

Policy briefing note

The Affordable Homes Programme 2015 – 2020

Summary

The amount the government invests in new affordable homes has declined in recent years as part of a longer term switch in spending from bricks to benefits. The Coalition government committed to continue current levels of capital investment in affordable housing through the 'Affordable Homes Programme' over the period 2015 – 2020. This promise was reflected in the Conservatives' manifesto, with a commitment to build 275,000 additional affordable homes.

There are major benefits to retaining the Affordable Homes Programme:

- We are currently only building half as many homes as we need: both market and affordable. On current projections, the Affordable Homes Programme 2015 – 2020 could contribute **up to a third** of total housing supply over the next five years. Cutting it would make it next to impossible to build the 250,000 homes per year we need to meet demand.
- As well as contributing to total housing supply, the Affordable Homes Programme is essential to **meet the need for sub-market housing**. Without this capital expenditure it would not be possible to build the additional low rent, or Shared Ownership homes that are needed to meet demand.
- The Affordable Homes Programme is one of the main tools government has to influence the level of housing supply. Without it, it would be much harder to change the level of housing supply without controversial planning reform that could reduce supply over the short term.

Background to the Affordable Homes Programme 2015 – 2020

Over many decades there has been a shift in government expenditure on housing from bricks to benefits. Levels of capital subsidy to build affordable homes have fallen, while the cost of housing benefit has picked up the strain of not building enough homes, rising to almost £25 billion per year.

Figure 1: Gross social housing investment in England, 2013/14 prices¹

¹ CIH, UK Housing Review, 2015 Table 57b

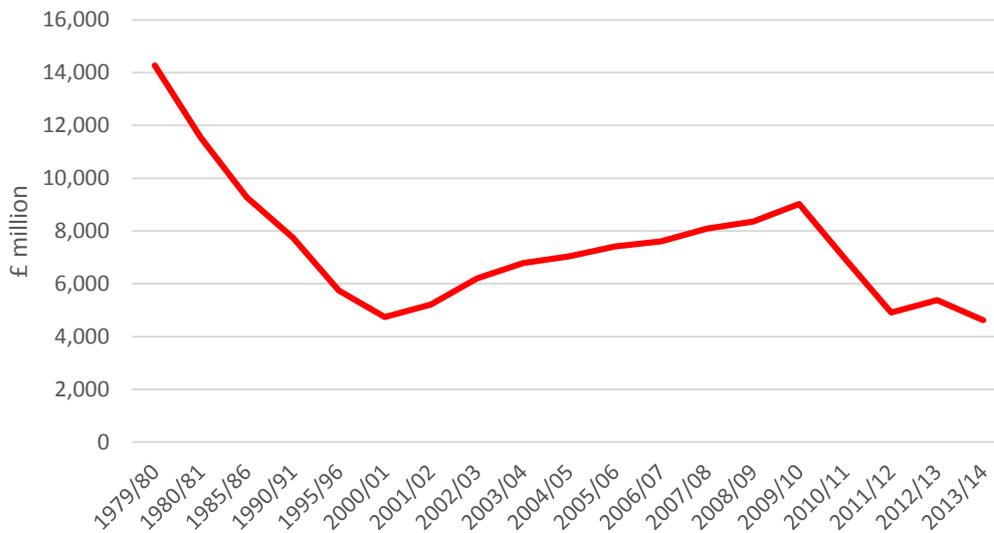
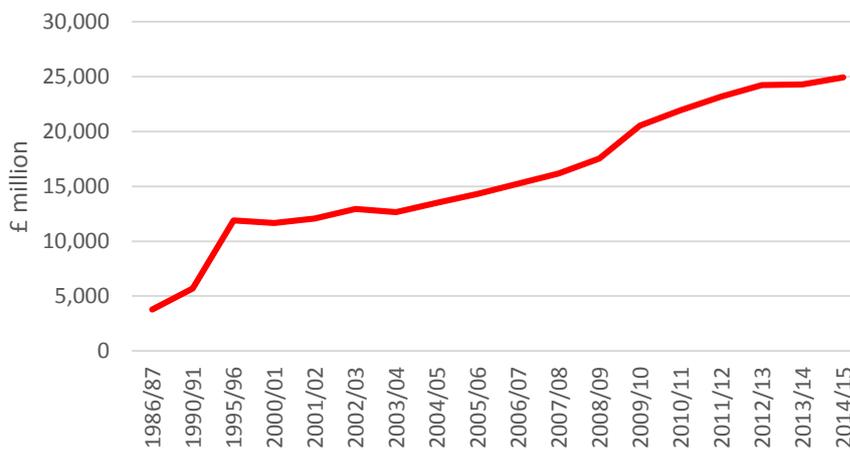


Figure 2: Housing Benefit Expenditure, GB (£m)²



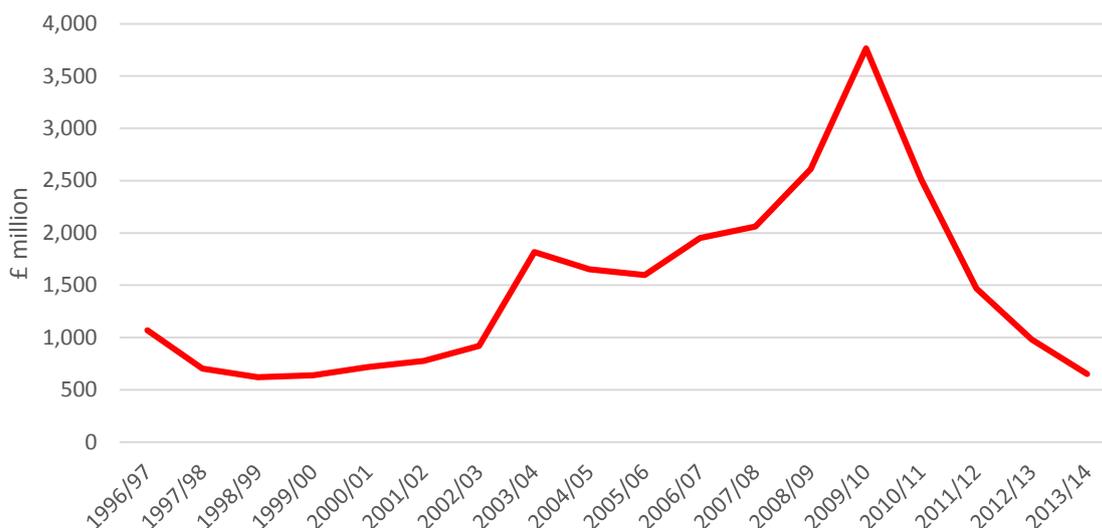
In the 2010 Spending Review, the level of capital funding from government to build new affordable homes over the period 2011 and 2015 was cut by 60% compared to the previous programme which ran from 2008 – 2011 and was in part stimulus spending following the recession. This shift can be seen clearly in Figure 2 below.

As well as cutting the level of investment, the type of home funded was also changed in 2010 with the ending of capital subsidy for forms of housing with lower rents (Social Rent) which cost more in upfront subsidy. This change only really started to bite from 2013 onwards however, due to lag times in house building which mean that homes commissioned under one programme may not be built for several years.

Figure 3: HCA/ Housing Corporation capital investment in England³

² CIH, UK Housing Review, 2015 Table 114

³ CIH, UK Housing Review 2015 Table 62a



In the 2013 Spending Review, the government made available £3.3 billion in capital investment for affordable housing in the financial years 2015/16 to 2018/19. This included £957m capital funding per year for the Affordable Homes Programme: which is government capital subsidy to ‘registered providers’ of affordable housing such as Housing Associations.⁴ Funding must be allocated in this way well in advance to allow financial planning by affordable home builders.

In January 2014 the Department for Communities and Local Government published its prospectus to invite bids for funding in the Affordable Homes Programme.⁵ £2.9 billion was made available as capital funding for building new affordable homes, of which £1.2 billion was devolved to the Mayor of London. Across both London and England, the funding was intended to deliver 165,000 new homes over the three years.

The aims of DCLG’s prospectus for 2015 -2018 (for £1.7 billion) were that the funding should:

- Increase the supply of new affordable housing in two tenures: Affordable Rent (up to 80% of market rents) and Shared Ownership.
- Maximise the number of new homes for the level of grant available, partly by incentivising those bidding for grant funding to use their own borrowing powers as far as possible.
- Meet the need for more one and two bedroom homes
- Maximise delivery within the programme period of 2015 – 2018.

Separately, the Mayor of London published his strategy for investing the devolved element of the Affordable Homes Programme. The London funding was spent in a slightly different way to the rest of England, with the Mayor splitting his capital expenditure as:

- 40% of funding for Shared Ownership
- 30% of funding for ‘Discounted Rent’, which like Affordable Rent is up to 80% of market rates
- 30% of funding for ‘Capped Rent’, with properties let at lower rents to households in need

⁴ HM Treasury, Investing in Britain’s Future, 2013

⁵ DCLG, Affordable Homes Programme 2015 – 2018: Prospectus, 2014

The London portion of the allocation is therefore the only part of the Affordable Homes Programme 2015 – 2018 which provides grants for homes close to the affordability of lower rent Social Rent homes.⁶

In the Autumn Statement 2014, the Chancellor announced that funding for the Affordable Homes Programme would be extended for two years so that it will cover the full 2015 – 2020 Parliament at the same level as for the previous three years. The government announced that 55,000 extra homes would be built each year for the final two years, bringing the total number of affordable homes to be delivered over the Parliament to 275,000.⁷

The commitment to 275,000 additional affordable homes was re-iterated in the Conservative Party manifesto for the General Election.

Benefits of the Affordable Homes Programme

(a) A critical component of total housing supply

England's rate of house building is currently half the level of 250,000 needed. Successive governments have failed to get enough homes built and this has contributed to a severe housing shortage, with consequences across society.

The Affordable Homes Programme intends to provide 55,000 homes per year in England through the period 2015 – 2020. Currently, the total rate of house building in England is at 125,000 completions per year and likely to rise steadily with a higher number of starts.⁸ New statistics from the DCLG show that in 2014/15 around 59,000 homes were funded by the Homes and Communities Agency and the GLA, of which the majority were intermediate 'Affordable Rent'.⁹ That year was likely to be particularly high though, due to the backloading of the Mayor of London's house building.¹⁰ We can therefore conclude:

- The Affordable Housing Programme¹¹ contributed **around half** of total housing supply in England in 2014/15. Over the last three years, it's contribution has averaged 38% of total housing supply.
- If the Affordable Homes Programme hits its target of 55,000 homes per year, it would be likely to contribute **at least a third** of housing supply in England over the coming five years.

Therefore, housing supply from the Affordable Homes Programme in the coming period is irreplaceable if we wish to raise total housing output towards the level of need.

(b) A critical element of affordable housing supply

To meet housing need we not only need to be building more homes, we especially need to be building homes that are affordable to buy or rent for those who cannot afford the market rate.

Based on the best available evidence, Shelter estimates that at least 250,000 homes per year are needed, of which:

- 125,000 (50%) should be market homes to rent or buy
- 75,000 (30%) should be at a low rent, at the level of Social Rent or 'Capped Rent'

⁶ Although in some low rent areas Affordable Rent homes will be of similar affordability to Social Rent homes as 80% of the market is similar to a Social Rent.

⁷ HM Treasury, Autumn Statement 2014

⁸ DCLG, Quarterly House Building Statistics

⁹ DCLG, Live Table 1012

¹⁰ Completions in 2014/15 were almost double those of 2013/14 in London.

¹¹ The remaining funding from the National Affordable Homes Programme and the increasing delivery from the Affordable Homes Programme.

- 50,000 (20%) should be intermediate tenures, such as intermediate rent or Shared Ownership¹²

The Affordable Homes Programme currently funds just intermediate homes, except in London where the Mayor has chosen to allocate 30% of spending to a lower rent product closer to Social Rent.

If the Affordable Homes Programme is able to deliver its target of 55,000 homes per year then it would be delivering 100% of the intermediate housing need. It is therefore a critical element of affordable housing supply, although more investment would be required to deliver the number of lower Social Rent homes needed for those on lower incomes.

(c) One of the government's main tools to influence housing supply

Beyond being a critical component of the level and type of housing supply in England, the Affordable Homes Programme is also simply one of the government's main tools to influence house building. Without it the government would have far less ability to influence housing supply and in particular at the end of the housing market cycle when private developer supply falls.

Aside from the planning system, the Affordable Homes Programme is one of the most important government levers to change the level of housing. Other levers include providing guarantees to house builders' financing or boosting mortgage finance to consumers (i.e. Help to Buy), however the latter risks raising house prices. Given that major reform of the planning system is both highly controversial and disruptive to the house building industry in the short term, it is likely that the Affordable Homes Programme will continue to be the main government lever to get more homes built.

The Affordable Homes Programme is particularly valuable in situations where the housing market is weak due to falling prices as was the case in the years following 2007/08. When prices are falling, private house builders stop building and housing supply would collapse without government support for affordable house building.

Recommendations

- Investment in new affordable homes is already very low by historical standards. Cutting it any further would greatly undermine overall housing supply, affordable home building and the ability of government to influence the housing system. The Affordable Homes Programme budget **should not be cut any further**.
- While it is true that total government expenditure is tight, there is still a strong case to prioritise extra investment in new homes. The failure to provide homes that low-income working families can afford is putting huge pressure on the housing benefit bill. Future cuts to housing benefit won't remedy this situation and will simply force more working households into poverty. Increasing the Affordable Homes Programme **by £1.2bn per year**, combined with a pragmatic set of reforms to make land available, would be enough to get us building the 125,000 affordable homes per year we need.

¹² Shelter, In the Mix, 2014