UNISON Open College

BLOCK HFFS.101

THE CONTEXT OF HOUSING FINANCE

UNISON Open College, 1 Mabledon Place, London WC1H 9AJ

Preface

This Block begins by introducing themes and issues in housing finance, which sets the context for the other Blocks of the module.

It begins with a discussion of the importance of resources, and constraints on resources for housing, both nationally and on a local and organisational level. We consider the role of housing and the housing industry in the national economy; and the implications of national economic policy for housing resources.

Next, we examine some recent trends in housing expenditure and consider the ways in which patterns have been changing over recent years, and the policies which have influenced these.

We then provide an overview of current government economic policy and outline their approach to housing finance.

Finally, we review the roles of key government departments and agencies and other key players in the provision of housing finance.

Outcomes

When you have completed this Block, you will be able to:

- describe the role of the public sector in bridging the gap between need and demand in housing;
- describe the importance of housing in the UK national economy;
- examine the implications of national economic policy for housing provision;
- describe the government's current economic policy and approach to housing finance; and
- identify the roles of the main agencies and institutions involved in housing provision.

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A Housing Finance and the National Economy

1. The Importance of Resources

Finance is a central issue for all housing professionals. To help you to understand this, let's begin by examining what *you* think are the main housing problems.

Activity 1

List below all the factors which you think indicate that the UK has a "housing problem".

You may have picked up some ideas about this from other units or from the media, and from personal experience.

List as many as occur to you.

Time allocation: 5 minutes

You will probably have identified many different sorts of problems, such as:

- High house prices and rents, and therefore problems of affordability.
- Homelessness and housing shortages.
- Slums, or generally poor quality housing.
- Repossessions by mortgage lenders.
- Interest rates which make the cost of borrowing the finance high.

Many of these problems feature frequently in the news, and have been a major source of concern for housing professionals.

For another perspective on this, let's see what P.Malpass and A. Murie, in their book *Housing Policy and Practice* (5th edition, Macmillan, 1999), say about "the housing problem":

> *"Historically the British housing problem consisted of the fact that there were far more households than dwellings, and a significant proportion of the dwellings of the working class were of such low quality to be damaging to health. Underpinning problems of quantity and quality, however, was the issue of price ... "*
>
> *The underlying cause of the housing problem, then, was that there was a significant gap between the price of decent accommodation and the rent that could be afforded by a large proportion of the working class ...*
>
> *It remains true today that most housing in Britain is distributed through the market mechanism, with the result that the amount, quality, and location of housing which consumers can obtain depends upon their ability to pay.* ***The questions of price and affordability remain central to the housing problem****." (our emphasis)*

So, what do Malpass and Murie think that "the housing problem" is?

You will doubtless have recognised some of the problems that you identified in Activity 1. They raise issues of **quantity** (too few dwellings), as well as**quality** (in poor condition). But Malpass and Murie feel that this is a reflection of people's**ability to pay**. Hence, they see the key problem as one of **price** relative to ability to pay - the **affordability** of housing. If people had ample funds, then they could all afford decent housing.

Sufficient homes would be provided by the **market** if there was sufficient demand for them. "The market" means provision by the private sector, and **demand** only exists in a market when there is the means to pay. If there is insufficient money, the **need** for a home cannot be turned into the demand for a home. The market only responds to those who can afford to pay.

Can you see now why we are suggesting that finance is at the centre of the "housing problem"? Clearly, the problem is seen to be essentially one of resources. Low income households do not possess the resources to ensure that they obtain decent housing. So the market - the private sector - does not provide them with decent housing. They can only afford low quality housing. Without sufficient resources, there will always be a housing problem.

2. Resourcing and the Public Sector

During this century, the public sector has attempted (to varying degrees) to bridge this resources gap, between what can be afforded (and hence demanded), and what is needed.

The main method in the past was to **provide council housing**, to let at low rents. Policy has shifted, over recent years, to focus instead on providing **financial subsidy** for housing, mainly to individuals and to housing associations. Both methods involve financing housing provision, whether directly or indirectly.

So, not only is finance the major problem in housing, it is also the major policy response to the problem. These are the sort of issues which you will be examining in this Unit.

3. The Importance of Housing in the UK Economy

Before we look at housing finance in detail, we should consider briefly why housing policy is not only **driven** by issues of finance, but is also **constrained** by financial issues. In short, why is it that there never seem to be sufficient public sector resources for housing, despite efforts to make up for shortages in private finances? And why does private expenditure on housing vary so much?

To explain this, we need briefly to "step back", and view housing markets as part of the wider UK economy.

(a) For households

Housing is a very expensive item. It is probably, for most households, the single most expensive commodity that they must "purchase" whether by renting or buying. Indeed, according to the final report of the Joseph Rowntree Foundation Housing Finance Programme, *Fairer subsidies, Faster growth* (D. Maclennan, K. Gibb and A. More, May 1991):

- households spend between 15% and 30% of their incomes on housing;
- over half of the wealth of British households is in the form of housing;
- loans to purchase housing are two thirds of all household debts.

(b) In the economy

The report points out that housing is not only important for households, it is also a very important **industry**, with a significant impact on the national economy.

The construction industry is a large employer and, on average, the value of its housing output (new build and renovation) exceeds 4% of total national output. But, being an industry means that it is affected by the state of the national economy. The national economy tends to grow unevenly; it is subject to **cyclical** patterns, with periods of strong growth followed by periods of falling output, or **recession**.

What does this mean for housing output?

- When the economy is growing strongly and output is rising, growing incomes ensure that demand for most commodities is rising. The demand for housing will grow strongly too. People will want bigger, better homes, or will want to form households for the first time. **Demand** for housing output will be high, which stimulates high levels of output from the construction industry.
- When the economy ceases to grow, and goes into **recession**, unemployment rises. People begin to fear that they might lose their jobs, and this uncertainty leads them to cut back on housing expenditure. They will put off moving to a larger, more expensive home. Expensive renovations are delayed. This results in a collapse in the demand for housing output. The construction industry will be forced to reduce output, which will add to the growing numbers of unemployed. This, of course, further reduces national output.

This means that housing output is not only affected by national economic developments, but in turn, it affects the national economy.

4. The Importance of Economic Policy

A further significant factor in housing finance is the economic policy of the government. When the economy is in recession, and there is growing unemployment, the government will find its income shrinking. Not only are there fewer workers to pay income tax, and less expenditure resulting in lower VAT receipts, but public sector expenses are rising. More unemployed people means higher costs for unemployment benefit. This puts pressure on all aspects of government expenditure. With less money available, what types of public expenditure will be cut?

It is important to understand that there are two distinct types of public expenditure. One type results from demand which is outside the control of the government, and is, therefore, very difficult to constrain. This includes the demand for most types of welfare payments, such as unemployment benefit, housing benefit, income support, etc. If the economy is in recession, then the demand for this type of public expenditure rises.

The other type of public expenditure is more easily varied because it does not have to respond to immediate demands. This type includes most capital expenditure. You will be looking at capital expenditure in some detail later in the Unit, but essentially, this means spending on assets, such as housing, roads, hospitals, etc. This type of expenditure is much more easily cut because it has no immediate effect on most households (though, of course, it has a very real long term effect, with fewer houses, roads, etc. available).

There are two main approaches to economic policy, each having different implications for the economy and, therefore, for housing.

(i) Keynesian approaches

From the early Post-war years until the 1970s, most UK governments followed a policy of trying to maintain public expenditure during a recession in order to boost demand. Hence, whilst private sector expenditure was falling, the public sector tried partially to make up for this by raising its own spending. This "demand management" policy was advocated by an economist called J.M. Keynes as a result of his analysis of the causes of the "Great Depression". In theory, then, with this policy, public sector investment on housing would be less affected by the state of the national economy.

(ii) Monetarism

Since the 1970s, government policy has largely followed a monetarist approach. This view argues that maintaining government expenditure when receipts are falling simply means borrowing more. The more the government borrows, the more they have to pay to induce people to lend. In other words, interest rates have to rise. This has implications not only for government costs, but for all industries' costs. Everyone has to pay these higher interest rates. Some firms may be put out of business as a result of these higher costs. Households with mortgages will certainly face higher repayments, and this further reduces the demand for housing output. Hence, government policy over recent years has focused on controlling the levels of public sector borrowing.

The amount to be borrowed each year is called the Public Sector Net Borrowing, or PSNB. The government tries to control PSNB within tight limits. This has implications for all aspects of public expenditure, of course, not just housing.

4.1 The role of interest rates

Interest rates have assumed a rather different role in government economic strategies over recent years. They are now seen as a key tool in controlling inflation - rising prices. If inflation is rising, an increase in interest rates deters borrowing, which reduces the amount of money available to spend. Less money to spend means less demand. This should reduce the upward pressure on prices because firms will have to remain more competitive if they are to continue to sell their goods.

This has very major implications for housing markets. High interest rates were blamed for the collapse of housing markets at the end of the 1980s. Private sector housing output was at its lowest level for decades. There was simply not the **demand** for housing - though, of course, **need** continued to grow, with rising unemployment.

So, what does all of this mean for UK housing markets?

5. Implications for Housing

Housing policy operates within the constraints of general economic policies. Whilst the government may wish to increase the resources available to housing, and to stimulate private sector investment in housing, the needs of the wider economy must come first. What is good for the economy generally may not be good for housing. Broader economic policy may require *reduced* overall expenditure, at a time when housing needs suggest *more* finance should be directed to housing.

Furthermore, private housing markets operate within the broader economy. They are not isolated from the general level of economic activity. If there is a general recession, housing markets will suffer recession. There is reduced demand for everything, including housing output. In fact, the demand for housing may suffer more, simply because housing costs are such a large proportion of household expenditure.

5.1 Government fiscal and economic policy on housing

The government funds expenditure on housing and other public services from a variety of sources, including taxation, other revenues and borrowing. To determine how much is spent overall, and what share will be spent on housing, the government prepares a plan annually and publishes this in the form of a White Paper - *The Government's Expenditure Plans*. It begins this process by asking the Ministers responsible for each government department to formulate plans for expenditure in that area for the forthcoming year and the three years which follow.

Meanwhile, the Treasury will form a view about the total amount of expenditure that can be funded, taking into account existing commitments, projected income and the health of the national and global economies.

The submissions of the various Ministers for spending on education, health, defence, etc. are analysed, and decisions made on the proportion of the budget to be spent in each area. The outcome is the White Paper, which sets out the government's fiscal policy - how much it is going to spend, what it is going to spend it on, and how it will raise the necessary money.

Of course, the government does not directly provide any housing or pay subsidies to individuals, or even to individual housing providers. Rather, it implements its housing plans through local authorities and national housing bodies in each of the countries in the UK: the Housing Corporation in England, Scottish Homes, the Welsh Assembly and the Northern Ireland Housing Executive.

In England, the share-out of resources available to local authorities is administered by the Office of the Deputy Prime Minister (ODPM). In Scotland, this is one of the responsibilities of the Scottish Executive; in Wales it falls to the Welsh Assembly Social Justice and Regeneration Department; and in Northern Ireland to the Northern Ireland Department for Social Development. We will be examining how funds are allocated at a local level later in this Unit.

When you examine the operation of housing finance in detail later on in this Unit, you will need to bear in mind these wider economic factors and the process of setting the national housing budget. What appears to be illogical in the context of housing finance, may become logical when viewed in its broader economic context.

Self Test 1

1. *How is most housing allocated in Britain?*

2. *According to Malpass and Murie, authors of "Housing Policy and Practice", what are the central problems in housing?*

3. *In what ways has the public sector intervened to bridge the gap between the demand for, and the need for housing?*

4. *How does a recession affect housing output and, in turn, the national economy?*

5. *Briefly describe the approaches to recession of -*

   (a) Keynesian economics

   (b) Monetarist economics

6. *What is the effect of high interest rates on housing?*

Now turn to the Answers at the end of the Block.

Summary

1. **The housing problem is essentially a problem of resources. Housing is expensive, and many households cannot afford to pay for a decent home.**
2. **The main public sector response to the housing problem has been to provide more resources, either by *direct* provision of council homes, or by *indirect* financial subsidies to housing.**
3. **Housing is important in the UK economy, both because it absorbs a large part of private incomes, and because it is a major industry in terms of the value of its output. This means that housing markets are both affected by, and have effects on, levels of economic activity.**
4. **Government housing policies are constrained by the needs of the UK economy.**
5. **Changes in the economic policies of the government have significant implications for housing markets. They affect not just public expenditure, but also private expenditure on housing.**

B. Trends in Housing Finance

1. Introduction

You have just examined the economic context within which housing finance markets operate, and you have discovered the importance of developments in the macro-economy.

We move on, now, to examine some recent trends in housing finance. We shall examine data relating to the main elements of housing finance to discover the sorts of changes which are occurring. We shall also consider the influence of wider economic developments, as well as specific government policies, on these trends.

This will provide a general context within which you can examine the specific details of housing finance in subsequent sections.

Much of the data which follows is drawn from the *UK Housing Review* 2004/2005, by Steve Wilcox, published by the CIH and the Council of Mortgage Lenders and we are very grateful for their permission to use this freely.

As you are aware, the largest tenure in the UK is now owner occupation, so we shall begin by examining recent trends in this sector.

2. Finance for Owner Occupation

In recent years the stability of the economy and relatively low interest rates have provided a favourable environment for home ownership. Government policy has encouraged this, with schemes to reduce the price of accessing home ownership (Shared Ownership, Homebuy) and to encourage private housebuilders to increase the supply of housing in areas of high demand (discussed further in part C of this block). Confidence in owner-occupation is evident in the recent fashion for TV programmes devoted to buying, selling, redeveloping and redesigning homes.

Look back a few more years, however, and things were very different. The late 1980s and early 1990s saw a much more volatile housing market, in which prices rose very fast (a house price 'bubble') and then fell even faster, leaving hundreds of thousands in 'negative equity' - owing more on their mortgages than their properties were worth - and tens of thousands facing repossession.

There are a number of factors which encouraged the rise in house prices up to 1988: a growing economy and government deregulation of building societies and banks among them. The following slump affected the numbers of house purchase transactions and house prices in some areas right up to 1996. We can see clear evidence of the slump in demand from 1989 onwards by looking at data relating to building society advances.

2.1 Building society advances

The table below shows building society advances between 1988-1996.

Table 1: Building Society Advances

Advances £m.	1988	1989	1990	1991	1992	1993	1994	1995	1996
New dwellings	4,678	4,218	3,775	3,770	3,351	3,234	4,127	4,207	4,227
Other dwellings	37,610	29,073	29,260	28,752	24,119	23,534	26,166	22,867	28,865
All dwellings	42,288	33,291	33,035	32,522	27,470	26,775	30,293	27,075	31,092
Other advances	6,935	10,732	10,296	9,502	6,015	4,799	7,706	10,200	12,725
Total advances	49,605	45,132	44,593	43,603	35,090	33,400	37,999	37,275	43,817

(Source: Housing and Construction Statistics.)

Notes:
Figures for amounts and numbers exclude Abbey National from July 1989, Cheltenham and Gloucester from August 1995 and National & Provincial from August 1996. Average advances and house price figures exclude mortgages where the price was not representative of the value of the property, i.e. sales to sitting tenants.

You can see that the value of advances was still falling in 1993 from their peak in 1988.

2.2 What caused such a slump?

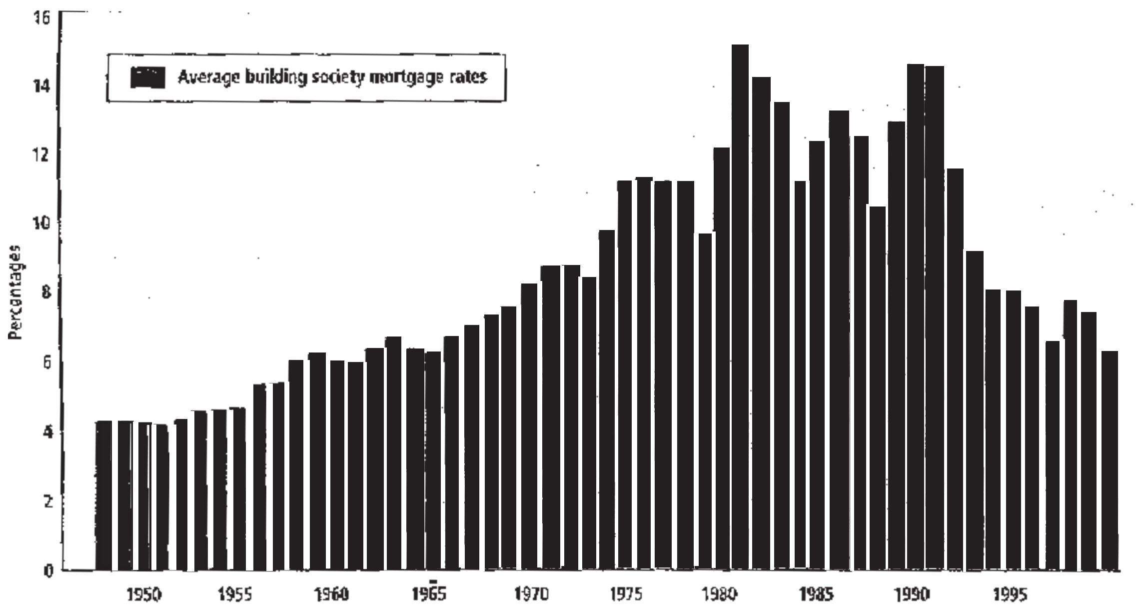
In part, this slump reflected the deepening recession affecting the UK economy, which meant that growing numbers of households were either facing redundancy, or fearing it. Expectations about future prospects were changing.

It reflected also large rises in interest rates, which were essential to government policies.

With hindsight, the increases in house prices in the late 1980s were unsustainable. Borrowers were borrowing more than they could repay, and lenders lending more than they prudently should, in the expectation that prices - and values - would go on rising. High inflation and high interest rates confused the picture, as the value of money fell quickly year-on-year.

The figure below shows how high building society mortgage interest rates were in the 1980s – over double the rates generally offered today.

Figure 1: Building Society Interest Rates



2.3 The legacy of the house price 'bubble' and the slump

The measurable increase in repossessions of property by mortgage lenders at this time reflected both over-ambitious borrowing of the house price 'bubble' and the increase in redundancies in the recession of the early 1990s, which left many unable to pay their mortgages. Repossessions peaked in 1991 at 75,540, a figure which had halved by 1997 (32,770) and was down to four figures (7,630) by 2003.

While today's home ownership environment is much more stable than that of the late 1980s, the recent experience of those years has left a legacy, both for policy makers and for the general public. While house prices have increased in all areas of the UK since the early 1990s, those increases have varied considerably between areas. In areas of lowest growth, home ownership as an investment will not be so attractive. And in the areas of highest growth, speculation as to another house price fall is frequent.

Since deregulation in the late 1980s, the proportion of the total mortgage market belonging to building societies has continued to shrink. More and more business has been taken up by banks and other institutions, while building societies themselves continue to convert into banks. By 2003, building societies contributed to only 17% of the total mortgage market, compared to the 79% contributed by banks.

2.4 House prices

The table overleaf shows how average house prices have changed in different parts of the UK in the last third of the 20th century. Since 2001, there has been a period of very low interest rates which has in part contributed to some very steep price rises, with average prices in England and Wales rising by 56% between 2001 and 2004 (Land Registry). These price rises have largely eliminated negative equity as a problem.

Table 2: Average Regional House Prices

£

Region	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
North	3,942	9,601	17,710	22,786	43,655	46,005	48,589	49,397	50,180	47,060	51,684	53,332	57,776	63,424	65,145	71,153	79,439	101,561
Yorkshire & Humberside	3,634	9,058	17,689	23,338	47,231	52,343	52,291	54,572	54,352	54,356	55,867	60,019	62,214	67,416	72,176	76,368	88,126	114,253
North West	4,184	9,771	20,092	25,126	50,005	53,178	56,508	55,885	57,183	56,533	57,701	63,622	65,514	71,901	78,415	82,623	92,693	115,447
East Midlands	3,966	9,989	18,928	25,539	52,620	55,740	54,551	53,797	85,119	55,060	58,855	61,930	66,155	72,437	79,323	87,280	104,835	132,013
West Midlands	4,490	10,866	21,663	25,855	54,694	58,659	57,881	58,508	59,089	62,123	64,320	67,803	71,864	79,757	88,431	97,650	112,313	137,731
East Anglia	4,515	11,528	22,808	31,661	61,427	61,141	57,308	57,882	59,583	60,971	61,819	69,764	74,808	79,349	92,628	103,964	129,395	153,666
Greater London	6,882	14,918	30,968	44,301	83,821	85,742	78,049	81,332	87,631	89,528	94,065	105,809	114,783	142,321	163,577	182,325	207,246	241,864
Rest of South East	6,223	14,664	29,832	40,487	80,525	79,042	74,783	76,029	80,599	80,939	85,767	92,833	103,797	117,753	137,354	152,538	175,727	211,056
South West	4,879	12,096	25,293	32,948	65,378	65,346	61,654	61,319	64,847	65,096	68,034	73,004	80,203	89,217	104,233	118,639	142,403	174,482
Wales	4,434	10,083	19,363	25,005	46,464	48,989	49,551	52,465	53,106	52,978	54,898	58,372	60,902	67,483	72,285	79,628	88,261	109,661
Scotland	5,002	11,139	21,754	26,941	41,744	48,772	50,010	49,568	50,651	53,143	56,674	57,883	63,585	69,312	69,961	73,570	77,655	103,641
Northern Ireland	4,387	10,023	23,656	23,012	31,849	35,392	38,287	38,880	38,651	42,810	47,678	53,309	59,376	66,267	72,514	79,885	83,829	95,217
United Kingdom	4,975	11,787	23,596	31,103	59,785	62,455	61,366	62,333	64,787	65,644	70,626	76,103	81,774	92,521	101,550	112,835	128,265	156,627

Sources: Housing Finance, Council of Mortgage Lenders and ODPM website. Derived from the DoE/BSA 5% sample survey, and from 1993 the wider Survey of Mortgage Lenders.

Notes: The average prices are not adjusted for changes in the mix of properties mortgaged to building societies and other mortgage lenders. There is a discontinuity in the series between 1992 and 1993, due to the switch to the wider Survey of Mortgage Lenders. Data for England is for standard statistical regions.

(Source: UK Housing Review 2004/5, CIH and Council of Mortgage Lenders.)

Activity 2

(a) *Note the increase in house prices in all areas between 1985 and 1990. Identify the areas in which house prices fell between 1990 and 1992.*

(b) *Identify areas which experienced subsequent price falls*

(c) *Which areas have seen the greatest increases since 1992?*

Time allocation: 20 minutes

The areas in which house prices fell between 1990 and 1992 were East Anglia, Greater London, the South East and South West – all areas which had experienced some of the largest earlier increases.

The Areas which saw subsequent falls are:

- North (1995)
- Yorks and Humberside (1994, 1995)
- North West (1993, 1995)
- E. Midlands (1993)

The areas which have seen the greatest increases in house prices since 1992 are the same areas that saw the earliest falls in the slump – London, the South East and South West. Later on in this Block we look at the reasons why there is continuing high demand for housing in these areas, and how the government is responding to this demand.

2.5 Right to Buy purchases

Following the introduction of Right to Buy in 1980, council house sales ran at high levels throughout the 1980s. They have since declined, but are still continuing at a significant level, as the table below shows.

Table 3: Right to Buy in Great Britain

	Total sales 1980 to 1985	1986	1987	1988	1989	1990	1995	2000	2003	Cumulative total 1980 to 2003
Local authorities	607,318	89,251	103,309	160,569	181,370	126,217	49,599	71,088	95,219	2,118,207
+New towns	15,023	1,656	2,277	3,275	4,608	3,160	1,649	0	0	39,204
+Housing associations	21,282	4,949	5,462	10,221	9,972	7,014	2,815	1,333	85	87,703
Total	643,623	95,856	111,048	174,065	195,950	136,391	54,063	72,421	95,304	2,245,114

(Source: UK Housing Review 2004/05.)

Recent restrictions on the size of the discount available may start to limit Right to Buy sales, but they continue to provide a significant contribution to the increase in owner-occupation; the corresponding loss to the social housing sector is having its own impact on local authorities' ability to meet housing need.

Right to Buy sales, of course, represent capital receipts for social housing providers, and we shall be examining their impact in this context shortly.

3. Expenditure on Housing

Both the public and private sectors spend on new housing provision, as well as on repairs and maintenance.

Most expenditure in the owner occupied sector is for the purchase of existing properties, so these sales do not add to the stock of housing. However, a slump in sales in the owner occupied sector, such as the one we examined earlier, can be expected to have a major impact on the willingness of speculative builders to provide new housing.

3.1 Overall trends

The tables below shows how dwelling **completions** (the numbers of new dwellings provided, by provider) have changed over the last 30 years.

Table 4: Dwelling completions in Great Britain

Activity 3

Examine the tables, and identify in a few sentences the main trends which you can detect.

Time allocation: 15 minutes

The most significant trend is the decline in public sector (local authority) new build. The table shows a relentless decline, from 86,027 completions in 1980 to only 286 in 2003. So, the public sector is building only 0.34% of the numbers compared to 1980. Put another way, completions have fallen by over 99%!

The pattern for RSLs is more variable, with completions rising until the mid-1990s, followed by a continuing decline up to 2003. RSLs depend very heavily on public sector grants and loans, as you will discover in Block HFFS.104. This pattern, therefore, reflects the impact of government policies more than anything else. These figures are projected to show an upturn in the next few years, as additional funding is provided.

The key point here is that the decline in new provision by local authorities has not been compensated by a similar quantity of new development by RSLs.

Trends in the private sector are fairly accurate 'mirrors' of the state of the macro economy. Private sector provision has recovered somewhat from the recession of the 1990s, and the quantity of private sector provision is continuing to grow, albeit slowly.

3.2 Public sector expenditure

Public expenditure on housing saw large cuts during the last two decades, as we might expect from our examination of new build trends.

The extent of these cuts is shown by the table below.

Table 5: Real Growth in Public Expenditure (1980/81 to 1998/99)

Spending area	Real growth 1980/81 to 1998/99 %
Law, order and protective services	88.3
Culture, media and sport	86.1
Social Security	79.0
Health and personal social services	73.7
Agriculture, fisheries, food and forestry	35.7
Education	31.2
Overseas services and aid	15.9
Other environmental services	11.9
Transport	-13.5
Defence	-15.3
Trade, industry, energy and employment	-23.4
Housing	-71.5
Central administration	21.1

'Real' growth is growth after allowing for inflation. You can see that most categories of public expenditure experienced real growth over this period - law and order being the highest, at nearly 90%.

In contrast, expenditure on housing saw the biggest cut - shown as negative growth - of over 70%.

This reflects the fact that whilst local authority spending on housing was severely cut back, with increased emphasis placed on RSLs, the associations have not been able to 'fill the gap' left by local authority spending. Public funding has been too low; and most RSLs cannot cope with the scale of development programmes previously undertaken by local authorities.

Despite the funding regime for housing association finance introduced in 1989, which requires that RSLs borrow some funds from the private sector, investment in RSL development has declined overall, as the table below shows.

Table 6: Housing Associations gross investment expenditure in Great Britain (£m)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Housing Corps	2,787	2,237	1,921	1,565	1,416	939	852	881
LA	300	408	335	360	334	326	310	320
Private	1,136	1,193	1,249	1,244	1,217	879	892	944
Total	4,223	3,838	3,504	3,169	2,967	2,144	2,054	2,145

Notes:
Housing Corps = Housing Corporation, Housing for Wales and Scottish Homes funding. Figures for 1998/99 and 1999/00 are estimates.

We will be examining this trend in more detail in Block HFFS.104 of this Unit.

3.3 Impact of Right to Buy

An additional factor in reducing the real value of public housing expenditure has been Right to Buy sales. These receipts count as "negative expenditure", and so reduce the apparent total sums spent by the government. Capital receipts from Right to Buy sales have been very significant. They are by far the largest "privatisation" undertaken by the government, as the table below shows

Table 7: Privatisation Receipts in Great Britain, 1980 - 1998

Year	Receipts (£m)
1980/81	735.6
1981/82	1,454.0
1982/83	2,049.7
1983/84	1,575.9
1984/85	1,342.8
1985/86	1,259.9
1986/87	1,471.4
1987/88	2,011.2
1988/89	3,184.4
1989/90	3,276.0
1990/91	2,005.2
1991/92	1,421.6
1992/93	1,162.8
1993/94	1,335.4
1994/95	1,268.2
1995/96	915.7
1996/97	963.9
1997/98	1,153.0

(Note: "Housing" is English, Scottish and Welsh Council House Sales)

A cumulative total over this period of £28,551 million.

4. Assistance with Housing Costs

One final aspect of housing finance which we need to consider is the assistance available to customers. What have been recent trends affecting the help available?

4.1 Overall trends

The table below shows the help available to customers in different tenures during the 1990s.

Table 8: Help with housing costs

£ million

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
General subsidies										
Home-owners	7,600	6,010	5,130	4,240	3,450	2,660	2,270	2,660	1,880	1,600
+ Council tenants	1,217	897	510	101	- 155	- 484	- 584	- 674	- 884	- 1,040
+ Private tenants	105	135	330	360						
= Total	8,922	7,042	5,970	4,701	3,295	2,176	1,686	1,986	996	560
Means tested assistance										
Home-owners	539	925	1,141	1,210	1,040	1,016	867	660	648	527
+ Council tenants	3,368	4,068	4,593	5,019	5,229	5,431	5,569	5,498	5,405	5,405
+ Private tenants	1,388	1,892	2,562	3,188	3,608	3,867	3,777	3,523	3,230	3,096
= Total	5,295	6,885	8,296	9,417	9,877	10,314	10,213	9,681	9,283	9,028
All forms of assistance										
Home-owners	8,139	6,935	6,271	5,450	4,490	3,676	3,137	3,320	2,528	2,127
+ Council tenants	4,585	4,965	5,103	5,120	5,074	4,947	4,985	4,824	4,521	4,365
+ Private tenants	1,493	2,027	2,892	3,548	3,608	3,867	3,777	3,523	3,230	3,096
= Total	14,217	13,927	14,266	14,118	13,172	12,490	11,899	11,667	10,279	9,588

(Source: Housing Finance Review 2000-2001, Joseph Rowntree Foundation.)

You can see that the help available to tenants rose sharply, especially in the private sector. This latter group includes housing associations. In contrast, help to owner occupiers reduced in both real terms and relative to subsidies to tenants over the decade.

This decline in help for owner occupiers largely reflects the falling cost of MIRAS since 1990/91. MIRAS, which has now been phased out, was a tax relief on mortgage interest, available to everyone with a mortgage. The decline also reflects:

(a) falling house prices;

(b) the abolition of tax relief at higher (than basic) tax rates since 1991 (i.e. before then, tax relief was given at the highest rate payable - up to 40%);

(c) falling basic tax rates;

(d) increased repossessions;

(e) phasing out of MIRAS in the years leading up to 2000.

The assistance currently available to housing customers is examined in detail in Blocks HFFS.107.

Activity 4

We have now examined some of the main trends in housing finance. Try to summarise these below, to check that you can extract the key points.

Time allocation: 30 minutes

Check your list against the summary which follows, after you have completed the Self Test.

Self Test 2

1. *Explain why building society advances fell in the period after 1988.*

2. *Which regions had experienced the largest falls in house prices at that time?*

3. *Describe the extent of the decrease in local authority new build since 1980.*

4. *By how much, in real terms, did public sector expenditure on housing decline between 1980/81 and 1997/98?*

5. *What is meant by saying that capital receipts count as "negative expenditure"?*

Now turn to the Answers at the end of the Block.

Summary

The main trends which we have identified are:

1. **Interest rates peaked in 1989, and were a major contributor to falling numbers of sales. However, they have been declining steadily since their peak and have now been relatively stable for the last five years.**
2. **Rapidly rising house prices up to 1988 were followed by falling house prices in many areas. The regions worst affected were those which had experienced the largest increase before 1989.**
3. **Right to Buy purchases peaked in 1989, but have since been declining sharply.**
4. **Public sector new build has been declining constantly since 1980. Levels of construction are now only 3% of the 1980 figures.**
5. **Housing associations have increased their role, but their contribution of new homes is relatively insignificant when compared to previous levels of local authority new build.**
6. **These developments reflect the decline in real public expenditure on housing.**
7. **The 'Right to Buy' policy has generated more capital receipts than any other privatisation programme. However, this has been treated as "negative expenditure" rather than income and has not all been used to fund new capital investment.**

C. Government Economic Policy and Approach to Housing Finance

1. Public Expenditure

The government sets limits on public expenditure which includes all expenditure by central and local government and other public bodies. Recent governments have had control of public expenditure at the heart of their economic policy. This is partly designed to control inflation and partly to meet European commitments (European Union members' contributions to the Brussels budgets relate to their domestic economic health). An additional factor - particularly relevant during the Conservative administration of 1979-1997 - may be a government's political commitment that a higher proportion of the country's expenditure should be private rather than public.

Because the overall level of public expenditure is under pressure, there is competition between government departments for a share of the resources available. Regrettably, housing seems often to be a low priority, and a relatively 'soft' option when cuts in programmes have to be made.

Activity 5

Why do you think housing is vulnerable to cuts in public expenditure? Write down your ideas below.

Time allocation: 10 minutes

Housing appears to be vulnerable to cuts for two main reasons:

- health, education and law and order are all able to command the interests of a very wide range of voters. By comparison, fewer than 30% of voters have or require access to public housing.
- other areas of public expenditure are more difficult to control, e.g. social security, the largest single area of government expenditure, is the most difficult to contain, especially with an ageing population.

2. The Comprehensive Spending Review

Following its election to Government in 1996, the Labour administration undertook a comprehensive spending review to establish long term priorities for public expenditure. The 1998 review promised a significant increase in overall capital spending on public services, including £3.6 billion for local authority housing over the three years to 2002. This sum represented accumulated capital receipts from previous sales of council houses. The housing profession was delighted at what they saw as the righting of years of injustice - the application of the funds from the sale of council houses to new housing projects. The focus of this funding was the renovation of existing council dwellings, in recognition of the backlog of repair work in the sector.

Comprehensive Spending Reviews have taken place every two years since (2000, 2002, 2004), establishing in each case guidelines for public spending by the different spending departments over the following three years. These subsequent reviews have seen the establishment of extra funding for Arms Length Management Organisations (ALMOs) and various regeneration activities. Public spending on housing has increased slowly but steadily since 1997, with the renovation of council homes as a major policy objective. However, RSLs have remained the sole providers of new social housing.

3. Private Finance

We have mentioned earlier, when looking at trends in public expenditure, that in the RSL sector the 1988 Housing Act regime for housing association finance requires that some of the money for new projects is borrowed from the private sector. In England, the proportion of new RSL activity funded by borrowing from the private sector approached 50% in the decade after the Act, but is now running at closer to one third. This current proportion is similar to Wales and Scotland. Private funding for RSLs is now well established and looks set to be maintained for the foreseeable future, providing the lenders continue to see investment in this sector as an acceptable risk.

The Comprehensive Spending Reviews have also underlined the government's commitment to public-private partnerships and to the Private Finance Initiative.

The government wishes local housing authorities and other social landlords to establish public-private partnerships to attract private funds to renovate their existing stock or to help provide new dwellings.

The Private Finance Initiative (PFI) was initiated in the early 1990s. Its early applications were in the health, education and prison services and in major infrastructure projects but, since 1998, the government has encouraged its application to housing projects.

The basis of PFI is that private sector developers borrow to finance a project (hence it is not classed as public expenditure) and then recoup their investment by leasing the buildings provided to the public sector for an agreed period. A number of pilot schemes have since been established to explore the application of PFI to social house building and repair and maintenance, and government is keen to pursue these despite their undoubted complexity..

4. The Impact of Government Policy on Housing Markets

The housing market in its truest sense relates only to the owner-occupied and private rented sectors, because demand (or need) and supply in the social sector are regulated through various rationing and subsidy mechanisms.

Housing markets can be affected by both general government economic policies and by specific housing policy.

As we have said previously, in recent years, governments have been very concerned to control inflation. When inflation is low, wages and prices rise slowly - assuming of course that all other factors remain the same. However, in the case of housing, despite general low levels of inflation in recent years, there have been some remarkable rises (and falls) in house prices, often with marked local differences.

Activity 6

Why do you think this might be the case. Write your ideas down below.

Time allocation: 5 minutes

Price rises come about principally because of a shortage in supply (and falls because of an excess of supply.) A number of factors can give rise to local shortages in supply.

- We are living in an era of household growth - people are living longer and living independently for longer; fewer people are settled in long term relationships; some young people choose to leave the family home at an earlier age, etc.
- At the same time, the supply of housing cannot be increased quickly - housing takes a considerable time to provide, given the need to identify and purchase land, obtain planning and building consents, secure funding etc., etc. Developers also need to be certain that new homes will sell on completion before they will invest their money in speculative development.
- Another factor which mitigates against the development of new homes in some areas is the growth in anti-development lobbies in certain parts of the country. This is a very politically sensitive issue as we have seen in respect of the continuing arguments about the numbers of new homes required in the South East of England.

So, more households competing for the same number of properties pushes prices up.

Government policy has also had a strong effect on the private rented sector over the years. Following the introduction of various controls in the late 19th century to try to improve standards and reduce overcrowding in the sector, many landlords sold up, and those that remained in business increased rents. Further policies introduced in the 20th century led to massive slum clearance - and even greater reduction in the number of homes in this sector. In more recent history, there have been moves to de-regulate the sector, but these appear to be too little too late - the sector continues to reduce. Other forms of investment are more attractive to potential landlords.

The government's specific housing policies, on the other hand, tend to be more commonly associated with the social housing sector, although subsidies to individual owner occupiers through tax advantages have been significant until fairly recently. The debate with regard to subsidies for social housing has been whether the subsidies should be predominantly personal subsidies (rent rebates, Housing Benefit, etc.) or 'bricks and mortar' subsidies (payable to local authorities and RSLs to reduce the cost of development.) While the former is traditionally associated with the political right and the latter with the political left, in recent years these differences have become less clear. Not only in the UK but right across Western Europe, personal subsidies have replaced 'bricks and mortar' subsidies as the priorities have shifted from increasing the size of the housing stock to ensuring that decent housing is affordable by all.

5. Government Policy and Local Policy-Making

During the 1980s, successive Conservative governments eroded the role of local authorities as providers of housing, firstly with the promotion of the Right to Buy, secondly with the transfer of development funding for new housing from local authorities to RSLs, and finally with the beginning of the stock transfer programme. By the start of the 1990s, the 'residualisation' of council housing was a clear policy agenda.

These processes have continued under the Labour administration elected in 1997, though a more conciliatory agenda has emerged, which emphasises the importance of the local authority enabling role. Local councils are being encouraged to take the widest view of housing provision and conditions in their areas - in all sectors, rather than just in local authority owned stock.

Self Test 3

1. *Why do governments wish to control growth in public expenditure?*

2. *Why is housing vulnerable to cuts in public expenditure?*

3. *What is the purpose of a Comprehensive Spending Review?*

4. *What proportion of RSL activity is currently funded by the private sector?*

5. *What is the principal cause of house price inflation?*

Now turn to the Answers at the end of the Block.

Summary

1. **The government limits overall public expenditure and shares the available resources between different types of expenditure.**
2. **Housing is vulnerable to cuts in public expenditure because it is immediately relevant to a minority of the electorate and also because it is more easily controllable than other areas of expenditure.**
3. **The Labour Government elected in 1997 introduced a system of Comprehensive Spending Reviews to establish long term principles for public expenditure.**
4. **Successive governments of both political persuasions have sought to utilise private finance to complement public expenditure. This is designed to achieve 'more for less' and to help spread the risk.**
5. **General government economic policies are reflected in housing markets, but price differences arise because of shortages/excesses in supply.**
6. **Power has shifted from local to central government since the 1980s. Recent policy proposals indicate some softening in approach, but the balance is still heavily weighted towards the centre.**

D. Economic Policy and Housing Finance - Key Players

1. Government Departments - Treasury and ODPM

The Office of the Deputy Prime Minister (ODPM) has the responsibility in England for the development and implementation of government housing policy, for the distribution of resources, and for the assessment of performance of local housing authorities. Like other government departments, it fulfils these responsibilities through legislation and regulation. The equivalent bodies in the other countries of the United Kingdom are the Scottish Executive, the Welsh Assembly Social Justice and Regeneration Department, and the Northern Ireland Department for Social Development. It does all of this, however, within the wider context of the spending rules and policies of the Treasury.

ODPM is a government department, headed by a Secretary of State. S/he is supported by a team of Ministers, one of whom has responsibility for Housing. The Minister, in turn, is supported by a Parliamentary Under-Secretary. All of these roles are held by Members of Parliament who are members of the government of the day.

The Department has its headquarters in London, though many of its functions are carried out through staff based in the integrated Government Offices in the regions. These unitised government offices were established in 1994 to administer the regional responsibilities of ODPM and the then Departments of Trade & Industry and Employment. The aim of integration at regional level was to help reduce departmentalism and thus to provide an improved service to the public and other 'clients.'

Although each office is headed up by a Regional Director with multi-disciplinary responsibilities, the key person for most local housing authority purposes is the Regional Housing Controller

Housing policy is fundamentally a headquarters function, although it is carried out in consultation with and using input from staff at regional government offices. Civil servants in the department are responsible for translating government manifesto commitments into policies and for ensuring that subsequently the policies achieve their intended outcomes. They are responsible for drafting legislation and for the production of Circulars and Statutory Instruments relating to housing provision. Against this framework of agreed policies, the other functions of the department - the assessment of performance and the distribution of resources - are carried out.

2. The Housing Corporation

The Housing Corporation was established in 1964. It is a quasi non-governmental organisation (QUANGO), i.e. it carries out government policy - but at arm's length and with a degree of operational freedom. It is controlled by a Chairperson and a 14-member board, all of whom are appointed by the government of the day. The Corporation operates only in England.

The Corporation's present role and responsibilities are mostly derived from the 1988 Housing Act. It has three basic roles - registration, supervision and distribution of funds.

Registration is the process whereby organisations gain access to public funding for the provision of social housing. Until quite recently, new entrants had become quite rare, due to shrinking funding and a general climate in the 1990s that favoured financial strength. However, with the extension of the stock transfer programme, many local authority sponsored associations are now being formed and seeking registration with the Corporation.

Once registered, the social landlord is subject to supervision by the Corporation's regulation unit. Supervision is the mechanism by which Registered Social Landlords in England are made accountable for the public funding they receive. It is a fairly rigorous regime which constrains both the types of activities undertaken by RSLs and the methods by which they do so.

The Housing Corporation has wide-ranging statutory powers over all registered landlords. It has the right of access to all information and records held. It can establish a Statutory Enquiry or insist on detailed, direct supervision of an association. It can freeze or withhold development funding, remove or appoint Board members or, ultimately, it can transfer assets and liabilities to another association.

3. The Scottish Executive, the Scottish Parliament and Communities Scotland

We will begin our examination of the policy and regulatory roles in Scotland by looking at Communities Scotland

3.1 Communities Scotland

Communities Scotland was established in 2001, its statutory powers being conferred by the Housing (Scotland) Act of that year. Its role is to regulate both the local authority and RSL sectors in Scotland. It is an agency of the Scottish Executive, which administers government in Scotland and answers to the Scottish Parliament.

Communities Scotland took over the role of Scottish Homes, which before devolution carried out a similar role to the Housing Corporation in England. Scottish Homes itself incorporated the role of the Scottish Special Housing Association (SSHA) a central government funded agency established to supplement local council housing and to respond to local employment changes and that of the Housing Corporation (Scotland).

As well as its regulatory role, Communities Scotland have a broader strategic role in respect of all housing in Scotland, working with many agencies both public and private, and across all tenures. In furtherance of this strategic role, it carries out or commissions research to inform decision-making and to stimulate the improvement of Scotland's housing.

3.2 The Scottish Executive and the Scottish Parliament

The Scottish Executive reports to the Scottish Parliament through the minister responsible for Housing. The Executive is responsible for developing and implementing housing and local government policy. It is responsible for assessing the relative needs of local authority areas and for the consequent distribution of capital allocations. Since devolution, the Executive has set up Communities Scotland and a single regulatory framework for all social housing in Scotland, and established a single form of tenancy for social housing.

4. The Welsh Assembly and the Social Justice and Regeneration Department

Significant changes have occurred in Wales as a result of the establishment of the Welsh Assembly which together with its Ministers are responsible for setting housing policy objectives in Wales. Prior to this, Tai Cymru (Housing for Wales) regulated RSLs in Wales much as the housing Corporation does in England. With devolution, the Social Justice and Regeneration Department has taken on the roles of regulating and funding both RSLs and local authority housing.

5. Financial Institutions

Financial institutions and the policies they adopt can have a significant affect on housing supply and housing policy.

The availability or scarcity of mortgage funds from building societies and banks can affect house prices, as can changes in mortgage interest rates. These, in turn, are influenced by the decisions of the Bank of England's monetary policy committee.

The conversion of many building societies to banks has meant in many cases that the cost of borrowing for house purchase has risen.

Self Test 4

1. *Which government department or body is responsible for the development and implementation of housing policy?*

2. *What is a quango?*

3. *Which organisations are responsible for distribution of funds to RSLs?*

4. *Which body's decisions impact on mortgage interest rates?*

Now turn to the Answers at the end of the Block.

Summary

1. **The Treasury sets the overall spending rules and policy for Government at the national level.**
2. **Government departments are, in turn, responsible for developing and implementing specific areas of policy through legislation and regulation.**
3. **In housing, the relevant departments or bodies are ODPM in England, the Scottish Executive, the Welsh Assembly and the Northern Ireland Housing Executive.**
4. **In England, the Housing Corporation registers, supervises and distributes funding to RSLs on behalf of the government. It is a quango, so it has a limited degree of operational freedom. The equivalent bodies in Scotland and Wales are Communities Scotland and the Social Justice and Regeneration Department.**
5. **Financial institutions can affect housing supply, housing costs and housing policies.**

Answers

Self Test 1

1. Most housing is distributed through the market mechanism, that is, through the private sector, where supply is regulated by ability to pay.
2. Price and affordability.
3. In the past, mainly by providing council housing. More recently, by subsidising individuals and RSLs for housing costs.
4. In a recession, unemployment and fear of unemployment make people unwilling to spend on housing, either for renovations or maintenance, or moving house. The construction industry contracts, further raising unemployment and reducing national output.
5. (a) Briefly, Keynes' approach was one of demand management: that is, maintaining public spending during a recession, to boost demand in the economy.

   (b) The monetarist approach is to cut back public spending in response to lower government receipts from tax and VAT. PSNB must be cut to keep interest rates low.
6. Households are faced with higher mortgage repayments, which creates pressure to keep house prices down, and reluctance to take on larger loans. Some building firms will go out of business as a result of higher costs and lower demand. Housing providers will also have to pay more for their borrowings, and so have less to spend.

Self Test 2

1. Due both to the recession and high interest rates, which deter borrowing. More recently, low interest rates have led to increases in borrowing, but with banks and other institutions taking the larger share of the market.
2. East Anglia, Greater London, South East and South West.
3. A decline of around 95%.
4. Around 71%.
5. Their value is deducted from the spending total, so they reduce apparent expenditure (even though they are not necessarily spent on housing.)

Self Test 3

1. To control inflation; to meet European commitments; because they have as a political objective that a higher proportion of the country's expenditure should be private rather than public.
2. Because it does not command the interest of a very wide range of the electorate; because other areas of public expenditure are more difficult to control.
3. To establish long-term priorities for public expenditure.
4. Around a third in England, Wales and Scotland.
5. Excess of demand over supply.

Self Test 4

1. ODPM in England; Scottish Executive; Welsh Assembly; Northern Ireland Housing Executive
2. Quasi non-governmental organisation - carries out government policy, but at arms length and with a degree of operational freedom.
3. England - Housing Corporation; Communities Scotland; Wales - Social Justice and Regeneration Department.
4. Bank of England monetary policy committee.