Swindon Tenants Campaign Group Briefing:

Tory government housing strategy: growing the market and shrinking 'social housing'

From the Housing Bill currently going through Parliament and the Autumn Review we can see that the Conservative government housing strategy is based on subsidies for home ownership and the abandonment of support for 'social housing' for rent. They want to drive up home ownership at the expense of 'social housing'. The detail of the Autumn Review makes this clear.

"Starter Homes"

When the idea of Starter Homes was first introduced it was aimed at building 100,000 homes on brownfield and 'exception' sites which would otherwise not be likely to be developed. It was initially presented as housing in addition to “affordable housing”. In a pre-election announcement in March 2015 the figure was raised to 200,000. Now the government is saying that Councils will have an *obligation* to promote Starter Homes on *all* sites. Two planning requirements will be dropped – Section 106 and the Community Infrastructure Levy, which are used to pay for social rent, 'affordable rent' and shared ownership housing. This means that Starter Homes will become “the primary affordable tenure” in England, at the expense of rented homes.

In the Autumn Review the government announced it is providing £2.3 billion for builders to subsidise a 20% cut in the price of 'starter homes'[1]. It says that this money will cover the cost of 60,000 new homes. How will the 140,000 others be funded? They *hope* these will be built by the big builders by way of reduction of their costs “through reform of the planning system”. These companies will not have to pay any contribution to infrastructure costs which are usually negotiated with local authorities by way of 'Section 106 agreements'[2]. If the £2.3 billion is subsidy then building firms/developers will bite the government's hand off for it. However, Inside Housing recently reported that

"Officials (of the DCLG) declined to clarify if this money will be offered as grant or debt; what it will be used for – remediation of land, or to plug a viability gap; or how State Aid issues will be avoided."

If the money is not subsidy then building these will not be such an attractive option. Moreover, the 140,000 are even more uncertain. Will local authorities agree to development if they do not have the money to finance infrastructure costs?

Inside Housing has also reported that lenders are saying that unless Starter Home plans are amended they will be reluctant to provide mortgages for them. The government is proposing a 5 year rule which means that the buyer can sell them at the full market price after that. So not only will the low price be subsidised for the buyer but they will be enabled to make at least a 20% profit on the buying price as well! However, lenders are calling for the price at 20% below market value to be maintained in perpetuity.

1 These are for first time buyers under forty with prices up to £250,000 and up to £450,000 in London.

2 Section 106 agreements are the usual way of funding “affordable housing”.

Richard Petty, director at global property consultancy Jones Lang LaSalle, has warned that the 20% discount could equate to a “license to cheat”. The temptation for builders will be to push the price up so that their profit margin is as high as possible. The Home Builders Federation has pointed out that Starter Homes will be more attractive that Help to Buy. The chances are that rather than driving up house building numbers Starter Homes will simply “cannibalise” other forms, replacing “affordable homes” and Help to Buy.

Help to Buy: Shared Ownership

The Help to Buy Shared ownership scheme is supposed to produce 135,000 homes for part-ownership with a share of 25-75%. There is £4 billion available for this. Whilst building shared ownership homes was part of the 'voluntary agreement' [3] between Housing Associations and the government, they will not automatically get the money since they will now have to compete with the private sector for the grant. Shared ownership enables people who can't afford a full mortgage to get a roof over their head but there is little evidence of them serving the declared purpose of increasing their share to the point where they own 100%.[4]

Extension of 'right to buy'

The 'voluntary agreement' reached between the National Housing Federation and the government included an acceptance on the part of the Housing Associations that they would spend their receipts for sales on building homes for ownership, full and part, rather than for rent. To add insult to injury Councils will be forced to sell off 'high value' homes on the open market, when they become empty. The sale proceeds from Council 'high value' homes will be effectively *confiscated* by the government and handed over to Housing Associations to compensate them for the difference between the discounted sale price and the market value.

Affordable Homes programme

There is still £700 million available for 'social housing' left in the pot of the government's "affordable homes" programme 2015-18. However, it has just been announced that the majority of this will be devoted to part-ownership. So those local authorities such as Swindon that were expecting to put in bids for this second tranche of money will either have to scale back their plans for building or not put in a bid at all.

Planning changes

The government has just published a consultation on changes to national planning policy. They intend to include Starter Homes in the definition of “affordable housing”. The Housing and Planning Bill will introduce a statutory duty on local authorities to promote Starter Homes and “a requirement for a proportion of starter homes to be delivered on all suitable reasonably-sized housing developments”. In contrast *there will be no duty to promote homes for rent* so these are likely to be replaced by “Starter Homes” in plans. We do not

3 http://martinwicks.wordpress.com/2015/10/03/housing-associations-capitulate-over-right-to-buy/

4 Under law those with shared ownership remain tenants. They are responsible for repair and maintenance costs and there will be a service charge for common areas. According to the home ownership alliance rents can increase by inflation plus 2% each year.

yet know what proportion of Starter Homes will be applied. That will be set by ministerial regulation.

Home ownership and house prices

The government's abandonment of 'social housing' and its push to drive up home ownership is unlikely to achieve the desired result of significantly increased new building. The Office of Budget Regulation November Forecast accompanying the Autumn Review gave some indications as to why. The ratio between house prices and earnings continues to rise. The OBR says

“Over the forecast period we expect house price inflation to persist at rates somewhat above earnings growth.”

They estimate prices will rise by 26% over the 5 years of this parliament, whilst average earnings are expected to rise only by 17%.

Between 2000 and 2014 home ownership fell from 71% to 63%. Households with mortgages fell from 42 to 31%. The shortage of 'social housing' and the unaffordability of ownership for an increasing number of people led to the private rented sector taking up the slack. Over the same period the Private Rented Sector grew from 10% to 19%. *The OBR assumes that the growth of private renting will continue*. The statistics for net additional homes in England in 2014-15 show that there were more than 20,000 conversions, most of which will be for rent.

The number of houses that are built depends not just on private developers and builders but on whether people can afford to buy. Whilst the government subsidy is intended to promote more building, what is likely to take place is displacement of activity. If the numbers of 'social housing' builds falls then even if builders increase their output for house purchase, with or without government subsidy there is no guarantee that the numbers will increase significantly.

The latest figures for “affordable” housebuilding are being trumpeted as a great success story, with 66,640 homes added in 2014-15. However, 16,080 of these were “affordable home ownership” (1,530 bought rather than new build). Only 9,590 were 'social rent', while 40,710 were “affordable rent” (up to 80% of market rents) of which 5,270 were acquisitions rather than new build. When the government's new programme kicks in we will see a big decline in 'social rent' and “affordable rent” building as funding will concentrate on “Starter Homes”.

'Social housing'

Government policy in relation to 'social housing' is undermining the finances of both Councils and Housing Associations. For instance the 1% rent cut for four years (included in the Welfare Bill) significantly eats into their income. In the case of Swindon Council it means an estimated loss of £22.8 million.[5] Most Council house building over the last five years has taken place with the (not very great) assistance of funds from the HCA. If that's

5 The Local Government Financial Statistics publication for 214-15 shows that Councils in England raised £7.282 billion in rent from their tenants. A 1% cut for 4 years means a loss of over £282 million. When you factor in the money they would have received if the CPI+1% formula had been continued then the loss rises to over £500 million if inflation remains at zero for 4 years. That's unlikely so the loss of potential income would be higher still.

no longer available then there will be little building by Councils, especially when the absence of grant is combined with the impact of the rent cut.

The loss of rental income for Housing Associations will have a big impact on their ability to build. The OBR estimates that the capital spending by them will fall from £8.2 billion in 2015-16 to £4.5 billion in 2019-20. In July the OBR estimated that they would build 14,000 less homes as a result of the rent cut. But they now estimate that as a result of the July budget and the Autumn Review *there will be 34,000 fewer homes built*. This prospect is underlined by the announcement that in June Housing Associations were planning to invest £8.5 billion in new homes, but following the announcement of the rent cut Inside Housing reported that they have scaled this back by £1 billion.

According to the OBR central government capital grants to housing associations are expected to be £960 million in 2015-16. However, the amount available for the social sector progressively falls to only £130 million in 2018-19 with the same amount available for the next two years. Meanwhile the amount of grant available for shared ownership is £910 million in 2018-19, £990 million for the following year and £1,510 million for the year after that.

The new sub-prime?

Housing Minister Brandon Lewis, in answer to a question on the circumstances of people who will not be able to afford a mortgage, said that he 'hoped' that people on the lowest incomes, £20,000 or less, would be able to combine Starter Homes with Help to Buy.

"If you take a Starter Home and link it with Help to Buy, it does provide an opportunity for people, even right down to those on lower incomes, to afford to buy."

If the Housing minister 'hopes' they will be able to clearly it is not policy. Research by Shelter recently showed that Starter Homes would be unaffordable to those on low incomes in most areas. Inside Housing, with masterly understatement said "it is not clear if lenders would be happy to offer mortgages on that basis."

In fact in March of this year the Council of Mortgage Lenders said:

“At present we do not think that any transaction under the Starters Home scheme would come within Help to Buy or NewBuy. In any event lenders have indicated to us that they would be reluctant to combine two schemes under one loan.”

Given the fact that the government has introduced more stringent measures whereby mortgage lenders have to include stress tests of whether potential mortgagees would be able to cope with interest rate rises, even if somebody on such a low income was prepared to risk buying, mortgage providers would be unlikely to offer mortgages. If any of them do it would be a new form of 'sub-prime' mortgages, encouraging people who could not realistically afford to buy a house to do so.

Buy to let

Osborne's policy in relation to 'buy to let' landlords also complicates the situation. The introduction of an extra 3% stamp duty on them (combined with the July measures of cutting tax relief and ending automatic 'wear and tear' allowance) is likely to have two outcomes. Some landlords will bail out of the sector while others are liable to increase their rents to try and maintain their profits.

The encouragement of buy to let meant that the growth of the sector was at the expense of first time buyers. They are able to get get interest only mortgages which are not now generally available to first time buyers. Whilst there was a big fall in mortgages for BTL in the wake of the housing crash it has since undergone a rise. By the end of 2014 the value of BTL mortgages represented 15% of outstanding mortgage balances according to the Council of Mortgage Lenders. The growth of the sector pushed up the HB bill because of higher private rents. It shows the most extraordinary ineptitude on the part of the government to take these measures against private landlords at the same time that support for social rented housing has been abandoned. If it does not produce a large decline in the number of private rented homes it will certainly push up rents as private landlords pass on their additional costs to their tenants. One mortgage provider Kent Reliance has estimated that the 3% stamp duty could push up rents by an extra £55 a month. BTL landlords will want to preserve their profit margins at the expense of tenants.

Perverse 'incentives'

One of the government's catch phrases is 'making work pay'. This has underlain their welfare policy. What it has meant in practice is pressuring people into work by giving them the 'incentive' of less money to live on. This was the logic of the bedroom tax. There was more of this in the Autumn Review. For instance, the government is cutting social housing tenants' Housing Benefit, for those under 35. From 2018 they will only receive the shared accommodation rate (SAR) even if they are living in a flat. In Swindon the SAR local housing allowance is currently around £43 a week less than the rate for a one bed flat. This will only apply to those who sign tenancy agreements from April 2016 rather than impacting on existing tenants. However, this will certainly mean that local authorities and Housing Associations will be reluctant to give tenancies to single people under 35 who are unemployed or disabled and unable to work, since the tenants would be unlikely to be able to pay the difference between the SAR Housing Benefit rate and the one bed flat rate. Where would these people have to live? With their parents if they could, or on the streets?

The justification for this change is declared to be:

"This reform will mean that Housing Benefit will no longer fully subsidise families to live in social houses that many working families cannot afford, and will better align the rules in the private and social rented sectors. It will also ensure that Housing Benefit costs are better controlled and will help prevent social landlords from charging inflated rent for their properties."

Apparently they have forgotten that the government actually controls the level of rents for social housing. Indeed they have just told these landlords that they to cut their rent by 1% for four years. They are not allowed to charge 'inflated rents'! What a spurious argument.

Permanent instability

Finally, in a late amendment to the Housing and Planning Bill, the government is proposing to impose a duty on all Councils to have fixed term of 'flexible' tenancies for new tenants. Currently, they have the right to introduce 'flexible' tenancies but many Councils have not done so because of the instability it will cause for tenants and the administrative burden it will impose on them; having to carry out reviews at the end of the tenancy to determine whether to renew or end them. As well as making 'flexible tenancies' compulsory for Councils the government is proposing a maximum of 5 years for a tenancy.

This will transform Council housing into means-tested social welfare. It will introduce permanent instability into the lives of tenants who will face the threat of eviction even if they pay their rent on time and do not behave in an anti-social way. The 'secure' tenancy that tenants have had since 1980 gave them real security, knowing that they could not be forced out unless they fell into arrears or broke their tenancy agreement. This security meant that they treated the house or flat as a home, spent time, effort and money on its upkeep, because they knew it was a long term home. Forcing tenants onto 5 year tenancies will mean that they are unlikely to spend any money on them, unsure as to whether they will be allowed to stay after five years. It will work against settled communities.

'Pay to Stay'

The coalition government introduced 'pay to stay', giving Councils the right to charge tenants with a household income of £60,000 and above, the right to charge higher rents, up to a market rent. Hardly any Councils took up this right because of the onerous administrative burden of finding a small number of households with that level of earnings. There are no government statistics on the implementation of this policy. Now the Housing Bill includes the compulsory introduction of 'pay to stay' for Council tenants. What the government ironically calls 'high earners' with household income[6] of £40,000 in London and £30,000 elsewhere will be subject to paying a market rent. This income is actually below the *average* household income. As the Association of Retained Council Housing points out two people earning the minimum wage earn about £27,000 a year.

We don't yet know how this will be operated. As with so much of this Bill it will be introduced by Ministerial regulation. But we can be sure of two outcomes. It will provide an incentive for some not to earn more money or to take a promotion if the outcome would be a massive increase in their rent. For those significantly above that income, faced with an increase of up to double your rent, it will be an incentive to take advantage of 'right to buy' and the loss of more desperately needed homes will result.

To add insult to injury the government is proposing to confiscate the extra rent income which Councils would take in, to use it towards paying off the national debt. This is legally questionable as it is in breach of the 'ringfence' of the Housing Revenue Account, which was designed to stop tenants' rent being used for non-housing purposes.

Conclusion

The government's housing policy has undergone a radical change since the coalition, bad as it was then. Their declared aim is to increase home ownership *and* the size of the private rented sector. This necessarily means reducing the size of the 'social housing' sector. They are abandoning support for 'social housing', even in its 'affordable rent' form. Introducing 'right to buy' to housing associations and compulsory sale of 'high value' Council stock will lead to a decline in 'social housing', especially 'social rent'. Even if

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6 The top two earners.

housing association homes are replaced on a 'one for one' basis the replacements, in line with the 'voluntary agreement', will not be 'social housing' for rent but homes to buy, full or part-owned. Both Councils and Housing Associations will only be able to build 'social rent' homes with their own, dwindling resources.

The government election Manifesto in 2015 talked of replacing Council homes sold to fund extending 'right to buy' to housing associations. However, the receipts will have to be handed over to the government to dish out to Housing Associations and to support a Brownfield Fund as well. There is no guarantee that Councils will end up with *any* of the money from receipts from these sales. Moreover, the government is actually proposing to institute an annual payment whereby Councils would hand over the money from *estimated sales*, whether or not they take place.

The shortage of genuinely affordable homes for rent will worsen. The government is freezing the Local Housing Allowance for private renters at the very time when their tax changes for BTL are likely to see landlords raising rents to preserve their profits.

It is clear that the policy of the government is to progressively reduce the 'social housing' stock. The higher the sales the more rental income is lost to Councils, undermining their ability to maintain their housing stock. The government is even considering abandoning the 'Decent Homes Standard'.

The government's housing strategy is liable to create a social disaster. The shortage of genuinely affordable homes to rent will not only impoverish people who are forced to live in the expensive PRS, but will promote people who cannot really afford it taking on debt.

Swindon Tenants Campaign Group will continue to campaign to expose the consequences of the government's offensive against Council housing. That's why we have helped to form a new campaign [7] which will aim to build a movement involving the victims of the housing crisis and to strive for a sane housing policy in which house building is not dominated by commodity production. A new Council house building programme will form a central part of such a policy.

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7 http://keepourcouncilhomes.wordpress.com/2015/11/23/swindon-housing-action-campaign-addressing-swindons-housing-crisis/#more-1063