

## Rhetoric to Reality: Affordable housing prospects in an age of austerity

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Affordable housing policy is at a crossroads. The affordable housing sector has seen two decades of investment based on a mixed funding regime of private finance facilities and grant investment. However, the assumptions upon which our ability to finance and deliver the range of affordable tenures and types required to meet market need and demand have, since 2007, shifted significantly, and as a result, practitioners across London are in search of a clear and effective policy response to this challenge. Andrew Heywood, a visiting fellow at the Smith Institute, outlines the findings of his latest report – ‘Rhetoric to Reality – a report on affordable housing prospects in an age of austerity’.

### Introduction

“The age of aspiration is back!” on 8 June 2010 Housing Minister Grant Shapps set out an optimistic vision in which he committed himself to “work every day to help people achieve their aspirations to own their own home.” Mr Shapps stated his intention to help 1.4 million households who cannot currently gain access to home ownership. Market renting and social housing could also be part of a range of valid choices that would make “aspiration” a touchstone of Government policy. The rhetoric was positive and upbeat. The difficulty is that the real prospects for affordable housing development are the worst for many years. There is a real risk that the rhetoric of aspiration could simply set the scene for bitter disappointment.

This new Smith Institute report argues that since the last Comprehensive Spending Review in 2007 the world of affordable housing has changed dramatically. Housing Associations can no longer look forward to a future of economic growth, rising house prices and a liberal mortgage market. The pre-conditions for the functioning of the cross-subsidy model of development by Housing Associations have been swept away. Open market sales can no longer be relied on to subsidise general needs housing development, keep grant levels low, and offer a viable home ownership opportunity to a swathe of lower income households. The banking crisis, recession, plus housing and mortgage market failure have left a situation in which the model that has served the sector for many years is broken.

### The impact of spending cuts

The picture facing the sector is one of overall cuts in spending of up to 25% within which affordable housing has no privileged or protected status. Not only the level, but even the continuing existence of grant is now openly being questioned. If that were all, the situation would be serious enough, but the perceived need to reduce spending and eliminate waste has led to a decision to abolish the Tenant Services Authority, and a commitment to radically reform Housing Benefit. In pursuing these measures, Government could, inadvertently strike at the two pillars that have supported the mixed-funding model which has underpinned HA development strategies for over 20 years.

The Government is known to be keen to encourage private finance to take up the slack where public funding must be reduced. In many areas of government activity this may be a valid approach. The problem with affordable housing development however is that providers already have access to private finance at rates others would kill for. They have adequate financial capacity and lenders are willing to invest. As this report makes clear, the issue is not one of access to private funding; it is the absence of a viable development model to which that funding can be applied. This situation existed when the Coalition took office; it is important that they do not needlessly exacerbate it.

## Recommendations

What the government and the affordable sector must do, according to the report, is engage in dialogue to ensure that the consequences of proposed action are understood, and that the imperative to reduce spending is realised in ways that do not unnecessarily exacerbate what are already dismal prospects. In addition, there must be at least a working agreement as to what the new models and strategies for affordable development might be. The report aims to make a significant contribution to that debate by synthesising the various opportunities that do, or could, exist.

The report argues that Government and the sector must reach an understanding around the following:

- Exploring the prospects for shifting development away from general needs and LCHO housing towards market and intermediate renting, with the aim of maximising the build rate with minimum grant.
- Modelling the effects of allowing rent levels in the sector to rise, in order to maximise cash flows in the interests of future development.
- Identifying an approach to Housing Benefit reform that meets some of Government's objectives while recognising some key features of Housing Benefit in the social sector that underpin present and future private investment in the sector.
- Recognising the role of sound Housing Associations and local authority regulation in securing private funding at low rates and ensuring that the HCA, as successor to the TSA as regulator of the sector, has the necessary focus, possesses credible enforcement powers and has adequate resources.
- Enabling local authorities to fulfil their potential to secure investment for development and examining the case for Government to use international standards to reclassify public borrowing.

Even if a decline in development numbers is mitigated, the report suggests that there will also be a price in terms of the social consequences of the changes proposed:

- There will be less general needs development and this will affect low-income people in work.
- The transition from benefits to work will be more difficult.
- Needs- based strategic planning will give way to reliance on local markets.
- Many of the social objectives associated with affordable housing will be compromised, notably the promotion of mixed communities.

## Conclusion

The forthcoming Comprehensive Spending Review provides an opportunity for Government to demonstrate what it believes we deserve going forward by way of affordable housing. This report is intended to contribute towards a sensible outcome that recognises the determination of the Government to reduce the deficit in the public finances but which also aims to minimise the damage to the level of new affordable housing supply that could result.

*Rhetoric to Reality – a report on affordable housing prospects in an age of austerity* by Andrew Heywood was published by the Smith Institute on 15 September 2010. To download the report, visit [www.smith-institute.co.uk](http://www.smith-institute.co.uk)

Future of London recently held a policy seminar on the theme of affordable housing provision, and in particular, the role of intermediate housing – visit our website for more details: [www.futureoflondon.org.uk](http://www.futureoflondon.org.uk)