Chapter 4

Housing expenditure plans

Table 2.4.1 **Summary of planned government support for affordable and private market housing investment in England, 2016/17-2020/21**

Programme		Period	Grant (£m)	Loan (£m)	Guarantee (£m)	Notes
Programmes aimed primarily at delivering housing at Affordable Rents or for low-cost homeownership	Shared Ownership and Affordable Homes Programme (SOAHP)	2016/17-2020/21	4,300	–	–	Current HCA/GLA programme now aimed at low-cost homeownership, rent to buy and Affordable Rent housing. £400 million for specialist homes for older, disabled and vulnerable people listed separately below.
	Additional funding for affordable housing	2017/18-2020/21	1,400	–	–	Additional funding to the above, announced in Autumn Statement 2016, to deliver 40,000 extra starts by 2020/21.
	Affordable Homes Programme 2015-18	2015/16-2017/18	1,500	–	–	Originally ran to 2019/20; remaining funding meets existing commitments (i.e. funding contracted) to 2017/18.
	HRA Borrowing Programme	2015/16-2016/17	–	300	–	Additional borrowing headroom for LAs
	Specialist Homes for older, disabled and vulnerable people	2016/17-2020/21	400	–	–	See SOAHP above - schemes at Affordable Rent or social rent agreed with local commissioning bodies.
	Care and support specialised housing fund	2013/14-2017/18	315	–	–	Department of Health fund run by HCA for specialised housing for older people, adults with disabilities, etc. Covers both Affordable Rent and shared ownership products.
	Sub-total: Affordable Rent and low-cost homeownership		**7,915**	**300**	**–**	**Sub-total = £8,215 million (16%)**
Private market support and starter homes	Housing infrastructure fund	2017/18-2020/21	2,300	–	–	Aims to unlock new housing supply with the potential to deliver up to 100,000 homes; part of National Productivity Investment Pipeline.
	Accelerated construction	2017/18-2020/21	1,700	–	–	Aims to speed up house building on public sector land in England through partnerships with private sector developers.
	Right to buy – expanded pilot	2017/18-2020/21	250	–	–	Expanded housing association pilot scheme – covers cost of discounts and one-for-one replacement.
	Starter Homes	2016/17-2020/21	2,300	–	–	Land facilitation and direct delivery to builders and LAs to help develop up to 60,000 Starter Homes. A £2.3 billion grant figure assumes some recycling of receipts from land facilitated.
	Help to Buy Equity Loan scheme(s)	2013/14-2020/21	–	12,500	–	Equity loan support of up to 20% for individual homebuyers including the London Help to Buy equity loan of up to 40%.
	Help to Buy Mortgage Guarantee	2013/14-2016/17	–	–	12,000 max	Mortgage guarantees: £12 billion represents the cap on government liability. Claims must be made within 7 years of the completion date. Scheme closed 31 December 2016.
	Help to Buy ISA	2015/16- 2019/20	2,200	–	–	Government bonus of up to £3,000 per ISA held by FTBs; for homes to a value of up to £250k (up to £450k in London). HM Treasury-led scheme. Budget figure taken from Budget 2016.
	Lifetime ISA	2017/18 onwards	2,000	–	–	Potential FTBs aged 18-40 can pay in £4,000 per year and receive 25% bonus. HM Treasury-led scheme. Budget figure taken from Budget 2016.
	Rent to Buy	2015/16-2020/21	200	200	–	Support for intermediate rent homes let for a minimum 5-year term.
	PRS Guarantee	2013/14-2017/18	–	–	3,500	Guarantees for bond finance for new build rented homes.
	Estates Regeneration Programme	2016/17-2020/21	32	140	–	Repayable loans to redevelop estates plus £32 million in grants announced in December 2016. Schemes vary considerably and can encompass affordable housing, low-cost homeownership and private market sale units.
	Home Building Fund	2016/17-2020/21	–	3,000	–	A flexible source of loan funding able to provide development finance – the development costs of building for sale or rent - and infrastructure finance – for site preparation and infrastructure requirements.
	Local Infrastructure Fund	2015/16-2020/21	–	50	–	One element of £12 billion Local Growth Fund.
	Locally-Led Garden Cities	2017/18-2018/19	19	–	–	Funding for Bicester Garden Town.
	Ebbsfleet development	2016/17-2020/21	275	–	–	Funding for Ebbsfleet Garden City.
	New Homes Bonus	2017-18	197	–	–	Part funding of the New Homes Bonus – top-sliced from the LA Revenue Support Grant.
	Sub-total: private market support and starter homes		**11,473**	**15,890**	**15,500**	**Sub-total = £42,863 million (84%)**
Overall total			**19,388**	**16,190**	**15,500**	**Overall total = £51,078 million (100%)**

Source: Author calculation in consultation with DCLG; update of table in UK Housing Review Briefing Paper 2016, to cover all programmes with spending in 2016/17 or later years.

Changes of government across the UK in 2016 brought new or revised housing investment plans for the period to 2021. In England, the Autumn Statement brought a small but arguably significant step back from the overwhelming push towards promoting homeownership, analysed in last year's *Review*. In Scotland, Wales and Northern Ireland, fresh targets for housing and in particular for affordable housing were set by the new governments that took charge after the May elections.

Given the reliance on housing associations for investment in new affordable housebuilding in all four administrations, the decision by the Office for National Statistics to extend its reclassification of housing associations in the public accounts to cover the whole of the UK put a question mark over the sector's investment, because it is now considered part of the public finances. Remedial action is planned in Scotland, Wales and Northern Ireland to follow that already being taken in England, with the hope that housing associations might revert to their previous status during 2017, with their borrowing no longer on the public sector balance sheet. However, the ONS decision has so far had no direct impact on the investment plans of any of the four administrations.

Affordable housing investment in England

The last two editions of the *Review* have carried summary tables showing all forms of government support for housing investment in England, covering both affordable housing and support for the wider private market. In this edition the different programmes are set out in a single table (2.4.1), to which both this chapter and the previous chapter refer.

Affordable housing investment is currently being financed by two overlapping programmes, the Affordable Homes Programme 2015-18, and the newer Shared Ownership and Affordable Homes Programme (SOAHP) for 2016-21. The *Review* focuses on what is planned and progress being made in these two current programmes, and refers readers to this chapter in last year's edition for comparisons with older programmes such as the AHP 2011-15. The 2017 housing white paper, *Fixing our broken housing market*, confirms the government's investment plans set out in the Autumn Statement 2016, including a shift of emphasis in investment priorities away from shared ownership and towards renting.

Affordable Homes Programme 2015-18

The AHP 2015-18 originally had £2.9 billion of funding, a target of 165,000 homes and a continued emphasis on producing homes let at Affordable Rent (AR). By September 2016, the HCA had committed just over £1 billion outside London and the GLA half of this amount for London (see Table 2.4.2). The forecast output from these allocations is currently 82,822 units, or just half of the original target. It is presumed that this will also be close to the final output as,

Table 2.4.2 **Affordable Homes Programme 2015-18: committed output by region**

Operating region	Grant (£ million)	Units – Affordable Rent		Units – Affordable homeownership		Total units	
		Grant funded	Nil grant	Grant funded	Nil grant	Grant funded	Nil grant
London	**503.6**	**11,850**	**3,197**	**6,342**	**2,805**	**18,192**	**6,002**
East and South East	**151.5**	**5,583**	**4,085**	**1,009**	**1,402**	**6,592**	**5,487**
Midlands	**317.7**	**11,319**	**1,971**	**2,029**	**620**	**13,348**	**2,591**
North East, Yorkshire and The Humber	**229.6**	**8,950**	**939**	**364**	**39**	**9,314**	**978**
North West	**218.5**	**8,088**	**702**	**1,180**	**55**	**9,268**	**757**
South and South West	**161.8**	**5,011**	**3,704**	**898**	**680**	**5,909**	**4,384**
TOTAL	**1,582.8**	**50,801**	**14,598**	**11,822**	**5,601**	**62,623**	**20,199**

Source: HCA and GLA approved offers, September 2016.

though this AHP is still in progress, no new commitments are being made as it has been replaced by the SOAHP. Nevertheless, the funding to date per unit is presented in Table 2.4.3.

Originally, Affordable Rent (AR) was the 'main' output from this phase of the AHP and schemes consisting solely of affordable homeownership were not considered. The Autumn Statement 2015 reversed this policy, but in fact the overall balance of the AHP has if anything shifted slightly further towards AR since then, as it makes up more than three-quarters of the expected output.

In London, the previous Mayor's housing strategy set a target of building 45,000 units over the three years under the GLA's part of this AHP. Of these, 60 per cent were to be rented and the remainder for homeownership; of the rented proportion, half would be at 'discounted' rents (around 80 per cent of market levels) and half at 'capped' rents (around 50 per cent of market). As can be seen from Table 2.4.2, the programme has been frozen with output now planned to be just over half of the expected level, and currently 65 per cent of grant-funded units are for Affordable Rent.

Table 2.4.3 **Average 2015-2018 funding per home to date by operating region**

Operating region	Affordable Rent	Affordable homeownership	All programme average
London	**£33,437**	**£16,933**	**£27,670**
East and South East	**£24,307**	**£15,369**	**£23,027**
Midlands	**£25,118**	**£16,567**	**£23,665**
North East, Yorkshire and The Humber	**£24,926**	**£18,456**	**£24,461**
North West	**£24,684**	**£15,721**	**£23,234**
South and South West	**£28,487**	**£21,270**	**£26,963**
TOTAL (excluding London)	**£25,301**	**£17,140**	**£24,070**
TOTAL (including London)	**£27,199**	**£17,042**	**£25,284**

Source: HCA and GLA approved offers, September 2016; excludes nil-grant units.

Last year's *Review* pointed out that the programme's low grant levels would make it difficult to implement, and that average grant per unit (at £21,091, including nil-grant units) was already higher than expected. Table 2.4.2 shows average grant levels so far, excluding nil-grant units; if the latter are added in the programme average has now fallen to £19,116 per unit, suggesting that the concerns have been partly addressed (although the original target was to reduce grant to £17,454 per unit overall – see Table 2.4.5 in last year's *Review*). However, this is now rather academic as attention has switched to the SOAHP.

Shared Ownership and Affordable Homes Programme 2016-21

The SOAHP made available £4.7 billion of capital grant from April 2016 to deliver starts on site for at least 135,000 homes for shared ownership, 10,000 homes for rent to buy and 8,000 homes for supported and older people's rental accommodation, 'a decisive shift' towards support for homeownership. Under the HCA part of the programme for England outside London, about half the planned budget (£1.28 billion) had been allocated by January 2017 to build 39,403 grant-funded units and 7,131 without grant. The grant-funded units are split between 23,340 for shared ownership, 11,063 for rent to buy homes and 5,000 Affordable Rent homes in the supported housing sector.

The post-referendum government has, however, shifted the emphasis somewhat back towards rented housing. The Autumn Statement allocated an additional £1.4 billion to be shared between the HCA and GLA to deliver 40,000 extra units,[1] raising total affordable investment under the SOAHP to just over £6 billion with an implied target of 193,000 homes. Bids under the revised programmes have been invited by both the HCA and the GLA.[2]

The GLA share of the programme totals £2.17 billion, aimed to produce 60,000 'starts on site' by 2020/21. An interesting development is a new breakdown of the GLA programme between rental and homeownership products. One-third is aimed at providing homes at the new London 'affordable rent', on average to be 44 per cent of market rent and tied to local authority formula rents. Despite the confusing title in practice it is therefore close to social rent. The remainder will be for the London 'living rent' (probably best thought of as intermediate rent) and for shared ownership, the former on a 'rent to buy' basis.

Output of recent and current programmes in England

The collected data on outputs from the AHP and related programmes reveal the practical effects of policy changes since 2011 (see Table 2.4.4). Output up to the end of 2014/15 was funded by a combination of the AHP for 2011-2015 and the remaining allocations from Labour's NAHP, with its higher grant levels (that continued to overlap with the AHP until then, producing just over 100,000 homes over those four years). The ending of the AHP in April 2015 accounts for the boost in output in its final year to produce the highest recent level of completions. The programme more than met its target of 80,000 units (in total it produced 82,115 completions, a small number of which overlapped into 2015/16).

Table 2.4.4 **Affordable housing starts and completions funded by the HCA and GLA**

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17 Apr-Sept
Starts on Site						
Social rent	3,123	4,572	3,960	2,321	931	327
Affordable Rent	8,873	23,286	30,134	28,009	20,608	8,247
Intermediate rent	14	48	65	21	14	16
Affordable homeownership	3,400	8,024	7,466	5,693	7,153	2,588
Total affordable starts	15,410	35,930	41,625	36,044	28,706	11,178
Completions						
Social rent	34,021	14,388	7,761	6,020	2,231	235
Affordable Rent	928	6,856	19,308	40,444	15,754	7,286
Intermediate rent	1,638	717	552	18	2	1
Affordable homeownership	15,144	14,773	8,713	12,257	4,288	1,557
Total affordable completions	51,731	36,734	36,334	58,739	22,275	9,079

Source: DCLG Live Table 1012.
Note: Total affordable housing is the sum of Affordable Rent, social rent, intermediate rent and affordable homeownership (principally shared ownership).

Not surprisingly, there was a fall in output in 2015/16 as the new AHP began. The government has a target of 'delivering 275,000 new affordable homes between 2015 and 2020,' which suggests output of 55,000 per year.[3] As can be seen, with just over 30,000 completions but fewer than 40,000 starts in the first 18 months, a considerable increase in delivery will be required if the target is to be met.

However, assessing the output of the AHP and related programmes is complicated by some differences between datasets. It is well established that output by local authorities and housing associations is under-represented in the quarterly housebuilding figures.[4] But there is also a consistent difference between the statistics on affordable housing output from HCA/GLA programmes (summarised in Table 2.4.4) and overall affordable output (given in DCLG's Live Table 1000, which is only updated annually). For 2015/16, the latter shows a much higher level of 32,110 completions, which includes extra units built without grant.[5] Even so, this still shows a considerable – if smaller – shortfall against the current government target. NHF surveys of housing associations broadly support these figures, showing 22,837 grant-funded affordable homes completed in 2015/16, rising to 32,823 if non-grant funded units are included.[6] The latest NHF figures show slightly fewer grant-funded completions in the first half of 2016/17 (8,425) than those in Table 2.4.4, but with a further 4,632 completed without grant (obviously excluding local authority new build).

Overall social-sector output under the SOAHP and related programmes is dependent on a range of factors, including the ability to reinvest the proceeds from shared ownership sales. In its Autumn Statement report, the OBR took the view that the 'reduced requirement for housing associations to move to a shared ownership model and abandoning plans to force higher rents on some tenants will both reduce the cash inflows available for housebuilding,' although this is partly offset by additional grant funding. Nevertheless OBR suggests the net effect is to reduce housebuilding by associations by around 13,000 over the period to 2020/21. Other measures may result in additional housebuilding but OBR concludes that 'taken together with the effect on housing associations, the overall effect [of the Autumn Statement] is small'.

Impacts of Affordable Rents on stock and lettings

There has also been a very significant change in the composition of affordable housing ouput. Perhaps surprisingly, the proportion of homeownership properties has fallen off slightly since April 2015, despite the new programme's emphasis on it. Less surprisingly, numbers of social rented homes built with grant have now fallen to very low levels, from two-thirds of completions in 2010/11 to ten per cent in 2015/16 but as low as three per cent so far in 2016/17. However, NHF figures suggest that 15 per cent of recent affordable output is at social rents, with the majority being built without grant aid.

The AHP, related programmes and social landlords' own investment produced over 85,000 new units let at Affordable Rents by April 2016 (since 2011 when the first AR properties came on-stream). To help compensate for lower grant levels, social landlords have also had to convert existing properties to AR or to sell them. By April 2016, there had been 92,538 such conversions by HAs – rather more than they had built. With other changes, this brought the total stock of AR dwellings across the sector to 169,641 by that date.[7] Furthermore, under the current AHP and SOAHP, more conversions will be required and the loss of social rented units will therefore continue. In the four years after April 2012, the net loss of social rented stock across the sector for various reasons reached 122,000 units, despite the building of over 44,600 new social rented homes over the same period.[8]

Table 2.4.5 **Average proposed Affordable Rents under the AHP 2015-18 compared with market rents**

Operating region	Average rent (AR) (£/week)	Average rent as a % of market rent
London	**197**	**56**
East and South East	**144**	**77**
Midlands	**117**	**79**
North East, Yorkshire and The Humber	**107**	**80**
North West	**109**	**80**
South and South West	**140**	**79**
TOTAL (excluding London)	**123**	**79**

Source: HCA and GLA, offers to September 2016.
Note: Rents shown are average gross rents, including service charges. GLA figures are from a limited database and do not include all units.

The effects so far of the AHP 2015-18 on rent levels are shown in Table 2.4.5. The downward trend in AR rents as a proportion of market rents in London is shown to continue. Outside London, AR gross rents are close to the 80 per cent maximum specified by the HCA.

CORE returns for 2015/16[9] show a shift in the pattern of Affordable Rent levels from those reported in previous editions of the *Review*. Mean Affordable Rents on new lettings had increased to 70 per cent of market rents over the three years to 2015, while median rents had increased to 81 per cent of market levels. In the past year there has been a move downwards, however, to 67 and 76 per cent respectively, probably as a result of landlord restraint, the effects of welfare reform and the impact of the government's one per cent annual reduction in rent levels. These figures are not directly comparable with those in Table 2.4.5, partly because they include lettings converted to AR rents (as well as newly built units) and also because they are based on net rents (i.e. excluding service charges).

CORE returns also provide some evidence of whether AR lettings are being made to tenants who are likely to be able to afford them. In 2015/16, some 47 per cent of new AR general needs lettings went to tenants in full- or part-time work, compared with 39 per cent of general needs properties let by at social rents. However, the overall proportions of tenants in new lettings who were eligible for housing benefit (70 per cent for AR lettings; 69 per cent for social rent lettings) is similar for both, and are falling. Overall, therefore, there is still no evidence that AR lettings are going to tenants who are better able to afford to pay than social rent tenants, because while more are in work the proportions whose incomes qualify them for some benefit support are very similar.

Other affordable housing investment by local authorities in England

Direct investment by local authorities in new and existing stock is also an important contributor to affordable homes investment. Overall capital expenditure by local authorities on housing declined by 65 per cent in cash terms between

2007/08 and 2011/12, to just £3.3 billion. However, it rose over the following three years to reach a recent high of almost £4.8 billion in 2014/15 and is estimated to have reached £6.5 billion in 2015/16 (see Compendium Table 62). In substantial part this is the result of the effects of HRA self-financing in April 2012 and the use of the borrowing capacity allowed, although the total also includes what remains of non-HRA capital spending, for example on grants to the private sector.

The 2015 edition of the *Review* for the first time gave a picture of local authorities' Housing Revenue Accounts over the period since the self-financing settlement and this now covers four years (Table 2.4.6). Expenditure is forecast at £8.7 billion in the current year, including a significant contribution from revenue towards capital investment (£1.1 billion).

Unfortunately, research by CIH and CIPFA showed how the self-financing settlement, and hence councils' capacity to make new capital investment, has been severely undermined by policy changes since April 2012.[10] Most notable is the imposition of the four-year cut in rents, of one per cent per annum, which began in April 2016. The effect of this and other changes is to virtually eliminate councils' capacity to invest in new housebuilding from their HRAs. For many local authorities, it has rendered irrelevant earlier calls for the caps on HRA borrowing to be eased, as many councils can no longer service any extra debt from their reduced income and have begun to cut back on their investment plans. This is bound to have an impact both on new build and on investment in the existing stock, including investment aimed at maintaining homes at the Decent Homes Standard (see Compendium Table 23b).

However, and partly in response, many local authorities are investing in affordable and market housing outside their HRAs, using stand-alone companies. Last year it was believed there were 14 such companies, but this has now grown to 98.[11] There is a wide variety of aims and approaches: for example, Barking and Dagenham aims to produce over 2,800 units per year for Affordable Rent, while Sheffield aims for about 150 units per year of differing tenures, including social rent. Some companies are wholly LA-owned while others are joint ventures.

Table 2.4.6 **Post-settlement local authority housing revenue accounts in England**

£ million

	2012/13	2013/14	2014/15	2015/16
Income				
Rents from dwellings	**6,743**	**7,043**	**7,286**	**7,310**
Rents other than dwellings	**174**	**171**	**153**	**155**
Heating and other services	**636**	**687**	**699**	**635**
Interest income	**30**	**54**	**48**	**17**
Government grants and assistance	**231**	**289**	**321**	**149**
Transfers and appropriations	**211**	**124**	**70**	**138**
Other income	**140**	**144**	**148**	**148**
Total income	**8,165**	**8,512**	**8,700**	**8,553**
Expenditure				
Supervision and management: general	**1,761**	**1,878**	**1,819**	**1,957**
Supervision and management: special	**487**	**464**	**488**	**608**
Repairs (including transfers to the repairs account)	**1,720**	**1,772**	**1,844**	**1,797**
Expenditure for capital purposes	**428**	**618**	**708**	**1,113**
Debt charges	**1,161**	**1,293**	**1,187**	**1,182**
Interest payable and similar charges	**1,154**	**988**	**970**	**956**
Transfers and appropriations	**1,022**	**1,084**	**1,013**	**938**
Other expenditure	**121**	**122**	**123**	**121**
Total expenditure	**7,854**	**8,219**	**8,152**	**8,671**

Source: Local Government Financial Statistics, England, No.26 2016.

The 2017 housing white paper 'welcomes' local housing companies but says that it wants tenants to be offered similar terms to those in council housing, including the right to buy. This could prove to be complex to implement, and could deter councils from using companies to provide sub-market rented homes.

A further vital contribution to affordable housing is that provided by 'planning gain' (or 'section 106') linked to private housing development. Although specific data are no longer collected in England, provision using section 106 is recorded in overall housing supply figures.[12] For 2015/16, these show that 12,560 homes were delivered through planning gain, 39 per cent of the overall total. Of the total in 2015/16, about a quarter (3,050 units) were for social rent and 38 per cent (4,790) were for homeownership, with the remainder being for Affordable (or intermediate) Rent. The 2017 housing white paper indicates that changes to section 106 arrangements will be announced in the 2017 Autumn Budget: it is important that they do not reduce their role in supporting the delivery of new affordable housing.

Another contributor to investment whose effects are difficult to monitor is estate regeneration. The government has a small loan fund of £140 million to stimulate regeneration schemes, to which £32 million in grants were added in December 2016. Regeneration undoubtedly accounts for a proportion of the 3,000 or so LA units demolished each year, but its contribution to new supply is likely to be a mix of affordable and market housing that is impossible to identify in statistics. However, one outcome is likely to be further loss of social rented homes, as replacements tend to be for Affordable Rent or shared ownership.

As noted above, of English local authority investment, that by the GLA is unusual because it receives a proportion of the overall funding available nationally, independently of the HCA (such arrangements may widen in the future, with devolution to city regions such as Greater Manchester). Its allocation for the period 2015/16-2020/21 totals £3.1 billion, with a target of 90,000 starts over the six years. In addition to the AHP commitments noted above, some £400 million is earmarked for affordable housing through its Housing Zones Programme (together with £200 million of recoverable investment). The GLA's recent peak performance across all its programmes was in 2014/15 when it achieved 17,875 affordable completions, which fell to 4,881 in 2015/16 and to just 422 in the first six months of 2016/17 – implemented for the most part by housing associations.

Scotland's affordable housing investment

The *Review* regularly acknowledges the relatively high priority being given to affordable housing investment in Scotland. Our recognition is repeated this year, since the Scottish Government delivered nearly 33,500 affordable homes against its five-target of building 30,000 by March 2016. And it has now committed to a target for the five years to 2020/21 which is two-thirds higher than the previous one, aiming to deliver 50,000 affordable homes, of which 35,000 will be social housing. The case was made by CIH and others for a higher target of 60,000 affordable homes over five years,[13] and indeed some rival targets for the new parliament proposed during the May 2016 election went as high as 60,000.

Performance under the completed Affordable Housing Supply Programme (AHSP) for 2011-2016 is shown in Figure 2.4.7. It can be seen that meeting the five-year 30,000 homes target required some reliance on 'off the shelf' purchases alongside direct investment in new build and rehabilitation. Two-thirds of the output was for letting at social rents. And of the social rented output, it is notable that a quarter came from local authorities. While housing associations still contributed the bulk of social rented homes, the programme also saw a switch on their part towards 'affordable rent' products (mainly mid-market rent, and not 'Affordable Rent' as in England). In total, investment through the completed AHSP reached over £1.7 billion over the five years.

Nevertheless the new AHSP which began in April 2016 represents a step-change, given the scale of the five-year delivery target, with the budget provision increasing to a promised £3 billion over that period. In the current year, 2016/17, the budget is £572 million, while the commitment so far for 2017/18 is for 'over £470 million of direct capital investment'. Social landlords have called for greater certainty about future allocations if the 50,000 target is to be achieved. The Scottish Government now allocates a proportion of the AHSP through Resource Planning Assumptions (RPAs) issued to individual councils, and it has published guidance on these as far ahead as 2019/20. The RPAs for 2016/17 total £406 million, and those for future years are likely to be raised to similar proportions of each year's budget as it is decided.

Table 2.4.7 **Scottish Government Affordable Housing Supply Programme: completions 2011-2016**

Type of AHSP activity		2011/12	2012/13	2013/14	2014/15	2015/16	Total (5 years)
RENT							
Social Rent							
Housing association rent	New build	4,155	2,784	2,594	2,808	2,124	14,465
	Rehab	227	86	171	89	266	839
Council housing rent	New build	948	1,116	1,229	1,088	1,128	5,509
	Rehab	0	0	86	27	169	282
HA/Council	Off the shelf	0	0	60	172	86	318
Home Owner Support Fund (rent)	Off the shelf	322	288	228	192	80	1,110
Total social rent		5,652	4,274	4,368	4,376	3,853	22,523
Affordable rent							
Other affordable rent	New build	49	415	804	945	948	3,161
	Off the shelf	24	0	0	46	20	90
	Rehab	0	1	113	86	22	222
Total affordable rent		73	416	917	1,077	990	3,473
AFFORDABLE HOMEOWNERSHIP							
New supply – shared equity and shared ownership	New build	621	460	317	256	196	1,850
	Off the shelf	0	12	0	0	0	12
	Rehab	25	12	16	0	0	53
Other affordable homeownership	New build	134	28	3	300	22	487
	Off the shelf	0	0	0	0	0	0
	Rehab	86	192	325	22	0	625
Open Market Shared Equity	Off the shelf	186	533	1,051	1,030	1,456	4,256
New Supply Shared Equity (developers)	New build	102	73	9	0	0	184
Home Owner Support Fund (shared equity)	Off the shelf	3	9	6	8	1	27
Total affordable homeownership		1,157	1,319	1,727	1,616	1,675	7,494
TOTAL AFFORDABLE HOUSING SUPPLY		6,882	6,009	7,012	7,069	6,518	33,490

Source: Scottish Government Affordable Housing Supply Programme summary tables.

In the first half of 2016/17 affordable completions totalled just over 3,100, which suggests the programme is still delivering at about the same level as in previous years rather than at the level required to meet the new target, although numbers of approvals and new starts are increasing. The scale of the challenge presented by the programme can be seen by comparing the new social housing target – which at 35,000 means 7,000 units per year – with delivery of social housing under the previous programme. This achieved an average of 4,500 per year and a maximum of fewer than 6,000. Assuming the proportion delivered by local authorities remains the same, the Scottish Housing Regulator has pointed out that HAs will have to raise their average delivery to around 5,000-5,400 social units per year – whereas in recent years their *total* output (affordable and social) has been around 3,800 annually.[14]

An increase in grant levels in early 2016 has helped to underpin the new programme, with the benchmark for HA grants for social rent now in the range £70,000-82,000 per three-person unit (depending on location, and with a further supplement of £2,000 available for 'greener' developments) and for mid-market rent units, £44,000 per three-person unit. Local authority benchmark grant levels for social rent are now set at £57,000 per unit, again with a £2,000 supplement available for 'greener' developments. Benchmark grant levels under the later stages of the previous programme were £58,000 per unit, with the recent average rises of £14,000 being the outcome of recommendations from a sector working group set up in April 2015. The contrast with grant levels for HAs and LAs in England, noted in previous editions of the *Review*, is now even more marked.

Delivery at the higher level of output now required under the new AHSP will of course require more private finance, underpinned by rental income. At the same time, given the effects of welfare reform and the falls in wages earned by low-paid workers, rental affordability is still a considerable concern. Average HA rents have been increasing by 3-4.5 per cent and three-quarters of HAs still plan increases in excess of inflation over the next five years.[15] Last year's *Review* commented: 'The conditions create a conundrum for a sector expected to make a radical increase in Scotland's housing output, while keeping rents affordable and at the same time maintaining healthy balance sheets, in a very difficult environment.' Despite the 2016 grant increases, this conclusion now applies with even greater force.

While the main AHSP is the principal source of funding for affordable housing, Scotland has some further sources both within and outside the AHSP:

- The *National Housing Trust* is a form of guarantee to facilitate housing to let at mid-market rents: more than 1,200 homes have been completed and it is on track to deliver over 2,000 homes *within* the AHSP.
- The *Local Affordable Rented Housing Trust*, launched in 2015, is a charity to provide long-term mid-market rented housing – it is funded by a £55 million Scottish Government loan with matching private investment expected to lift the overall package to more than £100 million and deliver up to 1,000 mid-market rented homes *within* the AHSP.
- New *Rural and Islands Housing Funds* to deliver affordable housing *within* the AHSP and totalling £30 million from 2016 to 2019.
- Another key element of the housing supply budget is *Help to Buy* for which £195 million is allocated for the three years 2016/17 to 2018/19, one-third less than for the previous three-year period (and *outside* the AHSP).
- A new five-year *Housing Infrastructure Fund* began in 2016/17 with an initial allocation of £50 million *outside* the AHSP. It requires bids from LAs to bring forward development sites (whether market or affordable housing) through infrastructure investment in the form of either grants or loans.

Affordable housing is also delivered through developer contributions (including 'section 75' contributions). Statistics on these are no longer published in Scotland, but such contributions are believed to be still significant although not used by all authorities. Calls for a new section 75 procedure have been considered in a recent independent review of the planning system.[16] The conclusions are rather mixed: while the 'critical role of planning obligations in helping to deliver affordable housing' is recognised, the report recommends that section 75 planning obligations are retained but that their use should be 'minimised' and the process 'streamlined', although with no detail on how this might be done. CIH has argued that the role of section 75 should not be diluted, and indeed it would be extremely helpful if the statistical series on section 75 were to be resumed so that decisions on its future can be made against an evidence basis of its effects.

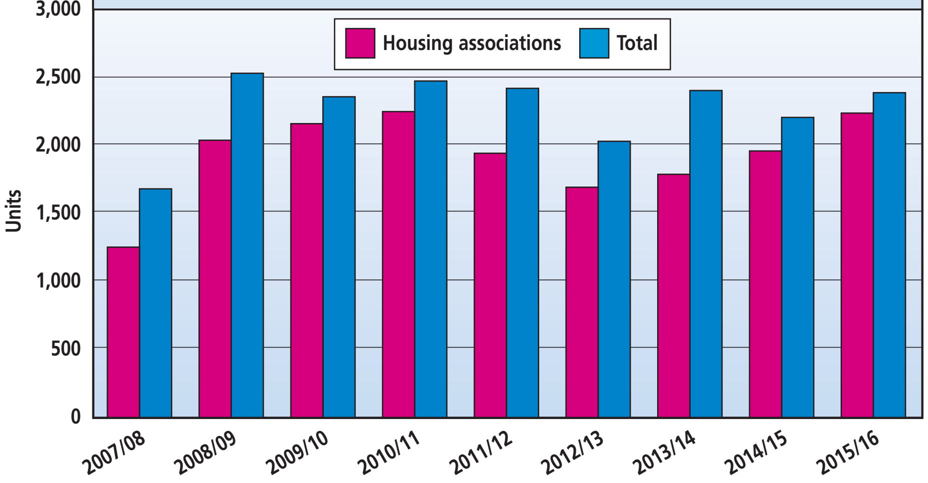
Until recently, investment in the existing social housing stock was driven by the requirement on all social landlords to meet the Scottish Housing Quality Standard (SHQS) by the target date of April 2015. Although detailed data are not yet available, it was reported that 94 per cent of the over half-million social stock had achieved the target, after cumulative investment by landlords of around £3.3 billion since 2007. In the council sector alone, 90 per cent of stock achieved the target but with some notable shortfalls (e.g. Edinburgh, with 75 per cent). Ensuring that the stock remains at or exceeds the SHQS is now the responsibility of individual landlords via their business plans.

Attention has since shifted to meeting the new requirement for social landlords to meet the Energy Efficiency Standard for Social Housing (EESSH) by 2020. The EESSH sets a minimum energy-efficiency rating according to property type, and replaces the equivalent element of the SHQS. Investment is likely to be required to just over a third of the social stock and landlords can make use of a range of funding schemes to finance the measures needed. The EESSH was set with reference to the level of energy-efficiency improvements that could be achieved through available schemes, although at UK level schemes such as 'ECO' have since been cut back. Meeting the EESSH is therefore a significant resource challenge for Scottish social landlords alongside delivering an ambitious new build programme and ensuring their stock stays at or above the SHQS.

Affordable housing investment in Wales

The Welsh Government's target for new affordable housing output during its previous assembly term was to deliver 10,000 units over the five years to 2015/16. After a fall in output in 2014/15, it rose to 2,400 in the final year of the programme (see Figure 2.4.1). This meant that the target was exceeded by 15 per cent, with the five-year output reaching 11,508 homes. The contribution made by housing associations to this total again increased, reaching 94 per cent. In doing so, their dependency on capital grant increased from 69 per cent in 2014/15 to 77 per cent in 2015/16, although it was still well below the level of grant use in 2010/11 (90 per cent).

Figure 2.4.1 **Additional affordable housing delivered in Wales 2007-2016**



Source: StatsWales.

The year 2015/16 also saw continued reliance on provision of affordable housing via planning obligations (section 106). The total was 706 units, slightly fewer than the previous year (796), but still accounting for 29 per cent of affordable output. This shows that Wales continues to make strong use of planning gain provisions and, moreover, can demonstrate that through its annual statistics (unlike England and Scotland).

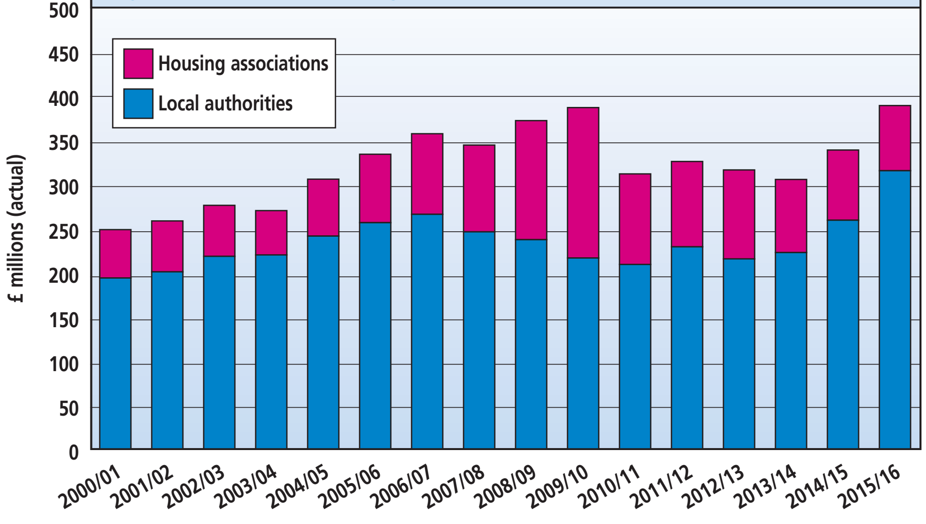
Post-election, the Welsh Government adopted a new target of delivering 20,000 affordable homes over its five-year term, including affordable homeownership as well as new rented housing. If achieved, this target will be close to the numbers needed to meet officially projected household growth, although new 2014-based projections are expected in 2017 (see Commentary Chapter 2). The Welsh Government Budget provides for £1.5 billion of housing investment during the new term, of which about £337 million will be via social housing grant (although grant allocations are typically enhanced over the course of each year). The current year's figure – recently increased to £98 million – means that 2016/17 will see the highest grant allocation since 2012/13. To deliver the new programme, a 'housing supply pact' has been signed with the social sector in which it commits to delivering 13,500 units towards the target, with local authorities raising their output to contribute 1,000 of these (the remainder of the five-year target will largely be met if, as planned, 6,000 homeownership units are delivered through a significant increase in the budget for private market housing, via Help to Buy.)

Local authority output projections suggest there will be about 2,800 affordable housing completions in 2016/17, rising to 3,350 in 2017/18, which is an encouraging improvement and suggests that the required output from the social sector will be achieved. These projections include a forecast of over 400 completions by local authorities themselves in 2017/18, which would be the highest since the 1990s. This undoubtedly reflects their growing capacity following the Welsh 'self-financing' settlement for local authorities in April 2015 (see below).

In addition to social housing grant, the Welsh Government also provides Housing Finance Grant, a scheme of ongoing revenue subsidy to assist Welsh HAs with the repayment of collective private finance, initially totalling £130 million and with an eventual target output of 3,000 new build units in total. Wales remains unique among the four administrations in establishing a collective borrowing product from the capital markets and in providing a long-term revenue stream to HAs as an alternative to capital grant.

The contribution of local authorities to housing capital investment in Wales continued to increase in 2015/16, reaching £316 million (see Figure 2.4.2 overleaf), a rise of 22 per cent over the previous year and 50 per cent more in cash terms than spending in 2010/11 (the recent low point for LA investment). In contrast to HAs, most of this investment is directed towards the existing stock (although, as noted above, the balance is likely to shift back towards new build to some extent). This is because of the need to achieve the Welsh Housing Quality Standard (WHQS) by the target date of 2020, now set in statute by the Housing (Wales) Act 2014. By March 2016, five of the eleven councils (now including the largest, Cardiff) had met the WHQS in their stock, with 54 per cent of council

Figure 2.4.2 **Welsh housing capital expenditure 2000-2016**



Source: Compendium Table 75.

housing compliant overall. This compares with 96 per cent compliance with the standard in HA stock, although of course HA stock is generally newer. Although in previous years the biggest reason for non-compliance has been poor energy efficiency, this has been the component with the highest level of improvement in the past year and non-compliance now is due to a miscellany of factors.

In April 2015 the Housing Revenue Account subsidy system in Wales came to an end, following the parallel change in England three years earlier. Until then, all eleven stock-retaining councils in Wales paid 'negative subsidy' to the Treasury (see Compendium Table 77). Under a settlement with the UK Treasury put in statute in the Housing (Wales) Act 2014, these payments have ended and councils have taken on £919 million in new debt (in a similar arrangement to that which applied to the majority of English councils). This means that for the first time Welsh local authorities have had full control over their rental income and are able to operate meaningful business plans, albeit subject to caps on their borrowing. As we have noted, this has already encouraged several councils to adopt new build programmes. Although (as in England) council investment is to some extent constrained by the effect of Whitehall welfare reforms on their ability to collect rents, Welsh LAs are not being subject to the four-year cuts in rents imposed in England, avoiding a comparable drastic effect on their investment programmes (see above).

Affordable housing investment in Northern Ireland

For 2015/16, the year before the election for a new Northern Ireland Assembly, there was a target of starting 1,500 new social homes: this was exceeded, with 1,568 actually begun, albeit with one-quarter of those being off-the-shelf purchases or from sources other than direct new build. However, completions continued their downward trajectory since 2013/14 (see Table 2.4.8), with the lowest output in the five-year period. As can be seen, almost 7,400 completions were achieved in total over the five years, of which 72 per cent were new, purpose-built units, planned from the outset for social rental.

The Northern Ireland Executive has published a draft Programme for Government covering the next five-year period 2016/17-2020/21. This includes a target of providing an additional 9,600 social homes over the period, or an average of 1,920 per year (with an additional 750 units for affordable homeownership giving

Table 2.4.8 **Northern Ireland Social Housing Development Programme: completions 2011-16**

Type of provision	2011/12	2012/13	2013/14	2014/15	2015/16	Totals
New build	**886**	**953**	**1,462**	**1,192**	**822**	**5,315**
Off-the-shelf	**250**	**185**	**324**	**133**	**160**	**1,052**
Existing satisfactory purchase	**79**	**47**	**102**	**216**	**104**	**548**
Rehabilitation	**89**	**66**	**48**	**78**	**72**	**353**
Reimprovement	**6**	**3**	**31**	**39**	**51**	**130**
Totals	**1,310**	**1,254**	**1,967**	**1,658**	**1,209**	**7,398**

Source: DfC, Northern Ireland Housing Statistics Table 1.9.

a yearly target of 2,670 units). Since 1994, the Northern Ireland Housing Executive has used a Net Stock Model to estimate the need for new social housing, most recently updated in late 2015. Despite substantial changes in the various components of the model, it suggested that – given the lower anticipated level of new private housing supply and in spite of a much lower projected number of new households (see Commentary Chapter 2) – the overall deficit had increased slightly, showing a need for 1,600 new social dwellings. However, given the cumulative backlog of more than 8,000 that developed between 2001 and 2011, as well as the expected on-going lower rate of private sector new build over the next three to five years, the Housing Executive considers an annual target of 2,000 new social dwellings is appropriate. There is ongoing debate within the housing sector as to whether this figure over- or under-represents social housing need.

As can be seen from Table 2.4.8, social housing output approaching 2,000 units annually has only been achieved once in the past five years and will require a step-change in delivery from housing associations. The Business Plan 2016/17 for the Department for Communities (DfC) sets a combined delivery target for social and affordable housing of 2,350 in the first year of the Programme for Government, as against its target of 2,670, suggesting that delivery will have to increase substantially in later years. Targets for social housing starts have been set at 1,600 for 2016/17, 2,000 for 2017/18 and 2,200 for 2018/19.

The DfC's capital budget for 2016/17 is £161 million, of which £132 million is currently allocated to housing and regeneration. This is an increase on the previous year's (DSD) departmental capital budget of £124 million. The specific housing budget, in a form comparable with previous years, is shown in Table 2.4.9.

The DfC budget also supports investment in the existing social stock of just under 88,000 units held by the Northern Ireland Housing Executive, albeit heavily dependent on the NIHE's capital receipts from sales. Investment in capital improvements to the stock reached a recent high point of £12.5 million in 2012/13, fell in 2013/14 to £8.3 million but rose again to £12.5 million in 2015/16. This is well below the level required and only a fraction of the investment levels made in the years up to 2008/09 (see Compendium Table 88).

Table 2.4.9 **Budgeted net housing capital investment in Northern Ireland**
£ million

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
NI Housing Executive	**- 24.3**	**- 32.9**	**- 38.6**	**- 17.8**	**89.9**	**107.5**
Housing associations	**154.4**	**121.7**	**112.6**	**113.6**		
Total	**130.1**	**88.8**	**74.0**	**95.8**	**89.9**	**107.5**

Source: Northern Ireland Budgets 2011-15, 2015-16 and 2016-17.

The most recent evaluation of Housing Executive stock condition[17] indicated a need for £6.7 billion of investment over 30 years to bring the stock up to a standard somewhat in excess of the Decent Homes Standard (as compared with an earlier target to achieve the DHS itself by 2021). Within this required investment, the new evaluation indicates that £1.5 billion needs to be spent by 2019/20 because of the backlog that has recently built up, a figure which of course massively exceeds current investment levels. The backlog may indeed get worse, as a Stormont review of rent policy – which followed England's one per cent social housing rent cut – required the NIHE to freeze rents for 2016/17. NIHE is believed to have wanted a rent increase to sustain its planned maintenance programme, largely paid for from rents. A request to housing associations to adopt a similar rents freeze was in any case largely ignored.

DfC's Social Housing Reform Programme continues to have as one of its main aims a review of the options for the future of the Housing Executive, within which a major issue is the stock investment shortfall. However, there has been some political and stakeholder opposition to transferring stock out of NIHE, and indeed the outgoing minister, Lord Morrow, said in March that the challenge for the incoming administration would be 'finding and agreeing a way of giving the Housing Executive the ability to borrow'.[18] The current minister, Paul Givan, said in September that DfC 'is currently considering options to fund this requirement.'[19] However, since this commitment was made, a new crisis in Stormont will lead to fresh elections in March and renewed political uncertainty.

Notes and references

1 It also allowed greater flexibility in the programme to allow more units to be built for rent to buy and for letting at Affordable Rents, estimated to cost an extra £340 million in grant.

2 HCA (2017) *Shared Ownership and Affordable Homes Programme 2016 to 2021: Addendum to the Prospectus*. London: HCA; GLA (2016) *Homes for Londoners: Affordable Homes Programme 2016-21 Funding Guidance.* London: GLA.

3 Hansard (2015) *Affordable Housing: Written question – 14609* (see www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2015-11-03/14609).

4 Perry, J. (2016) 'Apples and pears' in *Inside Housing*, 9 November (see www.insidehousing.co.uk/debate/expert-opinion/apples-and-pears/7017581.article).

5 The figures in Live Table 1000 can be compared with DCLG figures on overall housing supply in Live Table 120: in 2014/15 affordable output was one-third of gross housing supply but in 2015/16 the proportion fell to 16 per cent.

6 NHF (2016) *How many homes did housing associations build in 2015/16?* London: NHF.

7 Adding together the 161,193 units held by HAs as reported in SDR returns, and 8,448 held by LAs and reported in LA housing statistics, both figures for the end of March, 2016.

8 See www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Nearly_250000_of_the_cheapest_rented_homes_will_be_lost_between_2012_and_2020

9 Available at www.gov.uk/government/collections/rents-lettings-and-tenancies

10 CIH and CIPFA (2016) *Investing in council housing: The impact on HRA business plans*. Coventry and London: CIH and CIPFA.

11 Barnes, S. (2016) 'Stepping up to the Plate' in *Inside Housing*, 16 December (see www.insidehousing.co.uk/stepping-up-to-the-plate/7018096.article).

12 DCLG Live Table 1000c.

13 Powell, R., Dunning, R., Ferrari, E. and McKee, K. (2015) *Affordable Housing Need in Scotland*. Edinburgh: CIH Scotland, SFHA, Shelter Scotland.

14 Scottish Housing Regulator (2016) *The View from the Regulator*, speech by SHR Director of Finance and Risk to SFHA Finance Conference, November. Glasgow: SHR.

15 Scottish Housing Regulator (2016) *op.cit*.

16 Beveridge, C., Biberbach, P. and Hamilton, J. (2016) *Empowering planning to deliver great places: An independent review of the Scottish planning system*. Edinburgh: Scottish Government.

17 Savills (2015) DSD/NIHE *Main Stock Condition Report 2014/15*. Belfast: NIHE.

18 Northern Ireland Assembly (2016) *Official Report (Hansard)*, 14 March (see http://aims.niassembly.gov.uk/officialreport/report.aspx?&eveDate=2016/03/14&docID=263221).

19 Northern Ireland Assembly (2016) *Official Report (Hansard)*, 15 September (see http://aims.niassembly.gov.uk/questions/printquestionsummary.aspx?docid=272418).