Challenging times ahead for social housing

It is fair to say that the social housing sector in general was not initially hit as hard by the credit crunch as other sectors. Although a small number of housing associations (particularly in the South East) had valuation issues due to impairment on property and land banks, the majority of the sector has been relatively unscathed. In fact, over the last two years the sector has benefited from significant amounts of grant income for development due to the previous government's increase in public sector spending.

It is clear, however, that those days have ended. Big cuts have been announced in funding for new build, but even more challenging for the sector are the changes announced around housing benefit reform.

Housing benefit reform

The Government's planned reforms of housing benefit were set out in eight proposals for changes to Housing Benefit and Local Housing Allowance in the June 2010 budget. The changes will affect the entitlements of tenants in social and private sector accommodation. The Government's proposals are as follows:

(i) Local Housing Allowance (LHA) rates will be set at the 30th percentile of market rents from October 2011. The rate is currently set at the 50th percentile or median rate. Annual savings of £425m are expected by 2014/15.

(ii) Local Housing Allowance rates will be capped from April 2011 at the following rates:

£250 per week for a 1 bed property

£290 per week for a 2 bed

£340 per week for a 3 bed

£400 per week for a 4 bed or more.

These limits will produce an annual saving of £65m by 2014/15.

(iii) Local Housing Allowance will be indexed linked and up-rated with the annual retail prices index (RPI) from 2013-14, rather than set on a monthly basis in accordance with rents in the market area. The annual saving by 2014/15 will be £390m.

(iv) Non-dependent deductions will be increased from April 2011 (annual saving of £340m by 2014/15).

(v) Full Housing Benefit entitlement will be cut by 10% for those claiming Job Seekers Allowance (JSA) for more than 12 months. This is to be introduced in April 2013 and will produce an estimated annual saving of £110m by 2014/15.

(vi) Housing Benefit is to be limited for working age claimants so that it only covers the property size that is deemed necessary for the household, from April 2013 (annual saving of £490m by 2014/15).

(vii) Housing Benefit claimants who are disabled will be entitled to funding for an extra bedroom for a non-resident carer, from April 2011. The annual cost of this will be £40m by 2014/15.

(viii) The budget for Discretional Housing Benefit payments will be increased from October 2010, at an annual cost of £15m up to 2014/15.

Clearly, apart from the concession to disabled claimants, the aim of the remaining reforms is to cut the astronomical £21bn per annum cost of Housing Benefit to the Treasury. The impact on the housing sector's income streams will be significant. On average, most associations receive around 60–70 per cent of their income from Housing Benefit, with some receiving an even higher proportion. Any move which will reduce this funding will mean that associations need to review the impact of the changes on their current and future business plans, and how they deal with these consequences in terms of the services they provide.

In summary, if the planned reforms to housing benefit go ahead the sector will face significant challenges in managing its key sources of income. Associations need to assess the impact on their organisations now, particularly in terms of operating cashflows and covenant requirements. This will allow the sector to plan ahead on what are certain to be challenging times.

If you need assistance on assessing the impact of the reforms on your business please contact your usual PKF representative.