HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

Number 8963, 13 July 2020

A new era of social rented housing in England?

By Wendy Wilson
Cassie Barton

Contents:

Contents

Summary

A key focus of housing policy in recent years has been on the overall supply of housing. There is broad consensus on the need to address the long-term under-supply of housing and various measures have been introduced to stimulate housebuilding. While supporting increases in supply, commentators highlight the need to deliver housing that is genuinely affordable to improve living standards and "loosen the grip of poverty." This paper considers the case for social rented housing; barriers to its development; and prospects for a step-change in supply.

Why social rented housing?

Social rented housing has historically delivered rents at around 50% of market rates along with long-term security of tenure, so it is perhaps inevitable that there are widespread calls for a large-scale delivery programme to revitalise the sector and address housing deprivation. These calls pre-dated the coronavirus (Covid-19) pandemic but they have been given new impetus with evidence pointing to connections between inadequate housing and poor health outcomes in the context of Covid-19. The disproportionate impact of Covid-19 on the Black, Asian, minority ethnic and refugee (BAMER) communities has been linked with a housing aspect:

> Black, Asian, minority ethnic and refugee (BAMER) communities have been hit hard, with coronavirus intensifying their housing stress. Evidence shows BAMER households are more likely to live in overcrowded, inadequate housing, within our most disadvantaged communities. They are also less likely to own their home, and more likely to be private renting than white households.

Other arguments advanced in favour of social rented housing include the need to move rising numbers of homeless households out of temporary accommodation; unaffordability in the private rented sector; and the potential to reduce expenditure on housing benefits by moving private renters into social housing. Commentators also argue for a social housing delivery programme to provide an economic stimulus, pointing to housebuilding as a proven form of counter-cyclical investment.

How much social rented housing is needed?

- Shelter's commission on the future of social housing published A Vision for Social Housing in January 2019 which recommended a total of "3.1 million more social homes" be built over a 20-year period, **representing an average of 155,000 new homes per year.**
- Research conducted by Heriot-Watt University, published in 2018, for the National Housing Federation (NHF) and Crisis, called for 340,000 new homes each year up to 2031. This research identified a need for 145,000 affordable homes per year **of which 90,000 should be for social rent.**
- The Affordable Housing Commission, which reported in March 2020, called for a rebalancing of provision between the social rented and private rented sectors. Specifically, **the Commission endorsed the imperative of providing at least 90,000 homes to let at social rents per year**.

These organisations recommend increasing the supply of social rented housing as a remedy for unmet housing need, evidenced by increasing numbers of homeless households in temporary accommodation and growing overcrowding in the social and private rented sectors. Commentators also point at affordability problems in the private

rented sector, particularly in London, as an indication that more genuinely affordable options are needed.

The social housing sector has declined in size in the long-term. 5.5 million homes were provided by local authorities and housing associations in 1979. This number declined by a quarter over the next 40 years, reaching 4.1 million in 2019.

While the number of homes provided by the sector has grown slightly in the last decade, the availability of homes for social rent has fallen as different affordable products – such as Affordable Rent – have become more common. Around 93% of social housing providers' stock was let at social rent in 2018/19, compared with 98% in 2012/13.

The focus on Affordable Rent and affordable home ownership products has meant that new supply of homes for social rent has declined. 11% of the 57,000 new affordable homes delivered in 2018/19 were for social rent. This is a sharp decline compared with the period before 2011/12, when social rent made up the majority of affordable housing supply.

The social housing sector also loses stock through sales and demolitions. Right to Buy sales account for most of the losses.

Prospects

Following Theresa May's reference to building a "new generation of council homes to help fix our broken housing market" in August 2018, and the subsequent lifting of Housing Revenue Account borrowing caps, the sector began to consider a return to large-scale development of social rented housing. The Government envisioned that lifting the caps would enable councils to build around 10,000 new homes per year.

The sector was optimistic, research identified a clear appetite amongst authorities to take advantage of the new borrowing freedoms. This optimism existed despite the existence of other barriers, such as limited grant funding and restrictions on the use of Right to Buy receipts. Research published in January 2020 concluded that, despite wide variations in authorities' plans and approaches, most with retained stock planned to expand their housing delivery and the Treasury's estimate of authorities delivering 10,000 homes following the lifting of the borrowing caps would be met, and possibly exceeded.

In preparation for the Comprehensive Spending Review which was expected in 2019, the Chartered Institute of Housing (CIH), Shelter, NHF, Crisis and the Campaign for the Protection of Rural England, joined forces to call on the Government to provide subsidy of around £14.6 billion per year (£12.8 billion in today's prices) over ten years to secure 90,000 new social rented homes annually over the period.

The March 2020 Budget announced funding over five years from 2021 for the Government's Affordable Homes Programme:

> ...an additional £9.5 billion for the Affordable Homes Programme. In total, the programme will allocate £12.2 billion of grant funding from 2021-22 to build affordable homes across England.

The sector welcomed the certainty delivered by this funding but is pressing for information on the proposed tenure mix the Government has in mind, particularly the number of social rented homes.

The Covid-19 outbreak and subsequent lockdown have shifted the landscape in ways that are still becoming apparent. The experience of the post-2008 financial crisis is leading commentators to predict a contraction in the construction industry as the economic downturn takes hold. The Local Government Association (LGA) is calling for the response to the pandemic to include "steps, measures and reforms" to "support councils to work towards delivering a new generation of 100,000 high quality social homes per year". The National Housing Federation (NHF) would like to see the next spending review used to "transition to a longer-term plan and investment programme to build a new generation of social and affordable homes to rent and buy." The NHF has launched a Homes at the Heart campaign which is described as a "national campaign and coalition calling for a once-in-a-generation investment in social housing."

When giving evidence to the Housing, Communities and Local Government Select Committee on 8 June 2020, the Housing Minister, Christopher Pincher, said "We need more homes and more affordable homes, and more socially rented homes" but he refused to be drawn on any tenure-mix targets. A response to a PQ of 25 June 2020 refers to the Government's commitment to "increasing the supply of social housing in view of the social and economic benefits this will generate".

It seems likely that the housing sector will look towards the forthcoming Comprehensive Spending Review as an opportunity to further press the case for a large-scale social housing delivery programme.

1. Definitions

Several terms are used in England to describe housing that is intended to meet the needs of those whose needs are not served by the commercial housing market. These terms are sometimes used interchangeably and can be confusing. In this section we explain some of the common terms and set out how we are using them in the context of this briefing paper.

- **Social housing:** sections 68-71 of the *Housing and Regeneration Act 2008* define social housing **for the purposes of regulating social landlords**. The definition covers homes for rent at below the market rate and shared ownership or shared-equity arrangements where these are made available to people whose needs are not met by the mainstream commercial market. [1]
- **Social housing providers**, or the **social housing sector**, are organisations that provide social housing. Many provide non-social housing as well. Most social housing providers are local authorities or housing associations.
- **Social rented housing**, or housing **for social rent**, refers to a more specific category of social housing where rents are set at around 50% of market rates.
- **Affordable housing** is a term often used by the Government, including in some official statistics. There is no statutory definition. The Government's definition is set out in the National Planning Policy Framework (NPPF). The definition encompasses homes for rent at below the market rate, as well as some affordable home ownership products.[2] While there is a lot of overlap between social housing and affordable housing, affordable housing is a broader term.

1 *Housing and Regeneration Act 2008* (as amended), Part 2, Chapter 1
2 MHCLG, National Planning Policy Framework, February 2019, p.64

2. Why social rented housing?

As a broad consensus has developed around the need for an overall increase in housing supply in England, debate is focusing on the most appropriate tenure-mix to address what commentators refer to as an affordability crisis.

The Affordable Housing Commission (March 2020) concluded that "The lack of social housing lies at the heart of the country's affordability problems."[3] Inability to access social housing has meant that more low income households have moved into the private rented sector where "Nationally market rents far exceed social rents, pushing more households beyond the Commission's affordability threshold."[4] The Commission determined that affordable rents means rents set at around 33% or less of the incomes of households on average incomes or below.[5]

Historically, low income households in the private rented sector (PRS) would have looked to the safety net of Housing Benefit or the housing element of Universal Credit to help meet their housing commitments. Restrictions introduced since 2010 have increased the likelihood of a shortfall between a claimant's benefit entitlement and their contractual rent.[6]

A further development has been the introduction of the Affordable Rent model by the Coalition Government. Under this model housing associations can offer tenancies at rents of up to 80% of market rents within the local area. The additional finance raised is available for reinvestment in the development of new affordable housing. Essentially, the model replaced capital grant supply subsidy for new social housing with a revenue subsidy. The affordability of rents at up to 80% of market rents within high cost areas has been questioned since the scheme's inception, as has the model's value for money. The Committee of Public Accounts (PAC) considered the viability of the model during the 2012-13 Parliamentary Session. In a report published in October 2012 the Committee said:

> **It is unclear whether the shift of public resources from capital grants to increased housing benefits will provide better value for the taxpayer.** The Programme will be delivered with an average government grant per home of around £20,000, compared to £60,000 under previous housing programmes. In part this will be funded by a one off use of capital surpluses held by housing associations. In part it will be funded by providers charging higher rents to tenants, two thirds of whom are supported by housing benefit, with a consequential increase in the housing benefit bill of an estimated £1.4 billion. To inform decisions on future housing programmes, the Department should

3 Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System, March 2020, p41
4 Ibid.
5 Ibid., p27
6 For an overview see Library Briefing Paper Housing Benefit measures announced since 2010

> review whether and how the current mix of revenue and capital funding provides best value for money for the taxpayer and tenants over time and take the results into account in future programmes.[7]

The Coalition Government defended the model on the basis that it "allows the Government to maximise the number of affordable homes that can be provided for the limited and finite resources that are available while the Government's number one priority is tackling the budget deficit."[8] The additional costs of Housing Benefit under this model would be over a 30-year period and needed, the Government said, "to be set against the benefits of the lower capital payment per unit. On this basis the Affordable Rent model was the preferred option."[9]

The Affordable Housing Commission concluded that defining an affordable rent as up to 80% of the local market rent:

> ...broke with any common-sense definition of affordability. Rather than easing affordability, evidence to the Commission showed that Affordable Rent was in effect pulling capacity and resources away from providing social rented homes.[10]

Most households aspire to homeownership, but first time buyers face affordability challenges where earnings have not kept pace with house prices in high demand areas and due to tighter lending criteria introduced after the 2008 financial crisis. Relatively small numbers of existing homeowners spend more than a third of their income on housing costs, but the Affordable Housing Commission noted that this could change:

> However, a serious economic downturn could change the picture. A substantial rise in unemployment and/or interest rates could place relatively large numbers of buyers in jeopardy.[11]

Commentators argue that delivering more social rented housing will address affordability issues and act as an economic stimulus.

Numerous reports have been published in recent years which argue that a large-scale social rented housing delivery programme could help to address the affordability crisis and, of particular relevance in the Covid-19 context, act as a counter-cyclical economic stimulus. The supporting arguments can be summarised as follows:

- Social rented housing traditionally delivers homes let at around 50% of market rents. For residents, it is the most affordable housing tenure.
- Social rented housing offers residents long-term security of tenure.[12] This delivers benefits in terms of households' stability with associated benefits for educational attainment and health.

7 HC 338, Committee of Public Accounts, Financial viability of the social housing sector: introducing the Affordable Homes Programme, Thirteenth Report of Session 2012-13, 12 October 2012

8 Treasury Minutes, Cm 8534, January 2013, p22

9 Ibid.

10 Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System, March 2020, p65

11 Ibid., p28

12 Housing association landlords have some discretion to offer fixed-term tenancies which can be renewed following a review, but few have taken this option up.

Hyde Housing Group sponsored research into the value of a social tenancy which calculated that its 36,000 social tenancies contributed at least £607 million a year to the UK economy – or £16,906 per home (2018).

- Social rented housing delivers housing of a higher standard than that provided in the private rented sector. Improving housing conditions can relieve pressure on public services such as health and social care.[13]
- Lower rents can deliver savings in welfare spending as households move from the private rented sector – this can act to offset the increased upfront investment required.[14] Work conducted by Capital Economics (2015) concluded:

  > In almost all circumstances, construction of social rent housing is viable economically and fiscally once future savings to the government's housing benefits bill are taken into account properly. By disbursing grant that permits the building of new social rent housing, the government can achieve savings in its future expenditure on housing benefits – as well as providing a home for a low income family and meeting other possible objectives, such as urban regeneration and renewal. Once built, the debt service, management and maintenance of properties can be met from rents, and a social asset is created, which will endure for decades, if not centuries.[15]

- Housing construction is an established economic stimulus:

  > Building new homes has positive effects on the economy beyond the initial amount invested, due to impacts on demand in the supply chain and additional spending from increased numbers of people in employment. A report for the UK Contractors Group estimated that every pound spent on construction output stimulates an increase of £2.84 in gross domestic product. The increased economic activity boosts tax receipts for the exchequer and lowers benefits spending.[16]

  In the Covid-19 context commentators point to the counter-cyclical nature of social rented housebuilding. Demand for social rented housing does not decrease during an economic downturn. Sir Oliver Letwin's Independent Review of Build Out (2018) is cited as an illustration of the high and constant demand for social and affordable housing. The Local Government Association (LGA) has said:

  > It is therefore imperative as part of the response to the pandemic that Government considers what steps, measures and reforms would support councils to work towards delivering a new generation of 100,000 high quality social homes per year.[17]

- Social rented housing delivery could assist in tackling homelessness; there were 88,330 households in temporary accommodation at the end of December 2019.[18] The LGA has said that a council building programme could:

---

13 The Health Foundation, How does housing influence our health? 31 October 2017
14 Capital Economics (commissioned by Shelter) Increasing Investment in Social Housing, January 2019, p4
15 Capital Economics for SHOUT and the National Federation of ALMOs, Building New Social Rent Homes, 2015, p4
16 Capital Economics (commissioned by Shelter) Increasing Investment in Social Housing, January 2019, p4
17 LGA, Delivery of council housing: Developing a stimulus package post-pandemic, June 2020, p2
18 MHCLG, Statutory Homelessness Q4 October to December 2019, 21 May 2020

> ...support the government's ambition to provide 6,000 new supported homes for vulnerable rough sleepers taken off the streets during the pandemic.[19]

Part 6 of the Affordable Housing Commission's report, Making Housing Affordable Again: Rebalancing the Nation's Housing System, considers the case for social housing in some detail.[20]

The Institute of Public Policy Research (IPPR) published Renting beyond their means? The role of living rent in addressing housing affordability in June 2020. Amongst the solutions advanced to "help restore affordable housing's role as the "first social service", the IPPR is calling for affordability to be redefined and for sufficient investment "to build 90,000 zero carbon social rent homes per year in England to boost supply and help those on the lowest incomes".[21]

Reducing the number of households in temporary accommodation (TA) could reduce LA expenditure. In 2018/19 LAs in England spent £1.1. billion on TA. Shelter (2020)

3. Funding social rented housing: an overview

3.1 The Affordable Homes Programme

The provision of social rented housing at around 50% of market rents requires a degree of subsidy. This has traditionally taken the form of a capital grant. The Affordable Homes Programme (AHP) is administered on behalf of the Government outside London by Homes England. Within London, AHP funding is allocated by the Greater London Authority.[22] Providers, including housing associations, are required to bid for grant funding, successful bidders enter into delivery agreements with Homes England. The balance of the development cost is generally met by borrowing.

Housing associations are private bodies which operate under a mixed-funding regime. They are free to raise private finance without it being treated as public sector borrowing.

After 2010, grant funding available through the AHP, and latterly the Shared Ownership and Affordable Homes Programme (SOAHP) 2016-21, was reduced. The Coalition Government's 2010 Spending Review announced that £4.5 billion would be made available to fund new affordable homes over the period of the Review.[23] This represented a reduction in grant funding from £8.4 billion in the previous Spending Review. The SOAHP 2016-21 stands at £7.7 billion with a further

19 LGA, Delivery of council housing: Developing a stimulus package post-pandemic, June 2020, p3
20 Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System, March 2020, pp95-101
21 Webb J and Murphy L (2020) Renting beyond their means: The role of living rent in addressing housing affordability, IPPR. http://www.ippr.org/research/publications/living-rent
22 Information on the London Mayor's priorities for the allocation of funding can be found in Homes for Londoners: Affordable Homes Programme funding guidance 2016-2021, November 2016
23 The Coalition Government shifted the emphasis away from social rented housing towards the development of affordable homes on which rents of up to 80% of market rates could be charged – the additional revenue could be used to support housebuilding

£2 billion committed by the 2017 Government for 2021/22. Providers facing a 'subsidy gap' have sought to make up this up by other means (see section 3.3, below).

Initially, the focus of the SOAHP was on the development of 135,000 shared ownership homes. However, the Autumn Statement 2016, together with the publication of the Housing White Paper, Fixing our broken housing market, (February 2017) marked a shift of emphasis in investment priorities back towards rented housing. The Autumn Statement 2016 referred to "tenure flexibility" across the Affordable Homes Programme:

> **Affordable homes** – the government will relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership, to meet the housing needs of people in different circumstances and at different stages of their lives. The NPIF[24] will provide an additional £1.4 billion to deliver an additional 40,000 housing starts by 2020-21.[25]

Analysis conducted by Savills in 2017 estimated that it would take £7 billion each year to provide social rented homes to all of those in need of sub-market housing. The cost would be offset in the most expensive areas by "significant benefit saving...because social rent is at such a discount".[26]

The December 2019 Queen's Speech included a commitment to renew the Affordable Homes Programme. **Subsequently, the March 2020 Budget announced £9.5 billion for an extension of the AHP over five years from 2021-22:**

> The Budget announces an additional £9.5 billion for the Affordable Homes Programme. In total, the programme will allocate £12.2 billion of grant funding from 2021-22 to build affordable homes across England. This should bring in a further £38 billion in public and private investment. This new five-year programme will help more people into homeownership and help those most at risk of homelessness.[27]

The Government confirmed that as a condition of receiving AHP funding, homes built must have the Right to Shared Ownership attached.[28] For more information on shared ownership see Library Briefing Paper: Shared ownership (England): the fourth tenure?

On 30 June 2020, MHCLG confirmed that £12 billion will be spent over the next five years to deliver up to 180,000 new affordable homes, the majority of which will be built within the first five years "and the rest by 2028/29". The announcement included reference to the fact that some of the funding will be allocated to a pilot of 1,500 First Homes.[29]

24 National Productivity Investment Fund.
25 Autumn Statement 2016, para 3.11
26 Savills, Investing to solve the housing crisis - 2017, 27 November 2017
27 HC 121, March 2020, para 2.91
28 Affordable Housing: Construction: Written question – 28566, 17 March 2020
29 *Inside Housing*, "Government confirms £12bn affordable homes cash will be spent over five years", 1 July 2020 [subscription required]

On 6 July 2020, Robert Jenrick, Secretary of State, announced that housing associations and councils would have until March 2023 to start building the homes they are contracted to deliver under the current AHP. The previous deadline was March 2022.[30]

3.2 Lifting the borrowing caps

After experiencing restrictions on borrowing levels within their Housing Revenue Accounts (HRAs)[31] since before the early 1990s, local housing authorities had hoped that moving to a self-financing regime in April 2012 would free them up to borrow to invest in their existing stock and to develop new social housing. As with housing associations, authorities can bid for grant funding from Homes England and make up the development costs with loans which are serviced through rental income. Local authority borrowing is treated as public sector borrowing.

The drive to control public sector debt led the 2010 Coalition Government to take powers under the *Localism Act 2011* to impose a cap on the level of borrowing that local housing authorities could undertake under the self-financing regime. Debt was capped at its opening level of £29.8 billion. The decision to cap borrowing was controversial. Local authorities argued that they were already subject to the Prudential Code for Capital Finance and could demonstrate a good track record which should be viewed as a sufficient safeguard against imprudent borrowing.[32]

The 2013 Autumn Statement (December) saw the then Chancellor announce a limited increase in local authorities' borrowing caps:

> The government will increase the funding available for new affordable homes, by increasing local authority Housing Revenue Account borrowing limits by £150 million in 2015-16 and £150 million in 2016-17, allocated on a competitive basis, and from the sale of vacant high-value social housing.[33]

Subsequently, Budget 2017 announced that HRA borrowing caps would be lifted for councils in "areas of high affordability pressure":

---

[30] MHCLG, Jenrick acts to safeguard affordable homes during pandemic, 6 July 2020
[31] The HRA is often referred to as a 'landlord account'. It is a ring-fenced account within the General Fund. The main items of income to the HRA are council tenants' rent and service charge payments, while a key item of expenditure is the day-to-day management and maintenance of the housing stock
[32] Communities and Local Government, Summary of responses to the prospectus: Council housing: a real future, November 2010, p7
[33] Cm 8747, 2013 Autumn Statement, December 2013, para 1.228

> **…the Budget will lift Housing Revenue Account borrowing caps** for councils in areas of high affordability pressure, so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019-20, up to a total of £1 billion by the end of 2021-22. The government will monitor how authorities respond to this opportunity, and consider whether any further action is needed.[34]

In January 2019 *Inside Housing* reported that 75 councils had submitted bids for £2.9 billion in extra borrowing to build 20,500 homes (based on FOI requests).

This was followed by Theresa May's announcement during her speech to the Conservative Party Conference on 3 October 2018, **that borrowing caps would be lifted to support more housebuilding.**[35] The then Chancellor announced the lifting of borrowing caps with effect from 29 October 2018 during the Budget:

> …the Housing Revenue Account cap that controls local authority borrowing for house building will be abolished from 29 October 2018 in England, enabling councils to increase house building to around 10,000 homes per year. The Welsh Government is taking immediate steps to lift the cap in Wales.[36]

3.3 Early challenges and providers' responses

In addition to the borrowing caps and a steer to use AHP funding for affordable rent[37] and shared ownership products, providers have faced other challenges, including:

- **The requirement to reduce rents by 1% per year for four years from April 2016**

  This requirement ended in April 2020 since which time social landlords can increase rents by the Consumer Price Index +1% for five years.[38] Providers welcomed the certainty this delivers but would like a longer term rent settlement. Claire Miller, CEO of Clarion Housing Group, was asked how far into the future the Government should be providing certainty over rents by the Housing, Communities and Local Government (HCLG) Select Committee - she gave the following response:

  > As long as possible, because our capital markets rely on certainty. You will know that we borrow over the long term. Traditionally, housing associations have borrowed for 30 years; more recently we are borrowing for a period of 15 years, and the absolute requirement of the capital markets is certainty over that period of time. If the rent regime gives us that certainty, it means that we can access money at a better rate and for a longer period.[39]

- **The impact of increased Right to Buy sales**

  For local authorities, after discounts were increased in 2012, together with restrictions on their use of capital receipts, the growth in sales has impacted their ability to replace the properties sold on a one-for-one basis. The outcome of a Government

34 Budget 2017, November 2017, para 5.23
35 Prime Minister's Conference Speech, 3 October 2018
36 HMT, HC 1629, 2018 Budget, para 4.56
37 Rents of up to 80% of market levels.
38 DCLG Press Release, 4 October 2017
39 HC 25, 21 October 2019, Oral evidence – Long term delivery of social and affordable rented housing. Q94

review on the use of capital receipts is outstanding.[40] This is covered in more detail in section 6.

- **The impact of welfare reform on rent collection rates**

  Social landlords rely on their rental revenue streams to pay for daily management and maintenance and to meet interest payments on loans to finance housebuilding. Welfare reforms which have reduced entitlement to Housing Benefit and the housing element of Universal Credit generate increased levels of risk around financial viability and impact on lenders' confidence in the sector.[41]

As noted above, providers have sought to continue to develop social rented housing throughout the period of funding restrictions by filling the subsidy gap though a variety of measures, including:

- **Use of social landlords' own resources, e.g. cross-subsidy from the sale of market and shared ownership homes and use of surpluses.**

  In 2018/19 almost half of the homes started and completed by housing associations were outside of the Affordable Homes Programme:

  - 47% (22,985) of homes started were delivered outside the Affordable Homes Programme
  - 46% (21,155) of homes completed were delivered outside the Affordable Homes Programme[42]

  Towards the end of 2019 there was growing evidence that associations' ability to cross-subsidise affordable housing development was becoming more limited. Fiona Fletcher-Smith, Group Director of Development and Sales with L&Q, told the HCLG Select Committee that the model was broken:

  > ...for us at L&Q the cross-subsidy model really is broken. It is possibly a temporary break, but to put a little more meat on the bones of how the market is, at the moment it is not just a question of sentiment. People are putting off making big decisions such as buying new homes. We need them to buy to generate the surplus that we reinvest in the business, and last year we generated about £200 million of surplus to invest in affordable housing and to subsidise that affordable housing.
  >
  > We are almost seeing a slight contraction of retail lending; we are seeing valuers who are down-valuing properties. They are not agreeing with us on the valuation. The added issue for us, as a housing association, is about the need to protect the health, safety and wellbeing of our existing residents. Our housing strategy and development strategy is very clear that we will not develop at the cost of our existing homes and residents. That really starts to bite for an association such as L&Q. We have, for example, 289 buildings above 18 metres, for which we are having

The HCLG Select Committee's inquiry into the delivery of social and affordable rented housing was told that the cross-subsidy model is broken.

[40] MHCLG, Use of receipts from Right to Buy sales, 14 August 2018
[41] See for example, UK Collaborative Centre for Housing Evidence, The impact of welfare reforms on housing associations – a scoping study, 2018 [Professor Hickman P; Dr Preece J; Dr Pattinson B]
[42] National Housing Federation (NHF), How many homes did housing associations deliver in 2018/19? June 2019

> to look at the cladding systems and the fire stopping. We have to do quite a considerable amount of remedial work to those first, so when we do generate a surplus we are also needing to look after our own stock first.[43]

Clare Miller described the challenges involved in developing social rented housing:

> The most difficult tenure to build is social rent, and that is purely because of the economics of it. If I give you an example, in London, to build a new two-bedroom flat, it costs us on average just over £400,000. The rent that I can secure for a social rent, if we forecast that across 30 years, which is our planning horizon, is about £100,000. I am looking to fill the gap of £300,000 from either grant or subsidy that I can generate myself. At the moment, the average grant rate that we are securing in London is around £60,000 per home, so for every social rent I build there is a gap of £240,000. That is the pure economics of the situation.
>
> Last year we built 30 social rented homes. This year we will build 70. It is a tiny part of our programme, but as a housing association we are committed to developing affordable tenures, so what we are able to do is to build affordable rent and, increasingly, to build low-cost home ownership. There is no doubt there is a need in the marketplace for both those tenures, but I would love to be able to build more social rent that is compatible with our charitable objectives. In order to be able to do that, I need to find that subsidy somewhere.[44]

The Covid-19 outbreak may have affected sales and put the cross-subsidy model under further pressure.

There is evidence that the Covid-19 outbreak has put the cross-subsidy model under further pressure. The Regulator of Social Housing's quarterly survey covering January to March 2020 reported a 12% increase in the number of unsold affordable home-ownership units by the end of March, while unsold market sale units increased by 21%.[45]

- **Use of public sector land**

  Government activity since 2010 in relation to land supply has been focused on **ensuring that land in public ownership is released for housebuilding**. MHCLG published a progress report on the Public Land for Housing Programme 2015-2020 in May 2019. Ordnance Survey has been commissioned to monitor the progress of homes built on land released through the 2011-15 and 2015-20 programmes. Performance data was released on 6 February 2020 - there is an aim to release enough land for 160,000 homes in the longer-term. On publication of the data commentators expressed concern that, of the land sold to developers with scope for 131,000 homes, only 2.6% would be for social rent.[46]

- **Planning gain, also referred to as section 106 contributions linked to private housing development**

43 HC 25, 21 October 2019, Oral evidence – Long term delivery of social and affordable rented housing. Q85.

44 Ibid., Q86

45 Regulator of Social Housing, Quarterly Survey Q4 – January to March 2020, May 2020

46 NEF, Sold off public land is creating miniscule amounts of affordable housing, 18 February 2020

Data from the National Housing Federation's survey of housing associations indicates the importance of section 106's contribution to affordable housing development in 2018/19:

- 51% (21,442) of affordable starts were delivered through Section 106 agreements
- 54% (20,757) of affordable completions were delivered through Section 106 agreements[47]

On 13 May 2020 the Government issued new guidance advising local authorities to consider letting small and medium-sized developers defer their section 106 and Community Infrastructure Levy (CIL) obligations in response to the Covid-19 outbreak. The measure is aimed at supporting housebuilders struggling with cash-flow.[48] The National Housing Federation reacted quickly to point out the importance of these agreements in securing the delivery of affordable homes, and emphasised that flexibility should not come at the cost of affordable housing.[49]

- **Local housing authority companies**

  Limited access to grant funding and, until 2018, caps on their ability to borrow, led an increasing number of local authorities to consider innovative ways in which they could develop new housing. This resulted in the growth of local authority owned housing companies.

  Authorities are using their housing companies to provide a wide range of housing types. Few, if any, are producing only social rented homes as the financial challenges to making this work are considerable. However, authorities *are* using companies to generate profit from homes for sale or letting at market rents which, in turn, enables the cross-subsidy of a proportion of affordable and/or social rented housing.[50]

Section 6 of this paper has more information on the current challenges faced by providers seeking to develop social rented housing.

---

[47] NHF, How many homes did housing associations deliver in 2018/19? June 2019
[48] MHCLG, Coronavirus (COVID-19): Community Infrastructure Levy guidance, 13 May 2020
[49] *Inside Housing,* "Housing sector fears government's Section 106 changes could hamper affordable housing delivery", 14 May 2020 [subscription required]
[50] See for example, The Smith Institute, Delivering the renaissance in council-built homes, 2017

4. The need for affordable housing

Summary

- The National Housing Federation and Crisis have identified a need for **145,000 new affordable homes** per year of which **90,000 should be for social rent**. Shelter has called for **155,000 new social homes per year**.
- There were **1.16 million** households on waiting lists for social housing on 1 March 2019.
- Commentators have identified several factors that they say indicate a need for more affordable housing. These include rising numbers of homeless households in temporary accommodation; unaffordability in the private rented sector; long-term growth in expenditure on housing benefits for private renters; and overcrowding in both the private- and social-rented sectors.
- London has high levels of all of the above factors in comparison with the rest of England.
- There are also relatively high numbers of private-renting households receiving housing-related benefits in parts of the North of England and coastal areas.
- Overcrowding is also common in other urban areas such as Birmingham and Leicester.

4.1 Estimates of the need for social and affordable housing

Research conducted by Heriot-Watt University, published in 2018, for the National Housing Federation (NHF) and Crisis, called for 340,000 new homes each year in England up to 2031. This research identifies a need for 145,000 affordable homes per year **of which 90,000 should be for social rent.** [51]

These need estimates are based on analysis of the existing backlog of housing need, combined with household projections in a model that seeks to estimate the level of supply needed for households to live affordably. In this research, the 'backlog' includes households that are overcrowded, in unsuitable accommodation, homeless, in poverty after housing costs, or 'concealed' households (i.e. families or single adults living with others and likely to want to move). These estimates are combined with household projections in a model that seeks to estimate the supply needed for households to live affordably. [52]

The report from Shelter's commission on the future of social housing – A Vision for Social Housing, published in January 2019 – recommended a total of **"3.1 million more social homes" be built over a 20-year period.** [53] This represents an average of 155,000 new homes per year. This figure is based on the number of households that the commission judged to be "failed by the housing market", including households in hazardous or overcrowded privately-rented accommodation, private

[51] Crisis, Housing supply requirements across Great Britain: for low-income households and homeless people. November 2018
[52] Ibid.
[53] Shelter, A vision for social housing, January 2019, p17

renters unable to afford to buy, and older private renters as well as homeless households.[54]

Any evaluation of the need for social or affordable housing involves some level of value-judgement about how housing need should be met. In the next section we explore some indicators of overall housing need which commentators argue could be met by increased social housing supply.

4.2 Indicators of unmet housing need

Commentators have argued that the need for increased supply of social housing is demonstrated by large housing waiting lists, unaffordability in the private rented sector, high levels of homelessness and overcrowding.

Official statistics give an idea of the extent of need according to these measures, and in some cases how this varies over time and between geographical areas. The issues are more severe in some parts of the country than others, and tend to be more prevalent in London and other urban areas (see maps on p. 24).

Waiting lists

There were **1.16 million households** on waiting lists for social housing on 1 April 2019. [55]

The size of local authority waiting lists is often cited as a measure of the need for social housing. However, local authorities have a good deal of discretion over who they can include on their waiting list. This means that waiting list size isn't that helpful for understanding differences between areas or over time.

The *Localism Act 2011* gave councils more powers to exclude applicants from waiting lists, using criteria like unacceptable behaviour or lack of a local connection. The number of households on waiting lists subsequently fell, and was 36% lower in 2019 than in 2011. [56] Local authorities' housing allocation policies are the main driver of differences over time and between areas.

For more information on the 2011 Act, see the Library briefing paper Allocating social housing (England) (CBP06937).

MHCLG also reports on the length of time that households spend on social housing waiting lists before taking up a new social letting:

> Over half (56%) of households who received a new social housing letting in 2018/19 were on the waiting list for less than a year in that local authority area. 15% of households were on the waiting list for 5 years or more before getting a social letting in that area.[57]

54 Shelter, A vision for social housing, January 2019, p172
55 MHCLG, Live tables on rents, lettings and tenancies, Live Table 600, 28 January 2020
56 Ibid.
57 MHCLG, Social housing lettings in England, April 2018 to March 2019, p.16

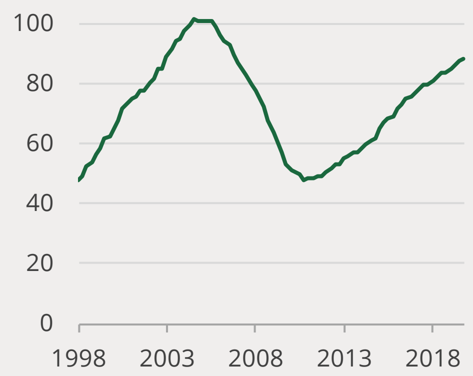
Households in temporary accommodation

Households that are homeless or at risk of homelessness may apply to their local authority for assistance. Local authorities might place households in temporary accommodation (TA) while an application is in progress, or while waiting for suitable long-term accommodation to become available.

In England, the number of households in temporary accommodation has been increasing since 2011, after the number had more than halved compared with its 2004 peak. There were **88,330 households in temporary accommodation** in England at the end of December 2019, 6% higher than the same date a year previously and 81% higher than the same date in 2011.[58]

Households in temporary accommodation

Thousands, England, 1998 - 2019



Source: MHCLG, Homelessness Live Table TA1

The map on p. 24 shows the rate of households in temporary accommodation per 1,000 resident households at the end of March 2018 (figures for March 2019 are incomplete at local authority level, and so are not used here). Rates were generally much higher in London than the rest of the country, with the highest rate in Newham. Luton and Brighton & Hove had some of the highest rates outside London.

Homelessness campaigners have linked homelessness with under-supply of affordable housing. Analysis produced by Heriot-Watt University for Crisis pointed to the supply of affordable housing as a driver of homelessness:

> The availability and affordability of different forms of potentially accessible housing, whether social rented lettings or suitable forms of TA, are important in driving trends in future levels of core homelessness.[59]

The report recommended an increase in overall housing supply, including new social rented and affordable housing, to reduce homelessness.[60]

Crisis' Homelessness Monitor: England 2019 notes that the number of households in 'unsuitable' temporary accommodation has grown faster than any other measure of homelessness that they use. It attributes this to increased demand as well as "static or falling supply of social lettings and increasing difficulty in achieving private rental placements". [61] The publication also identifies the profile of social housing stock as an issue, in addition to overall supply:

---

[58] MHCLG, Live tables on homelessness, Temporary accommodation table TA1, 21 May 2020

[59] Crisis, Homelessness projections: core homelessness in Great Britain. Summary report (August 2017) p14

[60] Ibid., p16

[61] Crisis, The Homelessness Monitor: England 2019, May 2019

> Very few local authority respondents [to a survey run by Crisis] believed that existing social housing provision in their area is commensurate with homelessness needs, but many were at least equally concerned about the problematic profile of the local social housing stock portfolio, mismatched to need.[62]

The Homelessness Monitor refers to changes in housing associations' allocation policies and the drive to "squeeze out higher risk and non-economically active households" as exacerbating the challenge authorities face in trying move households on from temporary accommodation.[63]

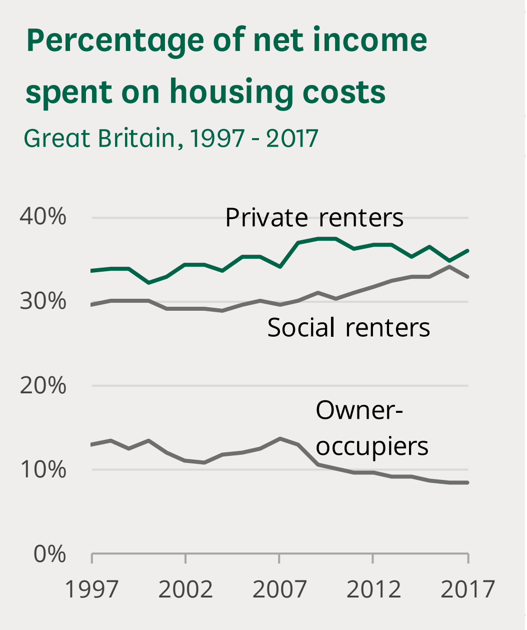
For further information see the Library briefing paper: Households in temporary accommodation (England) (CBP02110).

Affordability in the private rented sector

Unaffordability in parts of the private rented sector is, according to some commentators, a sign that more social housing is needed. Shelter's A Vision for Social Housing report argues:

> [The] overall shortage of housing – resulting from the withdrawal of social housebuilding – has prompted much greater competition for privately rented homes. This has created the conditions for a landlords' market. In much of the country, there are too many renters chasing too few homes, leaving renters with weak bargaining power. Knowing that someone else will be willing to accept what is on offer can mean renters too often feel forced to accept high rents, poor conditions, and unfair terms in tenancy agreements.[64]

The Resolution Foundation think-tank has examined trends in privately-rented households' expenditure on housing. Its research looks at the percentage of households' net income (i.e. after tax and benefits) that is spent on housing costs.



Source: Resolution Foundation

There has been relatively little change for private renters over the last twenty years. Private renters spent an estimated 36% of net income on housing costs in 1997, compared with 34% in 2017.[65] Private renters spend more of their income on housing costs, on average, than social renters or owner-occupiers. The Resolution Foundation observes that this:

> […] does not reflect the trade-offs that some households may choose to make in order to achieve affordability. It is possible, for example, that a household keep their housing costs low and enjoy an affordable [housing cost to income ratio] as a result of overcrowding, accepting sub-standard living conditions or residing a significant distance from work or other amenities such as schools.[66]

62 Crisis, The Homelessness Monitor: England 2019, May 2019, p20
63 Ibid., p22
64 Shelter, A vision for social housing, January 2019, p119
65 Resolution Foundation analysis of the DWP Family Resources Survey, Housing costs and security: renters online dashboard [Accessed 6 November 2019]
66 Resolution Foundation, The housing headwind: the impact of rising housing costs on UK living standards, June 2016, p14

Private-rental affordability varies widely across England, as shown in the map on p. 24. The map uses statistics on full-time workers' pay, because there aren't robust local figures on total household income. This gives us a less complete picture: tax and benefits aren't factored in, and part-time and self-employed workers are excluded. The next section looks at the implications of these limitations.

The map shows how monthly pay in April 2019 compares to the monthly rent for a two-bed home in each area in 2019/20. In Westminster, the least affordable area, median rents were 79% of median pay. London and the surrounding area was generally less affordable than the rest of the country. Local authorities in the North of England tended to be more affordable: Manchester was the only one with rents above 35% of median pay (at 37%).

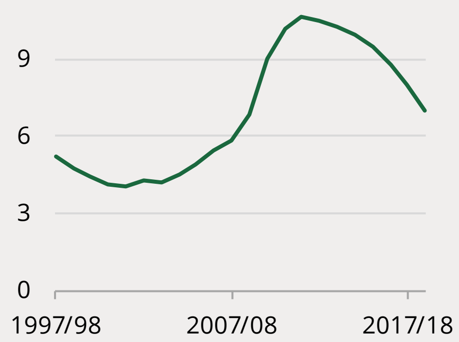
Spending on Housing Benefit for private renters

Some low-income households in the private rented sector receive Housing Benefit (HB) or the housing element of Universal Credit (UC). Commentators have noted that spending on housing benefits has grown at the same time as public spending on social housing development has fallen. For example, in a 2014 report Shelter commented:

> Housing benefit is widely recognised as having facilitated a switch from supply side to demand side subsidies. The period following 1975 saw a move away from investment in bricks and mortar with a corresponding rise in expenditure on housing benefit. This was not an accidental shift. Successive governments remained committed to the idea that support should be targeted at individuals rather than bricks and mortar investment to increase the supply of housing. [67]

Expenditure on Housing Benefit in the PRS

£bn (2019/20 prices), Great Britain

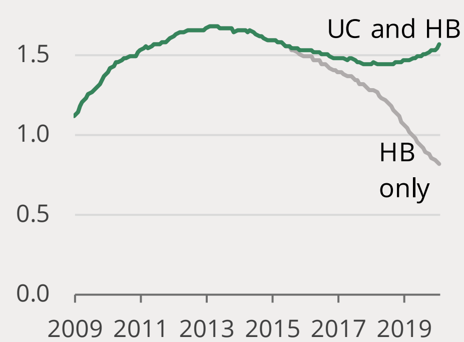


Source: DWP, Benefit expenditure & caseload

Expenditure on HB in the private rented sector more than doubled in real terms between 1997/98 and 2012/13, growing from £5.2bn to £10.6bn. Expenditure on HB has since fallen (to £7.0bn in 2018/19). [68] This is partly due to the roll-out of UC, and partly due to policy measures designed to reduce HB expenditure. For example, in April 2016 the government froze Local Housing Allowance rates – the rates determine the maximum HB private renters can claim.

Households receiving support for housing in the PRS

Great Britain, 2009 - 2020



Source: DWP Stat-Xplore

Caseload figures allow for a more consistent comparison over time and between areas. 1.56 million privately-renting households were receiving either HB or the housing element of UC in February 2020. This is

[67] Shelter, Bricks or benefits?, 2014, p.9
[68] DWP, Benefit expenditure and caseload tables 2020, Outturn and forecast: Spring Budget 2020, 20 March 2020

somewhat lower than the mid-2013 peak, when 1.68 million households were receiving HB.

The map on p. 24 shows the geographic distribution of private renters receiving housing support. It shows the number of these households as a rate per 1,000 households living in the area. Blackpool had the highest rate in February 2020, followed by the London boroughs of Enfield and Brent and the coastal towns Hastings and Torbay. Other areas with high rates were in parts of London, but also parts of the North West, North East, Yorkshire and some coastal areas.

The areas with a high rate aren't the same as those with unaffordable rents identified in the last section, which means that other factors are involved. Areas with high rates of housing support might have more households not in work and on low incomes (the affordability measure only considers employed people). The overall size of the private rented sector in an area might also be a factor.

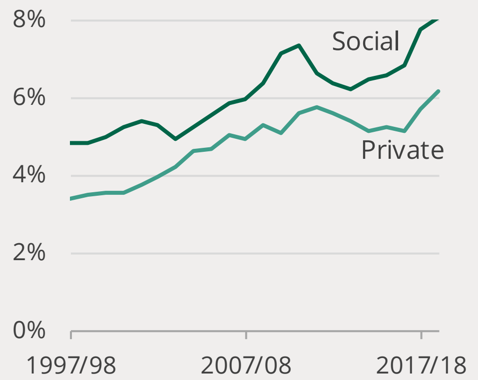
Overcrowding

Overcrowded housing in an area indicates that there is unmet housing need. However, overcrowding can happen for a variety of reasons, with different implications for how the need can be met.

The English Housing Survey (EHS) collects data on overcrowding using the 'bedroom standard' measure. This measure determines the number of bedrooms a household 'needs' based on the age, sex and relationships of household members,[69] and then subtracts this from the number of bedrooms available to the household. Households with fewer bedrooms than they need are deemed to be overcrowded.

Overcrowding in rented housing

% of households, England, 1997/98 to 2018/19



Source: English Housing Survey

An estimated **6.2% of households in the private rented sector were overcrowded** in 2018/19. The proportion has increased long-term, from 3.4% in 1997/98. [70] Overcrowding in the private rented sector can happen if there are affordability constraints – i.e. if households lack the resources to access an adequate number of bedrooms, or to allow single adults who might want to live separately to do so.

Overcrowding in the social housing sector was estimated to be higher, at 8.0% of households in 2018/19. The proportion had previously peaked in 2010/11, having risen from 3.4% in 1997/98, and declined briefly before rising again. Overcrowding in the social housing sector can be an indicator that social housing providers lack enough housing stock of the right size to accommodate eligible households. In

[69] A separate bedroom is allocated to each married or cohabiting couple, any other person aged 21 or over, each pair of adolescents aged 10-20 of the same sex, and each pair of children under 10. Any unpaired person aged 10-20 is paired, if possible, with a child under 10 of the same sex, or, if that is not possible, he or she is given a separate bedroom, as is any unpaired child under 10.

[70] MHCLG, English Housing Survey headline report 2018-19, Annex Table 1.21, 23 January 2020

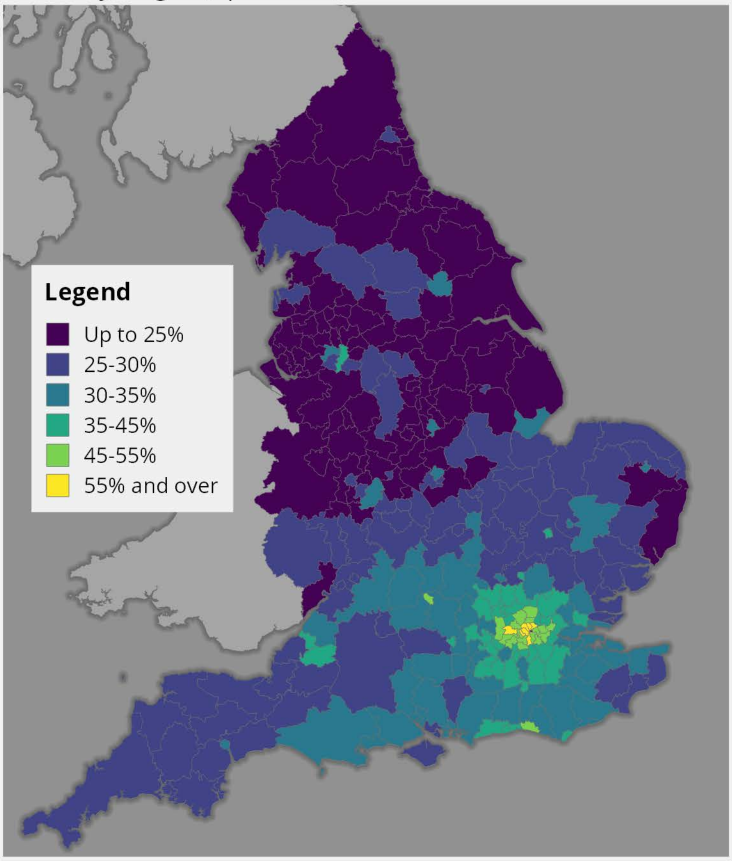
other words, the issue is the availability of units with enough bedrooms, rather than the overall number of social housing units.

The map overleaf shows the proportion of households in the social housing sector in each local authority that were overcrowded at the time of the 2011 Census, as measured using the bedroom standard. Rates were highest in London (23% of social renters were overcrowded in Newham), the surrounding area, and other urban areas such as Birmingham and Leicester. It is worth noting that local levels of overcrowding are likely to have changed since 2011.

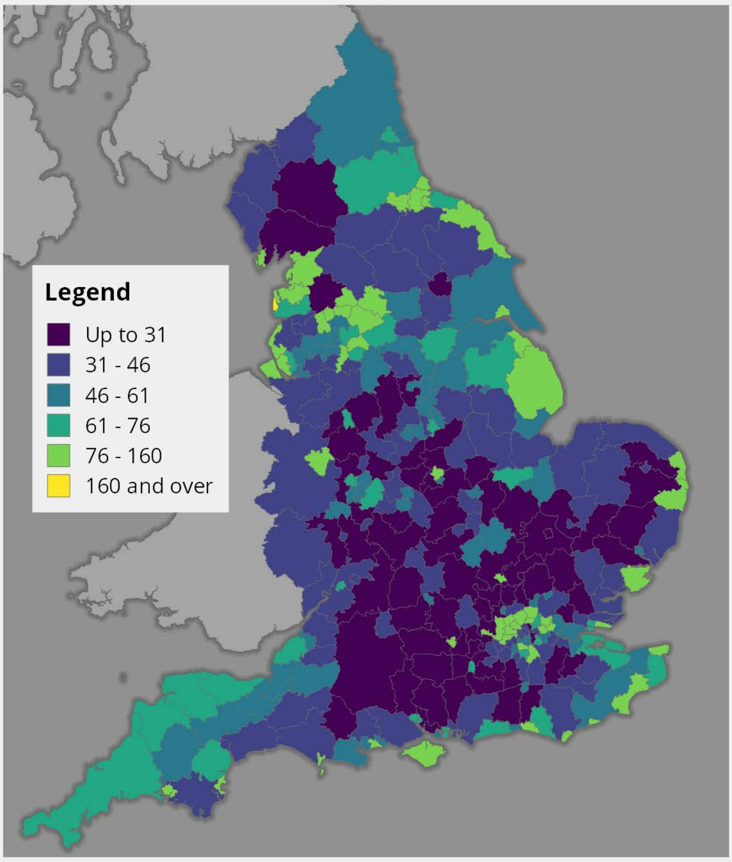
More detailed statistics on overcrowding, including overcrowding by constituency, can be found in the Library briefing paper: Overcrowded housing (England) (SN01013).

Housing need indicators
Local authorities in England

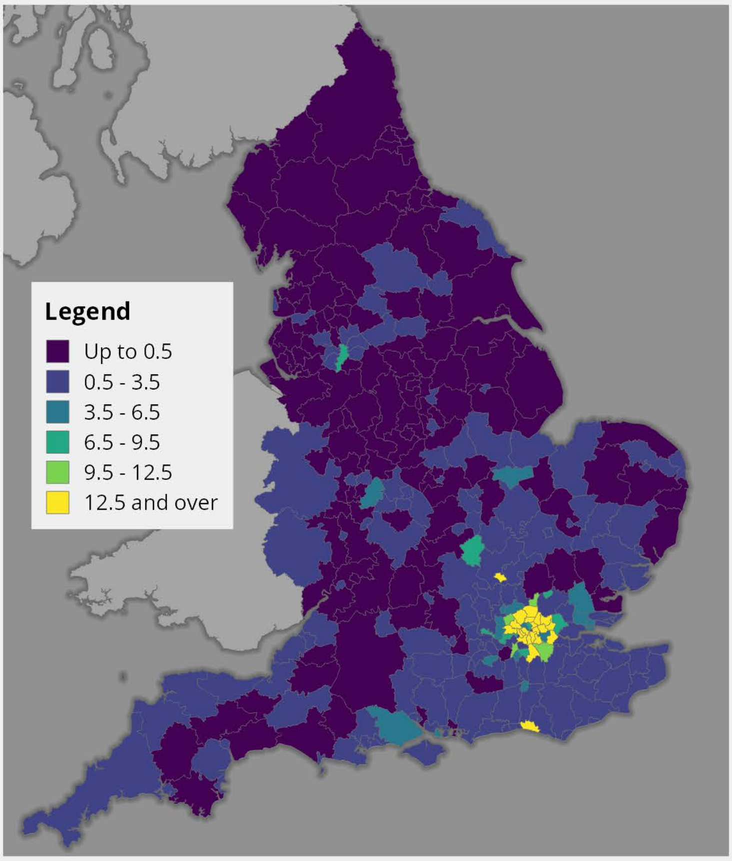
Affordability of private rents
Median rent for a 2-bed home (2019/20) as a % of median monthly wages (April 2019)



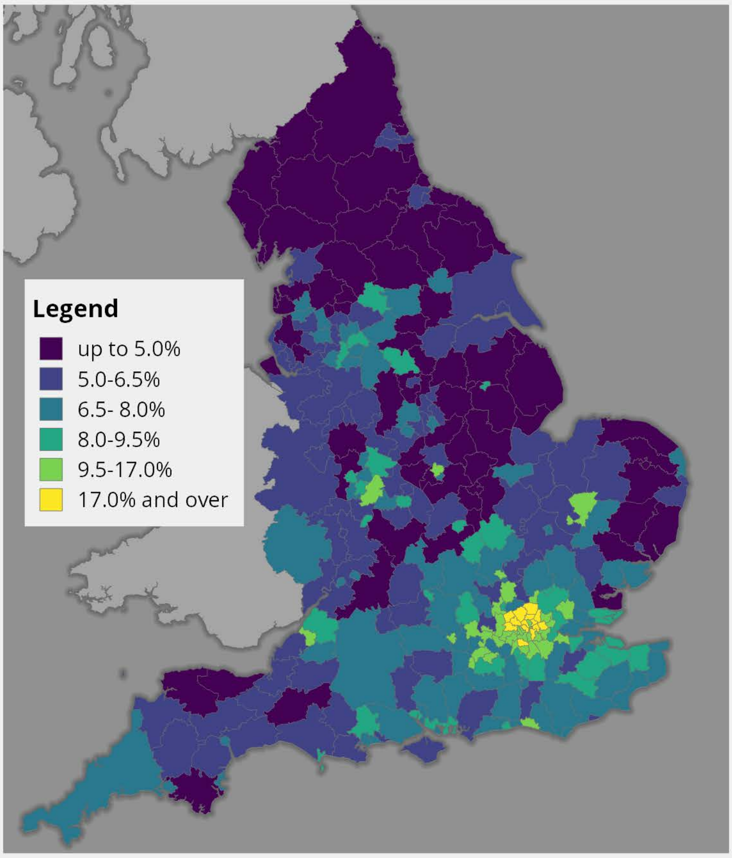
Housing benefits in the private rented sector
Privately-renting households on HB or UC, per 1,000 resident households, February 2020



Households in temporary accommodation
Per 1,000 resident households, March 2018



Overcrowding in the social housing sector
% of households renting from a social landlord, 2011



Sources: ONS, private rental market summary statistics 2019/20; ONS, Annual Survey of Hours and Earnings 2019; DWP Stat-Xplore; MHCLG, Live tables on homelessness; 2011 Census Table QS412EW; ONS, 2018-based household projections for England
Notes: Local authority boundaries changed in 2019. 2019 boundaries are used for the affordability and housing benefits maps.

5. The supply of social and affordable housing

Summary

- Social housing providers own around 4.1 million units of housing, with higher concentrations of stock in urban areas.
- The number of homes rented from social providers has fallen by 7% since 1997 and 25% since 1979. The fall has been most substantial in parts of the North of England.
- The availability of homes for social rent has fallen as new affordable products have become more common. Around 93% of social housing providers' stock was let at social rent in 2018/19, compared with 98% in 2012/13.
- Social rent made up the majority of new affordable housing supply in each year up to 2011/12, but fell to 11% of new supply by 2018/19.
- Local authorities built 2% of all homes completed in 2018, while housing associations built 17%.
- Around 27,000 units of social housing are lost each year through sales and demolitions. Right to Buy accounts for the majority of losses; sales are not currently being replaced one-for-one.

This section looks at the supply of social and affordable housing. Data from social housing providers tells us about their stock and the numbers of households renting from them, as well as the availability of homes let at social rents. This section also summarises the data on new supply of homes for social rent and other affordable products, as well as sales and demolitions of existing social housing stock.

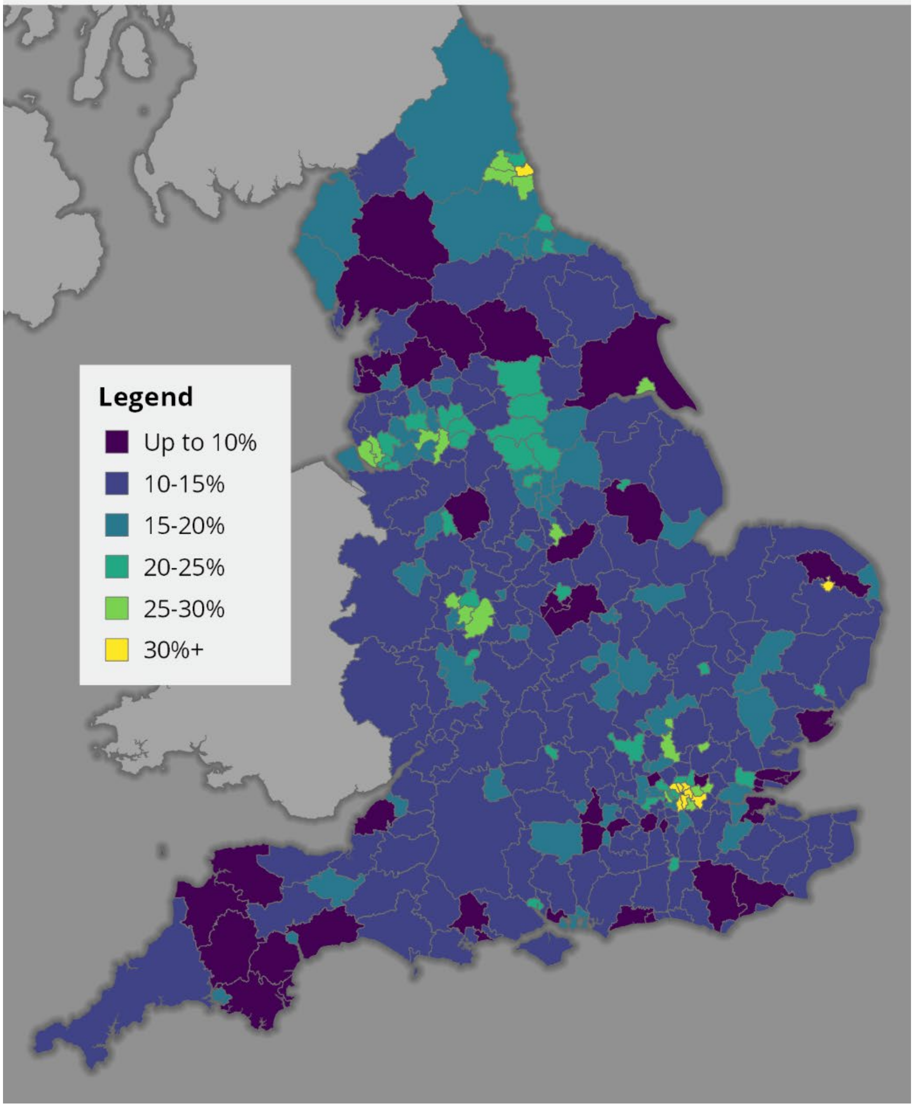
5.1 How big is the social housing sector?

There are currently around **4.1 million units of housing owned by social housing providers** in England (1.6 million owned by local authorities and 2.6 million owned by housing associations).[71] This figure covers all stock owned by these providers, not just those let at social or affordable rents, and includes bedspaces managed by housing associations.

The map overleaf shows the local authority areas with the highest proportions total stock in the area owned by social housing providers. The highest concentrations were in parts of inner London (the highest were Hackney and Southwark, each at 41% of total stock owned by social housing providers). Outside of London, Norwich had the highest proportion (31%), followed by South Tyneside (30%). Urban areas around the West Midlands conurbation (including Wolverhampton and Birmingham), Tyneside, Greater Manchester and Liverpool all had relatively high proportions.

[71] MHCLG, Live Table 100, 21 May 2020

Which areas have the biggest social housing sector?
% of housing stock owned by local authorities or housing associations, March 2019



Source: MHCLG, Live Table 100, 21 May 2020

5.2 Trends in the supply of social and affordable housing

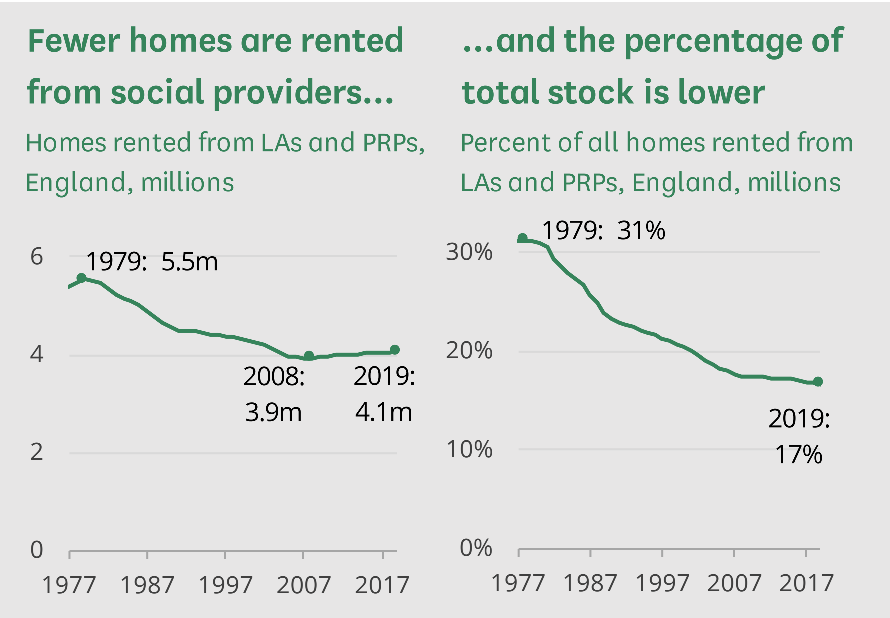
The social housing sector has grown smaller compared with previous decades. This section describes trends in the size of the sector, including additions to and depletions from the stock, with a focus on the availability of homes for social rent. The introduction of alternative affordable products (such as Affordable Rent) means that the supply of homes for social rent is decreasing.

Renting from social housing providers

The charts below show the trend in the amount of homes that are rented from a local authority or housing association (at all rent levels, not just social rent). Renting from social housing providers has become less common in the long-term.

4.1 million homes were rented from social housing providers in 2019. This is a **fall of 25% compared with the high point of 5.5 million homes in 1979, and a fall of 7% since 1997**. However, it is a 4% increase compared with the low point of 3.9 million homes in 2008.

The overall number of homes in England has increased more substantially in this period. This means that the *proportion* of homes rented from a social landlord has fallen more steadily than the absolute number, declining from 31% in 1979 to 17% in 2019.



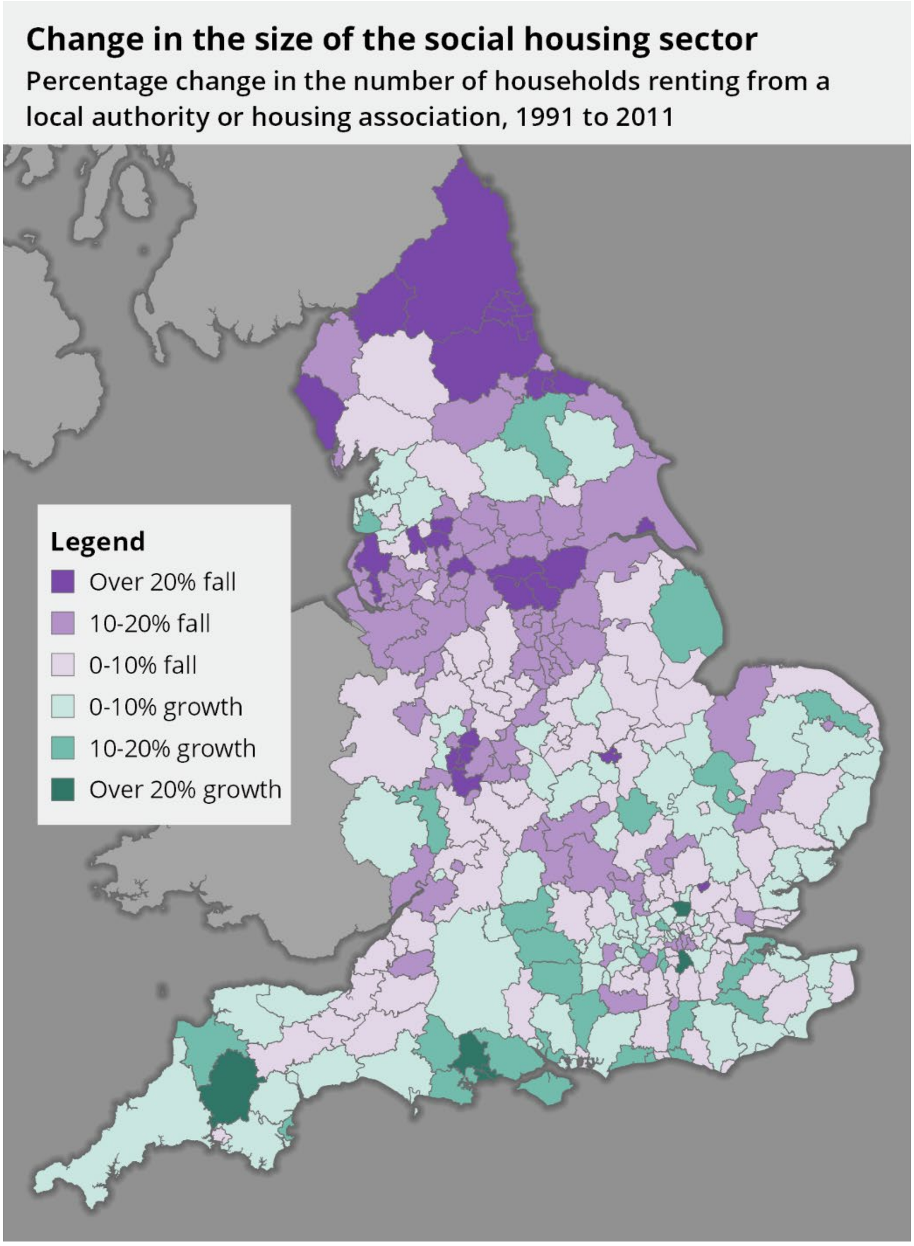
Source: MHCLG, Live Table 104, 21 May 2020

Notes: Figures include self-contained units but not bedspaces. Shared ownership units are not included.

The map overleaf shows trends in the proportion of households renting from social housing providers in each local authority, using census data. It shows the change in the number of households that were renting from a social housing provider between the 1991 census and the 2011 census.

Most local authorities (209 out of 326) saw a decline in the number of households renting from a social housing provider. In general, there has been more of a decline in the North of England, but this is not exclusively the case. The biggest decreases were in Bromsgrove (38%), Durham (33%), Corby (33%) and Sunderland (33%). Outside of the North of England, there were also substantial decreases in Sandwell (28%), Walsall (24%) and Dudley (22%) in the West Midlands, and Harlow (23%) in the East of England.

The areas with the biggest increase were Bournemouth (32%), Croydon (25%) and West Devon (24%).



Source: 2011 Census, Table KS402EW; 1991 Census, Table L20

How has the number of homes let at social rent changed?

The analysis above looks at homes owned by and let from social housing providers. Social housing providers own a range of different types of low-cost housing, not just homes for social rent. It is possible to estimate the change in the amount of homes let at social rent in recent years, using data reported by local authorities and by private registered providers of social housing.

Local authorities reported owning around 1.56 million self-contained properties for social rent at the end of 2018/19, a **decrease of 7%** on the 1.68 million owned at the end of 2012/13. [72]

Private registered providers reported owning around 2.28 million properties and bedspaces for social rent at the end of 2018/19 (note that this is a broader definition than the local authority figure above). This is a **decrease of 2%** on the 2.32 million owned at the end of 2012/13. [73]

Combining the two figures gives a rough estimate of around 3.8 million social rent units at the end of 2018/19, down around 4% on 4.0 million at the end of 2012/13. This figure counts bedspaces for private registered providers but not local authorities.

Comparing these figures with the total stock of housing owned by local authorities and private registered providers suggests that **around 93% of stock was for social rent in 2018/19, compared with 98% in 2012/13.** The proportion of local authority stock for social rent fell from almost 100% to around 98%, while the proportion of private registered provider stock fell from around 97% to around 89%.[74]

Has the availability of social rent for new tenants changed?

MHCLG also publishes data on the number and type of lettings made to new tenants by social housing providers. Providers made around 313,000 lettings at social or affordable rents in 2018/19 (as well as a few hundred Rent to Buy lettings). The number of new social and affordable lettings was around 17% lower than the 378,000 new lettings made in 2012/13.

2012/13 was the first year in which it was possible for providers to let homes at Affordable Rent levels. The number of new lettings at social rent has decreased since then, while the number of lettings at Affordable Rent has increased. **The number of new social rent lettings made in 2018/19 was 22% lower than in 2012/13, while the number of new Affordable Rent lettings was 45% higher.**

In total, lettings at social rent accounted for 87% of total social and affordable lettings in 2018/19, compared with 93% in 2012/13.

Housing associations are more likely to let at Affordable Rent than local authorities are. Around 97% of new local authority lettings were at

[72] MHCLG, Local authority housing statistics data returns for 2018/19 and 2012/13, Section A. These figures are likely to be a slight over-estimate. Local authorities generally report all their stock as either 'social rent' or 'affordable rent' in the annual statistical return published by MHCLG. This implies that other products, such as intermediate rent and shared ownership, are reported in one of these two categories.

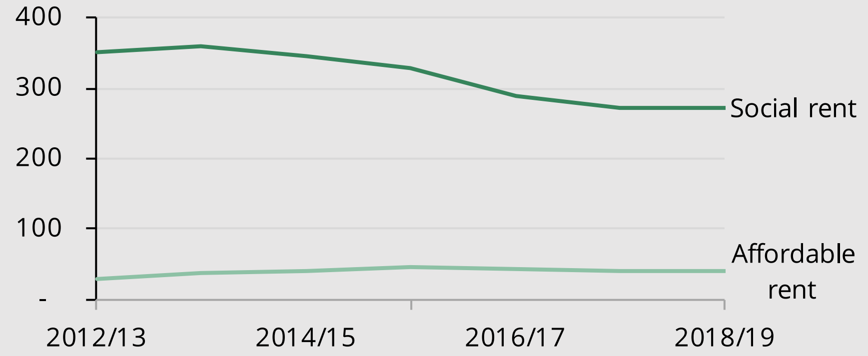
[73] Regulator of Social Housing, Statistical Data Return data releases for 2018/19 and 2012/13, House of Commons Library analysis. Figures are a slight underestimate because of non-response from providers in the data return.

[74] As above; MHCLG, Live Table 100. Denominators include bedspaces for private registered providers but not local authorities.

social rent in 2018/19, compared with 83% of new lettings from housing associations.[75]

New lettings at social rent have declined

New lettings made per year, England, 2012/13 - 2018/19



Source: MHCLG, CORE summary tables: 2018 to 2019, Table 1a

5.3 Additions to the social and affordable housing stock

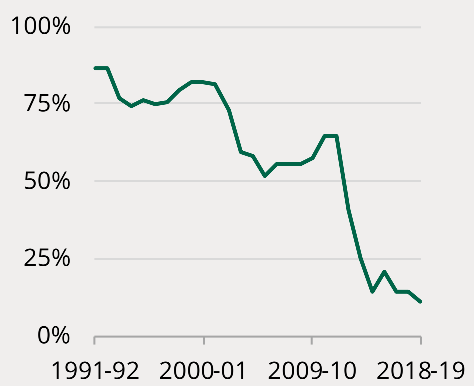
This section looks at trends in additions to the social and affordable housing stock.

New supply of affordable housing

MHCLG publishes statistics on the new supply of affordable housing in each year. As discussed in section 1 of this briefing, the term 'affordable housing' covers social and other low-cost rental housing as well as affordable home ownership products. The figures include both new builds and acquisitions.

Social rent is declining as a proportion of new supply

Percentage of new affordable homes that are for social rent, England, 1991/92 to 2018/19



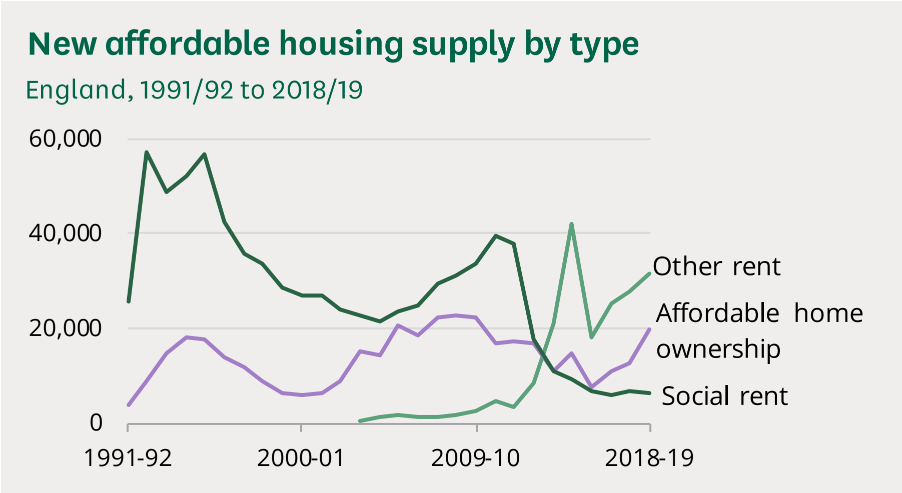
There were around 57,000 new affordable homes delivered in 2018/19, an increase of 22% on the year before. Delivery of affordable homes was at its lowest in 2015/16, at around 33,000 homes, and peaked in 1995/96, at around 75,000 homes.

As the chart on the right shows, housing for social rent represents a declining proportion of new affordable homes**. Social rent made up the majority of new affordable housing supply in each year up to 2011/12, but fell to 11% of new supply by 2018/19**. Around 6,300 new homes for social rent were delivered in 2018/19, compared with a peak of around 57,000 in 1992/93.

As the delivery of homes for social rent has fallen, the number of new homes for other types of rent has increased – especially Affordable Rent, which accounts for 43% of new affordable housing delivered

[75] MHCLG, Social housing lettings in England, April 2018 to March 2019, CORE summary tables: 2018 to 2019, Table 1a.

since 2011/12. Affordable home ownership has also increased: this category accounted for 34% of delivery in 2018/19.

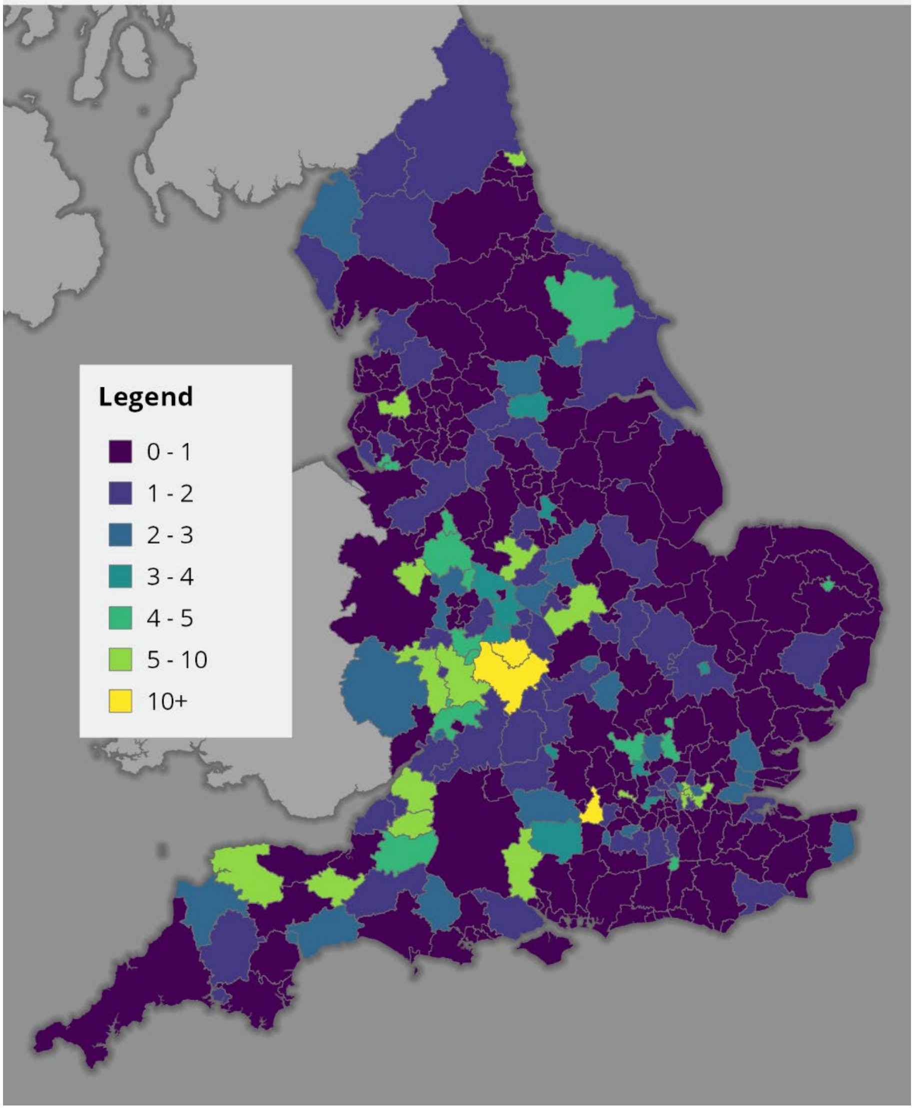


Source: MHCLG, Live Table 1000, 3 December 2019

The map overleaf shows the number of new homes for social rent supplied in each local authority over the last five years, per 1,000 households living in the area. Areas with high levels of recent supply relative to the population include Stratford-on-Avon and Warwick as well as a number of other West Midlands councils; Wokingham in the South East; and parts of the South West including South Gloucestershire and North Devon. The City of London had the highest rate within London (mostly due to its small population), followed by Greenwich, Hackney and Tower Hamlets.

New homes for social rent per 1,000 households

Five-year total (2014/15 to 2018/19) per 1,000 households in mid-2018



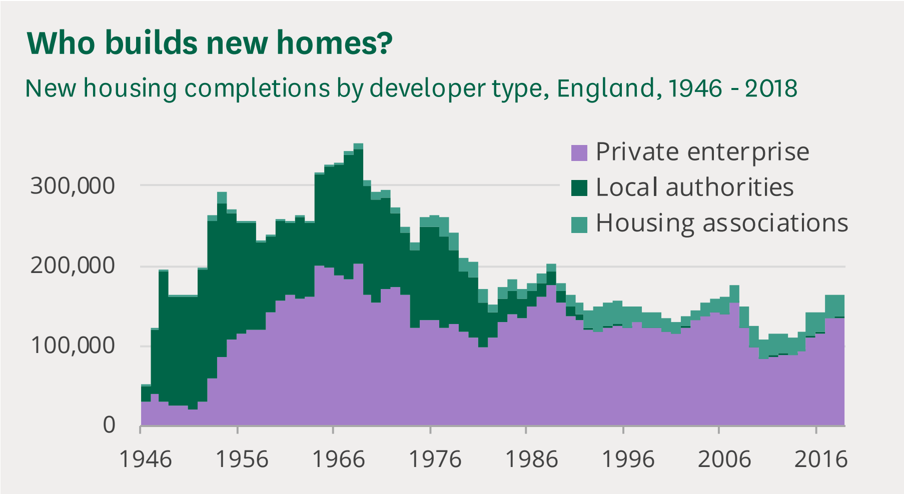
Source: MHCLG, Live Table 1000, 3 December 2019; ONS, 2018-based household projections for England

Are social housing providers building new homes?

MHCLG also publishes statistics on total new homes built, showing whether the homes were built by local authorities, housing associations or the private sector. The series is known to be an undercount of the total number of homes built, but provides an indication of the extent of building by each sector over time.

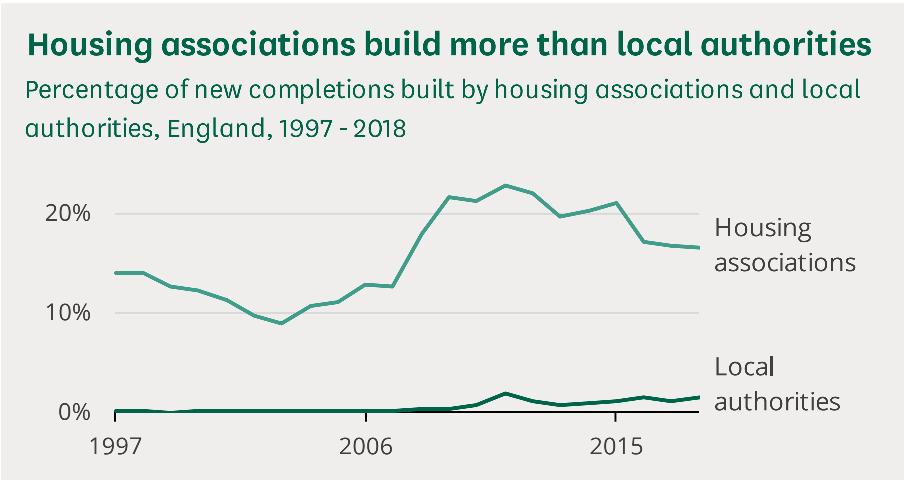
The type of developer responsible for building a home doesn't always correspond to that home's final use. Social housing providers may build homes for private sale, for example. This data doesn't tell us about the supply of social or affordable housing, but it does tell us about the extent to which social housing providers are building their own stock.

As the chart below shows, the pattern of who builds new homes has changed dramatically since the mid-20th century. Local authorities built the majority of new homes after the Second World War, up until the late 1950s. The number of new homes built by local authorities peaked in 1967 at around 155,000 homes, before declining to fewer than a thousand completions per year by the early 1990s. The highest levels of overall housebuilding reached in England coincided with the period in which large numbers of homes were completed by local authorities.



Source: MHCLG, Live Table 244, 26 March 2020

The chart below shows the proportion of new homes completed by local authorities and housing associations in more recent years. The proportion of homes completed by local authorities has risen very slightly, accounting for less than 1% of completions before 2010 but between 1% and 2% afterwards. Housing associations account for a much higher proportion of new homes: 17% in 2018, down from a peak of 23% in 2011.



Source: MHCLG, Live Table 244, 26 March 2020

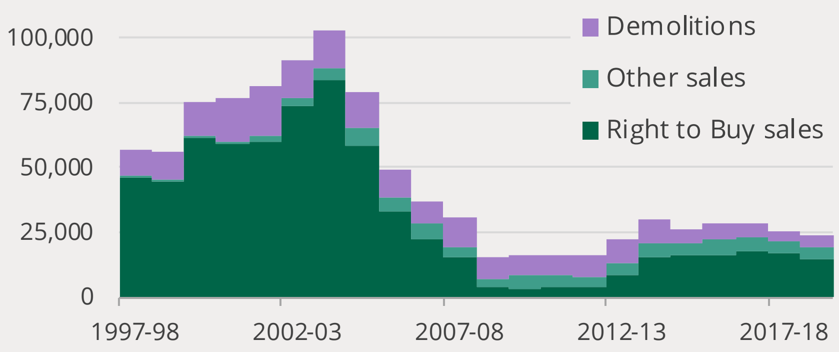
5.4 Depletions from the social housing stock

The availability of social housing is affected by depletions from the existing stock as well as additions. The Right to Buy, which allows some social housing tenants to buy their home at a discount, accounts for most loss of stock in the long term.

The chart below shows trends in the number of social housing sales and demolitions between 1997/98 and 2018/19. There have been **27,000 units of social housing lost per year on average over the last five years**: higher than in the earlier half of the 2010s, but considerably lower than in the late 1990s and early 2000s.

Right to Buy accounts for most losses

Social housing sales and demolitions, England, 1997/98 - 2018/19

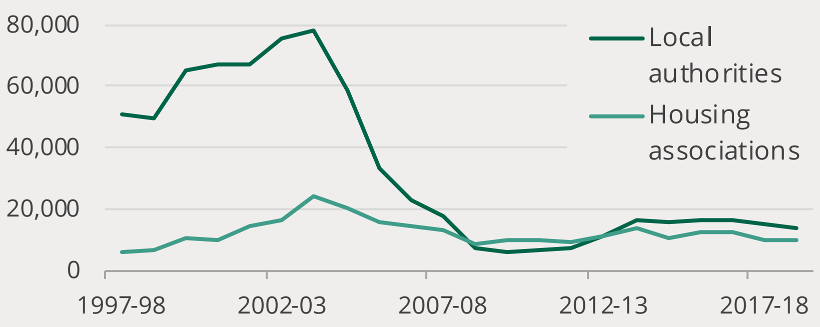


Source: MHCLG, Live Tables 678 and 684, 27 March 2020

Most losses of social housing stock are through Right to Buy sales (although demolitions were also higher in the late 1990s and early 2000s, contributing to the high number of losses in this period). As the chart below shows, local authorities have historically seen considerably more loss of stock than private registered providers have, although numbers have been closer together in the last decade.

Local authority and housing association losses are now similar

Total sales and demolitions per year, England, 1997/98 - 2018/19



Source: MHCLG, Live Tables 678 and 684, 27 March 2020

Housing association tenants do not usually have the Right to Buy (unless their home was transferred to a housing association during their secure tenancy, in which case they have a "preserved" Right to Buy). Private registered providers lose stock through a combination of preserved Right to Buy sales, other sales to tenants and private companies, and demolitions (accounting for 37%, 43% and 20% of 2018/19 losses, respectively). By contrast, Right to Buy sales account for most local authority losses (81% in 2018/19).

Trends in Right to Buy sales

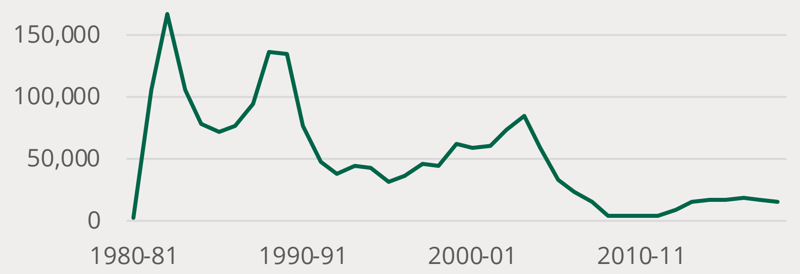
The Right to Buy was introduced in October 1980, allowing some tenants of social housing providers to purchase their home at a discount. The introduction of Right to Buy was followed by numerous changes to eligibility and discount levels over the years.

The chart below shows trends in Right to Buy sales since its introduction. **There were almost 1.97 million sales between the start of the scheme and the end of March 2019.** Sales were at their highest near the start of the scheme, peaking at around 167,100 in 1982/83. Smaller peaks in sales occurred at the end of the 1980s and in the mid-2000s, before declining to much lower levels. On average, there were around 3,600 sales per year between 2008/09 and 2011/12.

The 2010 Coalition government made a number of policy changes intended to 'reinvigorate' the Right to Buy, including increases to the maximum discount. These were implemented between 2012 and 2015. Right to Buy sales increased following these measures, reaching a peak of around 18,100 in 2016/17. There were around 14,800 sales in 2018/19.

The long-term trend in Right to Buy sales

Total Right to Buy sales per year, England, 1980/81 to 2018/19



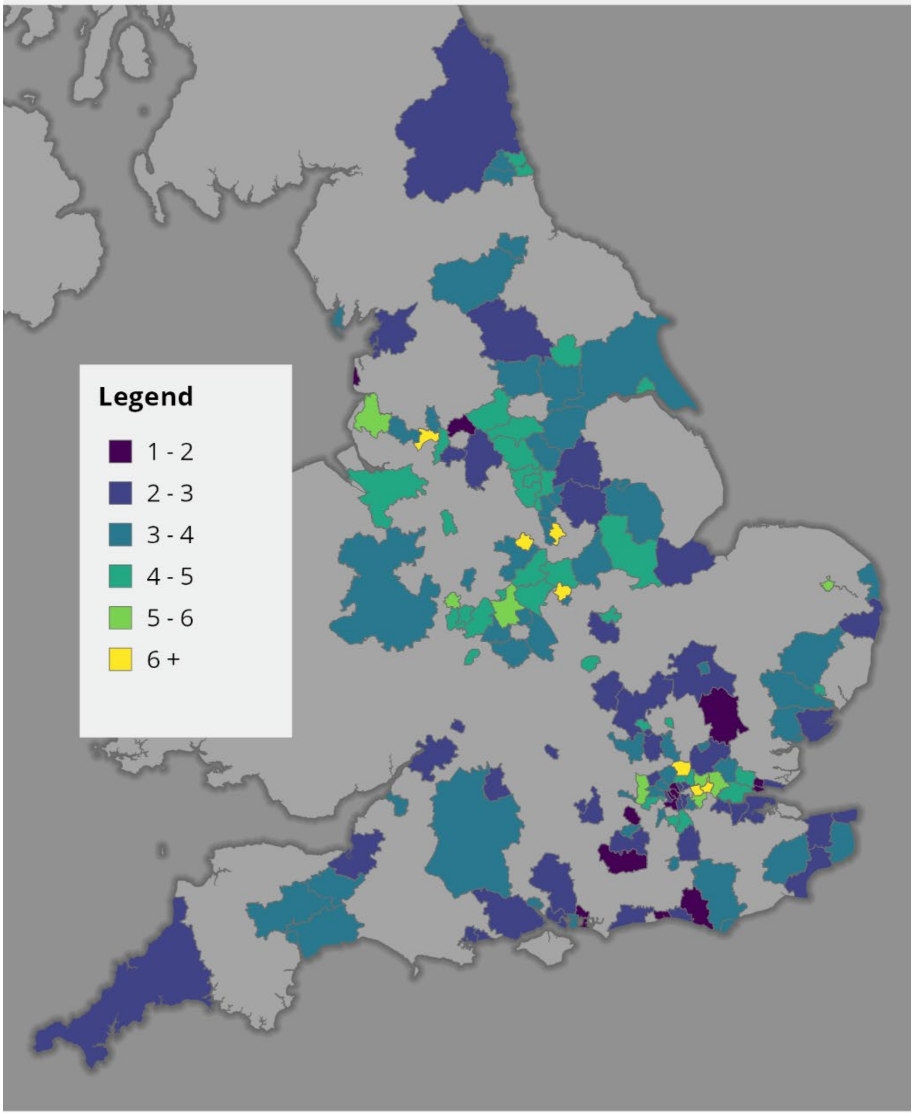
Source: MHCLG, Live Table 678, 27 March 2020

The map overleaf shows the rate of Right to Buy sales by local authorities over the last five years, per hundred units of existing local authority stock. Housing association sales are not shown because these figures are not routinely published with a geographic breakdown. The map only shows local authorities with at least 500 units of their own stock. Local authorities that have transferred all or most of their stock to housing associations are not shown.

Right to Buy sales were highest relative to existing stock in parts of London (including the boroughs of Tower Hamlets, Newham and Enfield) as well as some local authorities in the Midlands (e.g. Leicester, Nottingham and Derby) and North of England. The South East and East of England had local authorities with relatively low levels of sales. However, some of the lowest levels of sales were in Oldham and Blackpool in the North West, and some London boroughs including Kensington & Chelsea and Westminster.

Local authority Right to Buy sales

Right to Buy sales (total 2014/15 to 2018/19) per 100 existing units of local authority stock



Source: MHCLG, Live Table 691, 27 March 2020 and Live Table 100, 21 May 2020

Right to Buy replacements are not keeping up with sales

The Coalition government's plan to reinvigorate Right to Buy sales came with a commitment for one-to-one replacement of properties sold, but actual replacements are falling short of this commitment.

The government's commitment is to ensure the replacement of 'additional' homes sold under the enhanced Right to Buy (rather than all Right to Buy sales). When a local authority sells a home under Right to Buy, it has three years from the date of sale to either start or acquire a new 'replacement' using a portion of the receipts from the sale. The replacement home doesn't have to be like-for-like in terms of size, or in terms of letting type – replacements can be let at any level of low-cost rent, even if the original home was let at social rent.

MHCLG publishes a quarterly statistical release which includes an assessment of whether this commitment is being met. MHCLG looks at national rather than local figures to gauge success.

In March 2018, the government acknowledged for the first time that new starts and acquisitions were "falling short" of the commitment to replace additional sales within three years. Subsequent statistical releases from MHCLG have confirmed that this is still the case. The release covering the period October to December 2019 states:

> Between Q1 2012-13 and Q3 2019-20 there were 28,090 additional affordable properties started or acquired, falling short of the three years' replacement commitment. This is measured against the replacement target 35,064 (i.e. the number of additional sales between Q1 2012-13 and Q3 2016-17). [76]

In other words, MHCLG estimates that there were 35,064 additional sales between the start of 2012 and the end of 2016. These should have been replaced by the end of 2019 in order to meet the replacement target, but in the event only 28,090 replacements had been started by then.

It is worth noting that these 28,090 homes are being counted as replacements for homes sold between 2012 and 2016. Sales from 2016 onwards do not yet have any attributable replacements under this method.

[76] MHCLG, Right to Buy sales in England: October to December 2019, 27 March 2020

6. Social rented housing: prospects

Following Theresa May's reference to building a "new generation of council homes to help fix our broken housing market" in August 2018,[77] and the lifting of Housing Revenue Account borrowing caps later that year, the sector began to consider the possibility of a return to large-scale development of social rented housing.

As noted in section 3, the Government envisioned that lifting the borrowing caps would enable councils to build around 10,000 new homes per year. The Office for Budget Responsibility (OBR) provided a slightly more cautious forecast:

> The Government's announcement that it will lift the Housing Revenue Account borrowing cap with immediate effect is expected to lead to higher housebuilding by local authorities, although we have assumed that this partly crowds out some private sector housebuilding. We expect the removal of the cap to increase aggregate housebuilding by an additional 9,000 over the forecast period, as an increase in public sector housebuilding of just over 20,000 is partly offset by lower private sector housebuilding (including by housing associations).[78]

These estimates are substantially short of the levels of development called for by Shelter and others (see section 4.1). Surveys of local authorities by bodies such as the Local Government Association (LGA) and Savills have identified a desire to resume and/or accelerate housebuilding. Savills Housing Sector Survey 2019 referred to "exciting opportunities":

> Perhaps the most notable is the potential increase in delivery from local authorities following the lifting of the HRA debt cap. Encouragingly, 70% of local authorities who responded to our capacity survey are planning to increase their delivery of affordable homes – 25% expect a big increase.[79]

Despite early optimism in the sector after the lifting of the debt cap, barriers to large-scale development of social rented housing still exist. The following sections consider how providers are beginning to respond, what barriers they face, and how they might be addressed.

6.1 How are providers responding?

A joint report published by the CIH, National Federation of ALMOs (NFA) and the Association of Retained Council Housing (Arch) in January 2020, Local authority new build programmes and lifting the HRA borrowing caps, is based on a sample survey of authorities in England with retained housing stock. Of the 40 authorities contacted, 22 provided detailed responses. Based on these responses, the authors concluded that:

77 MHCLG, Social Housing Green Paper, A new deal for social housing, 14 August 2018, Cm 9671, The Foreword.
78 OBR, Economic and fiscal outlook, Cm 9713, November 2018, p50
79 Savills Housing Sector Survey 2019, 25 June 2019

- Most authorities with retained stock planned to expand their housing delivery.
- The lifting of the borrowing cap was a significant factor in the decision to increase delivery but was not the only factor.
- There are significant variations in authorities' plans. Some were planning for 50 or fewer additional homes per year while some larger authorities were planning a pipeline of around 500 units per year.
- Around half of the councils planned to build at social rents while others were planning for affordable rents.[80] Cross-subsidy was a common feature of development plans.
- Plans are diverse, reflecting local needs and varying responses to national policies.
- Many are reliant on grant funding, but a minority rely on other funding, including RTB receipts.
- Based on the responses, the authors thought that the Treasury's estimate of authorities delivering 10,000 homes as a result of lifting the borrowing caps would be met and possibly exceeded.[81]

The report cross references other surveys covering authorities' development plans, the links to which are provided on page 15 of Local authority new build programmes and lifting the HRA borrowing caps. In October 2019, *Inside Housing* published the results of FOI requests from 240 authorities. Looking ahead to 2024/25, authorities reported ambitions to build 78,651 homes with 54% set to be delivered through Housing Revenue Accounts.[82]

Some authorities, after having divested themselves of their housing stock, have taken a decision to re-open their Housing Revenue Accounts (HRAs) in order to develop more than the 200 units of social housing they are allowed to hold outside of their HRAs.[83] Liverpool City Council is a high profile example of this. Others include Bradford, Peterborough and Sunderland Councils. The London Borough of Bromley is reported to be considering this option.[84]

The authors of Local authority new build programmes and lifting the HRA borrowing caps identified two overarching messages from authorities' responses:

> Now that councils have been encouraged to embark on long-term investment programmes, stability is vital: there needs to be a consistent approach to rents policy and no wider policy changes

80 Rents at up to 80% of local market rents.
81 CIH; NFA; Arch, Local authority new build programmes and lifting the HRA borrowing caps, January 2020, p3
82 *Inside Housing*, "Council housebuilding: back with a vengeance" 11 October 2019 [subscription required]
83 There is a 200-unit maximum on council ownership of housing stock outside of a Housing Revenue Account in England. MHCLG Guidance, 24 June 2020
84 *Inside Housing*, "London borough to set up HRA to bring down temporary accommodation costs", 1 July 2020 [subscription required]

> that would compromise the major commitments which councils are now taking on.
>
> Councils' approaches to new build are very diverse: they need more local discretion to give them powers and flexibility on key issues such as RTB, access to grants and local rent levels to deliver what their local communities need.[85]

London

In the capital the Mayor, Sadiq Khan, has established a Homebuilding Capacity Fund of £10 million in order to help authorities deliver his 'Building Council Homes for Londoners Programme'. The objectives of this programme are to:

- Build at least 10,000 new council and Right to Buy replacement homes. These will be started by 2022, focused on social rent levels, and will include homes in receipt of funding through this and other GLA programmes, as well as homes the Mayor is supporting councils to build by other means;
- Support council homebuilding in every borough in London by giving any council that wishes to build new council homes the opportunity to do so, thereby helping to diversify London's homebuilding industry; and
- Boost London's council-homebuilding capacity with the ambition that by the mid-2020s London's councils are building thousands of new council homes each year, compared with hundreds per year at present. With additional support from central Government, this ambition should be stretched even further.[86]

The Greater London Authority's website states that through the Capacity Fund:

> ...the Mayor agreed plans last year worth more than £1 billion with 27 London boroughs to start building 11,000 new council homes at social rent levels by 2022.[87]

Under the Building Council Homes for Londoners, grant levels are £100,000 per unit.[88]

6.2 Barriers and potential solutions

Additional grant funding

Lifting the HRA borrowing caps has increased councils' ability to borrow. **The measure has not increased capital funding allocated to the Affordable Homes Programme**. Providers can deliver homes at social rents without grant funding (see section 3) but delivering at the scale required to meet housing need *will* demand substantial levels of

---

85 CIH; NFA; Arch, Local authority new build programmes and lifting the HRA borrowing caps, January 2020, p4
86 Greater London Authority, Building Council Homes for Londoners – Funding Prospectus, May 2018, para 11
87 Accessed on 2 July 2020.
88 Stephens M; Perry J: Williams P; Young G; Fitzpatrick S: 2020 UK Housing Review, p71

additional investment. The 2019 UK Housing Review Autumn Briefing Paper noted:

> Although many councils are building without grant, growth probably does depend on additional grant funding at levels which allow building for social rent.[89]

In preparation for the Comprehensive Spending Review which was expected to take place in 2019, the Chartered Institute of Housing (CIH), Shelter, National Housing Federation (NHF), Crisis and the Campaign for the Protection of Rural England, joined forces **to call on the Government to provide subsidy of around £14.6 billion per year (£12.8 billion in today's prices) over ten years to secure 90,000 new social rented homes annually over the period**. The CIH said:

> This might sound like a lot of money to ask for, but it represents around 44 per cent of total build costs, with the biggest contribution coming from a combination of private borrowing, cross subsidy from sales, the implied cross subsidy from section 106 contributions by private developers, and discounted land values.
>
> We also need to bear in mind that government has already committed £51 billion to housing with 79 per cent of it supporting the private market through schemes like Help to Buy. Redistributing existing funding so that new social rented homes get a fairer slice of the cake would go a long way towards investing in our country's future.[90]

The NHF's submission said:

> Invest £12.8bn a year in real terms to build the homes we need.
>
> This capital grant funding must be long-term, flexible and available in all parts of the country to guarantee highest levels of housebuilding.
>
> The funding would include a higher level of grant per home, an average of 44%. Housing associations would raise the remaining funds themselves, but this level of government investment would allow them to build truly affordable social homes.[91]

The modelling carried out to reach the estimated grant funding required was set out in a technical note published by the NHF: Capital grant required to meet social housing need in England 2021-2031.[92]

Shelter's A vision for social housing (January 2019) recommended "a historic renewal of social housing, with a 20-year programme to deliver 3.1 million more social homes." To fund the programme, the report called on all the political parties to "rediscover publicly built housing as a key pillar of our national infrastructure."[93] Capital Economics carried out work for Shelter's Commission on the Future of Social Housing to

---

89 Perry J, Stephens M; Williams P; Fitzpatrick S; Young G: 2019 UK Housing Review Autumn Briefing Paper, p9
90 CIH, My three wishes for the comprehensive spending review 2019, 7 August 2019
91 NHF, Let's end the housing crisis, 2019
92 NHF, Capital grant required to meet social housing need in England 2021-2031, June 2019
93 Shelter, A vision for social housing, January 2019, chapter 8

provide a cost-benefit analysis of increased investment in social housing. The report[94] was published alongside A vision for social housing in January 2019. Shelter's final report used the research to support the case for additional public expenditure on social housing:

> Over twenty years, Capital Economics show the gross additional cost is on average £10.7 billion per year. However, this gross cost will be reduced, firstly by the direct benefits to government of increased infrastructure spending and savings in the welfare system, and secondly by the returns to government arising from the knock-on economic benefits across the economy.
>
> If all these savings to government are considered, Capital Economics estimate the maximum net cost to government in the most expensive year could be much lower – £5.4 billion. And on this basis, Capital Economics assess that if funded in the early years through borrowing, the programme pays back in full over 39 years.
>
> This would represent a substantial investment, but we believe it is essential to meet the needs of people across our country. In comparison, government currently spends £21 billion annually on housing benefit, and budgets £62 billion on capital expenditure annually.[95]

The Affordable Housing Commission, which reported in March 2020, called for a raft of measures including a "return to 2010 grant levels to build 90,000 social rented homes, with greater support to get councils building again".[96]

Both the Labour and Liberal Democrat Manifestos for the 2019 General Election contained specific pledges on the development and funding of homes for social rent.[97] [98]

The Conservative Manifesto promised to "continue to increase the number of homes being built" with a focus on rebalancing the housing market towards more home ownership.[99] There was a commitment to "renew the Affordable Homes Programme in order to support the delivery of hundreds of thousands of affordable homes."[100] There was no commitment to building a specific number of homes at social rents, but the forthcoming Social Housing White Paper will "set out further measures to empower tenants and support the continued supply of social homes."[101] These commitments were repeated in the Background notes to the Queen's Speech December 2019.[102]

The Government, to date, has not set a target for the delivery of social rented homes.

As noted in section 3.1, the March 2020 Budget announced £9.5 billion for an extension of the Affordable Homes Programme over five years from 2021-22.[103] When giving evidence to the Housing,

94 Chaloner J; Colquhoun G; Pragnell M: Capital Economics, Increasing investment in social housing, January 2019
95 Shelter, A vision for social housing - Executive summary, January 2019
96 Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System, March 2020, p20
97 Labour Manifesto 2019 – Tackle poverty and inequality
98 Liberal Democrat Manifesto 2019, p66
99 Conservative and Unionist Party Manifesto 2019, p30
100 Ibid.
101 Ibid.
102 Queen's Speech December 2019 – Background Notes, p49
103 HC 121, March 2020, para 2.91

Communities and Local Government (HCLG) Select Committee inquiry into the long-term delivery of social and affordable rented housing on 8 June 2020, the Housing Minister, Christopher Pincher, was pressed on the number of social rented homes that the programme would deliver. He said, "The tenure mix for the new programme is still being worked through" and would not be drawn on whether the Government was aiming for a specific number of social rented homes:

> We are going to be very clear that we want affordable homes and I do not think it is going to be necessarily the case that we want to put numbers on the number of socially rented homes or affordable homes that we want. We want to be very clear. We want a lot of new houses but we do not necessarily want to put numbers around them.[104]

The Chartered Institute of Housing (CIH) has called for higher levels of investment and grant rates to aid providers' response to the coronavirus-related economic crisis.[105]

In London, City Hall with the G15 and other representatives of the affordable housing sector, assessed the amount of grant funding needed to meet the new London Plan's target of delivering 50% affordable housing and delivering 32,500 new affordable homes in each year between 2022 and 2032. The analysis found:

> ...the grant required to deliver a new 2022-2032 affordable homes programme of 22,750 social rent homes, 6,500 shared ownership homes and 3,250 intermediate rent homes is estimated to be £4.9 billion per year.[106]

£4.9 billion is seven times more than the capital currently receives.

The Right to Buy and retention of capital receipts

Local authorities do not retain 100% of the capital receipts raised from the sale of council housing under the Right to Buy (RTB). This is a source of frustration for authorities who have long argued that they would be better placed to replace the sold stock if they could retain 100% of receipts.[107]

Alongside the commitment to 'reinvigorate' the RTB by increasing the discount levels, the 2015 Government also committed to one-for-one replacement of the sold properties.[108] It was recognised that RTB receipts would need to be supplemented by borrowing, provider contributions in the form of land, or other funding to achieve one-for-one replacement.

---

104 HCLG Committee: Oral evidence: Long-term delivery of social and affordable rented housing, HC 173, 8 June 2020, Q122

105 CIH, Grant levels need to rise to pump-prime social housing investment, 30 March 2020

106 GLA, Landmark report shows £4.9bn a year needed to deliver affordable homes, 24 June 2019

107 See for example: Local Government Association: LGA Budget Submission Autumn 2017

108 Note that one-for-one is not like-for-like.

Following a consultation exercise on the proposed process for the replacement mechanism[109] the Government published guidance for local authorities which effectively limits the use of RTB receipts to cover 30% of the cost of a replacement home.[110]

The joint report published by the CIH, National Federation of ALMOs (NFA) and the Association of Retained Council Housing (Arch), Local authority new build programmes and lifting the HRA borrowing caps (January 2020), describes the rules on the use of RTB receipts as "a severe impediment" to local authority building programmes.[111]

RTB sales increased after discount levels were increased by the 2015 Government. However, the commitment to one-for-one replacement of the additional properties sold is not being met. In its March 2018 statistical release, the Government acknowledged that housing starts are "falling short" of the commitment to replace additional sales within three years.[112] Subsequent statistical releases have confirmed this trend.

Then Housing Minister, Dominic Raab, issued a Written Statement in March 2018 commenting on the failure to meet the three-year replacement target.[113] The Statement raised the possibility of additional flexibility on authorities' use of capital receipts:

> To help councils build more homes, we believe there is a case for greater flexibility on the use of receipts from Right to Buy sales. We will consult further with the sector on providing greater flexibility around how local authorities can use their Right to Buy receipts, and how to ensure that we continue to support local authorities to build more council homes. We will consider social housing issues as part of our work on the forthcoming Green Paper.[114]

August 2018 saw publication of a consultation paper: Use of receipts from Right to Buy sales, submissions were accepted up to 9 October 2018. The paper set out ideas aimed at changing the rules on local authorities' use of money raised from RTB sales "in order to make it easier for them to build more homes."[115] There have been no further developments since the consultation closed. This is identified in Local authority new build programmes and lifting the HRA borrowing caps as "a major area of uncertainty" for local authorities.

The Minister, Christopher Pincher, responded to a question about the delay in responding to the 2018 consultation on the use of capital receipts during the HCLG's evidence session on 8 June 2020:

> There are a number of reasons. One is that we have had a change of Government. Another is we have had the general election and

[109] DCLG, Reinvigorating the Right to Buy and one for one replacement, December 2011
[110] DCLG, Reinvigorating the Right to Buy and one for one replacement: information for local authorities, March 2012
[111] CIH; NFA; Arch, Local authority new build programmes and lifting the HRA borrowing caps, January 2020, p4
[112] MHCLG, Right to Buy Sales in England: October to December 2017, p8
[113] Social Housing Update: Written Statement – HCWS614, 29 March 2018
[114] Ibid.
[115] MHCLG, Use of receipts from Right to Buy sales, August 2018, para 1

> presently we are in a rather challenging and fast-moving crisis situation. I certainly want to look at the evidence in that particular consultation and to make sure that we get the response to it right.[116]

As the properties sold have not been replaced, the RTB has resulted in the depletion of the social rented housing stock (see section 5.4). The LGA has been vocal in calling for local authorities to have power to set local discounts.[117] The Affordable Housing Commission (March 2020) acknowledged the popularity of the RTB but called for a radical overhaul:

> ...including giving councils and housing associations discretion over the level of discount they offer, complete control over receipts and the opportunity to restrict any letting by a purchaser (e.g. requiring consent for letting the property).[118]

The cost of borrowing

Local authorities can borrow from the Public Works Loans Board (PWLB) for long-term capital projects, such as housebuilding schemes, at rates which tend to be lower than those offered on the private market.

On 9 October 2019 the Treasury announced an increase of 1% in the cost of borrowing from the PWLB with immediate effect.[119] This was commented on in Local authority new build programmes and lifting the HRA borrowing caps:

> While the recent increase is within the margins which most councils appear to have allowed, it undoubtedly tightens the finances for new build within their HRAs. In many cases, where councils depend on LHCs to mount their new build programmes, it will increase their costs (as loan charges are linked to PWLB rates).[120]

The authors noted reports of 36 London boroughs writing to the Chancellor asking for a reversal.[121] When asked about the assessment of impact on new housing provision the Government said:

> The Government keeps all policy under review and alongside the increase of the Public Works Loan Board rates the Government has legislated to increase the lending limit from £85 billion to £95 billion, reflecting its commitment that local authorities continue to have access to the financing they need to support their capital plans. We have been engaging the local government sector, to understand the potential impact the interest rate rise could have on individual local authorities' capital plans and strategies, especially with regard to housing and regeneration. As ever, we expect local authorities to have robust financial plans in place which take into account the risk of changing economic

---

116 HCLG Committee: Oral evidence: Long-term delivery of social and affordable rented housing, HC 173, 8 June 2020, Q130

117 *Inside Housing* "LGA warns of social housing 'fire sale' as Right to Buy discounts hit £3.5bn" 2 February 2018 [subscription required]

118 Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System, March 2020, p23

119 HM Treasury, Letter to Local Authority Finance Officers, 9 October 2019

120 CIH; NFA; Arch, Local authority new build programmes and lifting the HRA borrowing caps, January 2020, p4

121 Ibid., p14

> circumstances as part of taking a prudent approach to borrowing.[122]

The March 2020 Budget *did* announce a reversal of the increase in respect of investment in social housing:

> ...the government will consult on revising the terms of PWLB lending to ensure LAs continue to invest in housing, infrastructure and front-line services. To further enable high quality investment by local authorities, the government is cutting the interest rates for investment in social housing by 1 percentage point, and making an extra £1.15 billion of discounted loans available for local infrastructure projects.[123]

A consistent plea from social housing providers is for 'certainty' in their operating environment. Short-notice changes in policy affecting key factors such as borrowing costs and rent increases serve to inhibit providers' ability to plan, which in turn affects delivery levels.

The Treasury opened its consultation, Public Works Loan Board: future lending terms on 11 March 2020, submissions can be made up to 31 July.

Fire safety measures

In the wake of the Grenfell Tower fire, social and affordable home providers have been required to identify blocks with unsafe cladding and have been prompted to carry out additional fire safety assessment work. In 2018 the Government committed to meeting the reasonable cost of the removal and replacement of Aluminium Composite Material (ACM) from blocks at and over 18 metres in height owned by councils and housing associations. In the March 2020 Budget, the Government announced that it would provide £1 billion in 2020 to 2021 "to support the remediation of unsafe non-ACM cladding systems on residential buildings 18 metres and over in both the private and social housing sectors."[124] Doubts have been expressed over whether social landlords will benefit from the £1 billion Building Safety Fund as MHCLG has said that funding will only be forthcoming where remediation costs threaten the viability of the provider or Housing Revenue Account.[125]

Social landlords argue that meeting the additional cost of fire safety works will impact on the delivery of new homes.

The NHF has assessed the post-Grenfell cost of fire safety work across the housing association sector at in excess of £10 billion.[126]

Representations have been made to MHCLG on the basis that meeting the cost of fire safety work will reduce social landlords' ability to develop new homes.[127] The Housing, Communities and Local Government Select Committee's report on the progress of cladding remediation (June 2020) was critical of the number of exclusions from the fund, particularly the potential exclusion of social landlords:

122 Social Rented Housing: Construction: Written question – HL541, 5 November 2019
123 HC 121, March 2020, para 1.123
124 MHCLG, Remediation of non-ACM buildings, updated 1 June 2020
125 MHCLG, Building Safety Fund: Registration Prospectus, May 2020, p6
126 *Inside Housing*, "Cost of fire safety work for housing associations will 'easily exceed' £10bn", 2 March 2020 [subscription required]
127 *Inside Housing*, "Government warned limits on Building Safety Fund will reduce social housing new build", 27 May 2020 [subscription required]

> In particular, it would be entirely wrong for social landlords to be prohibited from accessing the Building Safety Fund. If local authorities and social housing providers are forced to pay for remediation works from their own budgets, this would have a very detrimental impact on the number of affordable homes they are able to build and to the maintenance and refurbishment of existing buildings, while putting an upward pressure on social rents. The Government must ensure that social housing providers have full and equal access to the Building Safety Fund.[128]

Land and planning

The CIH, National Federation of ALMOs (NFA) and the Association of Retained Council Housing (Arch) report Local authority new build programmes and lifting the HRA borrowing caps (January 2020) notes that "practically all respondents mentioned land and planning constraints in some form". Issues identified covered:

- Difficulties and costs associated with land assembly – compounded by high land values.
- Challenges with 'upfront' activities such as buying out long leaseholders.
- The cost of compulsory purchase.
- The lack of an imperative to use available land for social/affordable housing.
- Infrastructure funding.
- Insufficient skilled planning staff.
- Lack of powers to revoke planning permission on stalled private sites.[129]

During the HCLG Committee's evidence session on the long-term delivery of social and affordable rented housing on 8 June 2020, Christopher Pincher was questioned about possible changes to the *Land Compensation Act 1961* to remove the requirement to sell surplus local authority land at the maximum possible price. Bob Blackman argued that such a change would lower the cost of land and facilitate the development of social rented housing, particularly in London.[130] In his response, the Minister referred to the forthcoming Planning White Paper:

> You make it sound very attractive. I have to balance the subsidy, the grant, versus the volume that we need to build out, not just in London and other expensive parts of the country but for the whole of the country. There is that challenge. We should look at it much more holistically. We should look at it in terms of planning reform and changes; the planning White Paper will be published later this year. We need to make sure we have the right numbers of competition in the supply side to make sure there are the right

[128] HC 172, Housing, Communities and Local Government Committee, Cladding: progress of remediation, Second Report of Session 2019-21, 12 June 2020, para 25

[129] CIH; NFA; Arch, Local authority new build programmes and lifting the HRA borrowing caps, January 2020, pp12-13

[130] HCLG Committee: Oral evidence: Long-term delivery of social and affordable rented housing, HC 173, 8 June 2020, Q142

> numbers of builders so we do not have a consolidated sector, which is what effectively happened in 2008, 2009 and 2010. There are lots of elements and lots of plates spinning in this situation. I am very happy to have a look at what you recommend and see whether it is a plate that should be kept spinning, not smashed.[131]

The Committee heard evidence from the Deputy Mayor for Housing in London, Tom Copley, who expressed concern about the impact of the Government's First Homes policy[132] on the provision of affordable housing:

> We are extremely worried about the impact of the proposed first homes programme on delivery of other forms of genuinely affordable housing. The work that we have done at City Hall has found that for every three first homes delivered through Section 106 we would lose two social rented homes. Indeed, in London, first homes would only be affordable to households with an income of around £76,000, which is only the top 2% of Londoners.[133]

The Government has consulted on whether First Homes should be delivered as a fixed proportion of developers' affordable housing contributions (section 106 agreements), or a fixed proportion of all homes built on suitable sites. Nick Walkley, Chief Executive at Homes England, agreed that if 40% of homes, as a minimum, under 106 agreements were going to be in the First Homes programme, a potential impact would be to reduce the delivery of social and affordable rented homes.[134]

On 30 June 2020, the Government announced planning reforms as part of the "build, build, build" response to the economic impact of Covid-19:

> New regulations will give greater freedom for buildings and land in our town centres to change use without planning permission and create new homes from the regeneration of vacant and redundant buildings.[135]

The sector responded with warnings about the impact of expanded permitted development rights on the quality of developments and the fact that they enable developers to avoid section 106 obligations.[136]

The announcement of 30 June also flagged potential changes to the management of public sector land:

> Ahead of the Spending Review, a new, ambitious cross-government strategy will look at how public sector land can be managed and released so it can be put to better use. This would

131 HCLG Committee: Oral evidence: Long-term delivery of social and affordable rented housing, HC 173, 8 June 2020, Q144
132 The intention is to offer these new homes to first-time buyers at a 30% discount on the market price, with the intention that the discount will remain for future buyers.
133 HCLG Committee: Oral evidence: Long-term delivery of social and affordable rented housing, HC 173, 8 June 2020, Q109
134 HCLG Committee: Oral evidence: Long-term delivery of social and affordable rented housing, HC 173, 8 June 2020, Q115
135 Prime Minister's Office, PM: Build, Build, Build, 30 June 2020
136 *Inside Housing*, "Warnings over quality and affordable housing cuts as Johnson unveils 'Project Speed' plan", 2 July 2020 [subscription required]

> include home building, improving the environment, contributing to net zero goals and injecting growth opportunities into communities across the country.[137]

Capacity

It is some considerable time since local authorities delivered large-scale housing development programmes. A lack of skilled staff has been identified as an issue across several fields, such as project management; procurement; development and financial/business planning. It can be difficult to compete with salaries offered by the large development companies.

As previously noted, the GLA has made funding available for London authorities to build their capacity. Authorities have called for Government to work with Homes England and other funding bodies to invest in a 'skills academy' specifically for local authority developers. There is also a suggestion that housing associations could 'be directed' to share their skills and expertise.[138]

Building industry constraints are also raised as an issue; authorities are sometimes not the most attractive option for a developer due to "red tape of tendering, procurement and competency checks". There is evidence of creative responses to this, such as the development of procurement frameworks to cover more than one local authority area.[139]

Covid-19: a new landscape

Lifting the borrowing caps gave rise to significant optimism that councils would be able to free up finance to build new homes and/or invest in their existing stock. Research identified clear evidence of an appetite to use the new borrowing freedoms to build. Although there were, and still are, additional barriers that authorities would like to see addressed, Theresa May's reference to building a "new generation of council homes to help fix our broken housing market"[140] signalled new hope that the benefits of a social rented housebuilding programme had been recognised at the highest levels of Government.

The Covid-19 outbreak and subsequent lockdown have shifted the landscape in ways that are still becoming apparent. The experience of the post-2008 financial crisis is leading commentators to predict a contraction in the construction industry as the economic downturn takes hold. Research commissioned from Savills by Shelter predicts a fall in the number of new homes delivered in 2020/21 from 255,000 to 171,000.[141] Shelter and others are calling for an acceleration of the Affordable Homes Programme, with a focus on the delivery of social renting housing to meet identified housing need and to act as a

---

[137] Prime Minister's Office, PM: Build, Build, Build, 30 June 2020
[138] CIH; NFA; Arch, Local authority new build programmes and lifting the HRA borrowing caps, January 2020, p13
[139] Ibid.
[140] MHCLG, Social Housing Green Paper, A new deal for social housing, 14 August 2018, Cm 9671, The Foreword.
[141] Shelter, Over 80,000 new homes will be lost in one year to Covid chaos, 30 June 2020

counter-cyclical economic stimulus. Shelter has asked for a Government commitment to:

1. Accelerating the existing £12.2 billion Affordable Homes Programme, to make it a two-year rescue and recovery package.
2. Spending the bulk of the rescue and recovery package on building new social rented homes with realistic grant rates and be flexible and imaginative about allocating grant.
3. Using the recovery as a launchpad towards delivering the 90,000 social rented homes a year we need through a long-term programme.[142]

The Local Government Association (LGA) has said that it is "imperative" in its response to the pandemic for the Government to consider "what steps, measures and reforms would support councils to work towards delivering a new generation of 100,000 high quality social homes per year." In addition to stressing the multiplier effect of new social housing, whereby "every £1 invested in a new social home generates £2.84 in the wider economy", the LGA's report, Delivery of Council Housing – Developing a Stimulus Package Post-Pandemic, lists several policy and fiscal interventions that the LGA suggests would have a positive impact in stimulating an increase in the supply of council housing.[143] Many of these interventions are referred to in this paper.

Paul Hackett, CEO of Optivo, has pointed to the role that Homes England could play in using committed funds more flexibly to allow the conversion of shared ownership and open market sale units to low-cost rented housing. He also calls for a long-term view and an acceptance that "grant per home has to be higher at this point in the cycle."[144]

The Affordable Housing Commission has said that the core messages in Making Housing Affordable Again: Rebalancing the Nation's Housing System have been "given extra emphasis by the Covid-19 national emergency." Lord Best, chair of the Commission has said that social landlords should be helped to build more, acquire unsold new builds and "buy from over-stretched buy-to-let landlords exiting the market".[145]

The NHF has launched a Homes at the Heart campaign which is described as a "national campaign and coalition calling for a once-in-a-generation investment in social housing."

On 25 June 2020, Christopher Pincher, Minister for Housing, responded to a PQ asking what assessment had been made of the potential contribution that constructing social housing might bring to the UK economic recovery after the covid-19 outbreak, he said:

> The delivery of new social housing will contribute to economic recovery, in particular by supporting construction activity. The

[142] Shelter Briefing, Social Housing & England's Housebuilding Recovery, June 2020
[143] LGA, Delivery of council housing: Developing a stimulus package post-pandemic, June 2020,
[144] Paul Hackett: Housebuilding's role in stimulating economic recovery, 5 May 2020
[145] *Inside Housing*, "Social landlords should buy from 'over-stretched' private landlords, says Affordable Housing Commission", 25 June 2020 [subscription required]

> Government is committed to increasing the supply of social housing in view of the social and economic benefits this will generate. We have made £9 billion available through the Affordable Homes Programme to March 2022 to deliver approximately 250,000 new affordable homes in a wide range of tenures, including Social Rent, Shared Ownership and Rent to Buy. We announced at Budget that we will invest £12 billion to build affordable homes between 2021/22 and 2025/26 – the biggest cash investment in affordable housing for a decade.[146]

It seems likely that the housing sector will look towards the forthcoming Comprehensive Spending Review as an opportunity to further press the case for a large-scale social housing delivery programme.

[146] Social Rented Housing: Construction: Written question – 62364, 25 June 2020

About the Library

Disclaimer

BRIEFING PAPER
Number 8963
13 July 2020