UK Housing Review

Steve Wilcox and John Perry

2013 Briefing Paper

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The Chartered Institute of Housing

The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 22,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities. Our vision is to be the first point of contact for – and the credible voice of – anyone involved or interested in housing.

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Transforming in a changing world

During the past 12 months, housing organisations have been operating in an increasingly difficult environment. Changes in government policy have brought both immediate and long-term challenges. Understanding what that has meant and the position we are now in is vital for us to go forward. The *UK Housing Review* provides us with the necessary data and evidence to do this, and that is why Orbit is supporting the publication of this latest *Briefing*.

We have seen housing supply dropping by eight per cent from the previous year at a time when demand is steadily increasing. We see new households forming at a rate of 220,000 per year, but have been building less than half of what is needed to meet that demand. While the wider economic climate is a key factor, we must grasp the nettle and look at what we can collectively do to address our nation's unmet housing need and innovate to deliver workable solutions.

The government must also lay the foundations for making real inroads to addressing our housing crisis by putting in place a long-term cross-party national housing supply strategy to move us beyond the current spending review cycle.

And yet housing supply isn't the only challenge on the horizon. The pace of welfare reform is gaining momentum, with 2013 being the year when we really start to see the impact of policy changes on our income streams, the lives and the aspirations of many of our residents. This means housing associations now have to deliver more than just good landlord services; we must now look at our wider social purpose and how we enable residents to achieve the aspirations that are increasingly under threat.

So, our task as a sector is a challenging one but now is not the time to shy away. We need to look to ourselves and transform to meet the challenge. Within Orbit we are doing that through our 2020 programme and although we have a way to go, we know what we need to do to deliver the service our residents and communities need.

We believe part of the transformation process is to have an aspirational Vision and so we have just launched a new one, with a change of purpose to 'Building Communities' underpinned by a focus on improving the social, economic and environmental prospects of people and the places where they live. Short, sharp and to the point. Our focus is wider than just building and maintaining homes, we must build communities as a whole, putting in place the right physical infrastructure, such as schools, health centres, community spaces and homes, as well as creating opportunities by providing residents with the necessary skills, jobs and digital connectivity.

While our model of transformation might not be right for every organisation, the fact that we have to transform should be an imperative for all. The *UK Housing Review* tells us where we are now and much of that is far from where we want to be. It is up to us to change that and I am confident that despite the challenges we are up against, we can create a vibrant environment where those living in our communities can flourish.

Paul Tennant
Chief Executive, Orbit Group

Introduction

Welcome to the fourth in our annual series of mid-year *Briefings*, to complement the main *UK Housing Review* published at the start of each year.

More than halfway through their term of office, the coalition government's plans for housing, welfare benefits and the economy are now beginning to show their effects. At the same time, with the economy still stalled, the UK housing market remains sluggish at best and new housing output remains depressingly low.

Drawing on recent statistics, the *Briefing* assesses the implications of policy and market changes in thirteen key topic areas, and also includes pages on Northern Ireland, Scotland and Wales.

Housing demand and supply

The gap between housing supply and projected new household formation is still a very wide one. New output in England has stayed a little above or below the 100,000 mark for five years, whereas even the slightly lower official projections up to 2021 now expect there to be 220,000 new households each year. The massive mismatch between household growth and housing output suggests that housing shortages will increasingly prevent people from forming households and lead to greater sharing and overcrowding. As the *Briefing* shows, the crude surplus of dwellings over households soon disappears across all regions when vacant properties, second homes and other factors are taken into account.

Measures such as the reformed planning system, the New Homes Bonus and the stimulus packages included in the government strategy *Laying the Foundations*, and augmented in the last Budget, have so far had little impact on new housing supply.

Help for the housing market

Budget support for the housing market was a generous package but one which switched the focus away from first-time buyers and new build, aiming for a more general boost to market transactions. The *Briefing* argues that some of the criticism of Help to Buy has been misplaced, although it questions whether help should extend to houses sold at prices well above even the London average.

Despite various government initiatives, and frequent assertions of a housing market revival, there is so far little evidence of any shift in house prices. The evidence here is based on a consistent mix of property types, unlike other measures. It shows that, London apart, house prices have remained flat or have even fallen over the last five years.

Given that many potential buyers will still be unable to enter the market, and that the private rented sector continues to grow, the *Briefing* also looks at the evidence about the relative costs of renting and buying.

Welfare reform

This is the key year for the government's welfare reforms as the different measures either take full effect or (as with universal credit) begin a steady roll-out. The *Briefing* covers several different aspects of the reforms and their consequences. It looks at the way that universal credit, while improving work incentives, brings far more working households into the benefits net. For social landlords, this is a further challenge in addition to those they already face. Then, new analysis shows how the effects of welfare reforms vary widely across Britain, and will hit some of the poorest areas hardest. Again, this puts pressures on social landlords' support services. And in the private sector, the *Briefing* looks at the developing outcomes from the earlier reforms to local housing allowances.

These and many other issues are covered in this year's *Briefing* and will be followed up in the *UK Housing Review 2014*, early next year.

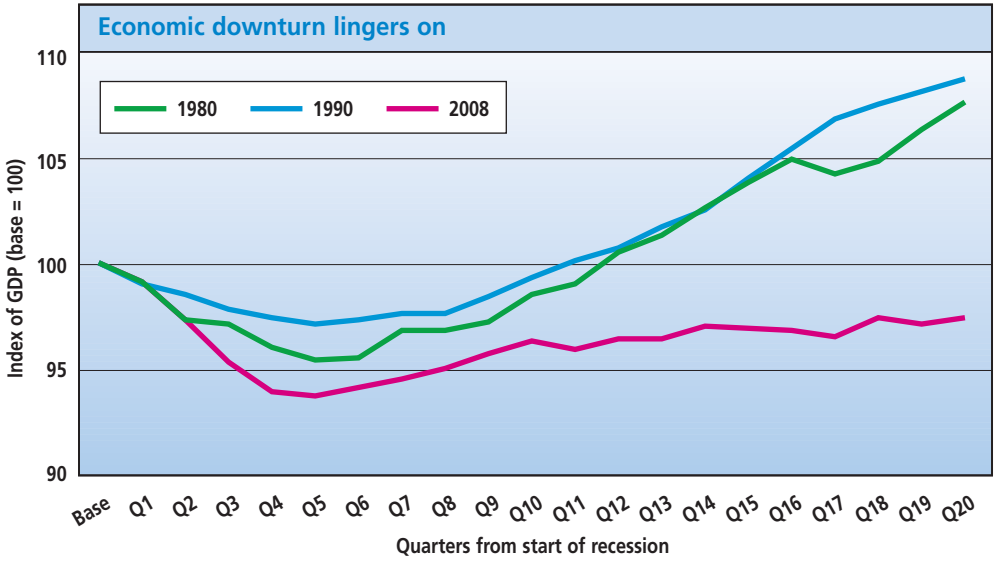
Steve Wilcox and John Perry
June 2013

Steve Wilcox is the author of the sections on pages 5, 7, 8, 11-17 and 20; John Perry of the sections on pages 6, 9, 10, 18 and 19.

The case mounts against economic austerity

There was a sigh of relief that with the very modest growth recorded for the first quarter of 2013, the UK economy escaped the ignominy of a triple-dip recession. But still the downturn drags on: it will now be at least 2015 before the economy returns to the levels of early 2008. The downturn will have run for more than twice as long as in the two last UK recessions.

In its March 2013 report,[1] the Office for Budget Responsibility again scaled back its forecasts and estimated growth of only 0.6 per cent in 2013, followed by 1.8 in 2014 and 2.3 in 2015. One consequence is that no significant fall in unemployment levels is expected before 2016.



Source: Computed from ONS quarterly GDP data (ABMI).

Slower economic growth has also meant that despite the cutbacks in spending, the governments' annual deficit has not fallen as rapidly as planned. Private sector economic activity has not rushed to fill the gap carved out by public sector austerity, and over the five years to 2016/17 the UK economy is now forecast to grow nine per cent less rapidly than forecast a year earlier.

As a result tax yields will grow more slowly and net borrowing (PSNB) will not fall below three per cent of GDP until 2017/18 – two years later than forecast by OBR in March 2012. As a consequence the UK government has now lost its coveted AAA rating from two of the major international credit rating agencies and is in danger of losing it from a third.

The government can rightly claim the continuing troubles elsewhere in Europe as a contributory factor to the weak recovery. But the common factor for the UK and other EU countries is that they have all adopted more or less severe austerity measures in response to the fiscal pressures resulting from the banking crisis.

The International Monetary Fund (IMF) has now added their voice to the criticism of the economic ineffectiveness of the austerity measures, based on a detailed analysis of government fiscal cutbacks. Prior to the current downturn the IMF assumed that such cutbacks only had a 0.5 (i.e. 50 per cent) net negative effect on government deficits as about a half of the first round of those cutbacks was offset by the consequential slower economic growth. This was borne out by evidence from advanced economies over previous decades and it also informed the view of the UK and other governments which adopted austerity measures.

However when the IMF looked at the impacts in 2010/11 they found that the negative multipliers were far higher, ranging from 0.9 to 1.7. They conclude that the multiplier effects of cutbacks will vary depending on the international economic context. In particular they argue that their results are consistent with other research evidence that:[2]

> *'...in today's environment of substantial economic slack, monetary policy constrained by the zero lower bound, and synchronised fiscal adjustment across numerous economies, multipliers may be well above 1.'*

In other words when several countries adopt austerity at the same time it creates a self-defeating vicious circle. Based on this the IMF has called on the UK and other governments to re-assess their strategies and focus more on promoting economic growth as a better approach to restoring government finances.

The 2013 Budget did contain a number of measures to promote economic growth (including in the housing market – see page 13). But the government did not fundamentally change its fiscal stance and now plans further public spending cuts (see page 6). The IMF is not alone in arguing that the UK government needs to think again.

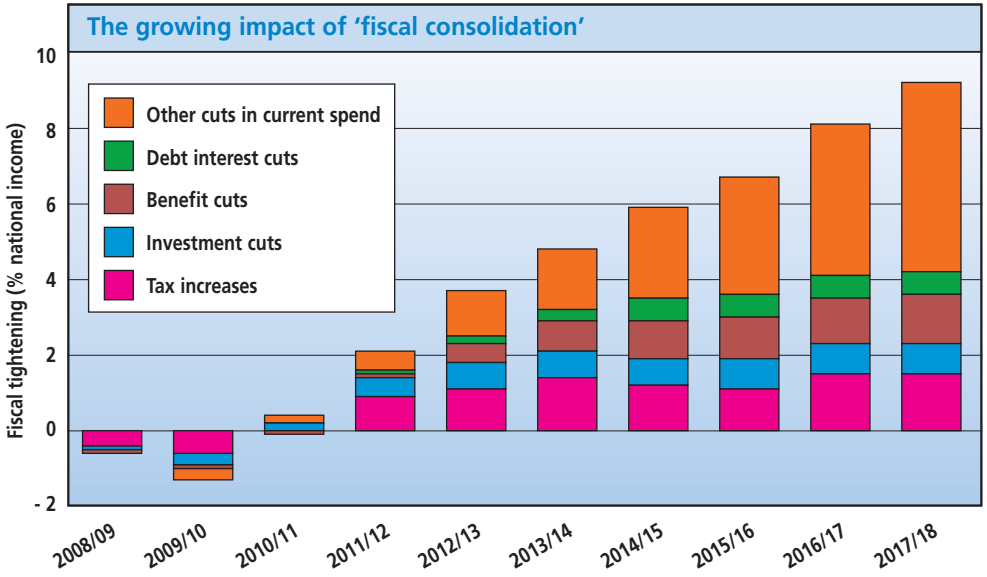
References

1 Office for Budget Responsibility (2013) *Economic and fiscal outlook March 2013*, Cm 8573. London: The Stationery Office.

2 International Monetary Fund (2012) *World Economic Outlook, October 2012: Coping with High Debt and Sluggish Growth*. Washington DC: IMF.

Entering an era of unprecedented spending cuts

Despite calls for a change of course, most recently from the IMF (see page 5), the chancellor has confirmed the government's intention to continue its plans to reduce the fiscal deficit (or work towards 'fiscal consolidation'). This involves a combination of spending cuts and tax increases, with the emphasis firmly on the former. A recent analysis by the IFS (see chart) shows how the effects of fiscal consolidation will grow and change over the period up to 2017/18. The striking feature is that the effects of modest tax increases and of cuts in public investment have already worked through the system. What follows after March, 2014 are further major cuts in benefits and other current spending: nearly half of the cuts in benefits and two-thirds of the cuts in current spending are programmed for the period from now until 2017/18.



Source: Tetlow, G. (2013) *Cutting the deficit: three years down, five to go?* IFS.

The cuts in benefits will of course be partly delivered by measures already planned, many of which have now started to take effect and have yet to work through (see page 17). However, further cuts, beyond those already detailed, are inevitable for three reasons: the already-announced changes are insufficient; the government is pledged to protect most benefits for pensioners; and housing benefit expenditure, in particular, is still going up, not down (from £21.4 billions in 2010/11, to an estimated £23.8 billions this year and rising to £25.9 billions by 2017/18).

This led the chancellor to propose in the Budget 'a firm limit on a significant proportion of Annually Managed Expenditure, including areas of welfare expenditure.' Given that over half of benefits spending is on pensioners, if they continue to be protected it is inevitable that there will be further large cuts that affect working-age recipients, both working and non-working, over and above the changes already in line and whose impact is discussed on page 17.

Given that the cuts to 'other' current spending are so back-loaded into the next four-year period, a lively debate has broken out around the government's intention to continue to protect certain spending areas such as the NHS, schools and overseas aid. If maintained, the effect will of course be significantly greater cuts in other spending areas, including local government and housing. Although departmental totals for the latter part of this period are not yet decided, Tony Travers has warned that by 2017/18 local government spending is likely to have been cut by over 50 per cent in real terms compared with 2011/12.[1] The LGA's assessment of the effects on a typical 'Anycouncil' (a first-tier authority without housing stock)[2] is that, because of the need to protect adult and social care, whole areas of other council activity will have to be stopped and there will be major further cuts in (for example) council tax support. This bodes ill for councils' non-landlord housing activities such as homelessness and private rented sector regulation, just as demands on these are growing.

Social landlords will be most concerned by the prospect of further welfare spending cuts, given that for both councils and housing associations their major source of income is rents. Inevitably, however, further cuts by DCLG and by councils will have effects (such as, for council housing, the pressure to cross-subsidise General Fund budgets from the HRA).[3]

Unlike associations, councils also remain severely constrained by the borrowing caps which limit their ability to invest in new housing. Despite lobbying by CIH, LGA and many others in the run up to the Budget and the latest Spending Review, the government has refused to accept the case either to ease the caps or, more radically, to change their borrowing rules so that the caps are no longer needed.

References

1 Travers, T. (2013) 'The State of Things to Come' in *Public Finance*, May 2013.

2 LGA (2013) *'Anycouncil' and the Spending Round*. London: LGA.

3 Roberts, K. (2013) 'Revealed: Councils' raids on tenants' rent accounts' in *Local Government Chronicle*, 25 April, 2013.

Crude surpluses and net deficits

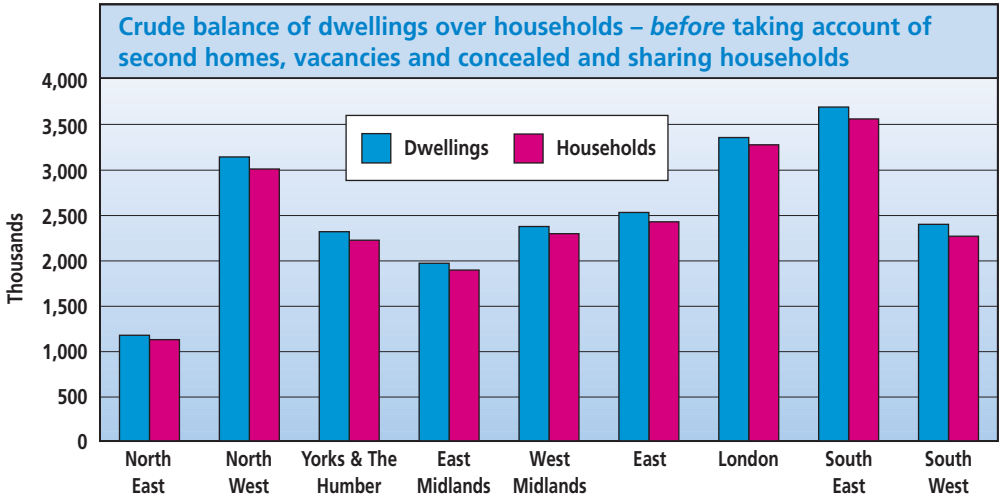
On the face of it the 2011 Census shows a surplus of dwellings over households, despite the concerns about insufficient housebuilding over the last decade. But dig beneath the surface and a more complex and less comfortable picture emerges.

The good news is that the net growth in dwellings was greater than previously realised. New data[1] show that the traditional – rapidly compiled – quarterly housebuilding statistics systematically underestimate the true figures. Further additions to the stock came from conversions of existing dwellings and previously non-residential buildings, which outstripped losses through demolitions. The new data show that over the five years to 2011/12 net additions to the housing stock in England were on average some 20,000 dwellings a year greater than suggested by the traditional statistics.

This is reflected in the 2011 Census figures showing an increase of just over 1.8 million dwellings in England over the previous decade – some 400,000 more than suggested by the quarterly statistics (although some of that difference relates to undercounting in the 2001 Census).

New household formation was also lower than previously anticipated – some 1.6 million over the decade rather than the 1.9 million suggested by the 2008-based projections (see following section).

However while the 2011 Census shows a small increase in the *gross* surplus of dwellings over households, the *net* position remains problematic. First, second homes reduce the number of dwellings for use as primary residences. The Census only provides figures for dwellings not in use as primary dwellings (which includes vacants) and for the number of individuals (rather than households) that have second homes. Council records only show the numbers seeking lower council tax on the basis of second homeownership.



Source: 2011 Census.

The English Housing Survey shows 309,000 second homes in 2010-11, but that only relates to households with their primary residence in England, excluding those owned by households normally resident in other countries and the 149,000 second homes (in England and elsewhere) where English households intend shortly to move into or sell them.

Second, a minimum vacancy level is needed for mobility within the housing market, and for repair works, including those to houses otherwise unfit for occupation and/or awaiting demolition. Some vacancies also arise, for example, where older households either die or move into care, with inevitable delays before properties are reoccupied. The scope to reduce unnecessary levels of vacancies is important – but very limited.

Altogether the Census identifies some 981,000 'household spaces with no usual resident': a portmanteau category that includes second homes and vacant dwellings. Nationally this was 4.3 per cent of total household spaces. It leaves the number of occupied household spaces below the number of households in every region.

Third, latest estimates are that some 350,000 households share in England, and there are 1.5 million concealed households, including 214,000 couples or lone parents.[2] While not all concealed households aspire to live separately, it is notable that numbers of younger single adults still living with their parents have risen by 20 per cent since 1997. Some 35-40 per cent of all single adults are estimated to prefer their own home.

Together these measures suggest that there are some one million sharing or concealed households that would prefer their own homes. While some of those living arrangements may be temporary this still leaves very substantial numbers unable to secure their own homes in the current pressured housing market.

So after taking account of these factors, the crude gross surplus translates into a substantial net shortfall in the dwellings required to appropriately house all those reasonably requiring their own homes.

References

1 DCLG (2012) *Net supply of housing 2011-12*. London: DCLG.

2 Concealed households are separately identifiable household units, that nonetheless share meals and do not have a separate living room. For further discussion of these estimates see Fitzpatrick, S., Pawson, H., Bramley, G. & Wilcox, S. (2012) *The Homeless Monitor: England 2012*. London: Crisis (chapter 5).

Challenging levels of household growth

DCLG has now published revised household projections for England for the period 2011-2021.[1] They are based on ONS 2010 population projections and take account of the initial figures from the 2011 Census.

The key statistic is that household numbers for England are expected to grow by an average annual rate of 220,000 over the decade to 2021. The projections are 'interim' as they cannot reflect the yet-to-be-published figures on household composition from the 2011 Census, and so they only cover a ten-year period.

Source: DCLG Household Projections.

The chart shows the regional distribution of the projected household growth, computed from the local authority level figures published by DCLG. Due to ministerial pig-headedness DCLG (unlike ONS and other government departments) no longer publishes regional figures.

Projected household growth is greatest in the south of England, with almost a quarter of all the projected growth in London. While the average growth for England as a whole is ten per cent, it is 16.0 per cent in London, 11.6 per cent in the East of England and 10.8 per cent in the South East. The lowest is 5.9 per cent in the West Midlands.

These projections are important and local authorities must have regard to them in making their local housing plans: but there are some strong caveats that need to be applied.

First and foremost the projections do only what they say on the tin: they are based on past demographic trends, not estimates or forecasts that in any way take account of changes in government policies or economic or housing market changes.

There is inevitable uncertainty about how far those past trends will hold good into the future. Assumptions about migration built into the 2010 population figures on which the projections are based involve a particular degree of uncertainty. The assumptions have not been changed since 2008, and subsequent policy changes in both the UK and other EU countries could well see some reduction in those numbers.

The projections also reflect a significant change in the anticipated rate at which average household size declines. There has been a long-term decline in average household size, reflecting the increased proportion of older households, as well as increasing levels of divorce and separation.

The 2010-based projections assume that the decline will continue, but at a much slower rate: household size declines from 2.36 in 2011 to 2.33 in 2021, but the 2008 projections assumed a decline from 2.31 to 2.23 over the same period, resulting in a higher projected rate of household growth. The lower rate of decline reflects the experience of the last decade, as shown by both the initial 2011 Census results and Labour Force Survey data. However, embedded within those revised assumptions about household size is the continuation of the high numbers of 'concealed' households discussed in the previous section.

While these projections provide an essential starting point when thinking about the future, the nature of their interim and exclusively demographic methodology inevitably raises questions about how far household numbers, and their distribution within the UK, will be influenced by other economic, social, housing market and governmental factors.

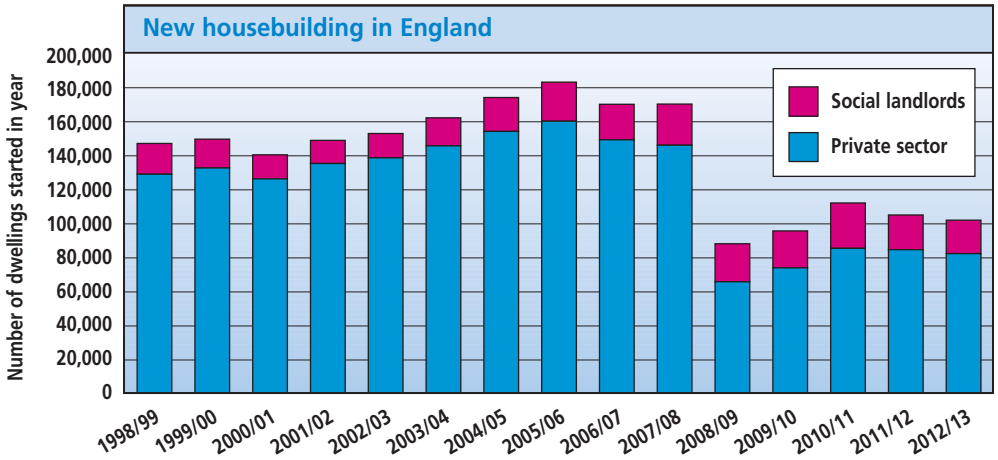
In particular in 2011 the UK economy and housing market was still in the midst of the post-credit-crunch downturn, and does not provide an ideal starting point for forward projections. Moreover the interim methodology makes greater use of survey data on shorter-term trends, and is consequently more prone to import the consequences of short-term economic and housing market factors into its future projections.[2] If we see a return to economic growth later in the decade, with it we may well see a more rapid decline in the average household size, and as a result a higher level of household growth.

References

1 DCLG (2013) *Household Interim Projections, 2011 to 2021*, England. London: DCLG.

2 Holmans, A. (2012) *Household Projections in England: their history and uses*. Cambridge: Cambridge Centre for Housing & Planning Research, University of Cambridge.

Housebuilding refuses to revive



Source: DCLG Live Table 208.

Government efforts to revive housebuilding continue to have disappointing results. In the year ending March 2013, 108,190 houses were completed in England, eight per cent less than in the previous year. The biggest contributor to the decline was housing association output which fell by 16 per cent. Starts are also down by three per cent – see chart. Latest figures for Scotland show a modest increase in housing starts. Wales showed little change in starts and completions, with both well below their levels in 2007/08. In Northern Ireland both starts and completions are at their lowest for several years.

An important factor in the unusually sluggish upturn after the economic crisis appears to be the abolition of regional spatial strategies, which means that English local authorities now set their own housebuilding targets. Work by the Policy Exchange has shown that councils are now planning to build 272,720 fewer homes than they were when they had to comply with targets, although over 20 years this shortfall only amounts to around five per cent.[1]

To replace the 'stick' of regional spatial strategies, the government introduced the 'carrot' of the New Homes Bonus (NHB). So far £1.3 billion is committed to the NHB, but commitments extend for a period of six years so that over the years 2013/14-2017/18 a total of £3.3 billion will be paid to councils for homes already built. However its effects are evidently delayed, as indicated in investigations by Nick Raynsford MP, who has tracked the effects of the NHB in the local authorities which received the largest amounts and found that in these areas the decline in housebuilding is only slightly less than the national average.[2] A National Audit Office report on the NHB was also critical, concluding that there is 'little evidence that the Bonus had yet made significant changes to local authorities' behaviour towards increasing housing supply'.[3]

More optimistically, the HBF has reported a 20 per cent increase in residential planning permissions under the first year of the New Planning Policy Framework,[4] the acid test being whether these permissions actually turn into new homes being built.

The government's Get Britain Building scheme is aimed at kick-starting stalled housebuilding projects, potentially helping 133,000 new starts. Round one is expected to release sites covering up to 9,000 homes by December 2014. Round two, not yet started, has shortlisted sites with almost 7,000 units. However, the RICS warned in March that the scheme 'has yet to bear fruit'.[5]

The government's previous schemes to stimulate the new build market, FirstBuy and NewBuy, have now been rolled into the much bigger Help to Buy scheme. The earlier schemes had limited impact. However, despite the ample funding for the new scheme (see page 13), the extent of its likely effect on new construction is very much open to question.

These are not the only schemes aimed at pump-priming the market: others aim to unlock sites where the need for infrastructure investment is holding up development; to encourage the release of public sector land, and a loan scheme, Build to Rent. The first round of Build to Rent, announced in April, aims to support up to 10,000 privately let units in 45 schemes.

An important caveat applies when comparing figures about new supply with projections of demand through new household formation (see page 7). The quarterly housebuilding returns are produced quickly and tend to consistently under-report actual completions; nor do they take account of additions to the stock through conversions. In 2011/12 in England the total under-reporting was about six per cent. However, even taking this into account, the gap between supply and need is still very large

The so-far limited results from the government's stimulus packages appear to confirm that the main constraint on hew housing investment is the state of the economy. Against this, government stimulus measures are struggling to have much impact.

References

1 Targets relate to periods up to 2021 or 2026, depending on the region. See Policy Exchange (2012) *Planning for Less: The impact of abolishing regional planning*. London: Policy Exchange.

2 Raynsford, N. (2012) Home truths about the Bonus, *Public Finance* blog, 3 April 2013.

3 National Audit Office (2013) *The New Homes Bonus*. London: NAO.

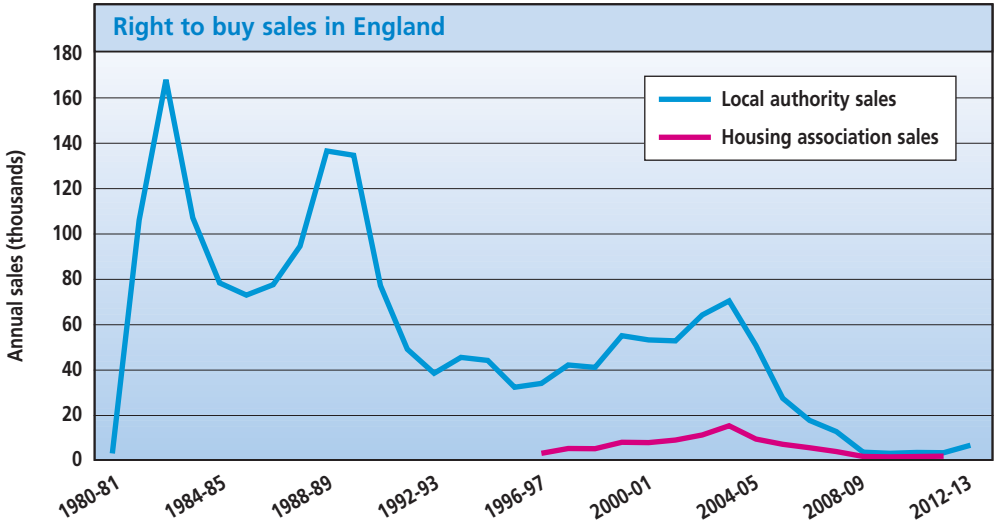
4 Home Builders Federation (2013) *New Housing Pipeline Q1 2013 Report*.

5 See www.rics.org/uk/knowledge/news-insight/press-releases/clock-is-ticking-to-get-britain-building/

Uncertain prospects for new affordable housing in England

If overall housebuilding levels are disappointing (see page 9) so too are those for new affordable housing. While council housing starts rose slightly in 2012/13, housing association starts fell yet again. This is undoubtedly the result of ending of the more generous funding arrangements in the HCA's previous programme, and the more restricted Affordable Homes Programme (AHP) now getting fully underway.

Housing association starts fell seven per cent in 2012/13. As the *UK Housing Review 2013* explained, this is because the AHP's anticipated annual output is less than half that of its predecessor programme. While the HCA claims that output by 2015 will exceed their target and is on course to provide up to 90,000 homes, the Budget included supplementary funding aimed at adding to this output.



Source: DCLG live table 671.

The Affordable Homes Guarantee Programme, previously set at £225 million, was doubled in the Budget to £450 million. Bids under the programme, which closed in May, are intended to produce up to 30,000 extra new homes by 2016/17. However, appetite for the programme has been described as 'subdued' because the average grant per unit, at £15,000, is even lower than under the wider AHP (where the average is nearly £20,000).[1] Furthermore, housing associations concerned about the increased debt levels already associated with the AHP are understandably hesitant about the even higher leveraging required, even if it is underpinned by government guarantees.

Although debt levels are associations' main concern, they face other obstacles. For example, government moves to revive private developments with planning permission that have not started on site include reducing any 'section 106' requirements to provide affordable housing. The Community Infrastructure Levy is also squeezing down proportions of affordable housing. At the same time, the HCA now has more limited powers to ensure that schemes under the AHP actually get on site once funding has been approved.

In contrast, council house new building is relatively buoyant. Studies suggest that councils could gear up to producing 3-5,000 units annually over the next five years under the self-financing regime which began last year. However, they are restricted by the borrowing caps that have been imposed, which not only limit borrowing across the sector but also have a very uneven effect within it, unrelated to councils' need to build, so that many councils have very limited 'headroom'. Since a range of bodies including CIH called for the removal of the caps last year, releasing the potential to build up to 60,000 more homes, they have been joined by The Mayor of London and the London Finance Commission.[2]

Finally, the government's 'reinvigorated' right to buy scheme, with more generous discounts (increased still further in London from 25th March), has seen sales more than double in 2012/13. At nearly 6,000, the level was the highest in five years, although still far below sales levels before the credit crunch (see chart).

In 2012/13 councils received about £368 million in receipts from sales, which led to 844 starts on site or acquisitions under the government's one-for-one replacement scheme. However, replacements are of course included in the quarterly new build statistics, suggesting (if the separate data sets tally, and if most of the 844 units are new homes not acquired properties) that more than half of new council starts last year were replacement units rather than net additions to the stock. Furthermore, these are likely to be let at higher Affordable Rents, rather than the social rent levels of the properties sold.

Given weaknesses in the quarterly figures (see page 7) it would be wrong to read too much into these early returns. However, if sales continue at or above current levels, it will be important to monitor whether, in stepping up their new build output, councils are merely running harder just to stand still.

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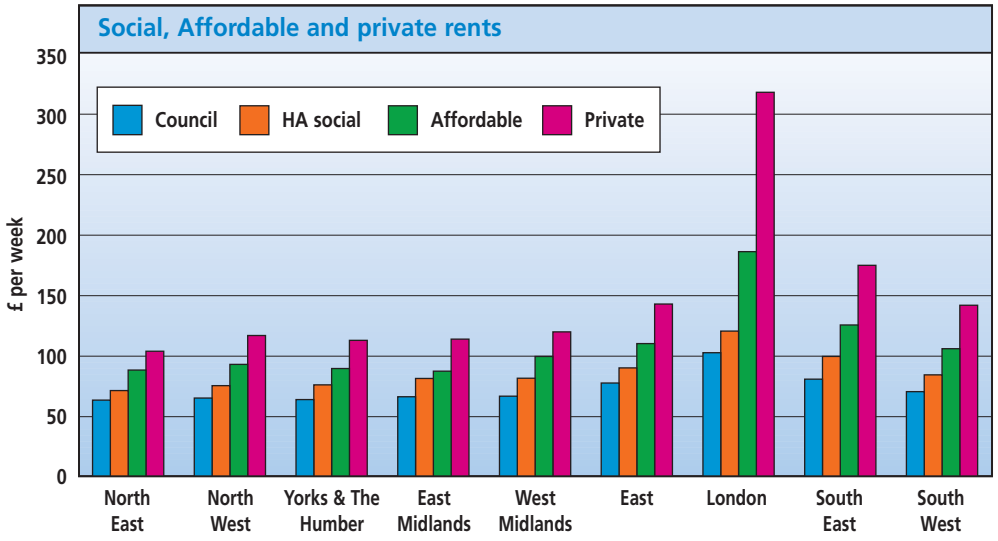
Another fine mess: social rent policy



Sources: *UK Housing Review 2013;* Valuation Office Agency.
Note: Based on 2011/12 data for two-bed dwellings.

Current English government policies on social sector rents are in a rather confusing state of flux. At one level the 'rent restructuring' framework rolls on, while most new lets, and some designated relets, are at Affordable Rents (AR). Meanwhile housing benefit changes and welfare reforms have raised a variety of new questions both about national rent policy, and on how individual landlords set rents across their stock.

Rent restructuring for social rents started in the last decade with the objective of bringing some consistency into the rent policies of social landlords, both to make them more equitable for tenants and to provide some control over future housing benefit expenditure.

Just when the phasing in of that policy was nearing completion the current government introduced the Affordable Rent model for new developments. AR is broadly set at 80 per cent of market value, except in London where rents are set at a rather lower percentage given the exceptionally high level of market rents. In contrast, social rents are on average some 50-60 per cent of market levels, although the proportions vary substantially across regions and from area to area. Indeed in parts of northern England social rents are already close to AR levels, especially for smaller dwellings.

The AR policy is, however, just a short-term fix to keep some level of new 'affordable' housing development on the road despite the sharp cuts in government capital grants. While the higher rents do involve long-term additional housing benefit costs, there is only a limited impact on DWP budgets in the short term, greatly outweighed by the immediate savings in the capital grant budget.

But housing benefit costs continue to be a matter of great concern, with DWP ministers less than happy about the above-inflation increases in rents in the social as well as the private rented sectors. There are clearly unresolved tensions here about the budgetary implications of policies between one department and another.

Meanwhile a series of DWP reforms also have important implications for social landlords. The lower levels of Local Housing Allowance (LHA) rates introduced for the private rented sector last year do not (currently) directly impinge on social landlords, but clearly raise future questions for cases where AR or social rents rise above LHA levels.

With LHA rates only being uplifted at one per cent per annum there is a collision in the offing, with social and intermediate rents increasing at rates ahead of inflation. Moreover while the RPI + ½ or 1 per cent rent formula was set in a context where average earnings were typically rising more rapidly, in the years following the credit crunch earnings have often lagged behind inflation.

The economic downturn has also seen an increase in numbers of working tenants claiming housing benefit, and universal credit will further increase the proportions of working tenants drawn into the benefit net (see page 16), and hence increase the long-term costs to DWP of higher rents.

A more immediate concern for social landlords is the 'bedroom tax', which is particularly challenging for those without the stock to offer existing tenants the option to downsize, or without demand from families for some of their two or more bedroom properties (such as tower blocks). A few landlords have responded by *selectively* redefining bedrooms as living rooms in some of their stock. Dwellings with multiple single-person bedrooms (which the bedroom tax deems to be available for two people), and dwellings with only a single open plan kitchen/dining/living room, would be well-suited to that approach. The net costs of such an approach, selectively applied, with rents that reflect the additional living space in the dwelling, are very limited, and leave the landlord far better placed to manage the effects of the bedroom tax and to minimise rent arrears.

House price recovery exaggerated

While there has been some recovery in house prices over the last few years, that recovery is greatly exaggerated in conventional house price data. ONS figures show simple average house prices of £247,000 in Great Britain in 2012; up 11 per cent from £223,000 in 2007. Even the ONS 'mix-adjusted' prices show an increase of nine per cent from £213,000 to £232,000 over the same period.

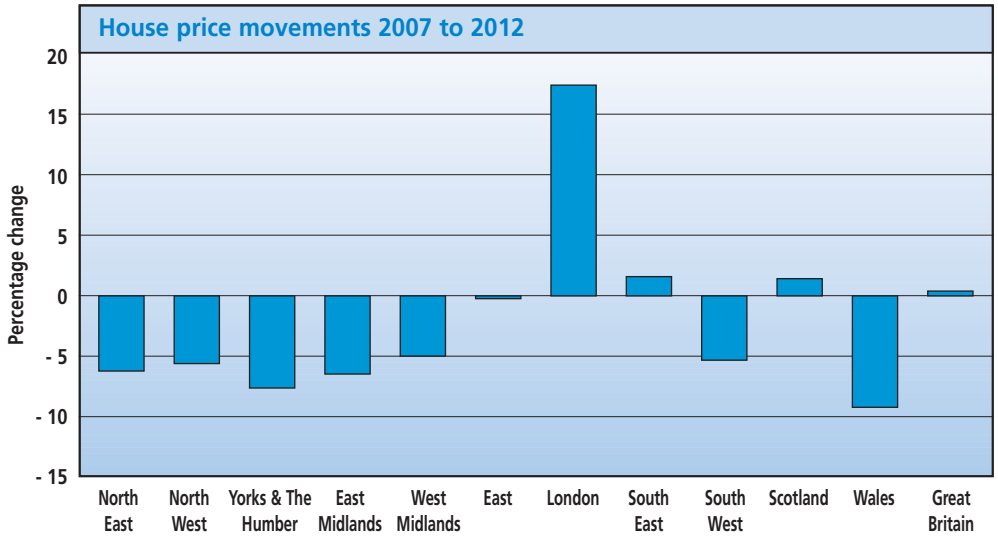
However the ONS mix adjustment is based on a rolling three-year average of the composition of dwelling transactions. So while it has a smoothing effect on short-term fluctuations in prices resulting from changes in the transactions mix, it does not ensure a like-for-like comparison over a longer run of years. This is important in the UK given the significant change in the size and location of houses and flats being sold in the pre- and post-credit-crunch years.

Current transaction-based figures also give a greater weighting for buoyant markets which typically have a higher rate of sales than in more static markets. More generally there are underlying variations in mobility in different parts of the country, and as between different types of dwelling. This is currently important in the UK as the London housing market is far more buoyant than elsewhere, and has a disproportionate level of activity.

These factors can be corrected for by looking at prices measured against a consistent mix based on the stock of dwellings in the owner-occupied sector, rather than those transacted in the market at any point in time. Taking this approach, and looking at house prices for dwellings by number of bedrooms and by region, the same ONS data show that overall house prices in Great Britain rose by less than 0.5 per cent between 2007 and 2012. Moreover in most parts of the country house prices fell by five per cent or more, while in London house prices increased by 18 per cent. The only other regions with price increases were the South East and Scotland, which both had modest rises of between one and two per cent. Prices in the East of England fell so slightly – by 0.2 per cent – this can barely been seen in the graph.

Although house prices increased by less than one per cent over those five years, this was over a period when average earnings rose by five per cent and interest rates fell sharply, so that average mortgage repayments, for any given level of mortgage, fell by over a fifth. That house prices still fell in most parts of the country in that context is a clear measure of the severity of the overall downturn in the economy (and in economic confidence), together with tighter constraints on access to mortgage finance for would-be homebuyers.

It is also clear that there are quite distinct factors involved in the London housing market. While it has traditionally been the case that London prices move ahead of the rest of the country at the beginning of an upturn in housing market cycles, on this occasion other factors would also appear to be important. One may be the levels of inward investment in the London property market by non-UK residents. Another is the particular pressures that apply in London, with a clear shortfall of dwellings after taking account of second homes and the minimum vacancy rate required for the market to function (see page 7).



Source : Author's calculations from ONS house price data to construct consistent stock-based mix-adjusted prices for 2007 and 2012.

If, London apart, house prices have remained flat or have fallen over the last five years, there is little evidence to support the oft-voiced view that house prices still have much further to fall. While mortgage-cost-to-income ratios did rise in the years to 2007, they never reached the heights of the 1990 housing market cycle, and in 2012 those ratios were simply in line with the average over the last three decades.

The recognition that house prices, London apart, have not recovered to the extent suggested by crude unadjusted (or only partly adjusted) house price data is important when considering the issues raised by the government's 2013 Budget measures aimed at supporting the housing market (see page 13).

Budget support for the housing market

Government measures to support the recovery of the private housing market announced in the 2013 Budget are far bolder than other recent initiatives.

There are two measures. Both are open to existing owners and first-time buyers, without any cap on eligible incomes, and for dwellings valued at up to £600,000. The first is an equity loan scheme, available from April 2013. The loan will be worth up to 20 per cent of the dwelling's value, and is repaid when the dwelling is sold. The scheme is to run for three years and is expected to support some 74,000 purchases of new dwellings.

The second scheme will be a mortgage guarantee to cover new mortgages with loan-to-value ratios of 80-95 per cent, for both new and existing dwellings. Final details are yet to be set, and the scheme will not start until January 2014, after which it will run for three years. Provision has been made for up to £12 billion in government guarantees, estimated to support up to £130 billion in low-deposit mortgages.

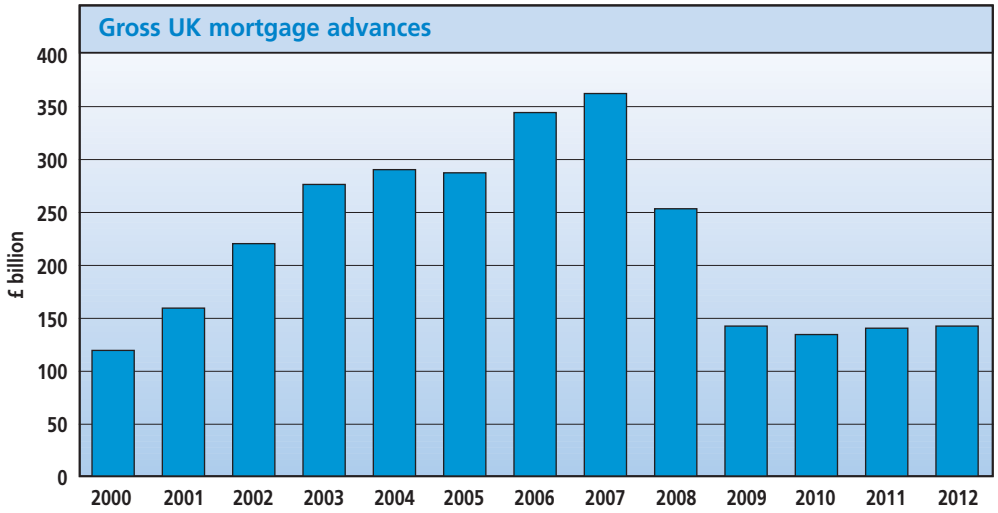
Ironically many of those arguing for the government to do more to promote economic growth have been very critical of these housing market measures, arguing either that they could result in huge losses to government or that they could create another housing market bubble. While there are legitimate concerns about some aspects of the schemes, much of the criticism has been misplaced and alarmist.

First, gross mortgage advances in the UK are currently running at some £140 billion a year, compared to around £350 billion in the years before the credit crunch. So even if the schemes ran at maximum capacity they will at best help new mortgage advances get back to around £200 billion a year.

Second, both schemes still require households to provide a minimum five per cent deposit. In the decades prior to the credit crunch as many as a fifth of all first-time buyer purchases involved deposits of less than this. Moreover while there were higher risks of default with the tiny proportion of purchases made with loans of over 100 per cent of the property value, there was no difference in the (much lower – around two per cent) default rates for mortgages at 90-95 per cent and 95-100 per cent of the property value.

Third, these schemes will operate in a much more rigorous regulatory regime, with more robust income assessments (and no 'self-certification' of incomes).

Fourth, these new provisions do not constitute public sector borrowing. Indeed on an optimistic scenario they could cost nothing. The net costs of the equity loans will depend on the returns when the properties are sold. Net costs for the mortgage guarantees will only arise if there is a default on the mortgage, and it exceeds the owner's equity in the dwelling. Given the minimum five per cent deposit requirement such risks would only effectively arise in the event of future falls in house prices.



Source: Council of Mortgage Lenders.

Rather more concerns have been expressed about the potential inflationary impact of the schemes, linked to concerns about inadequate levels of new housebuilding. Yet improving the flow of mortgage finance, and the effective demand for private housing, is one of the conditions required to prompt an increase in supply. That said, one dimension to the schemes is that the lower deposit requirements will make it easier for households to move out of private renting and into homeownership, effectively switching demand between sectors rather than increasing demand.

For all that it is important that the government, through its other policies, ensures that levels of new housebuilding increase (see page 9). Nor is it clear why the government needed to support purchases of such high-value properties, given that even in London average house prices are only just over £400,000. And as noted on page 12, London's housing market might already be characterised as overheated.

The balance between renting and buying

A broad consensus has welcomed the growth of the private rented sector over the last two decades, albeit tempered by concerns about quality, poor management and landlord abuses, typically at the lower end of the market. The growth brings more flexibility into the housing market as a whole, removing some of the pressures on mid-income working households to commit to homeownership, even if it does not ideally suit them.

There is also consensus about the need for a more regulated mortgage market, to avoid in future the excesses of the pre-credit-crunch years. But what is less clear is that this necessarily implies support for a regulatory and fiscal framework that favours the private rented sector, and makes it more difficult for younger households to become homeowners even when it is their preference, *and* they have sufficient income to cover mortgage costs.

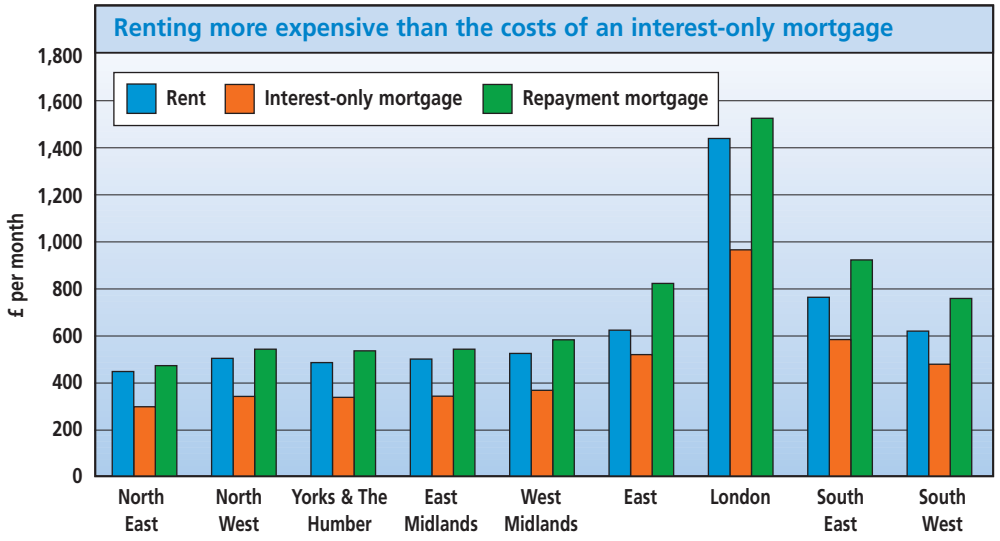
One element is the restrictions on the availability of low-deposit mortgages for first-time buyers, partly addressed by proposals in the last Budget (see page 13). Another is the very different regulatory approach to mortgages for to buy to let landlords compared to homebuyers. Interest-only mortgages are the norm for buy to let, but are frowned on for first-time buyers for whom repayment mortgages (where capital is repaid over a fixed period) are the norm.

At current rates the payments on a (typically 25-year) repayment mortgage are two thirds more than those on an interest-only mortgage. While regulatory concerns about interest-only mortgages are to some extent understandable, the regulatory imbalance between the two sectors gives private landlords a significant competitive advantage.

Average private rent and house price data, for two-bed dwellings, show rents currently providing almost a 40 per cent margin over the costs of a 100 per cent interest-only mortgage. Landlords can easily cover their operating costs and make a revenue return on their investment, quite apart from longer-term capital gains.

In contrast, a first-time buyer with a 95 per cent loan-to-value mortgage would on average pay almost 15 per cent more than the average rent to cover the costs of a 25-year repayment mortgage. The difference is, however, less than ten per cent in London and the northern regions of England. The differences are also lower for one-bed dwellings.

This comparison is based on dwellings of the same size in the two sectors, but it should be borne in mind that – even after adjusting for region, type and size of dwelling – private rented properties tend to have rather lower values than owner-occupied ones.



Sources: ONS house prices; Valuation Office Agency Rents 2012.
Note: Data are for two-bed dwellings.

Once that difference in value between dwellings is taken into account then it would be cheaper for some households to buy with a repayment mortgage than to continue renting (although they would also need to take responsibility for repairs, insurance, etc.).

Survey evidence shows that aspirations for homeownership remain high, with four in five households wanting ownership within ten years. Among private tenants two thirds aspire to own both in the short and longer term.[1] And for them access to a mortgage and deposit (see page 13) is more frequently cited than mortgage affordability as a reason for remaining as tenants rather than switching to homeownership.

There is also an inter-generational dimension to the mortgage market and regulatory imbalances that favour investment in private renting. It is older households who have often accumulated wealth through increases in the values of their homes and now have the capacity to put down deposits and take out interest-only mortgages on a buy to let property, which can then be comfortably covered by rental income. Ironically, this income often comes from younger households who rent privately out of necessity rather than choice.

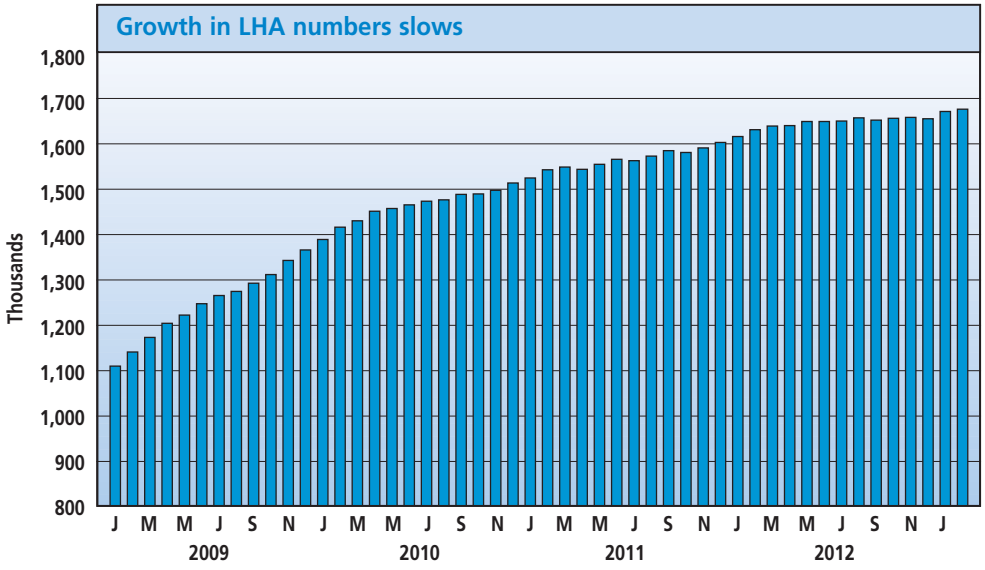
Reference

1 Council of Mortgage Lenders (3013) 'Still aspiring!' in *CML news & views*, 10 April 2013. London: Council of Mortgage Lenders.

Local housing allowance reforms begin to bite

The new LHA regime has now been operating for over two years, and its new lower limits (based on 30th percentile rather than median rents) now apply to all pre-existing as well as new claimants. That said the full effects of the reforms have yet to be felt, not least as existing claimants – and landlords – do not necessarily respond quickly to benefit changes. And in some cases claimants are being provided with temporary assistance through discretionary housing payments, allowing them more time to adjust to the new regime.

Nonetheless the impacts of the LHA changes are clearly being reflected in quarterly data for the period up to February 2013. Numbers of claimants in the private rented sector (PRS) continue to grow, but much more slowly than before the new regime began.



Source: DWP Housing Benefit and Council Tax Benefit Summary Statistics.

In 2009 there was an increase of almost 280,000 in numbers of PRS claimants, but this fell to 135,000 extra claimants in 2010, the last year before the regime changed. In 2011 the increase fell again to just over 90,000; last year, as the scheme began to bite on existing claimants, the rate of growth fell again to just over 50,000.

Some caution is needed before attributing the whole of this slowing-down to the LHA reforms, as we do not yet know how rapidly the wider PRS grew in 2012. However, data for England show that the rate of growth of the sector did slow slightly in 2011/12 compared to the previous two years. Further analysis is needed to draw out whether that was itself a consequence of the LHA reforms, or an independent constraint on the ability of low-income households to enter the sector.

Caps on LHA rates in high-value areas – essentially Inner London – are having a far greater impact. Numbers of PRS claimants in Inner London have fallen over the two years since caps were introduced and particularly since they started to apply to existing claimants. So while over the two-year period to February 2013 numbers in Great Britain grew by seven per cent, in Inner London they fell by two per cent. In boroughs most affected by the caps the fall was considerable – 22 per cent in Kensington & Chelsea and 24 per cent in Westminster.

The data also show a decline in the average costs of housing benefit payments to PRS tenants, from £114.46 per week in March 2011 to £109.21 in February 2012 and £105.88 in February 2013. In part this is simply the result of there being a smaller proportion of LHA cases in London with its higher rents. It also reflects the recent strong increase in numbers of claimants in low-paid work who receive only partial housing benefit. However it is now clear from the initial evaluation of the LHA reforms that only some six per cent of the fall in costs can be attributed to landlords reducing rents to LHA claimants.[1] This is despite the offer to landlords of continued direct payments if they reduced rents to the new LHA levels.

The data also suggest that cuts in the allowances for single people aged 25-34 are having much greater effects. Overall numbers of claimants in that group fell by some five per cent in the year to February 2012. That figure is for households in all tenures, but the fall is likely to have been concentrated among those in the PRS.

It will be some time before the full effects of the LHA changes are felt, but the emerging pattern is clear. And more is yet to come: freezing of LHA rates; their subsequent linking to CPI inflation; and then the more severe impact of wider national benefit caps on out-of-work households generally. All these will further restrict access to the sector by low-income households, particularly in London. But whether this will result in future falls in numbers in the sector across the country remains to be seen.

Reference

Beatty, C. et al (2013) *Monitoring the impact of changes to the local housing allowance system of housing benefit: Interim report*. London: DWP.

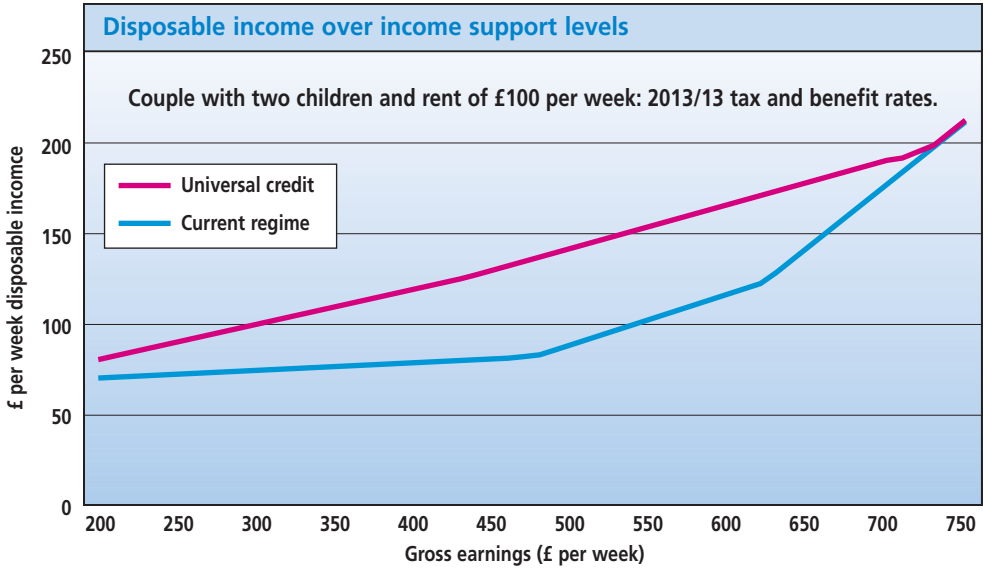
Universal credit and benefit dependency

Amidst the welter of housing benefit and welfare cutbacks and reforms with more pressing impacts on tenants and landlords, a key dimension of the new universal credit regime has gone largely unnoticed.

In the short term, concern focuses on the administrative readiness of the scheme; the extent of support required to assist households to engage with the wholly online system; and the monthly benefit payments that (including the rent element) are to be paid to the claimant. But beyond that the central structural reforms of universal credit also have significant implications for landlords, tenants, and national housing policy.

The integration of housing benefit, tax credits, and other out-of-work benefits is primarily intended to simplify the benefit system and offer more effective work incentives. Out will go the confusing overlap of tax credits and housing benefit for households in low-paid work, and the particularly severe 'poverty trap' that applies when the tax credit and housing benefit 'tapers' against increased earnings both kick in at the same time.

In the worst case scenarios where gross earnings are simultaneously subject to deductions for income tax, national insurance, tax credits, housing benefit and council tax support, households can be left with less than four pence for every additional £1 of gross earnings. With universal credit, even when it overlaps with council tax support, households are left with virtually 20 pence in the pound.



Source: Author's calculations.

A shallower poverty trap means that households in low-paid work will (in the main) have higher net disposable incomes than under the current system. This is illustrated for a couple with two children and a rent of £100 per week. As can be seen, with gross earnings in the range £400-£600 per week, a household would be some £50 a week better off with universal credit. (The advantage would have been a little smaller without the increase in the tax credit taper introduced in 2011.)

The difference begins to be eroded when earnings go above £620 per week, the level at which the household would cease to qualify for tax credits. Housing benefit entitlement in this case ceases at a much lower income level – of £480 per week. In contrast, as a result of the shallower poverty trap, universal credit entitlement is not extinguished until gross earnings reach some £725 per week.

If the shallower poverty trap is intended to promote the 'work pays' message, the flip side is that benefit dependency extends further up the income scale. And while under the current regime housing benefit entitlement for social sector rents typically expires before tax credit entitlements, under universal credit higher rents result in an ever higher level of earnings before households' entitlements expire. So much so that once rents exceed £130 a week a couple with two children would still be eligible for tax credits as the same time as being liable for the higher (40%) rate of income tax.

The consequence of this shallower – but much more extended – poverty trap is that a far higher proportion of working tenants in the social rented sector will receive universal credit than now receive housing benefit or tax credits. Universal credit offers tenant households in lower-paid work a higher level of disposable income, but at the same time making it less likely that they will ever reach earnings levels that entirely remove them from benefit dependency.

So in all their thinking about how to support households under the new welfare regime, social landlords need to recognise that very many more tenants will be drawn into it. By the same token social landlords will find that an *increased* proportion of their rental income is underpinned by the new benefits. And for central government this reduces the potential net financial gains in the trade-off between lower grants for new build against higher rents and higher longer-term benefit costs.

Polarising places: the cumulative impacts of welfare reform

Welfare reforms have a spatial as well as a social dimension, and this is clinically charted in a recent report by Christina Beatty and Steve Forthergill, aptly titled *Hitting the poorest places hardest*.[1] As their map shows, the combination of the various welfare reforms now underway will have a far more severe impact in some parts of the country than in others, and in the main the areas worst affected are those that already have the lowest household incomes.

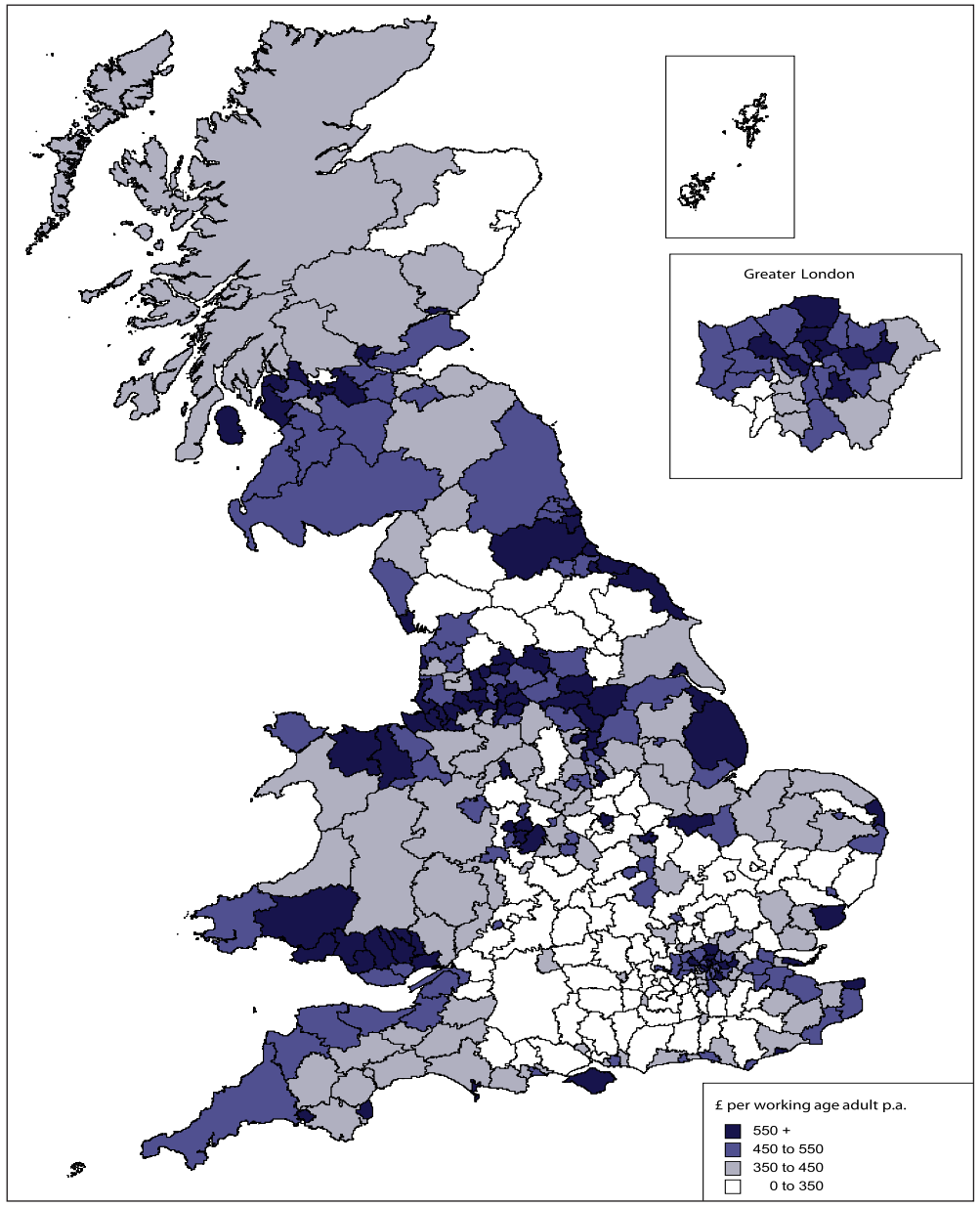
The report covers the impact of both housing benefit and wider welfare reforms, including the national benefit cap and disability living allowance and incapacity benefit changes. To this it adds the freeze in child benefit rates, the one per cent annual uprating factor being applied to most working-age benefits, and the cuts to tax credits. It also factors in the latest evidence on individual local authority plans in England for their own schemes to replace council tax benefit, with a ten per cent reduction in their budgets.

The combined impact of all these is estimated at some £19 billion a year by 2014/15, or an average cut of £470 per working-age adult. The worst affected area is Blackpool, where losses top £900 per working-age adult. The other badly affected areas include some other run-down seaside resorts, among older industrial areas in the north of England, the valleys of South Wales and the Glasgow conurbation. In other words, the worst impacts of the welfare reforms will hit the local economies of precisely those areas most in need of support with regeneration.

Three of the worst ten affected areas, which all involve average losses of £700 or more per working-age adult, are in South Wales, and this is despite the Welsh (and Scottish) governments taking action to avoid the cutbacks in council tax benefit now being implemented across England.

The English council tax benefit reform is problematic in several ways. First, it should logically have been part of the universal credit reform, integrating the main means-tested benefits and removing the confusing overlap of different benefit tapers. Second, highly varied approaches are being taken by different councils across England. To their credit many authorities, despite wider financial pressures on their budgets, have absorbed at least some of the loss in government support, and recognised the practical problems involved in trying to collect various amounts of council tax from those with the lowest incomes.

While the government is imposing these budgetary constraints on council tax support for low-income working-age families, it is at the same time protecting the council tax reductions for single person households, that are often under-occupying homes (at least by the rigid bedroom tax criteria), regardless of their incomes. And it is leaving untouched the regressive structure of council tax, where the tax-to-property-value ratio is highest for dwellings in the lowest-value council tax bands.



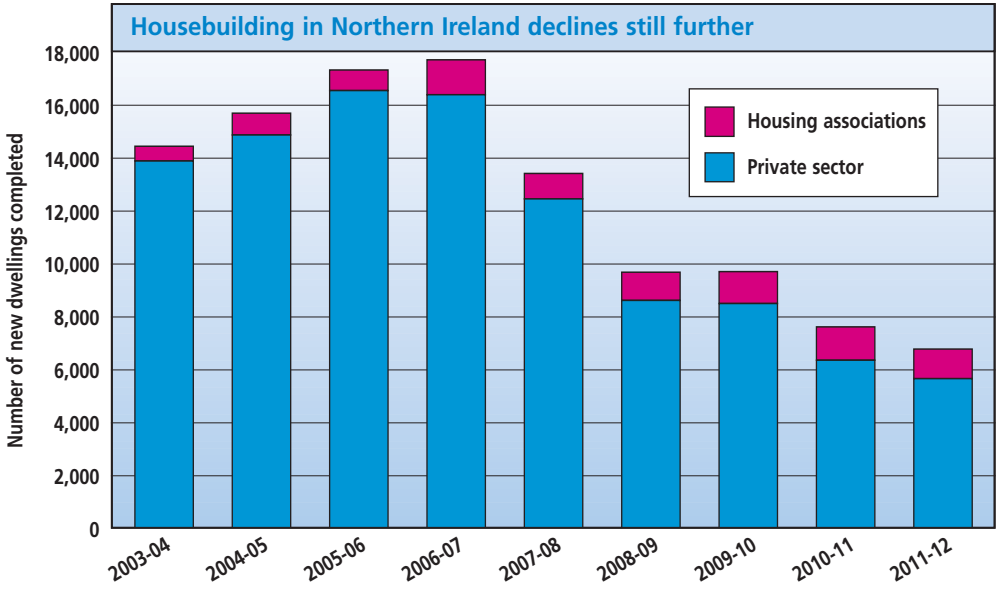
Map shows overall financial loses due to welfare reform, by local authority area. Data relate to 2014/15, except incapacity benefits and the one per cent uprating (2015/16) and disability living allowance (2017/18). Source: See note.

Reference

1 Beatty, C. & Fothergill, S. (2013) *Hitting the poorest places hardest: The local and regional impact of welfare reform*. Sheffield: Sheffield Hallam University, Centre for Regional Economic and Social Research.

Northern Ireland: housing supply stagnates

The supply of new houses in Northern Ireland is at its lowest for several years, but as the chart makes clear, housing association new build remains relatively buoyant while the private sector is now building at only a little more than one third of its output before the credit crunch. However, housing associations are not building fast enough to stem the decline in the social sector overall. Ten years ago the sector provided almost 20 per cent of the total housing stock; now it is down to just over 15 per cent.



Source: Northern Ireland Housing Statistics 2011-12.

At the same time, demand remains high. Although Northern Ireland household projections have still to be revised, and (as in England – see page 8) the 2011 Census showed the 2008-based projections to be based on a slight overestimate of household numbers, the current projected growth of around 8,000 households per year is putting significant pressure on a housing stock that is barely increasing.

Indicators of demand for social housing are that the common waiting list stood at over 40,000 in September 2012, an all-time peak, while new social lettings in 2010/11 were only a little over one fifth of this figure. Almost 20,000 households presented as homeless in 2011/12 with about half these being accepted.

The NIHE's annual housing market review[2] uses a 'net stock model' to project a need for new social housing of 1,200 units per year on average, until 2018, which is about the social sector's actual output in 2011/12. However, the relatively modest projected need for social housing arises because the review assumes the private sector will deliver over 9,000 units per year, a figure not achieved in the four years since the credit crunch. The NIHE therefore suggests a social sector target of 2,000 annually for the next five years (which itself might be regarded as insufficient to fill the gap).

The 2,000 target implies a step-change in performance, since while the average new starts since 2005 have been around 1,500 units, only in one year (2010/11) have they met or exceeded 2,000. Latest official figures show that completions in 2012/13 rose slightly to 1,379. The NIHE review expects that in 2013/14 output will stay at around this level. Logically, to compensate for low recent output, an even higher target (close to 3,000 units per year) would be needed over the remaining four years of the period to 2018, if 20,000 new social units are to be delivered in total over the decade.

Needless to say, and as the review admits, the prospects of achieving this are very poor, given expected further cuts in the Social Housing Development Programme. One source of additional new output is the planned introduction of a system of developer contributions, but given the poor state of the private market the review unsurprisingly concludes that this 'will take some years before producing tangible results'.

Hope is also placed on the planned reform of the Northern Ireland Housing Executive which would lead to the radical transformation of the housing association sector. However, reorganisation will also have considerable costs: the time and expenditure needed to establish the new bodies; the NIHE's £5 billion backlog of maintenance work being at least as high a priority as new build for any available investment; and the need for grant funding (albeit perhaps at lower levels) to supplement the private borrowing that the new bodies undertake. While reorganising the NIHE may eventually produce larger housing associations with a strong asset base that enables them to borrow, it is very doubtful that this can take place quickly enough to boost new build output in the coming four years.

Reference

1 Department for Social Development (2013) *Northern Ireland Housing Statistics 2011-12*. Belfast: DSD.

2 Northern Ireland Housing Executive (2013) *Northern Ireland Housing Market: Review and perspectives 2013-2016*. Belfast: NIHE.

Scotland: can the affordable housing programme be sustained?

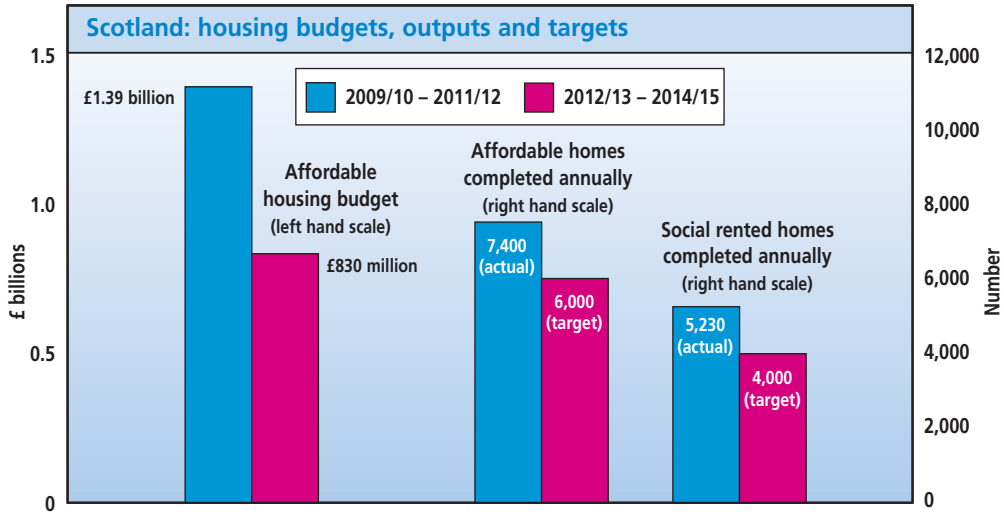
Scotland had a good year in producing new council housing in 2012. For the first time since 1991, the Scottish Government and local authorities welcomed more than 1,000 new completions. But the good news hid a more disturbing trend in overall output of affordable rented housing. Added together, council and housing association completions were down by over 1,600 in the year ended March 2013 (4,209 as against 5,890). This confirms the declining output by associations, now less than 60 per cent of what it was in 2009/10. Furthermore, 2012/13 starts by associations were 600 lower than completions. In the more buoyant council sector, starts rose to 1,161 in 2012/13, although completions fell after the previous record year.

The targets set for the Scottish Government's affordable housing budget for the five years 2011/12-2015/16 are to deliver 30,000 homes, of which 20,000 will be at social rents, of which 5,000 will be council houses (i.e. annual averages of 6,000, 4,000 and 1,000 respectively). Completions in 2011/12 were 6,882 units, of which 5,330 (77 per cent) were social rented homes, so these levels were more than being met. However, the rapid fall off in starts last year suggests the targets for 2012/13 onwards will be very difficult to meet.

In the context of Scotland's budget changes and programme shifts, the decline in new build is not surprising. Much of the recent output (up to and including the early part of this year) is based on more generous grant levels that no longer apply. While in theory lower grants will enable more homes to be funded, in practice it is going to mean that retaining the level of social rented output will be much more challenging.

The original three-year affordable housing budget for 2012/13-2014/15 was £630m, or an average of £210m per annum, a substantial reduction from £360m in 2011/12 and £490m in 2010/11. To the Scottish Government's credit, these cuts were nowhere near as steep as those in England. As the *UK Housing Review 2013* showed, at that point while in Scotland planned housing expenditure for the five years from 2011 was to fall by one third, the equivalent fall in England was to be almost two thirds (both in comparison with the 2008/09-2010/11 period).

Additional sums have recently been added by the Scottish Government, partly through increases resulting from the 'Barnett' formula that links Scotland's expenditure to England's, and partly from other new money identified. The total programme (a mix of grant and loan) has increased by one third to around £830m (see chart). The *Housing Report for Scotland* said that while this is still well below expenditure levels of previous years, 'recent additions have partly redressed the balance after what was a disproportionately large cut to the housing budget in comparison to the overall capital expenditure budget'.[1]



Sources: Scottish Government, Infrastructure and Capital Investment Committee; *Housing Report for Scotland*.

The target output of 6,000 homes per year is challenging because the balance has shifted away from social rented homes, especially by associations who need higher grant levels. As in England, associations are taking on higher debt levels but, unlike in England, Scottish associations are relatively small and the potential risks are greater. Coupled with this are the tightening of access to private funding and the threats to rental income posed by welfare reform (even though council tax support in Scotland will remain unchanged).

Councils face fewer risks because (as government bodies) their access to finance is easier and (unlike in England) their borrowing is not capped. Nor are their rents are constrained by government policy, although they must still manage the impact of welfare reform on rental income.

A boost to maintaining affordable housing supply would be achieved if Scotland does, as long mooted, abolish the right to buy. As the *Housing Report for Scotland* comments, while sales are at historically low levels, abolition would bring welcome stability and certainty to the social sector.

Reference

1 ALACHO, CIH Scotland, SFHA and Shelter Scotland (2013) *Housing Report for Scotland*. Edinburgh: CIH Scotland.

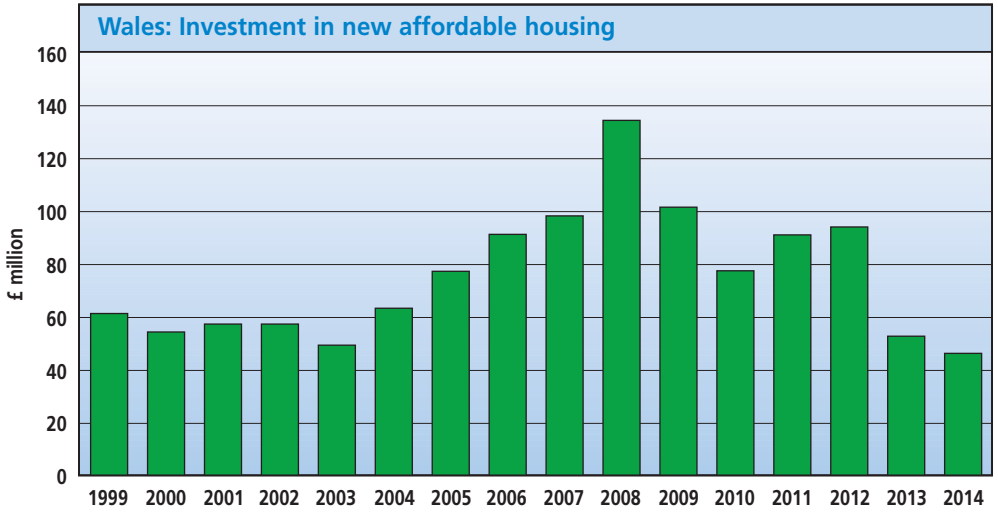
Wales: more powers, less funding

The Welsh Government has started to make use of its recently enhanced devolutionary powers to mark out its own distinctive housing policies, differing from those in both England and Scotland. It has already used the powers to provide a new basis for regulating housing associations, and to amend the operation of the right to buy, and is now proceeding with a Housing Bill that will introduce:[1]

- changes in homelessness law
- a new registration scheme for private sector landlords and agents
- powers for higher council tax charges on empty dwellings
- a duty for provision of Gypsy and Traveller sites
- reforms to the council housing finance regime
- standards for council rents, service charges and quality of accommodation
- powers to enable more use of Community Land Trusts and co-operative housing.

However, while the Welsh Government is now beginning to make use of its wider powers, they have come into play at the same time as Wales has found its overall budget squeezed by the UK government's austerity measures.

The overall Departmental Expenditure Limit (DEL) budget for the Welsh Government has been cut by eight per cent in real terms since 2010/11, and even before the 2012 Autumn Statement it was set to fall by a further four per cent in real terms by 2014/15.



Source: Welsh Government.

Since then the Autumn Statement has, on the one hand, further cut the baseline Welsh budget – by £20 million in 2013/14 and £65 million in 2014/15 – while on the other hand providing some £227 million over three years as part of its UK-wide 'capital package'.

As part of that, extra capital funding has in turn been made available by the Welsh Government to boost housing and related infrastructure investment. But that 'boost' is in the context of an underlying decline in planned housing investment, and in practice has only so far served to put that decline off for another year.

Provision for investment to 'increase the supply and choice of housing' (i.e. social housing grant) has been increased to £98.4 million in the current year. This is a welcome increase on the levels achieved in the previous two years, but remains lower in cash terms than in the preceding three years.

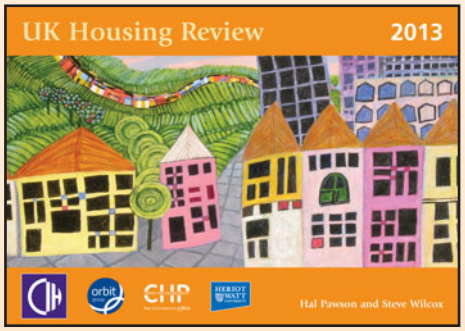
Moreover, subject to future announcements about the distribution of the Autumn Statement capital package, the current budget plans of the Welsh Government are that provision for social housing grant will fall to just £53.4 million in 2013/14 and £46.9 million in 2014/15. In cash (let alone real) terms this would be the lowest level of investment for decades. While hopefully there will be further supplementary budget provisions for those years, those are unlikely to do more than soften the extent of the coming decline in investment in new social housing. This in turn must raise doubts about the capacity of the Welsh Government to achieve its target of providing 7,500 new social and affordable homes over the three years to 2015.

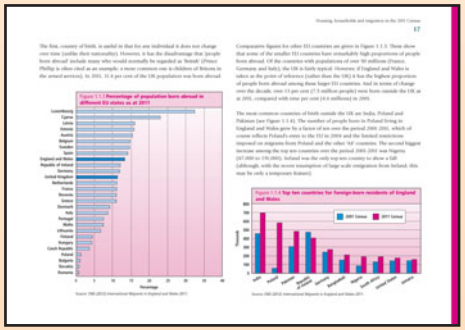
There are other innovative programmes that will run alongside those already established. They include the Welsh Housing Partnership that is set to deliver some 280 homes for intermediate rent, funded by £6 million grant but expecting to lever in some £30 million in private finance. However, given that social housing completions in Wales have in recent years been running at only around 1,000 per year, even allowing for all the other programmes and forms of intermediate housing it is difficult to see the Welsh Government's target being achieved.

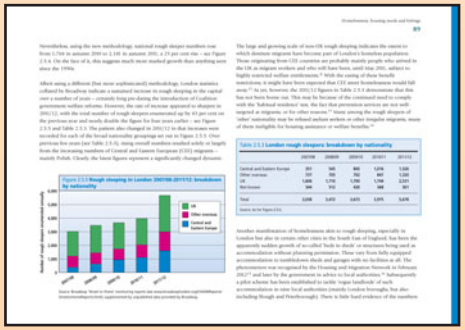
While undoubtedly it is the case that Wales is not treated favourably by the Barnett Formula that distributes funds from Westminster to the devolved administrations, it is also true that the Welsh Government has chosen to give a lower priority to housing investment within its limited budget than any of the other UK administrations.

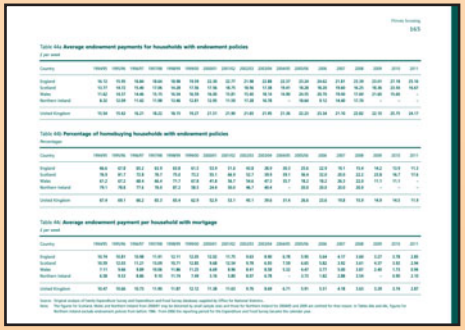
References

1 Welsh Government (2013) *Homes for Wales Bulletin*. Cardiff: Welsh Government.









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