Scrutiny Committee
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Report of **Head of Health & Housing**

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Report No. 38/09

Wards Affected
All

Implications of the Recession – housing and the financial crisis

Recommendations

Note the contents of the report.

1. Purpose of Report

1.1 This briefing considers the impact that the recent economic crisis has had on social housing providers and the implications of various interventions made by the Government in response. The report also informs Members of some of the specific local impacts that the financial crisis has had and the response of the Council's housing services to the challenges raised

2. Relationship with corporate plan

2.1 This report relates to the strategic objective of meeting people's needs for housing.

3. Background

3.1 The global economic crisis has had an unprecedented impact on the housing sector and generated a succession of Government initiatives in response.

The slump in home ownership has increased demand in the rented sector, putting waiting and transfer lists under increased pressure.

The building industry has suffered significant trauma and the loss of capacity in the industry may prove to be an issue when the economy moves out of recession.

The impact of the mortgage lending crisis has also had a serious impact on the normal operations of Registered Social Landlords (Housing Associations).

Sales of shared ownership homes have slowed down considerably due to the impact of lending restrictions and a drop in valuations.

The demand for housing advice and assistance has increased markedly, putting an increasing strain on the Housing Advice Team.

4. The Government's response

4.1 As the crisis has unfolded the Government has introduces various measures including:

- From April 2009 the waiting period before Income Support for Mortgage Interest (ISMI) reduced from 39 to 13 weeks and the capital limit for new claims increased to £175,000 from £100,000.
- Stamp duty threshold increased from £125,000 to £175,000 for one year
- £200m for Mortgage Rescue – to assist housing associations offering shared ownership, shared equity or sale and rent back options to eligible households.
- £200m to the Housing Corporation (now the Homes & Communities Agency or HCA) to enable housing associations to buy new properties on the open market to soak up excess supply.
- A national "clearing house" for house builders with proposals to sell unsold stock as affordable housing to the HCA
- An additional £270m allocated to the HCA for 2008-11 including additional HCA funding to enable RSLs and developers to put together packages of units across a series of sites. For example, Sanctuary Housing Association have purchased 335 units on 19 sites from Bloors Homes including 11 properties on the Folly Farm development currently under construction in Faringdon. These are in addition to the affordable homes being delivered through planning gain.
- £250m Decent Homes investment brought forward to 2008-10, including £60m for energy efficiency measures
- HomeBuy Direct introduced in January 2009 – £300M made available for households (mainly first-time buyers) with incomes below £60,000. This provides an equity loan of up to 30% of the value of a new property, funded jointly by the Government and the developer, free of charge for five years. Funding recently increased by a further £100M.
- Regional Development Agencies to support the most critical regeneration schemes with the most potential to transform their communities which have slowed down or stalled due to market conditions.
- 'Kick-start' funding made available through the HCA to bring forward major sites where full planning permission is in place but progress has stalled due to the economic downturn.
- Additional action on mortgage rescue. The programme announced in September to start early (December) in 60 local authorities. Major lenders agree to delay

repossession proceedings for at least three months. Eligibility is also extended from loans of up to £100,000 to up to £200,000

- Most recently the Government has announced £400M in grant funding to local authorities to build up to 3,000 new council homes. This is only likely however to be practicable for LAs who have retained housing of their own, maintain the necessary labour skills, *and* who have their own land readily available.

5. Implications for the supply of new affordable housing

5.1 RSLs have relied mainly on S.106 planning agreements to provide housing stock for affordable rent and new-build Homebuy. The general downturn in private sector development has led to concerns about the long-term supply from this source. Furthermore, even when agreements are in place, developers are seeking to renegotiate them as the surplus they originally expected to make from the development evaporates.

5.2 RSLs have traditionally used the receipts from shared ownership sales to cross-subsidise the purchase/development of affordable rented properties. However this income stream is reducing because;

- RSLs have experienced a severe slowing down of new-build Homebuy sales.
- The introduction of the 'Rent to Homebuy' scheme is becoming more widespread as a means of enabling would-be purchasers to live in a home which they may wish to buy at a later date.
- Housing applicants wanting to purchase through 'shared ownership' schemes are being required to contribute deposits of at least 10% which is greatly restricting mortgage eligibility and therefore demand.
- RSLs are also experiencing increasing competition from shared equity schemes offered by private developers.
- Reduced valuations on new build properties are affecting both sales prices (and therefore receipts) and the purchaser's capacity to borrow for shared ownership.

5.3 Funding in the current year for the Mychoice open market Homebuy scheme was very quickly fully allocated due to its popularity, however, it is looking unlikely that this scheme will continue to operate next year as it is proposed that funding is concentrated on helping developers to sell their own open market sale properties. This will effectively restrict the options open to housing applicants for low cost home ownership to new-build schemes only.

5.4 On the plus RSLs have been successful in securing affordable housing from developers keen to achieve some certainty of selling completed units – both on some small sites below the affordable housing obligation threshold, and on sites with a S106 agreement for delivery of a percentage for affordable homes but where the RSL has agreed to purchase the whole site. These sites have been instrumental in improving delivery which would otherwise have been much reduced. In the Vale 180 such units will be delivered over the next three years.

5.5 Banks have become more risk averse and are scrutinising business plans, management and governance processes much more closely. For many social landlords, cash flow is dependent on credit arrangements with their lenders and their stock is their collateral. As property prices have dropped, so has the value of the collateral, and that in turn has increased the level of gearing – the ratio of the businesses' debt to its capitalisation value.

5.6 Tenants will also be feeling the impact of the economic downturn. As unemployment increases and household budgets come under pressure, social landlords may see an increase in arrears and in demand for benefits advice.

6. The impact on our services

6.1 The Local Government Association is now predicting an increase of 400,000 households over the 2007 level on waiting lists by 2010, bringing the total nationally to two million households. The National Housing Federation estimates that, on current trends, 1 in 10 households will be on council or RSL waiting lists by 2020.

6.2 The number of people seeking housing advice in the Vale has increased by 50% in the period from January to April 2009. The Housing Register has increased from around 3600 applicants to just under 4000 between April 2008 and the end of March 2009. This is putting a growing strain on the Housing Advice Team and increasing the amount of administrative work required.

6.3 There is already evidence that pressure on housing waiting and transfer lists is also increasing as the number of re-lets has fallen. An analysis of the Housing Corporation's performance indicators for 2006/07 has identified that the drop in the number of housing association homes that are relet almost matches the reduction in the number of new properties being built. This may reflect both the slow down in people moving into ownership and lower labour mobility as the recession bites.

7. Our response

7.1 Despite these pressures we have managed to keep a firm ceiling on the numbers of applicants being placed in temporary accommodation through effective homelessness prevention measures, in particular providing tenancies with private sector landlords through our very successful Rent Deposit Scheme. This provided 93 placements during 2008/09 and has already achieved 43 private tenancies in the first quarter of 09/10.

7.2 The county has secured £30,000 in Government `Recession Impact Funding` for a joint initiative with the other Oxfordshire district councils aimed at homelessness prevention and the reduction in the use of temporary accommodation. In addition we have secured £38,000 Government funding specifically to support advice and other initiatives aimed at preventing homelessness through avoiding repossession, provision of hardship loans etc. This will support, amongst other things:

- Hardship Fund initiatives
- Mortgage Rescue referral schemes to CAB and money advice centres
- Supplementary funding to the CAB to provide specialist debt advice
- Producing an updated suite of advice leaflets on debt and homelessness

7.3 We have introduced an advice/referral page for residents on the Council's website called "Surviving the Downturn"

7.4 We will continue to work closely with developers and the HCA on some of the very largest sites, such as Great Western Park, Grove and Botley to encourage these sites to come forward by exploring ways to ease or overcome obstacles which have been preventing progress.

7.5 Having achieved the targets for reward grant funding from Local Area Agreement 1 (LAA1), we are continuing to work jointly with our neighbouring District Councils in Oxfordshire towards further reward grant available through LAA2. This additional funding will enable the Oxfordshire Housing Partnership (OHP) to directly assist with future housing projects

8. Conclusion

8.1 The Vale is experiencing the same impact from the economic downturn as our neighbouring authorities across the South East which is seriously affecting delivery of new affordable housing and the future for some low cost home ownership schemes, and seeing a marked increase in the numbers of people seeking housing advice.

8.2 The Council is seeking ways to work closely with our RSL partners, developers and the HCA in unlocking major sites which will maintain delivery of affordable housing during the present downturn and also ensure that we are in a good position to meet demand in the event of an upturn in economic conditions.