

Section 1 Contemporary issues

Chapter 4

Some reflections from 25 years of the *UK Housing Review*

Steve Wilcox

As this year marks the publication of the 25th edition of the *UK Housing Review* (called the *Housing Finance Review* for the first decade) it is appropriate to look back at some of the major changes in housing policy and housing finance over the past quarter-century. The reflections in this chapter are by no means comprehensive, but within a broader picture they focus on issues that have been a particular focus for the *Review* since it began.

The year 1993 was not particularly auspicious for housing policy. Some of the most important policy developments of the age – like the right to buy – were well underway, while others were still in their early years – like the promotion of the private rented sector, the development of housing association ‘private’ finance, the redistributive regime for council housing finances, and local authority stock transfers. Other important policy developments were yet to come – especially the creation of the parliaments and assemblies that facilitated the greater devolution of housing and other policy responsibilities to the four nations of the UK, and the much tighter regulatory regime for mortgage finance following the 2007 credit crunch and global financial crisis.

The *Review’s* primary objective has always been to try to make the statistics on the housing market and housing policy, and their wider context more readily accessible and understandable for a wide public, whether of practitioners, policy-makers, influencers and critics, students or academics. It has (at least for the most part) sought to eschew purple prose, and to assist readers in reaching their own judgements rather than trying to promote its own.

If the *Review* has perhaps been rather sceptical of grand theory and big ideas, this is not because of a blind devotion to the high god of empiricism. Instead there is, hopefully, an awareness of the limitations (as well as the value) of data – of the way data are constructed, the concepts embodied (sometimes imperfectly) in the data, the constraints of data collection, and the implicit judgements involved in choosing to focus on one issue and one set of data rather than another.

But if the ‘facts’ are not always perfectly constructed, it is also the case that they often do not conveniently fit into an established paradigm, or support a conventional wisdom of the day or a particular political view of the world.

Or as Nietzsche wrote almost a hundred years before the first issue of the *Review*, about those who create elaborate theories, ‘The will to a system is a lack of integrity’.¹

It is in this spirit that, alongside the Compendium of Tables that is at the core of the *Review*, it has regularly carried commentaries and articles to draw attention to results from relevant research findings. An example is the analysis of the spatial impacts of the current welfare reform programmes cited in Contemporary Issues Chapter 3. It has also undertaken its own critical analyses of the issues of the day. This chapter has selected just two of the key housing policy and housing market issues that have featured regularly in the *Review*: first, the right to buy, and second, how public spending rules affect social housing finances.

The right to buy

While well underway by the time the *Review* first appeared, there can be no doubt that the right to buy (RTB) has been the single most important housing policy intervention over the last three decades or so. It has been – and remains – politically divisive, as seen most recently in very different policies across the four countries of the UK. It has been exhaustively documented and researched, both in terms of its direct and indirect impacts, most notably in a whole series of rigorous analyses by Alan Murie and colleagues.²

The contribution of the *Review* to those analyses has focused on two related issues. The first issue was the recognition of the very delayed impact of RTB sales on levels of local authority lettings. Indeed over the first decade of RTB the fall in the levels of lettings could be wholly accounted for by the truncation of new council housebuilding – with completions in England alone falling from 75,000 in 1980 to just 14,000 in 1990 before almost disappearing from view a few years later.

Evidence of the delayed impact of RTB was initially provided to the *Review* by Ed Kafka, based on data from the Survey of English Housing.³ The evidence essentially charted the points at which households that had exercised the right to buy subsequently moved home. It is at this point that the cost to the public sector of the RTB sale is incurred in the form of a lost relet. Ed’s analysis was subsequently updated by DCLG colleagues and showed that, on average, RTB purchasers moved on only after some 15 years.

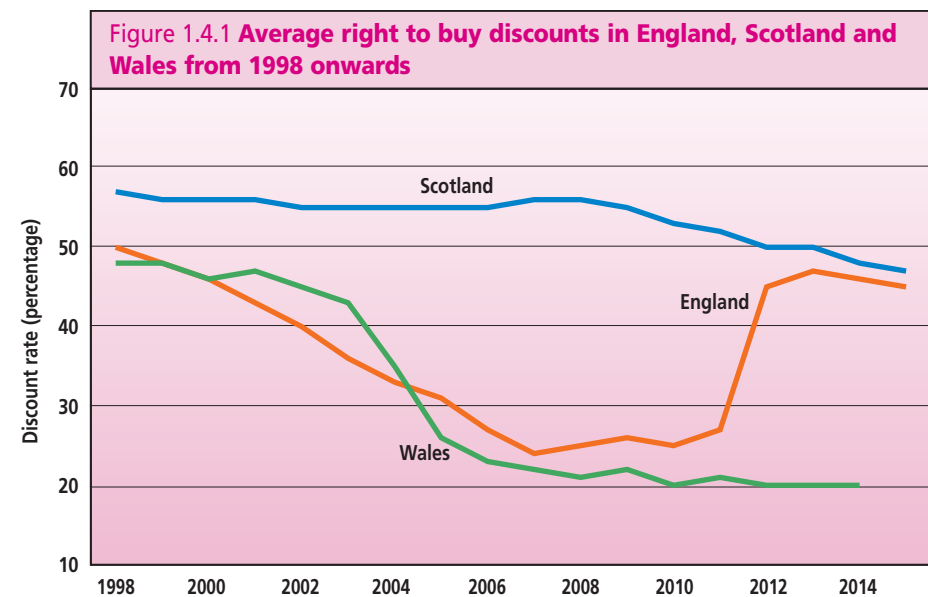
Not only did this analysis make sense of data showing a very limited initial impact of the RTB on levels of lettings, it also made clear that, though delayed, the impact on lettings would be cumulative and extend for decades beyond the points of sale. This means that, for example, the curtailing of new sales in Scotland, Wales and Northern Ireland is far from the 'end of the story' for RTB in those three countries.

This analysis of lost relets was then used as a basis for a value-for-money analysis of RTB, applying HM Treasury rules for the assessment of long-term capital projects. In those terms the key question is: what is the cost today of a relet lost in 15 years' time? For that period the household that exercised the RTB is the same as the one allocated the dwelling on the basis of housing need, with their occupation continuing as an owner. The landlord receives a discounted sum for the purchase, but suffers a loss of rental income and eventually the loss of a relet (recognising of course that RTB is exercised by sitting tenants, with security of tenure, paying rents that are some way below market values).

Taking all those factors into account the analysis found that discounts of around 32 per cent (against open-market, vacant-possession value) would represent a balanced financial return for landlords, and would permit them to purchase (or build) two new dwellings for every three that were sold, thus providing two new lettings at that point against the three lettings that would be lost 15 years later.

The conclusion drawn from this analysis is that it is only discounts above a threshold of about 32 per cent that represent a long-term cost to the public sector. This finding continues to be reflected in the *Review's* annual assessment of the financial support given to households in each tenure (see Compendium Table 121).

In practice, average discounts were much higher than 32 per cent over the first twenty years of RTB, but did begin to fall in England, Wales and Northern Ireland with the lowering of the caps on maximum discounts in 1999, and again in 2003 (a little later in Northern Ireland). By 2005, average discounts in England and Wales had fallen to levels that no longer represented a loss to the public sector, but in England they rose again to nearly 50 per cent from 2012 onwards as a result of the coalition government restoring the maximum cap to a much higher level (see Figure 1.4.1).



Source: Author calculations to 2015 for England and Scotland, 2014 for Wales.

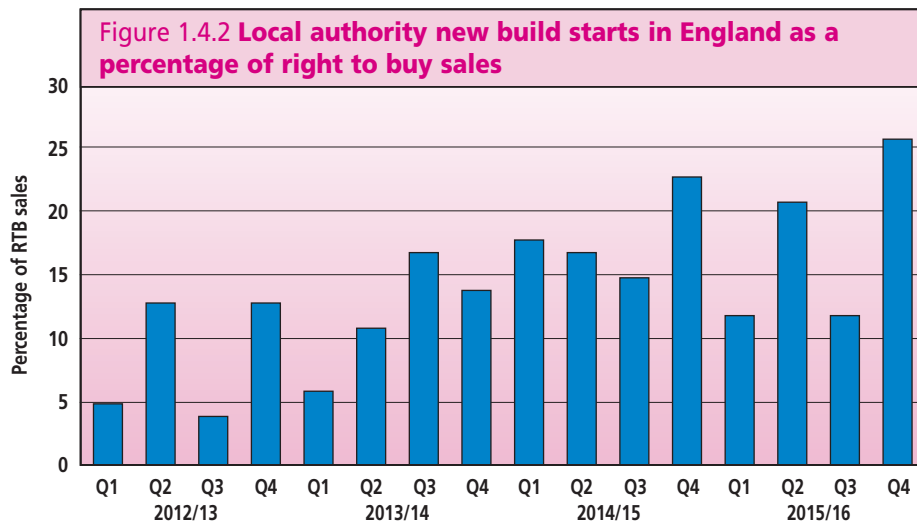
In Scotland the average discounts have only fallen more gradually as under prevailing law the Scottish Government did not have the power to reduce the maximum caps without new primary legislation. Instead they chose to introduce a 'modernised version' of the RTB in 2002, with discounts ranging from 20-35 per cent, depending on the length of a tenant's occupation prior to purchase. However, as most sales continued to be to pre-2002 tenants, the overall average discount only slowly reflected this change.

Now RTB policy has moved on again. The English government is trialling the extension of RTB to the housing association sector, while in Northern Ireland the equivalent of RTB for housing associations (the 'house sales scheme') may be ended as one of the steps to reduce government regulation of HAs (see below). Meanwhile the Scottish Government has recently abolished the RTB (even including its 'modernised' version) and the Welsh Government, having further reduced the maximum discounts in 2015, also now plans to legislate for its abolition.⁴

Clearly political decisions on the RTB are made with little regard for the assessment of value for money. But against such criteria the *Review's* analysis suggests that the discounts offered by the now-abolished 'modernised' RTB offered in Scotland achieved a good balance: giving tenants the opportunity to become homeowners if they wished, while providing capital receipts to add to the resources available for new investment – all without any long-term cost to the public sector.

However, as we stand now, England has reverted to RTB policies that offer discounts that do impose long-term public sector costs. In contrast, the abolition of RTB in Scotland and Wales both denies opportunities for tenants to switch into ownership and imposes an opportunity-cost in terms of the capital receipts that could have been obtained at no long-term disadvantage to the public sector.

Finally, it must be noted that the poor value of RTB sales at high discount rates has been compounded by the decisions, in all four countries, not to reapply a significant proportion of the receipts to the building of replacement housing. The predominant use of receipts has either been to make savings in the spending of other financial resources, or to use them to invest in the (certainly much needed) refurbishment and improvement of the existing housing stock.



Source: DCLG live tables.

In theory, the English coalition government did make a partial commitment to replace sold dwellings 'one-for-one' when they raised the maximum caps for RTB discounts in April 2012. However, in practice, as can be seen in Figure 1.4.2, the shortfall against that commitment is stark, to put it mildly. While there has been some improvement in the first half of 2016/17, overall only some one in six of the dwellings sold over the last four years is currently set to be replaced – with a cumulative shortfall against a one-for-one commitment of nearly 40,000 dwellings.

Social housing finances and public spending rules

UK public spending rules – and their interpretation – have played a major role in shaping housing policy over the last forty years. Ever since the financial crisis in 1976, which required an IMF bailout, UK government spending rules have included a wide definition of the public sector, and in particular have placed controls and limits on the borrowing of public sector corporations (or trading bodies), as well as on the government's own borrowing to support its investments and services.

While social housing is in the corporate sector – as it is a trading activity that raises an economically significant level of funding from its rents – up until 1987 both local authorities and housing associations were deemed to be in the public sector, and consequently subject to financial controls by governments concerned to restrain levels of public sector borrowing.

But in 1987 HM Treasury was persuaded that housing associations should be redefined as *private* corporate bodies, whose borrowing should not therefore count against the public sector borrowing requirement (PSBR – as it then was). There ensued three decades in which housing associations were the preferred vehicle for investment in new housing for letting at social rents (and later at Affordable Rents).

But while housing associations were exploiting the opportunities provided by private finance, 1989 saw the advent of a new redistributive council housing finance regime in England and Wales (but not Scotland). Essentially the new regime introduced the notion of 'negative subsidies' for those authorities deemed to have a notional surplus of rental income over their assumed costs of management and maintenance plus their debt charges.

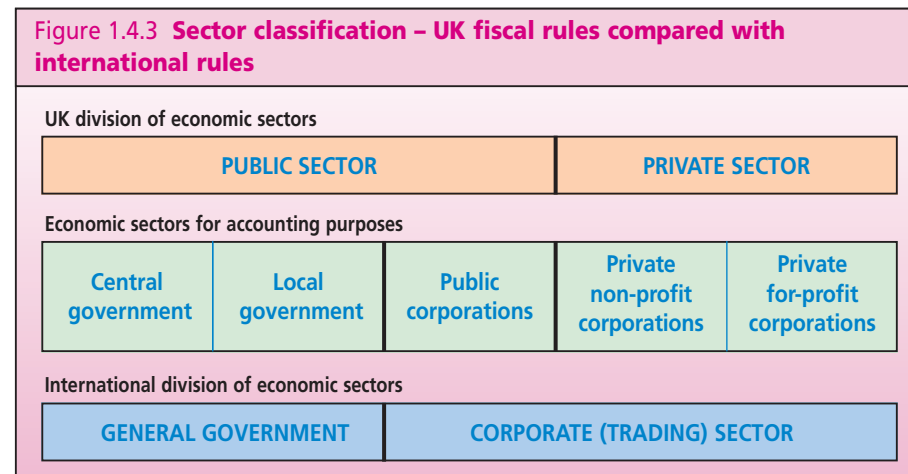
Those authorities were then required (from 1990 until 2003/04) to apply their notional surpluses towards the costs of housing benefit for their tenants (see Tables 70 and 78 in the Compendium). After that year the link with housing benefit costs was ended, but instead the notional surpluses were effectively remitted to HM Treasury. Compendium Table 109 shows the net impact of those provisions, also taking into account the positive subsidies still paid to the minority of authorities not deemed to be in surplus. It also shows how the introduction of the Major Repairs Allowance in 2001/02 softened the impact of the redistributive regime.

The combined effect of the 1987 and later policy decisions was to spark the programme of large-scale voluntary transfers (LSVTs) of council stock that has, over the ensuing years, seen over 1.5 million council dwellings in England transferred to new landlords – predominantly newly created housing associations. At one stroke, the transferred stock has been freed from the requirement to use any of its rental income to provide continuing surpluses, either to pay for housing benefit or later to benefit HM Treasury, and has moved onto the books of landlord bodies who could freely borrow to invest against their rental streams without having to worry about government borrowing controls. Indeed the financial terms of the transfers typically built in provision for a major level of investment in stock refurbishment and improvements in the first five years, to address the accumulated backlog.

There has been a similar programme of LSVT activity in Wales, by councils operating under the constraints of the same financial regime as in England. Stock transfers in Scotland have been on a much more limited scale, not least because for historic reasons the country escaped the 1989 legal provisions that applied the redistributive financial regime to councils in England and Wales. Fuller details of the programmes of stock transfers in England, Scotland and Wales, and their many wrinkles, can be found in the chapter by Hal Pawson in the 2009/10 edition of the *Review*.⁵

A question that the *Review* has raised many times over that period is: why do we have the public spending rules that have been such a factor in this transformation of the social housing sector over the last two decades? As the *Review* has repeatedly shown, the UK fiscal rules are more-or-less unique and have persisted since the

1976 financial crisis. In contrast to their focus on wider public sector debt and borrowing, international conventions (including EU conventions) restrict themselves to *general government* debt and borrowing (see Figure 1.4.3). The key difference is that the international conventions do not impose a constraint on borrowing by public corporations, provided that they can prudently finance that borrowing with the revenues from their trading activities.⁶



International statistics on government debt and borrowing are all based on general government, and not on the wider public sector, as seen in Figure 1.4.4 and detailed in Compendium Table 10. And it is on these international figures that the markets evaluate the soundness of the UK government's finances and financial policies. One by-product of the UK government's fiscal stance is that we now have many UK privatised industries and utility bodies that are operated by public corporations based in other countries. It is only UK public corporations, and not foreign ones, that are constrained by our unique spending rules.

The UK fiscal rules have now taken on a new significance for the housing sector with the decision by the Office for National Statistics (ONS) in October 2015 to revise their classification of English housing associations, and to place them in the public corporate sector with a retrospective effect back to 2008. At a stroke this added some £60 billion to the level of UK public sector debt.⁷

Subsequently, ONS have also examined the position of housing associations in the rest of the UK and they too have been reclassified to the public corporate sector. This decision (in September 2016) was again retrospective, reflecting variations in legislation and regulatory arrangements, and so has been backdated to 1992 for Northern Ireland, 1996 for Wales, and 2001 in Scotland.⁸

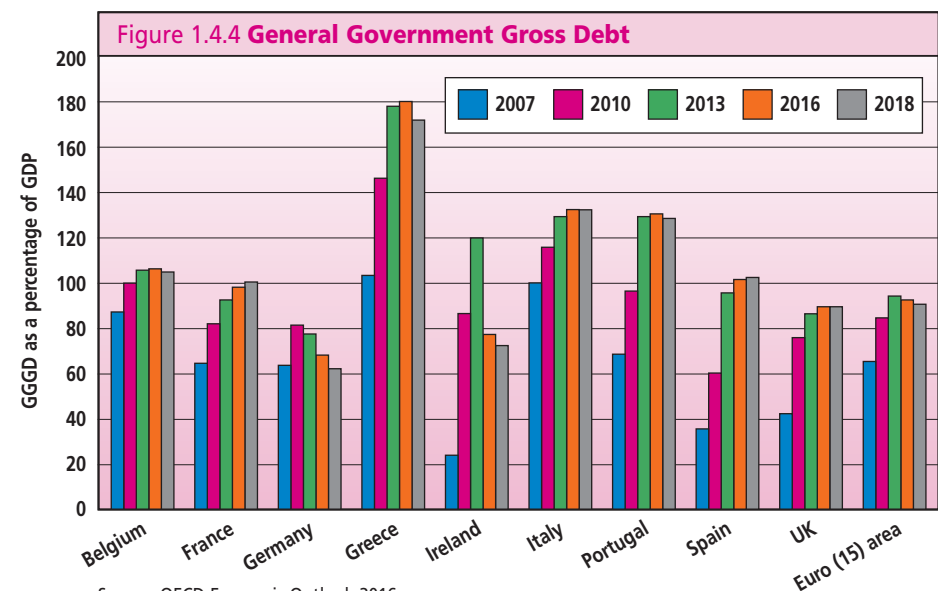
The governmental responses to these re-classifications have been to look at relaxing the current regulatory regimes sufficiently in order to enable the ONS to classify associations once again to the private corporate sector, and in England the government has also backed off from the policies (compulsory right to buy and 'pay to stay') that initially raised the question of associations' classification in the minds of the Office for Budget Responsibility and then the ONS. In much the same way as with the banks nationalised to prevent their collapse after the global financial crisis, the government has clearly taken the view that these are temporary arrangements and has chosen to effectively ignore their impact on levels of public sector debt.

In one sense this implicitly accepts the logic of the international fiscal rules which also exclude the debt and borrowing of public corporations from their primary measures of financial rectitude. And if the UK did adopt general government-based fiscal rules, following international conventions, then of course it would not matter whether housing associations were public or private sector corporations. Debates about the balance between their independence and regulation and desired policy regimes could then be decided on their own merits, without having to worry about dancing on definitional pinheads (the same applies in Northern Ireland to the future of its Housing Executive, where the same distinction – and limitations on its borrowing and investment – currently exists).

The redistributive housing revenue regime for council housing in England and Wales was brought to an end in April 2012 (April 2015 in Wales). But this came at the cost of a one-off net payment of £8.5 billion to HM Treasury (and just under £1 billion in Wales). In principle this leaves councils (and ALMOs) freer to make long-term business plans without having to worry about the annual vagaries of the subsidy regime. But old habits die hard and as part of the financial settlement English and Welsh councils are still subject to Treasury borrowing caps that ignore

their underlying capacity for prudential borrowing to support their investment plans. This came despite the absence of any caps on council General Fund prudential borrowing across the UK, or on borrowing for council housing investment in Scotland. (It should be added that other old habits have been revived, for example the promise to tenants in England that rent levels would now 'be a decision for your council', which has so far been broken three times, notably with the enforced one per cent annual cuts in rents that began in April 2016.⁹)

Of course, council housing borrowing does not count against the international general government-based borrowing totals, any more or less than the borrowing by housing associations. Nonetheless the government continues to act as if there is a difference, although there is none, clinging to its own idiosyncratic fiscal rules even though the two parts of the social sector deliver essentially the same products. Meanwhile on the basis of the Maastricht Treaty definition of General Government Debt, the UK remains below the EU15 average, and way below the levels of those countries whose finances are considered to be at most risk (Figure 1.4.4).



Source: OECD Economic Outlook 2016.
Note: Maastricht definition of GGGD.

So unless and until the post-Brexit UK economy is seriously impaired, there is no reason to be overly concerned about UK levels of debt, or to impose cuts in UK government spending that are painful – and largely self-defeating – in the current international economic context.¹⁰

So many other important topics

There have been many other important changes in housing policy and the UK housing market over the last 25 years, but for those I would ask the reader to look at other chapters in this and earlier editions of the *Review*.

The rise of the private rented sector has been spectacular and has brought with it challenges as well as benefits. Its rise, and the fall in owner-occupation levels post-2007, are regularly discussed in Commentary Chapter 3 of the *Review* (and Chapter 2 in the 2013 edition). Those commentaries draw attention to factors rarely mentioned elsewhere – the competitive advantage enjoyed by buy to let investors because the differential regulatory regimes give them access to interest-only mortgages, and because of the sea-change in attitudes and policies to low-deposit mortgages for homeowners.

As a UK-wide publication the *Review* has been well-placed to comment on the increasing levels of devolved housing and other powers for the Northern Ireland, Scottish and Welsh governments since 1999 (see the 2009/10, 2011/12 and 2016 editions in particular). As each of the devolved administrations gets into its stride with their widening powers, the divergences in policy and the potential for cross-border learning look set to increase and to continue to emphasise the value of the *Review*.

The statistical core

As well as drawing together statistics from a diverse range of sources to make them more readily accessible, the *Review* also includes many unique data series, either specially commissioned or derived from our own analyses. These include the regular data on mortgage costs including endowment payments (Compendium Table 50), the *Review's* own housing affordability index (in Commentary Chapter 3), the parameters of the housing benefit poverty trap (Compendium Table 118),

and the annual assessment of the balance between the taxes paid and tax reliefs for owner-occupiers (in Commentary Chapter 6).

If these supplement the tables drawn from various government sources, inevitably the scope, focus and range of those sources have changed over time, and this is sometimes a cause for celebration and sometimes a cause for concern. Of late, the concerns have been greater as public sector statistics have been far from immune to the pressures for savings in government spending. Some surveys have been lost completely (the General Household Survey), while others have been somewhat weakened by reductions in sample sizes.

Nevertheless we can celebrate some of the positive developments in data availability and quality – and also set out some hopes for possible improvements in the future.

For England's Department for Communities and Local Government, a particular positive note is the development of their data series on net housing supply, together with the continuation of the English Housing Survey in a form that now provides annual updates on the condition of the housing stock. For the future it is also hoped that they might recommence the publication of regional level statistics – in line with ONS and other government departments. (At the moment, for several tables in the *Review* the regional data are compiled by the authors.)

In Scotland the annual dedicated stock condition survey is worthy of mention, as is the prospect of a long-overdue stock condition survey in Wales (planned for 2018). Northern Ireland has the benefit of an annual wide-ranging housing statistics publication that complements the data made available through quarterly and other bulletins on individual topics. For the future it is hoped that Northern Ireland will be able to start producing more detailed and reliable statistics on housing benefit – not least to better inform their own government's reviews of policy and use of its devolved powers.

In contrast, the data on housing benefit made available by the Department for Work and Pensions – through its Stats-Explore website that allows researchers to

undertake bespoke analyses of the wide range of characteristics it covers – is exemplary. Less so are the very limited data currently collected and made available in respect of universal credit claims. Unless this is rapidly and significantly improved, it will become an ever-greater cause for concern. It is also to be hoped that, post-Brexit, the UK will continue to participate in the system of EU statistics on income and living conditions (EU-SILC) which, whilst not perfect, provides comparable data on households' income, expenditure and housing across the EU member states (see Contemporary Issues Chapter 2 in this edition of the *Review*.)

But, as we do each year in the introduction, it is fitting in this 25th *Review* to once again stress our gratitude to all the statisticians in the government and other bodies that assist each year in providing the essential data, while the competing pressures on their time grow ever greater.

Notes and references

- 1 Nietzsche, F. (1895) *Twilight of the Idols* (available from the CreateSpace Independent Publishing Platform: www.createspace.com).
- 2 Murie, A. (2016) *The Right to Buy? Selling off public and social housing*. Bristol: The Policy Press.
- 3 Wilcox, S. (2006) 'A financial evaluation of the right to buy', in the 2006/2007 edition of the *Review*.
- 4 Stephens, M. (2016) 'Evolving devolution', in the 2016 edition of the *Review*.
- 5 Pawson, H. (2009) 'Two decades of council stock transfers: contrasts and commonalities in organisational and financial models across Britain', in the 2009/2010 edition of the *Review*.
- 6 Hawksorth, J. & Wilcox, S. (1995) 'The PSBR Handicap', in the 1995/96 edition of the *Review*; Perry, J. (2009) 'A new future for council housing?', in the 2009/2010 edition of the *Review*.
- 7 Wilcox, S. (2016) 'Pushing the social sector to the margins', in the 2016 edition of the *Review*.
- 8 Office for National Statistics (2016) *Statistical classification of registered providers of social housing in Scotland, Wales and Northern Ireland: September 2016*. London: Office for National Statistics.
- 9 For more detail see CIH and CIPFA (2016) *Investing in Council Housing: The impact on HRA business plans*. Coventry: CIH and CIPFA.
- 10 See Commentary Chapter 1 in the 2013 edition of the *Review* for an outline of the International Monetary Fund critique of the self-defeating effect of austerity budgets, in a context where such policies are being simultaneously pursued by major economies across the world.

And a special 'thank you' to...

The contributions and help provided in the production of each year's *Review* are acknowledged in every edition, and this year is no exception. However it is appropriate to give a special vote of thanks to those whose support has been invaluable over the years. This includes the longstanding members of the current team – John Perry and Peter Williams (who had the original idea for the *Review*). Special thanks are also due to Alan Lewis for all his work both in updating a selection of the tables and managing their compilation. For their support of a not always easy-to-manage employee my thanks go to Janet Ford, Suzanne Fitzpatrick and Becky Tunstall, successive directors at the Centre for Housing Policy at the University of York. My thanks also go to Richard (now Lord) Best for his support over the initial years when the *Review* was published by the Joseph Rowntree Foundation. Finally my thanks go to the late Alan Holmans, not just for the articles he contributed to the *Review*, but for the inspiration and support he provided over the years as such a dogged, creative and cautious statistician and policy analyst.

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