VALUE FOR THE TAXPAYER,
HOMES PEOPLE CAN AFFORD

Public investment in new housing

Spending Review 2015 submission

National Federation of ALMOs
championing better homes and communities

SHOUT
SOCIAL HOUSING UNDER THREAT

TPAS THE TENANT EMPOWERMENT ORGANISATION

August 2015

Value for the Taxpayer, Homes people can afford: public investment in new housing

Summary

This submission draws on independent research by international economics consultancy Capital Economics, commissioned by the National Federation of ALMOs and SHOUT, published in June 2015.[1]

The supply and affordability of housing is a central issue for the Spending Review, both because of the cost to the welfare system of supporting low income households in private rented housing, and because persistent low levels of housing development have adverse macro- and micro-economic consequences.

Recent decades have seen a shift in the tenure mix, with growth in private renting (and recently renting at Affordable Rents) substituting for renting at traditional social levels. Along with barriers to home ownership increasing because of rising prices and more cautious lending criteria, this has led to a rapid increase in the proportion of under 35s renting, of the numbers of households spending more than 35 per cent of their income on rent, and higher expenditure on private sector housing benefit paid to working households. Working household HB claims have doubled over the last six years, through a phase of static or increasing employment.

Capital's research projects that, unless policy changes to prevent it, the cost to the welfare system of high housing costs in the private sector will more than quadruple in real terms over the OBR's long term forecast period.

Direct help for first time buyers, planning reform, and the deployment of public sector land all have important parts to play in increasing supply and making homes more affordable. However, recent and longer run trends in home building suggest that, by themselves, such interventions are, at best, unlikely to cause development to increase significantly from the very low levels of recent years.

We therefore argue that large scale public intervention in financing new supply (we suggest building up steadily from current levels to 100,000 by 2020-21) must be part of the policy mix if home building is to reach the 200-250,000 a year widely agreed to be needed to keep pace with household growth. New homes at genuinely affordable rents would lower the cost to the welfare system of supporting households who, for the time being at least, are not in a position to buy. They would also, however, help to increase owner-occupation by enabling renting households to save, and through Right to Buy or formal rent-to-buy schemes. Such a policy would produce significant benefits to PSBR (over 5 per cent of GDP by 2065-66) and PSND over the coming decades, as well as wider economic and social benefits. Capital's view is that meeting the initial cost through public investment would be viewed favourably by the markets. However, there are ways it could be financed without adding to public spending. In keeping with the Government's ambitions for devolution, the leadership and implementation of such a programme could be devolved to city regions and other combined authority areas. That would be a good way of ensuring that the necessary mix of interventions are put in place by landlords, councils and others to ensure low income and vulnerable households are supported to improve their opportunities and quality of life.

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[1] *Building New Social Rent Homes: an Economic Appraisal,* Capital Economics for NFA and SHOUT, June 2015 http://d3n8a8pro7vhmx.cloudfront.net/themes/5417d73201925b2f58000001/attachments/original/1434463838/Building_New_Social_Rent_Homes.pdf?1434463838

1. Introduction

This is a joint submission by three housing organisations, arguing the case for public or publicly-sponsored direct state investment in new housing.

The **National Federation of ALMOs** (www.almos.org.uk) is the trade body representing 41 Arm's Length Management Organisations (ALMOs) managing 570,000 homes. The NFA represents the interests of ALMOs at national level. In addition to lobbying and negotiating with central government on behalf of ALMOs, the NFA runs a website, organises events, regional meetings and an annual conference for its members as well as providing advice, training and briefings.

SHOUT (www.4socialhousing.co.uk) is a volunteer-run campaign making the case for investment in genuinely affordable homes and demonstrating the positive effects that such housing has on people and communities.

TPAS (www.tpas.org.uk) is a member organisation made up of tenants' groups and social housing landlords, whose aim is to extend the reach and quality of tenant influence by working with social housing residents and landlords to develop successful partnerships and supporting tenants and community groups to take on a more representative role.

The **Placeshapers** group of housing associations (www.placeshapers.org) also supports the analysis and proposals in the submission.

The three author organisations and Placeshapers between them speak for around 150 landlord organisations managing over 1¼ million homes, and millions of people living in social rented housing.

The submission draws significantly on an independent analysis commissioned by SHOUT and NFA, *Building New Social Rent Homes: an Economic Appraisal* by the leading economic research company Capital Economics, published in June 2015.[2]

We trust that our evidence and arguments will assist with the Spending Review process. We would be happy to provide any further information. Please contact Martin Wheatley, SHOUT, (martinwheatley10@virginmedia.com, 07722 997246) to arrange this. NFA will, in addition, be making their own separate submission covering other housing issues of concern to them.

2. Why housing matters for the Spending Review

Housing is central both to the core Spending Review objective of "A country which lives within its means", and to the other important theme described in the Spending Review document of promoting growth and productivity. The Government clearly recognises that housing is a key economic and social challenge: as the Treasury's *Fixing the Foundations* document says: *"The UK has been incapable of building enough homes to keep up with growing demand. This harms productivity and restricts labour market flexibility, and it frustrates the ambitions of thousands of people who would like to own their own home."*[3] Our core proposition, a commitment to a long term government-sponsored programme of developing 100,000 new units a year of housing at genuinely affordable rents, alongside other tenures, would:

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[2] ibid

[3] *Fixing the foundations: Creating a more prosperous nation*, HM Treasury, July 2015, p11

- bring down the cost to government of supporting low-income households;
- address the under-supply of housing which has been so resistant to other policy approaches;
- via Right to Buy or formal rent to buy schemes, offer a pathway towards home ownership;
- help address pressures on public services, notably health and social care.

3. Current policy of increasing reliance on private rented sector and Affordable Rent social housing is not "fiscally sustainable and economically efficient"

Tenure mix: home ownership and renting

As a group of organisations, we support the Government's desire to ensure that as many households as possible can access home ownership. In section 4 below, we suggest some ways that increasing the stock of genuinely affordable rental housing could play a part in that. However, the analysis of spending options also needs to recognise that, for the foreseeable future at least, for many households, those in work as well as those who are not working, incomes are not high enough either to buy, or to rent privately without support through the welfare system. In some cases, this is permanent: notably low-income retired people and sick and disabled people whose conditions restrict their earnings, or prevent them from to working at all. In other cases, particularly working age households, there may be a reasonable expectation that incomes could improve at some point in the future, but they are indisputably not in a position to enter owner-occupation in the short term.

Costs to welfare of private, social and Affordable rents

Such households currently live both in housing owned by social landlords, normally at significantly sub-market rents, and in the private rented sector, in most parts of the country at significantly higher rents. Despite Local Housing Allowance rates constraining the levels of private rent which can be supported through housing benefit, the cost to the welfare system of supporting a household renting privately is almost always greater than supporting a similar household in sub-market social landlord accommodation. Annex A, based on analysis in *Building New Social Rent Homes*, compares the costs to the welfare system of supporting a number of different household types in different locations in private sector housing and social rented housing. In 31 of the 36 cases, benefit spending is higher in the private rented sector than in social rented housing, in 14 cases by more than 20 per cent, and in four cases by more than 50%.

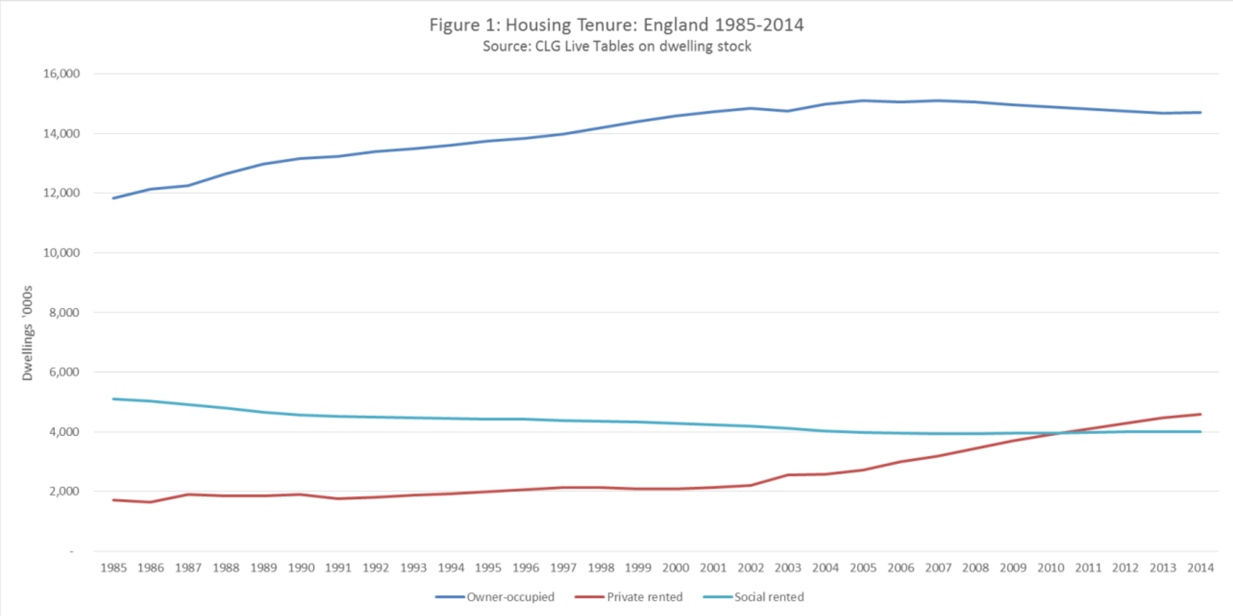
Under the 2011-2015 Affordable Homes Programme, most new social landlord homes are being provided at Affordable Rents, up to 80% of local market rates. Existing social rent properties which become void are also, in some cases, being converted to Affordable Rent. Analysis in *Building New Social Rent Homes* shows that, in 21 out of 36 cases, the cost to the welfare system of Affordable Rent is higher than social rent, by up to 80 per cent.[4]

The changing tenure mix

As Figure 1 shows, the stock of social rented homes has been declining for over 30 years, the stock in 2014 being 20% lower than that in 1985. While the number of homes rented from social landlords has stabilised since 2008, an increasing proportion of those will be at Affordable, rather than traditional social, rents. Owner-occupation has also been declining since 2007. Ever greater

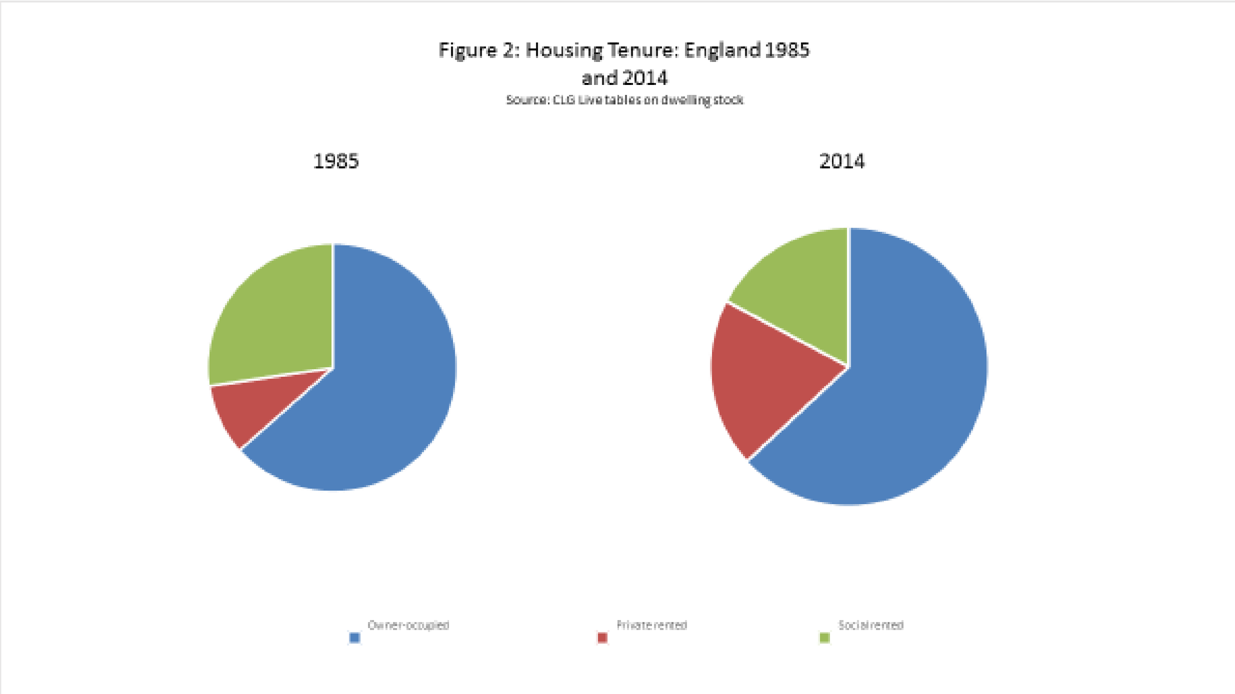
[4] *Building New Social Rent Homes: an Economic Appraisal*, Capital Economics, June 2015, p48-52

numbers of the increasing total number of households have therefore been living in private rented housing, with 4.6 million households renting privately in 2014, an increase of 170% from the 1.7 million renting privately in 1985.



As Figure 2 shows, while the proportion of homes which are owner-occupied is roughly the same as 30 years ago, private renting has substituted for the declining number of social rented properties. In 1985, a quarter of renting households were in the private sector, in 2014, 53 per cent.

It

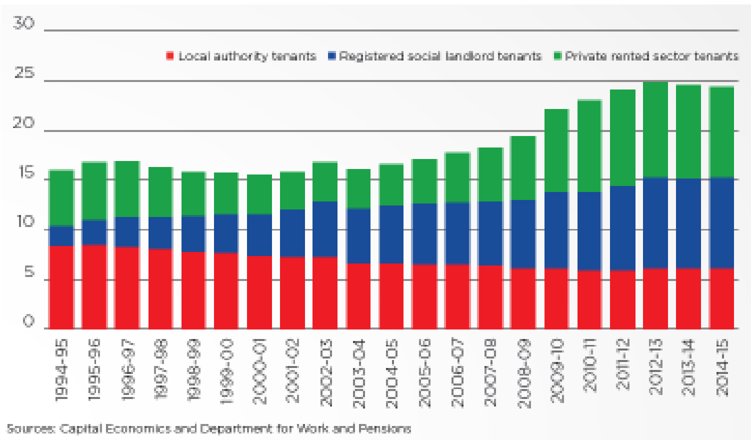


The consequences for middle to low income households of this significant and rapid tenure shift is explored in analysis by the Resolution Foundation,[5] which concludes, that 1.3 million low/middle income households face housing costs more than 35 per cent of household income – nearly all of them private renters or owner-occupiers. Over the last 10 years, the proportion of people under 35 renting privately has increased from under 30 per cent to over 50 per cent, while the proportion in social rented housing has declined slightly. In half of local authorities, a couple with one child, earning £19,000 a year, and living in a two bed home would face housing costs more than 35 per cent of household income. In a third of local authorities, a couple earning £22,000 a year would face similar excess housing costs. In 16 per cent of local authorities, even a couple earning £28,000 a year would face similar excess housing costs. (This analysis was carried out on 2011 data, and the subsequent stagnation in earnings relative to rents is likely to have worsened the position.) Over the last five years, the number of households accepted as homeless because of the breakdown of a private sector tenancy has more than tripled, accounting for two third of the rise in homelessness over that period[6].

Consequences for welfare spending

So it is no surprise that there has been a significant increase in housing benefit caseload and spending. Figure 3 shows that housing benefit paid in private sector housing has nearly doubled <u>in real terms</u> in the last 10 years, and now accounts for over 37 per cent of housing benefit spend.

Figure 3: Real government expenditure on housing benefit in the United Kingdom, £ billions (2014-15 prices)



The increase in private sector HB is not the consequence of higher unemployment. As Figure 4 shows, the number of <u>working</u> households claiming HB in the private sector has risen over the last 6 years, at the same time as unemployment has changed little (to 2013) and then started to decline steeply (as have non-working household private sector HB claims). **The number of such households**

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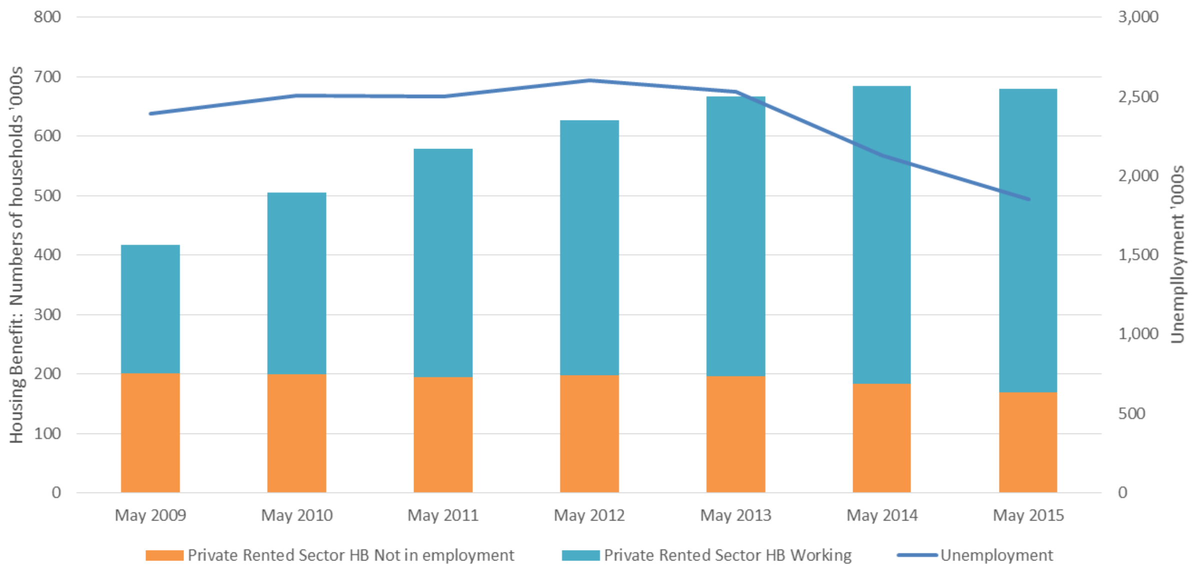
[5] *Home Truths: How affordable is housing for Britain's ordinary working families?* Resolution Foundation, July 2013

[6] CLG *Homelessness Statistics*

has well over doubled in just 6 years, from 217,000 to 511,000**, an annual average rate of over 15%.** This is despite restrictions in entitlement, notably the reduction in Local Housing Allowance rates from the median rent in the locality to the 30th percentile in 2011. **It is therefore clear that the increase in private sector HB caseload is driven by larger numbers of low-income households, most of them working, living in more expensive private rented sector housing**.

Figure 4: Households claiming private sector HB and unemployment: 2009-2015

Sources: DWP and ONS



The increase in private sector housing benefit among working households has adverse social and economic consequences beyond the impact on welfare spending. Households in receipt of income-related benefits normally face very high marginal deduction rates. These can currently be up to 100 per cent in extreme cases. Under Universal Credit, the very highest such rates will be eliminated, but most claiming households will still be subject to deduction rates of over 70 per cent.[7] This has an adverse impact on work incentives, and is inconsistent with the Government's correct ambition that aspiration and working harder should be rewarded.

Future trends

Without policy interventions to alter recent trends significantly, it seems likely that:

- the mix in rental tenures will continue to shift away from social landlords (especially stock let at social rent) and towards private landlords;
- as a result, the number of private renting households claiming benefit will continue to increase in absolute terms, and will account for a higher proportion of housing benefit caseload. On the trend of recent years, even further employment growth will not lead to a reduction in caseloads and spending;
- the change in the tenure mix of the caseload will continue to lead to large real terms increases in expenditure on housing benefit.

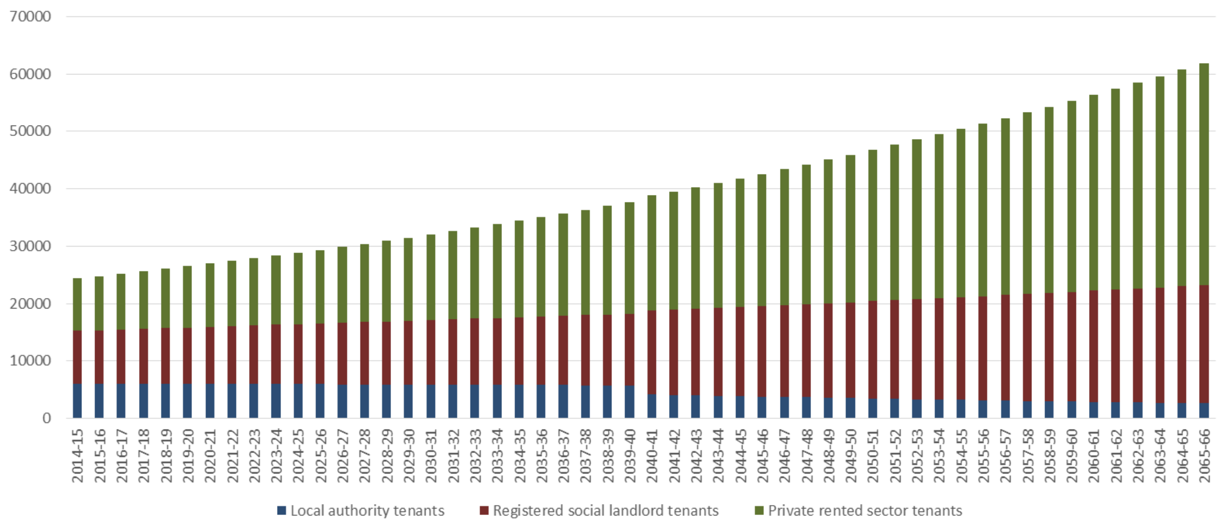
Some components of the current policy mix risk accelerating these trends. Even if timely one for one replacement of housing association properties newly subject to Right to Buy, and of the higher

[7] *Universal Credit: a policy under review*, Resolution Foundation, August 2014, p19.

value council homes sold to fund that, is actually achieved, the tenure mix will change in a way which adds to welfare costs because the Government proposes the replacement units will be at Affordable Rent. If one for one replacement is not, in practice, achieved, the outcome for welfare spending will be even worse, as the number of social rent units, and rented sector units of all tenures (depending on the extent to which Right to Buy properties cycle back into renting) will decline further.

Capital Economics' analysis for *Building New Social Rent Homes* includes illustrative projections of the impact on housing benefit spending of a continuation in recent trends, assuming there are no policy changes to alter them. As Figure 5 shows, spending on housing benefit is set to increase steadily and significantly, to nearly £62bn a year at today's prices by the end of the OBR's long term review period in 2065-66. The private sector component is the driver of this growth, more than quadrupling to £38bn at today's prices. Even during the lifetime of the current Parliament, expenditure on private sector HB is set to rise by over £2.8bn in cash terms. Capital describe this as "fiscal myopia."[8]

Figure 5: Expenditure on housing benefit assuming continuation of last parliament's trends, £ billions (2014-15 prices*)



*GDP deflator assumption 2.3% (as OBR *Fiscal Sustainability Report 2015)*

Policy options

Help to Buy, Starter Homes, and other policies which are being implemented to improve the affordability of owner-occupation, will assist some households currently renting into owner-occupation. However, the numbers they will help under current plans (200,000 for starter homes) are modest compared with the number of private renting households (4.7 million and rising). However, even if such programmes were to be extended programmes offer, housing affordability has worsened so far that owner-occupation is not affordable at the lower end of the income distribution. In just 18 out of England's 326 districts is a lower quartile home affordable to a household with one person on lower quartile earnings.[9] While many households' earnings are dynamic, and may increase over the course of a few years to the point where owner-occupation is

[8] *Building New Social Rent Homes: an Economic Appraisal*, Capital Economics, June 2015, p5

[9] *Live Tables on housing market and house prices, CLG, Table 576;* affordability defined by methodology in *How much of the housing market is affordable? Analysis of homes for sale*, Shelter, June 2014

affordable, there are significant numbers of working age households for which that will not happen, including disabled people and those with caring responsibilities who cannot work more than part time, and even full time workers who do not find opportunities to increase their earnings.

Accepting that renting is the only accessible option for a substantial proportion of households in the short to medium term, there are a number of possible ways of reducing the expenditure implications of these trends:

- reducing welfare entitlement. In addition to the reduction in local housing allowance rates and other changes made during the 2010-15 Government, the July 2015 Budget includes further restrictions, notably a freeze in LHA rates, a reduction in the benefit cap and removing young people's entitlements completely. However, the rise in spending over the last five years shows that even significant changes in entitlement are more than outweighed by the consequences of the changing tenure shift and rising rents. We estimate that the Budget 2015 reductions in entitlement will, roughly, save only the amount by which underlying expenditure on private sector housing benefit will rise. Further restrictions in entitlement may prove extremely difficult to achieve without unacceptable impacts on social justice, rising homelessness and increasing numbers of households living in unacceptable conditions, and perverse upward pressures on public services, notably on councils' homelessness functions;
- curtailing private sector rents through direct regulation. The current Government has, however, made clear that it does not consider this to be a workable approach;
- enabling private sector development, especially of units for rent, at a scale which makes a real impact on supply, and hence rents. As we explore further in section 5 below, however, policy experience of recent decades suggests it would be extremely challenging to design and implement a set of policies to achieve this.

At best, these options appear only to offer a partial answer to the fiscal and economic risks associated with the current policy mix. We argue, therefore, that a programme of investment in housing at genuinely affordable rents would offer "a solution that is fiscally sustainable and economically efficient."[10] Section 5 explores the spending implications of such a programme further.

4. Growth and productivity: housing supply is a key economic weakness

Housing development and the economy

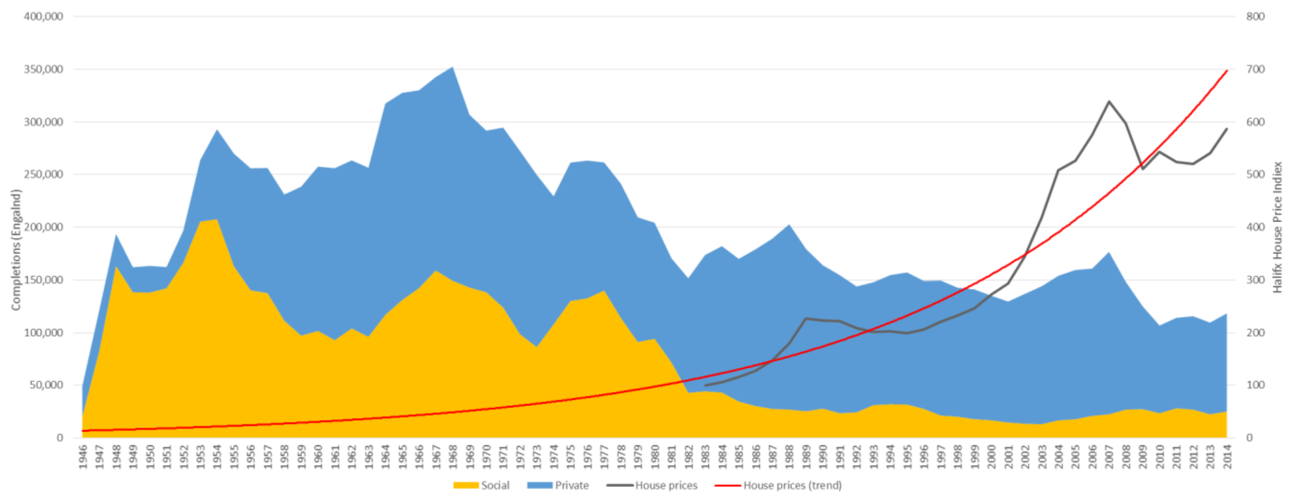
There is a very widespread consensus that the persistent failure of new housing development in the UK to match the increasing number of households is a very significant economic weakness, and risk to economic stability. Figure 5 shows that, since 1945, there have been two main phases: from the late 1940s to the late 1970s, when typically 2-300,000 new homes were built a year, with very high levels of both private and social development; and the period since. In the last 30 years, new housing development has averaged less than 150,000 a year, less than 60% of the 1948-1978 average. In the last 15 years, it has been lower still, around 136,000 a year. There is a very strong consensus that the level needed to match the increase in the number of households is between 200,000 and 250,000 a year. The difference between the two phases is principally caused by the fall

[10] *Building New Social Rent Homes: an Economic Appraisal*, Capital Economics, June 2015, p5

in new social housing building from 140,000 units in 1977 to levels which have ranged between 13,000 and 32,000 since 1985.[11]

Figure 5 also shows house price increases over the same period. Price increases have accelerated as the trend in completions has fallen. There is no sign of the market responding effectively in line with normal expectations of the impact of a price increase on supply. Indeed, if anything, private sector completions have slowed down at the same time as the trend rate of price increases has accelerated. Average completions in the 15 years 2000-14 were 115,000 a year, 15 per cent below the average for 1985-1999.

Figure 6: Housing Completions (England) and house prices
Sources: CLG and Halifax



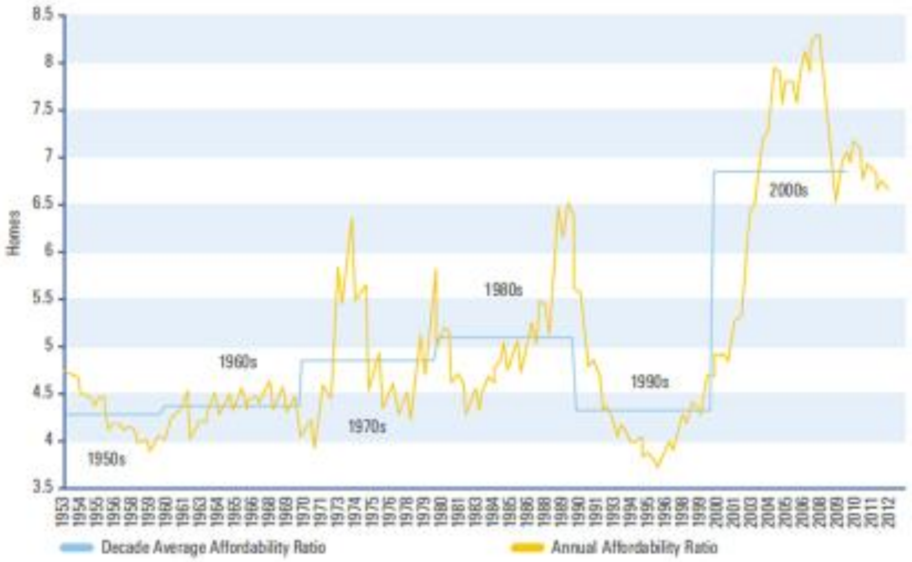
The consequences of these trends for the economy and society are very extensive and significant, in addition to the higher levels of private renting and pressure on welfare spending described in section 3 above:

- affordability of homes for purchase has worsened, particularly so in the last 15 years. Figure 7 shows that, subject to short term cyclical fluctuations, the ratio of prices to average earnings is over 50% higher than in the previous peak of the late 1980s;
- personal debt is increasing: national total personal debt levels now stand at £1.4 trillion or £53,000 per household, almost double the levels of a decade earlier and well above total government debt;[12]
- buying a home increasingly relies on the 'Bank of Mum and Dad', with nearly two thirds of first time buyers in 2011 depending on such assistance, compared with a third in 2005.[13] Affordability increasingly depending on the chance of access to family wealth undermines social mobility and decouples access to home ownership from hard work and success;

[11] Figures in this section are England-only
[12] *Building the homes we need: A programme for the 2015 government*, KPMG, in partnership with Shelter, 2014, p24
[13] ibid, p24

- home ownership rates among younger people are declining steeply, with home ownership among 25 to 34 year olds declining from over 70 per cent to around 40 per cent in the 20 years to 2012;[14]
- pension saving is likely to fall with consequences for future pensioner poverty and dependency on benefits, since private renting is strongly correlated with not making provision for a pension.[15]

Figure 7: Affordability ratio as a proportion of gross nominal salary 1953 – 2012
Source: KPMG, based on CLG*



* In *Building the homes we need: A programme for the 2015 government*, KPMG, in partnership with Shelter, 2014

Most seriously of all, the increasing volatility associated with the increase in trend house price growth is a clear risk to macro-economic stability and, alongside the growth in lending to households for house purchase, to the stability of UK financial institutions also.

Looking ahead, there are downside risks to the volume of housing development, especially a further decline in social landlords' building: OBR suggest that the change in the social rent assumption announced in the Budget will reduce social landlords' output by 14,000 units, with sector bodies suggesting a greater impact.[16] Although it is the intention that the extension of Right to Buy to housing association properties and the sale of higher value council properties should increase supply through the replacement of units sold, experience since 2012 suggests that one for one replacement is extremely difficult to achieve in practice.

Policy response

Over the last 15 years, governments have tried to intervene via: changes to the planning system, to make it speedier and more effective, and reduce the impact of regulation and planning contributions on developers: through attempting to secure the release of more public land, by promoting larger

[14] ibid, p25
[15] ibid, p30
[16] The National Housing Federation suggests 17,000: *Briefing: Summer Budget 2015*, p5 http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Summer_Budget_2015_-_Member_Briefing.pdf

and smaller areas for housing growth, and by supporting both developers and buyers in the private market. So far at least, these interventions have not succeeded in shifting the trajectory of development significantly towards the 200,000 or more new units required a year in England. All are subject to risks and countervailing pressures:

- proposals to liberalise planning, and specifically to ensure that local plans make greater provision for housing, and schemes make it through the planning process more speedily, are in tension with other policy aspirations to increase the autonomy of local councils and communities, and have repeatedly run into well-orchestrated opposition from opponents of development outside existing urban areas. Planning permission is also a necessary, but not sufficient, condition for development. A 2013 Local Government Association analysis found that 400,000 permissions had not been implemented[17];
- so far, and despite repeated attempts, no government has found a fully effective way to put into practice the apparently common sense proposition that more public sector land should be made available for housing, and that public bodies should co-operate better over the management and disposal of their land;
- subsidies for buyers, especially when the supply side remains very weak, risk helping to drive up prices, rather than stimulate new supply.

Against this background, and in the light of the way policy in earlier decades brought about sustained very high levels of development across all tenures, it is surely time to consider whether a resumption of direct government intervention, through funding or guaranteeing the construction of new housing, is an essential element of an effective policy response to the risks created by low levels of housing development.

5. Building new genuinely affordable housing: benefits and costs

The proposal and assumptions

Building New Social Rent Homes models and costs a programme of new development building up from current levels to 100,000 from 2020-21. On this basis, it would deliver approximately 270,000 new homes in the five years to 2019-20

Modelled policy: key assumptions[18]

Of 100,000 new units:

- 3,000 delivered via planning obligations
- 12,000 self-financed by councils and ALMOs
- 12,500 delivered by councils and ALMOs with central government grant
- 72,500 delivered by housing associations with central government grant
- 80% of new properties occupied by households who would otherwise be claiming HB in private sector
- rents set according to rent formula in force in March 2015
- new homes allocated geographically according to current relative demand for housing benefit
- underlying economic assumptions (short term) OBR March 2015 and (long term) OBR July 2014

[17] *An analysis of unimplemented planning permissions for residential dwellings 2013,* LGA, 2013
[18] *Building New Social Rent Homes*, p32-34

Capital Economics judge that a steady build-up to this level would be reasonable, bearing in mind the lead times for development and for the necessary expansion of supply chains and labour supply.[19] We would add that any policy commitment of this kind would need to be supported by:

- a robust delivery plan, including such issues as maintaining land supply, and ensuring sufficient vocational training for the construction sector;
- ensuring that responsibility for delivery is clear, and those responsible have the powers and capability to make it happen. A strong option, in areas where devolution to combined authorities takes place, would be to make delivery part of the role of the combined authority, building on the model of the devolved arrangements already in place in London, and agreed for Greater Manchester.

Capital's analysis is also based on extremely cautious assumptions. It would have been possible, for example, to make higher assumptions about delivery via developer contributions, or the provision of land at less than full market cost.

Direct benefits and costs

The weighted average scheme viability is shown in Figure 8 below. The NPV per new social rent unit is £68,000 (if housing a household otherwise in the private rented sector) and £55,000 (if housing a household otherwise paying Affordable Rent). Even disregarding the market value of the property at year 25, there is a small positive NPV for units housing a household otherwise in the private rented sector.

Figure 8: National weighted average of scheme viability by estimated distribution of current housing benefit claimants' bedroom requirement and location[20]

	Building new homes for social rent instead of tenant renting privately	Building new homes for social rent instead of tenant renting at affordable rent
Present value over 25 years (£ thousands); a discount rate of 3.5 per cent per annum is used for government contribution and 4.7 per cent per annum elsewhere		
Building cost (including land)	-118	-118
Government contribution	62	49
Revenue contribution from social landlords (first 25 years)	59	59
Sub-total	**3**	**-10**
Recognition of social landlords' asset value in year 25	65	65
Total	**68**	**55**

Sources: Capital Economics

The PSBR benefit or detriment of the policy is calculated as:

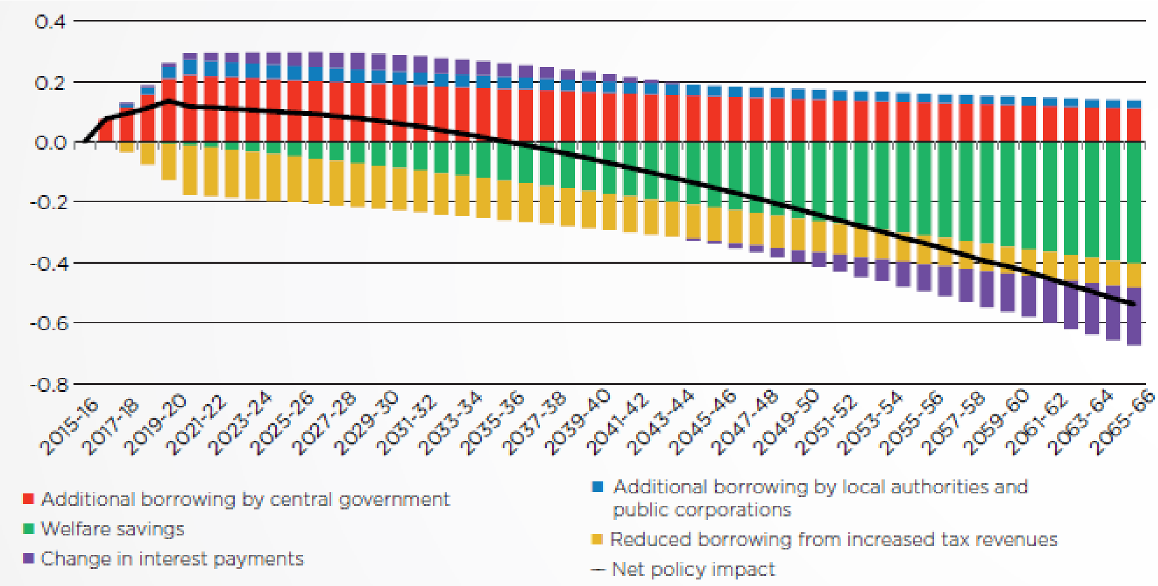
Savings in welfare expenditure + higher tax revenues from construction activity – grant aid and additional borrowing by councils

The analysis also takes account of the interest savings or costs of lower or higher government borrowing resulting from the policy.

[19] ibid, p33
[20] ibid, p34

On that basis, Figure 9 shows the impact of the proposal on the public finances. In the policy's earliest years, the additional cost of financing new units will exceed the policy's benefits, peaking at a net addition to PSBR of £2.9bn (0.13 per cent of GDP). Break-even is estimated to be reached in 2034-35. Thereafter the net benefits increase, to reach more than 0.6% of GDP by 2065-66.

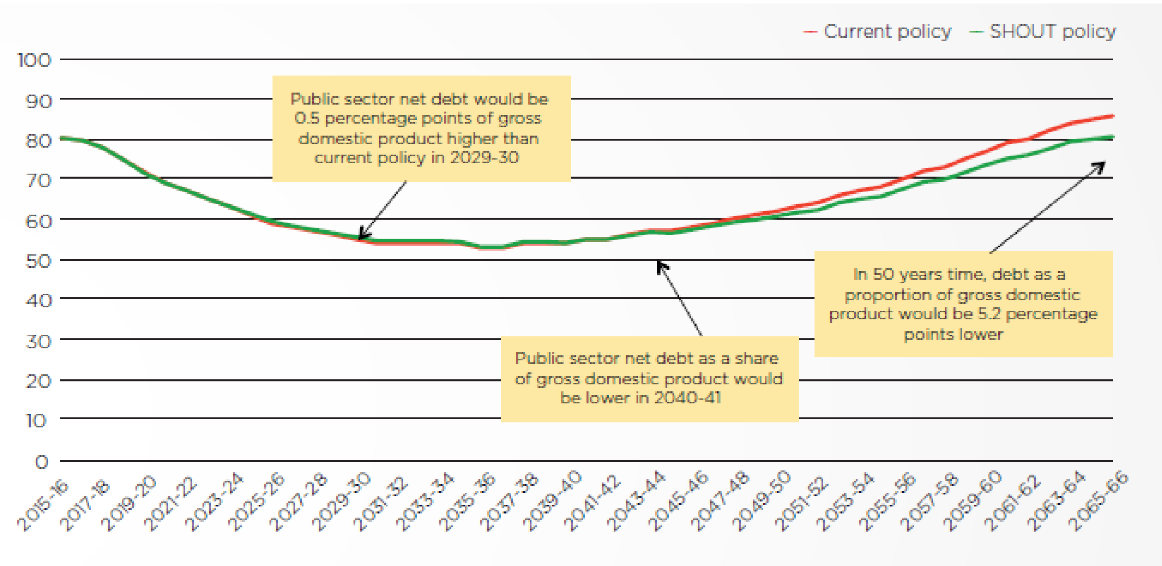
Figure 9: Impact on annual public sector net borrowing as a percentage of nominal gross domestic product



Sources: Capital Economics and Office for Budget Responsibility

Figure 10 shows the benefits to public sector net debt. The impacts are negligible in the early years of the policy. At peak, in 2030-31, net debt would be just 0.5 per cent of GDP higher; by 2065-66, it would be 5.2 per cent lower.

Figure 10: Public sector net debt as a percentage of nominal gross domestic product



Sources: Capital Economics and Office for Budget Responsibility

While there is, of course, a strong focus in the Spending Review on the next five years, it is also important for decisions to have an eye to the longer term. OBR's *Fiscal Sustainability Report* shows very clearly that the public finances face very significant risks over the next quarter century, arising from the ageing population and declining North Sea Revenues.[21] A policy approach which has such a positive net present value over the same timescale should therefore be given very serious consideration, even at a modest short term net cost.

In addition to the public sector benefits, there would be benefits to households. Capital estimate the average benefit to households at £942 a year.[22]

Wider benefits

In our view, the case for a programme of the kind we propose rests principally on the direct positive impact it would have on the public finances, and on the under-supply of housing in the economy. However, there are other significant potential benefits, for health, educational attainment, and to reduce demands on social care and health through well-designed, well-located new homes for older and working age disabled people.[23]

Risks and objections

We recognise there are a number of likely concerns about pursuing such a policy.

First, <u>it requires additional spending over the short term</u>. (Though, as we show above, the policy has very significant benefits over the next 30-50 years (and a continuation of current policy generates extremely serious costs.) We recognise this is a concern for the Treasury. Our response is as follows:

- **the impact is very modest and would be viewed by the markets much more positively than incurring a similar impact for other purpose**. The PSBR impact peaks at the end of the Spending Review period at 0.13%. While the term 'investment' is often misused in relation to the public finances, investing in new housing is among the most genuine and sustainable investments the public sector can make. Unlike other kinds of public infrastructure, homes are a tradeable asset, with an easily realisable market value. Once built, the management, maintenance and debt service associated with social homes are met via the rent which tenants pay. Capital's advice, based on their experience of the bond markets, is that additional borrowing for this purpose would be positively viewed in the City, both because of its clear benefits in terms of medium term fiscal sustainability, and because the under-supply of housing is recognised as a key economic risk;[24]
- **there are ways the policy could be implemented without any short term upward pressure on the PSBR**. There is a strong case, based on international practice, for excluding public corporations' borrowing from the target definition of PSBR. The policy case for this is the very different character of borrowing to invest in an income-generating asset with a realisable market value, as opposed to borrowing for welfare or public sector pay, or even spending on less marketable forms of infrastructure.[25] Such a reclassification would unlock the very considerable investment capacity in the balance sheets of council and ALMO landlords, enabling, on very cautious assumptions the delivery of 60,000 new homes over 5 years <u>without central government grant or any impact on target PSBR</u>. Using the full

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[21] *Fiscal Sustainability Report,* Office for Budget Responsibility, June 2015, p8-9
[22] *Building New Social Rent Homes* p37-38, including benefits in different sizes of property and location.
[23] ibid, p46; *Are housing associations ready for an ageing population? ,* Martin Wheatley, Smith Institute, 2015
[24] *Building New Social Rent Homes*, p41
[25] ibid, p41 and *Let's Get Building*, John Perry, National Federation of ALMOs, 2012

potential balance sheet capacity could enable the delivery of up to 230,000 new homes.[26] Finance for additional council or ALMO homes, and for housing association homes, could be provided through a housing investment bank partially backed by the Treasury (see Figure 11). Finance provided through such a mechanism would not impact on the PSBR.[27]

Figure 11: Funding platform to mitigate the impact of additional borrowing on public sector net debt

Source: Capital Economics

Second, it may be that current national social rent policy needs updating, for example to ensure that there is a more consistent relationship between the widely varying distribution of earnings in localities, and the rent charged for different types of social property. The modelling for *Building New Social Rent Homes* is based on the current formula. We are clear in our view that social homes should be genuinely affordable to people earning towards the lower end of the local range. However, we see considerable merits in the 'Living Rents' proposals recently proposed by Savills, in association with the Joseph Rowntree Foundation and National Housing Federation.[28]

Third, some see the lifetime tenancies (with succession in some cases) which have been standard in social housing as resulting in a sub-optimal match between properties and those most in need. While we see the force of this argument, there are clearly many households in social housing (including lower-income older people, and people who are long-term disabled) for whom a lifetime tenancy is appropriate. However, like rent policy, there is room for debate about the extent to which lifetime tenancies are the most appropriate offer for other types of household.

Fourth, focusing investment on low-rent housing may seem counter to the high priority Government attaches to increasing owner-occupation. We explain earlier in this submission why, in our view, a strong set of policies addressing the high cost of rental housing is also vital (and should be put in place alongside policies supporting owner-occupation). In addition, investment in rental housing can support owner-occupation in two ways:

- rents below current, often cripplingly high, market rents, should enable more households to save so they are in a position to fund a deposit on house purchase;
- via Right to Buy, households can start out renting and then progress into owner-occupation;

[26] *Let's Get Building*, p19-20
[27] *Building New Social Rent Homes*, p42 and *Increasing Investment in Affordable Housing*, Capital Economics, 2014
[28] *Living Rents – a new development framework for Affordable Housing*, Mark Lupton and Helen Collins, Savills, June 2015

- it would be possible for a proportion of the investment we propose to be channelled into formal rent to buy schemes along the lines of Gentoo's Genie scheme,[29] provided that they are structured in a way which enables the developer to replace sold properties.

Moreover, there is no reason why the economy and policy cannot support high levels of development across all tenures. As section 4 of this submission demonstrates, the high levels of government-supported investment in housing between the 1940s and 1970s were delivered alongside much higher levels of private building than currently. Housing associations and councils have a track record of delivering a mix of tenures, through mixed-tenure developments and joint ventures. It is likely that a viable approach to delivery would involve similar mixed tenure development, which we would support, because it leads to balanced, sustainable, communities. Much higher levels of housing development across tenures should trigger improvements in productivity across the whole construction industry, by offering greater scale for new technologies to be used, training and apprenticeships to be properly supported and financed, and new ideas to be tested.

Fifth, <u>there is a concern about the association between social housing tenure and a range of poor outcomes for households</u>. It is very difficult to disentangle cause and effect, the scarcity of social housing in recent decades having resulted in allocation decisions which mean a very high proportion of new lets are to vulnerable households. However, the organisations which are party to this submission see it as a vital part of the social landlord role to promote opportunity and aspiration. We would welcome a discussion with national and local government, and others, about how a large-scale programme of development can be managed alongside programmes, involving landlords and other local partners, to support residents into work, to promote learning for all ages, and to overcome poor health and other barriers to full participation in society. The Government's intention for significant devolution to some local areas at least would provide a good context for the development of effective local strategies and service provision for overcoming entrenched vulnerability and lack of opportunity. A stable (if not permanent) tenancy with a reliable professional landlord, at a genuinely affordable rent, means vulnerable people can focus on improving their lives without the distraction of facing frequent moves, living in poorly maintained properties, or seeing increased income swallowed up in high benefit withdrawal rates.

Sixth, <u>how well does a national programme of investment of this kind fit with the strong emphasis on devolution</u> in the Government's current strategy and the Spending Review framework? *Building New Social Rent Homes* attempts an illustrative analysis of the benefits and costs of large scale public investment in social housing. It does not get into questions of delivery, and should certainly not be read as implying that delivery should be highly centralised. While the consequences of housing under-supply affect almost all parts of the country, the scale and nature of the challenge varies from place to place. It would also be vital for decisions on the location and type of new housing to reflect the understanding of local housing and labour markets of employers, private and social developers and councils. We note that, when publicly-funded investment in housing on this scale was previously undertaken, it was largely delivered by local government, within a national policy framework. Housing investment and delivery has already been devolved to the London Mayor, and the Greater Manchester devolution proposals also include more control over housing investment. The self-financing reforms to council housing finance which took effect in 2012 were also an important devolutionary reform, and (if councils were to be allowed to borrow up to prudent levels against the value of their existing stock) would provide one important mechanism through

[29] http://www.ownageniehome.co.uk/what_is_genie

which new supply could be delivered. Other mechanisms discussed in this submission (like a housing investment bank) could potentially be delivered independently in devolved local areas, if central government were prepared to permit it.

Annex A

Benefits payable to example households in social rented and private housing

Drawn from *Building New Social Rent Homes: an Economic Appraisal*, p48-52, which gives complete details of each example.

Analysis completed before July 2015 Budget. Does not therefore take account of proposed reductions in entitlement, notably reduced Overall Benefit Cap. Households which could be subject to the reduced cap shown with pink shading.

	Household type	**Household income (per year)**	**Benefits at social rent (per week)**	**Benefits at private rent (per week)**	**Additional benefits cost for private rent***
Camden	Single, 2 children	£0	£392.04	£518.30	32.2%
	Single	£6000	£129.08	£249.26	93.1%
	Couple 1 child	£12000	£230.57	£384.18	66.6%
	Couple, retired	£3000	£333.62	£453.80	36.0%
Brent	Single, 1 child	£12000	£194.34	£299.17	53.9%
	Single	£0	£205.89	£179.01	-9.8%
	Couple, 3 children	£6000	£384.93	£520.83	35.3%
	Single, retired	£0	£288.62	£360.61	24.9%
Milton Keynes	Single, 2 children	£12000	£281.27	£336.63	19.0%
	Single, 1 child	£6000	£249.14	£304.50	21.4%
	Couple	£0	£222.11	£253.72	14.2%
	Couple, retired	£0	£342.53	£374.14	9.2%
North Devon	Single	£6000	£67.88	£49.49	27.1%
	Single, 1 child	£12000	£194.34	£201.91	3.9%
	Couple, 2 children	£0	£380	£425.33	14.6%
	Single, retired	£3000	£199.04	£209.46	5.2%
Leeds	Single, 3 children	£6000	£453.91	£510.95	12.6%
	Single	£0	£161.56	£152.85	-5.4%
	Couple, 1 child	£12000	£176.84	£204.21	15.5%
	Couple, retired	£3000	£272.99	£293.68	7.6%
Allerdale	Single	£12000	£53.33	£53.33	-
	Single, 2 children	£6000	£351.95	£55.82	1.1%
	Couple, 1 child	£0	£308.40	£312.27	1.3%
	Single, retired	£0	£253.56	£247.01	-2.6%
Oxford	Single	£6000	£97.43	£152.31	56.3%
	Couple, 1 child	£0	£335.16	£417.14	24.5%
	Couple, 4 children	£12000	£440.51	£616.25	28.5%
	Single, retired	£3000	£222.62	£277.50	24.7%
Leicester	Couple, 3 children	£12000	£329.79	£356.08	8.0%
	Single	£0	£169.50	£151.15	-10.8%
	Single, 1 child	£6000	£245.73	£246.25	0.2%
	Couple, retired	£0	£337.92	£340.22	0.7%
Gateshead	Single	£6000	£62.38	£78.39	25.7%
	Single, 2 children	£0	£325.24	£347.23	6.3%
	Couple, 1 child	£12000	£244.04	£260.80	6.4%
	Couple, retired	£0	£326.69	£342.70	4.9%