

government will want to extend the principle of making payments direct to tenants in the sector.

There are a number of pointers in that direction. Firstly the experience of the private sector pathfinders has been that levels of rent arrears have not been as high as many feared, and they have been contained by the rules permitting payments to landlords for 'vulnerable' tenants, and for tenants who develop arrears, or have a history of arrears.

Nonetheless over four in five of all tenants in the pathfinder areas received the housing allowance themselves, and the government views the associated substantial rise in the numbers of claimants with bank accounts as a significant success in terms of financial inclusion.

A further pointer is in the government's wider proposals to get more long term claimants, including those with disability benefits, back into work. To the extent this is successful that will mean an increase in the numbers of claimants receiving only partial housing benefit, and in those cases the administrative rationale for making payments to landlords is far less compelling.

If, however, the switch to flat rate allowances for the social housing sector does not proceed then one consequence is that the rent restructuring regime in England will remain in place rather than fade away, as had been hoped would be the case, after 2011/12. The recent review of that regime produced only minor changes, principal of which was the switch so that council rents are now to be set using the same technical formula as for housing associations.

While the formula for housing associations' target annual rent increases continues to be fixed at RPI plus ½%, the completion of the process of convergence between housing association rents and local authority rents removes the rationale for a lower annual increase for the housing association sector, compared with the council sector. It would not, therefore, be surprising to see the rate of annual increase rise to RPI plus 1%, or even 1½% at some point in the future.

One way the government could boost the use of private finance would be by giving an early indication that the RPI plus ½% regime is time limited, and that thereafter rents will keep pace with increases in earnings. If nothing else this would help to ease concerns

about rising maintenance costs squeezing housing associations cashflows. Nonetheless these, and other pressures for efficiency savings are likely to see further mergers, and the trend towards a smaller number of larger associations.

While there is currently much talk about possibly restructuring the architecture of the government agencies funding and regulating the sector, the key question is about the continuation of the support and confidence provided by the current scope of that funding and regulation. Nothing in the discussions about architecture suggests that this will change.

If credit ratings for individual associations may become increasingly differentiated this will be in a context where the sector has an exemplary 'no default' history, and government is fundamentally concerned to sustain the continuing viability of the sector, and its capacity to secure private finance. The pressures on public spending over the next few years can only serve to further entrench that commitment.

Steve Wilcox

THFC Market Report

THFC is an independent, specialist, not-for-profit finance company that makes loans to over 120 Registered Social Landlords, which are organisations, such as Housing Associations, that provide affordable housing to tenants throughout the United Kingdom.

THFC funds itself through the issue of bonds to institutional investors and by borrowing from banks. It therefore acts as an aggregating financial intermediary, so diversifying risk for those who make funds available to THFC and reducing the cost and standardising the loan terms for those RSLs that borrow from it.



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Market Commentary

This year THFC has commissioned a leading independent expert to write a market commentary to accompany the release of its report and accounts.

The author, Prof. Steve Wilcox was awarded a personal chair in Housing Policy at the University of York in 2000. He has a specialist knowledge in the area of housing finance and is editor of the highly respected and widely used annual UK Housing Review (formerly the Housing Finance Review). The views expressed by Steve are his own and do not necessarily reflect THFC's position.

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Prospects for affordable housing

While still only in its mid teens the private finance market for social housing (in its current incarnation) is now well established, and there are a range of indicators that suggest further growth in the next few years as it moves towards its third decade.

There is a rising level of Housing Corporation funding, both for social rented housing and for shared ownership and other intermediate housing market schemes. Alongside that funding there is the push in response to the Barker report to increase the overall supply of market housing (especially in London and the south east), which in turn will potentially generate more sites and cross subsidy for affordable housing schemes, as local authorities increasingly make use of their S106 powers to require new developments to include a proportion of affordable housing.

While it is widely recognized that the forthcoming Comprehensive Spending Review will be difficult, the government has already indicated that some further resources to continue expanding the delivery of new affordable housing will be one of its priorities. At the same time given the

inevitable constraints on public funding the government will be as keen as ever to support new and innovative approaches that maximize the use of private finance, such as the development of shared equity schemes run by mortgage lenders.

The pressures for increases in the supply of both market and affordable housing will be further strengthened by the latest set of demographic projections that forecast an annual rate of growth of 209,000 additional households a year over the two decades to 2026. While there are inevitably uncertainties about such projections, this represents a significant increase over previous projections, and it has yet to be taken on board in terms of revised government targets for the supply of either market or affordable housing.

A continuing programme of local authority housing stock transfers will add to the private finance requirement in the coming years; albeit that the level of funding required is difficult to predict given a sharp rise in the proportion of proposed transfers blocked by negative tenant ballots in both urban and rural areas. Nonetheless despite eight negative ballots in 2005/06 stock transfers proceeded for just over 60,000

dwellings with a private finance requirement of just over £1 billion. The recent announcement of possible further financial freedoms for well rated (“3 star”) local authorities or Arms Length Management Organisations (“ALMOs”- are companies set up by Councils to manage and improve their housing stock that have more operational management freedom) in England could also serve to dilute the appetite for transfers by the minority of councils with such a high rating.

There also appears to have been a marked growth in the level of new investment that is not directly linked to government grants. There are a number of strands to this - the provision of (mainly) shared ownership schemes as part of S106 agreements; associations re-investing receipts from shared ownership partial equity sales “stair-casing” and other sales; and various schemes where associations lease or purchase dwellings to be let at higher than normal sector rent levels, primarily to provide better quality temporary accommodation for homeless households.

Taken together the Housing Corporation estimate that the overall additional requirement for private finance for social housing in

England will be running at around £4 billion per annum over the next five years. However there will inevitably be annual variations, and uncertainty as we get closer to the next general election where the outcome is clearly far from certain.

While the two main parties are both strong supporters of private finance in housing any change of administration could readily see some hiatus in programmes while policies are re-evaluated and re-prioritised, as happened in the early 1990s when there was a pause in the stock transfer programme.

There are other policy developments that will also need to be watched. An announcement is expected shortly about the plans for Planning Gain Supplement. If this is set at a modest level it should not, in itself, cause landowners and developers to hold off new developments, as happened in the past with various forms of land development taxation.

One of the weaknesses of the proposed reforms, however, is that it leaves in place a very unevenly operated S106 arrangement. While local authorities are over time making more use of those powers, and there are some excellent examples of good practice (with four

authorities last year awarded ‘Beacon’ status for their policies and performance in this area), the overall level of financial expertise within authorities to evaluate the realistic S106 yield from new developments is very limited. Further guidance and support for authorities in that area is needed if the opportunities for developing affordable housing are to be maximized.

Housing allowances

Turning to other government departments, there is a commitment to rolling out the new styled flat rate ‘local housing allowances’ normally paid direct to the tenant (rather than the landlord) across the private rented sector, following the conclusion of its two year ‘pathfinder’ programme. The allowances are to be set at median levels for each ‘broad rental market area’, based on the size of dwelling that each household requires.

Some time ago the government also suggested that it was going to introduce ‘pilots’ to examine the possibility of extending this approach to the social housing sector, however little has been heard of that suggestion in recent months. However if the flat rate approach to allowances is more problematic in a number of ways for the social rented sector that does not rule out the possibility that the