UK Housing Review
Hal Pawson and Steve Wilcox
2012 Briefing Paper
A BRIGHTER FUTURE
today, tomorrow and beyond

Orbit is working with customers, stakeholders and staff to transform our business to face the future.

We asked six leading experts to tell us what the world will look like in 2020 to help us shape our plans.

Later this year we’ll publish their thinking for others to share.

Find out more at www.orbit.org.uk > About Us > Orbit 2020
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The Chartered Institute of Housing
The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 22,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities. Our vision is to be the first point of contact for – and the credible voice of – anyone involved or interested in housing.

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UK Housing Review Briefing Paper
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UK Housing Review website: www.ukhousingreview.org.uk

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Published by the Chartered Institute of Housing

The facts presented and views expressed in the Briefing, however, are those of the author(s) and not necessarily those of the CIH.

Layout by Jeremy Spencer
Cover illustration ‘Town in homage to Hundertwasser’ by Alison Cross
Printed by Hobbs the printers, Totton
Shaping our own future

Understanding the present enables us to plan for the future. That’s why Orbit is pleased to support the Chartered Institute of Housing in publishing this UK Housing Review Briefing Paper as we continue to evolve and adapt to a rapidly changing world.

In many ways, 2011 was the year which really defined the long-term landscape for the future of housing in this country. The changes in the last 12 months were fundamental and significant in scale and scope. We can now be sure that austerity will continue; grant and other public subsidy will fall or dry up; welfare reform will gather pace; private companies will enter the market; we will need new sources of funding; intensive government regulation is over; the housing market will remain challenging; economic growth will be slow; and our customers and communities will need our support more than ever.

To some, this might sound like a doomsday scenario. And it’s true there are huge challenges ahead. But there are also major opportunities. As a sector, we have a strong track record of adapting to change. Our job now – supported by the Chartered Institute of Housing as it itself continues to evolve to provide the leadership we need in this new world – must be to transform our businesses so that we can face the future with confidence. Our ability to change the wider operating environment may be limited, but our opportunity to shape our own destiny is not.

It was with this very much in mind that we launched Orbit 2020, a transformation programme to help us understand more about what our world might look like in order to plan for it.

We asked six of the country’s leading experts to give us their views on the state of the world in 2020 in key areas such as social policy, housing and sustainability.

We are working with our customers in association with the London School of Economics to understand what they and the communities we serve want from us, now and in the future. Part of this work was carried out by our customers, who received specialist research training. We are also actively engaging with our staff and stakeholders, using new techniques so they are shaping our ideas.

In the autumn we will be drawing conclusions to shape our own future and we plan to share this insight with the housing world.

Orbit 2020 will help us to transform into a long-term sustainable, effective and successful enterprise able to fulfil our ambition of Building Brighter Futures for People and Communities for a long time to come.

The UK Housing Review shows where the sector currently is and clearly demonstrates the responsibility that we as housing providers have to shape our own future.

Liz Potter
Chair, Orbit Group
Introduction

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

After over two years in office, the coalition government’s ambitious plans for housing, welfare benefits and the economy can now be more fully judged. At the same time, with availability of mortgage finance still heavily constrained and the economy having stalled, the UK housing market remains sluggish at best.

Drawing on recent statistics, the Briefing assesses the implications of policy and market changes in fifteen key areas.

Housing demand and supply

The gap between housing supply and projected new household formation is again widening. New output in England has barely cleared 100,000 for each of the last two financial years, whereas official projections up to 2033 expect more than 232,000 new households each year. The massive mismatch between household growth and housing output suggests that housing shortages will increasingly prevent people from forming households and lead to greater sharing and overcrowding. Shortages will also continue to push up private sector rents – if not house prices in the immediate future.

One of the main policies to stimulate housebuilding is the New Homes Bonus, but its initial impact has been modest. It appears to have been claimed frequently for student housing and/or the conversion of multi-occupied dwellings, rather than general new build. Not only has there so far been little impact on housebuilding completions, but planning approvals for new homes also fell to a new low in 2011.

Affordability and first-time buyers

Major problems continue for first-time buyers – especially those unable to raise a substantial deposit. But affordability eased in 2011, and is much less of a constraint than is often claimed in media discussion. For the majority of aspiring buyers unable to raise a substantial deposit it is the near lockout from the mortgage market that is the critical issue.

First-time buyers are also disadvantaged compared to buy to let investors because the latter can readily get interest-only mortgages. This means their mortgage costs can be 40 per cent lower. This imbalance in the market is as big a barrier to first-time buyers as the shortage of low-deposit mortgages.

Housing market prospects

Prospects for housing market recovery during 2012/13 do not look very rosy. Expectations for economic growth remain low and there are forecasts of rising unemployment at least until the end of the year. Any increase in interest rates could choke off mortgage demand and also push up repossessions, and more repossessed properties coming onto the market would further affect prices.

Only a sustained revival in first-time buyer purchases is the likely to pep up the market sufficiently to stimulate a significant upturn in housebuilding. The government’s FirstBuy scheme should help 10,000 buyers over two years but – even if fully taken up – its impact will be modest. Mortgage support initiatives by local authorities such as Manchester provide another glimmer of light. Overall, however, the double-dip recession and the government’s reluctance to use the full potential of the housebuilding industry to stimulate growth mean that this year’s Briefing can be optimistic only about very few areas of housing policy.

HRA Reform

For councils in England this year has seen the long-awaited reform of council housing finance, with the abolition of the annual subsidy regime, and the opportunity for councils to make longer-term plans for their businesses. This has come at a price – with some £8bn transferred to HM Treasury – but has also left most councils with some capacity for additional borrowing without breaching the artificial caps that have been imposed because of the government’s overriding concerns to limit public sector borrowing. The Briefing makes the case for removing those caps in order to release the full potential of the financially restructured sector to support new investment. This is linked to the wider case for adopting international measures of government debt – that do not limit the self-financed borrowing of public sector trading bodies – at a time when the UK economy can do with every stimulus available.

These and many other issues are covered in this year’s Briefing.
Another day, and there is another twist in the unfolding saga of UK and world economic prospects. So anything written (as this is) some three weeks before publication might be swiftly overtaken by events and relegated to its secondary function of (high quality) fish and chip paper.

What is certain is that current economic prospects for the UK are both problematic and uncertain, and that there are considerable downside risks – especially around the euro economies – so the outlook could take a sudden and severe turn for the worse.

Clearly the post-credit-crunch downturn has been already been deeper and far more prolonged than previous post-war downturns (see graph). While the UK has now been confirmed as technically in a double-dip recession (a repeated instance of two consecutive quarters of economic contraction), more significantly the economy has virtually flat-lined for almost two years.

Of unemployment, which the OBR already forecasts as rising to almost nine per cent in 2012 and 2013 before starting to fall back.

Knowing the UK and international economic difficulties, the most critical uncertainties revolve around the euro zone, and those European countries with the most severe problems on government debt levels and poor credit ratings – reflecting the lack of confidence in international markets that they can avoid defaulting on the debts. Greece is only the most extreme case among other Mediterranean countries also at risk.

In this context our own government placed a high priority on reducing UK public debt and reassuring international financial markets of the debt’s security. In the short term it succeeded, but at the cost of economic stagnation as its hopes for private sector-led growth failed to materialise. One consequence is that it has not succeeded in reducing the deficit as quickly as it had planned.

Political debates about the balance to be struck between reducing government debt and promoting economic growth are occurring around the world, and are not just dilemmas for the UK. Leaving aside the economics, recent elections in both Greece and France raise questions about how far policies that lean too heavily towards deficit reduction and austerity can be sustained within western democracies. There are also fundamental questions about the ability of the euro zone countries to reach a consensus on how to balance these interconnected – if at times conflicting – objectives, in a context where there has never been any coherent policy framework to deal with uneven economic development across the euro zone.

Euro zone member troubles have compounded the difficulties facing the UK economy, even if their differences are patched up in the coming months. The stagnation of the EU economies has restricted the market for UK exports, while the fall in the euro’s value relative to the £ now makes the UK less competitive.

So in the UK and Europe the key policy focus is now clearly on how to try to stimulate growth, while still containing and reducing levels of government debt. There are no magic wands but in one respect the UK has an opportunity to make better use of the public sector to promote economic growth without adding to the critical measures of government debt that concern the international markets. All that is required is to focus on the international measures of government debt and to drop the UK’s peculiar fixation with measures of public sector debt. The case for change is made in the following section.

In March the Office for Budget Responsibility (OBR) forecast modest growth of 1.6 per cent in 2012, rising to 2.0 per cent in 2013. That is already looking overly optimistic. And if the outturn for economic growth is worse then this will also translate into higher levels of unemployment.
The previous page explained how a combination of international economic events, the government’s austerity programmes and the failure of hoped-for private sector growth has seen the UK economy virtually flat-line for the last two years. One casualty has been ministerial hopes of faster reductions in public sector borrowing. The chart shows that total public sector net debt was, at the time of the March Budget, forecast to rise more rapidly than in previous Office for Budget Responsibility (OBR) forecasts. Recent publication of disappointing UK GDP figures makes even the latest OBR forecast look optimistic.

Confidence that its economic and fiscal policies will enable it to successfully navigate the difficult years ahead.

There are, however, some important differences between the UK and international fiscal measures. The UK focuses on public sector debt, and includes the debts of public corporations (which for national accounts purposes includes council housing). The UK government has, even so, excluded the debts incurred in the recent acquisition of banking assets, on the grounds that this is only a temporary measure before the banks are resold.

In contrast, the international measure is based solely on government debt, excluding the borrowing of public corporations. It includes the government debt incurred in purchasing the banking assets but not the borrowing by those banks. More importantly it is this measure that international financial markets use as their yardstick – not the arcane UK measures.

One consequence of the UK adopting different spending rules is that large elements of our transport and utility sectors are now owned and operated by European state-backed companies. Thus, for example, the energy company EDF is 85 per cent owned by the French government and Arriva Trains is part of the German government majority-owned Deutsche Bahn group. Government subsidies provided to those bodies count against GGGD – but not the borrowing against revenues of the trading bodies themselves, giving them much more flexibility to invest than their British equivalents.

Adoption of international fiscal rules in the UK would open up the option for public sector trading companies to play a more active part in promoting economic growth (as they do elsewhere in Europe), without adding to the debt levels measured by the international financial markets. This change goes far wider than issues about housing policy, but housing gives some examples of the benefits of a move to international fiscal rules.

Borrowing to invest in improving council housing stock or building new council houses would cease to be a matter of concern but instead would be an opportunity both to improve services and promote economic growth (see page 10). Providing local authority low-deposit mortgages could help to unblock the housing market and support young households that want to move into homeownership.

Changing UK fiscal rules will not solve everything – but at the moment we are missing a trick. We are struggling with unique economic conditions with one arm (of the public corporate sector) tied behind our backs.
The housing market remained subdued during 2011/12, with average house prices in England remaining almost flat in nominal terms (see the chart above). The picture was similar in Wales and Scotland although different in Northern Ireland where property values continued to fall. As shown in the chart, at the end of 2011 properties in England were trading at only four per cent below 2007 values. The chart also shows the contrast between the current housing market downturn and the last one. This time round, after a brief plunge during 2008, prices recovered almost to peak values. By contrast, the market downturn of the early 1990s was longer and deeper, with prices eventually falling by 15 per cent – and that at a time when general inflation rates were much higher than in the recent past.

The relatively short period of markedly lower prices so far seen since 2007 is important because it means that – by comparison with the last recession – the numbers of homeowners forced into prolonged negative equity will have been much smaller. As a result, fewer people have been at risk of mortgage default in the event of unemployment. This may be one factor contributing to the much smaller number of mortgage repossessions so far recorded post-2007 than in the 1989-93 period (see page 15).

The housing market also remained subdued in 2011/12 in terms of the volume of transactions – across the UK this once again remained roughly steady, at around half its peak value of five years earlier. This was despite the recent stimulus provided by the announcement that the first-time buyer stamp duty exemption would be ending in April. More generally, despite the further easing of affordability (see page 9), numbers of new entrants to homeownership have remained low because of the continuing shortage of low-deposit mortgages.

**Future prospects**

Even aside from the wider economic risks attached to the ongoing euro debt crisis, prospects for housing market recovery during 2012/13 do not look particularly rosy. Expectations for economic growth remain pessimistic (see page 5) and Office for Budget Responsibility forecasts envisage rising unemployment at least until the end of the year. Any increase in interest rates could prove damaging not only in terms of choking off mortgage demand but also in pushing up repossessions, with the prospect of more repossessed properties coming onto the market further depressing prices.

Only with a sustained revival in first-time buyer activity is the market likely to revive sufficiently to stimulate any significant upturn in housebuilding. The government’s FirstBuy scheme, promoting first-time buyer access to 20 per cent equity loans, is a welcome initiative, but given the expectation that this will assist only 10,000 buyers over two years (equating to less than two per cent of all first-time buyer loans in the pre-credit-crisch era), the impact will be modest, at best.

Mortgage support initiatives recently launched by local authorities provide another glimmer of light here. Piloted by a number of councils including Manchester, such schemes underwrite up to 20 per cent of the mortgage sought by qualifying first-time buyers. In this way, purchasers can obtain a 95 per cent mortgage on similar terms to a 75 per cent loan.1 Unfortunately, pressures on local authority General Funds continue to be a limiting factor on such local initiatives.

**References**

The housebuilding figures for the financial year just ended show a reversal in the previously established trend for building rates to revive after the recent slump. The chart shows that new starts for England once again fell back in 2011/12, and statistics for Wales, Scotland and Northern Ireland show a similar pattern. The latest reduction is mainly attributable to falling social housing construction, with housing association and local authority starts in England dropping back from their peak in 2010/11 (which was prompted by the then government’s stimulus programme). They are now at a seven-year low. Nevertheless, reflecting the state of the wider economy, private sector building is failing to expand to compensate for contraction in the public sector.

This means that the gap between housing supply and projected new household formation is again widening. New construction in England is adding only just above 100,000 homes to the national stock each year, whereas the latest DCLG figures for the 2008-2033 period project more than 232,000 new households per year (DCLG Live Table 401). Taken together, the massive mismatch between household growth and housing output suggests that housing shortages will increasingly prevent people from forming households, leading to an increased incidence of multi-generational households in the same property and rising levels of overcrowding. The shortages are also likely to continue to push up private sector rents – if not house prices.

In last year’s housing policy *Laying Foundations*, ministers reaffirmed a commitment to ‘get Britain building again’ and announced a range of measures designed to stimulate activity. However, recent reports suggest that what appeared to be the most ambitious of those initiatives, NewBuy or the new build indemnity scheme, has initially fallen well short of expectations. This mechanism, planned to assist 100,000 new build purchasers, offers a government loan guarantee to ease the availability of low-deposit mortgages. In practice, it is reported that mortgage provider pricing policies have severely restricted take-up.

The new measures in *Laying Foundations* complement the New Homes Bonus (NHB) introduced in 2011. Intended to offset any inclinations to NIMBYism, the NHB is a financial incentive for local authorities in England to approve new housebuilding plans. As a means of promoting increased housing supply, it is presented as a superior alternative to the centrally determined housebuilding targets favoured by the last government. NHB payments scaled to the council tax band of each new approved home are paid to local authorities for a six-year period (e.g. totalling £8,639 for a Band D dwelling).

While it started only recently, there is evidence that scheme rules have already led to a disproportionate volume of NHB being claimed for newly constructed student housing and/or the conversion of multi-occupied dwellings into separate small units, rather than as a result of general-purpose new build.

What can we say about the scheme’s overall impact? As shown in the chart, its introduction in 2011/12 failed to sustain the post-crunch recovery in new housebuilding that had begun to develop over the previous three years. More concerning is the observation that planning approvals for new housebuilding fell to a new low of 115,000 in 2011 – considerably below 2009’s previous nadir of 126,000. Of course, the main reasons for the current slump in output and in planning approvals are the general economic background and an unhelpful mortgage market. It can only be hoped that the new measures announced in 2011 will help turn the situation around, if and when the wider environment becomes more favourable. However, given the time lags inherent in the planning and housebuilding process, any significant upturn in completions must be several years away, at best.

References
1 See Commentary Chapter 4 in the current *UK Housing Review* 2011/12.
Major problems continue for first-time buyers – especially those unable to raise a substantial deposit. But affordability eased in 2011, and is much less of a constraint than is often claimed in media discussion – frequently based on three pervasive statistical misunderstandings.

The first of these is the focus on house-price-to-income ratios over the long run, without taking account of the very sharp fall in interest rates since 1990. In 1990 they were running at 14.5 per cent; by 1995 they had dropped below six per cent, and have (with the odd exception) remained below that ever since.

Focusing on house-price-to-income ratios fails to recognise this very significant drop in mortgage costs and exaggerates the affordability problems associated with recent high house prices. Mortgage cost as a percentage of incomes is a far more appropriate measure of affordability.

The second misunderstanding is to look at all house prices, rather than prices for first-time buyers. While prices paid by first-time buyers overlap with those paid by existing owners moving home, first-time purchases are more likely to be at the lower end of the market while existing owners buy towards the top. In a typical year some one-third to two-fifths of first-time purchases fall within the lowest quartile price band for all dwellings acquired with a mortgage.

The third misunderstanding is focusing on simple average prices rather than ‘mix-adjusted’ prices. While in many years this distinction is not so important, it has become more so recently. Simple average house prices continued to rise in the post-crunch years. But there has been a recent sharp change in the mix of properties purchased, with a higher proportion of large properties – partly due to falling numbers of new build homes (which in recent years included high proportions of small units). In contrast, mix-adjusted house prices for first-time buyers show that in 2011 they were still some six per cent lower than in 2007 (see also mix-adjusted price trends on page 7).

So a better understanding of housing affordability is provided by focusing on mortgage-cost-to-income ratios based on mix-adjusted prices for first-time buyers. The chart shows these for 1986-2011, and for comparison the house-price-to-income ratio over the same period.

There is a very obvious difference in the story told by the two measures. The house-price-to-income measure does show some easing since 2007 (as this is also based on mix-adjusted first-time buyer prices) but still shows a ratio of 4.8:1, compared to just 4.3:1 at the peak of the last housing market boom in 1989.

In contrast, the mortgage-cost-to-income ratio shows that after the post-1990 fall in interest rates, affordability constraints never quite returned to the 1989 peak level even in 2007 (peak of the recent boom). It also shows that a post-2007 drop in mix-adjusted house prices, together with further falls in interest rates (to just 3.4 per cent in the last quarter of 2011), have seen mortgage-cost-to-income ratios at their lowest for a decade.

This does not suggest that concerns about affordability should be disregarded. But at the moment it is access to the mortgage market that is important, particularly for those unable to raise a substantial deposit. Government could readily take further steps to address this issue.

First-time buyers are also disadvantaged compared to buy to let investors – not because of tax differences, but because buy to let investors can readily obtain interest-only mortgages, while first-time buyers usually rely on standard repayment mortgages. At current interest rates, repayments on an interest-only basis are about 40 per cent lower than on a standard repayment mortgage. This imbalance in the market is as big a barrier to first-time buyers as the shortage of low-deposit mortgages.
To the credit of the coalition government it has carried through the reform of council housing finance in England and brought to an end to the much-criticised housing revenue account subsidy regime. While the terms of the new settlement were toughened in favour of HM Treasury, the financial restructuring still has many positive features for council housing.

The price of ending the old annual housing subsidy system came out at about £8bn. But that handy net financial transfer to HM Treasury brought an end to the annual ‘negative subsidy’ payments by councils that had risen to almost £500m (net) in 2010/11. If they had continued the trend was for them to rise further (see chart).

But there are still key limitations to the new self-financing regime. Many councils remain dependent on capital grant allocations to improve their stock to the Decent Homes Standard, and the four-year £1.6bn allocated will be insufficient to bring all council stock up to the standard by 2015.

A more fundamental limitation is that councils will only be able to borrow up to a predetermined level. For some this will be the level of their actual opening debt; but for others the limit is based on a notional formula that in practice leaves them with some leeway to increase borrowing – to the tune of some £2 billion across the whole sector. However, beyond that councils lack the freedom to translate their future growing revenue capacity (as rental income gradually eases ahead of operating costs and debt charges) into investment based on prudential borrowing.

HM Treasury also reserves the right to revisit the debt redistribution in future, and given the wider pressures on the public purse the temptation may be difficult to resist.

The settlement in England is likely to be followed by a similar one for Welsh councils (see page 19), but in both countries councils will be envious of their Scottish counterparts which have never had a negative subsidy regime, and remain free to use their revenue capacity to support borrowing limited only by the prudential rules.

Finally, while the financial settlement has assisted the Treasury in terms of cash flow management, it has not reduced the UK measure of public sector borrowing and debt, as it has simply involved a transfer of funding between different parts of the public sector. It has, however, cut general government debt and borrowing, and therefore assisted the UK’s standing on the international fiscal measures of most interest to the financial markets.

The case for the UK adopting these international fiscal measures in order to free up potential public sector investment and economic growth is made on page 6. In housing terms this would remove the need for the cap on council housing borrowing and open the door to accelerated programmes of investment both in stock improvements and in new council housebuilding.

Despite the £8bn Treasury ‘levy’, the settlement’s very positive features include provision for substantially increased allowances for major repairs and higher management and maintenance costs. Such increases for council housing are in stark contrast to the financial pressures otherwise facing local authority General Funds.

The sums transferred between the individual councils and HM Treasury were substantial, with seven councils making payments in excess of a quarter of a billion pounds and six receiving payments from the Treasury exceeding this level. The transfers put councils on a more-or-less even footing to make medium-term plans for their businesses in coming years without all the uncertainties that had been associated with the annual subsidy round.

![The rising trend for negative annual housing subsidies](chart)

Source: DCLG Live Table 651.

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The character of the social housing offer is becoming more diverse. Housing associations are now offering tenancies at ‘affordable’ rents as well as ‘social’ rents to general needs applicants, not just to defined groups of ‘moderate income’ households.

Since April, housing associations and local authorities both have powers under the Localism Act to offer fixed-term tenancies (typically 2-5 years) as well as tenancies with full security of tenure. At the same time councils have been given more discretion in formulating their allocation policies and can elect to discharge their homeless duties by offering a tenancy in the private sector.

The impact of these changes will vary from area to area and depend to some extent on local housing market pressures, but also on the policies of local councils and social landlords. Fixed-term tenancies offer landlords the opportunity to ensure that tenancies are concentrated on meeting continuing priority needs (and priority preferences) with no dilution over time as households’ circumstances change. They also provide a lever which can, in time, be used to combat underoccupation involving older tenants and those not in receipt of benefit (i.e. those not affected by the ‘bedroom tax’). However, there is a clear tension between more rigorously targeting the use of the social housing stock and policy concerns about aiming for sustainable and mixed communities.

There will be a heavy administrative task in allocating these alternative forms of rented housing and then determining whether, and on what terms, fixed tenancies which expire should be renewed. But in one sense these provisions can be viewed as simply an extension of the current arrangements where councils typically first offer probationary short-term tenancies as a prelude to secure tenancies.

As social sector fixed-term tenancies are more widely used, there will be less difference between the offer of a social and private sector tenancy, especially where the social tenancy is at an ‘affordable’ rent. In time these policy developments could also reduce the differences in the way households make use of the two sectors, with the average length of time in social sector tenancies shortening (although very short-term lettings are unlikely to become as common as in the private sector).

Convergence will also result from the growth in longer-term tenancies within the private rented sector. Despite continuing decline in the numbers of old-style regulated tenancies (with security of tenure), the proportion of private tenancies lasting for more than ten years has more than doubled over the last decade.

A substantial minority of private sector tenancies are now let on more secure assured tenancies, rather than the more typical assured shorthold basis. These make up one in seven of the assured family of lettings, and numbers grew through the last decade, despite the absence of tax or other incentives for landlords to provide more security.

It is interesting to note that Germany, often noted for its large private rented sector, offers full life-time security to private tenants. Ireland has a regime for private tenancies that resembles that now being introduced for (some) social sector tenancies in England. After a six-month probationary period, tenants in Ireland are granted a four-year period of security, in which landlords can obtain possession only on a breach of contract (e.g. rent arrears) or to sell the property.

Now that a revitalised private rented sector is firmly established in the UK, and with more households remaining in the sector for prolonged periods, an improvement in the security provided for private tenants to mirror the minimum offer of fixed-term tenancies in the social rented sector is an idea well worth pursuing.

References
1 See Commentary Chapter 1 in the current UK Housing Review 2011/12.
The new LHA regime has been operating for just over a year but only in recent months have the new lower LHA limits begun to apply to pre-existing claimants. The limits are based on 30th percentile, rather than median, rents, and in cash terms these are typically some 6-8 per cent lower, although with marked variations between areas.

The new limits also introduce caps in very high-value areas – ranging from £250 per week for one bedroom up to £400 per week for four bedrooms. These principally apply to inner London, but over time will become more widespread: LHA rates will be frozen for a year from April 2012 and then uprated in line with the CPI measure of inflation rather than with changes in private sector rents.

These reforms have begun to bite, but data on their impact are limited and the initial report of the formal DWP evaluation project is still awaited. That said the initial data on caseload and LHA benefit payments over the months to February 2012 will provide the government with some comfort about the net impact.

Despite lower LHA rates, the number of low-income households able to secure lettings in the private sector with the help of housing benefit has continued to grow, in London as well as nationally. However growth has slowed significantly compared to the two years before the new LHA regime (see chart).

Overall numbers also increased in London from 102,200 in April 2011 to 104,570 in February 2012, albeit even more slowly than in the rest of the country. And numbers declined in the central London areas most affected by the LHA caps: in Westminster numbers fell over the year from 8,580 to 8,420, in Kensington & Chelsea from 4,180 to 3,870.

While the falls are not massive they only reflect the first two months of the new LHA regime applying to existing claimants. Not yet known is the extent to which forced moves by claimants have been avoided: both by landlords – as the government hoped – reducing rents in some cases, and by councils using the extra money they have for discretionary payments.

The government will also take some comfort in the decline in average housing benefit payments in the private sector, although again it is too early to judge how far this results from landlord actions or from claimants moving into cheaper or smaller homes. Overall average payments in LHA cases fell from £114.46 per week in March 2011 to £109.21 in February 2012. But in part this simply results from the smaller proportion of LHA cases in London, with its higher rents. It will also reflect the recent big increase in numbers of claimants in low-paid work who receive only partial housing benefit. This trend predates the LHA reforms, with numbers of working claimants (in all tenures) more than doubling over the last three years.

It will be some time before the full effects of the new LHA regime are felt. Inevitably – and intentionally – the greater impact will be in further reducing access to the private rented sector in high-value areas affected by the caps. It also has to be seen how far the freezing of LHA rates and their subsequent linking to CPI inflation will affect low-income households’ capacity to enter the private rented sector in the years ahead. Much will turn on developments within the wider housing market and private rented sector, rather than just on the LHA changes.

But by the time we have fully understood the impacts of the LHA reforms the national benefit caps will further tighten the screw on out-of-work claimants in high value areas (see page 13). We will also be entering a new spending round with possible further benefit cuts high on the agenda.
The cap on total benefits for out-of-work households takes effect in April 2013. The cap does not apply to retired households or those receiving disability benefits but its effects will still be widely felt. The cap level has been confirmed by DWP as £500 per week for all households other than single people whose weekly limit is £350.

The cap does not take account of household size or local variations in housing costs. Its impact will therefore be greatest for larger families and households living in more expensive areas. The overall benefit cap will be far more restrictive than the recently introduced local housing allowance (LHA) caps, impacting on tenants in the social as well as the private sector and on homeowners receiving Support with Mortgage Interest (SMI).

Initially the cap will limit the housing benefit a household can receive after taking into account baseline out-of-work benefits such as income support or jobseeker’s allowance. In the extreme case of very large families (with six or more children) their baseline benefits will also be capped and there will be no eligibility for housing benefit.

Later the cap will apply to universal credit and will leave households to balance the competing demands of their living costs and paying their rent from within a total budget that could fall far short of pre-existing benefit entitlements.

The only government concession is a transitional period of nine months for households that were in work for 12 months before becoming unemployed.

In broad terms (other than for single people) the cap is based on ‘average’ gross household earnings, but focusing on median rather than mean averages. Using mean averages would have resulted in a cap of around £700.

The chart shows how much different households will have left to cover their housing costs – including council tax – after taking into account basic welfare benefit entitlements at 2012/13 rates. In principle the cap is more likely to affect entitlements for couples compared to lone parents, as basic welfare allowances for the latter are some £40 per week lower than for couples. Nonetheless couples represent only just over a third of all households affected; just over half are lone parents and the remainder single people.

Higher housing costs mean that over half of all households affected are in London and just over two-fifths are in the private rented sector.

Although the cap only applies to out-of-work households it is far more stringent than the LHA caps already introduced. Couples with two children are subject to an LHA cap of £290 per week (£340 if they have older, different-sex children); the benefit cap will provide a maximum of £241 to cover both rent and council tax. A couple with three children will only have £176 to cover rent and council tax; one with four children only £111 and one with five only £46.

To escape the benefit cap households will have to obtain work. For lone parents this means a minimum of 16 hours per week, for couples 24 hours a week. This follows on from the eligibility rules for working tax credits.

Predictably these measures will add to the pressures already resulting from the LHA reforms for families to move out of London and other high-rent areas. But for the largest families the caps are so stark that they will impact in the social as well as the private rented sector, and in all parts of the UK. Social landlords will have to rethink their policies if they are to continue to support larger families. This will involve not just programmes to support families into employment, but also rethinking policies for those families that, despite every reasonable endeavour, are unable to work.
As shown in the chart, statutory homelessness cases in England and Wales continued on a generally upward trajectory in 2011. By year end, the number of formal homelessness decisions being recorded by English local authorities was over 30 per cent higher than the historic low point in 2010. In Wales, the end of 2011 figure was 14 per cent above the minimum level in 2008.

Recent trends need to be seen against the dramatic decline in statutory homelessness in England and Wales during 2003-2008. However, whereas those reductions were probably largely attributable to changed administrative procedures (that is, more energetic and effective prevention activity), the recent rising trend almost certainly reflects underlying growth in housing need.

In both England and Wales, as revealed by the official statistics, the single main source of recently rising homelessness has been from the private rented sector. In England, homelessness due to loss of an assured shorthold tenancy almost doubled in the two years to 2011 (up by 86 per cent), with this increase accounting for no less than 59 per cent of the entire rise in statutory homelessness over the period. In Wales, cases of homelessness due to the loss of rented or tied housing rose by 54 per cent in the same timeframe, with this increase accounting for 44 per cent of the total national increase in statutory homelessness over the period.

Increasingly, it would appear, private landlords have decided not to renew tenancies or to actively bring them to an end. This trend can only be explained speculatively given lack of hard data on landlords’ reasons. But against the backdrop of a subdued housing market in which demand for rental housing remains strong, it seems unlikely that it reflects any general trend to ‘cash in assets’ on the part of landlords. LHA cutbacks have only begun to kick in for existing tenants during 2012. So, while these will now begin making it increasingly difficult for affected tenants to sustain rent payments, the effects on homelessness will only become apparent this year. The impact will then broaden with the limited upratings of LHA rates, and the introduction of the total benefits cap (see pages 12 and 13). Another explanation is simply the high level of ‘churn’ within a growing sector and some landlords wanting to raise rents or let to higher-paid tenants, or both.

In contrast to the general trend in England and Wales, 2011 saw falling numbers of homelessness applications being recorded in Scotland. This probably reflects administrative factors rather than any underlying reduction in housing need. The issues are further discussed on page 18.

Despite rising statutory homelessness in England and Wales, local authorities have largely succeeded in limiting their use of temporary accommodation. However, while total placements in England remained almost static during 2011, the year end saw the number of families in B&B hotels rise 31 per cent above the 2010 figure.

**Rough sleeping**

Measured according to the new DCLG methodology, there was a 23 per cent increase in rough sleepers across England during 2011. Broadway’s monitoring data for London showed also showed a rising trend in financial year 2010/11 with rough sleeping having increased by eight per cent since the previous year. Since 2007/08 London’s rough sleeper numbers had risen by 31 per cent although this increase was almost entirely accounted for by Central and Eastern European migrants. By 2010/11, this group had come to account for 39 per cent of the London total as enumerated by Broadway.

Alarming, Broadway’s latest data show a 73 per cent increase in London rough sleeping in April 2012 compared with the same month last year.

**References**


3 Inside Housing (2012) Rough sleeping figures rise by 73 per cent. Inside Housing, 22 May 2012: www.insidehousing.co.uk/care/rough-sleeping-figures-rise-by-73-per-cent/6521939.article
With repossession levels currently stable, and at lower levels than in the last recession, on the surface there would appear to be little urgency for reforms to provide a more effective safety net for homeowners. This could, however, be a big mistake.

First of all arrears have been far less pronounced this time round because of the sharp reduction in interest rates, especially for those home buyers that had tracker mortgages linked to the bank rate. There has also been less negative equity (see page 7), and lender ‘forbearance’ (willingness to tolerate certain levels of arrears) has also been a factor.

Second, the official statistics underestimate the extent of homeowners’ problems. The CML possession figures only cover actions by ‘first charge’ lenders. Over the years problems with second charge loans have increased, and on one estimate now account for a further 20 per cent of repossessions on top of official figures. Nor do the figures capture the undeclared homelessness that happens when home buyers vacate their home in order to rent it out to cover the mortgage they can no longer afford.

Third, continuing economic difficulties mean that unemployment is forecast to grow in 2012 and 2013.

Fourth, massive uncertainties in international finance markets suggest that mortgage interest rates are likely to rise from their current exceptionally low levels – and low interest rates have been a major factor in containing arrears and repossessions in the post-credit-crunch period.

Fifth, those same uncertainties in the financial markets will put pressure on lenders to improve their balance sheets – and thus further curtail their ability and willingness to exercise ‘forbearance’ in arrears cases beyond the minimum necessary to meet legal and regulatory requirements. In that context the CML prediction that repossession levels will rise only to 45,000 in 2012 could turn out to be optimistic.

There are a lot of ‘ifs’ and ‘buts’ about the prospects for the economy and financial markets – but the key point is that in these very uncertain times the limitations of the safety net for homeowners that suffer an adverse change of circumstances pose risks not just for the owners affected, and for mortgage lenders, but for wider economic and housing market recovery.

Yet government proposals for help with mortgage interest within the new universal credit are focused on cost-cutting and restricting eligibility. They do not address the policy void which follows the failure of the decade-long attempt to promote the voluntary use of private sector mortgage payment protection insurance (MPPI) by homeowners.

Under the proposals, the current arrangements for help with mortgage interest will roll forward into universal credit with only one definite change: the removal of entitlement for households working less than 16 hours, who would previously have been assisted when getting JSA or income support. The DWP consultation paper also puts forward the idea that help could be restricted to only a proportion of eligible mortgage interest costs, and that after two or more years any help provided could become a charge on the owner’s property.

And without any timetable, or policy proposals to fill the void of the failed policy to promote MPPI take up, it also anticipates a return to the nine-month period of delay for unemployed claimants before any eligibility for help with mortgage costs kicks in.

A more constructive approach would be to require compulsory insurance for 12 months – against the insurable risks of accidents, sickness and unemployment – as a requirement for all new mortgage advances. This would remove costs from DWP, and provide the financial capacity for universal credit to be made available to households in and out of low-paid work, where the compulsory insurance does not apply or has expired.

References
2 For further details see Contemporary Issues Chapter 2 in UK Housing Review 2011/12.
Proposals for new or higher property taxes usually provoke howls of protest from the media, so it is remarkable that the mutterings about the ‘mansion tax’ announced in the Budget were drowned out by much louder complaints about the ‘granny tax’ and other measures.

The ‘mansion tax’ is in effect a reform of the stamp duty regime, introducing a new band where the rate will be seven per cent for properties with a sale price of £2m plus. Measures will prevent the use of companies as a means of avoiding stamp duty on land and property transactions. Such companies now face a 15 per cent rate of duty for properties valued over £2m, and the government plans to consult on levying an annual charge on those properties.

The measures bring a more progressive element into the property tax regime; but the impact will be quite limited, due to the (still) small numbers of dwellings valued at over £2m. The seven per cent rate is forecast to raise £150m in 2013/14, rising to £300m in 2016/17 (primarily based on hopes for increased housing market transactions). Tax avoidance counter-measures are forecast to bring in a further £65m annually.

While welcome, these changes are modest, and still leave the total income raised through stamp duty, and the element of inheritance tax based on property, well short of the value of homeowners’ capital gains tax relief, and the absence of any tax on the use value of the homeowner’s property, which would be the logical equivalent of other tax provisions based on the receipt of benefits in kind rather than cash. For those with long memories this used to levied as ‘Schedule A’ tax before it was dropped back in the 1960s.

Nor is stamp duty an ideal tax, other than being easy to collect and relatively difficult to avoid (especially after the Budget reforms). Against that, it is in effect a tax on mobility as it affects households who move frequently more than those that do not. Such bias could be removed by recasting stamp duty as a form of capital gains tax.

Stamp duty also has a ‘slab’ structure where the higher rates apply to the whole value of properties once they exceed key threshold levels (zero up to £125,000, one per cent for £125,000 to £250,000, and rising in stages up to seven per cent for £2m plus). The consequence is a bunching of house prices just below each threshold level.

Tax reliefs benefit long-term owners who have seen property values rise massively over the last two decades and now often have only modest mortgages. The benefits are effectively factored into house prices, raising the bar for recent and would-be first-time buyers. There is not only tax bias between tenures, but also an inter-generational tax bias within homeownership itself.

The tax not included above is council tax, which is something of a hybrid and is only in part a property tax. It is an annual ‘use tax’ – levied on all occupiers not just property owners. In the private rented sector, for example, tenants pay council tax while owners pay income or corporation tax on net rental incomes. That said, the top rate of council tax currently applies to properties valued at over £320,000 in 1991, or just under £1m in current values. A new higher band of council tax for properties valued at £2m or more (or some £650,000 at 1991 values) would logically complement the new mansion tax. The more fundamental reform, however, would be to widen the differential in the council tax rates paid for properties in different price bands. The current differentials are regressive: they disproportionately affect occupants of low-value properties and create little disincentive for overconsumption of housing by under-occupiers of large homes.
In the four years since 2007, Northern Ireland house prices have fallen by 40 per cent (see chart). This has been ‘among the most severe house price crashes in history’. However, while Northern Ireland’s decline was far more dramatic than that in England, this was equally true of the preceding boom. As the crest of the cycle approached, prices were soaring by 54 per cent annually (compared with 11 per cent for England at that time). Peak property values exceeded everywhere else in the UK outside London and the South.

Given that its household incomes have typically stayed well below the UK average, Northern Ireland earned the dubious distinction in 2007 of becoming the UK’s least affordable housing market, with typical mortgage payments among the highest in the UK relative to incomes, and consistent with almost non-existent mortgage equity or wealth gains. Despite falling mortgage rates since the crisis, Northern Ireland’s current average mortgage costs at 1.9 per cent of typical incomes are still double that of Scotland and the North East.

The other side of this coin is the large cohort of homebuyers ‘trapped’ by negative equity and vulnerable to any unexpected loss of income (e.g. due to relationship breakdown or redundancy). In 2011 it was estimated that 44,000 Northern Ireland homeowners (equivalent to eight per cent of all owner-occupiers) were in negative equity. Given the scale of the price crash, most face this situation for years or even decades to come.

Nevertheless, Northern Ireland’s property prices have shown no clear sign of bottoming out and are predicted to fall a further five per cent in 2012. In part, future trends will depend on the performance of the local economy and that of the UK more broadly.

Probably more important, however, is the economic condition of the Irish Republic. As the chart suggests, there is a very close relationship between housing markets in Ireland north and south, true not only since 2007 but also in the preceding upswing.

Indirectly, therefore, Northern Ireland’s housing market is highly influenced by the Republic’s very troubled economy and housing system in the wake of the credit crunch. Not only has unemployment in the Republic climbed to well above UK levels (hitting 14.6 per cent in 2011), but many of those in jobs have had to accept big wage cuts. Disposable incomes have also been hit by rising taxes. At the same time, housing demand is dampened by sharply rising emigration since 2009. Whereas net migration into Ireland topped 70,000 in 2006, by 2011 this had been dramatically reversed, with an estimated outflow of 32,000 people.

Another important drag on the Republic’s market (and indirectly on Northern Ireland’s) is the overhang of unsold homes resulting from the earlier housebuilding overshoot. In 2010 there were reported to be 2,800 ‘ghost estates’ across the Republic and 290,000 vacant properties in total (15 per cent of the stock). Ministers have warned that developers may be forced to bulldoze uncompleted estates. Another breathtaking measure of the crisis is the estimate that 31 per cent of mortgages in 2010 were subject to negative equity.

While unemployment may now have peaked, the Republic’s economy is highly fragile and a further decline in house prices in 2012 remains highly possible, as credit rationing, high unemployment and economic uncertainty persist. The effect on Northern Ireland’s housing market may well make the official estimate of slower price falls in the current year look unduly optimistic.

References
2 Professor Michael Moore, Queens University, Belfast – cited by BBC News, 22 November 2011: www.bbc.co.uk/news/uk-northern-ireland-15835140
Homeless applications officially logged by Scottish local authorities have recently fallen back (see chart). This seems both unexpected and paradoxical especially since it coincides with the run-up to full implementation of much heralded reforms which widen Scotland’s homelessness safety net. Part of the Homelessness etc. (Scotland) Act 2003, the 2012 abolition of the priority need test extends the safety net to cover all single people and childless couples of working age.

At the time of its enactment the reform seemed likely to lead to a big increase in the number of homeless households owed the full rehousing duty. In 2003, for example, applicants classed as ‘non-priority homeless’ totalled some 11,000. Simply adding these to the 2003 cohort of priority homeless (29,000) would have expanded local authority rehousing responsibilities by 38 per cent. It was also argued that the reform could lead to more homelessness applications from single people of working age, previously deterred by knowing that they would not qualify as in priority need.

Following ministerial advice some – but not all – Scotland’s local authorities have progressively phased in the ‘2012 regime’ by gradually loosening restrictions on their definition of priority need (e.g. narrowing the definition of ‘working age’ so that fewer and fewer homeless single people and childless couples are classed as ‘non-priority’). Nationally, this resulted in a steady fall in the proportion of applicants judged ‘homeless’ also classed as ‘non-priority’ – from 27 per cent in 2003 to ten per cent in 2011 (see chart).

Until 2010, this process appeared to be leading to a gradual increase in the number of ‘priority need’ decisions (see chart) and hence the scale of councils’ rehousing responsibilities. Exacerbated by falling numbers of relets, this forced up the proportion of social lettings needed to rehouse homeless households. By 2010/11, such tenancies had reached 55 per cent of all new council lettings, far above the comparable figure for England – 18 per cent. Another consequence of this squeeze was the doubling of homelessness temporary accommodation use in Scotland in the eight years to 2011.

Faced with these growing pressures and lately more enthusiastic encouragement (and funding) from the Scottish Government, recent fieldwork has confirmed that in the past 2-3 years more local authorities have fallen into line with their English counterparts by using ‘advice-led’ homelessness casework. This pro-active approach puts the emphasis on pre-empting or preventing homelessness (e.g. by assisting a tenant to avoid eviction or helping with access to a new private tenancy).

Published figures suggest that households helped to avoid homelessness in this way tend not to be logged under the official (‘HL1’) homelessness monitoring system (they could theoretically be classed as ‘not homeless’). Recent fieldwork suggests that, at least in some authorities with falling numbers of official applications, housing advice casework records a continuing increase in expressed housing need (people seeking assistance). This belies the story of falling homelessness demand suggested by a casual reading of the official statistics in the chart.

In the near future, some of the hardest-pressed councils which resisted ministerial encouragement to phase in the 2012 regime now face the challenge of doing so by January 2013 in a ‘single hit’. It remains to be seen whether, by itself, more active prevention work will enable them to do so while at the same time avoiding crisis increases in use of temporary accommodation. And, despite official efforts to cushion the impacts, Scotland – like England, Wales and Northern Ireland – seems likely to be faced in 2012 and 2013 with intensifying homelessness pressures due to LHA cutbacks as well as other impacts of welfare reform (see pages 12 and 13).

References
Policy developments in Wales during the first decade after the 1999 devolution settlement were relatively modest. Wales continued to be tied to Westminster-based primary legislation, and had to operate with a financial settlement far less favourable than that for Scotland, especially in respect of council housing finances. Even so it was the Welsh Government itself that gave housing lower priority in its overall budgets, so that by 2009/10 it had by far the lowest proportional level of housing expenditure of any of the four UK countries.¹

But the pace of distinctive policy development in Wales is now quickening. The Government of Wales Act 2006 made provision for the Westminster parliament to ‘derogue’ specific parts of legislation to the Welsh Government to amend for application within Wales. After a tentative start those provisions have now been applied to give the Welsh Government powers to amend legislation across a wide range of policy areas, including most aspects of housing policy.

Some part of the now more distinctive Welsh approach reflects its selective following of policy developments in England. But it also reflects more independent thinking about the use of its new legal powers, albeit still within a tightly prescribed budgetary framework. The thinking has now taken shape in this year’s Welsh Government white paper on housing policy, incorporating in places proposals from the 2008 Essex Review.²

The white paper focuses on three main policy areas – increasing housing supply, improving the quality of existing homes and improving homeless provision and services. A key commitment is to end family homelessness by 2019 and to prevent families with children being denied housing on the grounds that they are intentionally homeless. But it has also followed England in proposing to make it explicit that homeless households can be offered a private sector tenancy.

Wales is also proposing a new rent policy, so that rents in the local authority and housing association sectors operate within a unified framework, although leaving individual landlords with far more discretion than applies under the rent restructuring policy in England. While it supports the provision of intermediate rented housing, this is still to be directed at households with moderate incomes, not at general needs applicants.

Discussions are taking place with HM Treasury about a self-financing exercise for councils in Wales along similar lines to that in England (see page 10), but there are a number of tricky issues still to be resolved. It rankles in Wales that they have been making continuing payments of rental surpluses to HM Treasury during the post-devolution years, adding up to some £1bn by 2010/11. All councils in Wales with retained stock are subject to ‘negative subsidy’, although in some cases this is effectively offset by major repairs allowance funding which in Wales operates outside the framework of the subsidy regime.

A further complexity is that the English settlement formula, if crudely applied, would not leave councils with any headroom against the cap on maximum debt levels, so there would be no scope for any prudential borrowing. Some concessions from HM Treasury on that point would seem necessary if the Welsh Government is to swallow the requirement for a one-off payment to bring to an end the annual flow of negative subsidy transfers to the Treasury.

But for all its ambition, finance for implementing the new Welsh housing policy remains very tight. Investment in new social housing has been boosted by a number of special programmes in recent years, including a package of post-credit-crunch measures, but these are now ending and the prospects are that there will be further reductions in the years ahead.

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¹ See Commentary Chapter 3 in the current UK Housing Review 2011/12.
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.

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 11 Office for Budget Responsibility March 2012 Economic Forecast
Table 12a Total Managed Expenditure (TME)
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
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Table 25a Welsh housing conditions: unfit dwellings
Table 28 Private sector improvement and disabled facilities grants
Table 34 Employment status of household heads by tenure
Table 40 Numbers of mortgage advances per year in Great Britain
Table 41 Gross and net advances secured on dwellings per year in the United Kingdom
Table 51 Mortgage arrears and repossessions
Table 52 Court actions for mortgage repossessions in England and Wales
Table 55 Buy to let loans
Table 90 Local authority homeless acceptances
Table 91a Homeless households in temporary accommodation in England
Table 91c Homeless households in temporary accommodation in Scotland
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
Table 117 Take-up rates for housing benefit and council tax benefit
The UK Housing Review
2011/2012

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- Housing investment by councils and housing associations
- Subsidies, tax relief and benefits
- Public expenditure plans
- UK and international economic trends

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