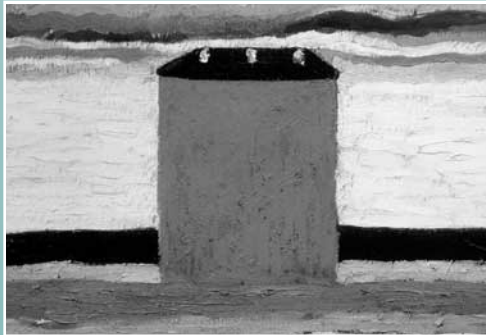


Section 2 Commentary



Chapter 4 Housing expenditure plans

Housing investment

Overall gross social housing investment in Great Britain rose again in 2007/08, although there was a slight falling back in the levels of local authority housing investment in Scotland and Wales compared to the previous year (Compendium Table 58). In contrast, levels of new housing association investment rose throughout Great Britain (Compendium Table 59).

The arrangements for council housing finance in England are currently subject to a wide ranging review, and some of the key issues at stake are discussed by John Perry in the Contemporary issues Chapter 3.

Stock transfers

But, while the arrangements for council housing finance in England are under review, the stock transfer programme continues to reduce the overall

size of the council housing sector in Scotland and Wales, as well as in England. Over a million council houses in England have now been subject to stock transfer in the years since 1988/89, with a further 93,600 dwellings transferred in 2007/08 (Compendium Tables 68a and 68e).

To this can be added the 117,000 council dwellings in Scotland, and the 32,000 dwellings in Wales transferred in the years from 2003 (see Table 2.4.1).

In England there has been a significant increase in the level of 'negative value' transfers; that is transfers of stock with a negative value, such as the 16,200 dwellings in Liverpool transferred in March 2008 with a negative value of £145 million (Compendium Table 68c). In each of the last two years there have been almost as many dwellings involved with negative value transfers, as there have been with positive value transfers.

Moreover, in purely financial terms the negative value transfers have had a greater financial impact than the positive value transfers, resulting in a net financial cost for transfers of £367 million for the two years 2006/07 and 2007/08.

While the pace of transfer in Wales has accelerated in recent years it has still only resulted in some one-sixth of the council stock transferring to new landlords (although transfers in Newport and Merthyr Tydfil are at the time of writing pending following positive ballot results). In contrast, not least because of the dominant size of the Glasgow stock transfer, stock transfers in Scotland have now resulted in one quarter of the council stock transferring to new landlords, while in England over a third of the council stock has been subject to transfer (all measured against the 2006/07 level of council sector stock).

Right to buy

The size of the council sector continues to be reduced by right to buy sales, but as result of limits on maximum discount levels, right to buy sales fell sharply in 2006 and 2007 (Compendium Table 20), and will fall further in 2008 as a result of the credit crunch.

While this will be regarded as good news in terms of maintaining council stock numbers, the downside is that the falling level of receipts at the same time substantially reduces the resources available for new investment, especially in Scotland where councils are free to reinvest 100 per cent of the receipts from right to buy sales.

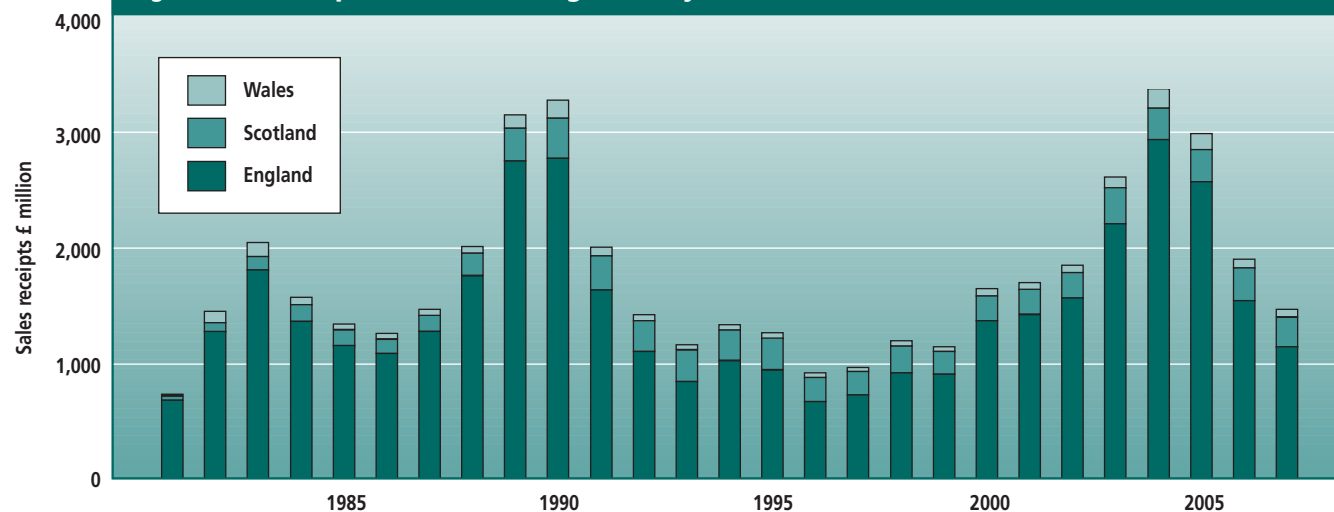
Table 2.4.1 Local authority stock transfers in Scotland and Wales

Authority	Scotland Year	Stock	Authority	Wales Year	Stock
Dumfries	2003	12,172	Bridgend	2003	6,603
Glasgow	2003	82,251	Monmouthshire	2006	3,465
Scottish Borders	2003	6,827	Rhondda Cynon Taff	2006	10,352
Argyll & Bute	2006	5,606	Torfaen	2007	8,247
Eilean Siar	2006	1,816	Conwy	2007	3,800
Inverclyde	2007	8,453			
Total transfer		117,107	Total transfer		32,467

Sources: Scottish Executive, Welsh Assembly Government.

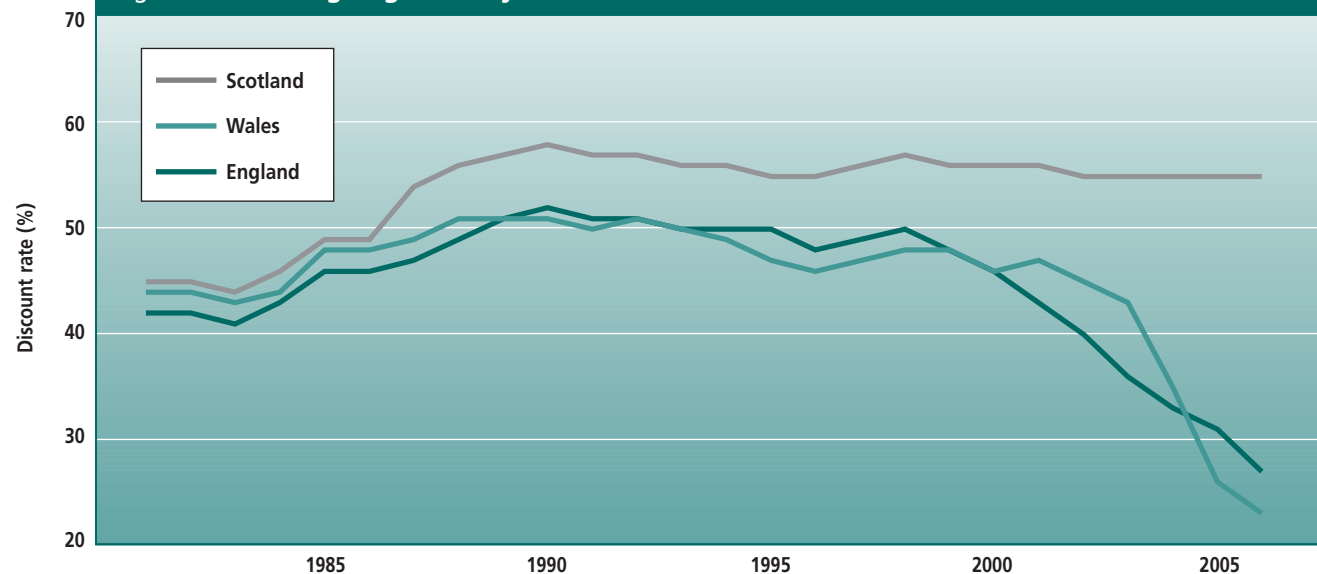
Note: Stock figures are for the year prior to transfer (September for Scotland; March for Wales).

Figure 2.4.1 Receipts from council right to buy sales



Source: See Compendium Table 60.

Figure 2.4.2 Average right to buy discounts



Sources: CLG, Welsh Assembly Government and the Scottish Government.

Compendium Table 60 (and Figure 2.4.1) shows just how sharply levels of right to buy receipts have fallen in the last year in England and Wales; although rather less so in Scotland. This downturn 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.

While the level of receipts remain higher than in the post-housing market boom years of the early 1990s (because of the much higher market values and lower effective discounts), it is clear that on this occasion the downturn in sales and receipts levels preceded, rather than followed, the housing market downturn. From a peak level of £3.38 billion in 2003/04, receipts from council house sales in Great Britain fell to £1.47 billion in 2006/07 and will fall again in the next few years.

Average discounts in England had fallen to 27 per cent in 2006/07 (see Figure 2.4.2), and fell again to 24 per cent in 2007/08. Average discounts in Wales had already fallen to 23 per cent by 2006/07, and by the second quarter of 2008 had fallen further to 21 per cent.

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 so far average discount rates have not yet changed, as sales under the modernised right to buy are not yet reflected in the latest outturn data.

Scotland has also suspended the modernised right to buy (but not the old right to buy) in a number of areas with high housing market pressures. The power for the National Assembly for Wales to make similar suspensions has also now been approved by the House of Commons Welsh Affairs Committee.¹ This is under the new provisions of the Government of Wales Act 2006, that allows the Assembly to bring forward proposals to extend its law-making powers by way of 'Legislative Competence Orders in Council'.

While the initial policy option that prompted this request from the Assembly was the high pressure area

suspension option, the request submitted was for far wider powers to amend all aspects of the right to buy policy as it applies in Wales. This wider request was turned down by the Welsh Affairs Committee, in a decision that suggests that the committee will only be likely to agree to proposals from the Assembly where there is a much more closely argued link between the substantive policy case and the specific powers being sought.

The case for more fundamental reforms to the right to buy was discussed in the 2006/07 edition of the *Review*.²

Other Welsh affairs

A wide-ranging review of housing policy in Wales was concluded in the summer of 2008, and is now under consideration by the Deputy Minister for Housing. The 'Essex' report makes 43 recommendations, most of which relate to issues of competence and governance at all levels and in all sectors dealing with housing policy in Wales.³

2008 also saw the publication of the Welsh equivalent of the 'Global Accounts' for housing associations that have now been published for eight years in England (Compendium Table 71). The first edition of the Welsh 'Global Accounts'⁴ covers 2005, 2006 and 2007, and Table 2.4.2 sets out their income and expenditure from lettings in 2006 and 2007. The accounts also show that by 2007 housing associations in Wales had collectively raised almost £800 million in long-term private finance, against almost £2 billion in capital grants.

Footnotes

1. *The proposed draft National Assembly for Wales (Legislative Competence) (Housing) Order*, 2008, House of Commons Welsh Affairs Committee, HC 812, The Stationery Office.
2. 'A financial evaluation of the right to buy', S.Wilcox, *UK Housing Review 2006/07*, Chartered Institute of Housing and Council of Mortgage Lenders.
3. *Affordable housing in Wales: an independent report to the Minister for Housing*, S. Essex, B. Smith and P. Williams, Welsh Assembly Government, 2008.
4. *Spotlight on Success: The 2007 Financial Statements of Welsh Housing Associations*, Community Housing Cymru and Welsh Assembly Government, 2008.

Key Reading

Annual Report 2008, Communities and Local Government, Cm 7394, The Stationery Office, 2008.

Table 2.4.2 Income and expenditure from lettings for Welsh housing associations

£ million

Income and expenditure from lettings	Turnover	2006 Operating costs	Operating surplus/(deficit)	Turnover	2007 Operating costs	Operating surplus/(deficit)
General needs housing	199	152	47	204	161	43
Supported housing	44	46	- 2	52	49	3
Student housing	3	2	1	4	3	1
Other letting activities	10	10	0	14	12	2
All lettings	256	210	46	274	225	49
Other income and expenditure						
General needs	–	–	–	2	2	–
Support services	4	5	- 1	7	7	–
Development services	1	3	- 2	1	2	- 1
Other activities	4	3	1	5	4	1
Non-housing activities	4	4	–	4	4	–
All non-lettings	13	15	- 2	19	19	–
All activities	269	225	44	293	244	49

Source: Spotlight on Success.