INTA: COMMUNITY OF COMPETENCE TOMORROW's HABITAT
Thematic axis 1: housing

INFORMATION NOTE: HOUSING IN ENGLAND

Introduction and Summary

This note outlines, for the Community of Competence, the housing situation in England, focusing on the significant changes to social housing policy, which are taking place and the challenges facing the providers of affordable homes, especially housing associations (housing corporations).

Many of the issues around housing in England arise from the fact that there is an acute shortage of homes across the country especially, but not exclusively, in the southeast and London. Recent reforms of the planning system, removing top down housing supply targets, implementing neighbourhood-led planning, whilst providing financial incentives to local authorities to approve new development are too new to assess their impact. The long-term issue of housing shortage has been overlain recently, however, by the recession and by major changes in Government policy.

England has a subsidy system, which supports both the land and build costs of social homes as well as the rent paid by a low income tenant. The weight now increasingly is being placed on the personal subsidy, raising the risks to a developing housing association but reducing the gap between those renting in the social and private sector. However, steps to reduce benefit levels are likely to put increased pressure on the income of many providers. Meanwhile, for housing associations, the traditional form of long term borrowing from the banks has almost dried up, forcing associations to explore alternative sources of finance.

The challenge confronting social housing policy makers as well as providers in England is the same as that facing the whole of Europe, namely how to do more with less. Associations are responding by implementing various efficiency measures, including mergers and stock rationalisation.

On the other side of the coin the pressure on the poorest individuals and on the most deprived communities is forcing associations to review the services that they provide. Often they are the only reasonably prosperous organisation in the neighbourhood. Many are extending the nature of their services to tenants and to communities. The latter in particular requires a close involvement with the local authority which some associations are not well organised to achieve.

There is, inevitably, a tension between the drive for economies of scale and the need to be locally responsive. It is likely that, over the next decade, there will be an increasing restructuring of the sector as it stratifies into the larger national and regional associations at one extreme and the concentrated associations with strong local links at the other. Whichever route an association adopts it will become increasingly answerable to its tenants and to its communities.

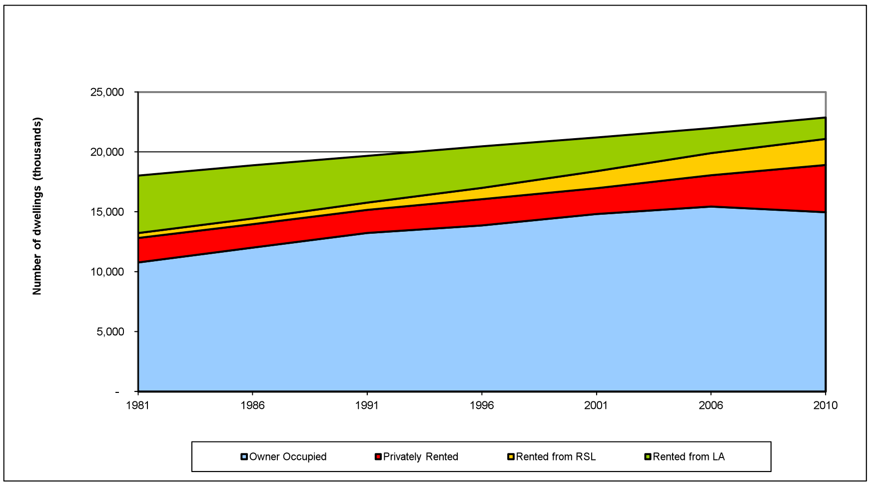
Context

England has 22.8 million dwellings. Of these about 14.8 million (65%) are owner occupied, 4 million (18%) are privately rented, 2.2 million (10%) are rented from housing associations (often termed 'housing corporations') and 1.7million (7%) are rented from local authorities. Owner-occupiers include those who are purchasing their homes on a shared ownership basis. Under this arrangement the housing association or developer retains a part of the equity of the home and the owner takes the rest. Over time, as money becomes available, the owner can increase his or her proportion by 'staircasing up'.

England has one of the oldest housing stocks in Western Europe: 4.8 million of the homes were built before 1919. Demolition rates are low but rates of refurbishment high. Under the Climate Change Act of 2008 CO2 emissions from housing must be reduced by 80% over 1990 levels by 2050.

Over the past four years, for the first time in over half a century, the percentage of owner-occupiers (shaded blue in the chart below) has fallen as families have difficulty financing their mortgage and young people struggle to raise the increased deposit now required by the banks. As a result the average age of owner-occupiers has risen and is now forty-two. The stock in the private rented sector (shaded red) has correspondingly increased. The proportion of social housing has remained fairly constant at about 17%, The share of Local Authority stock (shaded green), often managed through an Arms Length Management Company (ALMO), has declined since the late 1970s. This is due largely to transfers of their stock to housing associations (shaded yellow) and to tenants exercising their right to buy.

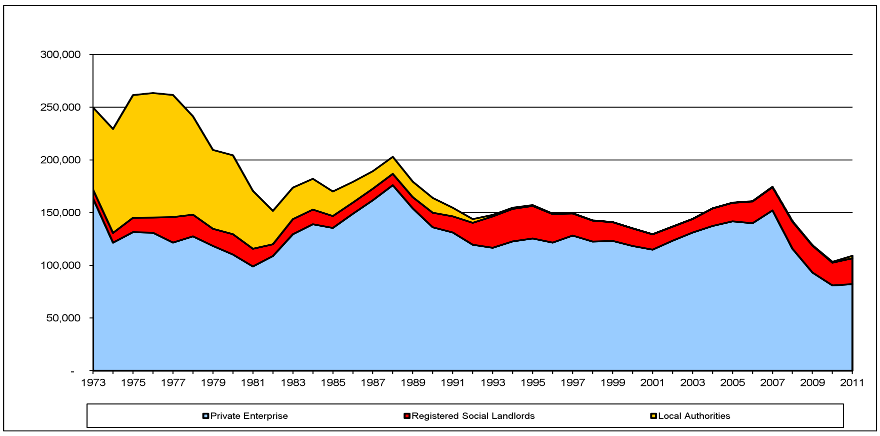
Number of dwellings in England by tenure: 1981 - 2010
(thousands)



Development

The provision of new housing has been inadequate over many decades. To accommodate the steadily increasing number of households in England experts estimate that between 200,000 and 300,000 homes need to be added to the stock each year. This level was last achieved in the 1970s, due mainly to large number of new home (about 100,000 pa), provided by local authorities (shaded yellow in the chart below). Following a cap on local authority borrowing, imposed in the 1980s, local authorities now scarcely build at all, only 1550 homes last year.

Dwellings completed in England by tenure
1973 - 2011



In spite of the best efforts of various governments, the level of private house building (shaded blue) has remained stubbornly around 150,000 a year for about forty years. Due to lack of demand in the recession it has, however, fallen dramatically to about 82,000 in 2011. Meanwhile, the level of new housing provided by housing associations (shaded red) has remained fairly constant at about 25,000 a year.

Housing associations, as elsewhere in Europe, buy and develop land on their own account. In addition, many local authorities are now stitching together the sale of their land to developers with a requirement that a proportion is developed for social housing. More importantly, the planning policies of local authorities demand that a proportion of all large sites, usually in excess of 20%, is allocated to social housing with the associations competing to acquire the allocation from the developer. In many cases the social housing is concentrated on the least attractive part of the site. In others, in order to avoid polarised communities, the social housing is mixed in with the private development. This can cause tensions with owner-occupiers.

With the overall level of private development falling so the associated sites for social housing are becoming scarcer. Where private development is going ahead, however, developers are increasingly keen to involve housing associations in order to improve their cash flow.

The past funding model for development has now been replaced, as described below, with the associations taking more of the risk and the banks demanding higher levels of security. There are fears that this could lead to a significant slowdown in development when the current Government funding cycle ends in 2014. On the other hand many associations which have not developed in the past have unused reserves. Only time will tell whether the new funding model will be successful.

The growing shortage of homes together with an oversupply of credit during the 1990s-2000s has led to house prices rising far faster than inflation. Thus, an English homeowner tends to see his or her house as an investment as much as a place in which to live. This has effectively encouraged the use of the planning system by existing homeowners to prevent development perceived as detrimental to the value of their home, thus increasing land shortage and development shortfalls.

Prices have, however, fallen during the recession but, in the most popular areas especially in London and the South East, are starting to rise again. This strong regional variation can be seen from the percentages of borrowers in negative equity (i.e. their borrowing exceeds the value of their home) set out in table 1 below.

Table 1. Borrowers in negative equity, April 2012

Source S&P

Region	% in negative equity
North East	11.9
North West	11.5
Yorkshire and Humberside	9.0
West Midlands	8.4
London and the South East	3.0

In spite of the shortage of housing the level of homelessness fell during the past twenty years as occupancy rates increased. Unfortunately, over the last two years, the number of families on local authority waiting lists classified as homeless has started to rise again. Local authorities manage their lists as best they can and, in areas of high demand, it is largely a matter of luck as to whether a family will end up in social housing or in the private rented sector. There is also growing evidence in London of the emergence of a "sub-market" of informal, unsuitable and unapproved spaces – such as garages and sheds – being rented out to those unable for financial reasons to access conventional homes.

Social Housing: Finance

Both the system for financing social housing and the tenure and management policies are in the process of radical change brought about by the credit crunch and Government policy, the implications of which will take some years to work through. Almost all social stock, however, now reaches the standard defined in the 'decent homes' target.

As in any country social housing can be subsidised by the state funding some or all of the land and build cost (bricks and mortar subsidy) or through meeting some or all of the rent (personal subsidy paid, in England, through housing benefit). In England, in the past, there has been a mix of both. Now, however, the subsidy is being shifted in a major way away from bricks and mortar towards the individual.

For the past thirty years, Government has met about half the land and build costs of housing association homes. The housing association has then borrowed the remainder on the markets, usually over twenty-five years. Social rents were therefore, especially in the high demand areas, about half of the market rent. Even at this lower level about 50-65% (depending on the area) of housing association tenants in 2011 received some help with their rent through housing benefit and, typically, more than half of these had their rent paid in full by the state.

Two years ago, the new Government changed the system. Now rents of new housing association homes and many relets will be fixed at 80% of the market rent. Similarly the state will fund a smaller proportion of the cost, usually about 20%, of the land and build costs, and expect the association to borrow the rest. Thus personal subsidy in the form of housing benefit is taking the strain.

The situation is complicated by the current difficulties in borrowing money. As stated above, housing associations have traditionally borrowed over twenty-five years using the properties as security. Such long term lending by the banks has now dried up and those, which are prepared to lend, usually over three to five years, are requiring greater security. For the housing provider, the need to finance a higher proportion of the borrowing costs against rents supported by Government benefit policy, never the most stable component, increases the risks and hence the costs.

These pressures have resulted in housing associations looking to other forms of long-term finance. About twelve recently have successfully launched bond issues. In England about £8bn has been raised through the capital markets. Most recent bond issues have secured an all-in cost of borrowing at between 5-6% per annum. Life insurance companies, required by law to invest in part in long-term securities, are starting to enter the field through sale and leaseback schemes. The Treasury is currently consulting on the possibility of applying Real Estate Investment Trusts (REITs) for social housing. In adopting new approaches, however, all providers are conscious of the experience of the Dutch association, Vestia, which lost 2.5 billion Euros in a derivatives deal.

To an extent, local authorities are exempt from these pressures as they are able to borrow, up to their permitted headroom, from the public works loans board. To date, however, no local authority is developing on any scale, ‘though this may change over the next five years.

Meanwhile a number of other changes to social housing have just been enacted. For the purposes of this exercise, the most important are the ending of security of tenure for social housing tenants, a cap on the total benefits paid to any family and, in an attempt to make the maximum use of the stock, a reduction of about 14% of housing benefit if there is an unoccupied bedroom. Various other measures are being taken to limit the total housing benefit bill, which currently runs at £22bn for the UK. Simultaneously local authority finance is being freed up to enable them to borrow, within limits, to improve or increase their stock whilst the regulatory burden on housing associations has been significantly reduced.

The financial pressures on associations are forcing many, especially those of medium size (10,000 – 30,000 homes) to explore various cost saving measures such as mergers in order to gain economies of scale. Unfortunately, the experience of past mergers is that they rarely gain the savings and improvements to service, which had been promised. Research suggests that, amongst a number of reasons for this, the paramount ones are a lack of advance preparation, including clearly identified financial savings and outcomes for tenants, and a clash of cultures between the two organisations.

Support for the individual and the community

Almost all housing associations have tenants on their boards and an extensive tenant involvement programme. Some of the smaller ones are co-operatives. One or two local authorities, such as Gloucester, are now exploring a Community Owned Council Owned (COCO) model for their stock. Under this, the ownership of the stock is passed to the ALMO whilst the Authority retains about a third of the value of the organisation. These have yet to be fully tested, including whether they meet the approval of the lenders.

The credit crunch and recession has placed a heavy burden on the poorest individuals and communities. In response to this, the pressure on English housing associations, which are often the only non-governmental body in the neighbourhood with any spare cash, is to increase the services both to their tenants and their communities. This is especially the case as local authorities withdraw or cut back their services. Most housing associations now provide various services for their tenants such as debt counselling and benefit advice whilst many support education, training and employment schemes. Such support, even where the stock is widely dispersed, is relatively easy, 'though not cheap.

The role of housing associations in supporting their communities is more variable. The focus has tended to lie elsewhere recently, as the full impact of the financial and policy changes are absorbed by local authorities, housing associations and the communities themselves. Because of the importance of the multi-agency approach to dealing with issues such as anti-social behaviour or neighbourhood renewal, it is inevitably the local authority, which takes the lead. Where associations have a concentration of stock in a neighbourhood, they are normally heavily involved. Thus the best records for such localised work, not surprisingly, tends to lie with associations with stock heavily concentrated in a few areas and other housing bodies with strong local representation such as ALMOs. Larger and more dispersed associations are able to participate fully only where they have a strong local management presence. (For a fuller discussion of the issues around communities, localism and neighbourhood see the note prepared by HACT at Annex 1).

As a response both to the management costs of a widely dispersed stock and a recognition that a greater involvement in their communities is desirable, the most forward thinking associations are starting to rationalise their stock. Thus sales of several hundred homes in neighbourhoods peripheral to their core areas are gathering momentum. It is a characteristic of associations however that, in the eyes of many, status depends on the size of their stock: "how many have you got" is a common opening gambit in a conversation between two chief executives.

Over the next decade, it is likely that the sector will become increasingly stratified. The larger national and regional associations will be able to gain the economies of scale but, unless they have a strong local management presence, will be unlikely to provide the tailored local service ideally provided in the most deprived communities or respond to the Government's new localism agenda. Those associations and ALMOs focused on one or two towns will be better positioned to provide such services but will find their ability, and possibly willingness, to grow curtailed by the difficulties of creating surpluses and raising finance.

Whichever model is adopted understanding this changing environment will be critical. For the last thirty years, housing providers' success has been measured against government-driven targets, whether in relation to outputs, efficiency or performance benchmarks. In the future, housing providers will need themselves to define and justify the priorities and goals that drive their businesses as they navigate this changing marketplace – to government at all levels, to their tenants and to the communities they work within.

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May 2012

Annex 1

Community, localism and neighbourhood

The changes faced by housing providers go significantly beyond the economic and regulatory. Amongst the most significant of these arise from what was formerly defined as the 'Big Society' agenda – a combination of radical devolution, community empowerment and public service reform, which together are likely to disrupt assumptions around public service delivery and create new centres of power and influence.

Whilst Big Society rhetoric has been significantly toned down in recent months, new powers in the Localism Act, including the Right to Challenge, Right to Build, Neighbourhood Planning and new powers around community asset ownership will challenge and change the ways housing providers work at a local level.

In addition, a growing focus on "participatory democracy" and "co-production" will increase expectations amongst tenants and communities that they will play a more active part in shaping and designing their own neighbourhoods and services, with a significantly greater focus on devolution of control and a revival of interest in issues around mutuality and community ownership. This is significantly different from historic approaches based around consultation, tenant participation and resident inspection.

New opportunities that present themselves for communities, such as through Neighbourhood Planning and Community Right to Build, will need involvement from housing providers to secure their success. Housing providers with their expertise and long-term investment in neighbourhoods could play their role in providing support, resourcing, and facilitation, in areas that helps with development ambitions and plans, but where local authorities are not able/afford to reach. This will, however, need to be progressed as a positive rather than negative opportunity, in partnership with local authorities who may fear their traditional power bases being undermined by a resurgent community sector.

Successful housing providers will need to consider how they navigate this, and build the necessary new relationships and partnerships. For many this may point to a deeper engagement with a smaller numbers of areas, or a greater focus on local decision making presence on ground. But there is also potential for building on existing investment in civic capacity through Tenant and Resident Associations (e.g. as starting point for neighbourhood planning).

New community-based structures and strategies will need strong relationships and accountability at a local level. As well as ensuring more meaningful participation, this will be a potential source of strength when balancing and managing demands from government where they are seeking to direct and manage housing association assets.

Finally, there is likely to be a focus on building community capacity in different forms. Social and community enterprises will be needed to lock in greater resilience and responsiveness to challenges and opportunities. Housing providers have strengths to bring to the table; they will be able to mentor, provide space, and open up opportunities to participate in procurement. Understanding how both community investment and mainstream housing management/development spending flows into the local economy, and the impact their spending decision have, will demonstrate the role of housing providers in the new neighbourhood context.

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