Highbury Group on Housing Delivery

Submission to Communities and Local Government Committee Inquiry into the Financing of new housing supply.

Summary

The affordable rent programme is not sustainable in the longer term, as homes provided under the programme will not be affordable in many areas of the country and moreover are unsustainable for many providers in terms of their financing assumptions and business plans. Initial modelling of the potential outcome of the new and proposed funding regimes – the termination of direct funding for social rented homes, the new affordable rent programme, the increased rent income generated by the affordable rent programme (including conversions of existing social rented stock), use of the New Homes Bonus and the introduction of self financing Housing Revenue Accounts, demonstrates that the potential affordable housing output will be substantially lower than both past output and assessed requirements. This position will be worsened by any extension of Right to Buy discounts or eligibility, for example sales to households on waiting lists.

Any Government has to recognise that for housing to be affordable to lower income households, and in high value areas to most middle income households, some form of subsidy, whether through direct grant and/or land subsidy is essential. For social rented homes, subsidy should meet the cost of development less the debt supported by the long term rental stream based on target rents. One option is to introduce a funding mechanism similar to the previous total cost indicator (TCI) based grant regime which was the basis of the highly successful and cost effective mixed funding regime which operated through most of the late 1980's and 1990's. This would need to ensure that cost assumptions and grant rates were kept up to date to reflect both local variations and market changes to avoid cost over value provision. A funding regime for affordable housing which is dependent on using up a low cost landbank, using rent increases on existing stock from a limited flow of relets and receipts and planning obligations from a volatile housing and property market is by definition unsound and unsustainable.

1. Introduction

The Highbury Group comprises an independent group of specialists from public, private and independent sectors with a membership drawn from housing, planning and related professions; it offers advice and makes representations to Government and other agencies on a variety of subjects, including responses to the recession, with the aim of maintaining and increasing the output of housing, including high quality affordable housing (see footnote for membership and objectives).

2. Responses to Questions

- **How and where the more limited capital and revenue public subsidy can best be applied to provide the biggest return on the investment, in housing supply terms;**

2.1 Capital subsidy should be focused on the provision of social rented (rather than merely 'affordable') housing at or below target rents in the areas of greatest unmet housing need. It is most cost effective in the longer term for the public sector to invest in social housing, owned by local authorities and registered providers, which will continue to be available in perpetuity to both households who are currently in housing need and households who in the future will be unable to access market housing. It should be stressed that the provision of new social housing constitutes both public investment and a revenue saving to the public purse. It is a public investment because the asset value of housing appreciates and provides security for future public and voluntary sector borrowing.

2.2 Provision of bricks and mortar subsidy generates a revenue saving in a number of ways:
* it reduces dependence on revenue support through housing benefit and the Local Housing Allowance
* consequently it reduces the disincentive to a household to obtain employment (i.e. the provision of higher subsidy and lower rent prevents the poverty trap)
* provision of good quality affordable housing with secure (i.e. not time-limited) tenancies inhibits involuntary mobility and consequently diminishes education, health and criminal justice costs
* provision of new affordable homes also avoids the costs to the public purse of housing homeless households in bed and breakfast accommodation, hostels, or privately leased temporary accommodation.

2.3 Investment in the provision of new housing is also to wider economic policy objectives in that construction generates significant increases in employment (and consequential reductions in benefit expenditure) and that new homes and residents will increase local consumption and local jobs in retail and related sectors.

2.4 Use of public funds to support home ownership does not help households in the greatest housing need and provides a limited long-term return for public policy objectives, and no such return where households staircase to outright home ownership. Such financial support when provided to households to access homes in the existing market can exacerbate house-price inflation and consequently reduce affordability for households not benefitting from this funding. Shared ownership funding should be conditional on repayment of subsidy from increased value of onward disposal. At a time of resource constraints, it is important that an assessment is undertaken of both the long-term costs and benefits to both the public purse and to residential occupants of different levels of capital and revenue subsidy for different forms of tenure.

• **What the role is of state lending or investment, as opposed to grant funding, and the appropriate balance between them;**

2.5 Where state funding is provided either directly or indirectly (for example through subsidised land disposal) to private sector bodies or local land trust or local housing trust, then investment should be in the form of an equity stake, where the public sector, normally in the form of a local authority, receives a return from value appreciating, which can reinvested in the provision of affordable housing or related infrastructure. It is rare for housing associations to borrow from the Public Works Loan Board. This is partly because the PWLB rate is little different from the cost of borrowing from the money market (the current PWLB rate is 4.00% for 30 year fixed plus 100 basis points, making 5.00%, whereas HA new debt is priced at 3.56% (gilt equivalent) plus 150 basis points, making 5.06%.

• What the role is of the public sector in providing support in kind—for example land or guarantees—as opposed to cash, and what the barriers are to this happening;

2.6 Local authorities should provide social rented housing on land in their ownership. This is allowed by existing consent arrangements. The value of land is translated is translated into the benefits of nomination rights to good quality accommodation at low rents. It is also justified in value for money terms by the long term savings arising from fewer households being placed in temporary accommodation and the savings to the costs of public service provision arising from fewer households being in insecure and/or substandard accommodation. Where local authorities provided subsidised land for development by registered providers, this should be in exchange for nomination rights to social rented and shared ownership homes, a right to buy back at a discount shared ownership homes and an equity stake in market development. The value of the benefit provided should be costed and be no more than the discount in land value. The main barrier to such approaches is the need for local authorities to maximise disposal receipts to fund other services or investment projects.

• How long-term private finance, especially from large financial institutions, could be brought into the private and social rented sectors, and what the barriers are to that happening;

2.7 There are circumstances in which the return to private investors in relation to provision of new housing or regeneration of existing residential areas are insufficient to generate sufficient investment. This is especially the case in areas where values are low and where site preparation and infrastructure costs are high. It is critical that more longer term investment is brought into the funding of residential development, where there is certainty of incomer stream, especially where asset appreciation is less guaranteed. Tax incentives to developers to provide affordable housing rather than open market housing could be considered.

2.8 There are strong indications that some registered providers are experiencing increasing difficulty in obtaining sufficient private finance at affordable interest rates to support their development programmes, as shown for example by the recent TSA quarterly survey of housing associations (September 2011). The new affordable rent programme is especially problematic, in that registered providers have to obtain much higher levels of private finance, given the lower level of grant available relative to historic grant funding for social rented housing. The Government's proposals in the Welfare Reform Bill are likely to lead to lenders being increasingly concerned as the level of security for their investment in terms of the lack of a guaranteed revenue stream from which the interest and debt can be repaid. In particular proposals to restrict local housing allowance and housing benefit payments for both private and 'affordable rented' tenants and proposals to terminate direct payments to landlords increase the level of risk and uncertainty associated with housing provision. The proposal for a new universal credit exacerbates this uncertainty about continued provision of assistance to lower income groups.
The shortage of funding in transport, social, utilities and green infrastructure is also an obstacle to private sector investment, especially where the development of a substantial new residential community is envisaged. Part of the delays to current development programmes reflects uncertainty as to the timing of funding for infrastructure to support new schemes. Certainty of public funding is needed for a developer to be able to have some certainty as to sales values and build out timescale.

- **How registered providers and, potentially, ALMOs might be enabled to increase the amount of private finance going into housing supply;**

2.9 Some registered providers and ALMOS with stock in their ownership, will have an asset base against which they can borrow. Such borrowing will need to finance both re-investment in their existing stock as well as new investment. However this capacity will not necessarily be concentrated in areas of the country in which there is greatest need for new affordable housing provision. There is a case for some pooling arrangement to ensure that surpluses are used to support new investment for appropriate housing in suitable locations where need has been clearly established. There is also a case for introducing a mechanism for sharing underutilised capacity (surpluses/low debt) in smaller non-developing housing associations.

- **How the reform of the council Housing Revenue Account system might enable more funding to be made available for housing supply**;

2.10 The move towards HRA self financing is broadly welcomed. However the use of asset valuation as the basis of subsidy and clawback, which is the starting point for the new regime does not reflect the differential need for and cost of providing new affordable housing within different local authority areas. Moreover the mechanism does not deal with the fact that many Local Authorities have disposed of their housing stock and consequently have no HRA to be rebalanced. Some of the authorities with the largest stock holdings, such as Birmingham and Southwark, do not necessarily benefit from the new regime. In some areas where there is still a significant shortage of social housing, local authorities' ability to invest in new provision will in fact be reduced rather than enhanced by the proposed change.

- **How effective the Government's 'Affordable Rent' proposals are likely to be in increasing the funds available for new housing supply, and how sustainable this might be over the medium to long term.**

2.11 In some parts of the country the 'affordable rent' programme does not provide a viable mechanism for new affordable housing, In areas where market rents are low and social rents only marginally below market levels, the rental adjustment will not increase registered provider income and consequently will not affect their ability to fund new homes. In higher value areas, rents at 80% market rent can be twice or more the level of existing target rents and will therefore generate significant problems in term of benefit dependency and the poverty trap. Affordable rented homes where rents and service charges are at levels above 30% net lower quartile incomes should not be treated as affordable housing (and in the London case are in breach of the definition of affordable housing in the London Plan). There is concern that the requirement for registered providers seeking funding for affordable rent provision to convert existing social rented homes to 'affordable rent' on termination of tenancy will lead to a further reduction of social rented housing supply in areas where shortages are most acute. The Government's assumptions as to the level of new housing which could be funded from higher rents, including those from converted stock, appear highly optimistic. They are not an adequate basis for the Government estimate that 250,000 homes can be funded from this new regime and that direct grant will not be required as from 2015.

3. Other Issues

The New Homes Bonus

3.1 The New Homes Bonus is welcomed, but its distribution does not bear any relation to where the need for affordable housing is spatially located, or the location of future development capacity. The use of new homes bonus is not ring-fenced to ensure either new housing provision or the funding of infrastructure to support new communities, and therefore the positive role of the bonus is incentivising additional output is likely to be limited. Moreover by failing to distinguish between different types of 'affordable housing' the bonus acts as an incentive to provide low subsidy higher rent sub-market housing (at a cost to the housing benefit budget) rather than low rent social rented homes. Not all local authorities in areas of greatest housing need regard the NHB as sufficient incentive to persuade them to support new housing provision, to which they have previously been opposed. The NHB is a useful supplement to a target based system but not a substitute for it.

Impact of enhanced Right to Buy

3.2 The group is also concerned that introducing increased discounts for Right to Buy will decrease the supply of social rented provision and counter the impact of any new investment in additional affordable homes. The higher the level of discount, the greater the net loss of social housing stock and the lower the level of replacement fundable by receipts. Experience has demonstrated that better quality family size street properties have the highest disposal rate. Any retention of Right to buy should be predicated on one for one replacement in qualitative as well as quantitative terms: ie the receipt from the sale of a low rent social 3 bedroom house in inner London should be sufficient to fund the provision of a replacement low rent social 3 bedroom house in central London. These replacement units should be provided at target rents. All receipts from the disposal of council homes should be reinvested in additional housing provision. Additional grant will be needed to ensure a like for like replacement. Further extension of the Right to Buy should not be implemented before a full equality impact assessment has been carried out.

4 Conclusion

4.1 The affordable rent programme is not sustainable in the longer term, as homes provided under the programme will not be affordable in many areas of the country and moreover are unsustainable for many providers in terms of their financing assumptions and business plans. Initial modelling of the potential outcome of the new and proposed funding regimes – the termination of direct funding for social rented homes, the new affordable rent programme, the increased rent income generated by the affordable rent programme (including conversions of existing social rented stock), use of the New Homes Bonus and the introduction of self financing Housing Revenue Accounts, demonstrates that the potential affordable housing output will be substantially lower than both past output and assessed requirements. This position will be worsened by any extension of Right to Buy discounts or eligibility, for example sales to households on waiting lists.

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Footnote

The Highbury Group is an independent group of specialists from public, private and independent sectors from housing, planning and related professions which prepares proposals for Government and other agencies on responses to the current 'credit crunch' aimed at maintaining the output of housing including affordable housing.

The group was established in 2008 as the Highbury Group on housing and the credit crunch and originally met at London Metropolitan University in Highbury Grove, Islington, London (thus the name). The group's name was changed in September 2010 and it now meets at the University of Westminster, 35 Marylebone Road, London NW1. It comprises the following core members: Duncan Bowie - University of Westminster (convener); Stephen Ashworth – SRN Denton ; Julia Atkins - London Metropolitan University; Bob Colenutt - Northampton Institute for Urban Affairs ; Kathleen Dunmore - Three Dragons ; Michael Edwards - Bartlett School of Planning, UCL; Deborah Garvie - SHELTER ; Stephen Hill - C20 Futureplanners ; Roy Hind - Bedfordshire Pilgrims HA ; Angela Housham - Consultant ; Andy von Bradsky - PRP ; Seema Manchanda - L B Wandsworth; Kelvin McDonald - Consultant ; Tony Manzi - University of Westminster; James Stevens - HomeBuilders Federation ; Peter Studdert – Planning consultant ; Janet Sutherland - JTP Cities; Paul Watt - Birkbeck College ; Nicholas Falk- URBED; Catriona Riddell – Planning Officers Society; Alison Bailey – consultant; Richard Donnell – Hometrack; Pete Redman – Housing Futures; Richard Simmons.

The views and recommendations of the Highbury Group as set out in this and other papers are ones reached collectively through debate and reflect the balance of member views. They do not necessarily represent those of individual members or of their employer organisations. .

The key purpose of the group is to promote policies and delivery mechanisms, which

* increase the overall supply of housing in line with need
* ensure that the supply of both existing and new housing in all tenures is of good quality and affordable by households on middle and lower incomes.
* support the most effective use of both existing stock and new supply
* ensure that housing is properly supported by accessible infrastructure, facilities and employment opportunities

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