



In-depth Briefing

Autumn Statement and Comprehensive Spending Review 2015

On 25th November 2015, Chancellor of the Exchequer George Osborne MP published a joint Spending Review and Autumn Statement. The announcement sets out how the UK Government intends to spend over £4tn of government money over the next five years, along with details of the spending review conducted by HM Treasury since the start of the Parliament, and the changes to departmental expenditure.

The Chancellor focused his announcement on national and economic security, with revised economic growth forecasts suggesting the UK would grow by 2.4% this year, with average growth to follow this trend over the next five years. The Chancellor also committed to 1 million new jobs by the end of this Parliament and increasing living standards to match the economic growth.

As part of the Community Housing Cymru Group's commitment to our members, we have worked with the Your Benefits Are Changing (YBAC) team to collate data from the UK Government's spending review, key statistics and our forecasts as to the potential impact on the Welsh housing sector into this briefing. The measures announced in the spending review which are of direct relevance to housing associations in Wales are summarised on page 2 and detailed throughout the briefing.

Summary of Changes

- A reversal of changes announced in the Summer Budget on Tax Credits
- Significant changes to housing benefit for new tenants, bringing housing benefit in line with Local Housing Allowance
- The introduction of a Barnett funding 'floor' for Wales, guaranteeing a minimum proportion of funding each year
- Confirmation of the details on the Apprentice Levy to fund UK Government's commitment to 3 million apprenticeships
- A 4.7% real term increase in capital funding for Welsh Government
- The biggest house building programme since the 1970s will see 400,000 new homes built in England by 2020-21.
- An increase in Stamp Duty by 3% on Buy to Let and second homes



Measures directly affecting Welsh Housing Associations

1. Capping the amount of rent that Housing Benefit will cover in the social housing sector to the relevant Local Housing Allowance.

Currently, housing benefit is calculated dependent on factors such as the amount of 'eligible rent' a social housing tenant is required to pay, alongside the tenant's income, and the number of spare rooms a tenant has at the home. Local Housing Allowance is paid to tenants in private rented accommodation, with rates set by area, relative to income and household size.

This change will include the Shared Accommodation Rate for single claimants under 35 who do not have dependent children. This reform is intended to better align the rules in the private and social rented sectors. **It will apply to tenancies signed after 1 April 2016, with Housing Benefit entitlement changing from 1 April 2018 onwards.** We are still waiting for clarification on the details of how this policy will work in practice, and we will notify our members as soon as we have more information.

Impact

The impact of these changes will be an increase in problems of affordability for prospective tenants who are in receipt of benefits if rents continue to rise, as forecast, over the next 4 years. 243,582 people in Wales are currently claiming housing benefit, and an estimated 99,800 of those are housing association tenants.

At present, the average housing association rent in Wales stands at £82.04 per week. While nationwide LHA figures aren't available, the figure is traditionally higher than housing association rents except in a small number of instances. However, the Chancellor committed to freeze Local Housing Allowance for four years between 2016 and 2020. This is likely to mean that, in some areas, housing benefit will not cover the full amount of 'eligible rent' that it does currently, and tenants will have to find further money to pay their rent from other sources of income.

By including the Shared Accommodation Rate for single claimants under 35 who do not have dependent children, there is likely to be a significant impact on supported housing, and an increase in the need for shared accommodation options for young people. The latest DWP figures show that there are 60,561 housing benefit claimants aged 16-34 in Wales that could potentially be impacted by this. However, the number of people aged 16-34 has reduced steadily over the past 12 months from 63,677.

2. Limiting Housing Benefit and Pension Credit payments to 4 weeks for claimants who are outside of Great Britain

At present, Housing Benefit recipients can go abroad for up to 13 weeks while continuing to receive Housing Benefit. This reform will ensure that the benefit system is not paying the rent of people who go abroad for more than 4 weeks at a time.



Impact

The impact of these changes is set to save £25 million from the overall Housing Benefit bill next year – a tiny fraction of the overall spend – and we estimate that this will have a minimal impact in Wales. However, pensioners and tenants who spend time outside of the country for work or visiting family will need to be made aware of the potential impact on their income.

3. Reversal of the decision on tax credits announced in the Summer Budget

During the Summer Budget, the Chancellor announced a number of significant changes to the tax credit system. They were:

- Limiting the child element to 2 new children for new births in tax credits and new claims in UC from April 2017
- Removing the family element in tax credits and Universal Credit, and the family premium in Housing Benefit from April 2016
- Increasing the tax credits taper rate from 41% to 48% from April 2016
- Reduce income thresholds in tax credits from £6,420 to £3,850, and reduce work allowance in Universal Credit from April 2016
- Reduce the income rise disregard in tax credits from £5,000 to £2,500 from April 2016

Yesterday's spending review saw the reversal of two of these changes:

- The rate at which a claimant's award is reduced as each pound of their incomes exceeds the income threshold (i.e. 'the taper rate') will remain at 41% of gross income; and
- The level of income at which a claimant's tax credit begins to be subject to the taper rate (i.e. 'the income threshold') will remain at £6,420.

However, the changes to the child element, removal of the family element, and the reduction in income rise disregard will remain, and tax credits will become part of Universal Credit once the transition from the current benefit system is completed.

Impact

The proposed change to the taper rate and the income threshold were intended to bring Treasury savings of £4.2 billion in 2016/17, and a further £15.2 billion over the following four years. However, the Chancellor has stated that improved tax receipts and economic growth has meant that he can reverse his previous decision, in order to help working families.

The three remaining changes will make savings of more than £6.3 billion over the course of the Parliament, but concerns remain about the huge impact these changes will have on low income families. Following the Spending Review announcement, figures from the Resolution Foundation indicate there will be a significant impact on many working families once Universal Credit is introduced:



Impact of 2015 Summer Budget and Autumn Statement on net incomes for different family types, Universal Credit system, 2020, £cash

Description	pre-Summer Budget		post-Autumn Statement		Change	
	Gross household earnings	Net household income	Gross household earnings	Net household income	Gross household earnings	Net household income
Single (no kids), full-time, wage floor, renter <i>works 35 hours a week at wage floor, rent £80 a week</i>	£14,780	£13,470	£16,970	£14,610	+£2,190	+£1,150
Single (1 child), part-time, wage floor <i>works 20 hours a week at wage floor</i>	£8,450	£16,280	£9,700	£13,480	+£1,250	-£2,800
Single (1 child), full-time, low earning <i>works 37.5 hours a week at £11.50 an hour</i>	£22,640	£20,450	£22,640	£18,930	+£0	-£1,530
Couple (2 kids), wage floor <i>main earner works 37.5 hours a week, second earner works 20 hours, both earn wage floor</i>	£24,290	£25,890	£27,880	£25,840	+£3,600	-£50
Couple (3 kids), wage floor <i>main earner works 37.5 hours a week, second earner works 20 hours, both earn wage floor</i>	£24,290	£29,620	£27,880	£26,560	+£3,600	-£3,060
Couple (2 kids), low earning, renters <i>main earner works 37.5 hours a week earning £11.50 an hour, second earner works 20 hours earning wage floor, rent £170 a week</i>	£31,090	£33,690	£32,340	£32,590	+£1,250	-£1,100
Couple (2 kids), mid earning <i>both work 37.5 hours a week earning £14.50 an hour</i>	£56,590	£45,830	£56,590	£45,800	+£0	-£30
Couple (2 kids), high earning <i>main earner works 37.5 hours earning £40.50 an hour, second earner works 20 hours a week earning £23 an hour</i>	£103,350	£72,370	£103,350	£72,490	+£0	+£120
Couple (no kids), very high earning <i>both work 37.5 hours a week and both earn £40.50 an hour</i>	£158,420	£106,460	£158,420	£106,620	+£0	+£150

Notes: Figures relate to modelled hypothetical outcomes in 2020-21 on the assumption that these families are on Universal Credit and are making a new claim. All figures are presented in cash terms. Impacts cover the effects of direct tax and benefit changes, but assume no behavioural change or dynamic effects. Wage floors reflect OBR projections for 2020 (A National Minimum Wage of £8.10 and a National Living Wage of £9.30). We do not take account of the cost of formal childcare. Figures may not sum due to rounding (all are rounded to nearest £10). Inflation and earnings projections are taken from OBR assumptions published at the Autumn Statement 2015.

Source: Resolution Foundation analysis using RF microsimulation model.

4. Devolving temporary accommodation management fee to Local Authorities

The Chancellor announced that the government will devolve the £10m temporary accommodation management fee budget to councils from April 2017.

Impact

This will mean that the management fee for temporary accommodation will no longer be paid through the benefits system. The full impact of this measure is yet to be understood; however, we are working closely with partners and relevant organisations to determine the full details of this policy and will inform members as soon as we have more information.

5. The introduction of a 'floor' for Barnett funding of Welsh Government

The Spending Review sets out the block grant allocations for the Devolved Administrations, ensuring



security of funding for public services within their control – including health, schools, local government, transport and housing.

Alongside this, the UK Government has for the first time introduced a new ‘funding floor’ which sets the level of relative funding for Welsh Government at a minimum of 115% of comparable UK Government spending per head. i.e. For every £100 spent on England only services, Wales will receive £115.

Impact

The Holtham Commission reported in 2010 that Wales was underfunded by at least £300m per year by the current application of the Barnett Formula – the way in which the block grant is calculated – and the floor is intended to ensure that funding allocations to Wales do not fall below a certain level – otherwise known as ‘the Barnett squeeze’ – to ensure that Wales is better funded in relation to spending in England.

The Chancellor’s announcement meets the Holtham Commission recommendation of a 115% floor, and the long term aim of the floor is to ensure that Wales has sufficient funding to provide services needed. However, the Barnett formula remains based on population rather than an estimate of need.

The Chancellor also confirmed that the Welsh Block Grant for 2016/17 would increase to £13bn, with capital remaining steady at £1.5bn. However, across the course of the Parliament, Welsh Government has stated that revenue will fall by 3.6% in real terms, while capital will see a real terms increase of 4.7%.

6. Stamp Duty changes

The Chancellor announced significant changes to Stamp Duty Land Tax (SDLT) in his Autumn Statement, aimed at increasing the supply of affordable homes for sale. Higher rates of SDLT will be charged on the purchases of additional residential properties, such as Buy to Let properties and second homes. The policy takes effect from April 2016, and will mean a 3% increase on current SDLT rates. UK Government will use some of the additional tax collected to provide £60m for communities in England where the impact of second homes is particularly acute.

Impact

These changes will apply in Wales, and are intended to reduce the number of Buy to Let properties and second homes purchased and therefore increase housing supply. However, following recommendations from the Silk Commission, the Wales Act 2014 legislated for the devolution of Stamp Duty Land Tax to Wales. The devolution of this tax will take place once a Welsh Revenue Authority is established by the ongoing Tax Collection and Management (Wales) Bill, and we can expect to see Wales-specific policies on Stamp Duty Land Tax developed in the next Assembly



7. Extension of the Warm Home Discount

During the winter, households in financial difficulty are entitled to a one off payment of £140 off their energy bills. The Warm Home Discount scheme will be extended to 2020-2021. The budget for the Warm Home Discount will rise from £6.2 billion in 2015-16 to £13.1 billion in 2020-21.

Impact

This is a welcome extension of a scheme that assists many housing association tenants. The rebate can significantly help people struggling to pay their fuel bills, but does not contribute to increasing household income, which is an essential part of tackling poverty. It is essential that the UK Government commits to continuing and expanding the Warm Home Discount Scheme so that low income families also receive automatic assistance from their energy supplier.

8. Replacing the Energy Company Obligation

The Energy Company Obligation (ECO) will be replaced in April 2017 by a 'new, cheaper energy supplied obligation to reduce carbon emissions'. The new scheme will run for five years, and aims to upgrade the energy efficiency of over 200,000 homes per year.

Impact

UK Government has stated that the new scheme will tackle the root cause of fuel poverty, and deliver its commitment to assist one million more homes in this Parliament. However, the change of schemes signifies a deep cut to the only UK-wide energy efficiency programme. While the energy efficiency policy is intended to be better targeted, the cut in funding means the new scheme is unlikely to be sufficient to meet current UK fuel poverty targets.

The rising cost of energy is a concern for many Welsh households, and we know that one of the most direct actions we can take to reduce people's energy bills is to improve the energy efficiency of their home. Energy efficiency investment can reduce energy bills and fuel poverty, improve people's health, create jobs and reduce carbon emissions. Recent figures from the Office of National Statistics showed that there were 43,900 excess winter deaths last year in England and Wales – an illustration of the need for further investment in tackling fuel poverty through energy efficiency.

9. The introduction of an Apprenticeship Levy from April 2017

UK Government confirmed that the previously announced levy on businesses to fund their commitment of 3 million apprenticeships in England would begin in April 2017. The levy will be introduced at a rate of 0.5% on an employer's paybill, and is intended to raise £3 billion annually by 2019-20. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will



only be paid on any paybill in excess of £3 million and is expected to impact less than 2% of UK employers

Impact

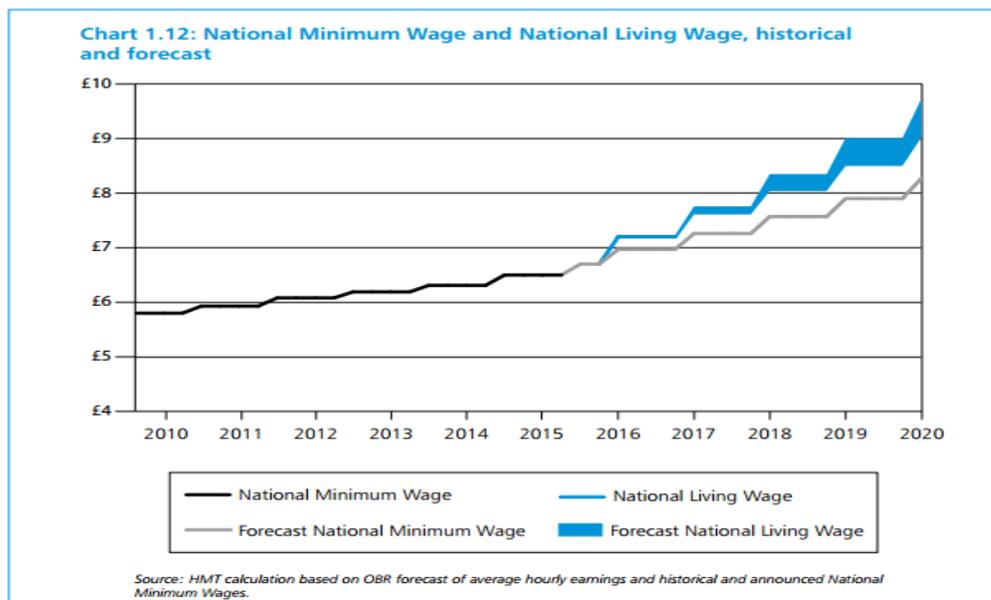
Businesses with a pay bill in excess of more than £3 million will be required to make payments, through the tax system, of 0.5% on their payroll annually. While the target of 3 million apprenticeships is an England-only policy, the levy will be UK wide. Welsh Government will receive a proportion of the spend on apprenticeships in England, but have called the levy ‘an unnecessary tax burden for employers, which means Welsh businesses will pay money back to the Exchequer’. They have stated that the levy is unlikely to result in new money for Welsh education and skills, as existing grant funding is falling.

10. National Living Wage

The National Living Wage, previously announced by the Chancellor in the Summer Budget, will see the minimum wage across the UK rise to £7.20 in April 2016. The National Living Wage will apply to workers aged 25 and above, and UK Government has allowed Low Pay Commission to set out how it will reach 60% of median earnings by 2020; based on OBR forecasts, this means that the National Living Wage will reach the government’s target of over £9 by 2020.

Impact

The chart below sets out the forecast for the National Living Wage over the course of the Parliament.



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The UK Government has recognised that the higher NLW may increase costs for some businesses. Therefore, they have announced that they will increase the National Insurance contributions (NICs) Employment Allowance from £2,000 to £3,000 per year to help businesses with additional wage costs.

A number of sectors have raised concerns about the impact of the NLW on their business, in particular the social care sector. In the Spending Review, the Chancellor announced an England only social care 'precept', giving local authorities in England an additional 2% flexibility on their current council tax referendum threshold, to be used entirely for adult social care. Alongside another England-only announcement – the £1.5bn 'Better Care Fund' – UK Government has stated that this will allow councils to continue to focus on core services and to increase the price they pay for care, including covering the costs of the National Living Wage.

Social care and Local Government funding are both devolved issues, and funding for these services will be confirmed in the Welsh Government budget on 8th December.

11. Provide the NHS in England £10 billion per annum more in real terms by 2020-21 than in 2014-15, with £6 billion a year available by the first year.

This increase in health funding has resulted in a slight overall increase in Welsh Government's overall revenue budget, although it is offset by cuts to other English services which results in the real terms cut to Welsh Government funding. Increased health funding in England is likely to result in political pressure on Welsh Government to increase their own health budget. At the same time, recognition must be given to the preventative role of housing and services provided by housing associations. Community Housing Cymru's manifesto for the Assembly elections in 2016 calls on Welsh Government to make a £50m pot of funding available, through the housing department for joint health and housing initiatives.

Measures affecting Housing Associations in England, which may have an impact in Wales

12. Doubling the English housing budget from 2018-19 to deliver 400,000 new homes

The Spending Review sets out a five point plan for affordable housing in England, focused on affordable homeownership. The Chancellor has pledged that the UK Government will deliver 400,000 affordable housing starts by 2020-21. Some measures include:

- 200,000 starter homes, which will be sold at a 20% discount, compared to market value to young first time buyers, with a £2.3 billion fund to support the delivery of up to 60,000 of these.
- 135,000 Help to Buy: Shared Ownership homes, which will allow more people to buy a share in their home and buy more shares over time, as they can afford to. The scheme will also relax previous restrictions on eligibility.
- 10,000 homes that will allow a tenant to save for a deposit while they rent.
- At least 8,000 specialist homes for older people and people with disabilities.



The scale of the programme of house building will require all sectors to play a role in delivery, and the UK Government will remove constraints that prevent private sector organisations from participating in their delivery. This will mean that private developers can bid for government funding for the first time.

Alongside this house building announcement, the Chancellor confirmed the extension of Right to Buy to Housing Association tenants in England. A pilot scheme will begin with five English housing associations immediately.

Impact

The increased housing budget in England, along with a number of other capital projects, will result in an increased budget for capital projects in Wales. It is essential that Welsh Government uses the extra £900m capital they will receive over the coming years to develop a Welsh solution to the housing crisis that recognises Welsh priorities.

The opportunity for private developers to bid in for grant will change the dynamic of their relationship with UK Government. We must anticipate this and work closely with them to ensure that Wales is an attractive place to develop affordable homes.

13. Public land

UK Government will sell £4.5 billion worth of government land and property, creating space for more than 160,000 new homes.

Impact

While the 160,000 homes target will be England only, the sale of UK Government land has the potential to impact on Wales. A number of non-devolved departments e.g. Ministry of Defence, Ministry of Justice, Department for Work and Pensions, own sites in Wales and could potentially be subject to this announcement.

Alongside this, Community Housing Cymru is calling for similar use of Welsh Government and local government land in our manifesto for the 2016 National Assembly for Wales elections (http://chcymru.org.uk/uploads/general/Manifesto_WEB.pdf).

Next Steps

Following the Chancellor's Autumn Statement and Spending Review announcement, Welsh Government will now have its confirmed spending limits for 2016/17 and beyond.

The Welsh Government budget takes place on 8th December 2015, and Community Housing Cymru will be monitoring developments in all the areas that impact on members, including Social Housing Grant

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and Supporting People funding. We are also awaiting a decision social housing rents, and will keep members informed.

We have called for Welsh Government to invest a significant proportion of the extra capital funding received through the spending review in Welsh housing. Continued investment, alongside a secure rental income stream, will enable housing associations in Wales to deliver 12,500 homes in the next Assembly term, an increase of 25% on the current target of 10,000 affordable homes.

A Wales specific approach must also extend to the services we offer, and a focus on prevention, and we will continue to remind Welsh Government of the value of programmes such as Supporting People and Care & Repair.

We will continue to call on Welsh Government to focus on different priorities in Wales – not just on home ownership. It is essential that Welsh Government supports the delivery of housing across all tenures including social housing to deliver an effective housing market.

**Community Housing Cymru
November 2015**

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