

New deal for Social Housing—financing social housing and supporting home ownership

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Local Government analysis: In the third of a three-part series, the government's plans for financing its proposals for reforming the social housing sector, in the recent green paper 'a new deal for social housing', are analysed. From Winckworth Sherwood's housing finance team, Louise Leaver, partner and head, and Lucy Grimwood, associate, discuss the proposals in depth and the impact on different areas in the social housing sector.

The long-awaited social housing green paper was published on 14 August 2018, along with two related consultations on the use of receipts from Right to Buy sales and social housing regulation. These documents set out the government's proposals for widescale reform of the social housing sector. The government underpins these proposals with five key principles, the fifth of which seeks to 'boost the supply of social housing and support home ownership'.

In general, the sector has welcomed the green paper. There is a housing crisis in this country, and home ownership remains a distant dream for many. We look at some of the government's proposals for addressing these issues of supply and ownership.

In England, approximately nine million people live in the social rented sector—just under a fifth of all households. This number is set to grow and new social housing is needed. The green paper sets out the government's proposals to boost supply, by supporting local authorities and housing associations (or registered providers of social housing (RPs)) to build more.

What are the main proposals for supporting Local Housing Authorities financing of new social housing developments?

The Green Paper includes various proposals to help local authorities build more social housing. Particularly welcome was the confirmation that local authorities will not be required to sell their vacant higher value properties—the relevant sections of the Housing and Planning Act 2016 will be repealed 'when Parliamentary time allows'. Originally suggested to fund the discounts for the 'voluntary right to buy', the ensuing loss of rental income caused uncertainty. Its repeal should help local authorities to explore development options with more certainty. The proposed reforms in the use of Right to Buy receipts (explored below) may also help.

Chiefly, however, local authorities need money to develop new social housing—either grant or borrowing. The amount local authorities can borrow is restricted by the borrowing cap, which in turn restricts their development capacity. The green paper does not suggest lifting the cap, but it may be on the agenda. The green paper reminds us that the government has already invited local authorities to bid for £1bn of additional borrowing in areas of 'high affordability pressure', and promises to measure local authorities' 'effectiveness at building new homes' whilst considering 'whether further reforms are needed'.

What are the main proposals for supporting Registered Providers financing of new social housing developments?

The green paper's proposals to assist RPs building social homes focus on ensuring RPs are stable (and so continue to attract private finance at competitive rates) and promoting funding certainty.

Steps already taken to promote stability for RPs are reiterated. They include deregulation of RPs (which succeeded in reclassifying RPs as private sector entities, so removing their debt from the public balance sheet) and the new rent settlement of CPI +1%, which has increased certainty and confidence. While such policies may have 'made it easier

for housing associations to access the lending markets in order to develop affordable housing', they are not new.

Positively, from a public funding perspective, the green paper recognises the need to avoid the 'stop-start nature' of the government's capital investment in social housing. Specific proposals include:

- strategic partnerships and the Affordable Homes Programme—we are reminded that earlier this year the government announced strategic partnerships with eight RPs, whereby £590m from the Affordable Homes Programme will be provided to those RPs up to 2022. The green paper promises to 'actively investigate' expanding these partnerships, and asks how many new affordable homes could be delivered were RPs given longer-term funding certainty

- affordable Housing Guarantee Scheme—this scheme closed in March 2016, but the green paper's confirmation that the government recognises its benefit—particularly for smaller and medium-sized RPs, who are 'less well placed...to access the capital markets in their own right'—suggests that the scheme may return

Neither of these proposals provide 'new money', but the green paper's rhetoric is encouraging—the government clearly appreciates the link for RPs between funding certainty and boosting supply. Watch this space.

Will the proposals out for consultation including the reform to the receipt of right to buy proceeds be enough to support enough new social housing building to deal with the acute shortage of affordable housing?

Alongside the green paper, a consultation was launched to reform the use of receipts from sales under the statutory Right to Buy. The difficulties in using the receipts under the current rules means that homes sold under the Right to Buy are often not replaced. Views are sought, and proposals made.

The final proposal is perhaps the biggest—a suggestion to replace the one-for-one Right to Buy replacement commitment and proposed 'a broader measurement' to replace the one-for-one pledge. Other proposals include:

- timeframe for use—receipts must currently be used within three years or returned to central government (with interest of 4% above base rate). The government suggests extending this to five years, but for existing receipts only

- replacement build costs—receipts can currently only be used to fund 30% of the build cost of the replacement home and the remaining 70% must be found elsewhere. The government proposes increasing the cap to 50% in certain circumstances and/or allowing insufficient receipts to be 'topped-up' from the Affordable Homes Programme

- restricting acquisitions—local authorities can currently use receipts to acquire, rather than build, a replacement home. The consultation proposes restricting this, either by allowing acquisitions in certain areas only (eg London) or capping the maximum amount local authorities can spend on such acquisitions. The effect would depend on the cap and the local housing market—while the £113,000 cap suggested for the North East may not prohibit replacement by acquisition, the £268,000 cap for inner London almost certainly would

This consultation closes on 9 October 2018. If it helps local authorities to use Right to Buy receipts more effectively, this would be welcome—but initial feedback suggests that while helping local authorities to replace homes sold is important, it may not boost supply in its own right.

What proposals are made to assist those who aspire to owning their own home?

In addition to seeking to boost supply of new social homes, the government also states its aim, in the green paper, of boosting homeownership. Two policies promoted are the 'Voluntary Right to Buy' (VRTB) and shared ownership.

The VRTB

The VRTB, whereby the right to buy will be extended to eligible residents of RPs, was a 2015 Conservative manifesto commitment, which RPs voluntarily offered to adopt. It is not a new policy. However, while the green paper confirms the government's commitment to this policy as another route to homeownership, it has also thrown doubt on its future, by removing the mechanism for funding the discounts without providing a replacement.

While the RPs' voluntary offer was made on the understanding that they would be refunded discounts (to enable the replacement of homes sold), as noted above the green paper confirmed that the government's original proposal to fund such discounts—requiring local authorities to sell their vacant higher value properties—will be scrapped.

With no replacement funding mechanism for VRTB discounts proposed, the future of this policy—and the expansion of home ownership it was designed to assist—is uncertain.

Promoting shared ownership

Shared ownership products boost home ownership by giving people the opportunity to build up equity in their homes ('staircase') over time. The green paper promotes shared ownership products—indeed, in the separate consultation on Right to Buy receipts, the government proposes allowing receipts to be used to build replacement homes that are shared ownership (currently, the replacement must be affordable or social rent).

Recognising that home ownership is only achieved on the 'final staircasing', the green paper identifies three barriers to reaching this stage. The first two barriers are examined in detail: the difficulty in saving a 10% deposit (the typical minimum per staircasing), and the additional legal and mortgage fees incurred on each staircasing. It asks how to encourage 'innovative models that help tenants that are struggling to raise deposits'. One such model, introduced by an RP in 2015, permits tenants to staircase in increments of 1% a year following initial acquisition—far lower than the 10% typical minimum.

Such models could promote home ownership. However, of the three barriers to final staircasing, the third and arguably most important one is not addressed—rising values of homes outpaces many people's incomes and therefore ability to save.

Interviewed by Samantha Gilbert.

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