



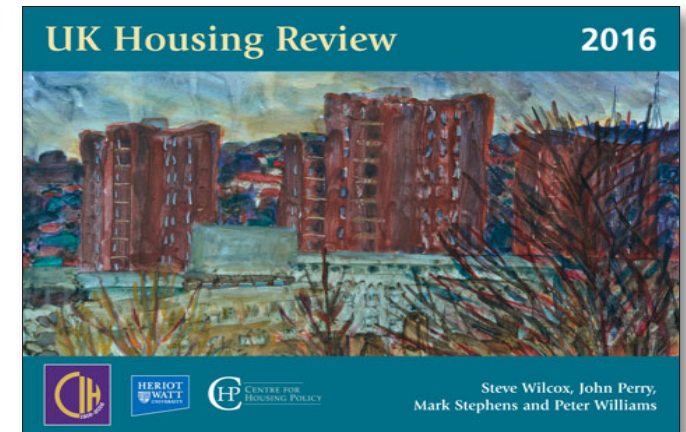
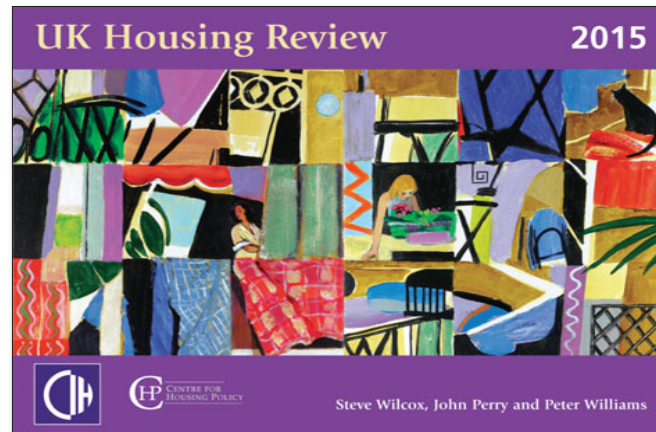
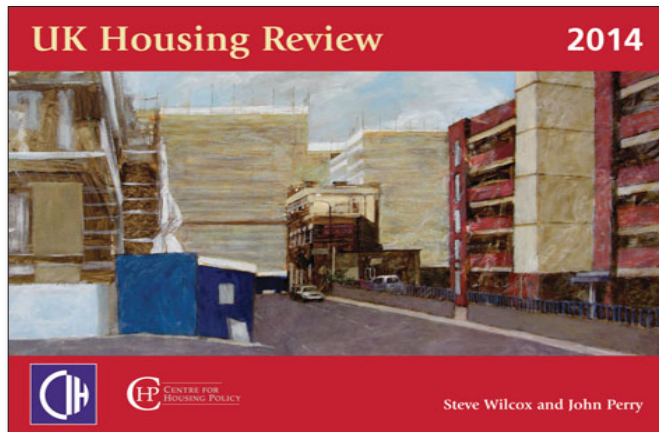
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# UK Housing Review

## 2016 Briefing Paper

Steve Wilcox, John Perry,  
Mark Stephens and Peter Williams



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*UK Housing Review Briefing Paper 2016*

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## Introduction

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

This *Briefing* goes to press just before the referendum on Britain's membership of the EU, whose result may well have implications for the economy and for migration. These will only emerge with time, however, and for the moment the most significant recent events, taken into account here, are the March Budget and the devolved government elections in Scotland, Wales and Northern Ireland.

Drawing on the latest statistics, the *Briefing* therefore assesses the implications of new policy and market developments in twelve key topic areas, together with dedicated pages on Scotland, Wales and Northern Ireland. Because devolution is a key topic in the wake of the elections, our final page has some overall conclusions on the directions now being taken.

## Housing demand and supply

New housing supply continues to fall behind new household growth across Great Britain. Projecting future housing need is fraught with difficulties, given uncertainties about people's financial capacity to create separate households and about levels of net migration. All of the UK administrations have housing supply targets after elections this year and last, but none will be easily achieved. In England, annual supply remains some 60,000 short of the 'break even' point with household growth.

## Homeownership, affordability and mortgage access

Given the prominence of its policies on Help to Buy, Starter Homes and shared ownership, promoting higher levels of homeownership is the main housing priority for the Westminster government. Of its total housing investment up to 2020/21, support for homeownership accounts for some £36 billion.

The *Briefing* argues that nevertheless it will be extremely difficult to reverse the trends away from ownership and towards renting, despite the incentives now in place and the frustrated wishes of many potential owners. Although buying remains affordable in many respects, raising a deposit is a major obstacle for those not able to access the 'Bank of Mum and Dad' or take up one of the government assistance schemes.

## Affordable rented housing

In Scotland, Wales and Northern Ireland there has been significant delivery of affordable housing, with Scotland in particular investing and delivering proportionately many more homes than England. Recent elections have tended to reinforce affordable housing targets. In England, however, the reverse is true, with the main government investment programme for sub-market rented housing effectively being curtailed so that money can be allocated to homeownership.

Loss of social rented housing is already taking place in England and is likely to get more severe. In particular, the measures in the Housing and Planning Act to extend the right to buy to housing associations and enforce sales of higher-value homes by local councils, will both have an effect since replacements are unlikely to be at social rents. However, in the absence of detailed proposals on how either scheme will work, a full projection of their effects is not yet possible.

## Homelessness

Much attention has been paid to the early successes of a new homelessness prevention policy in Wales, with calls (so far unheeded) for it to be applied in England. While homelessness remains a concern across the UK (and, for example, historically high levels in Northern Ireland continue), in England a growing outcome is the reliance on temporary accommodation and in many cases its being 'out-of-area' and therefore even more disruptive to homeless households who are forced to use it.

## Welfare reform

Welfare reform is such a key issue in housing policy that the *Briefing* this year devotes two articles to it. The first looks at the evidence to date of the effects of the various housing-related reforms implemented by the coalition, concluding that the changes are starting to have a significant impact on tenants and on landlords. The second article looks at the possible impact of welfare reform over the new parliament and the consequences for both low-income households and the housing sector in general.

## Reclassification of housing association finances

A theme which has been covered in successive editions of the *Review* is the government's rigid adherence to rules about public borrowing, that remain unique in an international context. The issue has been highlighted by the ONS decision to reclassify housing association finances as part of the public sector. This has had ramifications for their regulation and indeed for policy measures such as the extended right to buy. Its application will also now be considered in the other three UK administrations. As the *Briefing* points out, other countries, following international borrowing conventions, would not have been caused any difficulties by this reclassification.

Early next year the *UK Housing Review 2017* will aim to provide a more considered appraisal of the first eighteen months of the Westminster government's housing and welfare policy changes, as well as initial assessments of policy developments following the very recent elections in Scotland, Wales and Northern Ireland.

Steve Wilcox, John Perry, Mark Stephens and Peter Williams

June 2016

## Economic growth slows

The Chancellor's March Budget was notably downbeat compared to his spending review and Autumn Statement the previous November. He cited 'a dangerous cocktail of risks' facing the economy as the Office of Budget Responsibility (OBR) downgraded its forecast for economic growth. At the time of the spending review, GDP growth for 2015 was forecast at 2.4 per cent, but this has fallen to 2.2 per cent. The forecast growth rate this year has been reduced from 2.4 to 2.0 per cent. The cumulative effect of reduced growth forecasts over the six years starting in 2015 implies that the economy will be 1.68 per cent smaller in 2020 than was forecast at the time of the spending review.

The slowdown in economic growth appears to be confirmed by preliminary GDP growth figures for the first quarter of 2016. These showed growth declining from 0.6 per cent in the final quarter of 2015 to 0.4 per cent in the first quarter of 2016. The service sector is confirmed as being 'the largest and steadiest contributor to economic growth', accounting for almost 80 per cent of GDP and growing at 0.6 per cent in the first quarter of 2016.<sup>1</sup> In contrast the other three main industrial groupings all registered negative growth: production by 0.4 per cent, construction by 0.9 per cent and agriculture by 0.1 per cent. Indeed the services sector is 'the only major component of GDP where output has exceeded its pre-downturn peak'.

The UK is not alone in experiencing a deterioration in growth outlooks. The OECD downgraded world growth expectations between November 2015 and February 2016. Despite the general benefits of low oil prices and interest rates, it points to financial instability, rebalancing of China's economy towards the domestic service sector, the vulnerability of economies that are dependent on commodity exports, and weak demand growth, as all causing world growth rates to be forecast to flatline in 2016.<sup>2</sup>

### Economic indicators and forecasts, 2015-2020

	2015	2016	2017	2018	2019	2020
GDP growth (Spending Review 2015)	2.4	2.4	2.5	2.4	2.3	2.3
GDP growth (Budget 2016)	2.2	2.0	2.2	2.1	2.1	2.1
CPI inflation	0.0	0.7	1.6	2.0	2.1	2.0
Employment (millions)	31.2	31.6	31.7	31.9	32.0	32.1
ILO unemployment (% rate)	5.4	5.0	5.0	5.2	5.3	5.3

Source: HM Treasury Spending Review and Autumn Statement 2015, Table 1.1; Budget 2016, Table 1.1.

The UK's growth (measured by the quarter-on-year growth rate) of 2.1 per cent for the last quarter of 2015 was in line with the OECD average (2.0 per cent) and the USA (2.0 per cent). Growth in some other major countries was slower still: 1.4 per cent in Germany and 0.8 per cent in Japan.<sup>3</sup>

In the UK, the OBR points to productivity growth that occurred through most of 2015 being almost entirely reversed in the last quarter. This has been factored into its forecasts and will also cause employment income and company profits to be lower too.

Although these lower growth rates do not feed into notable differences in employment or unemployment in the OBR forecast, they do imply lower inflation in 2016 and 2017. It is therefore unsurprising that at its April meeting the Bank of England's Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at the historic low level of 0.5 per cent.<sup>4</sup> The lower inflation forecasts seem likely to delay any increase in interest rates. The MPC expects the recent depreciation of sterling and a recovery in oil prices to place upward pressure on inflation, necessitating an increase in the Bank Rate at some point. Nonetheless, it expects rises to be more gradual and to peak at a lower level than has been the case in previous cycles.

It should be noted that the deterioration in the rate of growth set in before the date of the referendum on EU membership was announced. Since then the MPC has noted that the referendum has 'begun to weigh on certain areas of activity'<sup>5</sup> perhaps causing some investment decisions to be postponed. The outcome of the referendum is unknown at the time of writing, and its initial effects will be assessed in the 2017 *Review*.

### References

1. ONS (2016) *Gross domestic product preliminary estimate: January to March 2016*, statistical bulletin, 27 April, p.13.
2. OECD (2016) *Elusive global growth outlook requires urgent policy response*, press release, 18 February.
3. Office for Budgetary Responsibility (2016) *Economic and Fiscal Outlook*. London: OBR.
4. Bank of England (2016) *Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 13 April 2016*. London: BoE.
5. *Ibid.*, p.6.

## Public spending – austerity continues

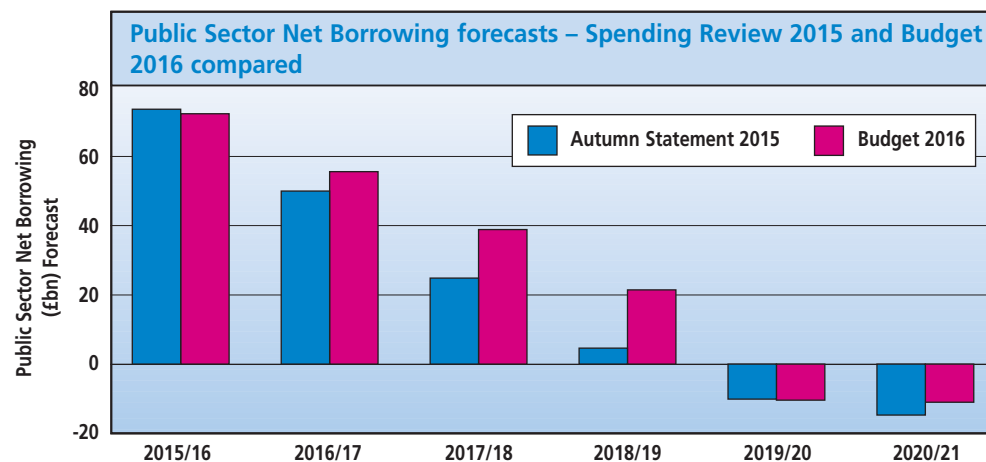
The 2016 edition of the *Review* reported in some detail on the outcome of last Autumn's government spending review. The government's aim is to reach fiscal surplus by 2019/20, the last year of this parliament. The spending review identified some £12 billion of cuts from departmental budgets, which were added to £17 billion of savings (mostly from social security) that had been identified in the previous Summer Budget. The cuts to departmental budgets represent a cumulative real-terms reduction of four per cent over five years. However, because some budgets (such as health) are protected, expenditure in unprotected departments will fall by almost one-fifth in real terms. For example, the Department of Communities and Local Government faces a real reduction of almost 30 per cent. The cut of 56 per cent in central government grants to local government over the period (in real terms, as are subsequent figures) is expected to lead to a fall in spending of 6.7 per cent<sup>1</sup> and come on top of a 20 per cent cut in local authority spending in the previous parliament, itself associated with a 36 per cent reduction in grant.<sup>2</sup>

The deterioration in the rate of economic growth since the spending review, caused by slower than expected productivity gains (see page 4), upset the Chancellor's plans to reach a budget surplus by 2019/20. This is of importance to him because the House of Commons approved the government's Charter for Budget Responsibility in October 2015, and this requires Public Sector Net Borrowing to be in surplus by 2019/20 (and for the government to maintain a surplus in normal economic conditions thereafter). Its symbolic importance is further enhanced by the supplementary target to reduce debt as a share of GDP every year until 2019/20, but it is forecast to rise slightly in 2015/16 (and then to fall for the remainder of the period).<sup>3</sup>

Moreover, the government is also in breach of its own 'welfare cap', which seeks to limit overall expenditure on a range of social security benefits and tax credits (excluding pensions and unemployment-related benefits). The cap is set by the Treasury over a five-year period and is around £115 billion each year up to 2020/21. The Office for Budget Responsibility forecast at the time of the spending review that the cap would be breached in 2016/17 and 2018/19, but the rising cost of disability benefits now leads it to conclude that the cap will be missed in every year up to 2020/21.<sup>4</sup>

Mostly as a result of the slowdown in expected growth leading to reductions in tax revenues, the OBR forecasts that the fiscal balance will be £13.4 billion worse in 2019/20 than had been anticipated at the time of the spending review, so turning the anticipated surplus of £10.4 billion into a deficit.

The measures announced in the Budget in March seek to restore the anticipated surplus. Departmental current expenditure will take a £3.5 billion hit, but how this will fall will not be known until the outcome of an 'efficiency review' in 2018. Departments will be expected to absorb a further £2 billion in the form of increased pension contributions



Source: HM Treasury (2016) Budget 2016, HC 901, Table 1.3.

within current expenditure limits. The controversial cuts to disability benefits (spending on aids and appliances) saving £1.4 billion in 2019/2020 were also part of this package. The government also intends to bring forward capital expenditure so that it occurs before 2019/20 – what it calls 'accelerating investment plans'.<sup>5</sup> Conversely, the government is able to boost tax receipts by £6.3 billion in 2019/20 by delaying a previously announced measure to bring forward large firms' quarterly corporation tax payments, ostensibly 'to give businesses more time to prepare'.<sup>6</sup> The chart shows the way in which the deficit is shifted between years.

A twist in the tail arises from the depressing effect on revenues of these measures on tax receipts in 2020/21, which imply further cuts in departmental spending in that year.

Significant components of the government's Budget announcements are therefore artificial, and driven by an inflexible target that, as several observers noted when the Budget was made public, has little to do with economic performance.

### References

1. DCLG (2015) *Local government funding at the Spending Review 2015*, press release, 25 November.
2. Innes, D. and Tetlow, G. (2015) IFS briefing note BN166. London: IFS.
3. *Ibid.*, Chart 1.7.
4. Rhodes, C. (2016) *The Welfare Cap*, House of Commons Briefing Note. London: House of Commons Library.
5. Office for Budgetary Responsibility (2016) *Economic and Fiscal Outlook*. London: OBR.
6. *Ibid.*

## The knowns and unknowns of household growth

This is a particularly difficult period for statisticians involved in the production of household projections. The severe dislocations in the economy and the housing market in the last decade, added to the significant but volatile contribution from net migration, rule out the option of simply rolling forward past demographic trends from more steady times.

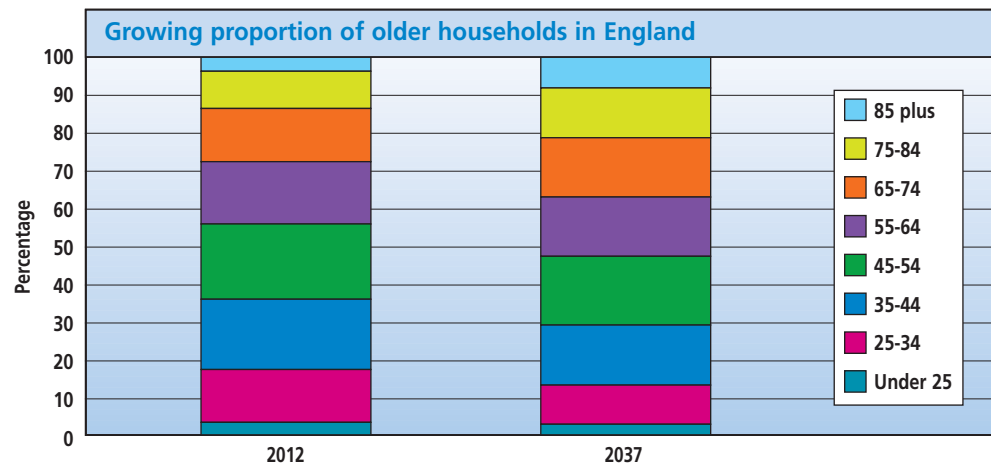
One of the key questions about the latest round of UK household projections<sup>1</sup> is how far household growth rates were frustrated and slowed down during the last decade by difficult housing market and economic conditions, and as a corollary how far growth might be restored – assuming that we do see a continuing (if slow) economic and housing market recovery.

For the household projections these questions focus around the assumptions to be made about future ‘headship rates’ – or average household size. There has been a long-term trend towards smaller households – and thus larger household numbers relative to the size of the population. This has reflected a number of factors including the rise in the proportion of older households, greater prosperity, and the rise in levels of divorce and separation.

During the downturn the rate of reduction in headship rates drastically slowed, and thus headship rates are now higher than was anticipated in earlier rounds of projections. While there is a consensus that headship rates will now continue to fall (i.e. that households will get smaller), there is inevitably much more uncertainty about the future pace of decline. In Wales the latest 2015 household estimates suggest that the headship rate has continued to fall only slowly, rather than (at least so far) beginning to return to the previous more rapid decline.

In Scotland the headship rates in the 2012-based projections are at a higher level than those assumed in earlier projections, reflecting the evidence showing virtually no decline in headship rates in the post-credit-crunch years to 2012. However in the two years to 2014 household growth was slightly lower than suggested by the 2012 projections, with the headship rate also falling more slowly than anticipated. Alongside that in Scotland and Wales while new housebuilding rates have begun to recover they also remain (in 2015) below the level required to match the projected levels of household growth. A further factor cited in the Scottish projections is the constrained mortgage market making it more difficult for young people to buy their own home, and as a result ‘more young adults are living with their parents or with other adults’.<sup>2</sup>

Nonetheless the continuing if slower overall decline in headship rates remains a key factor in the increases in household numbers in each of the four countries. In England, for example, the decline in headship rates over the period to 2037 is projected to account for about a third of the total growth in household numbers, with two-thirds based on population growth.



Source: DCLG, 2012-based Household Projections: England 2012-2037.

In particular it is notable that over the period the numbers of households aged under 65 will grow by just 1.2 million (7 per cent), while the numbers of households aged 65 and over will grow by just over 4 million (65 per cent). As a result the proportion of older households (65+) will rise from 28 per cent in 2012 to 37 per cent of all households in 2037. This has clear implications for pensions and health policy, as well as for housing provision.

The most difficult element to predict in the long term is the level of net inward (or outward) migration. The latest population estimates and migration figures suggest in the short term net inward migration for England will be higher than assumed in the 2012-based household projections, in which net inward migration accounted for about a third of the projected household increase to 2037. However if this higher migration contributes to the pressures to increase housing supply in the short term, it also contributes to economic growth, and helps to soften the trend towards a lower ratio of working age to retired households with all the costs that involves. In the longer term, migration trends remain unpredictable, depending as they do on international economic, social and political variables, quite apart from any attempts by the UK government to modify migration policy.

### References

1 See Commentary Chapter 2 in the *UK Housing Review 2016* for discussion of the latest household projections for each of the four countries of the UK.

2 National Records of Scotland (2014) *Household projections for Scotland, 2012-based*. Edinburgh: National Records of Scotland.



## Housing supply: focussing on tenure rather than housing costs

The need to expand housing construction is widely recognised in the light of household growth projections for England indicating that a net annual addition of 220,000 dwellings is required up to 2022. However, this level was last reached in 2007/08 (see chart). The financial crisis led to large drops in output, down to a net increase in supply of only 124,720 in 2012/13. Changed population projections now suggest the annual requirement is at least 230,000 (see the 2016 edition of the *Review*, Commentary Chapter 2). Net supply has recovered significantly, reaching 170,690 units in 2014/15, 90 per cent of which were attributable to new build. There has also been an increase in conversions whilst demolitions have been on a downward path. However, supply remains some 60,000 units short of the new 'break-even' point, and the shift in support away from social and Affordable Rent housing and towards homeownership implies a considerably increased output from the private sector.

Section 106 agreements have played a vital role in securing new, affordable housing since they were introduced in 1990. They normally require developers to provide a proportion of affordable homes on site or to make a payment to the local authority for this purpose. A decade ago, section 106 agreements (or 'planning gain') financed 32,000 units of affordable housing, representing almost two-thirds of the total. Section 106 agreements were much reduced during the recession, but have revived in recent years. In 2013/14, both numbers and proportions were lower than a decade earlier, but section 106 still provided more than 16,000 units – or 37 per cent of the total.<sup>1</sup>

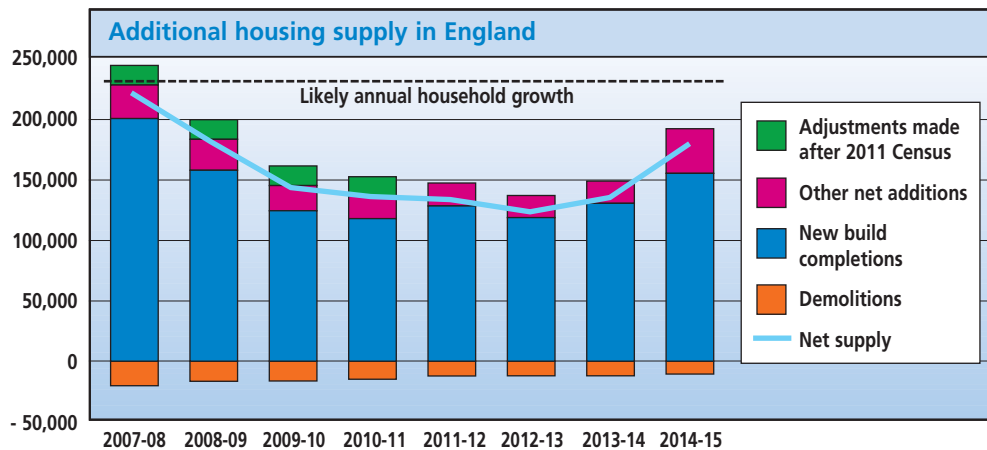
However, planning gain is facing pressures as local planning authorities (LPAs) adopt the Community Infrastructure Levy (which places standard charges on developments to pay

for non-site-specific infrastructure and from which housing is excluded). As the negotiated element, section 106 is vulnerable to the site viability waivers introduced in 2012 in response to the downturn.

Moreover, the nature of housing provided via planning gain is set to change as a result of the Starter Homes scheme. Introduced in 2015 as a collaboration between government and housebuilders, it aims to provide for aspiring homeowners aged under 40 at a discount of at least 20 per cent, on sites that were hitherto judged to be unsuitable for housing. The maximum discounted prices are £450,000 in London and £250,000 elsewhere. In return housebuilders were absolved from section 106 obligations and the CIL. The Chancellor signalled a ramping up of this policy in his Autumn Statement when he announced a £2.3 billion fund to support the delivery of 60,000 such Starter Homes (see page 10). The government is pledged to deliver 200,000 Starter Homes in total, mostly through the planning system.

Accordingly, the Housing and Planning Act 2016 introduces a statutory duty for LPAs to provide Starter Homes on defined sites. The proportions that will be expected will be determined by regulations to be adopted in due course. It is anticipated that LPAs will have to update their local plans to reflect their general duty to promote Starter Homes. The government has already consulted on amending the National Planning Policy Framework in order to widen the definition of 'affordable' housing. At present the definition includes some forms of low-cost homeownership where the subsidy is either retained in perpetuity or recycled to provide more housing. The changed definition would include products such as Starter Homes where the subsidy is neither retained nor recycled.

In some other parts of the UK, planning gain plays an important role in the provision of affordable housing. In Wales, section 106 supported the provision of 790 units in 2014/15, representing 36 per cent of affordable output – the highest-ever proportion. In Scotland the absence of published statistics makes it difficult to assess the numbers of houses supported by Section 75 agreements, but we believe these to be significant (see *UK Housing Review 2016*, Commentary Chapter 4). The benchmark requirement of 25 per cent 'affordable' was recast as a (general) maximum in the most recent statement of Scottish planning policy, and it is possible that the scheme may be reformed as a result of an on-going planning review. A draft planning policy statement was issued for consultation in Northern Ireland in 2014 providing for the introduction of developer contributions for the first time: they received support but are still under consideration given a volatile housing market (see page 17).



Source: DCLG, Net supply of housing 2014/15.

### Reference

1 Brownhill, S. et al (2015) *Rethinking Planning Obligations*. York: Joseph Rowntree Foundation.

## Turning the tide? – can homeowners push back the rental surge?

Across the UK the decades-long rise in homeownership and its overall percentage of the housing stock has faltered and then reversed, to be replaced by a growing private rented sector. Though all four parts of the UK have experienced this change, it is in England that we have seen the most strident and sustained efforts to drive it back. The Conservative government has abandoned all pretence of tenure neutrality and pronounced at length on its commitment to helping all those who want to buy a home to do so.

The government has promised to double the number of first-time buyers in this parliament – to two million. So far progress has been modest in that the results of the 2014/15 English Housing Survey (EHS) showed that recent first-time buyers (those who bought in the last three years) in London and in the rest of England fell to 126,000 and 438,000 respectively, down from 156,000 and 461,000 in 2013/14 – the total was 564,000, down from 617,000 the previous year. Even though the government ran with a headline of stopping the decline in homeownership when the EHS results were published, the picture is not very encouraging.

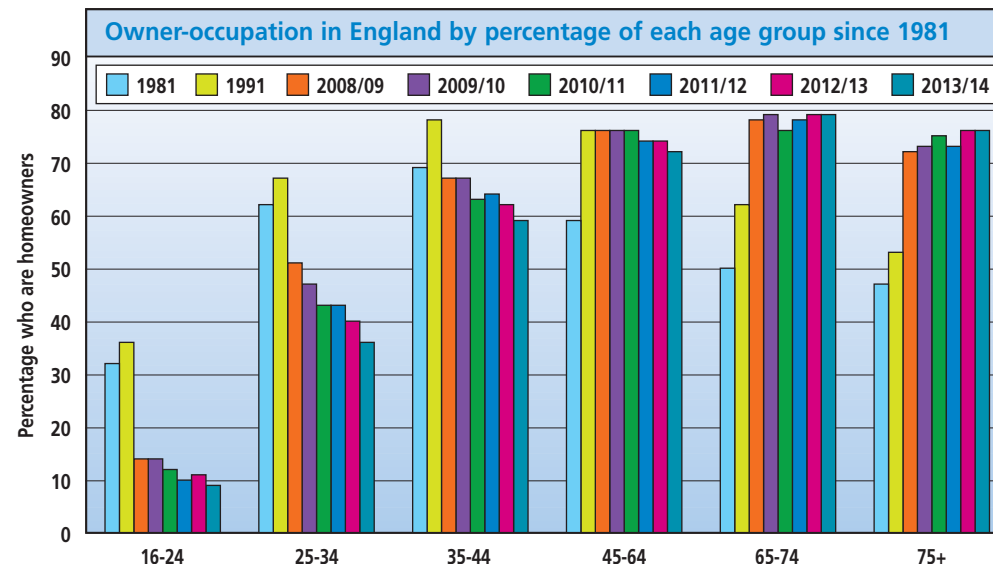
Setting aside the smaller sample size now being used in the EHS (just over 13,000 households, down from 17,000 in 2010 ) and thus a higher standard error, the data still show a sharp fall in the number of mortgaged households by age group over the period 2003/04 to 2014/15: a fall of almost two million overall (a 23 per cent drop), with the biggest falls among 16-24 year-olds (63 per cent) and 24-34 year olds (37 per cent). The chart shows how this relates to a longer historical trend in which, since 1991, ever smaller proportions of younger households (aged under 44) have become homeowners, while among those of pension age ownership has been stable or has even grown.

The reality is that younger households are less able and less willing to buy a first home. Private renting has been a competitive offer in terms of cost, quality and location and some households have opted to rent. Some of these will ultimately go into homeownership when jobs and personal circumstances allow (including inheritance) but others may be permanently excluded in part due to a more tightly policed mortgage market and not least the much lower supply of high loan-to-value mortgages (only three per cent of mortgages needed less than a ten per cent deposit in 2015, compared to 14 per cent in 2007). A Legal and General report, *The Bank of Mum and Dad*, suggests that homeownership in the UK will fall to 55 per cent by 2025.

Nevertheless the government pushes ahead to build 200,000 Starter Homes and fund 135,000 shared ownership units, with its overall support for homeownership now costing more than £36 billion up to 2020/21 (see page 10). Can the government be a King Canute and hold back the tide of increased private renting? Recent curbs on buy to let will play a

part in this: a combination of increased tax, reduced tax reliefs, tighter controls on mortgage terms and affordability stress tests reducing the appetite of investors to buy and hold residential property. Offsetting this from the investor perspective, however, are historically low savings rates, a weak stock market and reduced pension provision, along with rising rents and strong demand for new lettings.

The patterns of competition between owning and renting vary considerably between areas. For example high-priced areas pose a barrier to both first-time buyers and investors, but the latter may assume a strong return on capital through continued house-price inflation. In areas of low prices entry for both is easier but the investor has little prospect of capital growth and must rely on net rental yield. Can the government succeed in re-weighting the equation via its extra restrictions and costs on one side and financial assistance on the other? And how does it extricate itself from such costly intervention when its current measures wind down after 2020? Right now the betting must still favour further expansion of private renting, nevertheless: the market is much bigger than government action, of whatever form, even when it is on the scale now taking place.



Source: DCLG live table FC2101.

## A better picture of housing market affordability

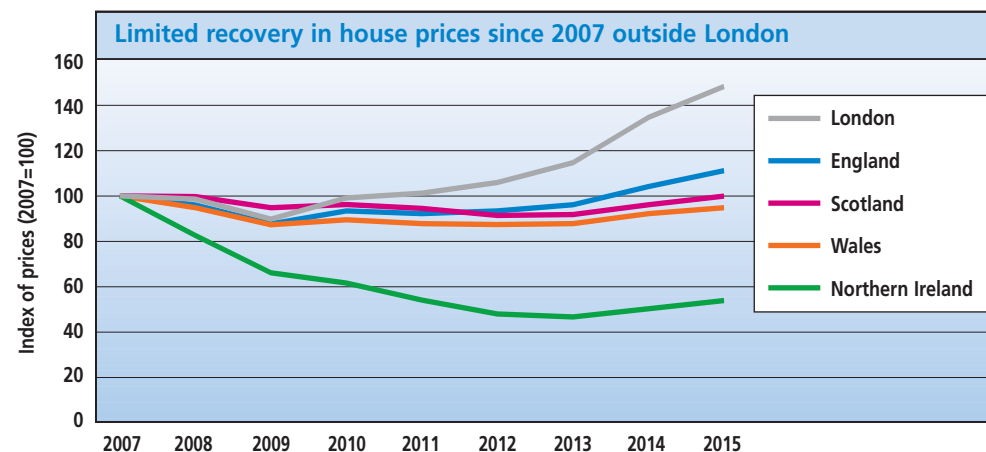
House prices in the UK rose by some six per cent according to a new official house-price data series, following on from an eight per cent increase in 2014.<sup>1</sup> However, apart from London, affordability remains at relatively satisfactory levels compared to the peak of 2007. For the first time the ONS house-price series enables a fully 'mix-adjusted' comparison of house prices over time, with UK house prices in 2015 just seven per cent higher than they were in 2007. And this is in the context of working-household incomes rising by 13 per cent over the same period, and lower interest rates reducing the costs of a standard repayment mortgage by some 30 per cent. Consequently mortgage affordability remains considerably easier than it was at the last peak in house prices even though many households still find it challenging.

The trends shown by the new ONS house-price series are broadly in line with those shown by other 'mix-adjusted' statistics, such as those by Acadata, Halifax and Nationwide, although each have their own characteristic features.<sup>2</sup> It is also notable that the actual levels of house prices are quite a bit lower than in previous ONS data. This is partly because the previous data were not fully mix-adjusted over a run of years (and did not therefore offer a proper like-for-like comparison), but also because the new methodology dampens down the impact of extremely high-value dwellings in its calculation of average prices.

The new data also show that while London house prices have risen by nearly 50 per cent since 2007, across the rest of the UK the recovery in prices has been much more subdued. Indeed house prices in Scotland have barely returned to 2007 levels, while they remain five per cent lower in Wales. In Northern Ireland house prices have begun to recover over the last two years, but they remain at barely half their 2007 level, reflecting the much more severe 'boom and bust' they experienced along with the rest of Ireland (see chart).

Within England, house prices in 2015 remained below 2007 levels in all the northern regions, while just getting back on par in the Midlands regions and the South West. Prices were closer to 20 per cent above 2007 levels in the East and South East; but this still leaves mortgage costs at a much lower level, even before taking into account the modest cash increases in earnings levels over that period.

Indeed, London aside, it remains the case that despite Help to Buy and some minor easing in the market, it is the ability to raise a deposit by households unable to draw on the 'bank of mum and dad' that is now a far greater barrier for first-time buyers than the ability to securely meet the costs of mortgage repayments. And in turn those 'frustrated' potential buyers add to the pressures on the rental market.



Source: Author calculation based on ONS/Land Registry Mix-Adjusted House Prices, June 2016.

Here the latest ONS Index of Private Rents shows that rents rose in Great Britain by 2.6 per cent in the 12 months to April 2016, unchanged when compared with the year to March 2016. There were sharp national differences: rents were up 2.8 per cent in England, 0.2 per cent in Wales and 0.5 per cent in Scotland in the 12 months to April 2016 and they increased in all the English regions over the year to April 2016, with rental prices increasing the most in London (3.7 per cent). As this suggests, subject to tenant demand, rents are increasing and the recent changes in tax reliefs and stamp duty in this sector will help maintain that pressure. A recent ARLA survey<sup>3</sup> suggests more landlords are looking to sell and if this eventuates then pressures may increase but (as we suggest on page 8) this sector seems set to grow despite these recent developments.

### References

- 1 ONS (2016) *House price index: April 2016*. London: Office for National Statistics.
- 2 Chandler, D. & Disney, R. (2014) *Measuring house prices: A comparison of different indices*. London: Institute for Fiscal Studies.
- 3 See [www.arla.co.uk/info-guides/monthly-arla-private-rented-sector-report.aspx](http://www.arla.co.uk/info-guides/monthly-arla-private-rented-sector-report.aspx)

## Government and housing policy: owning tops the bill

Quite different policies are being put forward to deal with the continued under-supply of housing across the different parts of the UK. But England is seeing the most dramatic reworking of priorities, not least in the year since the Conservative government took office. With updated figures for this *Briefing* we can describe the full extent of the shift in resource allocation that is taking place.

Two 'clear' objectives now shine out over the life of this parliament – to build one million new homes in England<sup>1</sup> and separately to double the number of first-time buyers. Unusually, plans have now been set out for the whole parliament and even purport to commit the first year of the next government (2020/21).

### The focus on the private market

The table opposite and earlier versions in the last two editions of the full *Review* show that government has been steadily building a very substantial programme of support for the private market – whether in terms of housebuilding for owner-occupation and private renting or improving access to mortgages and overcoming deposit and affordability barriers. Some of this was put in place under the coalition, but more has come from the new government.

The main ingredients are these. In April 2015, the Conservative manifesto committed to a programme of incentives such as Starter Homes, extending the right to buy, the Help to Buy ISA, equity loans and mortgage guarantees. Alongside these were Rent to Buy, the doubling of custom-build and development of garden cities and brownfield sites. The Starter Homes target was doubled to 200,000 from its previous level.

When the new government took office, the Affordable Homes Programme was recast to support 135,000 new shared ownership units (more than doubling existing output). A Lifetime ISA was also introduced alongside the Help to Buy ISA, almost doubling the total grants to savers who want to raise a deposit (with the expenditure commitment dependent on take-up).

### Effects on supply still emerging

With the huge sums deployed, we have seen new build output rising since 2012/13 on an annual basis. With government support the Home Builders Federation (HBF) has issued a 'Statement of Intent' from the major developers, setting out 'an ambition to build in 2019 more than double the number of homes they built in 2010' (the most recent trough in private-sector completions).<sup>2</sup> The statement is strong on aspiration and backs this with a commitment to publicly monitor progress.

Over the five years to 2014/15 new build completions rose by 37,380 (32 per cent) using the net housing supply data discussed earlier in the *Briefing* (page 7). If this growth were to

continue for five more years, output in 2019/20 would approach 230,000, delivering nearly one million new homes and almost meeting the government's target (exceeding it if conversions, etc. are added in). Projections from most of HBF's larger members indicate that their output should more than double to 2019. But much of course turns on how economic uncertainties affect housebuilders' plans.

### The eclipse of social housing investment

The mainstays of government affordable housing investment – building for social rent or (since 2011) for Affordable Rent – will no longer be a priority. While the precise picture will depend (for example) on the extent to which the new London Mayor reconfigures the GLA's investment programme, as things stand the output of sub-market rented housing is likely to be reduced to whatever can be financed from social landlords' own resources (including right to buy receipts). Contributions might also continue to come from section 106 ('planning gain'), but its emphasis is also switching towards Starter Homes (see page 7).

### The shift towards supporting the private market and homeownership is almost total

The full picture, showing all government support for housing investment from 2015/16 onwards (but excluding schemes that ended before April 2016), is presented in the table. Support for affordable rented housing, shown in the first section, totals £2 billion in grants and loans over the six-year period. In the middle are grants for specific low-cost homeownership schemes – £6.4 billion. Shared ownership has traditionally been part of affordable investment, but the table separates this out (along with Starter Homes) as being specifically aimed at assisting first-time buyers. The bulk of expenditure, £36 billion in the bottom part of the table, provides general support for the private market. Adding this to the grants for shared ownership and Starter Homes takes the overall total for homeownership and private renting to £42.6 billion, with around 90% focussed on owner-occupation. Of course some of this will be repaid (loans) and some may never be paid out (the guarantees), but altogether it must represent easily the biggest ever programme of government support for private housing.

### References

1 The minister's target for 2021 was in a speech to the Home Builders Federation on 22 March 2016 ([www.gov.uk/government/speeches/home-builders-federation-policy-forum-2016](http://www.gov.uk/government/speeches/home-builders-federation-policy-forum-2016)); the HBF Statement of Intent refers to 2020 ([www.hbf.co.uk/media-centre/news/view/housebuilding-industry-and-government-announce-shared-ambition-to-increase-housing-output/](http://www.hbf.co.uk/media-centre/news/view/housebuilding-industry-and-government-announce-shared-ambition-to-increase-housing-output/)).

2 The HBF's 170 member organisations (including some HAs) produce about 80% of new build output. The government focuses on 'net supply' i.e. deducting demolitions; HBF uses the gross figures, i.e. numbers actually built plus conversions, change of use, etc.

## Summary of current government support for affordable and private market housing investment in England from 2015/16 onwards

Programme	Period	Grant (£ million)	Loan (£ million)	Guarantee (£ million)	Notes	
Programmes aimed primarily at delivering housing at Affordable Rents or social rents	Affordable Homes Programme	2015/16-2017/18	1,010	-	-	Originally ran to 2019/20; only existing commitments (i.e. schemes contracted) will continue to be funded.
	HRA Borrowing Programme	2015/16-2016/17	-	300	-	Additional borrowing headroom for LAs.
	Specialist Homes for older, disabled and vulnerable people	2016/17-2020/21	399	-	-	Schemes of housing at Affordable Rent or social rent agreed with local commissioning bodies.
	Care and support specialised housing fund	2013/14-2017/18	315	-	-	Department of Health fund for specialised housing for older people, adults with physical disabilities, learning difficulties or mental health needs. Covers both Affordable Rent and shared ownership products.
	<b>Sub-total: Affordable and social rent</b>		<b>1,724</b>	<b>300</b>	<b>-</b>	
Programmes aimed primarily at low-cost homeownership	Shared Ownership and Affordable Homes Programme	2016/17-2020/21	4,100	-	-	New phase of AHP announced in Autumn Statement 2015 focused on shared ownership. Primarily directed to housing associations but private providers also expected to bid.
	Starter Homes	2016/17-2020/21	2,300	-	-	Land facilitation and direct delivery to builders and LAs to help develop up to 60,000 Starter Homes. £2.3bn grant figure assumes some recycling of receipts from land facilitated for Starter Homes.
	<b>Sub-total: low-cost homeownership</b>		<b>6,400</b>	<b>-</b>	<b>-</b>	
Other private market support programmes	Help to Buy Equity Loan scheme(s)	2013/14-2020/21	-	12,500	-	Equity loan support of up to 20% for individual homebuyers including the new London Help to Buy equity loan of up to 40%.
	Help to Buy Mortgage Guarantee	2013/14-2016/17	-	-	12,000 maximum	Mortgage guarantees: £12 billion represents the cap on government liability. Claims must be made within seven years of the completion date.
	Help to Buy ISA	2015/16- 2019/20	2,200	-	-	Government bonus of up to £3,000 per ISA held by FTBs; for homes to a value of up to £250k (up to £450k in London). HM Treasury-led scheme. Budget figure taken from Budget 2015.
	Lifetime ISA	2017/18 onwards	2,000	-	-	Potential FTBs aged 18-40 can pay in £4,000 per year and receive 25% bonus. HM Treasury-led scheme. Budget figure taken from Budget 2016.
	Rent to Buy	2015/16-2020/21	200	200	-	Support for intermediate rent homes let for a minimum five-year term.
	PRS Guarantee	2013/14-2017/18	-	-	3,500	Guarantees for bond finance for new build rented homes.
	Estates Regeneration Programme	2016/17-2020/21	-	140	-	Repayable loans to redevelop estates; additional to previous £150m programme. Schemes vary considerably and can encompass affordable housing, low-cost home ownership and private market sale units.
	Home Building Fund	2016/17-2020/21	-	3,000	-	Loans to house builders: £2 billion in long-term loans and £1 billion in short-term loans. Replaces and expands on Builders Finance Fund, Custom Build Serviced Plots Fund, Large Sites Infrastructure Fund and Housing Zones funding. £2 billion long-term element is included within the Local Growth Fund.
	Local Infrastructure Fund	2015/16-2020/21	-	50	-	One element of £12 billion Local Growth Fund.
	Locally-Led Garden Cities	2017/18- 2018/19	19	-	-	Funding for Bicester Garden Town.
	Ebbsfleet development	2016/17-20/21	310	-	-	Funding for Ebbsfleet Garden City.
	New Homes Bonus	2016-17	210	-	-	DCLG grant to part-fund the New Homes Bonus – the remainder of the funding is top-sliced from LA Revenue Support Grant.
<b>Sub-total: private market support</b>		<b>4,939</b>	<b>15,890</b>	<b>15,500</b>		
<b>Overall total</b>		<b>13,063</b>	<b>16,190</b>	<b>15,500</b>	<b>NB overall total = £44,753 million</b>	

Source: Author compilation, in consultation with DCLG.

Notes: 1. The table updates and corrects Tables 2.3.4 and 2.4.6 in the *UK Housing Review 2016*. 2. Funding programmes for which bidding ended before April 2016 or earlier are not included, even if commitments overlap into later years.

## The steady fall in England's stock of social rented housing

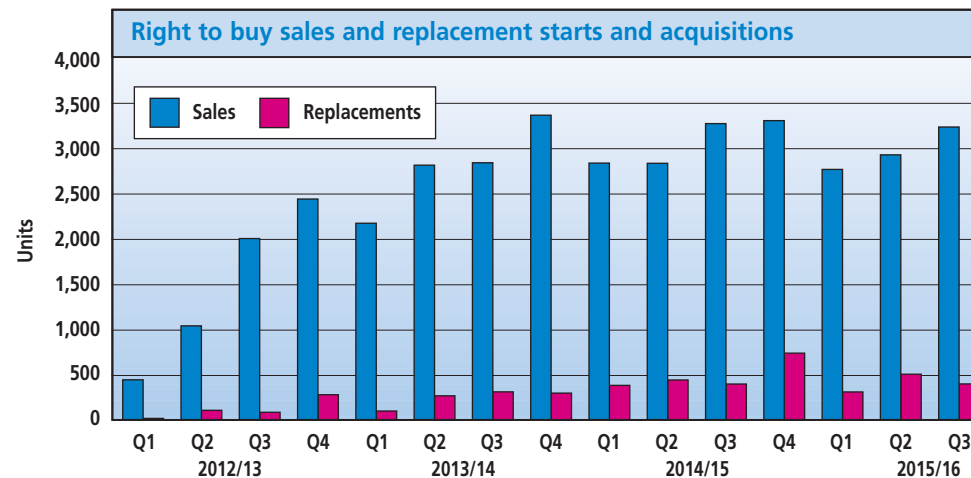
When the affordability of mortgages and rents is of such concern, it seems extraordinary that housing policy in England is directed, intentionally or otherwise, at steadily eroding the stock of homes let at social rents. For around a decade until 2012 the stock had been stable at around four million homes, but on current trends is now in inexorable decline.

New build made good the loss caused by right to buy (RTB) sales in the years before 2012, but a combination of factors then changed. First, RTB was 'reinvigorated', quickly pushing sales up to around 12,000 per year. Second, new build output began to be switched away from homes let at social rents towards Affordable Rent (AR) lettings. Third, conversions of existing stock to AR began, with 76,259 conversions recorded (giving, with a new build, a total of 123,264 AR units by April 2015, albeit still let to low-income households). Finally, demolitions have been running at over 3,000 per year on average. The result was more than a two per cent decline in the social rented stock (a loss of 95,755 dwellings) in just three years.

These pressures are set to continue. Local authority RTB sales look to have reached a plateau and, given further improvements to incentives, are unlikely to return to their low levels pre-2012. Replacements seem likely to continue to fall well behind sales (see chart), and many will not be homes at social rents.<sup>1</sup> New build will now focus almost entirely on homeownership products not accessible to low-income households (see page 10). Demolitions may increase if the government initiative to regenerate existing estates starts to gain momentum. Future levels of conversions to AR remain unclear, because although many are still in the pipeline numbers may later fall as investment switches towards shared ownership.

However, the Housing and Planning Act 2016 and associated policy changes carry new threats to the social rented stock. First, though not part of the act, the four-year one per cent annual cut in social rents is already affecting social landlords' investment capacity. Second, RTB is being extended to housing associations, with the speed of roll-out still unclear. Third, councils will soon be required to sell 'higher-value' stock, but again with no detail on how thresholds will be set. Fourth, while replacement of stock under the last two measures is promised, replacements are unlikely to be at social rents.

Of these new threats, higher-value sales (HVS) and the new RTB are potentially the most significant. There have been various attempts to predict their impact. The Conservative Party manifesto estimated HVS at 15,000 sales per year. A 2015 CIH study<sup>2</sup> collated estimates suggesting they would be less than half that. Since then, in parliament, both houses and two committees have attempted to obtain proper government estimates, but



Source: DCLG, Right to Buy Sales: October to December 2015, March 2016.

without success. Most recently Shelter, assuming that the government still intends to raise £4.5 billion annually, projected 23,000 yearly sales<sup>3</sup> (although it seems unlikely that this could be achieved). A similar lack of government projections applies to sales under the new RTB, with CIH projecting a possible 145,000 over the first five years.<sup>4</sup>

Based on LA right to buy sales and demolitions continuing at current levels, a modest level of new conversions, lower new build for social rent and mid-range projections for HVS and the new RTB, the 2016 *Review* projected at least a five per cent fall in the social rented stock over the period 2012-20.<sup>5</sup> In evidence to the Public Accounts Committee, CIH projected a loss over the same period of 300,000 units, or over seven per cent.<sup>6</sup> Only with clearer information on government plans will it be possible to improve on such rough estimates, but the continued loss of stock, and hence of social lettings to low-income households is inevitable.

### References

- 1 The NAO report shows that while RTB produced 29,509 sales over three years to 2014/15, only 3,387 replacements were started and 1,104 completed (NAO, *Extending the Right to Buy*, March 2016).
- 2 CIH (2015) *Selling off the Stock*. Coventry: CIH.
- 3 Shelter (2016) *'Higher value' council homes – how could the government make £4.5bn?* London: Shelter.
- 4 CIH (2015) *op.cit.*
- 5 See Contemporary Issues Chapter 1 of the *UK Housing Review 2016*.
- 6 Public Accounts Committee (2016) *Oral evidence: Right to Buy*. HC 880, 9 March 2016. London: HoC.

## Housing associations: classification conundrums

The unanticipated reclassification of housing associations in the national accounts from the private to the public corporate sector has thrown a spanner into the new government's housing – and economic – policies.

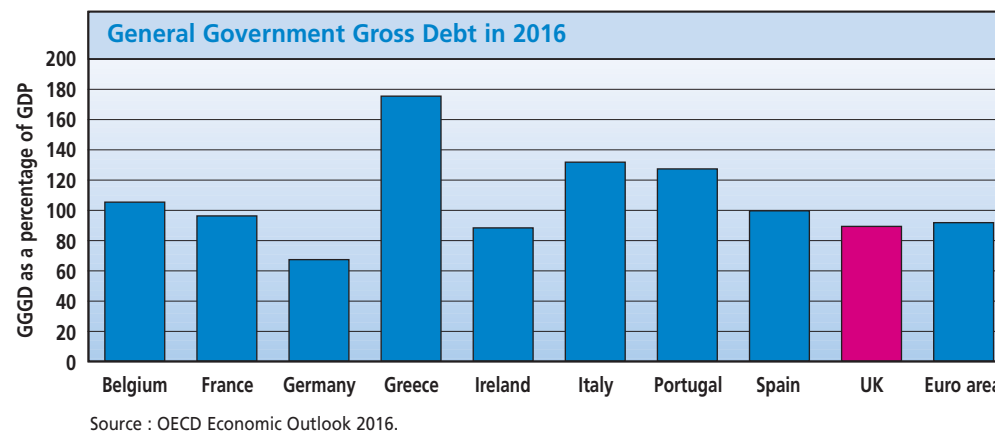
Questions about their classification were first raised by the Office for Budget Responsibility, when they suggested that the new government's right to buy and social rent reduction policies might prompt the ONS to reconsider their treatment of the HA sector for accounting purposes. After some prevarication the ONS announced the reclassification at the end of October 2015,<sup>1</sup> but based their decision on the already existing regulatory framework for housing associations under the Housing and Regeneration Act 2008. While this ONS decision related solely to HAs in England, the ONS has now embarked on a review of the classification of associations in the rest of the UK, with clear prospects that the regulatory provisions in the other countries could lead to HAs across the whole of the UK being classified as public sector corporations.

The immediate effect of the ONS decision was that the £60 billion or so of English housing association debt was added to the tally for public sector net debt, thus raising issues for the government's wider fiscal policies and objectives, as well as for its policies relating to housing associations.

In response to this, the government immediately backtracked on some of the housing policies adopted around the time of the election. It eagerly embraced the NHF offer for a 'voluntary' right to buy, and has exempted HAs from the 'pay to stay' and mandatory 'flexible tenancies' in the Housing and Planning Act, although it has continued to require all social landlords to reduce their rents by one per cent for four years. It has also moved to scale back the regulatory regime for HAs, as this was one of the key issues cited by the ONS as a basis for their reclassification decision. In the process, little regard is being paid to the protection which regulation offers both lenders and tenants.

However it remains to be seen whether these changes will be sufficient for the ONS to reconsider their classification of HAs in England. And further ahead it is far from clear how the other UK administrations will respond in the event of reclassification for their HAs, and in particular whether they are also willing to scale back their regulatory provisions and policies, generally more far-reaching than those in England.

While English HA borrowing for the time being constitutes public sector debt, the government has not moved to introduce any direct limits on any new borrowing (although of course their borrowing capacity has been limited by the rent reductions). Again this can be seen in the context of the government's priority being to persuade ONS to reverse their classification decision.



The position in the other UK administrations is more open as HM Treasury only has limited powers (politically and technically) to impose limits on their public corporation borrowing, which forms part of Annually Managed Expenditure. This in turn weakens their hand in trying to persuade the other administrations to reduce their regulatory regimes in the event of a reclassification.

Of course this whole issue is only significant in the UK because of our unique fiscal rules that constrain the borrowing of public corporations, as well as that for government services. International and EU fiscal measures are focused on the debt and borrowing of 'general government', not the 'public sector' as in the UK. Any grants or subsidies paid by government to public or private corporations count as general government expenditure but, based on those international measures, borrowing by corporations funded by the revenues flowing from their trading activities is not constrained by fiscal rules.

Hence the ONS reclassification had no impact on the international measures of general government debt and borrowing that are the primary concern of the financial markets. But while the UK persists with its unique fiscal measures that clip the wings of any UK-based public corporations (but not other countries' public corporations that now play a major role in our privatised transport and utility sectors), we will continue to have housing policy decisions distorted and driven by the dictates of classification.

### Reference

<sup>1</sup> ONS (2015) *Classification announcement: 'Private registered providers' of social housing in England*. London: Office for National Statistics.

## Homelessness: housing shortage drives the problem and limits the solutions

The number of households in temporary accommodation (TA) is a key barometer of the housing crisis, reflecting both the pressures of demand (people unable to find an accessible affordable home or forced to leave one) and of supply (too few permanent lettings available to accommodate them). Use of TA reached a recent peak of over 100,000 at the end of 2004, but a target to cut this by half by 2010 was achieved (see chart). It stayed at these levels until the end of 2011 before starting to climb again. At the end of 2015, over 69,000 households were in TA, a 43 per cent increase since 2011. Furthermore, TA (rather than a permanent letting) is now the immediate solution for 65 per cent of homeless acceptances, a record proportion.

Increased use of TA in England contrasts with the rest of the UK. Its use remains high in Scotland, at around 10,500 households, but numbers are broadly stable and four out of five homeless acceptances lead to the applicant getting permanent accommodation. Both Wales and Northern Ireland have cut the use of TA to historically low levels.

Compared with the earlier peak, use of TA is now heavily concentrated in London – accounting for three-quarters of all TA use, up from 61 per cent in 2004. Furthermore, one in three TA placements in London are now ‘out-of-area’, compared with just one in seven five years ago. Recent research<sup>1</sup> shows that most (nine out of ten) are placements elsewhere in London, and almost all of the rest are in the Home Counties. However, a small number are to other regions. The Supreme Court recently criticised Westminster Council for placing a homeless family in Milton Keynes without establishing ‘how practicable’ it was for them to leave the borough, a judgment likely to constrain councils in future.<sup>2</sup>

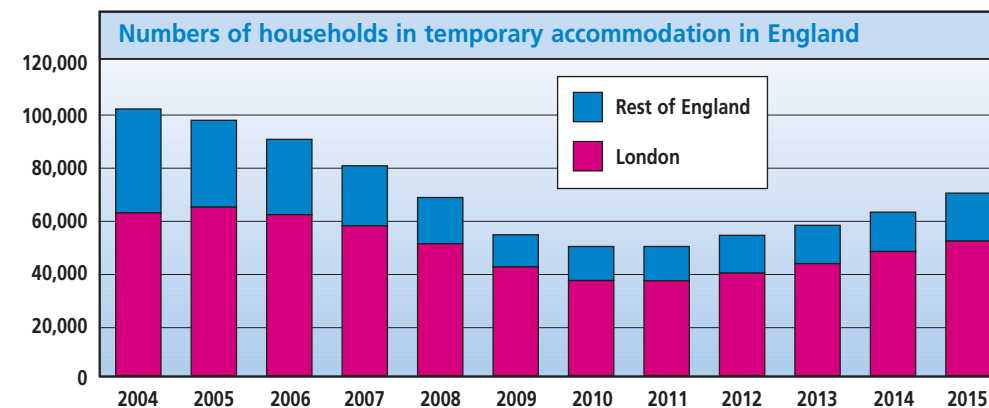
Apart from availability of accommodation, the main driver for ‘exporting’ homelessness is cost: the private rented sector (PRS) is notably cheaper in parts of outer London. The cost of TA to London boroughs was estimated at £663 million in 2014/15, of which about a quarter had to be met from councils’ General Funds (the rest being paid by government).<sup>3</sup> One factor in costs being passed to LAs is the restricted levels of local housing allowance (LHA) relative to rents, a gap which is due to get worse (see page 15). The Autumn Statement announced a change in the arrangements for the support that councils receive towards their TA management costs: in future it will be paid separately and with fewer conditions. Providing that promises of no cuts to this funding are kept, this could give councils useful flexibility, although it also carries the risk of the funds (if not ring-fenced) being used to meet other needs.

Funding was also an issue in recent speculation that the government might introduce a stronger duty on councils to prevent homelessness. Crisis launched a campaign for a similar legal change in England to the (initially successful) one made in Wales.<sup>4</sup> There was concern that English councils might have to meet the cost of new duties from existing

budgets, while Welsh councils had benefited from £5.6 million in grants. However, despite reported assurances that the estimated cost of £44 million would be met by government,<sup>5</sup> the proposed change was not in the Queen’s Speech and is now being pursued via a Private Member’s Bill.

An alternative approach to homelessness is being considered as part of devolution plans for Greater Manchester, where the combined authority is considering bidding for devolved powers that would (for example) allow a homeless applicant to apply anywhere in the sub-region, and would pool central government grants for prevention work and temporary accommodation that currently go to ten separate LAs.

While all these proposals have merits, there are concerns that the underlying pressures will continue and that government action (such as the £115 million in the March Budget) will fail to address the root causes of homelessness: the reliance by low-income households on the PRS, the effects of welfare reform and above all the shortage of affordable rented accommodation.



Source: DCLG Live Table 775. Note: Totals are for the end of each calendar year.

### References

- 1 Shelter (2016) *Home and Away: The rise in homeless families moved away from their local area*. London: Shelter.
- 2 See [www.bailii.org/uk/cases/UKSC/2015/22.html](http://www.bailii.org/uk/cases/UKSC/2015/22.html)
- 3 Rugg, J. (2016) *Temporary Accommodation in London: Local authorities under pressure*. A report for London Councils. York: Centre for Housing Policy.
- 4 Gousy, H. (2016) *No One Turned Away: Changing the law to prevent and tackle homelessness*. London: Crisis.
- 5 See [www.insidehousing.co.uk/policy/health-and-care/homelessness/dclg-would-fund-homelessness-duty-if-introduced/7015162.article](http://www.insidehousing.co.uk/policy/health-and-care/homelessness/dclg-would-fund-homelessness-duty-if-introduced/7015162.article)



## The legacy of the coalition's welfare reforms

Official estimates were that welfare reforms introduced by the coalition would save a net £26.4 billion in 2015/16, of which by far the largest element – the switch from RPI to CPI uprating – was to save £10.6 billion.<sup>1</sup> However, outturn figures suggest that savings from some of the reforms have been rather less than expected, especially from the employment and support allowance.

### Estimated annual financial savings (£m) arising from welfare reforms by March 2016<sup>2</sup>

£ millions

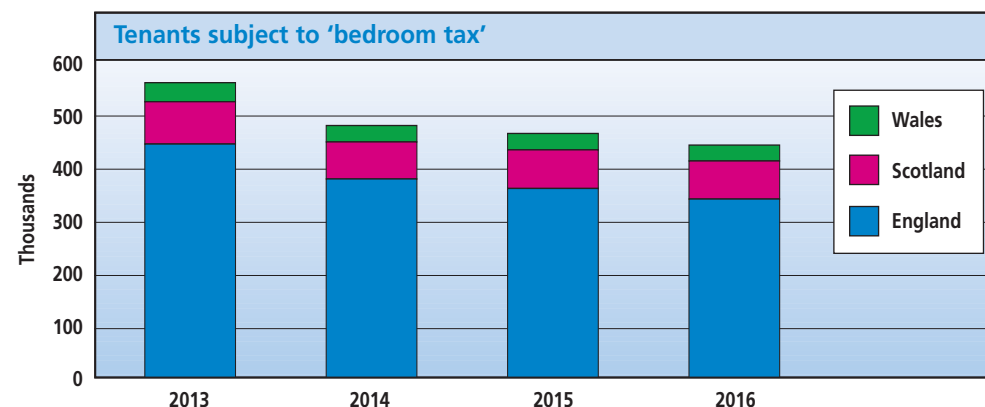
	HM forecast	Estimated Outturn
Tax credits	3,660	4,210
Child benefit	2,845	3,030
One per cent uprating	3,430	2,700
Housing benefit: Local housing allowance (LHA)	1,645	1,670
Personal independence payments	1,450	1,190
Employment and support allowance	4,350	650
Council tax support	340	370
Housing benefit: 'bedroom tax'	490	360
Non-dependent deductions	340	210
Benefit cap	270	100
<b>Total</b>	<b>18,820</b>	<b>14,490</b>

Of those savings that relate to housing the biggest are those to LHA – the change to 30th percentile rates, four-bedroom and high-value area caps, and extending the shared accommodation rates to single people aged 25-34. In total these savings are estimated at almost £1.7 billion in 2015/16 – slightly more than expected (and not including those from the CPI and one per cent-only uprating in annual LHA rates).

While the numbers of claimants in the private rented sector (PRS) continued to rise through 2013 they have since declined. However given that overall claimant numbers fell slightly during this period, it would be inappropriate to attribute all of that flattening off to the LHA changes. Increasing numbers of single people are now in receipt of universal credit (205,000 in February 2016 compared to 40,000 a year earlier), but sadly no information is available on their tenure. As a result it is now difficult to track changes in the extent to which benefit-recipient households find it more or less difficult to access the PRS.

Recent research by CIH has shown just how far the limited LHA uprating has shrunk the proportion of the sector available to HB claimants: particularly in areas of London, and for younger single people subject to the shared accommodation LHA rates.<sup>3</sup> That shrinkage is set to accelerate with LHA rates now to be frozen for four years, albeit with some minor provisions for areas where market rents rise more rapidly.

While contributing only a small proportion of total welfare savings, the bedroom tax has been the most controversial welfare change, not least because of its impact on disabled tenants and those unable to move to smaller dwellings, and more generally the very limited 'size criteria' used to define bedroom requirements. The net decline in numbers affected by the bedroom tax has been very modest, especially after the first six months, with just a five per cent fall (to 441,000) in the year to February 2016. In part this limited decline can be attributed to the priority councils give to supporting tenants through Discretionary Housing Payments (DHPs). In Scotland, DHP budgets have been very substantially supplemented by the Scottish Government, and the numbers subject to the bedroom tax have been more or less constant over the last two years.<sup>4</sup>



Source: DWP HB Statistics, all figures for February except 2013 which is for May.

### References

- 1 DWP (2014) *Welfare reform: collated costings 2010 to 2014*. Ad hoc statistical analyses Quarter 2, 2014. London: DWP.
- 2 Beatty, C. & Fothergill, S. (2016) *The uneven impact of welfare reform: The financial losses to people and places*. Sheffield: Centre for Regional Economic and Social Research, Sheffield Hallam University.
- 3 CIH (2016) *Mind the gap: the growing shortfall between private rents and help with housing costs*. Coventry: Chartered Institute of Housing.
- 4 For a fuller account of the impact of the bedroom tax and other coalition welfare reforms see 'A decade of diminishing welfare' in the *UK Housing Review 2016*.

## The impact of the latest welfare changes

A further round of major welfare cuts and reforms, announced in the 2015 Summer Budget, will have particular implications for young single people and larger families, as well as on the ability of low-income households to access the private rented sector. They also pose challenges for social sector landlords.

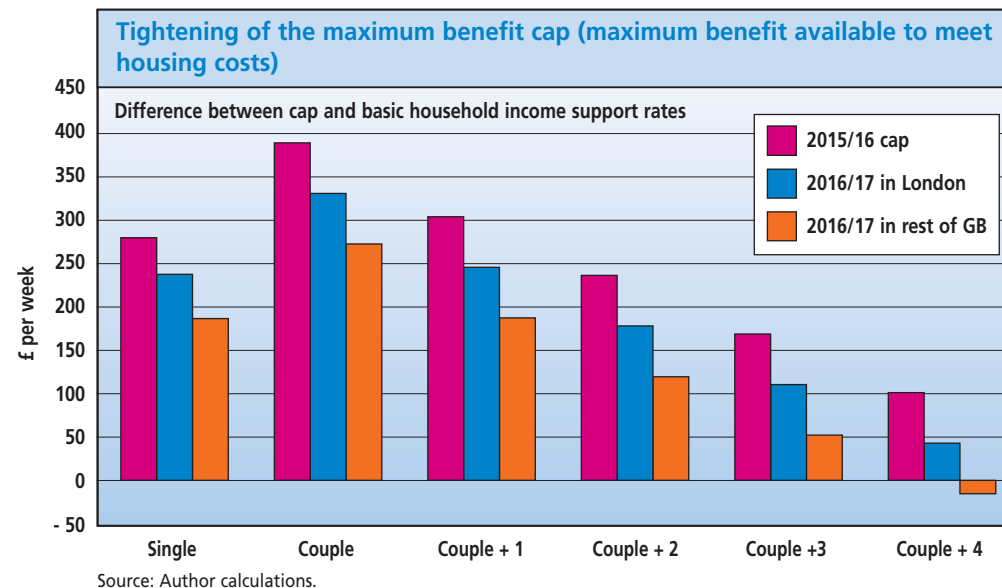
The government dropped plans for cuts in the current tax credit regime which will in time be replaced by universal credit, and for further cuts to personal independence payments. But other reforms are expected to save the government some £12.9 billion annually by 2020/21, in addition to the savings from the continuing impact of the coalition government reforms discussed on page 15. The rest of this page sets out the main changes and their likely effects.

*Young out-of-work people without children* (aged 18-21) will cease to be eligible for housing support in new claims for universal credit (UC) from April 2017, unless deemed to be 'vulnerable'. This group will effectively be left with little option but to return to the parental home.

*The benefit cap for out-of-work households* will be reduced from £26,000 a year to £23,000 in London, and £20,000 in the rest of Great Britain, from the autumn of 2016. It is estimated that this will lead to a fivefold increase in the numbers impacted by the cap. Families with three or more children will not be able to afford social rents anywhere in the country, without drawing on the limited benefit income intended to support their household living requirements, let alone pay Affordable Rents or private rents. Couples with just two children will similarly struggle with Affordable Rents and even some social rents across the south of England (see chart).

*Universal credit 'work allowances'* were reduced in April 2016, and household allowances will be limited to support for two children for new claims after April 2017, with the 'family element' also removed from tax credit and UC allowances for all new families after that date. By 2020/21 it is estimated that some 640,000 families with three or more children in Britain will have their child tax credit or UC entitlements restricted to the rate for two children; while some 1,180,000 families will be impacted by the removal of the 'family' element and the first child premium.<sup>1</sup> The reductions in UC allowances will also significantly undermine the work incentives provided by the new regime (for further details see 'The decade of diminishing welfare' in the *UK Housing Review 2016*).

*Benefit rates (including LHA rates)* will be frozen for four years from 2016/17. The savings from this will ratchet up annually to just over £4 billion in 2020/21, and will progressively squeeze the real disposable incomes of all claimants. This will coincide with the roll-out of UC, with its problematic administrative and payment arrangements, that is already likely to lead to higher levels of rent arrears, and consequently reduce tenant security.



*LHA rates will apply to social sector tenancies*, so as to limit housing benefit payments. Announced in the 2015 Autumn Statement, this will only apply from April 2018, and only for new tenancies starting from April 2016. But it will have a particular impact on young single people, as the very low shared accommodation rate (SAR) will in many areas be below social sector rents for one-bedroom dwellings. Moreover given that the LHA rates are based on the size of the household, rather than the size of the dwelling, over time this policy will increasingly impact on under-occupying households not currently caught by the bedroom tax, including pensioners, in those areas (such as the north of England) where social sector and private rents are not very far apart.

Against all these changes, the Great Britain budget provision for Discretionary Housing Payments will rise from £125 million this year to an average of £160 million over each of the next five years. However, it is evident that slightly higher DHP levels, while welcome, will do little to mitigate the effect of cuts of the scale now planned.

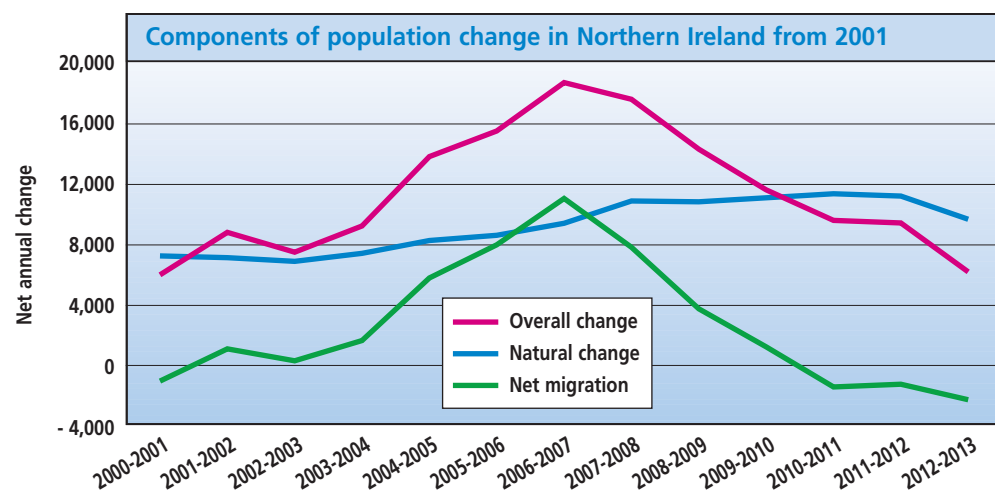
### Reference

1 DWP (2015) *Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit changes to the Child Element and Family Element*. London: DWP.

## Northern Ireland struggles to stabilise its housing market

In the first decade of this century there was a house-building boom in Northern Ireland, with on average 11,800 homes built per year. Completions rose from below 7,000 to a peak of almost 18,000 in 2006. While in that year there were 3.5 completions per 1,000 inhabitants in Great Britain, Northern Ireland had ten per 1,000 and the Republic of Ireland had 20.<sup>1</sup> Partly a response to an Ireland-wide property boom and rapid growth in house prices, it also reflected a period of sustained household growth – almost 7,700 new households were created annually in Northern Ireland, on average, between 2001 and 2011. But after the credit crunch new development fell back sharply, so that in the first five years of the current decade output was down to an average of just 5,630 per year. This still exceeds household growth, now projected at under 4,500 per year up to 2022 (see *UK Housing Review 2016*, Commentary Chapter 2). However, unlike the rest of the UK house prices are struggling to recover and are still one-third below their 2007 peak.

Changing housing demand reflects population trends that have been strongly influenced by migration. In the period 2001-2011, a study for the Northern Ireland Housing Executive (NIHE) concluded that there were ‘wildly changing patterns of migration and numerous changes in trends.’<sup>2</sup> The net migration losses of the previous two decades were suddenly reversed, with a net migration gain of 38,000 by 2011. However, as the chart shows, trends fluctuated over the decade, with a sharp peak in net migration in 2006/07 which then fell back so that currently there are again more people leaving Northern Ireland than are arriving.



Source: NISRA (2014).

Note: Years shown (eg 2000-01) are mid-year to mid-year,

As in its economy and housing market, migration trends in Northern Ireland have mirrored those in the Republic of Ireland much more than those in the rest of the UK: the Republic experienced a peak in migration at about the same time while the UK's net migration has fluctuated over the last decade and still remains high. The official projection for Northern Ireland's net migration is that it will stabilise at zero over the period to 2036, although such stability seems unlikely given recent experience. However, the NIHE study noted above concluded that 'there is no rational basis for any other assumption at this stage'.

It has fallen to social housing, now led by housing associations, to try to maintain output given the rapid decline in private sector new build, which is now producing only a little more than a quarter of the new homes it completed in the boom years. In the decade to 2010, HAs provided less than ten per cent of new build, but they have now increased their contribution to 21 per cent, with the private sector pulling back to complete only 4,700 units in 2015. Even so, new build by HAs barely exceeds 1,000 units per year, with around an additional 50 per cent of affordable units each year coming from acquisitions or conversions of existing stock.

What is signalled after the recent Northern Ireland Assembly elections? The different parties all committed to targets for new social and affordable housing in their manifestos – ranging from the DUP's 1,600 units per year to a very ambitious 3,000 per year from the SDLP – and the DUP and Sinn Féin have since formed government. In practice, output is likely to depend on three critical factors. First, after the compromises made in adopting only some of Whitehall's welfare reforms, will the Assembly's budget actually be able to sustain the investment required and, if it does, will housing associations have the capacity to raise investment levels still further? Second, what will happen to the NIHE, whose existing stock faces a daunting repairs backlog, with decisions pending on its future as a landlord and how the investment it needs can be funded? And third, will the planning system be mobilised to deliver affordable housing as 'planning gain' from private development schemes, and is the weakened market now strong enough to be able to deliver it?

### References

- Paris, C. (2016) 'Affluence, mobility and ownership of second homes in Northern Ireland' in Shanks and Mullins (Eds.) *Housing in Northern Ireland*. 2nd edition. Coventry: CIH.
- Paris, C., Palmer, J. and Williams, P. (2014) *Demographic Change and Future Housing Need in Northern Ireland*. Belfast: NIHE.

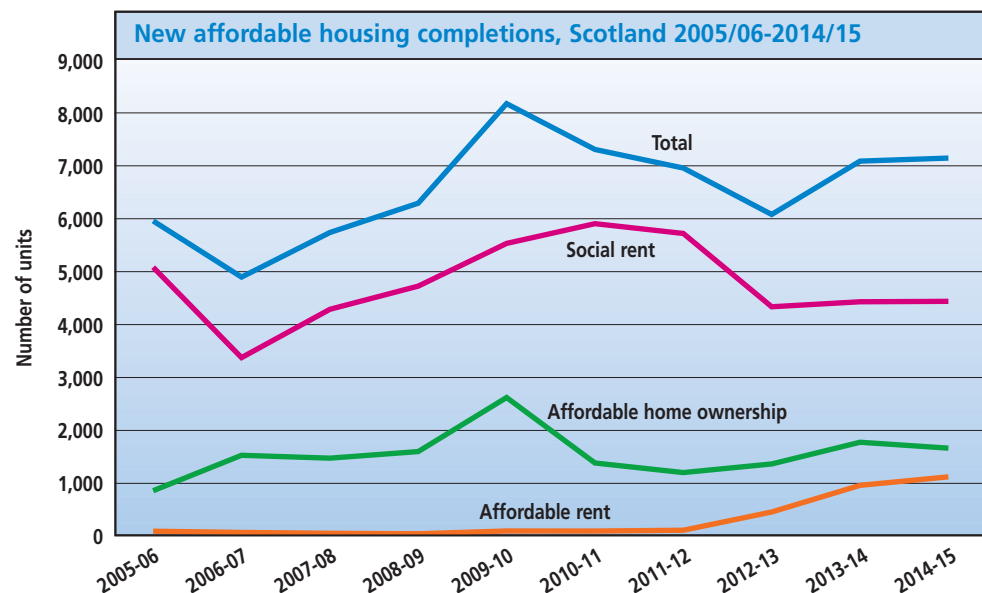
## Scotland: a new SNP government flexes its muscles

The election for the Scottish Parliament resulted in the return of minority SNP government, just two seats short of an overall majority which it enjoyed in the last parliament. The Conservatives overtook Labour as the official opposition.

Nicola Sturgeon has used her mandate to reshape the Scottish Government. The post of Finance Secretary has been separated from the one dealing with the economy, which reflects both the new taxation powers that the Scottish Parliament assumed in April, and the substantially increased powers that will follow in a year's time as a result of the post-referendum Scotland Act 2016. In addition, the new economic post has been widely interpreted as a response to the Scottish economy's recent relatively weak performance. Under the new fiscal arrangements the Scottish Government carries the full risk if its tax revenues grow more slowly than in the rest of the UK. The new government also includes a new post of Minister for Social Security to reflect the acquisition of some powers over disability benefits and limited control over the housing cost element and payment arrangements in universal credit.

The agreement between the UK and Scottish Governments over the fiscal framework to reflect the increased devolution of tax and social security removed the last barrier to the passing of the Scotland Bill in the Scottish Parliament. Consequently the tax and other powers discussed in the 2016 *Review* will be devolved from April 2017. The SNP appears to be wary of making use of the new powers over income tax, characterising raising the basic rate as passing austerity on to low-income earners and fearing that an increase in the top rate above rest of the UK (rUK) levels might prove to be counterproductive if it provoked avoidance or out-migration. However, higher-rate payers will not enjoy the increased threshold applied elsewhere in the UK.

The outcome of the election and the Scotland Act leave little doubt that the 'bedroom tax', which is currently mitigated through the use of enhanced Discretionary Housing Payments paid for by the Scottish Government, will be effectively ended. It is also likely that provision will be made for the housing element of universal credit to be made directly to social landlords if the tenant wishes this. Claimants will also be given the option to receive universal credit twice a month rather than monthly. The SNP manifesto also contained a commitment to restore housing benefit eligibility to 18-21 year olds, should the UK government restrict it. The SNP's commitment to increase the output of affordable housing to 50,000 units (35,000 of which are to be social rented) over the parliament is also unlikely to be challenged. As the chart shows, an average output of 7,000 units of social rented housing would mark a substantial increase on recent years.



Source: Scottish Government, New Affordable Housing Supply Programme Summary Tables.

More controversy is anticipated over the reform or replacement of the council tax. The SNP proposes to retain the tax, but to increase the 'band multipliers' in the top four bands, increase the generosity of the rebate system for families with children, and to end the increasingly costly freeze by allowing local authorities annual increases of up to three per cent.<sup>1</sup> However, it does not intend to conduct a revaluation, so banding would still be based on 1991 values. The SNP is also considering the assignment of some income tax revenues to local authorities. This position was widely criticised, since the party had previously been committed to abolishing council tax and it appeared to be contrary to the recommendations of a cross-party commission that reported in December. Labour and the Greens both support revaluation and its replacement with forms of a property-value related system. In Labour's case this would be combined with a flat-rate charge and overall ceiling. Meanwhile the Conservatives, who did not participate in the commission, favour the retention of the council tax, but support changing the band multipliers only in the top two bands.

### Reference

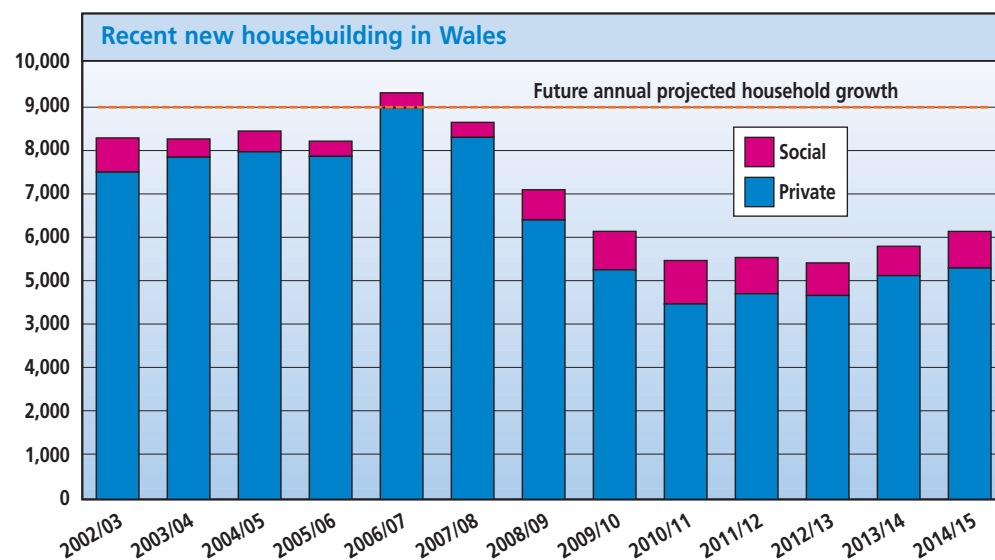
1 Stephens, M (2016) *The Parties' Proposals for Local Tax in the 2016 Scottish Parliament Election*, Scottish Property Tax Reform Briefing No. 6.

## Wales: new uncertainties, more divergence

On May 5th the people of Wales voted for their new government. The outcome was 29 seats for Labour (L), 12 for Plaid Cymru (PC), 11 for Conservatives, 7 for UKIP and 1 for Liberal Democrats. Labour did not secure overall control and the first efforts to agree a new First Minister failed. However on May 17th agreement was reached on backing a minority Labour administration with Labour and Plaid Cymru agreeing priorities and working arrangements.

Housing had a higher profile in the election just as it did in England, and encouragingly Carl Sargeant who previously served as Minister for Housing and Regeneration now has the housing brief as Cabinet Secretary for Communities and Children. The housing manifestos of the different parties varied considerably in both length and content and there was some divergence around annual housing supply targets (from 12,000 to 20,000). Within that, the targets for affordable housing also varied (though most centred around 4,000 p.a.). These ambitions should be viewed against the backdrop of recent research discussed in *UK Housing Review 2015* (pages 54-55) and based on the latest household projections. They suggested housebuilding in Wales should be achieving somewhere between 9,000 to 12,000 homes per annum (currently around 6,000 – see chart) and within that 3,500 to 5,000 affordable homes.

Other issues covered by manifesto promises included the creation of a 'National Housing Company' to build social housing (PC), rent controls and regulation of lettings agencies (PC), creating a Welsh Development Bank (L), opposing or ending the right to buy (PC and L) and options for controlling land-banking (L).



Source: Stats Wales.

This new enthusiasm for output is encouraging but we must wait to see what happens in practice. In the meantime Wales has made some significant progress on homelessness in part flowing from the new housing powers acquired under the Housing Wales Act. New duties have been placed on local authorities in relation to homelessness prevention and it is clear from the manifestos that there is an appetite to go further. Moreover Rent Smart Wales came into being in November 2015 ushering in a new era of regulating private landlords (including training them and registering their property) which has perhaps inevitably had a mixed reception. Created under the Renting Homes (Wales) Act 2016 it is very much along the lines of regulation already in place in Scotland, albeit with no promises of any additional security of tenure.

Though Wales has been experiencing similar tenure shifts to England there is a continued focus on the Welsh Housing Quality Standard to be met by 2020 and on the role housing plays in regeneration. With a significantly bigger older population than other parts of the UK and a higher level of welfare dependency, Wales has specific challenges in coping with UK-wide welfare reform. As a consequence of these differences and the new powers of primary legislation, Welsh housing policy is increasingly divergent from England – the right to buy has been suspended with the aim of abolition and reforms to rent setting in the social housing sector are now underway. Wales has seen a new round of housing association mergers and the newly reconstituted Regulatory Board for Wales is setting out an agenda around value for money and alongside the inherited challenge of the possible ONS reclassification of housing associations from private to public sector.

The Help to Buy (Wales) scheme has been extended to 2021 as in England, though it has lower price thresholds (£300,000). A recent evaluation of the Wales scheme suggested that it plays a positive role in supporting first-time buyers.<sup>1</sup> Mortgage-cost-to-income ratios in Wales are low by historical standards but still higher than in other parts of the UK and in a low-wage economy. Although no Welsh Starter Home scheme is planned, looking ahead Stamp Duty Land Tax will be devolved to Wales from April 2018 and it will be replaced by a new Land Transaction Tax (LTT)<sup>2</sup> – the first Welsh tax in 800 years.

As indicated at the outset there is an appetite to do more. Wales has many pressing housing problems and it is important the new government steps up to take on the challenges.

### Acknowledgement

The author is grateful to Tamsin Stirling and Robert Smith for their help in preparing this short article.

### References

- 1 See <http://gov.wales/docs/caecd/research/2016/160309-help-to-buy-wales-interim-en.pdf>
- 2 No details are available yet regarding bandings, etc. but see <http://gov.wales/docs/caecd/consultation/150210-land-transaction-tax-en.pdf>

## Developing devolution

Recent years have seen substantial growth in the powers extended to the 'devolved' administrations in Scotland, Wales and Northern Ireland, in respect of both housing and other policy domains. The arrangements are still not symmetrical, however: the powers devolved to the Welsh Assembly, while now extensive, are in many respects not as wide as those available to the Scottish Government or the Northern Ireland Assembly.

Some of the new powers are now being used more extensively as the devolved administrations get into their stride. In housing, the extent of the divergence between the four countries of the UK can be seen in this *Briefing Paper* and was discussed in depth in the chapter 'Evolving devolution' in *UK Housing Review 2016*. The differences do not just reflect the innovations adopted by the administrations themselves, but also their freedom *not* to follow the direction of Westminster policy decisions that now only apply to England. They also reflect both the contrasting housing markets, practices and cultures in each of the four countries, and the varying political complexions of the respective governments.

Nowhere is this clearer than in the varied policies towards the 'right to buy' (RTB). In the last decade Wales and Northern Ireland were content to follow England in setting lower limits on RTB discounts, while Scotland introduced a 'modernised' RTB for new tenants in both the LA and HA sectors with a lower range of discounts.

With government changes in England, first RTB discounts were restored to higher levels and now it is proposed to extend a 'voluntary' RTB with the same higher discounts to housing association tenants. In contrast Scotland abolished the RTB for new tenants in 2011, and for all tenants from the end of this July. In similar vein last year Wales imposed further limits on RTB discounts and is now set to follow Scotland with outright abolition. Meanwhile Northern Ireland has continued with unchanged, lower discounts for its 'house sales scheme', which already applies to housing associations as well as to the Northern Ireland Housing Executive.

There are also marked differences in approaches to security of tenure in the social housing sector. In England councils are to be required to offer only time-limited 'flexible' tenancies, and to impose market rents on higher-income tenants, with HA landlords encouraged to follow suit. In contrast Scotland, Wales and Northern Ireland continue with full security of tenure for all social sector tenants.

Scotland has also legislated to provide indefinite security of tenure to private tenants, albeit with landlords able to claim possession on a range of specified grounds such as selling the property, rent arrears, etc. And Scotland, Wales and Northern Ireland all now

have compulsory private landlord registration schemes, in principle intended to aid in dealing with unsatisfactory landlords. English councils meanwhile have only limited powers to set up selective landlord registration schemes, with more wide-ranging schemes subject to Secretary of State approval (or rejection).

But if housing powers are now substantially devolved, welfare policy remains largely Westminster-based, with some limited powers devolved to Scotland. Historically Northern Ireland has had long-established devolved responsibility for welfare policies, but has typically followed the Westminster lead except in minor details, not least because of the potential costs of a more independent approach. But to date Northern Ireland has implemented neither the bedroom tax nor the benefit cap, and plans to avoid implementation of both for at least another four years.

Scotland now has powers to effectively negate the bedroom tax and make other improvements (from its own budget) to welfare provisions. Northern Ireland also continues to make housing benefit payments direct to private landlords, and together with Scotland will require provisions for direct payments to landlords, and more frequent payments, under universal credit. There are no such dispensations for Wales.

While the last two decades have seen steps towards greater devolution of housing policy, tensions remain in areas where policy decisions have UK-wide financial consequences. The latest instance is the attempt by HM Treasury to bounce the devolved administrations into following the English policy of four years of one per cent rent reductions in the social sector. The Treasury case is weakened by its own abandonment of a concordat on the costs of divergent council rent policies in the early 1990s because it was 'going the wrong way', with higher rent increases in England requiring the Treasury to increase its grants to the devolved governments.

If there is more policy diversity across the UK, we are also beginning to see some signs of policy learning between the four countries. A recent example is the consideration given to the possibility of England adopting a homelessness prevention duty along similar lines to that introduced in Wales in 2015 (see page 14). As policy divergences develop, so too do the opportunities for the adoption of cross-border policies that have been shown to be effective. Devolution is no longer a 'one-way street'.

### Reference

1 Stephens, M (2016) 'Evolving devolution' in the 2016 edition of the *UK Housing Review*.

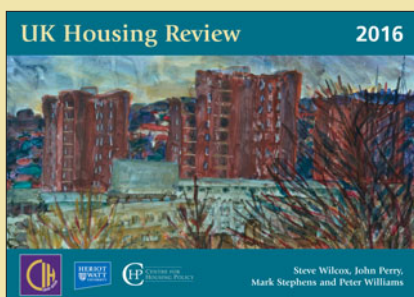
The **UK Housing Review** published early each year provides a key resource for managers and policy-makers across the public and private housing sectors.

To coincide with CIH Housing 2016, the **UK Housing Review 2016 Briefing Paper** updates key issues and data from this year's full **Review**, focusing on these themes:

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- *Household growth and housing supply*
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- *The challenge of reclassification of housing association finances*
- *Homelessness*
- *Welfare reform*

The **Briefing Paper** also takes a closer look at housing in Scotland, Wales and Northern Ireland, and overall experience with devolved government so far.

The **UK Housing Review 2016 Briefing Paper** is available at the Manchester conference and downloadable at [www.cih.org](http://www.cih.org)



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See inside the front cover for details of how to obtain your copy of the full **UK Housing Review 2016**.

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