Housing Associations in the UK - The Third Arm of Housing

by Adrian Coles

INTRODUCTION

This article examines the nature of housing associations in the United Kingdom and the recent growth in their importance. It describes the government's funding mechanism for associations, the type of houses that associations build and the type of tenants who live in them. It goes on to examine the changes in the environment in which associations have operated since the passage of the Housing Act 1988, and concludes with some thoughts on the future issues affecting associations.

WHAT ARE HOUSING ASSOCIATIONS?

Housing associations are non-profit-maximising bodies directed by voluntary committees, but managed by professional staff, providing housing and associated amenities. Associations may or may not have charitable status. In order to receive public funds, they must be registered with the Housing Corporation. This organisation also regulates and supervises associations to ensure that such funds are used as intended.

At the end of 1992, there were around 2,300 associations registered with the Corporation. The majority of these associations are tiny. Included in this category are the 360 Abbeyfield Societies which provide housing to the extremely elderly, almost 600 alms houses, many founded in medieval times, and 265 cooperatives where, in effect, tenants form the membership of the association, and are collectively their own landlords. There are also currently 250 self build associations, which dissolve once the members have built their homes.

There are around a thousand of what might be called mainstream associations providing rented and shared ownership housing (where individuals part own and part rent a property) and hostel accommodation. Some associations specialise in meeting the needs of specific individual groups such as the elderly, the mentally ill, or the single homeless, while others offer a wide range of accommodation reflecting needs across the entire spectrum. At the end of 1992 there were 17 associations with more than 10,000 properties. The largest is North British with almost 30,000 homes.

Two recent developments are worthy of note. Over the last five years the Housing Corporation has promoted the creation and growth of black housing associations. Many reports have shown that black people face particular difficulties in gaining access to good housing. New associations have, therefore, been formed with the express intention of meeting the needs of black and ethnic minority groups.

The second recent development has been the growth of large scale voluntary transfer associations. These are normally established by individual local authorities (which are the main providers of social housing in the UK) which then transfer their entire housing stock to the association, as long as there is a favorable outcome from a tenant ballot. The current regulations applying to local authorities and housing associations mean that the LSVT associations will probably be in a position to undertake a larger development programme and charge lower rents than if the housing stock were to remain in the local authority's hands. Nevertheless, a number of ballots among tenants have been lost. There are currently about 20 voluntary transfer associations.

THE GROWTH OF ASSOCIATIONS

In terms of the total stock of dwellings, associations are relatively unimportant. Currently they own around 750,000 dwellings, equivalent to around 3% of the total number of homes in Great Britain. Between 1981 and 1991, the number of association dwellings rose by just under 300,000, broadly equivalent to a single year's growth in the number of owner occupied dwellings.

However, in terms of new-building, the associations are of greater importance. There has been a sharp increase in the number of association starts over the last two or three years, the figure more than doubling from just 14,000 in 1988 to around 32,000 in

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1992. Over the same period completions have risen from 13,000 to 25,000. Associations are now relatively more important than they have ever been. As recently as 1988, local authorities started more new homes than housing associations. In 1992 housing associations made a start on ten times as many homes as local authorities. The growth in housing association activity has not, however, compensated for the reduction in local authority building. In the first complete year of Mrs Thatcher's administration, 1980, there were 107,000 completions on the part of local authorities and housing associations. By last year this figure had fallen to around 30,000.

In comparison with the private sector, housing associations have also increased output rapidly. In 1988, associations accounted for just 6% of total starts, including the private sector. In 1992 the figure was 20%.

LOCATION AND TYPE OF NEW HOUSING

There have been a number of changes in the location and type of housing constructed by housing associations over the last five years .

Firstly, the growth in activity has not been identical across the whole of the country, but rather has been concentrated in particular regions. There has been a much more rapid growth in South East England, Greater London and East Anglia. There has been relatively slow growth in the number of starts in the East and West Midlands, in the North of England and also in Wales and Scotland. This regional trend is perhaps not surprising given that areas of greatest housing stress and most rapidly rising unemployment in recent years have been in southern England.

A second significant change has been the downturn in rehabilitation work. The statistics show that during the 1980s the peak rate of rehabilitation was reached in 1984, with 18,400 units becoming available. The figure fluctuated around 11,000 until 1990; in 1991 the number fell to 6,400 although there seems to have been an increase in 1992. It appears that the Corporation is keen to keep the level of rehabilitation work at least at its current level.

The third major change follows on from this. Over the last five years there has been a significant reduction in the proportion of work undertaken in the inner-city. The majority of the activity now takes place outside the inner-city.

The final change concerns the type of new-building undertaken. Over the last five years the importance of houses in housing association new-build has increased significantly from around a quarter to more than a half and the importance of flats has declined. This may reflect the increased emphasis being placed on housing homeless families. The other important change has been the shift from very small and very large units with one or four bedrooms to more medium sized units with two or three bedrooms.

TENANTS

There has been a significant change in the type of people housed by housing associations. In 1991 just 29% of housing association tenants were in full-time employment with a further 5% in part-time employment. This represents a major change since 1981 where almost half of all tenants were in some form of employment. Both years were one of recession and the increase cannot be explained by the changes in the national unemployment picture during the ten years. The other changes during the 1980s include a sharp increase (far greater than in the population as a whole) in the proportion of tenants who are retired and more modest increases in the proportion of tenants who are unemployed or who are permanently sick or disabled.

There is a significant dependency on housing benefit (an income related welfare benefit that can cover 100% of rental costs) to meet rents. Even among new tenants in employment, half have such a low income that they are eligible for benefit. Overall, 70% of tenants obtain housing benefit, a point that will be returned to later.

RECENT CHANGES IN THE HOUSING ASSOCIATION ENVIRONMENT

This paper now switches from a fairly factual description of the achievements of housing associations in recent years to an analysis of the changes in the environment which associations have faced recently and which are likely to cause further changes in the future. In simple terms there have been five major changes which have influenced associations recently -

- There has been a dramatic rise in central government funding (channeled through the Housing Corporation) for housing associations, from less than £1 billion three years ago to around £2 billion in the current year. This has been the result of the government's recognition of the increasing level of homelessness, but also of the switch of funding from local authorities to housing associations.

- Housing associations are now partly funded by the private sector. Housing association grants used to cover 100% of the total cost of any project. It now covers, on average, around 70%. Associations need to borrow the rest from the private sector at commercial rates of interest.

- Housing associations are now exposed to risk. Under the old arrangements housing association grants were set at a level which allowed the fair rent system to work, and if schemes needed larger grants, this was often available. In effect the state underwrote many cost overruns. Now associations are generally given a fixed level of grant and, thereafter, are on their own.

- The process of rent setting has changed. Until 1989 rents were set by the local authority rent officer at the fair rent level -

a level which is usually under the rent which would be determined in the free market. Lets which were made before 1989 continue to have their rents set on this basis. However, new lets are undertaken on the assured tenancy (market-related) basis. This means that the housing association itself needs to have its own rent setting policy so as to enable it to decide what level of rents it should be setting for its new lets. In general terms rent levels have been forced upwards. Housing associations must now cover the interest on the private sector loans which they are using to finance their acquisitions; moreover, if associations get their sums wrong, the obvious source of revenue to cover any losses is rental income.

- As noted earlier there has been a major shift in housing association work from rehabilitation to new-build. It is easier and quicker to purchase off the shelf property already developed by a builder, or alternatively to purchase off the shelf designs from builders, than it is to purchase a dilapidated building and seek to rehabilitate it. Also it is easier to estimate the costs of new-build with builders held to fixed price contracts than it is to estimate the costs of rehabilitation. The nature of some of the work required becomes apparent only after initial work has been undertaken. The maintenance costs of new-build are lower. There is also anecdotal evidence to suggest that new-build is more popular among tenants, because they contain more modern facilities and overall offer a higher quality of life than do rehabilitated inner-city dwellings.

THE APPROVED DEVELOPMENT PROGRAMME

Housing association development work in England is funded through the Housing Corporation's Approved Development Programme. Over the last few years the ADP has increased rapidly. During the middle 1980s it averaged just over £800 million a year but in both 1989/90 and 1990/91, it grew by almost 20%, reaching over £1.2 billion by the latter year. The period of most rapid growth was in 1991/92, when the ADP reached almost £1.7 billion. This figure will be broadly maintained until the mid-1990s.

The structure of the programme was significantly changed following the Chancellor of the Exchequer's Autumn Statement of November 1992. An additional £597 million was added to the ADP for 1992/93 to enable a group of large associations to purchase, with the help of private finance, 17,000 empty houses on the market. (This should be seen in the context of around one million transactions a year in the whole owner-occupied market.) The bulk of these homes have been newly constructed rather than properties which mortgage lenders have taken into possession or other empty properties. The additional £597 million means that 1992/93 represented the peak year for housing association receipt of public grant. Part of this additional grant is being paid for by a reduction of grant for the succeeding two years. The effect of the housing market package has been to transfer funds that would have been available to the generality of developing associations for the construction of new-building in the future, to spending this year on existing housing by a small number of larger associations. Furthermore, for the first time associations were used to regulate the level of activity in the private market. Previously housing associations had an agenda dictated entirely by the requirement to provide housing for those in need; the recent purchases are consistent with that requirement, but were not motivated by it.

THE ADP AND THE FUTURE

The direction in which the Housing Corporation wishes to see the Approved Development Programme spent has a fundamental impact on housing association development. The ADP plans for the next three years were published at the beginning of 1993. Three trends stand out in the Housing Corporation document which accompanied the announcement. Firstly, the commitment to using housing associations to regulate the level of activity in the private housing market remains. The Housing Corporation's publicity leaflet states that "restoration of confidence in the housing market will continue to be a priority in 1993/94 ... in addition we anticipate that a significant proportion of our rented approvals will be for the purchase of existing new or secondhand properties". This is the only mention of the word "priority" in the entire eight page document. It remains to be seen how far this policy is implemented by the Housing Corporation regions actually responsible for the distribution of grants.

The second major change apparent from the new ADP is the increased emphasis from next year on shared ownership programmes. "The conventional housing for sale programme is pegged at its 1992/93 level in 1993/94 since we do not believe it sensible to risk adding to the current market overhang." Shared ownership offers a means of entry into the owner occupied housing market for those not able to afford to purchase an entire dwelling. Typically, a housing association will build a property and then seek a buyer for, say, half of the equity which will be purchased by a customer using conventional mortgage finance. The other half would be rented. Over time the occupier will "staircase" up to full ownership obtaining further additional mortgage finance as necessary.

Housing association low-cost home ownership initiatives will represent around a quarter of total housing association completions by the mid-1990s. Between 1993/94 and 1995/96 the only growth in the ADP forecast is in housing for sale. The rented ADP is projected to fall from £1,557 million in 1993/94 to £1,416 million in 1995/96, down 10%, while the housing for sale component rises 25% to £330 million over the same period.

Thirdly, the outlook for do-it-yourself shared ownership, whereby housing associations part purchase existing dwellings which have been brought to their attention by the individuals who wish to live in them, is particularly favorable. In this category the ADP rises by nearly a third over the next three years. From the housing association point of view, DIYSO is particularly advantageous, compared to new-build shared ownership, in that it removes from associations, the risk of them building houses in which they cannot sell shares. Indeed, one or two shared ownership associations have faced financial difficulties in recent years through their inability to sell the houses which they have built. A further factor as far as the Housing Corporation is concerned is that "DIYSO approvals will all result in acquisitions of existing private dwellings", again reflecting the Corporation's requirement that associations operate with the needs of the private market towards the front of their minds.

FUTURE CHANGES IN THE ENVIRONMENT

So far it has been established that housing association activity will be geared much more closely to the requirements of the private housing market than has been the case in the past. There are, however, other changes that will affect the environment in which housing associations operate in the future.

The first of these concerns the growth of housing benefit. Housing benefit is a targeted form of welfare payment which is available to tenants to help them meet their housing costs. Government expenditure on this item has doubled in the last four years from around £3.8 billion in 1988/89 to over £7 billion in 1992/93. Rent allowances (that part of housing benefit which is paid to housing associations and private tenants) has risen even more rapidly, from around £1 billion four years ago to £2.5 billion this year.

For the first time in 1992/93 the total cost of housing benefit is exceeding that of mortgage interest tax relief. The reasons for the increase in benefit payments are two fold :

- The rapid growth in unemployment and short-time working in recent years;
- The sharp increase in rents following the deregulation which followed the 1988 Housing Act.

It is clear that from the Public Expenditure White Papers published in recent years which set out government plans for future spending, that the government has had little idea that housing benefit would increase as much as it has done. In the February 1991 Public Expenditure White Paper for example, the government said that expenditure on rent allowances would increase by 6% in 1991/92. The 1992 White Paper records that rent allowance expenditure actually rose by 37%. The earlier report also forecast that allowances would rise by 12% in 1992/93. The 1992 report increased this figure to 19.2%.

In a tight public expenditure situation with the government needing to borrow £1 billion a week from the financial markets in order to fund its deficit it cannot be assumed that the existing housing benefit system will be allowed to continue. Any restriction on housing benefit availability would have a particular impact on associations given the make-up of their tenants.

However, as well as the possibility of controls being imposed on the growth of housing benefit expenditure, the government is also seeking to limit the grant rate which it pays to associations. The major reason for introducing private finance into housing association balance sheets was the desire to stretch the public finance which was available. The greater the input of private finance the more new dwellings will be built for a given input of public finance. However, the greater the input of private finance, the higher will be the level of rents, because there will be a greater interest burden, and the higher will be the level of housing benefit claims. This gives the government something of a dilemma.

The government has indicated that it wishes to reduce grant rates from the current level of 67% to 55% by the mid-1990s. The greater the input of private finance the less security the lenders have and the more careful lenders will be in their assessment of individual association's financial strength. It is likely that a reduction in grant rates in the mid-1990s would lead to a reduction in the number of developing associations. In 1992/93 housing association grant was given to over 560 associations. However, a leaked Housing Corporation paper, which became public just before Christmas, indicated that by the mid-1990s this figure could come down to just 87, that being the number of associations that could meet certain financial ratios which were being examined as indicators of the financial strength of associations. Although the Housing Corporation has indicated that the paper which was leaked did not represent Housing Corporation policy, it is likely that the market place, in the shape of the financial institutions, will impose their own thoughts on which associations are viable as developing associations, if the reduction in grant rates eventually goes ahead.

The third major change which may occur in housing associations environment concerns the "ring fencing" of housing association grant to housing associations. There is no reason why government funding to meet the need for subsidised housing should be channeled entirely through one type of particular institution with its own set of values and traditions often at odds with the values which the current government wishes to promote. Private sector institutions have been asking themselves for some time why it is not possible for them to be in receipt of government grant to compete in the markets in which housing associations currently operate. Over the last few years housing associations have gradually become increasingly like private sector operations, tapping the private capital markets, implementing their own pricing policy with respect to rents and offering an increasing proportion of their output for sale, that the switch of funding (if it occurs) from housing associations to what one might regard as the mainstream private sector could be regarded as more apparent than real.

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intentions of the new government of national unity. The NHF could become party to a statutory body on housing policy or could dissolve entirely, leaving its members as interest groups who will lobby the government in respect of their individual interests. Whatever the possibilities, however, it seems likely that the success of the Forum in bringing together key housing interests in an extremely heterogeneous society will contribute to a more effective, legitimate and accountable housing process in South Africa in the future. ■

NOTES

[1] Urban Debate 2010, Vol.9: *Housing for All: Proposals for a National Urban Housing Policy*, Urban Foundation, 1990.

[2] Friedman, Steven: *The Elusive Community: The Dynamics of Negotiated Urban Development*, p.60, Centre for Policy Studies Research Report No.28, February 1993.

[3] Urban Debate 2010, Vol.9: *Housing for All: Proposals for a National Urban Housing Policy*, Urban Foundation, 1990.

[4] National Discussion Forum Memorandum to CODESA, February 1992.

[5] ibid.

[6] Cargill, Jenny: *Toward Interim Government: National Forum on Housing Likely to be First Tangible Expression*, p.3, Finance Week, October 31 - November 6, 1991.

[7] Friedman, p.56-57.

BANKING SUPERVISION . . .
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Presentations to Boards of Directors

The Head of the Banking Supervision Department also makes annual presentations to the boards of directors of all banks. These presentations consist of an overview of the banking sector as a whole, as well as a discussion of each risk area in the individual bank, based on the information submitted to the Department by the bank concerned.

Macro Report

A macro report reflecting the latest developments in the banking sector as a whole is compiled on a monthly basis.

Annual Report

The annual report of the Registrar of Banks, which is laid before Parliament on an annual basis, reflects not only the latest trends in the banking sector, but also the direction in which the regulatory environment in South Africa is heading.

Disclosure

The Bank Supervision Department strives to ensure that a proper framework exists for disclosure in the banks' annual financial statements, in accordance with generally accepted accounting practice, to enable depositors to form an informed opinion on the financial soundness of particular banks.

CONCLUSION

The rapidly changing financial environment in South Africa and the rest of the world poses new challenges for the management of banks and banking supervisors. These challenges require new approaches and innovative thinking in order to ensure that the risk-management process continues to be conducted effectively.

Furthermore, all key players in the risk-management process need to be aware of how their responsibilities change as a result of environmental changes, so that effective contributions can be made to the entire risk-management process. ■

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CONCLUSION

Housing associations have grown rapidly in recent years. However, the period of accelerating growth has now come to an end and associations need to consolidate. Associations have become much more integrated into the private sector in recent years and are beginning to take on some of the private sector values and lose their distinctiveness. This trend is likely to continue over the next few years. If housing associations are forced to compete with the private sector generally for housing association grant from the Corporation, this transformation will be completed fairly rapidly. ■