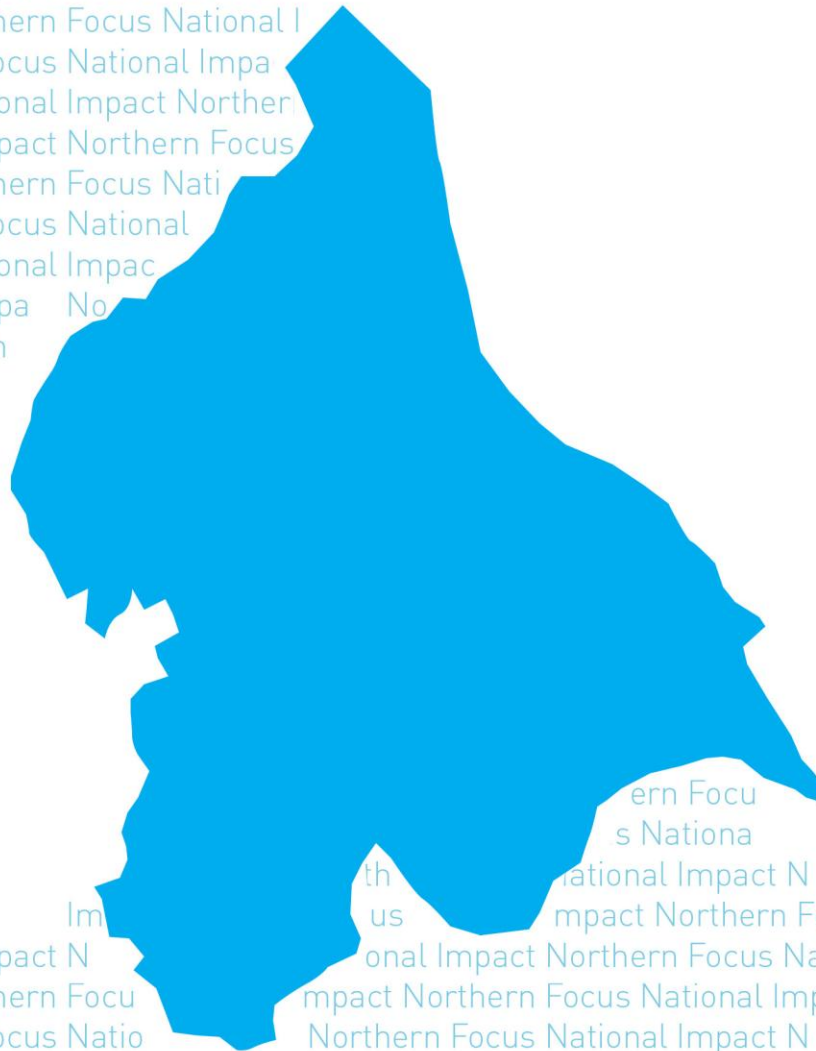


Budget Submission March 2011



Introduction

The Northern Housing Consortium represents the views of housing organisations in the North of England. With over 30 years of expertise and influence, and unrivalled respect and credibility within the housing sector, we are the North's leading housing membership body.

Our Budget Submission does not seek to re-visit the Comprehensive Spending Review, but instead makes the case for four changes the Chancellor could make at the Budget which we believe would strengthen this 'budget for growth' and assist the North in the rebalancing of our economy:

- We believe the high quality of the North's submissions to the Regional Growth Fund should be recognised, and a further £1 billion invested in the fund so it can assist more projects
- The Budget must take steps to increase mortgage lending, particularly to first time buyers and those accessing affordable home ownership products
- Enterprise Zones must be part of a wider package of initiatives to tackle worklessness, including person-centred approaches, which housing providers are well-placed to assist with
- Housing Renewal Zones should be established in former Housing Market Renewal areas, providing incentives for refurbishment and development in those areas

Our recent publication 'Northern Impact, Northern Opportunities'¹ explores the cumulative impact of policy changes on communities across the North. It concludes that a raft of colliding policy directions run the real risk of cutting some communities across the North adrift, further entrenching deprivation and putting social cohesion at risk. This budget must avoid setting any further conflicting policy priorities and act decisively to help the North of England secure growth, jobs and renewal.

Regional Growth Fund

It is clear that the Government's Regional Growth Fund (RGF) has generated a very positive response. Some £2.78bn of bids have been received in the first round alone – well in excess of the £1.4bn allocated to the Fund over three years. 46% of the round one bids came from the North of England, demonstrating the huge potential for economic growth which exists in the region.

It is important to place the Regional Growth Fund in the context of previous levels of RDA spending. The £1.4bn allocated to the Regional Growth Fund over three years represents only 48% of the anticipated total RDA expenditure in the North alone over this period².

The Consortium's briefing on the RGF³ explains why, on the measures BIS have stated they will consider when making applications, the vast majority of the fund should be allocated to the North:

- Public sector employee job share is highest in the three Northern regions
- The three Northern regions have the lowest number of active enterprises per 1,000 population
- Private sector employee job growth in the North has lagged behind other regions – even in the more positive economic climate between 2003 and 2008

¹ See <http://www.northern-consortium.org.uk/assets/policy/northern%20impact%20northern%20opportunities.pdf>

² Based on continuation of 2009/10 RDA Outcome Spend over next three years.

³ See <http://www.northern-consortium.org.uk/assets/policy/110121%20rgf%20briefing.pdf>

- Three of the four regions with the highest percentage of residents claiming out of work benefits are in the North.

The high level of responses to the RGF from the North demonstrates the determination amongst the private and public sectors in the three Northern regions to do something about these statistics. It would be a huge missed opportunity if the strong RGF bids from the north were to fail due to the limited funds available, or if ERDF funding was not drawn down due to a lack of match-funding. **That is why the Consortium believes that a further £1bn should be added to the Regional Growth Fund to ensure that this truly is a 'budget for growth'.**

This additional £1bn would not be sufficient to fund all the applications made to the RGF, but would mean that more high-quality applications can be approved and would be a powerful demonstration of the Government's willingness to back innovation and enterprise, especially in the North.

Mortgage lending

Difficulties securing mortgage lending – particularly for first time buyers - continue to hamper a recovery in the housing market. The number of loans issued to first time buyers decreased by 42% between December 2009 and December 2010⁴.

Comments from Chartered Surveyors in the North confirm this trend has continued into 2011⁵:

"The main issue is still that the banks will not lend to individuals without considerable amounts of capital, keeping the loan to value rate below 70%." Chartered Surveyor, York

"Constraints in mortgage lending are continuing to prevent buyers, particularly first time buyers, from entering the housing market." Chartered Surveyor, Knaresborough

"Residential property market remains exceptionally quiet. The lack of mortgage funding is the main culprit." Chartered Surveyor, Blackpool

"Improved mortgage products and availability is still a key issue and confidence in the economy remains shaky." Chartered Surveyor, Northumberland

The lack of mortgage finance and consequent subdued sales makes it more difficult for housing associations to secure cross-subsidy via sales of shared ownership and outright sale products – the vast majority of which are aimed at first time buyers. The Government's reforms to social housing are predicated on the availability of cross-subsidy, and in areas where higher affordable rents will not deliver this, conversion of existing stock to shared ownership has been suggested as an alternative source of subsidy. Clearly, without increased supply of mortgage lending, this may be an unrealistic aspiration.

There is good reason to believe the North has been disproportionately affected by the reductions in lending. The North was the traditional heartland of two of the institutions worst affected by the banking crisis - Halifax and Northern Rock, who between them had a 29% share of the mortgage market in 2005⁶.

⁴ Source: CML data available at <http://www.cml.org.uk/cml/media/press/2838>

⁵ All comments taken from RICS Housing Market Survey, February 2011
http://www.rics.org/site/download_feed.aspx?fileID=8970&fileExtension=PDF

⁶ Council of Mortgage Lenders statistics

Northern Rock's Competitive Measures, as agreed with the European Commission, give explicit exemptions for the bank to offer market-leading rates on mortgages for first-time buyers and for mortgages with a loan to value ratio of greater than 80%. It is clear that there are no state-aid impediments to the Bank leading the market in the supply of mortgages to this client group. **The budget must therefore take steps to increase mortgage lending, particularly to first time buyers and those accessing affordable home ownership products.**

Enterprise Zones

The Consortium gives a cautious welcome to the Chancellor's announcement that he will re-introduce Enterprise Zones in the Budget. The earlier generation of Enterprise Zones undoubtedly made a positive impact on the physical regeneration of the areas they covered. However, urban dereliction is now far less a problem than it was in the early 1980s. The majority of the challenges now facing the North require a rebalancing of our economy, which means longer-term investments in skills, innovation and private sector growth. Short-term incentives which encourage investment in physical change are a useful tool – and we believe could be successfully employed in housing market renewal areas (see below) – but are only one part of the solution.

The evaluation of Enterprise Zones conducted by the then Office of the Deputy Prime Minister in 2003 concluded that "Enterprise Zones and other Area Based Initiatives need to be considered in a broad policy context, particularly in terms of linkages and synergies with other initiatives, including training initiatives. Area based initiatives and labour supply need to be considered jointly to maximise impacts."⁷

More recent analyses of Enterprise Zones have also concluded that the initiative would work best as part of a wider suite of policies to promote regeneration and growth. Both the Work Foundation⁸ and Centre for Cities⁹ have published reports in recent weeks suggesting that adopting an identical approach to the 1980s model will not prove cost effective or deliver the desired results. In particular, both reports were critical of the high cost of Enterprise Zones per new job created – estimated at over £20,000 per new job.

Housing providers in the North are ready and able to work with Government to create pathways out of worklessness and benefit dependency. The Consortium itself has been conducting a pilot scheme – JobMoves¹⁰ – to promote employment related housing mobility across the North, and our members have a track record of engaging in programmes to tackle worklessness. **The reintroduction of Enterprise Zones is welcome, but is not enough in itself to rebalance the Northern economy. Social housing providers have a key role to play in providing person-centred initiatives which will compliment the place-based Enterprise Zone approach.**

Housing Market Renewal

The Housing Market Renewal programme was intended to create physical improvements aimed at rebuilding communities in areas of low housing demand, and reconnecting the areas concerned with the mainstream housing market. £1.04billion was allocated to Housing Market Renewal Pathfinders in the

⁷ 'Transferable Lessons from Enterprise Zones', ODPM 2003 :

<http://www.communities.gov.uk/documents/regeneration/pdf/131251.pdf>

⁸ 'Do Enterprise Zones Work?', Work Foundation, February 2011:

<http://www.theworkfoundation.com/research/publications/publicationdetail.aspx?oltemId=283>

⁹ What Would Maggie Do? Centre for Cities, March 2011

<http://www.centreforcities.org/assets/files/2011%20Research/11-02-25%20Enterprise%20Zones.pdf>

¹⁰ See <http://www.northern-consortium.org.uk/Page/Corporate/JobMoves.aspx>

2008-2011 Comprehensive Spending Review period, but this funding has now ceased eight years into what was originally intended to be a ten to fifteen year programme.

Seven of the nine HMR Pathfinders were located in the North of England, and in addition to the designated Pathfinder areas, a further three areas of low demand were identified in the North. In 2010-11, the last year of HMR funding, 85% of funding was allocated to the Northern Pathfinders¹¹.

In a recent review of the programme¹², the Audit Commission found that:

“Eight years into the [HMR] programme, many homes have been built and many more refurbished. HMR at a neighbourhood level has helped to stabilise market conditions and provide a strong sign of change. But activities in most HMR areas are not yet of a scale likely to tip the balance in favour of a normal market response. Changing the nature of demand and closing the socio-economic gap between HMR areas and those around them are still challenging ambitions.”

The loss of funding means that work to close the economic and social gap between these areas and those around them is at risk. Some of the areas The Regional Growth Fund offers a limited opportunity to ameliorate some of that risk – but more can and should be done.

Given that Enterprise Zones were widely acknowledged to be successful in promoting physical regeneration, the Consortium believes the government should look to extend the concept to Housing Market Renewal areas, by allowing Local Enterprise Partnerships to apply to government for areas to be designated as ‘Housing Renewal Zones’.

These ‘Housing Renewal Zones’ would be able to offer a range of incentives to encourage housing development and refurbishment. LEPs could select which of these incentives they feel would be most effective given the market conditions in their Zone. Measures could conceivably include:

- Exemption from Stamp Duty Land Tax when purchasing land or buildings in a HMR area
- Ability to reclaim VAT incurred in the renovation or alteration of houses in a HMR area
- Tax credits or capital gains allowances on investments made in HMR areas
- Paying the New Homes Bonus for any empty home brought back into use, regardless of how long the property has been empty for
- Exempting properties in HMR areas from Council Tax for an introductory period
- Simplified and/or accelerated planning procedures

Taken together with the inducement offered by the introduction of the New Homes Bonus, this could provide a package of incentives which will influence investment decisions and stimulate demand for land and buildings in HMR areas.

Conclusion

The Consortium recognises the tight constraints on public expenditure, and the fact that the Government has clearly set out its spending priorities in last year’s Comprehensive Spending Review. In our Budget Submission, we have set out four simple steps, which focus on providing incentives and influencing

¹¹ Response to Parliamentary Question, House of Commons, 20 October 2009 c1394W

¹² Housing Market Renewal Programme Review, Audit Commission, 2011 <http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/201103HMRprogrammereview.pdf>

behaviour. We believe they are realistic and constructive suggestions which would boost growth, enterprise and renewal in the North of England

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