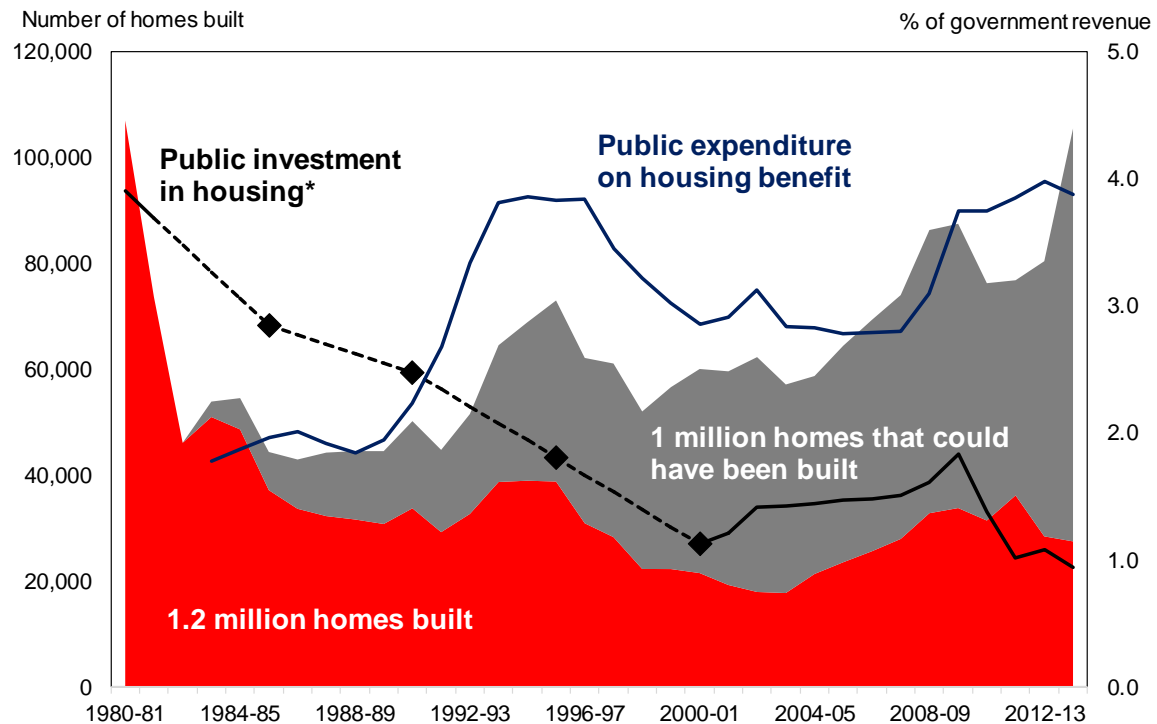


## Missed opportunity: Changes to public investment in housing

In the early 1980's Great Britain had a strong public house building program that delivered thousands of homes for those that needed them most. But since then government investment in housing dropped, and the housing benefit bill has gradually increased since, with more and more people joining the waiting list for social housing.

Our analysis suggests that if public investment in housing had been maintained, we could have built **1 million more homes than we actually did**. This would have taken pressure off the housing benefit bill which has increased significantly over the same period.

**Figure 1: Public house building and spending**



\* Dashed lines indicate where public investment in housing has been estimated  
Source: UK Housing Review, DCLG Live Table 209, DWP, OBR, Shelter Analysis

## Background

In the early 1980's Great Britain had a strong public house building program that delivered thousands of homes for those that needed them most. However, a significant drop of public investment in housing has meant that we now build a lot less than we used to, with less than 300,000 homes being built by housing associations and local authorities over the past decade.

Real public investment in housing has fallen from the high levels of the early 1980's. In today's terms, investment of £13.7 billion in 1980-81 fell almost 20% in just five years. Investment continued to decline to stand at just £5.8 billion in 2013-14. As real public investment in house building has declined, real spending on housing benefit increased from £6.2 billion in 1982-83 to £24.2 billion in 2013-14<sup>1</sup>.

Our analysis estimates how many additional homes could have been built over the past 33 years if government investment in housing (as a share of government revenue) remained at the same level as it did in 1980-81. We also compare the changes in public investment in housing with expenditure on housing benefit, demonstrating the correlation between falling investment and the increasing costs to government of housing benefit.

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<sup>1</sup> [UK Housing Review](#) table 57b, Department for Work and Pensions, 2013-14 £

## Methods

The value of public investment in housing as a share of government revenue has changed over time. By comparing how the public investment in housing as a share of government revenue has changed, we can estimate how many additional homes would have been built if funding levels had been maintained by the government at previous levels.

### Limitations

This analysis provides a broad estimate of the number of homes that could have been built, if public investment in housing remained in-line with increases in central government revenue. It does not take into consideration other limitations on public investment in housing, such as the availability of land, but estimates the new housing that could have been delivered if government investment remained at a similar level as in 1979-80.

### Assumptions

Given the information available to inform this analysis, a number of assumptions have been made.

#### *Investment in Great Britain*

Public investment in housing for the UK in total is only available back until 1985-86, with spending in Great Britain available back to the starting point for this analysis in 1980-81. Therefore Great Britain only is considered in the analysis, so it does not include Northern Ireland. For years that it is available, Northern Ireland accounts for an average of 3.6% of total investment across the UK.

#### *Comparison to a share of government revenue*

This analysis looks at investment as a total share of public sector current receipts<sup>2</sup>. This is a measure of central government revenue, and is used because it reflects the share of government investment in housing and how this changed over time. Revenue for local authorities would also be available to fund housing investment, and is not included in this analysis.

#### *Estimating the homes that could have been built*

The total value of social housing investment is sourced from the UK Housing Review<sup>3</sup>, and includes investment in existing stock, as well as the construction of new stock. It is not possible to determine the historical share of funding that was allocated toward new house building from total capital investment.

It is assumed that any additional funding that was provided in one year would deliver new housing at the same rate of new house building from that corresponding year.

This assumption is likely to underestimate the number of new homes that could have been built, as any additional funding could have been invested purely on the construction of new homes, rather than additional investment in the existing stock.

#### *Estimation of missing years*

There are a number of years between 1981-82 and 1999-2000 where the total public investment in housing is not available, with estimates from the UK housing review available only every five years. It is assumed that investment in social housing as a share of government revenue would follow a linear path over this period, between the two known points.

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<sup>2</sup> [Public Finances Databank](#), OBR

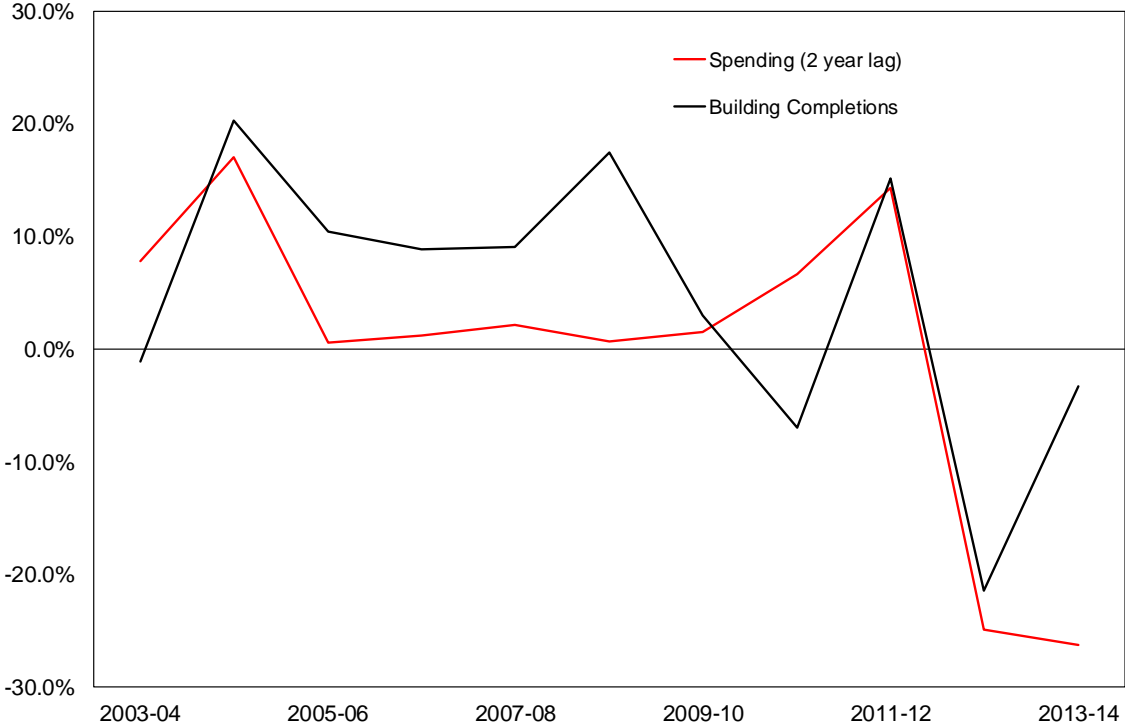
<sup>3</sup> [UK Housing Review 2015](#), Tables 57a and 57b

Sensitivity analysis shows that if spending was assumed to be at the lower of the two known points, 0.9 million homes could have been built, and if it was at the higher of the two known points, 1.2 million homes could have been built.

**Time lag**

Given the time it takes to construct a home, it is unlikely that funding provided in any given year would result in a new home being built in that year. Analysing changes in the funding of house building from local authorities and housing associations, and the delivery of these homes suggests that there is a two-year lag from changes in funding, and new social homes being completed<sup>4</sup>.

**Figure 2: Time lag between spending and completions, annual growth**



<sup>4</sup> There is a positive correlation of 64.6% between growth in public investment, and growth in the completion of homes with a two-year lag over the past decade.

## Findings

If public investment in housing remained at 3.9% of central government revenue as in 1980-81, it is estimated that an additional 986,907 homes could have been built over this time. This reflects the significant decline of government investment in housing over the past 3 decades.

In 1980-81 over 100,000 publicly funded homes were built in Great Britain by local authorities and housing associations. Investment in homes fell sharply in the following years to 2.8% of revenue by 1985-86, as the number of homes being built each year was 70,000 lower five years later. Investment has continued to steadily fall since, and is now equivalent to just 0.9% of central government revenue, with under 30,000 homes being delivered in 2013-14.

**Table 1: Public spending and estimate of homes that could have been built**

| Year         | Homes built by local authorities and housing associations | Additional homes that could have been built | Public investment in housing                 | Public spending on housing benefit |
|--------------|---|---|--|------------------------------------|
|              |   |   | As a share of central government revenue (%) |                                    |
| 1980-81      | 107,000   | -   | 3.9  | -                                  |
| 1981-82      | 73,620  | -   | 3.7*   | -                                  |
| 1982-83      | 46,080  | -   | 3.5*   | 1.6                                |
| 1983-84      | 50,950  | 2,923                                       | 3.3*   | 1.8                                |
| 1984-85      | 48,610  | 5,917                                       | 3.1*   | 1.9                                |
| 1985-86      | 37,130  | 7,219                                       | 2.8  | 2.0                                |
| 1986-87      | 33,610  | 9,317                                       | 2.8*   | 2.0                                |
| 1987-88      | 32,230  | 11,999                                      | 2.7*   | 1.9                                |
| 1988-89      | 31,590  | 12,923                                      | 2.6*   | 1.8                                |
| 1989-90      | 30,740  | 13,769                                      | 2.5*   | 1.9                                |
| 1990-91      | 33,700  | 16,478                                      | 2.5  | 2.2                                |
| 1991-92      | 29,200  | 15,545                                      | 2.3*   | 2.7                                |
| 1992-93      | 32,640  | 18,879                                      | 2.2*   | 3.3                                |
| 1993-94      | 38,680  | 25,852                                      | 2.1*   | 3.8                                |
| 1994-95      | 38,920  | 29,936                                      | 1.9*   | 3.9                                |
| 1995-96      | 38,760  | 34,223                                      | 1.8  | 3.8                                |
| 1996-97      | 30,870  | 31,252                                      | 1.7*   | 3.8                                |
| 1997-98      | 28,260  | 32,807                                      | 1.5*   | 3.4                                |
| 1998-99      | 22,240  | 29,763                                      | 1.4*   | 3.2                                |
| 1999-00      | 22,220  | 34,382                                      | 1.3*   | 3.0                                |
| 2000-01      | 21,460  | 38,574                                      | 1.1  | 2.9                                |
| 2001-02      | 19,210  | 40,381                                      | 1.2  | 2.9                                |
| 2002-03      | 17,890  | 44,388                                      | 1.4  | 3.1                                |
| 2003-04      | 17,690  | 39,414                                      | 1.4  | 2.8                                |
| 2004-05      | 21,290  | 37,415                                      | 1.4  | 2.8                                |
| 2005-06      | 23,510  | 40,919                                      | 1.5  | 2.8                                |
| 2006-07      | 25,590  | 43,740                                      | 1.5  | 2.8                                |
| 2007-08      | 27,910  | 46,090                                      | 1.5  | 2.8                                |
| 2008-09      | 32,780  | 53,518                                      | 1.6  | 3.1                                |
| 2009-10      | 33,750  | 53,731                                      | 1.8  | 3.8                                |
| 2010-11      | 31,390  | 44,862                                      | 1.4  | 3.7                                |
| 2011-12      | 36,140  | 40,667                                      | 1.0  | 3.8                                |
| 2012-13      | 28,400  | 52,006                                      | 1.1  | 4.0                                |
| 2013-14      | 27,450  | 78,018                                      | 0.9  | 3.9                                |
| <b>Total</b> | <b>1,171,510</b>  | <b>986,907</b>                              |  |                                    |

\* These are estimates of public investment in housing

Source: UK Housing Review, DCLG, OBR, DWP, Shelter Analysis

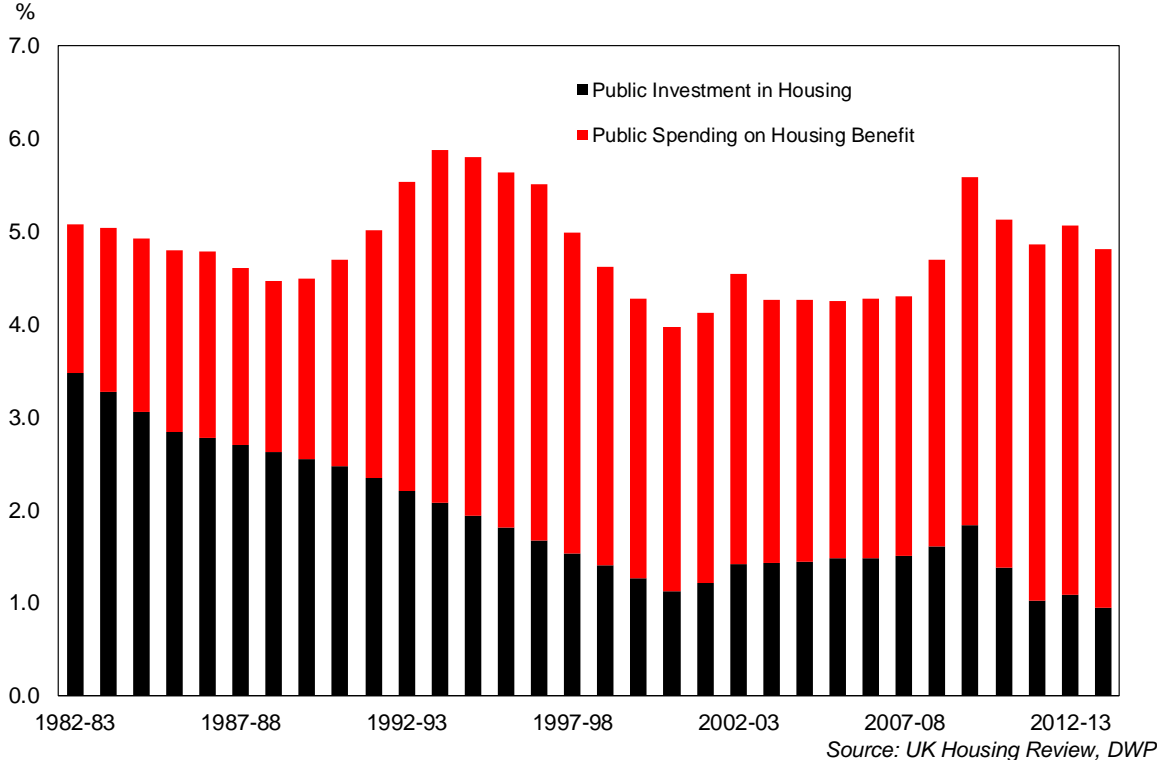
Since housing benefit administered by local authorities was introduced in 1982, it has increased from 1.6% of government spending (1982-83) to 3.9% in 2013-14. Broadly, spending on housing benefit has increased in its cost to government over time as public investment in housing has declined. In 1982-83 only 1.6% of revenue was spent on housing benefit, but 2012-13 this was 4% of government revenue, the highest recorded.

However, there are also other drivers of housing benefit spending, including the broader economic conditions. Following the recessions in 1991 and 2008-2009, housing benefit spending increased at least whole percentage point of government revenue within two years, and remained

at this higher level for a number of years following. The drivers of this are two-fold, as the recession increases the demand from people for housing benefit, it also slows growth in government revenues at the same time. This puts pressure on government finances at a time when they are already being stretched.

Despite the shift in these two components, when you combine them as a share of government revenue, the total amount spent has remained quite consistent constant, fluctuating between 4% and 6% over this period. The 5.1% of revenue spent in 1982-83 is similar to the 4.8% spent in 2013-14, but the balance that has shifted away from investment and towards benefit spending.

**Figure 3: Public spending on housing, as % of government revenue**



While there is a correlation between the decline in housing investment and the increase in the cost of housing benefit, we know that there are other factors that drive the cost of the housing benefit bill (such as the wider economy). However, the longer term trends between the two suggest that investment in affordable housing is likely to help manage spending on housing benefit.