

Section 2 Commentary

Chapter 4

Housing expenditure plans

This chapter looks at social housebuilding and other housing expenditure plans for UK jurisdictions for coming years. It focuses mainly on the affordable housing investment programmes of the Homes and Communities Agency (for England), and those of the Scottish and Welsh Governments. The chapter concludes with an assessment of recent lending conditions faced by affordable housing providers working with private finance.

HCA affordable homes programme in England

Announced in July 2011, the Homes and Communities Agency's 2011-2015 Affordable Homes Programme (AHP) envisages the construction of 80,000 'affordable homes' at a total public cost of £1.8 billion – see Table 2.4.1. Funding will be channelled through 148 organisations selected through the Agency's pre-qualification process. While most of these are housing associations (or 'registered providers'), 15 are private developers and 26 are local authorities and ALMOs.

As shown in Table 2.4.2, in comparison with the three-year National Affordable Housing Programme (NAHP) running to 2010/11, the new AHP will generate

just over a third of the annual output, though at only about one-sixth of the annual cost in public subsidy. Consistent with these numbers, the average grant per unit for the new programme, at £22,000, will be less than half that under the NAHP. And, based on an estimated per unit scheme cost of £160,000¹ the average 'new programme' grant rate will equate to just 14 per cent – a strikingly low figure compared with historic norms.

Key to achieving the greatly reduced grant rate and grant per unit is the 'affordable rent' funding model introduced by the coalition government in 2011 (to avoid possible confusion the 'affordable rent' model is always referred to in the *Review* using quotation marks or by the abbreviation 'AR'). By charging rents at up to 80 per cent of market levels on all newly built homes and on some existing homes being relet, developing housing associations and other providers can enhance their borrowing headroom, hence reducing their call on grant subsidy. To put it another way, the new funding formula will enable providers to stretch available public funding.

Table 2.4.1 HCA Affordable Homes Programme, 2011-2015

	Dwellings				Funding		
	'Affordable rent'	LCHO	Total	% share	£m	% share	Average grant per dwelling (£)
London	16,130	5,726	21,856	27	628	36	29,000
East and South East	10,874	3,558	14,432	18	230	13	16,000
Midlands	10,647	2,898	13,545	17	286	16	21,000
South and South West	9,697	3,024	12,721	16	241	14	19,000
North West	8,320	991	9,311	12	188	11	20,000
North East, Yorks & the Humber	7,286	849	8,135	10	182	10	22,000
England	62,954	17,046	80,000	100	1,755	100	22,000

Source: HCA.

Note: LCHO = low-cost homeownership.

Table 2.4.2 Housing investment programmes in England, 2008-2015

Programme	Total dwellings approved/planned				Grant		
	Social/affordable rent*	LCHO and other**	Total	Annual total	Total (£bn)	Annual avg (£bn)	Avg per dwelling (£)
National Affordable Housing Programme 2008/09-2010/11	93,200	80,700	173,900	57,967	8.9	2.97	51,000
Affordable Homes Programme 2011/12-2014/15	62,954	17,046	80,000	20,000	1.8	0.45	22,000

Source: HCA.

Notes: *Includes local authority housebuilding. **Includes NAHP Kickstart and Property/Regeneration programmes.

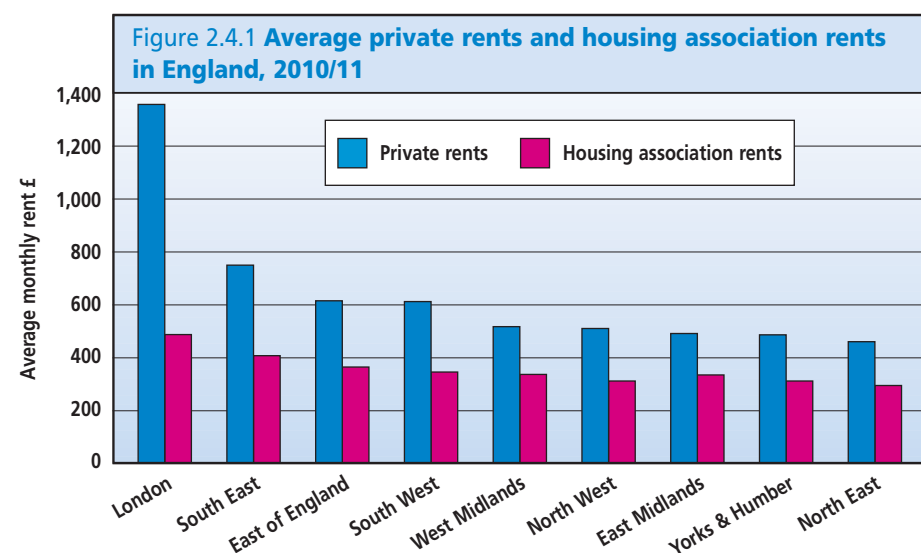
Exactly how the AR model operates in practice will depend substantially on the decisions of individual providers, in particular as regards rents policy. The first question is how far providers will take advantage of the scope to charge higher rents in terms of the level at which AR charges are set. Here there is a danger that the government imperative on squeezing public spending may collide with local accountability incorporated within the project approval system. Consistent with historic practice, a housing association (or private for-profit provider) must secure local authority support for a proposed development. While this is nothing new, it has been given added piquancy by ministers' professed commitments to the principle of 'localism'. The resulting municipal leverage over third party provision has recently been expressed in some areas of England (especially in London) through council objections to projected rent levels for planned schemes.²

There have also been cases of councils choosing to contribute their own resources to proposed developments to substitute for additional borrowing supported by quasi-market rents.³ Hence, the resulting new homes may be let at social rents rather than on an AR basis. However, few if any authorities would be

able to maintain such a stance on any scale for any significant period of time. Instead, most face the simple but unpalatable choice between expensive homes or no homes.

Particular concern has been expressed about the implications of the 'up to 80 per cent of market rent' benchmark for London, especially in relation to the housing benefit caps incorporated within the government's welfare reform package (see below). As shown in Figure 2.4.1, if 'social' rents were set at a fixed proportion of average market rents, the impact would typically be much greater in London than in other regions. In fact, on the basis of Valuation Office Agency private rents data for 2010/11,⁴ the resulting 'affordable rent' for a two-bedroom property in the capital would be £252 per week, with a three-bedroom home costing £318. However, as noted in last year's *Review*, given the policy to cap a household's total benefit payments at £500 per week under the universal credit regime, the maximum weekly 'housing credit' available to a family with three children will be only just over £200.⁵ With this in mind, the Mayor of London secured HCA agreement that 'affordable rents' in London are to be charged at 'an average of 65 per cent of market rent' and that they 'will not exceed new benefit caps'.⁶ The proximity of 'affordable rents' to the 80 per cent benchmark in other regions remains to be seen.

The second key 'rent policy' question for providers concerns existing homes being relet. The AR model requires that the cost of newly built homes is partly funded through additional rental income generated through the 'conversion' of some existing homes from 'social rent' to AR terms – i.e. reletting properties at rents substantially higher than those previously charged. It is estimated that an average of 3.5 such homes will be needed to support the development of each newly built AR dwelling.⁷ But on what scale will this actually take place? While this cannot be predicted with certainty, we can analyse the HCA's assumptions here. The agency estimates that, by 2015, existing homes relet on AR terms will amount to four per cent of association tenancies – some 103,000 homes.⁸ Bearing in mind the total volume of association relets in 2010/11, it would seem that the HCA is expecting only about 20 per cent of total relets to be 'converted' to AR during the period. Even allowing for the fact that non-developing associations will have no incentive for 'AR conversion', this sounds relatively modest.



Sources: Private rents – Valuation Office Agency; housing association rents – CORE (see Compendium Table 74b).

Aside from issues around rent setting, many other anxieties have been raised about the AR regime and the feasibility of HCA output targets being achieved under the framework. Among these are questions about the agency's assumption that it will be possible for providers to deliver 25 per cent of total affordable housing output via 'nil grant' schemes. This is considered optimistic since the relevant proportion has never previously exceeded 20 per cent, with even that being achieved under highly favourable 'boom' conditions.⁹

For providers, a greater concern follows from the fact that the AR model requires them to greatly increase their reliance on private finance. For each newly built home, the volume of debt incurred will be substantially larger than previously. While repayments may be supportable via higher rents (see above), the overall result will be to push up housing association gearing ratios, cumulatively over time. This will create a danger of providers breaching loan covenant conditions stipulating upper limits on, for example, debt as a percentage of total net worth. Given that such a transgression would place a provider at risk of having existing loans re-priced (see below) this is clearly a critical worry. Evidently, any funding system which requires a year-on-year increase in indebtedness and gearing ratios is unsustainable beyond the short term. This seems to have been conceded by government with the recent ministerial statement that 'Beyond 2015 I would agree that [affordable rent] is not a model that can be repeated...'.¹⁰ This could be seen as setting the stage for even more far-reaching reforms in the medium-term future.

Further questions on the sustainability of the AR regime are raised by consideration of impacts on the housing benefit budget. Of course, this is not the first time that housing associations have developed homes for rent at quasi-market levels. Such products have previously been tagged as 'key worker housing,' 'mid-market rent' and the like. However, the difference this time is that, as the new 'mainstream' form of provision, AR homes are targeted towards the traditional social housing client group, not at moderate-income working households. With only around a third of new entrants to social housing in any form of employment (see Compendium Table 35), it is clear that higher rents are going to be borne substantially by the benefit budget. In the short term, the effect will be modest because the proportion of social housing let on AR terms will grow only slowly as

new homes are constructed and (a proportion of) relets are re-assigned on AR terms. Nevertheless, there must be questions as to whether medium- or longer-term impacts here will evoke fresh Treasury-inspired benefit curbs. For both housing associations and their funders the resulting business planning risk is very clear.

Other affordable housing investment in England

Over and above the HCA's new housebuilding plans, there is a continuing programme of upgrading existing social housing under the decent homes (DH) initiative. Launched in 2000, the programme aspired to bring all social housing in England up to a defined minimum standard by 2010. By 2010/11, estimated DH investment totalled some £37 billion across all social landlords.¹¹ However, it was acknowledged by government in 2009 that 100 per cent DH compliance would not be achieved by the original target date (see Commentary Chapter 2). While the programme has been scaled down substantially under the coalition government, ministers remain committed to investing a further £1.6 billion towards DH refurbishment by local authorities, over the four years to 2014/15. However, since this is only half the estimated £3.2 billion needed to complete the programme,¹² it seems likely that many authorities will continue to manage non-decent stock well beyond 2015.

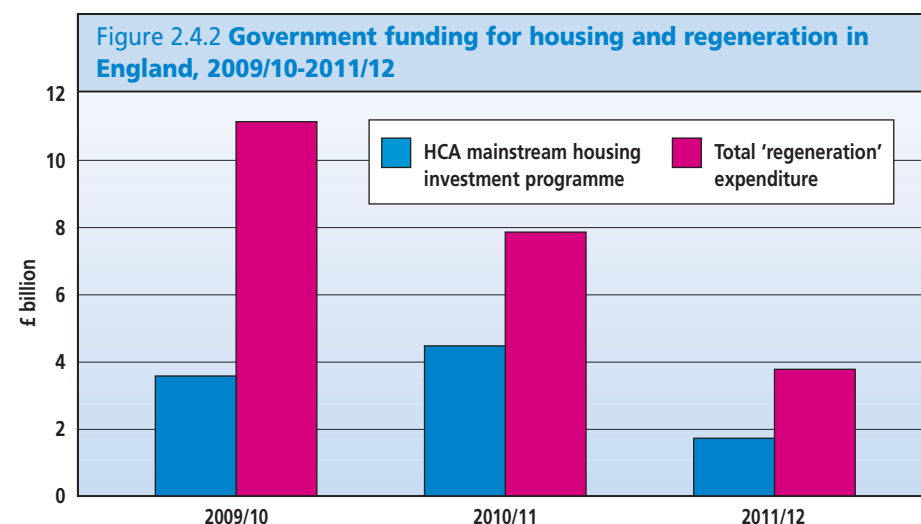
Table 2.4.3 Decent homes programme allocations, 2011/12-2014/15

Region	Allocation (£000)	Dwellings	% of total	Unit cost (£)
East	97,926	8,711	7	11,242
East Midlands	241,490	29,606	23	8,157
London	820,980	51,460	40	15,954
North East	141,086	11,556	9	12,209
North West	110,550	9,801	8	11,279
South East	30,142	3,700	3	8,146
South West	32,161	2,886	2	11,144
West Midlands	71,266	6,765	5	10,535
Yorkshire and the Humber	49,400	3,557	3	13,888
England	1,595,001	128,042	100	12,457

Source: HCA.

As shown in Table 2.4.3, the recently allocated DH investment is heavily weighted towards London. Significant in policy terms is that almost a quarter of the allocations detailed here involve local authorities which retained direct control of their housing stock rather than delegating this to an arms length management organisation (ALMO). This rang a death-knell to the performance-based funding system operated by the former government where funding eligibility was restricted to councils with ALMOs assessed by the Audit Commission as strong on service delivery. The regional distribution is also influenced by the HCA limiting assistance to authorities with more than ten per cent of their housing remaining non-decent in 2010.¹³

One other capital funding heading relevant to housing in certain regions of England is government-funded regeneration investment. In parallel with the mainstream new affordable housing budget, this has seen substantial cutbacks in recent years (see Figure 2.4.2). Of particular interest from a housing perspective is the 2010 termination of new projects under the housing market renewal programme. It should be noted that the 'regeneration' expenditure as shown in



Sources: housing investment – HCA ; regeneration expenditure – DCLG (as cited in: House of Commons CLG Select Committee (2011) *Regeneration* (see www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/news/regen-report-publication/).

Figure 2.4.2 is based on a very broad definition of the concept. For example, the 2011/12 figure includes spending under headings such as the Regional Growth Fund and the New Homes Bonus.

Government funding to stimulate private housebuilding in England

The coalition government's November 2011 housing strategy detailed a range of schemes aimed at stimulating private housebuilding in England.¹⁴ While these included some proposals already announced in the 2011 Budget and elsewhere, a number were newly revealed. The most significant of the proposals were:

- *FirstBuy Equity Loan scheme*: Government and over 100 housebuilders are to provide £400 million to help some 10,500 first-time buyers otherwise locked out of homeownership by lender requirements for large deposits. Recipients will be enabled to purchase new-build homes via equity loans of up to 20 per cent.
- *Get Britain Building Investment Fund*: £400 million to support firms needing development finance to kick-start construction on 'stalled sites' where planning permission has already been granted. The government estimated that such sites contained 133,000 'stalled units'.
- *Growing Places Fund*: £500 million to facilitate new housing development obstructed by the need for infrastructure investment.
- *New Build Indemnity Scheme*: The government will provide a loan guarantee as part of a scheme led by the Home Builders Federation and the Council of Mortgage Lenders to provide 'up to 95 per cent loan to value mortgages for new build properties'. Up to 100,000 households will be assisted under the initiative (see Commentary Chapter 3 for more details and discussion).

Affordable housing investment in Scotland

Consistent with UK government spending cuts, Scotland is also entering a period of substantially reduced public investment in affordable housing – see Table 2.4.4 overleaf. However, by comparison with housing capital investment in England (see Table 2.4.2), the 2011/12-2014/15 real-terms reduction of 36 per cent in Scotland's overall housing and regeneration budget appears relatively modest.

Table 2.4.4 Scottish Government housing and regeneration spending plans, 2011/12-2014/15

	2011/12 Budget £m	2012/13 Budget £m	2013/14 Plans £m	2014/15 Plans £m	2012/13- 2014/15 Total £m
Affordable housing supply	244	125	–	–	–
Regeneration programmes	25	30	–	–	–
Supporting economic growth/ housing supply	269	155	134	160	449
Housing supply – Edinburgh and Glasgow*	98	52	45	54	151
Housing supply – sub-total	366	208	178	214	600
Fuel poverty/domestic energy/ climate change	45	65	–	–	–
Grant commitments to stock transfer landlords	39	53	–	–	–
Supporting sustainability	84	118	114	95	327
Adaptations	8	6	–	–	–
Homeowners' support fund	24	10	–	–	–
Provision for regeneration	13	8	–	–	–
Housing support	12	8	–	–	–
Supporting transitions	57	32	23	23	77
Income	- 20	- 5	- 5	- 5	- 15
Total (cash)	487	353	310	327	990
Total (2011/12 prices)	487	353	310	327	940

Source: Scottish Government.

* Note that figures for 2012/13-2014/15 are estimates based on (a) the Scottish Government's declared intention to invest at least £600 million in housing supply over the spending review period, and (b) the profile of spend announced under the 'supporting economic growth/housing supply' heading – see preceding row of the table.

In interpreting the expenditure trend shown in Table 2.4.4 it is also important to recognise that the high rates of scheme funding approvals in 2009/10 and 2010/11 have major knock-on consequences for budgets in subsequent years, in terms of the need to honour existing commitments. Additional funds will need to be drawn down to facilitate completion of projects already on-site. Hence, of the £366 million committed to housing supply in 2011/12 (see Table 2.4.4), all but £55 million was pre-committed to approvals processed in previous years. However, allowing for the fact that scheme costs are spread over two or more financial years, the Scottish Government was able to identify a total of £111 million for new housebuilding approvals under its Innovation and Investment Fund (IIF) programme in 2011/12.

Despite its much-reduced available funds, the Scottish Government remains committed to developing 30,000 affordable homes in the period 2011-2015 – an implicit annual rate of construction of 6,000 homes.

While this target relates to completions rather than approvals, it will nevertheless pose a considerable challenge. In part, ministers are inspired by their council housebuilding programme initiated in 2009 and considered highly successful. In 2009/10 and 2010/11 this saw the approval of nearly 3,000 new council homes at a per-unit grant cost of under £30,000 (as compared with over £70,000 for housing association social rent properties). To top up government grants, most participating authorities sourced additional investment via rent-funded revenue contributions or prudential borrowing underpinned by rental income generated by their entire portfolio. Hence, the Scottish Government's efforts to economise on up-front subsidy per unit have been implemented partly through substituting rental contributions for capital grants.¹⁵ While there is no suggestion that this will result in rent increases of the order anticipated under the English 'affordable rent' regime, the policy thinking is not entirely dissimilar to Westminster's (see above).

Strikingly, housing associations achieved an average grant per unit value of just under £35,000 in the 2011/12 funding round – see Table 2.4.5.¹⁶ Emulating local authorities by cross-subsidising new schemes from portfolio-wide rental income is probably one of the means by which this was achieved. As in England, however,

Table 2.4.5 Scottish affordable housing funding round 2011/12 ('Innovation and Investment Fund') – breakdown by housing provider type

Provider type	No. of dwellings	Grant allocation (£m)	Grant allocation per dwelling (£000)
Local authority	1,254	37.0	29.5
Housing association	2,129	73.2	34.4
Private developer	79	1.2	15.2
Total	3,462	111.4	32.2

Source: Scottish Government - <http://scotland.gov.uk/Topics/Built-Environment/Housing/investment/innovationfund>

the extent to which such a mechanism is sustainable beyond the short term is certainly questionable in terms of the cumulative impact on both rent levels and debt burden.

Another contributory factor enabling associations to achieve historically low grant per unit rates will have been a modest shift away from social rent and towards mid-market rent (MMR) – since the latter requires less subsidy than the former. A ministerial stipulation that social rent must account for at least two-thirds of the total 2011/12-2014/15 affordable housing programme limits the room for manoeuvre in this arena. However, bearing in mind that council housebuilding is wholly for social rent, and factoring in the aspiration to construct 5,000 council homes during the current Scottish parliamentary term, this implies that MMR (or shared equity or shared ownership) could account for up to 40 per cent of housing association approvals during this period rather than social rent – somewhat higher than historically. Of the 3,462 homes approved under the IIF programme, MMR (plus shared equity and shared ownership) accounted for some 35 per cent of housing association (and other non-local authority) approvals.

Housing development was made much more demanding for housing associations in 2011/12 through the requirement to work with Scottish Government's IIF 'grant per dwelling' benchmark of £40,000. Another challenge for associations has been

the introduction of grant funding in arrears. Needing to fund the entire cost of housebuilding up-front exposes associations to significantly greater financial risk than was true historically. Again, as in the case of English associations participating in the AR regime (see above) questions may be raised about compliance with gearing ratio maxima incorporated in loan covenant conditions and, more generally, about the medium- to long-term sustainability of a funding regime which calls for substantially greater contributions from associations' own resources than the traditional model.

Over and above the 'mainstream' affordable housing development programme described above, Scotland has also been developing its National Housing Trust initiative (NHT).¹⁷ The NHT mechanism facilitates the development of intermediate rental housing and is jointly funded by participating local authorities and their chosen development partners, with the Scottish Government underwriting any shortfall in the repayment of local authority loans through a repayment guarantee. Essentially, the NHT model moves from a traditional grant-funding approach to one based on expected future receipts from (eventual) house sales. In line with its aim to stimulate local economic development, the model has facilitated development on some 'stalled housing schemes' where outputs had originally been intended for immediate private sale.

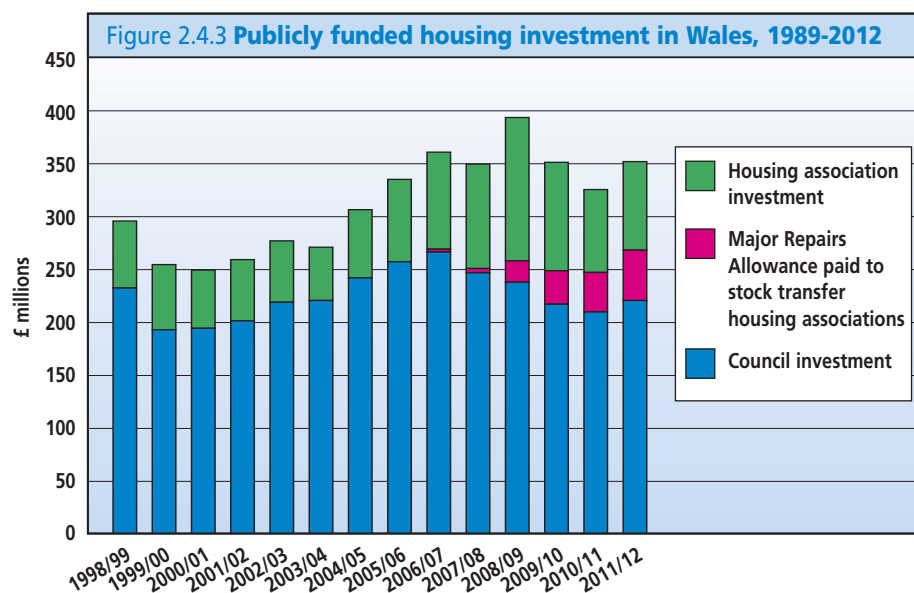
In most cases, the NHT initiative is expected to provide homes to households on low to moderate incomes who are likely to struggle to afford private renting at market rents or to buy a home, but who are also unlikely to be able to access social housing in the near future. Homes will be available for intermediate rent (84 per cent of local median private rents for phase 1 homes) for between five and 10 years before dwellings are sold. Tenants, who will occupy their homes on Scottish short assured tenancies, will be given the opportunity to purchase at this point.

Launched in 2010 with the aim of generating 3,000 homes, the first phase of NHT has resulted in contracts being secured for some 600 dwellings. To build on this initial progress a second phase of the original model with local authorities and developers was launched in late 2011. The Scottish Government is also working with housing associations to co-develop variants of the NHT model specifically designed for this application.

Affordable housing investment in Wales

Levels of funding for new housing association and related investment rose rapidly in Wales from 2004/05 onwards, primarily as a result of a new 'Wanless' programme of investment focused on schemes for older households in need of care and support. There was a further sharp acceleration in financial provision in 2009/10, as the Welsh Government responded to the credit crunch by utilising housing investment as an economic stimulus instrument. As well as bringing forward planned expenditure from subsequent years, additional funding was committed to supporting a range of new construction projects, including new housing association investment.

The combined result was that capital funding of housing association development rose from £51.6 million in 2003/04 to a peak of £135.2 million in 2008/09 (see Figure 2.4.3 and Compendium Table 76). However, while such funding is due to fall back to just £48.1 million in 2013/14,¹⁸ the pace of this reduction has been eased by a further 'Economic Stimulus Package' announced in November 2011.



Sources: See Compendium Table 76.

This will provide an additional £9.3 million for social housing grant, together with £6 million (of which £1 million is for 2012/13) to assist with the remediation of a 50-acre mixed-tenure housing site.¹⁹ Consequently, 2011/12 housing association investment has been boosted to 83.5 million (for full details see Compendium Table 76).

Despite the forthcoming squeeze on resources the Welsh Government does not look to follow the English approach in moving towards a higher rent regime for new 'affordable housing', despite the perverse incentives to do so under the devolution budgetary arrangements (see Contemporary Issues Chapter 3). Indeed, the Welsh Government has just closed a consultation on proposals to move towards a new rent policy framework broadly harmonising rents between the council and housing association sectors.²⁰ While this includes provisions to safeguard housing associations' existing financial commitments, it would not be consistent with a move to introduce a new investment programme relying on higher rents, and a reduced rate of grant support for new schemes.

Investment on improving the condition of the existing council housing stock towards the Welsh Housing Quality Standard (WHQS) has continued at a steady pace, with a fixed major repairs allowance (MRA) capital budget of £108 million split between grants payments to councils with retained stock, and dowry payments to stock transfer landlords that underpin their investment plans to meet the WHQS within a few years of the transfer taking place.

As Compendium Table 76 shows, the proportion of the MRA grant paid to stock transfer landlords in Wales has continued to rise, with Blaneau Gwent, Neath Port Talbot and Gwynedd councils all transferring their stock since the beginning of 2010. Despite the latest transfers, a slight upturn in capital investment by stock-retaining councils is forecast for 2011/12. Some part of that can be accounted for by the growing gap between average council rents and the subsidy guidelines (see Compendium Table 79) which provides councils with additional revenue funds that can be used for capital expenditure on their stock (as shown in Compendium Table 77).

The Welsh Government has been reviewing its policy on council housing finance, and seems likely to initiate reforms along similar lines to those in England. However, it has yet to arrive at a financial settlement with HM Treasury, who have made it clear that they will expect to receive a substantial capital sum in lieu of the annual HRA surpluses currently paid over to HM Treasury (some £74 million in 2010/11 – Compendium Table 77).

The very different devolution arrangements for Scotland and Wales in respect of council housing finances are further discussed in Contemporary Issues Chapter 3.

Housing investment in Northern Ireland

Overall investment in the NIHE's own stock has fallen sharply over the last four years (Compendium Table 88). The fall in estate renovation investment has been most dramatic, from £95 million in 2007/08 to just £11 million in 2010/11.

While the proportion of NIHE occupied homes failing the Decent Homes Standard had fallen from 50 per cent in 2001 to 25 per cent in 2006, and just 18 per cent in 2009,²¹ the reduced investment budget has meant that NIHE was unable to meet its target of reaching the Decent Homes Standard for most of its homes by 2010.²²

2010/11 also saw levels of investment in private sector renovation grants and enveloping funding drop to just half those of previous years. In contrast, investment in new voluntary housing dwellings rose to £183 million in 2010/11. However, looking forward, that investment stream is set to fall to just £122 million by 2012/13.²³

Private finance for affordable housing: the lending environment

Critical to housing association development activity is the availability of private finance and the terms on which this can be secured. Intensifying challenges in this area reflect both the exposed position of the major banks due to the still-unfolding European and global debt crisis, and the Basle III measures devised to reduce banking sector risks into the future. Going forward, new risks are also emerging from government moves to cut back housing benefit (affecting social housing in particular insofar as 'under-occupying' tenants are concerned) and, in tying future

rent levels more closely to market norms, increasing association exposure to market volatility.

Crucially, 2011 saw further contraction in the availability of conventional long-term loan finance. Whereas longer-term loans have remained on offer from certain lenders, these are increasingly subject to clauses allowing for periodic (e.g. five-yearly) review such that the loan may be repriced at a higher rate. Effectively, from a borrower perspective, finance of this type is a short-term product. All of this is important because it increases associations' need to hedge against re-financing risk, thereby inflating the effective cost of loan finance.

In response to these conditions, associations have been shifting further towards capital market bond financing, either directly in bilateral deals with financial institutions or indirectly via intermediaries such as The Housing Finance Corporation (THFC). Bond funding has been seen as attractive, both in terms of its potentially long-dated nature and because it has recently been competitive in 'cost-of-funds' terms. However, industry experts have suggested that this latter advantage may prove short-lived, given expectations of expanded re-financing demand from central and local government in coming years.²⁴ Consequently, it may be that interest shifts to relatively novel financing vehicles such as the sale and leaseback model which enables an association to secure funds direct from institutional investors under a long-term arrangement similar to bond funding,²⁵ or index-linked finance sourced from pension funds.²⁶

More generally, 2011 has seen indebted housing associations entering an increasingly risky financial environment, both for the reasons discussed above and (for those intent on developing new housing in England) due to the HCA's new development funding model – see earlier in this chapter. Not only are associations facing new challenges in obtaining new finance, they are also becoming sensitised to previously unrealised risks as regards existing loan books. The underlying problem is that much of the finance secured by associations over the past decade has been provided at margins which are no longer tenable for lenders because of the much-increased cost of finance to the banks themselves. From a lender perspective, such loans have become a liability rather than an asset.

In these circumstances, existing lenders have naturally been under pressure to identify loan repricing opportunities. Previously, discussion of the associated risks for housing associations has tended to focus on the possible negative consequences of a landlord breaching loan covenant conditions – e.g. through exceeding a stipulated gearing ratio. Similarly, it has been suggested that minimisation of repricing risk has dampened enthusiasm for otherwise desirable organisational reforms (e.g. merger, group consolidation) where the need for lender consent could expose an association to such a threat.

However, there is growing realisation that associations, in fact, face wider risks because of existing loan covenant conditions allowing lenders to require borrower compensation if market conditions or regulatory rules impair a bank's own access to capital. Indeed, demonstrating that this is not a purely theoretical possibility, 2011 saw one lender seeking to invoke just such a 'market disruption' clause incorporated in its financing agreements with a large number of associations.²⁷ While the relevant lender is not one of the sector's major players, there are understandable concerns that this could create a dangerous precedent.

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