



Economic and financial future Recovery... or not?

NHMF Maintenance Conference

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Introduction

- Economics
- Latest from the government
 - aka... Pre-Budget Report
- Rents and inflation for housing
- Policy issues for LAs... and for HAs
 - Prospects for maintenance



You... 'had it good'

- Growth in the economy sustained over the longest period since the 19th century
 - Housing market and house prices at record levels
 - Positive but with significant downsides
 - Record investment in public expenditure
 - Housing climbed the priority ladder – driven by both condition and affordability issues
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- Average rents rose 32% between 2001 and 2010
 - Government capital investment in housing was £2.7bn in 1998/99 and £11.3bn on 2008/09
 - Total investment in decent homes has been £33bn



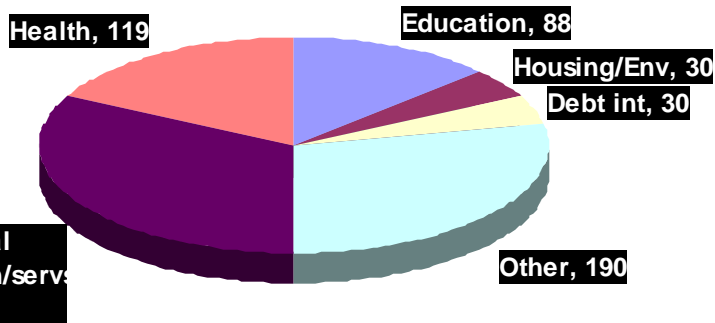
Credit crunch and downturn

- Finance and housing drove the growth...
 - ... and drove the crunch
- Downturn quick and deep
- Housing market decline...
 - Mortgages (despite optimism in July 2007 Green Paper)
 - Availability, rates and Loan to Value
 - Drop in sales volumes
 - Drops in house prices
 - New build housing: market and affordable
- **VUWL**: who knows?

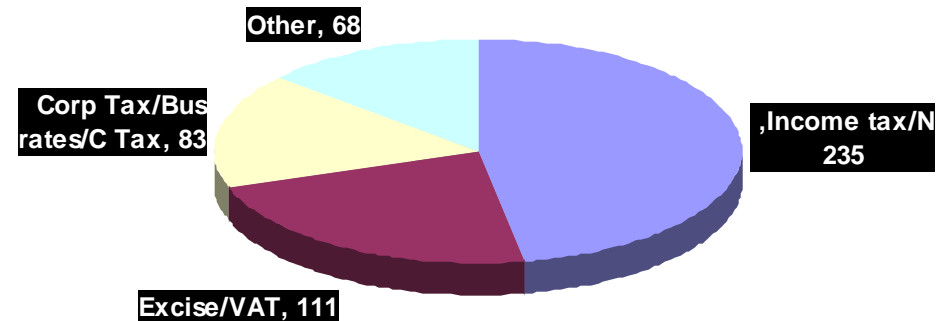


How bad is it?

HMT Pre-budget report 2009/10 projections



Expenditure £676bn



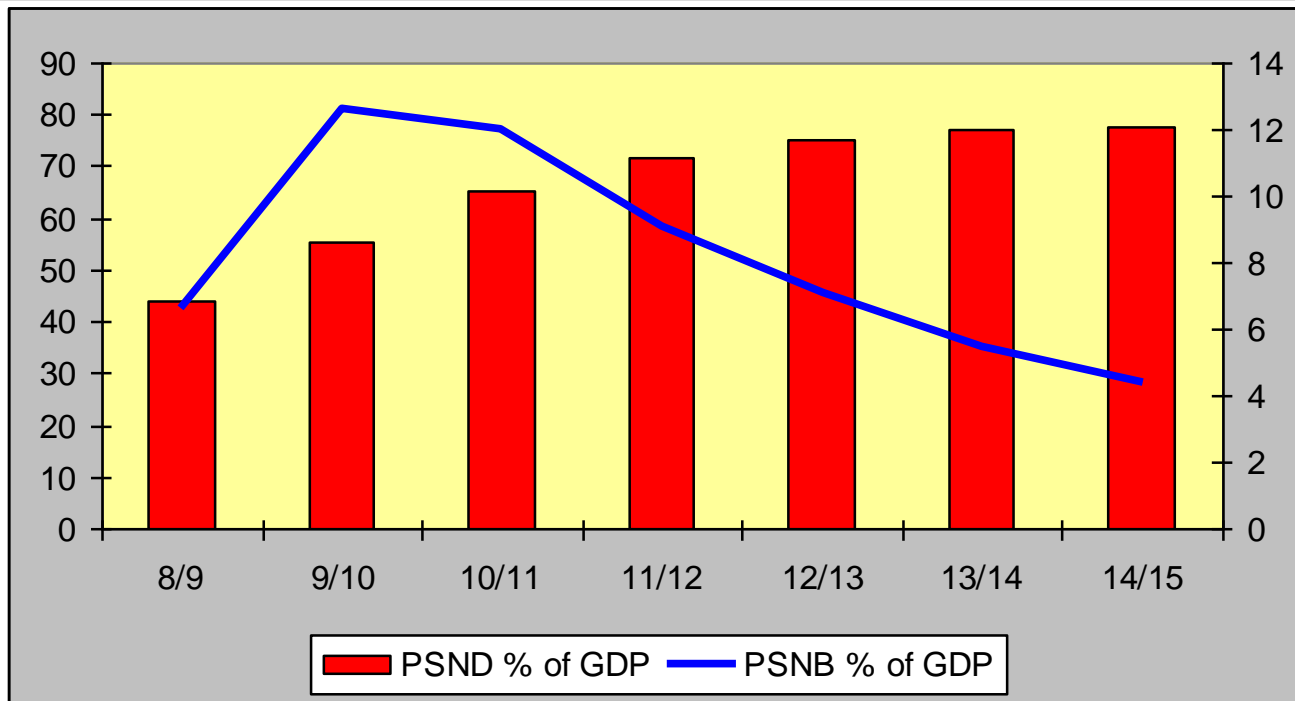
Receipts £497bn

- Pre-budget report projections for 2009/10
- Position...
 - Continues into 2010/11
 - Gap closes from 2011/12 as taxes rise and expenditure falls



A timetable for recovery...

Proportion of GDP that is borrowing and debt: total and annual



- Not until 2015/16...
- PBR commits borrowing to reduce to 5.5% of GDP in 2013/14 – debt still rising at the end of next CSR cycle
- Golden Rules...?



Government response: continued investment?

- Sticking to plans for spending on 2010/11
 - In overall terms
 - Efficiencies and redirections of £1.24bn
- Growth in public expenditure
 - 0.8% in real terms between 2011/12 until 2014/15
 - Health: growth in line with inflation
 - Education: 0.7% annually in real terms
 - Police and public safety protected
- Funded how...?
 - Borrowing and Efficiencies
- Other expenditure areas?



Government housing response

- Mortgage rescue schemes
- Mortgage access
- *Building Britain's Future* June 2009
- Kickstart for HCA and HAs
- £350m for local authority new build
- Fiscally: short term positive but long term uncertainty



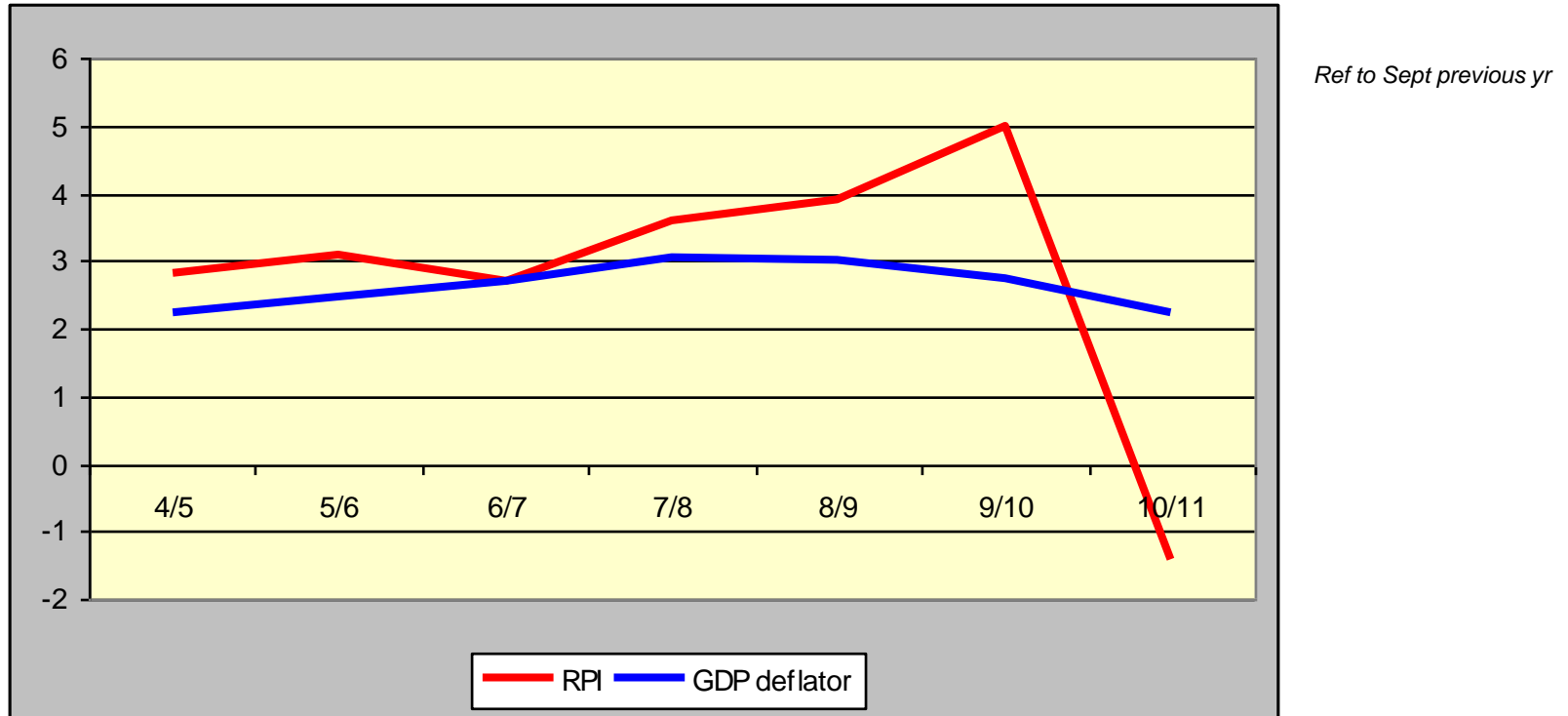
Key drivers for housing spending...

- Housing expenditure is not all 'hypothecated'
- For capital we rely on...
 - Capital expenditure via the HCA to support new build and regeneration programmes
 - Privately financed loans funded from future rents
 - Other capital investment and grants (eg Warm Front)
- Revenue relies on rent income
 - For HAs, keep rents and recycle into maintenance and management
 - For LAs and ALMOs, redirection via a national pooling process
- Drivers for income: rents and Housing Benefit
- Drivers for expenditure: inflation measures



A mixed story over time

RPI and GDP deflator 2004-2010/11

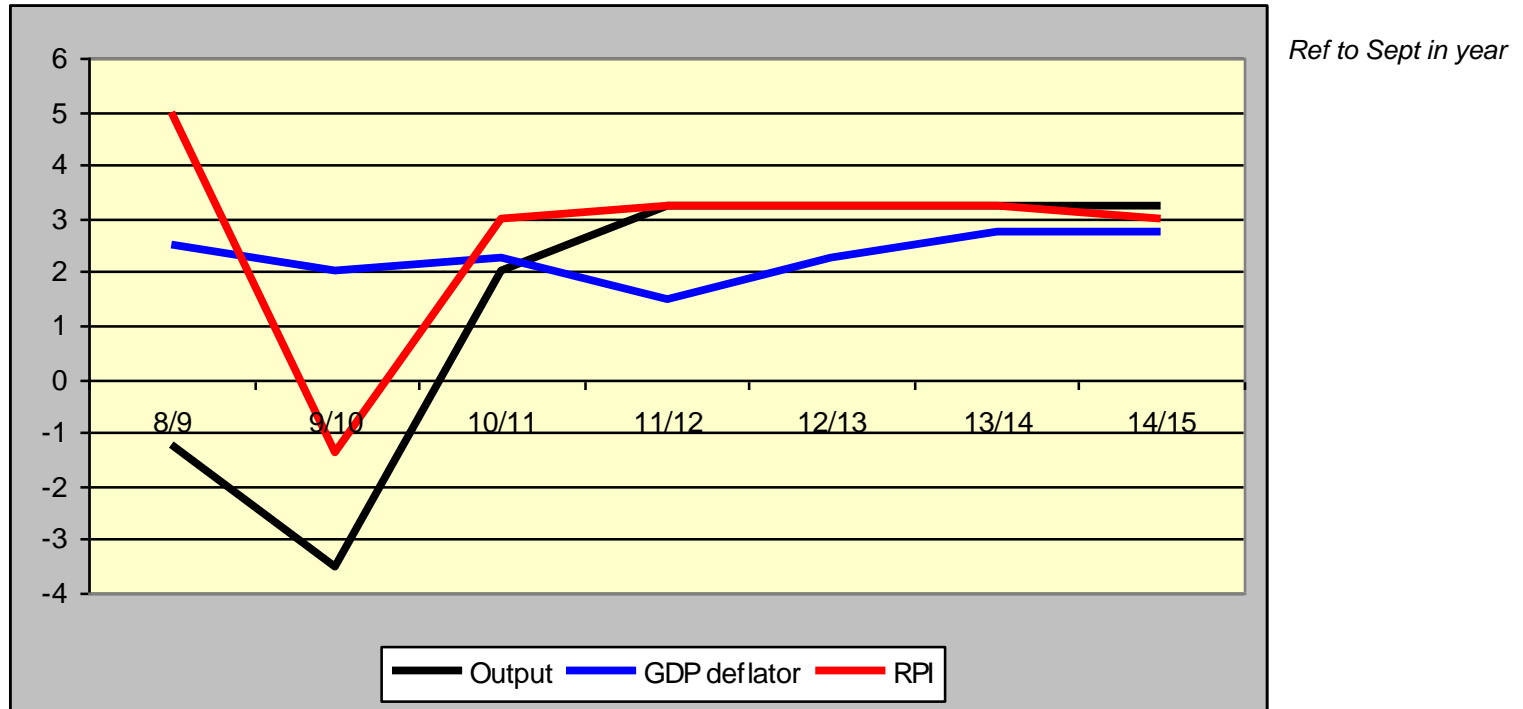


- For HAs, rents driven by RPI – plus 0.5% - sustained pattern until Sept 09 – >32% rise
- For LAs and ALMOs, GDP deflator the key driver for expenditure inflation:
 - Rents growth even greater earlier in decade – since depressed
 - Could this be about to change?



Forecasting the future

GDP growth, RPI and GDP deflator forecast 2009 onwards...

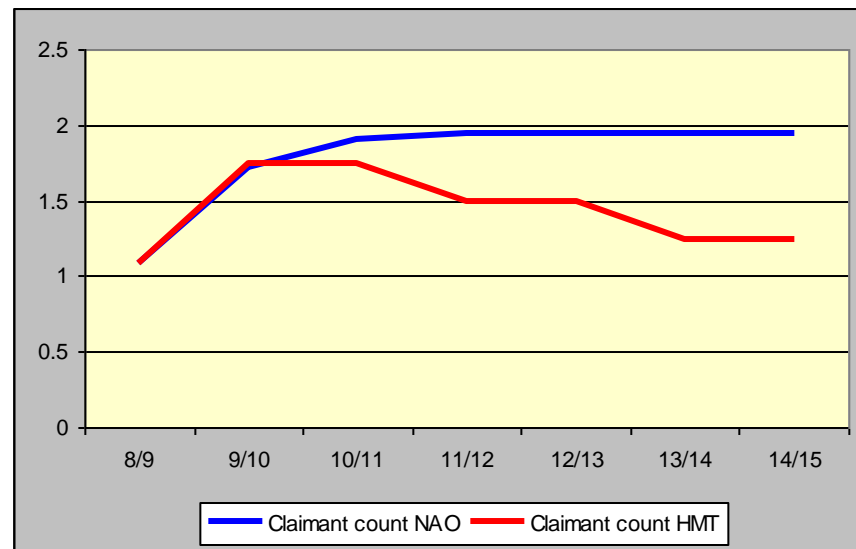


- Output forecast to return to 3%+ increases from 2011/12
- RPI forecast to settle above 3% from 2010/11
- GDP deflator reflects changes in GDP happening now



Rents and Housing Benefit

- Link to RPI plus 0.5% for target rents
 - Rent 'influencing' or Rent 'restructuring'
- Housing Benefit a key issue
 - 65-70% of rents covered by HB
- HB set to rise from £17bn to £21bn between 2008/09 and 2010/11
 - Claimant count rising
 - NAO vs HMT (as a guide)
 - Proposed LHA changes delayed to 2011 but reductions around fraud prevention?
- How will HB policy develop?



Rents and inflation: summary points

- RPI returning to above 3%
 - If target rents remain RPI plus 0.5%, real terms increases in gross resources...
 - For LAs, RPI exceeding GDP deflator means successive withdrawal of net rent income ... if the system continues
 - Prospects for 'more' market renting
- And... impact of HB reform critical
- ***Glass half empty...***
 - HB restricted through reform -> reduced rent collection rates and real terms income loss
 - Pressure on HB leads to removal of 0.5% real increase
- ***Glass half full...***
 - Can't touch RPI+0.5% real increase because of need to finance new build
 - HB might be used to 'take the strain' on financing of new housing



Key policy areas: new build/capital

- Key issue around maintaining economic activity but...
- Short term gain...
 - Kickstart to 2010/11 and LA new build: 3,500 new HRA build and over-subscribed programme
- Longer term pain...
 - National economic efficiencies
 - £35bn targeted within CSR07: c£9bn so far...
 - Plus...£11bn 'smarter government' and £5bn 're-prioritisation'
- ***Glass half empty...***
 - Difficult to see HCA budgets resisting these pressures
 - More cross-subsidisation, more rent cross-subsidy, more innovative ways of financing building
- ***Glass half empty...***
 - Opportunities to link to government priorities



Key policy areas: LA finance reform (1)

- Review of council housing finance reform 2008-09
- Consultation summer 2009 proposed to dismantle the current subsidy system and replace with self financing
- Key points...
 - Settlement of each individual HRA's finances through a one-off adjustment of housing debt
 - Based on a cashflow forecast similar to stock transfer but using subsidy assumptions
 - Assumption of uplift in allowances in the settlement – 5% and 24% at the national level
 - Rents and receipts to be retained locally
 - Overwhelmingly positive response from LAs and the various agencies and trade bodies
- Towards a more long term asset management strategy



Key policy areas: LA finance reform (2)

- Key issues for LA/ALMO finance people – and therefore for you...
- 1. Nationally, the path of rent increases would have exceeded what the government let LAs spend... will they want some of that up front?
- 2. National assumptions... local impact – how close is the Major Repairs allowance to what you really need to spend?
- 3. Housing is (should be) an investment business: borrowing to invest, repaying from income – will we be allowed to?
- Theoretically... a long term asset management plan
- Practically... ?



Key policy areas: LA finance reform (3)

- The very near future...
- The case for HRA reform is accepted by (virtually) all
 - Government policy and the policy of any alternative
 - Legislation to back this reform will come to pass in time
- Voluntary offer next month
 - Assessment of the financial position required immediately
 - Responses may be needed from officers, members and tenants very quickly
- Impact of election
 - Uncertainty and the purdah period?

However this develops, long term maintenance will be the key



Prospects for change and opportunities

- Where will the government be investing?
- Beyond decent homes: a national standard but will it be new?
- Green agenda, energy efficiency and retrofit
- Land and asset management: long term decisions on asset re-use
- Growth in the vulnerable private sector (ageing population)



Summary: two mixed pictures...

- Mixed picture (1): short term 'gain' and longer term 'pain'
- Mixed picture (2)
- Capital
 - Efficiencies and savings
 - Cost of finance and availability of grant funding
- Revenue / day to day
 - Rental growth – in all senses, but HB will be critical
 - How good will the deal for LA housing be?
- At a time of national constraint...



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