop when low-income households cannot access social housing and have to use the PRS. Over one million private renting households are judged to be in housing need, more than one-third because of affordability problems. This is because rents for the most affordable private one and two bedroomed homes are more expensive than housing association social rents by 20 to 40% in the North and Midlands, 45 to 65% in the South and by 220 to 240% in London.[14]

There are 1.2 million PRS households with low incomes and high rents.[15] In the two lowest income groups, 69% of renters spend 30% or more of their income on rent (in London and the South East, proportions rise to over 90%). Problems are particularly acute in London, for example:

- A single person in the bottom 25% of earnings in London would spend over 50 percent of their income on rent or nearly 60 percent if aged under 35.
- A working couple in London who both earn the minimum wage would spend 43% of income on rent.

In total, 1.7 million private renters in England claim HB (or the housing element of UC), at an annual cost of £7.9bn, which is forecast to grow, despite various restrictions on benefit claims.[16] The caseload mix of private renters on housing benefit is quite different from social renters: pre-pandemic, most private renters on HB were in-work whereas two-thirds of social renters on HB were out-of-work.

In addition to higher rents, there are acute value-for-money issues about the lower end of the PRS. Housing benefit is, in effect, a subsidy to landlords but with no control over the quality of the housing it pays for: whereas the social sector with lower rents is regulated, the PRS with higher rents has a quarter of tenants living in conditions that fail the Decent Homes Standard. The problem is most acute for benefit recipients: 29% of those receiving HB in the PRS are in non-decent accommodation.[17]

14 The difference between private and social rents in Scotland and Wales is somewhat lower than in England – between 8 to 35%.

15 MHCLG (2021a) op.cit.

16 Calculated from tables in the UK Housing Review 2021. Figure given is for England.

17 MHCLG (2021a) op.cit.

One frequently suggested approach to improve the value for money spent on housing benefits is to link the maximum rent that HB/UC pays to the quality of the accommodation. However, there are several obstacles which may explain why such an approach has never been progressed:[18]

- Adding an extra administrative layer (someone needs to assess the quality) would considerably slow down the processing of claims and it is difficult to envisage how this would work in UC where administration is centralised. Speed of processing plays a vital part in preventing homelessness
- Benefit restrictions without commensurate rent controls ultimately mean that the tenant not the landlord bears the cost. Landlords may also refuse to let to low-income tenants unless the controls also applied to non-benefit tenants.
- The basis for any assumed incentive effect is doubtful because rents are largely determined by location not quality. The marginal increase that could be achieved is almost always far outweighed by the cost of financing the repairs/ improvements required.[19]

This raises the question of whether investing in building social rented homes, in those areas where the gap with private rents is greatest, would provide better value for money, by enabling renters to change sectors and claim less – or no – housing benefit. Put crudely, if (say) £25 of a weekly housing benefit payment to a landlord represents the landlord's profit after meeting their running costs, this money might be better spent in making repayments on a social landlord's loan for new investment (£25 weekly would pay for approximately £23,000 of new debt over 30 years).

18 Different considerations apply to TA and the supported housing sector (exempt accommodation) where help with housing costs remains (for the time being) via HB and with the local authority. This is currently being explored in the 'exempt accommodation' pilots.

19 Leather, P. (1999) Housing Benefit and Conditions in the Private Rented Sector. York: Joseph Rowntree Foundation/University of Birmingham.

Increasing the supply of social rented homes

Could we build more homes at the most affordable rents so as to reduce the need for low-income households to rely on the benefit system? Of 58,700 affordable homes completed in 2019/20, just 6,600 were for social rent, and of these just over half (55%) were in London, the East, South East and South West, where affordability of private rents in relation to incomes is worst.[20] Latest projections of housing need suggest that output should be increased to 90,000 social rented units annually.[21] For the purposes of this paper, and recognising budgetary constraints, we ask a more limited question – what would be the costs and benefits of providing an extra 10,000 social rented homes annually, with the aim of rehousing that number of low-income private renters each year as these new homes become available for letting?

The cost to government of building a social rented home is the cost of the grant needed by the provider (housing association or local authority), with all remaining costs being met from rents. For the scale of programme contemplated in this paper, the average grant cost is calculated at £70,000 per unit, meaning that an additional 10,000 social rented units could be built for £700 million. This would mean increasing the current Affordable Homes Programme of £2.44bn annually by 28%. The annualised cost of such grants over 30 years is (depending on interest rates) approximately £40 million, or £4,010 per unit per annum (see Annex 1 for more details of grant costs).

As at May 2021 there are 848,000 private tenants who face a shortfall between their rent and UC housing costs

20 Dwelling completions figures from MHCLG affordable housing supply live tables; affordability assessment from UK Housing Review 2021, table 55.

21 NHF (2020) op.cit.

Savings from an enhanced investment programme

This investment would bring substantial savings in benefit costs and in the costs of temporary accommodation, explained below.

Savings in housing benefit and universal credit

Several studies have suggested that a large proportion of the costs of new investment in social housing would be covered by benefit savings in the PRS. For example, Savills have suggested savings of as much as £4,300 per unit, sufficient to meet the cost of £4,010 per unit. However, they assumed that all new tenants occupying the extra social rented stock would otherwise have been paying market rents at full HB levels. In practice, the savings are likely to be lower for various reasons, including restrictions on benefits which tenants actually receive.[22]

For this study, a new assessment has been made of the potential savings if all benefit claimants in the PRS were to be moved to a (housing association) social rented tenancy, detailed in Annex 2. The crude saving is estimated at £3.9 billion annually, although once the assessment is weighted to take account of factors such as jobseekers and claimants in paid employment being likely to have short claims, the saving falls to £1.9 billion or £1,117 per letting. This is a significant annual sum, equivalent to the yearly investment under the government's Affordable Homes Programme up to 2020/21 and more than all the combined expenditure in homelessness services in a year.

If, as this paper considers, 10,000 extra social rented units were available and all were allocated to benefit recipients in the PRS, the savings would be of the order of £11.2m.

Temporary accommodation savings

A different way of considering savings is if at least part of the extra output replaces TA for homeless households, of which much is provided at high cost in the private sector. In the last decade, numbers in TA have doubled and those in bed & breakfast accommodation have quadrupled.[23]

22 See www.savills.co.uk/research_articles/229130/246736-0

23 See www.local.gov.uk/about/news/lga-430-increase-bb-spend-people-who-are-homeless-reveals-urgency-more-social-housing

Only a relatively small proportion of TA in England is provided in normal social housing stock (currently, 22%), with the rest mainly provided by the PRS. Because demand for TA also tends to coincide with wider housing market pressures that lead to higher rent levels and shortage of accommodation, costs have escalated, especially in London (which accounts for about 80% of all TA expenditure). By the end of March 2020 (and prior to the growth in use of TA during the pandemic), costs had grown by 55% in just five years, to reach £1.2 billion.[24]

Making some reasonable assumptions, we calculate that some £572 million could be saved each year if councils were able to substitute social rented accommodation for the 73,700 PRS lettings that they currently use for TA (see Annex 3). Expressed in terms of the savings per 10,000 social rented units provided, this would be £77.6 million: in other words, to the extent that a social rent building programme is devoted to replacing private sector TA, it more than covers its annual costs (£77.6 million compared with an annual cost of £40 million to build 10,000 social rented homes). Of course, in practice only part of a programme would be used for this purpose, but the figures illustrate the order of savings that could be achieved.

Caveats about these savings

In any assessment of such a complex issue there are inevitable caveats:

- A significant increase in the availability of social rented homes would change the market to some degree, depending on where it takes place. It is therefore difficult to make projections of costs savings with any certainty, and the figures must be regarded as indicative.
- To the extent that extra homes are built by councils not housing associations, their additional borrowing counts against public sector debt (even though the borrowing is fully self-financed from their housing revenue accounts). In practice an enhanced programme would require contributions from both parts of the sector so there would be some addition to government debt.

24 See https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2019-to-2020-individual-local-authority-data-outturn (latest data are for 2019/20).

In the two lowest income groups, 69% of renters spend 30% or more of their income on rent

- A bigger programme impacts on social landlords' finances at a time when they are under pressure to tackle building safety issues and to decarbonise their stock. The bigger the programme, the more this would increase the grant required per unit (see Annex 1).
- The benefits of a programme are highest in London and the three other most southern regions: however, concentrating extra investment in those regions might require counterbalancing investment (e.g. in the existing housing stock) in the Midlands and North, to satisfy the government's 'levelling-up' objective.

Other ways of increasing the supply of social rented homes

New build with capital grant is not the only way to provide more social rented homes. Other ways which could be explored, which have varying advantages and disadvantages, are:

- Supplementing grant-funding for new build by providing additional funding for an extra tranche of units in areas of greatest need, in the form of revenue support, which in the short term is less expensive than grant and has been trialled in Wales.[25]
- Supporting social landlords to repurchase homes sold through the right to buy which are no longer owner-occupied (the GLA is currently doing this).
- Supporting social landlords to convert homes that are currently let at higher Affordable Rents, to social rents, when they are relet.
- Cancelling the additional debt imposed on local authorities in 2012 in return for commitments to building new social rented homes without grant.[26]

25 Chartered Institute of Housing (2019) Boosting affordable housing supply in England: Could revenue support work alongside capital grant? Coventry: CIH.

26 Council housing 'pays its own way', and until 2012 it paid annual surpluses to the Treasury. In order to become fully self-financing from April 2012, councils agreed to take on £13 billion of extra debt. This costs around £600 million annually to service. If the Treasury were to cancel this debt, local authorities would benefit from significant extra capacity to build new homes and finance improvements to their current stock.

Wider public sector benefits of additional affordable housing investment

Other assessments of the benefits of a programme to build social rented homes have identified wider benefits in addition to those considered here:

- Capital Economics estimated that typical grant costs of £72,600 per unit would generate a one-off increase in taxes of £40,600, which together with the net present value (NPV) of benefit savings would more than offset the grant costs.[27]
- Pragmatix estimated the NPV of savings in benefits and temporary accommodation costs at £64,000 per unit, which would almost cover the assumed grant costs without taking into account other savings such as unemployment benefit and lower NHS costs.[28]
- The Affordable Housing Commission based their assessment on grants of £82,000 per unit, almost half of which would be offset by taking account of the NPV of benefit savings and tax revenues over 30 years. Added to these would be wider economic benefits whose NPV would be £87,000 per unit, meaning that each unit would generate a net surplus of £45,000 in NPV terms.[29]

These studies show that, in addition to the direct cost savings in benefits and TA, there are wider benefits in taxes generated and stimulus to the wider economy. Money spent on construction has a bigger 'multiplier effect' (when the money paid in wages, taxes and other payments is spent again in the wider economy) than money which goes to landlords, because the latter may be saved rather than spent.

It can be seen that, combined with the other results summarised above, it is very likely that the overall costs of extra investment in new social rented homes can be offset by the savings or by extra income generated for the Exchequer, albeit over the medium-term.

27 Capital Economics (2015) Building New Social Rented Homes. London: Capital Economics for NFA and SHOUT.

28 Pramatix Advisory (2020) Building post-pandemic prosperity: The economic and fiscal case for constructing 100,000 new council homes each year. London: Pramatix Advisory for ARCH and NFA.

29 Affordable Housing Commission (2020) Making housing affordable again. London: Affordable Housing Commission.

Reforms to welfare benefits

A further important issue in preventing homelessness is maintaining the effectiveness of the welfare system in helping people stay in their homes. Although lack of affordable housing is a key factor in rising homelessness, there are also issues about the benefits system itself. Among the potential reforms that could be considered are:

- Delegate the power to provide extra support for housing costs. The Scotland Act 2016 gave the Scottish Government the power to top-up the support given by the DWP in HB/UC, up to the full rent. Any additional expenditure is funded from the Scottish Budget. Similar powers could be given to the other devolved nations and in England to the emerging city regions and mayors. The more economically prosperous regions have a higher demand for housing and higher rents, so it seems logical and fair that some of that wealth is used to subsidise housing.
- As at May 2021 there are 848,000 private tenants who face a shortfall between their LHA rate and their contractual rent – 55% of the private renters who receive UC. This proportion tends to increase with distance from London whereas the size of the shortfall tends to fall. The average difference between lower quartile and median rents in the North and Midlands is between £75-110 per month, £140-150 in the South and £230 in London.[30] Higher basic benefits (for non-housing costs) could provide an income to help pay the shortfall and could help to make households more resilient to homelessness by providing additional headroom in times of financial stress or during a temporary crisis.
- Retaining and improving the link between local housing allowance (LHA) rates and real rents in the PRS. There is a case for recalibrating LHA rates at least in the short-term until the supply of affordable homes increases.
- Address the gap for younger private renters (i.e. under-35s) between the limited benefit they receive as the 'shared accommodation rate' and the cost of lower-quartile rents for one-bed, self-contained flats – and which in London is larger than elsewhere.

30 ONS June 2021, Private rental market summary statistics in England: April 2020 to March 2021

- Provide UC claimants who could previously afford their rent with temporary protection from the LHA rules for three months in line with the rules for HB.
- Reconsider structural changes to housing costs support made by UC while retaining the universal assessment of income: for example, by raising the taper at the higher levels of earnings and re-targeting support to those on lower incomes (e.g. a reduced taper or raising the work allowance).

In addition to benefits changes, other issues which should be prioritised and which have modest extra costs include:

- Enacting the government's promised reforms to tenancy law to end 'no fault' eviction in the PRS.
- Reviewing the arrangements to tackle poor conditions in the PRS, building on the government's 'rogue landlords' initiatives to ensure that they work across the country.
- Meeting the government's promise to end rough sleeping by 2024 by introducing a clear definition of what it means to end rough sleeping and a delivery plan to ensure efforts stay on track and are successful.

Conclusion

This paper shows that the question of whether government subsidies that are aimed at preventing homelessness could be better spent is a complex one, requiring a holistic government intervention. The scale of spending on temporary accommodation (£1.2 billion annually prior to the pandemic) is just one illustration of the need to take a longer-term approach to tackling homelessness.

As part of such a strategy, this paper shows that building social rented homes that can be let to households currently in more expensive private lettings or in private-sector temporary accommodation makes economic sense. There is compelling evidence that the benefits of building such homes outweigh the extra costs to the Exchequer. The paper shows that a relatively modest shift in resources to deliver 10,000 more social rented homes in the short term could yield significant returns. This could be treated as a pilot project in which the associated benefits are measured and the hypothetical savings tested in a range of different local authority areas and regions.

Annex 1: Cost of a social rent new build programme

The NHF/GLA assessment

The most recent and comprehensive assessment of the costs of a social rent new build programme was published by the National Housing Federation in 2019; CIH was asked to review and endorse this assessment before publication, and did so.[31] The report included results from a separate but complementary assessment by the GLA for London alone.

The assessment is based on a building programme of 145,000 social and affordable homes annually for ten years, of which 90,000 are for social rent. This mirrors the findings of a recent (2018) study by Glen Bramley of national housing need.[32] The report estimates the subsidy required by modelling the costs at local level across England (divided between London and the rest of England), given the funding which can be secured against future rental income and shared ownership sales. The model then assesses the size of the 'subsidy gap', which is partially met from the sale of market homes, by in-kind contributions from private developments and by assuming some discounting of land values. The remainder of the 'gap' would need to be met by government grant.

In the NHF/GLA assessment, the levels of grant required are much higher than in other recent assessments. This is mainly because the programme is far bigger than current programmes and has a much higher proportion of social rented homes (59% of output, compared to 12% at present). This means that less cross-subsidy is available and the subsidy gap is much bigger.

31 National Housing Federation (2019) Capital grant required to meet social housing need in England 2021 – 2031. London: NHF.

32 Bramley, G. (2018) Housing supply requirements across Great Britain: for low-income households and homeless people https://www.crisis.org.uk/ending-homelessness/homelessness-knowledge-hub/housing-models-and-access/housing-supply-requirements-across-great-britain-2018/

The average capital grant requirement over ten years is £14.6bn per year, to deliver a programme of 137,059 (rounded to 137,000) affordable homes annually, of which 80,285 would be for social rent. The average grant per home is £183,000 for a social rent home, £99,000 for an affordable rent home, and £32,000 for a shared ownership home. Of the 137,059 total units, 102,495 are grant-funded, leaving 34,564 to be supplied via developer contributions.

The NHF/GLA assessment is based on housing association costs, whereas there is now the prospect of local authorities making a more significant contribution. An assessment of the potential for LA new build in response to the lifting of the caps on their borrowing in October 2018 concluded that their capacity would rise to at least 10,000 units annually.[33] Given that LA plans are based on current grant rates and limited grant availability (only parts of the country are eligible for grant for social rented housing), this might allow headline grant figures to be set at lower levels than indicated by the NHF/GLA assessment.

Comparison with other cost assessments

- Three earlier reports recommend ambitious programmes of social rented housing. Their predicted costs vary:
- Capital Economics for Shelter.[34] Shelter's commission on the future of social housing recommended a programme of 155,000 new social rented homes annually, for 20 years. Capital Economics' assessment is that the programme would require grant of £72,600 per unit, implying annual investment of some £11.3bn. This is based on a relatively low unit cost of £135,700, compared with a much higher £323,000 in the NHF/GLA assessment; in part, this is because the latter is more strongly weighted towards high-cost areas.

33 Perry, J. (2020) Local authority new build programmes and lifting the HRA borrowing caps: What is the potential and what are the constraints? Coventry: CIH with NFA and ARCH.

34 Capital Economics (2019) Increasing Investment in Social Housing: Analysis of public sector expenditure on housing in England and social housebuilding scenarios. London: Capital Economics.

- Pragmatix assessment for ARCH and NFA.[35] Pragmatix costed a programme of 100,000 new council homes built annually for social rent at £4.2bn. This is based on a much lower grant rate of £42,000 per unit, although it does take account of varied building costs in different regions. There are two reasons for the lower grant figure. One is the assumption that subsidised or free land would be available. The other is the assumption that the programme will be delivered by local authorities, which generally have much lower average debt levels per unit and therefore can offer more cross-subsidy from their existing stock.
- Affordable Housing Commission.[36] The AHC calls for a similar programme of building 90,000 social rented homes per year, at an average grant cost of £82,000 per unit, implying annual investment of some £7.4bn. However, AHC also acknowledges the higher estimate from the NHF/GLA assessment.

Conclusion on average grant level required

The estimated grant required to build social rented homes is critical to the assessment of the net present value (NPV) of the investment. For a full-scale programme aiming to provide 90,000 new social rented units annually, the higher grant figure of £183,000 per unit indicated by the NHF/GLA assessment is likely to be required. However, for the purposes of this paper, we consider only a modest boost to social rented output of 10,000 units annually, which suggests a lower level of grant would be adequate.

In the three earlier reports, recommended grant levels varied from £42,000 up to £82,000. The current average grant for a new home for social rent is £55,000 outside London and in London £60-100,000 (depending whether it is built by a housing association or local authority).[37] This suggests that current grant levels of about £70,000 per unit would be sufficient for an additional programme of 10,000 units. This would give a total cost for the 10,000 units of £700m. The annual cost of this investment in loan charges would be £40.1m, based on an interest rate of 4%, with borrowing over 30 years. This gives a cost per unit of £4,010 per annum.

35 Pramatix Advisory (2020) op.cit.

36 Affordable Housing Commission (2020) op.cit.

37 UK Housing Review 2021, Commentary Chapter 4.

Annex 2: Savings in housing benefit and universal credit

To undertake any estimate, a detailed breakdown of the caseload is required because there are so many variables that can affect spending other than the rent and caseload size – for example:

- Location (rents are more expensive in London)
- Economic status – pensioner, jobseeker, lone-parent, carer, person with long-term incapacity
- Household size (single/couple, lone parent, couple with children)

Note that some of these can affect the spending in a number of ways, so for example pensioner households will be smaller (typically one-bed only for HB purposes) but will be long-term (whereas jobseekers' claims usually only last a few months). It is the relative mix of all of these within the caseload that determines the expenditure, rather than (say) the average rent per claim or the total caseload. For example, the average rent per claim has more to do with changes in the caseload mix over time than it does with (say) the average rent increase. Rents are much higher in London, so if the relative caseload mix changes so that a higher proportion are from London, the average rent per claim will increase.

The relative mix of the caseload also changes with the economic cycle, so that at the caseload peak there is likely to be a higher proportion of claims from the economically more prosperous regions than there is at the top of the economic cycle. That said these cyclical effects are very difficult to adjust for.

The data available on universal credit claims via DWP stat-xplore is currently very limited, a better breakdown is available for housing benefit but, because of the gradual ongoing migration of claims from HB to UC, using the current caseload will seriously distort the caseload mix – because different types of claims will migrate at different rates (jobseekers first, then lone parents with a child under three, and so on). Given this is the case the only option was to use the last complete dataset for HB pre-migration, i.e. for April 2013. The data were then broken down by region, economic status, etc., as far as stat-xplore allows. Further breakdowns were made from other data sources (e.g household size) to arrive at the claimant mix. That caseload mix is then applied to the current caseload. The savings were then estimated from current data about rents from the Regulator of Social Housing and the ONS (private rents) by property size.

From this was derived the gross annual saving (£3.9 billion) which assumes that all claims last at least one year regardless of the tenant's economic status. Reasonable (conservative) assumptions about the length of claim by economic status were applied as weightings to arrive at the final estimate.

It should be noted that the estimate is based on a single point in time caseload which is why the estimate can only be indicative. April 2013 is close to the caseload peak following the financial crisis in 2009/10 but given the caseload has peaked again following the pandemic it is likely to be a reasonable match. The estimate assumes that the caseload mix of 2013 and 2020 is similar and does not take account of demographic and economic changes that may have altered it since (such as the proportion of lone parents who are economically active).

Annex 3: Temporary accommodation savings

Apart from the actual spend figures it is not possible to identify temporary accommodation (TA) cases from the DWP's stat-xplore database. Therefore, they have to be estimated using a variety of other sources. The DWP provides a breakdown of HB expenditure which shows the total annual TA spend but not the caseload.[38] The total HB expenditure on TA comprises:

- DWP HB subsidy – the total amount of the HB spend for each claim up to the maximum allowable rent figure (which varies according to the type of case, location, etc.)
- Other local authority HB expenditure on TA – in other words any other spending not covered by HB subsidy.

The data show that London accounted for 77% of TA spending in England in 2019/20. Our estimate is therefore based entirely on the London HB subsidy figures, adjusted upwards for the rest of England. Benefit savings accrue if those currently housed in private rented accommodation (including board and lodging, hostels, nightly paid and private sector leased properties) could be rehoused in a social rented property. The total savings are the difference between the maximum rent for HB subsidy and the social rent, plus the total local authority (non-subsidy) spend – because the whole of the social rent is covered by HB.

DWP HB subsidy is capped to whichever is the lower of:

- an overall maximum of £375 per week (£500 per week in broad rental market areas in central and southwest London)
- a fixed proportion (100 per cent for board and lodging, 90 per cent for all other categories) of the appropriate local housing allowance (LHA) rate for January 2011. For these purposes, the appropriate LHA rate is based on the property size, not the household size.

38 DWP (2020) Housing Benefit Expenditure by local authority https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2020

Data on households in TA (whether on benefit or not) are provided by DLUHC as part of local authority homelessness returns.[39] The savings are made from those who are housed in TA which is not a social rent property. A further complication is that a proportion of those housed in TA are placed outside the local authority area (one third of those in London TA households). The savings shown in Table A are derived from the difference between average social rents (from RSH data) and the subsidy limits. Although we have assumed the maximum subsidy rate in each case this will be offset by the fact that the assumed social rent figures are based on housing association rents which tend to be higher. There are six HB subsidy categories for TA: board and lodging and one bedroom through to five-bedroom accommodation. Our estimate does not include the five-bedroom category – it is too small a sample to estimate reliably and, in most cases, the upper subsidy limit will already apply.

Reasonable assumptions are made from the homelessness TA data and other sources (other housing data and benefit data such as child benefit statistics) to arrive at estimates for the number of households in each subsidy category.

39 MHCLG (2021) https://www.gov.uk/government/collections/homelessness-statistics#statutory-homelessness

Table A: Estimated average London wide 'subsidy rents' for TA and social rents by subsidy category (2019/20)

	Subsidy rent	Social rent	Difference, i.e. net saving if TA were to be in social rent lettings
Board and lodging	£201.99	£105.05	£96.94
1 bedroom	£181.80	£105.05	£76.75
2 bedroom	£236.81	£118.78	£118.03
3 bedroom	£283.45	£133.09	£150.36
4 bedroom	£385.76	£147.22	£238.54

Once the number of households in each subsidy category had been calculated an adjustment was made to the yearly saving to take account of the fact that some households will only be in TA for a relatively short period. Reasonable assumptions were made from looking at all the data, for example it was assumed that board and lodging cases and the smaller household sizes would move out of TA more quickly. Other adjustments were made to take account of the fact not all homeless households would qualify for HB, while others would only be entitled to partial HB (although it was assumed that entitlement to HB among homeless households would be much higher than the general population).

Table B shows our estimate of the number of households in each subsidy category and the adjusted figure of yearly equivalents that takes account of the fact that some households are housed in TA for less than one year and others are not entitled to HB.

Table B: Estimated gross and net equivalent households in TA on full HB in London

Size of property	Gross number of households in TA	Full year equivalents	Not entitled to HB	Net full year equivalents
Board and lodging	3,760	2,886	686	2,200
1 bedroom	11,970	9,187	2,398	6,789
2 bedroom	23,522	18,053	2,682	15,371
3 bedroom	7,082	5,435	708	4,737
4 bedroom	3,756	2,883	376	2,507

The figures from tables A and B are used to derive the annual savings in HB subsidy for London. The London figure is then adjusted upwards for the rest of England and the remaining HB spend not covered by subsidy is added to give the maximum saving figure.

Results: total savings estimate

The estimate of £200 million is the maximum overall DWP subsidy saving for London. If all households were accommodated in social rented accommodation, local councils would also save the subsidy shortfall (a further £63.8 million for London or £1,274 per case). In 2019/20 (the latest year for which figures are available), 77 per cent of DWP subsidy funding for England was spent by London councils. The estimated total saving for English councils would therefore be £260 million (£200 ÷ 0.77) plus £48.3 million for English councils outside London who currently have a subsidy shortfall. The total potential HB savings for England we therefore estimate as being £372 million.

Before April 2017, as part of the overall HB subsidy paid by DWP in addition to the rent element, local councils also received a management fee of £40 (in London) and £60 elsewhere for each household. From April 2017 this element was removed from HB subsidy and funding was transferred to MHCLG; it is now paid to each local authority as the 'flexible homelessness support grant' (FHSG – so-called because councils could use it for non-HB cases). From April 2021, FHSG has been combined with other MHCLG/DLUHC homelessness funding which is paid as the 'homelessness prevention grant'.

The original management fee element was an acknowledgement of the additional costs that local councils face when households are in temporary accommodation. If councils could reduce their outgoings by discharging their temporary homeless duties in social rented homes, so their reliance on grant funding should equally diminish. The FHSG element of homelessness prevention grant could therefore be counted as part of the potential savings. In the final year of FHSG (2020/21) the total allocation to English councils was £200 million, of which £107.68 million was awarded to London councils.

The total potential public expenditure savings (HB subsidy plus FHSG element) in England by moving households in temporary into a socially rented home are therefore estimated to be around £572 million per year based on expenditure in 2019/20.

As noted earlier, the savings would be greater based on 2020/21 levels of TA use, which may be exceptional. However, given that trends in use of TA were rising before they were further affected by rehousing needed during the pandemic, it might be expected that the £572 million per year saving could be even higher when 'normality' returns.

Temporary accommodation savings (England): totals

	£ million
London - DWP HB subsidy	200
Rest of England - DWP HB subsidy	60
Local authority HB spend (not covered by subsidy)	112
Flexible Homelessness Support Grant (FHSG)	200
Total	**572**

What would be needed to achieve these savings?

Obviously, shortage of social rented stock is the driver for increasing use of the PRS to provide temporary accommodation and is therefore the barrier to making these savings. To reap the full benefit of using social rented dwellings for all TA instead of the current heavy reliance on the PRS, some 50,000 extra units would need to be available, or 1.25 per cent of the social rented stock. On current rates of delivery of additional social rented stock, providing an additional 50,000 units would take 7-8 years, and require all new stock to be devoted to this purpose (or if let to new tenants, that the relets be used for TA). Looked at in another way, given that the English social rented stock has been reduced by 210,000 in the past eight years,[40] policies which drastically reduced the loss of stock could rapidly contribute the required extra units to enable the use of the PRS to be limited to dealing with emergencies rather than being the mainstay of TA supply.

Looked at in still another way, the rapidly increasing use of TA in the past few years is related to the decline in lettings of social housing stock to new tenants: such lettings are 30 per cent below their level in 2005/06, and the trend is downwards.[41] Only a proportion of new lettings go to homeless households (currently about 25 per cent), but if the stock were to be significantly increased, there would be extra capacity to rehouse homeless households quickly, reduce the demand for TA and help achieve the savings calculated in this section.

40 See the UK Housing Review 2021, Commentary Chapter 4.

41 See the UK Housing Review 2021, Commentary Chapter 5.

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