

UK Housing Review

Hal Pawson and Steve Wilcox



2011 Briefing Paper

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UK Housing Review Briefing Paper

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The UK Housing Review

The best source of data and analysis on housing – *updated!*

For a second year, to coincide with CIH's Annual Conference at Harrogate, the long-established source of data and analysis on UK housing issues – the *UK Housing Review* – is supplemented by this special *Briefing*.

This year, just over twelve months after the general election, the Harrogate conference provides an opportunity for the housing world both to hear from ministers how they see policies being implemented, and to look at early evidence of the effects of recent changes.

The conference will also be debating the economic background, the Spending Review and how its measures affect housing, and of course the prospects for revival of housebuilding and the housing market.

This *Briefing* is an up-to-the-minute assessment of these and other current issues which are highly relevant to the new government's plans, together with a summary of key data. It provides expert analysis by the two authors of the *UK Housing Review*, Professors Hal Pawson and Steve Wilcox.

Readers wanting fuller data can find updated tables at the *UK Housing Review* website www.ukhousingreview.org.uk and for full analysis and comprehensive data the current edition of the *Review* is available at the CIH stand or from our online bookshop.

Readers should of course also look out for the next edition of the full *UK Housing Review 2011/2012*, due to be published by the Chartered Institute of Housing in December. Both this and the *Briefing* have been generously sponsored by Savills.



Sarah Webb CBE
Chief Executive
Chartered Institute of Housing
June 2011

Introduction

Welcome to the second in our annual series of mid-year *Briefings*, to complement the main *UK Housing Review* as published at the turn of each year. After 12 months in office, the coalition government's ambitious plans for housing, welfare benefits and the economy have now been spelled out in detail. However, with the availability of mortgage finance still heavily constrained and the economic recovery proceeding only very uncertainly, the UK housing market remains sluggish, at best. Drawing on recently released statistics, the *Briefing* discusses the implications of recent policy and market changes in some key areas.

Housing demand and supply

Latest household projections suggest that housing demand will continue to grow strongly over the medium and longer term. In the 25 years from 2008, household growth in England and Wales is expected to average 245,000 p.a. Therefore, even a revival of construction activity to pre-credit-crunch levels – around 170,000 dwellings p.a. – would leave housebuilding running far behind the projected demand.

In practice, while housebuilding revived slightly in 2010, building rates remained only marginally above those of 2009 – in England the lowest peacetime output since 1924. The government sees inadequate UK housing construction rates as partly attributable to the pre-2010 policy framework – with its 'divisive top-down targets' and 'public subsidy-driven approach'. Nevertheless, while ministers now advocate more carrot and less stick, the official expectation is that, by 2016/17, the recently enacted New Homes Bonus will have increased supply only by 8-13 per cent above a baseline level. At the mid-point of the range, this would amount to an extra 14,000 homes per year – quite a modest increment when set against the possible fall in housebuilding that could result from the government's 'localist' planning reforms.

Affordability

While the government has introduced a welcome scheme to assist some 10,000 households with mortgage deposits, this will have a limited impact given the truncated market availability of low-deposit mortgages. Just 15 per cent of 2010 mortgage advances to first-time buyers required deposits of ten per cent or less of purchase prices. But before the credit crunch such low-deposit loans accounted for three-fifths of all first-time buyer mortgages. Although lenders are showing signs of bringing back some low-deposit products, these are usually linked with very high arrangement fees and/or premium interest rates. Deposit requirements will thus continue to pose a major 'wealth barrier' to homeownership for aspiring first-time buyers – creating an obstacle which now excludes some 100,000 potential purchasers each year.

Housing market prospects

While 2010 saw a slight recovery in house prices in England, Wales and Scotland, this has been overstated by some published indices that fail to correct for the very significant change in the profile of property transactions, post credit crunch. Proper allowance for the much reduced proportion of small new-build dwellings in the mix reveals that by the start of 2011 prices in all four UK jurisdictions remained below their 2007 peak, even in cash terms. Likewise, across the UK, downward trends had been resumed from mid-2010.

Expectations for 2011 are moderated by the low level of anticipated economic growth, anxieties about employment prospects in the face of public sector cuts, and the prospect that inflationary pressures will result in rising interest rates. This could trigger higher mortgage repossessions which would also act as a drag on the market and on lenders' finances. In turn, a subdued housing market will be both a contributory cause as well as a symptom of a slow and uncertain economic recovery.

Prospects for low-income households

Focussing on low-income households, there are concerns about how much new rented housing will be delivered through the government's 'Affordable Rent' model, and how far the new, reduced Local Housing Allowance rates will impact on the availability of lettings in the private rented sector. Further ahead, additional difficulties are foreseen as a result of the proposed cap on total benefits and the inception of the planned universal credit.

All these issues, and many others, are covered in the *Briefing*. This year, we are pleased to have been able to include in the *Briefing* specific sections devoted to some of the distinctive housing issues that are currently of interest in Northern Ireland, Scotland and Wales.

Hal Pawson and Steve Wilcox

June 2011

Economic prospects

Following the election the coalition government tilted the balance of fiscal policy towards faster cuts in levels of government borrowing and debt (see page 6).

The upside of the policy is reduced concerns in the UK about any crisis of confidence in international financial markets like that engulfing Greece, Ireland and Portugal. While those fears may be exaggerated they cannot be entirely dismissed.

By the end of 2012, the UK's accumulated debt will only be marginally above the EU average at 90 per cent of Gross Domestic Product (GDP) – on the internationally recognised General Government Gross Debt measure. The average for the EU area will be 89 per cent, while the averages for Greece and Ireland are 139 per cent and 108 per cent respectively.

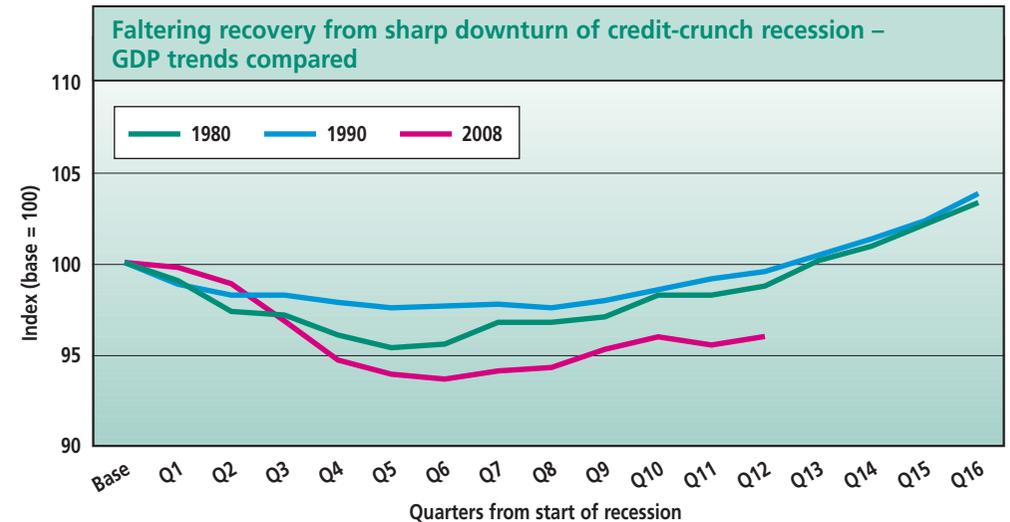
However, risk in the financial markets is based not just on debt levels, but on assessments of national economic and fiscal capacities to manage the debts. It is worth noting that Portugal's debt and borrowing levels are very similar to those of the UK, and while government debt in Italy is far higher (121 per cent of GDP), its annual rate of additional net borrowing is much lower.

The downside of public spending cuts in the UK is the prospect of slower economic growth. This is reflected in lower growth rates now forecast by the Office for Budget Responsibility (OBR). After a slightly rocky start, the OBR's independence from the Treasury is now established – although this does not necessarily mean their forecasts are automatically in line with the consensus among independent forecasters.

The revised OBR forecast in March 2011 foresaw growth of 1.7 per cent in 2011, rising to 2.5 per cent in 2012 and then 2.8 per cent in 2013 and 2014 (see graph). While lower than previous forecasts, this is still higher than those made, for example, by the OECD and the National Institute of Economic and Social Research. However, OBR examined those other forecasts when making its own assessments, and OBR also recognises the inherent levels of uncertainty in the forecasts given the many factors at play.

OBR and other forecasts all rely on expectations of continuing economic recovery in China and other countries outside the EU. There are different views, however, on the prospects of housing market recovery in the UK, and how this will contribute towards wider growth (see page 7).

Meanwhile, latest outturn figures show that UK economic recovery remains very fragile, with modest growth in the first quarter of 2011 only offsetting the decline in the last quarter of 2010. The figures also clearly show how much more severe the post-credit-crunch downturn in the UK has been compared to other recent recessions, and that – even on OBR forecasts – this time recovery will be far slower.



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

Of course, cuts in public spending have only just begun to take effect, and the negative impact on economic growth and employment has not yet been fully felt. OBR forecast unemployment to rise to just over 8 per cent in 2011 and 2012, easing back over the next three years to 6.4 per cent in 2015 (on the ILO measure). This is still some way above the average (5.3 per cent) over the decade before the credit crunch. And should OBR growth figures prove to be optimistic, the same will apply to their unemployment forecasts.

While the coalition government have clearly set out their stall in terms of fiscal priorities they may still find it necessary to rebalance them if economic recovery continues to falter. On the worst case scenario, lower economic growth and resulting lower tax revenues could undermine the objective of cutting public debt, leaving the government with all the pain of the public expenditure cuts but without the gain in its fiscal balances.

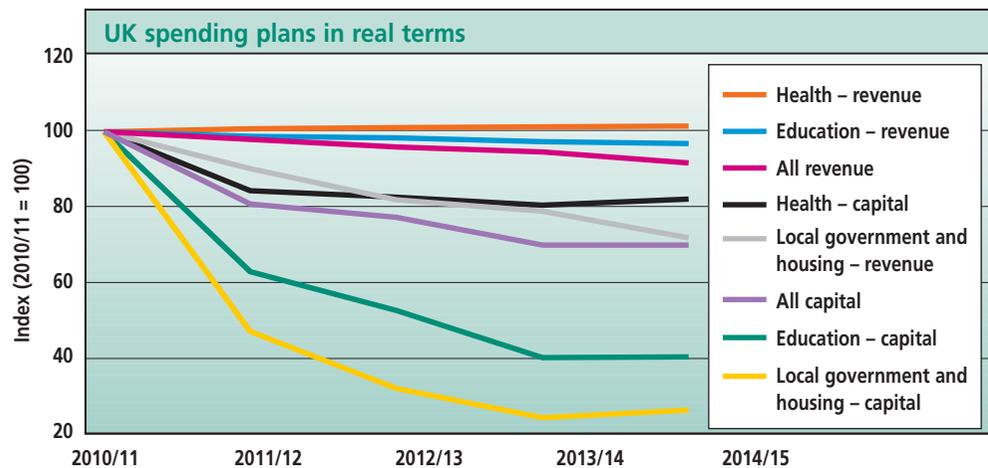
Public expenditure prospects

The Spending Review 2010 set out government plans for the four years to 2014/15, and not for the first time housing budgets have been cut far more sharply than most other service areas. As promised, the overall cuts are sharper than those that would be imposed by the previous government, given the over-riding commitment to faster reductions in government borrowing levels.

The 2011 Budget now sets out the overall framework for public spending to 2015/16, and over the five-year period the cuts are far sharper for capital than for revenue spending. On average, public sector gross investment is planned to fall from £61.6bn in 2010/11 to just £50.4bn in 2015/16. After inflation, this is a real-terms cut of some 30 per cent.

Current spending will increase in cash terms over the period, although this is primarily Annually Managed Expenditure (AME) rather than departmental budgets. As a result of the recession, spending on welfare benefits will rise, despite the measures the coalition government has introduced to limit benefits in the years ahead. Expenditure on debt interest will also rise as a result of the still increasing level of total government debt. In cash terms, current AME will increase from £287.4bn in 2010-11 to £360.8bn in 2015/16. Even after adjusting for inflation this is a real increase of some 11 per cent over five years.

Current spending within Departmental Expenditure Limits (DEL) will rise in cash terms from £345.4bn in 2010/11 to £352.5bn in 2015/16. After inflation, this is a 10 per cent cut in real terms over five years.



Source: Spending Review 2010.

Within those overall budgets the health and education budgets have received a degree of protection (albeit not absolute), with far sharper reductions for other services such as housing and local government, as can be seen in the graph (for the four years of the Spending Review period to 2014/15).

The impacts of these budget reductions vary considerably between different housing programmes. One of the more severe impacts is on regeneration. While the cut-back in the capital budget for new social housing is also severe, in terms of outputs this will to a considerable degree be offset by the proposals for new social housing to be provided through 'Affordable Rents' based on (up to) 80 per cent of market values (see page 11).

There is also a limited impact on finance for council housing, with the proposals for 'self-financing' in England proceeding broadly as proposed by the previous government (see page 12). But the current spending round will not provide sufficient investment to bring all council housing in England up to the Decent Homes Standard.

The position for housing in Northern Ireland, Scotland and Wales is different (see pages 18-20). The various cut-backs in English departmental budgets are reflected in the global budgets for the devolved administrations set under the 'Barnett' formula. The DEL capital budgets for each administration fall by close to two-fifths in real terms over the four years to 2014/15. This will have a lesser effect in Scotland, however, as their different council housing finance regime allows all council borrowing to be designated as 'prudential' borrowing, and therefore outside the DEL envelope. The DEL 'resource budgets' for each administration are cut by some seven per cent in real terms over the period, but it is for the devolved administrations to spread the cuts between different service areas.

Although the overall spending plans have now been set for the next four years, there may still be some areas where expenditure becomes more tightly controlled. In particular the government has clearly indicated that it will be reviewing its approach to spending programmes such as benefits expenditure, currently dealt with as Annually Managed Expenditure rather than being subject to strict annual cash limits. Any changes here could have major implications in the years ahead.

Housing market prospects

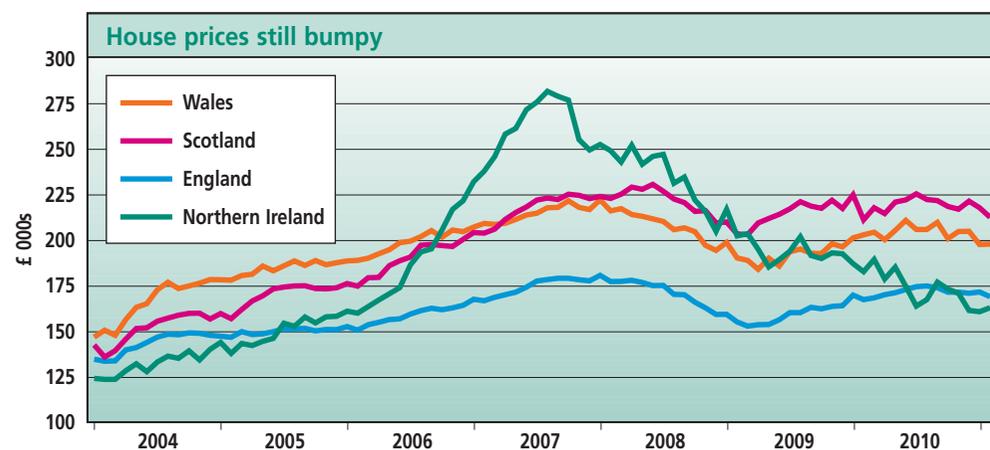
While the housing market was relatively stable in 2010 there were only very limited signs of recovery from its post-credit-crunch collapse. And 2011 is already another challenging year, with any substantial market recovery looking likely to arrive later rather than sooner.

Total housing market transactions rose slightly in 2010, but remained at little more than half the levels of the pre-crunch years. The same was true for numbers of mortgage advances for house purchase, with advances for first-time buyers remaining below 200,000 in 2010 – as they were in 2008 and 2009. This is lower than at any time over the past forty years.

There was, however, some growth in levels of mortgage refinancing. And while there was a small upturn in new buy to let mortgage advances the numbers were still only a third of that in the pre-crunch years.

House prices at the end of 2010 were rather higher than at the end of 2009, but the recovery in prices in the early months of the year was not sustained, and they fell back in the early months of 2011. The position in Northern Ireland was less comfortable with prices continuing their downward path throughout 2010 (see page 18).

One result of these falls is a marked change in the mix of dwellings being sold over the last year. House price measures that simply average out all sales during the year tend to show a more pronounced rise in prices. The 'mix-adjusted' house price measures (see chart) take account of the changing composition in the type of properties being sold in different periods. In these volatile times, mix-adjusted measures give a far better indication of the extent of housing market recovery.



Source: DCLG Mix Adjusted House Price Index (February 2002 = 100.0).

Future prospects

The modest rise in house prices in Great Britain in 2010 was in part sustained by a further reduction in the average interest rate for new mortgages (from 4.1 per cent to 3.6 per cent), and the historically low level of new housebuilding.

However, if overall mortgage affordability has eased (see page 10) there are still major constraints on loan availability, and in particular mortgages to first-time buyers with limited deposits. The fundamental constraints on the supply of mortgage finance following the collapse of the securitisation market in 2008 remain, while banks also need to increase their capital reserves under the 'Basel III' provisions and in response to FSA regulatory requirements.

While the government has introduced a welcome scheme to assist some 10,000 households with their mortgage deposits, this will only have a modest impact in the context of the truncated market availability of mortgages requiring modest deposits. Just 15 per cent of mortgage advances to first-time buyers in 2010 required deposits of 10 per cent or less of the purchase price; in the years before the credit crunch they accounted for three-fifths of all first-time buyer mortgages. The deposit barrier will thus continue as a major obstacle for new first-time buyers (excluding some 100,000 potential purchasers a year), despite slight signs of market easing on this front.

Expectations for 2011 are also moderated by the low level of anticipated economic growth (see page 5), anxieties about employment prospects in the face of the substantial squeeze on the public sector, and the prospect that inflationary pressures will result in some upward movement in interest rates. High levels of mortgage repossessions will also act as a drag on the market and lenders' finances. In turn, a subdued housing market will be both a contributory cause as well as a symptom of a slow and uncertain economic recovery.

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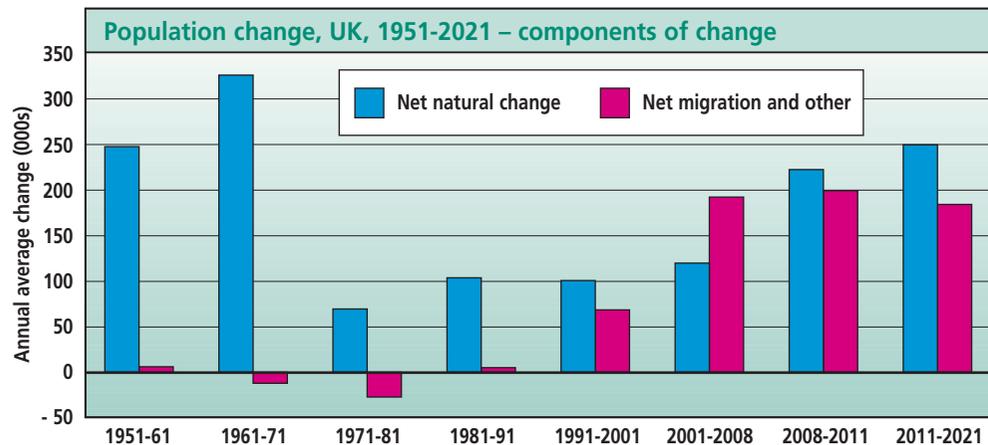
Households, population and migration

Latest household projections suggest that, at least for England and Wales, housing demand is likely to continue to grow over the medium and longer term. Nevertheless, a possible reduction in future net migration into the UK could moderate this trend.

Housing demand depends substantially on the changing size of the household population. While second home ownership is also relevant, the scale of household growth is the main driver.

Projections published in 2010 anticipate that over the 2008-2033 period, UK household numbers will grow annually by 272,000 – a 26 per cent increase over the period. However, as noted in the *UK Housing Review 2010/2011*, the challenge of how to ramp up housebuilding rates differs substantially across the four parts of the UK. In England and Wales, if housebuilding resumed at pre-credit-crunch levels, it would still run well behind projected household growth: average annual projected growth in households over 2008-2033 is 245,000, yet typical housebuilding rates (1997-2006) were only 168,000 per year. But in Scotland and Northern Ireland housebuilding in the decade to 2006 was well above projected 2008-2033 household growth rates.

Underlying household numbers and projections are trends in the overall *population*. This is mainly influenced by rates of ‘natural change’ (births and deaths, plus changes in life-expectancy) and migration. Since 2001 net migration (balance between inflows and outflows) has become much more significant and was the main driver of population change 2001-2008 (see graph).



Source: *Social Trends*, Volume 40.

A recent turning point in migration patterns came around 1990 when immigration began to exceed emigration (see graph). Latest figures show that immigration is beginning to pick up again after its low point in 2009; at the same time as there has been a fall in *emigration* since the end of 2008.¹ As a result, net migration into the UK has grown slightly since 2009.

The major new factor affecting UK migration rates over the last decade was, of course, the influx of workers from the ‘A8’ countries admitted to the EU who gained the right to travel to and work in the UK from 2004. There was an initial surge in A8 immigration in 2004/05, with a further rise peaking at the end of 2007. Subsequently, A8 arrivals halved while departures roughly doubled, so that in 2009/10 flows were roughly in balance. However, latest ONS figures (May 2011) indicate a renewed increase in net A8 migration during 2010.

Whether the UK will continue to attract sufficient A8 nationals to offset departures is an open question over the medium term. Potentially important is the change in May 2011 when Germany and other countries opened their borders to A8 migrant workers previously denied free access by ‘transitional protection’ rules that have now lapsed. Given the geography of Europe and the relative robustness of some continental European economies, it seems highly likely that Britain will be less attractive to A8 migrant workers from now on.

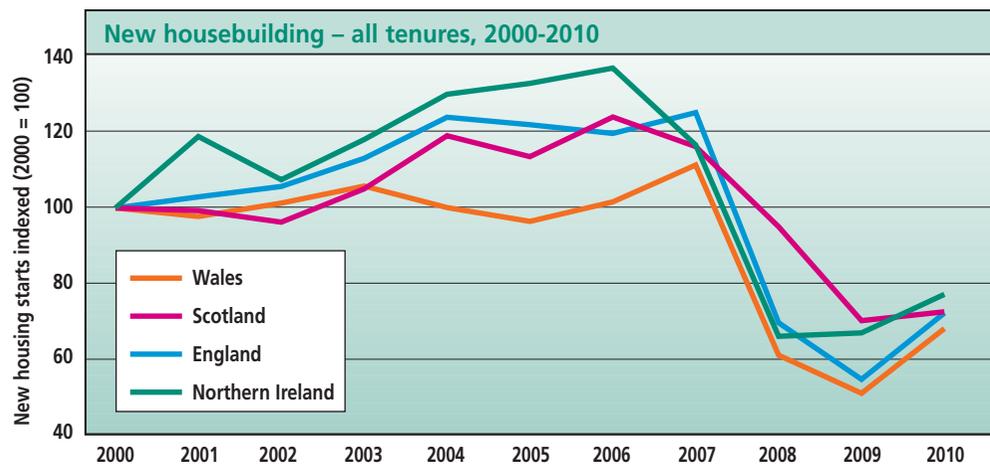
May 2011 also saw the UK extending welfare benefits provision for A8 migrants over and above the highly restricted entitlements they had before. The ending of the rule under which benefits were conditional on employment could reduce the disproportionate numbers of Central and Eastern European individuals among London’s rough sleepers (see page 14). However, it seems unlikely that the change will trigger significant new immigration.

These developments coincide with the toughening of overseas student visa rules,² which will significantly reduce inflows of students. Taking the different factors together, future net migration estimates factored into population and household projections may need to be revised downwards, with knock-on effects for assessments of housing demand.

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- 1 ONS (2011) *Migration Statistics Quarterly Report*, May 2011 www.statistics.gov.uk/pdffdir/mig0511.pdf
- 2 Home Office (2011) www.ukba.homeoffice.gov.uk/sitecontent/newsarticles/2011/march/54-student-visas

Housing supply and the new 'localism'



Source: DCLG live tables

Note: 2010 figures for Wales, Scotland and Northern Ireland are estimated, based on part-year returns.

Gross housebuilding across the UK revived slightly in 2010 (see chart), although building rates in England, Scotland and Northern Ireland stayed at around half their 2006-2007 peak. Most of the 2010 nationwide upturn came from new private development; government measures to give a 'counter cyclical' boost to social-sector new build played only a small part.

In England, starts were up 32 per cent to 103,000 in 2010 compared with 2009. Yorkshire and Humberside had the largest 'bounce', with new starts up by two-thirds. Nevertheless, as compared with pre-credit-crunch levels, construction was lower in the Midlands and north than in the south. London stands out as relatively unscathed by the downturn: in 2010 new starts were still running at 77 per cent of the 2007 figure, compared with only 48 per cent across the three northern regions.

Despite minor recovery in 2010, housebuilding in 2009 was the lowest in peace-time since 1924. Also – at least in England – even at the peak of the earlier boom housebuilding rates were widely considered too low to keep pace with rising demand, let alone tackle worsening affordability. While new starts peaked at 178,000 in 2007, a government green paper that year noted that this remained well below the rate of new household formation and pledged to boost housebuilding to 240,000 by 2016.

The coalition government sees historically low housebuilding rates as partly caused by the pre-2010 policy framework with its 'divisive top-down targets' and 'public subsidy-driven

approach'. Therefore, regional construction targets are being replaced in England by local-level financial incentives to permit development so as to 're-energise communities'. The inspiration comes from the German and Swiss planning systems, where similar stimulants to competition between localities in new housebuilding are credited with helping to create long-term house price stability.¹

Under the New Homes Bonus (NHB) councils in England will receive grants 'matching the council tax raised on increases in effective stock'. Actual payments are based on the national average of the council tax band on each extra property, including empty properties brought back into use as well as new build.

At the start of the scheme the government estimates that the grant payable annually for each additional council tax band D property will be £1,439 (or £8,634 over six years). Linking payments to the relevant council tax band means bigger incentives to permit more upmarket developments. Ministers rejected the NHF's call for a flat-rate payment instead. Nonetheless, to provide a specific incentive for affordable housing, 'affordable homes' will generate a flat-rate premium of £350 on top of the standard payment. 'Affordable homes' means both traditional 'low-rent' social housing and the new 'affordable rent' and intermediate tenure products.

For each additional new home built or brought back into use after NHB started, payments will be made for six years through non-ring-fenced grant. This will be partially funded through topslicing local authorities' formula grant.

DCLG's initial impact assessment was that, by 2016/17, NHB will have increased supply by 8-13 per cent above a baseline level. At the mid-point of this range, the impact would be equivalent to 14,000 extra homes annually. Set against the possible fall in housebuilding arising from the government's 'localist' planning reforms, this would be a fairly modest figure – even if achieved.

Local authorities' response to the new system is, of course, hard to predict. However, it has been argued by the South East Strategic Leaders (of local authorities) that NHB payments will be insufficient inducement for councils to change their attitudes towards new development.

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1 Evans, A. and Hartwich, O. (2005) *Bigger Better Faster More: Why Some Countries Plan Better Than Others*. London: Localis/Policy Exchange www.policyexchange.org.uk/images/publications/pdfs/Bigger_Better_Faster_More_-_Sep__05.pdf

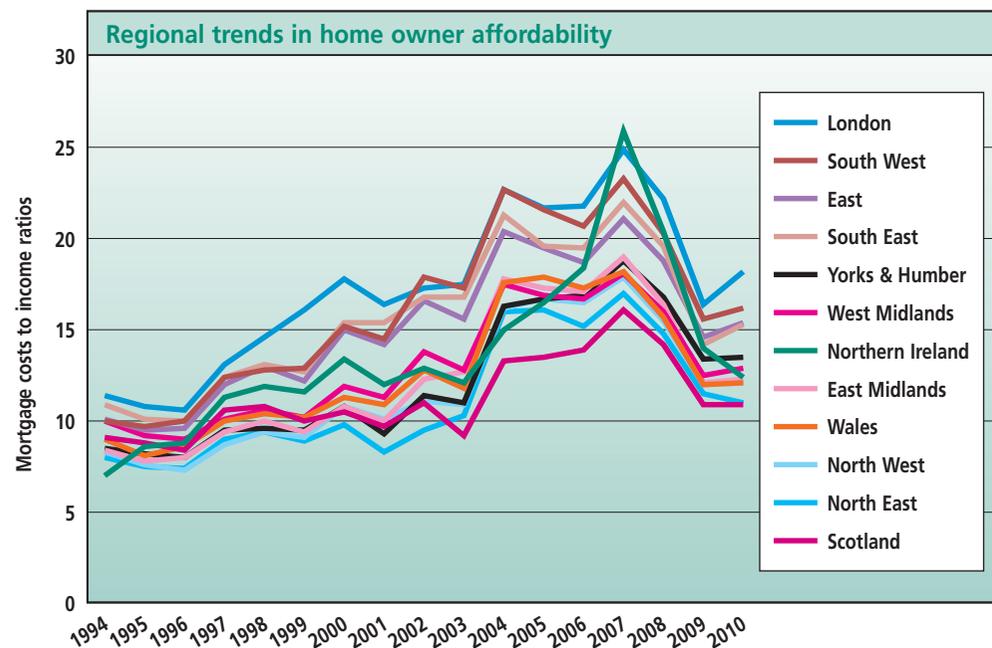
Affordability for first-time buyers

Affordability for first-time buyers deteriorated in 2010. Taken together with the limited availability of mortgages for those unable to put down at least a 10 per cent deposit, the overall picture for those wanting to enter the housing market remained bleak.

The major driver in the worsening affordability was the recovery in house prices, which returned close to 2008 levels – if some way below their 2007 peak. This is based on ‘mix-adjusted’ house prices, which take account of the decline in the proportion of smaller dwellings now on the market following the fall in housebuilding since the credit crunch.

The more routine ‘simple average’ series of house prices suggest that prices have fully recovered, but in the current market, with a marked change in the mix of properties being purchased, those prices are misleading and overstate the recovery.

Nonetheless the bounce in house prices in 2010 was quite substantial, supported by the sharp drop in interest rates on new mortgages from 4.1 per cent in 2009 to 3.6 in 2010. That drop in rates, together with the low levels of new housebuilding and the general shortage of properties on the market, was sufficient to boost prices despite limitations on the numbers of mortgages available.



Source: UKHR Table 2.3.2 (updated).

Across the UK the picture was more patchy, with only modest house price recovery outside southern England. House prices in Northern Ireland continued their sharp post-2007 decline, and are now below 2006 levels. The more marked boom and bust in Northern Ireland is closely linked to the housing market in the Republic, and has been far more severe than anywhere else in the UK (see page 18).

Prospects for affordability in 2011 are mixed. Against the backdrop of economic and labour market uncertainty, and continuing constraints on mortgage availability, interest rates seem set to rise. These factors will to a large degree offset the upward pressures on prices resulting from low levels of new housing supply, and from rising rent levels in both the private and social sectors.

Amidst this uncertainty and conflicting market pressures, affordability levels remain far more challenging than they did in the long years of housing market recovery following the 1990 housing market boom. But added to that is the post-credit-crunch challenge in the demand for larger deposits, so that there is now a wealth barrier – as well as an income barrier – to entering homeownership.

The *UKHR Affordability Index* is based on average first-time buyer house prices (from the Regulated Mortgage Survey) and average gross incomes for working households (from the Living Costs and Food Survey). This year it has been based on a series of mix-adjusted house prices, so that it is not biased by volatility in the mix of dwellings purchased by first-time buyers. The *Index* assumes an average 18 per cent deposit over the series so that it is not influenced by changes in average levels of first-time buyer deposits from year to year.

The *Index* is based on working household incomes, rather than individual earnings, given the large proportion of dual-earner working households among first-time buyers. The household incomes figures used are rolling three-year averages – except for 2010 for which household earnings figures are estimated by applying an uplift of 2.1 per cent to 2009 figures, based on the median increase in average earnings between the two years.

While the *Index* does measure house-price-to-income ratios, its central measure is mortgage costs as a proportion of gross household incomes. Interest rates are based on CML figures showing average interest rates for new mortgages in the fourth quarter each year.

'Affordable Rent' and new social housing

Will the new funding formula for social housebuilding in England meet ministers' targets? Thanks to the peak in grant funding by the last government, there will still be a big completions pipeline in 2011/12. But from 2012/13 onwards, new supply will be highly dependent on whether the new 'Affordable Rent' model works.¹

The greatly reduced grant rates under the new regime imply rents well above current levels. The extra income will enable providers to finance the higher unit borrowing needed to replace the lost subsidy. To boost output, providers will also be allowed to 'convert' existing relets from standard rents to the higher Affordable Rents. The extra income will cross-subsidise new development.

Whether providers can actually offset lower grants through higher rents will be affected by the rule that new tenancies should be let at a maximum of '80 per cent of gross market rents'. However, the resulting headroom will vary substantially across the country (see chart). In London, rents set by this formula could underpin substantial increases in borrowing. Elsewhere, the impact will be much more modest. One possible implication is that a bigger share of national grant will need to be spent in lower-demand areas.

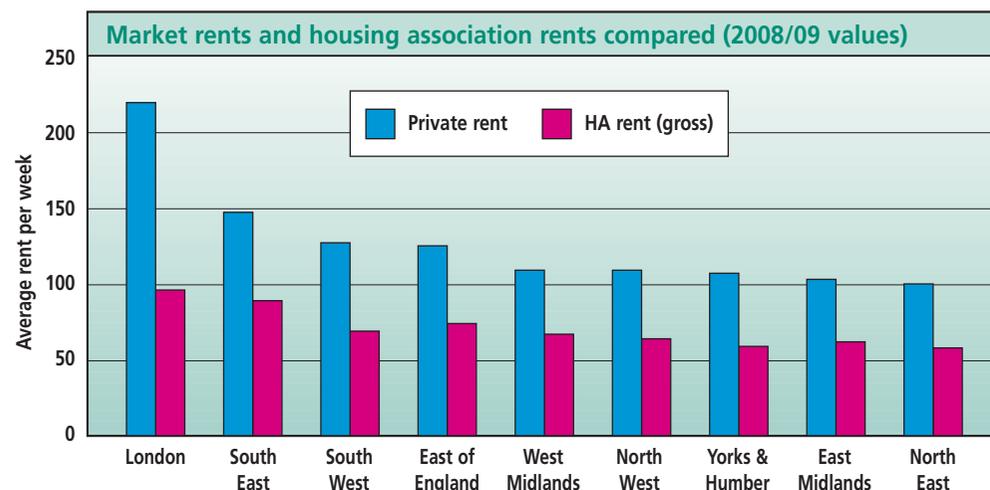
Rent levels implied by the '80 per cent of market' ceiling have already raised concerns about affordability in many parts of London – especially for family-sized homes. Although occupiers can still claim housing benefit on the same terms as other social

tenants, the danger is that people needing family-sized homes might see their entitlement capped below actual rent levels. This is because of the government's proposed overall benefit cap (£26,000 p.a.) to be incorporated in the universal credit regime from 2013 (see page 17). Consequently, in their funding bids, some housing associations have consciously capped Affordable Rents at well below '80 per cent of market' levels – especially in London. In effect, they are giving up some of their potential capacity to build new homes to reduce the impact on tenants of the higher rents.

Whether the new formula will generate social housing output on the scale officially envisaged is, anyway, very difficult to predict. Apart from decisions on rent levels, it depends crucially on how far providers 'convert' existing relets. Assuming a 50 per cent 'conversion rate' and allowing for many other factors, Hometrack suggests that the new regime is likely to generate less than 50,000 homes in the period to 2015 – well short of the 80,000 required to meet ministers' targets.² If only 25 per cent of re-lets are converted, output shrinks to less than 22,000 over the period. Although, in theory, 100 per cent relet conversion could lead to output that gets much nearer to the target, because of providers' actual policies this is implausible.

Another serious concern is the regime's financial sustainability. Continued housebuilding means providers taking on more debt. Even in the short term, there are risks that this will compromise the terms of loan covenants on maximum gearing ratios. In the medium term, racking up extra debt year-on-year is likely to result in increased borrowing costs and use up borrowing capacity. Within a few years, associations may be forced to scale back development programmes even further. There must also be some doubt whether the DWP and Treasury will tolerate the growing housing benefit costs of the new regime.

Other assumptions built into the funding regime and presenting challenges for providers include the expectation that affordable homes developed under s106 'planning gain' will no longer need any grant – historically, only 10-20 per cent have been provided without grant. All in all, medium-term prospects for affordable housebuilding in England look decidedly problematic.



Source: Dataspring.

Note: These are the most recent data available.

References

1 HCA (2011) *2011-15 Affordable Homes Programme Framework*. www.homesandcommunities.co.uk/affordable-homes

2 Hometrack (2011) *Affordable Rent Policy Impact Analysis*. www.hometrack.co.uk

Council housing finance reform

The coalition government is proceeding with reform of council housing finance in England, bringing an end to the much criticised Housing Revenue Account (HRA) subsidy regime. While the terms of the new settlement are somewhat tougher than those originally proposed, the coalition plans retain the essence of the 'Prospectus' published by the last government.

The current housing subsidy regime for English council housing will be abolished, following a one-off reallocation of debt between councils, and a handy net £6.7bn financial transfer to HM Treasury, in April 2012.

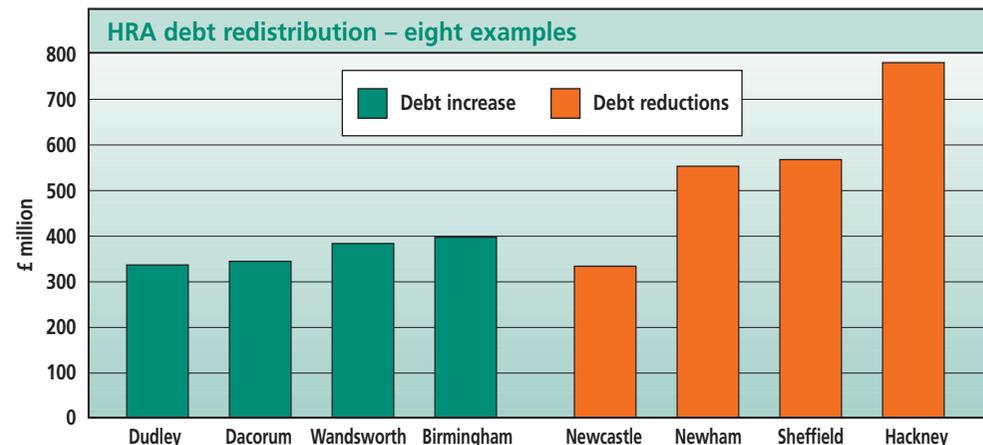
That transfer will certainly assist the Treasury in its cashflow management, but it will not lead to any reduction in the UK measures of public sector borrowing and debt – it simply transfers funding between different parts of the public sector. It will, however, reduce general government debt and borrowing, and improve the UK's standing on the international fiscal measures of most interest to financial markets.

Despite this Treasury 'levy', which will replace the future stream of rising annual transfers that would have continued under the old system, the financial settlement also has some very positive elements. Factored into the debt redistribution will be increased provisions for major repairs (28.9 per cent) and for management and maintenance (5.7 per cent).

The discount rate used in the debt redistribution calculations will be 6.5 per cent: this includes an element to cover the additional risks councils take by moving to self-financing. While in line with stock transfer valuations, it is a step back from the 7.0 per cent rate proposed by the previous government and intended to leave councils with the capacity to support investment in new council housing. That element of reform has been dropped, and councils' ability to build will depend on any (very limited) headroom under the debt cap (see below and page 19).

Financial restructuring will also use the inherited rent policy, with rents rising annually at RPI +½ per cent. There are no assumptions at this stage about any re-let rents moving towards the 'Affordable Rents' introduced for housing associations (see page 11).

The proposals have been widely welcomed; although some councils may be rueful about the extra debt they are taking on, that they could have largely avoided had they opted for stock transfer on the favourable terms previously available. The sums involved are not small: for eight councils the positive or negative debt transfers are expected to exceed £300m each (see graph).



Source: DCLG (2011). *Implementing self-financing for council housing*. London: DCLG.

There are various technical issues involved in assessing the outturn debt figures for the 2012 redistribution, and a hectic period for DCLG and individual councils in finalising the figures. But beyond April 2012 there are still four significant limitations to financial freedoms under 'self-financing':

- Councils stay dependent on capital grant allocations to improve their stock to the Decent Homes Standard. The £1.6bn allocated to councils over the next four years, plus a much-reduced trickle of stock transfers, will be insufficient to bring all council stock up to the standard by 2015.
- Councils will also continue to remit 75 per cent of receipts from right to buy sales to DCLG, net of the future revenue streams foregone as a result of the sales.
- More fundamentally, councils will be prohibited from increasing their future level of debt. In effect, they will lose the opportunity to translate revenue efficiency savings into additional prudential borrowing.
- Finally, and most worryingly, HM Treasury has reserved the right to revisit the debt redistribution in the future.

While on balance the reforms are welcome, and it does credit to the coalition government that it has proceeded broadly with proposals inherited from the previous government, this is not yet the end of the story for reforming the HRA.

Reference

DCLG (2011). *Implementing self-financing for council housing*, London: Department for Communities and Local Government.

Local Housing Allowance – the reforms

With only minor changes, the coalition government has pressed ahead with reforms to the Local Housing Allowance (LHA) regime for housing benefit in the private rented sector. The only significant concession was to drop the proposed ten per cent 'benefit penalty' for claimants remaining on jobseeker's allowance for more than 12 months. As from this April:

- LHA rates are based on 30th percentile rather than median rents
- the maximum rate is reduced to the 4-bed rate
- the maximum payment is the actual rent if it is below the LHA rate
- an extra room can be claimed by some disabled claimants
- national caps apply to the LHA rates.

The changes also apply to existing claimants on the anniversary of their claim, if their circumstances change or if they move address. Local authorities have been provided with a limited increase in their budgets for Discretionary Housing Payments (DHPs) to offset the impacts in selected cases.

The government has backtracked, albeit temporarily, from the presumption that payments should in the first instance be paid to claimants, and only be paid to landlords in cases where there are rent arrears, or the claimant is vulnerable. It now plans to allow payments direct to landlords if they agree to reduce their rent to match the lower LHA rate, and thus enable an existing claimant to stay in their accommodation. This provision is only temporary and the wider principle of direct payments will be reconsidered in the context of the universal credit scheme (see page 17).

Further ahead, from January 2012 the 'shared accommodation rate' (or Single Room Rate) will be paid to single claimants aged 25-34, as well as to those under 25.

The changes will clearly have a very marked impact on the capacity of benefit-dependent households to secure private rented accommodation, particularly in parts of inner London where the national caps will produce a very sharp cut in the maximum LHA rate. In effect, parts of inner London will become 'no go' areas for claimants, with pressures diverted to less expensive areas.

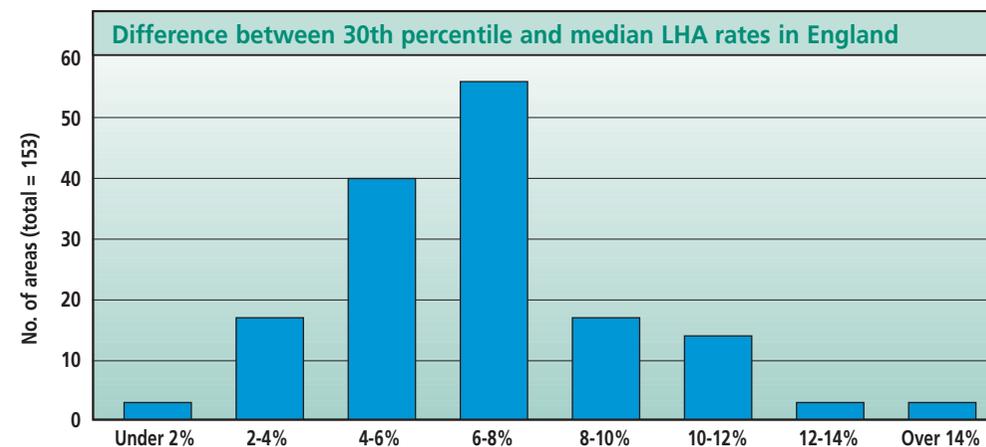
The impact of the changes will be mitigated by local authorities using their increased DHP budgets and to some extent by landlords cutting their rents in response to the lower LHA rates. Indeed the government has set great store by its hopes that landlords will reduce rents, hoping to save government expenditure with only a limited impact on claimants.

Also, the differences between the 30th percentile and median-based rates are not always very big, as typically local rents are concentrated quite closely around median levels. Indeed, taking as an example the LHA rates for one-bedroom dwellings, in June 2010 there were only six areas (out of 153 in England) where the difference between the two rates was more than 12 per cent (see chart for full comparison). In contrast there were sixty areas where the difference was less than six per cent.

At this stage the big unknown is how landlords will respond to lower LHA rates and the promise of direct payments if they reduce rents. Landlords seem more likely to respond in areas where the difference between the different LHA rates is small, where claimants form a large proportion of the demand group for available private lettings, and where competition from other households is limited.

These conditions are least likely to occur in London and other high pressure housing markets. Nor will the government's hopes be helped by the increased demand for private renting from middle-income households unable to get a mortgage (see page 10), or the continuing shortfall in housebuilding rates compared to growth in household numbers (pages 8 and 9).

The government's concessions on direct payments is also a test for private landlords, because their representatives have long argued against payment of housing benefit to claimants. If there is only a limited response to the government offer, this will weaken the case for direct payments to landlords in future when the new universal credit scheme comes into operation.



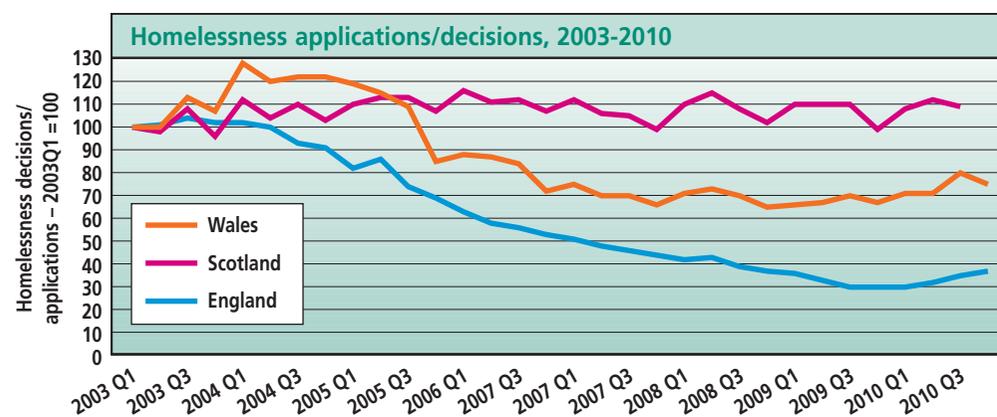
Source: Valuation Office – One-bed rates for June 2010.

Homelessness

Homelessness has shown worrying signs of growing in the last year, with an upturn in England after a long period of declining numbers. With economic problems expected to continue for the next two years, the risk is that this could be the start of a sustained trend.

Statutory homelessness

Homelessness demand has varied markedly across Britain in the last few years (see chart). During 2003-2009, the 'prevention-focused' approach in England cut the number of statutory homelessness decisions by 70 per cent. In Scotland, by contrast, homelessness applications were fairly constant throughout the period.¹ In England a turning point came in late 2009, with assessment decisions having now risen steadily over the four most recent quarters – hence concerns about a rising trend. In Wales, the downward trend bottomed out some two years earlier, replaced by a slight upward trend.



Sources: DCLG, Scottish Government, Welsh Government.

Note: 2003 Q1 figure for Wales estimated.

The single clearest reason for the 2010 rise in homelessness in England was growing numbers accepted as homeless following loss of a private tenancy. Even though it was only a fifth of the 2010 total, this group was 26 per cent bigger than in 2009. This could be seen as re-establishing a longer-term pattern rather than as a new, unprecedented development. In future, of course, a house price revival might result in further homelessness if buy to let landlords opt to liquidise their investments.

Because the proportion of homelessness cases accepted as being in priority need has remained quite stable in England over recent years (at 44-48 per cent), the pattern shown in the graph is also a good representation of the 'statutory homelessness' trend over this period

– households found to be unintentionally homeless *and* in priority need. In Scotland, though, numbers of accepted 'priority homelessness' cases have risen markedly in recent years. This resulted largely from the Homelessness etc (Scotland) Act 2003 ruling that the concept of priority need would be eliminated by 2012. The Scottish Government has encouraged local authorities to phase in the change by gradually widening their definitions of priority need. Across Scotland, therefore, by 2010 some 77 per cent of cases were judged as homeless (or potentially homeless) *and* in priority need (discounting withdrawn applications and 'lost contacts').

Thanks mainly to contrasting approaches to homelessness assessment (see above), the use of temporary accommodation (TA) has also varied sharply across Great Britain. In England, with remarkably little fanfare, last year saw the achievement of the 2005 ministerial target to halve TA numbers by 2010. TA placements – 101,000 in March 2005 – fell to just 48,000 by the end of 2010. Moreover, despite the renewed increase in homelessness acceptances since 2009, the declining use of TA continued. In Scotland, however, reflecting the stresses of the phased widening of priority need, TA placements rose by 66 per cent to 10,700 in the period 2004-2010.

Rough sleeping

Some 1,768 rough sleepers were counted by local authorities in England in autumn 2010. The rate of rough sleeping per 1,000 households was highest in London, but the rate for South West England was only marginally lower.²

Because the 2010 DCLG figures were collected using new methodology, direct comparisons with earlier figures are not possible. However, London statistics compiled via Broadway's CHAIN system have shown increased rough sleeping in the capital over recent years. In 2009/10 the numbers counted by outreach workers totalled 3,673 – 6 per cent up on the previous year and 22 per cent higher than in 2006/07.³ However, the increase up to 2010 was entirely accounted for by rising numbers of central and east European nationals. Excluding these groups, the CHAIN data showed rough sleeping falling slightly during 2008-2010.⁴

References

- 1 Official monitoring guidance differs: England's 'homelessness assessment decisions' and Scotland's 'homelessness applications' are not identical. The latter is likely to be a more comprehensive record of the underlying incidence of homelessness.
- 2 DCLG (2010) *Rough Sleeping Statistics England – Autumn 2010 Experimental Statistics*.
- 3 Homeless Link *et al* (2010) *Homelessness Trends and Projections*.
- 4 Broadway (2010) *Street to Home Quarterly Bulletin October-December 2010*.

Managing repossessions

The rise in repossessions following the credit crunch has, so far, been contained well below the levels of the housing market 'bust' in the early 1990s. Several factors have contributed: in particular, the sharp reduction in mortgage interest rates, especially for those with variable mortgages linked to the bank rate. Alongside that, the rise in unemployment has so far been less severe than at one time feared.

Repossession numbers have also been contained by a range of government and industry initiatives – especially, temporary improvements to the scheme to help with mortgage costs for out-of-work homeowners (SMI). The nine-month waiting period before unemployed claimants could get help with mortgage costs was reduced to 13 weeks. The cap on maximum help was also increased to cover a £200,000 mortgage, and the standard interest rate was frozen at 6.08 per cent.

Lenders also exercised a measure of 'forbearance' rather than rushing to take possession. In part this was prompted by a new Mortgage Pre-Action Protocol forming part of the legal process, and by the Financial Services Agency (FSA) guidance emphasising their expectation that possession should be a 'last resort'.

Not only did these measures keep repossessions well below the levels of the last recession, but there was even a reduction in repossessions in 2010 (see graph).

Next steps

Prospects for 2011 are less promising. While some of the government 'special measures' remain in place, the standard interest rate for SMI has now been dropped to 3.63 per cent, in line with the mortgage market average in August 2010. In future it will change only when monthly Bank of England figures show a movement of more than 0.5 per cent.

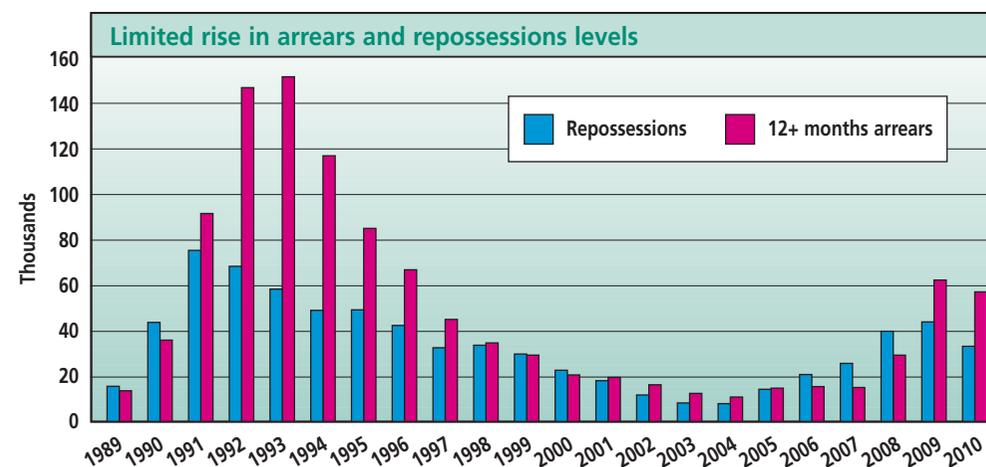
According to the latest figures (March 2011) the average rate on outstanding mortgages has fallen to 3.49 per cent. In practice, however, the interest rates faced by individual borrowers vary substantially. The average for all fixed-rate mortgages is 5.07 per cent, while the average for variable rate mortgages is just 2.74 per cent. The much lower figure typical for variable mortgage rates in part reflects the numbers still benefiting from loans linked to the Bank of England base rate. But homeowners with sub-prime mortgages generally face rates some way above the market average.

The new average standard SMI rate will therefore have a very mixed impact. For some home buyers with tracker mortgages it will more than adequately cover their interest payments; but others face a quite substantial shortfall. Combined with the slow rate of

economic and housing market recovery, this will stretch lenders' willingness and capacity to continue to exercise 'forbearance'.

The government faces increasing pressure to develop a more enduring safety net for homeowners in financial difficulties. On the positive side ministers have suggested that help with mortgage costs should be included within the new universal credit (see page 17). In principle, if mortgage interest costs were included in the same way as rental costs, offering help to low-income homeowners both in and out of work, there would be a major improvement in the safety net. Or, at least, there *would* be if it were done without reverting to the nine-month delay before the help kicks in, and were not subject to the two-year maximum limit on SMI claims now applicable to unemployed households.

Such an approach does, of course, cost money, and the government has so far been silent about how it might proceed. If, however, an effective compulsory mortgage insurance scheme were introduced for new mortgages (providing cover against accidents, sickness and unemployment) this would shift costs away from the universal credit scheme, as well as providing a more effective safety net that would benefit not just individual homeowners but the wider housing market – and prospects for economic recovery.



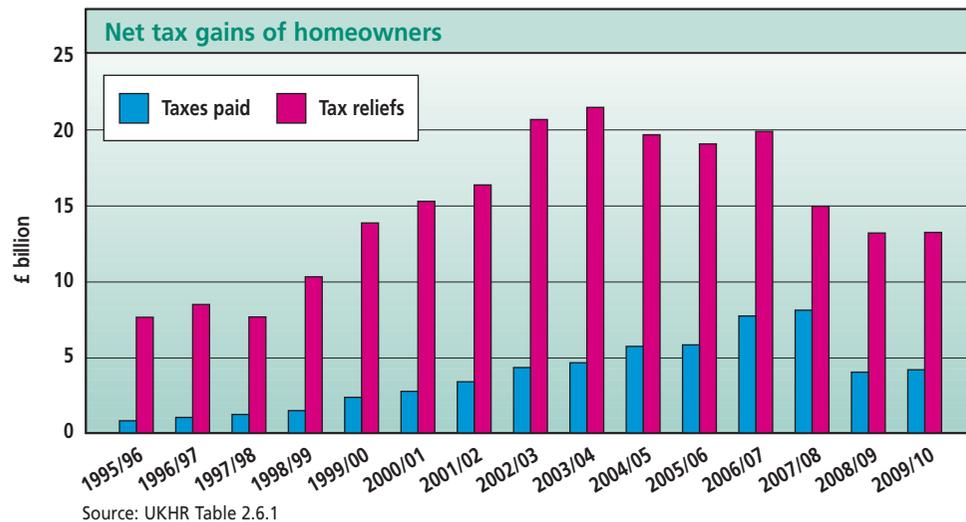
Source : CML. Arrears and repossessions for Great Britain.

The generation tax

Each year the *UK Housing Review* provides the only regular and comprehensive estimate of the value of tax reliefs to homeowners, and shows by how much those reliefs exceed the levels of the property taxes that homeowners have to pay.

The 2009/10 figures show a net annual balance of tax reliefs over taxes paid for homeowners of £9bn – equivalent to a saving of nearly four pence on the basic rate of income tax for the average household.

The taxes *paid* are stamp duty, and the estimated proportion of inheritance tax applying to housing wealth in estates subject to the tax. The tax *reliefs* are capital gains tax (after allowing for ‘roll-over’ relief when owners move from one home to another) and the absence of any tax on the rental value of the owner’s home.



Historically, owners paid ‘schedule A’ tax on the rental value of their homes, before it was abolished nearly 50 years ago. Logically it treated homeowners in the same way as private landlords, and the mortgage tax relief for homeowners eventually abolished at the turn of the millennium was originally intended as an appropriate offset against any schedule A tax liability.

The estimated values of the rental value tax are made assuming the reintroduction of mortgage tax relief as an offset. The estimated gross yield from a rental value tax for 2009/10 would be £21bn, but with £10bn mortgage tax relief this becomes the estimated net yield of £11bn. This is then added to the value of the CGT relief to give the total tax relief figures shown in the chart.

Property taxes and tax reliefs are politically sensitive and the prospects for fundamental reforms are therefore slim. Even serious and dispassionate analyses of the shortcomings of private housing markets tend to focus on relatively modest reforms, knowing that even those will be fiercely contested and lambasted in the tabloid press.¹

Even so the current tax bias within the UK residential property regime needs to be recognised. It still acts to favour investment in owner-occupation relative to private renting: all the abolition of mortgage tax relief in 2000 did was to reduce the bias.

The regime also favours existing owners – especially long-term owners that have benefited from substantial house-price rises over the last two decades and no longer have a mortgage (or have a small one). They get the maximum benefits from the current capital and revenue tax reliefs, that in turn inflate house prices and make entry to the sector by would-be first-time buyers more problematic.

Tax bias is at the same time both one of the attractions of homeownership, and a factor that raises the entry hurdle to becoming a homeowner in the first place. To that hurdle is now added the constraints of the ‘deposit barrier’ (see page 10), which particularly affects households without access to inheritance or parental wealth to assist them.²

Inter-generational transfers of wealth (from parents to children) can be seen as a payback from the tax bias favouring existing homeowners, but it leaves the sons and daughters of *tenant* households out in the cold, and creates a barrier to tenure and social mobility more severe than has been seen in the UK for more than thirty years.

The higher property values that are a product of the homeowner tax bias also have implications for affordable rented housing. The new government’s policy is to set ‘Affordable Rents’ at up to 80 per cent of market value for many low-income as well as intermediate-income households. This approach raises many questions (see page 11), but it also needs to be recognised that market values for renting as well as owner-occupied housing are inflated by the homeowner tax bias. As long as the tax bias remains in place, there continues to be a logical case for keeping affordable rents some way below full market value.

Reference

- Stephens, M. (2011) *Tackling housing market volatility in the UK*. Housing Market Taskforce. York: Joseph Rowntree Foundation.
- Wilcox, S. (2011) ‘The deposit barrier to home ownership’ in Pawson, H. & Wilcox, S. (eds) *UK Housing Review 2010/11*. Coventry: CIH.

Universal credit: effects on housing

Beyond the more immediate challenges of the housing benefit reforms lie the government's proposals for a universal credit and a cap on maximum benefits, which would be the most significant changes to the welfare benefits regime for forty years.

Legislation is currently passing through parliament to replace working tax credits, child tax credits, housing benefit, income support, and the income-related jobseeker's allowance and employment and support allowance, with the universal credit. It does not at present cover council tax benefit – government sees CTB being devolved to local authorities.

These changes are advocated not only as administrative simplification, but also to improve work incentives and make the potential gains to households entering low-paid work more transparent. Central to this is that, with a single unified benefit structure, there will be a single 'taper rate' through which help is withdrawn as earned incomes rise. This will replace the complex overlapping tapers of tax credits and housing benefits within the present system – that can result in cumulative benefit deductions of as much as 96p for every additional £1 someone earns.

There are many issues involved in the design of universal credit, in particular the logistical challenge of integrating the tax and benefit IT systems. There are also critical decisions to be made in respect of housing costs, that will not just affect social landlords but also the government's hopes for a simplified and transparent scheme with more effective work incentives – which could yet be undone by the complexity of the proposals about 'earnings disregards'.

Critical issues

The exclusion of council tax benefit seriously reduces the potential advantages of the universal credit, as it leaves in place another overlapping benefit.

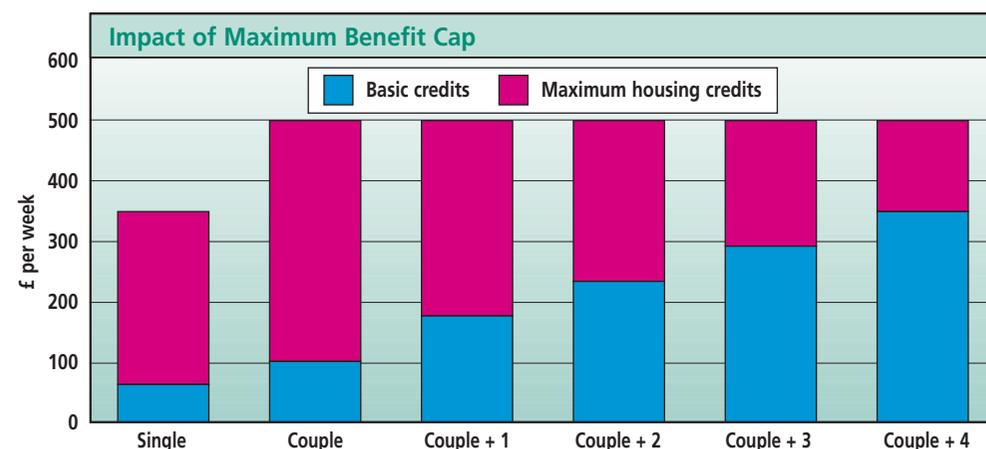
The new regime will also be far more complex than it need be because it includes a two-tier earnings disregard. A higher disregard is available for households not receiving any help with housing costs as part of their universal credit (i.e. outright homeowners with no mortgage). But for households who do receive help with housing costs, the earnings disregard is to be reduced by a multiple of their housing costs, subject to a lower minimum floor.

While the minimum disregards are slightly higher than current levels in housing benefit for households with children, there is no minimum level set for single people. They are also too low to compensate for the less generous arrangements to replace the current tax credits within the new regime.

Low and complex earnings disregards are a fundamental obstacle to delivering the scheme's objectives. They do not improve work incentives for low-earning tenant households, and simply replace one confusing regime with another. This fails the tests of simplicity and transparency, and will not help the government to promote behavioural change.

The maximum cap

A further critical aspect is the related proposal for a maximum cap on total benefits for out-of-work households below retirement age. The cap is to be based simply around the national average wage, but with a lower limit set for single people. However, otherwise the cap is to be a flat rate across the whole UK, with no variations to take account of either family size or housing costs.



Source: UKHR 2010/11 Chapter 1.4.

As a consequence the cap will be particularly hard-hitting for larger families in areas of high housing costs. It will be far more restrictive than the LHA caps being introduced for private sector tenants, and in high-value areas also cuts across the new regime for 'Affordable Rents' for new social housing (see page 11). For very large families the proposals will even affect their ability to meet *current* social sector rents.

If the proposals are not substantially changed, social landlords will have to think how they can best provide for larger families, not just in terms of rent policies but also in helping those families meet the minimum employment requirements so that the cap no longer applies.

Northern Ireland reshapes its housing policy

The UK housing market as a whole remains in the doldrums after the credit crunch (see page 7), but in Northern Ireland the boom and bust over the last seven years has been far more severe.

Typically house price movements in England and Wales follow a similar pattern, but house prices in Northern Ireland have more closely resembled, and been influenced by, the volatility of the housing market south of the border.

English house prices rose by 34 per cent between 2004 and 2007, and then fell by 16 per cent over the next eighteen months before beginning a slow if uncertain recovery. Over the same period, the changes in Northern Ireland have been far more dramatic. Between 2004-2007 prices doubled, since when they have fallen by some 60 per cent. South of the border, following a similar boom, house prices also fell by 60 per cent between September 2007 and April 2011.¹

Dealing with house-price volatility, and its fall out, are consequently far more serious issues for Northern Ireland than in the rest of the UK.

There are many factors that underpin the more severe economic and house-price 'roller coaster' in Ireland, north and south of the border, but one particular feature of the changing market in Northern Ireland over the last decade has been the very rapid growth in the private rented sector.

Between 2000 and 2009 the private rented sector in Northern Ireland trebled in size. In Great Britain the growth rate over the same period was a far more modest 51 per cent.



Source: UKHR table 17c.

If the growth in private renting in Northern Ireland is likely to be enduring, in the short term it has seen a slight fall in rent levels (about five per cent) – albeit far less than rents have fallen south of the border.

In Northern Ireland the sector is also distinctive in providing for a very high proportion of households in receipt of housing benefit; the proportion has risen from 37 per cent in 2001 to almost three-fifths in 2009. So the changes now being made to the UK Local Housing Allowance regime (see page 13) can be expected to have a particularly big impact in Northern Ireland.

In contrast to the volatility of the housing market, the political situation in Northern Ireland now seems relatively stable, and twelve years after the formal 1999 devolution settlement politicians have moved on from the years of direct rule towards taking up the reins of decision-making. This has led to a number of important housing policy reviews, including proposals for a new regulatory regime for the private rented sector (in marked contrast to the retreat on regulation in England).

But probably the most fundamental issue for housing policy is the future of the Northern Ireland Housing Executive (NIHE). No final decision has yet been made, but there is a clear intention to separate the NIHE's housing management role from its strategic and research functions. The stated objective is for the landlord function to remain in the public sector as a single agency for the whole of Northern Ireland.

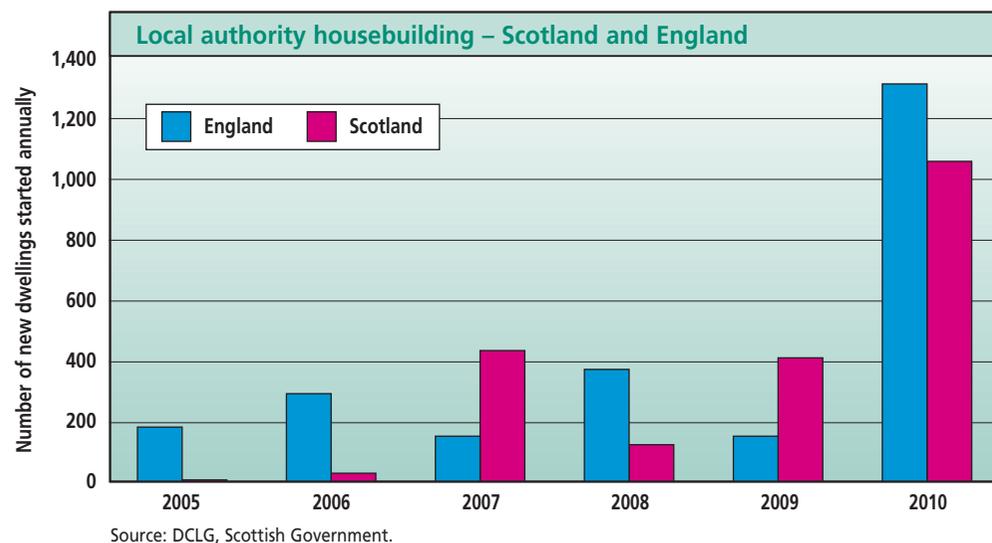
Equally, Northern Ireland politicians chafe at the restrictions of UK public borrowing rules, and see no reason why NIHE should not be able to access borrowing while remaining a public sector body. The case for relinquishing the unique and unduly restrictive rules on public sector borrowing financed out of trading incomes has been repeatedly made in the *UK Housing Review* (and in last year's *Briefing*). But it remains an uphill struggle to convince HM Treasury of the case for adopting international fiscal rules that do not restrict borrowing by public sector trading bodies such as NIHE. Although councils in Scotland have managed to slip out of direct Treasury controls, council housing borrowing in England and in Wales and – at least for the moment – its equivalent in Northern Ireland, remain firmly under its grip.

Reference

1 Residential Property Price Index, Central Statistics Office, Ireland.

Scotland revives council housebuilding

With council housebuilding topping 1,000 for the first time in over 20 years, 2010 was a notable year for Scottish housing policy (see chart). While there was also a revival in council housebuilding south of the border, given that Scotland's population and housing stock are only around one tenth those of England, it is remarkable that both sets of figures fit on the same graph.



Scotland's resurgence goes back to around 2007. Until 2010, it involved only a small number of financially strong authorities that were able to use the 'prudential borrowing' rules introduced in 2004. Following removal of direct capital controls, councils could borrow to invest provided that projected revenues can support the debt repayments, a matter to which we return below.

The substantial increase in housebuilding last year follows the 2009 launch of a Scottish Government grant-funding programme. With the third funding round announced in July 2010, the total grant allocated rose to £80m. Not only has the programme boosted activity nationally, but it broadened participation to 17 of the country's 32 councils. In 2009, without grant, only four had been building.

Not surprisingly, local authorities' ability to build at relatively low grant rates has proved attractive to the Scottish Government, with flat-rate payments of £25-30k per dwelling equating to only around 20-25 per cent of scheme costs (as compared with grants of

around 60 per cent needed by housing associations in 2009/10). Councils' ability to do this partly reflects the bolstering effect of local authority-owned land contributed at nil cost. Nevertheless, unlike the equivalent HCA programme for grant-aided council housebuilding in England – designed to lever-in free municipal land – eligibility for Scottish Government funding has not been made conditional on such largesse. In a few cases significant contributions to council build costs have also come from second homes council tax income or developer payments levied under planning powers.

However, delivery of new council housing at low grant rates has come mainly from additional investment via rent fund contributions or through prudential borrowing, where the cost of debt repayments is partly borne by *all existing tenants* rather than being accounted for just at scheme level, as has been traditional for housing associations. In using prudential borrowing, Scottish councils have also benefited from official accounting treatment of their debt as part of Annually Managed Expenditure (AME) rather than under the more tightly controlled Departmental Expenditure Limit (DEL) Scottish Government budget. In contrast, most council borrowing for housing purposes in England and Wales falls under DEL.

While Scotland's council new build still represented only a quarter of that by housing associations in 2010, there are indications that outputs may converge in future years. This is partly because, with rents typically lower than those of housing associations, stock-holding councils in Scotland generally have significant capacity to generate extra revenue to put towards housebuilding costs. Realising this capacity will, however, depend partly on the continuation of the existing prudential borrowing regime. If this and other assumptions hold good, we estimated in 2010 that the 25-year housebuilding capacity of Scotland's local authorities and housing associations would be similar.¹

Also relevant to the future of Scotland's council housebuilding revival is the outcome of the 2011 Scottish Parliament election. The Scottish National Party made a commitment to build 5,000 council homes over the next four-year parliament, as part of its aim to construct 'over 6,000 socially-rented houses' annually. Yet none of the major parties favoured the Westminster Government plan to push up 'social housing' rents to 80 per cent of market values. Whether this circle can be squared, remains to be seen.

Reference

1 Bramley, G., Pawson, H., Morgan, J., Wilcox, S. and Williams, P. (2010) *A Study into the Housebuilding Capacity of Local Authorities and RSLs in Scotland*. Edinburgh: Scottish Government www.scotland.gov.uk/Publications/2010/11/11115938/0

Wales gets more powers – but no more money

After a few frustrating years trying to get consent from Westminster for some very specific and limited extra powers to vary primary legislation in Wales, the Welsh Government (WG) has now been devolved wide ranging powers to amend Westminster legislation not just in respect of housing, but across a range of responsibilities.

While it still does not have the full-blooded legislative independence granted to Scotland, the new powers are sufficient to enable the WG to break free from the shackles of legislation tying it to developments within England. Clearly this provides the WG, and the policy community in Wales, with far greater potential to develop policies that they consider appropriate to the Welsh context.

This is potentially heady stuff; but there is no new money to go with the new powers and responsibilities. Moreover the WG budget for housing compares very unfavourably to both England and Scotland, particularly in respect of the finances for council housing.

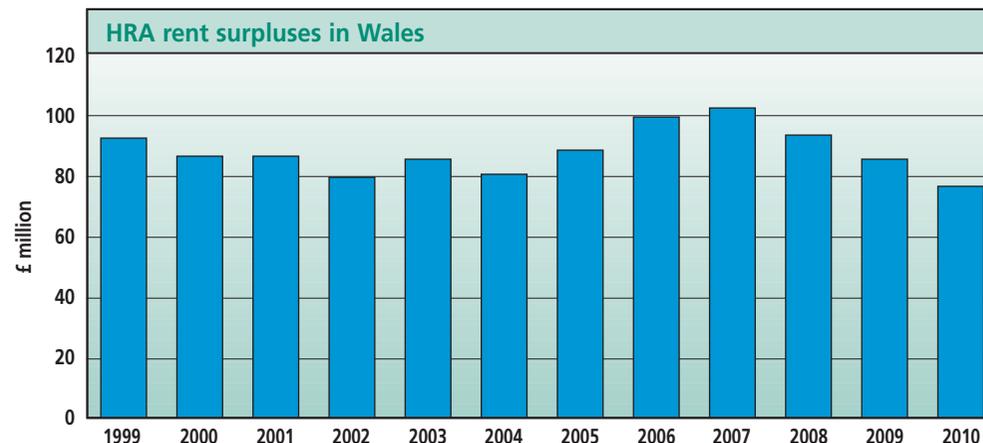
Welsh councils continue to make substantial transfers of rent surpluses to the WG, which in turn are now passed on to HM Treasury. These transfers originated under the pre-2004 financial regime where rent surpluses in England and Wales were used to offset the costs of housing benefit. Although that regime has ended, HM Treasury has required the transfers to continue, to offset the DWP housing benefit costs that it now has to meet.

Nor are these trivial amounts. Over the last decade they have been running at between £80 and £100 million a year. They will drop somewhat in future years as a result of stock transfers in Wales, which continue despite political reservations largely because of the confines of this restrictive financial regime.

In contrast, in England it is only in recent years that councils nationally began to make a net transfer of surpluses to DCLG; Scottish councils (which escaped the pre-2004 financial regime that applied in England and Wales) have never been required to do so, or even to pay towards housing benefit costs in the years before 2004.

The surpluses transferred to HM Treasury from Wales have long been far higher than the equivalent surpluses in England (on a per dwelling basis), as in England Major Repairs Allowances (MRAs) are taken into account in computing the surpluses. In Wales MRA is a capital grant, and not part of the subsidy calculation.

There are a few wrinkles that complicate the comparison between England and Wales, primarily due to lack of clarity about the way in which HM Treasury has taken account of various changes in the post-1999 devolution arrangements for council housing finance in England in the financial settlements it has provided for Wales, as part of the 'Barnett' formula-based framework for determining the overall budgets of the devolved administrations.



Source: Welsh Government.

The comparison with Scotland is more straightforward. In the twelve years since 1999 over £1 billion has been extracted in surpluses from council housing revenue accounts in Wales, while nothing has been taken from the same accounts of Scottish councils. Not surprisingly this is resented in Wales, but so far the WG has been unable to persuade HM Treasury that there should be changes.

However a new financial settlement for Wales is now required, in part because of the financial settlement now agreed for council housing finances in England (see page 12). But until a new settlement is secured, it is difficult for Wales to make much progress with its own plans for council housing finance reform. While it will not be bound by the English legislation ending the current HRA subsidy regime, there is clearly a strong interest in moving in a similar direction, and bringing an end to the constraints of the annual subsidy system. While the Welsh Government now has the powers to go its own way it still lacks the money to make more effective use of them.

Schedule of updated tables

Compendium tables – online update

Each year there is a mid-year update of some of the 122 tables that comprise the main compendium in the *UK Housing Review*. The tables planned to be updated this year, to coincide with the publication of this *Briefing*, are shown opposite. They can be accessed at www.ukhousingreview.org.uk

Most of the updated tables have already been reflected in the text and graphs in this year's *Briefing*.

In addition to the updates to the compendium tables this year we will also be displaying the update to the Affordability Index tables that were Tables 2.3.1 and Tables 2.3.2 in the 2010/11 edition of the *Review*. The updated Table 2.3.2 informs the text and graph on page 10 of the *Briefing*.

While Table 2.3.2 and Table 43a in the compendium both show mortgage cost to income ratios in relation to first-time buyers, the purpose and construction of the tables are quite distinct. Table 43a simply shows the average mortgage cost to income ratios for those households that succeeded in becoming first-time buyers in each year. It is based on simple average house prices, and the average incomes of the first-time buyers.

The purpose of Table 2.3.2 is to provide a consistent measure of the relative affordability in each year for households aspiring to become first-time buyers. It is therefore based on the average incomes for working households, mix-adjusted house prices and a constant measure of deposit requirements. See page 10 for further details.

Table 1	Key economic trends
Table 2	Average male and female earnings in Great Britain
Table 3	Household disposable income, consumer spending and savings
Table 4	Measures of employment and unemployment in the UK
Table 9	Growth of real Gross Domestic Product
Table 10	General Government Financial Balances as a percentage of Gross National Product
Table 11	Office for Budget Responsibility March 2011 Economic Forecast
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Table 19	Housing starts and completions
Table 23	English housing conditions: the Decent Homes Standard
Table 24a	English housing conditions: average energy efficiency (SAP) ratings
Table 28	Private sector improvement and disabled facilities grants
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Table 39	Numbers of property and residential property transactions in England and Wales
Table 40	Numbers of mortgage advances per year in Great Britain
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Table 42	Advances to first-time buyers, moving owner-occupiers and annual changes in house prices, mortgage advances and incomes
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Table 51	Mortgage arrears and repossessions
Table 52	Court actions for mortgage repossessions in England and Wales
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Table 90	Local authority homeless acceptances
Table 91a	Homeless households in temporary accommodation in England
Table 92	Reasons for homelessness in England
Table 93	Homelessness: categories of need in England
Table 94	Homelessness by region: homeless acceptances and people in temporary accommodation

The **UK Housing Review** provides a key resource for busy managers and policy-makers across the public and private housing sectors. Incorporating numerous figures unpublished elsewhere, the 19th edition brings together the most up-to-date housing statistics available for England (and its regions), Wales, Scotland and Northern Ireland.

It features over 200 charts and tables including data about:

- *Homelessness and lettings*
- *Housing characteristics and incomes*
- *House prices and market trends*
- *Housing investment by councils and housing associations*
- *Housing stock and conditions*
- *Rents and revenue spending*
- *Subsidies, tax relief and benefits*
- *Public expenditure plans*
- *UK and international economic trends*

Commentary chapters in this year's **Review** include analysis of recent trends in UK housing markets and in housing needs, as well as of housing provision and public expenditure on housing and the government's current plans.

Referring to new policy directions emerging under the coalition government, Hal Pawson and Steve Wilcox also analyse four topical issues:

- *Social housing management – how efficient and effective is it?*
- *The impact and implications of the government's housing benefit reforms*
- *Universal credit: what are the issues for housing?*
- *The 'deposit barrier' to homeownership*

The **UK Housing Review** continues to be the prime source for all concerned with housing policy and finance.

'At a time of growing public concern about Britain's housing needs and how these can best be met, the importance of good, up-to-date information and perceptive analysis of market trends and relevant financial data cannot be over-emphasised. The UK Housing Review admirably fulfils this role.' Nick Raynsford, MP and former government minister.

'It's more than just a bible for statistics anoraks – the articles are insightful, and the tables are indispensable for anyone trying to get a broad understanding of housing-related data outside their specific areas of expertise.' Sue Anderson, Council of Mortgage Lenders.

Savills, the housing consultancy, supports the production costs of the Review.

The full **UK Housing Review 2010/2011** is still available. Price: £31.50 for CIH members; £45.00 for CIH non-members, plus £3.00 p&p in each case. See www.cih.org/publications

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