# Chapter 4
# Housing expenditure plans

Table 2.4.1 **Summary of planned government support for affordable and private market housing investment in England, 2017/18-2020/21**

| | 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 | 2016/17-2020/21 | 4,300 | – | – | Current HE/GLA programme aimed at low-cost homeownership, rent to buy and Affordable Rent. |
| | Additional AHP Autumn Statement Dec 16 | 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 | 1,400 | – | – | Originally ran to 2019/20; remaining funding meets existing contractual commitments. |
| | Additional AHP Autumn Budget 2017 | 2018/19-2020/21 | 2,000 | – | – | Announced in October 2017 and confirmed in Autumn Budget. NB this and the items above form the government's £9.1 billion affordable housing commitment. |
| | Extra LA borrowing headroom | 2019/20-2021/22 | – | 1,000 | – | Autumn Budget made up to £1bn extra borrowing headroom available. |
| | Specialist Homes: older, disabled and vulnerable people | 2016/17-2020/21 | 400 | – | – | Schemes for Affordable Rent or social rent agreed with local commissioning bodies. |
| | Care and support specialised housing | 2013/14-2017/18 | 315 | – | – | Department of Health fund for specialised housing run by HE/GLA. Includes Affordable Rent and shared ownership. Ends March 2018. |
| | Right to buy pilot | 2017/18-2020/21 | 200 | – | – | Housing association pilot scheme – extended in Autumn Budget with £70m additional funding |
| | Rent to Buy | 2015/16-2020/21 | 200 | – | – | Support for intermediate rent homes let for a minimum 5-year term |
| | **Sub-total: Affordable Rent and low-cost homeownership** | | **10,215** | **1,000** | – | **Sub-total = £11,215 (21%)** |
| Private market support, infrastructure and starter homes | Housing infrastructure fund | 2017/18-2020/21 | 3,100 | – | – | Aims to unlock new housing supply; part of National Productivity Investment Pipeline; scheme extended to 2022/23 but last two years not included here. |
| | Accelerated construction | 2017/18-2020/21 | 588 | – | – | Aims to speed up house building on public sector land through private sector partnerships. Funding reduced in Autumn Budget 2017. |
| | Starter Homes | 2016/17-2020/21 | 369 | – | – | New net allocation after significant change in Autumn Budget. |
| | Help to Buy Equity Loan scheme | 2013/14-2020/21 | – | 22,900 | – | Equity loan support of up to 20% for homebuyers (in London up to 40%). To March 2017, £5.4 billion spent with a further £7 billion committed to 2021; additional £10 billion announced in October 2017. From 2017/18, new loans are partly offset by receipts (not shown here). |
| | Land Assembly fund | 2019/20-2020/21 | 485 | – | – | Fund extends to 2022/23 but last two years not included here. |
| | Small sites infrastructure and remediation | 2018/19-2020/21 | 630 | – | – | Funding agreed in Autumn Budget. |
| | Help to Buy ISA | 2015/16 onwards | 900 | – | – | Government bonus of up to £3,000 per ISA held by FTBs, for purchase of homes up to a certain value. Figures based on revised OBR forecast to 2020/21. This is not included in MHCLG budgets. |
| | Lifetime ISA | 2017/18 onwards | 1,200 | – | – | Potential FTBs aged 18-40 can pay in £4,000 per year and receive 25% bonus. Figures based on OBR forecast to 2020/21. This is not included in MHCLG budgets. |
| | Financial guarantees for private sector housebuilding | 2018/19 onwards | – | – | 8,000 | Autumn Budget announced £8 billion in guarantees but phasing/details not yet available. |
| | Estates Regeneration Programme | 2016/17-2020/21 | 32 | 370 | – | Repayable loans to redevelop estates plus £32 million in grants. Can encompass affordable housing and private market sales. Original net budget was £170m, £200m added by Autumn Budget (funding for 2021/22-2022/23 not included here). |
| | Home Building Fund | 2016/17-2020/21 | – | 3,000 | – | Loan funding for development costs and infrastructure finance. Autumn Budget added £1.5 billion for SMEs of which £300 million is for 2021/22-2022/23 (not included here). |
| | Locally-Led Garden Cities | 2017/18-2018/19 | 29 | – | – | Funding for Bicester and other garden towns and villages. |
| | Ebbsfleet development | 2016/17-2020/21 | 275 | – | – | Funding for Ebbsfleet Garden City. |
| | Land Release Fund | 2017/18 onwards | 45 | – | – | Announced in January 2017 white paper. |
| | **Sub-total: private market, FTBs and infrastructure** | | **7,653** | **26,270** | **8,000** | **Sub-total = £41,923 million (79%)** |
| **Overall total** | | | **17,868** | **27,270** | **8,000** | **Overall total = £53,138 million (100%)** |

Source: Compiled from Autumn Budget 2017 and other official sources, in consultation with MHCLG. Includes all programmes with spending in 2017/18 or later years, including pre-2017/18 spending where relevant.

After the June 2017 election, public housing investment in England was increased, although promoting homeownership was still at the forefront of the government's priorities. In Scotland and Wales, the respective governments were already implementing more ambitious affordable housing programmes adopted after their elections in 2016. In Northern Ireland, regrettably, progress has continued to be stymied by the suspension of devolved government.

Housing associations are currently key to affordable housebuilding in all four administrations, so an important decision in 2017 came from the Office for National Statistics: it has provisionally re-classified English housing associations as private bodies pending the necessary secondary legislation, and the general consensus is that the same will apply in Wales and Scotland once the necessary legislation is in place (but later in Northern Ireland because of the political situation – see below). Although the original change to the national accounts had not so far made any difference to the investment plans of any of the four administrations, in the long term it was likely to have led to constraints on housing association borrowing. Following new deregulation measures, the ONS has effectively put associations back into the position they were in before.

## Affordable housing investment in England

The *Review* now regularly carries a summary (Table 2.4.1) showing all forms of government housing investment in England, covering support for both affordable housing and the wider private market, with the latter discussed in the previous chapter. It can be seen that, despite shifts in support compared with 2016, the balance of government investment still heavily favours intervention in the private market, with support for affordable housing forming just 21 per cent of total investment over the period to 2020/21.

The government's main support for affordable housing totals £9.1 billion, divided between two programmes. The first is a now curtailed Affordable Homes Programme (AHP) 2015-18, and the second is the Shared Ownership and Affordable Homes Programme (SOAHP) for 2016-21. The *Review* will focus on what is planned and what progress is being made in these two programmes. As Table 2.4.1 shows, there are some other minor programmes totalling £2.1 billion, of which one (extra local authority borrowing headroom) is referred to later.

### *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 to let at Affordable Rent (AR). By 2017, Homes England had committed just over £1 billion outside London and the GLA under half of this amount (see Table 2.4.2). The forecast output from these allocations is currently 85,601 units, or just over half the original target. This will now be close to the final output; no new commitments are being made because this phase of the AHP has been replaced by the SOAHP

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 | £420.6 | 10,310 | 3,585 | 7,056 | 3,407 | 17,366 | 6,992 |
| Midlands | £311.1 | 11,052 | 2,851 | 2,005 | 623 | 13,057 | 3,474 |
| North East, Yorkshire and The Humber | £224.2 | 8,673 | 1,290 | 443 | 39 | 9,116 | 1,329 |
| North West | £208.5 | 7,711 | 915 | 1,123 | 55 | 8,834 | 970 |
| South East | £137.4 | 5,017 | 5,023 | 948 | 1,367 | 5,965 | 6,390 |
| South West | £160.8 | 4,938 | 5,532 | 968 | 670 | 5,906 | 6,202 |
| **TOTAL** | **£1,462.6** | **47,701** | **19,196** | **12,543** | **6,161** | **60,244** | **25,357** |

Source: Homes England approved offers March 2017 (no longer being updated); GLA approved offers September 2017.

2016-21. Nevertheless, the funding to date per unit is presented in Table 2.4.3. During the course of the programme its emphasis has switched from Affordable Rent to homeownership and then partially back to AR. As can be seen, the eventual outcome is that the vast majority of the output will be rented rather than sold.

Table 2.4.3 **AHP 2015-18 average funding per home by operating region**

| Operating region | Affordable Rent | Affordable homeownership | All programme average |
|---|---|---|---|
| London | **£29,117** | **£17,059** | **£24,218** |
| Midlands | **£25,159** | **£16,456** | **£23,823** |
| North East, Yorkshire and The Humber | **£24,891** | **£18,785** | **£24,594** |
| North West | **£24,643** | **£16,411** | **£23,596** |
| South East | **£24,319** | **£16,218** | **£23,031** |
| South West | **£28,403** | **£21,191** | **£27,221** |
| **TOTAL (excluding London)** | **£25,306** | **£17,429** | **£24,298** |
| **TOTAL (including London)** | **£26,129** | **£17,220** | **£24,280** |

Source: Homes England approved offers March 2017; GLA approved offers September 2017.

In London, the previous Mayor's housing strategy set a target of building 45,000 units over three years under the GLA's part of this AHP. As can be seen from Table 2.4.2, output is now likely to be about half of the expected level; currently almost 60 per cent of grant-funded units are for Affordable Rent, as originally planned.

One feature of the outturn AHP shown in Table 2.4.2 is the high proportion (almost 30 per cent) that will now receive no grant. The 2016 edition of the *Review* speculated that the AHP's low grant levels would make it difficult to implement, although average grant per unit (then at £21,091, including nil-grant units) was already higher than expected. Table 2.4.3 shows average grant levels so far, excluding nil-grant units; if the latter are added in the programme average has now fallen to £17,086 per unit, in line with the original aim of keeping grant to £17,454 per unit overall (see Table 2.4.5 in the 2016 *Review*). This must, however, be due in substantial part to providers' greater reliance on rental income, including the conversion of formerly social rented properties to AR so as to raise their rents, examined further below.

Like the previous AHP which ended in April 2015, the 2015-18 programme has a strict cut-off date for completions of 31 March 2018. This is likely both to boost completion levels in the latter part of 2017/18 and to create difficulties for providers and the HE/GLA as the programme comes to an end.

***Shared Ownership and Affordable Homes Programme 2016-21***

The SOAHP originally made available £4.7 billion of capital grant from April 2016 to facilitate 'a decisive shift' towards support for homeownership and deliver starts on site of at least 135,000 units for shared ownership, 10,000 for rent to buy and 8,000 rented units for supported and older people's accommodation. The post-referendum government has, however, shifted the emphasis back towards rented housing. Its first Autumn Statement in 2016 allocated an additional £1.4 billion to be shared between Homes England and GLA to deliver 40,000 extra units including more for rent. Then the Autumn Budget 2017 made a further commitment of £2 billion to the SOAHP, promising 'at least' a further 25,000 rented homes. Added to the AHP 2015-18, total investment in affordable homes programmes has risen to £9.1 billion (see the first part of Table 2.4.1). The extra funding was at the expense of cuts to the starter homes and accelerated construction programmes, shown in the bottom section of Table 2.4.1.

Bids under the revised programmes have been made to both Homes England and the GLA. As reported in the last *Review*, under the HE part of the programme outside London, £1.28 billion had been allocated by January 2017 to build 39,403 grant-funded units (23,340 for shared ownership, 11,063 for rent to buy and 5,000 for supported housing at Affordable Rent) together with 7,131 without grant. Unfortunately, at the time of writing, Homes England had not begun producing regular updates on its part of the SOAHP, as it did for the AHP 2015-18, so it is not possible to report further on progress.

The GLA's headline figure for its share of the programme is currently £3.25 billion, aimed at starting 'at least' 90,000 affordable homes by 2020/21. The figure consists of £2.17 billion from the SOAHP itself, plus other funding streams including allocations made under the AHP 2015-18; it does not yet factor in London's share of the extra funds in the Autumn Budget. Of the 90,000 target, one-third are to be built for letting at London Affordable Rents (LAR), which means they will be capped at 'target rents,' i.e. will be close to social rent levels. In July, initial allocations were made of £1.7 billion to build 49,398 units, more than half the target, and 35 per cent were for LAR, with grants of up to £60,000 per unit. By November 2017, there had been 155 starts under the new programme.

## Output of recent and current programmes in England

Output of the AHP and related programmes (Table 2.4.4) shows the peak in completions in 2014/15 that marked the end of the AHP 2011-15, with its marked emphasis on building for Affordable Rent. Recent output has been much lower, and although another peak might be expected at the end of 2017/18 with the conclusion of the AHP 2015-18, the first six months' figures for 'starts' show little sign of this happening.

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

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 Apr-Sept |
|---|---|---|---|---|---|---|
| **Starts on Site** | | | | | | |
| Social rent | 4,457 | 3,903 | 2,321 | 959 | 944 | 294 |
| Affordable Rent | 22,992 | 29,830 | 28,009 | 20,608 | 26,716 | 4,880 |
| Intermediate rent | 34 | 65 | 21 | 5 | 24 | 12 |
| Affordable homeownership | 7,854 | 7,386 | 5,693 | 7,145 | 10,301 | 2,324 |
| **Total affordable starts** | 35,337 | 41,184 | 36,044 | 28,717 | 37,985 | 7,510 |
| **Completions** | | | | | | |
| Social rent | 14,388 | 7,759 | 6,020 | 2,231 | 1,102 | 199 |
| Affordable Rent | 7,057 | 19,463 | 40,444 | 15,754 | 20,854 | 8,106 |
| Intermediate rent | 717 | 538 | 18 | 2 | 5 | 0 |
| Affordable homeownership | 14,753 | 8,710 | 12,257 | 4,286 | 5,831 | 2,399 |
| **Total affordable completions** | 36,915 | 36,470 | 58,739 | 22,273 | 27,792 | 10,704 |

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

The government set a revised target in its January 2017 white paper of completing 'around 225,000 affordable homes in this parliament' (i.e. 2015-20). It added 25,000 to its target with the additional funding provided in the Autumn Budget. Although not precisely stated, this seems to imply a rolling target of 50,000 affordable homes annually. In assessing progress towards this, the government now relies on figures for gross affordable housing supply, including homes generated from social landlords' own finances. In 2016/17, there were 41,530 completions on this basis, higher than the 32,630 in 2015/16.[1] The NHF's quarterly monitoring of housing association output suggests some undercounting in these figures: the NHF reports 47,709 affordable completions in 2016/17, with a further 18,655 in the first half of 2017/18 (excluding, of course, local authority completions).[2] Last year's *Review* highlighted the differences between the different statistical sources on affordable housing output, and these are one of the items mentioned in the recent systemic review of housing statistics carried out by the UK Statistics Authority.[3]

## Impacts of Affordable Rents on stock and lettings

The stock of dwellings let at Affordable Rents by housing associations was 192,748 at April 2017, of which the majority (102,004) resulted from conversions of (mainly) social rented properties to AR and the remainder from new build. At the same date local authorities held 12,297 newly built AR units.[4] Over the five years April 2012-17, the net loss of social rented stock across the sector for various reasons reached 151,000 units, despite the building of over 50,000 new social rented homes over the same period.[5] It is therefore to be welcomed that the number of conversions from social rent to Affordable Rent is falling, although last year it still exceeded 11,000 units.

The effects so far of the AHP 2015-18 on rent levels for new dwellings are shown in Table 2.4.5 on the next page, with AR rents as a proportion of market rents in London remaining relatively low while outside London they are close to the 80 per cent maximum specified by Homes England.

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 | **187** | **56** |
| Midlands | **118** | **79** |
| North East, Yorkshire and The Humber | **108** | **80** |
| North West | **110** | **80** |
| South East | **146** | **77** |
| South West | **143** | **78** |
| **TOTAL (excluding London)** | **125** | **79** |

Source: HE offers to March 2017; GLA offers to September 2017.
Note: Rents shown are average gross rents, including service charges. GLA figures are from a limited database and do not include all units.

CORE returns for 2016/17[6] show a continuing shift in the pattern of Affordable Rent levels, from those reported in earlier editions of the *Review*. Mean Affordable Rents on new lettings had increased to 71 per cent of market rents up to 2013/14, while median rents had increased to 81 per cent of market levels by 2014/15. Since then there has been a move downwards, however, to 62 and 71 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 more likely to be able to afford them. In 2016/17, some 46 per cent of new AR general needs lettings went to tenants in full- or part-time work, compared with 37 per cent of general needs properties let at social rents. However, the overall proportions of tenants in new lettings who were eligible for housing benefit (67 per cent for AR and 68 per cent for social rent lettings) is similar for both. Overall, therefore, there is still no evidence that AR lettings are going to tenants who can afford to pay higher rents without needing HB, because while more are in-work their incomes qualify them for some benefit support.

## 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 had fallen by 2011/12 to just £3.3 billion. But for the past four years it has been running at well over £4 billion and was £4.7 billion in 2016/17 (see Compendium Table 62). This was a benefit of HRA self-financing introduced in April 2012 and the use of the borrowing capacity it created, although the total also includes what remains of non-HRA capital spending, for example on grants to the private sector. The forecast for 2017/18 is at about the same level, reflecting the fact that local authorities' investment capacity has been affected by various factors including the compulsory reductions in HRA rents that began in April 2016. Table 2.4.6 gives a picture of local authorities' Housing Revenue Accounts over the five years since the self-financing settlement in April 2012; this also reflects the downturn in rental income just mentioned, due to continue with one per cent cuts annually until 2019/20. These will inevitably affect investment, not only in new build but also in councils' existing stock.

Nevertheless, there has been some progress in persuading government of the need to sustain council housing investment. First, a small group of local authorities have been negotiating 'deals' with government which might see some restrictions on their finances relaxed from 2019/20. Then in the Autumn Budget the government announced that from the same year councils would be able to bid for relaxation of the caps that apply to their HRA borrowing (to a maximum of £1 billion across England, over two years). And in advance of the Budget, in a measure which benefits the finances of both local authorities and housing associations, the government announced a new rent settlement from April 2020 based on rents increasing by CPI + one per cent. It remains to be seen how quickly these changes restore HRA capital investment to the higher levels recently achieved.

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

*£ million*

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|---|
| | outturn | | | | budget |
| **Income** | | | | | |
| Rents from dwellings | 6,743 | 7,043 | 7,286 | 7,316 | 7,192 |
| Rents other than dwellings | 174 | 171 | 153 | 152 | 159 |
| Heating and other services | 636 | 687 | 699 | 706 | 663 |
| Interest income | 30 | 54 | 48 | 42 | 21 |
| Government grants and assistance | 231 | 289 | 321 | 330 | 149 |
| Transfers and appropriations | 211 | 124 | 70 | 55 | 110 |
| Other income | 140 | 144 | 148 | 105 | 102 |
| **Total income** | 8,165 | 8,512 | 8,700 | 8,706 | 8,394 |
| **Expenditure** | | | | | |
| Supervision and management: general | 1,761 | 1,878 | 1,819 | 1,953 | 1,902 |
| Supervision and management: special | 487 | 464 | 488 | 473 | 592 |
| Repairs (including transfers to the repairs account) | 1,720 | 1,772 | 1,844 | 1,794 | 1,785 |
| Expenditure for capital purposes | 428 | 618 | 708 | 707 | 939 |
| Debt charges | 1,161 | 1,293 | 1,187 | 1,177 | 1,197 |
| Interest payable and similar charges | 1,154 | 988 | 970 | 1,013 | 900 |
| Transfers and appropriations | 1,022 | 1,084 | 1,013 | 1,064 | 888 |
| Other expenditure | 121 | 122 | 123 | 188 | 223 |
| **Total expenditure** | 7,854 | 8,219 | 8,152 | 8,369 | 8,425 |

Source: Local Government Financial Statistics, England, No.27 2017.

In any case, many local authorities are now investing in affordable and market housing outside their HRAs, using stand-alone companies. The number has grown rapidly to an estimated 150, with the Smith Institute forecasting that over half of English councils will have a local housing company (LHC) by 2020, potentially providing up to 25,000 new homes by 2022.[7] Because generating a revenue stream for councils' General Funds is an important motivation for these companies, only about one in ten homes produced are expected to be for letting at social rents. There are other risks with LHCs, not least that they could use up land to develop market housing that, if developed via the HRA, could well have led to more new housing for social rent.[8]

A further vital contribution to affordable housing is that provided by 'planning gain' (or 'section 106') linked to private housing development (discussed in Contemporary Issues Chapter 2). The affordable housing supply figures show that, in 2016/17, just over 18,200 homes were delivered through planning gain, 43 per cent of the total, almost all without grant; this was a significant increase on the figure for the previous year (12,910). Of the total, about 14 per cent (2,560 units) were for social rent and 36 per cent (6,610) were for homeownership, with the remainder being for Affordable (or intermediate) Rent. The NHF survey of HAs suggests that use of section 106 will account for over half of housing association output in 2017/18.

Estate regeneration also contributes to investment but its effects are difficult to monitor. The government has increased its loan fund to stimulate regeneration schemes to £370 million, together with £32 million in grants. Regeneration undoubtedly accounts for a proportion of the 3,000 or so local authority 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. One outcome is likely to be a further loss of social rented homes. The GLA reviewed 50 regeneration projects in 2015 and found a net loss of 8,296 (or 27 per cent of) social rented units.[9] There is not known to be a more recent assessment either in London or across England. The Mayor of London has issued a policy on regeneration which imposes restrictions on loss of social rented homes and has rejected a scheme in Barnet for this reason.[10]

## Scotland's affordable housing investment

Having exceeded its previous five-year target of delivering 30,000 affordable homes by March 2016, the Scottish Government set an even more ambitious target of delivering 50,000 affordable homes over the five years to 2020/21, of which

35,000 will be for social rent. The extent of the ambition can be seen from Table 2.4.7, which shows that recent years have seen building (and other completions) at levels well below the new target of 10,000 per year.

The early evidence on progress towards the 50,000 target shows a mixed picture. On the one hand, in the first year of the target period (2016/17), there was an increase in the output of housing for social rent, which made up 62 per cent of completions. Remarkably, the 32 Scottish local authorities built more social rented homes over a five-year period than 326 English authorities (5,667 compared with 5,330 provided in England.[11]) This reflects the flexibilities which Scottish authorities have with no borrowing limits or limits on rents, as well as access to capital receipts and to grant. Overall completions by social landlords were also 13 per cent up on the previous year.

On the other hand, the latest figures for the second and third quarters of 2017 (not included in the table) show lower numbers of completions than the equivalent quarters of 2016, emphasising the challenge that will be faced in building the programme up to meet the new target. The average quarterly completions rate over the first 18 months of the new programme since April 2016 (1,700 units) is only about two-thirds of what is needed, meaning that output will now have to average over 2,800 per quarter to catch up. This is considerably higher even than in the recent peak year of the Affordable Housing Supply Programme (AHSP), which saw 8,092 completions in 2009/10. Looking at social rent output alone, the recent quarterly completions rate of just over 1,000 units is less than 60 per cent of the rate required. More encouragingly, the quarterly approvals rate for the whole programme is running at just under 2,200 for the first 18 months, suggesting that the completions rate should soon pick up.

Investment through the previous AHSP reached almost £1.8 billion over the five years to 2015/16, or an average of about £360 million per year. The step-change required in investment to achieve the new target was reflected in the Scottish Government's budget allocation for its first two years, of £572 million for 2016/17 and £590.6 million for 2017/18. For 2018/19, funding of £756 million is proposed (subject to parliamentary approval) as part of a five-year, £3 billion investment programme to achieve the 50,000 affordable homes target.

Table 2.4.7 **Scottish Government Affordable Housing Supply Programme: completions 2012-2017**

| Type of AHSP activity | | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Total (5 years) |
|---|---|---|---|---|---|---|---|
| **RENT** | | | | | | | |
| **Social rent** | | | | | | | |
| Housing association rent | New build | 2,784 | 2,594 | 2,808 | 2,124 | 2,565 | 12,875 |
| | Rehab | 86 | 171 | 89 | 266 | 389 | 1,001 |
| Council housing rent | New build | 1,116 | 1,229 | 1,088 | 1,128 | 1,106 | 5,667 |
| | Rehab | 0 | 86 | 27 | 169 | 196 | 478 |
| HA/Council | Off the shelf | 0 | 60 | 172 | 86 | 259 | 577 |
| Home Owner Support Fund (rent) | Off the shelf | 288 | 228 | 192 | 80 | 65 | 853 |
| **Total social rent** | | 4,274 | 4,368 | 4,376 | 3,853 | 4,580 | 21,451 |
| **Affordable rent** | | | | | | | |
| Other affordable rent | New build | 415 | 804 | 945 | 948 | 750 | 3,862 |
| | Off the shelf | 0 | 0 | 46 | 20 | 126 | 192 |
| | Rehab | 1 | 113 | 86 | 22 | 14 | 236 |
| **Total affordable rent** | | 416 | 917 | 1,077 | 990 | 890 | 4,290 |
| **AFFORDABLE HOMEOWNERSHIP** | | | | | | | |
| New supply – shared equity and shared ownership | New build | 460 | 317 | 256 | 196 | 183 | 1,412 |
| | Off the shelf | 12 | 0 | 0 | 0 | 0 | 12 |
| | Rehab | 12 | 16 | 0 | 0 | 0 | 28 |
| Other affordable homeownership | New build | 28 | 3 | 300 | 22 | 30 | 383 |
| | Off the shelf | 0 | 0 | 0 | 0 | 0 | 0 |
| | Rehab | 192 | 325 | 22 | 0 | 0 | 539 |
| Open Market Shared Equity | Off the shelf | 533 | 1,051 | 1,030 | 1,456 | 1,653 | 5,723 |
| New Supply Shared Equity (developers) | New build | 73 | 9 | 0 | 0 | 0 | 82 |
| Home Owner Support Fund (shared equity) | Off the shelf | 9 | 6 | 8 | 1 | 0 | 24 |
| **Total affordable homeownership** | | 1,319 | 1,727 | 1,616 | 1,675 | 1,866 | 8,203 |
| **TOTAL AFFORDABLE HOUSING SUPPLY** | | 6,009 | 7,012 | 7,069 | 6,518 | 7,336 | 33,944 |

Source: Scottish Government Affordable Housing Supply Programme summary tables.

This will leave just over £1 billion to be invested over the remaining two years, 2019/20 and 2020/21. Grant levels, uprated in 2016, continue to be at least double those offered in England. Such front-loading of the AHSP certainly implies that any failure to achieve the 50,000 target will not be for lack of funding, but there are bound to be question marks over the sector's ability to deliver the new target: performance over the first 18 months has been modest, albeit it will take time to gear up to the new output levels.

Delivery at the higher level now required does of course mean raising more private finance. The £3 billion of Scottish Government funding needs to be backed by roughly the same amount of finance found by providers themselves, if the programme is to deliver the 50,000 target.[12] While the Scottish Housing Regulator (SHR) reports that new private borrowing by housing associations grew by 47 per cent in 2016/17, to £371 million, this is still some way short of the £600 million required annually. Part of this can be made up by local authorities' own investment, given that they continue to rely very heavily on their own borrowing, revenue contributions and capital receipts rather than on grants (see Compendium Table 82). However, their contribution to new build output is about a quarter of the total, so the main burden in raising non-grant finance falls on associations and thus on the market – with lenders now more resistant to long-term mortgage debt, so this implies bonds.

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 the building of housing to let at mid-market rents: more than 1,400 homes have been delivered to date towards the AHSP, with around 300 more on site.
- 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 £65 million of private finance; so far it has over 400 properties in its pipeline to contribute to the AHSP.
- The **Rural and Islands Housing Funds** deliver affordable housing within the AHSP and total £30 million from 2016 to 2021.
- Another key element of the housing supply budget is **Help to Buy** for which £195 million has been allocated for the three years 2016/17 to 2018/19 (see Commentary Chapter 3).
- A new five-year **Housing Infrastructure Fund** began in 2016/17 and invites bids from LAs for investment in the form of either grants or loans, in order to bring forward strategic development sites (whether for market or affordable housing) which have been unable to proceed due to infrastructure issues.

Affordable housing is also delivered through developer contributions (including 'section 75' contributions). Statistics on these are not published in Scotland, but such contributions are believed to be significant although not used by all authorities. CIH Scotland 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 evidence of its effects. An independent review of the planning system reported in 2016 and there has now been a Scottish Government response, heralding potential legislation.[13] While the independent review signalled changes in section 75 arrangements, the government's position statement suggests they will be left as they are. This is encouraging, but (as in England) it is important to ensure that developer contributions continue to play an important part in delivering affordable housing.

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). Currently landlords report to the SHR that 94 per cent of their stock meets the SQHS, with the same levels of overall performance for both councils and housing associations. At the same time, the Scottish House Condition Survey reports much lower levels of compliance with the SHQS: according to the survey, 38 per cent of social stock is non-compliant, mainly because of energy-efficiency issues (see Compendium Table 26c). However, the SHR has examined likely explanations for this gap.[14]

Attention has now shifted to meeting the requirement for social landlords to meet the first milestone for the Energy Efficiency Standard for Social Housing (EESSH) by 2020. The EESSH sets a minimum energy-efficiency rating according to property and

fuel type, and replaces the equivalent element of the SHQS. So far, social landlords have reported to SHR that 74.5 per cent of their stock complies with the EESSH.[15] EESSH is not specifically monitored in the Scottish House Condition Survey but the average SAP ratings being achieved by Scottish social landlords are largely commensurate with meeting the EESSH for the different dwelling types (see Compendium Table 26d), albeit indicating that a proportion of below-average properties must still be non-compliant. A review of the EESSH is taking place to assess progress and develop future milestones beyond 2020.

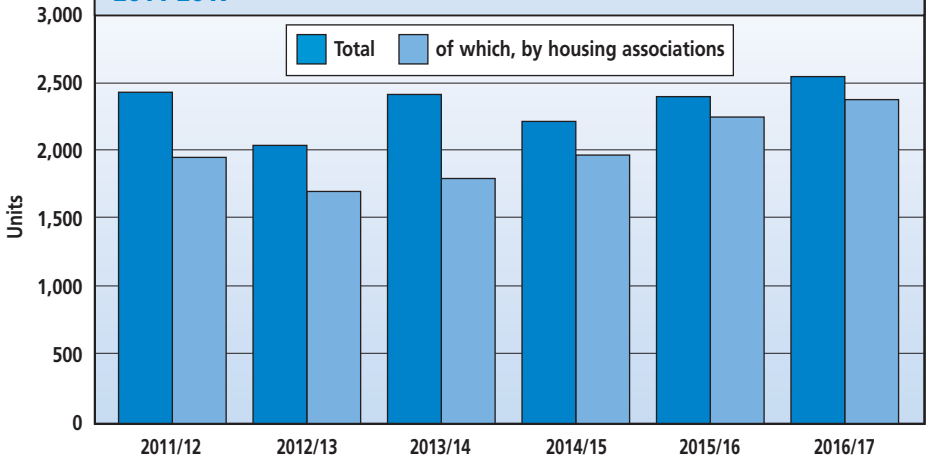
## Affordable housing investment in Wales

Following the election in 2016, the Welsh Government's target for its five-year assembly term is to deliver 20,000 new affordable homes and meet the Welsh Housing Quality Standard in its social housing stock. This is now set out in its national strategy *Prosperity for All*. While the government exceeded the target of 10,000 affordable homes in its previous term of office by 15 per cent, the new figure is clearly a significant increase. Of the total, 6,000 will be for homeownership via the Help to Buy – Wales scheme and a further 1,000 units are to be delivered as Rent to Own and shared ownership schemes (see Contemporary Issues Chapter 1). The bulk – 13,000 units – will be for rent.

Provision is made in the Welsh Government draft budget of £1.36 billion over five years for affordable housing. The first and second years of the new programme (2016/17 and 2017/18) saw £102 million and £109 million respectively spent on the main item in the affordable homes budget, social housing grant for housing associations. The draft budget allocation for 2018/19 plans to raise this to £133 million.

Figure 2.4.1 shows that 2016/17 was one of the best recent years for affordable housing output, providing more than 2,500 new homes for the first time since 2008/09. Delivery was heavily dependent on associations, whose 2,378 new units formed 93 per cent of the total. Almost three-quarters of these units were for letting at social rents, with the remainder for intermediate rent or shared ownership. Interestingly, and in direct contrast to England, the proportion of new social rented stock built was at its highest for five years.

Figure 2.4.1 **Additional affordable housing delivered in Wales 2011-2017**




Source: Affordable Housing Provision data collection, Welsh Government.

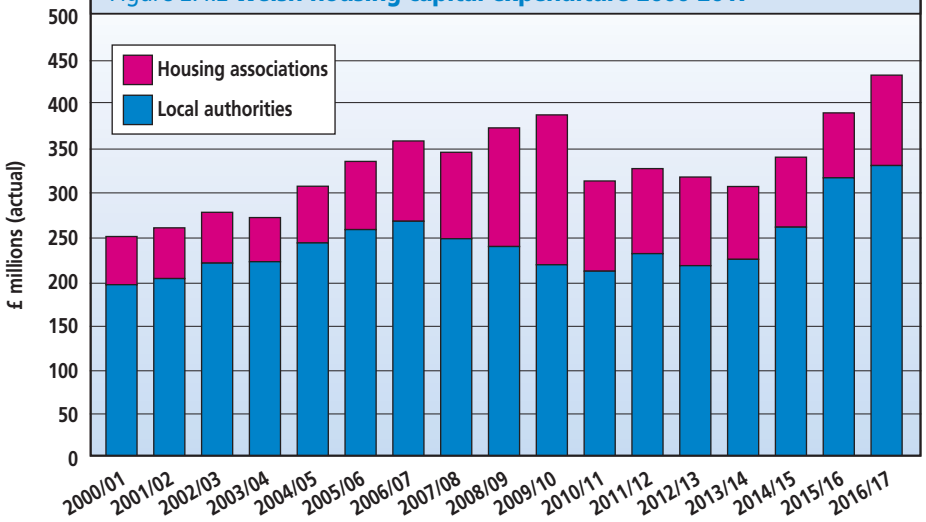
Can output now be raised to the levels required to meet the 14,000 target? Local authorities are forecasting the completion of 3,000 units in 2017/18: if this is achieved, when added to the previous year's output it will still leave around 8,500 to be delivered over the remaining three years. With the raising of the budget for social housing grant in 2018/19, this looks achievable. The 'housing supply pact' signed in 2016 commits associations to delivering 12,500 of the five-year target, with councils contributing 1,000 units. While the associations are close to achieving this, local authorities will need to double their output (they built just 121 new homes in 2016/17). To do this they will need to make greater use of the extra capacity they have following the Welsh 'self-financing' settlement (see below).

A positive sign is that Welsh associations continue to increase the proportion of units they deliver without grant, now amounting to about a quarter of their output. Another is that the number of affordable units delivered through planning obligations ('section 106') is also increasing: 932 in 2016/17, or 37 per cent of affordable output, which is the highest total since figures began to be collected in 2007/08.

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 private finance. As explained in earlier editions of the *Review*, this is unique among the four administrations because it established a collective borrowing product from the capital markets by providing a long-term revenue stream to HAs, as an alternative to capital grant. The aim is to boost investment by £250 million in total, and provision in the current year of £7.7 million will increase to £11.4 million in 2018/19 and to £13.1 million in 2019/20.

The contribution of local authorities to housing capital investment in Wales continued to increase in 2016/17, reaching £330 million (see Figure 2.4.2). Most of this is directed towards the existing stock (although, as noted above, to some extent the balance may shift back towards new build). This is because of the need to achieve the Welsh Housing Quality Standard (WHQS) by the target date of 2020, as required by the Housing (Wales) Act 2014. By March 2017, five of the eleven councils (including Cardiff, with the second largest council stock) had met the WHQS in their stock, with 66 per cent of council housing compliant overall. This compares with 98 per cent compliance with the standard in HA stock, although of course HA stock is generally newer. Overall, 86 per cent of the social stock met the WHQS in March 2017, compared with 79 per cent a year earlier.

Figure 2.4.2 **Welsh housing capital expenditure 2000-2017**




Source: Compendium Table 75.

In April 2015 Housing Revenue Accounts in Wales became 'self-financing', and all eleven stock-retaining councils in Wales ceased paying 'negative subsidy' to the Treasury (see Compendium Table 77). They took on £919 million in new debt in a similar arrangement to that which applied to the majority of English councils three years earlier, giving them full control over their rental income and business plans, albeit subject to caps on their borrowing. This has encouraged some councils to adopt new build programmes, helped by the fact that they are not subject to the four-year cuts in rents imposed in England (see above). In *Prosperity for All*, the Welsh Government promised to '...work with local authorities to begin council house building at pace and scale for the first time in decades'.

## Affordable housing investment in Northern Ireland

A political stalemate has followed the unexpected election for the Northern Ireland Assembly in 2017, due to the failure of the two main parties to agree on a new power-sharing arrangement. This means that 2018 began with the devolved administration still in place but with no Stormont ministers. The draft Programme for Government for the five-year period 2016/17-2020/21 has never been formally approved (although departments are working from it). The 2017/18 budget was only approved by Westminster in mid-November, following the Assembly's failure to pass it. Not surprisingly, while housing investment continues, there has been considerable loss of momentum on the critical issues of building more social and affordable homes and improving the existing social housing stock.

Prior to the planned Assembly election at the end of 2015/16, the Northern Ireland Executive had met its target of starting 1,500 new social homes, albeit with one-quarter of the total being off-the-shelf purchases or from sources other than new build. The draft Programme for Government included a target of providing an additional 9,600 social homes over five years, or an average of 1,920 per year

(with an additional 750 units for affordable homeownership giving a yearly target of 2,670 units). This was in line with the Northern Ireland Housing Executive's estimate of new social housing requirements, updated in 2015, which showed the need for 1,600 new social dwellings annually. To address a cumulative backlog and compensate for the on-going lower rate of private sector development, the Housing Executive considered an annual target of 2,000 new social dwellings to be appropriate.

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. The Department for Communities (DfC) set a target for *social housing starts* at 1,600 for 2016/17, 2,000 for 2017/18 and 2,200 for 2018/19. In 2016/17 starts reached the required level, although this depended to a significant extent on acquisitions and refurbishments which made up 36 per cent of the total. Unfortunately, the 2017/18 target has now been reduced to 1,750 due to the political stalemate, requiring only a modest increase on the previous year. First quarter starts for the year totalled only 46 units, suggesting that even the reduced target may prove difficult to achieve, although output does tend to be 'backloaded' towards the last months of the financial year.

Table 2.4.8 **Northern Ireland Social Housing Development Programme: completions 2012-17**

| Type of provision | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Totals |
|---|---|---|---|---|---|---|
| New build | 953 | 1,462 | 1,192 | 822 | 955 | 5,384 |
| Off-the-shelf | 185 | 324 | 133 | 160 | 202 | 1,004 |
| Existing satisfactory purchase | 47 | 102 | 216 | 104 | 136 | 605 |
| Rehabilitation | 66 | 48 | 78 | 72 | 46 | 310 |
| Reimprovement | 3 | 31 | 39 | 51 | 48 | 172 |
| Totals | 1,254 | 1,967 | 1,658 | 1,209 | 1,387 | 7,475 |

Source: Department for Communities, Northern Ireland Housing Statistics Table 1.9.

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 | 2017/18 |
|---|---|---|---|---|---|---|---|
| NI Housing Executive | - 24.3 | - 32.9 | - 38.6 | - 17.8 | 89.9 | 96.5 | 97.5 |
| Housing associations | 154.4 | 121.7 | 112.6 | 113.6 | | | |
| Total | 130.1 | 88.8 | 74.0 | 95.8 | 89.9 | 96.5 | 97.5 |

Source: Northern Ireland Budgets 2017-18 and earlier.
Note: Shows 'conventional' capital, not including 'financial transfers' which tend to take place during the year.

The DfC lowered the target because its capital budget – from which the social housing sector receives its grant funding – is much less than the original bid for 2017/18. The specific housing budget, in a form comparable with previous years, is shown in Table 2.4.9. As can be seen, budgeted capital expenditure on housing has been maintained at a similar level to last year. While the DfC says that 'it would still hope to deliver' the 9,600 social housebuilding target by 2021, set in the draft Programme for Government, the current target stands at 7,600.[16]

The DfC budget also supports investment in the existing social stock of just under 86,000 units held by the Northern Ireland Housing Executive, which has traditionally been heavily dependent on the Housing Executive's capital receipts from sales. Investment in capital improvements to the stock rose from £8.3 million in 2013/14 to £12.5 million in 2015/16 and £25.8 million in 2016/17. However, this remains 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).

The Housing Executive's stock requires £6.7 billion of investment over 30 years to bring it up to a standard somewhat above the Decent Homes Standard; some £1.5 billion needs to be spent by 2019/20 because of the backlog that has built up, a figure which massively exceeds current investment levels.[17] The backlog may indeed be getting worse, as the Housing Executive was required to freeze rents for 2016/17, while housing association rents rose by five per cent despite a request

that they adopt a similar rents freeze. The Housing Executive commissioned a study on the potential for and constraints on raising rents, which showed the dilemmas involved, especially for tenants not in receipt of full housing benefit, three-quarters of whom were opposed to rent increases.[18]

The DfC's Social Housing Reform Programme continues to have a review of the options for the future of the Housing Executive as one of its main aims, including approaches to resolving the stock investment shortfall. Unfortunately, further debate has been impossible given the current political stalemate. As the rents study points out, there is a pressing need '...to find a politically acceptable model for the future governance, ownership and management of the NIHE housing stock that can generate the capital investment needed to ensure that NIHE dwellings provide good quality and affordable homes for existing and future generations of tenants'.[19]

## Notes and references

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11 Comparing Table 2.4.7 with MHCLG Live Table 1000 and with Table 1b in *Affordable Housing Supply: April 2014 to March 2015 England*.

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