Briefing Paper

Spending Review and Autumn Statement 2015: The Implications for Housing

November 2015

Ridley Court in Penrith, Cumbria.
Affordable homes built recently by Impact Housing Association.

Introduction

The Spending Review and Autumn Statement were announced on 25th November 2015. Following their defeat in the House of Lords the government have decided to abandon their proposed reductions in tax credits. There has also been a change of approach towards police budgets that are now protected in the light of increased public concerns. The four-year spending plans will reduce government expenditure by an average of 19%, less than had been anticipated but still a significant amount.

One reason why the reductions in budgets were not as large as had been expected is that the Office for Budgetary Responsibility has identified a £27billion improvement in the public finances compared to the summer Budget, due to higher tax receipts and lower rates of interest.

£4trillion of spending has been allocated by the government over the next five years. The Spending Review sets out how this will be allocated. On average, departmental spending will fall at less than half the rate of the previous five years. The biggest Whitehall cut in day-to-day spending is the 37% cut to the budget of the Department for Transport, although the chancellor said that the department's capital budget would rise by half to £61billion, including funding for construction of the High Speed 2 rail link.

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The government is expected to borrow £8billion less than forecast as it aims to secure a £10.1billion budget surplus by 2020. Total spending is to rise from £756billion in 2015/16 to £821billion by 2019/20. State spending - as a share of total output is to fall to 36.5% in 2020 compared with 45% in 2010. Overall day-to-day departmental spending is to be cut by £20billion, equivalent to 0.8% of total expenditure each year by 2020 in real terms, meaning a cumulative reduction of 19% to 2019/20.

The government states that in 2014/15 the deficit was halved compared to its 2009/10 level, in 2016/17 it will be down by three quarters and that by 2019/20 there will be a £10billion surplus.

The Chancellor said:

"With housing associations included, the Office for Budgetary Responsibility predicted at the time of the Budget that Britain would borrow £74.1billion this year. Instead, they now forecast we will borrow less than that at £73.5billion. Borrowing then falls to £49.9 billion next year."

Housing Headlines

Funding for new affordable homes will be doubled to more than £2billion a year and refocused so that most of the funding will be spent supporting new homes for low cost home ownership, rather than to rent. This is intended to help deliver 400,000 affordable new homes by the end of the decade. The Chancellor committed to a £6.9billion housing investment programme that includes:

- A new 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016, raising about £1billion
- £4billion funding for 135,000 shared ownership homes for households earning less than £80,000 (or £90,000 in London). Restrictions on shared ownership to be removed and planning system reformed to deliver more homes
- London Help-to-Buy scheme to offer interest-free loans worth up to 40% of the value of a newly built home compared with 20% elsewhere.
- Plans to hand £2.3billion to private developers to build 400,000 new homes in England
- £2.3billion for 200,000 Starter Homes aimed at first-time buyers, who will get a 20% discount on prices up to £450,000 in London and £250,000 elsewhere
- £200million for a rent-to-buy home ownership product intended to provide 10,000 new homes that tenants can live in for five years at reduced rents while they save for a deposit. They will then have 'first right' to buy the home
- £400million intended to provide 8,000 specialist homes for older people or those with dis-abilities.
- Public land to be released for more than 160,000 homes.
- Five housing associations – L&Q, Riverside, Sovereign, Thames Valley and Saffron Housing - will pilot the extension of the right to buy from midnight on 25th November 2015

The Chancellor said:

"Since the Summer Budget, housing associations in England have been reclassified by our independent Office for National Statistics and their borrowing and debts been brought onto the public balance sheet – and that change will be backdated to 2008. This is a statistical change and therefore the OBR has re-calculated its previous Budget forecast to include housing associations, so we can compare like with like.

"By selling… old prisons we will create more space for housing in our inner-cities. For another of the great social failures of our age has been the failure to build enough houses.

"In the end Spending Reviews like this come down to choices about what your priorities are. And I am clear: in this Spending Review, we choose to build. Above all, we choose to build the homes that people can buy. For there is a growing crisis of home ownership in our country. Fifteen years ago, around 60% of people under 35 owned their own home, next year it's set to be just half of that. We made a start on tackling this in the last Parliament, and with schemes like our Help to Buy the number of first time buyers rose by nearly 60%. But we haven't done nearly enough yet. So it's time to do much more. Today, we set out our bold plan to back families who aspire to buy their own home.

"First, I am doubling the housing budget. Yes, doubling it to over £2billion per year. We will deliver, with government help, 400,000 affordable new homes by the end of the decade. And affordable means not just affordable to rent, but affordable to buy. That's the biggest house building programme by any government since the 1970s. Almost half of them will be our Starter Homes, sold at 20% off market value to young first time buyers. 135,000 will be our brand new Help to Buy: Shared Ownership which we announce today. We'll remove many of the restrictions on shared ownership – who can buy them, who can build them and who they can be sold on to.

"The second part of our housing plan delivers on our manifesto commitment to extend the Right to Buy to housing association tenants. I can tell the House this starts with a new pilot. From midnight tonight, tenants of five housing associations will be able to start the process of buying their own home.

"The third element of the plan involves accelerating housing supply. We are announcing further reforms to our planning system so it delivers more homes more quickly. We're releasing public land suitable for 160,000 homes and re-designating unused commercial land for Starter Homes. We'll extend loans for small builders, regenerate more run-down estates and invest over £300 million in delivering at Ebbsfleet the first garden city in nearly a century.

"Fourth, the government will help address the housing crisis in our capital city with a new scheme – London Help to Buy. Londoners with a 5% deposit will be able to get an interest-free loan worth up to 40% of the value of a newly-built home.

"And the fifth part of our housing plan addresses the fact that more and more homes are being bought as buy-to-lets or second homes. Many of them are cash purchases that aren't affected by the restrictions I introduced in the Budget on mortgage interest relief; and many of them are bought by those who aren't resident in this country. Frankly, people buying a home to let should not be squeezing out families who can't afford a home to buy. So I am introducing new rates of Stamp Duty that will be 3% higher on the purchase of additional properties like buy-to-lets and second homes. It will be introduced from April next year and we'll consult on the details so that corporate property development isn't affected. This extra stamp duty raises almost a billion pounds by 2021 – and we'll reinvest some of that money in local communities in London and places like Cornwall which are being priced out of home ownership.

"The funds we raise will help building the new homes. So this Spending Review delivers:
- *A doubling of the housing budget.*
- *400,000 new homes; with extra support for London.*
- *Estates regenerated.*
- *Right to Buy rolled-out.*
- *Paid for by a tax on buy-to-lets and second homes.*

"Delivered by a government committed to helping working people who want to buy their own home. For we are the builders."

Welfare Headlines

The Chancellor also announced measures on welfare including:

- Housing Benefit capped in the social housing sector to the level of Local Housing Allowance for new tenants. This includes extending the shared room rate, whereby single people under 35 are only eligible for enough support to cover the cost of a room in a shared house. The change will apply to tenancies starting from April 2016 and will take effect from 2018.
- Reductions in child tax credits will go ahead as planned.
- There will be changes to the way the management of temporary accommodation is funded. The management fee currently paid by the Department for Work and Pensions to local authorities on a per household basis will end from 2017/18 and instead an up-front fund will be established.
- The maximum amount of time over which someone can continue to claim housing benefit and pension credit while out of the country will be reduced from thirteen weeks to four weeks.

The Chancellor said:

"Today, I can tell the House that the £12billion of welfare savings we committed to at the election, will be delivered in full – and delivered in a way that helps families as we make the transition to our new National Living Wage.

"The rate of Housing Benefit in the social sector will be capped at the relevant local housing allowance – in other words, the same rate paid to those in the private rented sector who receive the same benefit. This will apply to new tenancies only. We'll also stop paying housing benefit and pension credit payments to people who've left the country for more than a month. The welfare system should be fair to those who need it and fair to those who pay for it too. . The Temporary Accommodation Management Fee will no longer be paid through the benefits system – instead, councils will receive £10million a year more, upfront, so they can provide more help to homeless people."

The Numbers

The government's spending plans are summarised below:

Department	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Defence	27.2	27.8	28.5	29.2	30.0	31.0
Single Intelligence Account	1.8	1.8	2.0	2.1	2.2	2.3
Home Office	10.3	10.7	10.6	10.6	10.6	*
Foreign and Commonwealth Office	1.0	1.0	1.0	1.0	1.0	*
International Development	8.5	9.1	9.3	10.7	11.0	*
Health (inc. NHS)	111.6	115.6	118.7	121.3	124.1	128.2
Work and Pensions	5.8	6.1	6.3	5.9	5.4	*
Education	53.6	54.4	55.5	56.4	57.1	*
Business, Innovation and Skills	12.9	13.4	12.3	11.7	11.5	*
Transport	2.6	2.0	2.1	2.2	1.8	*
Energy and Climate Change	0.9	0.9	1.0	1.0	0.9	*
Culture, Media and Sport	1.1	1.2	1.2	1.2	1.1	*

Department	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
DCLG Communities	1.5	1.4	1.4	1.3	1.2	*
Scotland	25.9	26.1	26.3	26.3	26.5	*
Wales	12.9	13.0	13.1	13.2	13.3	*
Northern Ireland	9.7	9.8	9.9	9.9	9.9	*
Justice	6.2	6.5	6.3	5.8	5.6	*
Law Officers' Departments	0.5	0.5	0.5	0.5	0.5	*
Environment, Food and Rural Affairs	1.5	1.7	1.6	1.5	1.4	*
HM Revenue and Customs	3.3	3.5	3.4	3.1	2.9	*
HM Treasury	0.2	0.2	0.2	0.1	0.1	*
Cabinet Office	0.2	0.3	0.3	0.3	0.2	*
National Citizen Service	0.1	0.2	0.2	0.3	0.4	*
Small and Independent Bodies	1.5	1.5	1.5	1.5	1.5	*

Note: These figures show the Resource Departmental Expenditure Limits excluding depreciation. They do not show Annually Managed Expenditure. Where '*' is shown the government has yet to announce the resource allocation.

Affordable Housing

Spending on capital investment is to increase by £12billion over the parliament, while the house building budget rises to £2billion per year, expected to deliver 400,000 new homes by 2020. This will be complemented by demand-side measures in the form of help-to buy-schemes and discounts for first-time buyers. It is not yet clear whether developers and housing associations will be able to access this cash before 2018.

The 400,000 government-funded new homes will be affordable both to rent and to buy. This will included 135,000 'Help to Buy: shared ownership' homes and 200,000 home ownership properties, as well as 10,000 homes for rent to buy and 8,000 specialist accommodation units for elderly and disabled people. Half of the new builds will be 'starter homes', sold at 20% below market value for first time buyers. It was also confirmed that the Right to Buy scheme currently in place for people renting a council house will be extended to housing association tenants, giving 1.3 million people the opportunity to buy their home.

The limits around Help to Buy schemes will be lifted, meaning anyone in England whose household income is below £80,000, or £90,000 inside London, can buy a home with government help.

Londoners will also benefit from more generous Help to Buy Equity Loans from 2016, with the government offering to loan up to 40% of the price.

Those buying a second home and buy-to-let landlords, however, emerged as less fortunate, with the chancellor announcing an extra 3% in stamp duty on additional properties.

Documents released by the Treasury following the Spending Review said this would be 'in addition to 50,000 affordable homes from existing commitments'. This is likely to refer to the £1.7billion Affordable Homes Programme for 2015/18 that saw an initial £900million allocated to build 43,821 homes, largely for affordable rent, in July last year. Further funding has since been allocated by the Homes and Communities Agency.

The Treasury document said it would 'remove constraints that prevent private sector organisations from participating in delivery of these programmes, including the constraints to bidding for government funding'.

There will also be £2.3billion in loans to help regenerate large council estates and invest in infrastructure needed for major housing developments. The document claims that the capital programme, loan schemes, Help to Buy and other measures amount to £20billion of investment in housing over the spending review period.

The Office for Budgetary Responsibility has forecast that housing associations will build 185,000 homes by 2020/21. This is 46,000 more than the figure it forecast following July's announcement of a 1% social housing rent cut. However, it is still 34,000 lower than the 219,000 homes it predicted by 2020/21 before July's Budget. Therefore, the additional resources for affordable homes provided by the spending review will not make up for the reductions in housing associations' development plans caused by the social housing rent cut.

The Office for Budgetary Responsibility forecast shows the amount of capital grant received by housing associations will decrease from £960million in 2015/16 to £590million in 2017/18, before increasing to £1.2billion in 2019/20 and £1.7billion in 2020/21. Furthermore, the bulk of funding that housing associations are expected to receive in 2021 – £1.5billion of the £1.7billion – will be for shared ownership. Resources for low-cost rent will gradually reduce from £960million in 2015/16 to £130million a year between 2018 and 2021.

The Office for Budgetary Responsibility forecasts that it will take until 2020/21 for housing associations to be building the same amount of homes a year they would have been building had the rent cut not been implemented. It said:

"Taken into account the Spending Review, we now expect lower grants to lead to even fewer new builds in 2016/17."

Low-cost Home Ownership

Current restrictions on who can buy a home through shared ownership will be removed from April 2016. Shared ownership allows people to buy a share of a home – rather than the whole house – and then buy a greater share over time as they can afford to. They pay rent on the rest of the property. Currently, these are allocated in several different ways including criteria set by local councils, for example whether potential buyers work in the local area or if they are already in council housing.

Help to Buy Shared Ownership will lift the limits so that anyone who has a household income of less than £80,000 outside London, and £90,000 inside London, can buy a home through shared ownership. Only military personnel will be given be priority over other groups. The scheme will apply across England.

People can buy a share between 25% and 75% of a home. The rent on the rest of the property won't be more than 3% of the amount left. For example, on a house worth £227,000 where the buyer has bought a 40% share, the rent won't be more than 3% of the remaining 60% - in this case £4,000 a year, or £340 a month.

The new London Help to Buy scheme means that if a person lives in London the government will lend them 40% of the price of their home from 2016. Help to Buy Equity Loans are already open to both first-time buyers and home movers on new build homes in England with a purchase price up to £600,000. Currently, if a person is able to pay at least 5% the value of their home as a deposit, the government will lend them up to 20% of the rest of the value of the property, alongside a mortgage of up to 75%. Equity Loan will be now available until 2021. And, to reflect the current property market in London, from early 2016 the government will increase the upper limit for the equity loan it gives new buyers within Greater London from 20% to 40%.

With London Help to Buy equity loan applicants will need to contribute at least 5% of the property price as a deposit, the government will give them a loan for up to 40% of the price and they will need a mortgage of up to 55% to cover the rest.

First-time buyers will be able to get a 20% discount on 200,000 new Starter Homes. Starter Homes are new build homes available at 20% off the market price. They are only open to first-time buyers under forty and on homes where the discounted price is less than £250,000 outside London and £450,000 in London. £2.3billion will be spent on building 200,000 Starter Homes over the next five years. This money will be given to house builders to provide a 20% discount on new homes. House builders can now apply to make their developments Starter Homes.

Brandon Lewis said that housing associations would have 'a big role to play' in providing low cost home ownership.

Right to Buy will be extended to housing association tenants during 2016. A small number of housing associations will be piloting the scheme in the next few months.

Brandon Lewis, Minister for Housing told 'Inside Housing' that:

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

Brandon Lewis said he hoped this would apply to even those on council housing waiting lists.

However, research by 'Shelter' has showed that starter homes would be unaffordable to those on low incomes in almost all areas.

The government considers that combining 'starter homes' offered at a 20% discount, with Help to Buy would make it accessible to more people, but it is not clear if lenders would be happy to offer mortgages on this basis.

Money raised from tax on people buying their second home will be used to help those struggling to buy their first home. From April 2016 people purchasing additional properties such as buy to let properties and second homes will pay an extra 3% in stamp duty.

'Right to Buy' will be extended to tenants of housing associations under the terms of a 'deal' between the government and the National Housing Federation. This proposal is the subject of two other 'AWICS' briefing papers that can be freely downloaded from our website:

- Right to Buy – Extension to Housing Associations in England - http://www.awics.co.uk/rtbha.asp
- Extension of Right to Buy to Housing Associations – Proposals and Implications - http://www.awics.co.uk/rtbextn.asp

Despite the focus on homeownership, Mr Lewis said affordable rented accommodation would still be 'part of the mix' in housebuilding, through existing grant commitments and councils' ability to borrow. He said that around £1billion of grants that remain unallocated under the 2015/18 programme would also be used to 'promote homeownership' but said he did not want to 'pre-judge' how the cash would be split between rent and ownership.

Response of the National Housing Federation

David Orr, the Chief Executive of the National Housing Federation, said:

"Like the Chancellor, housing associations want to build even more new homes – that are affordable to rent and affordable to buy.

"Two years ago the housing association sector published its Ambition to Deliver. This plan outlined the sector's goal of building 120,000 new homes a year across all tenures, to every price point of the market. I believe that today's announcement brings us one step closer to making this a reality.

"This announcement provides the conditions for us to deliver thousands more homes for people at every level of the housing market.

"Shared ownership is a housing association success story - with over 275,000 properties already delivered.

"Housing associations built 40% of all new homes last year, 50,000 in total, and are ready to do even more in close partnership with Government"

In response to the Chancellor's vision for boosting supply and home ownership the National Housing Federation said that:

"We are delighted that the Government wants to boost shared ownership. Shared ownership is a housing association success story - with over 275,000 properties already delivered. The scheme is already incredibly popular and this investment, alongside the removal of local restrictions, will mean housing associations can help many more aspiring homeowners achieve their dreams.

"The upfront investment in Starter Homes should help make their delivery more viable and likely. Whilst it is vital they don't come at the expense of traditional affordable homes, for sub-market rent and shared ownership, this measure could help incentivise housing associations to deliver them alongside homes to rent.

"Housing associations already build tens of thousands of homes for social and affordable rent each year. As well as helping the Government boost homeownership, the sector remains committed to building homes for affordable rent to meet needs of people on all incomes."

In response to the announcement that the extension of Right to Buy to housing association tenants will be piloted the National Housing Federation said that:

"It is only right and proper that the extension of Right to Buy to housing associations is tried and tested before it is rolled out more widely. We want this scheme to work both for tenants with home-owning aspirations and for housing associations building replacements – piloting it will ensure it delivers this."

In response to the Government's commitment to releasing public land the National Housing Federation said that:

"The Government's continued commitment to releasing public sector land to increase house building is welcome. However, it is essential that this time they go further and ensure that homes are actually built on this land. It is also important that the Government identifies ways to bring this land forward at a lower cost, so it supports the delivery of a range of tenures and speeds up build rates."

Response of the Chartered Institute of Housing

Terrie Alafat, Chief Executive of the Chartered Institute of Housing, said:

"It's good to see the chancellor putting house building at the heart of his plans with a significant investment in much-needed new homes.

"Right now millions of people are struggling to access a decent home at a price they can afford – housing professionals are looking forward to working with the government to deliver the new homes that we so desperately need.

"We have been calling for an expansion in shared ownership together with housing group Orbit and the new scheme announced today could help thousands of people who have been priced out of a decent place to call their own. Our work with Orbit showed that households benefiting from shared ownership tend to have an income of between £20,000 and £35,000 compared to nearer £40,000 for first-time buyers."

Regarding the £289million for estate regeneration that will aim to deliver more than 6,000 new homes. Terrie Alafat said:

"Together with housing association Poplar HARCA we have been calling for a renewed focus on regeneration so this is a positive first step – we look forward to working with the government on this project.

"We need to make sure that we are building a range of new homes which are truly affordable to people on all incomes, including those that cannot afford to buy."

John Perry, Policy Advisor at the Chartered Institute of Housing wrote in 'Inside Housing' that:

"The extra investment for housing towards the end of this parliament is very good news. We could never hope to address our national supply crisis without government action. But the way it will be configured means a massive boost to homeownership, apparently funded in part by reductions in investment in affordable rented homes in later years.

"By the end of this Parliament, investment plans will have swung away from their traditional focus on social renting and will be dominated by low cost homeownership schemes.

"Clearly the chancellor wants to halt the decline in owner-occupation that began a decade ago – but will his plans work, and what are the implications for those who can't afford to buy now and still won't be able to even under the new schemes?

"The plans imply a huge further switch in funding towards stimulating the private sector. This was already the focus of the chancellor's schemes before today, with a total of £32billion earmarked for stimulating the market, double the amount earmarked for affordable homes via social landlords. Now there will be an even bigger emphasis on homeownership, with more than £4billion of new investment going towards building starter homes and easing access to ownership via Help to Buy.

"Investment plans set by councils and housing associations will again need to be revised. Not only is the shape of government spending due to change, especially after 2018, but their income is going to be hit by rents being limited to local housing allowance rates. Given that welfare reform has already hit landlord incomes, arrears are likely to get worse. Rents are already being cut by 1% over each of four years, so the overall effect is almost certainly to be a further downwards revision of social landlords' investment plans and in the output of affordable rented homes.

"The government also announced changes to the way temporary accommodation for homeless people is funded. Instead of this being retrospectively via housing benefit payments to individual local authorities, it will now be included in an up-front allocation given to all councils. This effectively means a move from a demand-led system to a fixed budget based on giving greater certainty to central government, but risking local authorities being out of pocket if demand is greater than expected or the allocation is a cut on previous years' funding. It will need further work to understand the detail before we can be sure of the precise implications.

"Much of what the chancellor proposes is only known in outline form. Will the effect of extra capital investment be beneficial all round even though social housing investment is to be hit?

"Indeed, will the private market respond to today's announcements to the degree the chancellor expects, given that private house building has hardly been shifted by so many earlier schemes to boost the market?

"It's too soon to say, but no one can any longer complain that housing is being ignored by politicians.

"It is already obvious that the effects will vary greatly from one part of the country to another - investment in the north of England will be affected by the introduction of the local housing allowance caps, and Scotland, Wales and Northern Ireland will all be hit by both the benefits changes and by changes in their block grants.

"As the detail emerges, it will be our job to keep politicians focused on the implications, especially for those who still won't be able to afford to get on the homeownership ladder.

Response of Shelter

Shelter stated that:

"Make no mistake – today's Comprehensive Spending Review was, overall, good news for housing. We've been calling on the Chancellor to do much, much more to increase house building ever since the 60% cut to the budget in 2010… Today, that cut was finally reversed as the budget for the three years 2018-2021 was roughly doubled.

"This is welcome – given some pretty toe-curling rumours going around in the run up to today's announcement: that the entire house building budget would be scrapped, that housing associations would be privatised, that existing social homes would all be sold off or given away. Happily, none of these have happened. Instead we're promised a significant increase in government investment in new homes – which will finally be treated as part of the nation's vital infrastructure.

"Less positively the bulk of this investment will be going towards homes to buy, with little or nothing for those on lower incomes facing the brunt of our affordable housing shortage. This is a major flaw in the plan, but is hardly surprising, as it's in keeping with the Conservatives' election manifesto and other recent announcements. That said, it's still better than it might have been. We're very concerned that Starter Homes (for sale at 20% off the market rate) will be totally unaffordable to most people – but at least this is not the only product the Comprehensive Spending Review will fund. There will be increased funding for Shared Ownership too, and while this is still not affordable for around half of the country, it's better than Starter Homes, as at least the public investment is preserved for future generations. And there was also a small commitment to pilot a 'Rent to Buy' product – something we've long thought has potential for those who cannot afford to buy under the existing schemes.

"We're also pleased to see the Chancellor recognising that the housing market is not a level playing field. Buy to Let landlords, and wealthy second home buyers, have huge advantages over Britain's hard pressed first time buyers. The value of Buy to Let to buy new homes has increased by 40% over the last year alone. Osborne's plan to increase Stamp Duty on these buyers is a good idea, especially as he's explicitly promised to use the revenue to support new building.

"Finally, it seems that the Homelessness Prevention Grant has been spared the axe: this provides vital support for local authorities to help people facing homelessness, and there were fears it might go.

"It's not all good news though. There's a worrying cut to the housing benefit that social tenants will be able to claim from 2018, which will hit some vulnerable tenants hard – potentially making it impossible for them to get a secure, low rent home at all. And there's a technical change to the way that Temporary Accommodation is paid for that could increase the strain on a part of our housing safety net that's already under intolerable pressure. We'll need to analyse these proposals in detail, and will be keeping a careful eye on developments.

"And of course, there are still plenty of damaging things in the Housing and Planning Bill going through Parliament as we speak. Most importantly the forced sale of existing council homes on the open market is a totally unwarranted attack on genuinely affordable homes to rent, and one that we will continue to fight. But at least the Chancellor seems to have found new money to support today's house building pledges, rather than relying on yet more sell offs of the homes we already have.

"All in all, it's great that the Chancellor has heard our calls for more investment in the homes we so urgently need. In the last three months, 23,703 people signed our petition calling him to do so.

"We'll be holding the government's feet to the fire to honour the positive pledges made today – and continuing to campaign for more genuinely affordable homes as part of the mix."

Response of Orbit Housing Association

Susan Forster, Finance Director at Orbit Housing Association wrote in 'Inside Housing' that:

"The chancellor's announcement to invest over £6billion in new homes puts the housing sector at the heart of the solution. We can now use our expertise and financial strength to deliver more homes and work in partnership with government to address the housing crisis. It also moves us on from a period of uncertainty about the sector's future as a partner of government.

"From a capacity point of view, the £4.5billion investment in shared ownership is an efficient move by government because it requires half of the public subsidy of an affordable rented home, so can deliver more from the same investment.

"Orbit already delivers 330 shared ownership homes a year, generating a profit of almost £4million which we re-invest in more affordable housing. The product works, and so does the business model. But it's not all plain sailing – growing this pipeline increases our market exposure and risk profile.

"Fluctuations in the market can also impact on stair casing and of course we now also have to factor in the Right to Buy. Ultimately though, we support this move. It delivers against aspiration, is affordable and demand for shared ownership currently outstrips supply by a factor of around 1 to 10.

"Orbit, the Chartered Institute of Housing, National Housing Federation and others have pushed relentlessly in the past year for government to recognise the value of shared ownership, and now it is here.

"Now we need to maximise what we can offer, we need to get better at marketing our offer, better at enabling customers to staircase, so that we can generate the profits needed to re-invest further in the building of new homes and demonstrate the value in our business model.

"So what are the other implications of the biggest housebuilding programme since the 1970s? There will be a big gap in new affordable homes for rent and I expect many organisations to choose to plug that gap with low-cost rented homes built through cross subsidy.

"Ensuring our homes remain affordable and accessible will be an ever-increasing challenge. We will need to work with lenders to ensure the huge increase in mortgages required for shared ownership (and other ownership products) are available.

"We also need to think more broadly about how we build sustainable communities alongside these new homes. How we work with partners locally to invest in communities and ensure that families have the right employment and educations opportunities to meet their aspirations.

"Finally, we have this one opportunity to show government what we are made of through pace and invention. We need to demonstrate now how we bring a commercial steel to our social purpose and deliver on what we have asked for."

Conclusions

The Spending Review confirmed the government's direction of travel with regard to housing. Housing is moving up the political agenda and despite 'austerity' increased resources are being allocated to housing. However, the priorities are changing. The emphasis is now on subsidised low-cost home ownership whether through starter homes, shared ownership or right to buy. Social and affordable rented housing is clearly a lower priority.

The message for housing associations is clear. If they wish to retain the confidence of ministers and optimise their financial position they will shift their emphasis, especially in terms of development, away from building social and affordable homes to rent towards building homes for low cost home ownership and selling existing homes to tenants through 'right to buy'.

For local authority housing services facing the sale of high value council homes as well as 'pay to stay' and the 1% annual rent reductions the situation appears to be more complex. If they wish to build new homes it is likely that they will need to consider low cost home ownership and will also have to consider innovative models for the delivery of new homes.

Adrian Waite
November 2015

Further information about housing finance is available on our website at: http://www.awics.co.uk/BriefingPapers.asp

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About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

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