

Comprehensive Spending Review 2020
Representation from ARLA Propertymark
September 2020

Background

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents, representing over 9,500 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.
2. Our members operate to professional standards far higher than the law demands, hold Client Money Protection and we campaign for greater regulation in this growing and increasingly important sector of the property market. By using an ARLA Propertymark agent, consumers have the peace of mind that they are protected, and their money is safe.

Representation

In order to level up economic opportunity across all nations and regions of the country by investing in infrastructure, innovation, and people the UK Government must:

- Support investment in the private rented sector
- Reopen courts to deal with the backlog of housing cases
- Ensure Universal Credit is adequate and more effective
- Raise Local Housing Allowance
- Build more social housing

Support investment in the private rented sector

Desired outcome

3. To boost the supply of private rented housing and increase long term investment in the sector, the UK Government must provide financial support for tenants and landlords. This should include three things. Firstly, analysis of the impact of recent costs, tax, and legislative change on buy-to-let investments in order to commit to launching a review of all taxes relating to private landlords. Secondly, provide financial support for renters hit by the Coronavirus pandemic to sustain tenancies and keep the rent flowing. Thirdly, increase the support for landlords to invest in their property and make energy-efficient home improvements. The UK Government must recognise the contribution that the private rented sector is making, and it must provide more support so confidence and investment in the sector is maintained.

Policy rationale

4. The UK Government must do more to support professional landlords and letting agents to continue to provide homes for people. The phasing out of tax relief on mortgage interest for landlords, the additional Stamp Duty Land Tax surcharge on buy-to-let property, the Tenant Fees Act and the repercussions of the Coronavirus pandemic means that landlords costs have significantly increased and many landlords can no longer make ends meet. Through a review,

the UK Government will be better placed to introduce policies that reduce costs for those wishing to invest in the sector, which in turn will help reduce rent for tenants, lead to longer-term tenancies and make it more affordable for renters.

5. Further support is needed to help tenants who have built up Covid-19 related arrears through no fault of their own. We recognise that there has been support from the UK Government for many tenants, but this has not always met the full cost of rent and has not reached all tenants. The nature of the coronavirus crisis requires a one-off intervention to address specifically Covid-19 related arrears. This will enable both tenants and landlords to continue the tenancy and support tenants to remain in their homes.
6. To increase the support for landlords to invest in their property and make energy-efficient home improvements, the UK Government must increase the value for improvements under the Green Homes Grant as well as reintroduce the Landlord's Energy Saving Allowance and extend it to include anything contained within the Recommendations Report of an Energy Performance Certificate. Outside of the Green Homes Grant scheme, private landlords have little access to funding other than their own income to make energy efficiency improvements to their properties. The UK Government must provide more support for landlords to improve their property and ensure that tenants can benefit from warmer homes and cheaper energy costs.

Costs, benefits, and deliverability of proposals

7. Landlords have faced significant legislative change, costs and tax increases in recent years and the UK Government should be looking at reviewing the impact of these changes and introducing financial incentives to encourage landlords to continue to invest in the sector. This can be done by removing the 3% surcharge on second homes, revoking the mortgage interest relief changes, unifying Capitals Gains Tax rates for property with those relating to other types of investment and tax reductions for landlords using regulated letting agents.
8. Removing the 3% surcharge on second homes would encourage landlords to continue to invest in the sector and provide the homes that people need. Under the changes brought in under Section 24 of the Finance Act 2015 to restrict mortgage interest relief for residential landlords to the basic rate of income tax, thousands of landlords now pay more tax. The changes mean that landlords have been pushed up a tax band despite their income not increasing as tax will be applied to turnover instead of profit. To cover the additional taxes landlords will increase rents for new and existing tenancies. They will also cut back on other expenses such as property maintenance. As the extra tax mounts up some landlords could sell up altogether and leave the sector. Over the long term this will impact on the value and quality of property tenants rent. By revoking the mortgage interest relief changes and removing the surcharge on buy-to-let investment, landlords will be able to reduce the costs that they pass on to tenants. It will also ensure that landlords remain in the sector and provide long term affordable homes for tenants.
9. To further encourage more investment in the private rented sector the UK Government should unify Capitals Gains Tax rates for property with those relating to other types of investment. In March 2016, Capital Gains Tax rates were cut significantly from 28 per cent and 18 per cent, for top rate taxpayers, to 20 per cent and 10 per cent for lower earners. However,

landlords were excluded from this cut and means that while sale of shares in a company that owns property would incur Capitals Gains Tax at 20 per cent, individuals making reasonable gains on the sale of a second property would face the existing 28 per cent. The move ignores the positive contribution made by landlords and property companies as the incentive is to invest in companies over property. However, residential lettings activity provides 58,000 jobs, which generate employee taxes in the order of £400 million for the Exchequer each year.¹ Excluding landlords from Capitals Gains Tax cuts makes this asset class less attractive at a time when the supply of rented homes is tight.

10. Letting agents have an important role to play in making sure tenants receive a professional service. With the announcement that the UK Government will regulate letting agents with minimum qualifications and a code of practice, the UK Government should make it a requirement for agents to make tenants aware of the full range of tenancy options available, and, where appropriate, to broker discussions about tenancy length between landlords and tenants.² Where landlords use regulated agents, who are facilitating longer tenancies the UK Government could offer them tax reductions. This would not only increase the number of longer tenancies but ensure that landlords use professional agents who can provide high management standards and a good service to tenants.
11. It is vital that the UK Government develops interest free, government guaranteed hardship loans to help tenants pay off rent arrears built because of the Coronavirus pandemic. This can be delivered by providing tenants with a means to pay off Covid-related arrears and help to sustain tenancies by removing any risk of eviction. These should be paid directly to landlords and should cover all arrears accumulated since the start of the pandemic. If a tenant refuses, or is unable, to take up a loan then landlords must be able to cover arrears through grants.
12. Energy efficient homes can reduce overall costs for the UK Government by improving health and reducing household bills. The benefits mean the UK Government can improve the country's housing stock, tackle fuel poverty, and reduce carbon emissions. This can be done in two ways. Firstly, by increasing the value of the Green Homes Grant from £5,000 to £10,000 and extending the measures to include more home improvements, such as boilers. The average amount spent by a landlord to bring a property to Energy Performance rating of E is £6,781.³ Therefore, more support is needed to help landlords improve the energy efficiency of the property they let. Secondly, reintroducing the Landlord's Energy Saving Allowance and extending it to include anything contained within the Recommendations Report of an Energy Performance Certificate. This will help landlords with the cost of energy efficiency improvements and ensure that tenants benefit from lower fuel bills. The Landlord's Energy Saving Allowance encouraged landlords to invest in energy efficiency improvements by permitting them to offset up to £1,500 per dwelling against income tax or corporation tax for installing energy efficiency measures. Consequently, tenants spend less money on energy bills and their homes are more energy efficient.

¹ <https://www.arla.co.uk/media/1045728/letting-the-market-down-assessing-the-economic-impacts-of-the-proposed-ban-on-letting-agents-fees.pdf>

² <https://www.gov.uk/government/publications/regulation-of-property-agents-working-group-report>

³ <https://news.rla.org.uk/rla-secures-1-5million-energy-funding-pot-for-members/>

Reopen courts to deal with the backlog of housing cases

Desired outcome

13. The UK Government must adequately resource and reform the existing courts system to ensure that courts in England and Wales can deal with the volume of possession hearings following the stay on evictions. It is vital that there are an adequate number of courts to deal with hearings lodged before and during the pandemic as well as hearings since the stay on evictions was lifted.

Policy rationale

14. There are not enough courts to deal with housing cases. Half of the magistrates' courts open in 2010 have been closed (162 out of 323) and Her Majesty's Courts and Tribunals Service spending was 18% lower in real terms in 2018/19 than it was in 2010/11.⁴ This has left both tenants and landlords without swift access to justice. We estimate that when the stay on possession claims was lifted in September there was a potential backlog of over 62,000 "business as usual" landlord possession claims to be processed across England and Wales. This does not include claims for possession that may have arisen directly because of the Coronavirus pandemic. Defunct courts must be brought back into use to clear a crippling backlog in delayed cases and ensure the system is fit for purpose.

Costs, benefits, and deliverability of proposals

15. Failure to fund the courts properly means a lack of justice for landlords and tenants. Without sufficient court infrastructure this leads to delays and inefficiencies. Furthermore, the cost of legal action and potential court costs can discourage individuals from seeking legal redress. In addition, landlords wishing to bring cases can face the potential of the costs of action being greater than the benefit of taking action. This damages court user's confidence in the system due to delays and court users having no certainty on how long processes should take. The UK Government must reopen courts that have been closed and commission a review into how a specialist housing tribunal would operate.
16. The ability for landlords to access a swift, efficient, and cost-effective justice system is a key component of a successful lettings industry. While most tenancies are ended by the tenant, landlords need to be confident that a property can be recovered quickly if the tenant has caused damage, stopped paying the rent or if the landlord's circumstances change. Through adequately resourcing and reforming the existing courts system this will speed up the system, increase expertise in the decision-making process and ensure greater consistency with reduced costs.
17. The majority of landlord and tenant disputes (including possession cases and disrepair) are currently split between the County Court and the First-tier Tribunal (Property Chamber). A specialist housing tribunal would allow for an easier and streamlined process for housing

⁴ <https://www.instituteforgovernment.org.uk/publication/performance-tracker-2019/criminal-courts>

claims, which will subsequently provide faster justice, and make the process more cost effective. A new housing tribunal would take over a large range of cases currently heard by the County Court, property tribunal and Magistrates' Court. The tribunal can hold hearings in existing court buildings but also local public buildings, such as schools, making it physically easier to access and reduce the pressures on busier court locations. The UK Government must also look to integrate with the new online courts so that the majority of paperwork and case management can be dealt with online. The more informal operation of a tribunal, compared to a County Court for example, would make it much less daunting for tenants and landlords allowing easier access for unrepresented parties.

Ensure Universal Credit is adequate and more effective

Desired outcome

18. The UK Government must do three things to ensure Universal Credit is adequate and more effective. Firstly, tenants should have choice over whether the housing element of their Universal Credit is paid direct to their landlord. Secondly, all claimants should be able to choose whether to have Universal Credit paid monthly or twice monthly to assist with budgeting. Thirdly, to tackle rent arrears the Universal Credit advance should be turned into a non-repayable grant from the first day of the claim. Through these changes Universal Credit can provide more flexibility and better reflect the reality of claimants' lives, particularly those on low incomes and better support tenancies in the private rented sector.

Policy rationale

19. The rollout of Universal Credit has drastically impacted on private landlords' willingness to let to those in receipt of the benefit and the five-week wait for the first Universal Credit payment is the main cause of insecurity for claimants. In March 2019, all ARLA Propertymark letting agents who took part in our survey said that UK welfare reform measures had negatively impacted willingness to take on tenants receiving benefits. Under the current arrangements, paying awards monthly does not reflect the lived experiences of many claimants. It forces people to fit to the rigid requirements of the system and causes unnecessary budget and cashflow problems both for those out of work and for those who are used to receiving wages more frequently. By making improvements to how Universal Credit works, and ensuring it is more flexible, and accommodates a diverse range of personal circumstances, the UK Government can provide stronger support to those that need it the most as well as ensuring that Universal Credit works for the private rented sector.

Costs, benefits, and deliverability of proposals

20. Given the lack of social housing, the main benefit to ensuring Universal Credit is adequate and more effective is that landlords and letting agents would have more confidence to offer tenancies to those receiving Universal Credit. The UK Government can do this by giving the choice to tenants to decide whether the housing element of their Universal Credit is paid direct to their landlord. Currently for an Alternative Payment Arrangement to be made, the claimant must be two months or more behind on rent, after which the landlord can apply to have the housing element paid to them directly. A managed payment of the housing element

of Universal Credit can only be made directly to a private landlord automatically when a tenant has reached at least two months' worth of rent arrears. The problem with this is that the average waiting time for a direct payment to a landlord under an Alternative Payments Arrangement is eight and a half weeks⁵ and for many landlords mortgage payments are due monthly. To fix this issue, UK Government must amend the process to reduce the wait time and make the process of delivering rent straight to the landlord much easier.

21. To deliver a Universal Credit system which is adequate and more effective, the UK Government should give claimants the choice as to whether they want to their have the benefit paid monthly or twice monthly. Whilst being paid weekly for many workers has declined there are still many workers who have no experience of monthly pay cycles. In the lowest decile of weekly earnings, 17% of employees are still are paid weekly.⁶ This policy is in operation in Scotland and allows greater flexibility for claimants. However, it is important to note that although the Scottish system makes it easier for claimants to budget on an ongoing basis according to their needs, it does not mitigate the fact that the initial waiting period is still long, as claimants can only make their choice after they have received their first payment. Consequently, the UK Government must recognise that there are people who would benefit from a more flexible and frequent payment structure than the current system allows.
22. The quickest and simplest solution to rent arrears would be to turn the Universal Credit advance into a non-repayable grant from day one, removing the five-week waiting period. It is estimated that this would cost the Department for Work and Pensions between £1-2 billion a year.⁷ The five-week wait is the reason that claimants find themselves with an income that is less than their outgoings for essential bills, due to the fact that requesting an advance payment means that deductions are taken (at a very high rate) for the next 12 months. Many tenants in the private rented sector have very limited savings and the UK Government must introduce measures that ensure they can access support straight away.

Raise Local Housing Allowance

Desired outcome

23. The UK Government must raise and restore the Local Housing Allowance to the 50th percentile to cover the average cost of rents in a local area. The housing element of Universal Credit currently only covers the lowest third of market rents in an area, meaning those paying average rents will face a large shortfall. By lifting the Local Housing Allowance rates further this will make more homes affordable to renters and ensure landlords and letting agents have more confidence to let to renters claiming Universal Credit.

⁵ <https://committees.parliament.uk/writtenevidence/818/html/>

⁶ <https://committees.parliament.uk/publications/2224/documents/20325/default/>

⁷ https://www.instituteforgovernment.org.uk/sites/default/files/publications/universal-credit-getting-it-to-work-better_1.pdf

Policy rationale

24. The welfare system is an essential lifeline for many people and the housing elements of social security are a crucial part of the support required by tenants facing financial difficulty or homelessness. However, the gap between rent and Local Housing Allowance has more than doubled in most areas since 2016.⁸ The recent changes made to Local Housing Allowance rates are welcome but fall short of what is needed to provide comprehensive support to people living in rented accommodation. This has been exacerbated for many by the Coronavirus pandemic with 1.5 million Universal Credit claims made between 13 March and 9 April.⁹ Consequently, the UK Government must do all it can to ensure the benefits people receive cover their cost of living.¹⁰ Without increasing Local Housing Allowance rates, many households will find a huge shortfall between their income and their housing costs. To this end, the UK Government must raise the Local Housing Allowance to the 50th percentile to ensure that people get the support they need as well as being able to maintain their tenancies beyond the pandemic.

Costs, benefits, and deliverability of proposals

25. If the gap between benefit support for housing costs and actual rents in the private rented sector continue to increase this will make it difficult for people to maintain tenancies and the UK Government are likely to see an increase in rough sleeping and homelessness. This will impact on welfare expenditure, local authorities, and demand for social housing as well as pressure on other public and community services. From a survey of ARLA PropertyMark members nearly all said that up to a quarter of their tenants have missed a rental payment since the Coronavirus outbreak. Furthermore, excluding tenants that have already missed a payment, 70% of members surveyed said that up to a quarter of tenants have contacted them with concerns that they may miss a future payment due to the impact of Coronavirus.¹¹ This means that if more privately rented households need to access means-tested benefits they will not receive full housing support and will likely need to supplement rent costs from income intended for day-to-day living. In addition, 52% of landlords have cited higher Local Housing Allowance as the best way to improve their willingness to rent their properties to Universal Credit claimants.¹² Without supporting those who need it the most they will not be able to find affordable housing and tenancies will not be sustained.

26. There are two main benefits to raising the Local Housing Allowance. Firstly, it will more accurately reflect the cost of renting. Secondly, it will improve recipient's ability to obtain good quality and well managed accommodation. Many people lose their homes when the rising pressure from high rents and low incomes becomes too much. By increasing Local Housing Allowance, it will provide a greater safety net for anyone who loses a job or falls ill. It

⁸ <https://www.bbc.co.uk/news/uk-england-48038833>

⁹ <https://www.gov.uk/government/publications/universal-credit-29-april-2013-to-9-april-2020/universal-credit-29-april-2013-to-9-april-2020>

¹⁰ <https://www.gov.uk/government/publications/universal-credit-29-april-2013-to-9-april-2020/universal-credit-29-april-2013-to-9-april-2020>

¹¹ <https://www.arla.co.uk/media/1048797/impact-of-covid-19-on-homelessness-and-the-prs.pdf>

¹² <https://research.rla.org.uk/wp-content/uploads/2019-Q1-State-of-the-PRS-Report-FINAL.pdf>

will also mean that for most private renters who are reliant on housing benefit to pay their rent, there will be more properties in their area that they can afford.

27. The UK Government can deliver these proposals by lifting Local Housing Alliance rates further, considering that the 30th percentile still represents a cut when compared to the 50th percentile that applied before UK Government welfare changes.

Build more social housing

Desired outcome

28. The long-term solution to address the lack of affordability in the private rented sector is to ensure that more social housing is built to reduce housing need. The demand for social housing has far outstripped availability, meaning that many people who most need affordability now live in the private rented sector. To improve their circumstances and ensure that renting is more affordable and secure for renters in all tenures, the UK Government must commit to a significant programme of building social housing.

Policy rationale

29. Due to a shortage in social homes this means that many people on lower incomes who cannot access the social rented sector are having to live in private rented property. In 2019, less than 7,000 social rent homes were built, despite evidence that England needs around 90,000 more social rent homes a year for the next fifteen years. This is impacting the housing market in three ways. Firstly, it increases demand for properties in the private rented sector. Secondly, it is putting pressure on rents in some areas. Thirdly, people are living in properties that do not meet their needs. As the country recovers from the Coronavirus pandemic a significant programme to build social housing will provide jobs, boost the economy, and help the UK Government meet its 300,000 homes a year target.¹³

Costs, benefits, and deliverability of proposals

30. The main cost of not starting a programme of social house building is the continued impact on housing benefit as many people on lower incomes need support to live in the private rented sector. The private rented sector has always accommodated a proportion of renters on welfare to pay rent. However, over the past ten years there have been a rising proportion of people claiming housing benefit living in private rented property which has cost nearly £14 billion in additional benefits and rental payments in real terms. For households in receipt of help with payments there are likely to be shortfalls between the benefits received and the rent charged. However, these shortfalls are more apparent for tenants in the private rented sector because rents and living costs are much higher. Increasing the number of social homes would help to alleviate the rise in benefit claimants living in the private rented sector and deliver savings in welfare payments as social rented housing can better support their needs.

¹³ <https://www.gov.uk/government/speeches/robert-jenricks-speech-on-planning-for-the-future>

31. A large-scale programme of building social homes would have four main benefits. Firstly, it will help to significantly reduce the number of people suffering from homelessness. Private rented housing can provide a sustainable housing option for people moving on from homelessness, but many homeless people struggle to get access to homes let by private landlords and rents are unaffordable. Secondly it will reduce the number of families in overcrowded homes. For instance, people with the least purchasing power are often pushed into poor quality accommodation and their situation can be exploited by criminal landlords. Thirdly, it will help people reduce their housing costs. On average, in England, those buying their home with a mortgage spent 18% of their household income on mortgage payments, whereas rent payments were 27% for social renters and 33% of household income for private renters.¹⁴ Fourthly, it will reduce pressures elsewhere in the housing system. The role of social housing is vital in ensuring that the country provides for young people, families, and the elderly. Social housing includes low cost rental and low-cost home ownership accommodation. Consequently, these options should be reflected in a diverse housing mix that caters for all and helps to alleviate pressure on the private rented sector.
32. As well as central UK Government funding, to deliver a large-scale programme of social homes the UK Government can do four things. Firstly, publicise and set a national target for building homes at social rent levels. Secondly, make greater use of public land to build these homes. Thirdly, give additional powers to local authorities to build social housing. Fourthly, reintroduce the Empty Homes Community Grants Programme to bring empty properties back into use as affordable housing. The UK Government must use all avenues available to it to develop and deliver a long-term plan for building social rented homes and make housing more affordable and accessible for all.

¹⁴https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/860076/2018-19_EHS_Headline_Report.pdf