

UK Housing Review

Steve Wilcox, John Perry
and Peter Williams



CH
CENTRE FOR
HOUSING POLICY

2014 Briefing Paper

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Chartered Institute of Housing

Octavia House, Westwood Way, Coventry CV4 8JP

Tel: 024 7685 1700

Email: customer.services@cih.org

Website: www.cih.org

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Steve Wilcox, John Perry and Peter Williams

UK Housing Review website: www.ukhousingreview.org.uk

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Published by the Chartered Institute of Housing

The facts presented and views expressed in the *Briefing*, however, are those of the author(s) and not necessarily those of the CIH.

Layout by Jeremy Spencer

Cover illustration: 'Windows' by Alison Cross

Printed by Hobbs the printers, Totton

Introduction

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

Within one year of the end of office, the coalition government's plans for housing, welfare benefits and the economy are now showing their effects. Economic recovery has begun, albeit very belatedly, but so far while house prices and transactions have moved upwards new housing output remains depressingly low compared with growing needs.

Drawing on the latest statistics, the *Briefing* assesses the implications of policy and market changes in twelve key topic areas, together with dedicated pages on Northern Ireland, Scotland, Wales and the English regions.

Housing demand and supply

The gap between housing supply and projected new household formation is still very wide. Total new supply in England has stayed just above the 100,000 mark for six years, about half the output needed to meet official projections up to 2021 of 220,000 new households each year, and even further below the commonly accepted target of 250,000 per year needed to meet growth and tackle the backlog. Both the government and the opposition have launched inquiries into housing supply and will make recommendations later this year on how to raise it. The *Briefing* asks the question 'who will build them?', given the private sector's historic propensity to build less than 150,000 per year and the limited budgets now available for new affordable housing.

Measures such as the reformed planning system, the New Homes Bonus and the stimulus packages included in the government strategy *Laying the Foundations*, and augmented in the last Budget, have so far had little impact on new housing supply.

Affordable housing

Delivery of affordable housing in England also refuses to leave the doldrums despite the gearing up of the Affordable Homes Programme, with completions slightly down in 2013/14 compared with the previous year. It is also worrying that supply now strongly focuses on units to be let at Affordable Rent and that social rented output has fallen significantly.

The *Briefing* also makes the point that, despite promises that the extra homes sold under the 'reinvigorated' right to buy would be replaced, in fact replacement is running very far behind growing right to buy sales (which in England topped 11,000 in the last year, in contrast to continuing low sales levels in Wales, Scotland and Northern Ireland).

House prices and affordability

Despite the media hype about house prices and a potential 'bubble' the evidence for strong price rises, at least outside London, is not persuasive. Nonetheless, house prices are now the focus of attention, not least from the Bank of England, and tightened rules on mortgage lending which have just taken effect are also likely to have a braking effect. The *Briefing* therefore argues that it is supply, rather than house prices or their affordability, on which attention should primarily focus.

Private renting

At the same time the private rented sector grows apace, and (unlike housing supply) was not stalled by the credit crunch. The *Briefing* points out that a number of factors in its favour still apply. In particular buy to let landlords have access to interest-only mortgages – now virtually unobtainable by first-time buyers. This allows landlords to cover their costs while still charging rents below the level of mortgage costs for homebuyers with a standard (capital and interest) repayment mortgage.

In contrast to some commentators, the *Briefing* suggests that modest proposals for reform of private lettings by the Labour Party may, if implemented, benefit the sector by improving its standing and its political acceptability.

Welfare reform

The government plans to save £22 billion from cuts to the welfare system this year, one-third of which will come from the switch to the Consumer Price Index which is leading to lower annual upratings of benefits. Within housing, the biggest cuts fall on Local Housing Allowances, even as the numbers dependent on them increase as rents rise and the private rented sector grows. While it is too soon to say that LHA cuts are having a widespread impact on access to rented accommodation, they are already having such an effect in central London and, nationally, for groups such as young single people. In both cases there is severe pressure on the alternatives in the social rented sector: London is the area where housing stress is greatest and across England there is pressure on one- and two-bedroom social lettings because of the transfer demands created by the bedroom tax.

These and many other issues are covered in this year's *Briefing* and will be followed up in the *UK Housing Review 2015* early next year.

Steve Wilcox, John Perry and Peter Williams

June 2014

Steve Wilcox is the author of the sections on pages 4, 5, 11 and 14-18; John Perry those on pages 6, 10, 12 and 13, and Peter Williams of those on pages 7, 8, 9 and 19.

A long awaited but uneven recovery

It took twice as long as after previous post-war recessions, but there are now signs of an established recovery in the UK economy, with five consecutive quarters of growth. Indeed the economy now looks set to return to 2008 levels by mid-2014. While IMF evidence supports the argument that the UK (and other) governments' austerity measures delayed the recovery, that is now history.

In March 2014, the Office for Budget Responsibility forecast economic growth of 1.8 per cent in 2013, rising to 2.7 per cent in 2014, easing back to 2.3 per cent in 2015, and then running at 2.6 per cent for the next two years.¹ Unemployment is projected to fall below seven per cent in 2014 and to 5.4 per cent by 2018.

The OECD forecasts rather higher growth – 3.2 per cent in 2014 and 2.7 per cent in 2015. It also shows that UK unemployment is well below the eurozone average and, Germany apart, lower than in most eurozone countries.²

However, the low level of growth forecast for the EU as a whole – just 1.2 per cent in 2014 and 1.7 per cent in 2015 – will be a constraint on UK growth, as will the continuing impact of the government's austerity measures with public spending set to fall in real terms for four years from 2015/16 (see page 4).³

Despite these plus factors, average earnings in the first quarter of 2014 were five per cent lower than at the beginning of 2008 (see chart). The main downward pressures on earnings have been felt over the last three years, albeit with some easing over the last

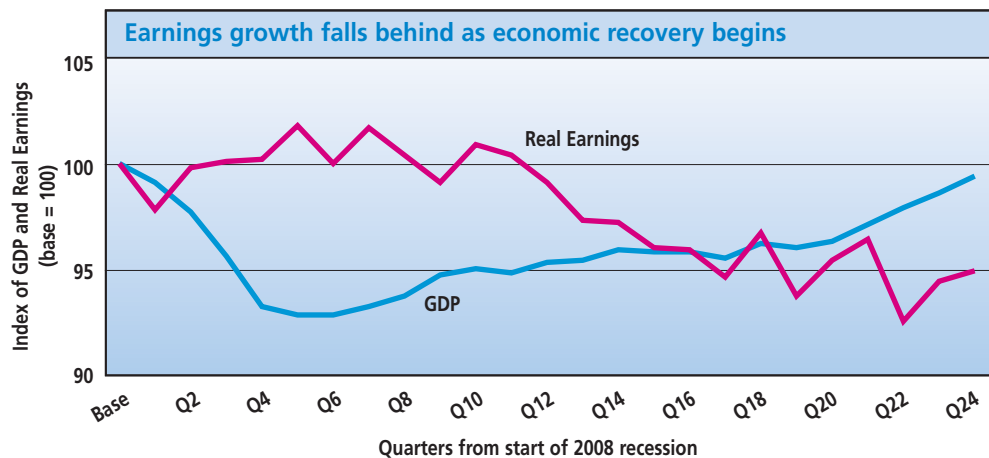
two quarters. Nonetheless the OBR suggests that it will be 2017 before average earnings return to 2008 levels.

The post-credit-crunch years have also seen a rise in the proportions of part-time and self-employed workers; together these now comprise 37 per cent of all those in employment. The rise in self-employment was particularly apparent in 2013. The gap between higher and lower full-time earners has remained fairly constant over the last decade or so (with a fairly constant 3.5 times ratio between 90th and 10th percentile full-time earnings), but this does not take account of the growth in part-time jobs and self-employment.

The eventual recovery in the economy has eased concerns about the perceptions of the financial markets and the potential for increased costs for government borrowing. Total levels of UK government debt are no longer forecast to exceed the EU average in 2015 and, from 2016 onwards, net government borrowing is forecast to be below the old Maastricht Treaty target for EU countries of three per cent per annum.

This easing of financial pressures will provide opportunities for both the government and opposition parties in framing fiscal and related policies for their 2015 election manifestos, as well as more immediately for the Chancellor in the 2015 Budget. There are real choices about the extent to which further austerity measures are required post-2015 and whether the cap on future welfare spending imposed by the coalition is in any sense necessary other than as a political device.

And there is certainly a continuing case for extra public investment to support the supply of both social and market housing. Just one element of that could be to lift the caps on local authority housing borrowing, so that councils in England and Wales can more freely follow their Scottish counterparts in building new homes. As regularly argued in the *Review*, it would not count against the international measures of borrowing and debt that are the focus for the financial markets. Moreover, increasing the supply of housing to match forecast household growth is now widely recognised as one of the critical factors in preventing housing market pressures from potentially derailing the belated recovery of the UK economy.



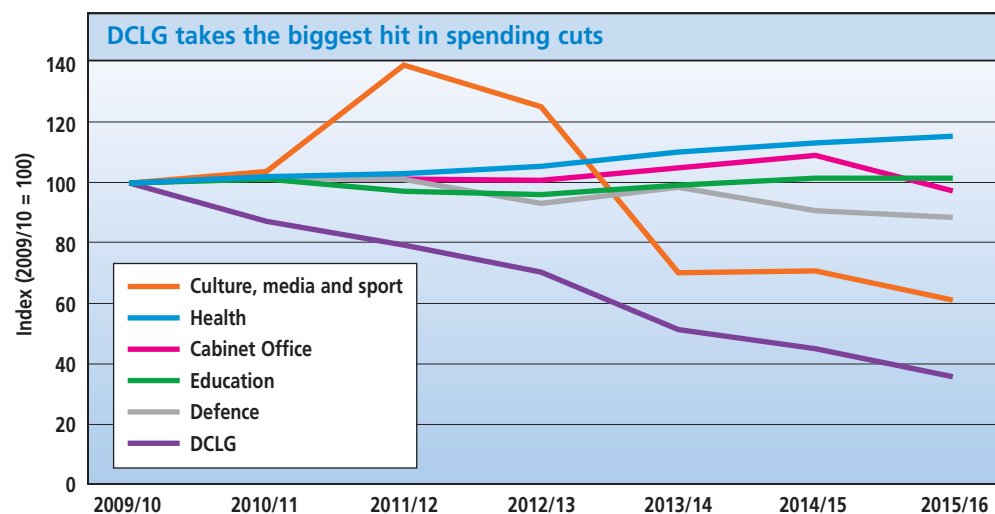
Source: Computed from ONS Quarterly GDP figures, full-time median earnings and CPI (H).

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- 1 Office for Budget Responsibility (2014) *Economic and fiscal outlook March 2014*. Cm 8820. London: The Stationery Office.
- 2 OECD (2014) *Economic Outlook 95*. Paris: OECD.
- 3 HM Treasury (2014) *Budget Report 2014*. HC 1104. London: The Stationery Office.

Local government hit hard by budget cuts

The Department for Communities and Local Government (DCLG) has taken a far more severe funding cut than other departments, even leaving aside the health, education and overseas aid budgets that have been specifically protected. The overall DCLG budget in 2015/16 will be only just over one-third of what it was in 2009/10 – before taking account of inflation over the six intervening years. Moreover the greatest part of that fall has only just begun and even more severe cuts in local government budgets are expected this year and next.



Source: UK Housing Review 2014, Compendium Table 16.

However the financial position for local councils, while extremely difficult, is not quite as bad as the DCLG budget cuts imply. Some councils are also education authorities, and for them the Department of Education is a relatively protected source of funding (at least in cash terms), albeit an increased proportion of that budget is now under the direct control of schools.

Local authorities have also increased their reliance on council tax and redistributed business rates (until they were reformed in 2013/14), rather than central government grants. As a result by 2013/14 English councils' revenue spending had fallen by one per cent in cash terms compared to 2009/10,¹ albeit a hefty 18 per cent cut in real terms.

This has seen councils reducing or even entirely cutting services – especially those that are discretionary. There has also been a more welcome focus on making

administrative savings that have a limited impact on service delivery. This has involved both greater service integration within authorities and some extensive mergers of operations between councils.

Council housing itself has, to a large degree, escaped the pressures on other local council services, by virtue of its revenue 'ring fence' and the March 2012 refinancing exercise that brought an end to the (mainly negative) housing 'subsidy' regime. Indeed the second full year of the new regime saw English councils increase their use of HRA funds for investment to just over £900 million, and with that their total housing capital spend increasing to £5,088 million.

The financial pressures are far greater for local government 'non-HRA' housing services, that account for a sixth of all council General Fund current spending. This includes councils' housing strategies, advice and enabling roles, private sector housing renewal, homelessness, housing benefit administration and discretionary payments and housing-related support services. In this context it should be no surprise that councils are looking for ways to cover some part of those costs from their less-pressured HRA budgets, even where this stretches any credible understanding of the meaning of the HRA 'ring fence'.

Looking ahead the pressures on local government budgets will clearly intensify, and even if there is a change of government it has already been said that there will be no money to restore past levels of central government funding. A more positive future for local government in England will have to be built on some form of self-financing. Possible options would be to give councils the power to scrap or reduce the 25 per cent council tax discounts given to single occupiers that now comprise a third of all householders; to add a higher-tier band for very high-value dwellings, and/or to gradually increase the differentials in the levels of council tax paid in each band of dwelling values, at least to the point where it removes the regressive impact of the currently compressed range of differentials.²

Beyond that councils will have to look increasingly to their capacity to raise revenue in other ways – and the supply of land for new housing is one very obvious way to do that. More generally councils could look back to their entrepreneurial role in the Victorian era, and engage far more actively in partnerships and initiatives designed both to boost their local economies and to generate surpluses to fund their beleaguered services.

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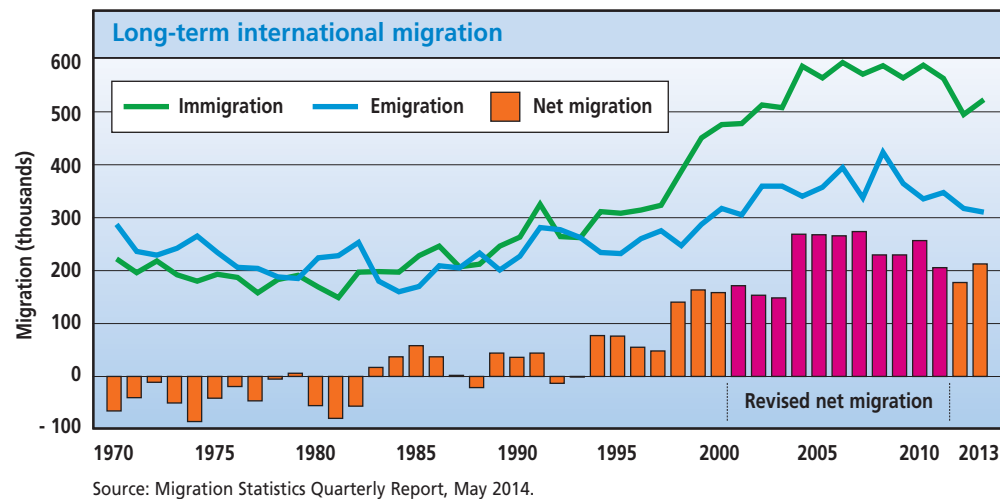
1 This and all data below are from: DCLG (2014) *Local Government Financial Statistics England No 24 2014*. London: DCLG.

2 Discussed further in Commentary Chapter 6 of the *UK Housing Review 2013*.

Migration trends elude the policy-makers

The government's policy target is to reduce UK net migration to less than 100,000 by 2015. While two years ago it looked as if the target might be achievable, since then net migration – the difference between immigration and emigration – has grown again to 212,000. Furthermore, doubts have been cast on the figures themselves, with the ONS having to adjust upwards its net migration estimates for the decade to 2011 (see chart).

The overall pattern established since EU expansion in 2004 has been broadly maintained: immigration is at higher levels than before, in the range 500-600,000 per year; emigration is also somewhat higher, largely in the range 300-400,000. Net migration has never fallen below 175,000 and in fact the last time it was below 100,000 was in 1997.



Within these overall trends, the role of EU and non-EU migration is quite complex. Non-EU migration climbed steeply in the early 2000s, peaking in 2004 and again in 2010. Since then it has been falling, probably as a result of coalition policies to curb highly skilled, family and student migration from outside the EU.

Although net migration from the EU peaked in 2007 it has never exceeded 127,000 per year, in 2012 reached a low of 82,000, but is now rising again. Government is much less able to affect EU migration except in indirect ways. For example, between December 2013 and July 2014 there will have been at least eight separate changes to benefit entitlements affecting EU migrants in particular, despite little evidence that benefit availability influences migration.¹

In one sense this is all too late. The Census showed that 2.7 million UK residents were born elsewhere in the EU, of which 1.1 million are from countries that joined the EU in 2004 or

later. Unsurprisingly, there is considerable inward and outward flux. For example, the peak inflow of EU migrants was in 2008 at nearly 200,000, but the same year showed a peak outflow of 134,000. Overall, since 2005, EU nationals have consistently accounted for about one-third of inward migration. Recently, work-related migration has grown from the older EU states, especially those in southern Europe hit by recession.

Census data from across Europe in 2011 also showed over one million UK-born people living in other EU countries, notably Spain and Ireland. About 340,000 more British people live in Spain than Spanish live in the UK. In Ireland, the British form over one-third of the foreign-born population. Three countries – Germany, Spain and France – host higher numbers of EU migrants than the UK does.²

Migration from Romania and Bulgaria has been a political issue since restrictions eased in January. Bulgaria's role in this was always likely to be small: it has lower net migration to the rest of the EU than Italy does. In contrast, Romania has the highest level of net migration to the rest of the EU – well over two million (higher than Poland's). But the majority of Romanian migrants live in Spain and Italy, with only 78,000 in the UK in 2011. For these and other reasons the predictions of massive growth in migration from these two countries appeared unrealistic.³ In fact, latest figures show a small drop in numbers of Romanian and Bulgarian workers in early 2014. There was a significant increase in national insurance number registrations, but four out of five were from people who had arrived earlier.⁴ However, only when full data are available for 2014 will it be possible to judge the initial impact of the changes at the start of the year.

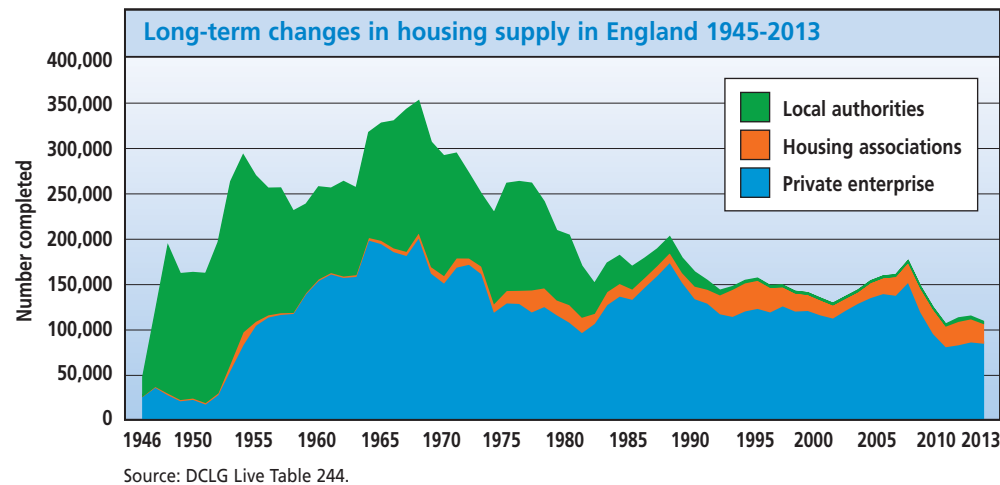
Both the narrow debate about Romanians and Bulgarians and the wider one about net migration have demonstrated the pitfalls of making hard-and-fast policy decisions, relying on data which often fail to give a full picture or show consistent trends. There have been several demands for a broader policy which would balance the economic and social costs of migration (including on housing and on neighbourhoods) with the economic benefits, and embrace policy measures other than the purely negative ones currently in favour.

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- 1 For a summary see House of Commons Library (2014) *Measures to limit migrants' access to benefits*. London: HoC Library. For more detail see www.housing-rights.info
- 2 Migration Observatory (2014) *EU migrants in other EU countries* (available at www.migrationobservatory.ox.ac.uk/briefings/eu-migrants-other-eu-countries-analysis-bilateral-migrant-stocks).
- 3 For example a briefing by Migration Watch (www.migrationwatchuk.org/briefing-paper/4.17) and the response by Migration Observatory (www.migrationobservatory.ox.ac.uk/commentary/jumping-gun-wait-facts-estimating-romanian-and-bulgarian-migration).
- 4 ONS (2014) *Migration statistics quarterly report, May 2014*. London: ONS.

Solving the housing crisis – more homes required, but who will provide them?

Though much is made of the slow improvement in housing supply in England it is from a very low base. Coalition ministers have criticised the last government's failure to increase supply sufficiently while ignoring the financial crisis when lenders and housebuilders reduced activity for good financial reasons. Output in England fell from 183,600 starts in 2007 to 85,610 in 2009 before rising again to 99,440 in 2012. For the UK the equivalent figures were 233,710, 114,140 and 124,420.¹ One simple reality is that once the pipeline of starts is reduced it takes a long time to get numbers up again as the government is finding – despite the enormous amount of support it is offering through loans and guarantees (in excess of £10 billion).²



Just as with the banking sector, the government sought to stabilise and restore a housebuilding industry that was hit hard by the downturn. Many small- and medium-size builders went out of business as sales and access to finance dried up; a number of the larger firms merged. The process of recovery has largely benefitted the larger quoted companies – as is evident from recent share prices and profit announcements. Focussing on private sector starts as the key measure, output has been increasing – year-on-year starts in England were up 34 per cent in March 2014 at 108,400 but from a low base and well below the estimated 250,000 plus homes a year needed to keep pace with household growth, let alone deal with the backlog.

The picture in Northern Ireland, Wales and Scotland is somewhat different both in terms of the scale of any undersupply and timings. In Northern Ireland, private sector starts fell from a peak of 13,999 in 2006/07 to 4,708 in 2012/13 and are now growing a little.

In Scotland private sector starts peaked in 2006 at 23,580 before falling to 8,910 in 2011 with a slow recovery underway. In Wales, having totalled 9,840 in 2007, starts in all sectors plummeted to 4,960 in 2009 before climbing modestly to 5,291.³

Prudent business plans and shareholder caution means builders are unlikely to increase supply by more than around 10-15 per cent per annum. On that basis UK private sector starts which peaked at 202,850 in 2007 and fell to 84,730 in 2009 might get back up to over 200,000 again by 2019, with completions reaching that number a year or so later. This gives a real sense of the challenge ahead. Housing associations in England have recently pledged to increase output sharply from around 50,000 homes a year to 120,000 (but see page 12 for a note of caution here).⁴ Investor-led initiatives for both ownership and rental may give a further boost to the contractor market (as distinct from speculative housebuilding). Since 1945 speculative housing has rarely produced more than 150,000 homes a year (see chart): in the main, housing output has been highest when contractors have been most actively supported by government funding.

Building new towns was part of that history but recent plans to add to their number seem unlikely to become a major initiative. Both the government⁵ and the Labour Party⁶ have reviews in hand which might produce further innovation. But as public funding continues to be restricted, we have to look beyond this for the growth needed. Speculative housebuilding can be expected to grow as the pipeline builds and more medium and small builders re-engage, not least through some specific government support. Contracted supply from associations and local authorities may grow using balance sheets, housing assets and land (rather than grant). New investment by pension funds and others will help develop new secure and profitable residential developments that will generate good returns into the future. We may even see an additional new town or two. The question is does that add up to new supply at the levels needed? And although more homes are clearly essential let's not assume that will solve all the problems. They are a vital but not sufficient condition for a sustainable housing system.

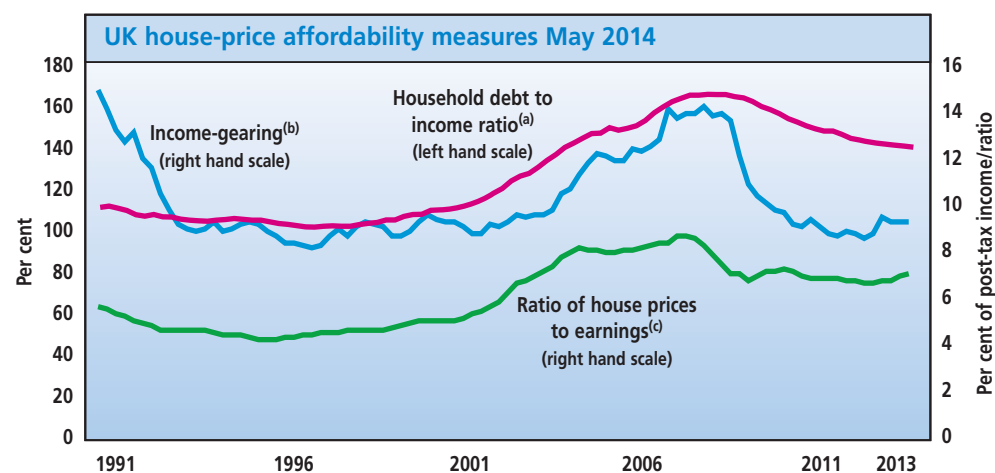
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- 3 See DCLG Live Tables on housebuilding and equivalents on Welsh, Scottish and Northern Ireland Government websites.
- 4 National Housing Federation (2014) *An ambition to deliver; housing associations unbounded*. London: NFA.
- 5 See www.gov.uk/government/groups/review-of-local-authorities-role-in-housing-supply
- 6 See www.yourbritain.org.uk/agenda-2015/policy-review/policy-review/lyons-housing-review

Can we make sense of house prices and affordability?

House prices and affordability are ever present in media coverage but the intensity grows as prices start to rise sharply in the market cycle. This is where we are now even though in parts of the UK prices remain below 2007 peaks, affordability is good and so all the discussion about bubbles and the need for action seems somewhat unreal. The reality of the UK housing market is that it is highly varied – from the fabled multi-million pound house in central London to the equally discussed £1 terrace home in a northern town.

Making sense of house price trends is not easy. There is a myriad of measures – ranging from (at the simplest) asking prices (what the seller hopes for), to approval prices (prices agreed by lenders), to completion prices (what the property sells for). All three are reported without distinction even though they measure very different things, and that is before we consider mix and seasonal adjustment. In recent years we have seen the amount of cash used in transactions rise substantially, reflecting the requirement for bigger deposits and the growth of cash sales at both the bottom and the top of the market. This raises real doubts about what the mortgage lender price indices are telling us.



Source: Bank of England Inflation Report.

Notes: (a) Household debt as a percentage of post-tax income.

(b) Household interest payments plus mortgage repayments as a percentage of post-tax income.

(c) Average of Halifax and Nationwide measures of house prices divided by average annual earnings.

We do know that prices have generally been rising: ONS reported an annual rate of eight per cent for the UK and 17 per cent for London by March 2014.¹ The rate of increase at least in London is now a cause for concern. Over recent months ministers and officials have

made much of the fact that though prices were rising in nominal terms in real terms (taking inflation into account) they were well below previous peaks and affordability was still good. This is true as measured in terms of cost-to-income ratios but house-price-to-income ratios are stretched.² In its latest *Inflation Report* the Bank reviewed affordability indices (see chart) and also noted that mortgages with high loan-to-value ratios were increasing 'though this proportion remains below pre-crisis levels' (and may partly result from the government Help to Buy scheme).³ High loan-to-income ratios had surpassed pre-crisis levels, particularly for high-value properties, including London, but overall on a number of ratios the situation was still positive.⁴ This partly reflects low interest rates and relatively low lending volumes (though with bank base rate due to rise in 2015 alarms were ringing). The Bank is keeping a close eye on the housing market as was evident in a recent interview with governor Mark Carney.⁵ As a recent CML report highlights, the strains are increasing.⁶

With a continuing backlog of unmet demand, increases in the supply of mortgages albeit with some tightening on access to them, and with continued shortages of homes on the market, it is little wonder prices have risen. There is an expectation they will cool later in the year as tightened loan criteria work through and demand falls away.⁷ At present first-time buyer numbers have been rising as households respond to a recovering market, despite the disadvantages they face (see *UK Housing Review 2014*, Commentary Chapter 6).

The London 'bubble' gets considerable attention though even here it is hard to show that prices being paid are purely speculative given strong underlying demand. The government has moved to dampen investment by some foreign buyers but this runs against the capital being part of the global housing market.⁸ As is very evident, there are real tensions which feed an appetite to tax and control the top end of the housing market. However without action on supply this may prove to have little impact.

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2 See *UK Housing Review 2014*, Tables 2.3.1 and 2.3.2.

3 See www.bankofengland.co.uk/publications/Pages/inflationreport/2014/ir1402.aspx

4 See www.bankofengland.co.uk/publications/Documents/fsr/2013/fsrfull1311.pdf (chart 2.26).

5 See <http://news.sky.com/story/1263732/carney-house-prices-biggest-risk-to-economy>

6 See also CML's market commentary at www.cml.org.uk/cml/publications/marketcommentary/493

7 See OBR assessments at <http://cdn.budgetresponsibility.org.uk/37839-OBR-Cm-8820-accessible-web-v2.pdf> and <http://budgetresponsibility.org.uk/wordpress/docs/House-price-model-Dec-13.pdf>

8 Savills World Research (2014) *Around the world in dollars and cents – how private money moves around the real estate world*. London: Savills.

Managing the mortgage market?

The supply of mortgages is part of the house price story. During and after the financial crisis the overall appetite and capacity to lend were much diminished given the contraction of the securitisation market and bailouts and takeovers of major lenders. Gross mortgage lending fell from £363 billion in 2007 to £135 billion in 2010, then recovered somewhat to £176 billion in 2013.

The crisis triggered a major review of the mortgage market by the Financial Services Authority (FSA) – now the Financial Conduct Authority (FCA). The Mortgage Market Review (MMR) highlighted a number of poor practices around lending including weak evidencing on incomes, some unsuitable products being sold and inappropriate use of high loan-to-value (LTV) mortgages.¹ The new rules drawn up on the back of the review make lenders fully responsible for their loans, require full evidencing of suitability and the capacity to cope with higher interest rates, and require most loans to be sold only after the borrower has received advice.²

The new rules came into force in late April 2014. The FSA estimated that they would reduce mortgage lending by two per cent in normal times and ten per cent in boom years. The early evidence is that interviews are taking longer, the application process has slowed and more loans are being refused – as you would expect with tighter criteria and more demanding processes. Offsetting this are the Help to Buy equity loan and mortgage guarantee schemes, growth-oriented lender business plans, a re-opened securitisation market and continued low interest rates. The number of higher LTV products has risen

sharply as lender competition intensifies. The Bank of England is closely tracking these and the use of high multiple incomes to secure loans (see the chart for two of the indicators being monitored).

A recent report by IMLA argued that the new MMR rules alongside new capital requirements for lenders and the new 'macro-prudential' regime being implemented by the Financial Policy Committee (FPC) might prevent the mortgage market from meeting normal demand.³ The FPC has powers to impose stronger stress tests on lending and can consider caps on mortgage terms and LTVs. All of this is important though the international evidence on macro-prudential intervention is that its impact is limited; the widespread use of cash instead of mortgages in the UK further constrains what it might achieve.

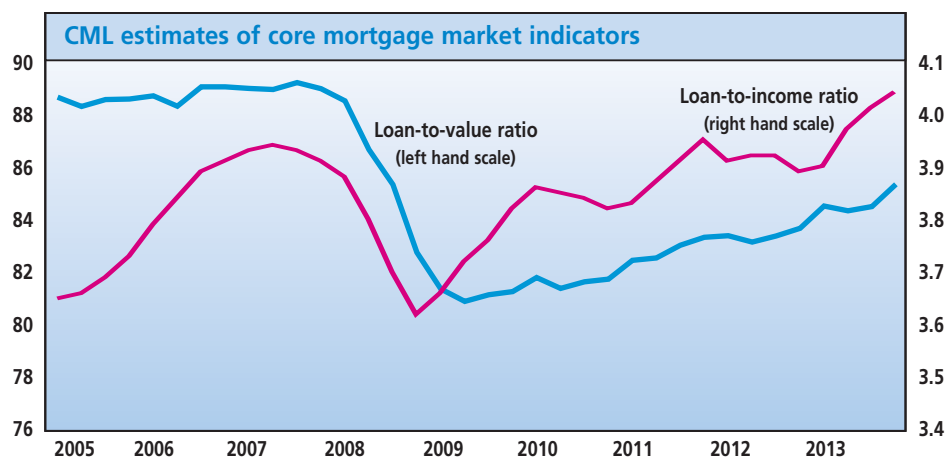
This raises the question of how the mortgage market and through it the housing market might be managed in the future? New MMR rules and FPC interventions will provide some braking effect, including any action they take on Help to Buy. Some lenders have moved to limit their own activity. The main weapon still to be deployed is increased base rates – gradually and for the economy as a whole – but it would take a sharp rise to really impact on the housing market given that incomes are now rising.

With government reducing its grant funding for housing supply it has effectively changed the way it operates in the housing market, moving from a model of leading by doing to one where it seeks to influence others. This creates a set of new challenges to both government and the market. Government has to be much better informed about the market and ready to make many diverse interventions, while the market has to be much more confident about its own role and to take initiatives without waiting for government leadership. This is beginning to happen, as evidenced in recent announcements by Legal and General⁴ and the move by a number of housing associations into open market activity; but it will take time and will have its own weaknesses.

The reality of both the mortgage market and the housing market is that they are complex and hugely varied – and they operate across an equally varied economic landscape. Intervention needs to be at many different levels. It is clear there is no silver bullet.

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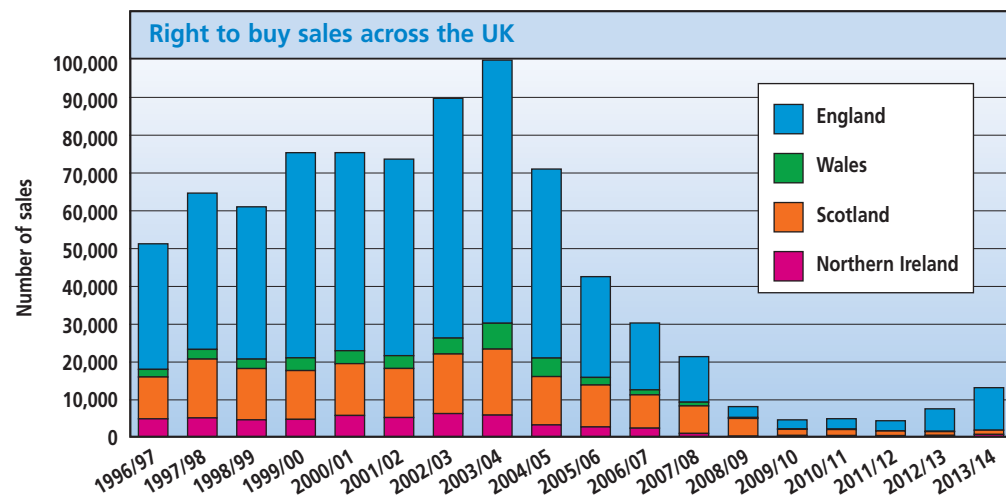


Source: CML and Regulated Mortgage Survey.

Note: Figures are the average LTV or income multiple for all mortgages above the median in each month.

England's failure to replace right to buy sales

Right to buy sales across the UK hit a peak of over 200,000 in 1982 and again came close to that peak in 1989. The most recent peak was in 2003 with 100,000 sales. Within eight years of that sales had fallen by about 95 per cent, but whereas sales have stayed low in Scotland, Wales and Northern Ireland, in England they have now begun to rise again (see chart).



Source: DCLG live tables and equivalent for other administrations.
Note: Northern Ireland figures relate to the NIHE House Sales Scheme.

The pattern reflects sharply diverging policies. In Scotland, discounts were set at much lower levels for new tenants from 2002, RTB was then withdrawn for new tenants in 2011 and when the current housing bill is passed will end completely after two years. In Wales and Northern Ireland, lower discounts were set in 2003 and 2002 respectively and have not since been raised. In contrast, sales in England are accelerating as the recession eases and buyers take advantage of much bigger discounts set in April 2012. There were 11,238 sales in the last twelve months, compared with 5,944 in the previous year and just 2,638 a year before that.¹

The maximum discount is now £75,000 in England (£100,000 in London). When the government published *Reinvigorating the Right to Buy*, a specific promise was made to replace every additional home sold with a new one at Affordable Rent.² Only two years later, it would be unreasonable to expect many replacements to have yet been built, but even so the signs are far from promising. Output of new homes by local authorities actually fell slightly in the last twelve months to 2,240 (see page 12). A recent study suggests that council housing output might rise to 5,000 per year,³ but even if it does the pledge to replace extra properties sold will not be delivered if sales continue at current or higher levels.

The *Review* has previously looked in detail at the value for money of RTB sales.⁴ It concluded that, because purchasers would typically continue to occupy the property for 15 years (during which time it would not have been available as a relet if it had not been sold), a replacement rate of two in three would suffice. Crucially, however, it showed that once average discounts rise above 35 per cent they impose long-term costs on the public purse. With the recent changes, average discounts in England are now 45 per cent and rising.⁵

Another criticism in the *Review* was the failure to dedicate receipts to investment in replacement units where these are required. Whereas in Scotland councils have for years been allowed to reinvest all their receipts, in England and Wales only 25 per cent can be reinvested. Since April 2012 in England different rules have applied to the additional receipts generated, but their complexity and continuing difficulties in reusing them have been criticised by authorities as one of the main factors holding back investment. The LGA reports that four out of five councils are finding it hard to replace on a one-for-one basis; for nearly three-quarters, the biggest obstacle is that capital receipts are insufficient.⁶

In one sense England is merely reverting to long-standing practices. The current edition of the *Review* shows that since 1980 RTB has raised over £50 billion in receipts across Britain through 2.5 million sales, at an average price (after discount) of about £20,000.⁷ Yet over the same period the cumulative total of new houses built by English social landlords has been almost exactly half the number sold. Except for the decade up to April 2012 when discounts were much lower, the first priority throughout this period has been to promote sales: even in 2012, at £62,990, the average English RTB price was barely one quarter of the price of an average house on the open market. The second priority has been to repay receipts to the Treasury. Allowing councils to retain receipts so as to reinvest them has been, and remains, a poor third.

References

- DCLG (2014) *Right to Buy Sales, Jan 2014 to Mar 2014, England*. London: DCLG.
- DCLG (2012) *Reinvigorating the Right to Buy and One for One Replacement*. London: DCLG.
- Association of Retained Council Housing (2013) *Innovation and Ambition*. Coventry: ARCH.
- Wilcox, S. (2006) 'A financial evaluation of the right to buy' in Wilcox, S. (ed.) *UK Housing Review 2006/2007*. Coventry: CIH and CML.
- DCLG Live Table 682.
- LGA (2014) *LGA Housing Self-Financing Survey 2014* (see www.local.gov.uk/documents/10180/49942/Housing+self-financing+survey+2014/8b077122-382b-4006-a0ba-f26a400ca1a8).
- See Tables 20d and 60 of the *UK Housing Review 2014*.

Private rented sector grows apace

The credit crunch has not slowed the growth of the private rented sector, despite the temporary downturn in new buy to let (BTL) mortgages and modest levels of reported rental yields. There were some 83,000 BTL mortgages for new purchases in 2013, and BTL mortgages are now held on just over 1.5 million dwellings. The latest IDP figures suggest only a 2.7 per cent rental return in 2013, with total returns still heavily dependent on capital appreciation.¹

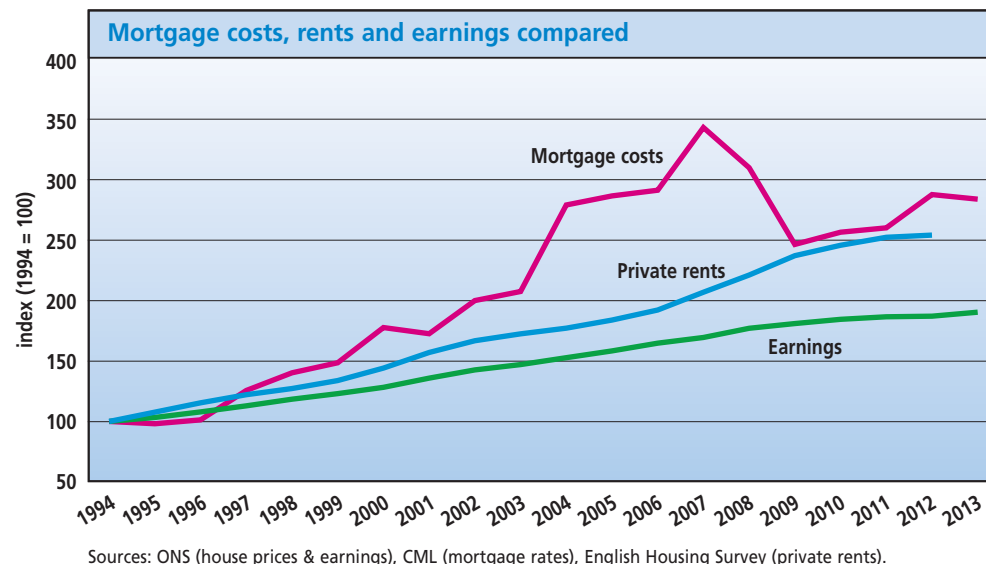
There has been speculation that government pension reforms to abolish the requirement to use pension funds to purchase annuities will lead to a new rush of BTL investment. This may not be as dramatic as some have suggested, however, as pensioners cashing in all their accumulated pension pot in one year will then face higher income tax for amounts withdrawn above the 40 per cent tax threshold. Only 25 per cent of the funds in a pension pot can be taken out as a tax-free lump sum and that has not changed. It will therefore be more tax-efficient for pensioners to spread their withdrawals over time, to minimise the impact of higher tax rates.

A more probable outcome of the pension reforms is likely to be the growth of flexible drawdown pension schemes, or schemes which have private renting as part of their investment portfolio. These in turn may provide a new funding source for institutional investment in private renting.

The key economic, regulatory and fiscal measures favouring investment in private renting remain in place. Despite the hype about Help to Buy, it is still far more difficult for first-time buyers to get a low-deposit mortgage than it was for the generation that purchased before the credit crunch; and for many younger households there remains a greater 'wealth barrier' to homeownership, especially for those with no access to parental help with a deposit.

Moreover the new regulatory regime for the mortgage market has more stringent affordability requirements and makes it nigh-on impossible for homebuyers to get interest-only mortgages. In contrast interest-only mortgages are normal for BTL loans, and the much lower monthly repayments make it easier for investors to cover them from rental income. As shown in last year's *Briefing Paper*, private rents are typically both higher than the costs to the investor of a BTL mortgage and lower than the those of a standard repayment mortgage for a would-be first-time buyer. This gives investors a substantial competitive advantage.

Major tax advantages for the owner-occupier sector – in the form of capital gains tax relief and the absence of tax on the rental value of the owner's home (worth some £20 million in 2012/13²) – accrue to established owners and are factored into higher prices that confront future first-time buyers.



Over the last two decades private rents and mortgage costs have grown by a similar margin over average (full-time) earnings, although rents rose much more steadily (see chart). The large shortfall in housing supply that pushes up house prices simultaneously gives comfort to the market about prospects for growth in private rents.

Predictable noises have been made about the quite modest Labour Party proposals to provide new tenants with three years' security of tenure (or rather two and a half, following a six-month 'probationary' period). But these would not threaten viability for either investors or BTL mortgage lenders. Landlords will be able to obtain possession if they wish to use the property themselves or to sell it, as well as because of rent arrears, etc. Similarly while the proposals involve an upper limit on rent increases over the three-year term these are based on market norms, rather than being rigidly restrictive. If anything the measures – by slightly improving the quality of the private rented offer – could serve to improve the sector's standing and thus the political security of landlords' investment.

References

- 1 IPD (2014) *UK Annual Residential Investment Index 2014*. London: IPD.
- 2 See Table 2.6.1 in the *UK Housing Review 2014*.

Affordable housing output still low; new social rented homes at risk

Overall housing supply remains at historically low levels (see page 7) and so does the supply of affordable housing. In England in 2013/14, housing associations completed 21,950 dwellings and local authorities 840. This compares with 22,030 and 1,360 respectively in the previous twelve months.¹ It is particularly disappointing since the government's Affordable Homes Programme (AHP) should now be at maximum output given that it ends in March 2015. The Homes and Communities Agency, responsible for the programme outside London, has not yet produced figures for completions to March this year. But the GLA statistics (for the London element of the AHP) show 4,841 units completed by March, leaving more than 17,000 units to be built in the current financial year.

For the new AHP running for three years from 2015/16 and aiming to build 165,000 homes, the HCA has £1.75 billion and the GLA £1.2 billion. The HCA has closed bids and will allocate three-quarters of its pot in the summer; in contrast, the GLA will allocate its whole pot this summer. However, both have struck difficulties with some associations deciding not to bid for various reasons, including the conditions being imposed.

One of these is that the new programme all but excludes building to let at social rents. Yet in a survey last year, local authorities said that half their planned output over the next five years will be at social rent, suggesting that they will have to fund much of it without grant.² The decline in output of social rented dwellings is striking: for the three years to 2011/12, on average 34,000 units were being completed annually; the total fell below

15,000 in 2012/13 and to only 1,681 in the first half of 2013/14.³ Soon, social rented output will depend almost entirely on what landlords can finance from their own resources. The ups and downs of changing output are summarised in the chart.

Another concern is the various threats to 'planning gain' which has traditionally played a major role in providing affordable housing. For the ten years to 2010/11, it helped provide over 60 per cent of affordable output. Data are now only available where such schemes are built with no grant, but even these contributed 4,820 units in 2012/13.⁴

The threat to 'section 106' agreements grew from developers' responses to the recession and the government's reaction to them. Although many authorities were voluntarily reviewing agreements, government legislated to allow developers to appeal against 'unviable' ones. This became the first of a series of steps in cutting back their role:

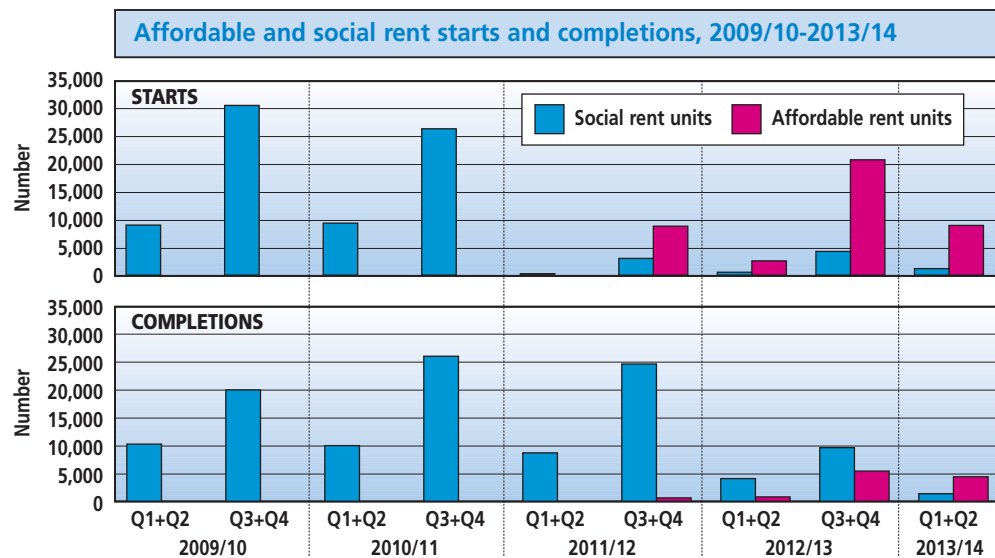
- Section 106 schemes can no longer receive HCA grant.
- The Community Infrastructure Levy threatens to displace s106 as authorities prioritise the levy.
- Government plans to curb the use of s106 in developments of less than ten units, even though such small schemes are key in many rural areas.
- It plans to end s106 charges on basements, annexes and dwellings brought back into use – which in London especially is an important source of funding for affordable homes.
- It also plans to exempt self-build and recommend exemptions for market rent schemes.

The potential impact of these changes on affordable housing output appears to be ignored. Yet there seems to be little hard evidence of the claimed effects on the viability of developments; indeed because section 106 has been in use since 1990 it should, at least in theory, already be factored into land values.

While the new AHP may not suffer significantly from these changes as housing associations are increasingly using large sites, they may make it much more difficult to achieve mixed-tenure developments or deliver small schemes in rural areas. Furthermore, cuts in s106 income and the fact that it cannot be made good from the Community Infrastructure Levy are likely to affect local authority plans to continue to build new homes at social rents.

References

- 1 DCLG Live Table 213.
- 2 Association of Retained Council Housing (2013) *Innovation and Ambition*. Coventry: ARCH.
- 3 DCLG Live Table 1012.
- 4 DCLG Live Table 1000.

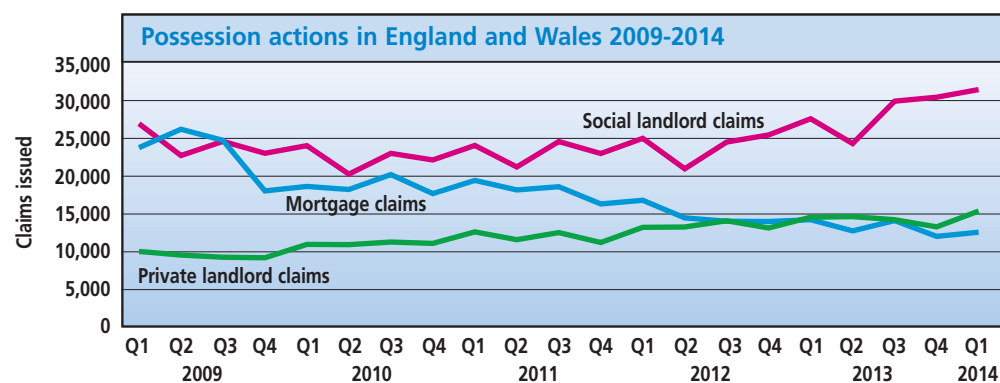


Source: DCLG Live Table 1012.

What's happening to the homeless?

Figures for acceptances of homeless households by local authorities in England remain stubbornly high. Although the final figure for 2013 was slightly lower than the previous year's, this may in part result from local authorities' continued use (encouraged by government) of prevention measures, which are now at their highest levels since they began to be formally monitored.

Pressures leading to homelessness continue. Repossession claims by landlords increased markedly during 2013, and in the first quarter of 2014 they reached their highest level (47,220 claims) in over a decade. In contrast, levels of mortgage repossessions remain low, because of low interest rates and proactive 'forbearance' policies by lenders (see chart).



Source: Ministry of Justice mortgage and landlord possession statistics.

Note: Private landlord claims include 'accelerated claims', the majority of which are private.

Two-thirds of repossession claims are by social landlords, suggesting increased levels of action to tackle rent arrears. In part, this may be due to tougher sanctions on claimants of jobseeker's allowance (which, if stopped, also results in housing benefit being suspended). Sanctions reached a peak of 241,469 cases in the third quarter of 2013 and fell only slightly in the fourth quarter to 239,587 cases (see page 15).¹

Private landlord repossession claims have grown slowly, but loss of an assured shorthold tenancy is the biggest factor leading to statutory homelessness (24 per cent of cases).² However, both figures partly result from the sheer growth of the private rented sector, whose tenants are highly mobile, accounting for over half of all household moves in 2012/13, far higher than the proportion of households that live in the sector (18 per cent).³ Also, before 2006, social landlord claims were higher than now – the growth in claims in the last three years has reversed what was a declining trend.

If headline homelessness rates have stabilised, there is still plentiful evidence of related housing stress. The latest count of rough sleepers across England showed that in Autumn

2013 there had been a five per cent increase in numbers, to 2,414, following on from a six per cent increase the previous year.⁴ Broadway's 'CHAIN' data, restricted to London but measuring levels of rough sleeping throughout the year not just as a one-off count, showed 2,029 individuals sleeping rough in the period January-March 2014, an eight per cent increase on the same period last year. Numbers of those new to sleeping rough had risen by 12 per cent.⁵

Homeless Link has pointed out that rough sleeping counts appear to indicate that authorities who have made the deepest cuts in support for rough sleepers are now seeing a growth in their numbers: in Derby there has been almost a doubling in rough sleepers and Nottinghamshire has also seen a significant increase.⁶ Both authorities had drastically cut homelessness-related Supporting People services.

There is also evidence of saturation of temporary support arrangements for the homeless. An annual survey of agencies offering hostel and other support to the single homeless found that almost one-third of those who are ready to move into more permanent accommodation cannot do so.⁷ Furthermore, the number of bed spaces in such accommodation, at 38,534 across England, was more than 1,000 down on the previous year.

Statutory homelessness services are showing similar saturation levels. Use of temporary accommodation averaged over 56,000 cases in 2013 compared with 52,000 the previous year. Within those figures, use of bed and breakfast accommodation averaged 4,335 during 2013 compared with 4,145 in 2012. Total use of private sector lettings reached a high of 38,750 cases at the end of 2013. And finally, out-of-area placements of people in temporary accommodation also reached a new high of 11,860.⁸

While the slight downturn last year in statutory homelessness is therefore welcome, practically all the other data related to homelessness give increased grounds for concern at the pressures on services and on numbers using the ultimate recourse – sleeping on the streets.

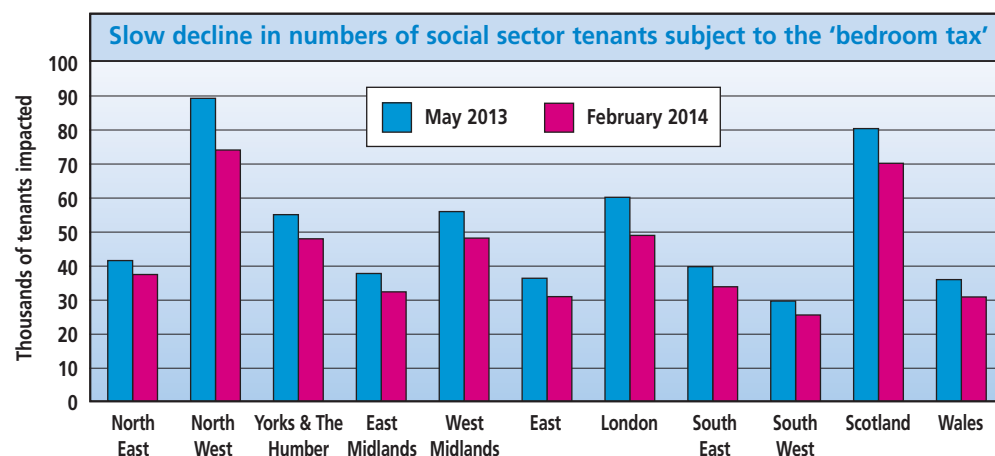
References

- 1 DWP (2014) *Jobseeker's Allowance and Employment Support Allowance Sanctions: Decisions made to December 2013*. London: DCLG.
- 2 DCLG Live Table 774.
- 3 DCLG (2014) *English Housing Survey Headline Report 2012-13*. London: DCLG.
- 4 DCLG (2014) *Rough sleeping statistics England: 2013*. London: DCLG.
- 5 Available at www.broadwaylondon.org/CHAIN.html
- 6 Henderson, R. (2014) 'Homelessness services on high alert as councils plan spending cuts' in *The Guardian* (see www.theguardian.com/housing-network/2014/mar/04/homelessness-services-councils-spending-cuts).
- 7 Homeless Link (2014) *Support for Single Homeless People in England*. London: Homeless Link.
- 8 DCLG Live Table 775.

Issues with the 'bedroom tax'

The 'spare room subsidy limit', or 'bedroom tax' as it is almost universally known, has contributed only about two per cent of the 2013/14 savings made from the swathe of government welfare reforms. Yet this controversial measure is one of the few that opposition parties have promised to repeal.

In summary, it places a limit on housing benefit payable to working-age tenants in the social rented sector based on the size of dwelling they are deemed to require. Introduced in April 2013 both as a cost-saving measure and to reduce 'under-occupation', it uses roughly the same size criteria as in setting LHA rates in the private sector but operates rather differently. It leads to a 14 or 25 per cent cut in the rent eligible for benefit, depending on whether the household has one or more 'spare' bedrooms.



Source: DWP Housing Benefit Statistics (adjusted for under recording in May 2013).

While a case can be made for incentives to reduce under-occupation, the details and sudden application of the size criteria have led to widespread criticism.¹ They are essentially based on 1960s' standards and do not reflect contemporary social values: almost three-quarters of households occupy more bedrooms than set by the standard, including 85 per cent of owner-occupiers. Targeted tenants in the social sector form just four per cent of all UK households with bedrooms beyond the standard. Moreover the standard takes no account of bedroom sizes and can penalise households that are entirely appropriately occupying dwellings with one or more single bedrooms.

A further difficulty is the shortage of smaller dwellings available to enable tenants to downsize, especially in some regions. Even where landlords buy in additional smaller units or selectively redefine numbers of bedrooms in some of their stock, the shortfall of smaller dwellings cannot be resolved in the short term.

In the first six months of the policy some six per cent of those affected had moved to smaller properties – mainly to social sector dwellings but in fewer cases into often more expensive private lettings. This left one-fifth of affected tenants awaiting a transfer or mutual exchange. Such demands to downsize will take years to clear – especially in areas where there are few smaller dwellings.

Meanwhile the majority – willingly or not – are staying put and are subject to benefit deductions. The government has provided £55 million in 2013/14 for discretionary housing payments (DHPs) for such cases, particularly for those with health or disability issues that require larger accommodation. The Scottish Government, which has been particularly critical of the policy, has added £20 million to this in 2013/14, and is set to add more in years ahead.

While there are marked local variations, evidence shows that the DHP budgets for size criteria cases have been fairly fully used, even though the budgets initially provided to ameliorate other welfare policies have been substantially underspent. There have also been issues with local interpretation of DHP rules, with some authorities taking disability living allowance into account and refusing DHPs to claimants living in dwellings specifically adapted to meet their disabilities.

And not surprisingly a substantial proportion of the tenants staying put have struggled to make good the size criteria deductions – with some evidence suggesting that roughly half have rent arrears as a direct result. As well as hardship for tenants, there are the costs to landlords not just in terms of rent arrears but also in providing support to help manage the impact of this and other welfare reforms.

All those costs need to be set against the direct savings to DWP – which are in any event some £100 million lower than forecast. With the numbers of tenants affected falling only slowly (by 15 per cent between May 2013 and February 2014) and evidence on the indirect impacts of the policy still only beginning to emerge, the controversy it has provoked will not go away anytime soon.

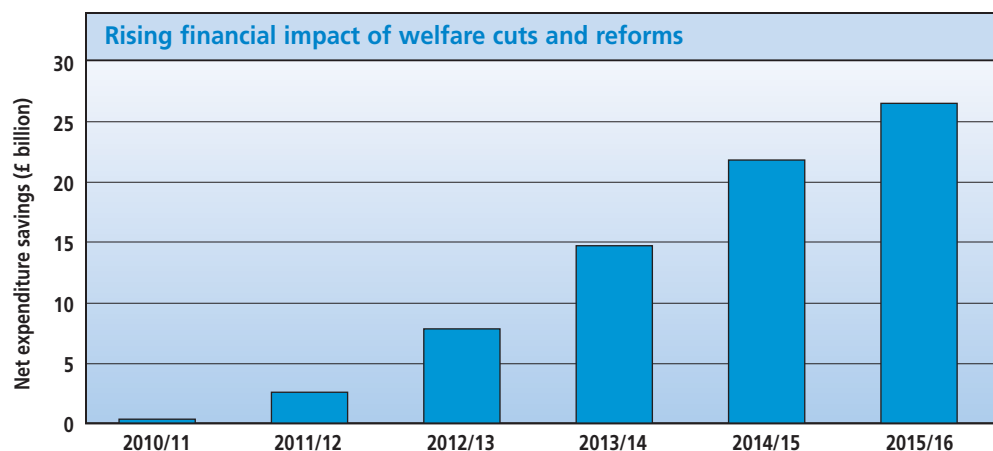
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1 Wilcox, S. (2014) *Housing benefit size criteria: impacts for social sector tenants and options for reform*. York: Joseph Rowntree Foundation.

The growing impact of welfare reform

While the 'bedroom tax' has attracted the most publicity and controversy, financially it is only a small part of the wider package of welfare reforms. Several other parts of the package are highly problematic both for claimants and for landlords.

This year net savings to the Treasury from the cuts and reforms will rise to almost £22 billion. (Gross savings of almost £28 billion are offset by just over £6 billion of addition spending on child tax credits, state pensions and pension credits and items such as discretionary housing payments.)¹ By far the biggest welfare cut results from the switch to CPI indexation for most benefits, tax credits and public service pensions announced in the 2010 Budget. It saves an estimated £7.6 billion in 2014/15 rising to £10.6 billion next year.



Source: DWP: Welfare reform: collated costings 2010 to 2014.

Of those cuts that specifically relate to housing the greatest involve the various changes to Local Housing Allowance (LHA) in the private rented sector: the move to 30th percentile rates, four-bedroom and high-value area caps, CPI uprating, and extending the shared accommodation rates (SARs) for single people aged up to 35. In total these are likely to save the Treasury £1.3 billion in 2014/15.

Overall the numbers of claimants in the PRS have continued to increase, albeit with a flattening off in 2013. However given that overall claimant numbers in all tenures fell slightly in this period, it would be inappropriate to attribute much of that flattening off to the LHA cuts and reforms.

But there *has* been a fall in numbers of PRS claimants able to get and keep a tenancy in Inner London – and especially Kensington & Chelsea and Westminster. In February 2014 Inner London numbers were down by five per cent compared to March 2011 and in those two central areas by about 30 per cent.

Numbers of young single people accessing the PRS have fallen too. Single people aged under 25 have fared worst – with numbers down by 16 per cent between December 2011 and February 2014. Constrained choices for young single people come at the same time as new lettings of smaller dwellings in the social sector are under pressure from the extra demand from existing tenants affected by the bedroom tax. More generally, widening the demand for shared accommodation is at odds with the policy objective of reducing multiple occupation and raises a question about the minimum housing standards that both housing and welfare policy should be seeking to support.

Savings have also been made by applying extra sanctions on those receiving jobseeker's and employment support allowances. JSA sanctions increased from 350,000 cases in 2008 to 650,000 in 2011 and 870,000 in 2013; ESA sanctions increased from less than 5,000 in 2011 to over 27,000 in 2013. Quite apart from the direct loss of JSA or ESA, sanctions can also lead to housing benefit being suspended with claimants effectively having to reapply for it.

The integrity of the sanctions regime is open to question given that there are high levels of appeals against the sanctions and that a high proportion of appeals are upheld. Over a similar period close to a third of all JSA sanctions were subject to a review and nearly half of reviews found in the claimant's favour. Appeals were made against half of all ESA sanction decisions in 2013 and three-fifths of these were upheld.

The application of JSA or ESA sanctions will, of course, be even more problematic for social landlords under the universal credit regime where all benefits are, in the first instance, paid direct to claimants. While the timetable for rolling out universal credit has again been deferred, the sanctions regime, the bedroom tax and other welfare changes have already added to landlords' difficulties with rent collection. In the first quarter of 2014 social landlord possession claims (in England and Wales) rose to 31,700 – higher than at any time over the last eight years.

Reference

1 DWP (2014) *Welfare reform: collated costings 2010 to 2014*. Ad hoc statistical analyses Quarter 2, 2014. London: DWP.

A regional renaissance?

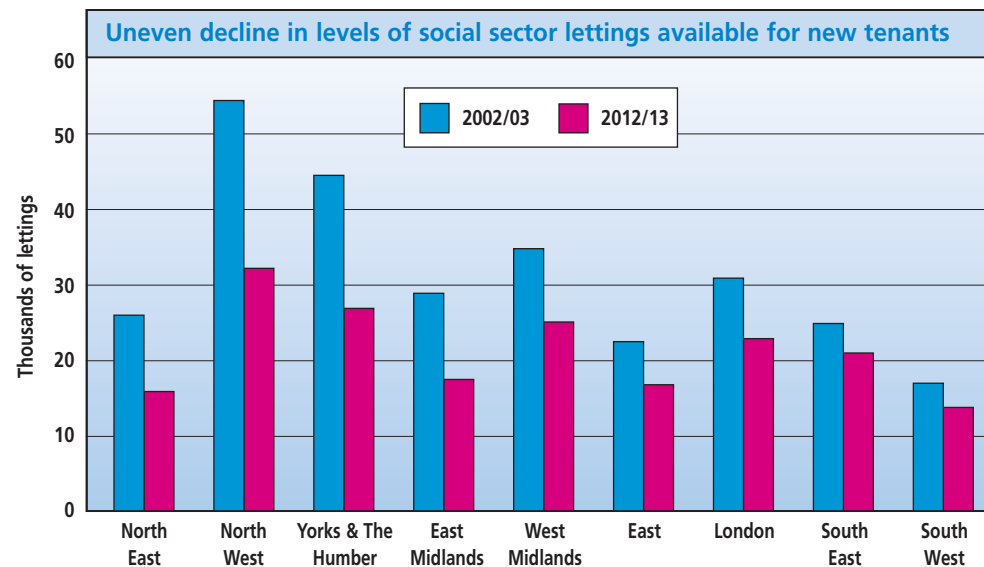
The *UK Housing Review* regularly carries 21 tables with data for English regions, covering unemployment, taxes and welfare benefits and a range of more directly housing-related issues. Updating some of those tables is now more of a challenge following the Secretary of State's decision to end the DCLG's provision of regional statistics, as well as the abolition of the limited forms of regional government. However DCLG is unique in that regard – as all other government departments and the ONS continue to provide regional statistics as a matter of course. This in itself is an indication of the rather isolated and egocentric political posture adopted by DCLG.

So here are not one – but two – regional graphs with key data from the *Review*! The first shows the decline by region in the levels of lettings to new tenants by social landlords over the decade to 2012/13. There has been a two-fifths decline in available lettings in the northern regions and in the East Midlands, compared to a decline of less than a fifth in the south of England.

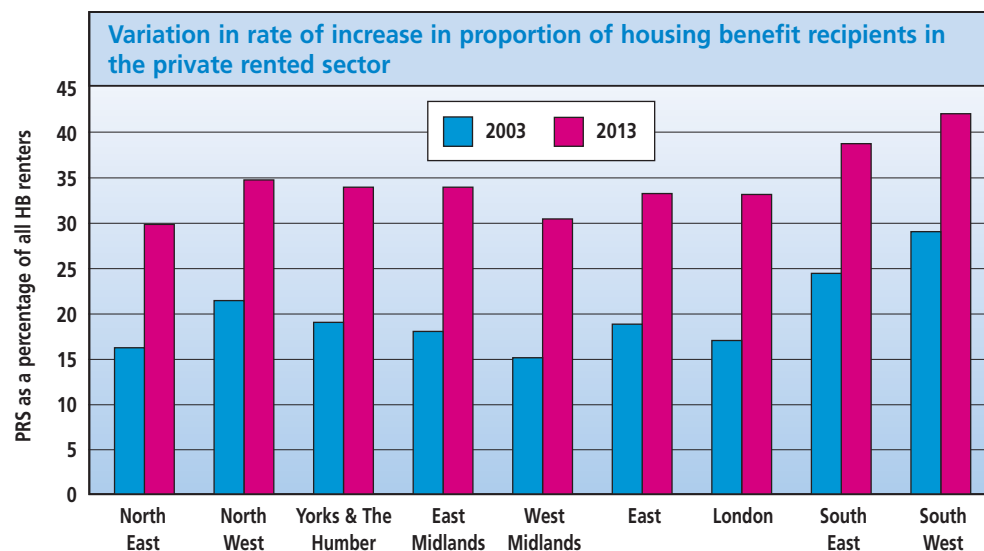
However while lettings declined more slowly in the south of England, over roughly the same period the proportion of tenants in receipt of housing benefit in the private rented sector was also higher than in all other regions. The rate at which the proportions in the PRS grew over the decade was, however, lowest in the south of England, and highest in the West Midlands and London – despite the impact of the LHA caps in restricting access to the PRS in inner London over the last two years.

Both these figures illustrate regional differences in the operation of housing markets and the impact of government housing policies. Yet few government housing and benefit policies are really geared to the very different social, economic and market contexts across the English regions. New build investment is regionally targeted, but the impact of social rent policies varies greatly from region to region (even given the slightly lower ratio of Affordable Rents to market rents in London). And while LHA rates vary from area to area, caps apart there is virtually no variation in other aspects of welfare policy between the regions. That insensitivity has been particularly apparent in the operation of the 'bedroom tax', where opportunities for affected tenants to transfer to smaller dwellings vary significantly between regions.

Regional inflexibility has all too often been a feature of Westminster-based policies, only marginally mitigated by the uneven approach DCLG takes towards 'localism'. This inflexibility, together with calls for greater devolution or independence in Scotland, Wales and Northern Ireland, and the disenchantment with mainstream Westminster politics shown in the May elections, raise questions about maintaining the status quo of political governance and policy-making across the regions of England. Has the time come for a renaissance of regional government?



Source: UK Housing Review 2014 Tables 97a & 99.



Source: UK Housing Review (2004/05 and 2014 editions) Table 118.

Decision time in Northern Ireland

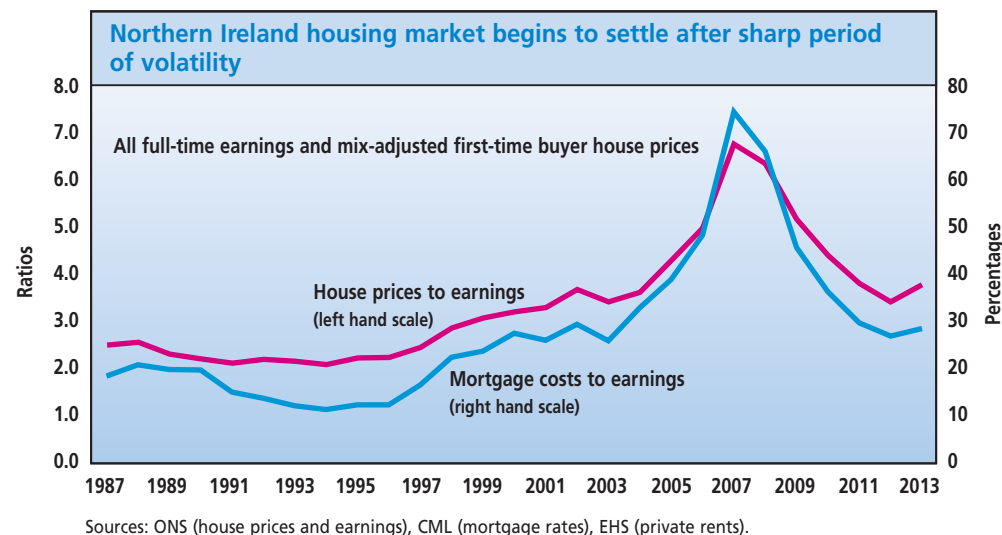
These are critical times for housing and social policy in Northern Ireland as its Executive and Assembly soon have to make some key decisions. Following a lengthy consultation process on wide-ranging housing reforms, including a fundamental restructuring of the Northern Ireland Housing Executive (NIHE), outline policy decisions should emerge soon. However, cross-party decision-making in Northern Ireland is never easy, and given the spatial manifestations of its religious and cultural history, housing policy is always one of the more sensitive issues the Executive and Assembly has to tackle.

One immediate decision that must be reached is if and how to implement the 'bedroom tax' in Northern Ireland. In constitutional terms, Northern Ireland is responsible for the formulation of its own welfare policies, but under a long-standing 'concordat' it has typically followed those adopted across the rest of the UK, with matching levels of financial support from HM Treasury.

But recently it has shown a little more independence and has, for example, continued to pay housing benefit direct to private landlords. It has also made this a condition (for all landlords) of the extension of universal credit to Northern Ireland. Fifteen months on from its coming into force in Great Britain, however, a decision on the bedroom tax is still pending. A number of options for adopting it partially and phasing it in have been under consideration, but no policy decisions have been made either on implementing it in some form or on the budgetary consequences of rejecting it. The pressure is on, as the Treasury budget support for housing benefit expenditure is set to be cut by a sum rising to around £17 million a month, leaving the Executive to make good the shortfall if it fails to proceed, albeit belatedly, along the same path as the rest of the UK.

The bedroom tax has been just as disproportionately controversial in Northern Ireland as in Great Britain, even though it produces only a small part of the total cash savings being made through welfare reforms. Indeed the per-capita cash impact of the overall welfare reform package will be greater in Northern Ireland than in Scotland, Wales or any of the regions of England, costing an estimate £630 a year for every working-age adult – even without implementing the bedroom tax.¹

The timetable pressures for the Northern Ireland housing policy reforms are self-imposed, and in that sense the Executive has a little more leeway. But the issues are nonetheless pressing given the sharp reduction in the level of funding available to NIHE to invest in major repairs and improvements to its housing stock. Until the credit crunch this was largely funded by right to buy receipts, but as sales collapsed so has the NIHE capital budget for estate renovation. It fell below £10 million in 2011/12, from over £100 million just five years earlier. Without any change in the UK fiscal rules to give more borrowing freedom to the NIHE, the only way for funding to be restored will be through some form of stock transfer, and with it access to private finance.



Any form of stock transfer to a non-public sector body will, however, be a big leap in Northern Ireland, where there are decidedly mixed views about the degree of loss of political oversight this necessarily involves. As well as the issue of principle there are also unresolved issues about the constitutional form of any new landlord bodies, and the number and size of the new landlords.

If all this was not difficult enough, housing in Northern Ireland has experienced much greater market volatility over the last decade than the rest of the UK. In large part this is because it is far more influenced by the trajectory of the housing market south of its border than it is by what happens on the UK mainland.

While this has left a much bigger legacy of households with negative equity than elsewhere in the UK, the Northern Ireland housing market does now seem to have stabilised, with affordability ratios back to well below the UK average.

Reference

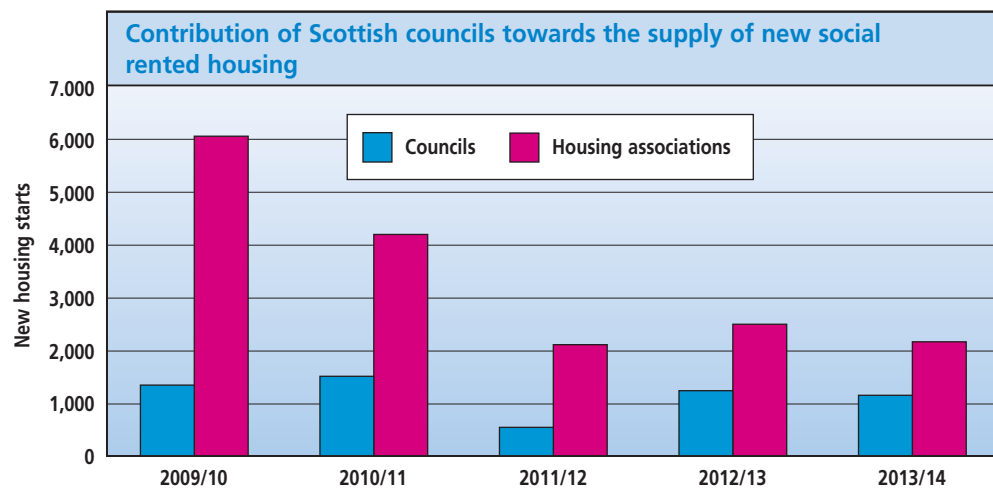
1 Beatty, C. and Fothergill, S. (2013) *The impact of welfare reform on Northern Ireland*. Sheffield: Centre for Regional Economic and Social Research, Sheffield Hallam University.

Which direction for Scotland?

Like the rest of the UK, Scotland has many issues to confront arising from the credit crunch and UK government austerity measures, but without doubt the forthcoming referendum on Scottish independence is currently the biggest issue north of the border. The outcome will not only have major direct implications for housing in Scotland, but also important ramifications for England, Wales and Northern Ireland too.

Housing policy is, of course, already a devolved function, and there are important differences in the legal framework in Scotland that long predate the 1999 devolution settlement. Of particular note was the omission from the Scottish version of the 1989 housing legislation of any requirement on councils to apply 'notional' rent surpluses towards the costs of rent rebates, so that they were never subject to any of the various redistributive housing 'subsidy' arrangements that applied until very recently in England and Wales.

Not only did this leave Scottish councils with the full revenue benefits from low historic capital costs, but after the UK-wide introduction of the prudential borrowing regime they have effectively been able to borrow against revenues without the caps that apply to councils south of the border. Consequently Scottish council housing investment has recently grown, with increases both in borrowing and in direct use of revenues to fund investment, and which do more than offset the decline in capital receipts. Total HRA investment is forecast to rise to £722 million in 2014/15 – an increase of 45 per cent compared to 2009/10, with a quarter funded directly by revenues.



Source: Affordable Housing Supply Tables, Scottish Government, 2014.

The lack of direct Treasury controls on Scottish councils' HRA borrowing has also enabled the Scottish Government to permit councils to invest in new social housing on an equal footing to housing associations. While council borrowing counts against the Scottish Government budget as Annually Managed Expenditure, this is so loosely covered by Treasury reserve powers it has effectively been ignored. Only the direct grant provided by the Scottish Government is counted against their Departmental Expenditure Limit; and this applies for councils and housing associations alike. This has allowed councils to contribute an increasing share of new supply in Scotland, even if total output has declined in the wake of budget cutbacks since 2009/10 (see chart).¹

Scottish housing policy has many other distinctive features, not least being its more robust homelessness policies or the planned ending of right to buy. But while Scotland has been able to forge its own path in housing policy, there are other areas of undeveloped policy where it continues to chafe at provisions made in Westminster. This is all too apparent in differences over welfare policy and the 'bedroom tax' in particular. This year the Scottish Government added £20 million – the maximum permitted – to the budget for discretionary housing payments by Scottish councils to offset the impact of the bedroom tax and other welfare reforms. Moreover it has pressed DWP to permit an even higher contribution to Scottish councils next year to mitigate the impact of the Westminster welfare reforms – and it plans to abolish the bedroom tax should the referendum support independence.

Indeed even if the referendum supports continuation of the union, it is now clear that all the main Westminster parties would endorse greater devolution which would include other areas of domestic policy, such as welfare benefits. So the path is clear for Scotland to adopt its own welfare policies in future whatever happens in the coming vote.

There are, of course, much wider issues than this involved in the referendum, beyond the scope of this short *Briefing*. What must be said, however, is that whatever the outcome of the referendum, the *UK Housing Review* will continue to cover developments in housing policy in Scotland, even if we are obliged to find the *Review* a new name for the territory that it covers.

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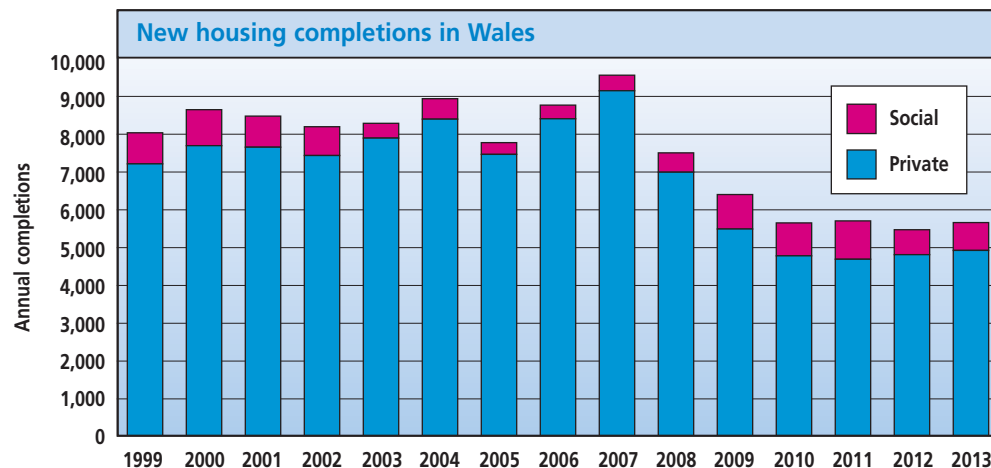
¹ For a fuller discussion see Commentary Chapter 4 in the *UK Housing Review 2014*.

Wales – a ‘can do’ country?

Currently housing policy and the housing market in Wales are in a relatively comfortable position compared to England though there are continuing weaknesses in housing supply. Scale helps, but so does the stronger partnership approach which operates in Wales with central and local government working together on policy and delivery. The ‘one housing system’ approach brings all the players together to tackle outstanding problems.

There are under-performing local authorities and the process of policy development and agreement can be very slow. Supply has been poor, resources are tight and incomes are relatively low (and reliance on state benefits high). Since devolution, Wales has invested less in housing than England, Scotland or (until recently) Northern Ireland. However, Wales has progressed its first Housing (Wales) Bill, due to get Royal Assent this summer, covering a spectrum of housing issues including regulation of private landlords and a new self-financing system for local authority housing. It flowed from the *White Paper for Better Lives and Communities* published in May 2012.

On welfare reform a task and finish group was formed in mid-2013 to consider the impacts on social housing. It reported in February 2014 with some 16 recommendations currently under consideration by the minister,¹ who has already announced £1.3 million of extra funding for discretionary housing payments. The sense of active engagement was also echoed in housing supply where a further task force was set up.² The output target of 7,500 affordable homes was increased to 10,000 and a new housing supply advisor was appointed.



Source: Welsh Housing Statistics.

As part of a wider supply initiative, £170 million was also put in place for a Help to Buy shared equity scheme to run until March 2016, with a £300,000 price cap and a simplified documentation scheme aimed at helping smaller builders. In addition Wales is participating in the £12 billion mortgage guarantee scheme offered via the UK government and has created a property development fund.

The Public Policy Institute for Wales (PPIW) opened in October 2013 with a focus on using evidence to improve the policy making process: a report by Christine Whitehead highlighted failure to maintain supply levels, notably of social housing.³ Until 2008 housing output was in line with household growth, but by 2012/13 it had fallen to under 5,500 along with significant reductions in social housing (see chart; for more detail see *UK Housing Review 2014*, Commentary Chapter 4 and Table 2.4.3). Unsurprisingly the private rented sector in Wales was the one that gained, doubling in size in the decade. PPIW commissioned an update of the 2010 research into housing need and demand in Wales.⁴ Central to this will be taking account of the 2011 household projections which suggest much lower household growth than did the 2006 projections. The 2011 figures capture the full effects of the downturn in the housing market and the Welsh economy, and projected forward to 2026 indicate over 100,000 fewer households than the 2006 projections.

House prices in Wales were up 4.9 per cent in March 2014 according to the ONS and the average price of a home was £164,000. Affordability pressures exist for some households but assessments for Wales in the *UK Housing Review 2014* suggest pressures are well below their mid-2000s peaks (see Tables 2.3.1 and 2.3.2) despite rising house prices. A recent Resolution Foundation report suggests that one in 20 mortgage holders in Wales are ‘most at risk’ in respect to their loans as interest rates rise over the next four years.⁵

Clearly many challenges face the housing system in Wales but there appears to be an appetite to confront the issues, as is evident by recent ministerial statements on poverty and anti-social behaviour. Housing is recognised to be a key economic driver and there is a willingness to invest in it to capture the wider benefits of doing so. The key issue now is driving forward the supply agenda – and not least taking forward the important recommendations of the task force that reported earlier this year.

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- 1 See <http://wales.gov.uk/docs/desh/publications/140218-impacts-of-welfare-reforms-on-social-rented-sector-en.pdf>
- 2 See <http://wales.gov.uk/docs/desh/publications/140130delivering-more-homes-for-wales-en.pdf>
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- 4 For the original report, see www.whnb.org.uk/uploads/media/100707housingdemandandneedfullen_full_report.pdf
- 5 http://www.resolutionfoundation.org/media/media/downloads/Mortgage_note_2.pdf

Recent experience in the Republic of Ireland

Figure 1.2.2 Types of social housing output 2001-2012

Figure 1.2.3 Main elements of social housing investment programmes, 2006-2013

Table 1.1: Summary of investment data (2006-2013)

Year	Letting	RAS	LA acquisition	LA acquisition (LA acquisition)
2006	99	114	196	198
2007	8	27	181	82
2008	127	165	207	201
2009	194	181	181	104
2010	424	353	1,034	712
2011	421	402	108	121
2012	167	167	115	115
2013	15	15	15	15

Homelessness, housing needs and lettings

Table 2.5.1 Statutory homelessness rates in 2002 and 2012

Country	Household population (000s)	Statutory homelessness acceptances (2002)	Statutory homelessness acceptances (2012)	Priority homelessness cases per thousand households (2002)	Priority homelessness cases per thousand households (2012)
England	21,791	18,590	18,400	4.2	3.9
Scotland	2,201	30,000	26,816	13.6	12.4
Wales	1,207	6,912	5,980	5.8	5.0
Northern Ireland	689	6,580	6,500	12.5	14.4

Figure 2.5.3 Long term trends in homelessness acceptances in England and Scotland

Table 2.5.2 Homelessness prevention activity and its context - England

Year	2008/09	2009/10	2010/11	2011/12	2012/13	% change 2008/09 to 2012/13
Formal homelessness prevention decisions	158	162	169	169	202	7
Statutory homelessness acceptances	10	40	142	140	110	22
Lettings in social housing	28	34	28	38	11	18
Statutory homeless acceptances - lettings in private tenancy	3	2	1	1	1	-50

Table 4a: Average endowment payments for households with endowment policies

Country	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006	2007	2008	2009	2010	2011	2012
England	16.12	15.95	16.84	16.84	16.96	16.98	22.30	22.77	21.96	22.88	22.87	22.24	24.42	21.81	23.99	23.91	23.18	25.74	26.08	
Scotland	13.77	14.22	13.40	13.40	14.20	13.36	17.56	16.76	16.56	17.08	16.41	16.28	16.20	16.80	16.25	16.36	23.50	16.47	16.80	
Wales	11.62	10.27	14.40	11.15	14.14	14.28	16.00	15.40	15.40	16.14	16.10	20.70	19.60	17.40	17.40	16.00	-	-	-	
Northern Ireland	8.22	12.09	11.42	11.98	13.46	12.81	12.95	11.78	11.28	16.78	-	-	-	16.84	9.12	14.40	11.70	-	-	
United Kingdom	15.36	15.42	16.21	16.22	16.15	16.27	21.51	21.98	21.68	22.98	22.34	22.34	23.34	21.34	23.82	23.70	22.70	25.75	26.17	

Table 4b: Percentage of homebuying households with endowment policies

Country	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006	2007	2008	2009	2010	2011	2012
England	88.6	87.8	85.2	83.9	83.8	83.5	83.9	81.4	80.8	78.8	78.3	78.4	78.3	78.1	78.1	78.1	78.1	78.1	78.1	78.1
Scotland	79.8	81.7	75.4	76.7	75.0	73.2	81.1	80.4	82.7	80.1	80.4	81.0	80.9	81.2	81.8	80.7	77.4	81.8	81.8	
Wales	81.2	87.2	88.4	88.4	81.7	87.8	87.8	86.7	86.8	87.3	86.7	86.2	86.2	86.2	86.2	86.2	86.2	86.2	86.2	86.2
Northern Ireland	79.1	78.8	77.4	78.2	82.3	80.5	80.4	80.8	80.7	80.4	-	-	-	80.8	80.8	80.8	-	-	-	
United Kingdom	82.4	80.1	80.2	80.3	81.4	82.8	82.9	82.1	82.1	81.1	81.6	81.4	81.4	81.4	81.4	81.4	81.4	81.4	81.4	

Table 4c: Average endowment payment per household with mortgage

Country	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006	2007	2008	2009	2010	2011	2012
England	16.24	16.81	16.96	17.01	17.21	17.25	17.25	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15
Scotland	10.59	12.05	11.21	11.09	10.71	12.05	9.40	12.04	9.70	9.70	9.70	9.70	9.70	9.70	9.70	9.70	9.70	9.70	9.70
Wales	7.11	8.00	8.00	11.00	11.00	11.20	6.40	8.00	8.41	8.36	8.32	8.47	8.77	8.90	8.97	8.90	8.94	8.94	8.94
Northern Ireland	8.38	8.33	8.36	8.30	11.74	7.48	3.16	8.00	8.07	8.76	-	-	8.73	1.62	2.88	3.34	-	-	-
United Kingdom	10.47	10.88	10.73	11.00	11.87	12.12	11.38	11.83	9.76	8.89	8.71	8.91	9.31	9.31	9.31	9.31	9.31	9.31	9.31

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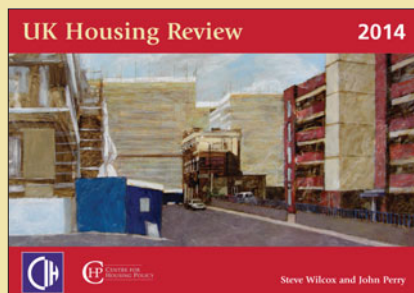
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Published by the Chartered Institute of Housing. CIH is grateful to the Scottish Government and Welsh Government and to the organisations below for sponsoring the research and publication of the **Review**.

