



In-depth Briefing

Summer Budget 2015

On 8th July 2015, the Chancellor introduced the first budget of the new Conservative government. This Budget sets out around £17 billion of measures that will reduce the deficit, including £12 billion by 2019-20 from welfare reform and £5 billion by 2019-20 from tackling tax avoidance and tax planning, evasion and compliance, and imbalances in the tax system. In the autumn, the Government will set out plans to deliver the remaining £20 billion of measures to reduce the deficit.

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 the significant data from the UK Government's budget announcement, key statistics and our forecasts as to the potential impact on the Welsh housing sector into this briefing.

The measures announced in the budget which are of direct relevance to housing associations in Wales are illustrated in the chart on page 2 and detailed within this briefing.



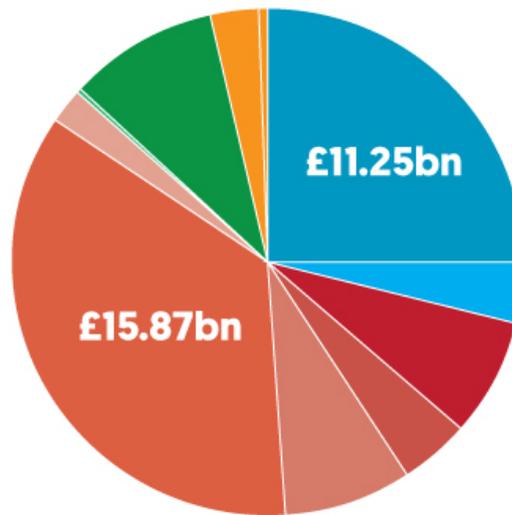
Policies that will directly affect Housing Associations from 2015-21

Housing Benefit

- End automatic entitlement for out-of-work 18-21 year olds from April 2017
£135m
 - Reduce social sector rents by 1% each year for 4 years from 2016-17
£4.28bn
 - Limit backdating awards to 4-weeks from April 2016
£10m
- In total: £4.425bn**

Other

- Align work-related activity group rate with JSA for new claims
£1.365bn
 - Fraud, error and debt; tax credits changes
£145m
- In total: £1.510bn**



(£ saving to UK Government)

2015-16 2016-17 2017-18 2018-19 2019-20 2020-21

(Deficit reduction by year)

Welfare

- Freeze working-age benefits, tax credits and local housing allowances from 2016-17
£11.25bn
 - Benefit cap: reduce to £20,000 and £23,000 in London from 2016-17
£1.67bn
- In total: £12.92bn**

Tax Credits & Universal Credit

- Limit child element to 2 children for new births in tax credits and new claims in UC from 2017-18
£3.435bn
 - Remove family element in tax credits and UC, and the family premium in HB from 2016-17
£1.915bn
 - Increase tax credits taper rate to 48% from 2016-17
£3.7bn
 - Reduce income thresholds in tax credits and work allowances in UC from 2016-17
£15.87bn
 - Reduce income rise disregard in tax credits from 2016-17
£935m
- UC waiting days: 7 waiting days from August 2015
£-5m
- In total: £25.355bn**

Members of the Community Housing Cymru Group:
Aelodau Grŵp Cartrefi Cymunedol Cymru:



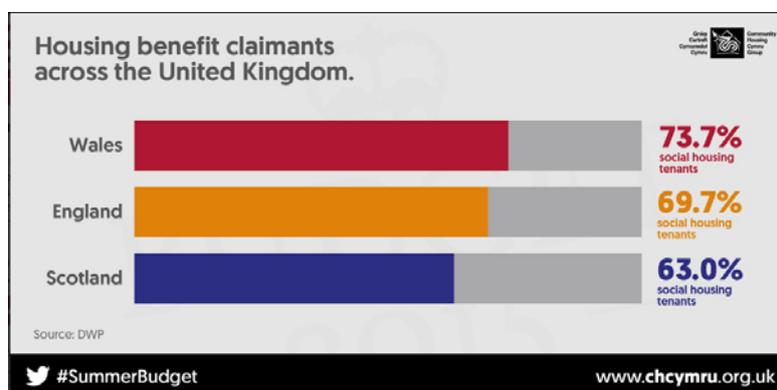
In addition to the policies included in the Chart:

- £800 million has been announced in Discretionary Housing Payment funding over the next 5 years.
- The government will increase the 'Rent-a-Room' tax relief from £4,250 to £7,500 per year from April 2016.
- A 'National Living Wage' will be introduced, starting at £7.20 in April 2016 and expected to rise to over £9.00 by 2020.

A number of other measures, where powers are devolved to Wales, may have indirect consequences for CHC's members:

- The Government will reduce rents paid by tenants in social housing in England by 1% per year for 4 years from 2016.
- Pay to Stay – The Government will require high income social tenants to be charged a market or near market rent.
- Lifetime tenancies – The government will review the use of lifetime tenancies in social housing to limit their use and ensure that households are offered tenancies that match their needs and make best use of the social housing stock.
- Apprenticeships levy – The government will introduce a levy on large UK employers to increase the number of apprenticeship starts.
- Confirmed extension of Right to Buy to housing associations in England.
- Childcare: 30 hour entitlement for working parents of 3 and 4 year olds and UC parent conditionality from when youngest child turns 3.
- Support for Mortgage Interest: change from welfare payment to loan.
- Devolution of further powers to Wales.

Wales is already disproportionately affected by welfare reform and these combined measures compound the effect. For example, in Wales, a greater proportion of social housing tenants claim Housing Benefit than in either England or Scotland.



Members of the Community Housing Cymru Group:
Aelodau Grŵp Cartrefi Cymunedol Cymru:



Measures Directly Affecting Welsh Housing Associations

1. The lowering of the household benefit cap, phased in during 2016/17

Currently the benefit cap limits the total amount a household can receive in benefits to £26,000 per year for couples and households with children and to £18,200 per year for single member households. This new measure will limit household benefit receipt to £20,000 per year for couples and households with children and to £13,400 per year for single-member households, except for London where the maximum will be £23,000 per year for couples and households with children and £15,410 per year for single-member households. This applies only to out-of-work households.

Impact:

At present, 706 families in Wales are affected by the £26k cap (236 are member tenants). The Your Benefits Are Changing team's statistical analysis shows that approximately 7,000 families in Wales will be affected by the reduced £20,000 cap. 2,240 of these are member tenants. We estimate that a cap of £20,000 could see an out-of-work family of 2 adults and 3 children lose an average of £3,200 per year.



2. The freezing of working-age benefits for 4 years

This policy freezes the cash value of most working-age benefits for four years from 2016-20. The following elements of working-age benefits included in the Welfare Benefits Up-rating Act 2013 are Jobseeker's Allowance, Employment and Support Allowance, Income Support, Child Benefit, applicable amounts for Housing Benefit, Child Tax Credit and Working Tax Credit, and equivalent rates in Universal Credit. Local



Housing Allowance (LHA) rates determine the maximum amount of Housing Benefit payable to most claimants in the private rented sector. Pensioner-specific benefits, benefits relating to the additional costs of disability or care, and statutory benefits and maternity allowance are excluded from the freeze.

Impact:

The impact of these changes will be an increase in problems of affordability for prospective tenants who are benefit-reliant if rents continue to rise, as forecast, over the next 4 years. In Wales alone, 89,400 working families receive both Working Tax Credits and Child Tax Credits and 44,400 working families receive Child Tax Credits alone. 73,800 out-of-work families claim Child Tax Credits.¹ Any freeze will affect 384,300 children in Wales.²

Although inflation is currently at an all-time low, if the rate returns to the government target of 2% based on the Consumer Prices Index (CPI), the impact of the freeze would be far greater as the cost of living increases. The introduction of a 'Living' minimum wage may drive inflation as prices are increased to match increased employee costs.

3. Universal Credit waiting days - updated delivery schedule

As previously announced, this measure will revise the implementation date for the introduction of seven day waiting days for Universal Credit from 1 July 2015 to 3 August 2015. Exemptions will apply for vulnerable groups.

Impact:

Universal Credit claimants will be required to wait a minimum of six weeks before a payment is made - a seven day waiting period, a one month assessment period and payment one week after that. Those migrating from a legacy benefit will not need to wait but Universal Credit does include housing costs and the 7 day waiting period will leave tenants with no financial support during that period to pay rent.

4. The Discretionary Housing Payment (DHP) budget for the next 5 years has been announced

The new budget features an announcement on the DHP budget, which has been set at £800 million for the next 5 years.

1

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/430557/cwtc_Finalised_annual_awards_2013-14_GeographicalAnalysis.pdf

² <https://sw.stat-xplore.dwp.gov.uk>



Impact:

Previously we have seen the DHP budget reduced from £165 million to £125 million in 2015/16. This announcement suggests a likely increase, if averaged out over the next 5 years, to £160 million per annum up to 2021.

5. Backdating of Housing Benefit to be Limited

From April 2016, Housing Benefit claims will be backdated for a maximum of 4 weeks.

Impact:

This will align housing benefit with Universal Credit and will impact many tenants who do not keep the Local Authority or landlord up to date with any change of circumstances. The current policy allows backdating to 13 weeks.

6. Child Tax Credits (Universal Credit) will be limited to two children from April 2017 for any new claimants and existing claimants who have more children after 2017.

This measure limits the child element of Child Tax Credit (CTC) and Universal Credit to two children for children born on or after 6 April 2017. It also limits the child element in Universal Credit (UC) to the first two children for new claims after this date. In UC, those who have received tax credits or UC with an interruption of less than 6 months will be protected. The disabled child element and the severely disabled child element will not be affected by this measure. To ensure coherence, the equivalent allowances in Housing Benefit for each dependent child will also be limited to 2 children, for new births and new claims from April 2017. This measure is effective from April 2017.

Impact:

It is difficult to estimate the number of current and future tenants accessing tax credits, but working families on low incomes will see significant reductions in the available income through the scheme. The current understanding of the YBAC team is that the 43,000 tax credit claimants with 3 or more children will receive transitional protection when they migrate to Universal Credit, but changes in circumstances could lead to a loss of that protection.

7. Removal of the family element in tax credits and UC, and the family premium in Housing Benefit, for new claims after April 2016

This measure removes the family element of Child Tax Credit (CTC) and the Universal Credit (UC) equivalent, currently worth £545 per year, for first children born on or after 6 April 2017. It also removes the family premium in Housing Benefit, which is an income allowance worth £17.45 per week for families with children. In Housing Benefit this will apply to new claims to the benefit or to children born on or after April 2016. In CTC this will



apply to children born on or after 6 April 2017, and in UC this will apply to new claims to the benefit on or after 6 April 2017. In UC, those who have received tax credits or UC with an interruption of less than 6 months will be protected.

Impact:

There are currently 208,000 families in Wales receiving the £545 per year. It is difficult to predict the impact on new births but the government indicates that £55m will be saved in 2016/17 in the UK. The reduction in the family premium in Housing Benefit may reduce some low income families' entitlement to partial or full housing benefit.

8. 18-21-year-olds will not be entitled to claim housing benefit automatically, with a new "earn to learn" obligation

This measure removes automatic entitlement to the housing element of Universal Credit (UC) for out-of-work 18-21 year olds. Exemptions will be in place for parents, certain vulnerable groups and for those recently in-work. The policy will apply to any new claim to UC from April 2017, where the claimant has housing costs at the start of their claim or subsequently acquires them.

Impact:

The impact of this will be significant in Wales where 6,555 young people aged 18 to 21 (of these, 2,390 are member tenants) currently claim housing benefit. Similar numbers would be expected in future UC claims. There is no detail yet on how the 338 housing benefit claimants who are 16 and 17 will access housing costs when reaching 18 and migrating to Universal Credit.

This policy undermines the viability of existing models used by housing associations to independently house under 21s. This may place many young people at risk if the reason they left was to avoid conflict at home. It may also mean upheaval as parents who have downsized for the 'bedroom tax' now request a move to larger properties, accept the additional fee that this will entail and move with their children.



Current Housing Benefit Claimants aged 16-21 in Wales:³

DWP figures		(Feb-15)				
		LA	RSL	(LHA) (PRS)	(non-LHA) (PRS)	Total
	Age					
	16	14	53	5	5	77
	17	45	151	55	10	261
	18	132	398	300	36	866
	19	232	506	548	42	1328
	20	318	677	857	56	1908
	21	435	809	1162	47	2453
Total		1176	2594	2927	196	6893

9. Increase the tax credits taper to 48% and the reduction of the income thresholds in tax credits and work allowances in Universal Credit.

This measure increases the tax credits taper from 41% to 48% of gross income and is effective from April 2016. The reduction of income thresholds will reduce the work allowance in Universal Credit for non-disabled households without children to zero, and simplify all other work allowances to a rate of £192 per month for households with housing costs and £397 per month for households without housing costs. The measures will be implemented for all UC claimants from April 2016. The measure will also reduce the income threshold in Tax Credits to £3850 per year from April 2016.

Impact:

These two changes alone will bring the treasury a saving of £4.2 billion in 2016/17 and a further £15.2 billion over the following four years. These measures will have a huge impact on low income families and questions the ability of Universal Credit to really 'make work pay'.

10. ESA and JSA alignment with a reduction of £29.05pw

This measure will remove the additional payments associated with the Employment and Support Allowance (ESA) Work-related Activity Component and the Universal Credit Limited Capability for Work Element for new benefit claimants from April 2017. New claimants of ESA who are placed in the Work-Related Activity Group (i.e. claimants who the DWP consider will be capable of work at some time in the future and who are capable of taking steps towards moving into work immediately) will receive the same rate as those claiming Jobseeker's

³ Department for Work and Pensions Statistics February 2015



Allowance (£73.10 per week, a reduction of £29.05 per week), alongside 'additional support to help them take steps back to work'.

Impact:

The UK Government estimates that there will be a £640m loss to the UK economy by 2021 due to this reduction, affecting sick and disabled people.

11. A 'National Living Wage' will be introduced, starting at £7.20 in April 2016 and expected to rise to £9.00 by 2020

This policy sets a new National Living Wage for over 25s which will reach £9 by 2020. The 'Living Wage' differs significantly from that established by the Living Wage Foundation that is campaigned for by many of CHC's members. It may well have a part to play in helping employed tenants to move out of in-work poverty.

Impact:

A consequence of the combined cuts to benefits could see the foundation reevaluate the 'real' living wage and request that its members pay that. The cost of living could increase as a result of the increased salary costs that employers face, further impacting those whose benefits have been frozen.

The reduction in corporation tax announced to counterbalance this policy won't make a difference to our members, as not-for-profits do not pay corporation tax. Therefore, any increase in staff payments will impact on budgets.

Devolved Measures which may indirectly affect Welsh Housing Associations

1. Reduction in Housing Association Rent Levels

The government will reduce social rent in England by 1% per year for 4 years from 2016/17 to 2019/20. Effectively the Government will withdraw the current rent model in England of CPI +1% and impose a 1% reduction year on year on rent levels until April 2020 when CPI +1% will be re-introduced.

Impact:

The Independent Office of Budget Responsibility (OBR) report on the impact of the budget proposal suggests that this measure makes it more likely that the sector will be reclassified. If housing associations were to be classified as part of the public sector, their approximate £60bn in England (£2.2bn in Wales) would be added to public sector net debt.



In England, the new 'Pay to Stay' rule acts a balance to this policy. 'High-earners' in social housing in England will be charged close to market rent, which will go directly to the landlord. Although this is a devolved issue, we do still need to consider the impact here in Wales. **CHC has therefore convened a meeting of Chief Executives to discuss the ramifications of this policy for the sector and will provide further updates in due course.**

Following the publication of the Welfare Reform and Works Bill (published 9 July 2015), CHC has sought independent legal advice which suggests the following:

Sections 19 – 22 of the Welfare Reform and Works Bill reduce the amount of rent paid by social housing tenants in England by 1%. Section 24 of the Welfare Reform and Works Bill does state that sections 19-22 (reduction in social housing rents) extends to England and Wales. This is as a consequence of the fact that England and Wales are part of a joint jurisdiction. As such, law that is only applicable in England does form part of the body of law in Wales, and vice versa. This is the case in this instance, and therefore there would be no requirement for Registered Social Landlords in Wales to reduce their rents by 1% as a consequence of this Bill.

There is no provision within the Bill for the reduction of Housing Benefit in line with the 1% reduction in social housing rent. Housing Benefit is not devolved to the National Assembly, and therefore if the Westminster Government were to decide in future to reduce Housing Benefit, then it would have a direct impact on Registered Social Landlords in Wales. As it stands currently, however, there will be no cut in the amount of housing benefit received by Registered Social Landlords in Wales as a consequence of sections 19 to 22.

2. Pay to Stay

The Government will require 'high income' social tenants in England to be charged a market or near market rent, with the additional rental income raised by Local Authorities to be returned to the Exchequer. The Government will consult on how this is implemented.

Impact:

As independent businesses, housing associations need the flexibility to set their own rents, especially when taking into account local housing markets, people's ability to pay, etc. A higher paid job could mean higher rents or evictions. This could negatively impact the aspirations of people living in social housing to move into better paid jobs. Few landlords hold data on their tenants' earnings. While this is a devolved issue, we still need to consider what impact this measure will have here in Wales.

3. Lifetime tenancies

The government will review the use of lifetime tenancies in English social housing to limit their use and ensure that households are offered tenancies that match their needs and make best use of the social housing stock.



4. Apprenticeships levy

The government will introduce a levy on large UK employers to increase the number of apprenticeship starts. In England, employers will be able to access this funding for apprenticeship training. There will be formal engagement on the implementation of the levy and further details will be set out at the spending review.

Impact:

The Treasury has not provided any detail on the scale of the levy or the businesses that will be made to pay it.

5. Confirmed extension of Right to Buy to housing associations in England

Impact:

As housing is devolved, any decisions about Right to Buy in Wales are made by Welsh Government. However, extension of the Right to Buy to housing associations in England could have impacts in Wales. For example, housing associations in Wales could be impacted if funders revise their view of our sector's robustness in light of developments in England and this could lead to an increase in the cost of finance for CHC's members. This could then impact the development of new homes in Wales at a time when there is already a housing supply crisis.

CHC fully supports the aspiration of homeownership, but this policy does not increase the supply of affordable homes.

6. Childcare: 30 hour entitlement for working parents of 3 and 4 year olds and UC parent conditionality from when youngest child turns 3

This measure extends the entitlement of free childcare for 3 and 4 year olds from the current 15 hours per week to 30 hours per week for families where both parents work and for lone parent families in work. This measure is fully effective from September 2017 but will be implemented in some local areas from September 2016. The extension of free childcare **applies to England only** as responsibility for the childcare entitlement is devolved. The implementation of the measure requires departmental expenditure, but parents will be paying for fewer hours of childcare. This results in savings of other government childcare subsidies, such as Tax-Free Childcare (TFC) and the childcare element of tax credits and Universal Credit (UC).

UC parent conditionality from when youngest child turns 3

This measure extends full conditionality in Universal Credit to lone parents and responsible carers with a youngest child aged 3 or 4 years. This means that lone parents and responsible carers will be required to be



available for and looking for work, and comply with Jobcentre Plus conditionality regimes, once their youngest child is aged 3 years.

Impact:

We need to consider what impact this measure will have in Wales. For example, if similar childcare arrangements are not replicated in Wales, where free childcare is already limited compared to England, parents may be faced with paying for childcare while seeking work.

7. Support for Mortgage Interest: change from welfare payment to loan

This measure maintains the capital limit on Support for Mortgage Interest (SMI) payments at £200,000 from April 2016. The measure also changes SMI from a benefit to an interest-bearing loan, secured against the mortgaged property, from April 2018.

Impact:

This policy change could impact on leaseholders and shared ownership tenancies where the loan will be added an added charge to the property.

8. Fraud, error and debt: tax credits changes

This measure will extend the use of the private sector to improve the collection of tax debt to tax credit debt. This will target tax credit debt in excess of £3,000 that has already passed the extended tax credits debt collection process. This measure is effective from April 2016. This measure will also recover overpayments of Working Tax Credit from payments of Child Tax Credit, and recover overpayments of Child Tax Credit from payments of Working Tax Credit. This measure will be effective from November 2015.

Impact:

This policy could see tenants come under further financial pressure to repay existing overpayments.

9. Devolution of further powers to Wales

The Government is committed to taking forward the St David's Day agreement for Wales. This includes implementing a funding floor at the Spending Review in the expectation that the Welsh Government holds a referendum on the devolution of income tax.

CHC has previously called for fair funding for Wales as Wales is currently underfunded and is therefore already disproportionately affected.



Consequentials

As a result of the UK Government's austerity programme, the Welsh Government's Budget is £1.3bn lower in real terms in 2015-16 than in 2010-11. Welsh Government budget will receive an additional £4m as a result of consequentials; however, this is £46m down on the Final Budget which was agreed with UK Government last December.

Next Steps for CHC

Alongside the Welsh Local Government Association, CHC has written to the Minister for Communities and Tackling Poverty, asking Welsh Government to convene discussions with agencies and bodies involved in supporting communities across Wales so that we can assess the impact and consider properly joined up approaches where necessary.

CHC has also spoken to Welsh Government to secure a discussion with Officials and the Minister as soon as possible around a number of announcements that the Chancellor made on housing policy issues that will impact on housing associations in England which will potentially have an impact on Welsh housing association business plan assumptions and future strategy. As mentioned, CHC has called a meeting of the Chief Executives' Network next week. This will give us the opportunity to discuss the issues in more depth, consider what work we may need to do as a sector and consider appropriate responses before the Senedd will return from recess in September.

To discuss CHC's next steps, please contact Sioned Hughes, Director of Policy and External Affairs – Sioned-hughes@chcymru.org.uk.

Further information

For further information and clarification on the content of this briefing, please contact Paul Langley, Head of YBAC, Community Housing Cymru Group – paul-langley@chcymru.org.uk.

Further details on the impact and meaning of each welfare change will be made available on the Your Benefits Are Changing website and Facebook page. Information and fact sheets will be made available to CHC members and supporting organisations.

www.yourbenefitsarechanging.co.uk

Updates will also be provided through the Our Benefits Are Changing sessions that provide in-house updates on Universal Credit and are free at point of delivery for CHC members. You can find further details on our website: <http://chcymru.org.uk/en/policy/welfare-reform/communicating-the-changes-your-benefits-are-changing-campaign/ybac-internal-campaign-april-2015/>