

Housing under a Conservative government: HQN's post-election briefing

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Introduction

We now know – barring a seismic Parliamentary event – that the UK will have a Conservative majority government until May 2020. This suggests that the overall *direction* of housing policy will largely remain unchanged for five years – at least in England. In the other countries of the UK, devolved powers mean that many aspects of housing policy will be determined locally.

This briefing reviews the commitments that the Conservatives set out in their manifesto for housing, planning and welfare reform, the latter for the time being applying UK-wide (in the main). We examine the translation of those commitments into the announcements in the Queen's Speech on 27 May which describe the government's legislative programme for 2015/16.

HQN is committed to assisting our members handle the changes that the new government's housing policies will herald. To this end we are running three events in the next few weeks that will address the issues the housing sector will face with the election of a majority Conservative government.

These are:

-  [Universal Credit – dispelling the myths](#): 16 June, London and 18 June, Leeds
-  [Housing Finance 2015](#): 18 June, London
-  [Housing Quality Network Annual Conference](#): 1 July, London – free to members.*

Details and booking arrangements can be found [here](#).

*Free places are on a first-come, first-served basis and depend on your level of membership. Please contact us on 0845 4747 004 if you are unsure of your membership level.

General scenario

In part, the Conservatives were elected into government because of the coalition's record on the economy. And the performance of the economy will be critical in determining the operating environment of housing providers over the next five years. Public expenditure cuts are in prospect so housing providers will increasingly rely on their own resources to boost housing supply and fund other activities. Grant aid for new house building will be limited. Welfare cuts will mean that some tenants will struggle to pay their rent. Arrears might climb and evictions may increase – putting pressure on providers' balance sheets as they rise. But the Conservatives believe that their economic policies will promote growth and keep interest rates low. Certainly low interest rates will limit providers' interest charges. Bond markets should also benefit from Conservative economic policies and help providers raise funding through that source at relatively cheap rates. Persistently low inflation – or even deflation – could undermine the business plans of some providers. Experts predict, though, that the current low rate of price rises – indeed price decreases – will only be short-lived.

The Bank of England projects strong growth in the UK economy for the immediate future. But over a five-year Parliament there is the prospect of a recession given the nature of

economic cycles. Any forthcoming recession is likely to coincide with the fallout from the UK's referendum on Europe. This makes economic conditions difficult to predict from 2016/17 onwards.

So what will be the principles upon which the government's housing policies will be based? Essentially, the Conservative government will follow the line adopted by the former administration. The influence of the Liberal Democrats in the department run by former Secretary of State Sir Eric Pickles seemed, overall, to be pretty weak. So we will see a Department for Communities and Local Government (DCLG) that implements policies underpinned by:

- A market-driven approach
- De-regulation (with some exceptions)
- Localism (with some exceptions)
- Minimal intervention – and then largely on the demand side
- Planning policies that favour development (unless it is on the green belt).

The ministerial team for DCLG has changed. Greg Clark is the new Secretary of State while Brendon Lewis retains his position as Housing Minister. This change at the top of DCLG may well see a different approach to housing policy. With housing featuring strongly in the general election campaign and the Head of Policy at the Royal Institution of Chartered Surveyors (RICS) talking of a 'national emergency' associated with the affordability and supply of housing,¹ Clark can be expected to be more proactive than his predecessor in encouraging new build in all sectors. If house building does not start to increase strongly, Clark may even have to reappraise the reliance on the National Planning Policy Framework (NPPF) and market conditions more generally to build enough homes to meet growing need. More state intervention/spending might be necessary even though that would run counter to the deficit reduction programme and the market-driven, non-interventionist stance of the government. Clark is a big supporter of localism and is considered to be the centre/left of his party. He was a member of the SDP when he studied at Cambridge.

Conservative housing policy: what's new?

Extending the Right to Buy (RTB)

Undoubtedly, the most striking and controversial of the Conservatives' manifesto commitments would give 1.3m England-based housing association tenants the Right to Buy. Discounts would be the same as those offered to council tenants – £103,900 in London and £77,900 elsewhere in England. Those who had lived in their homes for more than three years would be able to buy with a discount which starts at 35% and rises to a maximum of 70%. Because housing associations (HAs) are private sector bodies, the government would have to compensate them for the losses sustained through the sales programme. The National Housing Federation (NHF) has estimated that £5.8bn would be needed annually to meet the shortfall faced by housing associations selling their properties at below market value. The government might face a total bill of over £20bn. The annual figure has been challenged by the Conservatives who believe it over-estimates the scale

¹ <http://m.insidehousing.co.uk/business/tenancy/lack-of-homes-causes-price-rise-says-rics/7009755.article>

of initial sales. The Conservatives would part-fund the sales programme by forcing local authorities to sell off their most expensive properties as they become vacant. The party has estimated that around 15,000 council properties in the top third price bracket – around 0.4% of the stock – become available every year. Under the new rules, these homes would be sold, raising £4.5bn net a year. Housing associations would be expected to fund cheaper replacements of sold housing stock with this injection of capital.

The proposal has been met by almost universal criticism. Among the points made by critics are:

- The policy has not been properly costed and is unaffordable
- The funds should be used to increase supply and not subsidise a select group of tenants move into owner-occupation
- The claim that each sale will be matched by an equivalent new build unit is unlikely to be achieved
- There is a danger that housing associations will be re-classified as public sector bodies and their £60bn of private borrowings will be redefined as public debt
- The ability of housing associations to raise private finance will be impaired as their business plans are compromised
- Many of the properties sold under the RTB will be acquired – in due course – by Buy to Let landlords who charge market rents; some of these properties will subsequently be let to low income tenants on benefits resulting in an increase in the Housing Benefit bill
- Local authorities – particularly in London and the south east where housing need is greatest – will be forced to sell off their most desirable stock to fund this policy
- Building new housing in the areas which lose stock (as envisaged) might be difficult to achieve because of restricted land availability and other constraints
- The policy runs counter to the government's 'localism' agenda
- The policy does nothing to help tenants in the private rented sector – now bigger than the social housing sector – access owner-occupation.

The Conservatives see the extension of the RTB to HA tenants as a flagship policy and have vowed to introduce legislation putting their policy into effect within 100 days of the new Parliament's first sitting. Some commentators have suggested that if the Conservatives had been forced into a coalition this policy would have been watered down or dropped altogether. Now they are in government with an absolute majority the party will have difficulty backing down on this core manifesto commitment.

When extending the RTB to HAs was first mooted in March, the housing sector reacted in horror and legal action was threatened if the policy proposal was enacted. There were claims suggesting that human rights and charity law would be broken if HA tenants were given the RTB. If the government does press ahead with legislation a legal challenge is almost inevitable.

The Queen's Speech confirmed that a Housing Bill will be introduced in this Parliamentary session and that the RTB for HA tenants will be a key feature of the new legislation.

Other housing pledges

The Conservatives made a number of housing pledges in their manifesto. These have not been subject to the scrutiny of their RTB policy for HA tenants. Details on these proposals are therefore sketchy. The key policy commitments are as follows:

- The party has pledged to help one million more first-time buyers into home ownership in the next five years
- As part of this pledge, the Conservatives have committed to building 200,000 homes for first-time buyers under 40. Prices would be discounted by 20% as developers would not have to fund the infrastructure or affordable housing usually associated with developments of this kind (through Section 106 agreements, for instance). Critics have claimed the proposals are unfunded and questions have been asked about the provision of the infrastructure needed for developments of this kind
- In the social housing sector the Conservatives will provide an additional 275,000 'affordable' homes by 2020 – 55,000 units a year
- A brownfield fund of £1bn will be set up to unlock homes on previously developed urban sites. The fund would be used to prepare sites for house building with the aim of creating 400,000 more homes in four years. This will be linked to a brownfield register which will ensure that 90% of suitable sites have planning permission for housing by 2020
- The establishment of a London Land Commission to identify and release surplus brownfield land in the capital owned by the public sector
- The manifesto pledges the government to create housing zones for a range of brownfield sites for the development of 95,000 new homes
- The Conservatives will support locally-led garden cities (such as those at Ebbsfleet and Bicester)
- Self build/custom build will be doubled by 2020 under a 'Right to Build' pledge.

Box 1: State-aided house building 2015 -2020

Pledge	Total (2015 -2020)	Per annum	Gap per annum (assuming 230,000 homes are needed annually to meet increases in household formation – all tenures)
Homes for first-time buyers	200,000	40,000	
'Affordable' homes	275,000	55,000	
Total	475,000	95,000	135,000

The manifesto is clear: house building is the focus of the new government (in relation to its housing policies). Apart from welfare reform and its ramifications for housing (see below),

the manifesto makes only one pledge related to housing management. This would see EU migrants barred from council housing unless they have lived in an area for four years.

Nevertheless there are two other policy initiatives which potentially could affect housing providers and their tenants in the early years of the new Parliament. Neither prospective policy featured in the manifesto. The first concerns the extension of the Freedom of Information Act (FOIA) to housing associations. In the run up to the general election Sir Eric Pickles, the former Secretary of State for Communities and Local Government, suggested that HAs should be subject to the provisions of the Freedom of Information Act either under statute or as a regulatory requirement.

Another initiative could see the creation of a new Public Service Ombudsman (PSO), bringing together the existing jurisdictions of the Parliamentary and Health Service Ombudsman (PHSO), Local Government Ombudsman (LGO) and Housing Ombudsman (HO). This follows the recommendations of a government-commissioned report in 2014 (the Gordon report).

The HA sector has been particularly vociferous in opposing both these reforms. Extending the provisions of the FOIA to HAs would increase costs, but for both initiatives there are concerns that HAs could be redefined as public sector bodies. Coupled with the threat of the RTB applying to the HA sector, many commentators fear that HAs will be redefined as public bodies by the Office for National Statistics. If this were to happen, there would be ramifications for the £60bn of private debt on HA accounts being re-classified as public debt as well as for HAs themselves.

Welfare reform

The election of a Conservative government will see no let-up in the pace of welfare reform. Indeed there is every prospect that the reforms will accelerate. The Conservatives have promised a further £12bn in cuts to welfare on top of those already implemented and those planned. These additional cuts could have an enormous impact on tenants and the housing professionals working to support them. We will know the nature of the cuts when the Chancellor presents his first Budget of this Parliament on 8 July.

The cuts that are in place or planned are:

- The retention of the bedroom tax/spare room subsidy
- Full roll-out of Universal Credit to all working-age households on benefit
- The scrapping of Housing Benefit for single people aged 18 to 21 (excluding those leaving care)
- The capping of benefits for individual households at £23,000 pa (reduced from £26,000 pa) – this would have a major impact in London and other high-cost areas where rent levels are so high that large families in particular would have difficulty securing accommodation at a rent that Housing Benefit would support
- The freezing of working age benefits (including Housing Benefit) for two years.

The Department for Work and Pensions (DWP) has estimated the effects of some of the benefit changes on tenants and housing providers. This is summarised in the Box 2 below.

Box 2: Benefit cuts in numbers

Category	Number
Tenants in social housing set to be hit by Housing Benefit removal	11,449
Young jobseekers set to be affected	18,402
People hit by lowering of benefit cap to £23,000 a year	40,000
Impact on landlords' income streams	£69m

Source: DWP Stat-Xplore

Conservative housing policy: more of the same

Other programmes already started under the coalition will be maintained. Many of these are associated with the Conservatives' promotion of owner-occupation – invariably they have stimulated demand and done little to boost supply. The best known of these is the Help to Buy scheme which makes it possible to buy a new-build or existing home priced up to £600,000 with a 5% deposit. Assistance can come through equity loans where the government can lend up to 20% of the cost of a home. This programme is being extended to 2020. The Help to Buy: mortgage guarantee scheme will also remain in place. With government support, lenders taking part are able to offer home buyers more high-loan-to-value mortgages (80-95%). This scheme is being extended to the early part of 2017.

The March Budget heralded another Help to Buy scheme and this initiative was reaffirmed in the Conservative manifesto. This proposal is ISA-related. First-time buyers that choose to save through a Help to Buy: ISA will receive a government bonus to help them buy their first property. The bonus will represent 25% of the amount saved. So, for the maximum monthly saving of £200, the government would contribute £50, with a maximum government contribution of £3,000 on £12,000 of savings.

Perhaps recognising that new house building has been sluggish at best since the financial crash of 2007/08, the coalition announced last December that it would directly commission 10,000 new homes as a pilot in Northstowe, Cambridgeshire, where a former RAF base was located. This marked a shift away from the revenue-based funding models that had been adopted by the coalition. £400m has been allocated to the pilot with more available if the programme is judged a success. The intention would be to recoup the building costs through a programme of house sales.

The Conservatives are also placing a lot of faith in their planning reforms to deliver the housing the country needs. The NPPF introduced in 2012 has created a framework that favours 'sustainable development'. This has been reinforced by the provisions of the Growth and Infrastructure Act 2013 which has provided developers with a mechanism to renegotiate affordable housing requirements where they were no longer economically viable. New permitted development rights were added to allow the conversion of a variety of buildings, such as offices, former agricultural and industrial buildings, into homes without the need for planning permission.

It is difficult to assess the impact of these reforms in isolation from other factors affecting housing supply. It has been reported that planning approvals increased 20% since the introduction of the NPPF, with fewer applications refused or withdrawn. Concerns

remain, however, that there has been no noticeable rise in planning approvals for the most needed types of housing.

In terms of social housing, the coalition announced in 2014 the scale of grant funding allocated for new 'affordable' housing from 2015 to 2018. Outside London £1.7bn has been set aside for new housing provision. Within London, the Mayor's budget for new house building is £1.25bn. There has been a relaxation of the cap that restricts local authority borrowing for capital projects but the restraints on councils are still severe.

The Conservative manifesto was silent about the private rented sector (PRS). The coalition however did spend £1bn on a Build To Rent Fund, which provided equity finance for purpose-built private rented housing, alongside a £10bn debt guarantee scheme to support the provision of new PRS homes. Generally the party has been keen to support the sector.

Although anxious not to burden the PRS with extra regulation, the coalition introduced a number of measures that have offered more protection for PRS tenants. Firstly, since October 2014 the government has required all letting and property management agents to become members of an approved redress scheme. More recently the government has outlawed revenge or retaliatory evictions. Previously landlords had been able to issue Section 21 notices on tenants that had simply asked for repairs to be undertaken on their homes.

Very late in the last Parliament the coalition made some significant changes to the PRS licensing framework available to local authorities to regulate the PRS in their areas. In essence local authorities will find it more difficult to introduce borough-wide selective licensing in future given that Secretary of State approval will be needed where schemes exceed more than 20% of a local authority area.

Since the election, the government has announced that the Right to Rent scheme - which is currently being piloted in the West Midlands - would be extended across England as a whole. The scheme aims to ensure illegal migrants cannot access accommodation in the PRS. Linked to this announcement, the Prime Minister spoke of a new mandatory licensing regime for the PRS. This appears to run counter to the restrictions recently placed on local authorities introducing their own PRS licensing schemes. There are no details about what is envisaged and the Queen's Speech was silent on the proposal.

Read more on this in our [HQN briefing on immigration and housing](#).

Finally we can expect to see continuity in the way the social housing sector is regulated. The Homes and Communities Agency (HCA) will concentrate on assessing the financial viability and governance of registered providers. Unless there is a catastrophic incident that involves negligent housing management by a registered provider, there is little prospect of significant changes to consumer regulation over the next five years.

Commentary

General economic conditions will determine much of what happens in the housing sector in the next five years. However there are several overriding issues that are likely to dominate the sector over the life of this Parliament. These are:

- The push to boost house building production
- The inexorable rise of the PRS
- Increased housing need and homelessness
- Welfare reform
- Devolution of housing investment to city regions.

A number of scenarios could emerge. In the best case Universal Credit is rolled out smoothly and rent arrears don't rise. There is a benign financial environment for registered providers as interest rates remain low, property values remain stable and inflation settles at 2% per annum. The RTB for HA tenants is scuppered in the Lords and does not proceed. Around 275,000 affordable homes are built over the life of the Parliament – some even social rent. The changes to the planning system and other initiatives see private house building for purchase and rent soar with total house building around 250,000 plus units a year. House prices and private rents stabilise and become more affordable as real incomes rise. Housing need and homelessness fall as a consequence.

In the worst case scenario, the roll out of Universal Credit falters and rent arrears go through the roof. Interest rates start to climb while Britain succumbs to a deflationary spiral. The RTB for HA tenants is introduced and housing associations lose a lot of their funding and see their stock reduced through sales. Councils in some high demand areas are forced to sell stock to fund the scheme. The financial viability of many registered providers is severely tested. The HCA issues lots of downgrades while some providers default on their loan agreements and effectively go out of business. The production of affordable housing stalls as providers shun grant funding. Private house building continues to ignore market signals and total house building in all sectors barely hits 100,000 units a year. House prices and private rents continue to rise and the affordability crisis worsens. Housing need and homelessness rise remorselessly.

Of course neither of these extremes will happen. But overall the non-interventionist stance of the government is likely to mean that progress in tackling the country's housing needs will be limited. History tells us that in the post-war era, housing need was best addressed when the state invested heavily in the building of social housing – mainly by local councils.

About the author

Roger Jarman has worked in social housing for 35 years. He has worked as an academic, in local government and for a range of central agencies. In the 1990s he was Head of Housing Management at the Housing Corporation. From 1999 to 2010 Roger worked at the Audit Commission where he was Head of Housing. For much of the last 15 years he has specialised in the regulation and inspection of housing services. He is now an independent housing consultant and trainer.