

UK Housing Review

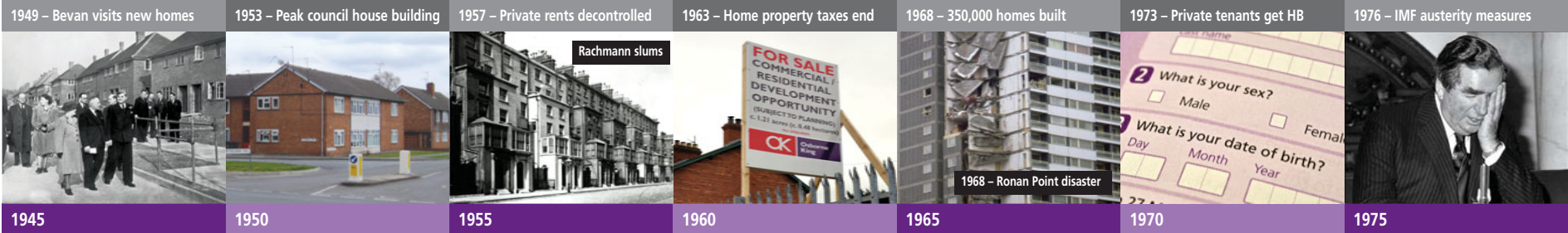
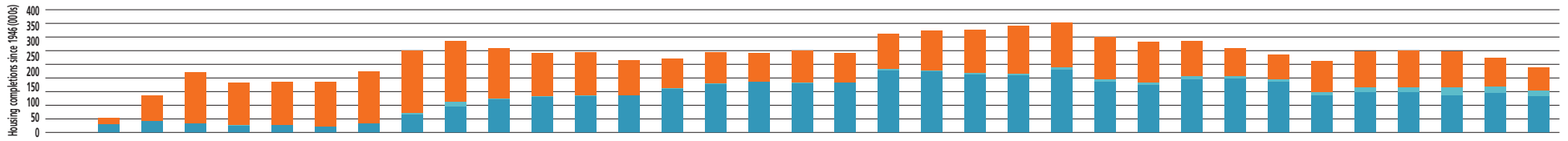
Steve Wilcox, John Perry
and Peter Williams



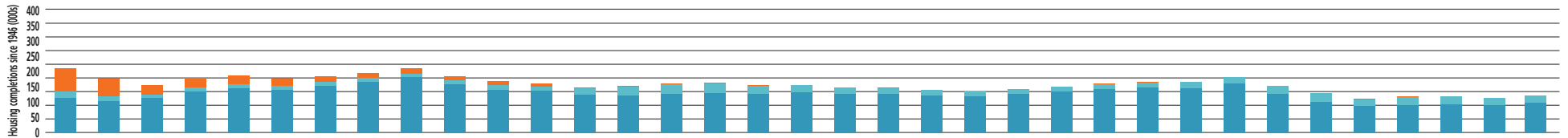
CH CENTRE FOR
HOUSING POLICY

2015 Briefing Paper

Roll-call of post-war English housing ministers



1945 Aneurin Bevan
 1950 Harold Macmillan
 1955 Duncan Sandys
 Henry Brooke
 Charles Hill
 Keith Joseph
 1965 Richard Crossman
 Anthony Greenwood
 Robert Mellish
 Peter Walker
 Julian Amery
 Paul Channon
 1975 Reginald Freeson



1980 John Stanley
 Ian Gow
 1985 John Patten
 William Waldegrave
 Earl of Caithness
 Michael Howard
 Michael Spicer
 1990 George Young
 Viscount Ullswater
 1995 David Curry
 Hilary Armstrong
 Nick Raynsford
 2000 Lord Falconer
 Lord Rooker
 2005 Yvette Cooper
 Caroline Flint
 Margaret Beckett
 John Healey
 Grant Shapps
 2010 Mark Prisk
 Kris Hopkins*
 Brandon Lewis
 (Reappointed 11.05.15)

KEY: Names in lighter colours were not members of the cabinet (*not a Minister of State)
 GRAPH KEY: Local authorities (orange), Housing associations (teal), Private sector (blue)

Source: Authors' investigations with assistance from the two parliamentary libraries.

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The Chartered Institute of Housing

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Chartered Institute of Housing

Octavia House, Westwood Way, Coventry CV4 8JP

Tel: 024 7685 1700

Email: customer.services@cih.org

Website: www.cih.org

UK Housing Review Briefing Paper

Steve Wilcox, John Perry and Peter Williams

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Introduction

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

This *Briefing* goes to press after the new Conservative government's Queen's Speech but before its July Emergency Budget. This means it is able to consider the context for the new parliament but, so far, with only an outline of the planned policy changes affecting housing, which are due to feature very prominently in the legislative programme.

Drawing on the latest statistics, the *Briefing* therefore assesses the implications of new policy and market developments in twelve key topic areas, beginning with an overall synopsis of the challenges now faced. Inside the front cover is an updated version of the roll-call of English housing ministers from the last full edition of the *Review*, the main text includes dedicated pages on Scotland, Wales and Northern Ireland and the *Briefing* concludes – unusually – with an appreciation of the doyenne of UK housing statistics – the late Dr Alan Holmans.

Housing demand and supply

New housing supply continues to fall behind new household growth in England, despite a recent small improvement in output. Raising new build output is perhaps the biggest housing challenge facing the new Westminster government. While it is heavily constrained by its own economic policy in how far it can invest directly from public funds, it remains committed to a range of financial measures to stimulate the market – the risk being that they will have much more effect on demand and prices than on supply.

Homeownership, affordability and mortgage access

It is clear from the prominence of its policies on starter homes and extending the right to buy that promoting higher levels of homeownership is a high priority for the new government. However, the *Briefing* argues that it will be extremely difficult to reverse the trends away from ownership and towards renting, despite the incentives put in place and the frustrated wishes of many potential owners. At the present time affordability (outside London) is not the significant problem that it has been in the past: the bigger constraints are the size of the deposits required and access to mortgage finance along with competition for available properties. The last is a consequence of there being fewer homes on the market with more households sitting tight, added to the advantages enjoyed by buy to let investors compared with first-time buyers.

Affordable housing

Delivery of affordable housing in England has improved in the months up to the ending of the coalition's Affordable Homes Programme. In Scotland, Wales and Northern Ireland

there has also been significant delivery of affordable housing, with Scotland in particular investing and delivering proportionately many more homes than England. Nor have the other administrations resorted to policy changes on rents (the adoption of 'Affordable Rents' in England) as a way of substituting for lower levels of capital grant. Indeed the new rent regime in Wales is aiming to iron out anomalous rents so there is a clearer, more transparent, social rented market.

Loss of social rented housing is taking place in England not only through the changed emphasis of investment programmes and the conversion of properties to Affordable Rents, but also because of the right to buy – now planned to be extended to housing associations (with likely effects considered in this *Briefing*). Right to buy is proportionately much less significant elsewhere across the UK. In Scotland it will soon come to an end and – subject to legislation – also in Wales.

Welfare reform, taxes and inequality

Welfare reform is such a key issue in housing policy that the *Briefing* this year devotes two articles to it. The first looks at the evidence to date of the effects of the various housing-related reforms implemented by the coalition, concluding that the so far relatively modest changes have nevertheless had a significant impact on tenants and on landlords. The second article looks at how welfare reform might be shaped over the new parliament and the prospects for even more profound consequences for both low-income households and the housing sector in general.

Both pieces form part of the background for an overview of housing's impact on broader inequality in society, a theme examined in some detail in the *UK Housing Review 2015* and to which the next edition will undoubtedly return.

Early next year the *UK Housing Review 2016* will aim to provide a more considered assessment of the initial stages of the government's housing and welfare policy changes, their likely consequences and what remains to be done, along with the regular, comprehensive range of statistics and its analysis of them.

Steve Wilcox, John Perry and Peter Williams

June 2015

The challenges and the gaps in the new government's agenda

This *Briefing* highlights the many challenges facing the new government, perhaps the biggest being how to increase housing supply in England while at the same time cutting public expenditure. Somewhat ironically, while the role of private funding in the provision of affordable housing is growing, public finance – at least in the form of loans and guarantees – is playing a bigger role in the private sector. In the run up to the election all parties were making housing-related promises and unsurprisingly the Conservative Manifesto set out to meet at least some of these aspirations, majoring on its right to buy for housing associations and the extension of its starter home initiative.

Both will pose significant delivery challenges for the new government. Housing associations are private bodies and while some associations will see opportunities to sell low-demand stock (assuming of course the tenant purchaser can raise the money – the new mortgage rules will impact upon this market quite strongly), all will be concerned as to whether enforced sales challenge their independence and undermine their capacity to raise private finance. This poses the risk that the policy might damage the very sector the government relies upon to bring forward new supply (see page 11). The linked policy of forcing sales of high-value council houses to generate the cash is itself problematic, not least in high-value and rural areas where (depending upon how the policy is structured) council housing could be largely eradicated. The other flagship policy, starter homes, has its own risks. Does the development industry have the capacity to deliver them, will they be mortgageable (both at the outset and in the second-hand market) and can sufficient, suitable brownfield sites be found? There is a sad history of starter homes becoming unsellable in anything other than a rising market.

Much turns on the capacity of local government to secure the release of land and grant planning permissions. With planning and development services already having suffered disproportionate cuts under the coalition, and more due to come (see page 6), there are serious concerns that government fails to recognise that its uneven emphasis on localism (see page 16) will not necessarily create the necessary improved capacity to deliver at local level. There are also concerns about a new aversion to using greenfield land (see page 8). The new Secretary of State did manage to get the National Planning Policy Framework in place in 2012; he now has to secure a step change in housing supply – and quickly. The housebuilding industry is arguing they are held back by red tape, local planning delays, slow release of public sector land and skills shortages. While government is responding in part, it is unwilling to secure the release and development of private land and still offers a limited response to the need to bring small and medium developers back into the market (except for some encouragement of self-build).

There is a real risk we will see politics trumping the economics of the market. Government is putting in place a considerable demand-side stimulus through Help to Buy and related measures. That must be matched by supply and if it isn't there is nothing else in the policy cupboard which might dampen rises in rents and house prices. Despite the clear rumblings across all parties and in the media before the election, increased housing-related tax to restrain prices is nowhere on the agenda. Indeed the very opposite is in prospect – a higher inheritance tax threshold and further incentives to stay longer in bigger homes (just what the market does not need).

The government has majored on boosting homeownership whereas most would see the two key issues as supply and affordability. Against a background of inevitable continuing high levels of renting, no matter what the government does to boost ownership if they neglect affordability as a major issue in the rented sector they will undermine their own welfare cuts and increase the inequalities in how housing wealth is distributed (see page 7). The government has turned its face against restraining private sector rents, but while welfare cuts increasingly affect access to the sector in high-pressure areas, government policy is forcing up rents in the social sector and eroding the stock available at genuinely affordable rents. Both supply and affordability would receive a huge boost if the government were to respond to the crisis by investing in new social rented housing. But social landlords' capacity to invest will in reality be further challenged by the next wave of welfare cuts (see page 15).

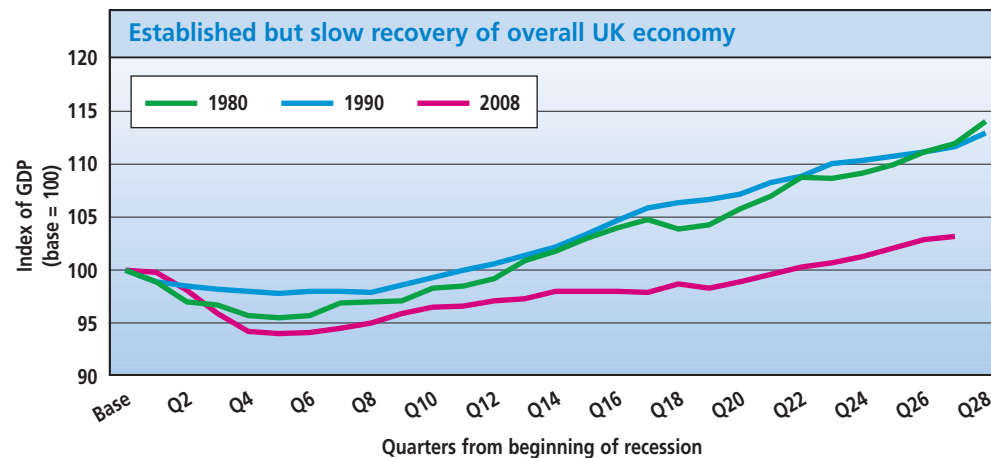
Looking ahead to the end of this parliament, when the Secretary of State and housing minister reflect on their time in office, will they be able to say 'we did it' on the basis of current plans and against the background of a modestly growing economy? If the housing market is currently seen as a very problematic aspect of Britain's economy, there seems little prospect of the problems being resolved – or even reduced – over the next five years.

A slow and uneven economic recovery

It may have taken twice as long as previous post-war recessions, but economic recovery is now clearly well underway with eight consecutive quarters of economic growth. Indeed the overall UK economy returned to 2008 levels at the beginning of 2014, and now (Q1 2015) sits some 3.2 per cent higher than the pre-credit-crunch peak. But if the overall UK economy has recovered the same cannot be said for all parts of the UK. Latest 2013 data show the recovery of the Welsh economy lagging 4.1 per cent behind England, and Northern Ireland's lagging by 9.6 per cent. While recovery in Scotland was also a little behind England (two per cent) it should also by now have recovered fully to 2008 levels.

Looking ahead in its March 2015 report,¹ the Office for Budget Responsibility was forecasting economic growth of 2.4 per cent in 2015, and from 2.2 per cent to 2.4 per cent over the next four years. However that was before the emergence of the much lower growth figure of just 0.3 per cent for the first quarter of 2015, which suggests that the outturn figure for 2015 could well be rather lower than the OBR forecast.

Nonetheless the latest OECD economic forecast is for UK growth of 2.36 per cent in 2015 and 2.33 per cent in 2016, some way above the eurozone average.² If this is in one sense encouraging, the low level of economic growth forecast for the EU area as a whole – just 1.8 per cent in 2015 and 2.2 per cent in 2016 – will be a constraining factor on UK growth. Another will be the continuing impact of the UK government's austerity measures, with public spending set to fall in real terms in each of the four years from 2015/16 even ahead of the announcements in the July 2015 emergency budget (see page 6).³



Source: Computed from ONS Quarterly GDP data (ABMI).

However while the UK economy is now recovering, and unemployment is set to continue falling, average earnings in the first quarter of 2015 were still nine per cent lower in real terms than at the beginning of 2008.⁴ Moreover a recent OECD report has shown that all the growth in employment in the UK since 2007 has been of 'non-standard' jobs – part-time, temporary or self-employed.⁵ Looking ahead the OBR forecast suggests that it will now be the end of the decade before average earnings in real terms return to 2008 levels. That said the very low – and even negative – inflation in the spring of 2015 will improve the prospects for real earnings growth this year.

The eventual recovery in the UK economy has also eased the concerns about the perceptions of the financial markets, and the potential for increased costs for UK government borrowing. Total levels of UK government debt are now forecast to remain well below the EU average in the coming years and, from 2016 onwards, net government borrowing is forecast to be well below the old Maastricht Treaty target for eurozone countries of three per cent per annum.

In this context the government has some choice about how rapidly it seeks to reduce borrowing levels, with little or no danger of raising alarms in the financial markets (and thus the costs of borrowing). The extent of the government's planned reductions in public spending are in that context a political choice rather than an economic necessity. They will also act as a further drag on future UK economic growth.

There are other uncertainties about the prospects for the UK economy. As well as the slow forecast rates of growth for EU economies, there are the particular uncertainties surrounding the financial predicament of the Greek government, the continuing conflict in Ukraine, and the economic slowdown in China. In addition there are the uncertainties about the potential outcome of the planned referendum on the UK's continuing membership of the EU. If in the short term this is likely to deter international investment, the fall-out in the event of a vote to leave the EU is incalculable.

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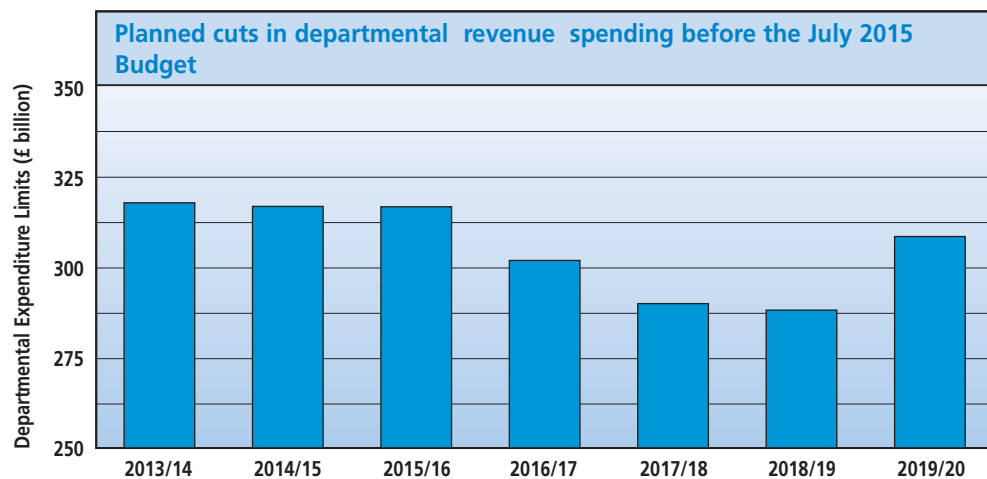
The next round of public spending austerity

The July 2015 Budget will confirm in outline the new government's plans for a further £25 billion cuts in public spending in the coming years, and initial steps in that direction to be introduced in the next year. As indicated on the previous page the planned cuts are a political choice, not an unavoidable response to the state of the UK's public finances.

The new cuts – including £12 billion from the welfare budget for working age households (see page 15) are stated to be set alongside £5 billion savings from action to reduce tax avoidance.¹ In addition there will be a renewed focus on disposing of government assets – including those in the banking sector – with a view to paying down existing levels of government debt.

But even before the July Budget current public spending plans for the coming years are tight (see chart). In cash terms they only fall marginally over the three years to 2017/18, although in real terms this involves a 3.8 per cent cut. Following a small real-terms cut of 0.2 per cent in 2018/19 a 2.4 per cent real rise is pencilled in for 2019/20 to signal the end of the current era of austerity.

However within those overall plans there are much deeper cuts in overall Departmental Expenditure Limits (DEL) revenue budgets – 5.8 per cent in real terms in 2016/17 and 5.5 per cent in 2017/18. Currently the plans for 2015/16 require a 1.4 per cent reduction in real terms compared to 2014/15, but this requirement is likely to be increased by the July Budget.



Source: Budget Report 2015.

While there may be some variation the presumption is that the £13 billion cuts in DEL budgets over the next two years will be from revenue rather than from capital programmes, and even allowing for some of those cuts being made this year the main impact will fall on the next two years – which as seen above already face significant real-terms cuts.

While there may be a political argument for making the cuts early in the new parliament, in practical terms it would be far easier to make them by simply extending the austerity programme for one more year into 2019/20 when revenue DEL budgets are currently planned to grow by £20 billion, or to rise by 4.3 per cent in real terms.²

The decision to introduce the cuts over the next two years will inevitably make them more problematic and difficult to achieve. The difficulty is compounded by the need to make space for the various additional and uncosted spending commitments made in the weeks leading up to the May election, including the commitment to find an extra £8 billion a year for the NHS.

The first wave of cuts will impact on the individual department budgets already set for 2015/16. Details of planned cuts to individual departmental budgets in 2016/17 and 2017/18 will not be known until the Spending Review later this year. Even on current plans, while overall departmental budgets will have been cut by 9.5 per cent between 2010/11 and 2015/16, the cuts to unprotected budgets will average 20.6 per cent, with the most severe cuts – of just over 50 per cent – being applied to the local government budget. Once again it will be the unprotected departments that will have to shoulder the full weight of the £13 billion cuts.

Further cuts in local council funding would impact on care and support services for a growing elderly population, with potential knock-on costs for the NHS. Similarly cuts to councils' (non-HRA) housing and planning budgets would hamper their capacity to support the government's targets for new housebuilding.

The new cuts will also impact on Scotland and Wales whose budgets will be cut pro rata as 'consequential' of the cuts being made to English departments, assuming the current Barnett formulas are maintained. This implies a cut of about £1 billion to the Scottish Government DEL budget, and about half that for Wales. In Scotland, however, those cuts could well be offset by the Scottish Government's use of its independent powers of taxation.

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Housing and inequalities in wealth and income

Readers of this *Briefing* are aware that the pressures and challenges in housing across the UK are considerable and of course housing outcomes have huge significance for the distribution of income, wealth and life chances. As the National Equality Panel report made clear,¹ housing shapes lives (and vice versa) and there are very clear divides on income and wealth by tenure. Little wonder then that given the housing situation we have seen the rise of groups such as Generation Rent and Priced Out, with the language of division and separation in housing now becoming commonplace. Halifax's recent *Generation Rent* showed the scale of the disconnect between the perception of potential first-time buyers and the reality, with many younger households giving up on becoming owners, believing not least that mortgages were unavailable to them.² This is despite cooling prices, slowly rising nominal wages and still very low interest rates (the Resolution Foundation calculated that low interest rates had saved a household with a £75,000 tracker mortgage around £12,400 since 2009).³

However, house price growth has outstripped income growth, driving up costs across tenures and resulting in many households spending a growing share of their disposable incomes on housing. Between 2001/02 and 2008/09, the number of UK households spending more than a third of their net income more than doubled and there have been only modest improvements since. Some 1.6 million households, most of them working, spend more than *half* of their disposable income on housing. With homeownership falling and at best a static supply of social rented homes (see page 12), the squeeze has continued over the last five years for both renters and owners.

Since 2003, the value of household wealth has grown at a faster rate (64 per cent) than either gross household disposable incomes (44 per cent) or consumer price inflation (30 per cent), albeit that in the downturn housing wealth fell in importance relative to financial wealth. ONS estimates that aggregate net property wealth for all private

households in Great Britain increased by £149 billion (four per cent) to £3,528 billion in current prices between 2008-10 and 2010-12 (slightly lower than the pre-crunch total in 2006-08 – £3,532 billion).⁴ Half of all households had net property wealth of £150,000 or more and the highest median value of net property wealth was seen amongst households in London, where half of all households had net property wealth of at least £239,000 (see chart). £1 trillion of housing equity in 2011 was held by people aged 65 or more in contrast to the £100 billion held by those under 35.⁵

In England people with the greatest incomes also have most housing wealth. Among homeowners just over a quarter of all housing wealth was owned by people in the top income quintile with half owned by the top two quintiles. Homeowners in the top 20 per cent of the population had twice as much housing equity as owners in the lowest 20 per cent.⁶ Recently the New Economics Foundation explored the complex relationships between economic inequality and house prices, arguing somewhat crudely that wealthy households acquire housing, protect its value and feed a process of residential segregation, but this will no doubt resonate with many.⁷

In the election we saw considerable debate about whether inequality was increasing or not and of course we saw moves to increase property taxation partly as a reflection of this. Obviously there will now be no mansion tax and reform of council tax seems unlikely, but England and Wales have a reformed stamp duty regime – now a graduated tax, Scotland replaced the duty with a higher land and buildings transaction tax in April, and Wales may follow suit post-2018.

While house price rises have not yet been seen across the whole UK, many owners have enjoyed sustained price inflation since they last bought, a process that has been underpinned by a series of government interventions in recent years. With moves to further increase inheritance tax relief and the reluctance to reform council tax, the housing market seems destined to continue to fuel inequalities in the UK.



Sources: Wealth and Assets Survey 2010 – 2012, ONS.

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Housing supply falls well behind household growth

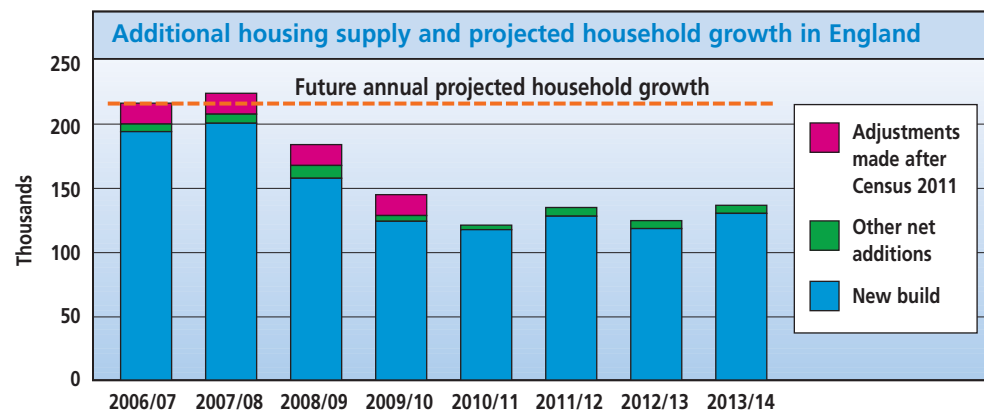
To keep pace with household growth, over the decade 2012-2022 England needs to add some 220,000 dwellings per year to its housing stock. This is the headline from the new household projections for England published in February.¹ It means a very significant rise in housebuilding beyond levels currently being achieved.

In contrast, over the decade to 2012 net additions to the housing stock *exceeded* household growth, which only averaged 166,000 per year. 'Net additions' are somewhat higher than the figures in the quarterly new housebuilding data, partly because the figures slightly under-report new housebuilding, and partly because they ignore dwelling conversions and changes of use.

One question about the latest household projections is how far household growth was slowed down during the last decade by difficult housing market and economic conditions. For while the methodology for the projections is essentially demographic, in the short term those trends can reflect such wider factors.²

The latest projections assume a higher 'headship rate' – or average household size – than earlier ones. With economic recovery, however, if the long-term trend towards smaller households reasserts itself, then household growth could be *faster* than currently projected. Underlying population growth might also push up household formation as current projections assume lower net migration than previous ones.

Yet even if the requirement stays at around 220,000 extra homes per year, this is a massive challenge. Net additions in 2013/14 were only ten per cent higher than in 2012/13, while the increase needed to reach an output of 220,000 would have been over 60 per cent.



Source: Net supply of housing 2013-14 England, DCLG.

The only compensation is that 2013/14 did mark the end of a five-year run of successive falls in supply.

While the election campaign saw promises from the three main parties that supply would increase, reflecting their localist stance the Conservatives did not set an overall target. Their commitment is to deliver 275,000 homes through the Affordable Homes Programme by 2019/20, plus 10,000 sub-market homes through Build to Rent. In terms of new homes for sale, the aim is to provide 200,000 starter homes at 20 per cent below market prices over five years. Achieving this, however, with no public funding, depends on developers being sufficiently attracted by the promise of paying no levies and of meeting no planning gain obligations; lenders being willing to provide mortgages, and local authorities giving planning permission when they will receive no contribution to infrastructure nor help with wider affordable housing needs.

Greater supply of land with planning permission is generally acknowledged as a key factor in boosting supply. The Conservative commitment is to continue to protect the Green Belt, adding to that Local Green Space designations to preserve land from development. They put a renewed emphasis on public sector brownfield sites, advanced through measures such as a London Land Commission and the planned Housing Zones (due to start in 2015/16 and create 95,000 homes). Together with various relaxations to planning obligations before the election, and some very limited funding for 'locally led' garden cities, these measures are intended to stimulate release and development of land. However, with no commitment to require the development of *private* land, there is a large question mark over whether the combination of public-sector brownfield sites plus permitted greenfield development will result in enough development coming forward.

With private sector completions at around 97,000 units per annum, allowing for the undercounting and conversions noted above the real net annual increase from private sources might now be about 118,000 units. As noted in last year's *Briefing Paper*, it would be unrealistic to expect this to increase by more than 10-15 per cent in any one year, suggesting that private output might increase to around 135,000 units next year given the right stimulus. This would require the social sector to produce 85,000 new homes to keep pace with new demand, well above current targets and still taking no account of what would be required to address hidden housing needs (see page 13) or the impact of new policies on their ability to raise finance.

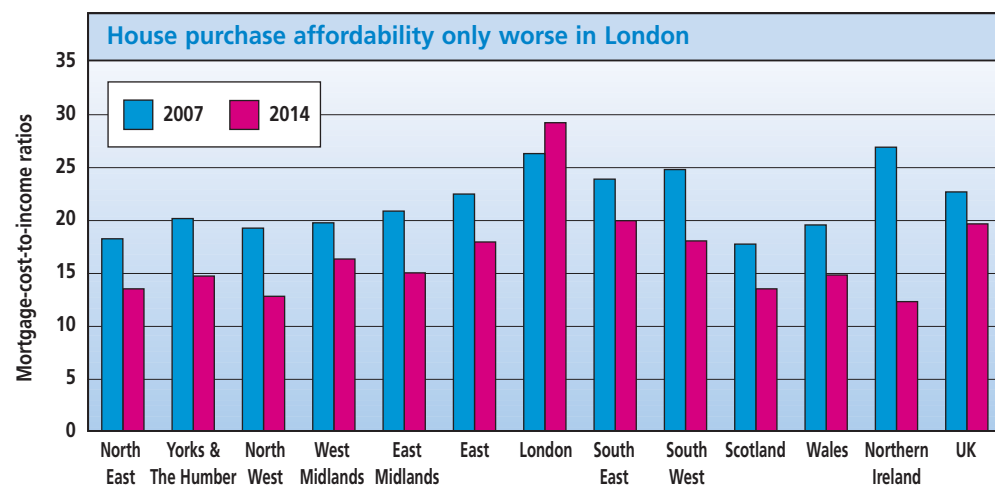
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Housing market affordability eases – except in London

The sharp rise in house prices in 2014 made buying less affordable across the UK year-on-year, but outside London prices were still more affordable than in 2007. By 2014, ONS mix-adjusted first-time buyer prices were back above 2007 levels across Great Britain; but only in London (48 per cent) and to a lesser extent the East (18 per cent) and South East (20 per cent) were prices significantly higher. In Scotland and Wales, and elsewhere in England, 2014 prices were less than ten per cent above 2007 levels though of course they are still rising. In Northern Ireland, after a far more severe housing market collapse, they remained nearly 40 per cent below 2007 levels.

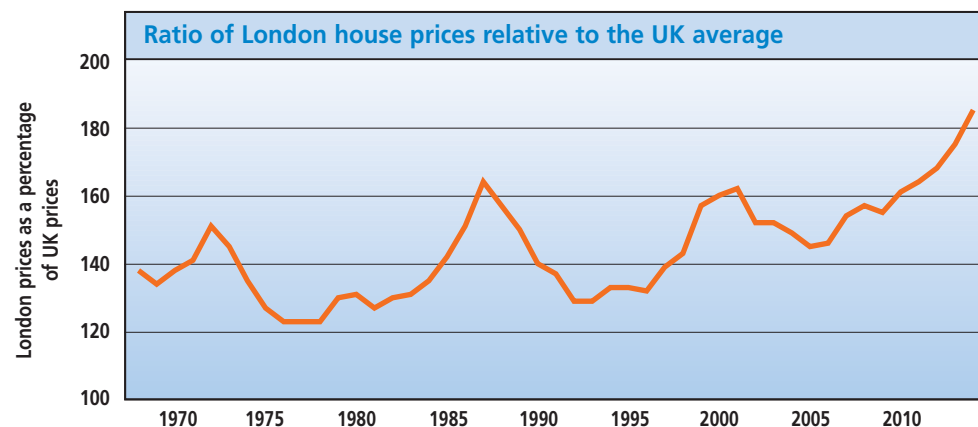
After recovering from the downturn, higher prices have been offset by a combination of modest increases in incomes and lower interest rates. Working-household incomes in 2014 were some six per cent higher (in cash terms) than in 2007, while average interest rates for new mortgages fell from 6.1 to 3.1 per cent. So while house-price-to-income ratios outside London (and the East and South East) in 2014 were very similar to those in 2007, once lower interest rates are taken into account mortgage-cost-to-income ratios were lower in 2014 in every part of the UK except London (first chart).



Source: UK Housing Review Affordability Index.

While affordability in London is typically worse than elsewhere, the difference between London and the rest of the UK is now uniquely high. Analysis by Alan Holmans has shown a post-war cyclical pattern, with London taking the lead, so that house-price differentials between London and the rest of the UK widen in the upturn and narrow in the downturn. Updating his analysis shows that the difference in London prices has now

climbed to a post-war peak: they are 85 per cent higher than the UK average. While the second chart only shows data from 1968, the Holmans analysis back to 1939 of data from the Co-operative Permanent Building Society (now the Nationwide) shows a far narrower north-south divide in pre-1960 prices, only beginning to widen in the late 1960s to the levels shown in the chart.



Source: Regulated Mortgage Survey and predecessor surveys; data to 1992 from A. Holmans, *Historical Statistics of Housing in Britain*, University of Cambridge.

The differential between average household incomes in London relative to the rest of the UK has widened somewhat over the last two decades, but they are still only some 32 per cent higher, and can only be a minor factor in explaining house price differences. Clearly London is increasingly an international housing market, especially at the top end. And with a sharp reported rise in interest in £2 million plus properties now that any threat of a mansion tax has been removed, a further rise in high-end London prices is widely anticipated.

Estimates vary but properties valued at over £2 million probably form less than three per cent of London's private housing, although clearly their impact on average prices is rather greater. Other factors are wider housing market pressures and the shortfall in supply, but these are perennial issues for London and it is not clear that they have grown in recent years relative to the rest of the UK. The reasons for the unprecedented price differentials need to be better understood, both to assess future prospects and to make appropriate policy responses.

Reference

Holmans, A. (1995) 'What has happened to the North-South divide in house prices and the housing market?' in Wilcox, ed. *Housing Finance Review 1995/96*. York: Joseph Rowntree Foundation.

Private housing market – few signs of revival in homeownership

The outlook for private housing market affordability and supply remains difficult for many households even though interest rates are low. The situation varies considerably across the UK as is evident from the *Review's* house price and rental cost data (Tables 47-48, 72, etc.). IPSOS MORI polling prior to the election showed 90 per cent of those interviewed thought it was now harder for children of today to buy/rent than it was for them, 75 per cent thought there was a housing crisis and 46 per cent that there was one in their local area. Significantly 62 per cent disagreed that there isn't much governments can do about housing. Little wonder then that housing climbed up the ranks of key issues for the electorate – reaching fifth in April. The Homes for Britain campaign pushed increased supply as the big solution but the Conservative Manifesto avoided a supply target and put considerable focus on demand-side measures including extending the Help to Buy equity loan scheme and bringing in a Help to Buy ISA to help fund deposits. This focus runs the risk of increased house-price inflation as a consequence.

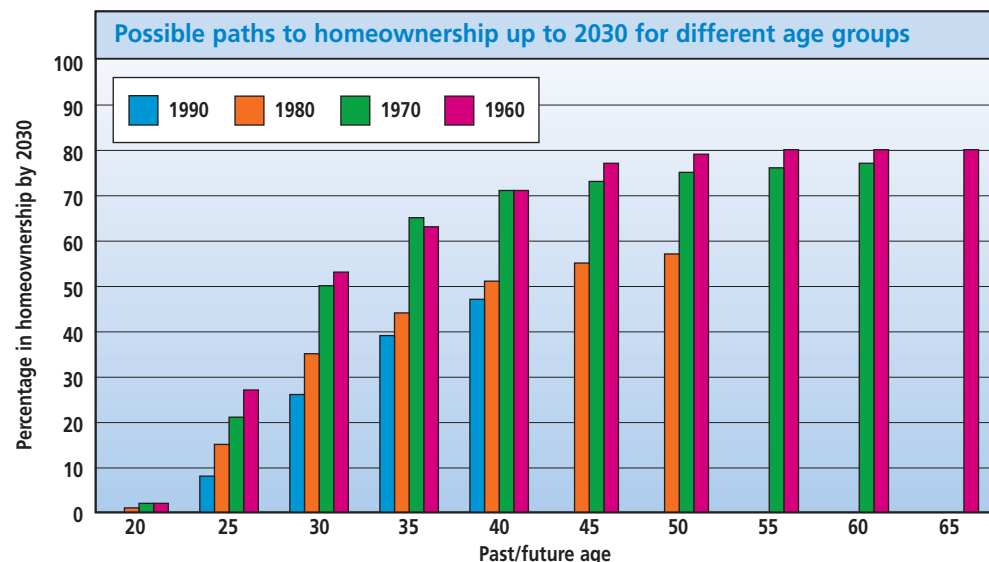
The homeownership market is some way from returning to normal with government having acted to underpin house prices, preventing a full price re-adjustment and continuing to support at least a third of the 311,000 first-time buyers (FTBs) getting onto the 'ladder' in 2014. With parents supporting another third, we have only around 100,000

buyers making it on their own – a real indication of how far we have to go. A recent projection by CML suggests that while 50 per cent of those born in 1970 were owners by the age of 30, only 26 per cent of those born in 1990 could expect the same – a halving over 20 years and a reflection of how conditions have changed (see chart – methodology developed by Alan Holmans).

The government hopes to tackle this through various schemes but though there has been some improvement in FTB numbers it is hard to see them getting back to the long-term average (since 1979) of just over 400,000 anytime soon. With later entry into homeownership, older people living longer and staying in their homes and the impact of a bigger rental market where property trades less frequently, we are seeing fewer UK transactions (1.2 million in 2014 whereas in the past it has been 1.5-2 million). Combining this with a more restricted mortgage market – tighter and interest-rate stressed affordability tests for all potential borrowers that limit new entrants and restrict trading up by existing buyers – a less liquid housing market is emerging. This raises issues about households being able to exercise choice and adjust to changing circumstances in their families or in the economy and labour market. The new official mortgage market rules are designed to tighten the market as lending becomes more expansive (via, for example, higher loan-to-value ratios) so growth will be curbed as the market 'improves'.

This means under-served markets and more households (not least families) being propelled into the rented sectors, in turn adding to the pressures to improve the performance of the rented market from a consumer perspective. The debates over tenancy conditions and the reported rise in recent landlord evictions across sectors give some sense of the tensions that exist and are building. Though we saw considerable clamour in the press about possible Labour Party rent controls, there is a case for a rational debate about how best to balance landlord and tenant interests in the private sector informed by the reality that investors and lenders are probably more interested in the largely undiscussed middle ground.

One consequence of tighter mortgage market regulation is expanded, unregulated, buy to let lending. Though this has funded only about a third of the growing PRS, it has intensified competition between landlords and FTBs not least because landlords can much more easily get interest-only mortgages. The overall private market is still in recovery mode and as the *Review* shows it receives very significant subsidy. Combine that with housing benefit and discretionary housing payments and the sums become huge. Yet with public expenditure under attack, not least in terms of social housing investment, it is hard to see these subsidies diminishing in the medium term.

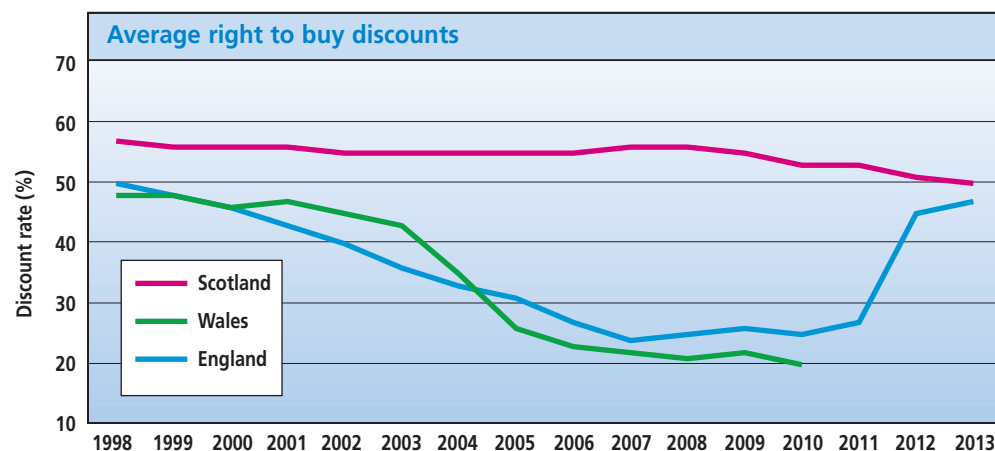


Note: CML projections based on 2014 propensities.
Source: CML News and Views, 23 April 2015.

Right to buy divides Britain

The right to buy (RTB) policy introduced by the Thatcher government in 1980 has without doubt been one of the most significant housing policy innovations of the last half century. With more than 2.5 million sales raising capital receipts of over £50 billion it has had a massive impact in restructuring both national and local housing markets. At the end of 1979, the social housing sector comprised just over 30 per cent of the total housing stock in England; now it comprises just 17 per cent, very largely because of RTB.

Since its inception the policy has been controversial, with polarised views across the political divide. With housing responsibilities now firmly devolved to Scotland, Wales and Northern Ireland, and with governments of different persuasions in each of the four countries of the UK, it has now become a policy that divides the nation.



Source: Government departments (NB. Data for Northern Ireland no longer collected).

Average RTB discounts progressively fell under the last two Labour governments, as a result of substantially reduced caps on maximum discounts introduced in England, Wales and Northern Ireland. However the Scottish version of the RTB did not make provision for maximum discounts. Instead Scotland introduced the 'modernised' RTB, with discounts from 20 per cent to 35 per cent based on length of residence, and a maximum discount of £16,000. An independent economic assessment of RTB discounts found that such lower discounts from open market values represented reasonable value for the state – given that they involved sales to secure sitting tenants with sub-market rents.¹ However, the modernised RTB only applied to new tenants, and pre-2002 tenants in Scotland continued to have access to the old RTB with its much higher discounts.²

From April 2012 the last government increased the maximum discount caps in England to their highest-ever levels – now £103,900 in London and £77,900 elsewhere. As can be seen, since then average discounts in England have climbed back to nearly 50 per cent of open market values. In theory the government made a commitment to ensure there would be 'one-for-one' replacement for all the properties sold under these new arrangements. However, to date, starts on replacements have only been made for some one in ten of the properties sold,³ and while this may improve a little over time it is clear that the limited and complex financial arrangements for the use of the sales receipts are in practice incapable of supporting anything like a full replacement programme.⁴

Following the election, policy on RTB is set to diverge even further between England, Scotland and Wales. The Scottish Government now proposes to abolish both the traditional and modernised versions of the RTB, while the Welsh Government plans first to halve the current maximum discount to £8,000, and then to legislate to abolish RTB totally.

In contrast the Westminster government plans to extend the RTB to all housing association tenants in England. There are, however, potential barriers in the way. Back in 1980 opposition in the House of Lords was a key factor in the RTB not being applied to charitable housing associations. At that time associations were also classified as public sector bodies, whereas now they are defined as private sector corporations, with close to £60 billion in private finance on their books. There is a danger that by trying to use legislative powers to impose the RTB on associations, this could trigger their reclassification as public sector bodies, with their borrowing redefined as an unwelcome addition to public sector debt.

There are also issues about financing this policy, with sales of high-value council dwellings to be earmarked to compensate associations for the costs of discounts and replacement units, and also pay for the debt on and replacement of the council houses sold. The loss of social rented homes will compound the impact of welfare policies in further restricting the scope for low-income households to live in inner London and other high value areas. More fundamentally, given the severe cuts in public spending, it is difficult to see why this use of public sector assets to fund excessive discounts should be such a priority.

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Affordable housing output grows – but how ‘affordable’ is it?

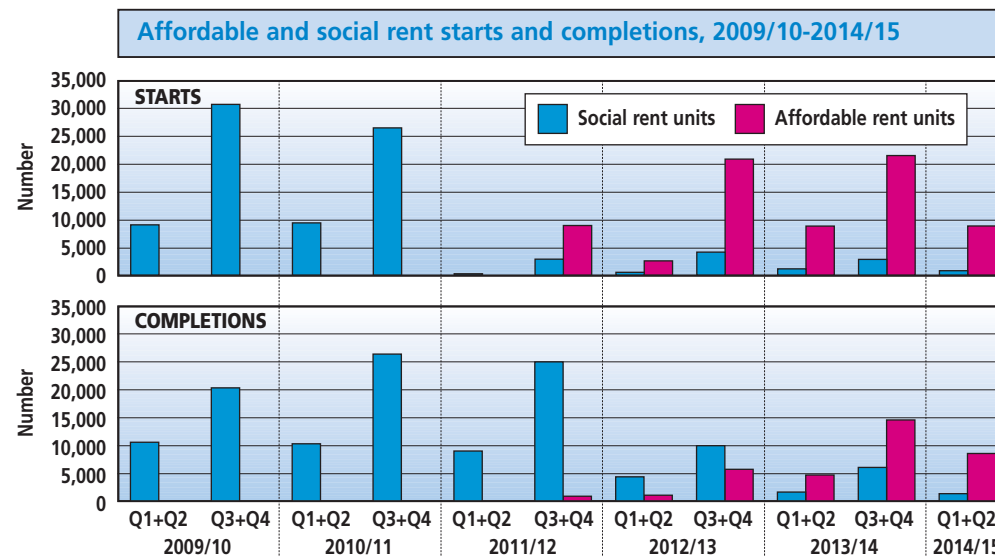
While overall housing supply recovered slightly in 2014/15 (see page 12), the supply of affordable housing did better still. In England, housing associations completed 27,010 dwellings and local authorities 1,230 in 2014/15, the best recent year for housing association output and one of the best for council housing too. In part this was to be expected as the coalition’s Affordable Homes Programme (AHP) was at maximum output given that it ended in March 2015 with a target to deliver 80,000 affordable homes.

Outputs from the AHP which provide the data for DCLG live tables on affordable housing supply are consistently higher than the quarterly housebuilding figures quoted above, for various reasons including private sector contributions to affordable supply. At the time of writing the HCA, responsible for the programme outside London, has not yet produced figures for 2014/15 to allow progress against the AHP four-year target to be judged. However, GLA statistics (for the London element of the AHP) show 18,147 affordable homes completed over four years, as against an original target of 22,000.

As the *Review* has consistently pointed out, meeting the AHP targets for London, in particular, has been challenging, with frequent changes to the Mayor’s targets. One reason is that the programme is not only aimed at producing new units to let at higher Affordable Rents (AR), but also requires the conversion of social rented lettings to AR or to be sold outright. So far (until the end of 2014) 11,568 housing association homes in London had been converted or sold. In the rest of England, 75,228 conversions were expected when the AHP began and this figure has not been updated. Overall, this would mean that, across England as a whole, for every home built under the AHP when it ended in March at least one existing social rented home was relet at higher rents or was sold.

Outside London, the 2015 *Review* showed that a typical AR gross rent was almost £500 per month on newly built homes. However, recent analysis of such rents in London showed them to exceed £1,000 per month for the first time.¹ If the Mayor’s guideline of rent accounting for no more than 40 per cent of net income is applied, these rents would require a minimum pre-tax income of £40,000 per year – or double that in the most expensive borough, Kensington and Chelsea. When universal credit is rolled out, many tenants paying these rents could qualify for the new credit *and* simultaneously be in the higher (40 per cent) tax bracket. Clearly AR rents are placing social landlords and local authorities in an impossible conundrum: letting such units to typical waiting-list applicants means that almost all will be benefit-dependent, which means their ability to pay is at risk as welfare reform tightens (see pages 14-15).

Yet both the previous AHP and its successor all but exclude building to let at lower, social rents. The decline in output of social rented dwellings is striking: over the three years to 2011/12, on average 34,000 units were completed annually; the total fell under 8,000 in



Source: DCLG Live Table 1012.

2013/14, and in the first half of 2014/15 was less than 1,400 (see chart). Soon, social rented output will be reduced to a trickle that depends on what landlords can finance from their own resources.

Another concern is the various threats to ‘planning gain’ which has traditionally played a major role in providing affordable housing. While the last available data (for 2013/14) indicated that some 6,700 units were supplied across England under ‘section 106’ agreements without grant being needed, this figure is certain to decline given the ten-unit threshold introduced for small schemes, the various circumstances in which developers can call for old section 106 agreements to be reviewed, and the government’s commitment to 200,000 ‘starter homes’ exempt from section 106.

The new Affordable Homes Programme 2015-2020, to deliver 55,000 new units per year, has even lower grant rates than the previous AHP. With continued pressure on rent levels, ever rising demand from low-income households, severe constraints on supply and cuts in the welfare benefits which support higher rents, are the conditions brewing for a ‘perfect storm’ in the least affordable housing markets such as London’s?

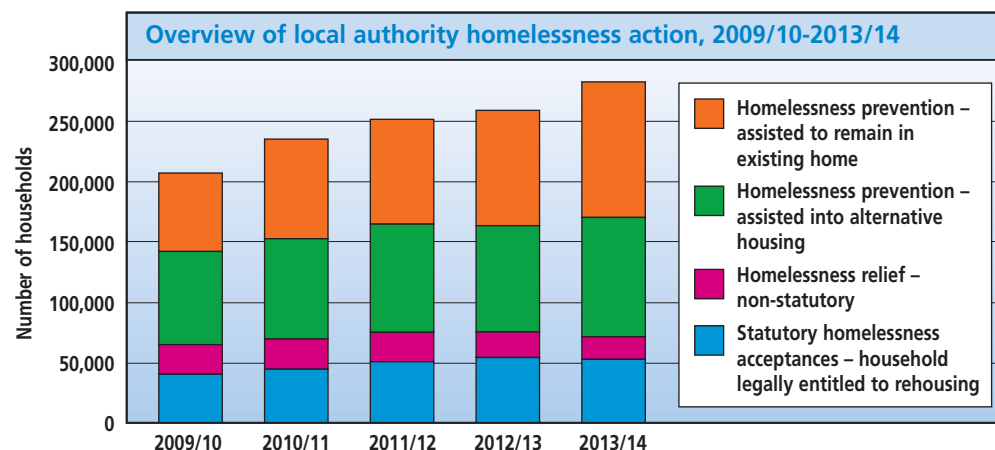
Reference

1 Apps, P. (2015) ‘Affordable rent in London hits £1,000 per month on new builds’ in *Inside Housing*, 26 February.

Homelessness – the need to look beyond the headline figures

On one level official figures on homelessness trends in England are not discouraging. While homelessness acceptances rose from a recent low point of just under 42,000 in 2009 to over 53,000 in 2012, they have not grown further and in 2013 and 2014 stayed slightly under the 2012 figure.

But the real story is more complicated. Homelessness prevention work by local authorities means that (as Crisis found in a survey of local authority staff¹) official figures on ‘acceptances’ are no longer seen as an accurate gauge of homelessness. In fact, the parallel figures on non-statutory preventative work are growing remorselessly: from 165,000 cases in 2009/10 to almost 228,000 in 2013/14 (the last year for which data are available). Over half are found accommodation elsewhere – with 50 per cent of these going into the private rented sector – and slightly under half helped to stay where they are. The latter group is growing, and while some of those helped may have resolved their potential homelessness, it seems likely that for others the factors that provoked it (e.g. intimidation by a landlord) could easily recur. The chart shows the overall trends in recorded action to relieve or prevent homelessness. When 2014/15 figures become available, they are likely to show that some 300,000 households have been affected by actual or potential homelessness in the past year.



Source: DCLG live tables; data assembled for Crisis.

Even these figures only show cases presented to local authorities. There are several indicators of underlying or ‘hidden’ homelessness which need to be taken into account in any fuller picture. For example, Census 2011 found that 1.06 million households (five per cent) were officially overcrowded, a proportion that rises to a quarter in some parts of London.

Data analysis for Crisis showed that, in 2013, over 2.2 million households were sharing with ‘concealed’ single adults (e.g. grown-up children living with parents) and 265,000 with concealed parents or lone parents with children. One in ten households is therefore sharing, and while the proportion wanting to live separately is likely to be much smaller it does give an indication of the extent of hidden housing need.

The other big part of the picture is homelessness among single people and childless couples which (because of their ‘non-priority’ status) can result in literal rooflessness. Rough sleeping is on a rising trend, with over 2,700 people sleeping rough across England last autumn, a 14 per cent rise in a year. More detailed ‘CHAIN’ data for Greater London showed over 2,300 individuals sleeping rough in London over the first quarter of 2015, a 15 per cent increase on the same quarter a year earlier. At any one time, far more people are in emergency accommodation (hostels, night shelters, refuges) than are sleeping rough: Homeless Link’s annual survey shows that there are 36,540 nightly bedspaces currently available, occupied on average at about 90 per cent of capacity.²

There is also growing concern about numbers of people becoming destitute in a wider sense, defined in terms of access to life essentials including shelter and food. A JRF-sponsored study to be published later this year aims to fill the evidence gap on the extent of destitution.³ The expectation is that it will reveal a sizeable problem, given the evidence of high use of food banks, growing numbers being subject to benefit sanctions, and tighter immigration rules so that more people have ‘no recourse to public funds’.

Inevitably, these data sets overlap, many of the hidden homeless will never enter the figures reported to government and even the extent of destitution is hidden by people ‘sofa-surfing’ or otherwise avoiding sleeping rough. In addition, the evidence confirms that homeless people’s circumstances can change frequently, so that rough sleepers (for example) may sofa-surf with friends for periods of time or make use of accommodation such as night shelters in cold weather, then return to the streets. Ideally, official figures would be revamped to give a more comprehensive picture, but until then the limitations of ‘official’ homelessness statistics need to be kept in mind. Headline figures may conceal more than they reveal: the pressures are growing.

References

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- 2 Homeless Link (2015) *Support for Single Homeless People in England: Annual Review 2015*. London: Homeless Link.
- 3 For information on this study, see Fitzpatrick, S. et al (2015) *Destitution in the UK: An interim report*. York: Joseph Rowntree Foundation.

Effects of the first wave of welfare reforms

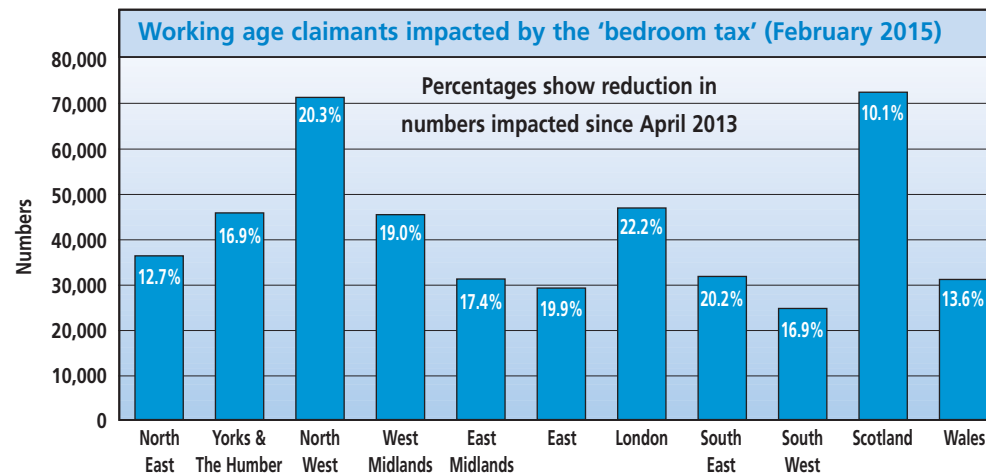
Official estimates are that the welfare reforms introduced by the coalition will produce £26.4 billion net savings this year. However that figure includes the positive costs of reforms to pensions and pension credit. If those are excluded the net savings to DWP this year come to £28.7 billion. By far the largest factor is the switch from RPI to CPI uprating – estimated to save £10.6 billion this year.¹ Further reducing the uprating of discretionary benefits and tax credits to one per cent for the three years from 2013-14 will result in a further £2.7 billion saving this year.

Of those cuts that specifically relate to housing costs, the greatest savings involve the various changes made to the local housing allowance (LHA) provisions – the change to 30th percentile rates, four-bedroom and high-value area caps, CPI and one per cent uprating, and extending the shared accommodation rates (SARs) to single people aged 25 to 34. In total these are estimated to save the Treasury £1.4 billion in 2015/16.

Despite those changes the numbers of claimants in the private rented sector continued to rise through to the end of 2013, but have since declined. However given that overall claimant numbers in all tenures fell slightly during this period, it would be inappropriate to attribute all of that flattening off to the LHA cuts and reforms. There has, though, been a continuing fall in the numbers of PRS claimants able to secure and maintain a tenancy in Inner London – especially in Kensington & Chelsea and Westminster. In February 2015 inner London numbers were down by 11.5 per cent compared to March 2011, while numbers in those two central London boroughs were down by about a third.

There has also been a decline in the numbers of young single people able to access the sector since the SAR rates were extended to singles aged 25-34. However, in the context of increased competition for the limited numbers of shared rooms available within reach of the very low SAR rates, it is single people aged under 25 who have fared worst – with numbers down by 30 per cent between December 2011 and February 2015.

The constrained choices in the PRS for younger single people come at the same time as numbers of new lettings into smaller dwellings in the social rented sector are under pressure from the demand for downsizing transfers for existing tenants affected by the bedroom tax. While contributing only a small proportion of the total welfare savings (about £250 million – net of discretionary housing payments – in 2014/15) the bedroom tax has led to far more controversy than the other welfare changes, not least because of its impact on disabled tenants and also on those unable to secure transfers to smaller dwellings due to lack of supply.²



Source: DWP Housing Benefit Statistics, May 2015.

The net decline in numbers impacted by the bedroom tax has been very modest, especially after its first six months, and the very limited decline in Scotland can largely be attributed to the Scottish Government's substantial extra funding for discretionary housing payments.

While not one of the costed welfare reform savings, spending reductions have also resulted from greater use of sanctions on jobseekers' and employment support allowances. Sanctions can also lead to housing benefit being suspended, with claimants effectively having to reapply. The integrity of the sanctions regime is open to question given that there are both high levels of appeals and high proportions of them being upheld.

The sanctions regime, the bedroom tax and other welfare changes have already added to landlords' difficulties with rent collection, with social landlord possession claims (in England and Wales) some 13 per cent higher over 2013 and 2014 compared to 2012. Moreover there is clear evidence of the hardship caused to claimants, not least in the trebling since 2012/13 (to over a million) in the number of emergency food rations issued by the UK's biggest foodbank charity.³

References

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The possible effects of the next wave of welfare reforms

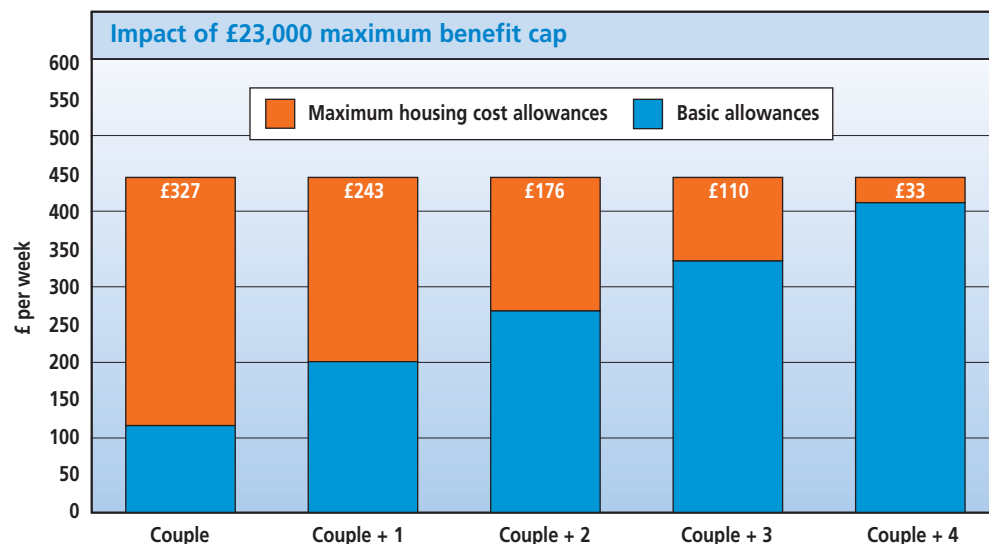
Following on from the welfare cuts already introduced by the coalition, the new government is committed to making a further £12 billion in cuts over the next two years, but has so far only outlined measures that produce £1.5 billion of those savings. The new cuts will be overwhelmingly aimed at working-age households, with virtually all benefits for pensioner households ruled out of consideration.

The measures already announced include freezing working-age benefits and tax credits for two years, which will cut spending by about £1 billion in the current low-inflation environment.¹ Reducing the overall benefits cap for out-of-work households from £26,000 to £23,000 is estimated to save only around £100 million. However, it significantly extends the impact on smaller families. The current limit impacts predominantly on families with four or more children (57 per cent of all cases), and more generally on households in London (45 per cent of all cases).² The latest figures show 23,000 households subject to the current benefit cap; it is estimated that the reduced cap could *quadruple* that number.

The chart shows how the lower cap would affect the amount available to couples to meet their housing costs (including council tax). The £110 per week available to couples with three children would be insufficient to meet an average housing association three-bedroom social rent anywhere in either the Midlands or the south of England, and even in many areas in the north of England. For lone parents, because of their slightly lower basic living allowances, the impact would not be quite so severe, but those with three children would still find average housing association rents beyond them in London and most of the south east of England. Even under the current cap families with three children comprise a fifth of all those subject to its limits, and the lower cap would very substantially increase those numbers.

While the policy is argued to provide an incentive to households to become employed, or to move (if at all feasible) to areas with lower rents, the evidence to date is that very few move, and only a minority are able to secure employment. The consequence for the households remaining capped is considerable – in over two-fifths of all cases the benefit cap already imposes a benefit cut of over £50 per week.

But at the time of writing we await further information on quite how the government will decide to secure the additional £10.5 billion in cuts. Options include lowering the rate of child benefit for a first child (£20.70) to the rate for subsequent children (£13.70), or abolishing child benefit for third or subsequent children. These options would save some £2.5 billion and £1 billion respectively. Reducing the levels of child tax credits back to 2003/04 levels (in real terms) could save some £5 billion, but this would impact predominantly on families in low-paid work.



Source: Author calculation based on 2015/16 income support rates.

Reform options for housing benefit are more limited, and all have the potential to impose offsetting costs on government as well on social landlords. Further reducing local housing allowance (LHA) rates to the 20th percentile of local private sector rents (as opposed to the current 30th percentile) might potentially give DWP a saving of some £400 million, but will make it even more difficult to secure private tenancies for statutory homeless households. Requiring all benefit-recipient tenants to make a minimum 'co-payment' of ten per cent of their rent from their basic allowances could save £2.5 billion. In both rented sectors such a policy is likely to result in increased levels of arrears and evictions, and this would limit even further the potential for social landlords to fund investment in new affordable housing with limited levels of government grant.

Whichever policy options the government chooses will involve reduced living standards – in most cases for households already with very low incomes. The changes will also impose costs on social landlords – and make it ever more challenging to find ways to keep a roof over the heads of the growing numbers of households subject to the benefit cap and other welfare cuts.

References

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Asymmetrical devolution and localism

The constitutional structures underpinning the governance of the UK are set for radical change, affecting not only the four countries of the UK but also the different parts of England. The changes can be labelled 'asymmetrical' because of the different constitutional arrangements between the countries, that will continue, and the new approaches that will vary from place to place in England.

There have long been differences in the degree and scope of devolved powers provided for Scotland, Wales and Northern Ireland. Following the close call of last year's referendum, Scotland is now poised to see a significant increase in its powers while, by comparison, Wales will see only a relatively minor increase in devolution. Not all of the details of the new powers for Scotland have yet been agreed, even for the arrangements outlined by the Smith Commission.¹ And beyond those, the prime minister has agreed to respond to the SNP's appetite for a further round of devolution once the first has been enacted.

One of the unresolved issues is the Scottish Government's powers to borrow for capital investment. While the Smith Commission recommended consideration of the 'prudential borrowing' code that has for many years governed local authority (non-HRA) borrowing, Whitehall has concerns that this would remove its power to cap that borrowing and potentially either weaken its overall fiscal stance, or require offsetting reductions in capital borrowing for the rest of the UK.

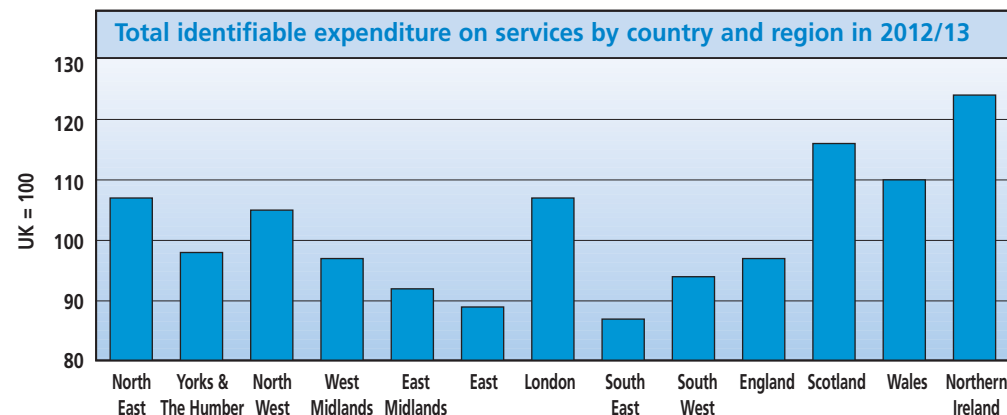
The Scottish Government will be granted greater powers over the rates and thresholds for income tax, but not the personal allowance levels that exclude income from tax. There will be other more limited tax powers, added to those it already has over local taxation and property transaction taxes.

It will also get some limited powers over the housing-cost element of welfare benefits, but mainly in the context of universal credit. It will be able to bring an end to the 'bedroom tax', and set budgets for discretionary housing payments without reference to DWP. Under universal credit it will have the power to vary payment periods and to vary the arrangements for direct payment of the housing-cost element to landlords.

It is anomalous that housing policy is a devolved function while housing benefit remains under DWP control (except in Northern Ireland), but it is equally the case that it is difficult to make any radical national reforms to the treatment of housing costs while it remains embedded within a GB-wide welfare regime. At the same time it will become increasingly anomalous that Wales is the only country of the three that has no powers to vary the DWP prescription for the welfare treatment of housing costs.

Alongside the new devolution 'settlement' the Barnett formula will continue to determine the Scottish, Welsh and Northern Ireland shares of UK government spending, which varies considerably across the countries and regions (see chart). While the formula currently

rather favours Scotland (due to the historical population basis for its baseline spending), over time that advantage was to have been eroded by the distribution of additional grant on a more current, per capita, basis. However this so called 'Barnett squeeze' does not effectively operate during periods of public spending austerity.



Source: Public Spending Statistical Analyses 2014, HM Treasury.

The Scottish debates – and outcome – have also sharpened interest in a greater degree of devolution within England, and the government has chosen to promote the model of mayoral-led local government alliances as the vehicle for the reforms. Alongside plans to improve road and rail connections to and between the northern cities this is a key element in government plans for a 'Northern powerhouse'.²

The mayoral-led city model has not however always found local support, any more than did proposals for elected regional governments. While in some areas local economic partnerships (LEPs) might form the basis for restructured local government, not all areas readily lend themselves to cohesive alliances, and more rural areas in particular see themselves as being potentially marginalised by this approach – and excluded from the (albeit modest) funding powers likely to be on offer. Added to these concerns is some wariness that devolution will be accompanied by heavily reduced funding for local services, and of course without the tax-raising powers available in Scotland to replenish those budgets.

References

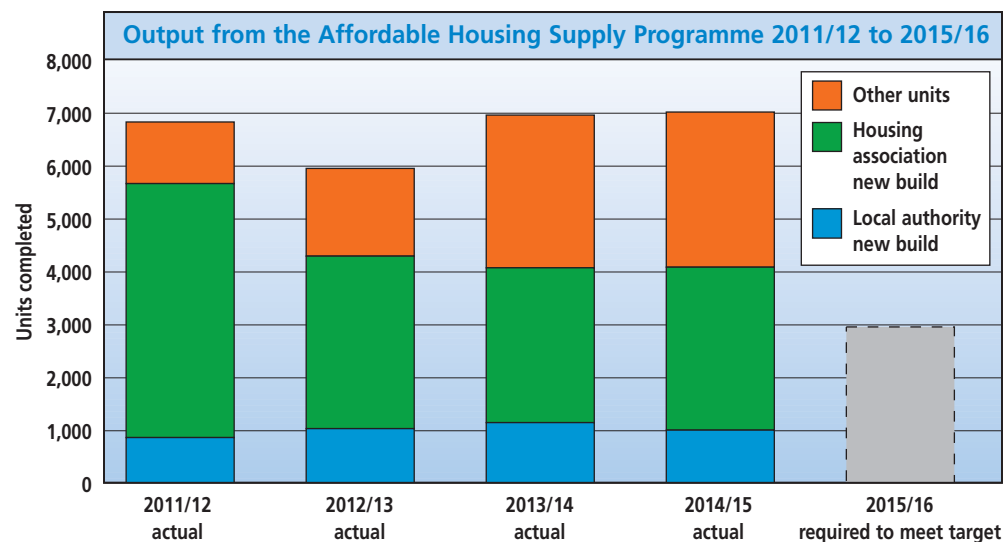
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Scotland's investment is higher but still falls short of need

With the announcement earlier this year of an increase in its Affordable Housing Supply Programme (AHSP) to £463 million in 2015/16, Scotland will have invested just over £1.7 billion in affordable housing over the life of the current parliament. Nevertheless Scottish investment is still widely regarded as falling short of what is required. During the election campaign the SNP called for a UK target of building 100,000 affordable homes per year, which would imply perhaps a 50 per cent increase on the 6,000 annual affordable homes target set by the Scotland Government for its five-year term ending next May.

Current indications are that the 30,000 target will easily be met, with nearly 27,000 affordable homes delivered by April 2015 and output likely to be sufficient over the remaining period (see chart). There has been a strong contribution from local authorities in the last year, while housing associations are finding it difficult to build at current grant levels. Indeed, overall social sector output in 2014 itself (3,217 homes completed) was the worst new-build figure in a decade, despite the fact that since 2010 there has been a substantial contribution from council house building. Although grant funding is available, councils are making significant use of prudential borrowing and contributions from rental income to support investment. So far, they have done so without a great impact on rents, which at just over ten per cent of average earnings are the lowest social sector rents in the UK.



Source: Housing Statistics for Scotland – AHSP summary, Scottish Government.

Housing associations are currently building around twice as many social-rented homes as councils, although before grants for councils were reintroduced in 2009 they were building four times as many. Associations argue that only with higher grants could they restore their output to earlier levels. In 2009/10 grants were funding 59 per cent of development costs; by 2011/12 this had fallen to 38 per cent although increased to 49 per cent in 2013/14 when government recognised that rates had fallen too low. However, this was insufficient to boost associations' investment levels, which in that year were less than two-thirds of their peak level and at their lowest for five years.

So far Scotland has no plans to adopt anything corresponding to England's Affordable Rents regime as a means of funding new development. However, the Scottish Housing Regulator notes that housing association average rents have started to exceed RPI inflation, and that half of associations plan further above-inflation increases. Scottish associations' rents are indeed growing slightly faster in cash terms than assured rents in England, although they are more affordable in relation to average earnings.

Another significant call on housing association (and local authority) resources has been achieving the Scottish Housing Quality Standard for their stock by the target date of April this year. Although it is too soon to assess this achievement in detail, the Scottish Housing Regulator believes that 94 per cent of the stock met the standard by that date. This would be a considerable success as percentage compliance will be higher than was the case with the (lower) Decent Homes Standard in England over a similar ten-year period. Scottish social landlords now have a fresh target: ensuring that their stock meets the new Energy Efficiency Standard for Social Housing (EESH) by 2020. This means that no homes should have an energy efficiency rating below 'C' or 'D' after that date (and there are also plans for similar minimum standards in the private sector).

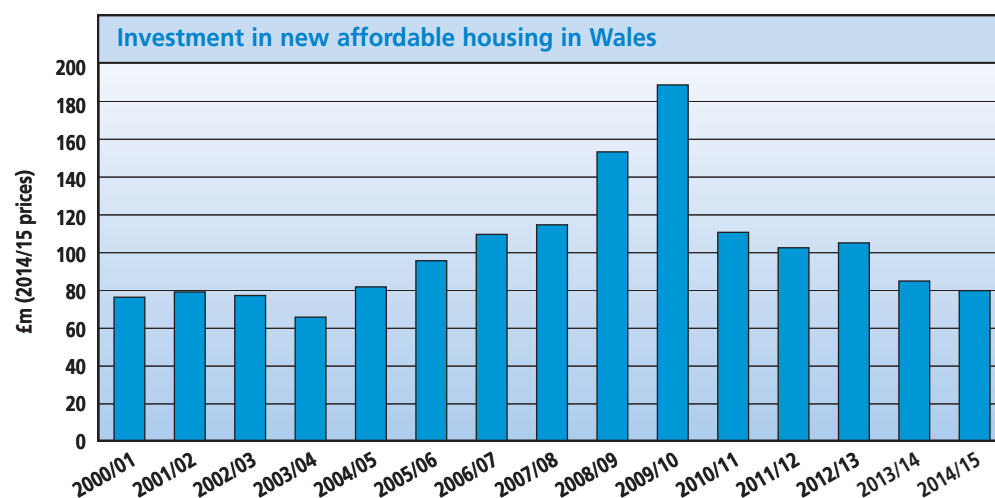
Apart from marked differences from England on social housing output, rents policy and energy efficiency in the existing stock, Scotland has distinctive positions on homelessness (a broader definition of statutory homelessness), property taxation (see page 7) and right to buy (page 11). It is also now carving out its different approach to regulating the private rented sector, with the planned ending of 'no fault' evictions and greater protection against 'unjustified' rent increases.

However while Scotland's housing achievements have been considerable there is no room for complacency. The next Scottish Parliament will face a very challenging financial situation given the scale of cuts envisaged at UK level, which will have an inevitable impact both in terms of reduced Scottish budgets and (via welfare reform) on tenants' incomes and their ability to pay their rents. It remains to be seen whether new devolution options open up new sources of revenue to help sustain Scotland's distinctive housing agenda.

Wales – progress made but challenges remain

Following devolution, people have become less aware of policy differences in the different parts of the UK. As a result many would not appreciate that the stance of the Welsh Government is quite different to that in England – it is pro-intervention, focussed on partnership working with local government and with a strong commitment to social justice, regeneration and to council housing. The social and economic context is also quite different with a small population (3.1 million), relatively low incomes, higher dependency on welfare and public expenditure and a poorer, older housing stock.

Compared to Scotland, Wales has been under strong Westminster control until very recently. The post of Minister of State for Wales was only created in 1951, the Secretary of State in 1964 and a devolved government for Wales in 1999 (with strengthened powers for the Welsh Government and the National Assembly in 2006 and again in 2011). 2014 saw the first Housing (Wales) Act leading to a compulsory registration and licensing scheme for private sector landlords and agents, stronger homelessness duties requiring prevention work and enhancing entitlements of single applicants who previously got only advice and assistance (but watering down other recommendations from the Mackie Review¹), and new standards for local authorities on rents, service charges and quality of accommodation. It also legislated for reform of Housing Revenue Accounts: eleven stock-retaining local authorities will, instead of making negative subsidy payments to the Treasury of £73 million a year, take on additional debt of around £1 billion. It will take time before they exercise their new freedoms and build new investment programmes.



Source: UK Housing Review 2015, Table 76 (at constant prices).

Legislation in the pipeline includes the controversial Renting Homes (Wales) Bill, built around the 2006 *Renting Homes* report, along with further planning and local government reform (halving the number of councils in Wales). In 2014 a new rent policy was introduced for housing associations which will be applied to local authorities after HRA reform in 2015. Social rents will reflect the type, size, location and quality of the stock, converging local authority and association rents and imposing a new requirement for separated-out service charges. The Welsh Government also proposes to reduce right to buy discounts and then abolish RTB altogether, and to introduce a land transaction tax in April 2018 to replace the current stamp duty regime.

In 2010, Holmans and Monk estimated Wales needed around 14,000 new homes a year to cope with household growth, of which around 5,000 would be non-market. Output has lagged behind these projections and in 2015 a new but as yet unpublished study was completed by the same authors for the Public Policy Institute for Wales. Supply of new 'affordable housing' was around 2,400 dwellings in 2013/14 of which just 1,166 were provided by housing associations for social rent, with new intermediate ownership and rent dwellings making up the difference. The plan is to increase the supply of overall affordable homes by 6,000 over the next two years and the Welsh Government expects to deliver 10,000 new social and affordable homes during its four-year term. But this is far short of the 5,000 per annum estimate even allowing for the fact that recent household projections suggest the target figures might be lower.

Prospects for improved housing market affordability – and accessibility – continue to look problematic. Latest official household projections suggest growth will average around 9,000 households per annum (2011-2031) but could be higher. Investment in new affordable housing will fall to just over £72 million in 2015/16 (though in 2013/14 the WG topped up the revenue grant by £4 million to finance some 1,000 additional affordable dwellings by 2016, and has added a second Housing Finance Grant to build 2,000 more affordable homes from 2017).

But overall expenditure for Wales has been cut by 8.3 per cent in real terms since 2010/11 and given the commitment to further reduce UK public spending there will be serious implications for Welsh budgets, let alone Welsh households. Five of the 25 areas in Great Britain most disadvantaged by the proposed welfare reforms are in Wales (Merthyr Tydfil, Blaenau Gwent, Neath Port Talbot, Rhondda Cynon Taff and Caerphilly).

Real progress has been made but considerable challenges remain.

Reference

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Northern Ireland – the debates continue

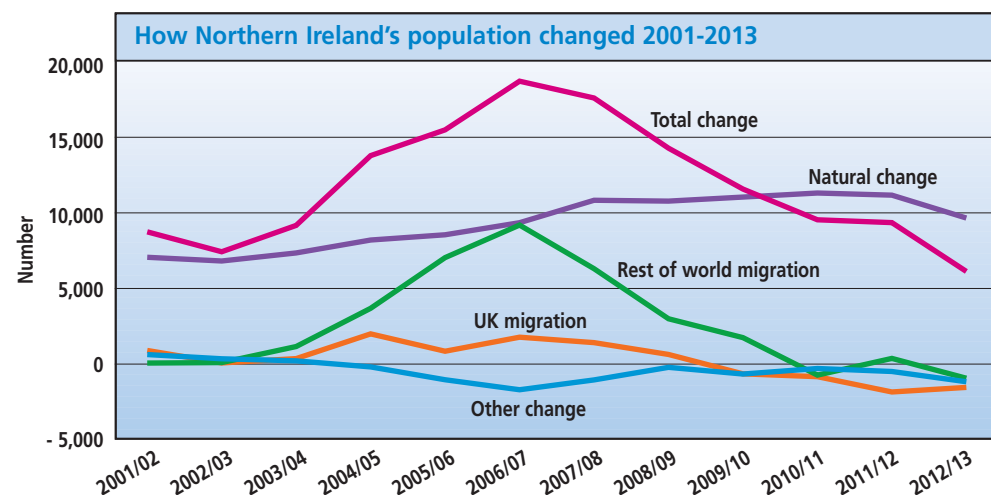
As was the case a year ago, two crucial decisions are pending in Northern Ireland which will have major effects on housing. The biggest is part of the Stormont House Agreement, signed late last year. It is whether and how to protect welfare benefits recipients if Stormont adopts key elements of Whitehall's welfare reforms. So far the necessary legislation has stalled because of disagreement on the scope and costs of the protection (even before the UK government announces further welfare cuts – see page 15). Northern Ireland's Finance Minister warned in May that a '£500 million hole' could open in the Assembly's budget if the details could not be agreed, because of loss of Whitehall grant. As the *UK Housing Review 2015* reported, the budget available to the Department for Social Development (DSD) is already nine per cent lower than last year: further cuts are feared if the stalemate continues.

Meanwhile some limited progress has been made on another crucial debate for housing – reform of the social housing sector and in particular of the Northern Ireland Housing Executive (NIHE). While a new regulatory framework for social landlords and a new tenant participation strategy have both been published, the key debate on the structure of the sector and the future of the NIHE is promised later in 2015, setting out 'preferred options' between keeping NIHE as it is, or transferring its stock to associations, or some compromise arrangement. The last would probably involve smaller, staged transfers as the housing association sector strengthens its capacity to take on a much bigger landlord role. Consultations are also promised on rents policy and on how the new housing structures will relate to Northern Ireland's reformed local government. However, all of these, like welfare reform, are politically contentious, and progress is far from guaranteed.

Meanwhile, the DSD recently announced that, over the four years ending in April 2015, there were 6,101 social housing starts. Although completions will have fallen short of the delivery target of 6,000 over four years, the achievement is significant, particularly as starts rose sharply in 2014/15 and will help to mitigate the lower targets necessitated for 2015/16 by the smaller DSD budget. The Northern Ireland Executive and housing associations remain committed to producing 1,500 new social housing units in the current year and to an ideal target of 2,000 units per year to address the backlog of housing need.

Northern Ireland is unique in the UK in having had a consistent approach to assessing the need for new social housing for over 20 years. The Net Stock Model (NSM) gives targets for social housing output which reflect both demand (e.g. new household formation) and supply (e.g. private sector output). Essentially, social housing output is intended to fill the gap, and since 2007 has become more important given that private output fell dramatically: from just seven per cent at the peak of Northern Ireland's housing boom, social output is now over 20 per cent of the total.

The NSM was independently reviewed at the end of last year.¹ While broadly endorsing the model, the review pointed out the considerable uncertainty surrounding new housing demand, given that the province has moved from net in-migration back to net out-migration in just six years (see chart), as well as factors such as the high numbers of young people still living with parents compared with the rest of the UK. The review concluded that social housing output should be raised slightly but stay within the overall target of 2,000 annual completions.



Source: Data from NISRA analysed by Paris, C. et al (see references).

Since its publication, new household formation projections have been issued based on 2012 population levels.² Illustrating the uncertainty just mentioned, the projected number of households in 2021 is now six per cent lower than the figure used in the review of the NSM. This reinforces the point that, providing investment in new social stock continues at current levels, it will be sufficient to meet new needs. However, in part because of stalled decisions on the future of the NIHE, there continues to be a major backlog of investment in bringing the current social stock up to the Decent Homes Standard, and this remains perhaps Northern Ireland's most pressing housing investment issue.

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- 2 NISRA (2015) *Northern Ireland Household Projections (2012-based)*. Belfast: NISRA.



Dr Alan Holmans CBE, 1934 - 2015

Many in housing take for granted the case for well-constructed and regularly updated assessments of housing needs whether at a local, regional or national level. Indeed such assessments have been a core rationale for the *UK Housing Review* since it was first published 23 years ago. In March this year, Alan Holmans, the creator and contributor of most of the significant housing statistics produced in Britain from the 1970s onwards, died at the age of 80. He had two long careers, first as a civil servant up until his retirement as Chief Housing Economist from the Department of the Environment in 1995 (which he joined after teaching at the University of Glasgow) and then as an academic researcher at the Cambridge Centre for Housing and Planning Research (CCHPR), retiring again in 2010 but continuing as an Honorary Research Fellow right up until his death.

Alan published his first assessment of housing needs in Britain in 1970 in the first issue of *Social Trends*.¹ This was but a taster to the three Technical Volumes published in 1977 to support the Housing Policy Review for England and Wales which culminated in the consultative document *Housing Policy*. Alan wrote much of the three volumes and also assembled a huge amount of data which have since formed the basis for all further housing forecasts in England. In 1987 and despite being a civil servant, he published *Housing Policy in Britain: a History* which discussed in considerable detail the evolution of housing policy from 1945 to 1979 (including the pre-history back to 1844) noting that 'for reasons of propriety no comments are made about the policies of the present government'.²

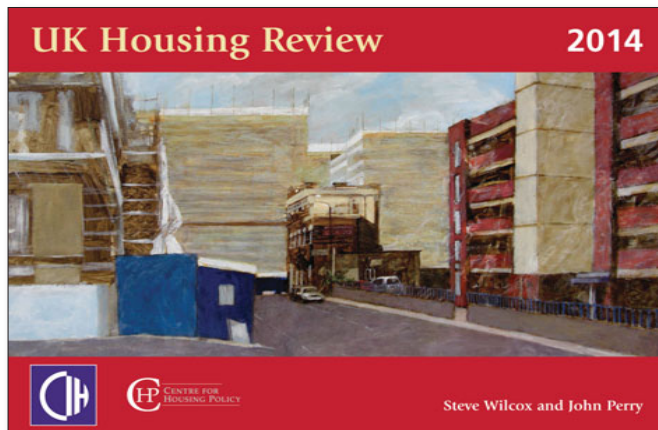
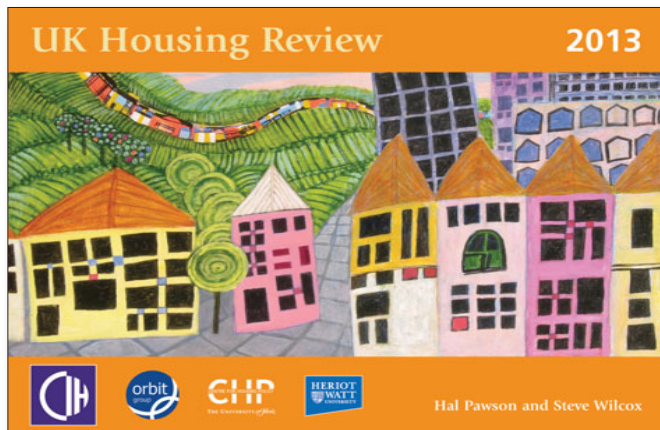
Alan wrote a series of monographs within the government (on house prices (1990), the employment circumstances of council tenants (1993), house property and inheritance (1994) and after.³ Then on retirement from government he continued his projections of demand and need for housing especially in England but also Wales, Scotland and Northern Ireland, together with many other policy-based reports. It would be no exaggeration to say that his work on demand and need has formed the basis for estimates of new housing requirements (and the land and finance needed to achieve them) for over forty years. Whenever new household projections were published Alan would update his estimates often for the Town and Country Planning Association and the Joseph Rowntree Foundation but also for Shelter, the Council of Mortgage Lenders and others. His last piece of work with CCHPR was a projection of housing demand and need to 2031 for the Public Policy Institute for Wales which he worked on from his hospital bed! It should be noted Alan eschewed spreadsheets and models preferring his 'figuring' by long-hand tabulations, checked and cross-checked.

Mention has already been made of his interest in history. In 2005 he published his seminal compilation *Abstract of Historical Statistics of British Housing*⁴ and, in 2012, a *History of Household Projections*.⁵ Of course these volumes flowed out of his encyclopedic knowledge of government housing statistics and surveys. Alan was closely involved in the development of the Survey of English Housing, the English Housing Survey and in the 'housing trailers' linked to the Labour Force Survey. Finally, we should not ignore various reflective articles – in *Housing Studies*,⁶ edited books on housing policy⁷ and on social trends⁸ along with two contributions to the much under-referenced and ODPM-funded evaluation of English Housing Policy from 1975-2000⁹ and his chapter on housing requirements in the TCPA's 1996 *The People – Where will they go?*¹⁰ Among several contributions to the *UK Housing Review*, in the 2006/2007 edition Alan had a chapter on 'Rising house prices: a look at the history' which did indeed look as far back as the 1930s.

Alan believed in evidence-led policy well before this term was coined. As his colleague Christine Whitehead has reminded us, '...he loved sorting out the numbers and his immense understanding of how the housing system worked meant that how he used them made policy sense. What he enjoyed at CCHPR was having the freedom to put his own interpretation on his findings rather than being constrained by his civil service position – and, as he often said, "having to draft round difficult issues".'

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