HOUSING POLITICS
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HOUSING 2020

Six views of the future for housing associations

Edited by Simon Graham

orbit group

building brighter futures...
for people and communities

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Orbit

Orbit is a 37,000-home housing organisation operating across the Midlands, East and South East, including areas of London. We not only provide general needs homes, but also manage sheltered and supported housing as well as a wide range of support services. And we go beyond the traditional offerings expected of a social landlord by providing training and job opportunities, bursary funding and by selling back office services within the sector.

Our turnover was £177 million last year, we employ 1,300 people and serve around 100,000 customers.

We combine national influence with regionally and locally-delivered services, using our economies of scale and expertise to drive forward our organisation as a whole.

Our operating associations, Orbit East and South and Orbit Heart of England, provide frontline services, working directly within our communities and forging strong relationships with our residents and others.

Orbit Homes is our development and sales arm, providing the organisation with a strong pipeline and surpluses from market-led developments to reinvest in our social purpose. Orbit Homes also includes Orbit HomeBuy Agents and Mortgage Rescue.

Orbit Services provides back-office support for all our frontline teams, with Service Matters selling those services externally within the housing sector and beyond.

Major investment comes through our joint treasury vehicle, Orbit Treasury Limited, which generates funds to invest in improving homes, communities and services for our customers.

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Introduction

Liz Potter
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October 2012

Housing associations are working through some of the biggest changes and challenges in the sector's history. Alongside the substantial impacts of the financial and economic crisis, we are responding to the most radical changes to our operating environment for decades.

If we are to continue delivering good quality affordable homes in volume, continue helping people to achieve their aspirations, and continue improving the look, feel and economic vitality of neighbourhoods we must transform the way we work, not just as a short-term reaction, but as a fundamental business driver for the future.

As Vicky Pryce suggests in her paper on the economy, it is now clearer than ever that the recovery will be a long haul and that no government, irrespective of political hue, is going to be in a position to invest in affordable housing at the scale we have seen in the past for a long time to come.

So we have to meet the challenge head on.

Last year we established Orbit 2020, a long-term research, business planning and transformation programme designed to enable Orbit to respond effectively to the new operating environment and ensure its business model and plans are fit for the future.

As the first stage of Orbit 2020 we commissioned five macro-environment 'think pieces'. These short papers considered key aspects of the social and economic policy landscape which we felt had the potential to impact significantly on Orbit's business, markets and customers over the next ten years. We wanted to understand how the world would look in 2020 so we could begin to shape our own destiny, organisation and business operations based on intelligence and insight.

The think pieces were intended not only to synthesise and analyse current data and strands of thinking about each of the five areas, but also to assess the likelihood of possible changes actually taking place and consider the impact on large, not-for-profit organisations like Orbit.

We had previously commissioned work from Cambridge University's Centre for Housing and Planning Research around the future housing market in Orbit's main areas of operation – the South East, the Midlands and East Anglia – and we have included a summary of the non-commercially sensitive elements of this research alongside the five think pieces in this publication.

Taken together, this wide ranging macro-environmental analysis provides an invaluable and fascinating insight into the challenges we will all face, but also, crucially, the opportunities this new world may present for us.

In sharing this insight, we hope others will find it useful as they shape their own futures in the coming months and years. Some of what we have discovered is exciting, most of it is thought-provoking, and some makes uncomfortable reading.

It is depressing to realise that the core customer groups of most housing associations will be poorer in 2020 than they were in 2010, as Jonathan Bradshaw argues in his piece. Yet it also sets us an enormous challenge around how we can find new ways to support, empower and encourage customers to try to take control of their lives and not only ‘get through’ but hopefully thrive in the tough times ahead.

Gerry Stoker’s powerful analysis of the impacts of localism and budgetary constraint on how local authorities will serve their areas is deeply thought-provoking. How does a large housing association operating across many local authorities manage the differential impacts on its core communities? What should our role in communities be in response and how can it be resourced effectively?

Alex Marsh presents the possibility of an exciting future, driven by technological advance, a growing demand for ethical organisations, new forms of product and service co-produced with local communities, and a more flexible approach to managing tenancies and tenure far removed from the rigid systems of traditional social housing management.

And Brenda Boardman urges housing associations to grasp the nettle on energy efficiency and sustainable development, reinforcing what powerful players we can be in an era when national and local government and utility providers will become increasingly focused on meeting our climate change obligations. She reminds us, too, how important improving energy efficiency will be to the increasing proportion of our customers living in fuel poverty and facing the prospect of prices continuing to rise.

Positively, these think pieces show us that the world of 2020 will be one where the need for housing associations or other forms of not-for-profit, community-oriented hybrid organisation will be stronger than ever. Less comfortably, they make it abundantly clear that without significant change to the way we think and behave as businesses we may fail our customers and communities. The opportunities of the new world are as great as the threats, if only we can grasp them.

Since receiving the think piece papers, we have spent time thinking and analysing what they mean for us and how we should best respond. Through a powerful engagement programme of roadshow presentations, café-style roundtable debates and web-based straw polls, we have involved our Boards and more than 800 Orbit staff in helping to shape our future.

Through extensive fieldwork commissioned from the London School of Economics, we have also engaged hundreds of our residents, local community leaders and customer-facing staff to help us understand in fine-grained detail the direct impacts of the financial and economic crisis, localism and the Big Society on the people and communities we serve, and the response they would most like to see from us. We will publicly launch the results of the LSE work separately this winter.

We are now beginning to explore what our 2020 vision for Orbit should look like. In the future, Orbit will commit itself to a much broader and deeper product and service offer in the main communities where we work. We will invest more ourselves and facilitate more investment from others, so that we can have a much greater impact. Our goal will be to build and maintain a better, stronger society in the main communities we touch and to counter negative long-term social and economic trends.

Developing that vision and then making it a reality will mean transforming our business model and the way we structure our work. Our social purpose will need to be delivered using a more commercial operating approach. Much greater efficiency, more targets, rewards and incentives, stronger research, innovation and market intelligence, better marketing and relationship management, and much stronger risk management will all be critical. Together, these will be the building blocks underpinning our ability to tackle inequality and exclusion and boost the social and economic capacity of the communities we are committed to.

Over the coming winter we will continue to develop our 2020 vision and our plans for how to get there. A new business plan next April will set our course for the next three years and point the way to 2020. We are developing a set of short, medium and long-term actions. There will be some ‘quick wins’, but also some radical new longer-term proposals.

Recent events have compelled every major housing association to think anew about who they are, what they want to do and how they want to do it. Different associations will answer those questions differently and manage the transition to the new housing world in their own ways. We hope this publication will provide a useful intellectual backdrop to support new thinking in our sector.

Ultimately, what sets housing associations apart is their social purpose and values and their ability to operate flexibly and across markets, according to social and economic circumstance. As the long road back to economic recovery continues over the rest of this decade, the fundamental role and advantages of hybrid organisations will become ever more important in a world which, as Jonathan Bradshaw suggests, may be getting harsher and meaner.

We should also remember that throughout their history, housing associations have been innovators, providing new services and offering new products whenever the need has arisen, and sometimes in the most inauspicious conditions. We must be more creative, develop new thinking and foster real ambition around not only what we do but how we do it. This is how we will demonstrate the huge value of our role and contribution to society.

In these tough times, as we tackle the big challenges ahead, we should use that defining purpose and that impressive history to inspire us and spur us on.

The political environment and localism: what future?

Gerry Stoker
Professor of Politics and Governance, University of Southampton
August 2012

Executive summary

Alienation and fatalism about the capacity of governments to respond to the challenges we face will frame the political environment. For those involved in public service delivery being trusted will matter and not-for-profit organisations may be at an advantage here. Trust will, in part, continue to be built on effective performance but, as with the wider political environment, an increasingly important factor will be the capacity to articulate values and commitments citizens and consumers can identify with and support.

While many citizens are turned off politics, political leaders will compete in a more frenzied way with ideological and populist initiatives. In particular, there will be much stronger political competition around ideas about public service reform in the future. Two distinctive versions of public service reform and localism are emerging. For the liberal-right the future rests on creating more opportunities for individual responsibility and collective philanthropy. For the progressive-left what is required is an active but facilitative government matched by a more responsible and civically oriented citizenry. These much more politicized models of reform will frame debate and action in the future.

The scale and intensity of the economic crisis will be another key factor affecting policy-making and practice among public service providers. Some see the financial crisis as an opportunity to innovate and argue there will be scope to choose new local governance options strategically, ranging from amalgamations between providers, through more commercial models of operation, to developing distinctive lifestyle offers to citizens. Others see the scale of the recession as so prolonged in its austerity that ad hoc response rather than strategic choice will be the only real option available in most localities. For many localities public services will face residualisation and a battle to maintain public order.

These changes in the environment for public service providers imply the need to develop value literacy as well as efficiency capacity; the desirability of leading on democratic innovation as well as consumer responsiveness; the need to embrace the full gambit of behavioural change devices beyond regulation and information provision; and the need to develop clearer rules of the game when it comes to facilitating and supporting a localised mixed economy of provision.

Politics is and will be framed by political alienation

The evidence at the beginning of the 21st century points to considerable disenchantment and disengagement from politics among British citizens, particularly when compared to the high legitimacy, even deference, for the operations of the political system seen previously.[1] Not everyone 'hates' politics and not everyone is disengaged from it, but there is undoubtedly substantial anti-political sentiment in British society. The 2012 Audit of Political Engagement in Britain characterises citizens as disgruntled, disillusioned and disengaged. It goes on to comment: 'when only a quarter of the population are satisfied with our system of governing, questions arise about the long-term capacity of that system to command public support and sustain confidence in the future.'[2]

The state of the political environment is such that the dominant view of UK citizens is a 'plague on all their houses'. Table 1 traces net satisfaction ratings for governments, Prime Ministers and opposition party leaders from 1997. It shows a mixed pattern of satisfaction and disaffection. A general election or change of government tends to give the PM and the governing institutions a bounce in satisfaction ratings. Blair and his government were popular, but first the government's and then the PM's satisfaction ratings declined. Brown and Cameron and their governments experienced a swifter decline compared to Blair. Indeed, the Coalition government has probably had the shortest honeymoon in terms of public opinion of any post-war government.[3] By December 2011 considerably more citizens were dissatisfied than satisfied with the performance of the government, the PM and all mainstream political leaders. Many citizens appear to have lost faith in all politics. The public opinion figures for mid-2012 suggest a continuing lack of satisfaction.

There appears to be no easy escape available from this position for any participants in mainstream politics. National politics appears if not broken then in serious trouble. The issue is not so much the leadership of Cameron, Miliband or Clegg. Future political leaders will also find themselves constrained by the firmly established environment of political alienation.

Why does this matter? If public fatalism about the capacity of politics and governments to make a positive difference takes a further grip then the process of designing effective interventions to meet the enormous challenges ahead will become more difficult.

Responding to political alienation will become a key challenge for public service providers. Some see deliverance through a new politics of the internet providing a more open, fluid, even democratic approach.[4] Yet although the internet and new forms

1 G. Almond and S. Verba (1963) *The Civic Culture* (Princeton: Princeton University Press)

2 Hansard Society, *Audit of Political Engagement 9: Part One*. Available at www.hansardsociety.org.uk/blogs/parliament_and_government/archive/2012/04/27/audit-of-political-engagement-9-part-one.aspx

3 For more details on these issues see the ongoing research by Will Jennings (Southampton) and Jane Green (Manchester)

4 For a further discussion see G. Stoker (2011) 'Anti-Politics in Britain' in R. Heffernan et al (ed) *Developments in British Politics 9* (Basingstoke: Palgrave Macmillan): 152-73

Table 1: Net Satisfaction Rating[5] of Government and Political Leaders

YEAR	GOVT	PM (Name)	OPPOSITION LEADER (Name)	LEADER OF LIB DEMS (Name)
Dec 1997	+5	+34 (Blair)	-30 (Hague)	+44 (Ashdown)
Dec 1998	+6	+ 31 (Blair)	-27 (Hague)	+27 (Ashdown)
Dec 1999	0	+22 (Blair)	-30 (Hague)	+14 (Kennedy)
Dec 2000	-20	-7 (Blair)	-27 (Hague)	+17 (Kennedy)
GENERAL ELECTION				
Nov 2001	+14	+36 (Blair)	+2 (Duncan Smith)	+29 (Kennedy)
Dec 2002	-26	-16 (Blair)	-30 (Duncan Smith)	+23 (Kennedy)
Dec 2003	-31	-19 (Blair)	+1 (Howard)	+21 (Kennedy)
Dec 2004	-28	-25 (Blair)	-21 (Howard)	+14 (Kennedy)
GENERAL ELECTION				
Aug 2005	-18	-12 (Blair)	-20 (Howard)	+20 (Kennedy)
Dec 2006	-38	-34 (Blair)	-5 (Cameron)	-9 (Campbell)
Sept 2007	-17	+16 (Brown)	-22 (Cameron)	-11 (Campbell)
Dec 2008[6]	-36	-16 (Brown)	+5 (Cameron)	+ 7 (Clegg)
Dec 2009	-52	-35 (Brown)	+6 (Cameron)	+ 27 (Clegg)
GENERAL ELECTION				
June 2010	+31	+35 (Cameron)	N/A	+ 26 (Clegg)
Dec 2010	-16	+4 (Cameron)	+1 (Miliband)	-12 (Clegg)
Dec 2011	-20	-7 (Cameron)	-16 (Miliband)	-22 (Clegg)
June 2012	-36	-24 (Cameron)	-13 (Miliband)	-37 (Clegg)

* Source: Data from Ipsos/MORI Political Monitor: Satisfaction Ratings 1997–Present. Available at: www.ipsos-mori.com/researchpublications/researcharchive/poll.aspx?oItemID=88&view=wide (downloaded 24/07/12)

5 Question wording: Are you satisfied or dissatisfied with the way
... the Government is running the country?
... X is doing his job as Prime Minister?
... Y is doing his job as Leader of the Opposition?
... Z is doing his job as Leader of the Liberal Democrats?
Rating created by taking % Dissatisfied response away from % Satisfied response

6 IPSOS/MORI shift to telephone from face-to-face survey from 2008 onwards

of social media campaigning do appear to be attracting a wide range of participants – especially younger people – there is still concern about a digital divide; the internet is not an attractive tool for all. Moreover, the danger of the internet is people simply talking to like-minded people who reinforce each other's views, creating more fragmentation and extremism. The evidence suggests that the strongest internet activists are also mainstream activists, not a new breed of engaged citizen. So the internet is no magic solution, although it may have a part to play in lowering the barriers of entry for ordinary citizens into politics.

The performance claims of politics will shift in tone

In the 1950s and 60s the political parties could rely on loyal political support from citizens who identified with a party because it expressed a sense of who they were socially. Who you voted for was reinforced by family, class and community loyalties. The system of partisan politics reached its zenith under the Thatcher governments of the 1980s. But its grip declined and the 1990s saw a shift to a different form of politics, more managerial in tone, where citizens voted less on partisan identification or policy differences and more on perceived competence to govern, particularly as expressed through political leaders.[7] Parties crowded around the middle ground as positions about what to do and what to value became less pronounced. By 2001 less than 2 in 10 people thought there were great differences between the main parties and by 2005 closer to 1 in 10 felt there were big differences. The 2010 election saw a modest revival again with just above 2 in 10 reporting big differences. Nearly 8 in 10, however, thought there were only some or no differences between the parties.[8] The key issue was which party and leader was most likely to be competent at achieving the shared goals of most voters. This pattern held through the 1990s and up to 2010.

The practice of politicians building their claims on their managerial competence and performance in office (either delivered or promised) seems likely to come under intense pressure in the future. The capacity to deliver economic growth and public service improvements appears to be much more in doubt. And the anti-political sentiment that now permeates politics means that any promises made are likely to be believed for only a short period. It took Blair nearly ten years to move from being able to "walk on water" to "public enemy number one". Clegg managed to achieve the same journey in months, if not weeks.

The prediction of this paper is that there will be a move away from managerialist or performance-based claims to ones that focus more on values and beliefs and populist initiatives in response to issues of concern. It is argued in the next section that echoes of this new politics of values and populism can already be seen in the unfolding of the localism agenda since the Coalition government came to power.

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7 D. Denver (2011) 'Elections and Voting' in R. Heffernan et al (ed) *Developments in British Politics 9* (Basingstoke: Palgrave Macmillan): 70-90

8 John Curtice (2011) 'Political Engagement' *British Social Attitudes Report 28.* Available at www.natcen.ac.uk/series/british-social-attitudes downloaded 04/01/12

Localism and public service reform: past and future visions

For New Labour localism was a management tool for trialling some new approaches which could then be spread by the centre following evaluation. The framing of the issue was managerial in tone. The concept of earned autonomy was transferred from practice in the NHS and other management settings. There was no great constitutional fanfare or focus on the importance of local democracy in presenting the case for localism. The key argument was that a degree of autonomy might allow political leaders and managers in local government to deliver better public services.

The Conservatives took a long time to find an effective challenge to Labour's approach to public service reform. When they did, they embraced the concept of localism, but presented it in a more partisan and political context. In the early Cameron leadership years, before the financial crisis that engulfed the western world in 2007/8, the attack still assumed large scale and even increasing public spending on core services such as health and education. The claim to difference was a reform strategy that was going to be more bottom-up, more trusting of professionals and therefore more localist in orientation. Top-down outcome-oriented targets were presented as New Labour's dominant reform strategy.[9]

After the financial crisis a stronger anti-state rhetoric was launched by Cameron's Conservatives. Alongside an argument for localism came a call for less government, major cuts to tackle the budget deficit and more responsibility to be taken by individuals and communities as part of the Big Society.[10]

The outcome of the 2010 general election in the UK led to a Coalition government between the Conservatives and Liberal Democrats primarily on the terms of the former, given their greater number of seats. Some commentators find it difficult to understand how the Liberal Democrat party, perceived by many voters as to the left of New Labour, supported a Coalition committed to a lasting reduction in the size of the state at the centre of its programme. The conviction that Britain needs to move towards the market, individualism and private enterprise has dominated policy ideas in the Conservative party since the premiership of Mrs Thatcher. However, it is a conviction shared by the current leadership of the Liberal Democrats. John Gray points to the essays by Huhne, Cable and Clegg in *The Orange Book* (edited by David Laws[11]) which 'reaffirm a version of liberalism... in which support for small government and the free market goes with a strong commitment to civil liberties and freedom of lifestyle'.[12]

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9 See Christopher Hood 'Gaming in Targetworld: The Targets Approach to Managing British Public Services' *Public Administration Review*, 66, 4, 515-521, 2006

10 NEF (2010) *Cutting it: The 'Big Society' and the New Austerity.* Available at www.neweconomics.org/sites/neweconomics.org/files/Cutting_it.pdf downloaded 05/12/11

11 Marshall, P. and Laws, D. (eds. 2004) *The Orange Book*, Profile Books, London.

12 Gray, J. (2010) 'Progressive, like the 1980s', *London Review of Books*, 32, 20, 3-7, October.

From this perspective, the Coalition's approach is a decisive shift in direction towards a vigorous, flexible and just liberalism. The UK abandons Europe and joins Team America, as some commentators put it.[13] The feather-bedding and dependency culture encouraged by the post-war expansion of government spending needs, it is argued, to give way to a "something for something" ethos. Public sector reforms are centred on promoting work incentives and extending private market provision and, above all, with shifting responsibility away from the state. A communitarian aspect remains in place, driven by the dream of an independent, self-confident and neighbourly citizenry. Coalition policies, therefore, include strong themes of decentralisation and localism. Local government and, to some extent, health services, schooling and such provision as welfare to work programmes are to be provided by a web of semi-independent providers – mainly private companies, but also social entrepreneurs, user groups, volunteers and NGOs.

For the Coalition government, the vision behind localism sees the core problem as one where the state has tried to do too much and in the process has squeezed out the capacity of communities, citizens and other non-state actors to step forward and take on burdens and challenges. For the Prime Minster the challenge is to move from 'state power to people power... from big government to the big society.'[14] Steve Hilton, the PM's former Director of Strategy, described localism as part of an 'audacious attempt to fashion a notion of social solidarity from the bricks of centre-right ideas... nothing less than to wean this country off its apparently unbreakable dependency on the state, centralism, welfare, and rule from Whitehall, the corrosive habits of half a century'.[15] Community is not something to be measured and evaluated, but something that is present and just in need of the space and opportunity to grow. Citizens need to take more responsibility for their health, education, retirement, welfare and can be trusted to take more responsibility for their society through volunteering, philanthropy and giving. What gets in the way is an overweening state, top-down demands and targets and a block on local initiative.

The Localism Act 2011, according to Decentralisation Minister, Greg Clark, 'begins to reverse a hundred years of centralisation. It puts power into the hands of citizens, community groups and local councils. It breaks the monopoly on all new policy initiatives having to come from Whitehall by giving a new right of initiative to people in their local areas'.[16] The judge of what is good and what is worthy is not to be central government but local communities and citizens. The role of the state, especially the central state, but also the local state to a degree, is to get out of the way.

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13 Peter Taylor-Gooby and Gerry Stoker 'The Coalition Programme: A New Vision for Britain or Politics as Usual?', *The Political Quarterly*, Vol. 82, No. 1, January-March 2011, 4-15

14 Quoted in NEF (2010) *Cutting it: The 'Big Society' and the New Austerity*. Available at www.neweconomics.org/sites/neweconomics.org/files/Cutting_it.pdf downloaded 05/12/11, p 5

15 ibid

16 Greg Clarke see www.communities.gov.uk/news/newsroom/2030130 downloaded 05/12/11

Localism as a project has travelled from a position where it was seen as a managerial tool to deliver some flexibility to the process of public sector reform to a key element in a new theory of the state. The goals of the Coalition's localism project are political: a smaller state and a shift in responsibility to citizens and communities. A distinctive liberal-right vision of localism (see Table 2) is emerging and being put into practice, to some degree, by the Coalition government through the Localism Act, the direct election of local police chiefs, measures to encourage philanthropy and giving, proposals for "free schools" and other policies.

Labour, and more generally the progressive-left, have responded under the leadership of Ed Miliband by coming up with a more political version of localism as core to their thinking. Some claim that by getting on board with localism they are riding the crest of a popular wave. One commentator suggests that the Left cannot afford to miss out on the shift towards localism in public opinion and in activism.

> 'The demand for local control over decision-making has been a gathering global force for 20 years...At its broadest, this movement is a reaction against the loss of control over one's own life that many people feel globalisation has brought. There is an increasing desire for greater local control of public spending, policy choices and regulators. It is born of the belief that strengthening community bonds encourages people to behave themselves.... valuing what is local – be it indigenous cultural events, local organic food or a shared communal history – fits with our growing instincts as citizens and consumers'.[17]

Table 2 : Two visions of localism

	LIBERAL-RIGHT	PROGRESSIVE-LEFT
Perceived threat	Overweening state that squeezes out initiative; local knowledge is wasted and local action is usurped rather than enabled	Globalising and rampant capitalism that creates community wastelands and damaging, extreme inequality
Main response	Key is to roll back the state and give citizens better accountability and rights	Key is to find a revived basis for social solidarity and a capacity for long-term renewal alongside a politics of common sacrifice
Role of citizen	Indiviual responsibility matched by philanthropy	Collective responsibility and republican commitment to common good
Vision of community	Organic and natural	Under threat, in need of support
Vision of role of state	Stands back: Enshrining citizen rights	Steps forward: Ring-holder and enabler

17 Mark Malloch Brown "What's left?" *Prospect* no 186, 24th August 2011. Downloaded from www.prospectmagazine.co.uk/2011/08/what%e2%80%99s-left/

There is a willingness on the part of Labour leaders to accept the limits of top down reform strategies (indeed, now to accuse the Coalition of secretly following the same style of strategies[18]), but there is less clarity about their alternative vision of localism.

It is possible, however, to piece together various streams of thought and the beginnings of a progressive-left localism are sketched out in Table 2. So-called Blue Labour thinkers, such as Maurice Glasman, played an initial role in the emergence of this more politicized vision of localism with its emphasis on community, solidarity, mutualism and community activism and its antipathy to rampant globalization and capitalism. But the momentum is with a range of other politicians and think tankers around Ed Miliband who are trying to develop an alternative image of the good society.[19] It appears to rest on the idea of a "remoralization" of the purpose of both economic and social actors. It demands a capitalism that takes a longer-term, broader vision of its role rather than focus on short term gains. It seeks a capitalism that supports the greening of the economy and rewards its entrepreneurs and workers fairly and in a way that avoids excessive income inequality.

A role for the state remains central to progressive left thinking, but it is changed in focus. Its job is not to rush around desperately trying to correct the inequalities and social breakdown created by a rampant capitalism and failing society, but rather to encourage a more benign capitalism and a society with actors embedded in it who are capable of resolving their own problems. Community, in contrast to the Coalition's vision, is something that needs to be actively created. The call is not for individual self-reliance and philanthropy, but instead for all citizens to act for the common good in true republican tradition. Localism will be integral to the delivery of the vision; sometimes through government, but also through a community focus on the local post office or pub and community activism in general. It is about creating an economic and societal future that has social purposes and moral value.

We can see in the different versions of localism emerging a political argument that is likely to reverberate on through other political leaders even if Cameron, Clegg and Miliband move on at some point. In part, these two tentative world views are going to attract attention because in different ways they are trying to answer questions that appear central to public service delivery in the 21st century. How can we in the context of limited public resources maximize beneficial outcomes for public services by enhancing the intrinsic co-production capacities of citizens? How can we give citizens a sense of empowerment to counter the anti-political sentiment that pervades so much of our culture today? How can we ensure that responsibilities to care and support those in need in our society are met without simply imagining that the solution lies in more public

18 "So Much For Localism" – Ed Miliband's speech to the LGA Conference, 30 June 2011. Downloaded from: www.egovmonitor.com/node/42596

19 For a discussion see J. Derbyshire (2011) 'The Blue Labour band gets back together', *New Statesman*, 10th November, 2011. Available at www.newstatesman.com/uk-politics/2011/11/cruddas-labour-attlee-glasman

spending? For the liberal-right the answers are likely to lie in providing citizens with more rights and creating more opportunities for individual responsibility and philanthropy. For the progressive-left the answer is in creating an active but facilitative government, matched by a more responsible and civically oriented citizenry.

"After the cuts" or "sustained recession"

So far this paper has concentrated on changing politics and ideas, but these responses will not unfold in a vacuum. To begin to examine such issues in more depth it is worth drawing a distinction between two scenarios about the economic and fiscal climate that will greet reformers in the next two decades. The first scenario is the more optimistic one, in which budget cuts drive a process of innovation in local public service delivery and, as a result, local councils and local governance will be more diverse by 2020, driven by choices their leaders have made. The second scenario is more pessimistic and argues that we are not in for a short-term budget downturn but a long-term depression lasting a decade or more, in which public finances are severely squeezed, economic dislocation is sustained and the state at both the local and national level struggles to respond strategically. In this scenario governments, instead of innovating in a planned way, react in an ad hoc manner to social unrest, a loss of legitimacy in the functioning and performance of democracy, and a dynamic of public service decay.

After the cuts: positive responses

The thinking behind the first scenario is captured by New Local Government Network's pamphlet, *Future Councils. Life After the Cuts*.[20] It argues that the pressure of budget cuts will drive innovation in various directions and there may well be greater diversity in the forms and types of local governance. According to Simon Parker, the report's author:

> 'The "new normal" will still involve greater devolution to neighbourhoods and areas, a thoroughly mixed economy not only of service providers but of service provision models including SMEs, the VCS, joint ventures and micro-commissioned markets. Technology will continue to drive change as councils use cloud and process automation to make their back offices ever slimmer'.[21]

Innovation will come in management with a much stronger focus on commissioning, but will also emerge as councils differentiate themselves by form and function. In the initial phase of change between 2011-15, some councils will retain a neo-traditional form and carry on providing a lower level of services in-house, but most will develop a stronger focus on commissioning driven by either pragmatic concerns or by ideological commitment to being more commercial or more co-operative and mutual. As these developments unfold the differences between councils will become more noticeable. Speculation about the shape of councils by 2020 is set out in Table 3.

20 Simon Parker Future Councils. *Life after the Cuts*. London: NLGN, 2011
21 As above, pp 41-2

Table 3: Future councils, 2020

COUNCIL FORM	RATIONALE	INNOVATION FOCUS	EMBRYONIC PRACTICE
Clustered	Range of social and economic functions delivered efficiently and effectively	Pooling sovereignty to achieve economy of scale, cost savings and capacity to act	City region arrangements; other strategic collaborations like the Westminster-Kensington and Chelsea-Hammersmith and Fulham ”super council”
Residual	Commissioning taken to such a degree that role of council becomes marginal	A council that only loosely holds together a range of services	Swindon model (if pushed to the extreme)
Commercial	A council that makes money through trading arms, openness to development and charging for additional services beyond a base	Keeping costs to local taxpayers down	Barnet: Easy Jet model
Lifestyle	Promoting image and brand of their area as a way of life	Sustainable living and well-being	Brighton: The green and progressive community

Adapted from NLGN *Future Councils: Life after the Cuts*

Future options stretch from councils that cluster together to ensure they maintain a capacity to impact their areas, through those which focus on keeping costs to taxpayers down by acting as commercially as possible, and on to those that seek to promote a wider and positive lifestyle for their area. These positive choices are accompanied by one less positive option: those councils that run the risk of becoming residual to their communities as commissioning creates a complex world of local governance where their role is unclear. In terms of service provision, there is emerging evidence not only of councils sharing services and cutting back on numbers of managers, but also looking to volunteers to deliver more and using a more targeted approach in the delivery of services to the most deprived sections of their community. Overall, the pattern is of cuts rather than efficiency savings. More of the most deprived authorities have made greater cuts (in proportionate and absolute terms) than the most affluent authorities.[22]

Coping with recession: a struggle for survival

The “after the cuts” scenarios imply there is going to be “an after” that can be planned for and managed. But an alternative pessimistic vision rests instead on a growing recognition that the scale of what is

22 Hastings, A. Bramley, G. Bailey, N. and Watkins, D. (2012) *Serving deprived communities in a recession*, York: Joseph Rowntree Foundation.

happening, fiscally and economically, is unprecedented; that the downturn in the economy could last not a few years, but stretch from one decade to the next. A scenario of sustained fiscal constraint, and low or no growth, has not been experienced by western democracies since before the Second World War. A prolonged recession and a shift in the tectonic plates of the world economy would bring continuing fiscal and spending pressure with further substantial cuts required in the post-2014 spending round. It is far from certain how governments and their societies will cope with not just a downturn but a sustained slump.

The results of the sustained recession scenario are hard to predict but could include a major shift in responsibility from the public realm to private individuals in terms of welfare, health care and security. This shift might be accompanied by increased threats of social unrest and instability, substantial anti-political sentiment and a weakening of traditional government tools and, broadly, faith in the capacity of the state. According to an International Labour Organization report,[23] the impacts of this scenario can already be seen in embryonic form as confidence in the ability of national governments to address the economic and political situation has weakened in half the countries they surveyed. The report argues that, as the recovery derails, social discontent is becoming more widespread. In 40% of the 119 countries the risk of social unrest has increased significantly since 2010, and the trends in social discontent are associated with both growth in unemployment and perceptions that the burden of the crisis is shared unevenly.

If the more pessimistic scenario plays out, the future of local councils and localism is bleaker and much less a matter of choice for their leaders. Local councils and other local actors will be left trying to cope with a situation that appears beyond their control. Many citizens will have lost faith in the capacity of local organisations to make a difference. The focus of governing might become more a matter of managing social unrest through direct oppression or various ameliorative programmes. At its best it might focus on helping communities and vulnerable citizens survive the recession in a resilient manner. But in the pessimistic scenario the marginalisation future looms largest for councils and they could become residual players in their communities.

Implications for voluntary sector bodies and not-for-profit providers

The implications of the developing localism and wider shifts in the political environment for voluntary and not-for-profit bodies operating in that environment are difficult to specify and will undoubtedly vary according to the capacity, role and function of those organisations. The economic challenges may be different in, for example, the North and South of the UK and it would be sensible to imagine a future with wider

23 International Labour Organization (ILO) (2011) World of Work Report 2011. Making Markets Work for Jobs Geneva: ILO. Available at www.ilo.org/wcmsp5/groups/public/—-dgreports/—-dcomm/—-publ/documents/publication/wcms_166021.pdf downloaded 05/12/11

regional disparities, and indeed differences between London, other major cities and their wider conurbations.[24]

The argument of this paper is that as a set of ideas localism is here to stay, as it is effectively embraced by a range of political actors across the political spectrum. The world of local governance is going to have a more localist flavour in which the role of the state is to be redefined to a degree. That redefinition is the basis of an emerging political divide, with one version of localism seeing the key development required for the state to step back and withdraw and another for the state to learn to become a better facilitator of a healthy economy and society. In both instances the focus is on public services moving from direct provision to being commissioned, from universal provision to more bespoke meeting of needs, from a public sector to a mixed economy of providers including SMEs, co-ops, not-for-profits and commercial companies, and for the role of the public to move from being clients to co-producers.

With the sustained recession economic future appearing more likely there will be great difficulty in achieving the more positive outcomes outlined in the future council scenarios in Table 3, where councils control their destiny through amalgamations or lifestyle offers, and much more likelihood that most councils will simply experience a commercialisation of activity and a shift to a reduction or even residualisation of functions.

In planning responses to this changing world actors will need to take into account the scale, length and severity of an economic downturn that will limit options and create significant challenges. They should also be mindful of the extent of anti-political sentiment felt by citizens, especially the most disadvantaged, making engagement in searching for and implementing change problematic and prone to responses of unrest and distrust.

In terms of “future development needs” the focus could be on four concerns: the need to develop value literacy as well as efficiency capacity; the desirability of leading on democratic innovation as well as consumer responsiveness; the need to embrace the full gambit of behavioural change devices beyond regulation and information provision; and the need to develop clearer rules of the game when it comes to facilitating and supporting a localised mixed economy of provision. Let’s look at each of those in a little more detail.

A heightened need for value literacy presents an opportunity for not-for-profit providers. The challenge open to them is to articulate their offer not so much in terms of efficiency and performance alone, but their ability to embed in the way they work and build relationships values and practices citizens support and policy makers want to see articulated. Cohesion, fairness, trust and mutual solidarity are values that are going to be central to political discourse and social renewal, and public service providers will need to show how they can

24 Centre for Cities “Cities Outlook 2012”. Available at www.centreforcities.cdn.meteoric.net/CITIES_OUTLOOK_2012.pdf downloaded 24/01/12

enhance their offer in this way. In addition, understanding political values and showing an awareness of political choice driven by values will be important for voluntary bodies and not-for-profits which want to survive in the new world of localism. This is not to suggest the abandonment of the managerial skills, language and orientation developed in these sectors so effectively over the last two decades, but does suggest these managerial skills will need to be matched by a greater awareness of the role of political values in decision-making. Insights from studies around how to create public legitimacy and support for interventions that achieve public value[25] will be more important than work on the cold mechanics of performance management, albeit these cannot be neglected.

If citizens are to take on the mantle of co-producers and, more generally, if accountability is going to be sustained in a much more fragmented, complex world of local governance, then practices of formal oversight through representative democracy will have to be complemented by practices of democratic innovation that provide more opportunity for direct engagement and input from citizens. These forms and practices are multiplying with a growing body of evidence about what works, but also what initiatives help to address different goals: budget-making, engaging hard-to-reach groups, allowing scope for deliberation or giving a real sense of direct control to citizens. Research and websites[26] that are leading the spread of knowledge around these issues will need to be accessed. The key insights from these studies are that successful innovations create strong incentives for citizens to engage by giving control over decisions that matter to them. These incentives are not narrowly self-interested, but are likely to be relevant to a whole community or, more generally, be an "other-regarding" commitment to decide in the public interest. What matters, also, is for citizens to feel that they are in control.

The Nudge-inspired debate[27] has brought home the importance of recognising that public policy interventions cannot be designed as if citizens were perfect rational decision-makers. The cauldron of new ideas is particularly pertinent given an increasing emphasis on co-production that requires the active engagement of citizens in public service and public policy delivery. A greater comprehension of cognitive pathways, social norms and moral motivations should therefore join with a continuing understanding of instrumental factors in shaping government policy-making. But, equally, it is clear we still have much to learn to turn psychological and social insights into viable policy interventions, and that we are only beginning to

25 See Barry Quirk (2011) *Re-imagining Government* (Basingstoke: Palgrave Macmillan)
26 The key website which details internationally the best initiatives in participation is: http://participedia.net/
Books that capture the spirit of innovation are G. Smith (2009) *Democratic Innovations* (Cambridge: CUP) and C. Bason (2010) *Leading Public Sector Innovation* (Bristol: Policy Press)
27 Thaler, R.H. and Sunstein C.R. 2008. *Nudge: Improving Decisions About Health, Wealth, and Happiness*. New Haven: Yale University Press.

understand the politics and practices that would support the legitimisation and effectiveness of those interventions.[28]

The evidence and theoretical understanding provided by social science would endorse a move to a greater use of a more subtle range of tools for changing social behaviour. Nudge-based interventions provide a useful starting point, but top-down government driven nudges will not always work and they are more likely to appear illegitimate to citizens. Top-down strategies will need to be accompanied by bottom-up strategies if we want to get the prolonged behaviour change the future context demands. Top-down approaches may sit more comfortably with government practice and may be effective within limits. Bottom-up approaches demand a greater culture change from practitioners and professionals but may enable the tackling of issues top-down nudging strategies are unable to grasp. Gaining citizens' input into the process of designing or even delivering tools of intervention to promote co-production and other reforms might increase the legitimacy of those tools. The failings of grand social engineering projects are, in part, a reflection of the high-handed, uniform, centralising and codifying form of thinking that can dominate government approaches.

Behavioural interventions should be designed with a respect for the local knowledge, craft, understanding and diversity of the practices and perspectives of citizens. Given the significance of local knowledge in exploring how citizens are deciding and why they are behaving in certain ways, it suggests policy makers and practitioners face a major intelligence challenge in developing more subtle and effective interventions. A capacity to see like a citizen rather than seeing like a government agency is a critical component of being able to understand what is likely to motivate citizens to co-produce and what obstacles might get in the way of them doing so.[29]

Finally, the "rules of the game" in a world where a mixed economy of provision becomes the norm need to be developed and then shared. When politicians, civil servants and public officials, external service providers and clients and citizens all had distinctive roles, the accountability pathways were complex but mostly understood and clear. In the new world the roles of once distinct players may become mixed up. A member of the public could, for example, at one moment be a commissioner, at the next a co-provider, at the next a volunteer, at the next a recipient of services and at the next, resourcing services through taxation or

28 The best guide to Nudge options is the MINDSPACE report from the Institute for Government available at www.instituteforgovernment.org.uk/publications/2/
For an initial analysis see John, P; Cotterill, S; Moseley, A; Richardson, L; Smith,G; Stoker, G; Wales, C. (2011) *Nudge, Nudge, Think Think: Experimenting with ways to change Civic Behaviour* London: Bloomsbury Academic Link for download available at www.soton.ac.uk/C2G2/

29 These ideas are further developed in Gerry Stoker and Alice Moseley (2010) *Motivations, Behaviour and the Microfoundations of Public Services a paper for 2020* Public Services Trust 9. Available at www.2020publicservicestrust.org/publications/item.asp?d=3040 downloaded 05/01/12

philanthropic giving. The future is going to be a world not of set roles, but one where roles are swapped; where the personality, enthusiasm and commitment of key actors may influence outcomes as much as formal rule and structures. Giving those who work for voluntary and not-for-profit organisations rules about what is appropriate and what is inappropriate behaviour in this developing world, without stifling innovation, will be a challenge. What is required is a process of discussion leading to the development of a concordat and protocols which enable these issues to be thought through.

Concluding summary

The political environment, as it stands and will develop towards 2020, will be dominated by a breakdown in the pattern of delivery-based, performance-claiming politics towards a more value-laden, issue-based and populist politics. The managerialism that has been the hallmark of public service reform will be undermined by these developments and public service providers need to prepare for more contested visions of localism, populist interventions from political leaders and more challenging and volatile responses from citizens. This paper argues that the era of managerialism that dominated public service reform and politics from the Major years onwards is under threat from two forces. The first is a decline in economic performance that places a strain on the comfortable assumption that there are no major divides in our society and in any case calls into question the competence of all leaders to deliver a better future. The second force is a growing anti-political sentiment that supports among most citizens ‘a plague on all their houses’ attitude when it comes to mainstream politics. The political context is likely to be volatile and unstable given the state of our democracy and the scale of the challenges we face. Political leaders will search, increasingly desperately, for ideas to refloat the political system and re-energise our society and economy. Appealing to the core vote or claiming effective performance will remain central to political practice, but the search is on for ideas and activism beyond normal politics.

Localism is one of those new political ideas with potential. In different forms it could be seen as part of the solution to the challenges we face. But localism will come to be understood through different value lenses. It can be about state withdrawal and promoting individual responsibility or it can be about a supportive state working with an active community. The implications for public service providers is to recognise that the choice is not just driven by political ideas, but by the realities of economic circumstance.

Changes in the economy 2011-2020

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January 2012

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1 Executive summary

1.1 With the recovery from the deepest recession since the 1930s now stalled, 2012 is likely to be a very challenging year, and most forecasters now expect growth to be lower than the rate of 0.9% projected by the OBR in November 2011.

1.2 Economic developments in the UK will be principally shaped by external factors, with the three key risks being the ongoing problems in the eurozone, commodity prices and the scale and timing of fiscal consolidation in the US. But, in addition, there are risks to UK domestic demand, including the impact of fiscal consolidation and the timing and extent to which households lower their debt levels.

→

1.3 Given these uncertainties, which we expect to influence developments in both the short and medium term, it seems prudent to plan on the basis of two scenarios – one where UK economy growth is around 2.25% in the medium term (in line with OBR projections), and another where growth remains below 2% for an extended period, and might average only around 1.5%.

1.4 Slower growth will impact on both the demand side and the supply side of the housing market. In addition, the combination of slower growth, continued uncertainty and regulatory changes may reduce the availability of external finance at the same time that fiscal consolidation may restrict government grants. Corporate bonds are an option for long term finance – housing associations could consider grouping together to raise finance on a collective basis. Another approach that could be explored is the retail bond market.

2 Introduction

Purpose

2.1 This paper is concerned with possible future developments to 2020 in the economy/political economy and covers: expected global economic developments; prospects for the UK economy and its regions; prospects for the housing sector; and, importantly, the likely implications of such prospects for large housing and community services not-for-profit organisations. Essentially, therefore, this is a macro to micro exercise that takes into account not just global trends but also possible changes in government attitudes and policy.

2.2 Projecting trends in key economic metrics is always subject to uncertainty and following recent economic trends it is perhaps one of the more difficult periods to compile forecasts, particularly as data are often subsequently revised following their release. Even once compiled, forecasts tend to be subject to significant and frequent revisions over short periods of time; projecting the next six months is subject to significant degrees of uncertainty. Acute uncertainty in respect of a eurozone break up remains and the likelihood of a double-dip recession in the UK appears to have increased as new surveys and economic commentary are released at the start of 2012.[1]

2.3 Moreover, forecasting beyond five years is subject to further challenges. We have considered a wide range of sources and attempted to incorporate the latest forecasts available. In our view, therefore, 2012 will be a critical shaper of future economic trends, determining how fast recoveries are or how prolonged recessions are. While returns to "trend" growth rates are anticipated by 2015-2016, the trend rates will vary by geography

1 Deloitte CFO Survey, 3rd January, 2012; Lloyds Bank company survey 3rd January 2012; CEBR commentary 2nd January 2012.

and the aftermath of the financial crisis may well lead to new trend rates for certain economies, especially in the weaker part of the eurozone.

2.4 This paper has three main sections:
- The global economy;
- The UK economy; and
- Implications.

2.5 In the final section we provide our perspectives on the most likely outcomes for the future. We conclude the paper with our views on what all these factors imply for a large not-for-profit organisation providing housing and community services.

3 Global Economy

3.1 The world economy is in a turbulent period and significant risk and uncertainty are prevalent. The prospect of an early, sustained recovery from recession – which seemed likely in 2010 – has now receded. Deteriorating conditions are being driven primarily by the eurozone problems and to a lesser extent by concerns over the pace of US fiscal consolidation.

3.2 This is reflected by the latest IMF and World Bank forecasts released in January 2012. These both predict world growth will slow in 2012 and that the pattern for developing countries to outperform advanced will continue. The IMF sees eurozone growth falling from 1.6% (2011) to -0.5% (2012); this is 1.6% lower than their September 2011 forecast. With growth in the US (1.8% in 2012), Japan 1.7%, and the emerging and developing economies (5.4%) all revised down, world output growth is expected to slow to 3.3% this year, down from 3.8% last year and the 4% growth projected for 2012 in the September forecast. The World Bank projections are very similar, and are summarised in Table 3.1.

Table 3.1: World Bank growth projections (%)

	2011 (estimated)	2012f	2013f
World	**3.7**	**3.4**	**4.0**
High income	**1.6**	**1.4**	**2.0**
Eurozone	1.6	-0.3	1.1
United States	1.7	2.2	2.4
Japan	-0.9	1.9	1.6
Developing countries	**6.0**	**5.4**	**6.0**
East Asia and Pacific	8.2	7.8	7.8
Europe and Central Asia	5.3	3.2	4.0
Latin America and Caribbean	4.2	3.6	4.2
Middle East and North Africa	1.7	2.3	3.2

Source: Table 1, Global Economic Prospects, World Bank, January 2012, world GDP calculated using purchasing power parity weights.

3.3 Although developing countries have fared relatively well, smaller fiscal space in advanced economies and changing commodity markets could mean they are hit harder by current worsening conditions.[2]

Risks and issues

3.4 World economic growth over the next few years will be largely dependent on the development of current key issues, particularly fiscal consolidation and debt levels in advanced economies and the outcome of eurozone problems. Supply factors must also always be considered – energy prices and whether conditions worldwide can impact economy-wide.

Fiscal consolidation

3.5 One of the key factors constraining growth in the short and medium term will be the need for fiscal consolidation. Government borrowing levels are unsustainable and will hinder long term growth prospects. Together with increased healthcare and pension burdens in many economies, there will be pressure to make cuts and bolster public finances for the foreseeable future.

3.6 The need to deliver fiscal consolidation will clearly constrain growth in domestic demand as government spending has to be reduced and tax revenues increased (impacting on business investment and household consumption). However, there are real risks over timing – if consolidation is planned to occur on too slow a timetable, the plans will lack credibility, leading to upward pressure on yields and interest rates. But if the adjustment is too quick, the contraction in demand could weaken growth (which would in turn lead to reduced tax revenues). This is a particular concern with the US, where the nature of the political process may deliver an overly tight fiscal stance in the short term.

Eurozone

3.7 The critical factor shaping development in the global economy will continue to be the eurozone crisis. Trade links, contagion and risk aversion mean that other advanced economies, and particularly peripheral countries, will be further impacted by the poor performance of the eurozone. Furthermore, developing countries are affected by lower demand for exports and lower capital inflows.

3.8 Sovereign debt levels are extremely high and political stability is not guaranteed. Many eurozone countries, most notably Greece, are trapped by high debt and no growth but cannot change their own policy to cope with circumstances. Moreover, the banking sector is fragile and has become more prudent through a combination of lower confidence to invest and increased risk aversion after the crisis, as well as the regulation enforced upon it. This has slowed lending and meant many firms and individuals find it much more difficult and more expensive to obtain funds, limiting potential growth.

2 Fiscal space is a measure of the ability to provide financial support.

3.9 The following questions reflect the uncertainty and risk surrounding projections and the strong likelihood that actual growth rates may be lower for a number of years:

- Can the Greek sovereign debt problem be overcome effectively?
- Will enough funding be committed to the European Stability Mechanism rescue fund to prevent contagion?
- Will spending and consolidation needs occur with the right balance and correct timing, and will countries with more fiscal space be willing to spend more to support other countries?
- Will individual members of the eurozone implement the long term fiscal and structural policies needed to address the underlying problems of economic imbalances and the lack of competitiveness in many countries?

3.10 The most likely scenario is for the eurozone to 'muddle through'; the last two years suggest there is no evidence of a collective will to take all the necessary action required now to provide a lasting and comprehensive resolution to the crisis. At the same time, the leading players have always demonstrated that they are prepared to act sufficiently to prevent the collapse of the economic system. Even if the immediate problems can be addressed, it is by no means certain that countries can grow at rates required to make their (lower) debt levels sustainable, and fiscal consolidation constrains the growth in demand. Strong growth requires the implementation of a credible programme of structural reforms to promote competitiveness. These may prove politically unattractive in the short term, while the benefits will take some time to come through.

3.11 This scenario will inevitably involve – directly or indirectly – stronger additional subsidy or guarantee from Germany for financially weaker members of the eurozone, greater fiscal integration, and measures to promote structural reform aimed at addressing the underlying weakness in countries such as Spain, Italy and Greece. It will also inevitably involve substantial losses by holders of Greek sovereign debt. The consequences of such a scenario will be that there is no quick return to stronger, sustainable growth. The lack of a comprehensive resolution will mean there is always a risk of further losses for holders of sovereign debt. This will ensure risk premia remain elevated and credit flows constrained for all borrowers, as financial institutions seek to avoid overexposure in case of any future crisis. Moreover, every piece of bad news – whether a delay in finalising an agreement on sovereign debt, or weak economic data or a weak survey – will ensure confidence among businesses and consumers remains fragile.

3.12 This weakness in the eurozone will impact on the UK through three main channels: constrained and more expensive finance; weaker demand for exports; and weaker growth in domestic demand as UK business and consumer confidence is affected.

Commodity prices

3.13 Another key influence on the short and medium term is the path of commodity prices. At times, changes in oil prices in particular can be a key driver of global growth; at other times they reflect the impact of changes in global growth rates on demand. There is always a risk of disruption to supply, especially as long as political tensions remain rife in the Middle East North Africa (MENA) region. Price shocks experienced by the end-user can impact upon industry and individuals; the costs of production increase, thus consumer goods are more expensive and real income falls.

3.14 In the short term, the IMF expects global oil prices to remain around current levels despite the weakness in global activity. This is because of the offsetting impact of heightened geo-political risks. But non-oil commodity prices are expected to fall, reflecting the slower growth in demand.

3.15 However, the nature of political risks is such that sharp increases in oil prices cannot be ruled out, presenting a significant downside risks to the global economy.

Looking further ahead...

3.16 If we stand back from the current events and take a longer perspective, we see that the global economy has been remarkably resilient and has faced and overcome many crises in the past. There is no reason why this will not happen again in response to the current crisis. However, the key question that will shape developments over the medium term is how long the adjustment process will be before activity returns to 'normal'.

3.17 Any longer term projections are necessarily highly uncertain – and a quantitative projection is really only an illustration of a qualitative assessment. One such assessment produced by the Conference Board predicts world growth to be around 3.2% in 2012, considerably lower than world growth rates since the mid-1990s. Most of the relative slow down is due to a fall in growth rates expected for emerging economies, partly as a result of slower export growth, and also as growth was previously above trend.[3]

3.18 By 2017-2025, some economies will move out of their development phases and growth rates in emerging and developing countries will fall further, whilst advanced economies' growth will be relatively stable at around 1.9%.[4] See Figure 3.1.

3.19 One key issue shaping future developments is the question of how much productive potential will have been impacted by weak investment (in tangibles and intangibles) through the crisis and the recovery period.

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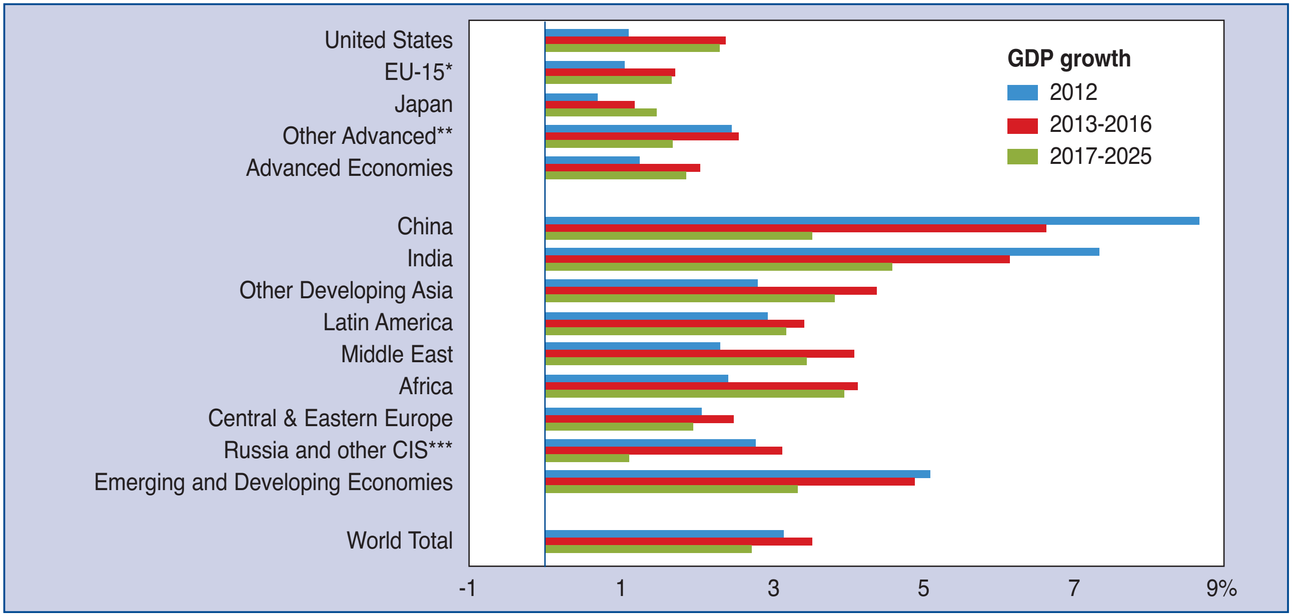
3 The percentage contributions to global growth are computed as log differences.

4 "Global Economic Outlook 2012", the Conference Board, November 2011. See: www.conference-board.org/data/globaloutlook.cfm

Figure 3.1: Global outlook for growth of GDP 2012-2025



Source: The Conference Board Global Economic Outlook, November 2011.

Notes: *EU-15 refers to states that joined the European Union before 2004.
**Other advanced economies include Canada, Switzerland, Norway, Israel, Iceland, Cyprus, Korea, Australia, Taiwan, Province of China, Hong Kong, Singapore, New Zealand and Malta.
***CIS is Commonwealth of Independent States which includes all former republics of the Soviet Union, excluding the Baltic States.

3.20 After a shock such as the financial crisis, the global economic system cannot be expected to recover immediately. Even when the economy begins recovery, mechanisms take time to respond and adjust back to long run equilibrium levels. The length of adjustment time varies depending on the size of the shock, circumstances and policy reactions.[5]

3.21 High uncertainty means it is prudent for businesses to build future business plans on both a central and an alternative scenario. Our central view is broadly in line with World Bank baseline projections. However, we stress the possibility that worsening conditions mean it is likely that downside risks emerge, or at least growth stays low for a protracted period. Thus growth levels over the forecast period could be lower and there could be a longer adjustment period before growth returns to trend.

5 Romer (2001) describes hysteresis as a situation "where one-time disturbances permanently affect the path of the economy." Hysteresis is the extreme case where the economy does not return to the initial long run equilibrium level of GDP and is unlikely to occur.

4 UK Economy

Introduction

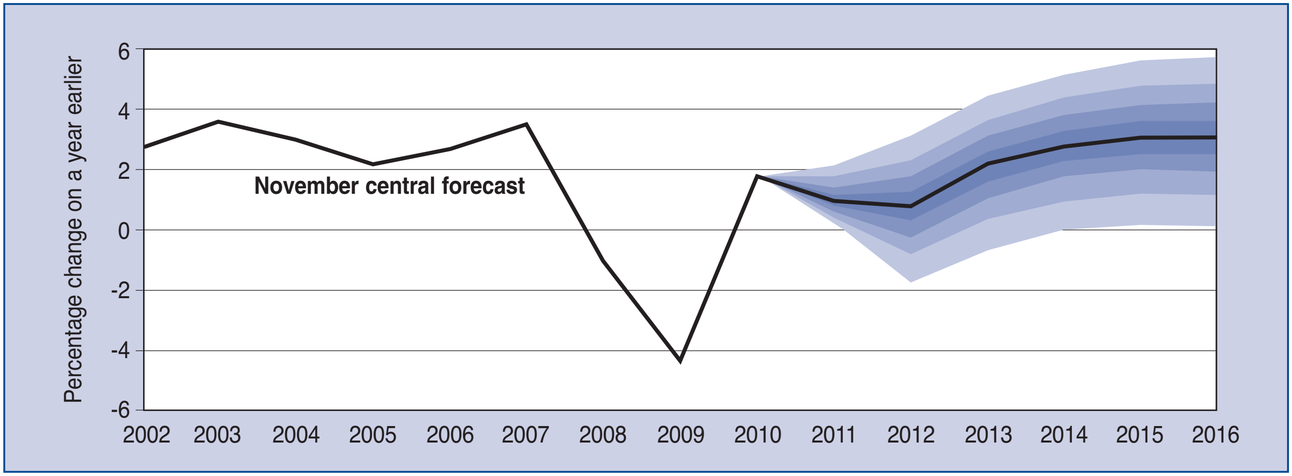
4.1 The global economic prospects provide an important backdrop for the UK, especially as the eurozone, in particular, and the US are the UK's major trading partners. Other risks are the high levels of indebtedness within the domestic economy, both public and private, and the UK's exposure to the volatile energy market through its import dependence.

GDP projections

4.2 In the Office for Budget Responsibility's (OBR's) November 2011 "Economic and Fiscal Outlook", it is assumed that "potential output will take until the start of 2014 to return to its long-term average growth rate of around 2.3% a year".[6] OBR projections for GDP growth are presented in Figure 4.1; as before, 2012 sees a dip before gradual growth ensues.

4.3 While OBR produces the 'official' projections, Table 4.2 provides GDP projections from HM Treasury's "Forecasts for the UK economy". Forecasts were published in November 2011 and include 14 independent medium term projections up to 2015.[7] The independent average of GDP growth forecasts a level of 1% in 2011 gradually increasing to 2.4% in 2015.[8]

Figure 4.1: GDP fan chart



Source: ONS, OBR; taken from OBR Economic and fiscal outlook.

6 Page 5, Economic and Fiscal Outlook, OBR, November 2011.
7 Treasury forecasts are produced independently and are based on an average of forecasts made by City institutions, international bodies as well as academic bodies. Forecasts were published in November 2011 along with the Autumn Statement.
8 Note: the short term forecast has been revised down since then.

Table 4.2: GDP Growth Forecast Comparison

	2011	2012	2013	2014	2015	2016	2017-2021
Treasury forecasts (November 2011):							
Independent average Highest Lowest	1.0 1.5 0.8	1.1 2.3 -0.4	2.1 2.9 0.9	2.3 3.0 1.7	2.4 3.0 1.8		
OBR- (ONS November 2011)	0.9	0.7	2.1	2.7	3.0	3.0	
IMF (January 2012)	0.9	0.6					

Sources: *Forecasts for the UK Economy: a comparison of independent forecasts*, HM Treasury, November 2011; *Economic and fiscal outlook*, OBR, November 2011;*World Economic Outlook: Slowing Growth, Rising Risks*, IMF, September 2011; *Economic Forecasts: GDP*, PwC, November 2011.

4.4 Although the OBR sees growth rising above trend to 3% in 2015/16 (before returning to trend), in light of the significant risks facing the UK economy, it is quite possible that growth could be much lower than this. This is discussed later in the section.

4.5 New short term independent forecasts demonstrate how prospects have changed. The average forecast GDP growth for 2011 has fallen slightly to 0.9% (with a range of 0.7-1.0%). This is consistent with the recently announced ONS preliminary estimate of 0.9% for 2011; the ONS figures demonstrate how the last quarter saw economic activity shrink by 0.2%.[9]

4.6 More importantly, 2012 is highly uncertain. The new Treasury average of independent forecasts (January 2012) projected GDP growth as 0.4% with a considerable spread of -1.3% to 1.7%. This large spread reflects the uncertainty of events, but 2012 growth is arguably going to be closer to 0% than 2%. Moreover, further adverse events could cause negative growth to ensue.

Prospects for inflation and interest rates

4.7 Inflation and interest rates will affect factors including the balance of consumption and saving, income levels and thus GDP growth.

4.8 In respect of inflation forecasts, it is expected that the central bank will adhere to its inflation target and that monetary policy is credible. Falling inflation should reduce pressure on spending and increase disposable incomes.

9 See: www.ons.gov.uk/ons/rel/gva/gross-domestic-product—preliminary-estimate/q4-2011/stb-q4-2011.html

4.9 The medium term consensus (independent average) figures are given below. This shows a slightly smaller fall in 2012, then a further fall to 2.7% until a broad trend growth of around 2% seems to ensue in 2013. More recent short term forecasts revise 2012 inflation down, perhaps highlighting reduced consumption and as a result the need for price cuts.

4.10 Increased VAT tends to cause higher prices. VAT was increased to 20% in January 2011 as a measure to close the fiscal gap.

Table 4.3: Medium term inflation forecasts

CPI Inflation						RPI Inflation				
2011	2012	2013	2014	2015		2011	2012	2013	2014	2015
					City forecasters					
4.5	3.0	1.8	1.9	2.0	Barclays Capital	5.3	3.9	3.3	3.7	3.6
4.6	2.8	1.5	-	-	Capital Economics	5.3	3.2	2.1	-	-
4.5	3.0	2.5	2.5	2.3	Citigroup	5.3	3.7	3.4	3.4	3.3
4.5	2.9	2.0	2.1	2.5	Commerzbank	5.2	3.2	2.7	3.1	3.6
4.6	2.2	2.0	2.0	2.0	Daiwa Capital Markets	5.2	4.0	3.6	3.5	2.6
4.5	2.2	2.0	2.0	2.0	ING	-	-	-	-	-
4.3	2.9	-	-	-	Morgan Stanley	5.2	3.9	-	-	-
4.5	3.1	2.1	-	-	Nomura	5.3	3.6	2.9	-	-
4.6	3.5	2.2	2.0	-	RBS Global Banking & Markets	5.3	3.9	2.4	2.5	-
4.6	2.2	1.6	2.9	2.8	Schroders IM	5.3	2.3	1.9	3.5	3.8
4.3	2.2	-	-	-	Standard Chartered Bank	-	-	-	-	-
4.5	2.7	-	-	-	UBS	5.5	4.0			
					Non-City forecasters					
4.5	2.3	2.3	3.0	3.2	Beacon Economic Forecasting	5.2	2.5	3.2	3.8	4.1
-	-	-	-	-	Cambridge Econometrics	-	-	-	-	-
3.9	2.2	2.1	2.1	2.1	CEBR	5.7	4.0	3.8	4.4	3.5
4.2	2.6	2.5	2.3	2.1	Experian	5.4	3.5	3.5	3.4	2.8
4.5	2.8	2.1	2.3	2.2	IHS Global Insight	-	-	-	-	-
4.5	2.5	2.0	1.5	1.7	ITEM Club	5.2	3.8	3.7	3.4	3.0
4.2	3.4	2.2	2.0	2.0	Liverpool Macro Research	-	-	-	-	-
4.4	2.3	1.7	1.8	1.8	NIESR	5.3	3.7	1.8	2.3	2.9
4.5	2.4	1.8	1.9	2.0	Oxford Economics	5.2	2.7	2.5	3.0	3.7
4.4	**2.6**	**2.0**	**2.2**	**2.3**	**Independent average**	**5.3**	**3.5**	**2.9**	**3.3**	**3.4**
4.6	3.5	2.5	3.0	3.2	Highest	5.7	4.0	3.8	4.4	4.1
3.9	2.2	1.5	1.5	1.7	Lowest	5.2	2.3	1.8	2.3	2.6

Source: Forecasts for the UK Economy, HM Treasury, November 2011.

4.11 The official bank rate is also forecast. This shows a gradual rise from 0.5% in 2011 to 3.1% in 2015. We note that in any case interest rates have been at a historic low level since the crisis. See Table 4.4.

4.12 However, due to continuing problems there may now be a more prolonged period with interest rates set at 0.5%. As the economy continues to struggle, the Bank of England may have cause to leave the rate low in order to stimulate demand. Looking to the medium to long term, however, an increase in interest rates is an inevitable move (thus increasing savings and investment).

Table 4.4 Medium term forecasts for official bank rate

	Official Bank rate (annual average, per cent)				
	2011	2012	2013	2014	2015
	City forecasters				
Barclays Capital	0.50	0.50	1.50	2.50	3.50
Capital Economics	0.50	0.50	0.50	-	-
Citigroup	0.50	0.50	0.50	0.06	2.04
Commerzbank	0.50	0.50	0.65	1.63	2.63
Daiwa Capital Markets	0.50	1.04	2.00	3.00	4.50
ING	0.50	0.50	0.75	1.75	3.00
Morgan Stanley	0.56	1.38	-	-	-
Nomura	0.50	0.50	0.50	-	-
RBS Global Banking & Markets	0.50	0.50	0.60	1.20	-
Schroders IM	0.50	0.50	0.50	1.00	2.00
Standard Chartered Bank	-	-	-	-	-
UBS	0.50	0.75	-	-	-
	Non-City forecasters				
Beacon Economic Forecasting	0.50	1.10	2.60	3.00	3.30
Cambridge Econometrics	-	-	-	-	-
CEBR	0.50	0.90	1.50	2.00	3.00
Experian	0.69	2.06	3.13	4.13	4.50
IHS Global Insight	0.50	0.50	0.1	1.79	3.00
ITEM Club	0.80	1.30	2.50	3.50	4.00
Liverpool Macro Research	-	-	-	-	-
NIESR	0.50	0.50	0.50	0.90	1.40
Oxford Economics	0.50	0.50	0.81	1.97	3.72
Independent average	**0.5**	**0.8**	**1.2**	**2.1**	**3.1**
Highest	0.8	2.1	3.1	4.1	4.5
Lowest	0.5	0.5	0.5	0.9	1.4

Source: Forecasts for the UK Economy, HM Treasury, November 2011.

Key risks and issues

4.13 Below we consider the principal factors we believe will influence economic performance and the level of GDP over the years to 2020. These underlie our caution in providing two views of the economic path – both a low growth scenario and the scenario where conditions deteriorate further if risks materialise.

World events

4.14 Principal risks come from developments in the world economy, in particular the eurozone (as discussed in the previous section).

4.15 The global nature of the financial crisis with its highly interconnected markets means that events in other countries can have severe effects on the UK economy. Cross-market linkages mean that negative market events elsewhere have direct impact, for example through changes in investment levels or through trade – perhaps increased import prices or a slowing export market.

4.16 Contagion means the poor performance of economies spreads – a shock to one country's asset market causes changes in asset prices in another country's financial market. It can mean that even if not directly related, negative impact spreads. Doubts about the stability of the eurozone hit confidence about credit markets.

4.17 The financial crisis could have a sustained impact, as investors are more risk averse, thus hindering a recovery in asset prices and growth. Regulation and lower confidence levels mean banks' profitability could be restrained. Borrowing will be harder as banks maintain capital buffers and become more risk averse.

4.18 Crisis in the eurozone would have a global impact. In particular, the UK and the United States would benefit from capital inflows as they are viewed as safe havens. Trading losses would occur, of significant importance especially to the UK as Europe is its main trading partner. Overall, the effects would serve to slow growth.

Domestic debt

4.19 Turning to domestic issues, a major factor impacting growth is high debt – both private and public. Over the next decade, government and households will need to significantly reduce debt levels.

4.20 HM Treasury reports public sector net debt for 2010-11 at £905 billion and general government net debt at £1158.5 billion (60.5% and 78.7% of GDP respectively) – record levels.[10] Fiscal consolidation and debt repayments represent a constraint on growth over the medium term.

4.21 In addition, debt reduction will be one of a number of factors constraining household

10 Public Sector Finances Databank, HM Treasury, 6th December 2011. See: www.hm-treasury.gov.uk/psf_statistics.htm

spending, the largest component of GDP. Higher inflation, rising tax and weak growth in the economy mean households expect a sustained squeeze on income. As the Governor of the Bank of England notes, after inflation wages have endured their longest period of stagnation since the 1920s.[11]

4.22 Low levels of confidence and concerns about the risk of unemployment, due to problems in the UK economy and the eurozone crisis, will also lead households to adopt a cautious attitude towards their spending and focus on lowering their indebtedness and increasing savings.

4.23 These factors serve to reduce consumption levels in the economy, lowering growth. Moreover, any increase in uncertainty could produce a more prolonged and substantial period of slow growth in household spending.

Energy prices and availability

4.24 As considered in the previous section, energy is a major influence on growth levels. In the short term geo-political uncertainties should be offset by demand, so oil prices are expected to remain around current price levels. However, the medium term will be shaped by economic and political risks. These risks are particularly significant for the UK due to its increasing dependence on importing energy resources. Despite the energy initiatives in place and planned for the future, the UK is a net importer of energy and will continue to be.

What does this mean for the UK economy?

4.25 The apparent consensus that the economy will experience positive growth this year before recovering further thereafter is a reasonable 'central projection'. However, it is crucial to acknowledge the huge uncertainties and risks present in the economy. The scenario of a prolonged period of weak growth is a distinct possibility. This is most likely to be caused by an extended period of subdued activity in the world economy. However, it could also result from a prolonged period of weak growth in UK household spending.

4.26 In light of this, it seems prudent to plan on the basis of two scenarios – the first where the economy follows a path broadly consistent with the OBR projections and the second where growth remains below 2% for an extended period, and might only average around 1.5%.

4.27 This would not be unprecedented for a major economy.[12] Under such a scenario, there are a number of serious implications:

- Slow growth is likely to create weaker growth in household spending relative to the 'central projection' In such a scenario, risk averse

11 As quoted in "King signals need to print more money", FT, 24 January 2012. See: www.ft.com/cms/s/0/7dcfbb12-46bb-11e1-85e2-00144feabdc0.html#axzz1kHBxukqm

12 For example, Japan and Germany experienced slow growth for a decade from the early 1990s.

households would be more reluctant to take on new or larger mortgage commitments. As a consequence, house price levels, or at least house price growth, would remain depressed for a prolonged period and investment in new housing could well remain subdued.

- In financial markets a climate of risk aversion could persist for some time. Stock market losses have had severe effects, particularly for financial institutions and pension funds. Households that do want to apply for mortgages and businesses in both the private and third sectors will find it more challenging to secure finance than prior to the recession. Banks, reinforced by increased regulation surrounding lending and liquidity levels, may be especially reluctant to offer loans for either extended periods or for riskier projects.
- The effects of slow growth are rarely spread equally across all sections of society. Poorer households may find themselves particularly squeezed. Younger people may find difficulty securing permanent employment and those that do may well find levels of pay to be significantly lower than they had expected.
- At the other end of the age distribution, many new pensioners will find their private pensions have been reduced significantly by stock market losses. The scope for these problems to be offset by higher state pensions will be severely constrained as growth in tax revenues would be weak.
- Slow growth in the UK and global economy will mean returns on pension investments will be lower than in the past. This will be a particular problem for pension funds already in deficit.

5 Implications

Introduction

5.1 In this final section we consider the implications of the macro factors for large not-for-profit housing and community organisations. These include not just the expected prospects for the UK economy but also possible changes in government's expectations about the role of institutions such as Orbit and the funding that may be available in future. Issues include the shift away from the public sector and more focus on the private and third sectors (including 'Big Society') together with the potential prolonged effects of austerity and global crises.

5.2 Fiscal consolidation means that government support will be constrained. Although housing support has been stated as a priority, fiscal debt levels mean housing associations cannot depend upon substantial government funding in future. Austerity measures could affect the split between the public, private and third sectors and, in particular, this means that the level of support is restricted and will remain highly uncertain.

5.3 Moreover, funding options for public services and housing organisations specifically will be more limited – regulation on both financial and public institutions will be tougher than pre-crisis levels and banks will need to maximise profit within these bounds.

Government stance

5.4 The tight fiscal position for much of, if not the entire, decade means that governments of all political persuasions will be looking for ways to make the taxpayers' pound go further.

5.5 Austerity measures are a potential threat to housing associations' government funding, but CLG has clear aims which directly affect housing and community organisations – for example, increasing the number of affordable homes available to rent, protecting the vulnerable and disadvantaged and increasing opportunities for young people to own their own homes.[13] The size of the public sector and efficiency measures suggest that providing support to the not-for-profit sector is a preferable route. This approach is exemplified by the commitment to support the private rental market and endorsement of build to let schemes and the revitalisation of the 'Right to Buy' scheme. Government could look to housing associations to expand their business and deliver a wider range of services.

5.6 The Coalition government has sought to make greater use of non-governmental and third sector organisations for the delivery of public services (e.g. careers guidance). This has in some cases delivered public expenditure savings where funding of the activity has not, in whole or in part, been transferred with the responsibility for delivery. However, this also reflects a view on the part of the present government that local or non-governmental organisations can deliver services more efficiently and effectively than traditional forms of service delivery.

5.7 In the field of social housing, housing associations have long occupied a key role as non-governmental delivery agents for the provision of affordable housing, in many cases taking the place entirely of local authorities through Large Scale Voluntary Transfers. There is a potential opportunity for larger housing associations to exploit current opportunities to broaden the range of public services they deliver because they have the scale and resources to diversify.

5.8 Whether this happens will depend on three factors:

- The willingness of housing associations to diversify and, in particular, seek to offer services broader than their core missions of providing affordable housing;
- Government perceptions of housing associations as service delivery organisations and, in particular, perceptions of their efficiency; and
- Potential competition from other third sector and private sector competitors.

13 See www.communities.gov.uk/housing/about/

Principal economic factors

5.9 The principal economic factors that directly affect housing organisations are:

- GDP – *it seems prudent to plan on the basis of two scenarios*. The primary scenario is where there is slow growth in the short term, which returns to 2.25% in the medium term. Taking into account the various risks in the world and domestic economy discussed above, another scenario to seriously consider is where growth remains below 2% for an extended period (6-8 years).
- Interest rates – these affect interest payments on borrowing and the cost of new borrowing to finance new homes. So in this respect low interest rates are beneficial to housing providers. On the other hand, this has to be balanced against the negative aspects of low interest rates on any standalone fixed rates loan portfolio. *Housing associations should plan for gradual increases in interest rates, as per our discussion in Section 4*.
- Inflation – RPI in particular tends to have a positive effect on housing associations' financial position, all other things being equal, as rents are typically set to increase on an annual basis by RPI+0.5%. Rents and service charges tend to comprise 90% of revenues whereas a much lower proportion of the housing association cost base tends to be RPI-based. *We believe that government will remain committed to its inflation target of 2% CPI, which should equate to an average rate of RPI inflation of about 2.5%, albeit with fluctuations*.
- Buoyancy of the stock market – pension scheme deficits, including for the social housing pension scheme, are likely to increase as the stock market falls. Significant further falls would have a detrimental effect on housing association finances as there is a limit to the extent to which the value changes may be passed onto employees. *Stock market values are very difficult to predict although in the long term they tend to reflect economic growth; future GDP projections are the best guide*.
- Availability of (corporate) funding – most housing associations have tended to raise funds from banks and building societies and historically these have tended to be at good rates over reasonable terms. More recently, and in tandem with much bank funding, lending periods have fallen significantly, representing potential re-financing risks in future periods. *It is possible these historic dependable sources of funds may leave the sector and alternative sources may need to be sought. We think it unlikely that the financing terms available in the past will be on offer again for at least some time to come*.
- Availability of mortgages – Orbit and many other large housing associations operate substantial sales programmes, comprising shared ownership, market sales and voids. Each of these depends on, to differing degrees, mortgage availability and deposit

requirements. *As we have discussed in previous sections, there is no evidence to suggest mortgage availability is likely to improve in the short term. In the longer term, we expect better terms to become more freely available, although we are unlikely ever to see mortgage finance become as freely available as before the recession*.

- Investment in housing by government and housing benefit – housing associations are raising grants from the government of 20-22% of housing development costs. Further reductions in funds availability could challenge associations' ability to meet loan covenant coverage and to grow at the same time. Any restraints on the level of housing benefit will affect housing association revenues. *While housing associations should plan for worst case scenarios, given the political importance of housing, particularly social housing, we do not expect government to withdraw fully from the sector. As a buffer, associations should attempt to identify new sources of funds while recognising that obtaining alternative funds is expected to remain challenging in the short term, albeit easing during the medium term*.
- House prices – while not affecting housing association core business, these affect shared ownership and market sales. The portfolio value will be affected which could influence the availability of funding. However, this will not affect income as rental payments will remain the same, other things being equal. Thus, such effects are considerably less significant than, say, changes in interest rates and/or inflation. *House prices are likely to remain weak in the short term but will start to rise as the economy recovers. Orbit's business locations make it well-placed compared to other regions of the UK. Speculative house building in some of these areas may be considered*.
- Regional disparities – these tend to matter mainly for new investment, where an assessment of build cost and future value needs to be made. Such decisions are dependent on a complex array of factors including the level and availability of grants, rent levels and market values. Varying economic conditions, especially employment factors, will determine levels of demand for housing associations' services. *We have not identified any regional-specific issues that should give rise to concerns for Orbit*.
- Taxation – VAT and NICs affect the organisational cost base.[14] VAT, in particular, has a large effect as it cannot be recovered by charities. For any organisation with large numbers of staff and significant wage bills, any increases in NICs also have a considerable impact on the cost base.

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14 Orbit the parent is an executive charity and thus corporation tax is not applicable. Corporation tax is applied to Orbit Homes.

We believe that there is little room for significant tax cuts in the short to medium term. It is possible that governments may in the future need to raise additional revenue through taxation, but VAT and NICs may not be the preferred means of doing so given their regressive qualities. We believe the most likely outcome is little change in the rates of either tax for the next few years.

5.10 Given the uncertainties in the economy and the impact of financial markets, as we note above, it would not be prudent to plan on the basis of being able to rely on traditional sources of finance – certainly not to the extent of the past. Thus we present below some alternative funding options that might be considered.

5.11 Banks cannot commit to long term funding for housing associations and profit margins are not sufficient to justify lending. Many pension funds have gone into deficit and, combined with weak and uncertain stock market and business performance and an ageing population, problems are likely to escalate.

5.12 With more limited bank finance available, housing associations will want to consider other sources of funding, and in particular institutional investors. These institutions will want to continue to invest in a broad range of assets including both debt and equity. But during the period of slower growth and heightened uncertainty pension funds may look to invest relatively more in bonds than equity.

5.13 Moreover, even where an institution is willing to invest in property, it is not clear if the scale and nature of investment that many housing associations represent would be of interest.

5.14 In addition, institutions are being targeted by government to provide funding for infrastructure. However, we do not think that will necessarily have direct implications for most large housing associations as investment in large scale infrastructure is more likely to be a close substitute for gilts and AAA rated corporate bonds than for the type of investment organisations like Orbit would represent.

5.15 For long term finance, the obvious choice is corporate bonds, a form of debt financing. Corporate bonds are issued to facilitate business growth and the investor benefits from coupon payments as well as receiving the principal amount back at maturity. However, there is a range of options open to Orbit and other large housing associations.

5.16 The HCA Housing Finance Group published “Opportunities for institutional investment in affordable housing” in April 2011.[15] The report asserts that affordable housing *“should represent a low risk profile for a potential investor”* and that the sector *“produces steady and safe returns”*. [16]

15 Available at: www.cchpr.landecon.cam.ac.uk/Downloads/110311%20Institutional%20Funding.pdf
16 According to Whitehead and Williams 2009, as quoted in “Opportunities for institutional investment in affordable housing”, Report to the HCA Housing Finance Group, April 2011.

5.17 If the scale of funding needed by individual organisations is too small to be of interest for corporate bonds, housing associations could consider grouping together to raise finance on a collective basis.

5.18 Another approach that could be explored is the retail bond market. Although it has not been a prominent market, smaller investments can be achieved and there is potentially high demand. Private investors have experienced low returns from traditional sources and are becoming increasingly interested in alternative investments. Investing in housing associations can provide a better return and, due to housing being at a low point in the cycle and increasing demand for services, there is growth potential.

Consumers, choice and competition

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August 2012

Executive summary

Context

- In addition to socio-economic fundamentals, key drivers in housing include attitudes to consumerism; the politics of home ownership; the way renting is being reshaped; household attitudes towards housing and housing tenure; and technology and innovation. These drivers mix relative stability and rapid change.

- A General Election in 2015 or before is unlikely to produce significant changes of policy direction. If Labour were returned, it would probably do little more than take the rougher edges off the current approach because key Coalition changes are perceived to have popular support.

Shaping the social housing quasi-market

- The social housing quasi-market will be shaped by several factors: the trajectory of the economy and unemployment; conditions in the mortgage market; whether the Government persists with the current model of capital financing for social housing; whether institutional investors begin to invest more heavily in rental housing; the use made of new freedoms under the Localism Act; the stringent welfare reform agenda; and whether the Government revisits a local housing allowance (LHA) for social housing.

- Greater convergence of the offer from for-profit and social landlords on the tenancy/rent dimension seems very likely. This will reduce the perceived advantages of social renting. Some commentators suggest business models will converge and Registered Providers of various types will become largely indistinguishable. This is plausible.

Implications and questions for housing associations

- Local authorities are going to be increasingly seeking assistance to meet their local needs. How far is it reasonable to co-operate? Does it require developing greater capacity to engage with new types of non-housing activity?

- Should housing associations be reactively lending assistance where and when required or playing a more pro-active community leadership role?

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- There is potentially a role for not-for-profit housing organisations in responding to known, but worsening, problems in housing markets – eg. letting agencies, Houses in Multiple Occupation (HMOs). What is the appetite for these types of activity?
- Do housing associations have a clear vision of where they wish to position themselves in the new ecology of renting? Pushing for development will inevitably mean an increase in the proportion of private finance, which may eventually challenge the way an organisation understands itself.
- The organisation needs a clear strategy towards near-market and market renting. It needs to be sensitive to spatial variation in the emergence of for-profit competition.
- If the strategy is to engage further with near-market renting, then is the plan to differentiate subsidiaries within group structures or to maintain an “inclusive” brand?
- Do housing associations understand how technology is reshaping consumer behaviour and supporting transactions with providers? How are they positioned to respond to rapid technological advance?
- Care and support funding will continue to be constrained. Are there new ways of providing services, perhaps tapping into the potential of technology to overcome isolation, that can be pioneered?
- In all of this, a little resource will need to go a long way. Are structures and processes fit for purpose? Are they sufficiently innovative and able to capture learning about how resources can be stretched most effectively, and sufficiently flexible to respond to rapidly evolving circumstances?

1. Introduction

1.1 This paper discusses key factors that will affect the development of social housing over the next decade. It does not seek to identify a most likely scenario, but it does provide commentary on the likelihood and likely impact of various developments.

1.2 The paper comprises six sections. Sections two and three briefly review some contextual issues. Section four reflects on the concept of competition. Section five considers some key drivers associated with housing policy and the housing system. Section six discusses the way in which the social housing quasi-market may evolve. The key conclusions, implications and questions for not-for-profit housing organisations are shown in the executive summary above.

2. Socio-economic and political context

2.1 We face a time of unprecedented macro-economic uncertainty. The evolution of the housing landscape to 2020 will be shaped not only by this turbulent macro-economic context but also, crucially, by how government chooses to respond to it. At the very least, the broad context of austerity will extend to 2017. Forecasts for economic recovery will probably continue to prove optimistic, even if implosion of the Euro is averted.

2.2 The acute pressures generated by the Global Financial Crisis (GFC) are overlaid upon longer-term socio-economic trends. The key demographic trend is the forecast of an average of 232,000 additional households per year. Growth will be concentrated among single person households and households headed by someone over 65 years.

2.3 These demographic trends need to be seen in the light not only of the current collapse in housing supply but also the historic failure of housing supply to keep pace with the rate of household growth. Over the last two decades annual output has averaged only 160,000 units. There has been a cumulative shortage of accommodation in the right locations. This has fed through into affordability problems.

2.4 We will have a General Election in 2015, if not before. Informed commentators continue to expect the result of the next election to be close. Yet the picture may change if, for example, the economy continues to falter or the health reforms prove as toxic for the Coalition as many anticipate.

2.5 A change of government is likely to produce a change of policy emphasis rather than a radical change of direction. Labour's strategic direction has been buffeted by a multi-coloured succession of factions – Blue, Purple, "In the black", White Flag Labour. Those favouring the restoration of fiscal credibility by departing only marginally from the Coalition's plans for fiscal consolidation currently seem to have the upper hand.

2.6 Labour's housing policy is under review, but may well do little more than take the rougher edges off the Coalition approach. The context in 2015 will still be austerity. Retreat from key Coalition changes to social housing is unlikely because they are perceived to have popular support. Labour shares the emphasis upon responsibilities as well as rights and helping those who 'make a contribution'. As noted below, the sustainability of current social housing development models is in question and innovations are being explored, but without some bold decisions Labour is unlikely to oversee a major redirection of state resources towards housing. A more active approach to regulating private renting is probable. A Labour government may take some mitigating action on benefit reform, but only if there is evidence the Coalition's crude approach is having significant negative impacts, rather than from principled objection.

2.7 A wildcard here is perhaps the Liberal Democrats' differentiation strategy. Their Autumn 2012 conference will be asked to adopt a new housing policy that, among other things, endorses a substantial expansion of supply and several firmer regulatory approaches. If 2015 yields another Coalition this could materially shape future policy directions.

3. Housing at a crossroads?

3.1 We could be witnessing fundamental structural change in the housing system. Yet housing markets are local. Different stories can be told for different parts of the country.

3.2 The current context is inauspicious for home ownership. Access has become seriously constrained. The average age of first time buyers has increased. Price trajectories are uncertain and further price falls cannot be ruled out. Buyers are likely to be cautious about entering the market, especially at high loan to value ratios. Sellers are not keen to realise loses. The economic context has increased both the demand for private renting and the need for social renting. The severity of global economic problems suggests this picture is unlikely to improve dramatically in the near term.

3.3 This constellation of factors could be self-reinforcing. High house prices mean existing homeowners have the option to release equity and purchase additional homes for rent. By doing so they keep prices elevated and increase the supply of rental housing, for which there is demand precisely because prices are elevated. Wealth inequalities then worsen.

3.4 The renaissance of private renting is the most remarkable housing development of the last decade. Yet flat or declining house prices pose equally important questions for private landlords. With capital growth stalled, rental income alone must deliver a return. But household incomes are being squeezed and the Government is seeking to restrain the aggregate LHA bill by reducing the generosity of housing allowances. We face the return of the so-called "central dilemma" of the private rented sector – landlords are seeking higher rents than tenants can afford to pay.

3.5 While a case for fundamental change can be made, there is always a risk of prematurely proclaiming "new times". In the early 1990s it was confidently predicted that Britain had shaken off its obsession with home ownership following the late 1980s crash. This was soon forgotten once house prices started picking up again. A bigger boom, and more spectacular crash, followed. This provides a salutary reminder when considering arguments around "Generation Rent". On what basis might it be different this time?

3.6 The Government's fiscal response to the GFC does not so far embody any very clear vision for housing. Nonetheless, policy proposals – revitalising Real Estate Investment Trusts, for example – if successful, have the potential to impact significantly upon the rental housing (quasi)market. Of course, the evolution of the housing system is not entirely under the control of central government. Key parameters lie beyond direct policy influence, while local innovations can shape trajectories.

3.7 Some of the changes already set in train – such as tenancy reform and Affordable Rents (AR) – will have a substantial impact on the social housing landscape. It is indisputable that key system parameters have been altered. We could credibly claim that, in this respect, the past is an extremely imperfect guide to the future. The impact of these changes depends on the exercise of local discretion. To what extent will landlords take advantage of new freedoms?

4. On competition

4.1 The Housing Strategy for England published in November 2011 – *Laying the foundations* – signalled the Government's wish to foster greater competition in the social rented sector, drawing in for-profit providers.[i] But what does competition mean in the housing market context?

4.2 The essence of competition is "rivalry, risk, substitutability and choice".[ii] One could argue that housing markets are relatively weak on all four counts.

4.3 How the social housing quasi-market develops will depend in part on whether new suppliers enter offering products tenants view as genuine substitutes for those existing and, conversely, whether social housing providers expand their supply of products that are substitutes for those offered by private landlords.

4.4 In addition, landlords offer a different quality and range of management services so are, again, not necessarily perfect substitutes. However, prospective tenants cannot easily observe and verify differences in management services *ex ante*, so it is more difficult to use them as a source of differentiation.

4.5 Competition is driven by excess capacity. This opens up the risk of suppliers going out of business if their products fail to attract consumers. However, we are witnessing a shortage of rented accommodation in many parts of the country. Excess demand means that, with the exception of particular problematic neighbourhoods, providers do not have difficulty letting properties. There is limited market-generated incentive to ensure the offer to consumers is appropriate.

4.6 The housing strategy sought to encourage new social housing supply by encouraging commercial providers to enter the sector. It did not, however, appear to believe this would result in a genuinely competitive market structure. It posited an ongoing role for the regulator in driving value for money.

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i DCLG (2011) *Laying the foundations: A housing strategy for England*, London: Department of Communities and Local Government.
ii Oxley. M., Elsinga, M., Haffner, M. and van der Heijden, H (2008) Competition and social housing in Europe, *Economic Affairs*, p35

5. Key drivers

5.1 The broader socio-economic fundamentals play a key role in shaping the housing market. They are discussed in another paper. This section focuses on some meso-level influences on the housing system.

Attitudes to consumerism

5.2 For three decades welfare policy has emphasized the consumerisation of public services: treating service users as consumers not clients. This emphasis continues. The 2011 *Open Public Services* White Paper seeks to push consumerisation as far as it can go.[iii] The rhetoric signals a move away from Labour's top-down targetry towards greater emphasis on provider diversity and the disciplinary effects of consumer choice. Reforms in health and social care, started under Labour, push in a similar direction. As the think tank Centre Forum has observed, there is a consensus across the mainstream political parties on this direction of travel.[iv]

5.3 This policy emphasis is partly a product of political ideology and partly finds its justification in simple economic models.[v] The arguments may not be especially coherent, but many find them persuasive. The approach has been extensively critiqued by social policy academics for a variety of reasons, including the risks of undermining distinctive qualities of non-market provision.[vi]

5.4 While academic critiques have been largely ineffectual in reshaping political thinking, popular movements like Occupy, 38 degrees and UKUncut have sought to resist market fundamentalism in more practical ways. There is increasing interest in alternative forms of economic organisation – such as mutualism – perceived to be less commercially ruthless. The Government has announced a Law Commission review of the law governing co-operatives, with the aim of simplification. There is also a boom in activities such as tending allotments as more people seek the economy, control and satisfaction associated with self-provisioning. We are witnessing local innovations to sustain independent traders – such as the recently launched "Bristol pound" backed by a Credit Union – and broader attempts to argue for a more explicitly ethical dimension to economic activity. This resonates with Ed Miliband's reference to predators and producers, or Will Hutton's arguments about good and bad capitalism.

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iii Cabinet Office (2011) *Open Public Services White Paper*, London; The Stationery Office.

iv CentreForum (2011) *Your choice: how to get better public services*, London: CentreForum.

v Le Grand, J. (2007) *The other invisible hand: Delivering public services through choice and competition*, Princeton, Princeton University Press.

vi See, for example, Clarke, J. et al (2007) *Creating citizen-consumers: changing publics and changing public services*, London: Sage. See also Sandel, M. (2012) *What money can't buy: the moral limits of markets,* London: Allen Lane.

5.5 It would be implausible to argue that these developments represent a rejection of consumerism. Marketeers and trendspotters are, in contrast, arguing that retailers will have to compete more effectively as more sophisticated, information hungry and technologically-enabled consumers emerge. But these developments may signal a move towards a more ethical consumerism: consumers paying more attention to providers' values and how those values are evident in practice. This is a dimension across which providers can differentiate themselves. Yet in recessionary times many consumers are looking for no-frills services: ethical commitments that push up prices could reduce demand.

5.6 In social housing the consumerisation agenda found its clearest statement in the Cave Review.[vii] Initiatives such as National Tenants Voice suggested an agenda to empower consumers to influence service providers in more direct ways than through choices in the 'market'.[viii] The Coalition's new regulatory arrangements could be interpreted as rolling back somewhat on these commitments. It has been argued that these changes are simply the latest stage on the journey from municipal housing via not-for-profit housing to a fully private rental system with minimal state oversight.[ix] Adopting this long-term perspective would suggest that any future Labour government is unlikely to reverse current trends.

5.7 The discourse of welfare policy has shifted. Much policy change is accompanied by a sceptical narrative about welfare-scrounging and benefit-dependency that has found a receptive public. It is in tension with the concept of service users as sovereign consumers possessing rights.

The politics of home ownership

5.8 The overarching theme of British housing policy for 30 years has been the promotion of home ownership. Yet commentators have repeatedly advocated a shift in policy thinking towards a more tenure-neutral approach.

5.9 However, the recent housing strategy for England does nothing to challenge core ideas about the desirability of homeownership. The policies it proposes do little to place the housing market on a more stable footing. Indeed, initiatives such as the mortgage indemnity guarantee arguably move in the wrong direction. The reinvigoration of the Right to Buy reinforces the idea of home ownership as the tenure of aspiration.

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vii Cave Review (2007) *Every Tenant Matters: A review of social housing regulation*, London: Communities and Local Government. For a critical discussion see Victory, C. and Malpass, P. (2011) 'Every tenant matters'? The new governance of social housing in England, *Housing Studies*, vol 26, no 3, 449-458.

viii DCLG (2009) *Citizens of equal worth: The NTV project group's proposals for the National Tenant Voice*, London: Department of Communities and Local Government.

ix In particular Malpass, P. and Victory, C. (2010) The modernisation of social housing in England, *International Journal of Housing Studies*, vol 10, no 1, 3-18.

5.10 Reducing the dominance of home ownership and dealing with seemingly persistent problems of overvaluation run up against the barriers of public opinion and broader policy trends such as asset-based welfare.[x] Even though radical change may make sense in housing market terms, it is currently failing the test of political calculation.

5.11 We are therefore unlikely to see any fundamental change in the overall pre-eminence of home ownership within housing policy thinking. This has implications for the role of social housing in the political and public imagination.

Reshaping renting

5.12 In contrast, the Government has succeeded in rapidly reshaping the debate over social housing. The new orthodoxy is that social housing is a temporary safety net for households to call upon only in times of acute need. But there is also a countervailing strand of thinking: making space in social housing for those who are 'making a contribution' through low-paid work. So overall the Government is sending mixed messages regarding its vision for social housing.

5.13 With state funding increasingly scarce, the Government has championed the idea of financial institutions investing directly in infrastructure, including housing. This will require appropriate investment vehicles and social housing providers are themselves contributing to the search for such vehicles. Further announcements on innovations in using the government balance sheet are expected. At the same time, a number of commercial landlords are working towards entering the social rented sector. The resulting provision will be on an Affordable Rent basis. All properties let on Affordable Rents pose a question about who will be housed. It may well be catering, at least in part, for a different segment of the population to conventional social housing.

5.14 The current emphasis in policy towards private renting is two-fold. First, the Government seeks institutional investment and the encouragement of commercial build to rent. Second, the Government has vague aspirations to do something about "rogue landlords". This issue will become more pressing as cuts in the real value of the LHA become progressively more severe and local authorities make greater use of private tenancies to discharge homelessness duties. The changes in the Shared Accommodation Rate (SAR) will shift demand towards HMOs.

5.15 There have so far been very few visible signs that the main concern in the private sector – the insecurity generated by six month tenancies – is being given any policy priority. However, with many families now living in the sector for extended periods more momentum

x See McKee, K. (forthcoming) Young people, homeownership and future welfare, *Housing Studies* (available on iFirst).

will build for an increase in minimum length of tenancies. There may be backwash from reform elsewhere. The Welsh Government has started a process of housing reform that includes consideration of private rental tenancy reform.

Attitudes to housing

5.16 Over the last decade there has been an increasing tendency among households, reinforced by policy, to focus on the exchange value of housing rather than its use value. Conceiving of housing primarily as an investment reinforces the 'inadequacies' of renting and the preference for owner occupation. While housing downturns highlight the risks of home ownership, this preference – and the belief that it makes financial sense to own, if possible – is resilient.

5.17 The hierarchy of preferences after owner occupation varies across local markets depending on relative quality, reputation and costs. Conventional social renting frequently stands as an option alongside intermediate renting, shared ownership and low cost home ownership schemes, which at certain points over the last economic cycle could be accessed at similar net costs. Some households view tenure hybrids positively, although survey evidence suggests more tend to favour conventional social housing as a solution to making housing more affordable.

5.18 When asked to consider the advantages of the various tenures, social rented tenants report valuing low and affordable rents and security of tenure. Those outside the sector see the Right to Buy as a significant advantage. The main disadvantage of social housing is exposure to anti-social behaviour.[xi] These results are significant. The Government's advocacy of AR and fixed term tenancies challenges two of the most frequently perceived advantages of social housing.

Technology and innovation

5.19 There has been a broad push towards e-government. Portals such as Directgov offer access to public services unconstrained by conventional office hours. We are moving to a position in which access to broadband facilities acquires the status of a domestic utility. The absence of appropriate infrastructure will soon be perceived as anachronistic, if it isn't already. There is some evidence, although not necessarily very systematic, that younger people value access to technology such as smartphones more highly than access to a car: virtual accessibility may be taking the place of personal mobility.

5.20 Social housing organisations have actively developed new ways of engaging with customers. The widespread adoption of choice-based lettings systems has resulted in the roll out of web-based interfaces, initially

xi British Social Attitudes (2011), p136.

within local authority areas but latterly scaling up to sub-regional and regional level. More sophisticated systems offer virtual tours, extensive feedback data, or geo-coding of properties to link to datasets offering neighbourhood profiles. Prospective tenants have considerably greater scope for making informed choices about the properties on offer. Choice-based lettings, and the broader housing options approach, have also brought the range of housing pathways available to households more clearly into focus.

5.21 A website is increasingly the first point of contact with any organisation. Sites are expected to be easily navigable and full featured, offering scope for interaction rather than simply a channel for delivering standard information.

5.22 Social housing organisations are in some cases personalising their online presence by hosting blogs, offering a chance for more informal interaction. Pushing information through social media such as Twitter using corporate accounts is becoming commonplace, as is key officers running their own accounts providing information and commentary. The use of Facebook by social landlords is uneven. This may be significant, given that it has the largest reach among the social media. Whether information is reaching – and of interest – to prospective consumers, rather than the professional community, is not entirely clear. But we are reaching the situation where such activities are expected of a "modern" organisation, regardless of their effectiveness.

5.23 There must, of course, be a concern about digital exclusion and whether households approaching social landlords will be as e-literate – or literate in English – as the population more generally. Yet, while the exclusionary potential of such technologies must be recognised, it is equally important not to assume that households engaging with social landlords expect anything less than the sort of web presence maintained by commercial organisations. And the economic downturn is likely to mean that potential consumers become more socially diverse.

5.24 Social housing organisations have pioneered the use of assistive technologies and telecare, particularly for older people. Constraints on budgets for care and support will intensify pressures to use wide-area support networks requiring limited staff input and relying more upon monitoring at a distance. The challenge will continue to be retaining a sense that organisations genuinely care, in the face of dehumanising and potentially physically isolating technology. There is likely to be scope for greater use of social media to create virtual communities, where face to face interaction is no longer so possible.

5.25 As commerce increasingly moves online, the high street has to struggle to entice consumers to shop. And technology is transforming the experience. There is increasing use of smartphone apps to identify value for money and access information on products and services in real time. The use of

QR codes to allow browsers rapid access to targeted information is becoming routine. Trendspotters talk of a move toward "Point-know-buy", as smartphone capability moves away from text-based searches to visual recognition and searching. The arrival of genuine cloud computing and the move from 3G to 4G mean that many consumers will be looking for "always on" rapid remote access to relevant data. It is also likely that cashless transactions will become increasingly common over the next decade. While social housing organisations generally have a developed online presence, they may not yet have moved decisively off the desktop. How easy is it, for example, for a tenant reporting a repair to take a smartphone picture of the problem and submit it directly to their landlord?

5.26 The other potential, unrelated, area for continued innovation is financial. Mortgage rescue and equity staircasing schemes are familiar, although not perhaps extensively used. The challenges of funding and administration notwithstanding, if the economic climate continues to be adverse there could be considerable scope – and need – for systems that create more flexibility around the financial terms on which households occupy their dwelling. Prioritizing the welfare of households and the stability of communities would suggest financial arrangements that can adapt more easily as circumstances change. In the face of increased labour market uncertainty there is an argument for greater tenure porosity.

6. The social housing quasi-market

6.1 The evolution of choice and competition in the social housing quasi-market over the rest of this decade is likely to be shaped most directly by:

i. the overall trajectory of the economy and unemployment
ii. whether credit conditions in the mortgage market ease, and interest rates stay low
iii. whether the Government persists with some version of the current model of capital financing for social housing
iv. whether institutional investors are attracted to invest more heavily in rental housing (private or social)
v. the extent to which new freedoms under the Localism Act are used
vi. whether the Government persists with a stringent welfare reform agenda
vii. whether the Government revisits the idea of a local housing allowance for social housing.

6.2 A weak overall trajectory for the economy and elevated unemployment (factor i) will increase the number of households seeking rented housing, although weaker demand for owner occupation could improve affordability. Easing credit conditions (factor ii) would act in the opposite direction by facilitating or sustaining owner occupation. However, improved access to credit in itself, without a return of consumer confidence, will have a more moderate impact upon demand. At present the private sector is deleveraging in spite of near zero interest rates, which standard theory suggests shouldn't be happening.

6.3 The model of capital funding embedded in the AR regime must be time-limited (factor iii). Any model that relies on borrowing against an asset base will eventually reach a limit and the search for a funding model for the post-2015 period has already begun. If the Government were, however, to continue to favour this route then it will, hypothetically, lead to developing landlords looking to access unencumbered assets owned by other associations. There would be a further push to scale. Landlords seeking wholesale development finance, which is an increasingly popular option, has the same effect. If policy remains rooted in the paradigm that sees growth as reliant on private finance then this will lead to industrial concentration, even though the efficiency advantages are unclear. Whether that reduces consumers' choice of provider depends on the pattern of mergers and acquisitions. There is a plausible argument that it will, because economies of scale in management are achieved through spatial concentration. Conversely, risk management would encourage diversifying the portfolio across local markets. Government injunctions to deliver value for money also drive landlords towards spatial concentration. Under this scenario the challenge for landlords is to retain sensitivity to consumer demands rather than succumbing to the insensitivities of a local monopoly.

6.4 A very different policy trajectory would flow from recognizing that using private finance and revenue subsidy through housing benefit is considerably more expensive and risky for the taxpayer over the medium-term. Think tank IPPR, for example, have argued that, if the policy focus switched away from short-term savings to acknowledge the longer-term burden on the tax payer, a move back to increased grant funding would be entirely justified. The case has merit, but seems unlikely to gain traction in the short-term. It requires a major rethink in the direction of policy since 1988. The Government may at some point be forced to conclude that the private finance route has been pushed as far as it can go because funders take fright. But this is unlikely to happen before 2020.

6.5 The arrival of institutional investment in social housing (factor iv) might well also drive developments in the direction of scale: large scale investors are understandably going to want to deal with large professional landlords with strong governance. The arrival of institutional investment in the private rented sector may result in the professionalization of parts of the sector. It potentially brings large players with brand recognition into the sector. The image and reputation of the private rented sector – in terms of management and quality of property – would improve. Its ability to compete with social renting on quality would increase. Even if this process eventually becomes embedded, it will probably only just be gathering momentum by 2020. The arrival of institutional landlords to private renting might well sustain pressure to keep tenancies relatively short, in order to maximise flexibility in asset management.

6.6 The Localism Act is a substantial piece of legislation that its advocates argue offers considerable new freedoms for local authorities, landlords, communities and individuals (factor v). The local authority general power of competence may not be accompanied by a significant change in the scope of local authority powers but it is highly symbolic. It invites local authorities to demonstrate clear civic leadership and invites local experimentation and innovation to address local issues. Yet local government will increasingly lack the resources to act independently. The Community Right to Challenge and the *Open Public Services* agenda mean local authorities will potentially be more distant from frontline service provision. There is scope for not-for-profit landlords to make a substantial contribution here.

6.7 Currently security of tenure and tenancy length are key points of differentiation between private and social renting, alongside lower rents and professional not-for-profit property management. But the more social landlords move to AR, the more they develop without grant funding, and the more they identify exceptional circumstances justifying the use of two year fixed term tenancies (factor v), the more their product starts to converge with that offered by the private sector. At the moment social landlords have stronger brand recognition and a reputation for professionalism. But the arrival of institutional investors could erode these advantages. Conversely, some social landlords are already moving into market renting to meet a demand and take advantage of their established reputation. This move will accelerate.

6.8 Greater convergence of for-profit and social landlords on the tenancy/rent dimension of their offer seems highly likely. Commentators are already suggesting that business models will converge over the next decade and Registered Providers of various types will become largely indistinguishable. This would increase direct competition. However, we do not know which segments of the market landlords backed by private institutional investors are likely to target. Plausibly they would focus on relatively low risk, low maintenance tenants, which would tend to limit direct competition with conventional social landlords. If the Government goes ahead with a “pay to stay” policy for social landlords then this may well lead to further market segmentation.

6.9 If social landlords do not wish to be directly involved in market renting there are other possibilities. A key problem is poor quality property management in the private rented sector. The 2008 Rugg Review talked positively about not-for-profit letting agencies entering a market that is almost entirely unregulated. There is likely to be considerable demand for such a service if provided by an established, trusted source.

6.10 Similarly, the demand for houses in multiple occupation will increase as a result of the changes to the SAR. This is one of the most problematic sectors of the housing market. An increase in the supply of professionally and non-exploitatively managed HMOs would be a positive response to this.

6.11 Landlords can focus on differentiating across components of service beyond property management. There is a long history of social landlords going beyond simply managing properties. In an extended period of economic hardship there is a powerful case for thinking holistically about neighbourhoods and acting as a catalyst for mutual aid and self-help. As the scope for state action becomes more constrained, the need for capacity building in poorer communities will be all the greater. The Big Society rhetoric is not particularly helpful; it ignores the uneven spatial distribution of community capacity. But the aspiration to allow communities greater scope to shape their own areas is a positive one.

6.12 Some communities are not so much going to be allowed to take control but will be compelled to do so if the needs of their members are going to be met. Developments like the community right to bid could come into play here, although details are yet to emerge. As cuts to local government spending intensify, local authorities will look to act as facilitators rather than service providers. There is interest in innovative approaches such as co-production, which, when viewed positively, are about drawing on communities' potential for self-help or, more cynically, are a way of simply passing some of the costs of provision back to communities. Housing providers could continue to play a major role in unleashing the potential of communities, although innovative thinking about how such non-housing activities are funded may be needed.

6.13 Over the last year publicity about empty homes has generated considerable public interest and indignation. It opens up another area where social landlords could demonstrate their positive impact on the communities in which they work. New flexibilities in allocations schemes offer the possibility of letting to different types of household. There have been some modest innovations in funding this type of regeneration activity, but the challenge of resourcing continues.

6.14 We can distinguish choice between providers from choice of products offered by providers. The pressures to push for scale and spatial concentration create the potential for local monopolies. But this does not necessarily imply standardisation. The broader thrust of policy towards greater personalisation is unlikely to leave social housing organisations untouched, whether they provide social care services or not. Embedding personalisation in service provision would likely result in service users coming to expect a menu of alternatives and a degree of flexibility from service providers.

6.15 Reconciling a broader role for social landlords, associated most with 'welfare' housing in more vulnerable communities, with the evolving identity of housing associations as not only professional but commercial – albeit not-for-profit – organisations may be increasingly difficult.[xii] The consumers serviced by rental housing providers will probably fall into clearly differentiated groups and different strategic responses are available to organisations. They may seek to make a virtue of an inclusive approach: one organisation that is both commercially savvy and socially responsible. Alternatively, they may create subsidiaries with differential branding identities to serve different market segments. The appropriate strategy depends in part on the way the political context and head-to-head competition with private providers develop. Continued stigmatisation of the poor and increased competition from private providers for the working poor would both point to the benefits of organisational differentiation so as to insulate near-market housing from any negative external effects from 'welfare' provision. Retaining the inclusive mission would be a more challenging strategy.

6.16 The Government is pursuing a welfare reform agenda that, in the name of "making work pay", seeks to restrain welfare benefits, including the LHA (factor vi). This will increase household mobility and trading down to cheaper properties in the private rented sector and increase the number of households approaching social landlords. While the reforms are still to be fully implemented, the rebasing of the LHA is already generating these effects. Restrictions on housing benefit for under-occupying social tenants will potentially increase the demand for smaller properties dramatically. Alternatively, income poverty of households remaining *in situ* will rise. This policy change could impact significantly on social landlords' development plans. Coupled with the demographics, it points towards needing to ensure a supply of smaller properties suitable for older people, ideally designed to allow ageing in place.

6.17 The one component of the welfare system not currently under scrutiny is housing benefit in the social sector, apart from in the specific case of under-occupiers below retirement age (factor vii). The 2011 Housing Strategy sought

xii For relevant discussion see, for example, Sacranie, H. (2012) Hybridity enacted in a large English housing association: A tale of strategy, culture and community involvement, *Housing Studies*, vol 27, no 4, 533-552.

to reassure that social sector housing benefit was not going to be modified. To do so would increase lenders' risks and act as a disincentive to lend. This will be increasingly important under the AR regime.

6.18 There is no evidence at the moment that social sector housing benefit is to be restricted, but it seems unwise to rule out the possibility entirely. The restrictions on LHA in the private sector are proceeding even though it is not at all clear they will save money from the housing benefit budget, let alone from public spending overall. Affordable Rents seem likely to increase the aggregate housing benefit bill. It is implausible that this will not attract political attention.

6.19 In some respects the social housing quasi-market is an incomplete experiment. Labour proposed choice-based lettings, rent restructuring and an LHA in social housing as a package that would create incentives for consumers to make informed choices. In the end they backed down from the LHA component, primarily because of concerns about its impact on the supply of private finance. But there must be some likelihood that this idea could be resurrected during the course of this decade.

Social policy in 2020

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August 2012

Executive summary

- This paper presents a challenging review of certain, likely and other potential social policy developments up to 2020, as they affect housing associations, their residents and their employees.
- Living standards have been falling and are not likely to recover by the end of the decade. Real earnings are falling and so are real benefit levels because of the way they are uprated. Inflation is expected to fall from its present level, but there are global pressures on the commodities that affect the poor most – food, clothing and energy.
- 75% of the reduction in the deficit is to come from cuts in spending – delivered through cuts in public sector employment, wage freezes in the public sector and cuts in benefits and services.
- Unemployment is still high and private sector jobs are not yet replacing public sector jobs. Youth unemployment is very high. The economy is not growing and without growth new measures will be needed to meet the deficit reduction targets.
- The cuts in benefits and services have been concentrated on families with children and there is no chance that any of the 2020 child poverty targets will be met. In fact, both relative and absolute child poverty will be higher at the end of the decade. The same is true for working age poverty.
- In contrast, pensioner poverty is likely to continue to fall with a real prospect of it being abolished by 2020. However, there is already growing unmet need for social care and the budget is being cut.
- Connected to the cuts and freezes in benefits are a huge array of changes to our social security system. The Work Programme and the roll out of the Work Capability Test for Employment and Support Allowance are already in progress. A benefits cap will soon be imposed and then the Universal Credit, including the replacement of Disabled Living Allowance, will come from 2013 onwards.

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- In a more buoyant labour market some of these changes might be expected to have positive outcomes. There will be reductions in child and working age poverty due to Universal Credit, but in the present circumstances the general effect of the changes will be to reduce and disrupt incomes for some of the poorest social tenants.
- It may be that these measures reflect the fact that we are a harsher, meaner country. There is some social attitudes evidence for this. But there is also evidence that the vast majority of the population do not favour tax cuts and cuts in services. They value and benefit from the welfare state. This political fact is likely to moderate the worst excesses of the Coalition's neo-liberal project – as it has before.

Introduction

The objective of this paper is to review the potential social policy context in 2020 in order to help inform the strategy of Orbit and the wider housing policy landscape.

It could not be a more difficult time to be doing this. The economic context is volatile and dependent on the outcome of the crisis in the Euro area, which at the time of writing is still uncertain. (This issue is covered in detail in another paper). The political context in the UK is also very uncertain, for this and other reasons. There will be a General Election in 2015 which might lead to the continuation or even acceleration of current policy trends, if a Conservative majority is returned, or plausibly might result in a change of direction and repeal of some current policies if there was a change of government.

There are some things we can be fairly confident about predicting:

- the demographic context does not change much in ten years
- we already know the social and other policies that have been announced and are being rolled out in the current Parliament to 2015
- there are, of course, continuities in social policy between governments – themes that have been pursued by successive governments over 30 years or more that look as if they will continue
- financial constraints will affect any government to 2020
- The vast majority of the homes housing associations will own in 2020 are already built; a majority of residents are already in place; a large proportion of the staff are already in place.

There are also things we may not yet fully understand. We don't know, for example, whether the policies designed to meet the deficit are more than that. Taylor-Gooby has suggested that the

Coalition (or the Conservative part of it) actually has an ambition to reduce the size of the state substantially – to cut the level of public social spending to a proportion of GDP even lower than that of the USA.[1] There is also evidence from the British Social Attitudes Survey[2] that the population may be becoming more 'unkind' – less willing to pay taxes to fund social expenditure, less sympathetic to the poor, more inclined to discriminate against the 'undeserving' poor. Indeed, some might see a reflection of this mood in the welfare reforms presently being enacted.

However, the welfare state is very resilient – no government in post-war history that has aspired to cut social expenditure has reached their initial target for cuts. It is still the case (in the British Social Attitudes Survey) that only a minority (8%) support cuts in taxes even if it means cuts in services and over a third favour increases in taxes to fund improvements in services.

Outline of the paper

The paper covers the elements of social policy of greatest significance for housing associations to 2020. These are:

- Employment policy
- Benefits policy
- Incomes and living standards
- Early years and childcare policies
- Health and social care policy
- Regional or area based policies
- Policies which affect other organisations which might have provided services for residents or otherwise acted as partners, including local authorities, the police, and voluntary organisations.

The likelihood of policy developments occurring is described, along with the scale of the potential effects. Further analysis of Orbit's stock, residents, regional bases and organisational features would be required to add detail on the likely impacts to 2020.

The boundary between housing policy and social policy more broadly, and between social policy and other related areas such as economic and regional policy, is not fixed or completely clear. This piece covers social policy and does not cover core housing policy. Several aspects of housing policy, particularly those covering rent setting, tenancies and social housing development, or support for home ownership, are certain or likely to have big effects on all large housing associations.

Demography

The Office for National Statistics (ONS) expects the population of England to grow by 4.4 million over the decade 2010-2020. The determinants of this growth are fertility, mortality and migration. Fertility has recovered to near replacement level (2.0 in 2010).

1 Taylor-Gooby, P. (2011) Root and branch restructuring to achieve major cuts: the social policy programme of the 2010 UK coalition government. *Social Policy and Administration* (forthcoming). Taylor-Gooby, P. (2011) *Squaring the public policy circle: Managing a mismatch between demands and resources*, British Academy.

2 www.britsocat.com/Home

Mortality has declined with increasing life expectancy, which reached 78.0 for men and 82.1 for women in 2008. Life expectancy improved by about three years in the last decade alone.[3]

Perhaps migration is the most difficult element to predict – net inward migration has contributed just over half of population growth in the last decade. The recession has seen a decline in new A8 migrants, but the decline has been sectorally uneven, with demand for migrant labour being most persistent in the agricultural sector.[4] It may be that a long recession will reduce inward migration and increase outward migration.[5] ONS are assuming net inward migration will fall over the decade from about 200,000 to 170,000,[6] but that depends to some extent on the success of border controls. Most likely is that the population in the regions Orbit works in will grow.

The UK is ageing because people are living longer. The decade *after* 2020 will experience a rapid increase in ageing as the 60s baby boomers begin to retire, but during the 2010-2020 decade there will actually be a small reduction in the proportion of the population who are retired and a small improvement in the old age support ratio. In contrast, the proportion of children in the population will increase and, due to previous fluctuations in fertility, there will be a sharp increase in 5-9 year olds and sharp decline in 15-19 year olds, leading to a smaller cohort seeking to enter the labour market.

It is difficult to envisage any dramatic changes in family size and structure in the decade to come. It is predicted that average family size will continue to decline with each successive cohort, with fewer large families and more childless families. Births outside marriage will continue to increase, but an increasing proportion of these will be to couples cohabiting at the same address. The proportion of households containing children will decline by about two percentage points to 35%.

With the increase in cohabitation, divorce is no longer a useful indicator of relationship breakdown. Rowthorne and Webster[7] estimate that the fall in male employment explained between 38% and 59% of the 1.16m increase in lone parent families over the period 1971-2001, and we might therefore expect a sharp increase in lone parenthood in the current recession. However, big changes have taken place since 1971 in relationship behaviour. Relationship breakdown will probably follow the upward trend and by the end of the decade we can expect over a quarter of children to be living in a lone parent family.

Housing organisations are most affected by patterns of household formation. CLG household projections 2008-2033 for England[8] envisage the

3 Though this may not be sustained as it includes the “golden generation”, born around 1930, which has had unusual life expectancy.

4 McCollum, D. and Findlay, A. (2011), ‘The nature of A8 migration during the recession’, *Population Trends* 145, autumn 2011, Office for National Statistics.

5 And this in turn may reduce fertility as 20% of the increase in fertility has been attributed to migrants.

6 ONS National Population Predictions 2010-2020

7 www.spi.ox.ac.uk/fileadmin/documents/pdf/WP31_Male_Worklessness.pdf

8 www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/household estimates/livetables-households/

total number of households will increase by 16.5% and average household size will decline from 2.33 to 2.22. There will be some sharp changes in the types of household. Single households will increase by over a third (though this will not have taken account of any impact of the under-occupation penalty for council and housing association tenants in the Welfare Reform Act). Couple families with no children and couples with one child will increase, and couples with two or more children will decline. Lone parent households with children will increase by nearly a half. Multi-unit[9] couple families will decline by a quarter and multi-unit lone parent households will increase by over a quarter. Rising youth unemployment (and other changes in housing benefit) may result in young people leaving home later and lead to these predictions for multi-unit households being wrong.

Employment policy

The overall employment outlook is covered in another paper, but employment policy may affect housing associations as both housing providers and as employers.

The Work Programme

The Government's new Work Programme was launched officially in 2011, with greater private and voluntary sector involvement in delivery of back to work programmes for benefit claimants and more emphasis on outcome funding (including longer-term, 'sustainable' employment).

This is likely to lead to an enhancement of conditionality (such as actively seeking work, engagement with training, attendance at interviews). The Government is continuing to increase conditionality on lone parents, who will have to be available for and actively seeking work once their youngest child is aged five. The latest data for 2010 suggests their employment rate is still 57% and, unlike for other women, does not appear to have fallen in the current recession.

The Work Programme may well not be capable of delivering the kind of service that can provide sustainable employment, especially in the current state of labour demand. A new youth employment programme designed to get 400,000 16-24 year olds into work or training in the next three years was announced recently, but meanwhile youth unemployment is well over one million and rising.

These changes are here to stay regardless of any political changes after 2015. They may present challenges to Orbit and other housing associations through increased volatility in incomes, with movement in and out of work and on and off housing benefit, particularly with direct payments of housing benefit coming in. But see also the impact of the Welfare Reform Act below.

Work-related conditionality might spread to housing policy – there is already debate about whether there should be some form of earned entitlement to social housing (such as being in work or volunteering, or having lived in the area long-term), perhaps in addition to the current priority need system.

9 Households with more than one family or benefit unit – most commonly a young adult.

Low pay and regulation of labour markets

The Coalition government is so far continuing to increase the minimum wage, though it has asked the Low Pay Commission to focus on the potential impact of any rise on employment.

The Government has made a pledge to business to reduce regulation, which is likely to lead to fewer rights at work for many. There is already a moratorium on new regulations for micro-companies, which covers domestic legislation but cannot cover changes from the EU, and which business groups therefore argue is of little practical use. The qualification period for the right to claim unfair dismissal was also extended from one to two years, with effect from April 2012.[10]

At the moment things look very bleak for those operating at the bottom end of the labour market. The Office for Budget Responsibility (optimistically) expects 1.7 million private sector jobs will be created by 2017, but competition for them will be very hot especially if inward migration remains as high as it is.

Housing associations are affected by these developments as substantial employers of people at all skills and salary levels, as well as through the impact on residents. This is an important area where organisations like Orbit can, in effect, make their own social policy by taking a strategic position on the balance between workers' and residents' interests and cost and quality in the pay and conditions it offers employees.

Benefits policies

Employment and Support Allowance

Employment and Support Allowance (ESA) is replacing Incapacity Benefit (IB). ESA was introduced in 2008, starting with new claims, and existing IB claimants are now moving onto ESA. It was suggested that the new Work Capability Test would result in 75% of claimants being found ineligible for ESA. But so far there have only been very small changes in the case-load and Gregg[11] suggests that the number of claims will not differ greatly for ten years, as the higher inflows from the recession counter-balance the impact of the new testing regime. However, those who do lose entitlement to IB, including those made ineligible for contributory IB, will suffer a drop in the level of benefits, and those who don't claim, or are ineligible for Job Seeker's Allowance, may suffer a catastrophic drop in income.

This would affect the income and living standards of a small proportion of Orbit residents.

This is an area where housing associations can play a substantial role in mediating and influencing the ultimate effects of social policy, by planning how to prevent and treat rent arrears arising from this policy.

10 Department of Business, Innovation and Skills (2011), press release 3 October.
11 Paul Gregg and Harriet Robinson (2012) Disability welfare reform: what will be the long-term effects on numbers of claims? http://stats.cesi.org.uk/website_documents/ESA_Paul_Gregg.pdf

Benefit cap

In the Welfare Reform Act 2012 (see below) the Government has introduced a £500 per week benefit cap (£350 for single person households) for out of work households from 2013 on the grounds that people on benefit should not be able to receive more than average take-home pay of working households. The impact assessment[12] suggests the cap will affect 75,000 households by 2014/15, 90,000 adults and 220,000 children, mainly large families or living with high rents. This and other recent studies have shown that the impact is concentrated in London and the South East. Over half of those affected are in greater London.[13] 45% will lose less than £50 per week but 17% will lose more than £150 per week. This is likely to impact on Orbit and other housing associations operating in high value areas, as some families are forced to move out of their homes.

Homelessness has been on the rise since 2011, reversing a trend in which declines have been more or less continuous since 2003, and these changes may not help.

This is an area where Orbit can play a substantial role in mediating and influencing the ultimate effects of social policy, by planning how to prevent and treat rent arrears arising from this policy, how to manage moves, alter allocations policies and plan rent profiles of existing and future stock.

Local housing allowance rates

From April 2011, local housing allowance rates have been set using the bottom 30% of rents, not the average. This will have a gradual effect on the ability of new and moving households to afford private rents, which may affect demand for housing association homes. It may also affect the number and type of private tenants in the neighbourhoods housing associations work in.

Universal Credit

The introduction of Universal Credit (UC) from 2013 will be the biggest change in the UK's social protection system for decades, and even if the introduction is not successful or if it is altered by a new government, it will continue to have repercussions until 2020 and possibly beyond. In work and out of work benefits are to be integrated, marginal tax rates reduced, there will be more generous disregards for part-time work, and an automated delivery system relying on largely online interaction with claimants. People will be migrating to the new scheme from October 2013 as they make new claims or their circumstances change.

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12 www.dwp.gov.uk/docs/household-benefit-cap-wr2011-ia.pdf

13 Crisis (2010) *Housing benefit cuts will cause homelessness surge in London* Press release 12 August 2010 (accessed 13 October 2011): www.crisis.org.uk/pressreleases.php/406/housing-benefit-cuts-will-causehomelessness-surge-in-london; CIH (2011) *Briefing Paper on the impact of forthcoming changes to Housing Benefit and Local Housing Allowance* London: CIH www.cih.org/housingbenefit/Housing-Benefit-Briefing-April-2011.pdf; Fenton, A (2010) *How will changes to local housing allowance affect low income tenants in private rented housing?* Cambridge: CCHPR; Fenton, A (2011) *Housing benefit reform and spatial segregation of low income households in London* Cambridge: CCHPR; Fenton, A, Tang, C, and Whitehead, C (2011) *Market pegged social rents & local income distributions* Cambridge: CCHPR

Some of the key issues that have been raised about UC are:

- Concerns it will subsidise and institutionalise low-paid, marginal work
- The credit is not going to be universal. In particular, council tax benefit is being transferred to local government to administer using their own discretion, with a simultaneous 10% cut in funding. As local authorities are required to protect pensioners' council tax benefit other types of claimant are likely to suffer cuts
- The bill ignores 'passported benefits' and this may undermine the simplicity of the marginal tax rates
- UC will not necessarily be paid to the mother
- Support for housing costs will be part of this payment, though currently many claimants have their rent paid direct to the landlord – a big potential problem for social housing organisations
- A major new computer system is being developed. If it fails (as many government IT systems have before), it will be a disaster
- The scheme includes a major revision in Disabled Living Allowance (which becomes Personal Independence Payment) and will involve a reduction in coverage and substantial reduction in level, especially for disabled children.

In the short-term there is likely to be substantial disruption, which would create extra work for housing associations in advising residents, particularly those previously on direct payments, and in chasing income, and will cause 'dead losses' in income to residents and Orbit. There will be ongoing tensions for residents and for social landlords in budgeting between housing costs and other costs, including increased council tax. In addition to changes in benefits levels paid to individual households, there will also be a change in the balance between types of households, which will affect housing associations. The effects on housing associations will be significant.

Pension policy

The Coalition's tax and benefit announcements have largely protected pensioners' benefits. Annual uprating for the basic state pension (BSP) has been linked to movements in prices, average earnings or 2.5%, whichever is better. Pension Credit has been increased in line with the BSP. Housing benefit cuts will affect some pensioners in the private rented sector but, compared to children (and women), pensioners have so far come off rather lightly in the Government's responses to the deficit.[14]

The state pension will be subject to further reform during the decade, probably to a single-tier flat-rate pension set above the level of the Pension Credit standard minimum guarantee. The Government is also introducing automatic enrolment into minimalist workplace pensions from 2012 onwards, beginning with large firms.[15]

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14 Yeates, N., Haux, T., Jawad, R. and Kilkey, M. (eds.) (2011), *In Defence of Welfare: The Impacts of the Spending Review*, Social Policy Association.

15 House of Commons *Hansard*, Written Answers 18.7.11, cols 597-8W.

There was already evidence that the poverty rate of pensioners had fallen more quickly than those of other groups since 2000. The pensioners retiring during this decade will increasingly be owner-occupiers who have paid off their mortgages, and more of them will have occupational pensions. Thus we can expect pensioner poverty to continue to fall. In fact, the poverty gap (between Pension Credit and the 60% of median income poverty threshold) for pensioners is now quite small and there is a real prospect of eradicating pensioner poverty if Pension Credit is taken up.

The overall impacts of pension policy on housing associations is therefore likely to be small.

Incomes and living standards

Child poverty

The Child Poverty Act required the government to appoint an independent Child Poverty Commission and to publish a child poverty strategy for meeting the UK's 2020 child poverty targets. The main UK strategy was published,[16] alongside a social mobility strategy.[17] The government set up a Social Mobility and Child Poverty Commission, chaired by Alan Milburn, a former Labour cabinet minister.

It is unlikely that the 2020 child poverty target will be met. The latest Institute for Fiscal Studies (IFS) predictions[18] conclude that relative child poverty will remain broadly constant between 2009/10 and 2012/13 at about 19% of all children in the UK, but will then rise to 24.4% by 2020. Absolute child poverty will rise from 17% in 2009 to 23.2% in 2013 and then remain constant to 2020. This unusual picture comes about because real median household income will be 7% lower in 2012/13 than it was in 2009/10 and remain below its 2009/10 level until 2015/16, due to high inflation and low earnings growth.

Some of this increase in child poverty will be due to the Government's policies. Universal Credit will reduce child poverty by 450,000 (and working age adult poverty by 600,000) by 2020-21; but this will be more than offset by changes to tax and benefit policies, in particular the decision to uprate benefits by movement in the CPI instead of the RPI. The IFS report concludes:

> 'The results therefore suggest that there can be almost no chance of eradicating child poverty – as defined in the Child Poverty Act – on current government policy.'

In the 2011 Autumn Statement the Chancellor went back on his promise to uprate child tax credits above inflation and as a result child poverty will increase by 100,000 over the figures above. A Labour or Lab/LibDem Coalition coming into government in 2015 might make more effort to reduce child poverty but would be constrained by budgetary factors and an unwillingness to raise taxation.

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16 Department for Work and Pensions/Department for Education (2011), *A New Approach to Child Poverty: Tackling the causes of disadvantage and transforming families' lives*, Cm 8061, London: The Stationery Office.
17 Cabinet Office (2011), *Opening Doors, Breaking Barriers: A strategy for social mobility*.
18 Brewer, M., Browne, J. and Joyce, R. (2011) *Child and Working-Age Poverty from 2010 to 2020*, Institute for Fiscal Studies, www.ifs.org.uk/comms/comm121.pdf

Living standards

People's actual living standards depend on incomes, the availability of services (such as social housing or free state education), and what incomes can buy in the market. At the time of writing, price inflation is still running ahead of earnings growth and living standards are falling. This is a most unusual circumstance in the whole of post-war history, and, because it is so unusual, it might be expected to change to the more familiar picture of earnings moving ahead of prices as the economy begins to pick up.

However, there is a question of when and whether the economy will pick up. GDP fell in the first two quarters of 2012, indicating that we are already in a double dip recession. Without economic growth there will be a need for further deficit reduction measures. But even if we get some growth back into the economy, unemployment begins to fall and incomes begin to rise, a set of global factors may make this a decade of static or falling living standards.[19]

These are the substantial increases in the costs of food, fuel and clothing, driven by a long-term rise in world demand, increases in the price of raw materials and increasing labour costs in China and other emerging economies. These are particularly serious because all these commodities constitute a larger share of the budgets of low income households.

Low income families depend on cash benefits which are currently pegged to the Consumer Prices Index. At the moment the CPI has been increasing ahead of earnings and recipients of state benefits have actually been protected better than wage earners from falling living standards. But the CPI represents average consumption patterns, not the consumption patterns at the bottom of the distribution. Pensioners, and in particular those dependent on state benefits, experience higher rates of inflation than non-pensioners.[20] Hirsch et al[21] have suggested a scenario where the minimum costs of living could rise by 34% by 2020 and by between 9% and 18% after adjusting for general inflation. If this happens, the real incomes of in work and out of work households dependent on cash benefits and tax credits will fall. Indeed, unless the economy and earnings grow, average living standards – for the so-called squeezed middle – will also fall.

Trends in living standards will vary across the regions, with the West Midlands being hit hardest of those regions Orbit works in.

Falls in living standards will result in falls in housing association tenants' ability to pay rent (whether or not claiming housing benefit), to pay service charges, to fit out, heat, and maintain their own homes, and will increase the importance of additional help from their landlord and other agencies (for example on benefits advice, fuel efficiency, and any other financial or in-kind help).

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19 This is a much bleaker view of the outlook than the FTI Consulting paper for Orbit on the economy suggests.
20 Levell, P. and Oldfield, Z. (2011), *The Spending Patterns and Inflation Experience of Low-Income Households Over the Past Decade*, Commentary 119, London: Institute for Fiscal Studies.
21 www.donaldhirsch.com/globalisation.pdf

Early years and childcare policies

The Coalition government is focusing on early intervention in terms of its rhetoric about priorities,[22] but cuts in Sure Start provision at local level will undermine this aim.[23] The extension of part-time early education to disadvantaged two year olds is welcome, but childcare costs in the UK remain very expensive, not least because the cut in the childcare element of working tax credit from 80% to 70% has resulted in an increase in costs of up to £30 per week.

As providers of housing and related services, and as supporters of services provided by partner organisations, including environmental quality, community activities and childcare, housing associations have the potential to mitigate the effects of income loss on residents' living standards and life chances, including those of children.

Health and social care

The National Health Service is at best facing level real funding and over the next four years will have to save and recycle up to £20 billion, i.e. a fifth of its budget. No health care system has achieved such a target. Care and support services for chronically ill, disabled and elderly adults in England are severely underfunded. Currently England spends 0.5% of GDP on social care, against an OECD average of 1.5% of GDP. Despite several major reports,[24,25,26] the future funding of social care is in limbo and spending on older people's care will be £250m lower in 2014/15 than in 2004/05 – at the same time as numbers of people over 85 will rise by two-thirds.[27]

Pressures for more spending from these two sources will be hard to resist, leaving aside the rising costs of unemployment. The Health and Social Care Act is now being implemented, which will mean substantial reorganisation of services and the development of new organisations and new kinds of services, including more health and social care in domestic and community settings.

A combination of income and assets-testing, plus stringent needs assessments, mean few people with low or moderate support needs receive publicly-funded social care. By 2016, one million out of 2.3 million older people with support needs are expected to receive no social care services. Growing burdens will therefore be placed on families and carers: currently around six million people are carers but this is expected to increase.

22 See, for example, its early years strategy: Department for Education/Department of Health (2011), *Families in the Foundation Years*. The government also consulted on a new statement of the 'core purpose' of Sure Start children's centres.

23 Mulley, K. and Scowcroft, E. (2011), *The Red Book: Impact of UK government spending decisions on children, young people and families 2010/11*, London: Action for Children.

24 Royal Commission on Long-Term Care (1999) *With Respect to Old Age: Long term care – rights and responsibilities. Report of the Royal Commission on Long Term Care*. London, TSO

25 Wanless, D. (2006) *Securing Good Care for Older People*, London, Kings Fund

26 Commission on Funding of Care and Support (2011) *Fairer Care Funding*, London, Department of Health.

27 AgeUK (2011) *Care in Crisis: causes and solutions*, downloaded from www.ageuk.org.uk

There is already significant private purchase of social care. Meanwhile, the long-standing policy of encouraging those eligible for publicly-funded support to accept cash personal budgets and direct payments instead of services in-kind will continue to increase the numbers of privately employed care workers, who are currently outside any regulatory framework. It is therefore highly likely the private purchase of care will continue.

Housing associations have a potential role to play in shaping the substantial impacts of these new polices, not only by managing the effects on current residents, but also by becoming involved in care delivery.

Regional and neighbourhood policy

The Coalition government seeks to 'rebalance' the UK's economy away from financial services and, potentially, away from the South East of England. It appears unlikely, however, that policy will result in significant rebalances.

The previous government had a wide range of economic development and regeneration policies operating at regional, local and neighbourhood level. The overall volume of activity has since reduced greatly. While evaluations of these programmes did not always identify marked impact, it is plausible that, over time, the absence of such policies will have a noticeable effect on more deprived areas or those lacking investment, including many areas where Orbit and other housing associations have homes.

Social policies affecting other organisations

The dominant factors in social policy in the coming decade will be the recession and the deficit, and the Coalition's approach to the deficit. The Government aimed to reduce the deficit by £81 billion by 2014/15. It chose to do this by planning to take 80% from spending and 20% from tax increases – though by 2015-16 the split will be 76/24%. The decision to deal with the deficit in this way already made it inevitable that the cuts would be less progressive in nature than if increased taxation took a higher share. The reduction in public sector employment is still rolling out; the OBR expects it to fall by 710,000 by 2017.[28]

Cuts in central government and local authority public expenditure may affect other organisations which provided services for housing association residents or otherwise acted as partners for the sector, including the police, a wide range of local authority services (including social services, youth services, environmental services), and a wider range of services provided by voluntary organisations. For example, several senior police officers have predicted that a combination of rising unemployment and poverty, plus cuts to police, crime prevention, youth justice and youth services may lead to an increase in crime and disorder over the period to 2020. It seems plausible that there may be further riots such as those experienced in summer 2011.

28 http://cdn.budgetresponsibility.independent.gov.uk/Autumn2011EFO_web_version138469072346.pdf

Crime may affect the relative popularity of different housing association stock and create extra insurance, management and maintenance costs, and potentially additional staffing costs for any replacement security services associations may need to provide.

Housing associations may find they have to provide services on their own and adopt a local leadership role rather than working in partnership. They may find themselves encouraged to, or wanting to, provide partial substitute services, especially where costs result from the loss of some services.

Conclusion

This review paints a very bleak picture. But there is a risk it is not bleak enough.

- By 2020 many housing association tenants will be poorer than they are today. This will be particularly true for families with children and working age households – the poverty rates of both are expected to rise. Compared to them pensioners will be relatively better off.
- The local government cuts impact more heavily in poorer areas, since these get a higher proportion of their resources from central government grant, plus the grant formula has been changed.
- The decline in living standards for social tenants will have knock-on effects on ability to pay rent, affordability, the capacity of tenants to maintain their dwellings and fuel poverty.
- Social rented housing will be in great demand: particularly from single people and lone parents. Perhaps there will be less demand from pensioners. New dwellings will be sought-after by tenants seeking to get out of the private rented sector – and possibly also mortgage payers.
- More working age tenants will be unemployed or working part-time. Lone parents will be constrained from working by the absence of affordable childcare – potentially a service opportunity for housing associations.
- The Welfare Reform Act will present new (nightmarish) management responsibilities with respect to under-occupation. Housing associations should be fearful of Universal Credit – both housing benefit payments and the IT systems – and might need a contingency fund. The benefit cap will also have some impacts, particularly in the South East.
- The plan to reform social housing management through the Localism Act in an effort to create a sector which uses its housing as a springboard for social mobility; and the plan to grant councils financial responsibility for their own housing stock through reform of the Housing Revenue Account, are examples of the shift to localism and will have a number of impacts.
- Social care will be a growing problem and there may be opportunities for housing associations to provide (more) services.

- Indeed, there may be a number of new opportunities to develop services for tenants – childcare, debt advice, welfare rights advice, etc. Orbit is already a social enterprise – one of the biggest in the UK – but it may be possible to grow this part of the organisation. The plan to encourage new for-profit housing providers to offer social housing may be an opportunity or a threat.[29]

- Low pay will remain low which may help with maintenance and building contracting costs.

- Housing associations can act to shape the impact of social policies on residents, and their organisations as a whole, through their roles as housing and service providers, employers and investors.

- The demographic outlook is actually quite benign: the population will grow mainly as a result of migration; rapid ageing comes after 2020; there will be an increase in the number of households and a shift towards single and lone parent households.

29 A socially innovative scheme of the Coalition government is the 'social bond', intended to encourage providers to invest in services with a payoff in terms of dividends in future years. This initiative is deliberately setting out to attract private and philanthropic investors into social provision, with a view to making money out of successful interventions in public policy. The first experiments are being trialled in the policy area of offending, with schemes to combat recidivism. The Government appears to see the 'social bond' idea as one way round continuing fiscal constraints, and as a new and imaginative way of bringing ideas and resources into service provision. These developments are likely to be slow to develop, partly because there are few working models and partly because the contracts are likely to come from local government, where management is totally pre-occupied with the cuts.

Environmental and energy issues

Dr. Brenda Boardman
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August 2012

Executive summary

There are several important drivers in this area:

- fuel prices will continue to rise faster than inflation and welfare benefits, causing further increases in fuel poverty
- the carbon intensity of electricity will remain high until at least 2025, thus requiring fuel switching out of electricity and oil, where possible, into gas and building-integrated renewables
- carbon dioxide emissions have to be reduced in the domestic sector at a faster rate than over the last 40 years. The policy implications for social housing have not been identified yet
- the energy efficiency of the home with regard to regulated uses (mainly gas for space and water heating) is moving towards the owner's responsibility
- the carbon contribution from the non-regulated uses (mainly electricity in appliances) will be a growing proportion of the individual household's carbon footprint, with no-one having clear responsibility.

Fortunately, there are solutions that can run across these trends and make them compatible, at least for the first four. The last is more problematic. The underlying perspective has to be to reduce demand for energy; this would deliver homes that are both cheaper to run for the fuel poor and less polluting for the environment.

Key issues for housing associations

- *Property profiles:* A property specific strategy that results in each home achieving a SAP 81 as soon as possible and a SAP 100 by 2050 is required for the UK's carbon emissions obligations. The first stage would be for every property to have an EPC and for management to know the expected trajectory to get each home to these standards.
- *Housing performance compliance:* Development of sophisticated monitoring methods, for both new build and retrofit, to establish that the expected energy performance standard is being achieved in practice.

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- *Contracting out:* The extent to which Orbit and other housing associations choose to take on the role of exemplar agencies and retrofit existing properties owned by others, for instance in conjunction with a local authority.
- *Which energy uses?* The issue here is the boundary of housing associations' concerns about energy use – just those which are regulated and fixed by the fabric of the building (space and water heating and fixed lighting) or all energy use, including appliances, and dependent on occupant behaviour? The implications relate to helping the occupiers (present and future) achieve a low carbon profile and lower fuel bills.
- *Renewable energy:* With both the feed-in-tariff (FIT) and the renewable heat incentive (RHI), the installation of building-integrated renewable energy sources will provide a source of revenue for the building occupant. There are several possible divisions of these, depending on the extent to which the scheme is seen as an income-generator for the landlord or primarily a benefit for the occupant.

Orbit already has a strong reputation for its innovative work on energy efficient housing. Decisions are now required over whether this is extended to all properties and also more widely to help set standards and train personnel.

Fuel prices

The prices of the main fossil fuels used in the home (gas, oil and electricity) are all linked: when the price of oil goes up on the world markets, so automatically does the price of gas. As gas is a major fuel source for electricity generation, then the price of electricity rises. This has to be accepted as inevitable.

The underlying price of oil will continue to rise (even if there are short term drops in price), because it is a finite fuel and the developing nations, in particular, are increasing their demand for it. The effect of peak oil will be rising prices.

This has been a clear trend since 2004 with the real price of energy for the domestic sector increasing every year. In total, the real price of household energy bills has increased by two-thirds from 2004-11.

Many consumers have barely noticed these increased costs and certainly have not responded by investing in energy efficiency improvements. The householders most affected have been those on the lowest incomes: if they have a fixed budget for fuel bills and the price rises, the response has to be to use less energy to keep within the budget. For many of the poorest households, the effect of a price rise is greater deprivation, hence the rise in fuel poverty to a quarter of all households in England by the end of 2011.

Some fuel price rises are independent of world markets and result from government policy. Increasingly, the Government is requiring policy to be delivered by the utilities, with the costs passed on to electricity and gas bill payers. This saves the Treasury money, but results in a switch of funding from tax payers (generally progressive) to utility customers (almost always regressive).

Policies include the renewables obligation (RO), the EU emissions trading scheme (EUETS), the carbon emission reduction target (CERT – soon to become the energy company obligation, ECO) and the feed-in-tariff (FIT). By 2011, the cost of these policies was already about £100 per household per annum and the expectation is that this sum could rise considerably because of the need for new energy infrastructure. £100 equals 10-20% of low-income household energy expenditure. While deficit reduction is a Government priority, there will be a continuing upward pressure on household fuel bills from these types of policies.

For low income households receiving works under the FIT and ECO, there is likely to be a net benefit rather than a net cost. The FIT, however, is often more regressive, as it is better off households predominantly putting photovoltaic panels on their roofs and being subsidised by all households, including those on a low income.

With the ECO (which starts at the end of 2012), the net effect on the fuel poor will depend on the eventual balance between the three obligations: Affordable Warmth (for the fuel poor), Carbon Saving (mainly for solid wall insulation) and Carbon Saving Communities (for deprived areas). The Government's proposal is that about 40% is for Affordable Warmth, although the fuel poor will qualify under the other two obligations. This is too little and will make the ECO regressive, particularly in the early years, when few have benefitted. The ECO will be particularly regressive for the tenants of social housing, as they have to contribute towards its costs (through their energy bills) yet are unable to benefit from the Affordable Warmth programme.

Higher fuel prices, whether caused by world markets, carbon taxes, government policy or whatever, are detrimental to the fuel poor and cannot be avoided. They will be a continuing, negative force.

Reducing carbon intensity

In the home, the three most carbon intensive fuels are grid electricity, coal and oil, in that order; gas is about a third of the carbon intensity of electricity, so is the least problematic of the fossil fuels. Any use of shale gas will exacerbate carbon intensity, as even in ideal mining conditions it is more carbon intensive than natural gas.

The carbon intensity of electricity varies with the generating fuel mix: as gas prices increase more coal is used, so the carbon intensity of electricity increases. The expectation of policy-makers is that the construction of more off-shore wind farms and new nuclear capacity will introduce carbon-free electricity into the mix and reduce the overall level of carbon intensity. But expectations on the rate of change are not being met and were always hugely optimistic.

For the period until 2020 at least, there should be a focus on reducing the use of grid electricity, coal and oil in buildings and a shift towards using less energy (demand reduction). Where energy is still required, this should increasingly be gas or building-integrated renewables, such as photovoltaic panels, solar thermal for hot water or combined heat and power (at all scales). The installation of heat pumps should only occur when they are more efficient (a co-efficient of performance (COP) of greater than 3 in practice), are replacing oil or coal, or after 2020, when the carbon intensity of electricity has reduced.

From around 2025-2030 it may be necessary to reverse this process and use more electricity, because it is predominantly from low carbon sources and so less carbon intensive than gas or petrol. However, all the increased emphasis on electricity could possibly then be required for the transport sector. In that case, the emphasis in buildings would need to be on demand reduction, so that as little energy, from any source, is required. This would certainly be the cheaper option for the country and the occupant. Additional electricity generating capacity and distribution networks would be a major cause of higher fuel bills for householders, whereas demand reduction gives them lower fuel bills.

Implications for housing of carbon emission targets

The Climate Change Act 2008 commits the UK to reducing our greenhouse gas emissions by 80% from 1990 levels by 2050. By focusing on just carbon dioxide emissions (not the five other gases, such as methane), the reduction in buildings has to be 100%: every building in the whole of the UK will require zero carbon dioxide emissions by 2050 from all energy uses.

This will need to be achieved through a combination of reduced demand (mainly) and the use of low or zero carbon fuels. If there are building-integrated renewable sources producing more energy than the property needs, these can be exported (ie. electricity) and will compensate for the emission of small amounts of carbon dioxide from other sources. Net zero carbon emissions does not have to mean zero energy demand or the sole use of zero carbon intensity fuels.

The practical implications of this can be shown by examining how use of energy in the home is measured and accounted for. Energy use can be sub-divided into regulated and unregulated uses – very approximately a split between the two main fuels of gas and electricity.

Regulated uses of energy in the home: the standard assessment procedure (SAP) and the associated BREDEM programmes assess the energy required for space and water heating and fixed lighting. It is this procedure that is used for energy performance certificates (EPCs), and is linked to the Building Regulations and the Green Deal. It is a theoretical, modelled calculation that focuses on the fabric of the building and excludes the present occupants. It assumes a defined level of services (eg. 21ºC in the living room) to provide a standard comparison between all buildings.

Unregulated uses of energy in the home: the remaining uses of energy are those specific to the household, not the building, for instance the presence, type and size of appliances such as fridges, washing machines, televisions and dishwashers. These are nearly all electricity-using, with the exception of gas for cooking. There is no model that accurately reflects these energy uses. They are included, alongside all the regulated energy uses, in the amount of energy used shown on fuel bills.

Electricity has to be generated – it does not just flow through a pipe – and this requires expensive infrastructure, such as power stations. Hence, electricity is more than twice as carbon intensive and more than twice as expensive as gas (Table 1).

Table 1: Residential gas and electricity costs and carbon intensity (per kWh), 2010

	p/kWh (exc VAT)	gCO_2/kWh (approx.)
Gas	3.5	200 (or less)
Electricity	11.4	500 (or more)

Table 2: Split of energy uses for the average home (based on 2010 energy bills)

	In SAP (regulated)	Not in SAP (unregulated)
Energy*	82%	18%
Carbon*	68%	32%
Costs	60%	40%

Notes: Approximate – not easy to be precise.
*gas, oil and electricity use
Source: Boardman, 2012, p24

The split between regulated and unregulated energy use varies according to whether it is energy, carbon or costs being measured (Table 2). This is because of the effect of electricity use.

In reality, the split between regulated and unregulated usage is both home and year specific and the proportion that is regulated has been declining: a couple of years ago, the 82% in the table would have been 85%. This is because in a better insulated property the amount of energy used is lower in total and the proportion covered by SAP is smaller. This is the situation in a new home from the start and in the average home as insulation levels improve. A new build property achieves a SAP of around 80 points (2011), so the proportion of energy uses covered by SAP could be well below half and, if well-built, below a quarter.

The SAP rating of a property is on a scale from 0 to 100 with the higher numbers representing more energy efficient properties. Over the years 1970-2007, the energy efficiency of the UK housing stock improved at an average rate of 0.89 SAP points a year. On a slightly different scale, for England, the average SAP in 2001 was 45.7 points and by 2009 had reached 53.1 points, which is an annual improvement of 0.93 SAP points, ie. on both measures the rate of improvement was just below 1 SAP point a year.

The implication of being zero carbon by 2050 is that the SAP level of the English housing stock has to rise from 53.1 to 100 SAP points. A rise of 46.9 SAP points in 41 years, or 1.14 points a year is about 25% faster than has been achieved so far. The target is tough, but not impossible.

The real challenge is that this rate of improvement equates to retrofitting 82 properties each hour, to a level of 100 SAP points, for every hour between now and 2050. If the initial upgrade is to a lower level of energy efficiency and the home has to be visited twice, then the rate of activity has to be that much greater.

Present policy and energy uses

There is quite a lot of policy focus on the energy included in a SAP rating, for both existing and new build, whereas, almost by definition, the unregulated uses of energy are not covered by mainstream policies.

New build

The regulated uses are covered by the Building Regulations and the Code for Sustainable Homes. It had been proposed that Code Level 6 would be extended to all energy uses, but the Zero Carbon Hub report rejected this – a recommendation that appears to have been accepted by the Government. The proposal is for 'carbon compliance' to be achieved, on site, through demand reduction and the installation of building-integrated renewables. The other, non-regulated uses of energy are offset by 'allowable solutions', which are off-site (ZCH 2010). Therefore, there is no existing proposal for new homes to be net zero carbon emitters as a result of the energy use of that specific property.

The countervailing proposal from the Zero Carbon Hub is that the carbon compliance standard should be based on energy use as measured in the constructed building, ie. it will take into account the way the building has been built. This is a positive step forward as careful monitoring of some recently constructed buildings has shown that they are under-achieving the design standard, sometimes by a considerable margin.

In a survey of 16 newly completed homes, the actual rate of heat loss was found to be from 10-125% greater than was predicted at the design stage (Bell et al 2010, p79-81). Some builders are now developing innovative ways of rigorously checking the progress of the building, for instance against ventilation losses during each stage of construction. As a result, new design details are identified, like preventing party walls acting as chimneys.

If housing associations decide to take a broad approach to carbon emissions reduction and extend their responsibility beyond the regulated uses, there are several implications for new build properties. Many developers provide fitted kitchens or at least the appropriate connections for various appliances. To reduce the carbon footprint of the home the developer would include, for instance:

- opportunities to use gas for cooking as much as possible
- the installation of fridges, washing machines, etc that are both super-efficient (A++) and not too large
- hot-fill washing machines close to the hot water tank

- good facilities for naturally drying clothes, so a tumble dryer is not required
- led fixed lighting throughout, even when not required by the Building Regulations.

Retrofitting existing homes

The Building Regulations do not require consequential improvements. These involve an assessment of the regulated energy uses in the whole building when a major extension is undertaken, so that the net effect is a lower total energy demand, despite the greater area. It would be prudent to be working towards this approach, even though it is not (currently) required by legislation.

To overcome fuel poverty, the SAP level of a retrofitted building should be at least 81 (ie. bands A or B on the EPC). On average, fuel poor households are living in SAP 40 homes, so very substantial upgrades are needed.

The overarching low-energy standard for new homes, the Passivhaus, is gaining in recognition. This comprises separate targets for heating and for other energy uses (in kWh/m^2). The parallel for retrofit is the enerPHit standard, which is not as tough. The aim of a Passivhaus approach is that the building does not require an active heating system – it can be heated by solar gain, human bodies and the incidental gains from electricity use in lights and appliances and, perhaps, a single heater, such as a woodstove.

A major driver for the standard of energy efficient upgrades is the proposal for public buildings (including social housing) in the EU Energy Efficiency Directive. It requires that 3% of the floor area of public buildings should be improved to a high standard each year, as defined by cost-effectiveness (what the European Commission calls ‘cost optimal’ – a more generous calculation). The exact UK definitions of ‘public’ and ‘high standards’ will not be confirmed for some time, but the idea of public authorities setting the trends and standards and providing the exemplars is welcome.

Lights and appliances (the unregulated uses)

The average UK home uses about 3,300 kWh a year in all lights and appliances (including fixed light fittings). There are two opposite trends occurring at the moment:

- People are obtaining more equipment in the home, whether it is light fittings (eg. ten halogens in one room), TVs or computers. There is an almost universal ignorance of the amount of energy an individual appliance might use and a similar lack of concern. Hence, the demand for electricity is growing per household.
- The European Commission is introducing a raft of policy, under the eco-design programme and the Energy using Products (EuP) Directive. At least 44 product groups are being considered and legislation is complete on 13 of these (ECEEE 2012). This invariably means minimum standards and energy labels, where they do not already exist. In each of these groups, gradually, over time, the consumer will only be able to buy more efficient models.

Apart from European policy, there is virtually no focus within UK policy on reducing this growth in electricity demand by households. Over time and certainly by 2050, electricity consumption per household could be halved and this will be necessary if the UK is to meet its commitments at a low cost to society.

One possible policy is to introduce personal carbon allowances, so the amount of carbon emitted per household for energy use in the home, private transport and flights is reducing each year in line with government commitments. This would have to be a national policy and is unlikely to be introduced in the near future. Helping households prepare for such an approach, for instance by showing annual carbon footprints (based on their fuel bills), would be valuable in its own right and could incorporate the displays attached to smart meters, help in interpreting fuel bills, the choice of low-carbon electricity suppliers, and the use of footprinting tools such as imeasure (ECI 2012).

Social housing

Social housing is more energy efficient than private sector housing for several reasons: the average property is smaller, constructed more recently (tougher building regulations), more likely to be a flat (with fewer external walls) and has benefitted from comprehensive attention, for instance through the Decent Homes Standard. The private and the social housing sectors have become slightly more differentiated over the period 2001-9 (Table 3). The gap in 2001 was 7.8 SAP points whereas it had grown to 9.7 SAP points by 2009. The level of energy efficiency activity in social housing may be increasing, as the proportion of A-C band properties increased more rapidly between 2006-9 than during the previous five years; the relatively slow decline in the number of G-band properties is more disappointing.

Table 3: Energy efficiency of private sector and social housing, 2001-9

	Private sector	Social housing	Average
2001			
A-C bands on EPC	3%	12%	4.5%
G band on EPC	NA	NA	6
Average SAP	44.1	51.9	45.7
2006			
A-C bands on EPC	5%	20%	7%
G band on EPC	5%	2%	4.3%
Average SAP	46.8	57.4	48.7
2009			
A-C bands on EPC	10.4%	30.8%	13.8%
G band on EPC	3.9%	1.3%	3.4%
Average SAP	51.4	61.1	53.1

Note: NA = not available
Sources: Boardman 2010, p139 and EHS, table SST 7.1

For the regulated uses only, in social housing the need for energy is 10% less than in private homes on a kWh/m^2 basis. Because the properties are smaller, in 2009 the total (regulated) energy costs in social housing were less than two-thirds of those in private housing (£391 vs £629 pa) and the carbon emissions were a similar proportion (3.8tCO_2 to 6.4tCO_2 pa). The inherent advantages of social housing (smaller, more modern, flats) results in clear benefits to the residents, especially through lower fuel bills.

Present social trends show more households going into rented accommodation as they are unable to purchase. This mainly affects the private rented sector, but there will be impacts on demand for social housing as well. For fuel poor households, the more who can be housed in social housing the better, as this reduces the depth of their fuel poverty. So there may be increasing pressure to ensure that occupants of social housing are truly those who need it as well as to encourage housing providers, such as Orbit, to expand their portfolio and house more people.

Skills and exemplars

Housing associations provide the ideal training environment for the construction industry with new build and, especially, retrofits. Housing associations have the in-house project management expertise to ensure that builders deliver to the required energy efficiency standard. This then enables the trained-up builder to go out into the private sector and deliver good quality construction and conversions for individual householders, where there is no project management or understanding of the required standards.

Training would be enhanced by the testing, throughout construction, of the performance of the building, particularly its air leakage rate. This would have the added advantage of ensuring the home really is as energy efficient as intended.

Another part of this process of confirming the delivery of high standards would come from some post-occupancy evaluation (POE), where the energy use of a new or newly converted building is assessed while occupied. When POE is undertaken rigorously, further reductions in energy use can often be achieved through the proper commissioning of plant and the education of the occupants. Otherwise, every new building is at risk of being a prototype, with no learning about how to deliver better homes.

For visible micro-renewables, such as photovoltaic panels and solar thermal tubes, exemplars make these new technologies more acceptable, helping them become the norm.

Energy efficiency, landlords and tenants

To transform the energy efficiency of UK buildings, a policy on minimum standards in all buildings has been proposed (Boardman 2012). In the Energy Act 2011, the Government took the first step – from April 2018, it will be unlawful to rent out a residential or business premise that does not reach a minimum energy efficiency standard (the intention is for this to be set at EPC rating “E”).

One of the implications of this legislation is that it makes the energy efficiency of the property solely the landlord’s responsibility. This contradicts the requirement under Green Deal for the landlord to approve the work, but for the tenant to be responsible for paying for it through their electricity bills. As a result, advice to privately renting tenants might be to refuse to enter into a Green Deal arrangement as this would result in the tenant subsidising the landlord's obligation.

A further confusion has been introduced by the Government stating that the obligation in the Energy Act 2011 must be achieved at 'no net cost' to the landlord. Here the implication is that the rent will have to rise, as a proxy for repaying the cost of the improvements.

The whole debate about the extent of the landlord's responsibility to provide a sound, energy efficient property is in need of clarification. This should be no different from the obligation to provide fire safety features or sufficient facilities. In addition, there is probably inadequate protection for the tenant to ensure that s/he is not asked for both a rent increase and/or a contribution via electricity bills. This will be particularly important as demand for the rented sector grows.

The assumption here is that it should be the property owner's responsibility, solely, to ensure that the property is energy efficient. Across all tenures, this would mean that in due course the only grants are for low income owner-occupiers, otherwise low income tenants would be subsidising their landlords. The provision of more energy efficient equipment (eg. in fitted kitchens) should probably be reflected in higher rent levels, but again this is an area of uncertainty.

The whole issue of owner and occupier responsibilities and rights in relation to energy efficiency is in need of urgent clarification.

Area-based approaches

Tackling fuel poverty is both a social and legislative imperative – the Warm Homes and Energy Conservation Act 2000 requires the elimination of fuel poverty (where reasonably practicable) by 2016. Currently, the numbers are rising and the Government asked Professor John Hills of the LSE to report on the definition and delivery. The Government is now assessing his final report. In his interim report he confirmed that improving the energy efficiency of the property and the way energy services are delivered is the priority (Hills 2011, p22):

> "It is essential that we improve the energy efficiency of the whole housing stock. But those on low incomes in the worst housing can neither afford the immediate investment needed nor afford later repayments without additional help."

Present policies are failing the fuel poor partly because it is difficult (or expensive) to positively identify the households that are both on a low income and in an energy inefficient home: social or income characteristics are insufficient on their own, for example only a quarter of pensioners are in fuel poverty. In addition, it can be counter-productive to identify individual households if that singles them out as fuel poor and results in their refusal to have the work done because of any stigma attached.

The best solution to the problem of identification is to take an area-based approach, covering all the homes in an area, based on the experience with Warm Zones, but to a higher standard of intervention.

One proposal (Boardman 2010, p222) is that each local authority would announce an area-based approach, provisionally called a Low Carbon Zone (LCZ), as soon as possible. This is because of the enormity of the task of removing five million households in England from fuel poverty over four years – action has to be both extensive and intensive, with each property being brought up to a minimum of SAP 81. LCZs would be focused on areas where the fuel poor are thought to be concentrated, eg. solid walled housing, and would each include about 20,000 homes. Between a third and half of all the fuel poor would be covered by a LCZ in this way.

Taking a street-by-street approach should result in considerable economies of scale, both from doing every property (less wasted contractor time) and doing each house extensively (a single set of scaffolding for both solid wall insulation and solar technologies).

The local authority would have the responsibility to deliver the LCZ, but would probably contract out the work. A housing association would be well placed to take on such a contract, partly because of its experience in dealing with low income households and partly because of its commitment to high standards of delivery.

Another of the benefits of a LCZ would be that area-based solutions, such as community combined heat and power, could be considered. This is not possible when policy is focused on individual measures in individual properties (eg. the installation of cavity wall or loft insulation).

The success of a LCZ would be enhanced if the Government confirmed the need for minimum standards of energy efficiency in all tenures, improving over time, and introduced some supportive financial incentives, particularly for low income owner occupiers (Boardman 2010, pp226-227). The funding would be sorted out behind the front door, according to the property owner's priorities.

The hope would be that all of the residents would be included in the programme, as the community network became effective – the emphasis would be on the benefits to the environment, not on tackling poverty per se. This is more likely to be acceptable to the property owner in the context of a pending minimum standard and of good quality work undertaken economically by a trusted contractor.

It is difficult to predict the extent to which area-based approaches will be adopted by local authorities, independently of government policy. Certain major cities (Manchester, Birmingham, Newcastle) are investigating quite large scale initiatives, but where these are related to the Green Deal, they will probably be pepper-potted rather than area-based.

Specific issues for Orbit and other large housing associations

This is a selection of the issues/proposals that might be of interest to housing associations, though it is unlikely to be comprehensive.

Property profiles

To have a property specific strategy that results in each home achieving a SAP 81 as soon as possible and a SAP 100 by 2050, the first stage would be for every property to have an EPC and for management to know the expected trajectory to get each home to these standards.

Particularly important will be the fuels and heating systems used. For instance, is the aim to connect the property to a community combined heat and power system, to make it Passivhaus standard with no requirement for active space heating and to install solar thermal tubes on the roof? The answers will affect decisions on whether a new gas boiler is installed and whether it is a combi-boiler (no hot water tank, so no solar thermal possible), what discussions are needed with the local authority on a combined heat and power scheme and so forth.

It would be sensible to adopt the philosophy behind consequential improvements, so that the net effect of every change to the property is for its energy use and carbon emissions to be lower, even where the floor area has increased.

The timescale of the proposed changes is less important than a clear route map.

Compliance

The development of sophisticated monitoring methods, for both new build and retrofit, to establish that the expected energy performance standard is being achieved in practice. This will be expensive in the short-term, but will undoubtedly result in better construction methods in due course. It will be an important preparation for any move towards the ‘as delivered’ standards proposed by the Zero Carbon Hub for new build and a people-friendly approach in general.

Contracting out

The extent to which Orbit and other housing associations choose to take on the role of an exemplar agency and retrofit existing properties owned by others, for instance in conjunction with a local authority. This would have a substantial social benefit by providing proven expertise for private householders.

Which energy uses?

The issue here for housing associations is the boundary of their concerns about energy use – just those which are regulated and fixed by the fabric of the building (space and water heating and fixed lighting) or all energy use, including appliances, and dependent on occupant behaviour? There are several intermediary positions, for instance in relation to any fitted kitchens provided.

The implications relate to helping the occupiers (present and future) achieve a low carbon profile and lower fuel bills. Examples of actions housing associations might take include:

- the provision of gas, not electricity, for cooking
- face-to-face induction sessions with new occupants, so they know how to manage the controls in the property properly

- access for residents to easy, informative monitoring processes linked to actual fuel bills, such as imeasure
- the development of scrappage schemes to replace old, inefficient appliances with subsidised, efficient ones. This could be undertaken in conjunction with a major utility and funded perhaps through the ECO.

Renewable energy

With both the feed-in-tariff (FIT) and the renewable heat incentive (RHI), the installation of building-integrated renewable energy sources will provide a source of revenue for the building occupant. For instance, there are three benefits with the FIT:

- the generation tariff
- the export tariff
- free electricity.

There are several possible divisions of these between the housing association and the occupant, depending on the extent to which the scheme is seen as an income-generator for the landlord or primarily a benefit for the occupant. It is important that the poorest people can profit from these schemes (which they are funding) as well as better off households.

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Orbit 2020: Preliminary market assessment – summary

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Note: This is a short summary of a much larger piece of work carried out by CCHPR for Orbit. Much of the detail of that work is commercially confidential. It was commissioned separately to the remaining papers in this volume.

This report presents a preliminary assessment of how the market for affordable rented, intermediate and market housing for rent and sale is likely to develop in the areas where Orbit operates over the next decade, based on an analysis of regional and sub-regional trends. It looks at projected economic, housing market, demographic and labour market trends and the impact these might have in the public and not-for-profit sectors and in the private sector.

The economy

The official economic forecasts of the future of the economy produced by the Office for Budget Responsibility (OBR) are extremely optimistic, assuming both that the Government's cuts in public spending will increase international confidence in the economy and that private sector employment creation will more than compensate for public sector job losses.

HM Treasury publishes an analysis of independent economic forecasts which are less optimistic but still assume that the cuts will deliver an improvement in international competitiveness and a reduction in inflation. The average of 15 of these forecasts suggests growth in GDP of 1.0% in 2011 rising to 2.3% in 2015. Inflation (CPI) is expected to be high in 2011 at 4.6%, reducing quite rapidly to 2.2% in 2012 and 2.0% by 2013. RPI inflation is expected to be higher, at 5.3% in 2011 and 3.2% by 2015. Claimant unemployment is forecast as 1.6 million in 2011, rising to 1.65 million in 2012 and falling to 1.49 million by 2015.

However, the recent unemployment figures suggest that all these forecasts are optimistic. As at October 2011 claimant unemployment was 2.57 million, the highest for 17 years, a rate of 8.1%. Youth unemployment suffered most, reaching 991,000 for under-25s. This raises renewed fears that the recession will deepen and lengthen before any recovery begins. The impact on the labour market is that younger people will lack work experience and skills, undermining any future improvement in international competitiveness.

The housing market

The current picture of the housing market is correspondingly pessimistic. House prices are falling again following small rises in the summer, mortgage lending remains subdued and transactions are static at about half the average from 1964 to 2002. London, in particular, appears to be operating very differently to other regions.

Recent shifts in the balance of buyers and sellers, with the number of properties for sale increasing by double the increase in prospective purchasers, suggests a new phase of re-pricing alongside price reductions.

Consistent with this, house building has begun to recover slightly in terms of new build starts, although completions have yet to catch up. According to forecasts by the previous government, completions should be around 231,500 a year to 2026 as a minimum (NHPAU, 2008). Actual output did not exceed 168,000 a year even during the boom, and fell to 106,000 in 2010-11.

The underlying fundamentals

Demographic forecasts show natural growth in population outstripping net migration levels and inward migration holding up against expectations. The official projections suggest that both population and households will continue to grow. The population of England is projected to increase from 52.6 million to 54 million in 2015 and 56 million by 2020. Households are projected to grow from 22.5 million in 2011 to 23.4 million in 2015 and 24.6 million by 2020. The key reasons are increasing birth rates relative to mortality, plus increasing longevity which particularly affects the increase in single person households.

These underlying fundamentals may fall in the short term relative to trend, as young people remain living with families and friends for longer before they start to form separate households. But this implies pent up demand for housing in the future.

Outlook for house prices and rents

The north-south divide in housing costs is likely to widen over the next decade with further falls and weaker growth in the north. This implies a supply overhang, so it will take longer for new starts to recover than in the south.

Higher deposits for first time buyers (FTBs) mean that loan to value (LTV) ratios are likely to creep up slowly to around 75% by 2015 – still a far cry from the 95% that commentators say is needed if FTBs are to enter the market in larger numbers. FTBs will struggle to find deposits; so the fall in owner occupiers is likely to continue. This will be strongest in the south and particularly London. In areas where house price growth is weak, owner occupation will remain fairly stable.

Rents in the private sector appear to be keeping pace with average earnings. This means that renting is much more affordable than house purchase for new households.

Overall, a number of commentators suggest that there is evidence of a double dip in the housing market.

The private rented sector

The big question is whether the increase in private renting that has taken place since 1999 and accelerated recently will be sustained into any recovery. The fundamentals show that demand for housing will increase, but the current and short-term future state of the housing and mortgage markets, as well as new housing construction, suggest that many potential FTBs will be unable to buy and will rent instead. However, whether private renting will become a tenure of choice as opposed to last resort or temporary probably depends on whether younger households decide to defer starting a family until they can afford to purchase their own home.

Equally important is how far the private rented sector is able to continue to house some of the very poorest households with the aid of housing benefit. Local authorities have increasingly looked to the private rented sector for this purpose, with rent guarantees, leasing schemes and loans to landlords linked to assisting the re-use of empty properties. However, there may be a limit to this expansion, which raises the question of whether there is a gap which housing associations could fill. This could come about partly by upgrading social tenancies to the new 80% affordable product for employed households, freeing up funds to house the poorest. Housing associations could also act as private landlords to cross-subsidise social housing.

The changing policy context

The policy context has changed rapidly since 2010 – although some changes were already in the pipeline, such as housing benefit reform. Those policies likely to have the greatest impact on registered providers (RPs) are:

- Housing benefit reforms, which mean that HB will be incorporated into the new Universal Credit. This will be paid directly to claimants and is thought to be likely to increase rent arrears. It may also encourage households to want to move to cheaper properties.
- Planning reforms, including the abolition of regional spatial strategies with their targets for new housebuilding and the abolition of regional bodies (except London); the introduction of the Community Infrastructure Levy with a scaled back Section 106; and the proposed National Planning Policy Framework. Together these reforms have created increased uncertainty, particularly about future affordable housing delivery.
- The introduction of the Affordable Rent set at 80% of market rents, which may bring RPs into more direct competition with private renting in some areas.
- A reduction in grant funding for developing Registered Providers, making the provision of new affordable housing more challenging.
- The abolition of the Tenant Services Authority, with a shift of more limited regulatory powers to the Homes and Communities Agency, which will change the inspection regime.
- Changes in local authority finance, which may introduce additional competition for finance for RPs as local authorities begin to issue bonds, despite government concessions on the rate of interest on loans from the Public Works Loans Board.

The future for Orbit and other large housing associations

- A slow recovery in the economy and the housing market is predicted with high unemployment and a corresponding impact on household resources.
- The need for social rented housing is likely to rise, but demand for shared ownership is less certain as lenders find it problematic.
- There will be increased dependence on benefits, but policy changes to direct payments, housing benefit caps for some groups and Universal Credit imply increased arrears and a need for help with financial management for tenants.
- Housing associations should be sustaining their current business while preparing for gradual longer-term recovery.
- Investment in social housing is counter-cyclical and could help boost local economies. Higher construction costs will impact on later investment, along with rising standards.
- The forecasts for the housing market imply recovery in the southern regions but continued recession in the midlands. First time buyers will continue to find access to home ownership constrained and demand for private renting will increase. This suggests a role for Affordable Rents and also opportunities for RPs to provide market rental homes and management services for private rented housing.
- Housing associations could meet these conditions by introducing flexibility in the tenure of new homes to rent or part-purchase, or rent with a view to purchase once a deposit has been saved. A new product could be developed – a ‘super shared ownership’ with very low initial stakes, although this carries risks for purchasers and will be unattractive to many lenders. A buy-back guarantee might be required.
- The underlying fundamentals remain strong, despite a short run fall in new household formation due to recession, and longevity continues to improve. Given the difficulties many will face affording suitable housing, there is a need to improve tenant mobility in order to reduce the mismatch between size of household and dwelling.
- In the labour market, the assumptions about inward migration may need to be revised. Once the economy starts to recover, increases in professional occupations and in public sector jobs are predicted, so a longer-term strategic view by RPs could involve planning low cost home ownership for young professionals in suburban areas and the home counties. One problem with shared ownership is that it is often unaffordable to these groups, e.g. nurses, so housing associations might wish to consider reducing the percentage rent charged and in the longer-term finding cross-subsidy for social rented housing via stronger entry into the private market.
- Differences between the costs of social and private housing are likely to increase. There

ought to be a role for non-profit landlords, with their experience of letting and managing property, to enter the private rented sector in a serious and sustained way. One future scenario might be that the UK could become more like Germany, with a smaller owner occupied sector and a large rented sector, where the boundaries between private and social become increasingly blurred.

- Orbit's customers are similar to the profile of social tenants more widely, with relatively high proportions of lone parents, single adults and single older people. Single adults are more mobile but older people much less so and there will be increased demand for community based care as people age.

- Investment strategies should reflect housing association responses to the pressures on households. These might include convertible or flexible tenures to match the needs and preferences of a wider spectrum of tenants, given the emergence of 'generation rent'. A feasibility study could be undertaken to explore the options. In the uncertain future, sharing of best practice via the National Housing Federation could enable risks to be better assessed and decisions to be more strategic.

- Large Scale Voluntary Transfers will no longer be possible, so large scale growth will only be possible through mergers or takeovers. However, housing associations can explore swaps or partnership arrangements with other organisations.

- RPs should also examine the potential for market niches – whether geographically or by type of district. The ONS local authority classification could be a useful tool in this respect and housing markets could be examined against a range of socio-economic data for each authority.

- Overall, Orbit is well placed to cope with the challenges ahead. It operates in relatively favourable markets, has a good spread of products and is a well regarded supplier. It is clear that with better use of strategic information it may be able to manage the risks ahead and to continue to develop a strong forward-looking and influential organisation. Strategic decision making, underpinned by better information, is a key to that process.

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