

Section 2 Commentary



Chapter 4 Housing expenditure plans

Housing investment

Overall gross social housing investment in Great Britain rose again in 2006/07, and in real terms was more than a fifth higher than a decade earlier, and some three-quarters higher than the low point of 1999/00 (Figure 2.4.1 and Compendium Table 57).

Investment in new housing association dwellings has increased substantially over the last two or three years, in Northern Ireland (Compendium Table 87) as well as in England, Scotland and Wales (Compendium Table 59). In England the overall level of investment has been much higher over the last four years (at least compared to the previous six years) notwithstanding the ending of the favourable financial regime for the local authority social housing grant.

Local authority housing investment in Great Britain fell back a little in 2006/07 in England and Scotland; but rose in Wales (Compendium Table 58). The net levels of investment have depended not just on the levels of grant and borrowing supported by central government funding, but also on the way in which local authorities have made use of right to buy and other capital receipts, and the opportunity for 'unsupported' borrowing arising from the prudential borrowing regime.

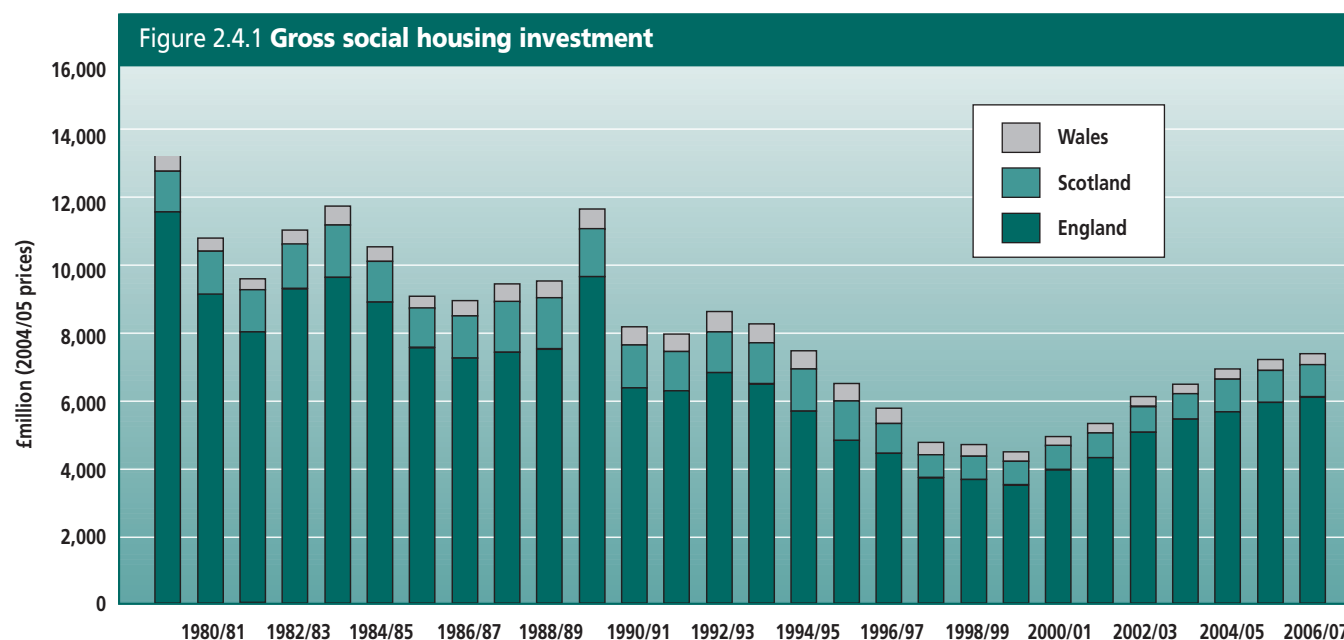
In England the increased level of local authority investment was also supported by higher levels of central government support (Compendium Table 63). While in Scotland local authorities are not constrained by the tight revenue regime that continues to operate in England and Wales, and can

therefore potentially make much fuller use of the 'prudential' borrowing regime and the abolition of direct central borrowing controls, borrowing for housing revenue account investment actually declined in 2004/05 and 2005/06.

In Scotland the higher level of investment since 2003/04 can be mainly accounted for by the increased use of right to buy receipts (Compendium Table 82). This reflects the financial regime that permits Scottish authorities to make full use of right to buy receipts, while in England and Wales authorities are still required to set aside 75 per cent of right to buy receipts against outstanding debt.

However, as levels of new receipts fall this will have a correspondingly greater effect on Scottish authorities, and they will need to make greater use of their prudential borrowing powers in the coming years if they are to sustain the higher level of investment achieved in recent years. Indeed, it is estimated that there will be a further rise in local authority investment in 2007/08 in Scotland, but this will rely on increased borrowing and use of revenue resources more than offsetting an expected decline in the use of capital receipts.

It should also be noted that while council housing investment in Scotland fell in 2003/04 that was a consequence of the Glasgow and Scottish Borders stock transfers. If those are taken into account, there was a small increase in investment by other councils in the year; and the higher levels of



investment achieved in the subsequent years should also be viewed in that context.

A very substantial proportion of local authority investment in England is applied to major repairs and improvements to the existing stock. It is still unfortunately the case that the latest data available showing in detail the purpose of new local authority investment is for 2000/01 (Compendium Table 62). However, some limited but useful information is available from the Local Government Capital Expenditure and Receipts data series located through the local government, rather than the housing, section of the CLG website (that has been used to update Compendium Table 63).

The analysis of expenditure by investment category provided by that source is set out in Table 2.4.1. This shows that investment in renovation of the council stock now comprises some three-quarters of all

Table 2.4.1 Analysis of local authority housing capital expenditure

£ million

	2004/05	2005/06	2006/07
Acquisition land/buildings	276	292	297
Building works	2,989	3,471	3,441
Other assets	72	88	56
Grants	622	636	671
Loans/Other	29	47	42
Total	3,957	4,534	4,507

Source : Local Government Capital Expenditure and Receipts.

investment, with private sector grants running at some one seventh of total investment. Compared to 2000/01 this represents a rising share for council stock renovation, and a declining share for private sector renovation.

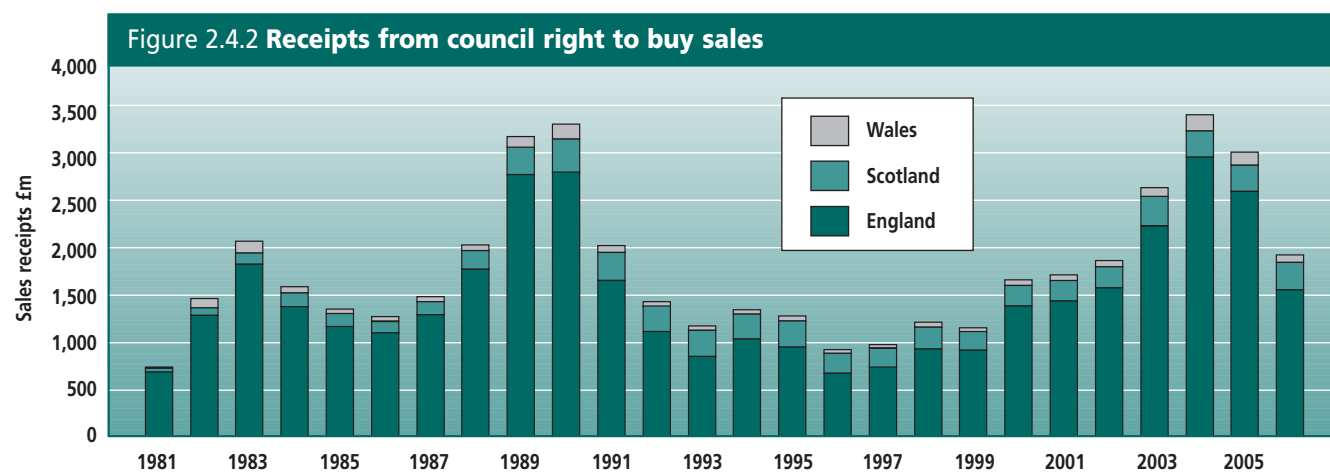
It is also notable that while local authorities in England and Wales are constrained by a tight ring fenced and redistributive revenue regime, they have nonetheless begun to make more effective use of the prudential borrowing regime, with increased levels of 'unsupported' borrowing (i.e. borrowing backed by local resources rather than central government financial provisions). Overall, unsupported prudential borrowing by local authorities in England has doubled to £2 billion per annum across all services.

Right to buy receipts

Compendium Table 60 (and Figure 2.4.2) shows just how sharply levels of right to buy receipts have fallen in the last year in England and Wales; while continuing at high levels in Scotland. This reflects the tight cash limits on maximum discounts imposed in England and Wales, that have significantly reduced discounts as a proportion of capital values, and made the right to buy far less affordable for tenant households.

In contrast while in Scotland a new less generous form of 'modernised right to buy' has been introduced for new tenants, existing tenants continue with the benefit of full right to buy discounts without any cash limits, and receipts from sales rose in 2005/06.

The policy issues around the value of right to buy receipts were discussed in detail in last year's edition of the *Review*.¹



Source: See Compendium Table 60.

The new HRA regime

April 2004 saw the introduction of a new revenue regime for council housing in England and Wales, that ended the direct link between housing subsidy and housing benefit subsidy for council tenants. However, in both countries the financial regime remains tightly ring fenced, with redistributive mechanisms between local authorities and central government. These operate slightly differently in England and Wales.

For England, Compendium Table 69 shows that this resulted in total housing subsidy falling from £3,730 million in 2003/04 to £770 million in 2004/05, and then rising slightly in 2005/06 and 2006/07. However, as Compendium Table 70 shows in the years up to 2003/04 by far the greater part of the total subsidy figure represented housing benefit subsidy. Those costs have now been switched to the budget of the Department for Work and Pensions.

It should also be noted that the housing subsidy figures in Compendium Table 69 show the gross amount of housing subsidy that is paid to those authorities in support of positive subsidy. This is offset by the transfer payments made to central government by authorities in negative housing subsidy under the new regime. Those transfers have been running at over £600 million a year since 2004/05, and have offset the greater part of the subsidy payments made to authorities still receiving positive subsidy.

The net national levels of housing subsidy for council tenants in England are shown in Compendium Table 109. Depending on the future balance between rent policy, and provisions for increased management and maintenance costs, and supported borrowing, it is quite possible that nationally the English HRA could move back into surplus. However, one further offsetting factor is the continuing financial pressure on authorities in negative subsidy to consider stock transfer as a route out of the redistributive regime.

For Wales the position is a little different. While the combined housing subsidy figure for 2003/04 was £185 million, in 2004/05 this had flipped over to a negative subsidy (i.e. surplus) of £82 million in 2004/05 and £86 million in 2005/06. The councils in Wales deemed to be in notional surplus under the subsidy formula are now required to make cash payments to the Welsh Assembly, rather than to apply those surpluses towards the costs of housing benefit.

In turn the Welsh Assembly is effectively required to make a transfer payment to the Department for Work and Pensions, to compensate them for having taken on the direct costs of housing subsidy for council tenants in Wales. While this follows the normal conventions in government when financial responsibilities are switched between departments it creates a rather bizarre anomaly in the financial regime for devolved administrations.

Thus, in Wales the Assembly effectively gets some £80 million a year deducted from the financial settlement it would otherwise have received under the 'Barnett' formula, because in the years up to 2003/04 it had previously covered part of the costs of housing benefit for council tenants from its HRA accounts.

In contrast, Scotland, which was never required to contribute towards the costs of housing benefit from its HRA accounts, gets the full Barnett formula settlement. So, while the direct link with housing benefit subsidy in Wales may have ended, its financial effects continue in a revised form, and Wales continues to be treated less favourably than Scotland as a result.

At some time in the future the whole financial basis of the devolution settlement will need to be reviewed, as the 'transitional' Barnett formula cannot be applied forever. However, there is no reason why the anomalous treatment of housing benefit subsidy costs as between Scotland and Wales should not be ended ahead of such a wider review. In terms of the overall housing budget in Wales the sums involved would make a very significant difference.

New budgets

The comprehensive spending review (CSR) financial provisions for housing investment in England are discussed in the Contemporary issues Chapter 2 *All Plans Ahead*. Following the CSR the

devolved administrations in Scotland and Wales have now put forward draft budgets.

The draft housing and regeneration budget for Scotland is shown in Table 2.4.2. This shows overall funding rising from £480.6 million in 2007/08 to £572.5 million in 2010/11. However, this should be seen in the context of average annual provision of £539 million over the previous five years.

In Wales the draft budget effectively freezes in cash terms the support for council housing between 2007/08 and 2008/09.² The major repairs allowance

provision remains at £108 million a year throughout, with the provision for supported borrowing for investment at £78.4 million. Capital grant for renewal areas is fixed at £25.8 million, while funding for investment through the Home Energy Efficiency Scheme rises marginally from £19.6 million to £19.8 million.

The main increase in provision is for social housing grant for investment in new housing, that increases by £9.5 billion to £82.3 billion in 2008/09, and then remains at that level until 2010/11. There is also new provision for investment in not-for-profit

nursing homes, rising from £4 million in 2008/09 to £8 million in 2009/10 before falling back to £6 million in 2010/11. The social housing grant for housing the elderly under the 'Wanless' programme remains at £21 million a year throughout.

Overall, total provision for housing investment in Wales rises from £331.5 million in 2007/08 to £345.8 million in 2008/09 and £347.5 million by 2010/11. This represents a reduction in real terms over the period. Going forward it is also anticipated that, as a result of stock transfers, there will be a stepped decline in the levels of negative housing subsidy, from £86 million in 2007/08 down to £28 million in 2010/11.

Table 2.4.2 Draft Scottish housing and regeneration spending plans

£ million

	2007/08 Budget	2008/09 Draft Budget	2009/10 Plans	2010/11 Plans
Affordable housing investment programme	387.2	373.9	446.7	472.1
Modernising private sector housing	10.2	10.2	15.2	15.2
Housing markets supply policy/research and analytic services	2.8	2.8	2.8	2.8
Communities Scotland/successor bodies running costs	25.1	25.1	25.1	25.1
Tackling and preventing homelessness	0.6	0.6	0.6	0.6
Central heating initiative/Warm Deal	45.9	45.9	45.9	45.9
Housing voluntary sector grants scheme	2.4	2.4	2.4	2.4
Wider role	12.0	12.0	12.0	12.0
Community engagement	3.4	3.4	3.4	3.4
Regeneration programmes	18.0	26.0	41.0	20.0
Capital charges	3.0	3.0	3.0	3.0
Less Income	- 30.0	- 30.0	- 30.0	- 30.0
Total	480.6	475.3	568.1	572.5

Source: Scottish Budget Spending Review 2007, Scotland's Government website.

Notes: Communities Scotland is due to be abolished.

References

1. 'A financial evaluation of the right to buy', S. Wilcox, *UK Housing Review 2006/07*, Chartered Institute of Housing and Council of Mortgage Lenders.
2. *Draft Budget 2007*, Welsh Assembly Government website.

Key Reading

Annual Report 2007, Communities and Local Government, The Stationery Office, 2007.

Departmental Investment Strategy 2005-2008, Office of the Deputy Prime Minister, ODPM website, 2005.