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The Coalition's Record on Housing: Policy, Spending and Outcomes 2010-2015

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Coalition Ministers were highly critical of the state of UK housing when they took power. How far were they able to improve a system they had described as "dysfunctional"?

- The Coalition reduced the extent of UK central government involvement in housing. But, in so doing, it lowered its ability to achieve its own housing policy goals, or tackle structural housing issues such as a continued failure of housebuilding to meet demand.
- Central funding for housing across the UK fell by 35 per cent, with the sharpest cuts made in England. Expenditure towards funding new, social housebuilding was cut by 44 per cent while subsidies to enable new development at the rent levels traditional for social housing were ended.
- Expenditure in two areas increased: The costs of housing benefit rose by 9 per cent, despite curbs on entitlement. A new Help to Buy programme offered government equity loans totalling £3.5bn to buyers and near-full government mortgage guarantees to lenders totalling £12bn.
- Progress was made on most of DCLG's specific housing indicators for England, including a 40 per cent increase, from a very low base, in the number of housebuilding starts. There was a 23 per cent increase in affordable housing starts, although this seemed unlikely to be sustained.
- The Coalition achieved no significant or unambiguous successes against its broader housing goals. The key problems in 2010 of low housebuilding rates, reduced affordability and risk to the economy from house price fluctuations had not changed by 2015.
- Coalition housing policy appeared at best to be neutral between income groups, and at worst markedly regressive. 'Losers' included low-income households whose housing benefit entitlements were restricted, while the 'winners' included some who took up the Help to Buy offer.
- The three main housing-related elements of the welfare state 'safety net' – support for homeless households, affordable social housing and housing benefit – were weakened. Risks previously shared by central government were shifted on to individual households and, in part, to local authorities and social landlords.

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Introduction

Housing differs from the other areas of social policy, having only ever been partially absorbed as a responsibility of government. As an area of public expenditure it is capital-intensive and non-statutory, placing it at particular risk of cuts to central and local budgets at times of fiscal withdrawal. 'Housing policy' also blurs into other policy areas, notably planning, neighbourhood renewal, welfare and the wider economy. In England, it is managed for through the Department for Communities and Local Government (DCLG), but is a responsibility of devolved government in Northern Ireland, Scotland and Wales.

The Coalition's inheritance from the 1997-2010 Labour government

A government-commissioned assessment of English housing policy noted in 2005 how housing quality, choice and wealth had increased markedly between 1975 and 2000. However, demand ran ahead of supply, and there were problems with affordability and social polarisation, both by tenure and location. Moreover, the housing market was inherently unstable, with potential knock-on effects for the economy as a whole.

By the early 2000s, insufficient new housing supply against household projections had become relatively high-profile as a policy issue, and the cost of housing benefit was an increasing concern. Consequently, housing policy enjoyed something of a revival under the second and third Labour governments. There was substantial spending on housing (Figure 1). Also, from 1999, a Decent Homes programme set new standards for the quality of housing with funding so social housing could meet them by 2010. An ambitious and fairly successful programme of neighbourhood renewal included improvements to social and private housing and residential environments.

However, from 2008, the Labour government began to alter its housing policies in response to the global financial crisis, intervening to support mortgage lenders, revive stalled development schemes, and offer tax concessions to buyers.

What were the Coalition's aims and goals?

Coalition ministers agreed with earlier political and academic assessments, declaring that the housing system was *"dysfunctional",* and suffering from "*persistent market failure"*. However, they said nothing explicit about the way that goals such as increased home ownership and less volatile house prices might be achieved – or whether reforms to the mortgage or construction markets would be needed. Critically, for the Coalition, housing policy was either subordinate to, or a means to achieve, its economic goals for a return to growth and deficit reduction. And economic policy dictated that deficit reduction was to be achieved principally through spending cuts.

The Government was also clear that it wanted less state involvement in directing and implementing housing policy, particularly at national level. It wanted to see more activity being generated through the "Big Society" and "localism". Its chosen policy tools to influence development were to be incentives rather than targets. For example, it anticipated that local opposition to new homes could be overcome through direct financial incentives to local authorities and community groups.

In its early policy statements, the Coalition identified six broad housing goals for England as: *"Increasing the number of available homes"; "Helping people to buy a home"; "Improving the rented sector"; "Providing housing support for older and vulnerable people"; "Simplifying the welfare system and making sure work pays",* and*; "Achieving strong and sustainable economic growth"*.

The DCLG additionally specified seven key indicators for the housing elements of its business plan for England: new home starts; new home completions; affordable housing starts; affordable housing completions; homeless households in temporary accommodation; the average energy efficiency of new homes, and the percentage of planning applications granted permission. The devolved governments in Northern Ireland, Scotland and Wales were to set their own goals.

What did the Coalition do?

On *"increasing the number of available homes",* some funding was provided for schemes to bring empty homes into use, to pay for infrastructure for new housing, and to restart stalled schemes. In addition, the Localism Act 2011 introduced significant changes to the planning system. Some were designed to make planning permission easier to obtain or more predictable, such as a general presumption in favour of development, and the redrafting of Planning Policy Guidance note 3 (advice to local authorities on housing). Others had less predictable effects, including the abolition of Regional Spatial Strategies and of regional and local authority house-building targets, as well as the introduction of localised neighbourhood plans. A 'New Homes Bonus' gave an incentive to local authorities to agree to new housing development, but funds were taken from other areas of their housing budgets.

On *"helping people to buy a home"*, Labour's temporary increase in the house-price threshold at which stamp duty became payable was not extended. But in 2012 the Coalition introduced its Help to Buy scheme, which was similar to Labour policies, but on a much larger scale. It offered government equity loans totalling £3.5bn to buyers and near-full government mortgage guarantees to lenders totalling £12bn. Both enabled 95 per cent mortgages for all buyers of homes priced up to £600,000. The large sums provided were not grants but, in effect, government loans. Consequently, the eventual cost to government would depend on the extent of default, house prices, interest rates and inflation. Meanwhile, from 2012, the Government also raised the maximum discount available for social tenants to exercise their 'Right to Buy' to £100,000 in London and £75,000 elsewhere in England. This was a response to the way that take-up of the Right to Buy had dwindled since the 1980s.

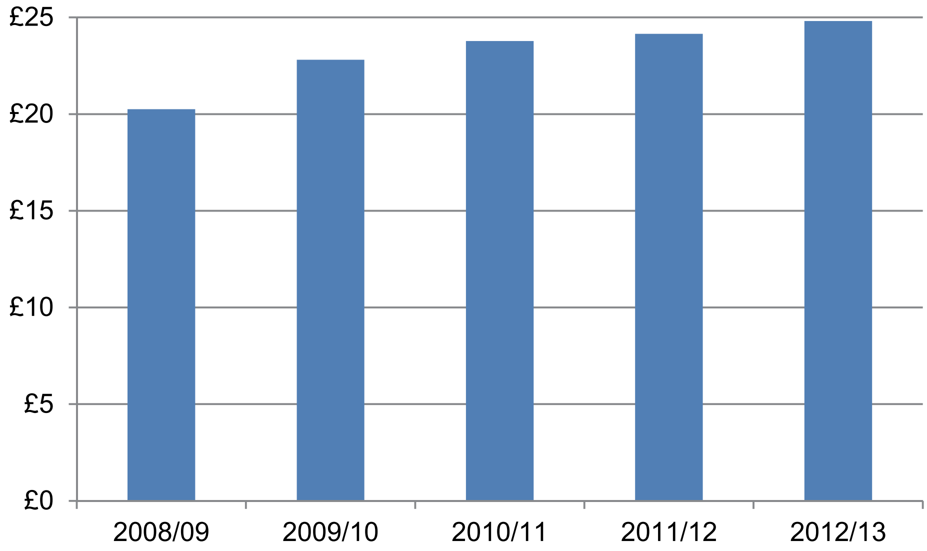
On *"improving the rented sector"*, the Decent Homes programme was continued but on a much-reduced scale. Local authorities in England were, meanwhile, required to re-finance their housing accounts as part of a one-off settlement, with some debts written-off. Thereafter, central government treated the financing of council housing improvements as a matter for local authorities alone. From 2011/12, government subsidies to social landlords for new, rented homes offered at less than the market rate was only available if rents were higher than traditional 'social housing' levels (as high as 80 per cent of market levels). The Localism Act also gave social landlords an option to set 5-year tenancies rather than indefinite or lifetime 'secure' tenancies and to prioritise employed people and ex-service people for social housing. It allowed local authorities to satisfy their duty towards homeless households with an offer of private rented accommodation (as opposed to social rented housing).

On its commitment to *"simplifying the welfare system and making sure work pays",* the Coalition extended Labour restrictions on housing benefit for private tenants. From 2011, only rents for the cheapest third of local homes would be fully funded, and weekly payments were capped at £400, regardless of household size or actual rent. These caps increased in line with a new, and generally less generous, measure of inflation ensuring that property choice would progressively diminish. Additionally, the Welfare Reform Act 2012 introduced the 'social rented sector size criterion' (widely known as the 'bedroom tax') to cut benefits for those who had more rooms than they were considered to need. A further cap, was, meanwhile, imposed on the maximum level of all benefits that could be paid, set at £500 per week for couples and £350 per week for single people, regardless of eligibility. Direct payment of housing benefit to tenants rather than landlords was piloted, intending to make tenants take responsibility for budgeting. Local authority Discretionary Housing Payment budgets to support residents facing short-term problems meeting housing costs were increased, but covered only a fraction of the intended cuts.

How much did the Coalition spend?

Housing benefit already dominated total public expenditure on housing when the Coalition took power. Despite attempts to restrict eligibility, rising demand and rents meant total housing benefit expenditure increased by 9 per cent in real terms between 2009/10 and 2012/13 (Figure 1).

Figure 1: UK housing benefit in real terms 2009/10-2012/13 (at 2009/10 prices), £bn

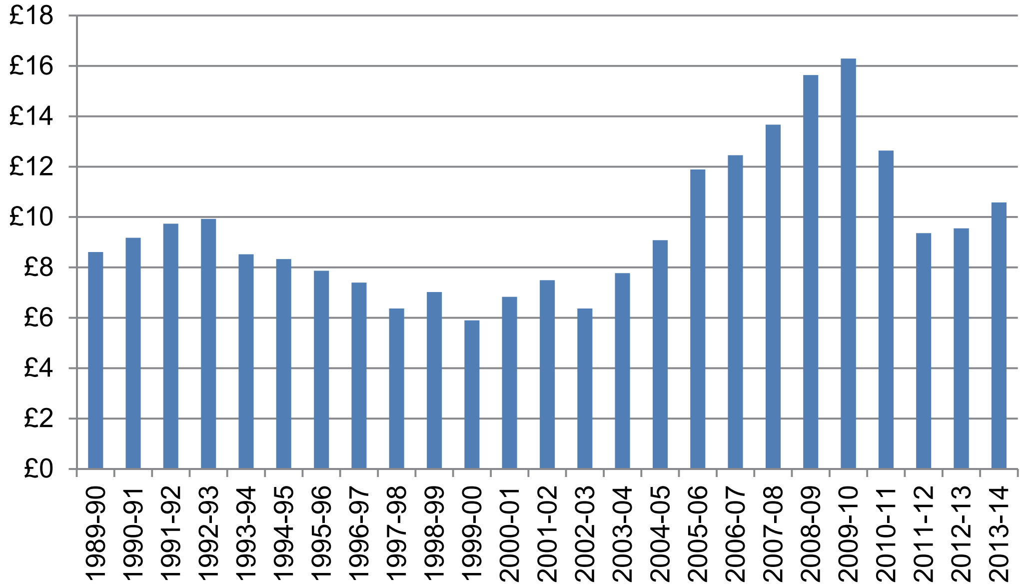


Source: PESA 2014 Tables 10.1, 10.2, 10.3, 10.4

The Coalition accelerated the shift in government spending towards housing benefit and away from new housing development through sharp cuts to all other housing expenditure. In contrast to housing benefit:

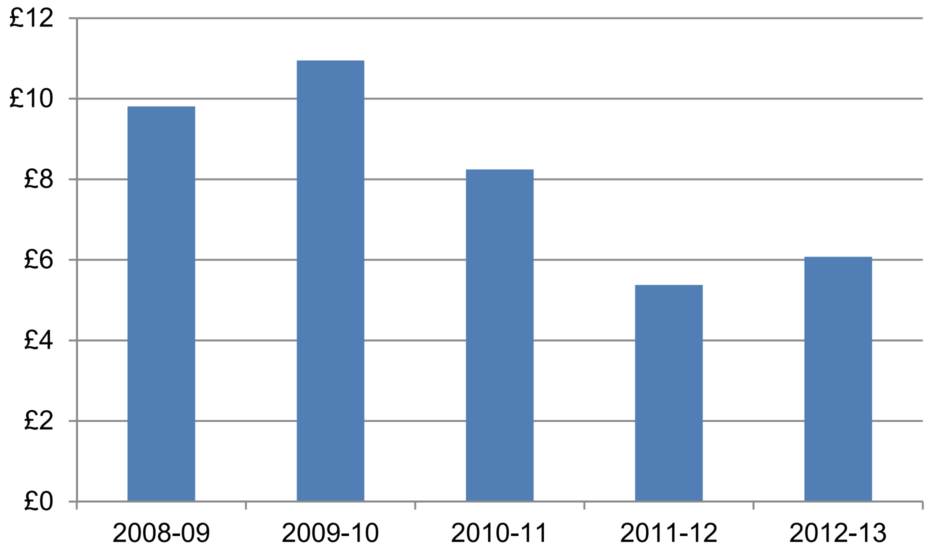
- All government spending on housing other than housing benefit in the UK was cut by 35 per cent in real terms between 2009/10 and 2013/14 (Figure 2);
- Expenditure on new affordable house building was cut by 44 per cent in real terms between 2009/10 and 2012/13 (Figure 3).

Figure 2: After rapid growth under Labour, UK government housing and community amenities expenditure dropped by 35% under the Coalition 2009/10-2013/14 (in real terms at 2009/10 prices), £bn



Source: PESA 2014 Table 4.3

Figure 3: UK housing development expenditure (mainly for building social housing) dropped by 44% between 2009/10-2012/13 (in real terms at 2009/10 prices), £bn



Source: PESA 2014 Tables 10.1, 10.2, 10.3, 10.4

UK housing budget cuts were concentrated in England:

- DCLG's revenue budgets, which fund English local authority spending on support for homeless people, housing-linked support for vulnerable people, regulation of the private sector and other housing services, dropped by at least 41 per cent between 2009/10 and 2014/15 in real terms. DCLG capital budgets, which support investment in new housing in England, were cut by 54 per cent between 2009/10 and 2014/15 in real terms.

- Overall government spending per head on housing fell from 2009/10 to 2012/13 by 47 per cent in real terms in England, by 28 per cent in Northern Ireland, and by 24 per cent in Scotland, but rose by 3 per cent in Wales. In 2012/13, real terms spending on housing and community amenities was down to £447 per person, per year in Northern Ireland, £289 in Scotland, £129 in England and £210 in Wales.

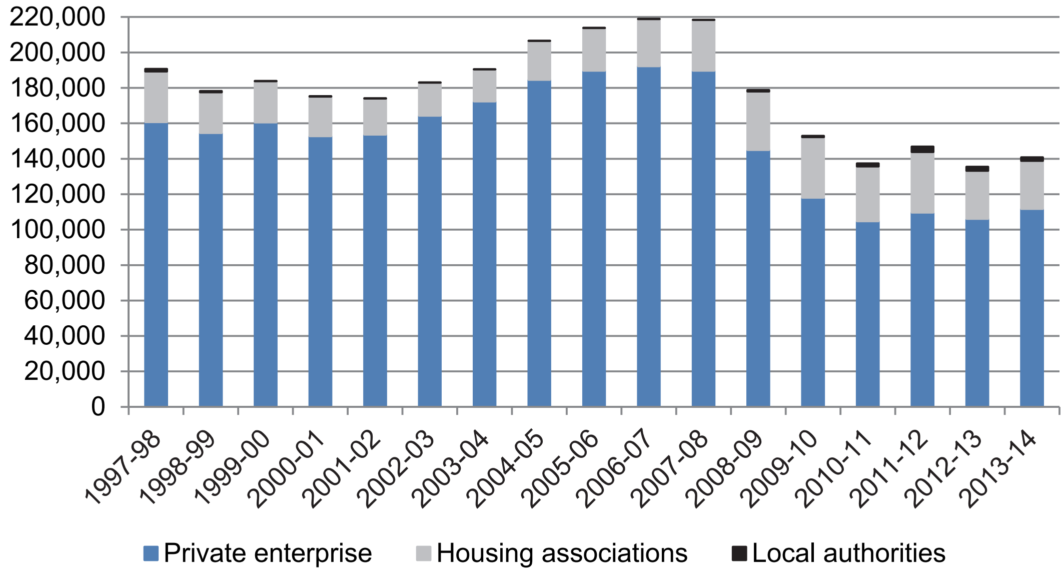
The Coalition's Housing Minister in 2010 argued that *"housing must take its share of the burden"*. But in practice housing contributed disproportionately to deficit reduction. Budget cuts for DCLG and for housing and local government in England between 2010 and 2014 were on a scale only matched by the budgetary transitions in 1945 immediately following World War II. The major exception to spending cuts on housing was the boost given to housing purchase, development and lending through the Help to Buy scheme, evident for 2012/13 in Figure 3. However, this still left overall spending below historic levels.

What was achieved?

Notwithstanding its budget cuts, the Coalition was able to show progress on four of the seven specific housing indicators for England set out in the DCLG business plan:

- The number of homeless households in temporary accommodation grew by 14 per cent, and the total number of new home completions and affordable completions fell from 2009/10 to 2013/14.
- But the number of new home starts increased (from a very low base) by 40 per cent. A jump from 2012/13 appeared to be linked to the Help to Buy programme subsidising first time buyers, and to improving economic conditions generally. The number of 'affordable' housing starts also increased by 23 per cent.
- The average energy efficiency (SAP) rating of homes improved slightly as a consequence of government schemes, but also the activities of owners.
- There was a slight increase in the already high proportion of planning applications receiving assent, although the total number of applications was low compared to past trends.

Figure 4: UK house building completions fell by 8% 2009/10-2013/14 (although house building starts increased, suggesting a new trend)



Source: DCLG, November 2014

But while there was some success in meeting the DCLG's own targets, the Coalition scored no significant or unqualified successes in relation to its broader housing policy goals:

"Increasing the number of available homes" and "Helping people to buy a home"

The average production level of new homes under the Coalition remained below that under Labour. The recent increase in housing development signals a change, but it remains to be seen whether it can be sustained and accelerated. Help to Buy, intended as a temporary measure, runs the potential risk of exacerbating long-term structural issues like disproportionate house price increases and affordability problems. The increase that occurred in the number of subsidised 'affordable' housing starts might seem unexpected given the way that government funding was cut. However, it seem likely to be a short term effect. Social housing providers have only finite access to the kind of capital that they need to build more homes with reduced government support.

Price to income ratios for home buyers – a measure of whether earners can afford house prices in their area – did not improve under the Coalition, although the Help to Buy scheme eased access for some. The proportion of all households spending more than a third of their income on housing remained stable at about 14 per cent. The total amount of 'affordable' and social housing (did not alter, but the Government's policies meant it was becoming less affordable to tenants. Home ownership continued to decline in relation to other tenures, while private renting grew proportionately bigger. The number of households accepted by local authorities as homeless and in priority need grew (by 26 per cent), as did the number of people counted as street homeless (37 per cent).

"Improving the rented sector"

With reduced regulation and reduced funding, the Coalition did not have the policy tools to improve the physical quality of the rental sector. The number of homes available for private rent increased, but at the expense of home ownership and social renting – and due to the easier access that would-be landlords continued to enjoy to interest-only mortgages, rather than government policy. Changes made to social renting tenancies and housing benefit eligibility were intended to improve 'fairness' between tenures, but had the effect of reducing what the social rented sector had to offer rather than improving renting overall.

"Simplifying the welfare system and making sure work pays"

The overall impact that welfare reform, rising social housing rents and increased use of the private rented sector had on work incentives and employment rates is ambiguous. However, it is clear that the Coalition's housing benefit reforms failed to stop costs from rising, while the contribution made by housing towards the overall welfare safety net reduced.

"Providing housing support for older and vulnerable people"

People over pension age have been exempted from many reforms restricting housing benefit and other welfare payments. However, it appears likely that older and more vulnerable people are now less rather than more likely to receive housing related support as a consequence of local government budget cuts (although some of the data needed to track this are no longer collected).

Conclusion

The Coalition reduced funding for housing to a dramatic extent, particularly in England. It ceased to provide sufficient capital subsidies to support new, affordable development at the reduced rent levels that had been traditional for social housing. It also removed the assumption that revenue payments of housing benefit to individuals should cover all the rent of people living on out-of work benefits or similar low incomes. In so doing, it meant thousands of tenants (including many working households) had to reduce their day to day spend on essentials to make up for reduced housing benefit. The assumption of lifetime security of tenure in social housing, which had been introduced for council tenants by Margaret Thatcher in 1980, was removed.

Collectively, the Government's changes reduced the extent of UK central government involvement in housing. But a possibly unintended consequence was to place limits on government's ability either to achieve its immediate housing policy goals or to address structural housing issues, including insufficient supply and systemic risks.

On a more positive note, there was progress on most of DCLG's own, chosen housing indicators for England. There were also groups in the population who could consider themselves housing 'winners' from the Coalition's period in office. These included people with flexible rate mortgages at time of low interest rates, those in areas where house prices have recovered and grown, and some of those taking up the Government's Help to Buy offer. They also included larger developers taking over smaller rivals and making good profits despite relatively low rates of building.

However, by 2014 the structural problems in the housing system that Coalition ministers had criticised at the start of their term remained unresolved. Moreover, housing policy changes weakened the three main housing elements that contribute to UK's welfare state 'safety net': namely, support for homeless households, subsidised social housing and housing benefit. The Coalition undertook to ensure that richer people would make a greater contribution to deficit reduction than poorer people. Yet the effects of its housing policies appear to be at best neutral between income groups, and at worst regressive, having a markedly worse effect on poorer people. Among the apparent 'losers' were those needing supported housing, younger people and new households, tenants generally and housing benefit claimants in particular. There was also greater spatial inequality between neighbourhoods.

Nevertheless, given the plans for continued fiscal constraint announced by the main political parties, it is difficult to envisage any successor government reversing either the Coalition's spending cuts in housing or its policy changes.

Further information

The full version of this paper *The Coalition's Record on Housing: Policy, Spending and Outcomes 2010-2015* is available at http://sticerd.lse.ac.uk/dps/case/spcc/WP18.pdf This is one of a series of papers produced as part of CASE's research programme *Social Policy in a Cold Climate* (SPCC). The research, concluded in 2015, examines the effects of the major economic and political changes in the UK since 2007, focusing on the distribution of wealth, poverty, inequality and social mobility.

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