



A Paper for China-Europa-Forum : July 2010

by

David Richardson

Director of Housing Services

Social Housing Policy in the UK

Overview of the political environment

The UK has a new coalition government composed of Conservatives and Liberal Democrats. This is a new political landscape for the UK (unlike the rest of Europe) and will provide interesting challenges over the next few years.

The overwhelming target for the new government is to reduce the large budget deficit (£704 billion at March 2010).

1. The Deficit

- Next 5 years will be dominated by the drive to cut the budget deficit.
- Efficiency savings rarely deliver on the scale needed so real cuts will be needed.
- Current public spending is £704 billion (March budget 2010.)

Social protection	- £196b
Personal social services	- £33b
Health	- £122b
Transport	- £22b
Education	-£89b
Defence	- £40b
Industry, Agriculture, Employment	-£20b
Housing and environment	-£27b
Public order and safety	-£36b
Debt interest	- £43b
Other	-£74b

The National Affordable Housing Programme 2008/2011, which pays for rented and shared ownership housing was £8.4b.

If Defence, overseas aid, education and health budgets are to be protected for 4 years, as pledged, then the cuts required elsewhere would on average reach 25% of current budgets - cuts in housing, transport and higher education will therefore be unavoidable

2. Housing

- Welfare benefits (social protection) will be a key target for cuts but are difficult to attack and are slow to respond. No new, or at least less, affordable housing would help but only if the private sector (rents) is kept under control.
- Housing construction is an economic driver but it will need to be market financed rather than government financed.
- Many banks will be short of credit worthy borrowers.
- Institutional savings and hence market capital financing options will continue to increase.
- Local authority and Housing Association assets will be tempting to Government i.e. sell the Social Housing Grant (>£40b) sitting in balance sheets (the Dutch did it circa 20 years ago !)

Political Party Positions

- The Coalition Agreement promises an Autumn spending review.
- Coalition Agreement also promises a devolution of powers to councils and communities.
- Coalition agreements actually says nothing specific about housing. The nearest reference is to home improvement programmes funded by lower energy bills.

So if the Coalition Agreement is silent what did the Conservative and Lib Dem manifestos say about housing?

Conservatives Housing Policy

- Give people a low start equity foot on the housing ladder.
- The Right to Move to another part of the UK.
- Respect for social housing tenure - and not to remove security of tenure.
- Communities to decide local house building numbers - and incentivise communities to agree to development - e.g. extra local facilities.

- End "garden grabbing" for new-build :-re-classify garden land to green field rather than brownfield as now.
- Accurately count homelessness to inform future housing policy.
- End Local Authority ring fenced budgets to allow greater flexibility at a local level.
- Scrap - targets, inspections and the Comprehensive Area Agreement (CAA has already been abolished!) to give greater flexibility at a local level.

In short the Conservatives want to strengthen the legitimacy of local government and empower local communities.

Liberal Democrats Housing Policy

- Incentives to re use empty homes - 250,000 target.
- Home insulation programmes - retrofitting of older stock.
- Make eviction harder.
- Equalise VAT on new build and repairs.
- End "garden grabbing" - building on large gardens.
- Communities to decide on local house building - end of regional targets.
- Equity mortgages.
- Scrap inspections by Audit Commission.
- Review local government finance including the "unfair" Housing Revenue Account - this could allow Council housing to be built again.

The new Prime Minister, David Cameron, has spoken a lot about what he calls the "Broken Society" - his diagnosis of this is centred around:

- State imposed solutions and state funding has failed.
- Communities have been disempowered.
- Professionals have lost autonomy.

His cure:

- Use private and voluntary sector to reduce youth unemployment, substance abuse and crime.
- Use the State to stimulate social action, helping social enterprises to deliver public services.
- Payment by Results.

So in the current financial and political environment what should housing associations look out for?

- Radical local government reforms - more power to Local Councils.
- Completion of the Housing Revenue Account reform to free up forward thinking local authorities so they can build houses - but will there be public funding available?
- Community empowerment achieving efficiencies.
- New consumerism - more power to tenants to switch landlord to a newer managing agent.
- Payment by Results for housing associations.
 - revenue development subsidies ?
 - regulation by contract ?
- Housing associations with a new narrative - social enterprises or faux-state agencies ?
- New models of regulation, for example co-regulation with tenants.

3. New Housing Development - Threats and Options

- Likely objective of any new national housing strategy - not known at present.
- Maximum leverage per unit of grant - housing associations to borrow more.
- Reductions in grant levels - to match higher borrowing.
- Reduce other expenditures (Housing benefit, Regulation costs?) - Rent levels could rise.
- Produce the maximum amount of affordable housing development with "affordable" loosely defined - more intermediate rent.
- Flexibility on tenure whilst not retreating on a belief in home ownership.

- Local authorities as well as HA's involved in future development. - New funding models - intermediate rent - less public money required.

4. Housing Finance Position

- £58b of private finance raised by HA's (85% from 5 banks - Lloyds, Barclays, Nationwide, Santander and RBS.
- Future funding requirement (from Tenant Services Authority 2009 capacity modelling.)

2010	£5.14b
2011	£4.14b
2012	£3.62b
2013	£3.43b
2014	£3.38b

TOTAL £19.81b 2009 - 2014

- Forecast funding capacity 2009-2014 (TSA capacity projections) by Housing Associations is £25 - £30b.

So, there is more capacity to be squeezed from the Housing Association sector but will they be prepared to take the associated risks, given the experience of the last 3 years ?

- Lenders will continue to fund the sector because:
 - HA's are well managed and governed.
 - HA properties have a stable and conservatively valued asset base.
 - Regulated by a non-departmental public body (TSA) giving comfort over governance and viability.
 - Cash flows are underpinned by Housing Benefit (c 60%-70% of income.)
 - No investor has yet lost money as a result of a default.
 - Track record of rapid expansion.
- But real threats exist:
 - Government action (or threat of) that looks like undermining any of the above would alarm lenders.
 - Lenders overall capacity is limited post banking crisis.
 - Other sectors are crying out for funds.
 - -If TSA is abolished (Conservatives have said they intend to) or regulation undermined.
 - Housing benefit capped or paid direct or if rent rises were to be more tightly controlled.
 - Continued emphasis on development cross subsidy.

5. Future tenure trends

- Home Ownership is in decline for both long and short term reasons. (Actually been declining since 2001.) - Fewer mortgage products and higher deposits required.
- Social housing is declining overall (although housing associations have increased their share.)
- Private renting sector is increasing(currently 14% of all tenures) and will overtake social housing within the next decade if trends continue.
- Shared ownership is not popular with lenders (complicated, low volume and high default) and it is difficult to see why new lenders would enter the market.
- Rising demand for housing as new households form whilst less supply due to planning / land use constraints and return of power over new developments to local communities.
- As a consequence of unmet demand there will be a rise in homelessness and overcrowding.
- Less social mobility and young people living longer with parents.

Private market renting likely to be seen as a viable option for Government:

- It is a low / no grant option.
- May attract lighter regulation (particularly if delivered by the private sector.)
- Homes for people on "modest incomes" is a viable social objective.
- Housing associations have a track record.
- BUT - at current rent levels 66% of tenants are on benefit, at market rents 74% of tenants would be on benefit - how will this square with the housing benefit bill if a safety net is to be provided ?
- Need for large scale investment in retro-fitting older housing stock. 700,000 homes per year need to be retro-fitted to meet UK target on reducing carbon emissions by 80% by 2050.
- UK Government needs persuading to access EU Regional Development Fund for energy efficiency measures.

6. Regulation of the Sector

- The old principle of regulation is :

"If the taxpayer invests in the provision and management of affordable housing then, its investment needs protecting from misuse, its investment should contribute to meeting Government objectives and the state needs to ensure value for money for the taxpayer."

and

"Where residents, applicants or other consumers cannot protect their own interests the state should ensure they receive services in accordance with legal rights and prevailing good practice"

- The Conservatives have stated they will abolish the TSA but are currently unclear on what will replace it.
- The Conservatives have stated they will end bureaucratic inspection but there will still be a need to:
 - provide comfort levels to the lenders.
 - drive efficiencies.
 - ensure good service.
 - ensure new home provision.

So as long as affordable housing remains a high profile issue, government will find it hard to resist regulating it. It is the profile of the activity rather than the competence of the provider that drives regulation.

7. Conclusion

UK housing policy is in a state of flux as the new coalition government grapples with the need to reduce the large public sector deficit, grow the economy and meet their manifesto commitments.

Housing is not seen as a priority of either the Conservatives or the Liberal Democrats and is likely to suffer reductions in both capital and revenue spending to help reduce the deficit.

However, it is clear that the challenges of rising housing demand, lack of supply, overcrowding and homelessness, financial exclusion and the need to achieve reductions in carbon emissions cannot be ignored without major implications for social cohesion and stable communities in the UK.