

# Embedding financialisation: A policy review of the *Affordable Homes Programme*

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Housing continues to be a concern for policy makers, providers and society at large. The housing market has exhibited dysfunctional characteristics with unsustainable price increases at one extreme and increases in eviction rates at the other. This paper contributes to the debate over the future of housing in England by reviewing the *Affordable Homes Programme* (AHP) within a financialization framework.

A common policy conclusion is that not enough houses are being built, exacerbated by a lack of government funding and leading government policy to be geared towards delivering the maximum number of houses from the limited amount of public funding available. Through the course of two *AHPs* (2011-15, and 2015-18), the level of grant funding per home has been dramatically reduced. The resulting shortfall is expected to be filled by developing housing associations own resources, the use of affordable rent products and increased borrowing.

To understand the potential impacts and sustainability of the *AHPs* this paper utilizes the ideas financialization. Financialization is a multi-faceted process that seeks to explain the increased role and power of the financial markets in society. Specifically the paper shows that the *AHP* not only leads to increased debt levels in the social housing sector but is also predicated on aspects of the shareholder value revolution, in particular an emphasis on short-termism.

## **Introduction**

Housing continues to be a popular topic for discussion and concern for policy makers, providers and society at large. The housing market has been seen to exhibit dysfunctional characteristics with unsustainable price increases at one extreme and increases in eviction rates at the other. This paper contributes to the debate over the future of housing in England by reviewing the *Affordable Homes Programme* (AHP) within a financialization framework.

A common policy analysis concludes that not enough houses are being built (Lyons, 2014). This conclusion is not held by all. For example Danny Dorling (2014) argues that there has never been more bedroom space available in the UK, the problem is the inequalities in access to, and distribution of those homes. This is exacerbated by a lack of government funding for public services generally. In these circumstances, government policy has been geared towards delivering the maximum number of houses possible for the limited amount of public funding available. Through the course of two *Affordable Homes Programmes* (2011-15, and 2015-18), government has dramatically reduced the average level of grant funding per home provided to social housing developers. The resulting gap in funding is expected to be filled by developing housing associations own resources, the use of affordable rent products and increased borrowing.

To understand the potential impacts and sustainability of the AHPs this paper frames an analysis utilizing the ideas financialization. Financialization is a multi-faceted process that seeks to explain the increased role and power of the financial markets in society. Specifically the paper shows that the AHP not only leads to increased

debt levels in the social housing sector but is also predicated on aspects of the shareholder value revolution, in particular an emphasis on short-termism.

This paper presents a review and analysis of the AHP in England, utilizing a financialization theoretical framing to understand the impacts and sustainability of the programme. To achieve this, the paper is structured as follows; the next section sets up the theoretical framing by exploring ideas related to financialization (Cooper, 2014; Harvey, 2012). This is followed by a section that sets the context of the housing market in England. The next section analyzes the AHP policy by relying on policy documents issued by the government bodies, a report prepared by the National Audit Office (NAO) and the coverage of the policy in industry publications. The final section discusses how the AHP is embedding financialization in the social housing sector.

## **Financialization**

Financialization is term that is increasing being used to capture a range of processes that have become evident since the financial crisis of 2007/08, although the term has been in use in certain academic circles for two decades<sup>1</sup>. Much of the debate has focused on the increasing power of financial capital through the financial services industry in relation to the household unit; for example, the subprime mortgage market in the US (Ashman, 2009; Fine, 2010; Lapavitsas, 2009). While some of the theoretical underpinnings used in these debates are relevant to the analysis in this paper, the overall focus is in a different direction and towards the financialization of a sector of the economy.

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<sup>1</sup> The debates around financialization that have been present in many left-leaning economics journals over the past twenty years, often have theoretical roots in the Marxist-influenced analysis of Rudolf Hilferding first published in 1910 (Hilferding, 1985).

Cooper (2014) lays out four key characteristics of financialization:

1. The globalization of the financial markets;
2. The increase in income from financial investment;
3. The shareholder value revolution;
4. The intrusion of finance into commercial relations.

Fine argues that the 'current era of financialization is precisely one in which there has been not only a disproportionate expansion of capital in exchange, through extensive and intensive proliferation of financial derivatives but also the extension of finance into ever more areas of economic and social reproduction' (Fine, 2010: 112). Thus one of the characteristics of financialization is the increase in interest-bearing capital in the UK and global economies (Andersson et al., 2014).

Cooper (2014: 9) argues that the maximisation of shareholder value 'guiding principle of financialisation'. This revolution over the past forty years has led to the adoption of short-term strategies by directors of companies to maintain share prices. These strategies are driven by remuneration packages intended to minimize agency costs and ensure the maximum return to shareholders. In the process boards of directors increasingly engage in activities to maximise shareholder value (such as share buyback schemes) even if this means reducing productive capacity (Cooper, 2014). This 'could mean that the system is killing itself' (Cooper, 2014: 10).

From this brief discussion, two aspects of the financialization process are immediately relevant to the analysis in this paper – the shareholder value revolution with its accompanying short-termism and the increased amount of debt within the economy in the UK economy.

While these are general trends across economies and societies, the role of housing and the city more broadly, in the rhythm of capitalist development and accumulation have been analysed by David Harvey (2012). Understanding the city as a site of absorption of excess (dead) capital that in turn leads to the accumulation by dispossession and monopoly rents, is also relevant. Harvey's conception of *accumulation by dispossession* (Harvey, 2003; 2005), develops from Marx's *primitive accumulation* (Marx, 1990). 'A closer look at Marx's description of primitive accumulation reveals a wide range of processes ... All features of primitive accumulation that Marx mentions have remained powerfully present within capitalism's historical geography up until now' Harvey (2003: 145). Harvey locates the need for accumulation by dispossession in the overaccumulation<sup>2</sup> of capital that has plagued the system since the early 1970s<sup>3</sup>. Accumulation by dispossession seeks '... to release a set of assets (including labour power) at very low (and in some instances zero) cost. Overaccumulated capital can seize hold of such assets and immediately turn them to profitable use' (Harvey, 2003: 149). An example of this process is Arnold and Cooper's (1999) documenting of the Medway Ports, UK privatisation<sup>4</sup>.

For Harvey privatisation has opened state assets, previously off-limits, to overaccumulated capital arguing that:

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<sup>2</sup> Overaccumulation '... is a condition where surpluses of capital (perhaps accompanied by surpluses of labour) lie idle with no profitable outlets in sight' (Harvey, 2003: 149).

<sup>3</sup> Given the secretive nature of capitalists when it comes to profitability (hence the use of commercial confidentiality) differing methods of calculating profit rates have been employed by a range of economists, leading to results that are not fully compatible. However, Harman (2009: 195) is able to conclude that the 'various efforts at measuring it [the rate of profit] have come to a single conclusion: it fell sharply between the late 1960s and the early 1980s'.

<sup>4</sup> Immediately after the privatisation half of the work force was sacked and forced to sell the shares they had in the new private company for a price of £2.50 per share. Within a year the new directors cashed in those shares selling them at £37 per share when the company was taken-over.

... if capitalism has been experiencing a chronic difficulty of overaccumulation since 1973, then the neo-liberal project of privatization of everything makes a lot of sense as one way to solve the problem.

(Harvey, 2003: 149-150)

Here accumulation by dispossession can be seen in social housing developments that reduce the council housing stock through demolitions that produce fewer homes afterwards, or in the conversion of social rented properties to affordable rent levels.

### **Research design**

The paper seeks to build on previous on the previous policy review of the early years of the Coalition government in England from 2010 (Murie, 2012). The analysis below is based on publicly available documents. The focus is on relevant documents produced by two government bodies the Department for Communities and Local Government (DCLG) and the Homes and Communities Agency (HCA). While the DCLG is the central government department responsible for social housing in England, they have transferred the funding of new build social housing and regulatory responsibility to a non-departmental public body, the HCA. The documents analyzed include the prospectuses for the 2011-15 and 2015-18 AHPs, along with update and progress reports for the 2011-15 programme. In addition, an NAO (2012) report into the financial viability of the social housing sector under the AHP was also analysed.

These reports were supplemented with a review of media reports and opinion pieces in the housing trade publications. In the first instance the reports and trade pieces were read to gain an understanding of the overall functioning of the AHP. Based on

this initial impression the reports were read closely to identify key aspects of the financialization process.

Finally, in addition to the themes of financialization developed above this paper adopts a critical realist (Lawson, 2006) attitude towards emergence and generative mechanisms. In brief this means that any analysis of a single policy must be placed in its socio-economic, political and historic context. To that end the next sections provides a brief overview of the housing market in England.

### **English housing market context**

The housing market in England has always been composed of different regions with their own characteristics and performance levels. In recent years these differences have become pronounced with the market in London and the Southeast performing at a qualitatively different level than other English regions. For example, according 'to the ONS in October [2013], the average London house price was 12 per cent higher than a year earlier, compared with 1.3 per cent in the North West and 0.8 per cent in Yorkshire & The Humber' (Wilcox and Perry, 2014: 46). Indeed, an index of regional average house prices suggests that by 2012 London and the Southeast are the only regions where average house prices have recovered and surpassed their pre-economic crisis levels (Britton, 2014).

This structural division in the English housing market means that care must be taken when using whole England averages for analytical purposes. Further there is a growing divergence in housing policy and government interventions in the market as housing has now become a devolved service to the Mayor of London and the Greater London Assembly (GLA).

In addition, there is some debate about the extent to which the government's policies are driving the apparent development of a new housing bubble in these regions (Britton, 2014). In a commentary review the UK housing market, Wilcox and Perry note that there has been an overall recovery in the housing market as measured by increases in both price and transaction levels. Further, 'gross mortgage lending in 2013 will exceed £175 billion and is expected to rise to more than £200 billion in 2014 or 2015; this will be the first-time this level has been reached since 2008' (Wilcox and Perry, 2014: 47).

Against these improving indicators, and despite reductions in unemployment rates, there is a general squeeze on real wages in the economy. In addition, negative equity remains a significant problem only reducing marginally between 2012 and 2013. More worryingly for the government, the ratio of housing costs to incomes remains at historically high levels (even if they have dropped since the crash in 2008); and appear to be increasing again (Wilcox and Perry, 2014: Table 43a). This has led Erik Britton of Fathom Consulting to comment:

Our estimates suggest house prices need to fall by a further 20% to 30% relative to incomes to bring them back to fair value.

(Britton, 2014)

In 2013 the Department for Communities and Local Government (DCLG) published the projected number of households over the next decade in England based on the 2011 census figures. The projections show that on average there is an expected increase in households of 220,000 per annum to 2021 (Wilcox and Perry, 2014a: 39).

Successive governments and others, including the Lyons Housing Review (2014) that was commissioned by the official opposition, have argued that there is an undersupply of housing given the historically lower level of house completions and the projected increases in household formations. The scale of the undersupply has been challenged by housing studies academics (Wilcox and Perry, 2014b: 39); with Professor Danny Dorling arguing that there has never been as many bedrooms available to occupy in England. Dorling's main argument concerns the inequalities in the housing market resulting in hoarding of properties and a skewed distribution of space among the population (Dorling, 2014).

Overall government spending plans continue to be squeezed, through the austerity agenda of the Coalition government. Total Managed Expenditure (TME) is set to increase in cash terms over the period to 2017/18; however in real terms there is expected to be a 1.2 per cent reduction in spending. It is forecast that this will result in a fall in public spending as a proportion of GDP from 45.2 per cent in 2013/14 to 40.5 per cent in 2017/18 (Wilcox and Perry, 2014a: 33).

There remain a significant proportion of homes that have not reached the Decent Homes standard. While progress was made in the social rented sector over the past ten years with a reduction of nearly half to 15 per cent now not achieving the standard, the levels of non-decent homes is significantly higher in the private rented (33 per cent) and home owner (20 per cent) sectors (Wilcox and Perry, 2014: 23b). However, for the Coalition government addressing this aspect of the housing market is not a priority with the reduction in private improvement grant levels (Wilcox and Perry, 2014a: 42).

To summarise, there are structural divisions with the English housing sector in the main between London/the Southeast and the rest of the country. The medium term will see an increase in the number households being formed that will in turn increase demand for housing. Yet despite the recovery in the economy with more employment, many are facing falling real wage levels. Therefore the demand for social and below market rates homes remains high and continues to increase.

### *Policy context*

From 1979, council housing saw major reductions in funding with different forms of privatisation promoted as a policy aim (Lee, 2002). For example, Wilcox reports that the investment levels in housing by English councils fell by over half, from £12,049 million in 1979/80 to £5,263 million in 2012/13<sup>5</sup>. Social housing has seen a range of reforms over the last 30 years and more, including the Right to Buy (RtB), Housing Action Trusts, Tenant Management Organisations and more latterly Private Finance schemes.

The social housing sector has reduced in size from its peak in the mid-1970s of over 30 per cent of the total housing market to 17.5 per cent by 2011 (Wilcox and Pawson, 2013: Table 17b). Second only to the RtB policy, Large-scale Voluntary Transfers – where, with the tenants consent, a local authority hands their housing stock over to a housing association – have had the biggest restructuring impact on the sector. In unit terms the RtB has seen nearly 1.9 million homes privatized in England up to 2011/12 (Wilcox and Pawson, 2013: Table 20a); by way of contrast

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<sup>5</sup> Using 2012/13 a base prices. Wilcox and Perry (2014: Table 57b), *UK Housing Review 2014*. Available at: <http://www.york.ac.uk/res/ukhr/ukhr14/compendium.htm> (accessed on 4 September 2014).

the LSVT policy has resulted in 1,283,208 homes being privatized from 1988 – 2012 (Wilcox and Pawson, 2013: Table 68a).

Housing Associations have therefore become a major and significant actor in the housing market as a whole and the social/below market rate sector specifically. Along with this reduction the sector has been restructured, so that housing associations now provide slightly more social/affordable rented homes than local authorities do.

The housing association sector is now a combination of traditional philanthropic associations alongside more recent transfer associations formed since the changes in the 1988 Housing Act allowed for the development of the LSVT policy. The sector is big business,

according to the *HA Global Accounts 2012* turnover rose by 9% to 13.8 billion ... profits from property sales were up from £326 million in 2011 to £516 million in 2012 ... The sector turned in an overall net surplus of £1.78 billion up from £1.12 billion the previous year. Total assets increased by 5.6%, with the Gross Book Value of housing properties increased by 8% to £118.1 billion. Debt per housing unit increased to £18,372.

Heywood (2013: 27-28)

The sector is also dynamic with evidence of takeovers and mergers leading to centralisation and concentration. The Cambridge Centre for Housing and Planning Research reported that:

In 2008/09, the number of HAs operating in England was 1,578. This represented a decrease of six percent (or 98 HAs fewer) over the previous year and 18 percent (347 HAs fewer) since 2002/03.

Tang (2010: 3)

Further, the biggest reduction in the sector occurred among the very small housing associations (i.e. those with less than 250 homes). Whereas at the top end, the super-large HAs (i.e. those with more than 10,000 homes) continued to grow where 'in 2008/09, there were 54 such super-large HAs compared with 29 in 2002/03' (Tang, 2010:3).

In terms of new house building, local authorities have been severally restricted from developing over the past thirty years. This has resulted in council house building starts falling from over 100,000 in 1975 to just a few hundred each year throughout the 1990s and 2000s (Wilcox and Perry, 2014a: Table 19a). However, the withdrawal of a public house building programme has not led to an expansion of private sector house building 'as predicted in the hypothesis that the state had crowded out the private sector; in fact, total new construction declined' from its high point in 1975 (Murie, 2012: 1032).

Among the housing supply initiatives the government has put in place in recent years are the Help to Buy (HtB) equity loan scheme (£3.5 billion from April 2013 to April 2016), the Help to Buy mortgage guarantee scheme for the UK (up to £12 billion of guarantees to cover £130 billion of mortgage lending to January 2017), the Build to Rent fund (£1 billion) and other smaller schemes such as Growing Places (£0.5 billion) and Getting Britain Building (£0.6 billion) (Wilson, 2014).

As outlined above these policies appear to be have stimulated (possibly overly so – although there is not a consensus on whether there is a new housing market bubble inflating)<sup>6</sup>. The main beneficiaries of which have been first time buyers, while 'second steppers', whose housing transaction activity is needed for a liquid and therefore

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<sup>6</sup> For opposing views on this issue see Britton (2014) and Wilcox and Perry (2014: 47).

efficient housing market, remain less likely to move due to credit restraints and negative equity (Wilcox and Perry, 2014a: 51).

Given these factors there has been an expansion of the private rented sector mainly financed through buy-to-let mortgages. In March 2011 there were 4.1 million households in this sector in England which is expected to increase by a million up to 2020 (Wilcox and Perry, 2014a: Table 21).

To summarise, the social housing sector has seen major changes and restructuring over the past three and a half decades, through the impact of the *Right to Buy* policy; to the growth of the housing association sector. Central to these processes has been the opening up of the sector to private finance. These processes remain the focus of government policy as is explored in the following two sections.

### *Funding environment*

Government spending, on social housing in England, fell from 3.7 per cent of government expenditure in 1985/86 to 1.8 per cent in 2004/05 (Wilcox, 2006: Table 56), before starting to rise again to 2.7 per cent in 2008/09 (Pawson and Wilcox, 2011: Table 56). Part of the reason for this rise is the treatment of capital receipts from the *Right to Buy* policy which are seen as negative expenditure; with their dramatic reduction since 2003, the identifiable expenditure<sup>7</sup> on housing has increased. The continued reduction in investment in social housing can be seen in the Gross investment in Social Housing figures in England, which fell from £13.1 billion in 1979/80 to £7.8 billion in 2009/10<sup>8</sup>.

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<sup>7</sup> 'Identifiable government expenditure is net of housing capital receipts, which are treated as 'negative expenditure' rather than income' (Pawson and Wilcox, 2011: Table 56 note).

<sup>8</sup> In constant prices with 2009/10 as the base; (Pawson and Wilcox, 2011: 57b).

However, these figures can be misleading as the subsidy for housing has been shifted 'through a new system of housing support that masqueraded as social security' (Murie, 2012: 1033). There has been an increase in the number of recipients of state help to cover rents (either in the form of Rent Rebate or Rent Allowance) from 3.3 million in 1988 to nearly 4.2 million in 2011 (Pawson and Wilcox, 2014a: Table 115a). Murie (2012: 1034) reports that the corresponding increase in cost is £9.5 billion in the twenty years to 2007.

To summarise, there has been a twofold process working in the funding context for social housing. First is a simple reduction in funding levels over a long and sustained period. The last few years of the previous Labour government saw this decline being arrested, however the Coalition government's austerity agenda has housing funding under pressure again. Second as public funding has been withdrawn there has been a greater reliance on private finance in different forms and through housing associations as the main conduit into the sector. These processes are evident in the recent government interventions as explore in the next section.

### **Social housing policy review**

Murie points out that despite the presentation of the UK as possessing a weak welfare state with housing as its "wobbly pillar" there is a long legacy of government intervention in the housing market (Murie, 2012). As alluded to above this has continued in recent years even if its form has changed from one of supporting direct provision, through privatization interventions (such as the right to buy and large-scale voluntary transfer policies) to the current policies of market making and seeking increased private finance.

During the 1990s the government pursued the Approved Development Programme (ADP), where eligible housing associations in England were able to access the Social Housing Grant (SHG) on a 'mixed funding' basis (Gibb et al., 1999: 109). The programme required housing associations to bid on a competitive basis against a published target subsidy rate. The SHG was supplemented with private finance through access to *The Housing Finance Corporation* (THFC) and/or borrowing direct from private sector. Small housing associations could bid for 100 per cent SHG if they could not secure private finance. For most developing housing associations the average SHG percentage declined during the 1990s from 75 percentage in 1990/91 to 56 percentage in 1997/98 (Gibb et al., 1999: 109).

The New Labour governments from 1997 onwards prioritized improving the condition of the existing housing stock, mainly in the social housing sector, through the *Decent Homes* programme (DETR, 2000). It was only in later years that the emphasis of government policy changed to developing new social rented housing through the National Affordable Housing Programme, first launched in 2006 with the main round of bids during 2008/11.

#### *The National Affordable Housing Programme (NAHP) 2008 – 11*

The NAHP was the flagship policy of the previous Labour government focussed on addressing the shortage in affordable and social housing in England. The programme was delivered through the Housing Corporation and subsequently the Homes and Communities Agency. The Social Housing Grant remained at the centre of this programme. The bidding and assessment process was complicated, involving two central elements. First was the calculation of the Grant Index (GI) score. The GI is a measure of the value which will be obtained for the public subsidy sought. Its

calculations include an adjustment for the time of delivery (with early delivery encouraged); an adjustment to equalise the different tenure mixes on different projects; and it was calculated on a per unit and per person housed basis to ensure that bids for larger homes were not disadvantaged (Housing Corporation, 2007a: 53).

The second element concerned compliance with the design and quality standards set by the Housing Corporation for access to the SHG (Housing Corporation, 2007b: 2). These standards were embedded in a system, the *Housing Quality Indicators* (HQI). The bids must meet or exceed the HQI standards as set out the NAHP prospectus<sup>9</sup>. Further the GI score also includes an adjustment for the HQI whereby the public subsidy can be increased or reduced by 15 per cent (Housing Corporation, 2007a: 56).

The NAHP was delivered on the basis of a scheme by scheme assessment using the above calculations. Bidders had a range of products available to them under this scheme; the main ones were social rented homes, temporary social housing and products under various HomeBuy schemes. The programme also identified the role of intermediate rents in financing the schemes and the importance of developing homes for Key Workers.

An overall assessment of this programme is difficult to undertake at the moment despite its nominal completion in 2011. This is because, as the National Audit Office estimated in 2012, 'the total remaining spend under the NAHP over the period

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<sup>9</sup> See section 7 of the Housing Corporation (2007a), *National Affordable Housing Programme 2008-11Prospectus*, September 2007, Housing Corporation, London.

2011/12 – 2014/15 will considerably exceed the AHP's total spend (£2.88 billion compared with £1.8 billion for the AHP)' (Wilcox and Perry, 2014: 57).

*The AHP 2011—15 Framework document:*

The new coalition government took time for its policy on social and affordable housing to become evident. Initially, the blue print for housing policy appeared to focus on reforms to the benefit system and lifelong tenancies. With the Coalition government, the previous emphases of Conservative governments on privatising the social rented sector 'was no longer the touchstone of policy' (Murie, 2012: 1034). When house building was considered the focus was on the failures (perceived and real) of the planning system. Leading the new Minister for Housing to write:

For decades house building has failed to keep pace with people's needs. And recently, a combination of the recession, divisive top-down targets and a public subsidy-driven approach has led to a catastrophic decline in the number of new homes.[ . . . ] The previous system did not provide the right incentives for councils and local people to welcome the local growth that they can see is needed.

DCLG (2011: 4).

The new Minister pointed out that the level of house building was at its lowest peace time level since 1923-24.

However, among the early announcements of the new government was an idea that is now central to the AHP, the *affordable rent product*. Affordable was defined as up to 80 per cent of the market rate for that local area<sup>10</sup>. The basic idea is to generate

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<sup>10</sup> Homes and Communities Agency (HCA) (2011: 19), 2011-15 Affordable Homes Programme – Framework, Homes and Communities Agency, London. There has been considerable discussion on what affordable means in practice and how it is to be measured. For a flavour of the issues concerned see the BBC Radio 4, *Face the Facts* programme 'The affordable housing that's unaffordable', 8<sup>th</sup> January 2014. Available at: <http://www.bbc.co.uk/programmes/b03nt9vr>.

additional incoming cashflows that could sustain a higher level of borrowing. Therefore, affordable rents are set at a higher level than existing socially rented homes, whether through housing associations or local authorities<sup>11</sup>. This additional income stream also allows the public subsidy through AHP to be reduced dramatically.

The other major change from the previous government's NAHP concerns the process for assessing the bids. The AHP has a different flexible, delivery model where:

We are looking for providers to set out their proposals for a four year programme covering how they will manage their existing assets and capacity – and in particular how they will use the flexibility to convert some of their current stock to Affordable Rent (or other tenures) – alongside HCA funding – to generate significant volumes of new supply.

HCA (2011: 7).

In effect this means a move from a scheme by scheme appraisal to a whole stock assessment for each bidder over a four year period. In the process bidders are expected to set out the contribution they will make to support their proposals to deliver a programme of new supply (HCA, 2011: 9). In the new model the contribution from bidders is to come from four broad funding sources (HCA, 2011: 8-9):

i) the additional borrowing capacity that can be generated from the conversion of social rent properties to Affordable Rent (or other tenures) at re-let, as well as borrowing capacity generated by the net rental income stream of the new properties developed;

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<sup>11</sup> Although the gap between council, social and affordable rents varies enormously across the country with the differences very pronounced in London and the Southeast and negligible in much of the Midlands and the North.

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- ii) existing sources of cross subsidy, including provider surpluses, income from developing new properties for outright sale, Recycled Capital Grant Funding (RCGF) and Disposals Proceeds Fund (DPF) and s106 cross subsidy;
- iii) HCA funding where required for development to be viable; and
- iv) other sources of funding or means of reducing costs such as free or discounted public land, including local authority land, and local authority contributions for example from the New Homes Bonus.

The products available under the AHP 2011-15, alongside affordable rent homes, are affordable homes ownership, mortgage rescue, empty homes and supported housing for the elderly. Homes to be rented at social rent levels are only to be supported by government grant in exceptional circumstances.

In July 2012 the National Audit Office published a report into the *Affordable Homes Programme* (NAO, 2012). The NAO reports that the AHP is expected to deliver 80,000 affordable homes, for both rent and ownership, over the four years of the programme. This is higher than the expected level of 56,000 homes, when the programme was first launched. The report summarizes the financial ingredients for this outcome:

The Programme is intended to build housing with a third of the grant per home of earlier affordable housing schemes. It will involve housing providers spending some £12 billion on new homes, funded by a combination of government grant (£1.8 billion), borrowing by providers supported by rents on the new properties (we estimate around £6 billion), and funding from other sources (about £4 billion). Rents totalling around £500 million a year on new homes will be paid by tenants, approximately two-thirds of whom are supported by housing benefit.

NAO (2012: 6).

On a per unit basis, using the figures in the NAO report, the average public funding grant is £20,000 per home and borrowing supported from the new rents will be £75,000. Significantly, another £46,000 comes from 'other funding'. This represents an increase of £12,000 per home on the previous programme. The total scheme cost of £141,000 per home is also £14,000 lower than under the previous programme. These figures led one commentator to question: 'So the programme relies more on other funding and a reduction in the total cost per home than it does on grant. Is that repeatable?' (Birch, 2012).

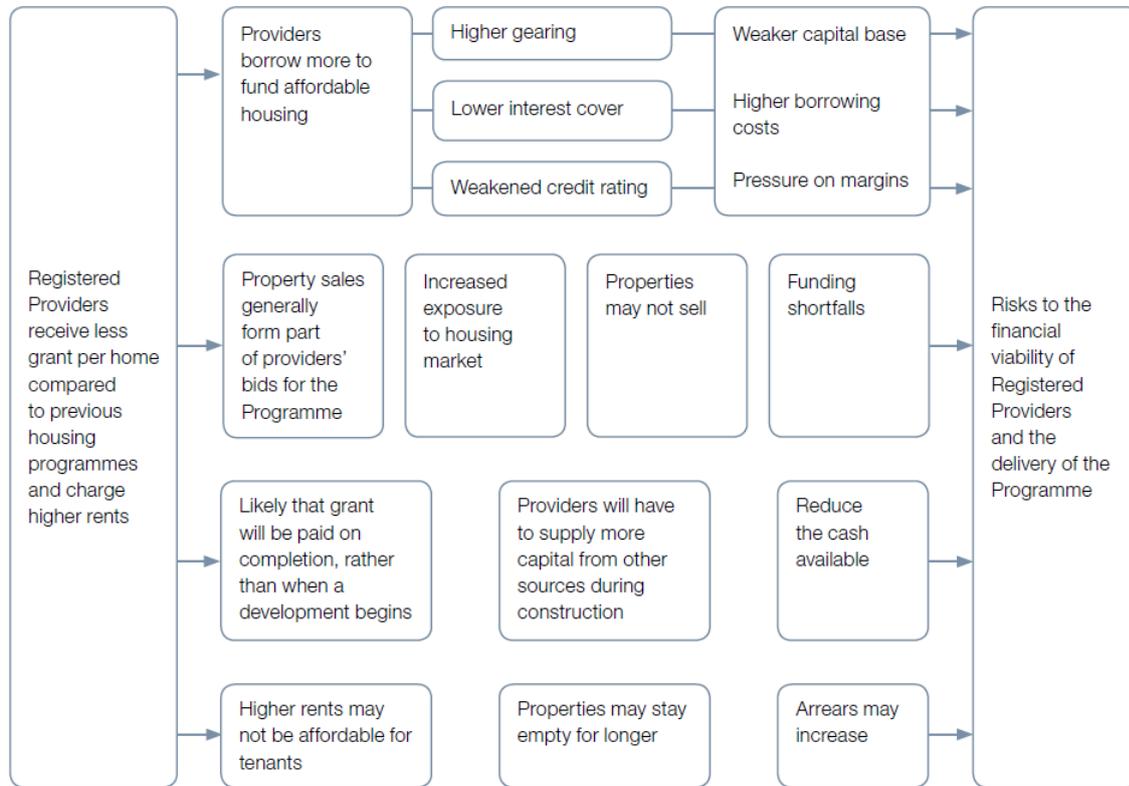
It is expected that half of the necessary funding is going to come from borrowing by housing providers, some £6 billion. This led the NAO to comment that 'the Programme requires providers to take on increased borrowing, as well as other risk, for example committing to deliver housing over the whole of the period of the Programme at a fixed price, rather than agreeing commitments on a site by site basis'. These risks for all stakeholders involved are summarised in *Figure 1* (NAO, 2012: 14).

*Figure 1*

## Embedding financialization: the *Affordable Homes Programme*

### Risks faced by Registered Providers under the Programme

The Programme required providers to take a range of risks including increased borrowing and committing to deliver housing over the whole life of the Programme at a fixed price



Source: National Audit Office analysis of information provided by the Tenant Services Authority

Despite the NAO's broadly positive assessment of the design of the AHP a number of concerns have been identified both the NAO and housing commentators. These include, first the NAO identify that using economic benefit to government cost ratio, the previous NAHP (based in the main on delivering homes at a social rented level) provides better value for money than the current AHP 2011-15 (NAO, 2012: 19)<sup>12</sup>.

Second, the delivery of completed homes is heavily skewed towards the end of the programme. So that by April 2012, 18 per cent of contracts had not yet been signed and over half of the homes are planned for the last year of the programme (Birch,

<sup>12</sup> The Coalition government would disagree with this analysis stating that given the level of funding available, £1.8 billion, the NAO report also commends the HCA and DCLG for design a programme that provides the most number of affordable homes (expected to be over 80,000).

2012). Third as outlined above there are very strong concerns that the government is merely shifting support for social housing from the DCLG budget to the DWP as the housing benefit system takes the strain of the new Affordable Rent levels. The increase in housing benefit as a result of the Affordable Rents model varies in estimate from as little as £25-50 million to £1.2 billion or even £1.5 billion (Birch, 2011).

In 2012, the government announced the Affordable Homes Guarantees Programme (AHGP), as part of a broader housing stimulus package. The programme aims to provide guarantees for housing associations and private sector developers to reduce the cost of borrowing to build affordable homes schemes. The government aims to cover £10 billion in borrowing and coupled with an additional £225 million in grant funding the programme aims to deliver 15,000 homes, in addition to the existing AHP.

The homes must be at Affordable Rent or for affordable homeownership. Additional funding of £225 million is available to support the programme through grant. To the start of 2014, '£220 million of this has been allocated by the HCA to provide 13,896 extra units, an average of £15,800 per unit (however, if the 18 per cent of units being funded without grant are omitted, the average is £19,300 per unit). More than 80 per cent of the units to be provided will be AR rented' (Wilcox and Perry, 2014a: 60).

Finally, historically there was a major contribution to affordable housing in England via the 'planning gain' (also known as s. 106 contributions, where developers of private market based schemes would contribute a proportion to affordable homes sector). Up to 2010/11, 60 per cent of affordable output was funded from this source. 'Since, then its contribution has fallen considerably and is no longer fully measured,

but nevertheless planning gain schemes without grant contributed 4,820 affordable homes in 2012/13' (Wilcox and Perry, 2014: 60)<sup>13</sup>.

#### *The Affordable Homes Programme 2015—18*

In the main, the AHP (2015-18) continues where the previous round left off. The funding emphasis continues to be on the developing organisations raises as high a contribution as possible, with public grant money being the last element in the funding mix. There continues to be a focus on whole stock management with bidders being asked not only to state what level of disposals they will carry out to fund the new builds but also to justify why the level is not higher (Wilcox and Perry, 2014). The social rented sector will continue to be squeezed as tenancies that come to an end will be expected to be re-let at affordable rent levels.

There are two significant changes in the 2015-18 round; the first concerning the delivery model and the second the introduction of a new product. Under the new round bidders can choose to follow either a *Mixed route* (which is a combination of firm and indicative schemes) or a *Firm scheme only route*. The benefit of this will be to identify earlier the schemes that are more likely to be delivered and those that are of a higher risk in terms of deliverability. The second change reflects the introduction of an Affordable Rent to buy product, reflecting the Coalition's twin policy priorities of increasing homes at affordable rent levels and home ownership.

#### **Discussion and conclusion**

This review of the English housing market and the AHP has covered four broad themes. The first theme concerned the overall housing market. The main points concerned the differing behaviours of the market in London and the Southeast as

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<sup>13</sup> For further information on planning gains see ARCH (2014).

compared with the rest of the country. The main processes at work in the English housing market are the long-term under supply of housing (coupled with an inequitable distribution) and a rising demand for social/affordable housing as real wages continue to fall.

The second theme – the policy/strategy context – highlighted the government reforms over the past forty years in the housing market that have resulted in a major restructuring of the market; where once housing associations were an almost insignificant, peripheral actor to now providing the majority of social housing in England. In recent years, especially under the Coalition government, the private rented sector has expanded significantly, in part as a response to the tighter credit conditions following the economic crisis in 2008 and the continued reduction in public funding for the social housing sector.

The third theme, concerning the funding environment, is the manner in which private finance in various forms has been mobilised in an attempt to fill the gap left as state funding has been withdrawn. This has taken a variety of forms; for example, through individuals raising mortgages to buy their council homes or through the LSVT policy.

The final theme covered the government interventions through the more recent programmes aimed at developing affordable homes by utilising major funding contributions from bidders and private finance. These programmes have seen a drastic reduction in the government funding for new build schemes, a corresponding increase in debt levels in the sector and a shift in emphasis from capital to revenue funding. There has been identification that the AHP programmes contain significant risks which will need the deployment of risk management techniques.

Applying the ideas of financialization explored earlier to the development and pursuit of the Affordable Homes Programme (2011-15 and 2015-18), there are two relevant ideas. These are the increased debt levels and a focus on short-termism.

The most common theme of writers on financialization is the increased power of finance (or interest-bearing capital) in the economy. In part this is a simple reflection of increased debt levels. In the social housing sector the AHP is constructed in such a way as to increase debt levels. This is a deliberate and conscious move on behalf of the government and can be seen for example in the development of the new affordable rent product to sustain the higher levels of debt. It also fits with a common theme in housing finance where the government considers debt taken on board by housing associations as part of the private sector and so does not count towards their measure of public debt (PSND). PSND<sup>14</sup> as a measure is out of line with those used by the EU, IMF, OECD and the credit rating agencies. The point here is that government policy appears content to privatise the debt needed to build new homes, based on a socially constructed measure of public debt.

The focus on short-termism is not as immediately obvious either in the AHP or in the writing on financialisation but is no less an important element. In the AHP short-termism can be seen in two aspects. First, in the shift from upfront capital funding in the former of higher grants (under the NAHP) to a reliance on higher rent levels that increases the benefits budget (i.e. revenue expenditure). This attitude is also seen in the value for money approach of the department and the HCA which was to deliver the largest number of homes given the funding available even if this produced a lower cost to benefit ratio for the government. The second aspect concerns the use

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<sup>14</sup> For a fuller discussion on the current debate over PSND and GGGD see section 6 of *Let's get building* report (NHA, 2011).

of housing association resources, whether that is through the rationalization of housing stock (e.g. the sale of voids or conversions of social rents to affordable rents) or utilizing any spare capacity in debt covenants. These are one time funding manoeuvres, which are considered to be unsustainable as a long term funding model.

Both these aspects of short-termism correspond to an aspect of the shareholder value revolution identified by Cooper (2014), where corporations are eating their own resources to maintain their share price in the short-term.

At a time when the housing market is showing ample signs of dysfunctionality with both a lack of supply (Lyons Housing Review, 2014) and damaging inequalities (Dorling, 2014), the policies adopted by the Coalition government are moulded in the same thinking that brought the financial crisis and great recession of 2008. There is a need to both redistribute access to housing and address the undersupply of non-market housing across all regions in England. Neither of which is the current Affordable Homes Programme capable of doing.

**TABLE 1 – Main features of Affordable Homes Programmes**

	<i>National Affordable Homes Programme 2008-11</i>	<i>Affordable Homes Programme 2011-15</i>	<i>Affordable Homes Programme 2015-18</i>
Planned /approved units	173,900	80,000	55,000
Government investment	£ 8.9 billion	£ 1.8 billion	£ 2.8 billion
Delivery Model	Scheme by scheme evaluation using: <ul style="list-style-type: none"> <li>• The Grant Index</li> <li>• The Housing Quality Indicators (HQI)</li> </ul>	Whole stock assessment over the four year period (using the HQI and must comply with the Housing Corporation's quality standards)	Two bid routes: <ul style="list-style-type: none"> <li>• Mixed route (a combination of firm and indicative developments)</li> <li>• Firm scheme developments only</li> </ul>
The main products	<ul style="list-style-type: none"> <li>• Social Rented Homes</li> <li>• Temporary Social Housing</li> <li>• New build and Social HomeBuy</li> </ul>	<ul style="list-style-type: none"> <li>• Affordable Rents (with four funding streams)</li> <li>• Affordable Home Ownership</li> </ul>	<ul style="list-style-type: none"> <li>• A new Affordable Rent to Buy</li> <li>• Similar products again with social rent schemes only in very limited circumstances</li> </ul>
Notes	Use of intermediate rents; A concern for developing schemes for Key Workers.	Social rent scheme are only to be supported in exceptional cases.	

Sources: NAHP 2008-11 Prospectus; AHP 2015-18 Prospectus, and Wilcox and Perry (2014: 56).

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