Housing spending round submission

April 2013

1. Summary of key proposals

Our proposals will provide a much needed boost to the construction industry by increasing the number of new build affordable homes. We also propose actions to rebalance the existing housing stock to enable councils to invest in smaller properties that are desperately needed to implement the Government's welfare reforms.

The Housing Revenue Account borrowing cap - should be removed.

Further housing investment – the Government should establish an investment fund to enable local authorities and arm's length management organisations (ALMOs), working with housing associations, to transform existing housing stock and invest in new build.

The Right to Buy - scheme should be simplified to remove unnecessary restrictions on reinvestment and to better reflect local housing markets.

2. Context

The demand for affordable rented homes far outweighs supply. The housing waiting list has increased by 70 per cent over the last decade[1]. However affordable housing delivery remains low and only 35,000 properties were completed last financial year[2]. Housing need has never been met by the private sector alone and local authorities and housing associations have an important role to play to tackle this issue. Getting a foot on the housing ladder remains challenging[3] and rents are projected to rise by 3.9 per cent over the next 12 months[4].

This has an impact on the overall costs incurred by the public sector as a whole. Levels of homelessness increased by 10 per cent last year[5] and the use of temporary accommodation increased by 9 per cent[6]. DWP allowances to local authorities - per unit of temporary accommodation – are £2,000 to £3,000 annually (depending on the location). However a fuller estimate of the costs is that these allowances would amount to about £5,000 per household annually – a significant figure to offset against the annual per unit costs of new building[7]. This scarcity of affordable housing is compounded by the profile of the existing housing stock, which does not meet the needs of tenants. There is an acute shortage of one and two bed

[1] CLG live tables, Table 600 Rents, lettings and tenancies: numbers of households on local authorities' housing waiting lists1, by district: England 1997-2012

[2] http://www.homesandcommunities.co.uk/sites/default/files/aboutus/housing_statistics_november_2012.pdf

[3] An average house doubling in price over the last decade (Laying the Foundations, CLG), and limited access to mortgage finance with the number of mortgages falling by 50% between 2007-11 (Council of Mortgage Lenders).

[4] RICS Residential Lettings Market Survey

[5] Statutory Homelessness: October –November 2012, Statistical release, CLG

[6] Statutory Homelessness: October –November 2012, Statistical release, CLG

[7] Let's Get Building, National Federation of ALMOs

properties[8] which means that for many tenants downsizing is not an option. This restricts the options available to respond to the social sector size criteria and coupled with direct payments may result in additional costs through an increase in rental arrears.

Investing in housing makes sense. The UK Contractors Group has shown that every £1 spent in building generates £2.84 in economic activity and of the original investment 92p stays in the UK[9]. Of all aspects of construction, housebuilding is the easiest to get shovel-ready as the needs are known and the land is often available with planning permission.

3. Housing Revenue Account borrowing

The new self-financing housing system for local authorities has created a business framework that supports new investment. Borrowing headroom has enabled some authorities to plan more investment and councils are already planning 15,000 new units over the next five years. However, the amount of borrowing headroom is capped centrally, is distributed unevenly and bears no relation to housing need. This constrains the ability to invest for authorities who have little or no headroom, and constrains the ambitions of others.

We would like to see the centrally set borrowing cap removed. This would allow councils to invest an additional £7 billion over five years which could result in up to a further 60,000 homes over and above current plans[10]. Overall, we estimate unlocking this potential to invest in housing would lead to a wider economic impact of £20 billion[11].

Local government has a track record of borrowing prudentially against its means, using the prudential code as an effective way of self-managing borrowing. The market reaction to this proposal was that the amount of extra borrowing in question is far smaller than the standard statistical error for public borrowing figures and would not be of concern to the economists, fund managers and credit rating analysts we interviewed.

4. Further housing investment

The affordable housing stock currently available in England does not meet needs and is ill equipped to respond to the demand for smaller properties generated through the Government's welfare reforms. One person households are projected to increase by 159,000 per year, equating to two thirds of the overall increase in households[12], however there is an estimated undersupply of 240,000 one bedroom homes[13].

[8] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6395/1780763.pdf
[9] Construction in the UK Economy: The benefits of Investment
[10] This estimate is based on the prudent approach local authorities have taken to date bearing in mind levels of risk and limitations such as land and organisational capacity; and is far below the theoretical borrowing capacity available to councils should the cap be removed.
[11] Let's Get Building, National Federation of ALMOS et al, 2013
[12] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6395/1780763.pdf
[13] Under occupation of Social Housing Impact Assessment, DWP, p13

This means that for many tenants downsizing is not an option. This is particularly acute in high demand areas where competition for privately rented homes is fierce and prices are high. We need to increase the stock overall and rebalance the stock profile of existing homes to better meet demand.

We propose a new capital investment fund which would increase the supply of smaller homes by enabling councils to invest in new housing stock and re-configure existing properties as well as bringing empty homes back into use. Councils and ALMOs have proven that they can build value for money and high quality properties, have access to land and are able to borrow at favourable rates. The programme might be funded by local authorities through a combination of reserves, borrowing and public sector land and supplemented by a grant from the Government. Non stock owning authorities should be eligible for the fund and would work closely with Housing Associations to deliver new homes and reconfigure existing properties. It is crucial that any grant programme operates a level playing field in its assessments of value for money between housing associations and authorities.

We estimate that a capital fund of £500 million, for example, would allow more than 37,000 conversions/adaptations; that compares to the 660,000 claimants affected by the social sector size criterion. This would, incidentally, be shovel-ready capital investment that could commence immediately.

5. Right to Buy

The current inflexibility of the Right to Buy system has a number of unintended consequences which undermine the ability for local authorities to invest in new build that meets housing needs and enables them to respond to the Government’s welfare changes.

Allowing councils to set the Right to Buy discount locally to reflect local housing markets will enable them to maximise the receipts to reinvest in replacement homes while encouraging sales under the scheme. A blanket discount cap ignores the large differences in property values up and down the country and in some areas will not provide a discount sufficient to generate sales and vice versa.

A London Borough reports that the majority of sales receive at or close to the maximum £75,000 discount, the average discount being £74,000. Tenants tend to buy 1-3 bedroom houses, typically getting a £150/160,000 mortgage. The high property values in London mean that this equivalent to a 32 per cent discount. Larger properties are not affordable.

A council in the North West reports that the average discount on flats is £32,000. Against a market value of £46,000 this means a discount for the tenant of 70 per cent. It also means that the council often operates as a loss as the average debt outstanding on the property is in excess of its £14,000 sale price.

There is an inbuilt disincentive to reinvest in one and two bedroom flats which are desperately needed to help relieve the pressures caused by the social sector size criteria. The system is structured so as to limit the ability for local authorities to reclaim their outstanding debt on properties after 15 years – this can leave the authority operating at a loss. Extending the cost floor on new builds and flats from 15 to 25 years would remove this disincentive by ensuring that sales even at the maximum discount level would not incur a loss for the authority.

Right to Buy sales are accelerating in Derby however some properties are being sold at less than the debt outstanding on them. For example this has resulted in a loss of £3,800 to the council on the sale of a £60,000 flat which was sold with the maximum 70 per cent discount.

Enabling councils to retain 100 per cent of Right to Buy receipts by default and removing the restrictive HCA agreements currently in place would enable councils to reinvest in replacement homes at a greater scale.

For example, if Stroud Council was able to keep 100 per cent of its Right to Buy receipts without the current HCA constraints it would be able to increase its build programme to 194 new homes.

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