Chapter 4

Housing expenditure plans

The Affordable Homes Programme in England

The Homes and Communities Agency's 2011-2015 Affordable Homes Programme (AHP) was originally expected to produce 80,000 homes for rent or sale at a public sector cost of £1.8 billion. On the basis of the offers made by providers, the programme is currently projected to exceed its planned output, producing over 88,000 homes. However, this projection, which includes the part of the programme run by the GLA in London, may involve a degree of over-programming to ensure that the targets are met (see Table 2.4.1).

The current AHP, running for four years, will generate just 38 per cent of the annual output achieved by the programme that preceded it, the National Affordable Housing Programme (NAHP), but with only about one-sixth of the annual public subsidy in grant (see Table 2.4.2). The average AHP grant per unit is little more than one third of that under the NAHP, at just under £19,000. (The new phase of the AHP beyond 2015 – see bottom row of Table 2.4.2 – is discussed later in the chapter).

Table 2.4.1 **HCA Affordable Homes Programme 2011-15 by region**

Operating region	Grant (£ million)	Units *Approved offers – end of September 2014*		
		Affordable rent	Affordable homeownership	TOTAL
London	**500.0**	**13,465**	**6,325**	**19,790**
East and South East	**221.9**	**12,036**	**3,853**	**15,889**
Midlands	**291.4**	**13,061**	**2,642**	**15,703**
North East, Yorkshire and The Humber	**210.3**	**10,285**	**738**	**11,023**
North West	**202.7**	**9,473**	**1,059**	**10,532**
South and South West	**238.4**	**12,404**	**3,002**	**15,406**
TOTAL	**1,664.7**	**70,724**	**17,619**	**88,343**

Source: HCA and GLA.

There is now a five-year run of data on outputs on the same basis as the AHP, which reveal the practical effects of the programme changes (see Table 2.4.3). Although the NAHP formally ended in 2010/11, output resulting from its (higher) grant levels continued to overlap with the AHP into 2014. Figures since the end of 2011/12 therefore show output funded by a combination of the NAHP and the lower grant available under the AHP.

Table 2.4.2 **Housing investment programmes in England, 2008-2020**

Programme	Total dwellings approved/planned				Grant		
	Social/Affordable Rent[1]	LCHO and other[2]	Total	Annual total	Total (£bn)	Annual avg (£bn)	Avg per dwelling (£)
National Affordable Housing Programme 2008/09-2010/11	**93,200**	**80,700**	**173,900**	**57,967**	**8.9**	**2.97**	**51,000**
Affordable Homes Programme 2011/12-2014/15 (at July 2011)	**62,954**	**17,046**	**80,000**	**20,000**	**1.8**	**0.45**	**22,000**
Affordable Homes Programme 2011/12-2014/15 (at September 2014)	**70,724**	**17,619**	**88,343**	**22,086**	**1.67**	**0.42**	**18,852**
Affordable Homes Programme 2015/16-2019/20	**–**	**–**	**275,000**	**55,000**	**4.7**	**0.96**	**17,400**

Sources: HCA and GLA databases; Autumn Statement 2014.
Notes: 1. Includes local authority housebuilding.
2. ncludes NAHP Kickstart and Property/Regeneration programmes. LCHO is low-cost homeownership.

As can be seen, starts fell precipitously in 2011/12 in the interregnum between the two programmes but have now recovered to levels commensurate with current AHP targets. The fall in completions was not so dramatic and did not occur until 2012/13, but output fell by 29 per cent compared with the previous year. In line with the expected overall output from the AHP (refer back to Table 2.4.1), completions are now running at lower levels given that the remaining NAHP funding has finally ended.

Within the figures shown in Table 2.4.3, the fall in output of social rented units is now very noticeable. The trend is particularly marked in the first half of 2014/15,

Table 2.4.3 **Affordable housing starts and completions funded by the HCA and GLA**

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15 Apr-Sept
Starts on site						
Social rent	**39,492**	**35,645**	**3,123**	**4,639**	**3,961**	**805**
Affordable Rent	**–**	**–**	**8,873**	**23,286**	**30,134**	**8,789**
Intermediate rent	**3,581**	**1,517**	**14**	**75**	**65**	**0**
Affordable homeownership	**10,844**	**11,303**	**3,400**	**8,090**	**7,494**	**1,962**
Total affordable starts[1, 2]	**53,917**	**48,465**	**15,410**	**36,090**	**41,654**	**11,556**
Completions						
Social rent	**30,939**	**36,713**	**34,021**	**14,388**	**7,759**	**1,389**
Affordable Rent	**–**	**–**	**928**	**6,856**	**19,320**	**8,585**
Intermediate rent	**1,935**	**2,470**	**1,638**	**717**	**552**	**0**
Affordable homeownership	**20,298**	**16,726**	**15,144**	**14,772**	**8,721**	**2,723**
of which, FirstBuy[3]	**–**	**–**	**2,994**	**7,639**	**974**	**–**
Total affordable completions[1]	**53,172**	**55,909**	**51,731**	**36,733**	**36,352**	**12,697**

Source: DCLG Live Table 1012.
Notes: 1. Total affordable housing is the sum of Affordable Rent, social rent, intermediate rent and affordable home ownership.
2. From April 2014, starts include new build schemes where the provider purchases the home at completion; the start on site date is taken as the date of completion.
3. FirstBuy is a shared equity product for which starts on site are not reported.

with social rent starts and completions at only 805 and 1,389 respectively. This is of course part of the deliberate switch towards new units being built for letting at Affordable Rent (AR) in order to sustain the current programme's output targets, with its far lower grant rates.

A key test of the AHP is whether bids made at lower grant rates can actually deliver the target of 80,000 completed units by March 2015. Starts on site under the AHP outside London had reached 63,293 by September 2014 and completions had reached 39,334. Within the GLA, starts had reached 19,546 by December 2014 and completions 8,453. Therefore it would appear that total starts on site are compatible with achieving the 80,000 target but that completions show a significant shortfall – unless output increases substantially in the remainder of this financial year.

For the HCA's part of the programme, against the expectation in their Corporate Plan that there would be 29,000 completions in 2014/15, by September there had been 8,325, suggesting that output in the remainder of this financial year will have to achieve the same level as for the whole of 2013/14 if the AHP target is to be met.[1] As far as the GLA is concerned, output under the AHP has already been revised downwards, with output now expected to be 19,997 units rather than 21,856 as previously stated.[2] The GLA has had to recycle funding for almost ten per cent of its share of the AHP because of difficulties met by providers in trying to achieve the programme's cut-off date. Some three-quarters of the Mayor's overall target of building 55,000 affordable homes by 2015 had been achieved by the end of 2014, suggesting that this target will now be met by December this year, rather than by March.

The evidence is mixed on the extent to which delivering the AHP depends on pushing Affordable Rents up to their official maximum of 80 per cent of market rents (see Table 2.4.4). Outside London, current HCA figures show that AR gross rents are close to or at the 80 per cent level in each region. Within London, the current AR average (65 per cent of market levels) is much lower, but this is made up of half the units let at around 50 per cent of market rents while the other half are let at 80 per cent. Overall, a very significant proportion of new AR lettings are

Table 2.4.4 **Affordable Homes Programme – Affordable Rents of new dwellings compared with market rents**

Region	Average rent (£/week)		Average rent as a % of market rent
	AR	Market	
London	182	279	65%
East and South East	134	174	77%
Midlands	107	135	79%
North East, Yorkshire and The Humber	97	123	79%
North West	102	128	80%
South and South West	123	158	78%
Average outside London	114	144	79%

Source: HCA and GLA; based on September 2014 data.
Note: Rents shown are average gross rents, including service charges.

therefore at, or within 2-3 percentage points of, 80 per cent of market levels. In round figures, the total could be as high as 70,000 out of the AHP's total planned output of 80,000 over four years.

CORE returns for 2013/14 now show levels of Affordable Rents on new lettings as a rather lower proportion of market rents, both as a mean and as a median figure. The mean rent has increased from 68 to 71 per cent over the past three years, while the median rent has increased from 77 to 80 per cent (see Compendium Tables 74b and c). These figures are not directly comparable with those above: they include lettings converted to AR rents (as well as newly built units) and they are also based on net rents (i.e. excluding service charges). Nevertheless they confirm the trend in AR rents as heading towards 80 per cent of market levels.[3]

CORE returns also provide some evidence of whether AR lettings are being made to tenants who are more likely to be able to afford them. In 2013/14, some 41 per cent of new AR general needs lettings went to tenants in full or part-time work, compared with 34 per cent in general needs properties let by HAs at social rents. The gap between the economic status of tenants in the two types of letting has grown slightly – it is now seven per cent whereas a year earlier it was only two percent. However, the overall proportion of tenants in new lettings who were eligible for housing benefit (76 per cent) is the same for AR as it is for HA general needs lettings, although both proportions have fallen slightly (in 2012/13 they were 81 per cent in AR and 79 per cent in HA general needs lettings). Overall, therefore, there is no evidence that AR lettings are going to tenants who can afford to pay higher rents without needing HB, because while more such tenants are in work their incomes appear to still qualify them for some benefit support.[4]

The 2013 edition of the *Review* included an analysis (in Table 2.4.4, page 58) of the ways in which the HCA programme output is funded, through a combination of lower scheme costs, grant, debt and other sources. This analysis remains broadly as before and cannot be readily updated. However, levels of average grant per property have fallen below the already low levels originally planned. At September 2014, average grant per unit outside London is £16,989 (for rental and homeownership units combined); within London the equivalent average is £25,265. The England-wide average of £18,853 per unit compares with the £20,000 average grant envisaged when the programme began.

A further impact of the AHP is the need to convert existing properties to AR or to sell them, to produce extra income to help fund new dwellings. The figures for expected loss of current social rented dwellings to support the AHP – at 75,228 in total across the life of the programme – remain the same as before. The evidence on conversion of *lettings* in the existing stock is discussed in Commentary Chapter 5. The figures on the overall decline in the social rented stock, noted in Contemporary Issues Chapter 3 (see page 32), reflect the impact of these conversions as well as other factors such as right to buy sales.

Unlike Scotland, Wales and Northern Ireland (see below), the coalition government never set a target for social rented output and, in relation to the AHP, its target has been based on what the allocated budget can deliver, not on any prior assessment of the need for affordable housing. The DCLG's *Business Plan*

2012-2015 set affordable housing starts and completions delivered through the HCA as an 'impact indicator'. As indicated above, as it nears the end of its term of office, the targets associated with the AHP have been met in terms of starts, but are at risk of being missed in terms of completions.

Judged against performance under the last year of the previous government, and using the government's definition of 'affordable housing' as delivered through HCA programmes, in terms of both starts and completions the coalition's record is poorer. Starts fell from 53,917 in 2009/10 to 41,654 in 2013/14; completions fell over the same period from 53,172 to 36,352.[5] Both would have to recover remarkably in the second half of 2014/15 to bring output back to the levels of five years earlier. Unfortunately the data from live tables on housebuilding are not compatible with the HCA's data series, and tell a more mixed story. As noted by Becky Tunstall in her recent assessment of coalition housing policy, by this measure affordable starts rose by 23 per cent over this period although completions fell by 15 per cent.[6] However, arguably the output from the HCA and GLA through their direct programmes is a more relevant yardstick by which to judge the coalition's record (especially given the weaknesses in the live tables on housebuilding, discussed in Commentary Chapter 2, page 48). Given the drastic fall in the grants budget the falls in starts and completions are hardly surprising,

The Affordable Homes Programme in England from 2015

In 2013 the government announced a new phase of the AHP for the three years 2015/16-2017/18, with £2.8 billion of grant producing a target of 165,000 homes. The 2014 Autumn Statement then extended the commitment on a similar basis (i.e. 55,000 homes per year) until 2019/20. The new AHP targets can be broadly compared both with the current AHP and the previous NAHP (see bottom row of Table 2.4.2). The average grant under the new programme will fall to a planned £17,400 per unit.

As pointed out in this chapter of the 2014 *Review*, the new programme will be based on and strengthen the shift towards Affordable Rent in several ways. First, it effectively rules out new developments at social rents, so such output will continue to fall and will rely on the limited extent to which providers can fund new social rent schemes without grant (e.g. by using local authority land or through section 106 contributions). Second, it insists on a further round of conversions of social rented units to Affordable Rents, over and above those converted for the previous AHP. Third, it requires more sales of vacant properties that would otherwise be relet: bidders are expected to set out how many properties they are planning to sell to fund their programme and 'why they have chosen not to dispose of more'. Fourth, it rules out local policies aiming to restrict new AR developments that are based on assessments 'that only rents at or close to social rent levels are capable of meeting local needs'. Finally, it makes clear the expectation that AR is fixed at 80 per cent of market levels and that bids which involve lower rents will only be considered 'in very specific circumstances' (although not in London – see below).[7]

Implementation of the new AHP has already started, albeit with differing approaches in London and the rest of England. In London, the Mayor's housing strategy sets a target of building 15,000 units under the GLA's element of the new AHP for each of the three years 2015/16-2017/18, of which 60 per cent will be for rent and the remainder for homeownership; of the rented proportion, half will be at 'discounted' rents (around 80 per cent of market levels) aimed at working tenants, and half at 'capped' rents (around 50 per cent of market) aimed at those in greatest need.[8] Bids were invited and it was initially expected that allocations would be made covering the whole three-year programme. However, when the results were announced in July, it emerged that the GLA had only been able to allocate about one-third of the available £1.25 billion, covering just over 18,000 of the target 45,000 units.[9] There is now a continuous bidding process open for the remaining funds.

Bids for the HCA part of the programme outside London were also announced in July. Unlike the GLA, the HCA planned to allocate only three-quarters of its available funds, but in the event it was only able to allocate £0.9 billion (just over half of the £1.7 billion total). A continuous bidding arrangement is now in place for the remainder. The experience of both the GLA and the HCA shows the difficulties inherent in the new programme, with its onerous conditions and low grant rates. It was to be expected that these would be even more discouraging in London and the results so far appear to show that this was the case. It remains to be seen whether the initial three-year AHP for England is fully deliverable, and especially whether the two-year extension to 2019/20 is viable given that funding will continue to be offered on similar terms (unless, of course, they are changed by the next government).

Other affordable housing investment in England

One feature of government support for affordable housing investment in England is the growing reliance on mechanisms other than the direct grant which is principally directed through the AHP. While non-grant investment has always existed, for example through recycling of capital receipts, landlords' use of their own resources and planning gain through section 106, the government is making increasing use of loans and guarantees. Although these are mainly directed at stimulating the private market, there are also elements of support for affordable housing, summarised in Table 2.4.5 (this table complements Table 2.3.6 which presents the equivalent information for private housing initiatives, see page 61. The largest of these is the £3.5 billion Affordable Homes Guarantees Programme (AHGP), which is linked to the AHP and also administered separately by the HCA and GLA. It initially aimed to deliver 15,000 homes on top of existing affordable housing commitments, through a combination of underwriting debt and £225 million of additional capital grant. The homes must be at Affordable Rent or for affordable homeownership. In the 2013 Budget this commitment was doubled to deliver 30,000 homes (of which 8,700 will be via the GLA), with the guarantee level raised and with a separate grant allocation of £450 million.

So far £220 million of grant has been allocated by the HCA to provide 13,896 extra units under the AHGP, an average of £15,800 per unit (however, if the 18 per cent of units being funded without grant are omitted, the average is £19,300 per unit). More than 80 per cent of the units to be provided will be AR rented.[10] In London, the GLA has included its AHGP allocation in its Building the Pipeline fund. In July 2013 it allocated £137 million to deliver 6,200 units through this fund, and in November 2013 a further £53 million to provide 1,700 units (some of these are conversions rather than new build). Interestingly, the average grant rate under the latest allocation has risen to over £31,000 per unit (compared with £22,000 in the July 2013 round).[11]

Direct investment by local authorities in new and existing stock, whether or not supported by grant funding, is also an important contributor to affordable homes investment. Overall capital expenditure by local authorities on housing declined by 65 per cent in cash terms between 2007/08 and 2011/12, to just £3.3 billion. However, it rose over the following two years to reach a recent high of almost

Table 2.4.5 **Summary of government support for affordable housing investment in England**

Programme	Period	Grant (£ million)	Loan (£ million)	Guarantee (£ million)	Notes
Affordable Homes Programme	2011/12-2014/15	4,500	–	–	Includes a substantial amount from the previous programme (NAHP)
Affordable Homes Programme	2015/16-2019/20	4,700	–	–	Extended for two years in Autumn Statement 2014
Affordable Homes Guarantee	2013/14-2016/17	450	–	3,500	Announced in 2012 and extended in 2013
Rent to Buy	2015 onwards	–	400	–	Loans are for up to 16 years; units must be completed by end of 2016/17
Empty Homes Programme	2011/12-2014/15	235	-	–	Combination of different funding packages to LAs
HRA Borrowing Programme	2015/16-2016/17	–	300	–	Additional borrowing headroom for LAs
Estates Regeneration Programme	2015/16-2018/19	–	150	–	Repayable loans to private bidders to redevelop LA estates
Decent Homes funding	2011/12-2015/16	1,760	–	–	Initial funding of £1.6 billion was extended by £160 million
Stock transfer gap funding	2011/12-2015/16	510	–	–	–
Totals		**12,155**	**850**	**3,500**	

£5.1 billion in 2013/14 as a result of the effects of HRA self-financing from April 2012 and the use of the borrowing capacity allowed.[12] Table 2.4.6 for the first time gives a picture of local authorities' relatively buoyant housing revenue accounts over the period since the self-financing settlement. Expenditure is forecast at £8.5 billion in the current year, and this includes a significantly larger contribution from revenue towards capital investment (£1,116 million), suggesting that English councils are starting to follow a pattern already established in Scotland.

Previous editions of the *Review* have made the case for councils having greater borrowing freedom, and there was a degree of support for this in the report of the Lyons Commission.[13] Some limited flexibility for councils with insufficient borrowing capacity has been provided by the Chancellor through an additional £300 million headroom (refer back to Table 2.4.5). So far 43 councils have been awarded extra capacity totalling £222 million under the scheme to deliver 3,087 new homes.[14]

A further important component of local authority investment is work to achieve the Decent Homes Standard (DHS – for the background, see the equivalent chapter in the 2013 and 2014 *Reviews*; for current data, see Compendium Table 23b). The coalition allocated £1.76 billion of subsidy towards DHS refurbishment by local authorities and housing associations over the five years to 2015/16, intended to ensure that no area has more than ten per cent sub-DHS stock by March 2016. Much of the remaining work to achieve or sustain the DHS will be financed from councils' (and housing associations') own resources.

Finally on England, a small but important contribution to affordable housing is provided as 'planning gain' linked to private housing development. Until 2010/11, planning gain schemes formed 60 per cent of affordable output. At that point its contribution began to fall, but over the last two years (presumably linked to the recovery in private building) it has begun to grow again. In 2012/13, 5,350 new units were provided through planning gain (section 106), and in 2013/14 this rose to 6,700.[15] This growth may be temporary as recent policy changes have weakened section 106 requirements: for example, by removing them on sites of less than ten new units, which is expected to have a particular effect on provision of affordable housing in rural areas.

Table 2.4.6 **Post-settlement local authority housing revenue accounts in England**

	2012/13	2013/14	2014/15
Gross national figures – cash prices (£million)			
Income			
Gross rent from dwellings	**6,743**	**7,043**	**7,282**
+ Non-dwelling rents	**174**	**171**	**171**
+ Leaseholders charges for services and facilities	**636**	**687**	**647**
+ Government grants and assistance	**231**	**289**	**193**
+ Other contributions towards expenditure	**140**	**143**	**122**
+ Interest income	**30**	**54**	**12**
+ Transfers and appropriations	**211**	**124**	**107**
= Total income	**8,165**	**8,512**	**8,533**
Expenditure			
Supervision and management	**1,761**	**1,878**	**1,898**
+ Repairs	**1,720**	**1,772**	**1,825**
+ Special services	**487**	**464**	**556**
+ Revenue to capital	**428**	**618**	**1,116**
+ Charge for capital	**2,223**	**2,173**	**1,843**
+ Transfers	**1,022**	**1,084**	**975**
+ Debt managements and bad debts provision	**92**	**108**	**167**
= Total expenditure	**7,854**	**8,219**	**8,532**
Balances			
Beginning of year balances	**1,389**	**1,690**	**1,602**
End of year balances	**1,700**	**1,983**	**1,604**
Changes in balances	**311**	**293**	**1**
Average number of dwellings (000s)[1]	**1,686**	**1,676**	**1,666**
Income and expenditure (selected items) per dwelling			
Cash (£ per year)			
Rental income per dwelling	**3,999**	**4,202**	**4,371**
Supervision and management per dwelling	**1,044**	**1,121**	**1,139**
Revenue-funded repairs per dwelling	**1,020**	**1,057**	**1,095**

Sources: Local Authority Revenue Expenditure and Financing Statistics, Local Authority Housing Statistics, DCLG.
Note 1. Stock figure for 2014/15 is an estimate.

Scotland's affordable housing investment

As pointed out in the last two editions of the *Review*, by opting for lower investment cuts the Scottish Government has been able to continue to set targets for output that are relatively high in comparison with England. Also unlike England, Scotland not only sets a target for new build at social rents, but in addition places greater reliance on expanding local authority output. There has also been some explicit recognition of the potential problem of rents set on new units drifting upwards as a result of the downward pressure on grant rates, and corrective action has been taken (see the 2014 *Review*). Nevertheless, pressures remain, especially on the more financially stretched housing association sector.

The original three-year Affordable Housing Supply programme (AHSP) for 2012/13-2014/15 was £630m; however, various ad hoc increases raised the three-year total to over £972m. Furthermore, for the single-year 2015/16, a total spend of £391m has been allocated, an increase of about 21 per cent on the average (£324) annual spend in the current three years. The details of the AHSP remain as set out in Table 2.4.5 of this chapter of the 2014 edition of the *Review* (on page 61), and are not repeated here. However, a revised programme is expected in early 2015 and if there are significant changes they will be covered in the June 2015 *Briefing Paper*.

Scotland's output of affordable housing reached a recent peak of over 8,000 units in 2009/10, slipped downwards to just over 6,000 in 2012/13 and then increased again to just over 7,000 in 2013/14. So far, numbers of completions suggest that this year's final output will be similar to 2012/13 (see Table 2.4.7). The Scottish Government's targets for its Affordable Housing Supply Programme (AHSP) for the five years 2011/12-2015/16 are to deliver 30,000 homes, of which 20,000 will be at social rents; of these 5,000 will be council houses (i.e. annual averages of 6,000, 4,000 and 1,000 respectively). Completions in 2013/14 were 7,012 units, of which 4,368 were social rented homes (62 per cent, of which 1,229 were new build completions by councils). The target levels were therefore being met and even exceeded. Performance in 2014/15 is so far somewhat lower than in 2013/14 although still commensurate with achieving the five-year targets.

Table 2.4.7 **Scottish Government Affordable Housing Supply Programme: new affordable housing completions**

Type of AHSP activity		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15 (Apr-Sept)
RENT							
Social Rent							
Housing association rent	New build	4,749	4,600	4,155	2,784	2,594	1,046
	Rehab	300	175	227	86	171	14
Council housing rent	New build	41	669	948	1,116	1,229	408
	Rehab	0	0	0	0	86	5
HA/Council	Off the shelf	72	24	0	0	60	50
Home Owner Support Fund (rent)	Off the shelf	303	368	322	288	228	86
Total Social Rent		5,465	5,836	5,652	4,274	4,368	1,609
Affordable Rent							
Other affordable rent	New build	33	4	49	415	804	471
	Off the shelf	19	47	24	0	0	14
	Rehab	7	7	0	1	113	0
Total Affordable Rent		59	58	73	416	917	485
AFFORDABLE HOME OWNERSHIP							
New Supply Shared Equity and Shared Ownership	New build	827	511	621	460	317	48
	Off the shelf	108	13	0	12	0	0
	Rehab	0	9	25	12	16	0
Other Affordable Home Ownership[2]	New build	39	27	134	28	3	0
	Off the shelf	0	1	0	0	0	0
	Rehab	135	106	86	192	325	22
Open Market Shared Equity	Off the shelf	1,459	579	186	533	1,051	690
New Supply Shared Equitiy (developers)	New build	0	85	102	73	9	0
Home Owner Support Fund (shared equity)	Off the shelf	0	6	3	9	6	5
Total Affordable Home Ownership		2,568	1,337	1,157	1,319	1,727	765
TOTAL AFFORDABLE HOUSING SUPPLY		8,092	7,231	6,882	6,009	7,012	2,859

Source: AHSP Summary Tables (new style), Scottish Government.

A continuing feature of the AHSP is the emphasis on social rented housing, with 58 per cent of funding in 2013/14 directed at such output. Within this, less than one-fifth goes to councils for their own new build programmes, but nevertheless they achieved a recent record of 1,229 completions in 2013/14 following a previous, only slightly lower, output of 1,116 in 2012/13. This not only exceeded the programme's target but was the highest level of council completions since the mid-1990s – although this year's figures so far suggest it will be a peak. (However, it remains in stark contrast with England, given that in 2013/14 English councils' new build completions fell below those of Scotland.) As Compendium Table 82 shows, councils are continuing to rely on high levels of prudential borrowing to support their investment programmes, together with contributions from rental income. These sources have more than displaced capital receipts and show why their dependence on capital grant is relatively low.

At the same time the declining social rented output by associations continues: it is now less than 55 per cent of what it was in the peak year of 2009/10. Interestingly, their much lower output of 'affordable rented' products has increased (mainly Mid-Market Rent units, which as their name suggests have rents aimed at the median of local market levels). This doubled in 2013/14 and shows signs of doubling again this year (Table 2.4.7). This suggests that associations having difficulty in providing social rented housing may be having greater success with more market-oriented products that require less subsidy.

The current AHSP is of course based on much lower grant levels than its predecessor. As recently as 2007/08 typical grant levels for housing associations were around £85,000 (well in excess of English levels). By 2010/11 they had fallen by more than half to around £40,000 (with some variation for rural areas and islands). However, Scotland has been alive to the effects of declining grants on output and to the commensurate danger of rents rising above affordable levels as social landlords try to compensate for reduced grant. An official working party recommended in 2013 that grant rates be increased by £16,000.[16] In 2013/14, grant rates did indeed increase so that for housing associations they averaged £55,385 per unit.[17] This is in contrast to the explicit moves towards higher Affordable Rents in England with their associated lower grant rates, yet catering for the same lower-income households as lettings at social rents.

Nevertheless, affordability of rents remains a concern. The Scottish Housing Regulator reported that, while housing association rents have typically risen more slowly than inflation, for the last two years they have outstripped it. Furthermore, analysis of business plans suggests that above-inflation rent increases will continue, at a time when real incomes are stagnant.[18] At the same time, comparison of Compendium Tables 72 and 86 shows that the relationship of social rents to earnings remains more favourable in Scotland than in England.

The AHSP is not of course the only source of support for affordable housing. Scotland has for three years had a form of guarantee in place to facilitate housing to let at intermediate rents, through the National Housing Trust. Under this model councils and developers jointly fund the purchase of newly built homes, with councils' borrowing being guaranteed by the Scottish Government, but with no direct subsidy. So far the scheme has financed almost 800 new units, with a further 850 in the pipeline.

In June last year the Scottish Government published a new *Scottish Planning Policy*, which includes policy about delivering affordable housing through planning gain (section 75).[19] Unfortunately the statistical series that monitored developer contributions to affordable housing is no longer published, but in the five years to 2011/12 about one-third of output involved a developer contribution (whether or not it also involved public sector grant), averaging about 2,000 units per year. This suggests that section 75 continues to play a very significant role.[20] The new policy indicates that developer contributions should amount to no more than 25 per cent of new developments, whereas previously 25 per cent was a benchmark figure. Given the issues about sustaining affordable housing output noted above, it is important that section 75 contributions are maintained at current levels.

The most recent assessment of Scotland's affordable housing needs was provided by the Audit Scotland report *Housing in Scotland* in July 2013.[21] Its benchmark was a 2005 estimate of affordable housing needs of 8,000 units per year, but it indicated that this is now an underestimate, given that fewer people can afford homeownership and that private sector output has fallen to about half the levels that were being achieved before the recession. This puts into perspective the apparently encouraging performance of the current AHSP in meeting its targets, since these are still likely to be considerably lower than what would be required to meet current needs if they were to be newly reassessed. The AHSP does of course also reflect the reality of cuts to capital budgets imposed by Whitehall, the impact of a difficult lending environment and the consequences for social landlords of the UK government welfare reforms. Nevertheless, CIH Scotland and others have consistently argued for more ambitious targets.

Turning to investment in the existing social housing stock, work continues to meet the Scottish Housing Quality Standard (SHQS) by the target date of 2015 (progress on this and other issues about the quality of the stock are discussed in Commentary Chapter 2). With the completion of Scotland's stock transfer programme, the remaining investment is being financed entirely from social landlords' own resources. Councils and housing associations made a combined investment of £444 million in 2012/13, bringing 143,377 dwellings up to the standard. The Scottish Housing Regulator estimates that a similar amount (£860 million over two years) will be invested by March 2015, securing the SHQS in a further 215,000 properties. With this it expects that less than one per cent of social sector stock will fail to meet the SHQS by the 2015 target date, which will be a notable achievement.[22] Although the SHQS was established later than England's DHS, the Scottish standard is more rigorous and the investment required is correspondingly greater. Inevitably this is a further factor in the stretching of resources available within the sector, especially those of housing associations, in addition to those noted above.

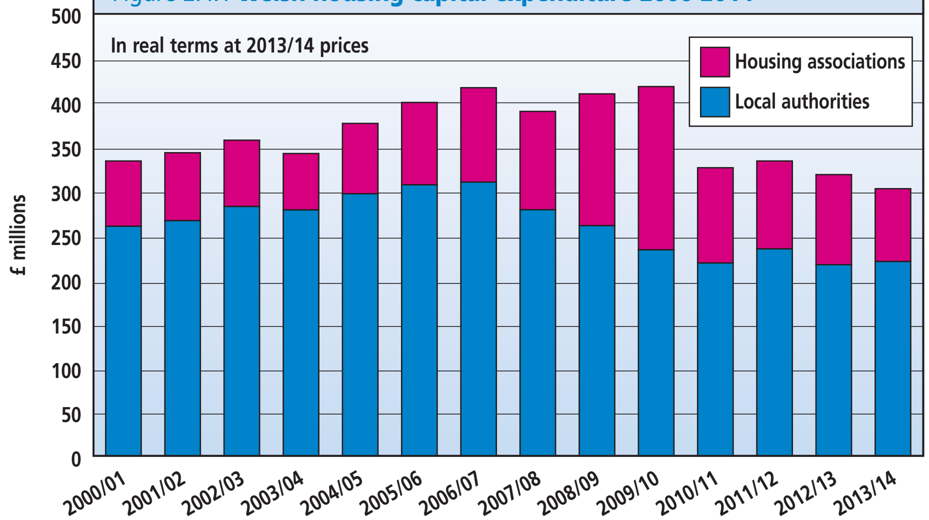
A new requirement for social sector housing investment in Scotland has been made through last year's introduction of the Energy Efficiency Standard for Social Housing (EESSH), which must be met by 2020. The EESSH sets a minimum energy-efficiency rating according to property type, and replaces the equivalent element of the SHQS. Investment is likely to be required to just over a third of the social stock and landlords can make use of available ECO and other UK and Scottish Government schemes to fund the energy efficiency measures needed to achieve the EESSH.[23] It is understood that the EESSH was set with reference to the energy-efficiency improvements that could be achieved through the available finance from such schemes. Across the UK, however, ECO has been subject to changes which make it more difficult to use in tackling hard-to-treat homes which are likely to have the lowest energy-efficiency ratings.[24]

Affordable housing investment in Wales

The recent pattern of affordable housing investment in Wales has fluctuated less than in the rest of Great Britain, although it has fallen back in the last few years (see Figure 2.4.1 and Compendium Tables 75 and 76). The budget for the main investment programme in Wales, Social Housing Grant (SHG), fell from £101 million in 2012/13 to £83 million in 2013/14. For 2014/15, the budget for SHG is currently £79.7 million and for 2015/16 it is £62 million (see Compendium Table 76 – there are often supplementary allocations during each year).

The Welsh Government originally set a target for new affordable housing output of 7,500 social and affordable dwellings within the term of the current assembly (until 2016). In the first two years, 4,474 were delivered and in April 2014 the WG published a 'pact' in which the target was raised to 10,000 (or 2,000 per year).[25] In contrast, Alan Holmans' 2010 estimate of the annual requirement for new non-market sector homes was 5,100;[26] however, the Welsh Government is carrying out a reassessment and believes the requirement may have fallen with lower than anticipated levels of household growth.

Figure 2.4.1 **Welsh housing capital expenditure 2000-2014**



Sources: Compendium Table 75.

In 2013/14, affordable housing output rose by 18 per cent compared with 2012/13, to 2,416 new homes. Over the first three years of the current government, provision has totalled 6,890, which amounts to 69 per cent of the new five-year target. According to local authority estimates, output should further increase to 2,829 in 2014/15 and to 3,129 in 2015/16.[27] This indicates, of course, that the new target maybe exceeded, and indeed that annual output will exceed 2,000 for a continuous run of eight years. But this also suggests that a more ambitious target might have been set, so as to bring provision closer to the levels recommended by Holmans (albeit that his projections of need might now be slightly too high).

Welsh affordable housing output also reveals an interesting trend in placing decreasing reliance on capital grant. From a high point of 86 per cent delivered with grant in 2010/11, it fell to 56 per cent in 2013/14. Indeed the extra numbers being built without grant account for the majority of the increased output last year compared with 2012/13. Paradoxically, reliance on planning gain (section 106) contributions is falling, accounting for 17 per cent of output in 2013/14 compared with a high point of 30 per cent in 2008/09.[28] (It is noteworthy, however, that Wales continues to provide detailed data on planning gain whereas Scotland has stopped doing so and England has much reduced the scope of the data it collects).

In addition to its mainstream programme, the Welsh Government has also introduced the Housing Finance Grant, a scheme to provide ongoing revenue subsidy to assist Welsh HAs with the repayment of collective private finance totalling £125 million. The WG commitment is to provide £4 million of subsidy annually from 2014/15 onwards over 30 years towards the loan repayments, setting a target of 1,000 new build units over the next two years. Wales is therefore unique among the four administrations in establishing a collective borrowing product from the capital markets and in providing a long-term revenue stream to 19 housing associations as an alternative to capital grant. There are now plans for a second phase of the scheme from 2017/18 which would raise the target output to 3,000 units.[29]

The importance of local authority investment in Wales is mainly in relation to the existing stock and the target of achieving the Welsh Housing Quality Standard (WHQS). By March 2014, although some councils' stock had met the WHQS, overall less than half (44 per cent) of council housing did so. The target date for full compliance is now 2020 (it was originally 2012).[30] The WHQS has been put on a statutory basis by the Housing (Wales) Act 2014.

The end of the financial year 2014/15 will mark the end of the Housing Revenue Account subsidy system in Wales, a move paralleling that in England three years earlier. Until now, all eleven stock-retaining councils in Wales have been paying 'negative subsidy' to the Treasury (see Compendium Table 77). Under a settlement with the UK Treasury and given a statutory basis in the Housing (Wales) Act 2014, these payments will end and councils will take on new debt (in a similar arrangement to that which applied to the majority of English councils). This means that for the first time Welsh local authorities will have full control over the rental income from their council housing and be able to operate meaningful business plans, albeit subject to caps on their borrowing. Given the sizeable task in bringing their stock up to the WHQS, however, this is likely to continue to be the priority for new investment in several cases, although some councils are now believed to be preparing new build programmes.

The Welsh Government has also introduced a new social rent policy for housing associations and local authorities in Wales. This sets an overall rent standard for each social landlord, based on the size, type and location of their stock, that is consistent as between one landlord and another across Wales. However within that standard social landlords remain free to set their own policies to distribute rents across their stock. While there are detailed phasing provisions to allow landlords to move towards the standard, the policy was introduced this year for housing associations, and will be introduced from April 2015 for local authorities.

Housing investment in Northern Ireland

Housing investment in Northern Ireland peaked earlier than in other parts of the UK and has been in decline since 2007/08. However, it remains relatively high as a proportion of total government expenditure. Current capital investment plans are shown in Table 2.4.8. For 2015/16, the budget available to the Department for Social Development (DSD) is nine per cent lower than in the current year, although overall capital spending on housing will be cut by a smaller proportion than this, to just short of £90 million.[31]

Table 2.4.8 **Budgeted net housing capital investment in Northern Ireland**
£ million

	2011/12	2012/13	2013/14	2014/15	2015/16
NI Housing Executive (NIHE)	**- 24.3**	**- 32.9**	**- 38.6**	**- 17.8**	**89.9**
Housing associations	**154.4**	**121.7**	**112.6**	**113.6**	
Total	**130.1**	**88.8**	**74.0**	**95.8**	**89.9**

Source: Northern Ireland Budgets 2011-15 and 2015-16; DSD Business Plan 2014-15.

Social housing completions ran at an average of just over 1,300 per year over the three years 2011/12-2013/14. For 2014/15 the DSD's target for new social dwellings is 2,000 starts, meaning that the four-year target of delivering 6,000 social homes by 2015 will not be met. For 2015/16, budget constraints mean that there will only be 1,500 new social dwellings started, based on a new build allocation of £98 million. However, a further £10 million is being made available for around 300 affordable (owner-occupied) homes through the co-ownership scheme and the aim is to increase this during the course of the financial year.[32]

While the Northern Ireland Housing Executive no longer develops new stock itself, the DSD budget still supports a modest level of investment in their existing stock, albeit dependent on the Executive's capital receipts from sales. Investment in capital improvements to the stock reached a recent high point of £12.5 million in 2012/13, but fell in 2013/14 to £8.3 million before rising in 2014/15 to £9.3 million. A total of £13 million is promised in the DSD budget for 2015/16. Even so, this is well below the level NIHE believes it requires and only a fraction of the investment levels made in the years up to 2008/09 (see Compendium Table 88). The target date for achieving the Decent Homes Standard for the whole stock is not until 2021. A recent re-evaluation of stock investment needs has indicated a requirement for at least £6.1 billion, £1 billion more than when last assessed in 2009.[33]

DSD's Social Housing Reform Programme continues to look at options for the future of the NIHE landlord function, in part because of this funding shortfall. However, at the moment there is hesitation about the original proposal to work towards the transfer of the *whole* of the NIHE stock, and this has been downgraded to considering *significant* transfer to housing associations (whether existing or new ones). At the same time, the option of keeping the NIHE as a public corporation is being explored.[34] This option links across to the debate in England about borrowing freedom for local councils, which hinges on the recognition that the finances of bodies with public corporation status are treated as being outside government according to international accounting rules. The outcome of the Northern Ireland debate could therefore have wider implications, although in the context of this chapter the main objective would undoubtedly be to create a sustainable investment plan for the Executive's 90,000 housing stock.

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