

Capital grant is an effective intervention for stimulating supply of new social rented housing

Summary

Social rented housing is a key policy tool for reducing poverty after housing costs, child poverty, and homelessness. Estimates suggest 90,000 social rented homes are needed annually in England. In 2018, Homes England made additional capital grant available to deliver new social rented homes, but the funding was only available in local authorities of 'high affordability pressure'. An evaluation of this policy change suggests capital grant is an effective intervention for stimulating the supply of social rent. Capital grant was associated with an additional 3,387 social rented homes in 2019/20, and housing associations delivered around one-half of this total. Nonetheless, the evaluation shows capital grant did not have an effect on new supply from local authorities, nor did it result in more affordable housing overall. This suggests further policy change is needed to boost capacity within local authorities and unlock sites for affordable housing development.

Introduction

Problem

Social rent is a form of low-cost social housing with rents set by a government formula, resulting in rents typically around 50% of market rates. Social rent is a key social policy intervention in reducing poverty after housing costs, child poverty, and homelessness (Gibb et al., 2020; Tunstall et al., 2013). Available estimates of housing need suggest 90,000 new social rented homes are needed annually until 2031 in England (Bramley, 2018). But the rate of new social rented homes delivered has been in decline since the 2011-15 Affordable Homes Programme (AHP) removed grant funding for the tenure, except in some 'limited circumstances' (Milcheva, 2020). And the total stock of social rent is in long-term decline due to Right to Buy (RTB) and conversions to the more expensive affordable rent tenure; roughly 200,000 social rented homes were lost between 2013 and 2021 (Wilson and Barton, 2022a). Consequently, a significant proportion of low-income households are accommodated in the private rented sector (PRS), at growing public expense, and where estimates suggest 624,000 low-income households are spending more than 30% of their income on rent (Elliott and Earwaker, 2021;

Rugg and Rhodes, 2018).

Intervention

In October 2017 the government announced it would provide additional funding for new social rented housing via Homes England as part of the 2016-21 Shared Ownership and Affordable Homes Programme (SOAHP). In June 2018, Homes England's total budget for SOAHP 2016-21 was increased by £1.67bn, with a target of delivering 12,500 new social rented homes in English local authorities outside of London. To target the additional capital grant in areas of need it was only made available in areas of 'high affordability pressure', defined as local authorities where weekly private rents are at least £50 more expensive than social rents (Homes England, 2018). Table 1 shows that by March 2021, the 2016-21 SOAHP had allocated grant funding to deliver 103,580 homes, of which 15,397 were for social rent. The average grant allocation for social rent was £19,762 more than for affordable rent. Figure 1 maps English local authorities by the affordability pressure variable. London's affordable housing grant is allocated by the Greater London Authority, which also made grant available for social rent, but is excluded from this analysis to ensure comparisons are made between authorities within the same programme. A small number of authorities created in 2019 from the consolidation of some smaller authorities were also excluded from the analysis.

Tenure	Number of homes allocated grant funding	Average grant allocation per home (£)
Social rent	15,397	57,580
Affordable rent	45,909	37,818
Affordable home ownership	42,274	33,018
Total	103,580	-

Table 1: SOAHP 2016-21 grant funding and allocation by tenure SOAHP 2016-21. Source: Homes England, 2021.

The SOAHP 2016-21 funding change can be viewed as representing a natural experiment, in which the intervention is additional capital grant for social rent, high affordability pressure authorities are the treatment group, and low affordability pressure authorities are the control. This natural

experiment was used to evaluate the causal effect of increased capital grant on social housing supply. In other words, although Table 1 indicates 15,397 social rented homes were funded in SOAHP 2016-21 by 2021, evaluating the efficacy of the funding change requires the analysis to understand whether this rate of delivery is different to the counterfactual scenario of that which would be delivered without grant. In this analysis the causal effect of capital grant is estimated using a regression discontinuity design (RDD) (for replication data see Marshall, 2023a; Marshall, 2023b). RDD estimates the treatment effect as the difference between the conditional mean rates of delivery in each group, and has been shown to produce valid and reliable estimates of causal effects where randomised controlled trials are infeasible.

The RDD was applied to four outcomes: social rent starts, social rent starts by housing associations (HAs), social rent starts by local authorities (LAs), and affordable housing starts (i.e. starts across all tenures in Table 1). 2019/20 starts-on-site data provides the most recent year with full data availability, and has the benefit that results will not be influenced by the COVID-19 pandemic, which suppressed construction activity.

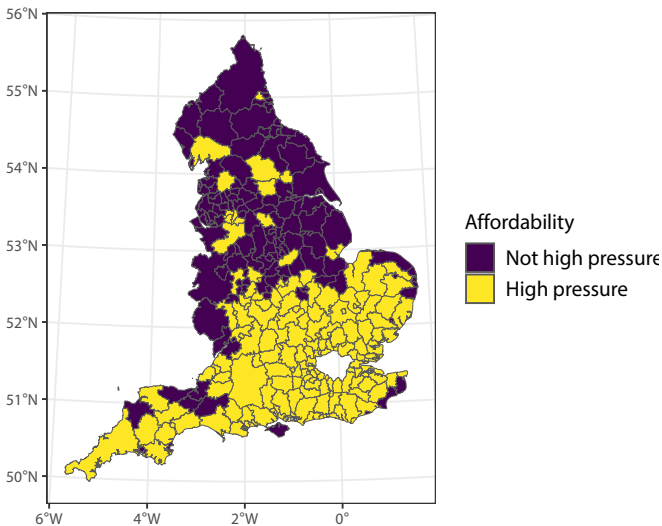


Figure 1: Local authorities by affordability pressure in 2016/17. Source: VOA, SDR.

Results

Figure 2 shows that the funding change appeared to have an effect on new social rented supply, but not until 2019/20, at which point high affordability pressure areas deliver a much higher proportion of new social rented starts than in previous years. Nonetheless, the total rate of social rented supply does not increase significantly. This is because 2019/20 saw a decrease in construction activity with the rate of private developer starts falling. As such, the total rate of social rented supply was influenced by falling rates of homes delivered as part of a 'section 106' planning condition and social rented homes delivered without grant.

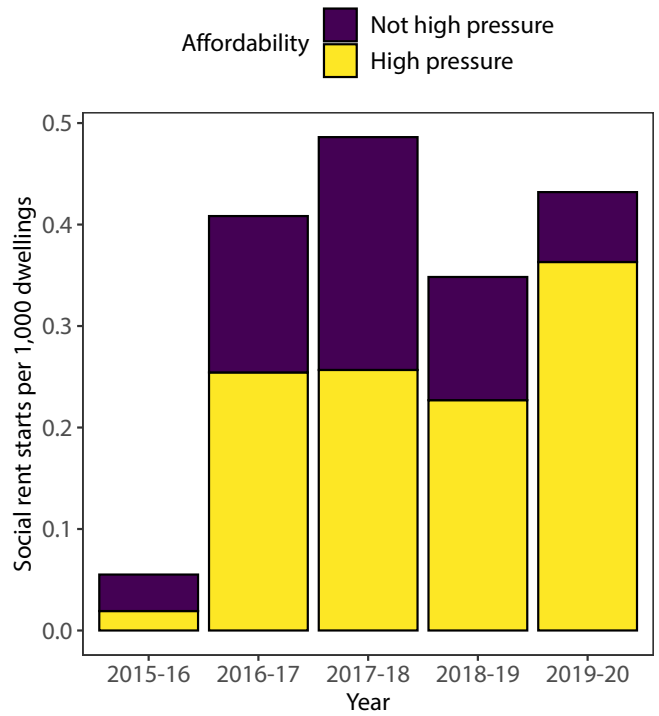


Figure 2: Social rent starts by year and affordability pressure. Source: DLUHC Live Table 1011S.

Figure 3 shows that in 2019/20 the rate of new social rented supply increased more markedly among homes delivered by HAs, and this compensated for the falling number of social rented starts overall. By contrast, there was very little change in social rented delivered by LAs.

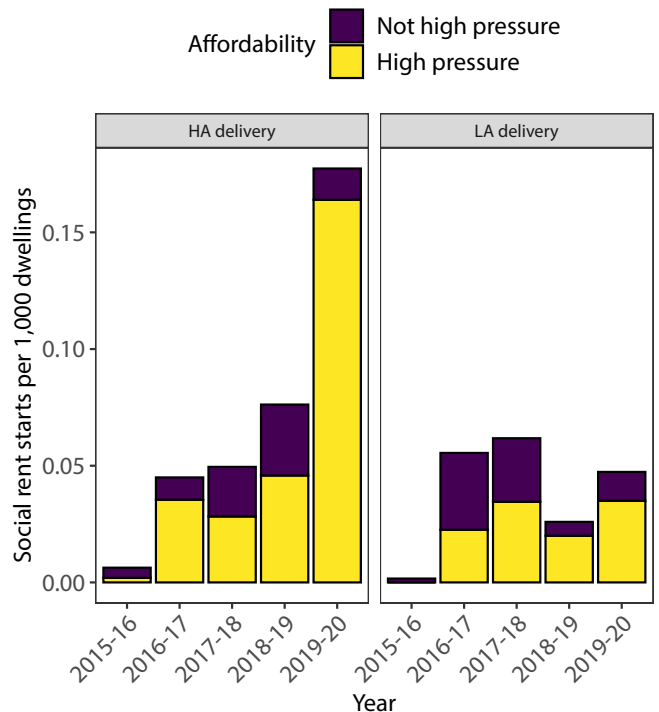


Figure 3: Social rent starts by year, affordability pressure and delivery partner. Source: DLUHC Live Table 1011S.

Table 2 shows the results of the RDD analysis. For total social rented starts, the impact of increased capital grant was estimated to be 0.74 starts per 1,000 existing dwellings. This is equivalent to an additional 65 social rented homes in a

typical local authority in 2019/20, and 3,387 homes across the programme. As suggested by Figure 3, a significant proportion of these new social rented homes were started by HAs; the policy impact is estimated to be 0.36 social rented starts by HAs per 1,000 existing dwellings. This is equivalent to an additional 32 social rented homes by HAs in the typical local authority in 2019/20, and 1,707 homes across the programme. The evaluation found no evidence of a causal effect of the capital grant on social rented starts by LAs, nor was an effect found on affordable housing starts.

Outcome	Estimated effect	Statistically significant	Number of additional homes in average local authority	Total number of additional homes
Social rented starts	0.74	Y	65.14	3387.09
Social rented starts by HAs	0.36	Y	32.21	1706.97
Social rented starts by LAs	-0.02	N	-	-
Affordable housing starts	-0.51	N	-	-

Table 2: Estimated causal effect of increased capital grant on new supply. Estimated effects are number of new homes per 1,000 existing dwellings. Total number of additional homes not calculated for starts by LAs and affordable housing starts as no causal effect found.

Policy implications

In sum, the findings suggest that capital grant can be an impactful policy intervention for increasing the supply of social rented housing. However, the limitations of the policy suggest the impact of capital grant may be maximised when combined with complementary interventions, for example policy that builds capacity within LAs or removes barriers to affordable housing development.

Research by Lawson et al. (2018) found that the costs to government of affordable housing development can be significantly reduced by increasing capital grant and combining it with a small amount of debt raised by a government established bond aggregator. By contrast, Lawson et al. found the long-term costs to government of a programme funded via private finance were higher due to ongoing interest payments and rent assistance. This policy evaluation provides further evidence regarding the benefits of increased capital grant. The findings suggest that increased capital grant was successful in stimulating social rented supply, in particular homes delivered by HAs. The grant provided a counter-cyclical stimulus during a period of slowdown in

private construction, reflected in grant funded homes in areas of high affordability pressure becoming a greater proportion of total social rented starts. Moreover, the social rented homes delivered should provide positive externalities in terms of improved affordability and reduced poverty after housing costs.

However, the capital grant did not have an identifiable effect on social rented starts by LAs. Existing evidence suggests that LAs face additional barriers to expanding new social housing supply (Perry et al., 2020). Such barriers include the constraints of RTB; LAs can only use 40% of RTB receipts to fund new homes, and the policy generally provides a disincentive to new supply as homes may be sold within three years at a discounted price below the construction cost. LAs also report a loss of key staff and skills following cuts in grant funding to LAs from central government under austerity, and the long-term government preference for relying on HAs as the deliverers of new social housing.

Finally, the results suggest that while the grant stimulated new social rented housing, it did not produce more affordable housing overall. This may in part be due to social rented being a small proportion of new affordable housing starts overall; social rent made up 9.61% of the affordable housing starts outside London in 2019/20, compared to 45.79% for affordable rent and 30.39% for shared ownership. Furthermore, there exist barriers to expanding supply – for example land availability and cost, funding for new infrastructure, construction inflation – that may have mitigated against the impact of capital grant on affordable housing starts (Wilson and Barton, 2022b).

Recommendations

1. Increase the capital grant budget of Homes England to deliver additional social rented homes.

Homes England have confirmed that they no longer restrict social rented grant to areas of high affordability pressure. But these results suggest that while current rates of delivery are well below housing need, capital grant is an effective intervention for stimulating social rented supply. Modelling by National Housing Federation estimates that to meet housing need across England by 2031, an affordable homes programme with £14.6bn in capital grant from Government each year is needed, where 59% of homes are social rented.

2. Allow LAs to retain 100% of RTB receipts to reinvest in new supply.

Social rented homes lost via RTB are not being replaced on a one-for-one basis, and allowing LAs to retain 100% of the sales receipt could provide additional funds for new supply.

3. Homes England to broker skills and capacity sharing partnerships between LAs and HAs.

To boost their development capacity, some LAs are partnering with HAs, for example to share project management skills, manage development finance, and access HA frameworks of contractors. Homes England should proactively broker these partnerships to help

expedite LA delivery of new homes.

4. Homes England should prioritise projects delivering social rent as part of its programmes aimed at unlocking sites and improving viability (e.g. Brownfield, Infrastructure and Land Fund).

Evidence suggests that increasing the proportion of affordable housing on new developments would help boost new supply by speeding up the rate at which housing is absorbed into the market (Letwin, 2018). This analysis suggests that further support is needed to unlock sites for affordable housing development. Homes England could give priority to projects delivering social rent within its programmes focused on site viability and land acquisition e.g. Brownfield, Infrastructure and Land Fund. This could help speed up housing delivery, while also improving affordability and delivering long-term value for money.

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