



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Communities and Local Government

Housing in England: overview

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Department for Communities and Local Government

Housing in England: overview

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

17 January 2017

Our report presents a landscape review of the housing system in England, with a high-level overview of the Department for Communities and Local Government's housing strategy and its interaction with various public bodies.

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Contents

Key facts 4

Summary 5

Part One

Housing landscape in England 11

Part Two

The public policy landscape 24

Part Three

The Department's housing policies
for this Parliament 34

Glossary 47

Appendix One

Our audit approach 48

Appendix Two

Our evidence base 50

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Key facts

23.5m

total number of homes
in England in 2015

£28bn

estimated total public
sector spending on
housing in 2015-16

1m

the number of new homes
that the government aims
to deliver in 2015-2020

£5.6 trillion estimated total value of the housing stock in England in 2015

£1 trillion estimated increase in the value of the housing stock in England since 2010

62% of homes in England that are owner-occupied

20% of homes in England that are privately rented

17% of homes in England that are socially rented

20% of homes in England that were 'non-decent' in 2014, down from 35% in 2006

71,500 number of homeless households in England in temporary accommodation at 31 March 2016

£20.9 billion spending in England on housing benefit in 2015-16

Summary

1 Housing is one of the government's key priorities. For many people, the availability and affordability of housing has become increasingly difficult in recent years. With its housing policies, the Department for Communities and Local Government (the Department) is seeking to address the supply and affordability of housing in England. The government has two strategic housing objectives for this Parliament: driving up housing supply, with the ambition of delivering a million new homes over the next five years, and increasing home ownership. These objectives are supported by a range of interlocking programmes; the government intends to publish a Housing white paper setting out a package of reforms to increase housing supply and halt the decline in housing affordability in early 2017.

2 Government involvement in housing encompasses a diverse array of organisations, individuals, and activities:

- **departments** – housing policy overall is led by the Department, but with a range of other departments involved, including HM Treasury and the Department for Work & Pensions;
- **different organisations and individuals** – including housing developers, building contractors, mortgage lenders, local authorities, housing associations, landlords, owner-occupiers, private renters and those in the social rented sector; and
- **interventions** – including:
 - regulation, such as planning;
 - grant funding, such as part-funding housing associations' building of new homes; and
 - loans such as Help to Buy Equity Loans.

Our report

3 This report is designed to provide an overview of the housing market in England, the overall, cross-cutting public policy landscape, and the Department's housing strategy. We have not assessed the merits of the government's objectives or the value for money of any individual programme supporting these objectives. We do, however, comment on the ability of the government to achieve its ambition of delivering one million new homes. In addition, we seek to provide clear information on the housing landscape and the Department's housing objectives. We aim for this report to lead to future studies that focus on particular aspects of housing policy, building on the work that we, and the Committee of Public Accounts, have carried out on the implementation of housing-related policies in recent years.

4 Our report refers to housing in England. Where we refer to the UK overall, this is due to the availability of data.

5 This report has three parts:

- Part One examines key trends in housing.
- Part Two provides an overview of the public policy landscape.
- Part Three sets out the Department's housing policies for this Parliament.

Key findings

Characteristics of the housing market

6 Housebuilding in England has not kept pace with need, particularly in London. Since the 1980s, demand for housing in England has increased. Housebuilding, however, has not kept pace with demand. Public sector housebuilding has fallen and the number of homes added by the private sector has been vulnerable to both economic recessions and the cost of finance to potential homeowners. Between 2001 and 2010, an average of 144,000 new homes were completed annually: 100,000 fewer per year than in the 1970s. For housebuilding to match future need, it must increase in most parts of the country; this is particularly acute in London. Projections suggest that at least 227,000 new households will be formed each year between 2011 and 2021. This is substantially higher than the annual average of 166,000 extra homes in England over the last 10 years (paragraphs 1.9 to 1.11 and Figures 4 and 5).

7 Over recent decades, there has been an increase in home ownership and the number of private rented homes, but a reduction in social rented homes. Since 1981, the number of owner-occupied homes in England has increased from almost 10.5 million in 1981 to 14.7 million in 2015. In 2015, there were almost 5 million private rented homes, up from 2 million in 1981. In contrast, the number of local authority and housing association homes for rent has fallen, from 5.5 million in 1981 to 4 million in 2015 (paragraph 1.8 and Figure 3).

8 The quality of housing in England has improved in recent years. In 2001, the Department set out a definition of a decent home. By April 2013 there were approximately 1.1 million fewer non-decent social rented homes than when this standard was introduced. Around a third of homes in the private rented sector are non-decent, compared with 14% in the social rented sector (paragraph 1.7).

Affordability

9 For existing homeowners, housing has become more affordable in recent years, but for first-time buyers it has become less affordable. Since 2008, the proportion of owner-occupiers who spend at least a quarter of their disposable income on housing has halved, falling from 40% to 19% of people with a mortgage. Today, first-time buyers pay deposits of 21% on average, compared with 13% in 1990. The amount that first-time buyers have to borrow to buy their first home has risen from 2.3 times average income in 2000 to 3.2 times income in 2014 (paragraphs 1.12 to 1.13 and Figures 6 and 7).

10 Since 2006, the cost of private rented accommodation has broadly followed changes in earnings across England. The opposite has been the case in London, where private rents rose by 32% and average earnings increased by 16% (paragraph 1.14 and Figure 8).

11 Social housing rents have increased faster than earnings since 2001-02. Since 2011, the government has allowed local authority and housing association landlords to set rents at affordable levels, which it defines as up to 80% of local market rates. In 2014-15, new tenants paying affordable rents in London typically paid 60% more than new tenants paying traditional social rents (paragraphs 1.16 to 1.19 and Figure 9).

12 There is substantial regional variation in the housing market across England, and it is growing. The price of a semi-detached house in London and parts of the south east is typically several times higher than in Yorkshire and the Humber, the North East and North West. The gap between prices in London and the country as a whole has widened in recent decades (paragraph 1.2 and Figure 2).

Homelessness

13 Homelessness has increased in recent years, although it has not reached the peak seen in 2003-04. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010-11. Numbers remain below the peak of 2004-05, when 101,000 households were in temporary accommodation. Local authority gross expenditure on temporary accommodation has risen by 46% in real terms since 2010-11 (paragraphs 1.20, 1.21 and Figure 10).

How the government manages housing policy in England

14 Total estimated government spending on housing in England was approximately £28 billion in 2015-16. The most significant element is housing benefit. In 2015-16, there were 4.1 million claimants in England, costing around £20.9 billion (paragraphs 2.17, 2.18 and Figures 12 and 13).

15 There is potential for government housing policies to have conflicting objectives. Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. Also, changes made in one area of housing policy can impact on other areas. This can lead to tensions in delivery. For example, in July 2015, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing (paragraphs 2.20 to 2.24).

The Department's housing objectives

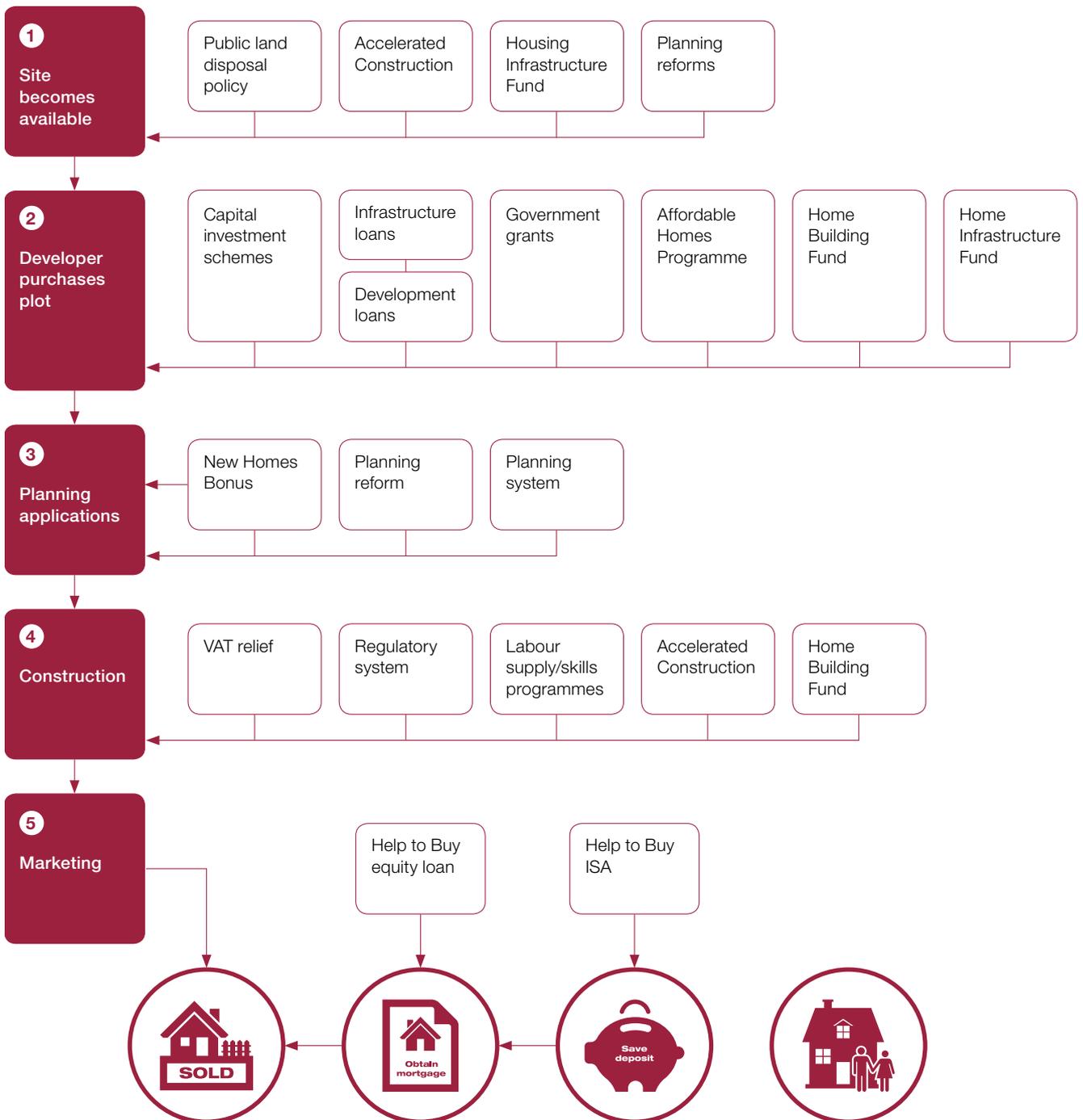
16 Two of the Department's four strategic objectives for this Parliament relate to housing: increasing supply and increasing home ownership. The Department's approach to housing for this Parliament aims to tackle the inability of housing supply to keep pace with need, and the lack of affordability of owner-occupation. The former objective is supported by the Department's ambition of delivering a million new homes in England by 2020. The Department intends to publish a Housing white paper setting out a package of reforms to increase housing supply and halt the decline in housing affordability in early 2017 (paragraphs 3.2 and 3.3).

17 Delivery of the Department's housing ambition is supported by a wide and complex assortment of programmes. As Figure 1 demonstrates, these operate at each stage of the housebuilding cycle between planning and occupation, and are designed particularly to encourage the private sector to build homes. At the heart of the Department's current housing ambition are the Affordable Homes Programme, Help to Buy Equity Loans, the Home Building Fund, Accelerated Construction, and the Housing Infrastructure Fund (paragraphs 3.4 to 3.18 and Figures 14 and 15).

18 The Department's objective of delivering a million new homes by 2020 does not require a substantial change in the number of homes delivered in England each year. The Department measures new homes as net additions: this is not solely newly-built homes, but also includes converted properties. Delivery of the government's one million new homes objective by 2020 will require 174,000 net additions each year. This is dependent on wider economic conditions, and is greater than the number of homes built immediately following the 2008 recession. However, it is also lower than in 2015-16, when approximately 190,000 homes were added to the stock in England. The Department has not published the timescales for the delivery of this objective (paragraphs 3.20 and 3.21).

Figure 1

Government support at key stages of the housebuilding and purchasing process



Note

1 Numbered steps depict key phases between land being put on the market and a home being built and purchased. The measures associated with each phase are designed to provide financial incentives to developers to accelerate their building plans, or help overcome the barriers they might face in doing so.

Source: National Audit Office

19 It is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the Department's housing objectives. The Department is reliant on the market to achieve its housing objectives. Prior to the result of the referendum, there were indications that housing market activity in England was slowing. A reduction in the rate of housebuilding could affect the delivery of one million new homes, as well as the government's ability to increase the number of new homeowners. Despite early indications of a slowdown immediately after the referendum result, more recent evidence points to modest increases in numbers of sales being agreed in England. Due to the volatility of housing market indicators it will be some time before the longer-term impacts of the referendum decision are known (paragraphs 3.22 to 3.25 and Figure 17).

Conclusion

20 The need for housing in England has in recent years grown faster than its supply. To keep up, housebuilding needs to increase across the country, and undergo a step change in London. Housing has become more affordable for existing homeowners. In contrast, social rents have risen faster than wages, as have private rents in London. Housing is less affordable for a first-time buyer now than it was in the 1990s. Homelessness has also increased over the past five years.

21 Housing is a key priority for the government, and it has responded to the housing situation in England by putting in place a range of policies designed to increase the supply of housing and to increase home ownership, largely through support to private housebuilders. At the centre of the government's plans is its ambition of adding one million new homes by 2020, achievement of which does not require there to be a substantial increase in current levels of housebuilding.

Part One

Housing landscape in England

1.1 In this part of the report we set out the characteristics of the English housing market, including the nature of homes, their supply and demand, tenure, the affordability of housing, and homelessness.

Characteristics of the housing market

Housing stock and prices

1.2 In 2015, there were 23.5 million homes in England. Estimates suggest that England's housing stock is worth £5.6 trillion, and increased in value by more than £1 trillion between 2010 and 2015.¹ There are substantial regional variations in residential property values. Prices of semi-detached houses in London and parts of the South East are three times higher than in Yorkshire and the Humber, the North East and North West (**Figure 2** overleaf). This gap has widened: in 1995 a semi-detached house in London cost 64% more than the median price for England; by 2015 this had risen to 153%.

1.3 Housebuilding is significant to our overall economy, supporting a domestic construction industry worth an estimated £19 billion in 2014. Private construction includes both a group of large firms responsible for about 45% of new homes and self and custom builders who are responsible for another 8%.

Vacant, under-occupied, and second homes

1.4 Two per cent of dwellings in England are either vacant in the long term or used as second homes. Long-term vacancy is highest in the North East and North West, where rates are double those in London and the South East. Seven of the 10 authorities with the highest rates of long-term vacant dwellings in 2015 are in the North West.² However, since 2008, the number of long-term vacant dwellings has fallen by 38%. The government has addressed under-occupation of homes through initiatives such as the Empty Homes Programme.

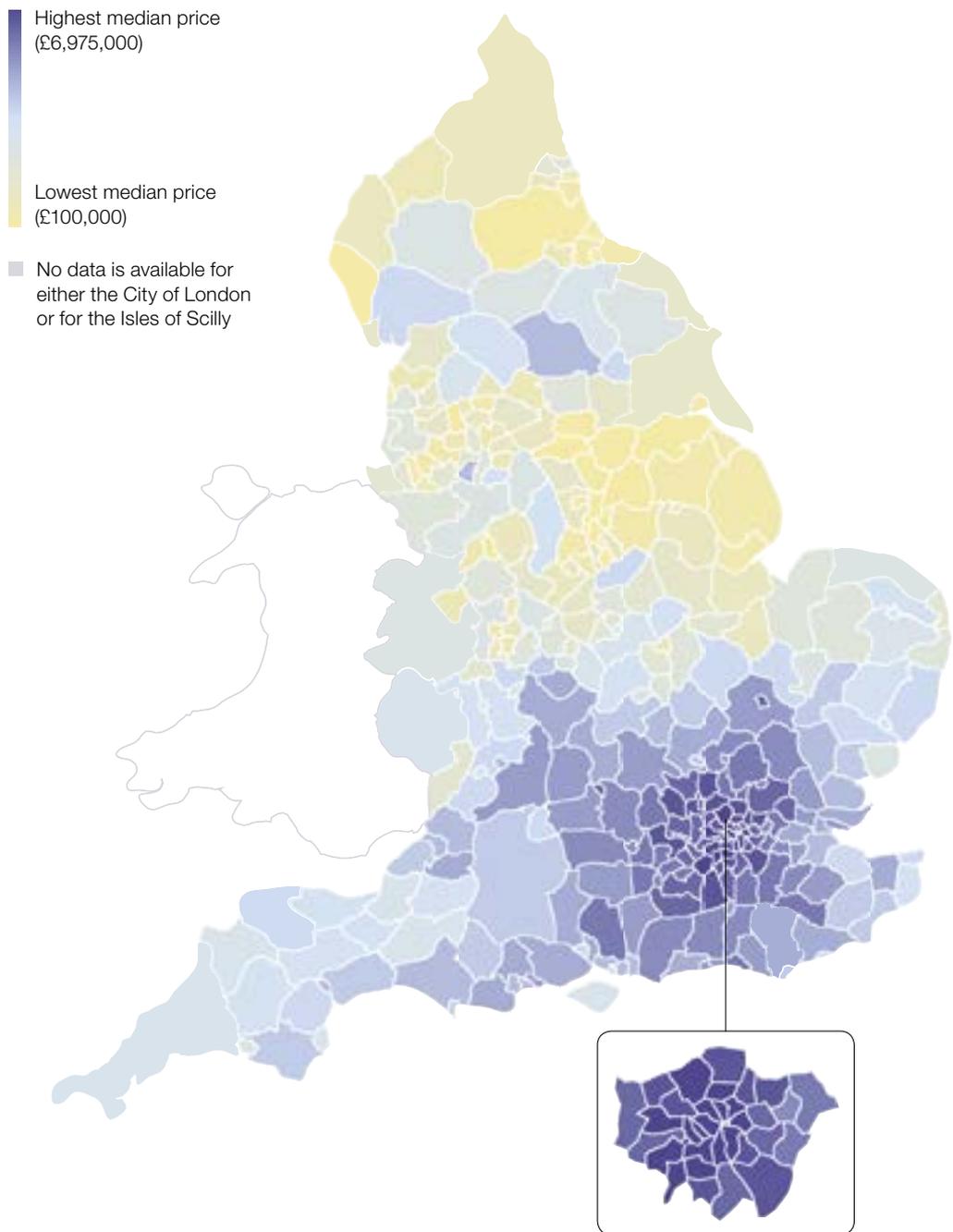
¹ Savills Research, January 2016.

² Burnley (2.7%), Barrow-in-Furness (2.7%), Pendle (2.6%), Blackpool (2.3%), Hyndburn (2.2%), Copeland (2.1%), Durham County (2%), Blackburn with Darwen (2%), Bradford (2%) and Derbyshire Dales (1.9%).

Figure 2

Median price for a semi-detached house in England, 2016

There are substantial regional variations in the prices of semi-detached homes



Note

1 Sales of existing semi-detached dwellings in year ending 31 March 2016. This does not include sales of new build homes.

Sources: Office for National Statistics, Land Registry

1.5 In 2011, there were 15 million households with at least one spare bedroom, including 7.6 million households with two or more spare bedrooms. Owner-occupied households were three times as likely (46%) as private renters (15%) and four times as likely as social renters (11%) to have two or more spare bedrooms.

1.6 Second homes are concentrated in a relatively small number of local authority areas. One-third of second homes are located in 21 council areas. Most of these areas are coastal and five are in inner London.

Housing stock quality

1.7 The quality of housing stock in England has improved following the introduction of rising standards for new homes and investment in the quality of existing homes. In 2001, the Department for Communities and Local Government (the Department) set out a definition of a decent home, requiring homes to meet a statutory minimum standard, be in reasonable repair, have modern facilities, and provide thermal comfort.³ At this point, the Department estimated that 1.6 million social rented homes failed to meet these requirements. By April 2013, there were approximately 1.1 million fewer non-decent social homes, and 85% of social homes overall met decent home standards. Standards in the private sector have also improved. Between 2006 and 2014, the proportion of non-decent homes decreased from 35% to 20%. In 2014, the private rented sector had the highest proportion of non-decent homes (29%), while the social rented sector had the lowest (14%).⁴

Housing tenure

1.8 Since 1981 the number of owner-occupied and privately rented homes have both increased, while the number of socially rented homes has fallen. The number of owner-occupied properties rose from 10.5 million in 1981 to 15.1 million in 2007. Since then it has fallen slightly (**Figure 3** overleaf). In 2015, there were almost 5 million private rented homes, up from 2 million in 1981. Over the same period, the number of homes for social rent fell, from 5.5 million in 1981 to 4 million in 2015.

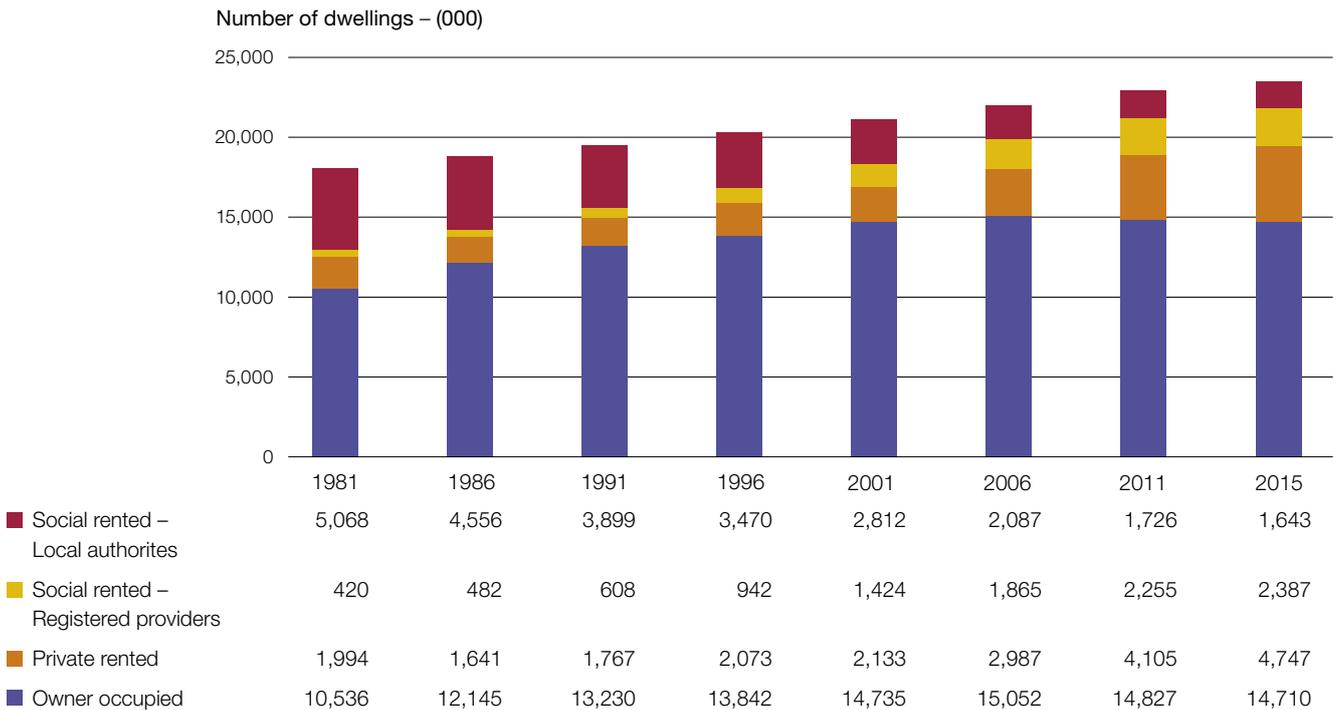
³ The Decent Homes definition was launched in July 2001, clarified in 2002 and revised in 2006.

⁴ English Housing Survey, headline report 2014-15, Department for Communities and Local Government.

Figure 3

Housing tenure since 1981

Since 1981 the number of owner-occupied and privately rented homes have both increased, while the number of socially rented homes has fallen



Notes

- 1 Values for 1981 and 1986 are for 31 December, other values are for 31 March.
- 2 Excludes 'Other public sector' dwellings.

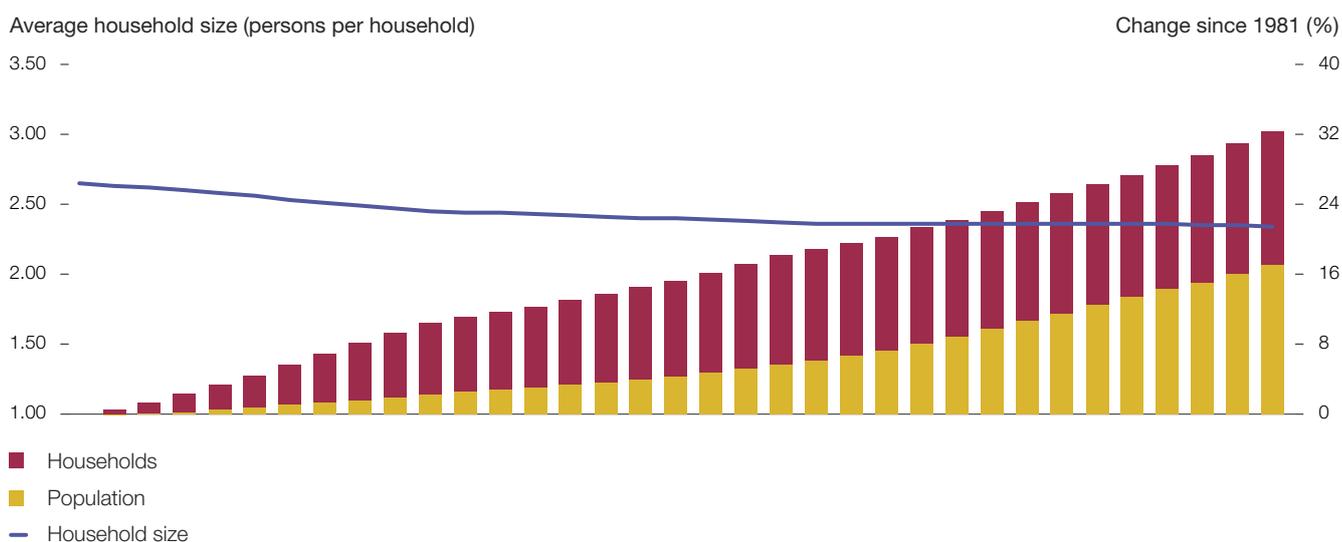
Source: Department for Communities and Local Government

Housing supply and need

1.9 Between 1981 and 2015, the population of England grew by 8 million, or 17%. Over the same period, the number of households increased by 5.6 million (32%), and the average size of households declined from 2.65 to 2.34 (**Figure 4**).

Figure 4
Growth in population and households since 1981

Since 1981 the number of households has grown at a faster rate than the population



	Population			Households			Household size
	Million	Change		Million	Change		Number
1981	46.8	-	-	17.4	-	-	2.65
1986	47.2	+0.4m	+1%	18.1	+0.8m	+4%	2.56
1991	47.9	+1.1m	+2%	19.2	+1.8m	+10%	2.45
1996	48.5	+1.7m	+4%	19.8	+2.4m	+14%	2.41
2001	49.4	+2.6m	+6%	20.5	+3.2m	+18%	2.37
2006	51.0	+4.1m	+9%	21.2	+3.9m	+22%	2.36
2011	53.1	+6.3m	+13%	22.1	+4.7m	+27%	2.36
2015	54.8	+8.0m	+17%	23.0	+5.6m	+32%	2.34

Note

1 Number of households and household size taken from 2014-based population projections.

Source: Office for National Statistics, Department for Communities and Local Government

1.10 Housebuilding in recent decades has been substantially lower than it was in the 1980s (**Figure 5**). Between 2001 and 2010, an average of 144,000 new homes were completed annually: 100,000 fewer per year than in the 1970s. Since the 1980s there has been a decline in public sector construction. The number of houses built by local authorities and housing associations fell from 94,000 in 1980 to 32,000 in 2015. This decline was compounded by the impact of economic recessions on private sector construction in 1990 and 2008. Following the recession which began in 2008, there was also a reduction in mortgage lending to people seeking to buy a home. This contributed to a substantial reduction in housebuilding: in 2010, fewer homes were completed than in any year since 1946. By 2015, construction activity had started to increase, but there were still approximately 17,000 fewer completions than a decade previously.

1.11 Housebuilding between 2011 and 2015 did not keep pace with demographic projections. Across England as a whole, it has been estimated that approximately 54% of the homes that were needed, according to the Department's 2012-based household projections, were actually built.⁵ The Department's most recent projections imply that an additional 227,000 households will form in England each year between 2011 and 2021; substantially higher than the annual average of 166,000 extra homes in England over the last 10 years.⁶ Since 2011, the cumulative gap between the number of homes built and the number of households being formed has increased by 370,000.⁷

Housing affordability

Owner-occupiers

1.12 Housing for people who own their own homes, either outright or with a mortgage, has become more affordable in recent years. Mortgage interest rates are historically low and the incomes of retired households, most of whom own their home outright, have grown faster than those of other households. Since 2008, the proportion of UK owner-occupiers who spend at least 25% of their disposable income on housing has halved; falling from 40% to 19% of people with a mortgage and from 22% to 11% of people who own their homes (**Figure 6** on page 18).

1.13 Although owner-occupation has become more affordable in recent years, it has also become harder for people to become homeowners in the first place. In 1990, first-time buyers in the UK on average paid a deposit of 13%; this rose to more than 28% in 2009, but has since fallen to just over 21% (**Figure 7** on page 19). The amounts borrowed have risen as a proportion of income, from 2.3 times average income in 2000 to 3.2 times average income in 2014.

5 Neil McDonald and Christine Whitehead: New Estimates of Housing Requirements in England, 2012-2037 Town & Country Planning Tomorrow Series Paper 17.

6 This is a projection: changes in economic growth, migration, debt levels and/or welfare entitlements could all mean that future numbers of households, and hence housing requirements, will be lower or higher.

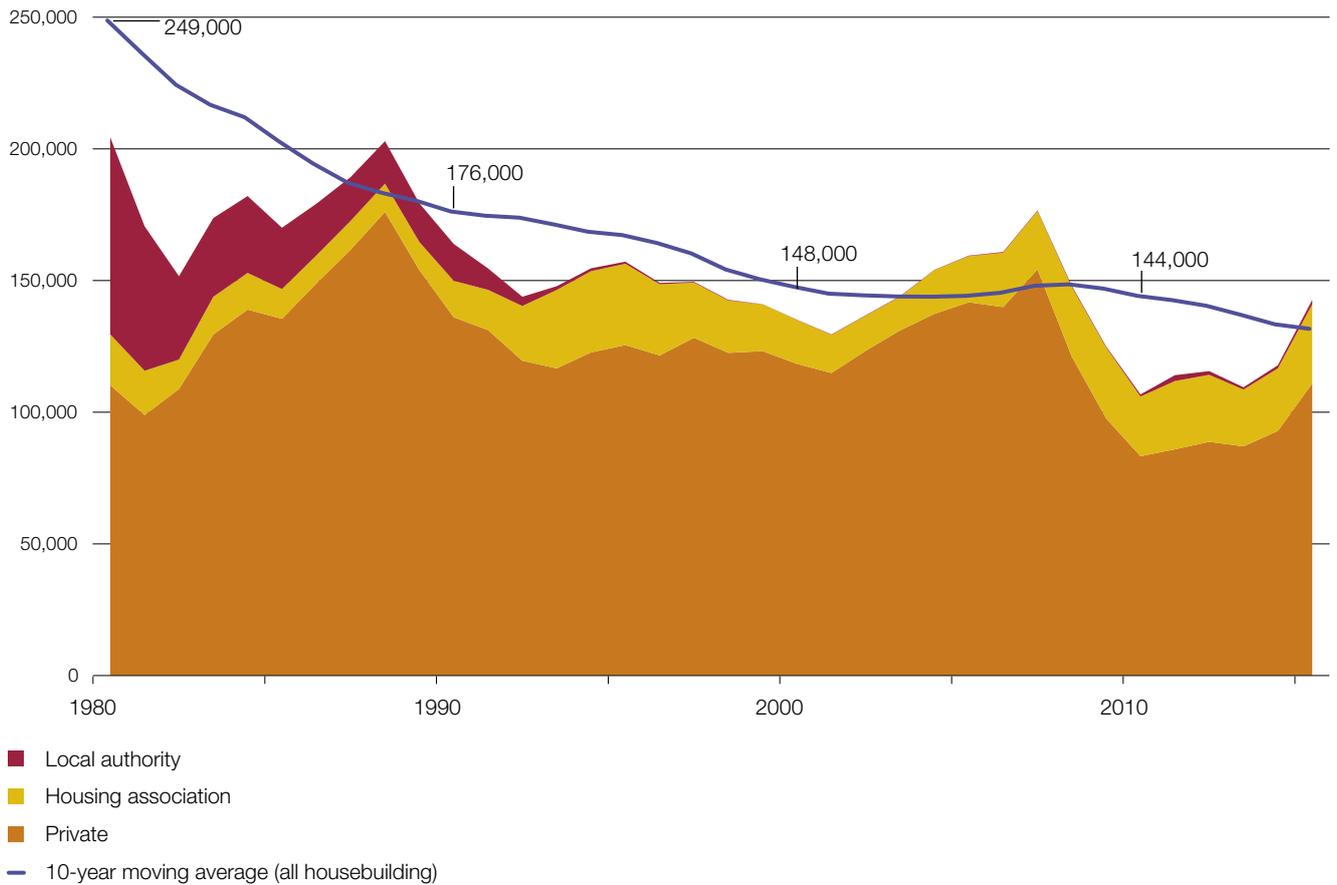
7 The 2014-based household projections show an increase of 1,215,000 households between 2011 and 2016. There were 756,570 net additions to dwelling stock in the five years from 2011-12 to 2015-16, a difference of 368,000.

Figure 5

New housebuilding since 1980

In recent decades housebuilding has been substantially lower than in the 1980s

Dwellings completed in year



Thousands	1980	1990	2000	2010	2015
Private	110	136	118	83	111
Housing association	19	14	17	23	30
Local authority	75	14	0	1	2

Note

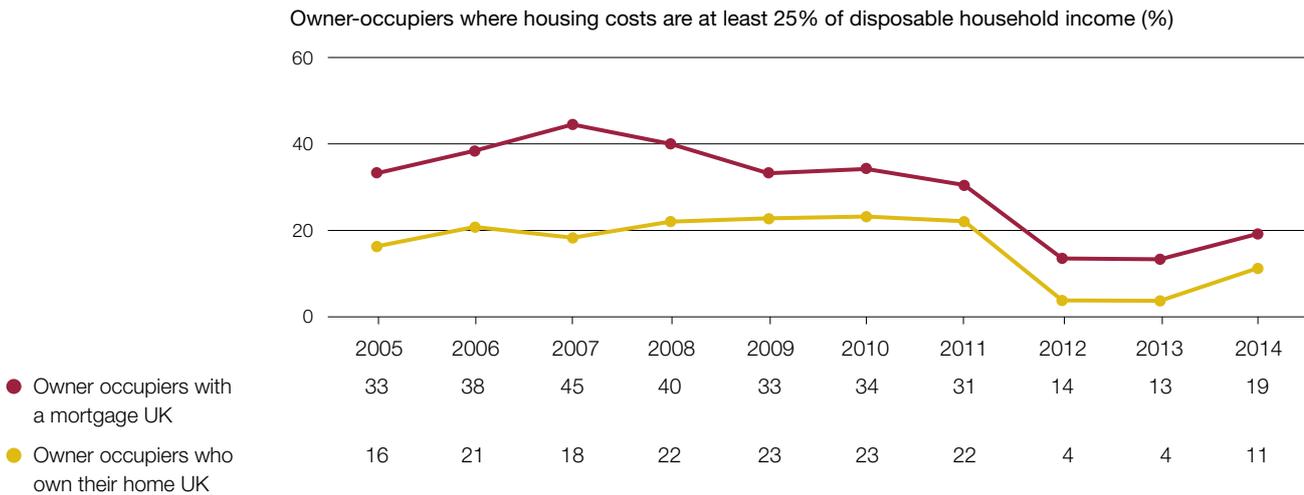
1 Private dwellings includes those where the tenure of the dwelling is not known at the time of completion.

Source: Department for Communities and Local Government

Figure 6

Affordability of homeownership for owner-occupiers in the UK

Since 2008, the proportion of UK owner-occupiers who spend at least 25% of their disposable income on housing has halved



Note

1 The percentage of the population, in each tenure group, living in households where the total housing costs ('net' of housing allowances) represent more than 25% of disposable income ('net' of housing allowances).

Source: Eurostat

Private tenants

1.14 Since 2006, the cost of private rented accommodation has broadly followed changes in earnings across England with the exception of London (**Figure 8** on page 20) where rents rose faster than incomes during this period. In London, rents on average increased by 32% while median earnings increased by 16%.

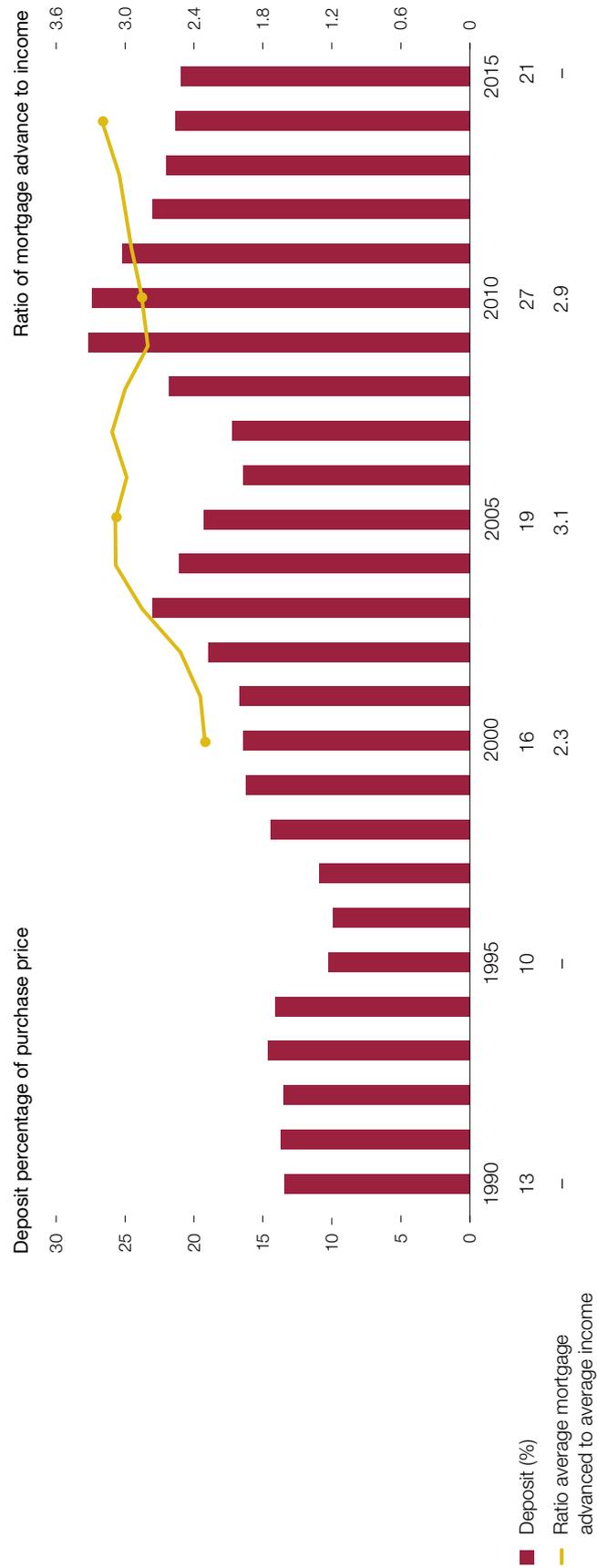
1.15 An increasing number of private tenants now rely on housing benefit to pay their rent. One out of four private tenants now receives housing benefit and spending on private tenants doubled between 2005-06 and 2015-16.

Tenants of local authority and housing association properties

1.16 Social housing is housing let at below market price to people in housing need. Four million homes in England are rented from local authorities and housing associations, down from 5.5 million in 1981. Currently there are 1.2 million households on waiting lists for social housing.

Figure 7
Affordability for first-time buyers – 1990 to 2014 – UK

Since 2008, first-time buyers have paid average deposits at least 20% while borrowing around three times their income



Notes

- 1 Deposit as a percentage of purchase price is calculated for each case and then averaged for all first-time buyers.
- 2 Ratio of mortgage advance to income is calculated by dividing the average mortgage advance paid to first-time buyers by the average income for first-time buyers.

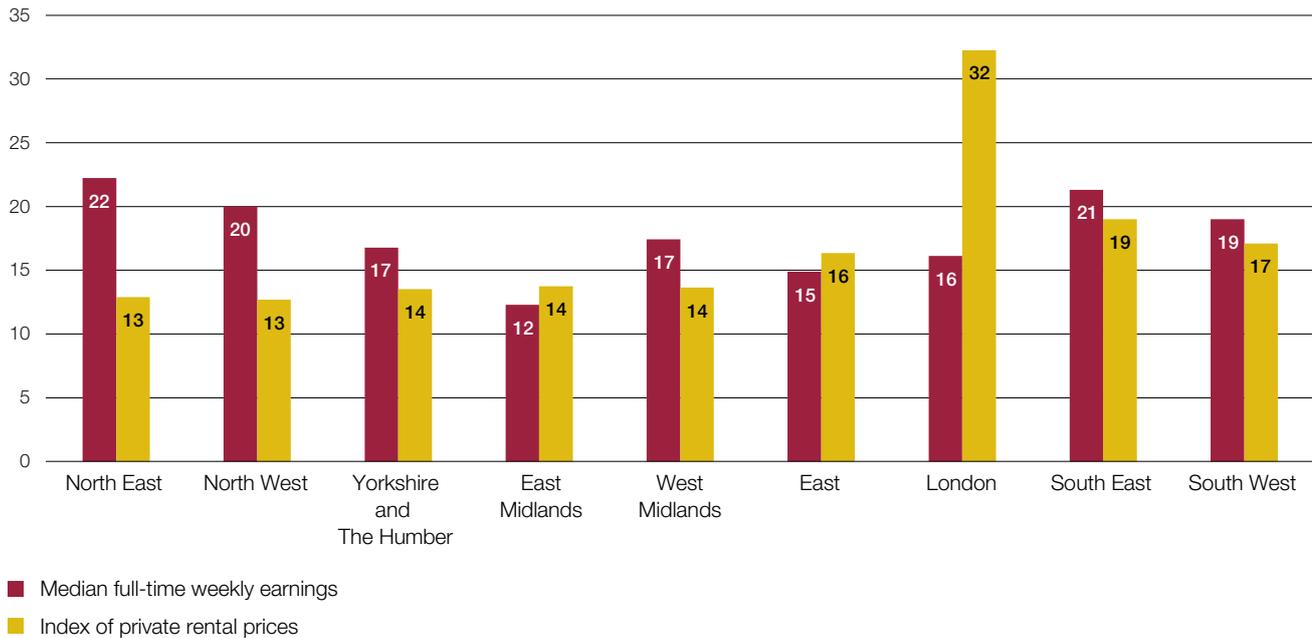
Source: Office for National Statistics, UK Housing Review 2015

Figure 8

Affordability for private renters since 2006

In most parts of the country rents have increased more slowly than median earnings

Percentage change 2006 to 2016

**Notes**

- 1 Changes in private rents calculated from April 2006.
- 2 Earnings data for 2016 are provisional.
- 3 Changes from 2006 to 2011 in median gross weekly pay of full-time employees are based on Standard Occupational Classification (SOC) 2000, changes from 2011 onwards are based on SOC 2010.

Source: Office for National Statistics, Annual Survey and Hours and Earnings (ASHE) and Index of Private Housing Rental Prices (IPHRP)

1.17 Social housing rents have increased faster than earnings since 2001-02 (**Figure 9**). Between 2001-02 and 2014-15, the 25th percentile of full-time earnings increased by 34%. In contrast, rents for local authority properties increased by 79% and rents for housing association properties increased by 72% over the same period.

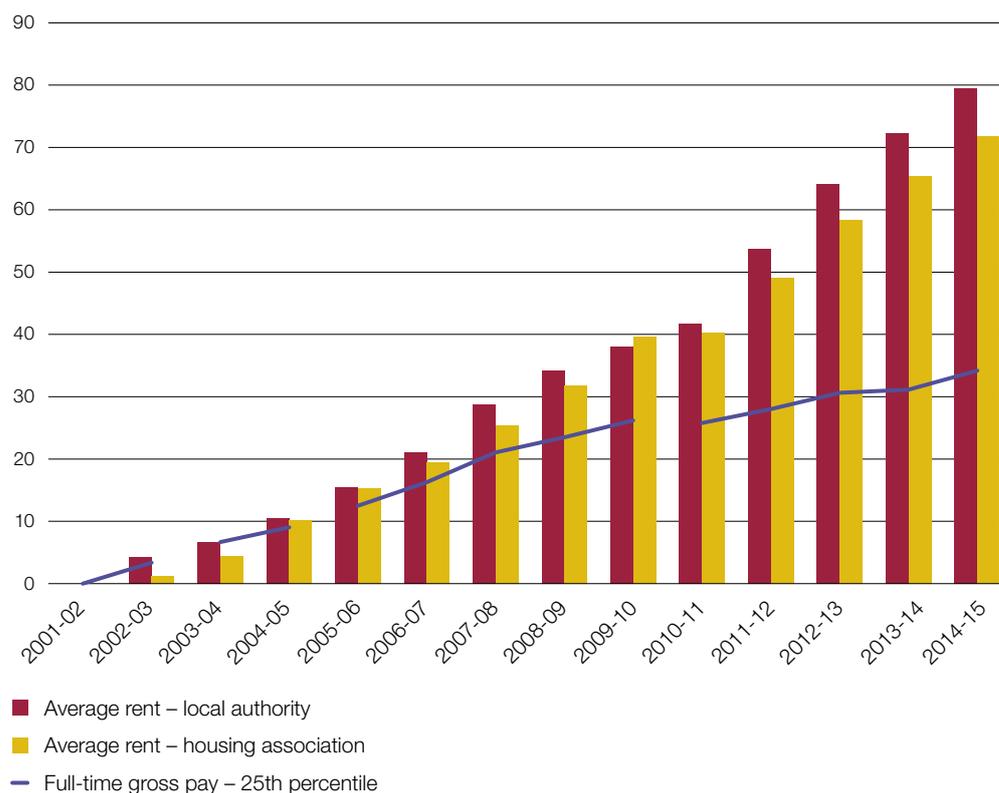
1.18 Between 2002-03 and 2014-15, social housing rents were set using a formula that calculated a target rent for each local authority and housing association based on local wages and property values. The policy aimed to achieve a position in which all social landlords offered similar rents for similar properties. Under this policy, housing association target rents increased by the Retail Price Index plus 0.5% and local authority rents increased at a faster rate until they achieved their target. Nationally, this meant that social housing rents increased faster than inflation and local authority rents increased faster than housing association rents.

Figure 9

Affordability of social housing since 2001

Social housing rents have increased faster than earnings

Change from 2001-02 (%)

**Percentage change since 2001-02**

	2002-03 (%)	2006-07 (%)	2010-11 (%)	2014-15 (%)
Full-time gross pay – 25th percentile	3	16	26	34
Average rent – Local authority	4	21	42	79
Average rent – housing association	1	19	40	72

Notes

- 1 The time series for changes in 25th percentile gross weekly pay for full-time employees was affected by classification changes in 2004, 2006 and 2011.
- 2 Local authority rents are based on the financial year. The England figure is calculated using the stock figure of 1 April of the following financial year.
- 3 Housing association rents relate to general needs tenancies let at social rents by providers with at least 250 units (up to 2011), or 1000 units from 2012 onwards.

Source: Office for National Statistics, Annual Survey and Hours and Earnings (ASHE) and Index of Private Housing Rental Prices (IPHRP), and Department for Communities and Local Government

1.19 In 2011, the government significantly reduced funding for housing associations to build housing for social rent. Under its Affordable Homes Programme it introduced a new model of affordable rents which, at levels of up to 80% of market rents, are typically more expensive than social rents.⁸ These higher rent levels enable housing associations and local authorities to raise additional finance for reinvestment in the development of new social housing. In 2014-15, 11% of all new social housing tenancies were granted at affordable rents.⁹ Housing providers in the South East and in London have been more likely to use the new type of tenancy than providers in other parts of the country. New tenants with affordable rents in London in 2014-15 typically paid 60% more than new tenants in London paying traditional social rents. As many tenants of social housing properties will either not be in employment or will be on low wages and therefore entitled to housing benefit, this has consequences for housing benefit spending.

Homelessness

1.20 Local authorities have a statutory duty to ensure that accommodation is available for those with a priority need who have not become homeless intentionally.¹⁰ The number of homeless households this applies to has increased from 44,000 in 2010-11 to 58,000 in 2015-16 (**Figure 10**). The most common cause of homelessness is the ending of a private rented tenancy and the number of households becoming homeless in this way has doubled since 2010-11. Despite this increase, homelessness is substantially lower than the peak recorded in 2003-04, when 135,000 households in England were accepted as homeless by local authorities.

1.21 At the end of March 2016, 71,500 households were in temporary accommodation, down from a peak of 101,000 (in 2004-05). In 2015-16, local authorities spent £840 million on the cost of temporary accommodation for these households. Approximately 11,500 households, including 7,000 with children, were living in shared accommodation in bed and breakfasts or in hostels. London boroughs are responsible for 73% of the households in temporary accommodation in the country (52,000). At the end of 2015-16, London boroughs had placed 17,500 of these households in temporary accommodation in another local authority. Local authorities' real-terms gross expenditure on temporary accommodation has increased by 46% since 2010-11.

8 Homes and Communities Agency, 2011-2015 Affordable Homes Programme framework.

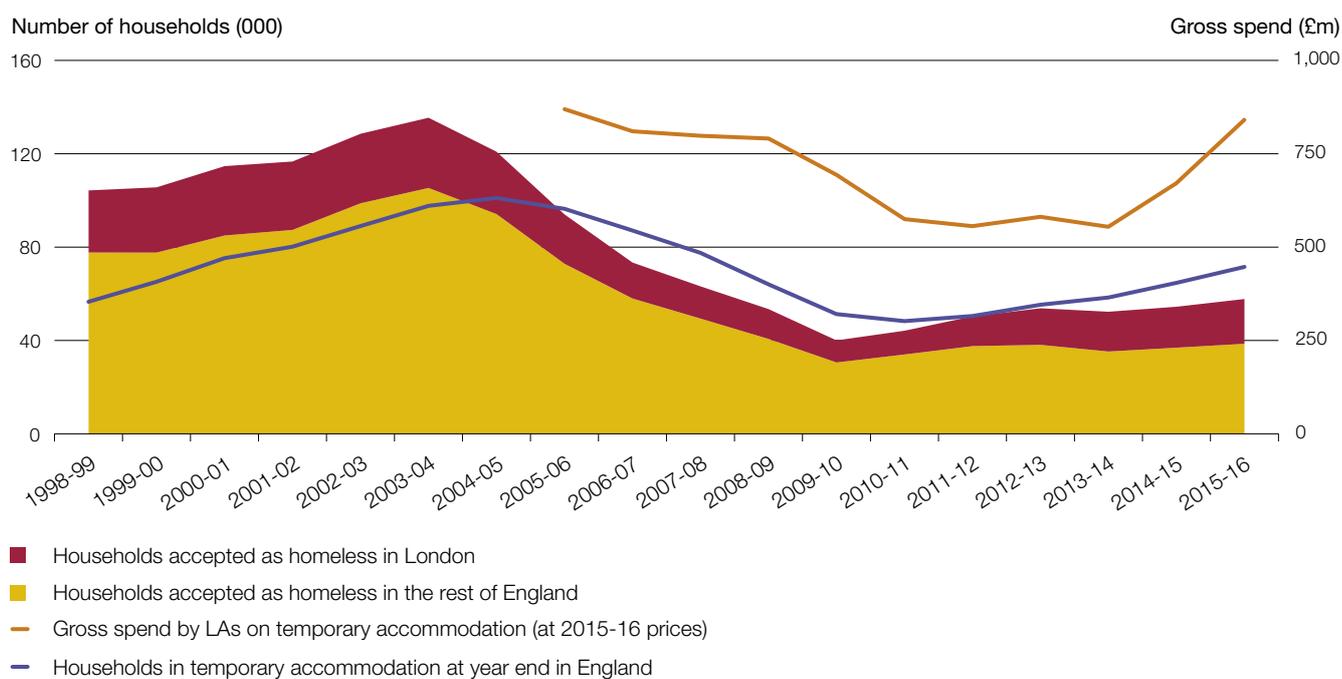
9 Including those for relets for existing social housing tenants.

10 Housing Act 1996, section 193 (2-3).

Figure 10

Statutory homelessness and temporary accommodation since 1998

Despite recent increases, the number of households accepted as homeless was substantially lower in 2015-16 than a decade ago



		1999-00	2003-04	2007-08	2011-12	2015-16
Accepted as homeless (000)	London	28	30	14	13	19
	Rest of England	78	105	49	38	39
In temporary accommodation (000)	England	65	98	78	50	72
Gross spend (£m)	England	-	-	798	556	841

Note

1 Temporary accommodation is accommodation arranged by local authorities pending enquiries or after being accepted as homeless.

Source: Department for Communities and Local Government, households accepted as owed a main homelessness duty in year, (P1E), households in temporary accommodation at 31 March (P1E) and revenue outturn spending in year (RO4)

Part Two

The public policy landscape

2.1 In this part of our report we set out the public policy landscape affecting housing (**Figure 11**), including:

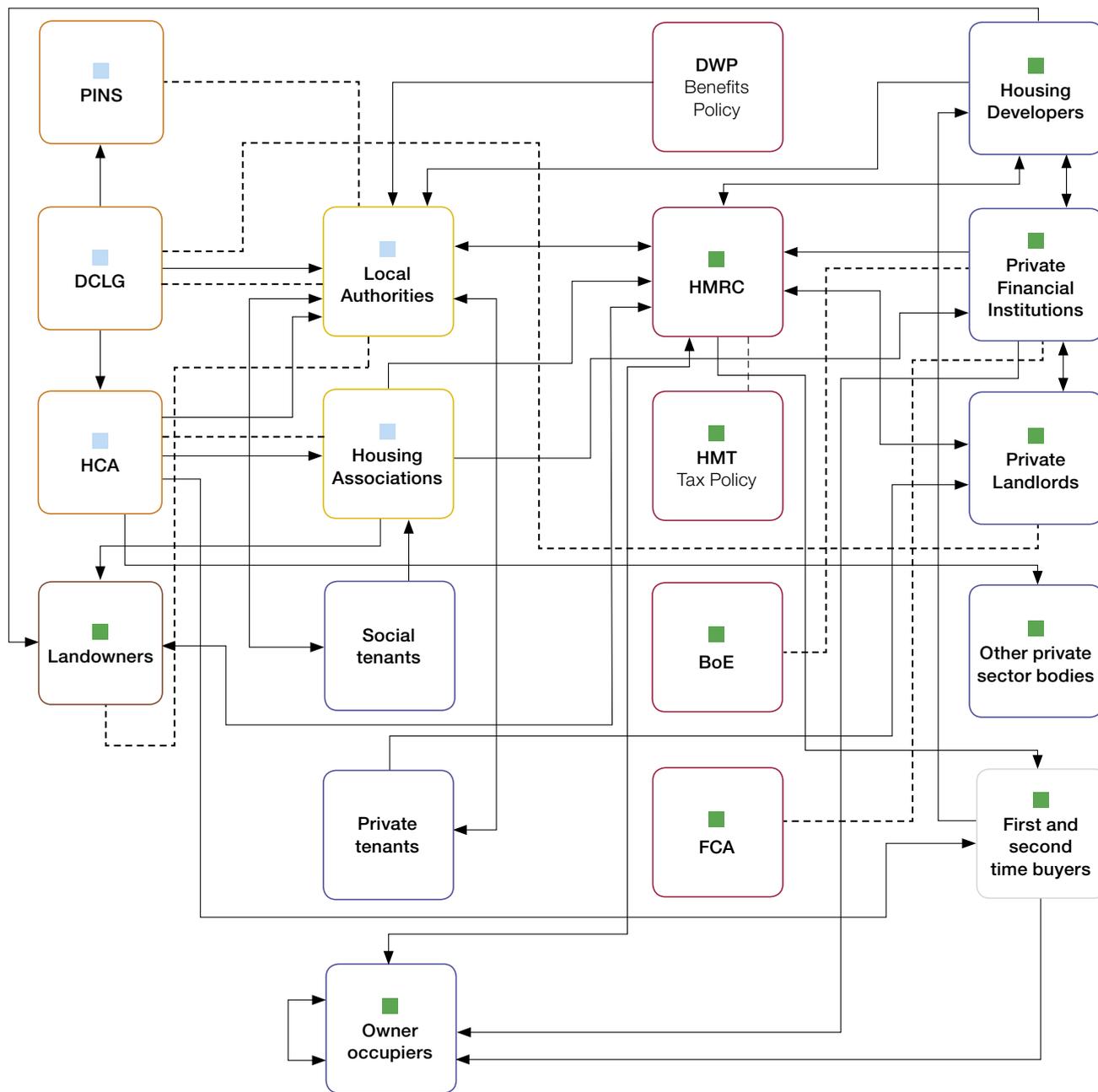
- The roles of public bodies with housing-specific responsibilities.
- The roles of other public bodies whose interventions impact on housing.
- The areas where different bodies interact and may be in tension.

Public bodies with specific housing objectives

2.2 The Department for Communities and Local Government (the Department) has lead responsibility for housing within central government. Its core functions include:

- designing programmes to achieve its housing objectives, introducing legislation, and coordinating cross-government efforts supporting these objectives;
- funding a range of housing programmes, and oversight of the social housing sector through the work of the Homes and Communities Agency and the Greater London Authority;
- overseeing the planning system by setting out national principles through the National Planning Policy Framework, taking over nationally significant applications from local authorities and part funding the Planning Inspectorate; and
- overseeing the housing funding system for local authorities, and taking the policy lead on local authorities' statutory duties on housing and planning.

Figure 11
Roles of key public bodies within the housing system



→ Financial flows --- Policy/regulation

Notes

- 1 The pale blue squares depict the extent of the housing system which the Department part funds and has oversight of. The green squares represent the private market in housebuilding and ownership, and associated tax and regulation policy. The majority of central government spending involved in housing is outside of the direct influence of the Department.
- 2 Acronyms used: DCLG (Department for Communities and Local Government); HCA (Homes and Communities Agency); PINS (Planning Inspectorate); DWP (Department for Work & Pensions); HMT (HM Treasury); HMRC (HM Customs & Revenue); BoE (Bank of England); FCA (Financial Conduct Authority).

2.3 The Homes and Communities Agency (the Agency) is a statutory arm's-length body funded by the Department (£1.8 billion in 2015-16). The Agency plays a significant role in delivering the government's objectives of driving up housing supply and increasing home ownership. It regulates and part-funds social housing, manages and distributes funding for housing programmes, and acquires and makes land available for development. Within London, the last two roles are fulfilled by the Greater London Authority.

2.4 The Planning Inspectorate is an arm's-length body, overseen jointly by the Department and the Welsh Government. The Department provided funding of £37.8 million for the Planning Inspectorate in 2015-16. It is responsible for land-based planning decisions and recommendations, and ruling on applications and appeals on proposed housing developments. The Planning Inspectorate also supports the government's aims of delivering more housing by examining local plans developed by local authorities.

Local government

2.5 Local authorities provide housing, oversee the local planning system, and have various statutory housing duties.¹¹ Between them, 166 local authorities house nearly 4 million people in 1.6 million council homes, with maintenance financed entirely by rents worth approximately £9.5 billion annually.¹² Local authorities also have a statutory duty to administer claims for housing benefit at a local level, on behalf of the Department for Work & Pensions, from lower-income tenants in both the social and private rented sectors.

2.6 Local authorities play a role in housebuilding chiefly through the planning system, deciding on applications for developments and identifying land for housebuilding. Some local authorities can also build new housing themselves: in 2015-16, local authorities completed 1,900 new council homes. Additionally, as a result of the Self-build and Custom Housebuilding Act 2015 and subsequent Housing and Planning Act 2016, local authorities in England are required to maintain a list of people interested in building their own home and to grant planning permission for sufficient land to meet the demand reflected in their registers.

2.7 Local authorities' council housing income and expenditure is ring-fenced within their Housing Revenue Account (HRA). This is designed to ensure that council rents are not subsidised by council tax, or used to keep council tax down. There are 166 local authorities that operate an HRA. The remaining local housing authorities no longer own housing stock, having transferred their social housing stock to housing associations.

¹¹ Local authorities with housing responsibilities referred to here comprise London boroughs, metropolitan authorities, unitary authorities, and district councils. County councils also play a role through having planning responsibility for local infrastructure. They may also own land that they can make available for housing.

¹² The Chartered Institute of Public Finance & Accountancy, *Investing in council housing*, July 2016, p 9.

2.8 In 2012-13, the Department changed the system of HRA funding. Previously, where rental income was either less, or more, than needed to cover costs, local authorities received a subsidy from, or paid the surplus to, the government. In April 2012, there was a one-off redistribution of debt between local authorities, designed to make maintaining their housing stock self-financing through rental income.¹³ The new system was intended to allow most stock-holding councils to access more funding to invest in housebuilding, subject to borrowing caps. Each local authority's borrowing cap reflected the value of their stock and their historic borrowing. It was not based on the need for new housing in their area. At the start of the system 10 local authorities in London constituted one-third of the borrowing capacity for the country.¹⁴

2.9 Devolution deals, under which certain powers and funding are transferred from central government to local government, can also contain housing aspects. The Department has agreed to provide the Greater Manchester Combined Authority with £300 million of housing loan funds over 10 years. In four other deals, the Department made commitments to continue discussions on the devolution of housing loan funds, but has not set out values or timescales.¹⁵

Housing associations

2.10 Housing associations are independent organisations that provide social housing on a non-profit basis.¹⁶ Many housing associations specialise in providing supported accommodation, such as refuges for those fleeing domestic violence, or homes for people with learning disabilities. Housing associations also build new homes, and in 2015-16 were responsible for completing 26,400 homes. While housing associations receive grant funding from the Homes and Communities Agency and the Greater London Authority, since 2011 they have had to finance more of the costs of housebuilding themselves, for example through borrowing and property sales.¹⁷

13 The debt settlement was designed to allow each council, from rental income, to maintain its stock in a good state of repair for 30 years, or replace it where necessary, with enough left over to meet debt interest and repay the debt over the same period.

14 Brent (£59 million), Camden (£87 million), Hackney (£101 million), Haringey (£55 million), Islington (£67 million), Lambeth (£148 million), Newham (£82 million), Southwark (£146 million), Tower Hamlets (£115 million) and Wandsworth (£70 million).

15 Comptroller and Auditor General, *English devolution deals*, Session 2015-16, HC 948, National Audit Office, April 2016, paragraph 9.

16 In October 2015, the Office for National Statistics classified housing associations as public sector, but the Department has stated that it will seek changes to enable them to be reclassified to the private sector.

17 Comptroller and Auditor General, *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, Session 2012-13, HC 465, National Audit Office, July 2013, paragraph 1.

Other public bodies

2.11 The role of other government departments, such as the Treasury and the Department for Work & Pensions, is also important. While their primary focus may be on achieving their own core departmental objectives – such as raising tax revenues and running an effective welfare system – their policy measures may also take into account significant impacts on the housing market.

2.12 The Treasury is responsible for tax policy, with HM Revenue & Customs (HMRC) responsible for collecting tax. The main tax paid on housing transactions is stamp duty land tax, paid by buyers of residential properties worth more than £125,000. In 2015-16, this raised £11 billion. There are also various tax reliefs on income from ownership or construction of residential property. The largest of these is principal private residence relief, which reduces the capital gains tax paid when selling one's home; the value of capital gains from sales of these residences in 2015-16 was £18 billion. We previously found that HMRC had weak oversight of this relief, despite the financial value and complexity of the rules. This meant that it was possible for wide-scale misuse to go undetected. HMRC does not consider the cost of this relief to be a good indicator of the level of oversight needed because few homes fall within the scope of capital gains tax.¹⁸

2.13 The tax system interacts with the housing market in a variety of ways. For example, in the 2015 Summer Budget the Treasury announced changes to income tax and capital gains tax that would make the tax system less advantageous for buy-to-let landlords. In the 2015 Autumn Statement the Treasury also increased stamp duty land tax rates for purchases of additional properties. While the primary objectives of tax policy focus on raising revenue and wider economic considerations, the Treasury intends these changes to support the Department's objective of increasing home ownership by helping would-be owner-occupiers to compete for house sales.¹⁹

2.14 The Department for Work & Pensions is responsible for government policy on benefits. Housing benefit is a means-tested benefit that subsidises the costs of rented accommodation. It is funded by the Department for Work & Pensions and administered by local authorities. For council housing, it is paid to local authorities in compensation for reducing the rent payable by their tenants. For housing association tenants, it is usually paid to landlords, while in the private rented sector it is generally paid directly to tenants.

2.15 The Department for Work & Pensions also funds local authorities to provide discretionary housing payments. These may be awarded where a local authority considers a claimant to require further financial assistance towards housing costs, and is in receipt of either housing benefit or universal credit; £800 million was announced for this in the 2015 Summer Budget over five years.²⁰ The Department for Work & Pensions also provides support with mortgage interest costs to homeowners in receipt of qualifying benefits, which could help to reduce the risk of lenders foreclosing.

¹⁸ Comptroller and Auditor General, *Report by the Comptroller and Auditor General, in HM Revenue & Customs, Annual Report and Accounts 2015-16, Session 2016-17, HC 338*, National Audit Office, July 2016, paragraphs 3.24–26.

¹⁹ HM Treasury, *Autumn Statement and Spending Review 2015*, p 3; HM Treasury, *Fixing the Foundations: Creating a more prosperous nation*, Cm 9098, July 2015, p. 48.

²⁰ HM Treasury, *Summer Budget 2015*, HC 264, July 2015, p. 40.

2.16 Other public bodies also influence the financial environment for housing:

- The Bank of England sets the UK's official interest rate, which influences lenders' mortgage rates. Its Financial Policy Committee works to tackle systemic risks to the UK financial system, and its Prudential Regulation Authority regulates 1,700 banks and building societies. As we note in Part One of this report, regarding the current state of the housing market in England, mortgage interest rates are presently historically low, and this is a strong contributing factor to the affordability of owner-occupied homes.
- The Financial Conduct Authority (the FCA) has a strategic objective of ensuring that financial markets function well. In 2014, the FCA introduced a number of new rules, following a Mortgage Market Review that focused on implementing lessons from the 2008 financial crisis. These included responsible lending rules designed to ensure affordability is at the heart of lending decisions.

Spending on housing

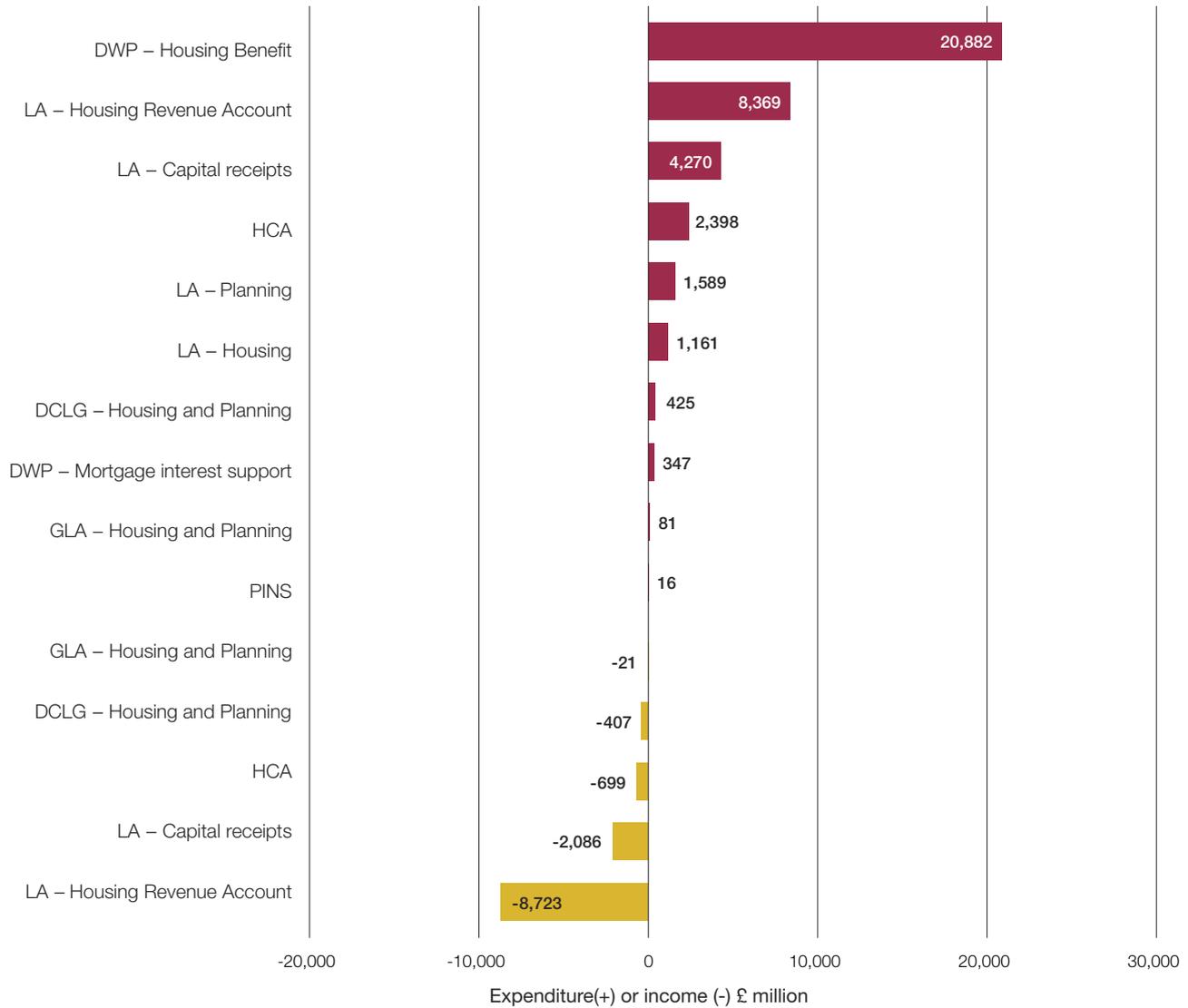
2.17 Expenditure on housing involves different public bodies, including government departments, arm's-length bodies and local authorities. Many funding streams pass through different types of body before reaching members of the public. Net government spending on housing amounted to approximately £28 billion in 2015-16 (**Figure 12** on page 30).

2.18 The largest element of government spending on housing is housing benefit (£20.9 billion in 2015-16). Last year there were 4.1 million claims, up 730,000 since 1991-92. Up to 1996, spending increased following deregulation of private rents and as the number of claims grew during early 1990s recession (**Figure 13** on page 31). Between 1996 and 2005, spending stabilised as the economy grew. Since 2006, spending has increased as the number of claimants in private rented accommodation has increased and as social rents have increased. Both numbers of claimants and real-terms spending peaked during 2012-13, a result in part of changes which reduced the maximum amounts payable to private tenants.

2.19 In 2013, as a means of containing housing benefit spending, the government introduced the Removal of the Spare Room Subsidy (sometimes referred to as the 'bedroom tax', although it is not actually a tax). Under this policy, where claimants are considered to be living in accommodation too large for their needs, their housing benefit is restricted in order to provide an incentive to move to smaller accommodation. This policy applies to working age tenants in the social rented sector only. Among the key findings of an evaluation by the Department for Work & Pensions in 2015 was that, according to a survey of landlords, by autumn 2014, 45,000 claimants affected by the policy within the social rented sector had downsized across Great Britain.²¹

21 Department for Work & Pensions, *Evaluation of Removal of the Spare Room Subsidy*, December 2015, p. 19.

Figure 12
Estimated government spending on housing in 2015-16



■ Expenditure
■ Income

Notes

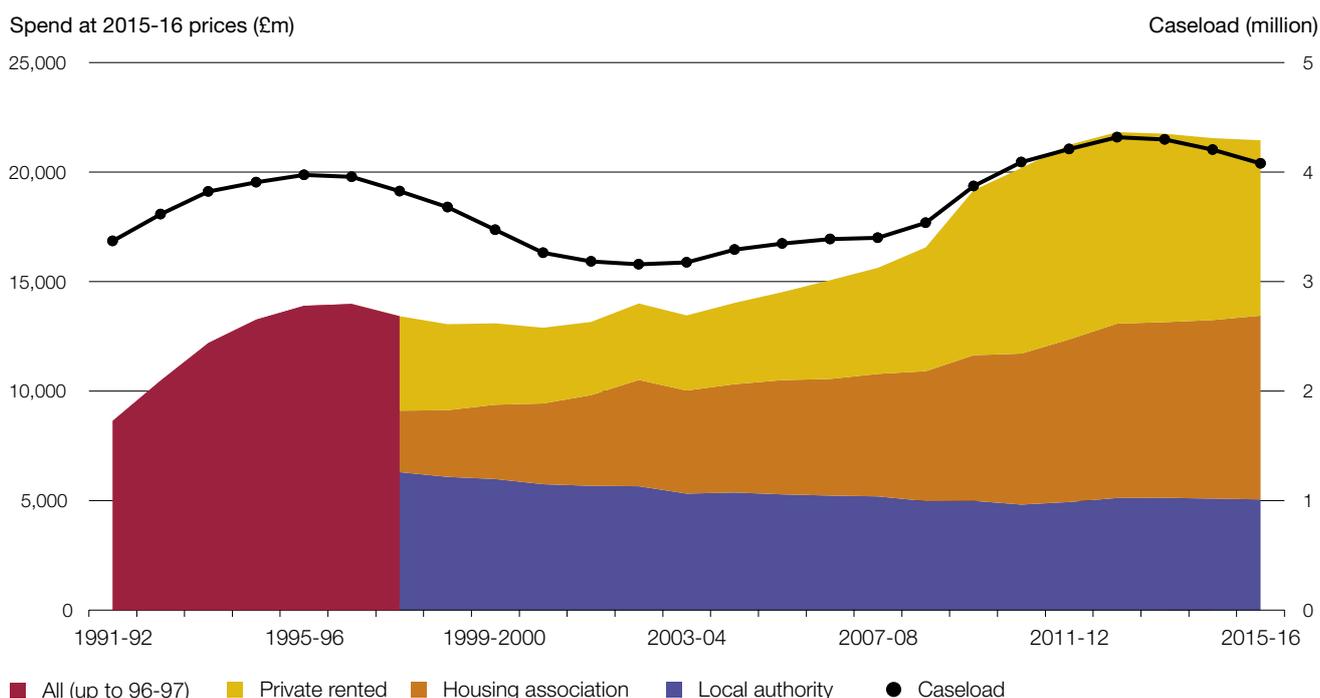
- 1 Figures to the right of the line are expenditure, those to the left are income.
- 2 Acronyms used: LA (Local authority); DCLG (Department for Communities and Local Government); GLA (Greater London Authority); PINS (Planning Inspectorate); HCA (Homes and Communities Agency).
- 3 Housing Revenue Account refers to income and expenditure from housing let by local authorities.
- 4 Does not include housing support included within Universal Credit.
- 5 Funding to HCA from DCLG is shown as spending by HCA. In other cases funding from one body that is spent by another body is shown against the funding body, for example grants paid by the GLA to local authorities are shown against GLA expenditure.
- 6 HRA income includes approximately £5.1 billion of rents and service charges funded by housing benefit.

Source: National Audit Office analysis of Departmental accounts

Figure 13

Housing benefit spending in England since 1991

Housing benefit spending has increased since the 1990s. Claims by tenants in private rented housing now make up the largest share of spending



		1991-92	1995-96	1999-2000	2003-04	2007-08	2011-12	2015-16
Spend at 2015-16 prices (£m)	Local authority	–	–	5,986	5,322	5,196	4,940	5,059
	Housing association	–	–	3,394	4,705	5,591	7,421	8,387
	Private rented	–	–	3,714	3,427	4,841	8,881	8,002
	All	8,644	13,893	13,094	13,454	15,628	21,242	21,448
Caseload (million)		3.4	4.0	3.5	3.2	3.4	4.2	4.1

Note

- 1 Prior to 1997-98, spending data does not distinguish the tenure of claimants.
- 2 Spend includes LA spend on temporary accommodation and other LA accommodation.

Source: Department for Work & Pensions

Interactions with other policy areas

2.20 While the Department leads on housing policy, it does not lead on housing-related tax or benefits. The Department's ability to influence the objectives and design of tax and benefits policies, where these may impact on housing, is therefore limited given the structure of governmental responsibilities.

2.21 Potential for tension exists between the Department's housing policies and those of other departments; changes in one area of housing policy may have impacts on others. For example, in July 2015 the Treasury announced a reduction in the rents housing associations and local authorities could charge of 1% annually between 2016-17 and 2019-20.²² Its purpose was to "protect taxpayers from the rising costs of subsidising rents through housing benefit, and protect tenants from rising housing costs."²³ By reducing the ability of housing associations to finance the construction of new housing, however, this measure may conflict with the Department's objective to build one million new homes by 2020. In November 2015, the Office for Budget Responsibility forecast that the net impact of the reduction in social rents and the additional capital funding announced in the November Spending Round would result in housing associations building 34,000 fewer homes than they would have done in the absence of both policy changes.²⁴ Following the 2016 Autumn Statement, the Office for Budget Responsibility subsequently reported that the dropping of the requirement for housing associations to move to a shared ownership model and abandoning plans to force higher rents on some tenants would reduce cash inflows available for housebuilding. Partly offsetting that, additional grant funding would increase cash inflows and boost housebuilding. It forecast that the net effect would be to reduce cumulative housebuilding by housing associations by around 13,000 by 2019-20.

2.22 The reduction in social rents also affects local authorities. When the Department changed the financial system for council housing, it intended to provide long-term financial certainty to local authorities, helping them to invest in new homes. The reduction in rents will reduce the resources available to councils to invest in their stock or build new homes. Analysis by the Chartered Institute of Public Finance & Accountancy suggests that, once rent reductions are taken into account, no council will have the available cash to build any new homes between 2017-18 and 2028-29.²⁵

22 HM Treasury, *Summer Budget 2015*, HC 264, July 2015, paragraph 1.140.

23 Department for Work & Pensions, *Welfare Reform and Work Bill: Explanatory Notes*, July 2015, p. 10.

24 Office for Budget Responsibility, *Economic and Fiscal Outlook*, Cm 9153, November 2015, p. 232.

25 Chartered Institute of Public Finance & Accountancy, *Investing in council housing*, July 2016, p 25.

2.23 Housing benefit is another area where policies owned by different departments can be in tension with the Department's housing policies. In the 2015 Autumn Statement, the Treasury announced that housing benefit for the social rented sector would be capped in line with arrangements for capping the amount paid to private renters. According to the National Housing Federation, the cap would have meant cancelling around 9,270 planned new supported housing units. In September 2016, the Department for Work & Pensions announced a new model for funding supported housing to protect the sector from reductions in income caused by the cap. An evidence review, conducted jointly with the Department, was published in November.²⁶

2.24 Another example of housing policies owned by different departments potentially being in tension with one another relates to reforms to the benefit system that have taken effect since 2010. These include caps to Local Housing Allowance (LHA), which sets the amount of housing benefit private tenants can claim for. Estimates suggest that reforms to LHA will save the government around £1.3 billion in cash terms in 2016-17, rising to around £1.7 billion in 2020-21.²⁷ There are suggestions that such reforms have reduced income for landlords in London, incentivising them to end assured shorthold tenancies, which is now the principal reason for becoming homeless.²⁸ However, research commissioned by the Department for Work & Pensions did not find "... any direct causation between the greater increases in homelessness in London and the introduction of the LHA reforms."²⁹ London Councils suggests in any case that local authorities in the capital are incurring increased costs in having to place an increasing number of homeless families in costly temporary accommodation. The Department for Communities and Local Government has borne some of this cost by increasing the subsidies it pays councils to manage such temporary tenancies. In December 2015, the Department announced a £5 million fund for the 25 councils facing the greatest temporary accommodation pressures.³⁰

26 Hansard HC, Written Statement HCWS154, September 2016.

27 House of Commons Library, *Housing Benefit measures announced since 2010*, Briefing Paper 05638, August 2016, p. 8.

28 London Councils, *Temporary Accommodation in London: Local Authorities Under Pressure*, February 2016, pp. vii-xii, 8.

29 Department for Work & Pensions, *Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: Summary of Key Findings*, May 2014, pp. 45-47.

30 Department for Communities and Local Government, *Radical package of measures announced to tackle homelessness*, Press release, December 2015.

Part Three

The Department's housing policies for this Parliament

3.1 In this part of the report, we examine in more detail the role of the Department for Communities and Local Government (the Department). We set out:

- The Department's approach to housing for this Parliament.
- The range of programmes and objectives in support of this.
- The key programmes at the heart of the Department's approach to housing in this Parliament.
- The delivery of the Department's housing objectives following the European Union referendum result.

The Department's approach to housing

3.2 The Department's overall approach to housing for this Parliament is couched in the context, set out in Part One of this report, of housing supply failing to keep pace with housing need, and with the increasing lack of affordability for first-time buyers. In its Single Departmental Plan, published in 2016, two of the Department's four strategic objectives for this Parliament are devoted to housing:

- driving up housing supply; and
- increasing home ownership.

3.3 At the heart of its objective to drive up housing supply is the Department's "ambition [...] to deliver one million new homes over the next five years".³¹ The Department also aims to increase the number of first time buyers entering the market, although it has not published specific targets for this objective. The Department has since announced its intention to publish a Housing white paper that would set out a package of reforms to increase housing supply and halt the decline in housing affordability.

The Department's housing programmes

3.4 The Department's strategic housing objectives for this Parliament are supported by an extensive programme of policies, many of which broadly contribute to its two overarching housing objectives of increasing housing supply and home ownership (**Figure 14** on pages 36 to 38). Many pre-date this Parliament and have been carried over from previous housing programmes, such as the New Homes Bonus, which was introduced in 2011.³²

3.5 Also brought over into the housing programme from preceding parliaments was the Department's Right to Buy programme. Tenants of council housing have been entitled to a statutory right to buy their homes at a discount since 1980. In 2012, the government increased the discounts it gave to council tenants, and under the Housing and Planning Act 2016 put in place powers to extend the discount to housing association tenants. In our March 2016 memorandum to the Committee of Public Accounts on extending the right to buy, we examined the ability of the Department to replace council homes sold on a one-for-one basis. We found that, while the Department was able to meet its commitment in respect of the first year of sales, the rate of replacements would need to increase five-fold to meet the commitment in subsequent years.³³

3.6 The Department, alongside HM Treasury, has designed different interventions to have an effect at different points along the chain between planning proposals and house sales (**Figure 15** on page 39). They are designed to: ensure a supply of land for housing; ensure that the planning process works effectively; ensure the viability of sites built; and ensure that homes have occupiers able to either purchase or rent them.

³¹ Department for Communities and Local Government, *Single Departmental Plan: 2015 to 2020*, March 2016.

³² Comptroller and Auditor General, *The New Homes Bonus*, Session 2012-13, HC 1047, National Audit Office, March 2013.

³³ National Audit Office, *Extending the Right to Buy*, March 2016.

Figure 14

Government housing programmes

Many of the Department's programmes are aimed at both increasing housing supply and home ownership

Programme	Strategic objective	
	Driving up housing supply	Increasing home ownership
<p>Accelerated construction</p> <p>Support to increase the number of homes that are completed by encouraging medium builders, new developers, and those using innovative methods of construction into the housebuilding market, and making the most of public land assets</p>	X	
Brownfield land	X	
Capacity fund	X	
<p>Estate regeneration</p> <p>Loans to begin regeneration of up to 100 estates</p>	X	
Extending Right to Buy to housing association tenants	X	X
<p>Help to Buy: Equity Loans</p> <p>Loans of up to 20% of the value of new homes (40% in London)</p>	X	X
Help to Buy: mortgage guarantee scheme^{2,3}		X
<p>Help to Buy ISA³</p> <p>First-time buyers can receive a government bonus of up to £3,000 towards their first home. The bonus contributes towards their deposit just before completion</p>		X
<p>Lifetime ISA²</p> <p>Government to add 25% to savings to help first-time buyers save for a deposit</p>		X
<p>Higher Value Housing Asset Sales</p> <p>Local authorities' payment in respect of selling higher value housing as it becomes vacant to fund building of new affordable housing and to fund extending the right to buy to housing association tenants. For every home sold, at least one affordable home to be built (two-for-one for homes sold in London)</p>	X	X

Figure 14 *continued*
Government housing programmes

Programme	Strategic objective	
	Driving up housing supply	Increasing home ownership
<p>Home Building Fund</p> <p>Providing short and long-term financing to private sector organisations to deliver 25,500 homes by 2020, with up to 200,000 in the longer term</p>	X	
<p>Housing Infrastructure Fund</p> <p>Providing infrastructure funding to local authorities targeted at unlocking new private housing in areas where housing need is greatest to deliver up to 100,000 new homes</p>	X	
<p>New Homes Bonus</p> <p>Financial incentives for local authorities to encourage housing growth in their areas</p>	X	
<p>Planning reforms</p> <p>Includes requirements for local authorities to produce local plans by 2017, and tests to ensure homes identified in plans are actually built within reasonable timeframes</p>	X	
<p>Public sector land disposal</p> <p>Releasing public sector land for 160,000 homes to developers</p>	X	X
<p>Right to Buy</p> <p>Allows council tenants the right to buy their homes at up to £78,000 discount (£104,000 in London). For a proportion of homes sold, at least one affordable home to be built</p>	X	X
<p>Specialist homes for older people and people with disabilities</p> <p>8,000 new homes for affordable rent</p>	X	
<p>Shared ownership and affordable homes programme 2016-21:</p> <p>Capital funding to support:</p> <ul style="list-style-type: none"> ● Help to Buy: Shared Ownership; ● Rent to Buy; and ● supported and older people's rental accommodation <p>In the 2016 Autumn Statement the government announced that it would relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership</p>	X	X

Figure 14 *continued*
Government housing programmes

Programme	Strategic objective	
	Driving up housing supply	Increasing home ownership
Stamp Duty Land Tax surcharge on purchases of additional properties ¹		1
Surcharge on purchases of second homes and buy-to-lets, with tax receipts contributing to affordable homes budget		X
Starter Homes	X	X
20% discount on 200,000 new homes worth up to £250,000 (£450,000 in London) for first-time buyers between 23 and 40		

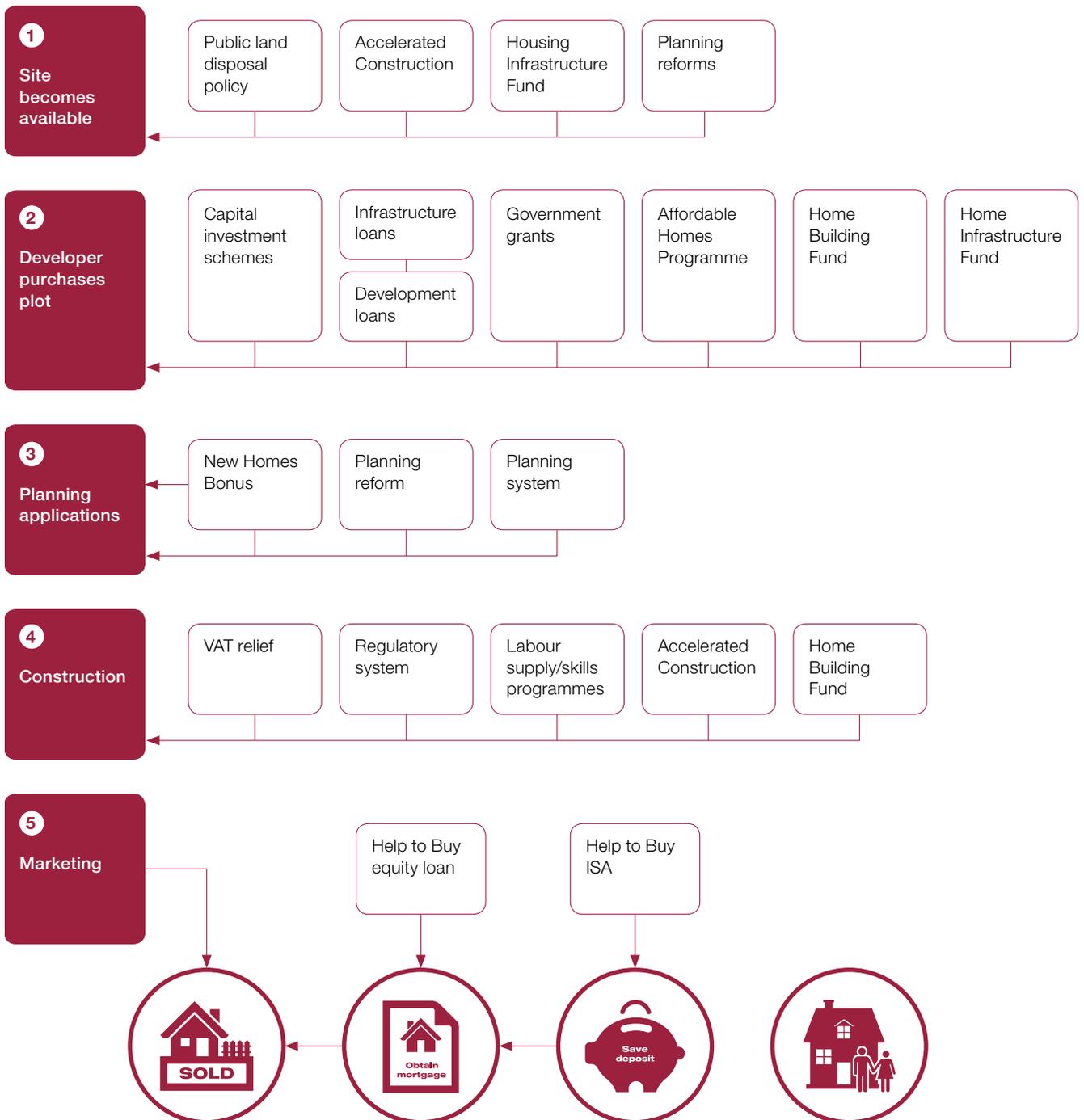
Notes

- 1 Recent changes to Stamp Duty Land Tax have been driven by fiscal and economic objectives. However, they have also been intended to support homeownership and the government's wider housing objectives by, for example, contributing to the affordable homes budget.
- 2 These programmes are the responsibility of HM Treasury.
- 3 The scheme closed on 31 December 2016.

Source: National Audit Office; Department for Communities and Local Government, Single Departmental Plan, March 2016; House of Commons Library, Stimulating housing supply – Government initiatives (England), Briefing Paper 01416, June 2016

Figure 15

Government support at key stages of the housebuilding and purchasing process



Note

1 Numbered steps depict key phases between land being put on the market and a home being built and purchased. The measures associated with each phase are designed to provide financial incentives to developers to accelerate their building plans, or help overcome the barriers they might face in doing so.

3.7 As we set out in Part One of this report, since the 1980s there has been a decline in public sector housebuilding. Consequently, the Department is reliant upon the private housebuilding industry to achieve its housing objectives. Reflecting this, many of its housing policies are designed to keep the housebuilding industry well-financed and incentivised to build houses. It is supporting the private market through measures implemented in the last Parliament and those in its programme for this Parliament. These include measures to:

- **Streamline the planning system.** This includes the 2012 National Planning Policy Framework, under which local authorities are required to identify land to meet their housing needs, and to maintain a five-year supply of land for housing. The Department has introduced further planning reforms under the Housing and Planning Act 2016.
- **Make land available for housing.** In December 2014 the government committed to releasing enough public sector land for 150,000 homes by 2020; this was revised upwards to 160,000 in 2015. In July 2016, we found that there were significant risks to achieving this objective, given that in the first 10 months of the programme (to the end of March 2016), the government had only released land for between 5% and 8% of this total.³⁴
- **Providing financial support to developers.** This includes the £3 billion Home Building Fund, running to 2020-21 and providing development and infrastructure loan finance to developers. Of this £1 billion will be targeted at small and custom builders, through which the Department intends to support the completion of 25,500 new homes by 2020. The remaining £2 billion will be used to provide long-term funding for infrastructure.
- **Providing financial support for self-build schemes.** In 2014, the government launched the five-year, £150 million Custom Build Serviced Plots Fund. This was targeted at developers seeking to establish multiple plot sites for custom building. In October 2016, this was subsumed into the £3 billion Home Building Fund described above. Since 2014, self-builders have also been exempt from paying the Community Infrastructure Levy and Section 106 affordable housing contributions, which local authorities can ask developers to pay for most new building projects.

3.8 The programmes which are most central to the Department's delivery of its housing objectives are: Shared Ownership and Affordable Homes; Help to Buy; Equity Loans; the Home Building Fund; Accelerated Construction; and the Housing Infrastructure Fund.

³⁴ Comptroller and Auditor General, *Disposal of public land for new homes: a progress report*, Session 2016-17, HC 510, National Audit Office, July 2016, paragraphs 7-15.

Shared Ownership and Affordable Homes Programme

3.9 In April 2016, the Department launched its Shared Ownership and Affordable Homes Programme and Starter Homes Programme as a means of addressing low levels of housebuilding and boosting home ownership by encouraging people, who may not otherwise be able to, to buy homes. The government subsequently announced in the 2016 Autumn Statement that it would relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership.

3.10 The Department estimates that its net spending on these programmes will be approximately £9.4 billion between 2016-17 and 2020-21. This incorporates a number of smaller programmes. These will include:

- Starter Homes, to be sold at a 20% discount to first-time buyers aged between 23 and 40.
- Help to Buy: Shared Ownership homes, which will allow people to buy between 25% and 75% of the value of their home, paying rent on the remainder. The scheme will be open to all households earning less than £80,000 (£90,000 in London).
- Homes for affordable rent, including homes from previous affordable homes commitments, affordable rent to buy homes, and new homes for vulnerable older people and people with disabilities.

Help to Buy Equity Loans

3.11 The Department launched the Help to Buy Equity Loan scheme in April 2013. Like key elements of the Shared Ownership and Affordable Homes Programme, Help to Buy is designed to boost home ownership, although its focus is on potential buyers who are constrained by the need to find a deposit, thereby also increasing demand for developers to build new homes. Under this scheme, the Department provides financial support worth up to 20% of the value of a new-build home, which is repayable once a home is sold or after 25 years, whichever is sooner. The buyer can repay sooner if they wish. In 2016, the Department introduced the London Help to Buy scheme, offering equity loans worth up to 40% of a new-build home.

3.12 As of June 2016, approximately 92,000 loans had been made under this scheme, worth around £4.2 billion. Approximately half of the homes bought with these loans were constructed by five firms. Between 2016-17 and 2020-21, the Department has allocated £8.6 billion in spending to Help to Buy loans.

3.13 The Department commissioned an external evaluation of the Help to Buy Equity Loan scheme to assess its impact on the homes being built in addition to what would have happened in its absence, published in February 2016. This found that 43% of consumers using the scheme would not have been able to afford a similar property without the scheme's assistance. This assessment also found that the scheme provided a stimulus to the housebuilding industry, encouraging developers to build new homes.

3.14 In our own assessment of Help to Buy, we found that the price of new build homes supported by the equity loan scheme in comparison with median sale prices in the same local authority varied significantly. In many areas, such as the North East, North West and West Midlands, over 80% of Help to Buy sales are at a price above the median for that area. The Department's evaluation similarly found that 60% of respondents agreed that the scheme had enabled them to buy a larger property than would have been possible without assistance and 61% agreed that it had enabled them to buy a property in a better area.

Home Building Fund and accelerated construction

3.15 In October 2016 the Department announced the launch of the Home Building Fund and the Accelerated Construction Scheme, programmes which aim to construct more homes at an accelerated pace.

3.16 The Home Building Fund is worth £3 billion up to 2020-21 and provides a mix of short- and long-term development and infrastructure loans. Of this funding £1 billion will be targeted at small and custom builders, through which the government aims to complete 25,500 new homes by 2020. The remaining £2 billion is designed to provide long-term funding for infrastructure that, the government intends, will deliver up to 200,000 new homes in the longer term, although it does not specify any dates for this delivery. Although this fund contains up to £1.13 billion of additional funding, the majority of this is a consolidation of these previous funding streams:

- Large Sites Infrastructure Fund (£1 billion);
- Building Finance Fund (£525 million);
- Housing Zones (£200 million); and
- Custom Build Serviced Plots Fund (£150 million).

3.17 The Accelerated Construction Scheme is funded through the National Productivity Investment Fund, which will provide £1.7 billion in this parliament to speed up housebuilding on public sector land in England through partnerships with private sector developers. Under these contractual arrangements, the Department will permit the Homes and Communities Agency to purchase all unsold homes on participating sites at a reduced price. The Agency will then either seek to sell these homes itself, or use them to generate income through rent. The aim of this fund is to start up to 15,000 home constructions during this Parliament.”

Housing Infrastructure Fund

3.18 The 2016 Autumn Statement announced a new Housing Infrastructure Fund of £2.3 billion by 2020-21. Like the Accelerated Construction Scheme, it is also funded from the National Productivity Investment Fund. The purpose of this fund is to provide infrastructure targeted at unlocking new private housing. It will be allocated to local government on a competitive basis and sets a target to deliver up to 100,000 new homes in areas where housing need is greatest; the Autumn Statement does not specify a time period in which government aims to achieve this target.

Oversight of strategic objectives

3.19 The measure the Department uses to track the progress of its million new homes ambition is ‘net additions’. This is distinct to the number of homes being newly-constructed, and incorporates: new builds; conversions (for example, from a house to a number of flats); changes of use (such as residential houses being converted into businesses); and demolitions. There were 189,650 net additions to the housing stock in 2015-16; this included 164,000 newly-built properties.

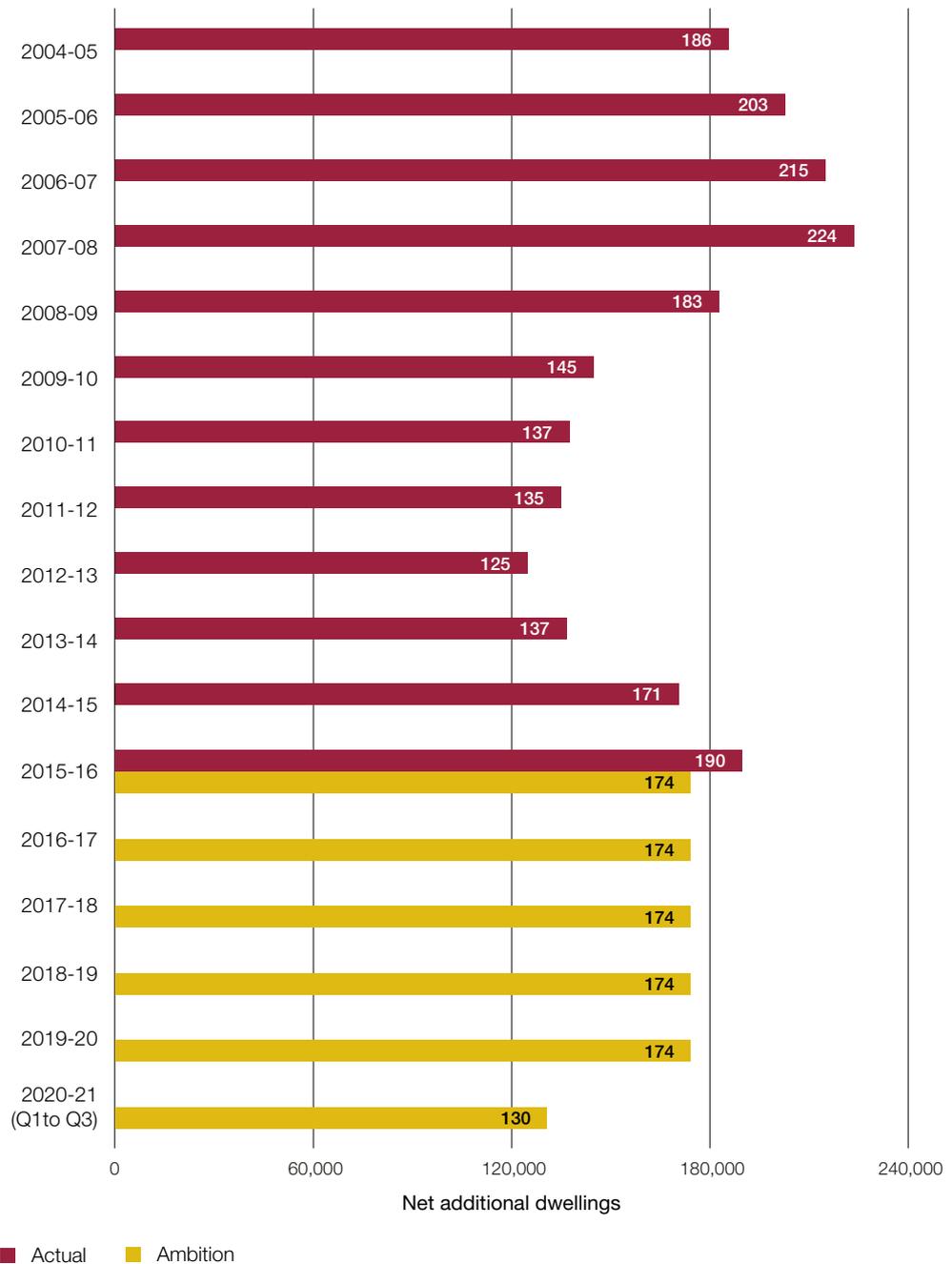
3.20 To deliver one million additional homes between April 2015 and December 2020 will require approximately 174,000 net additions per year – lower than the level seen in 2015-16. However, achieving this over a sustained five year period is reliant upon wider economic conditions. Taking five-year periods as a whole, it would be substantially higher than the five years preceding 2014-15, but substantially lower than the five years preceding 2009-10. **Figure 16** overleaf shows the required level of net additions to 2020 in the context of that achieved in previous years.

3.21 The Department has not been fully transparent in the information it publishes on its performance against the strategic objectives of “driving up housing supply” and “increasing home ownership” in its Single Departmental Plan. In our July 2016 report on the government’s approach to single departmental plans, we concluded that departments must provide much clearer information so that observers can track the government’s progress on what it has promised.³⁵ In contrast, the Department does not set out that its timescale for adding one million homes is to be achieved over five years and nine months.

³⁵ Comptroller and Auditor General, *Government’s management of its performance: progress with single departmental plans*, Session 2016-17, HC 872, National Audit Office, July 2016.

Figure 16

Average net additions required to achieve one million homes by 2020, in recent historical context



Note

1 National Audit Office calculation assumes one million net additions to housing stock over the 23 quarters between 1 April 2015 and 31 December 2020.

Source: Department for Communities and Local Government (Actual), National Audit Office (Target)

Housing developments since the European Union referendum

3.22 To the extent that the Department is reliant on the housing market to achieve its one million homes ambition, there will be risks to the delivery of this ambition should there be a reduction in market activity following the decision to leave the European Union.

3.23 As of May 2016, the Department took confidence in the capacity of the market to achieve the one million homes ambition from a statement of intent, issued that month, by the Home Builders Federation. This said that housing developers shared the Department's ambition of delivering one million new homes by 2020, and would review their ability to accelerate building further, reporting back to the Department over the summer of 2016.³⁶

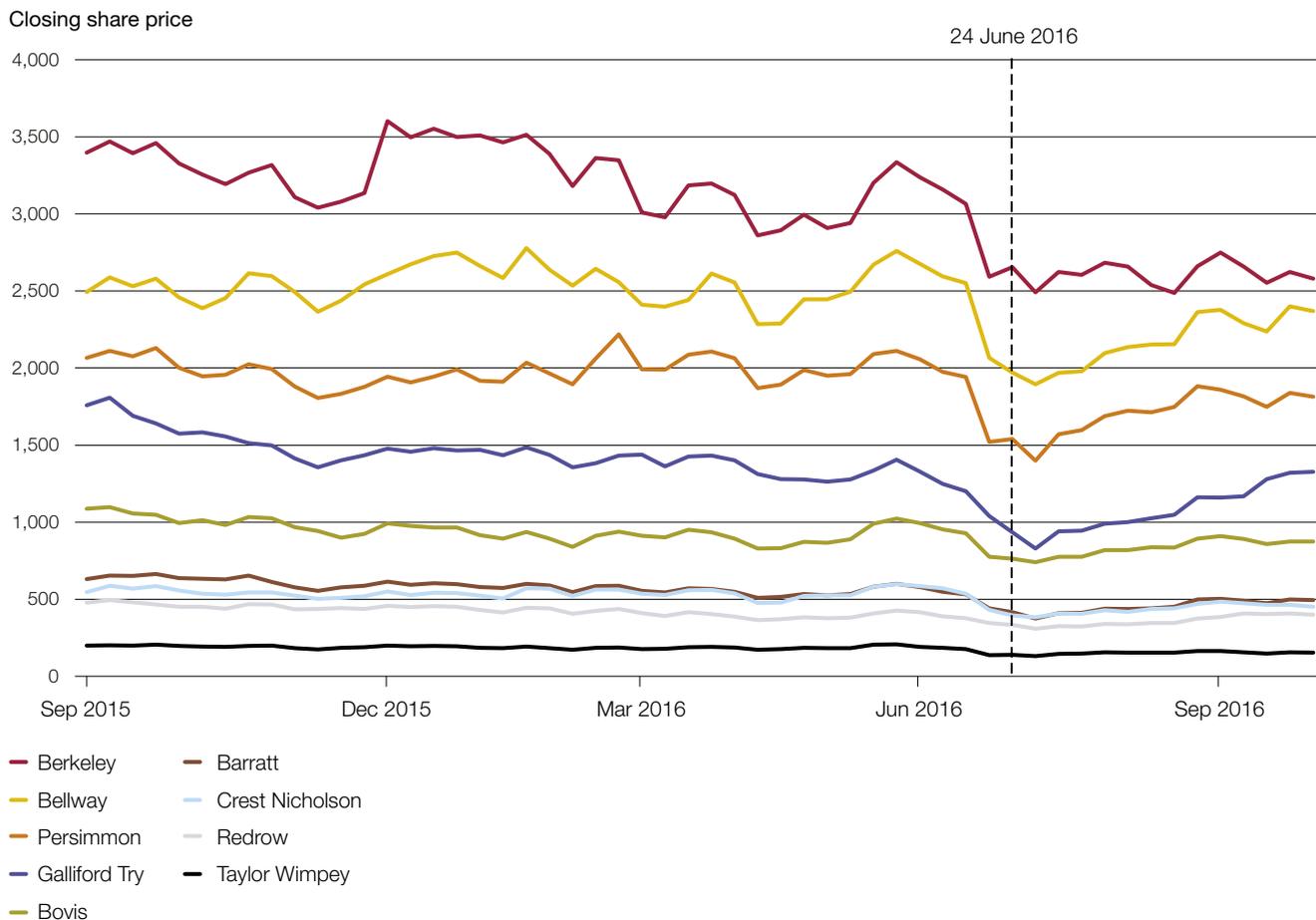
3.24 In June 2016, the month of the EU referendum, major UK developers experienced an average drop in share value of 22% (**Figure 17** overleaf). Due to the volatility of housing market indicators it will be some time before the longer-term impacts of the referendum decision are known. Despite early indications of a slowdown immediately after the referendum result more recent evidence points to modest increases in numbers of sales being agreed in England. The November 2016 RICS Residential Market Survey found that new buyer enquiries over the last three months increased in most parts of England. However, further increases in sales will also depend on the number of properties coming onto the market and RICS reported there has been no evidence of positive change since February 2016.

3.25 An additional potential impact of the decision to leave the European Union could be on housing associations, which presently receive European Investment Bank (EIB) funding. By mid-2016, the EIB had signed finance contracts to provide up to £1 billion in long-term loans for investment in social housing across the United Kingdom. This was doubled by the Housing Finance Corporation, and partially underwritten by government guarantees. Total current EIB commitments to the Housing Finance Corporation and its group entities amount to £2.6 billion, and the EIB has also provided direct funding to large registered providers of social housing in the UK. A number of additional schemes for investment in social and affordable housing in the UK are currently being appraised or have already been approved. The EIB has indicated that loan contracts already signed will remain in force; however, it is premature to speculate on the scale of any future lending activity in the UK without clarity on the timing and conditions of the UK's withdrawal from the EU.

³⁶ Home Builders Federation, "Housebuilders share ambition to deliver one million new homes", 11 May 2016.

Figure 17
Share prices of the largest housebuilders

The share prices of the nine largest housebuilders, by number of completions, fell by an average of 22% between the start and end of June 2016



Notes

- 1 Publicly quoted firms. It is estimated these firms were responsible for between 40% and 50% of completions in England in 2015-16.
- 2 Prices are Friday closing price.

Source: London Stock Exchange

Glossary

Affordable rent	Lettings by local authorities or housing associations at rent of up to 80% market rent.
Household	Person or group who dwell in accommodation as their only/main residence, and (for a group) either share at least one meal a day, or share a living room.
Housing need	Gap between number of households and number which are suitably housed.
Social rent	Lettings by local authorities or housing associations, with guideline target rents determined through a national rent regime.

Appendix One

Our audit approach

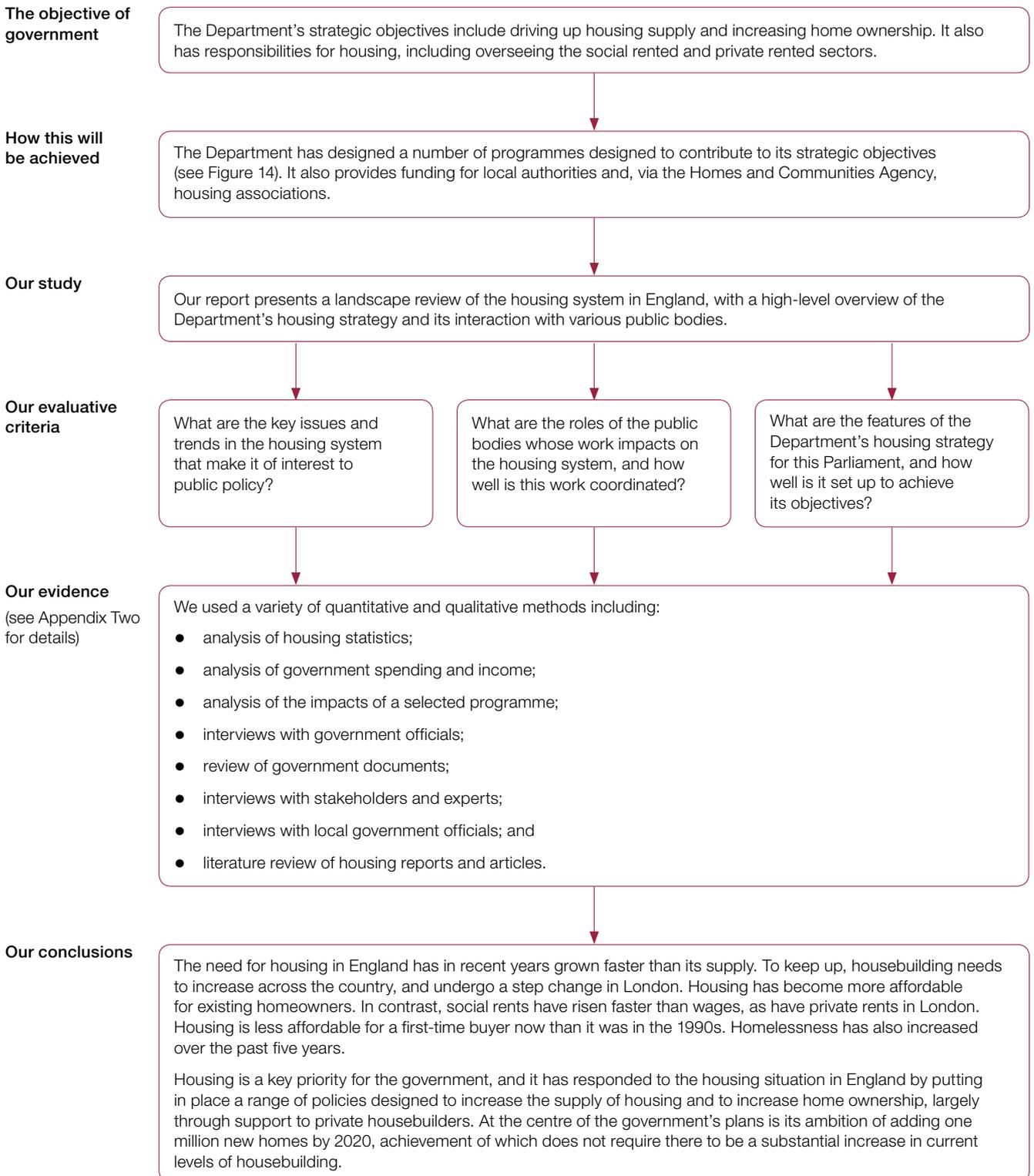
1 This report presents a landscape review of the housing system in England, and features a high-level overview of the housing strategy pursued by the Department for Communities and Local Government (the Department). We reviewed:

- Key data and statistical trends on housing which relate to prominent issues for policymakers (such as housing need, rates of housebuilding, and affordability of housing by different tenures).
- The public policy landscape for housing, including the roles different public bodies play in relation to the housing system.
- The key features of the Department's housing strategy for this Parliament, focusing on its main objectives, and how it was defining, seeking to achieve, monitoring progress towards, and reporting on achievement of them.

2 Our audit approach is summarised in **Figure 18**. Our evidence is described in Appendix Two.

Figure 18

Our audit approach



Appendix Two

Our evidence base

1 We based our report on fieldwork we carried out between February and August 2016. We used a range of quantitative and qualitative methods.

Analysis of financial data on government spending and income

2 We collected and analysed publicly available data on public sector spending on housing, across both central and local government. We made adjustments to prevent double counting where necessary. The primary sources of this information were:

- published annual accounts of central government departments and agencies for the 2015-16 financial year; and
- published data on local authority expenditure on housing. Where outturn data were not available budgeted or provisional figures were used.

3 We used data published by the Department for Work & Pensions to describe trends in spending and caseload on housing benefit in England.

Analysis of the impacts of a selected programme

4 We combined administrative data used by the Homes and Communities Agency to manage Help to Buy Equity Loans with published Land Registry data to analyse geographical variation in take-up and sales prices.

Interviews with government officials

5 We conducted semi-structured interviews with officials at the Department for Communities and Local Government (the Department), focusing on understanding:

- the Department's strategic objectives for this Parliament, including how it has defined these objectives and is aiming to manage their delivery;
- a sample of programmes aimed at contributing to the strategic objectives, principally Help to Buy Equity Loans, Starter Homes, and shared ownership schemes;

- the housing market model used by the Department to project key trends in housing into the future;
- the Department's oversight of housing need, including issues related to homelessness, the social rented sector, and supported housing;
- the Department's approach to devolution with regards to housing; and
- recent and ongoing reforms to the planning system.

6 We conducted semi-structured interviews with officials in other departments and agencies, to understand their principal roles regarding housing, and interactions with the Department for Communities and Local Government. These were:

- HM Treasury;
- Department for Work & Pensions; and
- Homes and Communities Agency.

7 In addition, we met officials at the Financial Conduct Authority, to understand its role in regulating the mortgage market.

Review of government documents

8 To understand the objectives and structure of the Department's governance arrangements for its housing strategy, we examined documents relating to its housing and planning boards.

9 To map out government objectives and programmes on housing, we reviewed the Department's Single Departmental Plan, and a range of other documents, including the Autumn Statement and Spending Review 2015, departmental press releases, and ministerial statements.

Interviews with stakeholders and experts

10 To understand a range of perspectives on important housing data and issues we spoke to housing experts (Dame Kate Barker, Professor Christine Whitehead) and representatives from main stakeholders (Chartered Institute of Housing, Council of Mortgage Lenders, Joseph Rowntree Foundation, Home Builders Federation, Housing Finance Institute, National Housing Federation, Local Government Association, London Councils, and the Housing Finance Corporation).

Interviews with local government officials

11 To gather information on the role of local authorities in facilitating the building of new homes, and to gain perspectives on housing issues and policy from local government, we spoke to officials at:

- Greater London Authority.
- Cambridge City Council.
- Cambridgeshire County Council.
- Enfield Council.
- South Cambridgeshire District Council.

Literature review of housing reports and articles

12 We carried out a literature review of relevant reports and articles from a variety of sources.

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