

**ESRC Research Centre for  
Analysis of Social Exclusion**

# ENDS AND MEANS: THE FUTURE ROLES OF SOCIAL HOUSING IN ENGLAND

**John Hills**



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# **Ends and means: The future roles of social housing in England**

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This was, however, commissioned as an independent review, and the opinions and conclusions reached in it are mine alone, and not the responsibility of any of those who have helped me so much. I am grateful for the combination of support and respect for that independence that all involved have shown, and hope that the results do at least some justice to all those efforts.

John Hills  
ESRC Centre for Analysis of Social Exclusion  
London School of Economics

January 2007

## Foreword by the Secretary of State for Communities and Local Government



Housing is vital to us all – to our economy; our environment; to every individual and family for whom a home represents so much more than just a place to live.

This Government's longstanding ambition is a decent home for all, at a price within their means.

For over a century, social housing has offered families and individuals the home they need. In the past ten years we have done much to raise the quality of existing stock, and we're committed to building more. Today, social housing remains vital to four million households.

But in the twenty-first century we face a range of new challenges. Social housing itself has changed. Tenants' expectations have changed. The world around us has changed dramatically.

It is important to take a step back and consider the role social housing should play now and in the future. How can it help people get on in life? How can it underpin social cohesion, and opportunity for all? How can it contribute to the kind of communities we want to live in?

Last year I commissioned John Hills to undertake a wide-ranging review. He has approached the task with his distinctive rigour and clarity of vision.

This report makes clear that any reform cannot be for the sake of reform. It must be about making real, tangible improvements in tenants' lives. And John's analysis highlights the scale of some of the challenges.

This report is not the last word. It sets out the progress so far; the challenges ahead; and the options for tackling them. Its role is not to close discussion down, but to open it up.

I welcome this report – and look forward to the important debate that it starts.

A handwritten signature in black ink, which reads "Ruth Kelly". The signature is written in a cursive, flowing style.

**Ruth Kelly, MP**  
**Secretary of State for Communities and Local Government**



## SUMMARY

This report was commissioned to help the Secretary of State for Communities and Local Government “stand back and ask what role social housing can play in 21st Century housing policy”. Its aim is to provide the background and analytical framework against which the implications of different answers to such a fundamental question can be debated both inside and outside government. Amongst other issues the report covers key questions raised by the terms of reference, in particular:

- What can social housing do in helping create genuinely mixed communities?
- Can the way we run it encourage social mobility and opportunities, including in the labour market, for people to get on in their lives?
- Can social housing and other support be more responsive to changing needs and enable greater geographical mobility?

The report looks at the possible trade-offs between these and other objectives – but also, more encouragingly, at the ways in which achieving some of them may reinforce each other.

The report assesses different objectives and implications for the direction of travel on reform, rather than making detailed policy recommendations. As will become evident from the evidence presented here and the conclusions which they lead to, there are important issues, affecting a crucial part of the lives of nearly four million households in England and the use of assets worth more than £400 billion, that require urgent debate. Specific policy responses would require careful design and consultation. This report is designed to contribute to the beginning of such a process, rather than be the conclusion of it.

## PART 1: WHAT ARE WE TRYING TO ACHIEVE?

### Aims

Three points stand out from analysis of the aims and principles underlying housing policy, with its long-standing aim of “a decent home for all at a price within their means”. First, it is not hard to make a strong argument for social housing at sub-market rents to be a significant part of how we try to meet overall housing and distributional aims. Arguments about higher quality than private landlords, avoiding discrimination, affordability, the avoidance of area polarisation, and avoidance of strong disincentives for tenants to work and save, are potentially all very powerful. Evidence on success in achieving them is reviewed below. Second, however, the strength of the arguments varies across the country, and may be a great deal stronger in high-cost areas. In relatively lower-cost regions the adverse side-effects of more reliance on cash transfers and market-based systems will be weaker. Finally, there are inherent costs to rationed systems. These include the sharp differences in treatment between those who do and do not make it through the rationing process; limitations on choice for those who do so; incentives to, and suspicions of, fraud or manipulating circumstances; limitations on mobility; and lack of consumer power over providers. Such disadvantages do not necessarily outweigh the advantages described above, but they do

suggest at the least the need to try to ensure that systems are designed in a way that they are minimised. The evidence surveyed below suggests that we have a long way to go before we could claim that.

## **Policy instruments**

In principle there is a wide range of different forms that housing support can take, of which provision of housing by not-for-profit landlords at sub-market rents is only one. However, the system in England is dominated by just three: means-tested Housing Benefit; provision of social housing at below-market rents; and favourable taxation of owner-occupiers. The scale of these is large even by comparison with, for instance, other forms of support for those with low incomes such as Income Support. The scale of other kinds of intervention, such as support for “intermediate tenures” through shared ownership or shared equity schemes of one kind or another, is comparatively small. An obvious issue is whether this is the most effective balance in the use of resources.

## **PART 2: WHAT ARE WE DOING?**

### **The overall housing background**

Despite what are sometimes claims to the contrary, *overall* housing conditions in England have improved markedly in many respects over the long-term, and have generally continued to improve in the last decade. The number of dwellings has kept up with the number of households, on average there is more space within them per person, and physical standards have improved. The majority of the key indicators of stress in the housing market have also improved, with some of the most acute problems either steady or reduced. However, there are exceptions to this picture of general improvement: overcrowding against the bedroom standard has deteriorated in London, particularly in the private rented sector; social tenants enjoy less space per person than other tenures, less than they did a decade ago, and are more likely to be dissatisfied than others if they are living with little space; the use of temporary accommodation is more than double what it was a decade ago – albeit mostly self-contained, rather than shared such as in bed and breakfast accommodation. Consideration of the future role of social housing does not take place against the background of a general crisis in housing conditions – if anything, the reverse. But that general improvement means that the wide variations in conditions between households should remove any sense of complacency.

### **Social housing background**

Over the last quarter century the role of social housing has changed. The sector has become much smaller as a proportion of the total, although nearly 4 million households still live within it. While post-War provision was aimed at households on a range of incomes, since the 1980s provision has become more tightly constrained and new lettings focussed on those in greatest need. As a result, the composition of tenants has changed, with tenants much more likely to have low incomes and not to be in employment than in the past or than those in the other tenures. Seventy per cent of social tenants have incomes within the poorest two-fifths of the overall income distribution, and the proportion of social tenant

householders in paid employment fell from 47 to 32 per cent between 1981 and 2006. Tenants have high rates of disability, are more likely than others to be lone parents or single people, and to be aged over 60. More than a quarter (27 per cent) of all black or minority ethnic householders are social tenants (including around half of Bangladeshi and 43 per cent of black Caribbean and black African householders), compared to 17 per cent of white householders. Looking at today's social housing stock, 93 per cent of it was already within the sector nine years ago (although 750,000 dwellings were transferred between local authority and housing association ownership). For tenants, there is much less movement between dwellings than within the private rented sector, and more than 80 per cent of those living in social housing today were also within the sector ten years ago (if born by then).

### **What do we spend?**

Looking back over the last thirty years there has been a pronounced switch in the way housing subsidies are provided from supply-side subsidies (which reduce the cost of housing) to demand-side subsidies (which help people pay for it). By 2003-04, one third of the £16 billion total of public support was for supply-side subsidy (mainly capital grants to housing associations for new dwellings) and two-thirds for demand-side subsidy (mainly Housing Benefit). However, these accounting flows do not necessarily measure the advantages to tenants of paying rents that are below those that would give an economic return on the value of the housing stock they occupy. One estimate of the "economic subsidy" to social housing (the difference between actual rents and those giving an economic return) was that it had reached £6.6 billion across in England as a whole in 2004, slightly higher in real terms than in 1996. Three-fifths of this total went to social tenants in London, the South East and South West. In Northern regions and the Midlands, actual social rents were £10-20 per week below those that would give a comparable return on housing capital values to those in the private sector, but in the East and South East the difference was £40-50, and in London about £70-80.

## **PART 3: HOW ARE WE DOING?**

### **Decent homes? The quality of social housing**

In physical terms, social housing is more likely to meet the new "decent homes" standard than private rented housing, particularly for disadvantaged households. This is partly because energy efficiency standards in the sector are higher, although the low incomes of social tenants mean that they are more likely to be in fuel poverty than those in other tenures. Rates of overcrowding (against the official "bedroom standard") are higher than in the other tenures, and social tenants generally have less space per person (and this has declined slightly in the last decade). Social tenants are much more likely to report dissatisfaction with aspects of their housing quality (as opposed to its cost or security of tenure) than others, including private tenants, and several aspects of this have deteriorated in the last ten years. One in seven social tenants now say they are dissatisfied with their local area and with their accommodation, one in five with their landlord, and one in four with the standard of repairs and maintenance. Dissatisfaction with accommodation is particularly high for social tenants aged under 45. It is also significantly higher for black and minority ethnic tenants than white tenants, but this appears mainly to reflect the younger age structure of the minority

population: within age groups of social tenants aged under 65, there is little difference by ethnicity. Neither the levels nor the trends in dissatisfaction are particularly encouraging for those who see a main rationale for social housing as being that its landlords are likely to provide higher standards than private ones. Nonetheless, 40 per cent of social tenants say that social housing would be their preferred tenure given a free choice (including owner-occupation), but only 8 per cent of private tenants say the same of private renting.

### **A price within people's means?**

In a minimal sense Housing Benefit makes at least some form of housing "affordable" for even the poorest households, but for a series of reasons, housing costs are still important for what most people would think of as "affordability". While average house prices have doubled in the last decade, neither private nor social rents have risen fast in real terms, in each case falling somewhat in relation to average incomes. The existence of social housing in particular has allowed its tenants to be protected from the effects of rising house prices. Social rents are significantly below those in the private sector, particularly in London, and have grown less rapidly. Overall, there were more people facing high net housing costs in relation to their incomes in 2003-04 than in 1997-98, but the increases were not so dramatic – the way rents had risen only slowly, the fact that most owners already owned before the house price rise, and lower interest rates all moderated the impact of higher house prices.

Owners and social tenants are assisted by different kinds of support through the subsidy and tax systems, and one could justify at least part (more than half on one set of estimates) of the economic subsidy to social tenants simply on equity grounds by comparison with typical owners. However, the patterns of advantage are very different, with tenants helped most if they have low incomes, but owners benefiting most from favourable tax treatment if they have high incomes.

### **Allowing a social mix?**

Social tenants are much more concentrated within the poorer parts of the income distribution than in the past. By 2004-05, 34 per cent of all social tenants were from the poorest fifth of the income distribution, and only 19 per cent from the top half. Two-thirds of social housing is still located within areas originally built as council estates. These originally housed those with a range of incomes, but now the income polarisation between tenures also shows up as polarisation between areas. Nearly half of all social housing is now located in the most deprived fifth of neighbourhoods, and this concentration appears to have increased since 1991. If ensuring that social tenants can live in mixed-income areas is a key potential advantage of social housing, we do not seem to be achieving it. Further, while new social housing developments are smaller in scale than in the past, new building of social housing is still disproportionately in the most deprived neighbourhoods (although in there is now much more private building within them). These areas are far more likely to suffer from problems than others, and for tenants to report neighbourhood problems. In the areas originally built as flatted council estates: more than a fifth of social tenants report the presence of drug users or dealers as a serious problem; nearly a fifth the general level of crime, fear of being burgled, vandalism and litter; and 18 per cent that they feel unsafe alone even at home or outside in daylight. One in seven social tenants in these areas says they are very dissatisfied with their neighbourhood.

## Supporting mobility and livelihoods?

By Spring 2006 more than half of those of working age living in social housing were without paid work, twice the national rate. Some of this is unsurprising given the labour market disadvantages of many social tenants, such as lack of qualifications or disability. However, this does not appear to be the only explanation: employment rates of those living in social housing with particular disadvantages or with multiple disadvantages are substantially lower than those of people with similar disadvantages but living in other tenures. Even controlling for a very wide range of personal characteristics, the likelihood of someone in social housing being employed appears significantly lower than those in other tenures. There is no sign of a *positive* impact on employment of the kind that the better incentives that sub-market rents might be expected to give. Potential explanations of this include: the way those with the greatest needs even within any category are screened *into* social housing, but *out of* other tenures; particular fears about loss of benefits on moving into work within the social sector; the location of social housing and “neighbourhood” effects from its concentration in deprived areas; possible “dependency” effects of welfare provision; and the difficulty of moving home to get a job once someone is a social tenant. There is no evidence on the relative importance of these factors, but the rate of employment-related mobility within social housing is strikingly low. Nationally, one in eight moves is associated with work, but only a few thousand social tenants each year move home for job-related reasons while remaining as social tenants (even within the same area), out of a total of nearly four million.

## Alternative forms of support

People’s housing costs are supported in other ways as well as through the provision of social housing (or through favourable tax treatment). Of these, Housing Benefit is by far the largest in scale. While this is by definition well-targeted in distributional terms, it has a significant impact on incentives to work and save. Because of the very steep withdrawal of benefit as recipients’ incomes rise, Housing Benefit is a major contributor to the “poverty trap”, where people’s net incomes rise by only a very small proportion of any rise in gross earnings. The higher the rent paid, the wider this zone. As a result, although the level of someone’s rent has no effect on their net gain from working at all, it can make a large difference to their net gain from *extra* earnings. For example, a couple with two children paying a typical private rent of £120 per week would gain only £23 if their earnings rose from £100 to £400 per week (as a result of reduced benefits and tax credits and higher tax and national insurance). However, if they paid a typical social rent of £60, the gain would be twice as much, £55 per week. For those in temporary accommodation, with very high rents paid through Housing Benefit, these disincentive effects extend to even higher earnings levels.

Direct assistance to owners, in loans and grants for improvements and means-tested assistance with mortgage costs (as opposed to through favourable tax treatment) is much smaller in scale. Home ownership is also supported by Right to Buy discounts (which have become more restricted in recent years) and by a series of Low Cost Home Ownership schemes, which allow people to purchase just part of the value of a property. The first of these has had a major effect on the housing market, with nearly 1.9 million social homes purchased under it or related schemes since 1980. The total of people helped into shared ownership of one kind or another is much smaller – about 150,000 since 1991.

## Changing pressures

Several factors will affect the demand for and supply of housing, particularly social housing, in the next few decades. First, the number of households is expected to grow more rapidly in the 25 years from 2001 than in the previous 25 years. The bulk of this growth is expected to be in single-person households, whose needs will be different from those of larger households. Second, the ratio of house prices to household incomes is at an historic high. Looking ahead, econometric models suggest that an increase in new house-building of the scale now being debated might stop the house price to income ratio rising in the long run, but would not in itself lead to house purchase becoming any more affordable (or less unaffordable) than it is now. Third, a notable feature of the last nine years has been a rapid rise in the proportion of young first-time buyers who are doing so with assistance from family or friends. Those who are assisted can afford deposits that are greater than others by the equivalent of more than a year's average income. As the proportion of the elderly who are owners increases, there is the prospect of housing inheritances becoming steadily greater, potentially fuelling a cascade of housing wealth through the generations, helping to support house prices that would be hard to sustain on the basis of mortgages alone. If this occurs, it will make the position of those outside such a cascade – those whose parents and grandparents are tenants – increasingly difficult.

Finally, part of the pressure on social housing was relieved in the 1980s and 1990s by the supply of vacant properties, resulting from some moving out of the sector and from elderly tenants who died. However, in the last five years the number of lettings available for new social tenants has fallen rapidly – from about 250,000 each year in the 1980s and 1990s to 170,000 in 2005 – as it has become harder for existing tenants to afford to move out and as the age structure of tenants has become younger.

Both sides of this equation of (uncertain) long-term demand and supply factors would be expected, other things being equal, to increase the pressure on social housing over the coming years.

## **PART 4: WHAT ELSE COULD WE DO?**

### **Fundamental reform options**

Given the pressures within social housing and some of the problems arising from its essentially rationed nature, it is hardly surprising that some advocate fundamental reforms that would result in a much more market-based, less rationed system. If rents were closer to “economic” levels, less, or even no, central government subsidy would be required, and social landlords could much more easily increase supply. But such changes could risk losing the potential advantages of social housing outlined at the start of this report. The side-effects of such reform and the higher rents they would entail, particularly in high-cost regions, could be damaging both to promoting work incentives and to achieving more mixed-income communities. They would also have major effects on existing tenants, and it would be difficult to construct systems of compensation that prevented large losses to some (although it is possible to imagine arrangements in which the grant of an “equity share” to existing tenants gave equivalent compensation). However, thinking through ways in which packaging

support for people in different situations in ways that are not limited to traditional social tenancies, begins to suggest directions in which more modest reforms could both increase the options available and make better use of very scarce and pressured resources. The same package is not necessarily appropriate for all those needing housing support in all parts of the country. At the same time, if fundamental reforms are rejected because social housing *potentially* avoids some of the problems of a pure market, it becomes even more important to ensure that it actually *does* do so, and that the problems outlined above are tackled.

### **The experience with recent reforms**

The experience with three particular recent initiatives has been encouraging. The Local Housing Allowance pathfinders have put more private tenants in a position where they can make trade-offs between their housing spending and what they get, simplifying the system, but without evidence that people are choosing unsuitably small accommodation in search of a larger saving. Even within the heavily constrained access to social housing that we have today, “choice-based lettings” have proved popular with applicants, have speeded relet times, reduced turnover from new lettings, and have saved local authorities money as a result. The “preventing homelessness” strategy, through opening up simple low-cost options such as rent deposits, advice, mediation and support has led to a significant fall in the number of people pursuing the statutory homelessness route of access to social housing.

These initiatives have several things in common. At their heart they treat those in need of housing support in a more adult way – moving towards a system where people make more of their own choices from a wider range of options, providing support when people need it. In particular, they do not start from the assumption that there is a single solution, to be chosen by administrators on behalf of those who make it to the end of a rationing process. The progress they have made suggests that such principles could be applied more widely.

### **The importance of the existing stock**

Much of the focus of the policy debate and of social landlords is often on the flow of new units, and the treatment of new entrants to social housing. Yet even over a ten year period, what happens to the existing stock and current tenants will be far more important in determining the success of social housing. A stronger focus on the existing stock and current tenants highlights both the advantages of recent policy shifts that have meant more attention to the physical condition of existing property, but also of getting management right in a way that reverses recent trends in dissatisfaction. At the heart of some of the problems is the limited “exit” power of tenants paying sub-market rents, who cannot take their subsidy with them. To tackle this, the varied options for tenants to use more “voice” power need to be strengthened. As the recent Tenant Involvement Commission put it, a “dream landlord” would first and foremost get the basics right, but would then “go the extra mile” in offering genuine choice to tenants. Social landlords report themselves increasingly constrained, however, in the choices that they can make between, for instance, rents and levels of service.

## Mixed-income neighbourhoods

If we are to ensure that social housing is no longer located in predominantly low-income areas, it is not enough just to ensure that this is true of the comparatively small amount of newly built stock (although this is of course important to avoid replicating the mistakes of the past). Six approaches could contribute to achieving this within the existing stock:

- Large-scale remodelling and rebuilding may sometimes be the only alternative, but its high cost and the impact on existing residents and communities make it of limited use as a way of improving the income mix in the areas where a large proportion of social tenants live.
- Examining the way allocations and access policies work to try to reduce the extent to which they are sometimes an engine of polarisation, even within the social housing stock. The positive experience with choice-based lettings could contribute further to this.
- Like-for-like sales and purchases (such as in the Joseph Rowntree Housing Trust's Selling Alternate Vacants on Estates scheme) or using the proceeds of market renting of existing properties to finance purchases in other neighbourhoods to diversify the stock of social landlords.
- In different parts of the country there is potential to use vacant land within predominantly social housing areas to bring in both new stock for sale, low-cost home-ownership or market renting through infill and to generate resources to improve the existing stock or provide new affordable housing.
- Retaining higher-income tenants through high quality management, improving neighbourhood conditions and services, and diversifying the options open to them. Their retention could be seen as success in making the sector genuinely one of choice, rather than as a failure of "targeting".
- Most fundamentally, however, the income mix within an area will be changed, if the incomes and employment prospects of existing residents can be improved.

## Supporting livelihoods

The report suggests five directions in which housing-related policies might evolve to give better employment outcomes for social tenants and from the resources involved in providing social housing. The first four of those could occur within the existing framework for providing social housing, the fifth would mark the start at least of a more radical shift.

- *Housing Benefit*: Both tenants' and sometimes employment staff's knowledge of how Housing Benefit operates can act as a barrier to seeking work, if people do not know that it may continue in low-paid or part-time work. Less rapid adjustment of entitlement to changing circumstances could help both stability of income on a move into work and reduce the administration involved. The financial inclusion



benefits found in reverting generally to paying Housing Benefit to private tenants rather than to private landlords suggest a case for re-examining whether this should be extended to the social sector.

- *More integrated support:* Housing and employment support tend to operate in separate boxes, but often what initially appears as a housing problem may have its roots in problems in the labour market. For some young people, for instance, combined employment and skills support with accommodation of the kind offered by foyers may be more appropriate than routes to a permanent social tenancy. For others, the stability and sub-market rents that social housing offers should help work incentives, but both housing “enablers” and employment services could capitalise more on these advantages, as some current experiments are beginning to do. Initiatives such as the Department for Work and Pensions’ “Pathways to Work” pilots have shown the value and cost-effectiveness of personalised support for people with labour market disadvantages. From the employment perspective, paying for temporary accommodation through individual Housing Benefit at sometimes very high rents gives unhelpful disincentives for those who may end up living in it for several years.
- *Local employment:* There is clearly more potential for public services of all kinds, not just housing, to generate local employment. Social landlords can be important partners in neighbourhood regeneration programmes designed to improve links to work and skills. Initiatives such as the Working Neighbourhoods pilot show the potential for employment initiatives to work at a neighbourhood level, but also the issues involved in their implementation.
- *Mobility:* Job-related reasons (including, for instance, potential childcare support) and the fact that an existing tenant transferring within the existing stock creates a vacancy behind them could be included as factors in establishing priorities for who can move. Expansion of “Choice-Based Lettings” onto a basis that covered wider areas, building on the experiments already taking place in parts of the country would also help mobility to some extent, but within what remains a heavily rationed system.
- *More fundamental reforms:* Thorough-going reforms to increase social rents to much less deeply subsidised levels could reduce the rationing constraints within which social housing operates. However, in high-cost regions, this could greatly extend the poverty trap and worsen work incentives. In relatively low-cost regions, the impact on incentives would be much smaller, although even in such regions very careful design would be needed to cope with higher cost areas within them and to offset impacts on existing tenants.

## Offering a varied menu

One of the frequent calls in discussions for this review was for there to be a more varied “offer” to prospective tenants than the standard secure tenancy, and for social landlords to offer a wider range of housing options, as some are doing already. Looking at the scale of different kinds of housing support at present, there appears in particular to be considerable scope for broadening the scale of intermediate options involving partial equity purchase.

Under present arrangements there are large differences between the values of purchase rights open to different kinds of social tenant, raising problems of equity and complexity, and sometimes acting as a barrier to mobility within the stock. A radical option would be to review ways in which common equity purchase rights could be applied *across* social housing on common terms. The generosity of the terms available would depend on policy-makers’ key objectives: simply offering a more flexible alternative to the value of remaining as a social tenant might imply less generous terms than historic Right to Buy discounts; positive encouragement might imply systems where any equity purchase was matched with a grant of additional equity in a more generous way than implied by neutrality.

Offering a “more varied menu” to tenants and prospective tenants applies at two stages:

- At the point where someone presents themselves as being in housing need, for some, a route through to a traditional social tenancy may be most appropriate, but for others, quicker, more flexible support may be the most appropriate way of meeting their needs. For those with some margin above the ability to pay a social rent, low-cost home ownership options may be both preferred by them, but also cheaper than the long-run cost of social housing.
- For existing tenants, a system of regular review every few years could run through whether someone’s circumstances had changed to allow them to take up a different part of the “offer”. This could range from saving through additional payments on top of rent, to part equity purchase. Subsequently, some could benefit from the ability to “staircase down”, to draw out part of their equity when they needed it. Eligibility for such options could be used as an incentive to avoid rent arrears or other problems, as with the Irwell Valley Housing Association’s “gold service” scheme.

With more varied options, advice and support in navigating through them is crucial. At the same time, if social landlords are playing more varied roles (which some already are), issues arise of how to establish a regulatory structure that protects the interests of tenants, while allowing such diversification, which it would be helpful for the Cave Review to examine.

## Conclusions: Ends and Means

Social housing plays a crucial role for nearly four million households in England. It gives many families stability and security in a fundamental part of their lives. The quality of housing it provides is usually significantly higher than tenants with low incomes could afford in the private sector. The existence of social housing has protected affordability for its tenants even while real house prices have doubled in the last decade. Social landlords often play a leading role in the renewal and regeneration of some of the most deprived parts of the country.

In one sense, then, the answer to the core question asked of this review, what role should social housing play in 21st Century housing policy, is clear: there is no reason why social housing should not continue to play this vital role, and in considering policy change its benefits should not be put at risk. However, the evidence suggests that in terms of some of the key reasons for using social housing to achieve housing policy aims, the outcomes are at present disappointing. In part this reflects the sheer pressure the sector is under as alternatives become less affordable and as the supply of social housing available to relet declines. But more could be done to achieve better outcomes for existing tenants and for others in housing need.

This report suggests four directions where debate is urgently needed about the most effective ways in which policy could better achieve the underlying objectives of social housing and of housing policy more generally. In particular, what can be done:

- To increase the attention given to the existing stock and tenant population?
- To support more of an income mix within existing communities?
- To support the livelihoods of tenants and others in housing need?
- To offer a “more varied menu” for both prospective and existing tenants?

One of the encouraging aspects of the discussion is that making progress in one direction is not necessarily in conflict with progress in another. Indeed, some potential objectives may reinforce one another. Promoting and sustaining mixed-income communities may help reduce negative “neighbourhood effects” and improve labour market integration. Measures that support the livelihoods of existing residents help the income mix within the areas where they live. Offering a wider range of options to existing residents as their circumstances improve could hold in some people with the greatest economic potential. Offering a wider range of options to those newly presenting with different degrees of need may both allow available public resources to stretch further and better meet varied preferences and needs.

How far policy moves will depend on priorities and, in some cases, on available resources. But if social housing is to fulfil its potential, new approaches are needed. At their root we need to move beyond an approach where the key function is one of rationing and trying to establish who is *not* eligible for social housing to one where the key question is “How can we help you to afford decent housing?” and “Here are your options”. Within this, housing in itself is not the only issue. The overall policy aim may remain achieving “a decent home for all at a price within their means”, but historically we may have given too little attention to the last part of that – doing enough to support people’s livelihoods and so boosting the *means* at their disposal.

## 1. INTRODUCTION

In July 2006 I was invited by the Secretary of State for Communities and Local Government, the Rt. Hon. Ruth Kelly, MP, to carry out an independent assessment of the aims of social housing. The terms of reference for this assessment are attached to this report as an annex, the main objective of which is to help the Secretary of State “stand back and ask what role social housing can play in 21st Century housing policy”. The aim of this report is therefore to provide the background and analytical framework against which the implications of different answers to such a fundamental question can be debated both inside and outside government.

Amongst other issues the report covers key questions raised by the terms of reference, in particular:

- What can social housing do in helping create genuinely mixed communities?
- Can the way we run it encourage social mobility and opportunities, including in the labour market, for people to get on in their lives?
- Can social housing and other support be more responsive to changing needs and enable greater geographical mobility?

The report looks at the possible trade-offs between these and other objectives – but also, more encouragingly, at the ways in which achieving some of them may reinforce each other. One of its conclusions is that, in approaching the traditional aim of housing policy, of trying to ensure “a decent home for all at a price within their means”, we have given too little attention to the last part of that, to the ways in which housing policy may help or hinder people develop their own livelihoods, and so the means which they have at their disposal to meet housing and other needs.

The structure of this review was to examine first the principles underlying the use of social housing to deliver policy objectives, then the evidence on how well different objectives are being met, and then to look at policy options. The report has a similar structure. Its first part examines in Section 2 the aims of housing policy and the rationale for using “social housing” (taken here to be housing provided, normally at sub-market rents, by not-for-profit landlords) as one of the instruments to achieve them. Section 3 sets this role in the context of the other policy instruments available, of which social housing is only one. Part 2 sets out information on the background against which social housing operates in England today (figures and tables in the report refer to England unless otherwise stated): Section 4 presenting data on overall housing conditions and trends in them; Section 5 more specifically on the scale and role of social housing; and Section 6 on the resources applied to social housing and other policy instruments.

Part 3 sets out the main analysis of how successful social housing is in meeting some of the objectives which act as a strong rationale for its use, looking successively in Sections 7-10 at evidence on quality, affordability, promoting a social mix, and supporting mobility and livelihoods. Section 11 presents evidence on alternative instruments to social housing (such

as Housing Benefit or assistance to owner-occupiers). Section 12 examines some of the (generally intensifying) pressures within which social housing operates and which form the context within which policy needs to be debated and made.

The start of the final part of the report takes stock of this evidence and suggests that, crucial as social housing is to the lives of nearly four million households in England, there are respects in which it could meet its aims more successfully. The rest of the report therefore discusses possibilities for reform. This starts in Section 13 with possibilities for fundamental reform to the system, and their advantages and disadvantages. Section 14 discusses the practical experience in the last few years with recent reforms of Housing Benefit, lettings policies, and preventing homelessness. The next four sections set out possibilities within four directions where the analysis suggests policy and practice change might be helpful: increasing attention to the existing stock and its tenant population (Section 15); promoting mixed-income neighbourhoods (Section 16); the role of social housing in supporting people's livelihoods (Section 17); and offering a more varied "menu" of support for tenants and prospective tenants (Section 18). The final section sets out some conclusions in the light of this discussion.

The nature of this review, its focus, and the time available for it mean that it is not intended as a comprehensive account of all aspects of social housing, let alone of housing policy as whole. In particular, it does not discuss how social housing should be managed, or specific issues connected with supported and rural housing, important as each of these is. A separate review is being carried out by Professor Martin Cave of the regulation of social housing, which is due to report in the Spring of 2007. Nor was there time to make any systematic comparisons with the role of social housing in other countries.<sup>1</sup>

In the suggestions that I make for possible directions of policy reform, I make no claims for originality, as they draw on many other people's ideas, and indeed on examples of approaches already being used by both housing associations and local authority landlords. Many individuals and organisations kindly made helpful written submissions and suggestions. As well as informing my own work, I hope that they will also be able to inject their ideas and experience into the debate that may follow. More formally, the Chartered Institute of Housing kindly arranged a number of consultative meetings of people involved in social housing in different ways and a "web forum" (a flavour of which can be seen in Box 13.1). The National Communities Resource Centre at Trafford Hall, Chester also kindly organised an event involving people involved with tenant and other community organisations (see Box 15.1).

<sup>1</sup> For issues connected to rural housing, see in particular the *Final Report of the Affordable Rural Housing Commission*, 2006. For a review of the overall "supporting people" programme, see Audit Commission (2005), *Supporting People*. For more detailed discussion of issues around shared equity housing see, *The Report of the Shared Equity Task Force* (HM Treasury and Communities and Local Government, December 2006). There is an extensive literature on housing policy and social housing in other countries. See in particular the papers that can be downloaded from the website of the European Network for Housing Research (<http://www.enhr.ibf.uu.se/>). An edited version of the papers from a conference held by the group at the London School of Economics in the Autumn of 2006 will shortly be available from the LSE. See also D. MacLennan, *Looking forward, aiming higher: The future of social housing in England* (forthcoming from the Joseph Rowntree Foundation), which draws on international experience to shed light on some of the issues covered by this review.

As requested by its terms of reference, the aim of this report is to assess different objectives and implications for the direction of travel on reform, rather than to make detailed policy recommendations. As will become evident from the evidence presented here and the conclusions to which they lead, there are important issues that require urgent debate, but specific policy responses would require careful design and consultation. This report is designed to contribute to the beginning of such a process rather than be the conclusion of it.

## PART 1: WHAT ARE WE TRYING TO ACHIEVE?

### 2. AIMS

For more than thirty years the overall aim of English housing policy has been summarised by variants of the slogan, “a decent home for all at a price within their means”. This formulation has two sides, one to do with housing objectives, the other to do with income distribution (and, as we shall see, wealth is becoming an increasingly important part of the “means” some people have to obtain housing in the market, while others do not). Social housing – taken in this report to mean housing run by not-for-profit or public landlords for rent, normally at below-market rents – has been one of the main instruments used to try to achieve this aim. The range of alternatives is discussed in detail in Section 3 below, but there are clearly other instruments (such as cash benefits or low-cost home ownership schemes) that could be used to achieve such “affordable housing” objectives. As a starting point for assessing the role of social housing in the twenty-first century, and how well it fills that role at present, it is helpful to start with an analysis of why social housing has been such an important, at times dominant, part of the policy mix.

#### Why housing, not cash?

First, if the main concern is with helping people who could not otherwise afford “decent” housing to do so, the most straightforward approach would be to transfer cash to them through social security benefits, or other transfers, such as tax credits. In other – arguably just as important – aspects of support for people’s standard of living we are content as a society to help people through untied cash, and let them get on with it. We do not, after all, give food parcels to people who could not otherwise afford enough food. Rather, through cash benefits such as Income Support, we put them in a position to buy more than they could do otherwise, and leave them to make their own choices through the market. However, there are other areas where direct provision may be preferred for *efficiency* as well as equity reasons, including health care and school education. Essentially there are three related reasons why countries have tied support specifically to housing (reasons which will, of course, appeal more to some than to others):

- *Paternalism*: Unfashionable as it may sound, a major driving factor behind specific support for housing consumption (and for other services provided “in kind”, such as education) has been the idea that some people, if simply given the cash, would spend it in ways that others would judge to be against their own long-term interests – for instance, living in crowded, squalid accommodation, while spending the money that could have paid for adequate housing on gambling, drink or high-living, or less dramatically, prioritising short-term needs instead. There has been a further motivation that other family members, such as children in particular, might be adversely affected by their parents’ short-sighted consumption decisions if support were not tied to a particular form.



- *Merit goods*: This first motivation also manifests itself politically in the idea that housing is a “merit good” – tax-paying voters may be happy to support transfers to those with low incomes if they are tied to a particular form of consumption, but not if they come untied. Thus, at present we run a social security system where the cash available to a couple receiving Income Support is £90 per week, but in central London they could be receiving a further £290 in Housing Benefit towards their rent (Box 11.1). Tying the larger part of the payment to housing costs might be more politically acceptable than simply paying them £380 each week in cash – although it is notable that some other countries run more generous systems of cash support, often relying on social insurance, and can then rely less heavily on specifically housing-related payments.
- *Externalities*: Thirdly, there are ways in which one person’s housing consumption affects others. If one house falls into decay, problems may spread next door. If one house is visibly in poor condition, the perceptions of the neighbourhood may be affected, affecting the quality of life of others, and possibly their property values. Seeing visible neglect of one property and its surroundings may lead to others neglecting theirs, setting up a wider downward spiral.

Note that these three arguments are all, in one sense or another, about minimum standards. We may be prepared to try to ensure that people reach a particular standard of housing through specific housing subsidies, but the same arguments would not necessarily lead us to subsidise all housing consumption beyond that standard. Note also that with each of the above justifications we are over-riding the valuation that people might put themselves on the housing-related support they receive. Given the choice, they might be prepared to settle for a smaller amount of cash to spend as they choose, but we are also trying to achieve wider social benefits. If the *cost* of housing provision is greater than the *value* its recipients might put on it, this is not *per se* an argument that the form of provision is inefficient: but it is an argument for checking that any gap is creating something that is socially valued.

A fourth argument is more general. That is that buildings are long-lasting and can be inflexible. Future generations – potentially better off than ours – may want better housing conditions, and *might* appreciate a legacy of more generously-built property than we would choose today, as opposed to the other kinds of assets (or reduced liabilities) we might bequeath to them. Whether we are very good at “building for the future” is another matter, but there are certainly people today who appreciate the space standards laid down by the 1961 Parker-Morris report with its self-explanatory title, *Homes for Today and Tomorrow*.

### **Why social housing?**

But arguments of this kind say little about the *form* of housing support. They could also be achieved – and are in other countries, as well as for some in the UK – through other instruments such as Housing Benefit, or grants, subsidies, regulation or tax concessions for owner-occupation. Reliance on direct provision by not-for-profit landlords has reflected a further series of concerns or aims:

- First, there are undoubtedly some people and families whose capacities are so limited or whose lives are so chaotic that they would not be in a position to organise their own housing in the market, or cope with organising its upkeep. While it is not the focus of this report, the important role of “supported housing” within the social sector is sometimes a reflection of such needs, and those going beyond just providing a roof over someone’s head. Others may need help at times of crisis, when there are many other pressing needs to cope with, and help with organising a roof over a family’s head is crucial. However, such arguments manifestly do not apply to anything near the approaching one fifth of the population living in social housing, and even where they do, there could be other forms of support that could be given that do not necessarily involve non-market provision of the housing.
- More generally, the weak position of an individual or family with limited means faced with the substantial time and financial costs of moving may leave them open to exploitation by unscrupulous private landlords through high rents, poor maintenance and discrimination. Even today, nearly fifty years on, the fear of “Rachmanism” is still a strong justification advanced for provision through not-for-profit (and more easily regulated) social landlords. In other words, social housing may achieve a better quality of provision than the private sector – and can ensure that certain groups are not discriminated against in access as they might be privately. Linked to this, a development of the “merit good” argument is that some people may support transfers via trusted not-for-profit organisations, but would not support the same resources being channelled via a profit-making route.
- Third, organisations with long-term housing objectives and commitments can provide long-term security of tenure to tenants in a way that private landlords would be unwilling to give (or would charge heavily for the risks entailed), and so allow tenants the stability to get on with the rest of their lives, such as settling children into schools.
- “Social” landlords may indeed be that, operating at a local scale and with a social motivation that allows them to take a wider role, for instance in improving or protecting neighbourhood conditions, but perhaps also in supporting the viability of the areas in which they operate in a way that small private, profit-motivated providers might not. On this kind of argument, one might be less worried if imprecise subsidy systems led to “surpluses” in the long run, as they would be applied to socially-valued aims, rather than taken as windfall profits.
- A dominant argument historically, and arguably still applicable given continuing land constraints and inelastic supply, is that through the use of *supply* subsidies to “bricks and mortar”, government can ensure that its resources do indeed create new supply, rather than driving up prices, as might happen if *demand* subsidies to individuals simply led to more cash being thrown at a little-changed supply. In other words, direct subsidies may result in better value for money – although this kind of argument depends on a series of assumptions that may or not be true (for instance, that in the absence of social house-building, the same land would not be used for housing, or not used so intensively).

A final argument is, however, particularly pertinent to the current state of English social housing. This is that, while demand-side subsidies may be tied in a way that ensures they are spent only on housing, the market may operate in a way that leads to sharp area segregation and polarisation, and to the emergence of low-income ghettos. Those with low incomes may end up restricted by the market to the least desirable parts of towns and cities. In the extreme, if there were no link between housing support and regional costs, people with modest means might end up unable to live in higher-cost regions. A crucial advantage of social housing is thus the *potential* for breaking the strength of the links between household incomes and location, in a way that could make it much easier to sustain mixed-income neighbourhoods than systems relying exclusively on market provision.<sup>2</sup>

There is also another kind of argument, running in the other direction: providing “adequate” housing but of a low standard, or in an undesirable location, may be a way of achieving a minimum physical standard of provision for those with no other choice, but acting as a rationing device to limit demand for subsidised provision from those who then choose something of higher quality, even without the subsidy.

### Why sub-market rents?

Arguments of the kind above may lead to a preference for social landlords, rather than reliance on market provision, or at least to a not-for-profit sector competing against profit-making providers. But they do not in themselves necessarily lead to that provision being at subsidised, sub-market rents, rather than, for instance, market rents being charged, but with means-tested rebates or Housing Benefit for those on low incomes. This requires a further stage of justification, such as the following arguments:

- *Distribution*: If most social tenants have low incomes (as is now largely true in England), generally subsidised rents are, in fact, quite well-targeted. They may also be more effective in reaching their targets than systems such as Housing Benefit, with incomplete take-up. Subsidised and stable rents can also allow tenants with little financial margin to be insulated from the ups and downs of the housing market.
- *Equity*: If other households receive advantages – as it is argued below that owner-occupiers do through the way they are treated by the tax system – then equity may suggest that those with generally lower incomes should receive equivalent support. Equally, if policies with wider aims lead to an increase in the cost of housing – for instance, as a result of planning or “green belt” restrictions on land supply – it could be argued that those with lower incomes and little financial margin should be protected from such increased costs.

<sup>2</sup> Although it is possible to design “housing voucher” systems with restrictions on location that achieve some similar effects – as in the US “Moving to Opportunity” experiments.

- *Incentives*: Again crucially for examining the current state of social housing, a powerful argument for sub-market rents, which remain low as a household's income increases, is that this avoids the disincentives that are implied by means-tested systems of assistance. In the UK case, with very steep rates of withdrawal ("tapers") of Housing Benefit as incomes increase, the higher someone's rent, the longer and deeper the "poverty trap" they face: their net gains from working more will often be greater if they pay a lower rent (see Figure 11.1).

Note that this last argument is potentially most powerful in high-demand and high-cost areas. As is discussed below, the poverty trap facing private tenants on Housing Benefit is far wider in London than in the North of England. A similar problem affects particular rural areas across the country, with high house prices and private rents in comparison with their low wages.<sup>3</sup>

Finally, there is the matter of *legacy*: many people – and the local economies within which they live – have adjusted to the existence of sub-market rents. If these were withdrawn there would at the very least be a difficult period of adjustment, even if people were compensated in other ways – and it is always hard to structure systems of compensation that do not either leave significant losers or entail high costs. At the extreme, this could be an argument that nothing should ever change, however undesirable its side-effects, but more plausibly, it suggests the need for very careful design of any reforms that move a long way from the inherited structures.

### **The downside to sub-market rents**

While some of these arguments will seem more compelling than others, it is clear that a coherent and strong case can be made for the existence of sub-market rented housing through social landlords, and the proponents of radical alternatives have to take into account the extent to which such objectives can really be met in other ways (see Section 13). But the advantages of social housing in its current form come at a price, not just the public cost of the subsidies required. By its nature, sub-market provision – unless it is intended to be universal, as with the NHS or compulsory education (and still even then) – has to be rationed. But the process of rationing has inherent disadvantages, however well it is administered (see Box 2.1 for a summary of how priority access to social housing operates in England at present):

- While the recent development of "choice-based lettings" (see Section 14) has led to some improvement at the margin, most rationing systems involve far less choice for consumers than market-based allocation. Matching between what different consumers want and the range of housing available will be correspondingly inefficient.
- As a corollary – and Section 10 suggests this is an acute problem in England – there may be strong constraints on mobility once someone has secured a particular social tenancy. Without an easy way of "taking the subsidy with you" (only possible if one stays in social housing, where moving is difficult and becoming more so), people may

<sup>3</sup> *Final Report of the Affordable Rural Housing Commission*, table 5.

end up having to stay put, rather than sacrificing the advantage of a sub-market rent by moving elsewhere, but into the private sector (unless they can afford to exercise the Right to Buy or are prepared to sub-let, which would usually be illegal).

- With limited power of “exit” if a landlord provides a poor service, subsidies may end up partly captured by providers who do not face the competitive pressures they might in an unsubsidised market. Regulation and systems that give tenants more “voice” power through tenant representation and management (or the right to switch providers) can be seen as ways to try to correct for this.
- With rationing systems that are heavily needs-based, and seen as needs-based, those who get through the process may find themselves stigmatised, as may be the housing and addresses they occupy. At the same time, those judged not to be in “priority need” may resent those who have been housed.
- Rationing has to be administered, which has its own costs, but may also be vulnerable to fraud about people’s circumstances to gain access (or suspicions of fraud, particularly by those judged to be in less need, feeding stigma) and to giving perverse incentives (in the extreme to the “culture of dependency” that some argue is imbued by welfare provision).

### **Box 2.1 Access to social housing and homelessness assistance: “reasonable preference” criteria and “priority need”**

The legislation governing the “allocation” of social housing is designed to give priority to those in the greatest housing need. It applies to local authorities when they allocate to their own stock or nominate someone to accommodation owned by housing associations. Authorities have to maintain and publish an allocation scheme which sets out their procedures and priorities for allocating housing, and the scheme must be framed to give “reasonable preference” to certain categories of people in identified housing need.

The requirement to give “reasonable preference” to certain applicants dates back at least to the 1936 Housing Act. However, the way this legislation has impacted on the ground has changed over time. When there was more social housing available and less pressure on the stock, although those with “reasonable preference” would have been given priority overall, there were still homes available for other people. However, the widening of the reasonable preference categories, coupled with increased pressure on the social housing stock (see Figure 12.8), has led to a rise in the proportion of tenancies granted to formerly homeless households and others in the “reasonable preference” categories, even in parts of the country which until a few years ago had been classed as “low demand”.

Existing tenants seeking a move are treated in the same way as new applicants under the legislation, so if they do not have “reasonable preference”, their chances of moving may be severely restricted, particularly in areas of high demand. Housing associations operate under different rules and may often allow their existing tenants to move within the stock first before they offer any properties to the local authority, although some operate a common register and allocations policy with their local authority.

### **Box 2.1 Access to social housing and homelessness assistance: “reasonable preference” criteria and “priority need” (continued)**

#### **Reasonable preference**

The current “reasonable preference” categories are set out in section 167 of the Housing Act 1996, as amended by the Homelessness Act 2002. They are:

- All homeless people. Not just those who are unintentionally homeless and in priority need and owed the main statutory homelessness duty (see below);
- People living in unsanitary, overcrowded or otherwise unsatisfactory housing;
- Those who need to move on medical or welfare grounds, including grounds relating to a disability;
- People who need to move to a particular area to prevent hardship (to themselves or others).

#### **Cumulative preference – the courts’ view of allocations**

Court cases have introduced the concept of “cumulative preference”. This means that if a person falls into more than one “reasonable preference” category, they should normally be given greater priority for housing than someone who falls into only one – on the grounds that their identified need will normally be greater. While the concept of “cumulative preference” is not new, there have been some recent court judgments which have raised the profile of this issue. For example, in court cases against both the London Borough of Lambeth<sup>1</sup> and the London Borough of Waltham Forest<sup>2</sup>, their banding schemes were found wanting because they did not give greater priority to those who fell within more than one of the “reasonable preference” categories.

#### **Priority need**

Under the homelessness legislation, housing authorities have a statutory duty to secure accommodation for eligible people who are homeless through no fault of their own and who fall within a “priority need” group. The accommodation need not be social housing initially, but in most cases the duty does not end until a social tenancy is offered through the authority’s allocation scheme. Since 2002, the priority need categories have embraced a wider range of vulnerable groups whose age or background puts them at greater risk when homeless. The priority need groups include people whose household includes a dependant child; a pregnant woman or someone who is vulnerable in some way (e.g. because of mental or physical disability, old age or other special reason); homeless 16-17 year olds; people aged 18 to 20 formerly in care; people who are vulnerable as a result of time spent in the armed forces, in care, or in custody; and people vulnerable as a result of fleeing their home because of violence.

<sup>1</sup> R(A) v Lambeth LBC; R(Lindsay) v Lambeth LBC [2002] HLR (57) 998

<sup>2</sup> R(Butt) v LB Waltham Forest [2006], R(Siwak) v LB Waltham Forest [2006]

## Summary

From this discussion three points stand out. First, it is not hard to make a strong argument for social housing at sub-market rents to be a significant part of how we try to meet overall housing and distributional aims. Arguments about higher quality than private landlords, avoiding discrimination, affordability, the avoidance of area polarisation, and avoidance of strong disincentives for tenants to work and save are potentially all very powerful. Evidence on success in achieving them is reviewed in turn in Sections 7-10 below. Second, however, the strength of the arguments varies across the country, and may be a great deal stronger in high-cost areas. In relatively lower-cost regions the adverse side-effects of more reliance on cash transfers and market-based systems will be weaker. Finally, there are inherent costs to rationed systems. These include the sharp differences in treatment between those who do and do not make it through the rationing process; limitations on choice for those who do so; incentives to, and suspicions of, fraud or manipulating circumstances; limitations on mobility; and lack of consumer power over providers. Such disadvantages do not necessarily outweigh the advantages described above, but they do suggest at the least the need to try to ensure that systems are designed in a way that they are minimised. The evidence surveyed below suggests that we have a long way to go before we could claim that.

### 3. POLICY INSTRUMENTS

While the focus of this report is on social housing and its impacts, one can only assess its appropriate role in the context of the other options available to achieve similar aims. These instruments vary in a number of respects, but three key dimensions are:

- Whether the support is *means-tested*, and reduced or removed from those with higher incomes, with variations possible in the sharpness and rapidity of any withdrawal;
- The extent to which it is *tied to housing*, or indeed to a particular house; and
- Whether it is primarily a support for *ownership or renting*.

Figure 3.1 gives a stylised representation of the main policy instruments in use in England at present mapped across the first two of these dimensions, with the area of the circles drawn in proportion to the approximate annual flow of public resources involved (drawn from material presented later in this report). The major instruments illustrated are only a small selection of those available. It shows, for instance, the contrast between support for private rented housing, tied to housing but not a particular property and subject to rapidly-adjusted means-testing, and general subsidies to social tenants through the advantages of sub-market rents, which are tied to particular properties, but not means-tested.

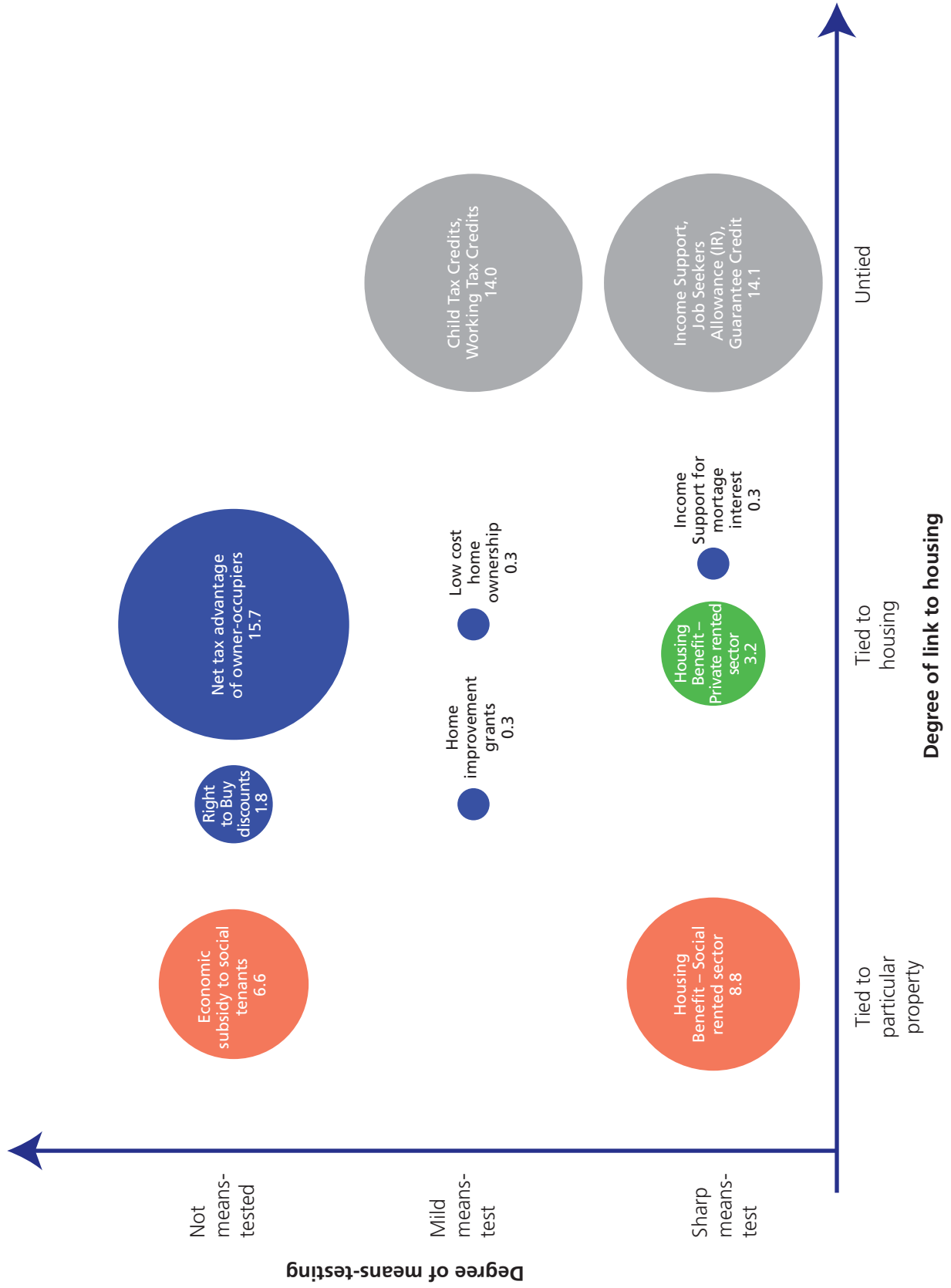
#### Support connected to renting

- At one extreme, people can simply be provided with and allocated free housing or hostels to live in, with no charge made, and probably with little choice over its form. Tied housing provided by employers is more common than state provision of this form, but some local authority provision of temporary accommodation (or bed and breakfast hotel provision) where all of the rent is covered by Housing Benefit comes close in functional form.
- More generally, housing can be provided at subsidised rents. The main focus of this report is on subsidised housing provided by local authorities and not-for-profit housing associations.<sup>4</sup> But in principle private landlords could be subsidised directly or through tax concessions in return for charging sub-market rents – and indeed in countries such as Germany this is exactly what has been done, with private landlords agreeing to provide low-rent housing for a certain period in return for such subsidies (but with the housing reverting to the market sector at the end of the period). Some US tax credits achieve similar functions. On the demand side, the tax system could also in principle support payment of rents by making them tax-deductible. An increasingly common form of limited support in England is help for people to become private tenants through local authority rent deposit schemes.

<sup>4</sup> Sometimes officially referred to as Registered Social Landlords (RSLs), but described by the more familiar term of housing associations in this report.



**Figure 3.1** Scale and type of public support for housing (£ billion, 2004–05)



- While we are used to rents that do not depend on the tenant's circumstances, landlords themselves could in principle run systems where rents vary with income (although social landlords have not been allowed to do this in England since the 1970s). In the USA, new mixed-income and public housing developments often incorporate variable rent structures of this kind. Such systems have however potential draw-backs in terms of disincentives, increasing polarisation, and uncertainty of rental streams for landlords that are discussed further in Section 13.
- More familiar in Britain is the idea that people should receive assistance which varies both with the rent they pay and with their circumstances through Housing Benefit, although the extent to which assistance varies with either does not have to follow a particular model. Such support can be paid via the landlord ("rent direct") or to the individual. It can also be made conditional in various ways – again, in the USA "housing vouchers" are often restricted to use with accommodation above a certain standard, or in particular locations.
- Support for those with low incomes to be able to afford housing can come untied to any housing consumption in particular. Retirement pensions, tax credits, or Income Support could all be set high enough to cover what was deemed to be the cost of housing of an acceptable standard, and then people left to make their own choices. Administratively, this is much simpler, although it does not, of course, ensure that people reach that acceptable standard. In the UK, attempts to run more of the social security system in this way have foundered on what the 1942 Beveridge report identified as the "problem of rent" – that housing costs vary greatly across the country, and even within regions between properties of similar standard. This makes setting a fixed level of benefit difficult – if set high enough to cover expensive regions and properties, the system will be very expensive; if set at a low level, the result may either be hardship or the need for supplementary housing allowances. In the UK we have historically opted for the last route – keeping aggregate spending down by tailoring individual support to their actual housing costs.<sup>5</sup>

### Support connected to owning

- The most familiar form of support for owner-occupation in the UK was the system of mortgage interest tax relief, now abolished, under which mortgage interest was deductible against income tax, reducing its effective cost to the owner.<sup>6</sup> But owner-occupation still benefits from favourable tax treatment by comparison with other assets. Other kinds of investment create returns that are taxable. In the case of owner-occupation the return to ownership comes in two forms, the value of living in one's own home (the "imputed rent") and a potential or actual capital gain.

<sup>5</sup> Although the recent Local Housing Allowances pathfinders have been a move away from this – see Section 14.

<sup>6</sup> The logic behind giving tax relief for mortgage interest was that in one model the income tax system should tax the net return on assets. Just as business can set interest payments against their profits for tax purposes, so mortgage tax relief for owner-occupiers could be justified when the value of living in a property was taxed, as it used to be under "Schedule A" of income tax. Interest-deductibility was retained when this was abolished in the early 1960s, however.

Neither of these is taxed. It is not only income tax that may be relevant here – construction of new residential housing (but not renovation of old housing) is free of VAT, while other taxes such as Inheritance Tax could theoretically be restructured to give favourable treatment to home-owners. To set against such advantages, there are other actual or potential offsets through other parts of the tax system: owners pay stamp duty when properties are bought; both owners and tenants are liable to council tax, which rises somewhat with property values; private landlords and second home owners are subject to capital gains tax, not just on the real increase in the value of their property over and above inflation, but also on the nominal gains reflecting general inflation.

- But owner-occupation can be supported through other routes, such as grants or concessional loans for home improvement, or means-tested support such as Income Support for Mortgage Interest (ISMI).
- People are also supported into ownership through systems such as Right to Buy (RTB) discounts, where sitting tenants have been able to buy the property they occupy at below market value (see Box 11.2).
- Similarly “shared ownership” or “shared equity” schemes can involve either favourable loans or subsidised rents on the portion not immediately purchased (Box 11.3). Such support can either come directly or via the supplier – for instance where developers agree to provide low-cost housing in the context of securing planning permission (offsetting part of the “planning gain” in increased land values when permission is granted; see Box 6.1).
- Finally, of course, houses can simply be given away, as happened with some state housing after the collapse of communism in some Eastern European countries.

Beyond these systems of support for housing *per se*, there are of course other ways in which people can be supported with services connected with housing – such as help in finding housing, help with maintaining and repairing housing, and so on.

## Summary

In principle there is a wide range of different forms that housing support can take, of which provision of housing by not-for-profit landlords at sub-market rents is only one. However, as Figure 3.1 illustrates, the system in England is dominated by just three: means-tested Housing Benefit; provision of social housing at below-market rents; and favourable taxation of owner-occupiers. The scale of these is large even by comparison with, for instance, other forms of support for those with low incomes such as Income Support. The scale of other kinds of intervention, such as support for “intermediate tenures” through shared ownership or shared equity schemes of one kind or another, is comparatively small. An obvious issue is whether this is the most effective balance in the use of resources.

## PART 2: WHAT ARE WE DOING?

### 4. THE OVERALL HOUSING BACKGROUND<sup>7</sup>

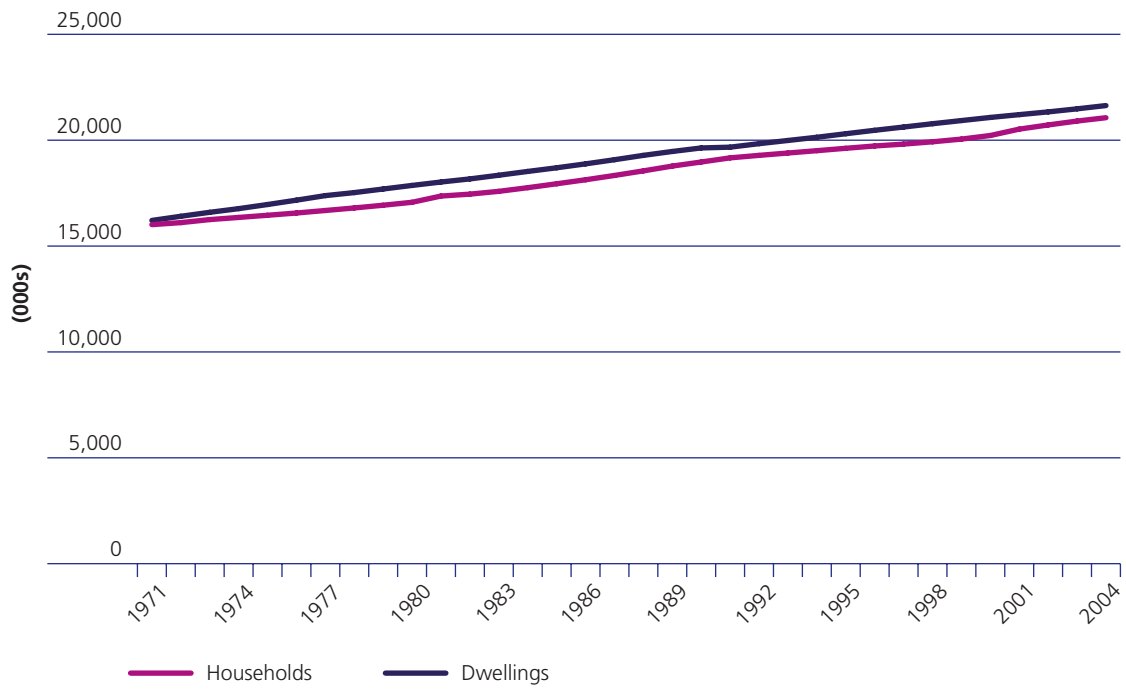
#### The balance between dwellings and households

The most obvious measure of whether policy is succeeding in providing a “decent home for all” is the balance between the number of households and of available dwellings. Immediately after the Second World War, the aim of policy was “a separate home for every family that wishes to have one”, reflecting the large degree of post-War sharing. In 1951, England still had only 11.7 million separate dwellings, but 12.5 million households. As Figure 4.1 shows, by the 1970s, this crude shortage had disappeared, with 16.2 million dwellings for just under 16.0 million households in 1971. Of course, as we discuss below, not all the dwellings were “decent” even by minimal fitness standards of the day, not all were occupied, and not all of those who wanted to form a separate household could do so. But, as the graph shows, since 1971 the overall numbers have moved closely in step. There were 5.1 million more households in 2004 than in 1971, and 5.4 million more dwellings. In the most recent period, from 1996 to 2004, the number of households rose by 1.3 million and the number of dwellings by 1.2 million, leaving 0.6 million more dwellings than households. Of course, there are some circularities here: the definition of a household, with a criterion of running separate meals and housekeeping, comes close to living in a separate dwelling, and if there are not enough dwellings, not all can live separately (see Figure 4.11 (d) and (e) for recent trends in numbers of some such households). This kind of focus also begs the questions of quality and size, discussed below. However, in aggregate, over the last quarter century housing supply and household growth have marched in step.

Figure 4.2 shows the main reason for the increase in dwellings, the rate of completion of new dwellings in England since the Second World War. This peaked at 350,000 in the late 1960s, more than twice the rate of the last ten years. The main reason for the fall in the total was the drop in completions of new social housing from a peak of 150,000 in 1967 (overwhelmingly built for local authorities) to under 50,000 since the mid-1980s. By 2005, of 160,000 total completions, 142,000 were privately built and 18,000 were for housing associations, with fewer than 200 built for local authorities.

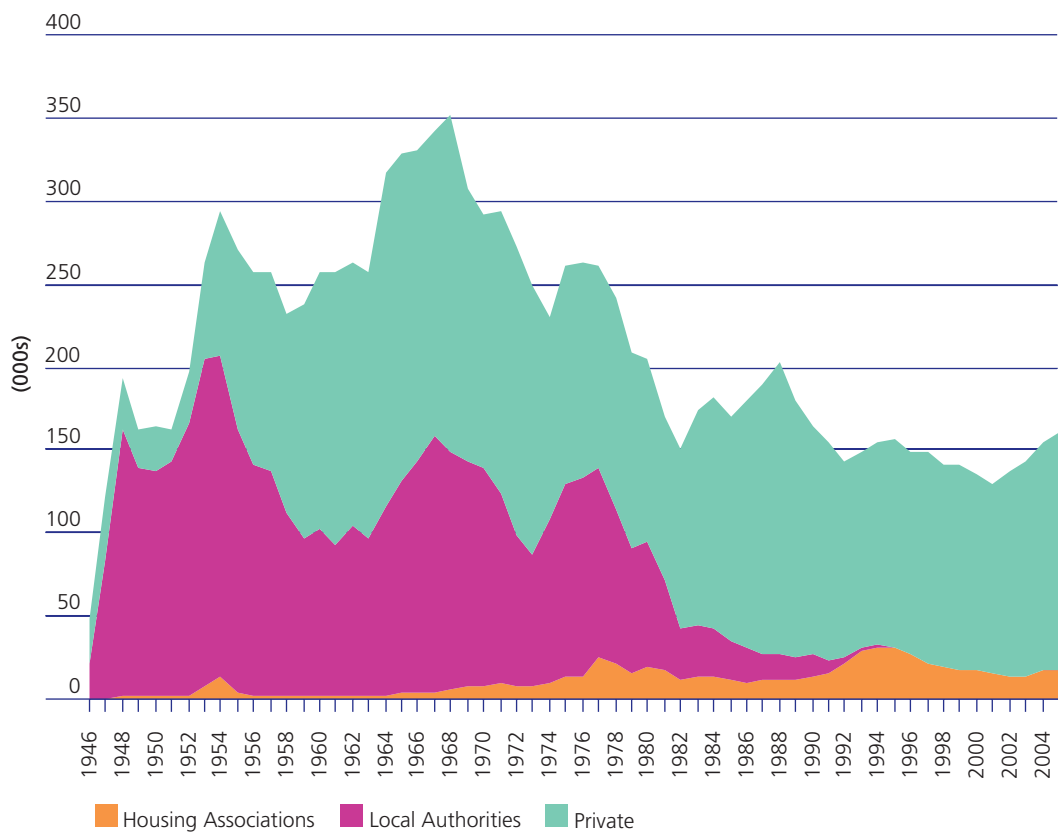
<sup>7</sup> For more detailed information on some of the issues covered in this and following sections, see G. Palmer, P. Kenway, and S. Wilcox (2006), *Housing and neighbourhoods monitor*, York: Joseph Rowntree Foundation.

**Figure 4.1** Trends in households and dwellings



Source: Communities and Local Government Live Tables 104 and 411.

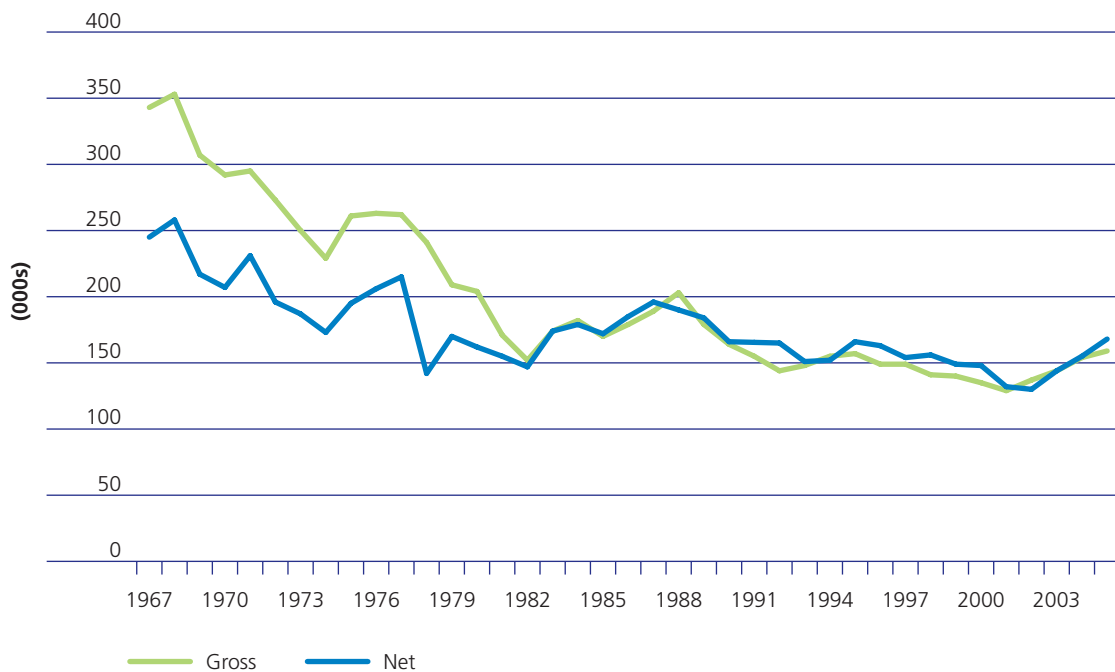
**Figure 4.2** New dwelling completions since 1946



Source: Communities and Local Government Live Table 244.

But the stock does not grow automatically in line with the number of new completions. Conversions of existing houses into several flats can also add to the number of units, but demolitions reduce it. As Figure 4.3 shows, the *net* addition to the stock at the peak of building in 1967 was 250,000, not 350,000, reflecting the large-scale demolitions of the time. The net addition stayed around 200,000 in the first half of the 1970s, but for most of the last quarter century, the level of annual net additions has remained between 150,000 and 200,000, with the 168,000 net additions in the latest year, 2005, close to the average over that period.

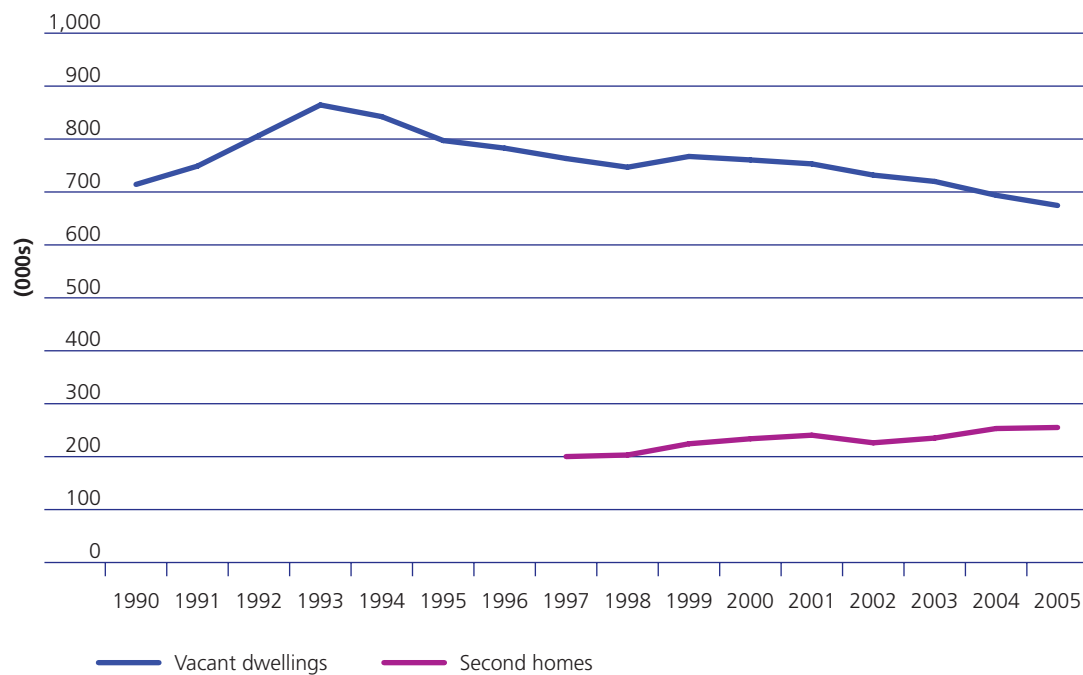
**Figure 4.3** New build and net additions



Source: Housing Flows Reconciliation.

Not every dwelling is occupied, however. Figure 4.4 tracks the number of vacant dwellings since 1990, and the reported number of English households with a second home in England since 1996-97.<sup>8</sup> Allowing for vacant dwellings and second homes, the crude surplus of 574,000 dwellings over households in 2004 would be more than reversed, leaving a deficit of 373,000. On the other hand, this would reflect an improvement since 1997, with a growth of 50,000 in second homes more than offset by a drop of 70,000 in vacant dwellings (and a total fall of 190,000 in vacant dwellings since 1993). These allowances make the overall balance look somewhat less favourable, but do not contradict the picture of households and dwellings growing in step.

<sup>8</sup> This series does not include second homes owned by English households outside England, or more significantly for the analysis, second homes in England owned by non-English households.

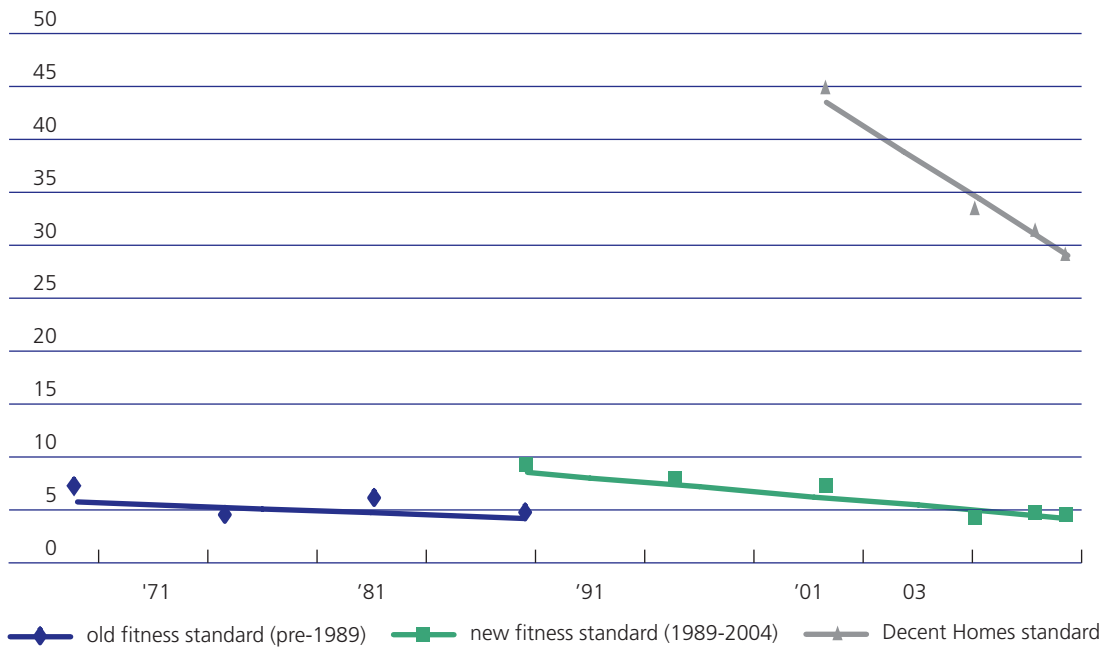
**Figure 4.4** Vacant dwellings and second homes since 1990-1996

Source: Vacant Dwellings (HSSA); Second Homes (SEH).

## Overall housing conditions

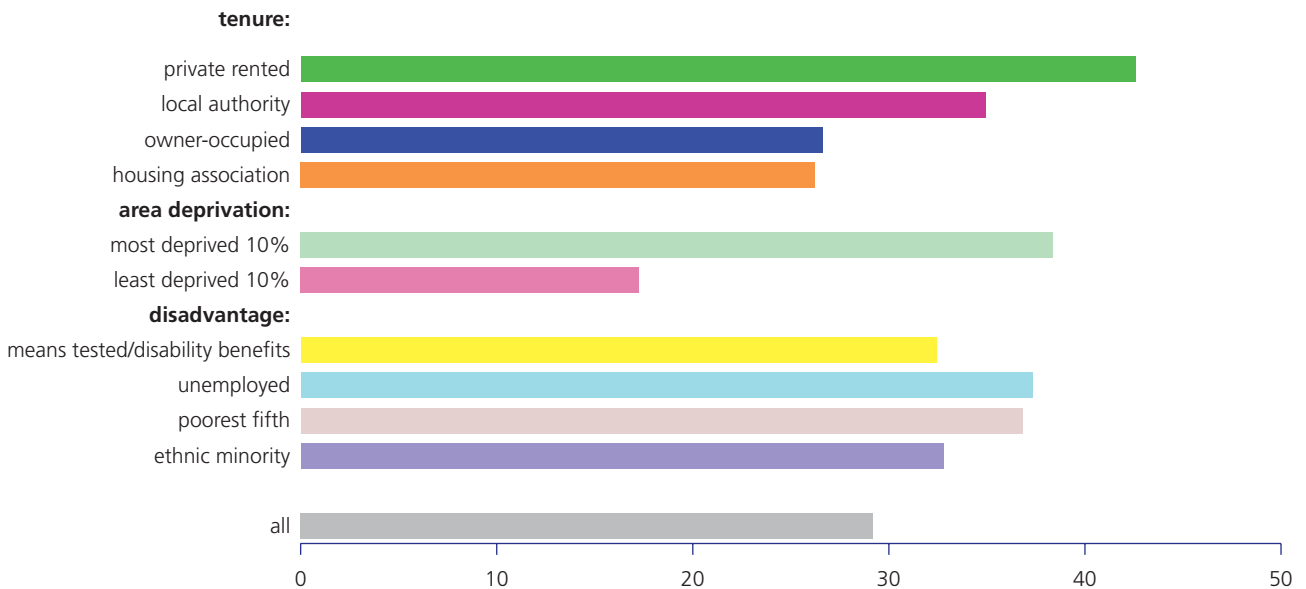
This does not tell us about whether dwellings would count as “decent” either by today’s standards or by those of the past. Figure 4.5 shows that there have been substantial improvements over time in the number of dwellings failing to meet successively higher standards since 1971. Between 1971 and 1986, the proportion failing to meet the “old” standard of fitness fell from 7 per cent to 5 per cent. Against a higher standard, the proportion of the stock failing the “new” fitness standard fell from 9 per cent to 5 per cent by 2004. The current standard – with an explicit government target to meet it within social housing by 2010 – is that of “decent homes”, covering not just the basic physical standards of “unfitness”, but also the state of repair, the presence of modern facilities and services and thermal efficiency (see Box 4.1). Rapid progress has been made against this standard since 1996, although 29 per cent of homes were still below it in 2004. As Figure 4.6 shows, the highest rates of failure to meet the standard are in the private rented sector, but also with above average failure rates in local authority housing, whereas housing association property is as likely to meet the standard as owner-occupation. There are marked differences between the most and least deprived areas. Households with disadvantages are also somewhat more likely than others to live in housing that does not meet the standard.

**Figure 4.5** Housing standards and conditions, 1971-2004  
(% of dwellings below standard).



Source: English House Condition Survey, 2004, all housing stock.

**Figure 4.6** Non-decent homes by tenure, deprivation and disadvantage 2004, (%)



Source: English House Condition Survey, 2004, all households.

Notes: 1. Poorest fifth is based on household equivalised net income before housing costs (modified OECD scale).  
2. Unemployment status and ethnic identity are based on the household reference person (the main income earner).



### Box 4.1 The Decent Homes standard

In 2000 the Government set a target (in Public Service Agreement 7) that by 2010, all social homes must meet “minimum standards of decency”. In 2002 the target was extended to state that 70 per cent of “vulnerable households” in the private sector should also have decent homes (vulnerable households are those receiving one or more of the main income-related or disability benefits such as Income Support or Housing Benefit). The Government has said recently that some deadlines for the delivery of decent homes can be renegotiated, for example where delivery has started late or major regeneration projects are involved, especially to ensure value for money on procurement. This means that it is now expected that 95 per cent of the social stock will meet the standard by 2010.

The definition of a “decent home” applies equally to the social and private sectors. The definition applies to all dwellings whether occupied or vacant. The Decent Homes standard only applies to the inside of the dwelling and not explicitly to the wider neighbourhood. A decent home is one that:

***Meets the current statutory minimum standard for housing***, which was updated in 2006 to reflect the Housing Health and Safety Rating System. To fail to meet this standard, a home would have one or more hazards assessed as serious (‘Category 1’) against the system.

***Is in a reasonable state of repair***. To fail to meet this standard one or more of the key building components, or two or more of the other building components, must be old and, because of their condition, need replacing or major repair.

***Has reasonably modern facilities and services***. To fail to meet the standard a home must lack three or more of the following:

- a kitchen which is less than 20 years old;
- a kitchen with an adequate space and layout;
- a bathroom which is less than 30 years old;
- a bathroom and WC which are appropriately located;
- adequate insulation against external noise (where noise is a problem);
- adequate size and layout of common areas for blocks of flats.

***Provides a reasonable degree of thermal comfort*** through the provision of effective insulation and efficient heating.

**Box 4.1 The Decent Homes standard (continued)**

Funding routes to achieve the standard in the social sector include:

- Major repairs allowances, added to Housing Revenue Account subsidy calculations for local authority housing from 2001-02 (see Box 6.1);
- The terms of transfer when housing stock is transferred from a local authority to a housing association;
- Setting up a high-performance Arms Length Management Organisation (see Box 15.2); and
- Entering into a Private Finance Initiative (PFI) contract.

Funding for private sector housing is distributed through Regional Housing Boards. Over half goes on grants and loans to renovate private housing, about a quarter on clearances (supplementing funds from the Housing Market Renewal Fund and spent mainly in the nine “pathfinder” areas), and a further quarter to cover regional priorities such as the local authority contribution towards Disabled Facilities Grant. Delivery of private sector decent homes is also supported by Department for Environment, Food and Rural Affairs “Warm Front” grants (see Table 11.6).

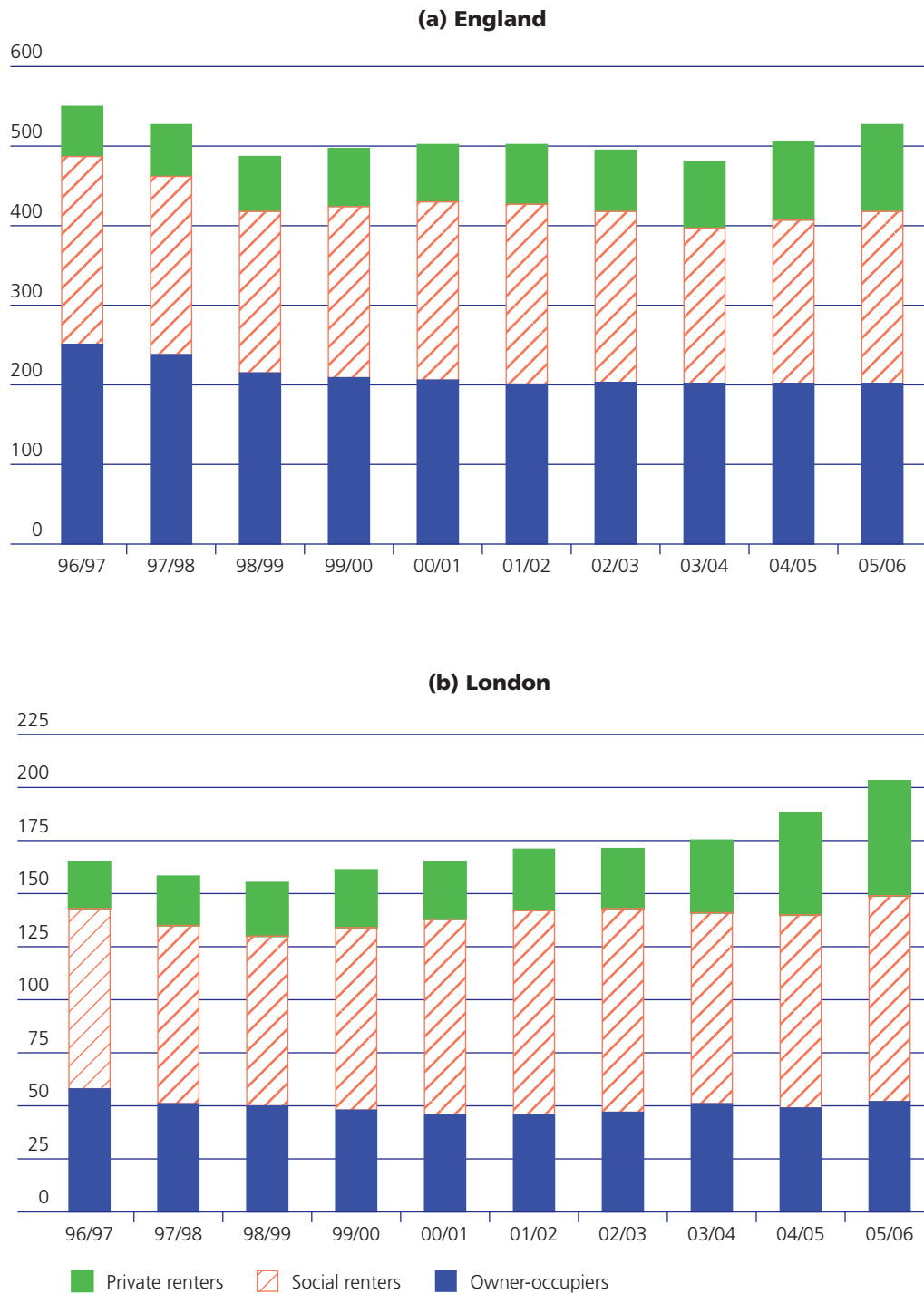
**Overcrowding and space standards**

One problem with the statistics conventionally presented on housing conditions in the UK is that they tend to focus on the simple numbers of dwellings, conveying little about what is happening to their size and adequacy in terms of space. A first measure of potential problems is what has been happening against the number of households in dwellings that do not meet the official “bedroom standard” of number of bedrooms needed for their household size and composition.<sup>9</sup> For most of the last decade, about 500,000 households have been in dwellings failing this standard, with little clear trend, although in the private rented sector the number has risen from 63,000 to 110,000 (Figure 4.7). The rate of overcrowding against this standard is higher in the social rented sector than in owner-occupation. It is also higher in London than elsewhere, with 11 per cent of households in the social rented sector overcrowded. This rate rises to 28 and 29 per cent for households with black African and Bangladeshi householders.<sup>10</sup> There has also been a noticeable increase in the overcrowding rate in London since 1998-99, predominantly in the private rented sector, where the number of over-crowded households doubled from 25,000 to over 50,000 by 2005-06.

<sup>9</sup> This standard allows one bedroom for each couple or person over 21 in a household, plus bedrooms for children on the assumption that two of the same sex can share, as can two children of different sex aged under 10. Bedsits count as a bedroom, so single and couple households cannot fail this standard.

<sup>10</sup> Using the term here to refer to what used to be called “heads of household”, and are now known officially as “household reference persons”.

**Figure 4.7** Overcrowding against the bedroom standard in England and London: number of overcrowded households (000s)



Source: Survey of English Housing, three-year moving average.

A more general indication of what has been happening to the available space per person is given by Table 4.1. This shows the median (mid-point) space per person by region within the private (rented and owned) and social rented sectors in 1996 and 2004. Over England as a whole, space per person rose from 35.8 in 1996 to 36.5 square metres in 2004, so by this measure housing circumstances also improved in the last decade. However, this improvement was concentrated in the private sector, with a slight overall reduction in the social rented sector. In London, space per person in social housing fell from 30.0 to 28.2 square metres.

**Table 4.1 Space per person by region and sector, 1996 and 2004**

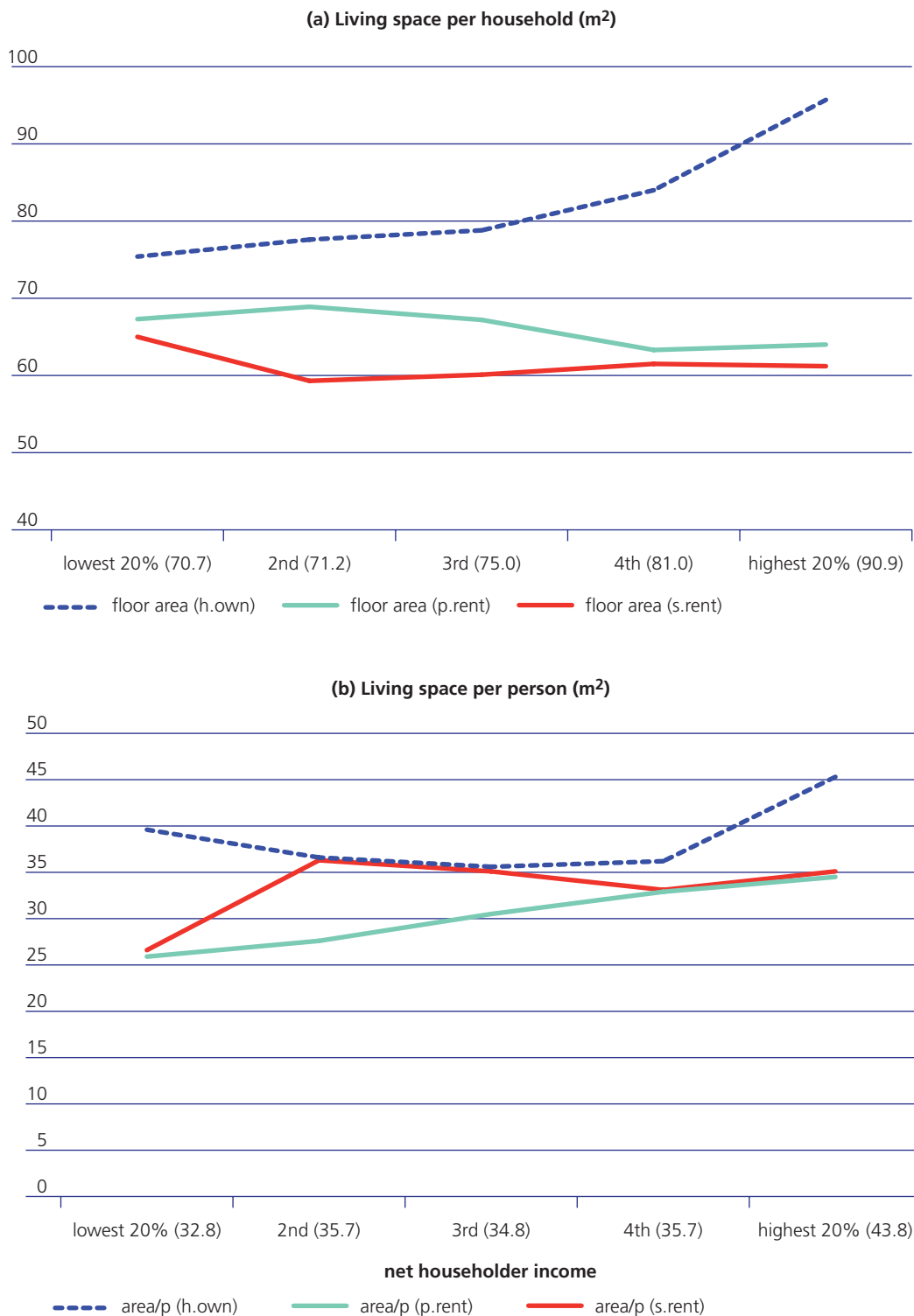
	Median floor area/person (m <sup>2</sup> )					
	1996			2004		
	Private	Social	All	Private	Social	All
<b>West Midlands</b>	36.0	31.5	35.0	36.6	34.7	36.2
<b>North West</b>	37.5	34.0	36.5	37.1	34.5	36.6
<b>North East</b>	35.5	34.0	35.0	38.5	34.3	37.3
<b>Yorkshire &amp; the Humber</b>	34.5	35.0	34.5	36.3	33.2	35.8
<b>South West</b>	42.0	30.5	40.0	41.2	31.2	39.8
<b>East of England</b>	37.0	32.5	36.0	38.3	30.9	36.9
<b>South East</b>	38.0	31.0	37.3	39.0	30.8	37.9
<b>East Midlands</b>	35.7	33.0	35.0	38.1	30.3	37.0
<b>London</b>	33.3	30.0	32.0	34.2	28.2	32.6
<b>All regions</b>	<b>36.8</b>	<b>32.0</b>	<b>35.8</b>	<b>37.6</b>	<b>31.6</b>	<b>36.5</b>

Source: English House Condition Survey, all occupied dwellings.

Note: Household space indicated by median rather than mean value to avoid distortion from extreme/untypical values from the survey sample. "Private" includes both owner-occupied and private rented dwellings.

Available space per person is not straightforwardly related to income. Figure 4.8(a) shows that space per *household* does indeed rise for those with the largest incomes (adjusted for household size) as one might expect for owner-occupiers, but this is not the case for tenants, where space varies little by income. However, in all tenures it is those with the highest income that tend to have the greatest space per *person* (Figure 4.8(b)). Across the income scale, social tenants have about a quarter less space per person than owner-occupiers. Figure 4.9 divides households up into tenths by the amount of space they enjoy per person, with those in the most crowded tenth typically having 15.4 square metres per person, those in the least crowded tenth 91.5 square metres, six times as much. 28 per cent of both private and social tenant households are in the most crowded fifth overall, but only 17 per cent of owners, although density varies across all tenures. Available space is strongly related to people's satisfaction with their home (Figure 4.10). But what is most striking is that for any given level of space, tenants – and particularly social tenants – are far more likely to be dissatisfied with the amount of space they have: nearly 30 per cent of social tenants with the least space are dissatisfied with their homes, compared to fewer than 10 per cent of owners. Where they are overcrowded, social tenants have fewer options to move (Sections 7 and 10), and so may have the prospect of being affected longer; with lower levels of paid employment, they may also be affected by crowded conditions for more of their time each day. But an important driver here may be whether owners have in some sense chosen the trade-off between the space they occupy and its price and other characteristics, while social tenants have not.

**Figure 4.8** Space per household and space per person by income and tenure, 2004



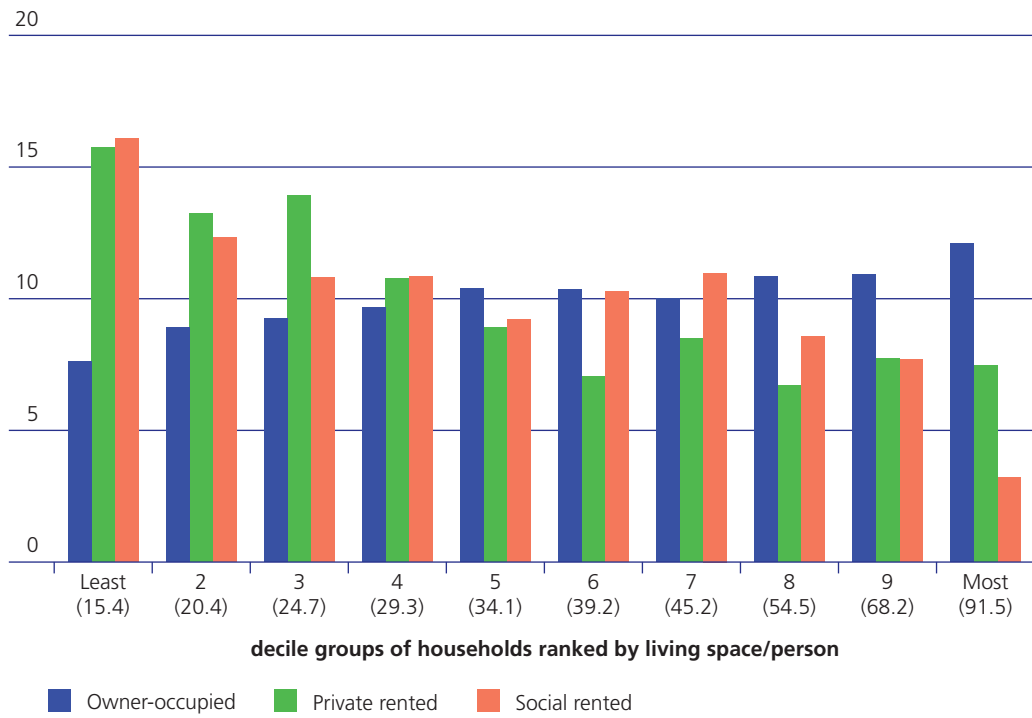
Source: English House Condition Survey. Figures in brackets on horizontal scale refer to median value for all tenures.

Base: all households.

Notes:

- household space indicated by median rather than mean value to offset any distortion arising from outlying/extreme values in the data;
- floor area is for the accommodation unit which equates to the dwelling for all properties other than the relatively small number in multiple occupation (e.g. bedsits) where the total dwelling space is equally divided by the number of accommodation units in the dwelling;
- household income is equivalised net household income before housing costs (modified OECD scale).

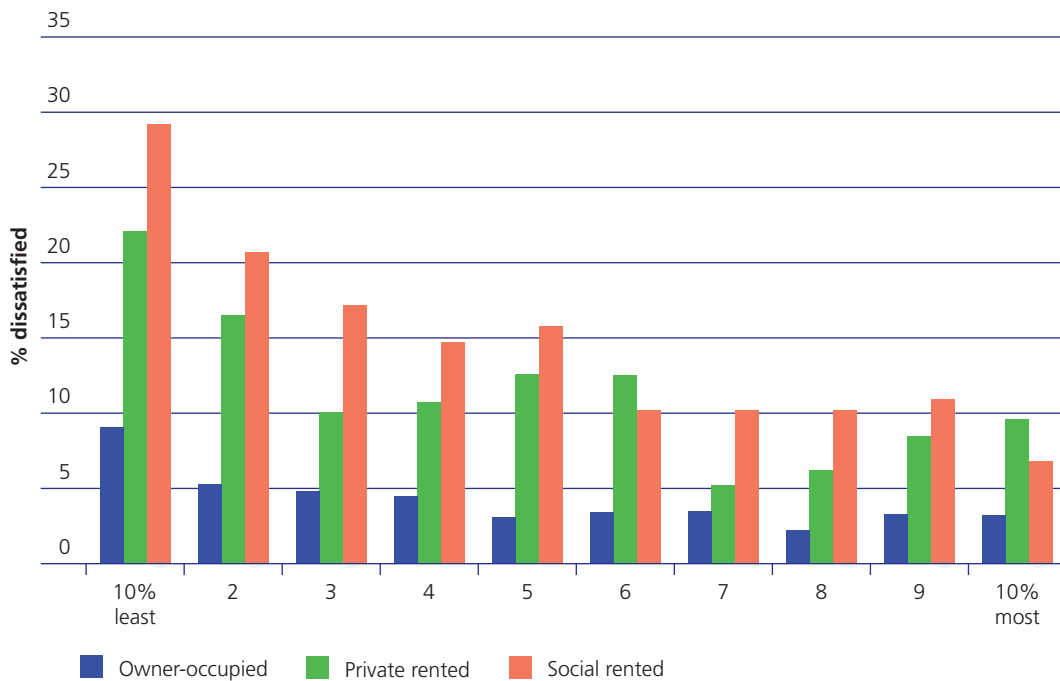
**Figure 4.9** Distribution of households by living space within each tenure, 2004 (%)



Source: EHCS 2004, all households.

Note: figures in brackets for each decile group show median values for each group.

**Figure 4.10** Dissatisfaction with home by space per person, 2004



Source: EHCS 2004, all households.

## Indicators of stress in the housing market

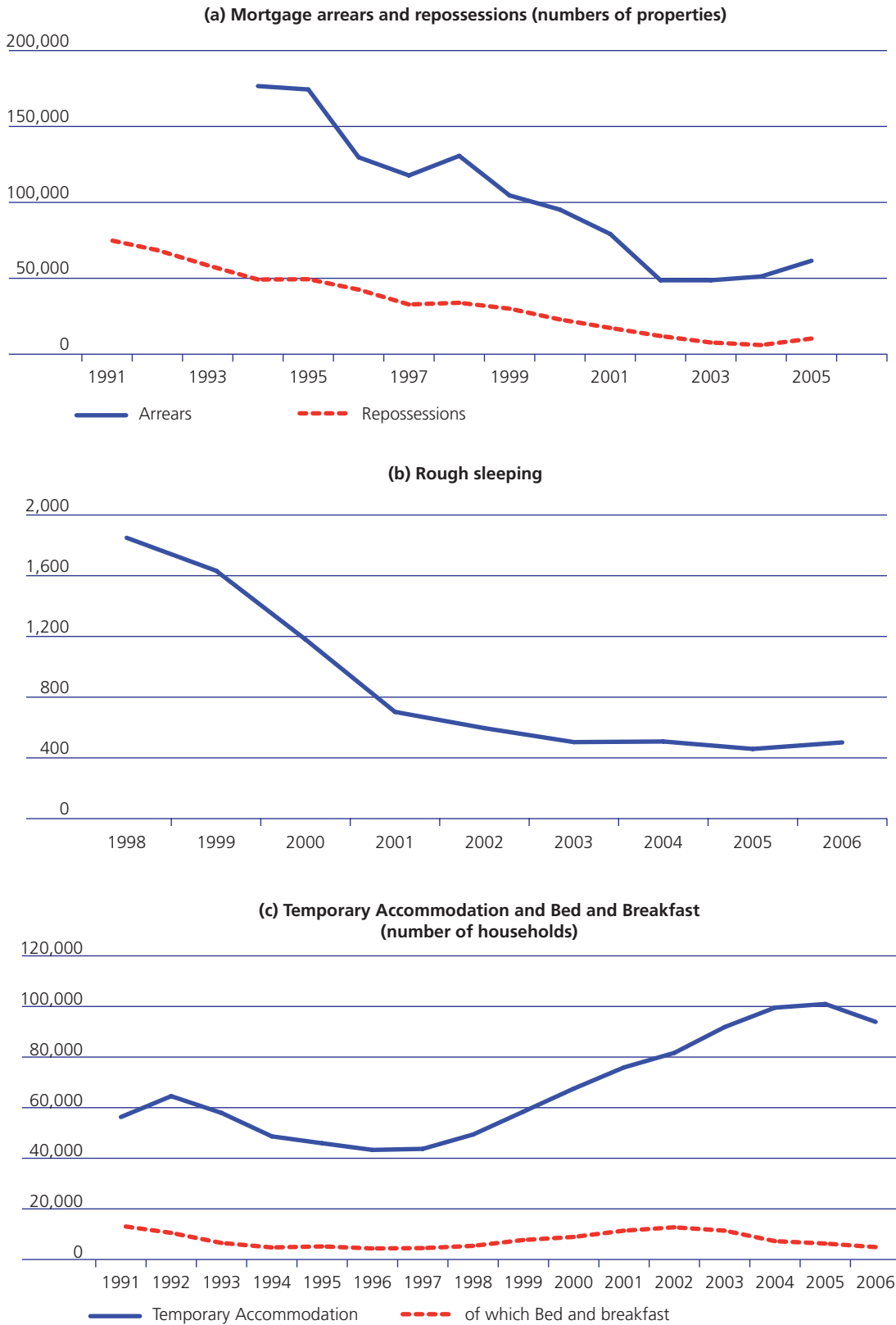
While overall housing conditions may have improved, with the exception of levels of overcrowding for some sectors, this could still mask acute problems for particular groups. The panels of Figure 4.11 show recent trends in seven indicators of stress within the housing market. General issues connected with housing affordability are discussed in Section 8, but the first panel shows that acute problems of mortgage arrears and repossessions are a fraction of the peaks they reached in the early 1990s, with annual mortgage repossessions currently running at around 0.1 per cent per year, a seventh of the rate in the early 1990s. Second, the most acute indicator of literal homelessness is the number of people sleeping rough. While official counts of are inevitably incomplete, the count shown in Figure 4.11(b) fell between 1998 and 2001, since when it has been stable. At the same time the number of households placed in “bed and breakfast” accommodation by local authorities has fallen substantially since 2002, back to the levels of the mid 1990s. However the use of temporary accommodation as a whole rose from 44,000 in 1997 to over 100,000 in 2005, although this number has recently fallen a little (Figure 4.11(c)). By 2005 26 per cent of those leaving temporary accommodation in England had been in it for more than a year, compared to 9 per cent in 1998. Nationally 5 per cent had been in it for more than two years, but this rose to 19 per cent in London, where 5 per cent had been in “temporary” accommodation for more than five years.<sup>11</sup>

Another indicator of stress may be the number of households that could form separately, but do not do so. Figure 4.11(d) shows the numbers of such “concealed households”<sup>12</sup> fell from 165,000 in 1991 to 140,000 in 2000 and have fallen slightly since then. Finally, the number of what are counted as separate households, but are sharing dwellings, fell from 390,000 in 1996 to 207,000 in 2006 (up from a low point in 2004). Together the numbers appear to be down significantly over the last decade.

<sup>11</sup> CLG P1E homelessness returns.

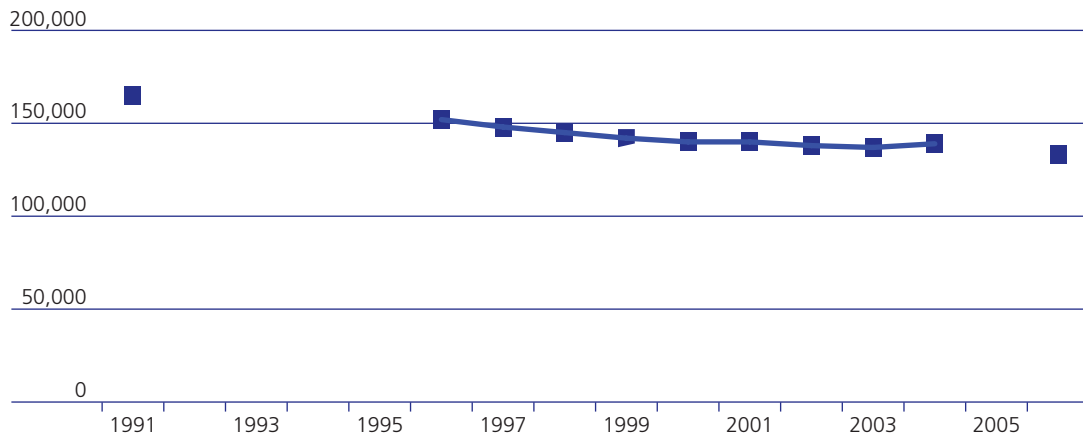
<sup>12</sup> Couples or lone parents living within another household.

**Figure 4.11** Trends in indicators of housing difficulties

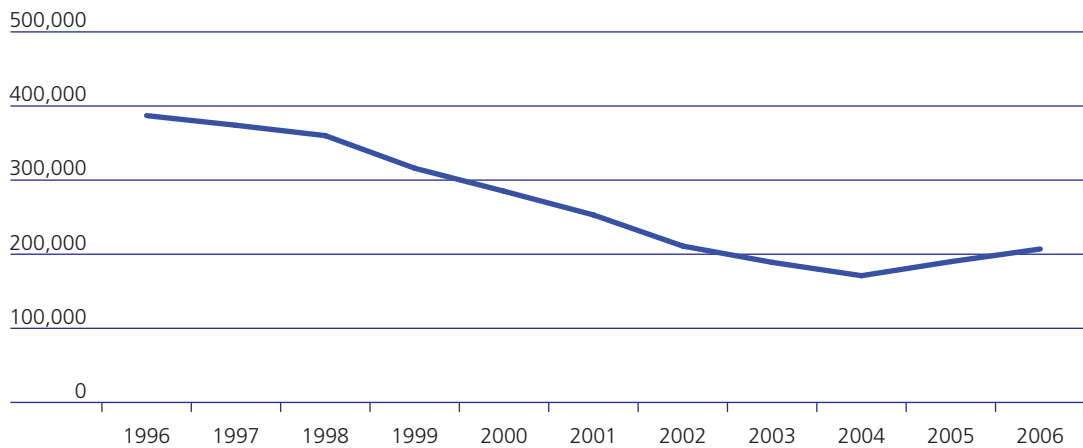




(d) Concealed families



(e) Households in shared dwellings



Sources: (a) Arrears and repossessions: Council of Mortgage Lenders (those between 2.5-5% in arrears, properties repossessed within the period).

(b) Rough Sleeping: *Housing Strategy Statistical Appendix*.

(c) Temporary Accommodation: *P1E estimates as at quarter 2*.  
All B&B: *P1E estimates as at quarter 2*.

(d) Concealed Families: concealed couples and concealed lone parents from Table 404 of Communities and Local Government live tables.

(e) Households in shared dwellings: SEH non-self contained accommodation, 3 year moving average.

## Summary

Despite what are sometimes claims to the contrary, *overall* housing conditions in England have improved markedly in many respects over the long-term, and have generally continued to improve in the last decade. The number of dwellings has kept up with the number of households, on average there is more space within them per person, and physical standards have improved. The majority of the key indicators of stress in the housing market have also improved, with some of the most acute problems either steady or reduced. However, there are exceptions to this picture of general improvement: overcrowding against the bedroom standard has deteriorated in London, particularly in the private rented sector; social tenants enjoy less space per person than other tenures, less than they did a decade ago, and are more likely to be dissatisfied than others if they are living with little space (perhaps because others are more likely to have made some kind of choice in where they live). The use of temporary accommodation is more than double what it was a decade ago – albeit mostly self-contained, rather than shared such as in bed and breakfast accommodation. Consideration of the future role of social housing does not take place against the background of a general crisis in housing conditions – if anything, the reverse. But that general improvement means that the wide variations in conditions between households should remove any sense of complacency.

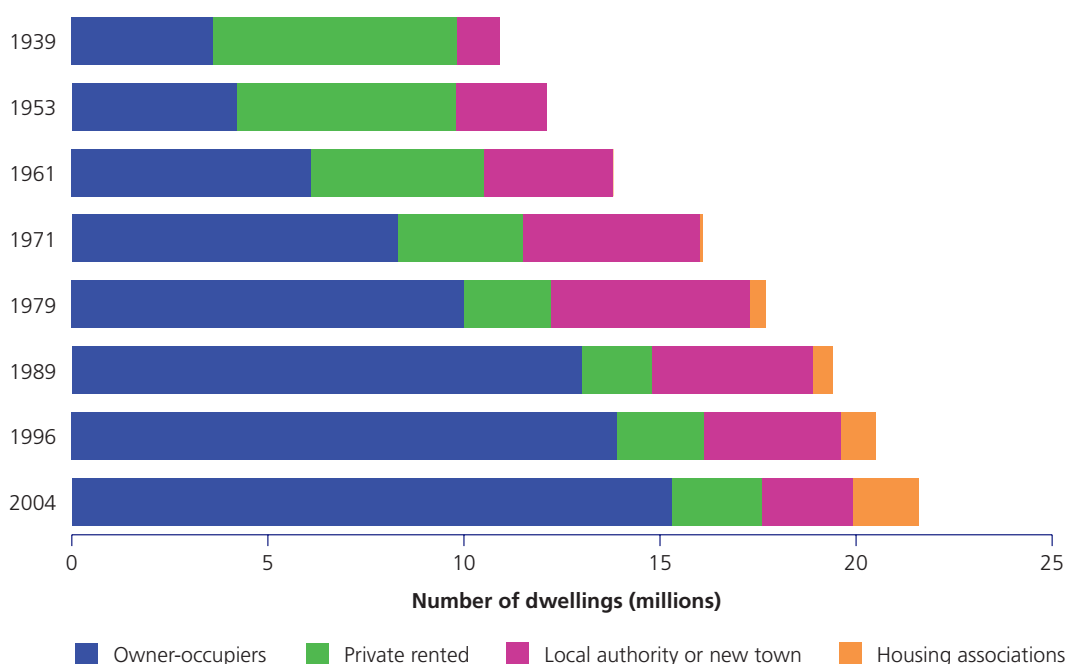
## 5. SOCIAL HOUSING BACKGROUND

This section presents more specific information on the social rented sector and those living within it, setting the context within which policy is made and judged.<sup>13</sup>

### The overall size of the sector

Figure 5.1 shows the overall size of the housing stock in England and its tenure composition since 1939. During this time the overall stock doubled in size to 22 million units. Owner-occupation has grown continuously throughout, but the pattern followed by other tenures has varied over time. The size of the private rented sector and its share of the total fell from the 1940s until the late 1980s, but it has since grown, to reach 11 per cent of the stock by 2004. The social rented stock – dominated by local authority housing – grew rapidly after the Second World War, reaching 31 per cent of the English stock in 1979. However, the combination of the Right to Buy and sharply reduced new building rates has meant that social housing was only 18.5 per cent of the stock by 2004. With new building now carried out almost entirely by housing associations, and with many councils transferring the ownership of their stock to newly formed associations, nearly as many units, 1.8 million, were owned by housing associations in 2004 as local authorities, with 2.2 million. By 2006 the two sub-sectors are expected to be of equal size.

**Figure 5.1** Dwellings by tenure, 1939–2004



Source: A. Holmans (1987): *Housing Policy in Britain: A History* and Communities and Local Government

<sup>13</sup> For an account of the way in which overall housing policies developed over the period between 1975 and 2000 see in particular, M. Stephens, C. Whitehead and M. Munro (2005), *Lessons from the past, challenges for the future for housing policy*, London: Office of the Deputy Prime Minister. For more comprehensive statistics on developments in the sector, see S. Monk, et al. (forthcoming), *The demand for social rented housing – a review of data sources and supporting case study evidence*, Cambridge: Cambridge Centre for Housing and Planning Research.

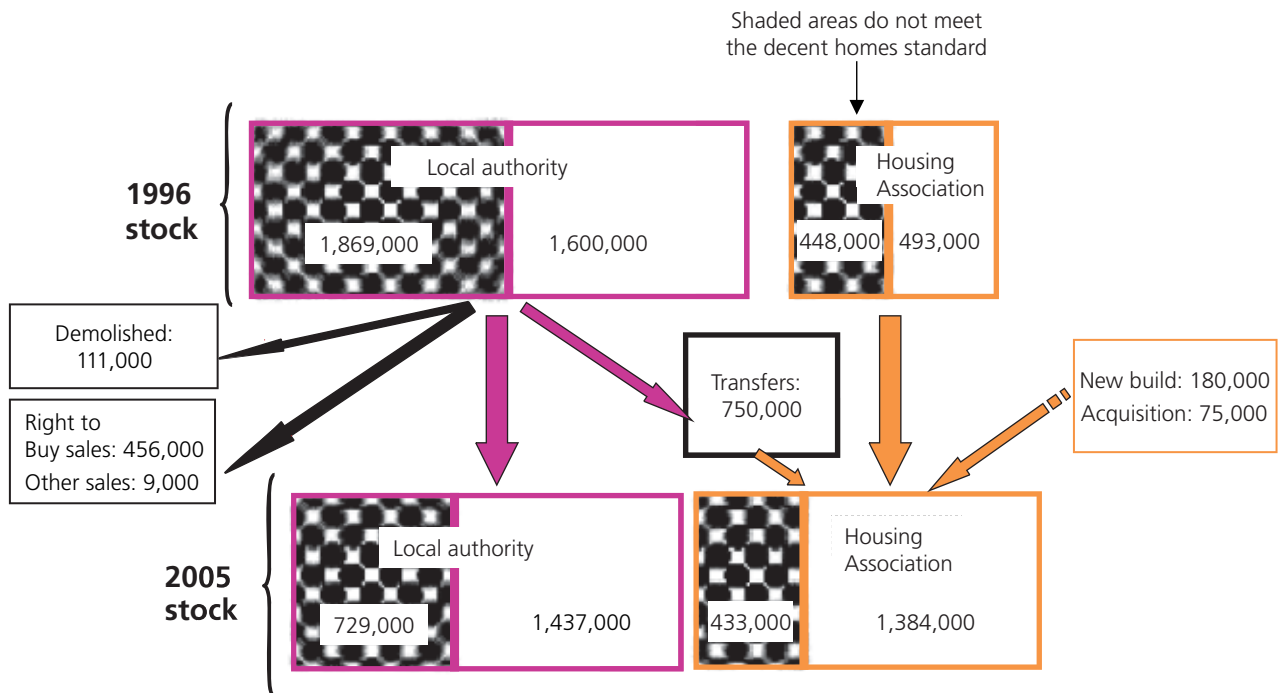
The rate of new building in the social rented sector was shown in Figure 4.2 in the previous section. The size of the sector has also been affected by sales under the Right to Buy, as well as by demolitions. Figure 5.2 shows the way in which the net supply of social rented dwellings has changed from year-to-year since 1991 in England as a whole, and London in particular. With a peak of Right to Buy sales in 2003-04 and 2004-05 (as people bought in advance of tighter restrictions on maximum discounts in some areas – see Figure 11.4), the net stock shrank by more than 60,000 in each of those two years, although the pace of reduction has now sharply slowed.

**Figure 5.2** Net supply of social rented dwellings



Source: Communities and Local Government, HMPA 5. Figures since 2000-01 are provisional.

The changes within the sector over the last nine years are brought together in Figure 5.3, which compares its structure in 1996 and 2005, and shows the different components of change in between. The local authority sector has reduced through demolitions, sales and transfers to housing associations. The housing association sector has grown through those transfers, new building, and acquisitions of existing properties. Over the period, the number of social homes failing to reach the Decent Homes standard has almost halved from 2.3 million to 1.2 million. But a crucial fact that the diagram illustrates is that of the nearly 4 million social rented units in 2005, 3.7 million, or more than 93 per cent, were units already within the sector nine years earlier. This emphasises the crucial importance of paying attention to the existing stock, not just to new developments. While new building rates have recently increased, even if 40,000 new units were added each year for the next decade, we would already have nine-tenths of the social rented stock that we will have in 2016.

**Figure 5.3** Accounting for change in the social rented sector, 1996 to 2005

Sources: Communities and Local Government statistical returns and EHCS

Notes: Figures do not reconcile due to overall rounding and disparate sources; boxes not to scale.

## Who are the tenants?

One of the most pronounced trends of the 1980s and 1990s was the growing concentration of social tenants amongst the lowest income groups. As Figure 9.1 below shows, by 2004-05 a third of people living in social housing had incomes (adjusted for family size) in the poorest fifth of the income distribution, and 70 per cent were in the poorest two-fifths. This is a major change from the position in the 1960s and 1970s: in 1979, for instance, 20 per cent of the *richest* tenth lived in social housing. Now it is hardly any of those in the top fifth. Better-off tenants purchasing under the Right to Buy, or using their resources to move elsewhere, combined with allocations of vacant property on an increasingly strictly needs-related basis have dramatically changed the composition of the social tenant population.

Central to this has been the change in employment status within each tenure, shown in Figure 5.4. The top panels compare the positions in 1981 and 2006. Amongst owners the proportion of householders in employment has fallen from 70 to 68 per cent, with a growing proportion who are retired. Amongst private renters, the proportion employed has risen from 58 to 69 per cent, with a smaller proportion in retirement. But the proportion of social tenants in employment has fallen from 47 to 32 per cent, and those in full-time employment from 43 to 22 per cent.

**Figure 5.4** Employment status, 1981 and 2006



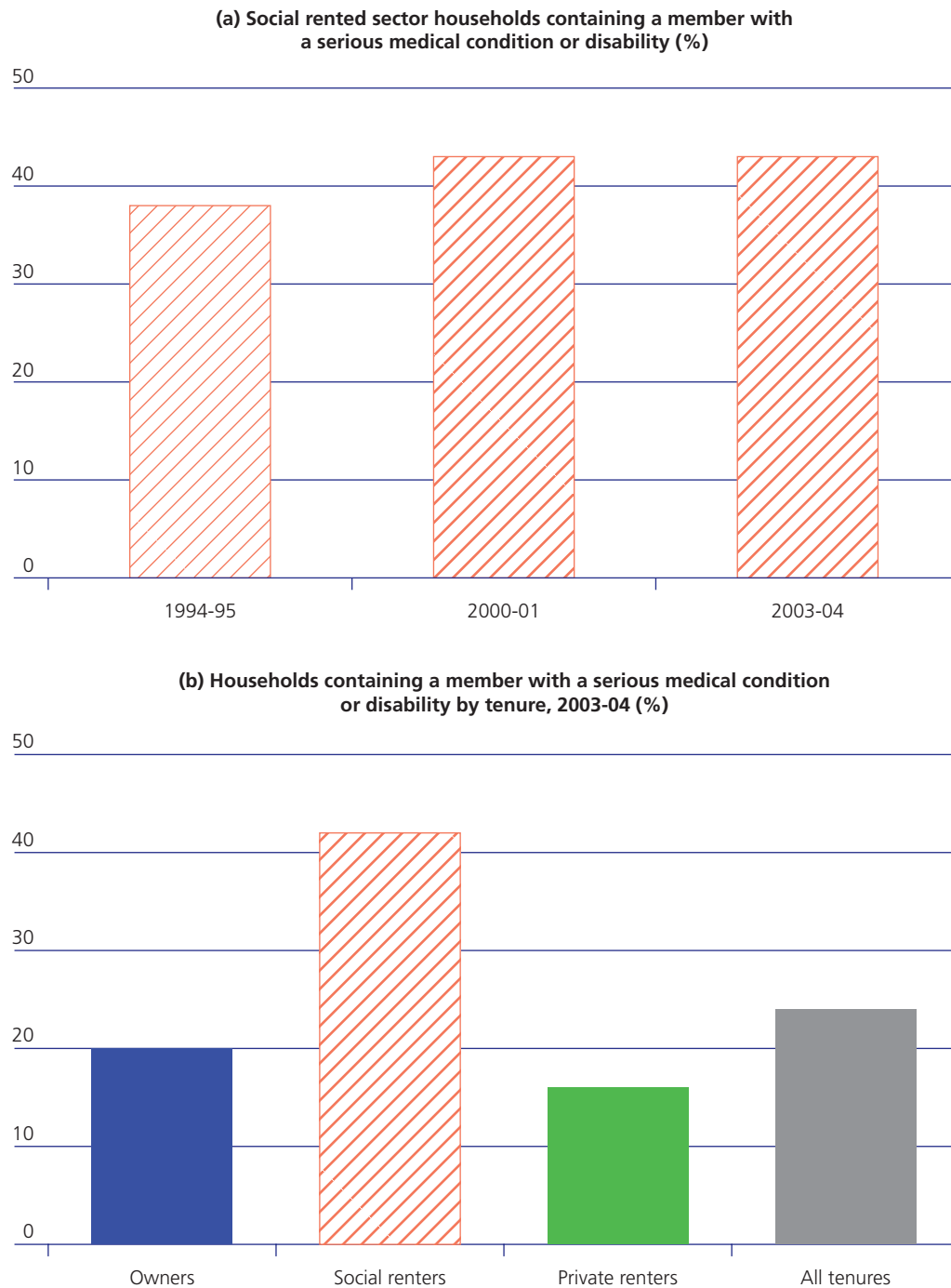
Source: Labour Force Survey.

The lower panels look in more detail at the employment status of social tenants of working age. The full-time employment rate has fallen from 67 to just 34 per cent. As one way of thinking of the implications of this, if employment patterns were even across the stock (which clearly they are not), this would mean that the chance of someone in social housing having *both* of their nearest working age social tenant neighbours in full-time work had fallen from just under half to one in nine. There has, however, been a significant rise in part-time work (linked to the rise in the proportion of tenants who are lone parents), so the overall working age employment rate for social tenants in 2005 was just under half.

While there has been a fall in the proportion of social tenant householders formally classed as "unemployed", there has been a striking rise in the proportion of social tenants classed as "other inactive" (63 per cent of whom are lone parents) and particularly in those reported as "permanently sick or disabled", to nearly one quarter of all those of working age. As the final panel shows, such "other inactive" households are now overwhelmingly those with children. Figure 5.5 shows the way in which the proportion of social tenant households

containing a member with a serious medical condition or disability has continued to grow over the last decade – from 38 per cent in 1994-95 to 43 per cent in 2003-04. By then, more than twice the proportion of social tenant households contained such a member as in owner-occupier or private rented households.

**Figure 5.5** Disability in the social rented sector over time and by tenure in 2003-04

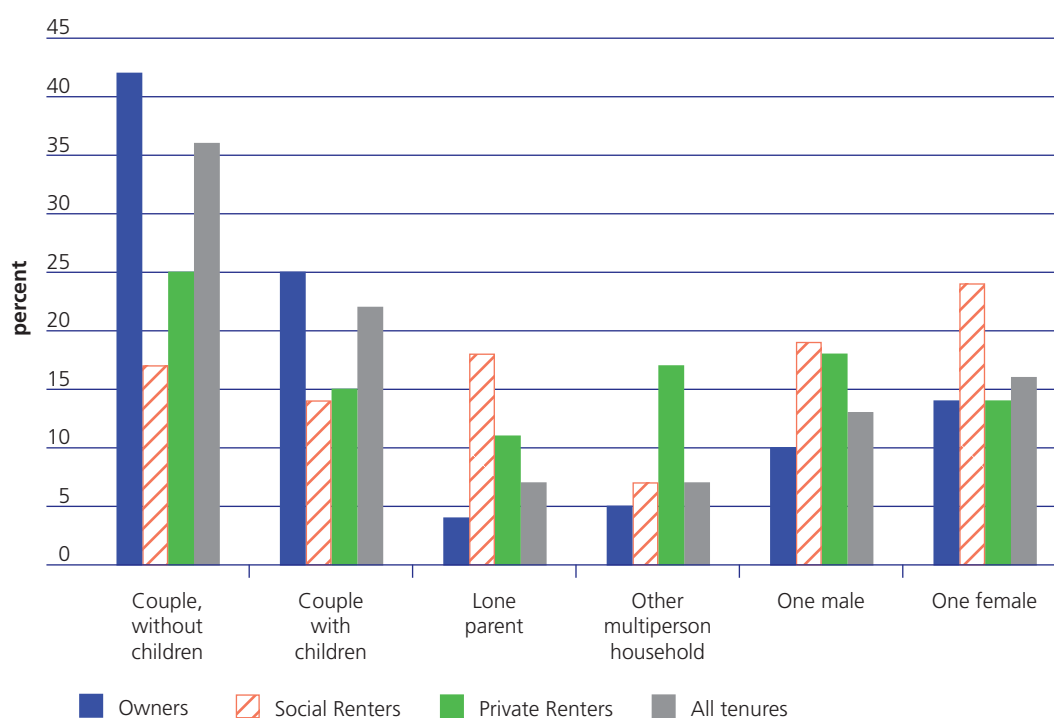


After 2003-04 the survey question was amended to "whether any household member has a long-standing illness, disability or infirmity". This resulted in an upward step-change from 43% in 2003-04 (using the previous question) to 48% in 2004-05 and 51% in 2005-06 using the new definition.

Source: Survey of English Housing.

In terms of other aspects of household composition, Figure 5.6 shows the way in which the sector houses above-average proportions of lone parents (18 per cent of social tenants, but 7 per cent of all households) and of single people (43 per cent of social tenants, but 28 per cent of all households). This last feature partly reflects the age profile of the tenures, as shown in Figure 5.7. Private tenants in particular are most likely to be in their twenties and thirties, and owner-occupiers to be middle-aged, while social tenants are now much more evenly spread across the age distribution. 16 per cent of households under 60 are now in the social rented sector, but 21 per cent of those aged over 60 or more. As discussed in Section 12 below, however, this represents a significant flattening of the age profile of the social tenant population, with a smaller proportion now in the older age groups, with important consequences for the rate at which households are able to enter the sector (see Section 12 for discussion of this). Finally, 27 per cent of black or ethnic minority householders are social tenants, compared to 17 per cent of white households (Figure 5.8). In particular, around half (51 per cent) of Bangladeshi and 43 per cent of black Caribbean and black African households are social tenants.

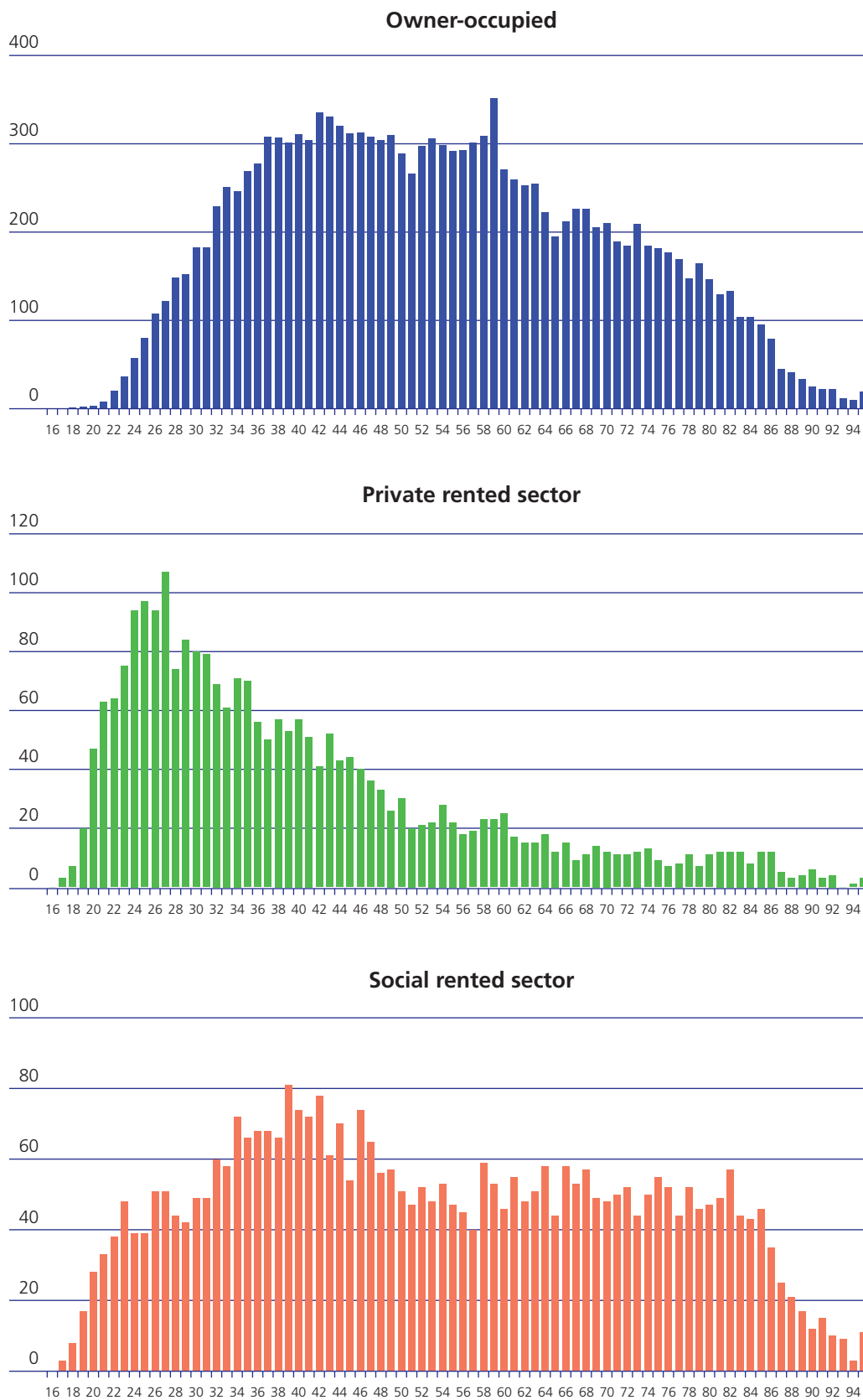
**Figure 5.6** Household type by tenure, 2006



Source: Labour Force Survey.

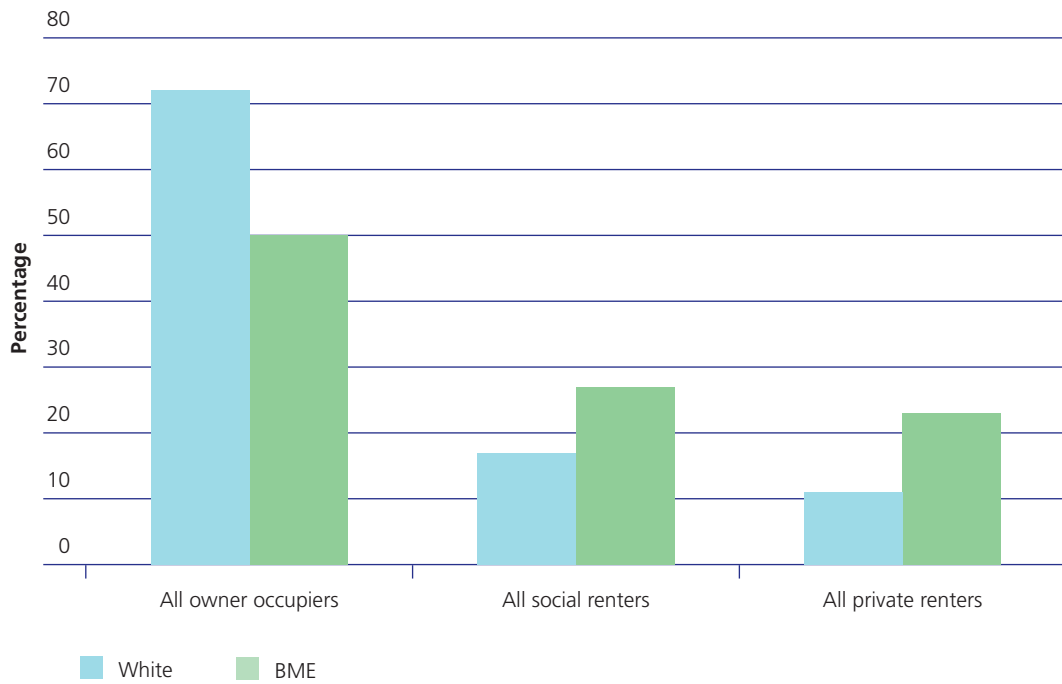


**Figure 5.7** Age of householder in each tenure, 2006 (000s)

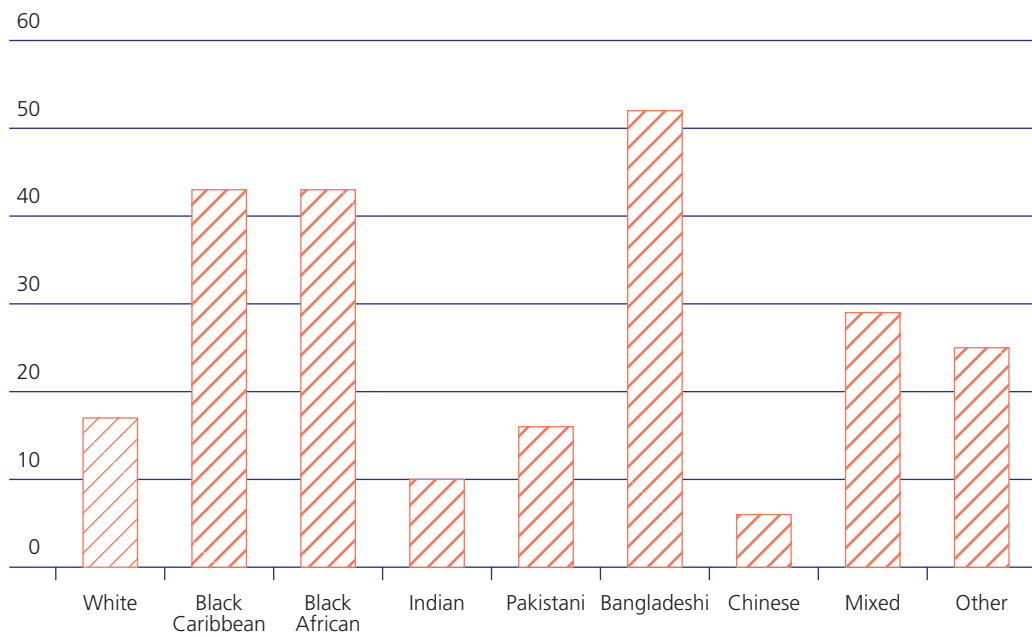


Source: Labour Force Survey.

**Figure 5.8** Ethnicity by tenure, 2006



Percentages of households in social rented sector by ethnic group, 2006



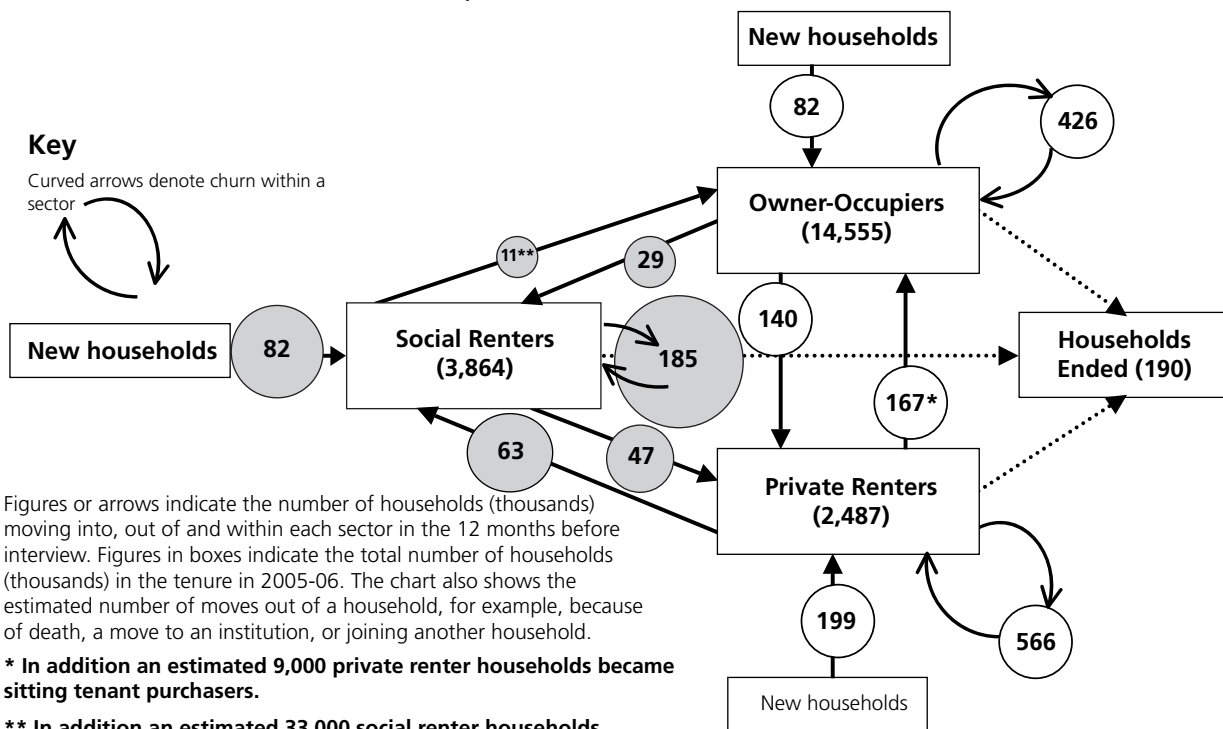
Source: Labour Force Survey.

## Tenure change

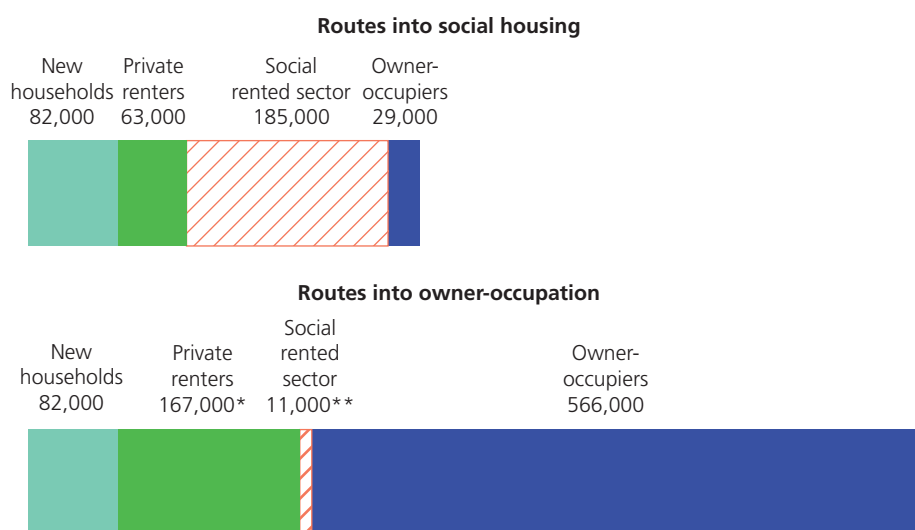
Such figures give a snapshot of the composition of each tenure at one time. But there is considerable movement of individual households between tenures. Figure 5.9 shows the movements between and within tenures over a single year, in the twelve months up to 2005-06. Most striking, of course, is the degree of movement within, and in and out of, the private rented sector: a third of private tenants in 2005-06 had not been in the same property a year before. By contrast, the other two tenures were much more stable, notably with only one in twenty social tenants having moved within the sector in the previous year, and an even smaller proportion of owners. Figure 5.10 contrasts the inflows in that year into social rented housing and owner-occupation more directly. Of all social tenants occupying a different property from a year before, about half had previously been social tenants, and nearly a quarter were new households (whose members could have been within any tenure). More existing private tenant households flowed into the social sector than came from ownership. By contrast more than half of owner-occupier movers had been owners a year before, and a sixth were new households. Very few – just 11,000 or about 1 per cent – of moves into owner-occupied homes in that year were from social housing without using the Right to Buy.

**Figure 5.9** Number of households moving into and out of sectors: 2005-06

*Household Reference Persons resident less than a year (thousands)*



Source: Survey of English Housing 2005/06.

**Figure 5.10** Routes into social rented sector and owner-occupation, 2005–06

\* In addition an estimated 9,000 PRS households become sitting tenant purchasers

\*\*In addition an estimated 33,000 SRS households became sitting tenant purchasers

Source: Survey of English Housing, 2005/06.

One cannot move directly from single-year transitions of this kind to give a longer-term picture of movement, as some households may be frequent movers, while others stay put. Table 5.1 looks at all members of the population (as represented by the British Household Panel Study) in terms of their tenure in 1994 and again in 2004 (if still alive). Looking at those living in social housing in 1994 (including children), just over half were still in social housing a decade later, around a fifth had died, and around a fifth had become owner-occupiers. Few (5 per cent) had become private tenants. Looking only at those who remained alive (in the second panel), two-thirds of those living in social housing were still in the sector ten years later, but more than nine-tenths of those originally in owner-occupation were still in that sector. Cutting the numbers another way, the bottom panel shows that 82 per cent of those living in social housing in 2004 had also been in the tenure ten years before (if they had been born by then). This contrasts with private tenants, half of whom had been in owner-occupied households (often those of their parents) ten years before. This analysis shows that the movement between tenures is asymmetric: once people become owner-occupiers in their own right they are overwhelmingly likely to stay owners. The private rented sector is generally one of transition, particularly for younger people as they leave home. Meanwhile there was a significant flow *out* of social renting into owner-occupation (mainly through the Right to Buy or through younger household members eventually becoming owners after leaving home), and some flow into it from private renting, but proportionately fewer entrants from owner-occupation (although the size of the ownership sector meant that over the ten years as a whole, more social tenants had come from owner-occupation than from renting).

Table 5.1 Changes in housing tenure in England, 1994-2004 (all individuals)

	Tenure in 1994			Total
	Owner-occupied	Social rented	Private rented	
<b>Tenure in 2004</b>				
<i>Column percentages</i>				
<b>Including deaths<sup>1</sup></b>				
Owner-occupied	83.4	22.0	47.0	<b>68.9</b>
Social rented	2.0	53.1	13.9	<b>12.9</b>
Private rented	4.4	5.2	25.3	<b>5.8</b>
Deaths	10.3	19.8	13.8	<b>12.4</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Excluding deaths<sup>2</sup></b>				
Owner-occupied	93.0	27.4	54.5	78.7
Social rented	2.2	66.2	16.1	14.7
Private rented	4.9	6.4	29.4	6.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Row percentages</i>				
<b>Excluding deaths<sup>2</sup></b>				
Owner-occupied	89.5	6.4	4.2	<b>100</b>
Social rented	11.3	82.1	6.6	<b>100</b>
Private rented	55.5	17.7	26.8	<b>100</b>
<b>Total</b>	<b>75.7</b>	<b>18.3</b>	<b>6.1</b>	<b>100</b>

Notes:

1. Based on sample of 7,614 individuals with non-missing tenure in wave 4 and who appear in the sample in wave 14 of BHPS and/or are known to have died in the interim period, excluding cases with missing or unknown tenure in either wave. Weights used are cross-sectional enumerated weights for wave 4.
2. Based on sample of 6,830 individuals with non-missing tenure in waves 4 and 14. Weights used are cross-sectional enumerated weights for wave 4.

Source: T. Sefton (forthcoming) *Using the British Household Panel Survey to explore changes in housing tenure in England*, tables 1a and 1b, London: Centre for Analysis of Social Exclusion, LSE.

## Summary

Over the last quarter century the role of social housing has changed. The sector has become much smaller as a proportion of the total, although nearly 4 million households still live within it. While post-War provision was aimed at households on a range of incomes, since the 1980s provision has become more tightly constrained and new lettings focussed on those in greatest need. As a result, the composition of tenants has changed, with tenants much more likely to have low incomes and not to be in employment than in the past or than those in the other tenures. Seventy per cent of social tenants have incomes within the poorest two-fifths of the overall income distribution, and the proportion of social tenant householders in paid employment fell from 47 to 32 per cent between 1981 and 2006. Tenants have high rates of disability, are more likely than others to be lone parents or single people, and to be aged over 60. More than a quarter (27 per cent) of all black or minority ethnic householders are social tenants (including around half of Bangladeshi and 43 per cent of black Caribbean and black African householders), compared to 17 per cent of white householders. Looking at today's social housing stock, 93 per cent of it was already within the sector nine years ago (although 750,000 dwellings were transferred between local authority and housing association ownership). For tenants, there is much less movement between dwellings than within the private rented sector, and more than 80 per cent of those living in social housing today were also within the sector ten years ago (if born by then).

## 6. WHAT DO WE SPEND?

### Conventional flows of subsidy and grants

The cost to the public sector of providing social housing can be measured in different ways according to the purpose of the analysis. Table 6.1 shows the main spending flows as conventionally measured for monitoring public spending. The table is presented in real terms, adjusted for general inflation (as measured by the GDP deflator). Subsidies are divided into two types – supply subsidies, which allow producers to supply housing at lower cost (or higher quality) than otherwise, and demand subsidies, which allow consumers to spend more than they would otherwise. Box 6.1 describes how the main different kinds of subsidy to different kinds of provider currently operate.

Over the period as a whole, the *total* has only fallen a little in real terms but there has been a decisive shift from supply-side to demand-side subsidy. In particular, capital subsidies (these days mainly taking the form of grants to housing associations to build new dwellings) fell rapidly in the second half of the 1970s, and again after the early 1990s, before rising after 1999-00. Conventional flows of subsidy to local authority housing actually became *negative* in the late 1990s – gross rents exceeded the cash flow cost of maintaining the local authority stock and servicing its historic debts (which have lost value as a result of inflation and strict controls on new borrowing since the 1980s). This measure of subsidy has been positive again since 2001-02. It is argued below that this kind of flow is a poor measure of the resource cost of providing housing at sub-market rents and of the potential advantages to tenants of those rents, which are better represented by measuring subsidy in “economic” terms.

Correspondingly, demand subsidies have grown, first in the 1980s through higher revenue foregone through the tax relief that used to be given (now abolished) on mortgage interest, but particularly through the growing cost of Housing Benefit (sometimes known as rent rebates in the case of council tenants, but rent allowances for housing association and private tenants).<sup>14</sup> Figure 6.1 shows the growth of Housing Benefit in more detail, splitting it instead between the social sector as a whole and private renting. The total has been within a range between £10-12 billion (in this case, at 2004-05 prices) since 1993-94, the reduction in the cost of benefit for the private sector (as the number of claimants fell) offset by growth in benefit for social tenants (partly reflecting higher social rents in real terms).

<sup>14</sup> The total shown for rent rebates and allowances jumps after 1982, when rent support that had previously been counted as part of Supplementary Benefit (Income Support) became part of what is now Housing Benefit.

Table 6.1 Housing subsidy, 1975-76 to 2003-04 (£billion, 2003-04 prices)

	1975-76	1980-81	1985-86	1992-93	1999-00	2000-01	2001-02	2002-03	2003-04
Capital <sup>1</sup>	10.7	6.3	5.2	5.8	3.0	3.9	4.2	5.0	5.2
LA Revenue <sup>2</sup>	3.3	4.3	1.8	0.6	-1.0	-1.2	0.4	0.3	0.2
<b>Total Supply</b>	<b>14.0</b>	<b>10.6</b>	<b>7.0</b>	<b>6.4</b>	<b>2.0</b>	<b>2.7</b>	<b>4.6</b>	<b>5.3</b>	<b>5.4</b>
Rent rebate <sup>3</sup>	0.6	0.7	4.4	5.0	4.7	4.5	4.4	4.4	4.1
Rent allowance <sup>3</sup>	0.1	0.1	1.7	4.0	5.5	5.6	5.8	6.4	6.3
Mortgage interest relief <sup>4</sup>	2.4	4.6	7.8	6.1	1.9	0	0	0	0
Income Support for Mortgage Interest <sup>5</sup>	n/a	n/a	n/a	1.5	0.6	0.5	0.3	0.3	0.3
<b>Total Demand</b>	<b>3.1</b>	<b>5.4</b>	<b>13.9</b>	<b>16.6</b>	<b>12.7</b>	<b>10.6</b>	<b>10.5</b>	<b>11.1</b>	<b>10.7</b>
<b>Total</b>	<b>17.1</b>	<b>15.9</b>	<b>20.9</b>	<b>23.0</b>	<b>14.7</b>	<b>13.3</b>	<b>15.1</b>	<b>16.4</b>	<b>16.1</b>

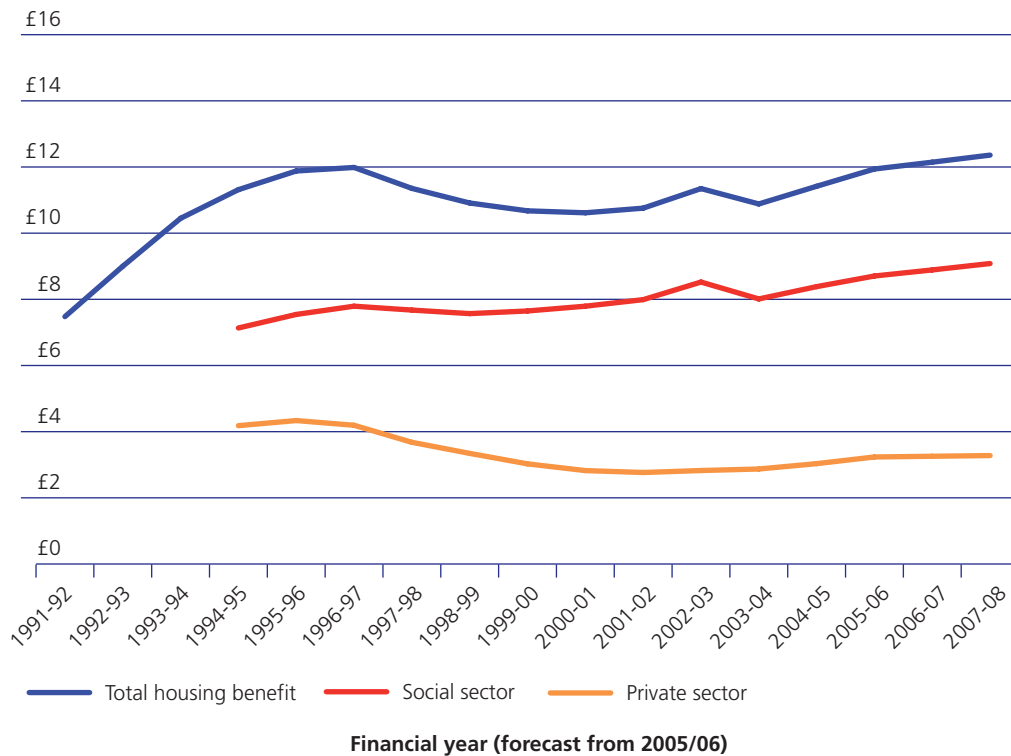
Source: M. Stephens, C. Whitehead, and M. Munro (2003), *Lessons from the past, challenges for the future for housing policy*, London: ODPM, updated.

## Notes:

1. Figures taken from S. Wilcox, (2005), *UK Housing Finance Review 2005/2006*, Chartered Institute of Housing
2. Communities and Local Government statistics: Logasnet Database (LA HRA)
3. DWP Statistics
4. MIR was abolished in April 2000. Some financial costs were incurred in the 2000/01 financial year, but the precise figures are not available
5. Figures from 2000-01 onwards are based on those from *UK Housing Review 2005/2006*, deflated using the GDP deflator



**Figure 6.1** Housing Benefit gross expenditure, (real terms, 2004–05 prices), £ billion



Source: DWP.

Overall then, the total conventionally measured flow of public support to housing is a little lower in real terms now than in the mid-1970s, and significantly lower as a share of national income. This does not mean, however, that spending on managing and maintaining social housing has become less generous. Quite the reverse has happened, as can be seen from Table 6.2 so far as the local authority sector is concerned. This table shows income and spending per dwelling on the local authority housing stock since 1997-98 (it excludes spending on rent rebates for council tenants that used to be, somewhat confusingly, counted as a spending item within the Housing Revenue Account). First, since 2001-02 the new major repairs allowances within the subsidy system have allowed authorities to provide for future major repairs on their property (included here as depreciation within their “debt charges”), and then to carry out major repairs when needed (Box 6.1). Second, management and maintenance spending per dwelling was roughly constant in real terms until 2002-03, but since then has risen substantially. By 2005-06, a total of £34 per week was being spent on supervision, management and regular repair of each council property, with a further £11 per week allowed for major repairs in the subsidy system, and around £10 per week covering interest on borrowing undertaken to improve the housing or build it in the first place, compared with just under £52 per week collected in gross rents (with the difference between rents and spending mainly met by a small net contribution from central government subsidy).

Table 6.2 Real Housing Revenue Account Income and Expenditure, £/dwelling (2005-06 prices)

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Income (excluding subsidy)</b>									
Rents	2490	2460	2450	2470	2550	2570	2590	2590	2700
Other income	170	170	150	220	280	340	530	520	530
<b>Total income</b>	<b>2660</b>	<b>2630</b>	<b>2600</b>	<b>2690</b>	<b>2830</b>	<b>2900</b>	<b>3120</b>	<b>3110</b>	<b>3230</b>
<b>Expenditure (excluding rent rebates and negative subsidy)<sup>1</sup></b>									
Management and maintenance	1420	1440	1420	1560	1440	1490	1560	1660	1790
Capital expenditure	160	140	110	80	80	70	90	80	120
Debt charges <sup>2</sup>	770	740	700	670	1250	1270	1350	1290	1310
Other	60	70	70	70	70	70	80	70	110
<b>Total expenditure</b>	<b>2410</b>	<b>2380</b>	<b>2300</b>	<b>2370</b>	<b>2840</b>	<b>2900</b>	<b>3090</b>	<b>3100</b>	<b>3320</b>
<b>Net HRA Subsidy<sup>3</sup></b>	<b>-230</b>	<b>-300</b>	<b>-360</b>	<b>-400</b>	<b>130</b>	<b>100</b>	<b>80</b>	<b>30</b>	<b>90</b>

Source: Communities and Local Government internal analysis. Numbers may not add up due to rounding. Figures show actual spending.

Notes:

1. Until 2003-04, rent rebates (Housing Benefit for council tenants) were included as part of HRA spending, and subsidy paid through HRA subsidy taking account of these costs. To give comparability with current figures, these figures are excluded here.
2. Since 2001-02, debt charges have included an allowance for depreciation, approximately equal to the Major Repairs Allowances now built into the subsidy system.
3. Net HRA subsidy shown here is calculated by Communities and Local Government on the basis of notional income and expenditure.

Figures in exactly this form are not published for housing associations, but Table 6.3 shows the aggregate spending in the sector in 2005, and the amounts being spent per dwelling. Spending on nearly 2 million properties totalled £5.8 billion, of which £4.3 billion represented management, maintenance, current major repairs and depreciation, or £40 per week for each property, compared to £56 per week collected in rents (excluding service and support charges). These figures are not strictly comparable with those for local authorities, but suggest that rental income was slightly higher and current spending on management, maintenance and provision for major repair slightly lower per dwelling.

**Table 6.3 Housing association income and spending, 2005**

	<b>Total (£ million)</b>	<b>Per dwelling (£)</b>
Rents	6,190	3,000
Service income	503	240
Charges for support services	235	110
<b>Gross rental income</b>	<b>6,928</b>	<b>3,360</b>
Voids	-162	-80
<b>Net rental income</b>	<b>6,766</b>	<b>3,280</b>
Grants	251	120
Other	121	60
<b>Total turnover from social housing lettings</b>	<b>7,140</b>	<b>3,460</b>
Management	1,451	700
Maintenance	1,686	820
Major repairs	860	420
Service costs	781	380
Care/support costs	291	140
Bad debts	67	30
Lease charges	269	130
Depreciation and impairment	318	150
Other	95	50
<b>Total expenditure on social housing lettings</b>	<b>5,818</b>	<b>2,820</b>
<b>Surplus (before interest on debt)</b>	<b>1,320</b>	<b>640</b>

Source: Housing Corporation *Global Accounts 2005*.

### **Box 6.1 How subsidies work: Housing Revenue Account subsidy, Social Housing Grant, and Section 106 agreements**

There are various ways in which the Government and local authorities fund both new social housing and the management and maintenance of existing dwellings, including through contributions from developers.

#### **Housing Revenue Account subsidy**

The Housing Revenue Account (HRA) is where local authorities owning housing stock account for the income (mostly rents) and expenditure (for instance, management, maintenance and servicing of housing debt) on that stock. Authorities with an HRA may be entitled to HRA subsidy. HRA subsidy is a deficit subsidy based on Communities and Local Government's assumptions and guidelines about each authority's housing income and spending (so a "notional HRA" is constructed for each authority using these). Where assumed spend is greater than assumed income, HRA subsidy is paid to that authority to make up the shortfall.

Calculation of HRA subsidy is therefore made up of various elements, such as allowances for management, maintenance, borrowing the Government has pledged to support, and major repairs. The Major Repairs Allowance element is transferred by the authority into a Major Repairs Reserve and the value of this may be built up year-on-year to allow for more effective capital works expenditure planning.

#### **Social Housing Grant**

This is a capital grant which funds new affordable housing (both social rent and low-cost home ownership), administered by the Housing Corporation through its Affordable Housing Programme. It allocates grant through a competitive bidding process. Housing associations bid for grant to provide new dwellings (those for social rent to be let at rents consistent with the "rent restructuring" guidelines described in Box 8.1) taking account of land and building costs and any contributions they make from their own resources (see Table 11.7 for current grant rates). Bids are assessed against a number of criteria including regional priorities, value for money and quality of homes delivered. The majority of grant goes to housing associations, although since the Housing Act 2004 it can be allocated to other developers as well. The Housing Corporation has a budget of £3.9 billion in the two years 2006/08 to fund the provision of new social rented and low-cost home-ownership homes.

### **Box 6.1 How subsidies work: Housing Revenue Account subsidy, Social Housing Grant, and Section 106 agreements (*continued*)**

#### **Planning obligations (or "section 106" agreements)**

Planning obligations are legal agreements under section 106 of the Town and Country Planning Act 1990, between local planning authorities and developers, used to make a site acceptable in planning terms. Section 106 agreements can cover a variety of different things including the provision by the developer of green space, play areas, access roads and securing on residential sites of a proportion of affordable housing, to ensure development supports the Government's mixed communities objectives. The developer must usually make the contribution in kind, for example in the form of a portion of land, but in some circumstances through a cash contribution. For affordable housing the developers' contribution is sometimes supplemented by further subsidy from the Housing Corporation through Social Housing Grant. Since December 2006 subsidy can only be given if the homes meet the Planning Policy Statement 3 definition of affordable housing, which requires that certain locally set criteria be met (e.g. on eligibility and resale conditions).

The extent of section 106 contributions varies widely and depends on the policies outlined in the local authority's Local Development Framework. Once the local authority and developer have agreed on the proportion of affordable homes on the site, the authority will usually select one or a consortium of housing associations to provide the houses. Since 2004, developers and other non-Registered Social Landlords can also provide the social rented houses. The value of affordable housing contributions delivered from direct payments and in-kind contributions, through planning obligations in England in 2003-04, was £600m (*Valuing Planning Obligations in England*, Communities and Local Government, May 2006).

#### **Subsidy in economic terms**

The figures for revenue "subsidy" in Table 6.1 reflect the amounts that central government pays to social landlords (mainly to local authorities in this case) to allow them to spend a greater amount in management, maintenance and debt servicing than they collect in gross rents. But this is not a very good guide either to the public resources committed to help with people's housing or to the value they obtain from it. This is because the amounts which happen to be payable in debt interest on a particular property in any given year are only loosely related to the long-run cost of providing it or the value of it to a tenant. Interest payments tend to be very heavy in real terms in the early years of a loan (particularly when inflation and nominal interest rates are high, as in the mid-1970s), but much lower later on, as the amounts payable are eroded by inflation. Failing to adjust for this would make it look as if recently built property were more heavily subsidised than older property, even if the rents bore the same relation to their capital values.

A way round this is to compare actual rents charged with the amount that would have to be charged to achieve an economic return on the capital tied up in the dwelling, as well as covering the costs of maintaining and repairing it to keep it in good condition in perpetuity (or allowing for depreciation, if this is not done). Over time, the value of housing has tended to rise each year in real terms, so part of this return can come by way of a real capital gain (or the prospect of a rental stream that rises in real terms). This is why net rental yields in the private sector are lower than the immediate cost of borrowing.<sup>15</sup>

Table 6.4 shows rough estimates of what might be “economic rents” calculated in this way for local authority and housing association properties in different regions, and therefore the scale of economic subsidy implied by the difference between these and actual average gross rents. For instance, in the North East of England private rents (less an allowance for the cost of management, maintenance and repair assumed at the at the same regional average level as in the social sector, £29 per week in this region) were 2.32 per cent of the sector’s average capital values.<sup>16</sup> This suggests that an average rent of £55 per week would achieve the same return on local authority dwellings worth an estimated average of £58,600. *Actual* rents averaged £43 per week, however, suggesting that the net advantage to council tenants averaged £11 per week in this region.

These kinds of calculation suggest that the advantage to tenants of rents that generate a sub-economic return varies greatly across the country. In London, where capital values are much higher, the same method suggests that an economic rent would be £138 per week for local authority properties, or £150 per week for housing associations. Actual social rents do not vary very steeply across the country, however (see Box 8.1 below for a discussion of the way in which “rent restructuring” affects differentials between areas), so this suggests much higher levels of subsidy in London than in lower cost regions – averaging £71 per week for local authorities and £80 per week for housing associations.

The last columns of the table show what the total value of a subsidy at this level would be to tenants who expected to stay in a tenancy for 15 or 20 years – the “net present value” of being allocated a social tenancy in each region. Such calculations are imprecise, but they give an idea of the scale of the advantage gained by someone who secures a social tenancy – around £32,000 equivalent in capital terms across the country as a whole taking all the figures together, and more than £65,000 in London.<sup>17</sup>

<sup>15</sup> See J. Hills (1991), *Unravelling Housing Finance*, chapter 5, for more detailed discussion, and S. Wilcox (2005), *More Apparent than Real? The decline of bricks and mortar subsidies* (ENHR Conference Paper), for alternative estimates of subsidy in economic terms.

<sup>16</sup> This figure does *not* necessarily represent the actual net rental yield that private landlords were receiving, as their outgoings would differ from those in the social sector, and these percentages do not allow for factors such as depreciation.

<sup>17</sup> These figures are lower than the capital grant currently paid to housing associations on their new developments (as shown in Table 11.7), which averages just over £60,000 nationally. This is because the estimated value of existing social properties is much lower than the current capital cost of new provision (this partly reflects the concentration of new building in higher cost regions, and may also reflect higher quality of the new stock).

**Table 6.4 Estimated economic rents and net present value of economic subsidy by region, 2004**

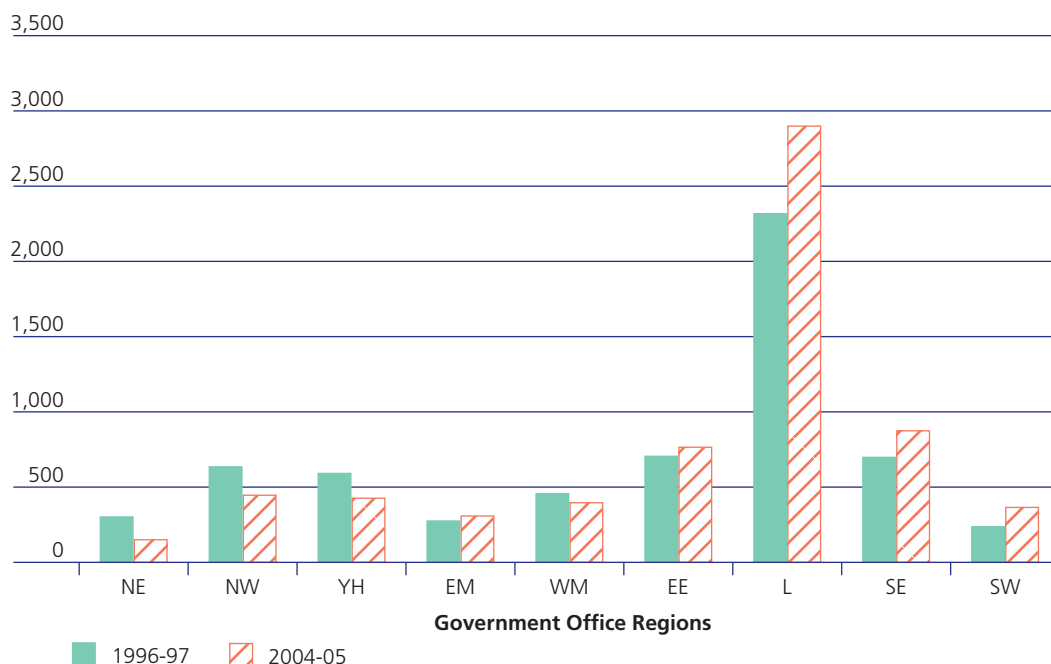
	Capital value (£)	PRS rents less M&M <sup>1</sup> (%)	Economic rent (£/w)	Actual rent (£/w)	Economic subsidy (£/w)	Net present value	
						15 years	20 years
<b>(a) Local authorities</b>							
North East	58,600	2.36	55	43	11	9,000	11,500
North West	65,100	2.68	65	47	17	15,400	19,100
Yorkshire & the Humber	62,200	2.99	65	44	20	16,700	20,600
East Midlands	77,700	2.36	67	46	21	17,200	21,200
West Midlands	73,900	2.46	67	49	17	15,400	19,000
East of England	128,200	2.77	101	55	46	36,700	44,400
London	165,200	2.68	138	67	71	55,400	66,700
South East	128,000	2.58	98	59	38	32,100	39,000
South West	100,800	2.32	76	50	26	22,700	27,700
<b>England</b>	<b>100,700</b>	<b>2.66</b>	<b>87</b>	<b>53</b>	<b>34</b>	<b>28,000</b>	<b>34,100</b>
<b>(b) Housing associations</b>							
North East	59,600	2.36	55	49	6	7,300	9,500
North West	65,500	2.68	65	52	13	14,600	18,200
Yorkshire & the Humber	66,010	2.99	67	50	17	18,200	22,400
East Midlands	85,400	2.36	70	53	18	17,000	21,200
West Midlands	87,300	2.46	73	52	20	18,100	22,400
East of England	119,200	2.77	96	60	35	29,800	36,300
London	189,100	2.68	150	70	80	60,500	72,800
South East	142,400	2.58	105	67	38	34,200	41,700
South West	117,000	2.32	83	58	25	24,300	29,800
<b>England</b>	<b>111,400</b>	<b>2.66</b>	<b>93</b>	<b>61</b>	<b>31</b>	<b>29,400</b>	<b>35,900</b>

Source: Communities and Local Government analysis, HCA.

Note: 1. Private sector rents in region less allowance for management and maintenance in region (based on spending in social sector) as percentage of capital values in private sector.

Figure 6.2 shows the aggregate amounts of economic subsidy to social tenants in each region and how they have changed since 1996 (in 2004 prices). The total for the whole country on this basis was £6.3 billion in 1996, and £6.6 billion in 2004. London receives by far the largest share of this, with its share increasing over time. Indeed, the aggregate amount of economic subsidy outside London, the South East and South West had fallen to £2.5 billion by 2004. Rents in those regions were not so far from those which would earn an economic return on the estimated capital value of the stock, while in London and the South East they are well below such levels.

**Figure 6.2** Aggregate estimated economic subsidy by region, 1996-97 and 2004-05 (£ million, 2004-05 prices)



Source: Communities and Local Government analysis, HCA.

Another way of assessing the resource cost to the country of providing social housing is to observe that the figures in Table 6.4 suggest a national average value for social rented dwellings of £105,000 in 2004 (£101,000 for local authorities and £111,000 for housing associations), or about £400 billion in aggregate. Net of management, maintenance and repair, rents were yielding around 1 per cent on this capital value (0.9 per cent for local authorities, 1.2 per cent for associations), well below an economic rate of return, even allowing for the way in which one might expect rents and capital values to rise in real terms over time.

Section 8 below discusses the affordability of social housing resulting from those subsidies.

## Summary

Looking back over the last thirty years there has been a pronounced switch in the way housing subsidies are provided from supply-side subsidies (which reduce the cost of housing) to demand-side subsidies (which help people pay for it). By 2003-04, one third of the £16 billion total of public support was for supply-side subsidy (mainly capital grants to housing associations for new dwellings) and two-thirds for demand-side subsidy (mainly Housing Benefit). However, these accounting flows do not necessarily measure the advantages to tenants of paying rents that are below those that would give an economic return on the value of the housing stock they occupy. One estimate of the “economic subsidy” to social housing (the difference between actual rents and those giving an economic return) was that it had reached £6.6 billion across in England as a whole in 2004, slightly higher in real terms than in 1996. Three-fifths of this total went to social tenants in London, the South East and South West. In Northern regions and the Midlands, actual social rents were £10-20 per week below those that would give a comparable return on housing capital values to those in the private sector, but in the East and South East the difference was £40-50, and in London about £70-80.



## PART 3: HOW ARE WE DOING?

### 7. DECENT HOMES? THE QUALITY OF SOCIAL HOUSING

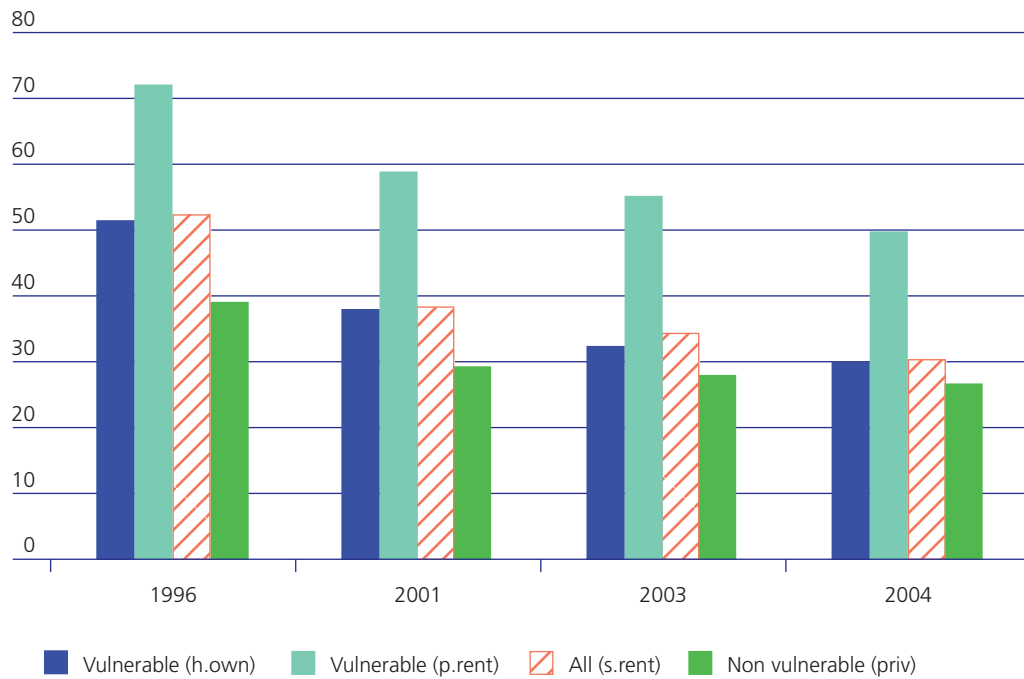
Having set out the background context within which social housing in England is now operating, the next four sections of the report examine how well the system appears to be doing in terms of some of the fundamental justifications set out for social housing in Section 2. This section looks at evidence on the quality of the housing and landlord services provided to social tenants: after all, a key part of the justification for social provision is that it allows people to occupy better quality housing than they would be likely to achieve in the market. Many proponents of the sector argue that its key advantage is the superior quality of service that dedicated not-for-profit long-term landlords can provide by comparison with the private rented sector.

#### Housing quality

First, we have already seen (in Figure 4.6 above) that two-thirds of local authority and three-quarters of housing association dwellings met the current “Decent Homes” standard in 2004, and these numbers have improved considerably over the last decade (Figure 5.3). By contrast, more than 40 per cent of homes in the private rented sector failed to meet the standard. Disadvantaged households in all tenures are more likely to be in dwellings that fail to meet the standard than others. One of the Government’s current “public service agreement” (PSA) targets is to increase the proportion of “vulnerable” households living in decent homes in the private sector to 70 per cent by 2010 (from 57 per cent in 2001). “Vulnerable” households are those receiving means-tested or disability-related benefits (and their numbers have increased over time as the scope of tax credits has widened, bringing some higher income households into the definition than would have been counted before). Figure 7.1 shows the way in which the proportions of such households living in non-decent homes have reduced in all tenures since 1996, for instance from 50 to 30 per cent for both vulnerable social tenants and owners, and from 70 to 50 per cent for those in the private rented sector.<sup>18</sup>

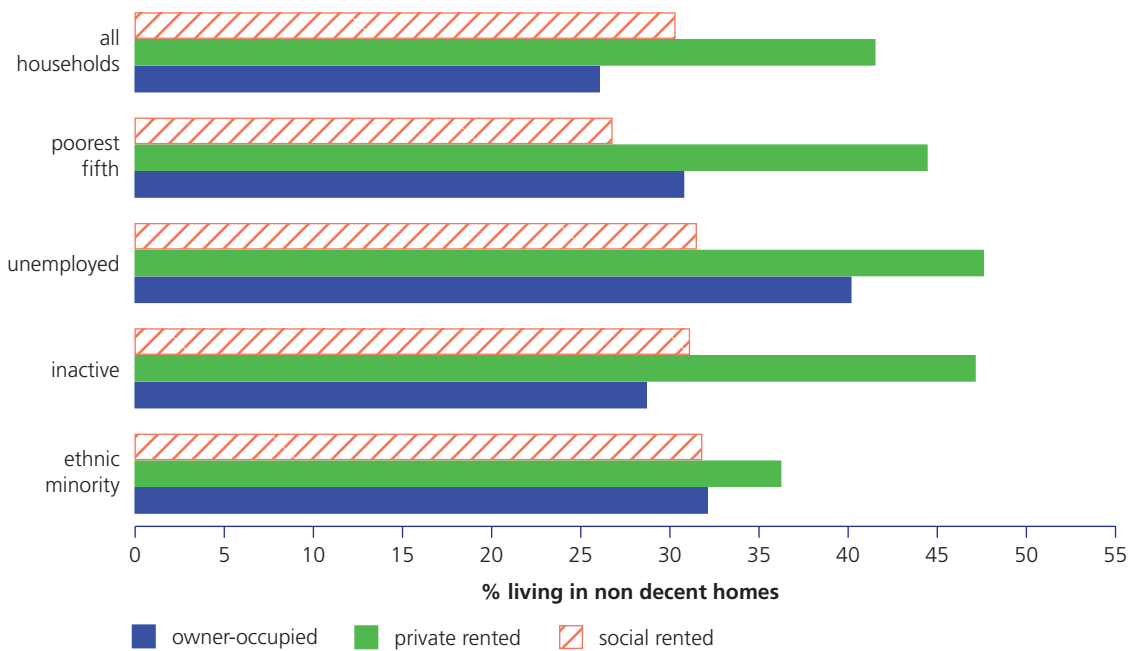
<sup>18</sup> The extension of the scope of “vulnerability” up the income scale may have contributed to this reduction in the proportions affected.

**Figure 7.1** Vulnerable households, living in non-decent homes by tenure (%)



Source: English House Condition Survey, all households.

While disadvantage is associated with poor housing quality measured in this way, the social rented sector is much more successful than private renting – and for some disadvantaged groups even than owner-occupation – in reducing this link. For instance, within the poorest fifth by income (adjusted for household size), 27 per cent of social tenants, but 31 per cent of owners and 44 per cent of private tenants were in non-decent homes in 2004. Unemployed social tenants are also more likely to be in “decent” homes than those unemployed in other tenures (Figure 7.2).

**Figure 7.2** Disadvantaged households living in non-decent homes by tenure, 2004

Source: English House Condition Survey, all households.

Note: Poorest fifth is based on net annual income of householder (HRP) and any partner.

On the other hand, we have also seen that rates of overcrowding (against the official “bedroom standard”, which is below contemporary norms) are higher in the social rented sector than the others, reaching 11 per cent of social rented households in London (Figure 4.7). Also, within all income groups except the poorest fifth (which is an important exception), social tenants enjoy less space per person than those in the other tenures (Figure 4.8) and, like private tenants, are much more likely to have very low levels of space per person than owners (Figure 4.9).

### Energy efficiency and fuel poverty

One of the reasons for the comparatively good performance of the social sector against the decent home standard is the relatively good (or, rather, less poor) standard of energy efficiency of social homes. This matters in three ways: first for the comfort of the homes occupied; second for the costs faced by tenants in heating their homes, and hence the danger of fuel poverty; and for the contribution towards national carbon emissions and hence global warming. One of the measures of thermal efficiency of housing is the “SAP rating”. Table 7.1 shows that the social rented sector has a higher average SAP rating than the other tenures, has the highest proportion of homes with SAP ratings above 70, and the smallest proportion with very poor SAP ratings (below 35). The differences are particularly strong for older households, where thermal comfort may be most important for health (Figure 7.3). This advantage reflects in part the higher proportion of flats in the social sector.

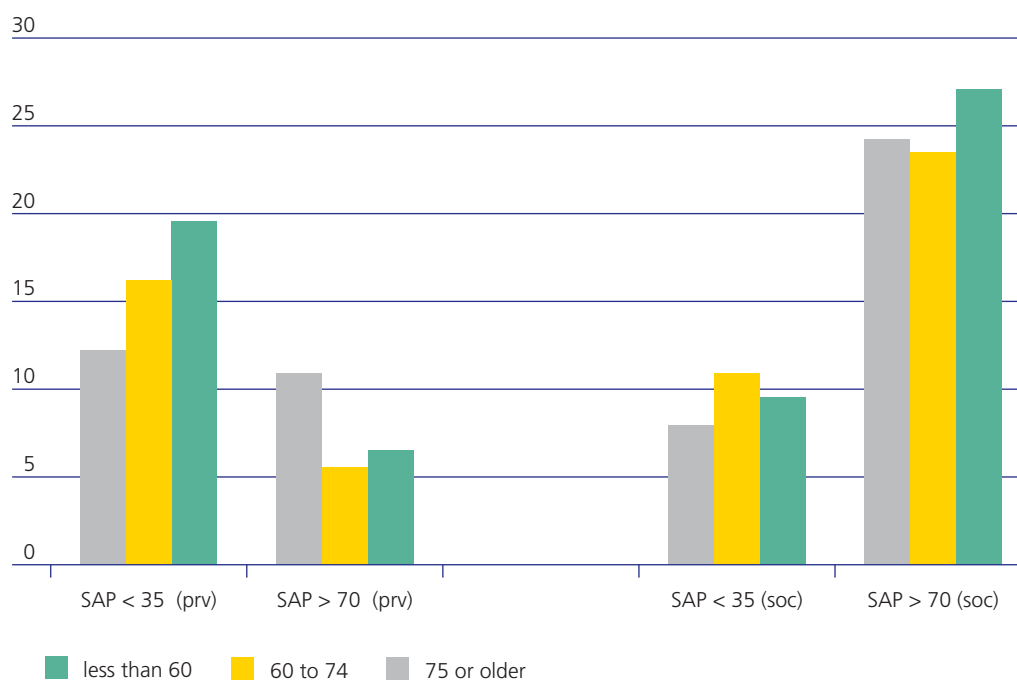
**Table 7.1 Energy efficiency and fuel poverty by tenure, 2004**

	Owner-occupied	Private rented	Social rented	All
<b>SAP rating</b>				
Average SAP rating	51	49	58	52
% of homes with rating:				
less than 35	13	21	9	13
35 to 70	78	67	66	75
greater than 70	9	11	25	12
<b>Fuel poverty (%)</b>				
All households:				
fuel poor (full income)	5.6	8.4	5.7	5.9
fuel poor (basic income)	4.1	12.8	14.2	6.9
Vulnerable households				
fuel poor (full income)	6.5	9.4	4.7	6.4
fuel poor (basic income)	4.7	16.5	13.0	7.4

Source: EHCS, 2004; based on all dwellings for SAP ratings, all households for fuel poverty.

Notes: "Full income" is whole household net income (including benefits and savings and investments); "Basic income" is net household income, excluding Housing Benefit, Income Support for Mortgage Interest, Mortgage Payment Protection Insurance and net council tax payments.

Vulnerable households include any with a member aged 60 or over, a child under the age of 16 or someone who is disabled or has a long-term illness (this differs from the Decent Homes definition based on benefit receipt with no age restriction).

**Figure 7.3** Age of householder and occupancy of least and most fuel-efficient homes by tenure, 2004 (% in SAP group)

Source: English House Condition Survey 2004, all households.

Note: SAP is Environmental Standard Assessment Procedure Rating.

However, tenants are more likely to be in fuel poverty (needing to spend 10 per cent or more of income to achieve satisfactory heating) when one excludes income needed to pay rent such as Housing Benefit – one in seven social tenant households being in fuel poverty in 2004 on this basis (Table 7.1). This reflects the extent to which social tenants have smaller incomes out of which to pay their fuel bills. Table 7.2 shows for 2003-04 the proportions within each tenure spending particular proportions of their disposable income on fuel. At that point 13 per cent of social renters were paying more than a tenth of their income for fuel, more than twice the proportion of the whole population. Since then, however, fuel prices have risen. The real increase of 18.5 per cent between 2003-04 and 2005-06<sup>19</sup>, with further increases already in 2006-07, will have taken many of those previously spending between 7 and 10 per cent of their incomes on fuel above the 10 per cent benchmark. In other words, more than a fifth of social tenants may now be above this level.

**Table 7.2 Household disposable income spent on fuel by tenure (2003-04)**

Tenure	Median expenditure (£/w)	Percentage of respondents spending within each range (% of income)			
		<3	4 to 6	7 to 9	>10
Owner-occupiers:					
mortgage	12	80	15	2	2
owned outright	11	53	32	9	7
Social rented	8	48	27	13	13
Private rented	9	68	17	5	9
All	11	64	23	7	6

Source: Expenditure and Food Survey.

Taken together this use of fuel is also a significant contributor to carbon emissions. One of the advantages of provision through social landlords is that it may be easier to encourage the achievement of national objectives through them than through individual owners and small private landlords. The Building Research Establishment estimated that in 2001 carbon emissions for the housing stock as a whole were 42 million tonnes of carbon, of which 6.4 MtC came from the social sector stock. While this figure is likely to have fallen it remains a significant part (around 4 per cent) of the country's overall emissions (152.5 MtC). In tackling carbon emissions, the energy efficiency of social housing can play an important role, and one where government has a direct influence.

### Satisfaction with housing

Information from the British Social Attitudes survey gives an indication of overall attitudes to the tenure in which people live. Table 7.3 shows that even for those living in other tenures, owner-occupation represents the type of housing most would like to live in, overwhelmingly so for those actually in the tenure. But it also shows that some social tenants actively prefer to be social tenants, even if they had the choice: 39 per cent of local authority and 33 per cent of housing associations would choose their actual landlord type, and more than 40 per

<sup>19</sup> Difference between fuel components of RPI and the GDP deflator.

cent of each would choose some form of social housing. By contrast, only 8 per cent of private tenants describe private renting as their preferred tenure, and more (12 per cent) would rather be social tenants.

**Table 7.3 Type of housing would most like to live in by current tenure (%)**

	Owner-occupiers	Council tenants	Housing association tenants	Private renters	All
Owner-occupiers	90	46	45	72	82
Rent from local authority	2	39	14	7	7
Rent from housing association	1	4	33	5	7
Rent from private landlord	1	1	1	8	2
Shared ownership	1	3	1	1	1
Live with friends/relatives	2	1	1	3	2
Sheltered accommodation	2	4	3	3	2
<i>Base (number)</i>	<i>2,303</i>	<i>352</i>	<i>210</i>	<i>297</i>	<i>3,199</i>

Source: *British Social Attitudes Survey, 2005/06*, table 3.1.

Table 7.4 gives related information from the 2004 survey on views of whether different landlords provide a good standard of repairs and maintenance. The first three columns give the views of *all* respondents (including owners) of particular kinds of landlord. The other columns show the views of tenants in each sector of their *own* type of landlord. The contrasts are interesting, with tenants generally assessing their own landlords more favourably than other respondents. More than half of social tenants say that their kind of landlord “nearly always” or “often” provides a good standard of service, but only a third of private tenants think so of private landlords. In each case these figures are about twice those of the population as a whole. On the other hand a disgruntled 12 per cent of council tenants and 14 per cent of housing association tenants think the service is “often” or “nearly always” bad, which is a higher proportion than amongst those without direct experience.

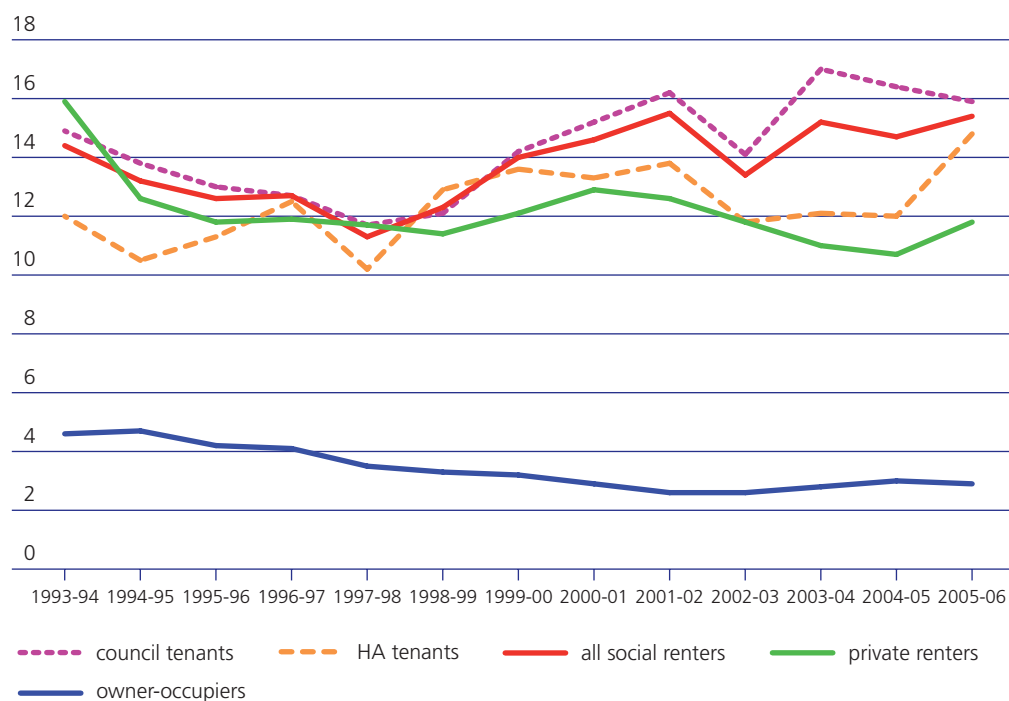
**Table 7.4 Views on providing a good standard of repairs and maintenance (%)**

	Views of all respondents			Views of tenants of own sector		
	Council landlord	Housing associations	Private landlords	Council landlords	Housing associations	Private landlords
Nearly always or often good	27	37	16	51	60	34
Sometimes good, sometimes bad	45	32	41	32	23	40
Often or nearly always bad	11	5	25	12	14	19
Can't choose	14	24	16	2	1	7

Source: *British Social Attitudes Survey, 2005/06*, table 3.9.

Data from the Survey of English Housing break down the levels of dissatisfaction of those in different tenures with particular aspects of their housing, and allow us to track trends over time. First, Figure 7.4 shows the proportions of households reporting that they are dissatisfied with their accommodation. At the start of the period in 1993-94, 12 per cent of housing association tenants, but 15 per cent of council tenants and 16 per cent of private tenants did so.<sup>20</sup> By 2005-06, dissatisfaction amongst private tenants had fallen below 12 per cent (perhaps reflecting the composition change within the sector over that time as it was liberalised). The advantage of the social sector disappeared: an improving trend until 1997-98 in dissatisfaction within the social sector had been reversed, and by the end that for housing association tenants (now including those transferred from local authorities) at 15 per cent had nearly caught up with that of local authority tenants, now at 16 per cent. This deterioration is not simply a result of an increase in national grumpiness: not only have the figures for the private rented sector improved, but so have they for owner-occupiers, with only 3 per cent of them reporting dissatisfaction with accommodation by 2005-06, compared to nearly 5 per cent in 1993-94.

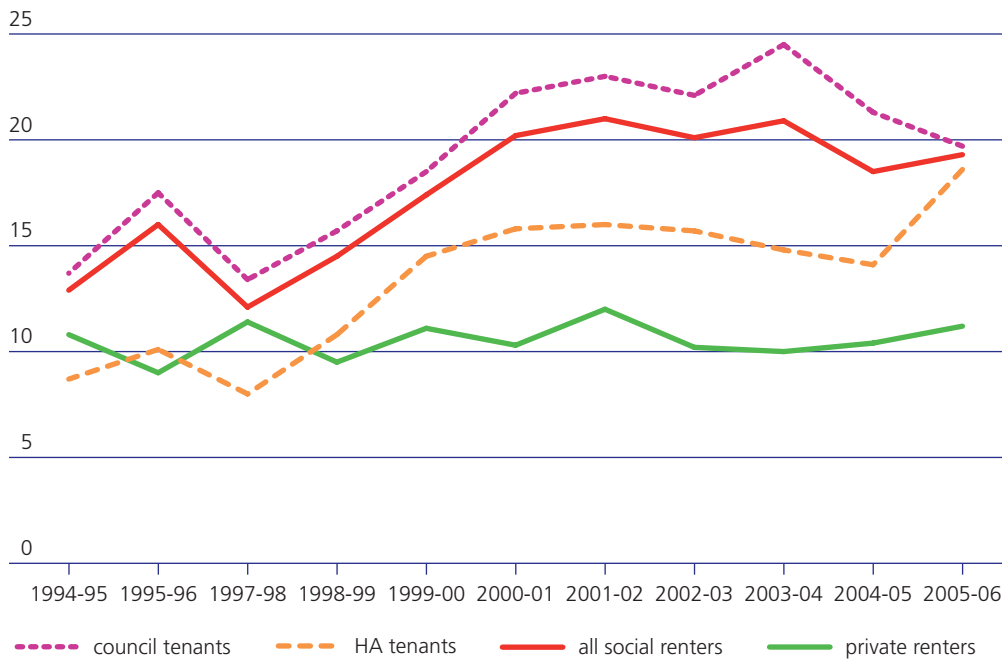
**Figure 7.4** Households dissatisfied with their accommodation, 1993-94 to 2005-06 (%)



Source: Survey of English Housing.

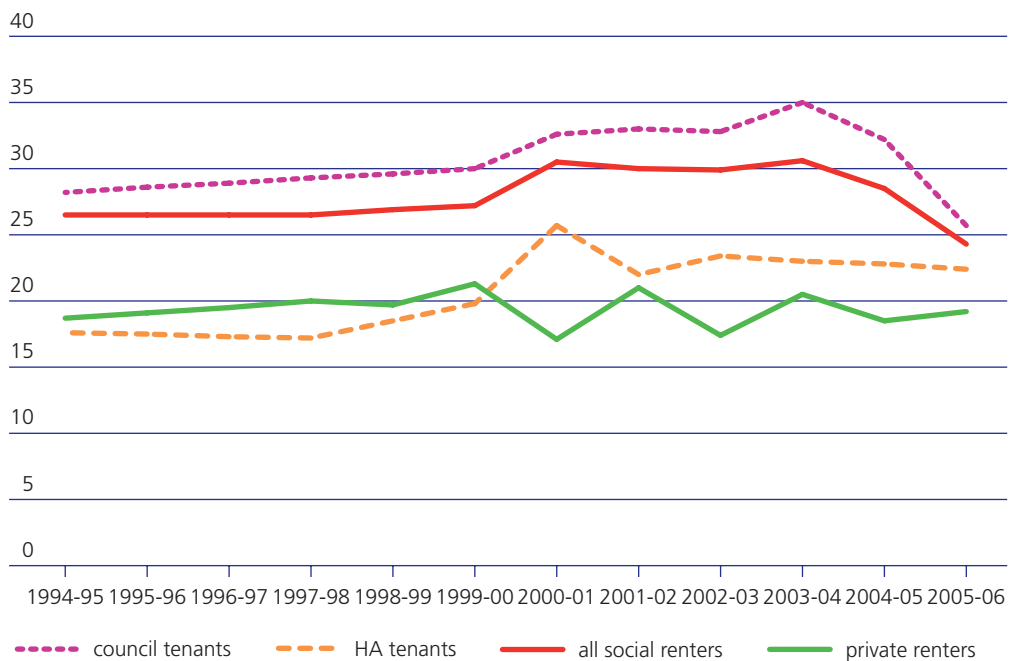
<sup>20</sup> Looking further back, in the 1970s and 1980s, surveys also showed a pattern where housing association tenants were least likely to be dissatisfied with accommodation, with council and private tenants at similar, higher, levels, and with no clear trend from the 1970s to the early 1990s (J. Hills and H. Glennerster (eds.), *The State of Welfare*, Oxford University Press. 1998, table 5.20).

**Figure 7.5** Renters dissatisfied with their landlord, 1994–95 to 2005–06 (%)



Source: Survey of English Housing.

**Figure 7.6** Renters dissatisfied with their landlords repairs and maintenance, 1994–95 to 2005–06 (%)



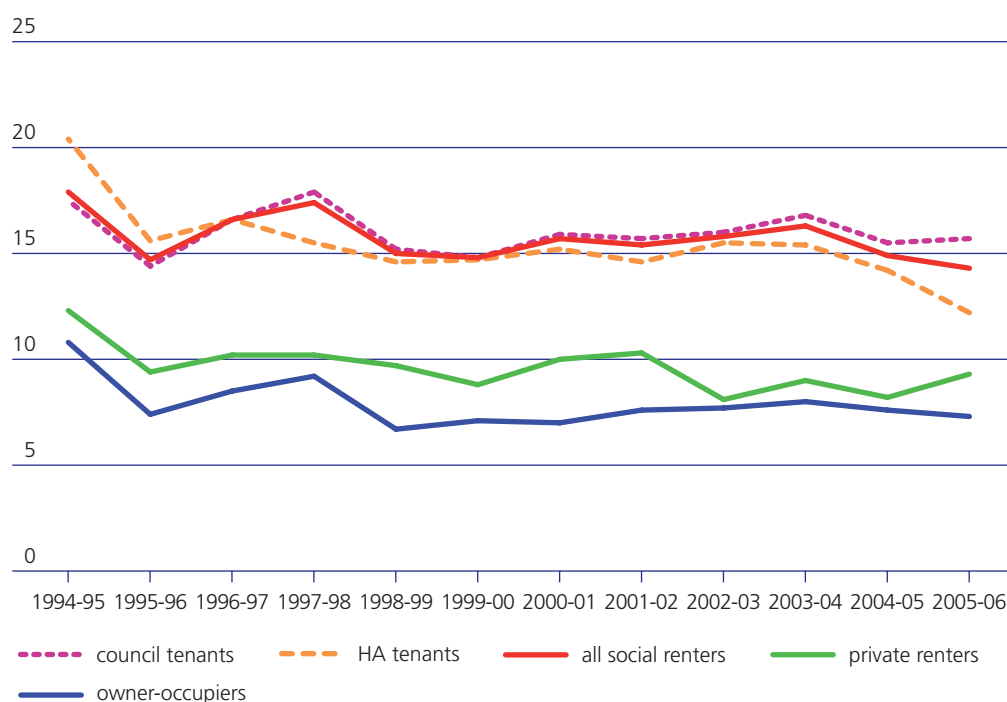
Source: Survey of English Housing.



Asked about satisfaction with landlords, the comparison shown in Figure 7.5 is even less favourable. Throughout the period around 10 per cent of private tenants reported dissatisfaction with their landlord, but the rates for social tenants have deteriorated. By the end a fifth of all social tenants said they were dissatisfied with their landlord, with the rates for housing association tenants – originally better than those in the private rented sector – now nearly as high as amongst council tenants. In particular, tenants reported high levels of dissatisfaction with repairs and maintenance. Figure 7.6 shows that these rates have again been fairly constant – but in this case at around 20 per cent – in the private rented sector. The rates are higher in the social sector, reaching a shocking 30 per cent across the sector as a whole between 2000-01 and 2003-04, but reduced significantly in the latest figures (particularly for council tenants) to “only” 25 per cent, possibly reflecting the impact of the Decent Homes programme.

Finally, households are asked about satisfaction with their local area. For all tenures this has improved somewhat over the period. By the end of it, 7 per cent of owners and 9 per cent of private tenants said they were dissatisfied with their local area, but 14 per cent of social tenants. For housing association tenants this represents a substantial improvement over the period despite the impact of transfers (from 20 to 12 per cent, although the figures are volatile from year to year), but the trend for council tenants is flat, with one in six still dissatisfied in 2005-06. Some of the reasons for this are explored in Section 9.

**Figure 7.7** Households dissatisfied with local area, 1994–95 to 2005–06 (%)



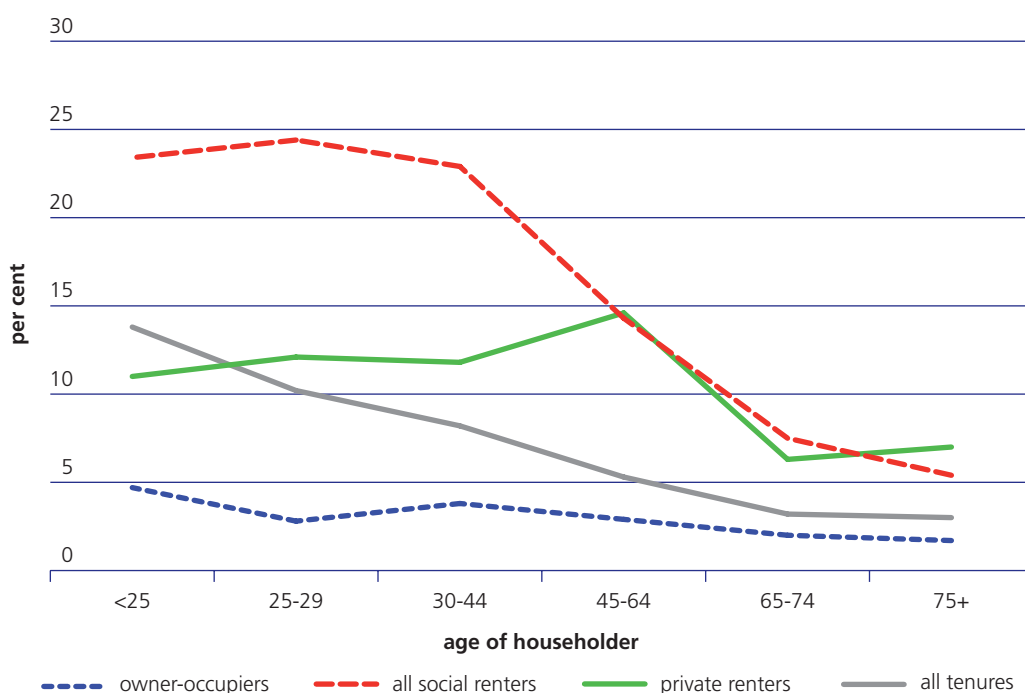
Source: Survey of English Housing.

Comparisons with the private rented sector on affordability and security of tenure are more favourable for social housing. For instance, 2004 British Social Attitudes survey data show that more than half of their own tenants think that social landlords are “nearly always or often good” in charging reasonable rents and more than 70 per cent think that they are good in “allowing tenants to stay in their homes as long as they want to”. Only 19 per cent of private tenants say the same on rents and only 29 per cent on security of tenure.

Nonetheless, figures for dissatisfaction with social housing are disappointing in several respects. It should, of course, be remembered that they still mean that a large majority of social tenants are satisfied with their housing. For instance, while more than 15 per cent of social tenants said they were dissatisfied with their accommodation in 2005-06 (Figure 7.4), nearly 80 per cent said they were satisfied, 45 per cent of them saying “very satisfied”.

There is also a striking difference by age here, illustrated in Figure 7.8. Whereas fewer than 8 per cent of social tenants aged 65 or older are dissatisfied with their accommodation, nearly a quarter of those aged under 45 are dissatisfied. This may be linked to the problems with available space for families (Figure 4.10). It also means that the shift towards younger tenants in the social sector (see Figure 12.9 below) may have contributed to part of the rising trend in dissatisfaction. But this is clearly not the whole story. Figure 7.8 shows that while younger people are more likely to be dissatisfied than older ones in all tenures, the gap is particularly wide in social housing. The private tenant population has also become younger, but has not experienced the same rise in dissatisfaction.

**Figure 7.8** Dissatisfaction with present accommodation by tenure and age, 2005–06



Source: Survey of English Housing.

In addition, as recent research for the Housing Corporation has shown, social tenants from ethnic minorities are more likely to be dissatisfied with their housing and the service they receive than white tenants.<sup>21</sup> A similar differential can be seen in the Survey of English Housing data of the kind used above. Some of this may be due to location, and, for instance the greater concentration of minority ethnic households in cities such as London, where housing conditions are generally more pressured. However, even if one looks only within London, black and minority ethnic householders are more likely to be dissatisfied than white householders. For instance, in 2005-06, 17 per cent of white social tenant householders said they were dissatisfied with their accommodation, but 28 per cent of black and minority ethnic householders. This higher level of dissatisfaction by around 10 percentage points has been at similar levels for the last decade. However, there are important differences in the age structures of tenants by ethnicity, with a smaller proportion of black and minority ethnic tenants in the older groups that Figure 7.8 shows to be much less likely to express dissatisfaction. When one looks at rates of dissatisfaction with accommodation within London by ethnicity for the age groups aged under 65 shown in the figure,<sup>22</sup> the ethnic differences virtually disappear: 27 per cent of black and ethnic minority social tenants aged 25-29 and 30-44 are dissatisfied, compared to 31 per cent and 25 per cent respectively for white tenants in the same age ranges (both close to the national averages shown in Figure 7.8). In other words, a large part of the greater dissatisfaction of minority tenants appears to reflect the same problems as those causing dissatisfaction for white tenants of the same age.<sup>23</sup>

## Summary

In physical terms, social housing is more likely to meet the new “decent homes” standard than private rented housing, particularly for disadvantaged households. This is partly because energy efficiency standards in the sector are higher, although the low incomes of social tenants mean that they are more likely to be in fuel poverty than those in other tenures. Rates of overcrowding (against the official “bedroom standard”) are higher than in the other tenures, and social tenants generally have less space per person (and this has declined slightly in the last decade). Social tenants are much more likely to report dissatisfaction with aspects of their housing quality (as opposed to its cost or security of tenure) than others, including private tenants, and several aspects of this have deteriorated in the last ten years. One in seven social tenants now say they are dissatisfied with their local area and with their accommodation, one in five with their landlord, and one in four with the standard of repairs and maintenance. Dissatisfaction with accommodation is particularly high for social tenants aged under 45. It is also significantly higher for black and minority ethnic tenants than white tenants, but this appears mainly to reflect the younger age structure of the minority population: within age groups of social tenants aged under 65, there is little difference by ethnicity. Neither the levels nor the trends in dissatisfaction are particularly encouraging for those who see a main rationale for social housing as being that its landlords are likely to provide higher standards than private ones. Nonetheless, 40 per cent of social tenants say that social housing would be their preferred tenure given a free choice (including owner-occupation), but only 8 per cent of private tenants say the same of private renting.

<sup>21</sup> Quality Housing Services, *Customer Satisfaction Profiles*, December 2006.

<sup>22</sup> Sample numbers for the minority ethnic population are too small for reliable analysis of over 65s.

<sup>23</sup> By contrast, for private tenants, a differential of around 10 percentage points in dissatisfaction with accommodation remains within each age group aged under 45 in London. This may partly reflect the very different role of the private sector for the two groups – better-off younger white tenants being more likely to be using the tenure in transition to owner-occupation, and so less likely to express dissatisfaction, but black and minority ethnic private tenants being less likely to be in this position.

## 8. A PRICE WITHIN PEOPLE'S MEANS?

Part of the justification for providing social housing at sub-market rents is clearly the contribution this makes to affordability. In one sense, this is primarily the function of the Housing Benefit system. Theoretically the way this operates is that for someone on a very low income, Housing Benefit will cover all of someone's rent, provided that they are not occupying a private sector property that is deemed to be too large for them or paying a rent above the local average (see Box 11.1). In that sense, it should ensure that everyone has access to "affordable" housing.<sup>24</sup>

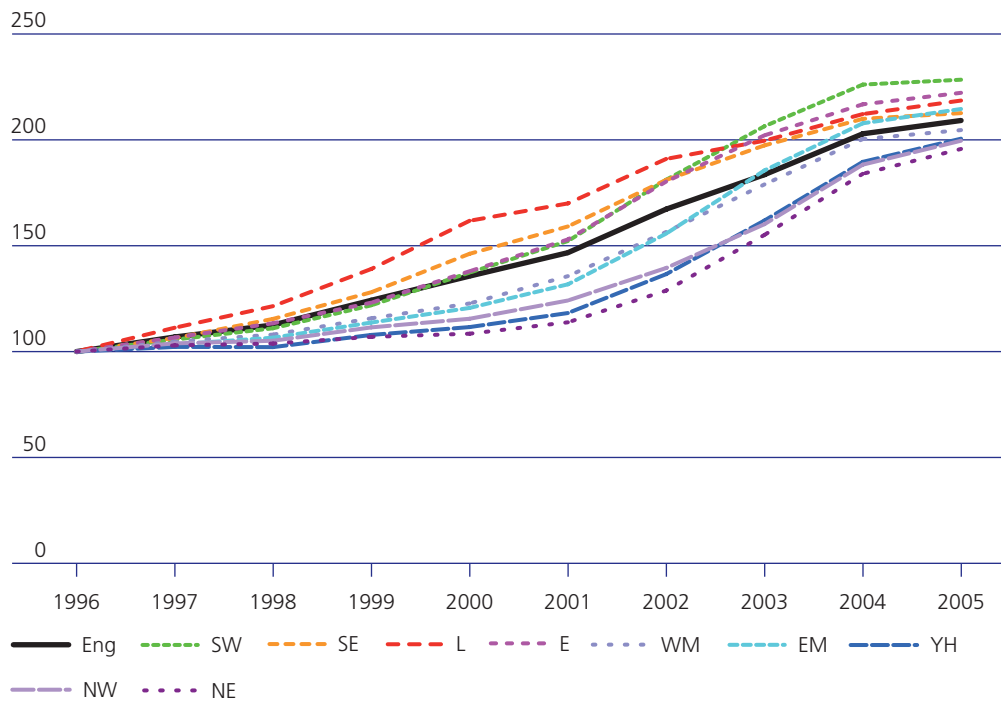
However, this is hardly unproblematic. First, not everyone entitled to Housing Benefit claims it (Table 11.5). Second, because of its steep withdrawal as incomes rise, some on relatively modest incomes, where we still may be worried about affordability of decent housing, may be entitled to little or nothing. Third, that very process of withdrawal is a source of potential disincentives and problems in the labour market (see Section 11). The higher someone's rent, the wider the income range over which such "poverty trap" effects can extend. But also, people are only entitled to Housing Benefit if they are tenants – assistance with the housing costs of owners with low incomes is very limited. And for private tenants deemed to be living in housing that exceeds their needs, or which has a cost above the middle of the local market range, Housing Benefit may cover only part of their rent, leaving them with a shortfall.

For all these reasons, the existence of Housing Benefit does not solve the affordability problem, and the level of housing costs in relation to income remains a concern. This section looks at recent trends in housing costs, particularly of social tenants, and at the relative positions of owners and tenants.

### Average housing costs

First, a dominant feature of the last ten years has been the very rapid increase in house prices, both in relation to retail prices, as shown in Figure 8.1, and in relation to incomes (see Figure 12.2). In the nine years from 1996 to 2005, average real house prices at least doubled in all English regions. Section 12 below discusses the implications of this and the factors that have driven it for the long-term pressures on social housing.

<sup>24</sup> To put it another way, the Housing Benefit system means that in theory, subject to these conditions, people's "residual income" after housing costs will be at least as high as the Income Support rate for their family type.

**Figure 8.1** Mean house price (real terms) index (1996 = 100)

Source: Communities and Local Government live tables.

But private sector rents have not followed the same pattern. As Figure 8.2 shows, over the same period they have risen slowly in real terms over the same nine years, with the English average rising from £108 to £123 per week at 2005 prices, or by about 1.5 per cent per year, a little below the growth of incomes over the same period. Private renting was little more or less “affordable” in 2005 than it had been in 1996. What the figure also illustrates, though, is the great extent to which private rents vary across the country – from an average of £74 per week in the North East of England to £184 per week in London in 2005.<sup>25</sup>

<sup>25</sup> These averages may, of course, be affected by the composition of the private rented stock in each area, so differentials between similar dwellings may be more or less than those between the regional averages.

**Figure 8.2** Private rented sector rents (2005 prices, £ per week)

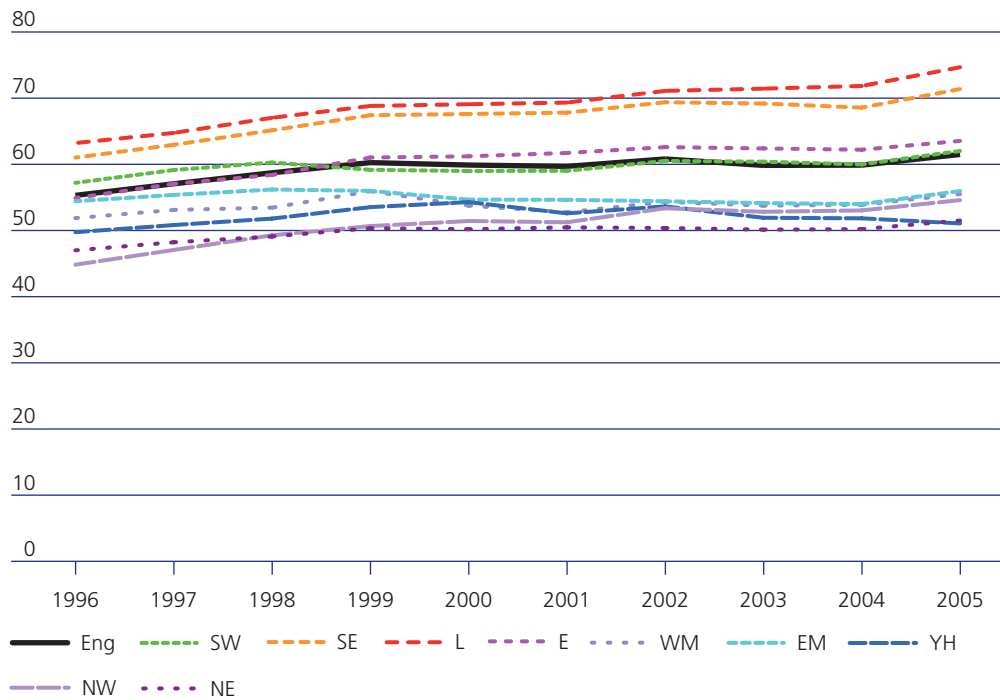


Source: Communities and Local Government live tables.

Housing association gross rents have also risen gradually in real terms over the period (see Box 8.1 for discussion of the “rent restructuring” process affecting both associations and local authorities). Across England as a whole they have risen from £55 to £61.50 per week at 2005 prices (Figure 8.3).<sup>26</sup> The range of rents is much narrower than in the private sector – from £51 per week in the North East and Yorkshire and Humberside to £75 per week in London. As a result, the level of housing association rents as a percentage of private rents in the regions varies across the country around an average which was close to 50 per cent at the start and end of the period. In much of the country housing association rents are around 60 per cent of those in the private sector, but in the South East and East they are around 50 per cent, and in London 40 per cent.

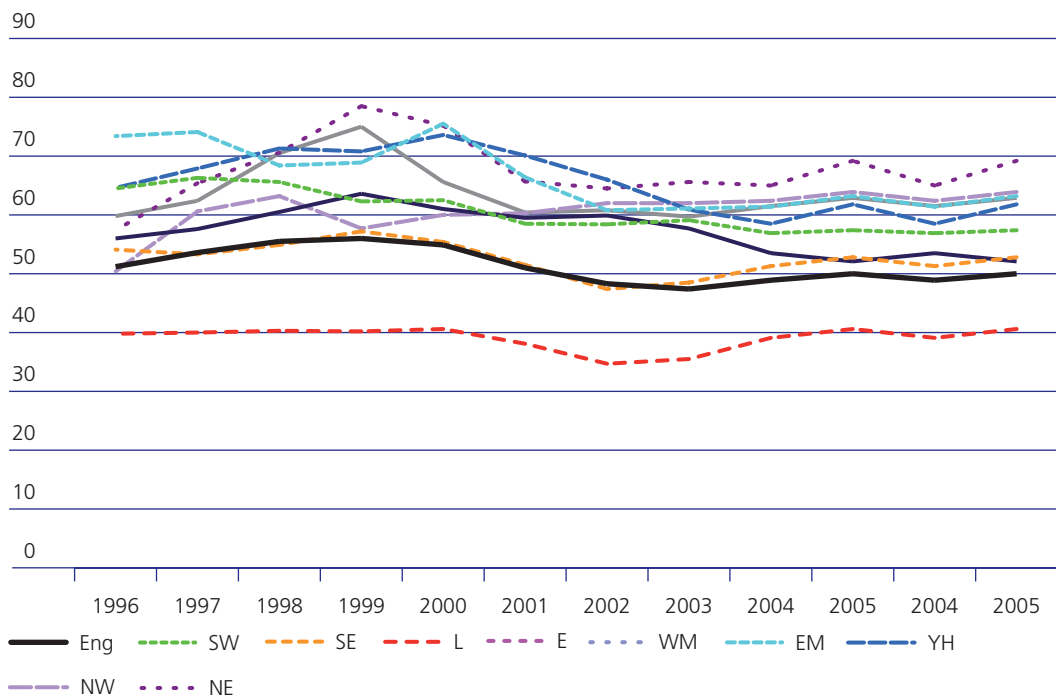
<sup>26</sup> These figures for rents charged are calculated on a slightly different basis from those for aggregate rent collected shown in Table 6.3.

**Figure 8.3** Housing association rents (2005 prices, £ per week)



Source: Communities and Local Government live tables.

**Figure 8.4** Housing association rents as a percentage of private rents



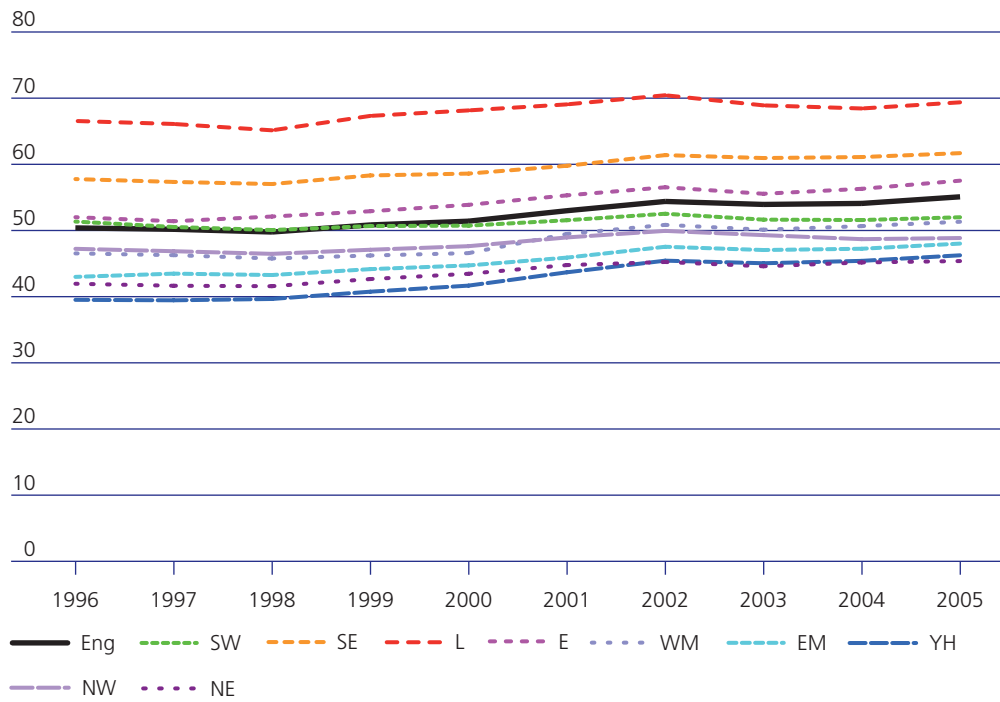
Source: Communities and Local Government live tables.

Figures 8.5 and 8.6 show equivalent information for local authority rents. These are lower than housing association rents and grew slightly more slowly in real terms over the period as a whole, on average from £50 to £55 per week at 2005 prices. By comparison with association rents, those in the South East of England are closer to the English, rather than the London average. As a result of all this, Figure 8.6 shows that average local authority rents fell in relation to those in the private sector after 2000, and by 2005 were about 45 per cent of them. In London since 2001, local authority rents have been less than 40 per cent of private rents in the city.

These patterns are closely related (allowing for the lower estimated capital values of social housing than private rented housing) to the patterns of subsidy to social tenants in economic terms discussed in Section 6 above – varying from under £10 per week in the North East of England to around £75 per week in London across the social sector as a whole in 2004 according to the methodology used in Table 6.4.

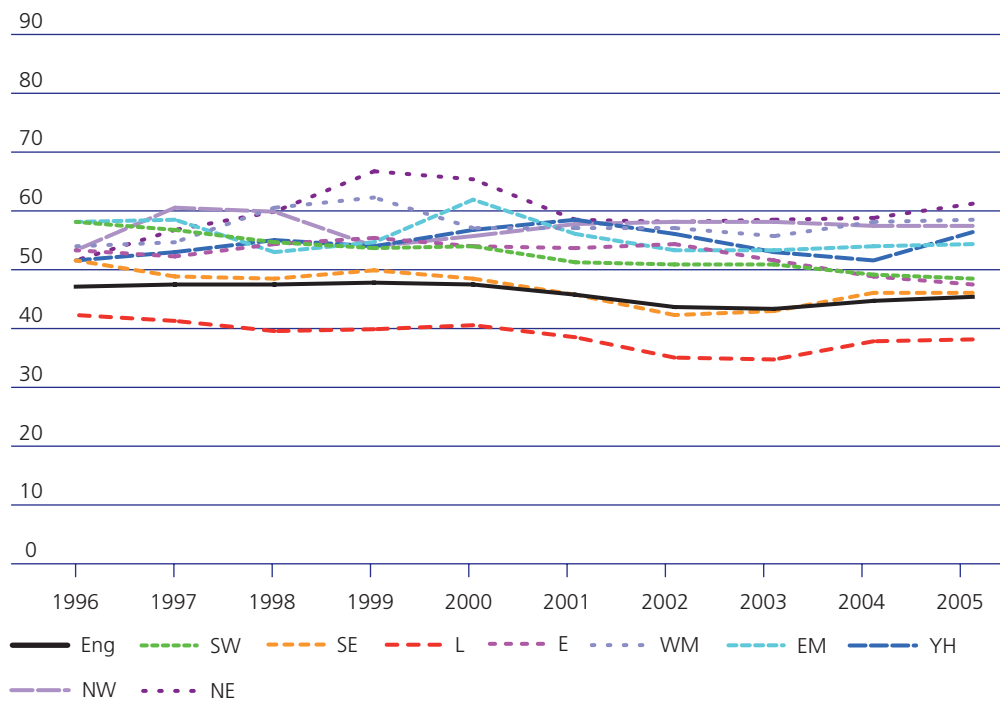


**Figure 8.5** Local authority rents (2005 prices, £ per week)



Source: Communities and Local Government live tables.

**Figure 8.6** Local authority rents as a percentage of private rents



Source: Communities and Local Government live tables.

**Box 8.1 Rent restructuring**

Since April 2002, the Government has encouraged local authorities and housing associations to follow the policy of “rent restructuring”. This involves social landlords bringing the rents they charge tenants into line with those given by a national formula, which bases a property's rent on its number of bedrooms, its market value and local earnings.

This policy was introduced in response to inconsistencies in the pattern of social rents. The Government's aim was to create greater fairness and coherence of social rents. This was seen to be a good thing in its own right, but also as a necessary prior step towards the long-term possibility of replacing the current Housing Benefit system in the social sector with some form of Local Housing Allowance (see Section 14). In such a system, with fixed allowances, it would be more important that rents reflected more closely the relative attractiveness of different properties.

Social landlords are expected to try to implement rent restructuring in full by 2012. Although they are not obliged to do so, and landlords remain responsible for their rent policies, the Housing Revenue Account (HRA) subsidy system (see Box 6.1) gives local authorities strong incentives to comply. When assessing bids for grant funding, the Housing Corporation also assumes that housing associations are charging rents consistent with rent restructuring.

Social landlords have the discretion to set rents within a 5 per cent band either side of restructured rents and still comply with the policy. For specialised accommodation, such as sheltered housing, the band is wider at 10 per cent.

There is a large difference between some of the rents currently charged and their restructured levels. Tenants are protected by a limit on annual rent increases of inflation (measured by the RPI) plus 0.5 per cent plus £2 per week. So if inflation were 2.5 per cent, a tenant whose current rent was £60 and restructured rent was £80 would see an increase in their rent to £63.80 per week. A similar limit exists for annual rent decreases to protect the finances of some housing associations whose rents start above the level implied by the formula.

When a property is let to a new tenant, landlords can move rents immediately to the levels set by the formula. This speeds up the movement of rents towards their restructured levels, although at the cost of creating some inconsistencies between rents charged to new and existing tenants.

Communities and Local Government expects that actual housing association rents from 2006 to 2011 are likely to rise by about RPI plus 1.7 per cent per year. In the past, rents for local authority properties have tended to be lower than those for comparable housing association properties. Rent restructuring aims to remove this difference, by increasing the average level of local authority rents more quickly. Between 2006 and 2011, average local authority rents would rise by about RPI plus 3.1 per cent if future finance settlements permitted rent restructuring to be implemented in full. Overall, however, social rents are set to remain well below market levels, especially in high demand areas (see Figures 8.4 and 8.6).

## The position of different tenures

"Affordability" depends not just on costs, but also on incomes, however. Table 8.1 shows what proportions of their disposable income households were spending on housing in 1997-98 and 2003-04, including repair and maintenance costs, insurance, mortgage payments, and Council Tax, but *after* allowing for assistance such as Housing Benefit or Council Tax Benefit. In 2003-04, such net costs were highest (£132 per week) for owners buying their property with a mortgage and lowest for social tenants (£23 per week after benefits). In the private rented sector, 38 per cent of households spent 30 per cent or more of their incomes on net housing costs, and more than half spent over 20 per cent. Owners purchasing with a mortgage also had comparatively high costs – nearly two-thirds spending 20 per cent or more of their income on net housing costs – but a lot of that does, after all, represent the purchase of an asset, rather than the continuing cost of living somewhere. Despite their low net housing costs on average, just over a third of social tenants had costs above 20 per cent of their net incomes, and a fifth had costs above 30 per cent.

**Table 8.1 Percentage of household disposable income spent on housing by tenure**

	Median expenditure (£/week)	Percentage of respondents spending in each range				
		<10	10 to 15	16 to 20	21 to 29	>30
<b>2003-04</b>						
Owner-occupiers:						
mortgage	132	6	13	17	26	38
owned outright	34	47	25	12	8	7
Social rented	23	41	14	10	14	21
Private rented	96	21	11	12	18	38
All	71	26	17	14	17	25
<b>1997-98</b>						
Owner-occupiers:						
mortgage		8	15	19	27	31
owned outright		51	24	10	8	7
Social rented		38	15	13	16	18
Private rented		26	13	11	21	30
All		27	17	14	19	22

Source: Family Expenditure Survey/Expenditure and Food Survey.

Note: Spending includes net rents (after Housing Benefit), mortgage payments, repair and insurance costs, etc.

Comparing these figures with those for 1997-98, there has been an increase in the proportion of households spending relatively large shares of their incomes on housing. Overall the proportion of households spending above 20 per cent of their income on housing has risen from 41 to 42 per cent, and those spending over 30 per cent from 22 to 25 per cent. However, these increases are by no means as dramatic as might have been expected looking simply at what had happened to house prices over the period: this has not generated a crisis in actual housing spending in relation to income. As we have seen, the rents of tenants have risen only slowly in real terms over the period, and most owners already owned before the price increase, while recent purchasers have been partly helped by lower interest rates than before.

Finally, to give a measure relating to the *equity* arguments for subsidising social tenants discussed in Section 2, Figure 8.7 compares the flows of assistance going to tenants through Housing Benefit and economic subsidy to social housing with one estimate of the value of tax concessions to owner-occupiers in each income band in 2004-05.<sup>27</sup> What is striking about the diagram – which can only be indicative given the wide uncertainty in the estimates involved – is its asymmetry. The lowest-income tenants received total housing subsidies of over £3,500 per year, but these figures fall rapidly with income, particularly as Housing Benefit is reduced. By contrast, tax advantages to owners were relatively low for those with low incomes, but rose to the equivalent of £3,500 for those in the highest income group. Note that the value of tax concessions to typical owners in the income range £20-30,000 per year calculated in this way is around £900 per year. If one of the arguments for subsidies to social tenants is one of equity with owners, this could by itself justify more than half of the average levels of economic subsidy to social tenants of around £30 per week shown in Table 6.4.

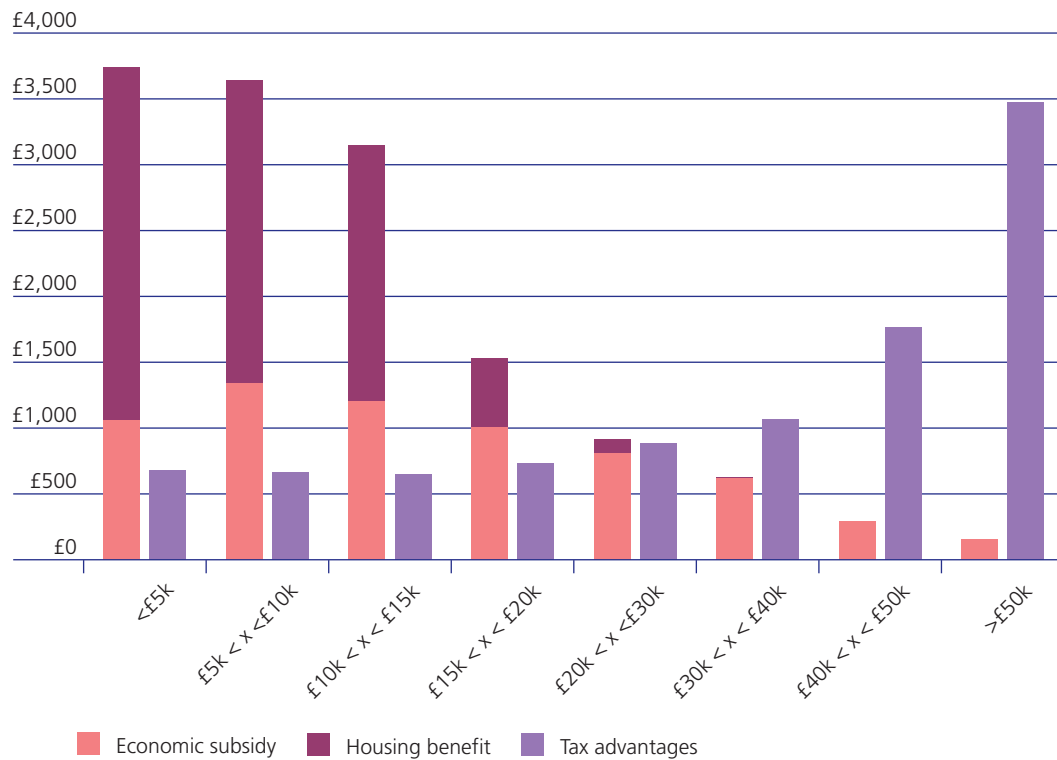
## Summary

In a minimal sense Housing Benefit makes at least some form of housing “affordable” for even the poorest households, but for a series of reasons, housing costs are still important for what most people would think of as “affordability”. While average house prices have doubled in the last decade, neither private nor social rents have risen fast in real terms, in each case falling somewhat in relation to average incomes. The existence of social housing in particular has allowed its tenants to be protected from the effects of rising house prices. Social rents are significantly below those in the private sector, particularly in London, and have grown less rapidly. Overall, there were more people facing high net housing costs in relation to their incomes in 2003-04 than in 1997-98, but the increases were not so dramatic – the way rents had risen only slowly, the fact that most owners already owned before the house price rise, and lower interest rates all moderated the impact of higher house prices.

Owners and social tenants are assisted by different kinds of support through the subsidy and tax systems, and one could justify at least part (more than half on one set of estimates) of the economic subsidy to social tenants simply on equity grounds by comparison with typical owners. However, the patterns of advantage are very different, with tenants helped most if they have low incomes, but owners benefiting most from favourable tax treatment if they have high incomes.

<sup>27</sup> The value of tax concession to owners is calculated as being equivalent to the *lack* of income or capital gains tax on the long-run *real* return they might expect on their *net* housing equity (net, as one could argue that in a neutral income tax system real interest rates at least *should* be deductible as an offset against taxation of the return on their asset, and looking at the return on net equity approximates this adjustment). See J. Hills, (1991), *Unravelling Housing Finance*, pp 209-211 and 244 for further discussion. The long-run real return is taken as 3.5 per cent, as suggested by the Pensions Commission (*A New Pension Settlement for the 21st Century*, 2005, p. 276) as a reasonable prospective return on a portfolio with some degree of risk. The calculations presented assume that owners with household incomes above £50,000 per year, and half of those with incomes between £40,000 and £50,000, would face a marginal tax rate of 40 per cent, others facing 22 per cent. These advantages are offset by estimated amounts of stamp duty payable as a specific tax on owner-occupation. The calculations do not offset inheritance tax paid (for an alternative treatment, see S. Wilcox, “Help with housing costs” in *UK Housing Review 2006/2007*, London: Chartered Institute of Housing,) or add lack of VAT, as these are not specific to owner-occupation.

**Figure 8.7** Housing related subsidies and net tax advantages by income band, 2004-05 (Housing Benefit and economic subsidy to social tenants per tenant in each band and net tax advantages per owner in each band)



Source: Communities and Local Government analysis, HCA. Tax advantage based on non-taxation of 3.5% return on net equity, less stamp duty. Social and private tenants taken together, and owners together. See text for definitions.

## 9. ALLOWING A SOCIAL MIX?

One of the key reasons for provision of social housing explored in Section 2 is the idea that it can help avoid the kind of polarisation between area and region that market forces might create, even where people have the advantage of cash assistance with their housing costs. In a purely market-driven system, those with the lowest incomes might all end up in the lowest cost and least desirable parts of towns and cities, and – unless there were compensating variations in rates of social security benefits and tax credits – could end up unable to live in higher cost regions altogether. By contrast, social landlords can provide and allocate housing in a different way, allowing or encouraging more of an income mix between areas, and accepting the need for effectively higher rates of subsidy in some areas or regions to allow this to happen. Indeed, part of the philosophy of post-war social housing was precisely to achieve this (albeit for a rather brief period):

“It is entirely undesirable that modern housing estates only one type of citizen should live. If we are to enable citizens to lead a full life, if they are to be aware of the problems of their neighbours, then they should be drawn from different sections of the community. We should aim to introduce what has always been the lovely feature of the English and Welsh village, where the doctor, the grocer, the butcher and the farm labourer all lived in the same street... the living tapestry of a mixed community.”<sup>28</sup>

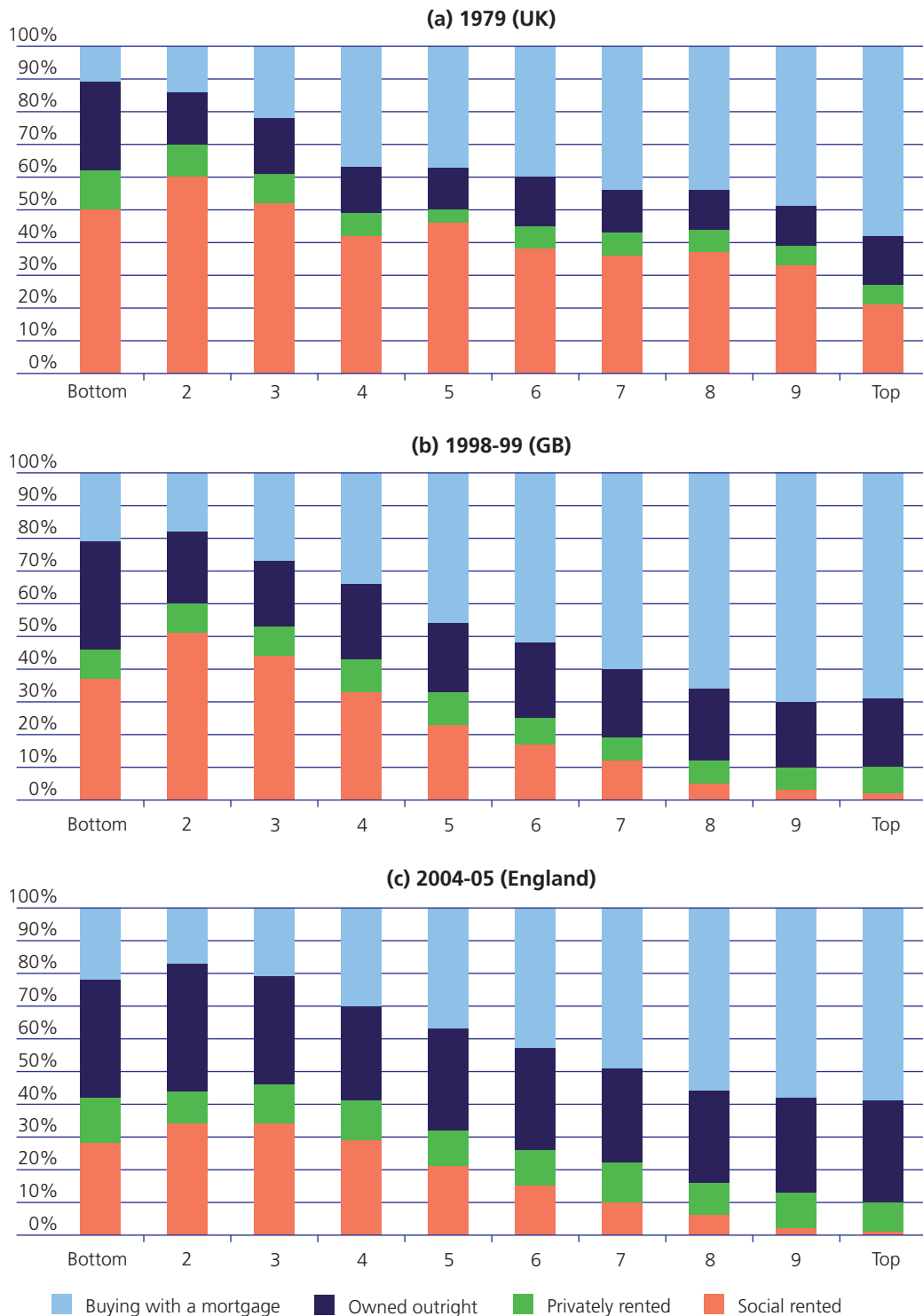
During the 1950s and 1960s, social housing did accommodate a population with a mix of incomes, and therefore many of the council estates in which it was built were also mixed. Indeed, until the mid-1970s, there were conditions on being granted a tenancy which made it hard for some of the most disadvantaged to gain access to it. As Figure 9.1 (a) shows, the population living in social housing (in this case in Great Britain) as recently as 1979 was spread across the income distribution. A greater proportion of those with low incomes lived in it – more than 40 per cent of those in each of the bottom five-tenths of the income distribution – but so did more than 30 per cent of the next four groups, and even (on these figures) 20 per cent of the tenth with the highest incomes.

That has, of course, completely changed over a generation as a result of a series of factors:

- The Right to Buy was exercised disproportionately by those with higher incomes (and in better areas and houses), who therefore left the sector.
- The recessions of the early 1980s and early 1990s hit employment hard in many traditional industrial areas served by social housing.
- The new inflow of tenants became increasingly determined by needs-based criteria, rather than, say, length of time on a waiting list (see Box 2.1).

<sup>28</sup> Aneurin Bevan, 1949, quoted in M. Foot (1973), *Aneurin Bevan, Volume Two: 1945-1960*, London: Paladin, p.78.

**Figure 9.1** Household income distribution by tenure, 1979, 1998-99 and 2004-05



Sources: 1979 and 1998-99 figures from J. Hills (2001), "Inclusion or Exclusion? The role of Housing subsidies and Benefits", *Urban Studies*, 38 (11), figure 1. Based on DSS households below average income data set. Data includes the self-employed. Figures are for household income, adjusted for household size.

2004-05 figures from DWP for income of householder and partner adjusted for household size.

Note: A very small number of "squatter households" have been subsumed within the private rented tenure.

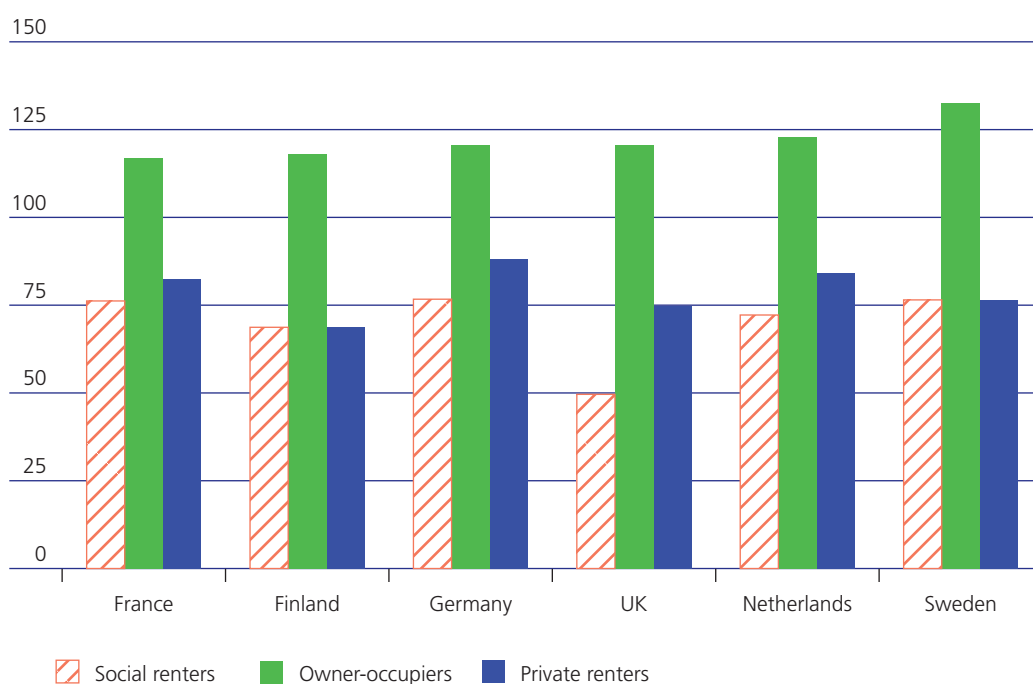
Income has been equalised using the McClements Equivalence Scale (e.g. a two adult household has not had its income adjusted, but a one adult household has had its income divided by 0.61 leading to a larger equivalent income).

Housing Benefit has been added to SRS and PRS tenants incomes where appropriate.

We have already seen (in Figure 5.4 above) the extent to which employment levels have dropped amongst social tenants since 1981. By 1998-99 the income profile of social tenants had been transformed, as can be seen in the second panel of the figure: 72 per cent of those living in social housing were from the poorest 40 per cent of the population (although this was slightly less than in 1993). The most recent figures, in the third panel for 2004-05 (in this case for England) show only a little change from this: 69 per cent of those living in social housing were in the bottom two-fifths of the income distribution, and even fewer, 19 per cent, came from the top half of the income distribution than six years before.

The extent of this change meant that by the late 1990s, the income differences between tenures were greater in the UK than in the other five European countries illustrated in Figure 9.2, and social tenants had the lowest incomes in relation to the average. In the other countries the differential with owner-occupiers was smaller, and there was little if any difference between the incomes of those in private and social renting.

**Figure 9.2** European comparison of average after tax incomes by tenure, late 1990s (incomes by tenure as % of national average)



Source: M. Stephens et al, (2002) *Social Market or safety net? – British Social rented housing in a European context*.

If social housing had not been predominantly built as estates, but instead had been “pepper-potted” (as some housing association street property acquired in the 1960s and 1970s was), this polarisation by income would not necessarily have meant polarisation on the ground. But the combination with location of properties has meant that it is. Table 9.1 shows the tenure and other characteristics of the stock within different kinds of area predominantly built as local authority housing estates (22 per cent of the whole housing stock) and in other areas. Areas built as estates are no longer solely owned by social landlords – for instance, only half of those that are mainly houses (with a third of the original stock sold under the Right to Buy), but still 73 per cent of those built mainly as flats (with only 12 per cent sold under the



Right to Buy). However, two-thirds of all social housing is located within such areas, and only one third in the 78 per cent of housing built in other ways. By contrast only 9 per cent of private rented (some of it purchased under the Right to Buy) and 13 per cent of owner-occupied property is within them.

**Table 9.1 Location of social housing by build type**

	Predominantly council-built areas of			Other areas (not LA built)	All areas
	Mainly flats	Houses and flats	Mainly houses		
Number of all homes in areas (000s)	651	907	3,255	16,735	21,549
% of all homes	3	4	15	78	100
<b>% of all homes in area type that are:</b>					
<b>(a) Current tenure</b>					
social sector	73	66	50	8	19
private sector	8	5	3	12	11
owner-occupied	19	28	47	80	71
<b>(b) Location</b>					
city/other urban centre	68	28	17	24	24
suburban residential	30	66	69	52	55
rural	2	6	15	24	21
<b>(c) Predominant age of stock</b>					
pre 1945	11	6	27	39	35
1945-64	37	47	49	12	20
post-64	50	43	22	33	32
mixed	3	5	2	14	12
<b>distribution of tenures across areas</b>					
% of all social sector	12	15	40	33	100
% of all private sector	2	2	5	91	100
% of all owner-occupied	1	2	10	88	100
<b>Right To Buy activity</b>					
RTB homes (000s) <sup>1</sup>	65	134	828	398	1,442
as % of all home-owners in area type	52	52	54	3	9
as % of all RTB homes	5	9	57	28	100
approx. % of all originally social homes	12	18	34	23	26

Source: EHCS combined sample 2002/03 to 2004/05 (mid-point Oct 2003), all dwellings.

Notes: Italicized figures are based on small cell count so have a large margin of error.

1. Excludes RTB properties that have been sold on.

The characteristics of those living in areas originally built as estates (regardless of their current tenure) are sharply differentiated from other areas, as Table 9.2 shows. While the employment rate in other areas is 64 per cent, within the estate-built areas it falls to under 50 per cent, and only 40 per cent in the flatted estates. Nearly a fifth of householders in the estate areas are economically inactive, but not retired, twice the national rate, while around 40 per cent of all formal unemployment is within them. A third or more of those living in estate-built areas have incomes<sup>29</sup> in the poorest fifth, rising to 45 per cent of those in the flatted areas. Twice the national proportion – 14 per cent – of households in the flatted estates are lone parents, and nearly twice the proportion – 46 per cent – are single people. There are striking ethnic differences too, reflecting settlement patterns as well as the distribution of disadvantage, with 28 per cent of householders being non-white in the flatted estates, compared to 9 per cent nationally.

**Table 9.2 Characteristics by area build type**

	Predominantly council-built areas of			Other areas (not LA-built)	All areas
	Mainly flats	Houses and flats	Mainly houses		
<b>Number of households in areas (000s)</b>	628	858	3,170	16,196	20,853
% of all households	3	4	15	78	100
<b>% of households in area type that are:</b>					
<b>(a) Composition</b>					
couple, no children	16	22	30	38	35
couple with dependent child(ren)	15	14	24	25	24
lone parent with child(ren)	14	13	13	6	7
lone person	46	43	26	25	27
<b>(b) Ethnicity</b>					
white	71	90	94	93	92
black	16	5	2	2	3
Asian	7	3	3	4	4
other	5	2	1	2	2
<b>(c) Employment status</b>					
employed	40	42	48	64	60
retired	29	32	30	27	28
unemployed	8	5	4	2	2
inactive (excluding students)	19	20	18	6	9
<b>(d) Income</b>					
poorest fifth of households	45	43	32	15	20

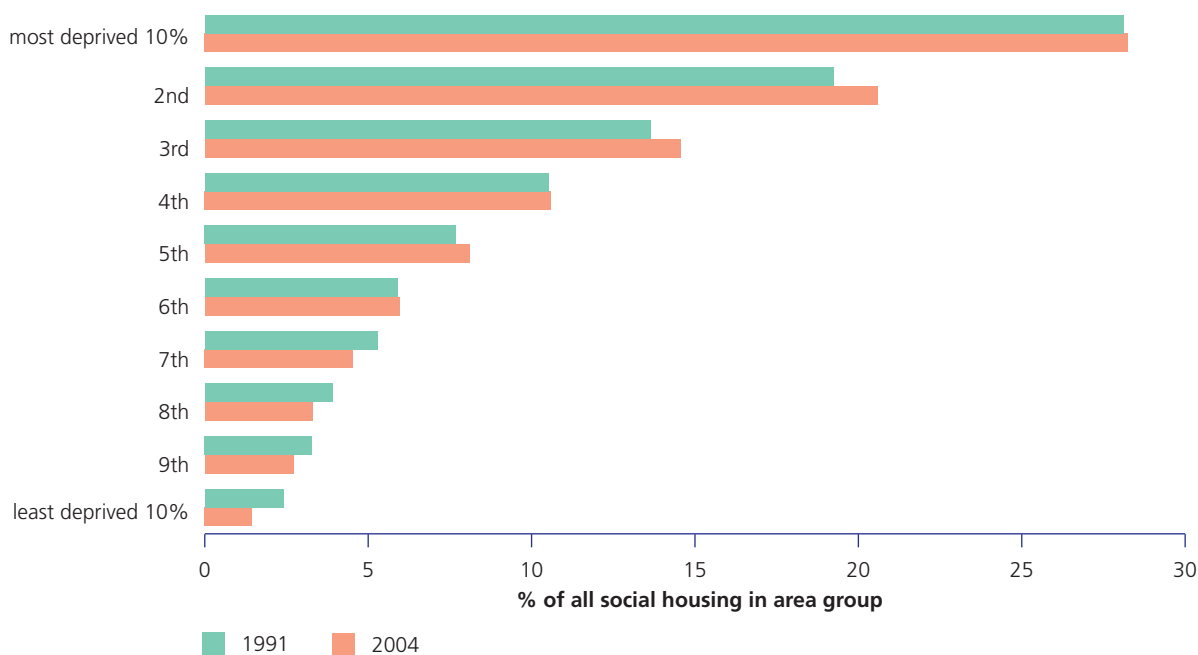
Source: EHCS combined sample 2002/3 to 2004/5 (mid-point Oct 2003), all households.

Notes: Ethnic and employment status determined by that of the household reference person. Poorest fifth is based on householder-only net annual income.

<sup>29</sup> In this case, the householder's net income, unadjusted for household size.

Putting all this together, it is unsurprising that so much social housing is located in the most disadvantaged areas, as can be seen in Figure 9.3. Furthermore, this polarisation has, if anything, intensified since 1991. Nearly half (49 per cent) of all social housing is now located in the fifth of neighbourhoods with the highest levels of deprivation. The proportion of social housing in each of the currently most disadvantaged five tenths has grown since 1991, while the proportion in the most advantaged four tenths has declined.<sup>30</sup>

**Figure 9.3** Distribution of social housing by 2004 level of deprivation of area, 1991 and 2004



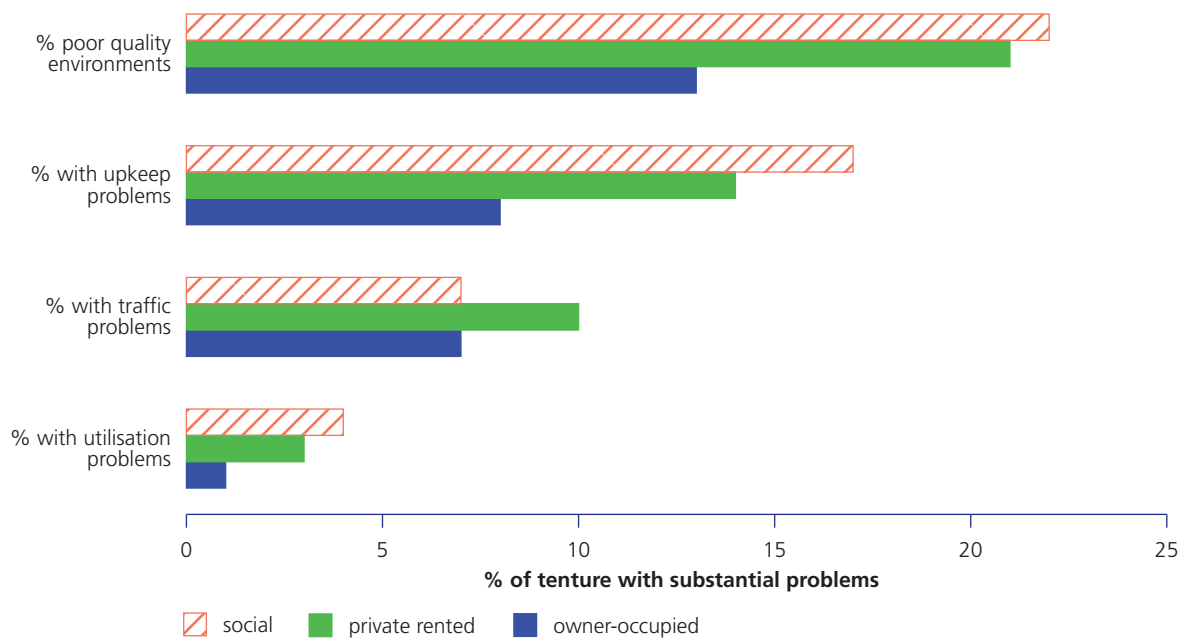
Sources: EHCS, 1991 and 2004.

Note: deprived areas are based on 2004 – Index of Multiple Deprivation ranked decile groups of “lower layer Super Output areas”.

This concentration is linked to the way in which social housing is more likely than other kind of housing to be located in areas with what have become known as “liveability” problems, reflected in the tenant dissatisfaction with neighbourhoods discussed in Section 8. Such problems affect private rented property as well, as can be seen in Figure 9.4, but “poor quality environments” affect more than a fifth of social housing, and “upkeep problems” a sixth of it (although traffic problems affect more private rented property). As Figure 9.5 shows, these problems of area deprivation, liveability and homes failing to meet the Decent Homes standard compound one-another. 1.1 million social homes are in the most deprived tenth of neighbourhoods, and of these nearly 400,000 fail to meet the Decent Homes standard and more than 300,000 have liveability problems, higher proportions than in the less deprived neighbourhoods.

<sup>30</sup> Although note that the way in which neighbourhoods are classified using 2004 rankings means that this is not necessarily comparing with what would have been the lowest ranked areas in 1991.

**Figure 9.4** Homes with liveability problems by tenure 2004

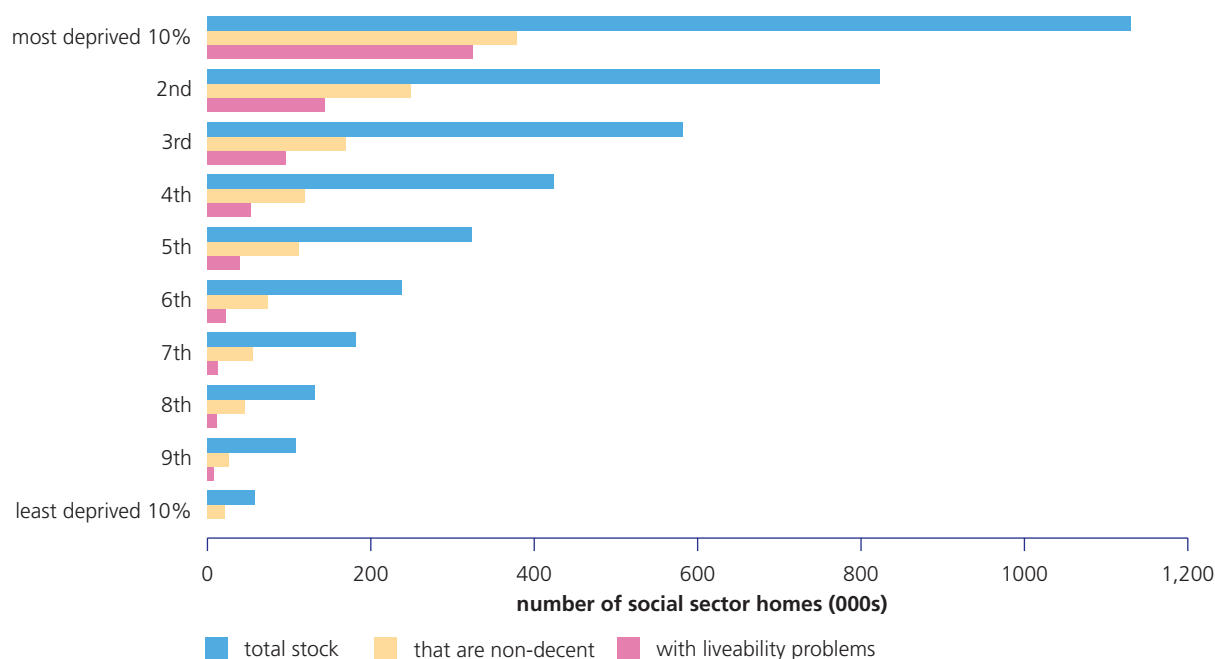


Source: EHCS, 2004.

Base: all households.

Notes: assessments of problems in the immediate environment are made by surveyors; 'upkeep' problems are associated with the upkeep and misuse of public and private building and space; 'traffic' problems include pollution from heavy road traffic and other forms of transport; 'utilisation' problems include abandonment or intrusive use of property for non residential purposes.

**Figure 9.5** Social sector stock: housing and neighbourhood conditions by area deprivation, 2004



Source: EHCS 2004.

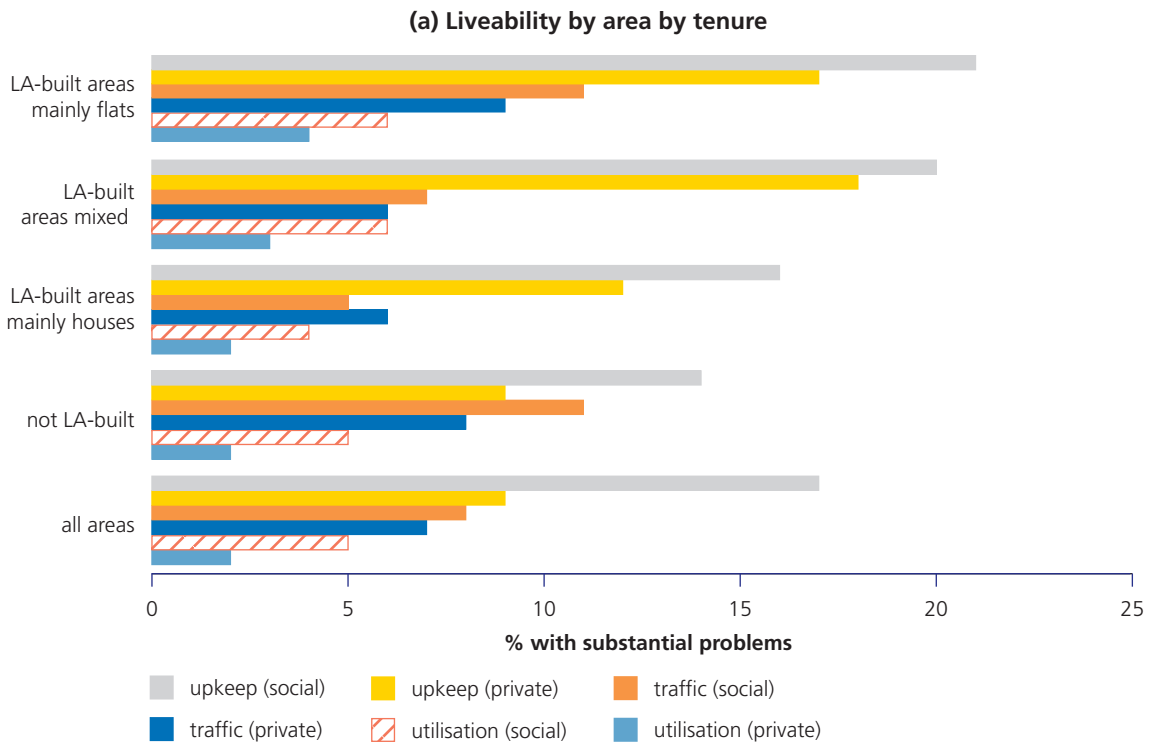
Base: all social sector stock.

Notes:

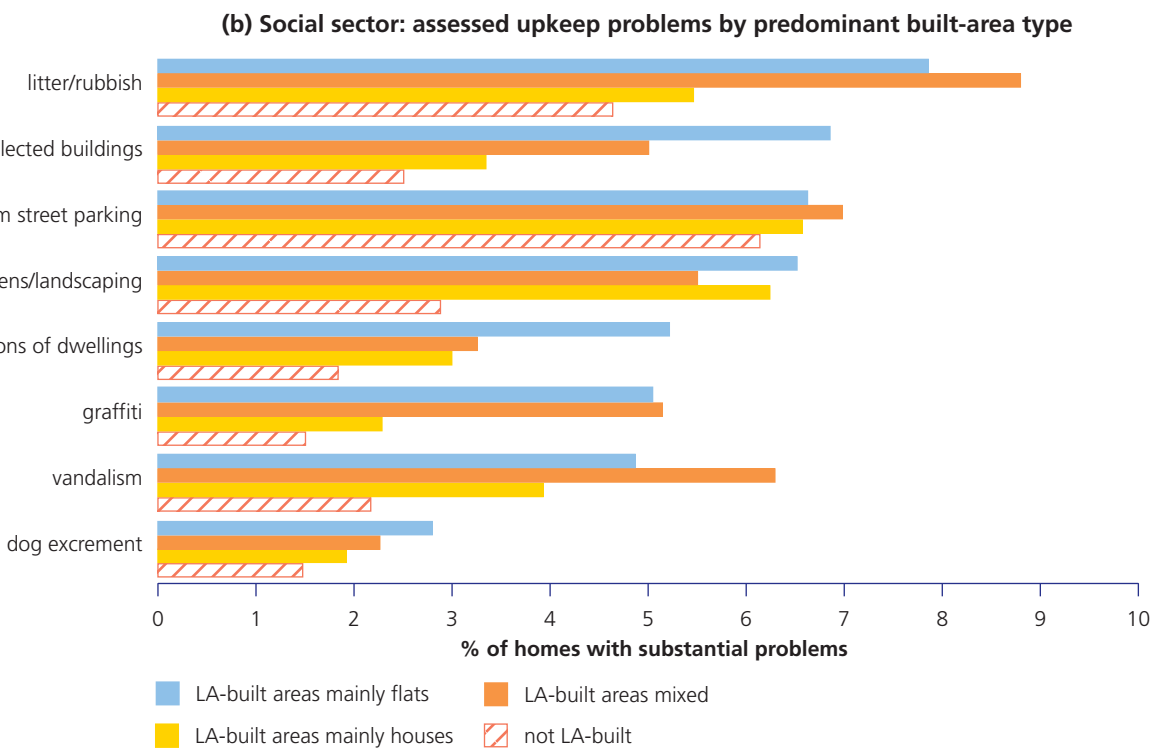
- deprived areas are based on 2004 - Index of Multiple Deprivation ranked decile groups of lower layer Super Output areas.
- liveability problems include upkeep, traffic and utilisation problems.

Figure 9.6 breaks down some of these problems between the different kinds of area, showing surveyors' assessments of whether there are "substantial" problems in the area. These are much higher in estate-built areas, particularly where they are flats or mixed flats and houses, with social housing facing higher rates of serious problems from litter, rubbish, neglected buildings, and graffiti than other kinds of area. Unsurprisingly, these problems are reflected in tenants' perceptions and satisfaction. Figure 9.7 (a) shows overall levels of householders reporting issues as a "serious" problem in their area, while Figure 9.7 (b) breaks the results for social tenants down between the kinds of area in which they live. Social tenants are much more likely to report all of these issues as a serious problem than those in other tenures, and the results for estate-built property are very high: more than a fifth of social tenants in flatted-estate areas report the presence of drug user or dealers as a serious problem in their area, and nearly a fifth the general level of crime, fear of being burgled, vandalism and litter. These are all twice or more the levels reported by owner-occupiers and even private tenants on average.

**Figure 9.6** Assessed problems by build type, 2003

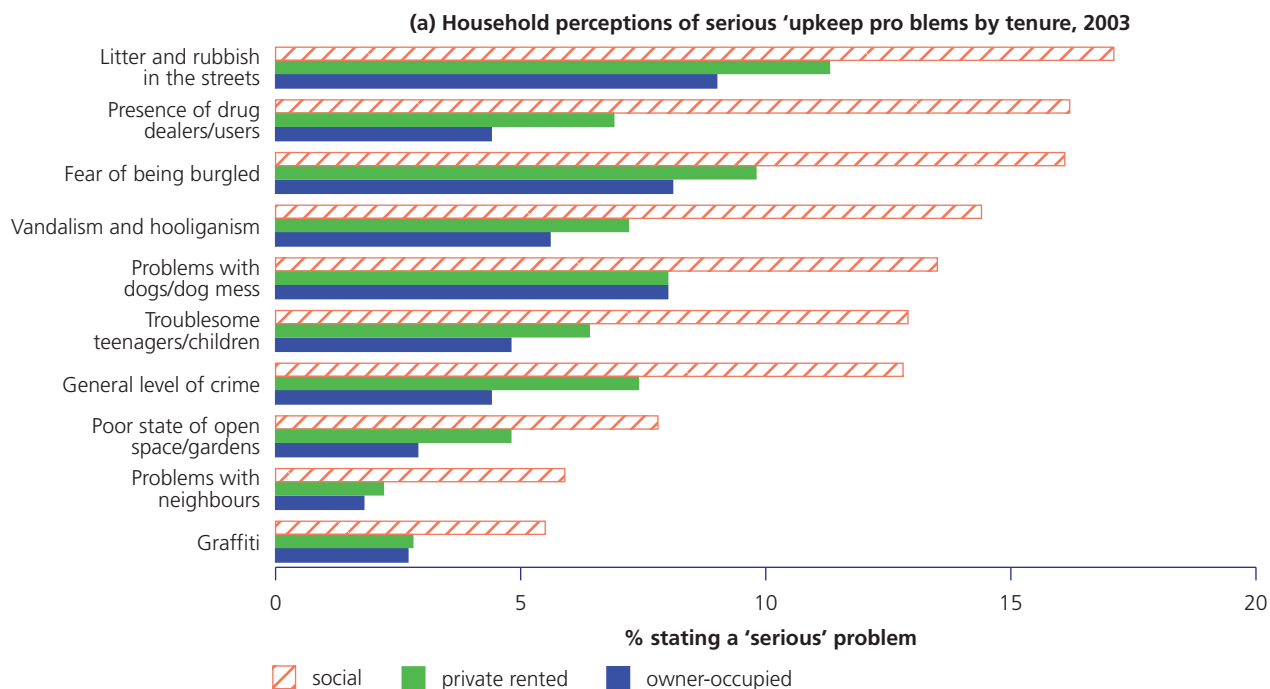


Source: EHCS combined samples 2002/3 to 2004/5 (mid-point Oct 2003).  
 Base: all social sector housing.

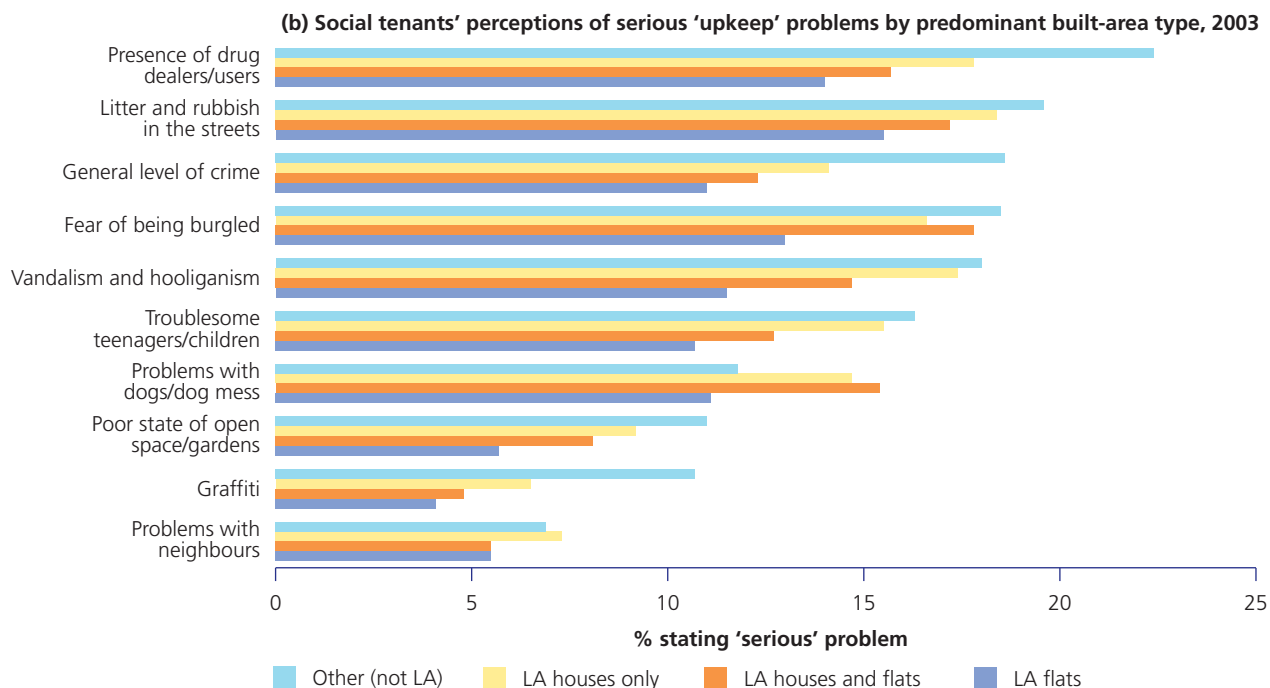


Source: EHCS combined samples 2002/3 to 2004/5 (mid-point Oct 2003).  
 Base: all social sector housing.

**Figure 9.7** Particular problems by tenure and area type



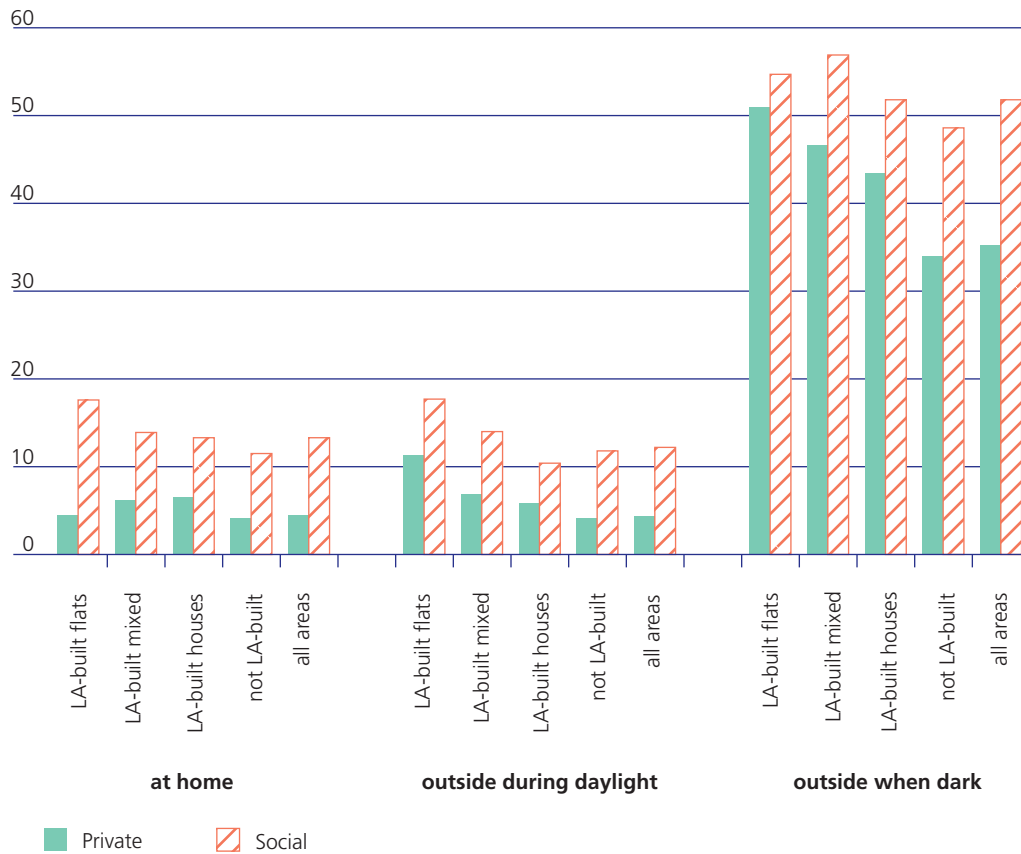
Source: English House Condition Survey 2002/03 to 2004/05 combined sample (Oct 2003 mid point).  
Base: all households.



Source: English House Condition Survey 2002/03 to 2004/05 combined sample (Oct 2003 mid point).  
Base: all social sector tenants.

These problems naturally feed – although do not entirely explain – feelings of insecurity.<sup>31</sup> Figure 9.8 compares the proportions of people who report that they feel unsafe if alone within their own home, outside during daylight, and outside when dark between social tenants and the private sector (owners and tenants combined) in different areas. Nationally, the proportions reporting these are 6 per cent, 6 per cent, and 38 per cent respectively. But across social housing more than 10 per cent feel unsafe alone at home or outside in the light, and more than 50 per cent outside their home in the dark. In each case, these proportions are higher for social tenants in areas originally built as council estates (except for council built estates of houses, where slightly fewer feel unsafe during the day). In flatted estate areas 18 per cent of social tenants feel insecure even at home or outside in daylight. Private households also feel more insecure in estate-built areas than elsewhere, particularly outside in the dark (and 11 per cent outside in daylight in flatted estates), but in each case the rates are lower than for social tenants, even within the same kind of area.

**Figure 9.8** Not feeling safe alone: by area and tenure, 2004 (%)



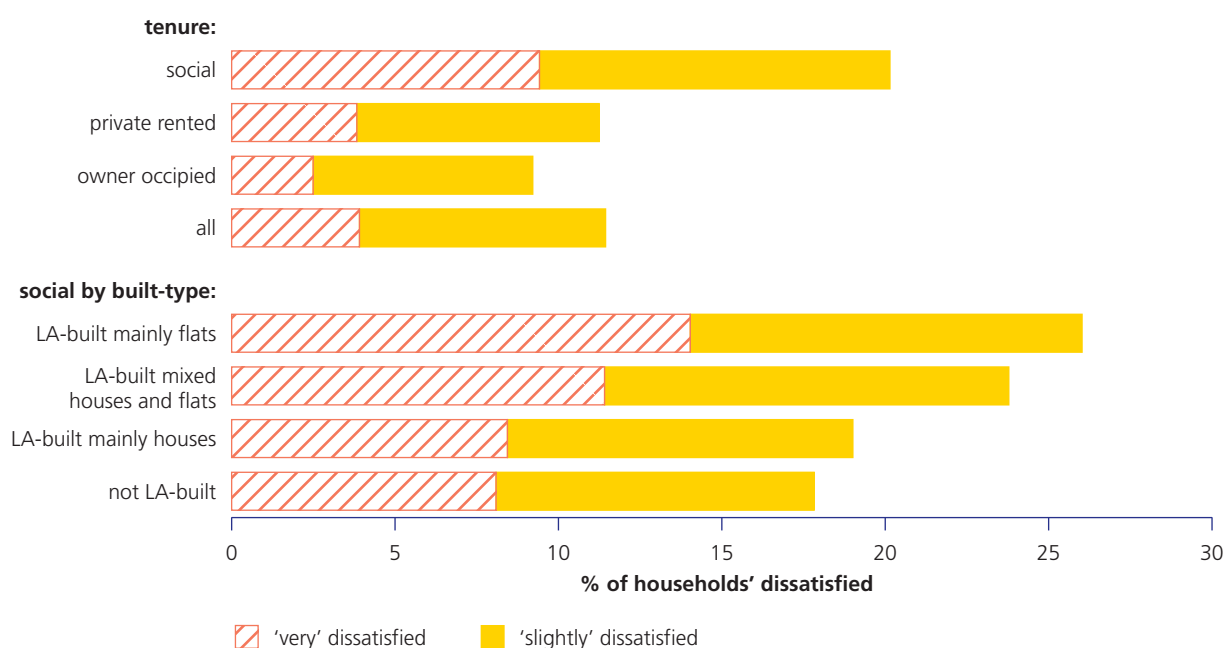
Source: EHCS 2004, all households.

<sup>31</sup> Other factors such as age are also important in feelings of insecurity. The fact that a greater proportion of social tenants are elderly (Figure 5.7) than of others will explain part of the greater feelings of insecurity within the tenure.



The problems also feed into dissatisfaction with the local area. As we saw in Figure 7.7, these rates are higher in the social than the private sector. Figure 9.9 breaks this down (using a different source, the 2004 English House Condition Survey, which allows people to say they are “slightly” dissatisfied, perhaps explaining a somewhat higher overall rate of dissatisfaction than shown in the earlier figure). Overall, a fifth of social tenants, but only 12 per cent of private ones and 8 per cent of owners emerge as dissatisfied with their neighbourhood on this basis. But this rises to more than a quarter of social tenants in flatted estate areas, with 14 per cent “very” dissatisfied.

**Figure 9.9** Dissatisfaction with neighbourhood, 2004



Source EHCS 2004

Note: The wording of this question is 'Overall, how satisfied or dissatisfied are you with your neighbourhood as a place to live?' The response categories included here are 'slightly' or 'very' dissatisfied.

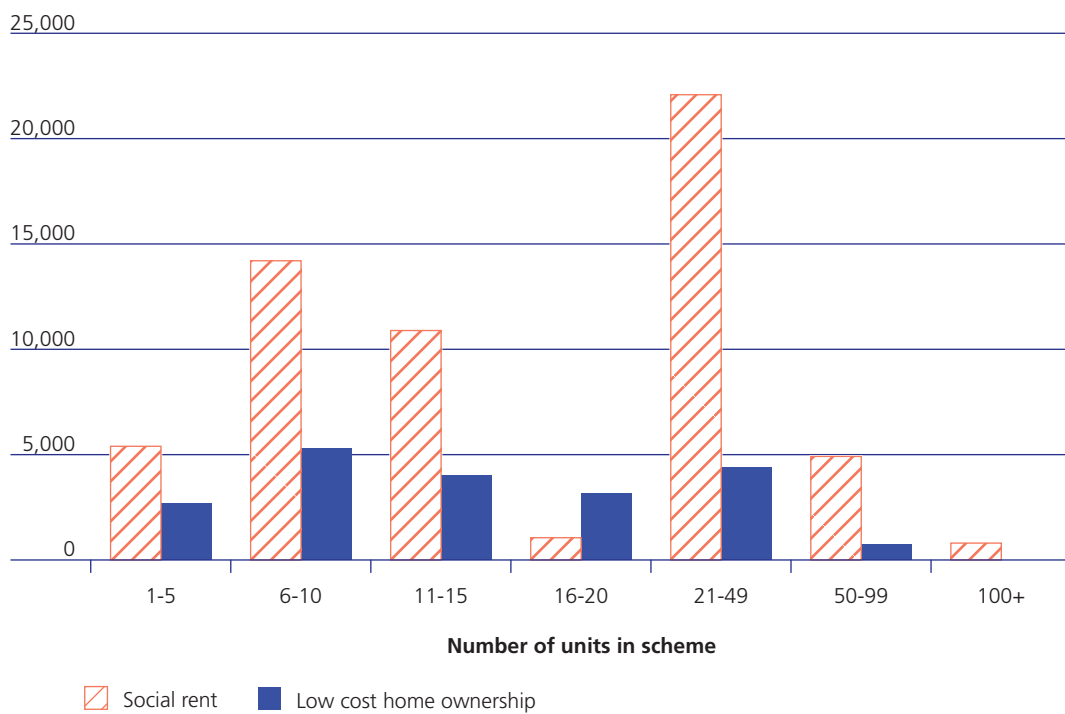
## New building

Aware of the geographical polarisation that has intensified since the 1970s, recent policy has been that new social housing should not be built in large mono-tenure estates, but instead should be part of mixed developments of one kind or another, and on a smaller scale. More than half of new housing association units built for rent between 2002-03 and 2005-06 were in schemes with 20 or fewer social units within them, and few – but still some – were in schemes with more than 50 or 100 units (Figure 9.10). One indication of *where* the units are being built is given by Figure 9.11, taken from new research by Glen Bramley and colleagues<sup>32</sup>, shows the percentage addition to the total local stock in different kinds of area (by deprivation) by the social and private sectors between 2000 and 2006. The building rate for private housing rises as one moves to more affluent areas, but the reverse is true for the

<sup>32</sup> G. Bramley *et al* (forthcoming) *Housing Investment and Neighbourhood Market Change*, York: Joseph Rowntree Foundation.

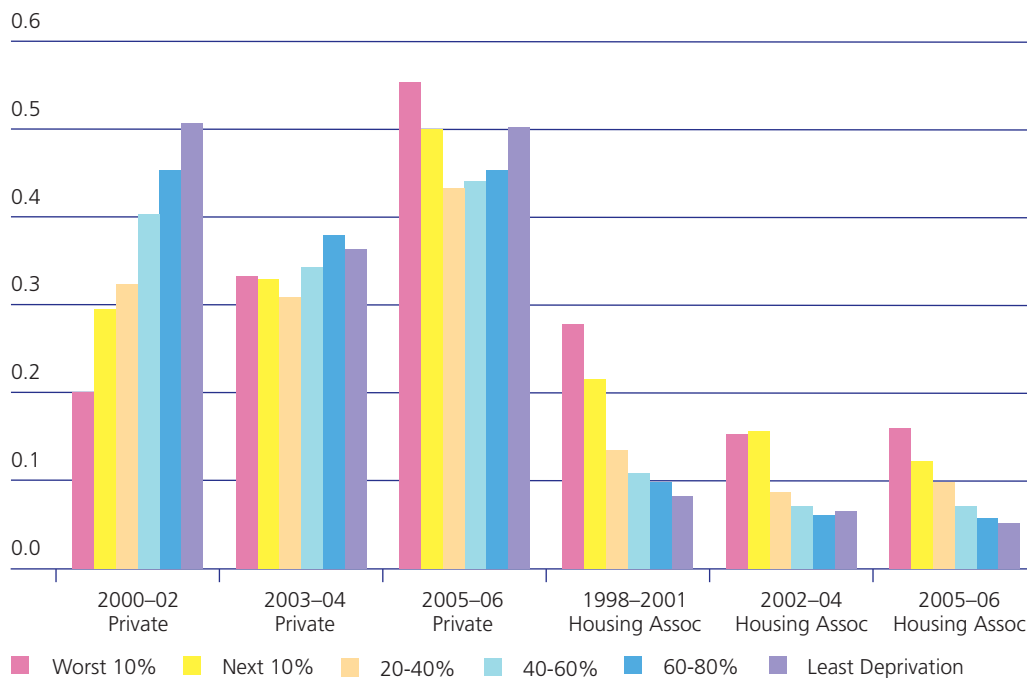
new social house-building, where the building rate has been fastest in the most deprived areas, although the skew has lessened somewhat over the period. Some of the disproportionate social sector building in deprived areas will reflect the large-scale remodelling of certain estates: what may *start* classified as a disadvantaged area before redevelopment in this classification, may end up much less deprived. What is clear, however, is that there is very little new social sector building occurring within the least deprived areas, where the private sector is building at about ten times the rate, despite interventions such as planning obligations, also known as “section 106” requirements (see Box 6.1). On the other hand, *private* building in the most recent period is *far* less skewed to less deprived areas than at the start of the decade. In these areas, the new output will be of much more mixed tenure than the existing stock.

**Figure 9.10** Total number of new build housing association units by scheme size, 2002-03 to 2005-06



Source: Investment Management System New Build data.

**Figure 9.11** New Build by sector, ward deprivation and time period (% of the total stock in each area type)



Source: G. Bramley, et al. (forthcoming): *Transforming places: housing investment and neighbourhood market change*, Joseph Rowntree Foundation.

## Summary

Social tenants are much more concentrated within the poorer parts of the income distribution than in the past. By 2004-05, 34 per cent of all social tenants were from the poorest fifth of the income distribution, and only 19 per cent from the top half. Two-thirds of social housing is still located within areas originally built as council estates. These originally housed those with a range of incomes, but now the income polarisation between tenures also shows up as polarisation between areas. Nearly half of all social housing is now located in the most deprived fifth of neighbourhoods, and this concentration appears to have increased since 1991. If ensuring that social tenants can live in mixed-income areas is a key potential advantage of social housing, we do not seem to be achieving it. Further, while new social housing developments are smaller in scale than in the past, new building of social housing is still disproportionately in the most deprived neighbourhoods (although in there is now much more private building within them). These areas are far more likely to suffer from problems than others, and for tenants to report neighbourhood problems. In the areas originally built as flatted council estates: more than a fifth of social tenants report the presence of drug users or dealers as a serious problem; nearly a fifth the general level of crime, fear of being burgled, vandalism and litter; and 18 per cent that they feel unsafe alone even at home or outside in daylight. One in seven social tenants in these areas say they are very dissatisfied with their neighbourhood.

## 10. SUPPORTING MOBILITY AND LIVELIHOODS?

### Employment trends

We have already seen (in Figure 5.4) the way in which full-time employment rates have collapsed amongst social tenants in the last quarter century, with fewer than half of social tenants of working age in employment in 2006, and only 35 per cent in full-time paid work. Table 10.1 shows the total numbers of social tenant householders in different categories, taken from the Labour Force Survey. Back in 1981, of 5.4 million tenant households, 2.3 million had a head in full-time paid work, with 0.2 million working part-time, and 1.6 million retired. 1.3 million had working-age heads who were unemployed or economically inactive. While the number classed as “unemployed” halved between 1996 and 2006, there was no such fall in other forms of economic inactivity.<sup>33</sup> In the latest figures for 2006, 1.3 million are unemployed or economically inactive, now more than the 1.2 million with paid work or the 1.2 million who are retired.

**Table 10.1 Employment trends 1981-2005: Employment circumstances of social rented sector household heads (000s)**

	Full-time work	Part-time work	Unemployed	Retired	Other inactive	Total
<b>1977-78</b>	2710	190	300		1990	5200
<b>1981</b>	2330	220	420	1550	870	5390
<b>1984</b>	1560	230	540	1350	1340	5020
<b>1988</b>	1220	270	470	1810	930	4710
<b>1991</b>	1120	220	430	1790	880	4440
<b>1996</b>	890	260	430	1590	1050	4220
<b>2000-01</b>	970	360	160		2620	4220
<b>2006</b>	810	350	210	1200	1080	3650

Source: *Labour Force Survey*, revised from table 5.5, S. Monk, et al., *The demand for social rented housing – a review of data services and supporting case study evidence* (Cambridge Centre for Housing and Planning Research, forthcoming).

Figure 10.1 shows the proportions of people of working age without paid work (including students) in each tenure across Great Britain in Spring 2006. Overall, 9.1 million people were workless, nearly a third of them within the social rented sector. The worklessness rate in social housing was nearly twice that in the private rented sector – 23 percentage points higher. As Section 5 has also described, the characteristics of tenants have also changed, with an increasing proportion with characteristics that are generally associated with a weak position in the labour market – high rates of disability or long-term sickness, lone parenthood, and of people from a minority ethnic background, for instance. So it is unsurprising that worklessness rates should be higher in social renting than elsewhere. But Figure 10.2 shows that where a social tenant is affected by one such disadvantage, their rate

<sup>33</sup> This reflects the national position over the period; see A. McKnight (2005), “Employment: tackling poverty through ‘work for those who can’” in J. Hills and K. Stewart (eds.), *A More Equal Society? New Labour, poverty, inequality and exclusion*, Bristol: The Policy Press.

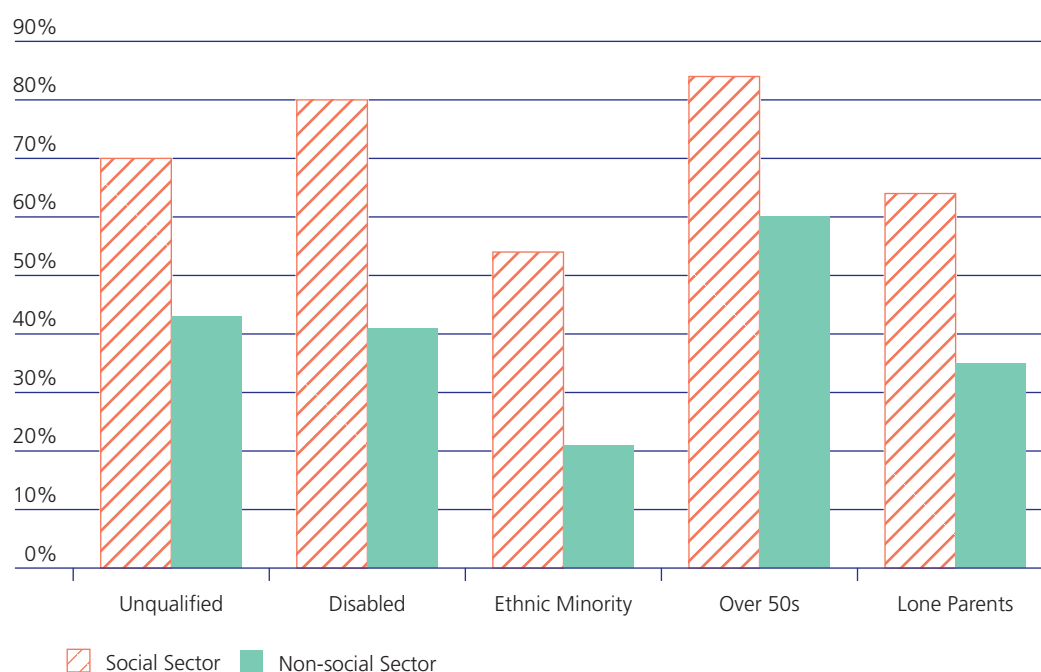
of worklessness is much higher than for those with the same disadvantage (although not necessarily to the same degree) who do not live in social housing. For instance, of those with no qualifications, 43 per cent are workless if they do not live in social housing, but 70 per cent of those living in social housing. 35 per cent of lone parents are workless outside social housing, but 64 per cent within it. For those with none of the specified labour market disadvantages, 13 per cent are workless outside social housing, but 29 per cent within it.

**Figure 10.1** Worklessness by tenure in Great Britain, Spring 2006



Source: Labour Force Survey, Spring 2006. Includes students.

**Figure 10.2** Worklessness by DWP public services agreement target group, Spring 2006

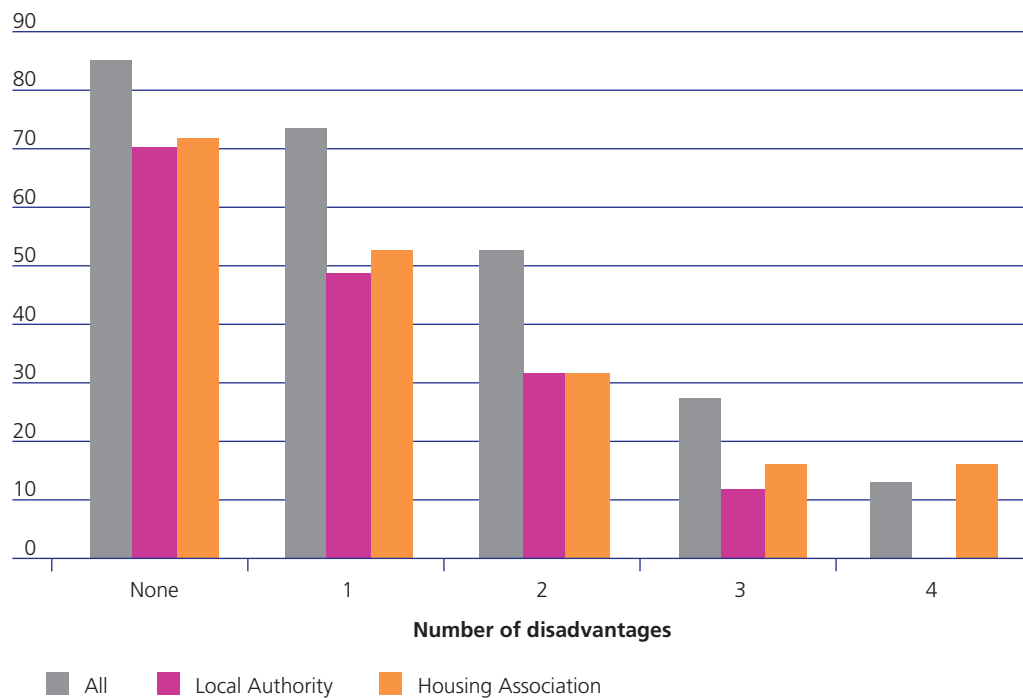


Source: Labour Force Survey.

Social tenants are more likely to have *overlapping* disadvantages in the labour market – 37 per cent have two or more disadvantages, compared to 29 per cent of owner-occupiers and 13 per cent of private tenants.<sup>34</sup> But for any given number of overlapping disadvantages, those in social housing have lower employment rates (Figure 10.3). For instance, for those with two of these overlapping disadvantages, the overall employment rate is 53 per cent, but for social tenants, it is less than a third.

<sup>34</sup> Using the same range of labour market disadvantages specified for the DWP's Public Service Agreement targets (except that the data here use "no qualifications" as the category, rather than "the lowest qualifications" as specified for the PSA target).

**Figure 10.3** Employment rate (%) of those with multiple disadvantages, Spring 2006



Source: Labour Force Survey.

These kinds of comparison are relatively crude. There are many other factors that affect people's position in the labour market, their degree will vary within each category, and interactions between them are very important. Forthcoming research from the Department for Work and Pensions suggests that even if one controls for a wide range of such factors,<sup>35</sup> the likelihood of someone in social housing being in employment is significantly lower than for those in the private rented and for those in owner-occupation<sup>36</sup>. There are several possible explanations. Importantly, what tenure one enters is a matter of selection: lenders will only give a mortgage to someone with good prospects of continuing ability to repay the loan. So unobserved characteristics linked to this will explain much of the better position of mortgagors. Similarly, some private landlords may screen out those they think will have difficulty paying rent. By contrast, the rationing system for social housing, screens *in* those with the greatest needs. Thus, even *within* each category, such as those with no qualifications, those in social housing may well be those with the greatest difficulties in the employment market. But the scale of these "unobserved" extra personal disadvantages, if they are the whole explanation, has to be very large – larger than the effect of being female, for instance, other things being equal. Whatever it is that is not being measured would have to have an impact on that sort of scale.

<sup>35</sup> Such as gender, ethnicity, family situation, region, age, caring responsibility, disability, years of education and qualifications.

<sup>36</sup> Forthcoming research by the Department for Work and Pensions.

But what is lacking from this sort of analysis is evidence of the *positive* effect on employment rates that the existence and security of sub-market rents should give social tenants through the reduced poverty trap that they face by comparison with private tenants (see Figure 11.1). This lack of evidence is disturbing given that this is a central justification for a system with sub-market rents, entailing the negative side-effects of rationing. There are several potential explanations, either for such an effect being masked, or for there actually being a negative employment effect of social housing *per se*, over and above that of the personal characteristics of tenants:

- First, while the positive incentive effect of subsidised rents may be there, tenants may be poorly aware of the impact this has on differences between income in and out of work, and may be fearful of the hassles and uncertainties of leaving out-of-work benefits, particularly as far as Housing Benefit is concerned. For owners with mortgages there is a different kind of effect: as they receive little help with their housing costs if they are out of work they will be under greater pressure to try to get work to keep up with their mortgage payments, but also will keep more of any earnings they get, as they are not subject to the means-tested withdrawal of Housing Benefit.
- Second, there may be factors connected with the way that we run social housing that have adverse effects on employment chances. The difficulties in moving within the sector may be one of these, and these are explored further below.
- Third, there may be “neighbourhood effects” on people’s employment chances, given the concentration of social housing in disadvantaged areas and on particular estates described in the previous section. These could operate through poor transport links to available work, through exclusion from the informal networks through which people often hear of available work as a result of high levels of local worklessness, or possibly through the peer group effect of there being fewer models of regular work participation than in other areas. Compounding this, if the quality of local schools is poor, this could reduce the chances of young people achieving higher levels of qualifications in the first place.
- Finally – and most controversially – the way in which social housing is provided for tenants may have negative effects. The potentially positive effect of providing housing for people with difficulties is that it gives the security that an important part of their lives – a roof over their and their family’s heads – is taken care of, allowing them to concentrate on other aspects of their lives, including possibly building a livelihood. But some argue that the effect goes the other way – if the state is expected to sort out someone’s housing, maybe that leads to an expectation that it will look after everything else too. While this is often asserted, it is hard to find evidence either way, although a large part of the population believes that such dependency effects do exist<sup>37</sup>.

Whichever of these explanations are the most important, we appear to be missing out on what could be one of the significant incentive advantages that provision of social housing at sub-market rents should provide.

<sup>37</sup> For instance, in the British Social Attitudes survey in 2000, half of the respondents agreed that “the welfare state makes people less willing to look after themselves”.



## Employment flows and mobility

One of the factors driving the high rate of worklessness in social housing is that once social tenants become out of work, they are less likely to return to work later on. Table 10.2, drawn from Tom Sefton's analysis of the British Household Panel Study, looks at the long run differences between tenures. It compares individuals' job status in 2004 with their position 10 years before, depending on their tenure then (the figures exclude those who die within the period). While only 1.7 per cent of all those who were employed in 1994 were unemployed ten years later, 4.1 per cent of social tenants were – *outflows* from employment were faster in the social sector. At the same time, while 30 per cent of all those starting unemployed and 29 per cent of those starting economically inactive (of working age) ended without work, the proportions for social tenants were much higher: 41 per cent and 44 per cent respectively – *inflows* into employment were slower in the social sector. By 2004, all of those originally aged 11-15 would be of working age. For this cohort, 7 per cent of the total were unemployed in 2004, but this rises to 19 per cent for those who had been growing up in social housing.

**Table 10.2 Changes in employment status by tenure in England, 1994-2004 (%)**

<i>Excluding deaths</i>	<i>Job status in 1994:</i>					<i>Total</i>
	<i>Aged 11-15</i>	<i>Employed</i>	<i>Unemployed</i>	<i>Other inactive (&lt;SPA)</i>	<i>Other inactive (&gt;SPA)</i>	
<b><i>Job status in 2004</i></b>						
<b>All tenures</b>						
employed	72.4	74.4	53.7	44.9	0.6	<b>57.6</b>
unemployed	7.2	1.7	9.4	1.9	0.0	<b>2.2</b>
other inactive (<SPA)	20.4	10.2	21.1	27.2	0.0	<b>12.9</b>
other inactive (>SPA)	0.0	13.8	15.8	26.0	99.4	<b>27.3</b>
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Owner-occupied</b>						
employed	76.0	74.4	58.0	47.3	0.2	<b>60.5</b>
unemployed	4.4	1.4	6.1	1.1	0.0	<b>1.5</b>
other inactive (<SPA)	19.7	10.2	15.9	22.3	0.0	<b>11.6</b>
other inactive (>SPA)	0.0	14.1	19.9	29.3	99.8	<b>26.5</b>
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Social rented</b>						
employed	59.0	70.2	47.6	32.3	1.5	<b>40.8</b>
unemployed	18.5	4.1	15.2	4.0	0.0	<b>5.3</b>
other inactive (<SPA)	22.5	9.8	25.8	40.2	0.0	<b>18.0</b>
other inactive (>SPA)	0.0	15.9	11.4	23.4	98.5	<b>35.9</b>
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: T. Sefton (forthcoming) *Using the British Household Panel Survey to explore changes in housing tenure in England*, table 10.b, Centre for Analysis of Social Exclusion, LSE.

Note: Based on sample of 5,665 individuals aged 11+ (including 4,359 owner-occupiers and 875 social sector tenants) with non-missing tenure and employment status in waves 4 and 14. The sample of private sector tenants by employment status was too small to carry out the same analysis for this tenure. Weights used are cross-sectional enumerated weights for wave 4.

Table 10.3 gives a clue towards one of the factors that may be linked to these flows. It also uses BHPS data (across fourteen waves of data from 1991 to 2004) to look at the link between moving out of or remaining in unemployment over a three year period and residential mobility. Looking specifically at those who were unemployed in one year, but were in work three years later, 80 per cent of social tenants and 87 per cent of owners did this without moving home, but only half of the private tenants who found work remained in the same property. Overall nearly 3 per cent of all such job-finders moved region but stayed within the same tenure while doing so, and 9 per cent of private tenants, but a mere 0.5 per cent of the social tenants who had found work did so while moving region and remaining as social tenants.

**Table 10.3 House moves among job finders, all unemployed individuals, and all individuals in England, 1991-2004 (%)**

	Owner-occupied	Social rented	Private rented	Total
<b>Unemployed in year t and employed in year t+3</b>				
Same property	86.7	79.9	50.1	81.3
Same tenure, same region	6.0	12.8	11.2	8.2
Different tenure same region	2.9	4.9	26.3	5.8
Same tenure, different region	2.5	0.5	9.3	2.7
Different tenure, different region	1.8	2.0	3.0	2.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Unemployed in year t and in year t+3</b>				
Same property	89.3	82.9	59.4	83.6
Same tenure, same region	5.4	12.9	13.7	9.5
Different tenure same region	3.7	3.0	20.4	5.0
Same tenure, different region	1.0	0.5	4.1	1.1
Different tenure, different region	0.6	0.8	2.4	0.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>All individuals in year t</b>				
Same property	92.5	88.7	59.0	89.8
Same tenure, same region	4.9	7.2	9.4	5.6
Different tenure same region	0.9	3.0	20.2	2.4
Same tenure, different region	1.2	0.3	4.5	1.2
Different tenure, different region	0.5	0.7	6.9	0.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

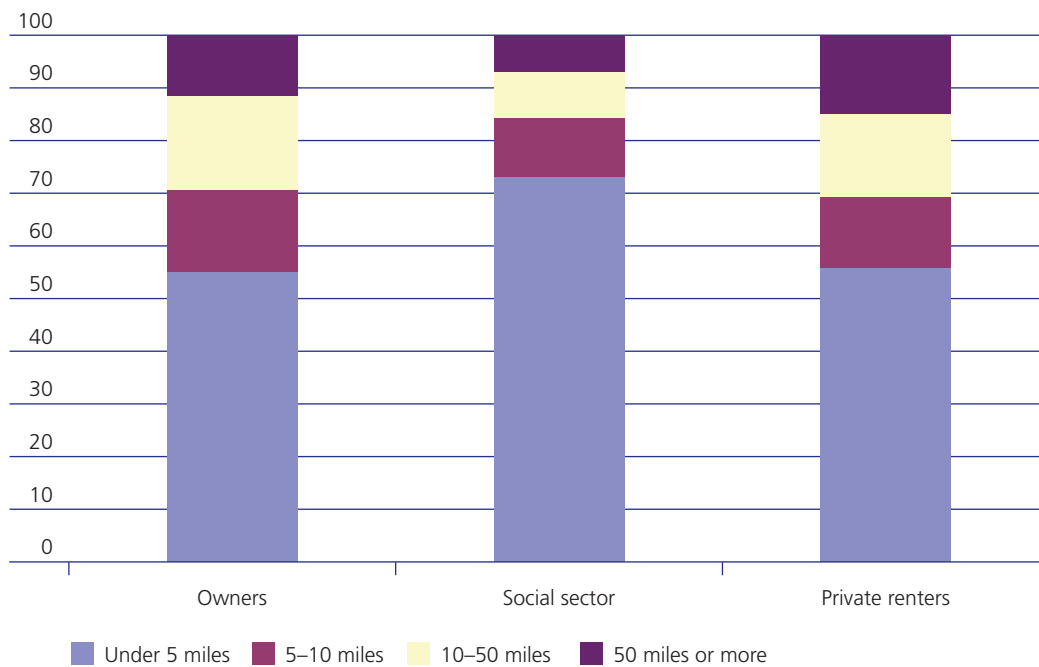
Source: T. Sefton (forthcoming) *Using the British Household Panel Survey to explore changes in housing tenure in England*, table 10.2, Centre for Analysis of Social Exclusion, LSE.

Note: Based on pooled sample of 82,632 individuals with non-missing tenure and employment status in waves 1-11, including 778 individuals who were unemployed in year t and employed in year t+3, 1,385 individuals who were unemployed in year t and in year t+3.

The rationing system within social housing makes it very hard to move home, but particularly between regions (the mobility schemes described in Box 10.1 affect very limited numbers),

and job-seeking or getting a job is rarely given high priority in local authority criteria for social housing allocations (Box 2.1). This can be seen in the limited distances that social tenants do travel if they move house. Figure 10.4 shows that of those who had moved in the previous year in 2005-06, 70 per cent of the social tenants had moved less than 5 miles, compared to only 55 per cent of owners and private tenants. Only 7 per cent of social tenants who moved had moved more than 50 miles, compared to 15 per cent of private tenants.

**Figure 10.4** Distance moved by tenure (% in each range)



Source: Survey of English Housing.

### Box 10.1 Mobility schemes

Several mobility schemes aim to help social tenants to move between areas, providing tenants with government-funded information and support to do so. The three current schemes are: the Seaside and Countryside Home Scheme; the HOMES Mobility Scheme; and the LAWN mobility scheme.<sup>1</sup> Numbers moving under these schemes have fallen in recent years to under 2,000, or less than 0.05 per cent of all social tenants, in 2005-06.

#### The LAWN Mobility Scheme

This is open to people living in London who are in social housing or temporary accommodation or who are homeless. The scheme helps these groups to move to lower demand areas mainly in the North (the North East, North West and Yorkshire and Humber) and in the Midlands. It assists these movers by arranging and paying for them to visit areas they are thinking of moving to and to cover the costs of moving if participants go ahead with the move. Support is also given to help participants find work, training, schools, etc., once they move (not all local authorities participate in this scheme).

**Box 10.1 Mobility schemes (continued)****The HOMES Mobility Scheme**

This scheme assists social housing tenants to move, provided that they need to move for one of three reasons: to take up employment in an area too far away for daily travel; to give or receive support to or from sick or elderly relatives (or sometimes friends); or for medical, health or other pressing reasons, such as fleeing domestic or other violence or harassment.

**The Seaside and Country Homes Scheme**

This scheme is aimed at older social housing tenants (age 60+) living in London and helps them to move to smaller properties in lower demand areas in rural or seaside areas. It has about 3,200 flats and bungalows from Cornwall to Norfolk and in the Midlands and Lincolnshire with on average 250 vacancies a year. These units are allocated on a points basis, with people allocated points if their move will release a property in London and if they are living in an “under-occupied” home.

**Total numbers of moves nationally under each scheme:**

	2003-04	2004-05	2005-06
Seaside & Country Homes	211	190	97
LAWN	515	390	368
Homes Mobility Scheme	5,880	1,445	1,478

**Homeswap Scheme**

Additionally mobility moves are enabled through participation in the Homeswap Scheme (also known as mutual exchange). This scheme facilitates the “swapping” of social housing lets across areas. The interest in this scheme is very high with some 60,000 households seeking to swap. Its success depends on there being suitable “matches” in preferred locations. There are on average 2,000 recorded Homeswap exchanges each year.

<sup>1</sup> In May 2004 the Government contracted Scout Solutions Projects Limited (SSPL) to deliver a new website, to be known as moveUK, providing access to existing mobility schemes and a link to the Jobcentre Plus Internet Job Bank. In September 2006 the Government announced that it was terminating this agreement because of serious concerns about the performance and fitness for purpose of the software developed by SSPL.

And when social tenants do move, it is seldom for job-related reasons. Table 10.4 looks at the reasons given in 2005-06 for moving house in the last year. The first column shows the reasons given by all movers. Of these, 12 per cent gave change of job or being nearer to their job as the main reason for moving. The next three columns give reasons for moving by those ending in each tenure. Only 4 per cent of the movers who remained in or came to social renting had moved (including locally) for job-related reasons. The final three columns show the reason for moving for those who had *started* in social renting. Only 3 per cent of those who managed to move *within* social housing – around 5,000-6,000 households nationally out of approaching 4 million social tenants<sup>38</sup> – had done so for job-related reasons. However, 10 per cent of the moves *from* social renting to private renting were associated with work – again, around 6,000 moves. In summary, the figures suggest that if social tenants do want to move for job-related reasons, it is very hard indeed to do so while remaining within the sector: if they did have to move for work, most could have to leave social renting, sacrificing the advantage of low rents, and move into private renting. The resultant pattern of job-related mobility is very slow – contrasting with the one in eight moves overall that are for job-related reasons.

**Table 10.4 Reasons for mobility 2005-06**

**Main reasons for moving: households resident less than a year, (continuing householders) (%)**

	Destination sector				Social rented sector to	
	All	Owner-occupied	Social renting	Private renting	Social renting	Private renting
Different size accommodation	23	28	27	18	31	12
Personal reasons	21	18	22	21	23	25
To move to a better area	12	18	8	9	10	20
Change of job/nearer to job	12	8	4	18	3	10
Accommodation no longer available	6	1	9	9	5	5
Wanted to buy	5	14	0	0	0	0
Couldn't afford mortgage or rent	1	1	1	1	0	0
To live independently	4	4	4	5	3	11
Better school for children	1	1	0	1	0	0
Other	14	8	23	17	25	17
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total (000s)</b>	<b>1636</b>	<b>604</b>	<b>277</b>	<b>754</b>	<b>185</b>	<b>46</b>

Source: Survey of English Housing.

Note: The number of interviewed households who had moved home from the social rented sector into owner occupation was very small (about 10). It was therefore not possible to provide a reliable breakdown of their reasons for moving.

<sup>38</sup> The figures in 2004-05 were even lower – around 2,000 such moves (the precise estimates are affected by the very small sample sizes involved for such a small proportion of tenants).

## Longer-term outcomes

As previous sections have shown, and as a result of the way in which access to social housing operates, living in social housing is strongly associated with current disadvantage in a number of dimensions. But it is also associated with later disadvantage. Data from the “birth cohort studies”, that have followed people who were born in particular weeks in 1958 and 1990, allow us to look at the associations between growing up in social housing, other childhood circumstances, and people’s positions in adulthood. There are powerful associations between certain childhood circumstances and later outcomes. One has to be very careful about ascribing *causality* to any particular factor, but if one can control for a wide range of factors, it does begin to suggest that the remaining associations are linked either to that factor or to something closely related to it.

For instance, John Hobcraft and Wendy Sigle-Rushton have looked at different aspects of childhood disadvantage and adverse adult outcomes. For the cohort born in 1958, of nineteen adverse adult outcomes, 15 were associated with low test scores when children were aged 7, 11 and 16<sup>39</sup>. Growing up in social housing was significantly associated (over and above the influence of the other kinds of disadvantage) with 4 of these adverse later outcomes. This made it an important predictor of later disadvantages, but nine other factors (such as childhood poverty, parental interest in schooling, family type or contact with police) were associated with more of them. For those born in 1970, however, growing up in social housing (again after allowing for the influence of other factors) was associated with 12 (out of 33) unfavourable outcomes at the age of 30. Of other markers of childhood disadvantage, only low test scores in childhood were now associated with a greater number (27) of unfavourable outcomes. As Sigle-Rushton puts it,

“... there is a pervasive link between our adult outcomes and housing tenure. ... childhood housing tenure is associated with all the demographic outcomes, all of the labour-market related outcomes, and all but one of the needs-related economic outcomes. ... Only test scores are more frequently associated with outcomes”<sup>40</sup>.

What makes this increasing association so striking is that much of the relevant childhoods *predate* the residualisation of social housing after 1979. And where there is an association between social housing for the 1970 cohort and later disadvantage, it is with greatly increased chances of problems. For instance, depending on whether men or women are examined, growing up in social housing is associated with 1.9-2.1 times the chances of ending up with no qualifications by the age of 30 compared to those growing up mainly in owner-occupation, 1.5-1.7 times the chances of low earnings, and 1.9-2.2 times the chances of being unemployed. This association is *over and above* other factors that are also found to be most significant in explaining each disadvantage.<sup>41</sup>

<sup>39</sup> J. Hobcraft (2002) “Social Exclusion and the generations” in J. Hills, J. Le Grand and D. Piachaud (eds), *Understanding Social Exclusion*, Oxford: Oxford University Press, table 5.3.

<sup>40</sup> W. Sigle-Rushton (2004), *Intergenerational and Life-Course Transmission of Social Exclusion in the 1970 British Cohort Study*, CASE Paper 78, p. 86.

<sup>41</sup> W. Sigle-Rushton (2004), table 10. For instance, in the models quoted explaining no qualifications, childhood income poverty, father-figure’s social class, mother’s interest in schooling, restlessness and anxiety and test scores in childhood are also retained as explanatory factors.

Again, one has to be very careful about assuming that it is social housing in itself (such as its location or the way that it is run) that is *causing* the later problems – it may be other unobserved factors that are doing so (or indeed a combination of others that are individually less significant). To take one example, social housing is, as we have seen, heavily concentrated in deprived areas. In Ruth Lupton’s doctoral research<sup>42</sup> she found that within 12 (generally disadvantaged) Local Education Authority areas containing 337 schools, school quality, as assessed by OFSTED, was negatively associated with the percentage of social housing in the relevant ward. In other words, children growing up in social housing were more likely to attend lower quality schools. However, it was the overall disadvantage of the neighbourhoods that was the important driving factor, rather than tenure in itself. Factors such as the lower quality of local schools may well be an important part of the chain linking growing up in social housing with later disadvantage, but the appropriate policy response may well be to do with improving the quality of schools in poor areas in general and with reducing the concentration of social housing in poor neighbourhoods, rather than to do with social housing in itself.

## Summary

By Spring 2006 more than half of those of working age living in social housing were without paid work, twice the national rate. Some of this is unsurprising given the labour market disadvantages of many social tenants, such as lack of qualifications or disability. However, this does not appear to be the only explanation: employment rates of those living in social housing with particular disadvantages or with multiple disadvantages are substantially lower than those of people with similar disadvantages but living in other tenures. Even controlling for a very wide range of personal characteristics, the likelihood of someone in social housing being employed appears significantly lower than those in other tenures. There is no sign of a *positive* impact on employment of the kind that the better incentives that sub-market rents might be expected to give. Potential explanations of this include: the way those with the greatest needs even within any category are screened *into* social housing, but *out* of other tenures; particular fears about loss of benefits on moving into work within the social sector; the location of social housing and “neighbourhood” effects from its concentration in deprived areas; possible “dependency” effects of welfare provision; and the difficulty of moving home to get a job once someone is a social tenant. There is no evidence on the relative importance of these factors, but the rate of employment-related mobility within social housing is strikingly low. Nationally, one in eight moves is associated with work, but only a few thousand social tenants each year move home for job-related reasons while remaining as social tenants (even within the same area), out of a total of nearly four million.

<sup>42</sup> R. Lupton (2005), “Social justice and school improvement: Improving the quality of schooling in the poorest neighbourhoods”, *British Educational Research Journal* 35 (5); R. Lupton (2006), “How does place affect education?” in S. Delorenzi (ed.), *Going Places: Neighbourhood, ethnicity and social mobility*, London: IPPR.

## 11. ALTERNATIVE FORMS OF SUPPORT

### Cash benefits and tax credits

The simplest way to help people with low incomes is, as discussed in Section 2, with cash which they then choose to spend in the ways that suit them best. This can be done through cash benefits paid to people in particular circumstances (such as those with children or with particular levels of disability), to those with incomes below a certain level, as with Income Support or the Guarantee Credit for pensioners), or to those who meet other conditions (such as reaching a certain age and have a satisfactory “contribution” record in the case of the state pension). In the UK some similar objectives are now met through the “tax credit” system, such as the payments low-income families with children receive whether in or out of work through the Child Tax Credit.

In total, the scale of these transfers is far larger than specifically housing-related support. The total UK social security bill for 2006-07 is planned to be around £133 billion, and the cost of the Child and Working Tax Credits (before offsetting them against tax due) a further £14 billion.<sup>43</sup> However, these transfers perform a wide variety of functions, many of them not specifically focussed on ensuring people have resources to meet basic needs. To set the scale of the specific housing-related support in context, Table 11.1 shows selected benefits paid on the basis of recipients having low income in England in 2000-01 and 2006-07. Spending on Pension Credit, for low income pensioners, is forecast to be £6.0 billion in 2006-07, income-related Jobseeker’s Allowance (for unemployed people) £1.5 billion, and Income Support (for others with low incomes), £6.6 billion. The amounts spent on these “untied” means-tested transfers are in total only slightly greater than those spent on the specifically housing-cost related means-tested transfer, Housing Benefit (and less than the total of Housing Benefit and Council Tax Benefit).

**Table 11.1 Selected social security spending, England, 2000-01 and 2006-07, £ billion (2006-07 prices)**

	2000-01 (outturn)	2006-07 (forecast)
Pension Credit	4.0	6.0
Income Support	8.7	6.6
Jobseeker’s Allowance (Income Based)	2.4	1.5
Housing Benefit	11.1	12.7
Council Tax Benefit	2.5	3.4

Source: Communities and Local Government/DWP.

The maximum size of payments such as Income Support to individual households depends on their composition, but is fixed nationally. Table 11.2 gives, again for comparison with housing support, the maximum payments to particular households in 2006-07. For larger households, the amounts can approach £200 per week (or more for those with more children or particular additional needs), but for a single adult aged under 25, the amount for costs other

<sup>43</sup> HM Treasury (2006) *Public Expenditure Statistical Analyses 2006*, table 1.1.



than housing is currently £45.50 per week. Payments via Housing Benefit for private rents or the combination of Housing Benefit and economic subsidy to social tenants can exceed these amounts. As we saw above, private rents averaged £120 per week across England in 2005, and £180 per week in London (figure 8.2). Social rents averaged £55-60 per week in England and £70-75 in London (figures 8.3 and 8.5), and the economic subsidy these rents entailed was around £30-35 nationally and £70-80 in London (see Table 6.4). Given that rents – particularly in the social sector – vary less than in proportion to household size, these figures mean that the value of housing benefits and subsidies can be far larger than other cash benefits, particularly for smaller households or those in London and the South East.

**Table 11.2 Maximum values of social security benefits, 2006-07**

	£/week
<b>Guarantee Credit</b>	
Single	114.05
Couple	174.05
<b>Income Support/income-related JSA<sup>1</sup></b>	
Single person (18-24)	45.50
Single person (25 or over)	57.45
Couple (over 18)	90.10
Lone parent with 1 child (aged 1 or over)	107.33
Couple with 2 children (aged 1 or over)	197.51

Note 1. Including Child Tax Credit and Child Benefit where applicable.

## Housing Benefit

The amounts people actually receive through Housing Benefit depend on their circumstances and the kinds of property they occupy (see Box 11.1). Households with higher incomes receive less support – benefit is “tapered” away at a rate of 65 pence in the pound of any income above a threshold. Larger households have potentially greater entitlements as a result of the way this calculation works. For private tenants, the limits applied to the amount of rent that is eligible for benefit also depend on household size. The actual amounts of benefit received are therefore often less than 100 per cent of someone’s rent. Table 11.3 shows total spending on Housing Benefit by sector between 1996-97 and 2004-05 (see Figure 6.1 above for more detailed changes from year to year), and the total number of recipients, while Table 11.4 shows the average level of benefit per household receiving it.

Over this period total spending on Housing Benefit fell slightly in real terms, to just under £12 billion (in 2006-07 prices). This resulted from a fall in spending within the private sector between 1996-97 and 2000-01. Aggregate spending in the social sector rose slightly, to £8.8 billion, but with a rising proportion going to housing association tenants (reflecting the large-scale stock transfers from local authorities). By 2004-05, 720,000 private tenants were receiving the benefit, down from one million in 1996-97. However 2.75 million social tenants, down from 3.16 million but still more than two-thirds of the total, received it in 2004-05.

**Table 11.3 Housing Benefit spending and recipients 1996-97 to 2004-05**

	Private rented sector	Housing associations	Local authorities	Total
<b>Spending (£ billion, 2006-07 prices)</b>				
1996-97	4.0	2.6	5.9	12.5
2000-01	3.0	3.2	5.0	11.2
2004-05	3.2	4.2	4.6	11.9
<b>Recipients (000s)</b>				
1996-97	1023	780	2383	4186
2000-01	776	940	1935	3651
2004-05	721	1215	1535	3471

Source: DWP. Spending figures adjusted by GDP deflator.

**Table 11.4 Housing Benefit spending by region, 2004-05 (2006-07 prices)**

	Total spending (£ million)			Spending per recipient (£ per week)		
	Private rented sector	Housing association	Local authority	Private rented sector	Housing association	Local authority
<b>Greater London</b>	910	1090	1550	131	94	84
<b>South East</b>	520	640	400	93	70	59
<b>East</b>	250	350	370	81	64	54
<b>South West</b>	330	340	250	76	61	51
<b>West Midlands</b>	230	450	420	70	57	50
<b>North West</b>	410	660	510	66	57	48
<b>Yorkshire &amp; the Humber</b>	230	270	470	62	58	44
<b>East Midlands</b>	150	200	330	61	58	46
<b>North East</b>	130	220	280	60	54	44
<b>England</b>	<b>3150</b>	<b>4220</b>	<b>4570</b>	<b>78</b>	<b>64</b>	<b>53</b>

Source: DWP. Figures adjusted by GDP deflator to 2006-07 prices.

### Box 11.1 How Housing Benefit works

The current Housing Benefit rules were set in 1988. Housing Benefit replaced what had originally been known as “rent rebates” for council tenants and “rent allowances” for private tenants. It is run by local authorities for all tenants. It does not cover mortgage payments. The amount of benefit paid depends on a number of factors including:

- household income – above a threshold benefit is reduced by 65 per cent of any higher net income (the “taper”);
- savings – those with over £16,000 in savings generally cannot claim, and the amount of benefit is affected if savings held exceed £6,000 (or £10,000 for people living in care homes);
- the number of dependants;
- the amount of rent paid (subject to restrictions as outlined below).

Housing Benefit is not paid for meals, fuel, or certain service charges that may be included in the rent. Deductions are also made for most non-dependants who live in the same accommodation as the claimant on the assumption that they are assisting with the rent (the amount deducted depends on the non-dependants’ circumstances).

Independent rent officers monitor the local rental market and determine how much rent Housing Benefit will cover for private sector tenants by applying various restrictions to determine what is “reasonable” in the area for the size of property the tenant is considered to need for their family. This includes the “local reference rent”, which is based on the mid-point between highest and lowest rents for similar properties in the area. Although local reference rents apply on a case-by-case basis, the table below gives an indication of typical local reference rents (£ per week) for different areas in December 2005. So for many private sector tenants, the maximum level of benefit is determined by the rent officers’ calculations and can then be reduced to take account of income, capital or non-dependants.

For housing association tenants, authorities would only refer a case to the rent officer if they considered the rent unreasonably expensive or the property unnecessarily large. Tenants of council-owned properties never have their rent referred to the rent officer. These groups of tenants will therefore have their rent met in full in many cases, although their final award may be less than their full rent because adjustments for income, capital or non-dependants.

Housing Benefit can also cover all the rent for people in Temporary Accommodation – although the local authority will only receive full subsidy up to a “threshold”, and partial subsidy up to a “cap”. The thresholds and caps vary according to local authority with the highest in London (where the average threshold and cap for the region is £224 and £439 respectively) and the lowest in the North East (where the average threshold and cap for the region is £99 and £174).

**Box 11.1 How Housing Benefit works (continued)**

Housing Benefit is a very responsive benefit, which adjusts to all changes in circumstance, however small. As a result, claimants should inform their council of all changes in their circumstances that might affect their Housing Benefit, for example changes in the rent or in their income or capital. Any failure to report a change of circumstance could lead to overpayments which would have to be recovered.

**Single Room Rent**

Under the Single Room Rent system, Housing Benefit for single people under 25 is set on the assumption that they could live in shared accommodation, with shared use of WC, kitchen, bathroom and living room, regardless of the type of accommodation in which the young person actually lives. In practice this means that anyone under 25 and reliant on Housing Benefit who chooses to live in a self contained bed-sit or one bedroom flat will find their benefit will not cover the costs of their rent, and there will be a shortfall between the two.

**Local Housing Allowance**

In 2003 a new system was introduced in nine pathfinder local authorities (with a further nine authorities joining in 2005), which introduced local housing allowances as the basis for Housing Benefit for private tenants. In these areas benefit is calculated using fixed allowances based on private rents in the area for different property sizes, rather than the actual rent on the property. In the majority of cases, this is paid to the claimant (rather than the landlord), subject to certain safeguards for vulnerable tenants. If the tenant finds accommodation cheaper than the LHA rate, they can keep any excess. A version of this system will be rolled out nationally (see Section 14).

Area	Locality	Typical Local Reference Rents (£/week) in the following categories (number of habitable rooms – i.e. bedrooms and living rooms)					
		Self-contained accommodation	2 rooms	3 rooms	4 rooms	5 rooms	6 rooms
North East	Newcastle	53.50	80.50	109.00	116.50	128.00	147.50
North West	South Lakes	62.50	85.00	105.00	115.00	130.00	142.50
Yorkshire	York	82.00	109.00	132.50	137.00	162.50	180.00
West Midlands	Birmingham	67.50	92.31	112.50	120.58	126.35	138.46
East Midlands	Nottingham	62.50	95.19	103.85	109.62	126.92	150.00
East	Norwich	77.31	98.08	121.15	132.69	144.23	175.96
London	London Centre	180.00	290.00	380.00	500.00	600.00	650.00
South East	Brighton and Hove	102.69	133.50	171.00	208.00	236.50	285.00

As one might expect given rent variations and stock levels, a high proportion of Housing Benefit spending is within London and the South East – £5.1 billion in 2004-05, 43 per cent of the total (an unchanged real amount, but up from 41 per cent of the total in 1996-97). As Table 11.4 shows, average receipts varied from £44 per week for council tenants in the North East to £131 per week for private tenants in London. Note that in London, average amounts per tenant in the social sector *exceed* average rents across the tenure. This may partly be due to tenants in larger families and accommodation being likely to claim, but it also reflects the way in which Housing Benefit for temporary accommodation leased by local authorities from the private sector, sometimes at very high rents, is included within the total for the social sector. More than a tenth, £500 million, of local authority Housing Benefit in 2004-05 represented such payments for temporary accommodation (see Figure 11.2 below).

These variations matter not just for the flow of housing support going to each region and sector, but also for one of the inherent drawbacks of Housing Benefit – its effect on the “poverty trap”. The higher the rent on which one can claim Housing Benefit, the wider the income range over which it is withdrawn, and so the greater the level of earnings that low-income households would need to end up better off by a specific amount beyond the immediate gain from any work. The interaction between earnings, housing benefits, tax credits and net income is complex – indeed, one of the barriers to tenants working is clearly lack of understanding of how this interaction works, and therefore what their net incomes would be if they were in work, rather than out of work.<sup>44</sup> Purely financial incentives are not the only factor in whether people seek work or not, of course.

Figure 11.1 gives a stylised example of how this interaction works, showing net incomes (after housing costs) corresponding to different levels of earnings for two household types, a couple with two children and a lone parent with a single child. The lines in the two panels show the net incomes they would be left with depending on whether their rent was £60 per week (a fairly typical social rent), £120 per week (a typical private rent) or £180 per week (a typical private rent in London). For comparison, the net income after rent is shown for a household receiving Income Support (which would be the same regardless of rent level, assuming that it was all eligible for Housing Benefit). This comparison shows that:

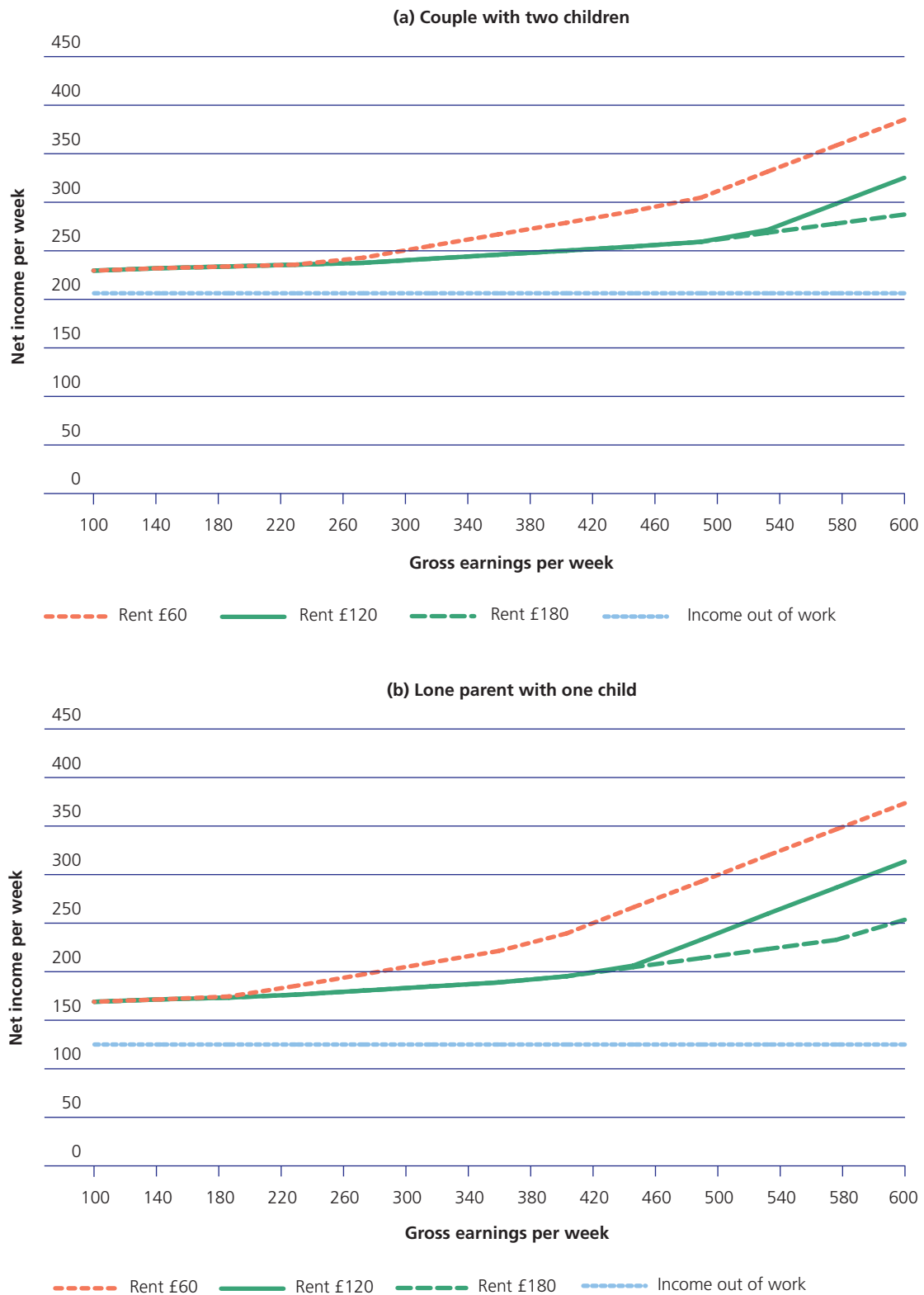
- In all cases there is a gain from *some* work. For instance, if gross earnings were £100 per week, the couple would be £23 per week better off than on Income Support, and the lone parent £45 better off (before allowing for costs such as transport and child-care, however).
- For all cases there is a zone where the gain from *additional* gross earnings is very low. For instance, if rent is £60 per week this zone extends up to gross earnings of £230 for the couple, or £170 for the lone parent. In this range net income increases only by about 5 per cent of any increase in gross earnings.

<sup>44</sup> See, for instance, C. Turley and A. Thomas, DWP Research Report 383, *Housing Benefit and Council Tax Benefit as in-work benefits*, 2006.

- This zone is wider, the higher rents are. For instance if rent were £120 per week, it extends to gross earnings of £490 per week for the couple or £416 per week for the lone parent, that is, towards average earnings. For higher rents it extends beyond average earnings.
- For someone receiving Housing Benefit, for *small* earnings changes, the net return to work is not affected by their rent – but rent levels make a big difference to whether they can jump beyond this point and come off the Housing Benefit “taper”.

As a result, the incentive to work *at all* is not much affected by rent levels. However, the incentive to earn *more* or go into higher paid work is lower, the higher rents are. For instance, comparing £60 and £120 rents, typical for social and private rents respectively, the net gain from earning £400 per week compared to £100 is substantially reduced. If they were paying £60 in rent, the couple would be £55 per week better off earning £400 than earning £100; if rent were £120 the gain would only be £23, half as much. For the lone parent the gain from this earnings increase falls even more, from £84 with the lower rent to £31 with the higher rent. This sort of comparison (usually made from experience and hearsay, rather than explicit calculation) is a key margin for many tenants, and is why sub-market rents might be expected to help them in the labour market.

**Figure 11.1** Gross and net incomes after housing costs at different rent levels, £/week, 2006-07



Source: DWP analysis; Council Tax assumed to be £20 per week in each case.

Note also that although the discussion above relates to incentives to work, because the calculation of benefit entitlement also depends on income from sources such as pensions and the level of people's capital, Housing Benefit also affects incentives to save in a similar way. In some cases the impact may also be a feeling of injustice that working much longer hours or saving more leads to such little benefit for those paying high rents.<sup>45</sup>

A second important feature of Housing Benefit as a way of providing support is that it has to be claimed, and not everyone who is entitled does so. Table 11.5 shows Department for Work and Pensions estimates of take-up of the benefit since 1997-98. First, while these estimates have margins of errors, it appears that more than a tenth of those entitled to Housing Benefit fail to claim it, and this is a higher proportion than in the late 1990s. Second, local authority tenants are more likely to claim than "private" tenants (here including those of housing associations). However, because those entitled to larger amounts are more likely to claim, the proportion of available benefit that is taken up is greater than this. Overall, around 90 per cent of available benefit is claimed, 94 per cent for council tenants and 88 per cent for "private" tenants. In one sense, therefore, Housing Benefit may be well "targeted" on those who most need help, but it still misses some of its targets.

**Table 11.5 Estimates of take-up of Housing Benefit by tenure, 1997-98 to 2004-05 (%)**

	Local authority tenants	Private and HA tenants	All
<b>Proportion eligible who claim (caseload take-up)</b>			
1997-98	93-99	86-96	91-98
1998-99	92-97	89-97	91-97
1999-00	91-97	86-94	89-95
2000-01	90-95	83-92	87-94
2001-02	89-94	80-88	85-91
2002-03	89-93	79-87	84-90
2003-04	88-93	81-88	84-90
2004-05	89-95	80-88	84-91
<b>Proportion of available benefit claimed (expenditure take-up)</b>			
2003-04	92-96	85-92	88-93
2004-05	91-97	84-92	87-93

Source: DWP (2006), *Income Related Benefits: Estimates of Take-Up in 2004/2005*, table 3.3 and figures 3.3, 3.9 and 3.10.

A third issue around the Housing Benefit system results from the restrictions that are put on rents that are eligible for benefit, particularly in the private sector, including the "Single Room Rent" limit for single people aged under 25 (see Box 11.1). These limits mean that some claimants face a "shortfall" between the maximum Housing Benefit payable and their actual rent. Such shortfalls can be large in relation to the minimum incomes to which people may be entitled through the Income Support system as shown in Table 11.2. For those subject to the Single Room Rent (12,000 cases in 2005-06, down from 33,000 in 1997-98),

<sup>45</sup> For pension contributions, the disincentives to save are partly moderated by the way in which half of contributions are deductible in calculating income for Housing Benefit purposes. However, it is probably fair to say that few people understand this kind of aspect of the system (or why only half of contributions are deductible).



around 80 per cent have a shortfall, with an average shortfall of £45 per week – equivalent to nearly the whole of Income Support for other living costs for single people aged under 25.<sup>46</sup> For all HB claimants potentially subject to rent restrictions, 54 per cent face a shortfall, averaging £24 per week in 2005-06.

Finally, a feature of the underlying formula for calculating Housing Benefit is that for someone receiving it, if rent is £1 per week higher, benefit is £1 per week higher. This can be criticised as removing any trade-off between people's net housing costs and the actual rent of the property they occupy: on the one hand this might create incentives to occupy more expensive accommodation than otherwise; on the other it means that someone who does economise gains no benefit for doing so. The limits on eligible rents in the private sector are designed to control the impact of the first problem. It is also one of the reasons for the subsidy restrictions and pressures placed on social landlords who raise their rents above certain levels (see Box 8.1): if two-thirds of social tenants have the whole of any increased rent paid for them by the benefit system, it is argued that incentives for landlord efficiency may be undermined. The recent Local Housing Allowance pathfinders described in Section 14 embody a different approach to Housing Benefit in the private rented sector, moving away from benefit depending on actual rent at all towards a flat-rate allowance depending on household type and area.

### **Housing Benefit and temporary accommodation**

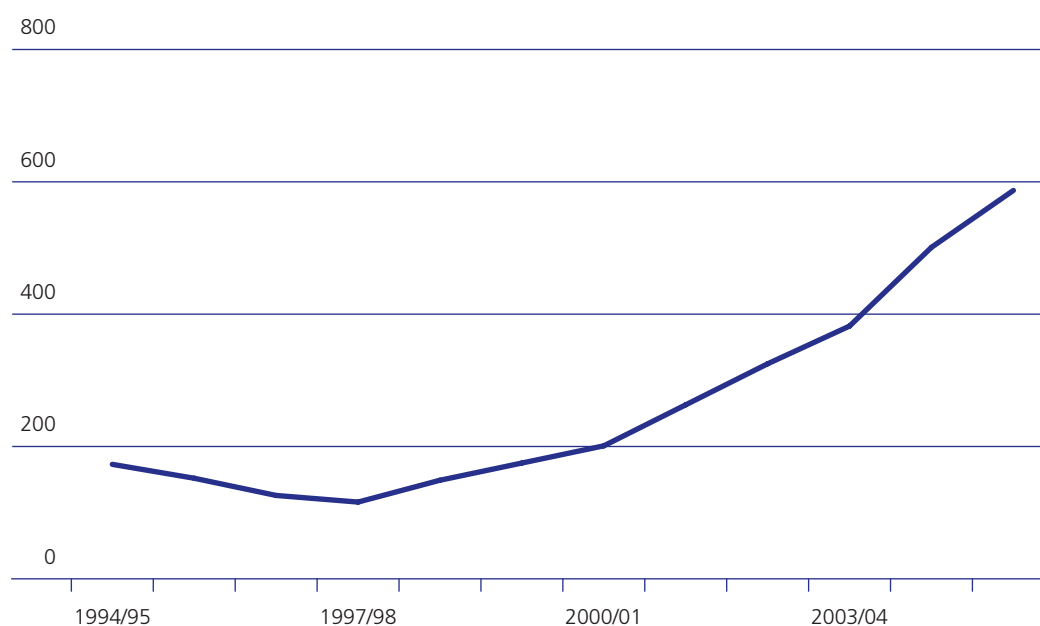
As discussed above, around a tenth of Housing Benefit paid via local authorities relates to tenants who are in temporary accommodation, generally now for those in self-contained property leased by local authorities from private landlords. As Figure 4.11 (c) above showed, the number of households in such temporary accommodation rose from 40,000 in 1997 to a peak of just over 100,000 in 2004 and 2005, although the numbers have recently been falling. The increase has been in self-contained units, rather than "shared facility" accommodation, such as "bed and breakfast" hotels. The rent on which benefit can be paid in those cases can be much higher than the limits for direct tenancies in the private rented sector (see Box 11.1). Amounts of benefit can therefore be quite high – more than £100 per week nationally in 2005-06, for instance, and commonly £300 per week or more in London. As this counts as Housing Benefit to the tenant, it is this level of rent that dictates the scale of the poverty trap they face – therefore potentially extending far further up the income scale than that shown in Figure 11.1 for someone paying rent of £180 per week.

The combination of these high costs and the rising numbers have meant a very rapid rise in the real level of spending on Housing Benefit of this kind, as shown in Figure 11.2, from £116 million in 1997-98 to £587 million in 2005-06 (at 2006-07 prices), although it remains only a twentieth of total Housing Benefit spending. The bulk of this spending is on short-term leased accommodation. For instance, of the total of around £480 million (in cash terms) in 2004-05, £274 million was for those in short-term leasing, £88 million for those in licensed accommodation, £81 million for "board and lodging" (such as bed and breakfast) and £37 million for river boats and travellers' sites.<sup>47</sup>

<sup>46</sup> For the minority, around 17 per cent, of those subject to the SRR restriction who actually live in shared accommodation, the shortfall is £28 per week.

<sup>47</sup> Department for Work and Pensions.

**Figure 11.2** Housing Benefit costs of temporary accommodation  
(£ million, 2006/07 prices)



Source: DWP.

Note: Figures include expenditure on asylum seekers of £25.8 million in 1994-95. Since 1999, such spending has been funded by the National Asylum Support Service, but cases in progress continued to be funded by Housing Benefit, amounting to £0.7 million in 2005-06.

## Assistance to owners

As well as the assistance through favourable tax treatment for owner-occupiers discussed in Section 8, owners (including some private landlords) can receive grants or (increasingly) loans to improve or insulate their properties. Historically this was quite a large part of housing spending, with between 200,000 and 300,000 private owners in Great Britain receiving improvement grants of one kind or another each year in the early 1980s, but then falling sharply.<sup>48</sup> The more recent trend is shown in Table 11.6. By 2004-05, around 70,000 owners were receiving what were generally loans totalling £230 million, and 165,000 what were generally grants for energy efficiency totalling £110 million. In real terms the total amount spent has continued to decline in recent years, but more slowly than in the mid-1990s.

<sup>48</sup> H. Glennerster and J. Hills (eds.) (1998), *The State of Welfare: The economics of social spending* (Oxford: Oxford University Press), table 5.6.

**Table 11.6 Support for private sector renewal and energy efficiency (2004-05 prices)**

	Communities and Local Government housing renewal		DEFRA Warm Front		Combined	
	Number (000s)	Amount (£m)	Number (000s)	Amount (£m)	Number (000s)	Amount (£m)
1996-97	74	641			74	641
1997-98	105	485			105	485
1998-99	109	469			109	469
1999-00	120	453			120	453
2000-01	99	396	24	11	123	407
2001-02	82	356	128	68	210	424
2002-03	68	292	189	97	257	389
2003-04	64	273	196	54	260	426
2004-05	68	230	166	111	234	341

Source: Communities and Local Government HSSA returns and research

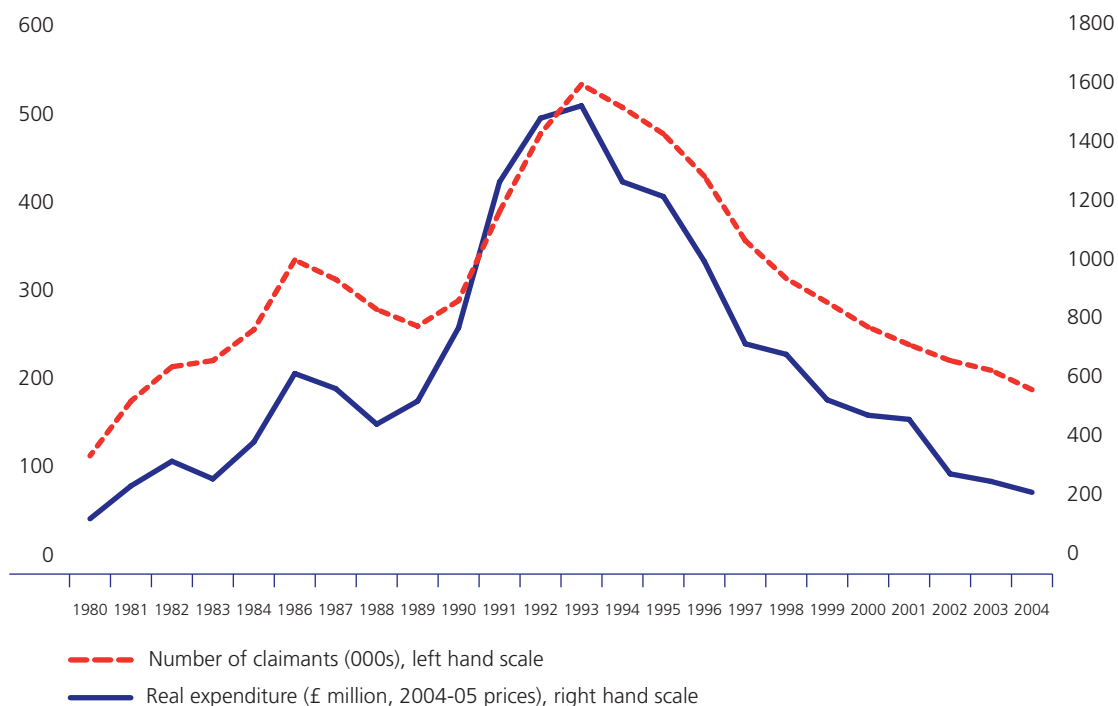
Notes:

Housing Renewal Includes renovation grants, minor works assistance/home repair, work under group power and designated area powers (renewal areas) and HMO assistance. Excludes loans made under the 2002 Regulatory Reform (Housing Assistance) Order.

Warm Front grant was preceded by HEES which offered much more limited support for vulnerable households (£315 grant maximum) and is not included here.

Adjustment to 2004-05 prices made using BCIS Tender Price Index.

The other form of support for owner-occupiers with low incomes is the possibility of additional Income Support for Mortgage Interest (ISMI). As Figure 11.3 shows, the number of claimants receiving such help peaked at over half a million in 1993 and 1994, but has fallen towards 200,000 since then. This has been a result of both falling unemployment, and tightening restrictions on the circumstances in which ISMI will be paid. With lower interest rates as well, the overall cost has fallen substantially in real terms, from a peak of just under £1.6 billion in 1993 to under £300 million in 2004 (at 2004-05 prices).

**Figure 11.3** Income Support for Mortgage Interest, 1980 to 2004

Source: S. Wilcox (2006), *UK Housing Review 2006/2007*, Chartered Institute of Housing

## The Right to Buy and Cash Incentive Schemes

A much more substantial amount of public support is directed towards helping people become owner-occupiers in the first place. Over the last quarter century, the most important policy of this kind has, of course, been the Right to Buy for council tenants and for certain housing association tenants (see Box 11.2). In essence, the Right to Buy allows sitting tenants to buy the property in which they are living at a discount to the market price. When first introduced in the 1980s these discounts were set as a variable proportion of the assessed market price depending on the length of time someone had been a tenant for, ranging from 33 per cent for recent tenants up to 50 per cent for longer-standing ones. The limits were eventually raised to 60 per cent for houses, and 70 per cent for flats. There was what was then a high overall limit on discounts set at £25,000 nationally in 1980, but eventually increased to £50,000 by 1989. More recently, in 1999, the maximum discount was reduced on a regional basis to between £22,000 in the North East and £38,000 in London and the South East. From 2003 a further reduction in the maximum discount to £16,000 was introduced in 41 areas of "housing market pressure" covering most of London as well as certain parts of the home counties.

## Box 11.2 The Right to Buy, Preserved Right to Buy, Right to Acquire and Cash Incentive Schemes

### Right to Buy

The Right to Buy (RTB) was introduced in 1980. All “secure” tenants, the vast majority of whom are local authority tenants<sup>1</sup>, are entitled to the RTB once they have been in social housing for a sufficient period (five years for tenancies starting on or after 18 January 2005, previously two years). They can count years spent as tenants of other social or public landlords. A few types of property are exempted from RTB, such as sheltered housing.

The RTB gives tenants a discount on the market value of the property, as determined by the landlord (or, if the tenant disagrees, by the Valuation Office Agency). The discount varies in relation to the length of time that they have spent in social housing. But it is subject to a maximum set by the Secretary of State, which has varied over time, from £25,000 in 1980 to a high point of £50,000 in 1989. In 1999 the country-wide maximum was replaced by regional discounts, with the highest being £38,000 in London and the lowest being £22,000 in the North East. This was changed again in March 2003 in 41 areas in response to housing pressures within them, where the maximum amount was lowered to £16,000. Most of the 41 areas are in London.

RTB rights are unaffected for local authority tenants who move to a new property in the local authority sector (whether in the same or a different authority) as long as they remain secure tenants (if a tenant moves to a property which is not a secure tenancy, they keep their RTB entitlement years but are not able to buy the new property).

Until 2004, local authorities carrying housing-related debts had to put 75 per cent of the receipts from RTB sales to pay off these debts and were allowed to keep only 25 per cent of the receipts. Debt-free authorities could keep 100 per cent of their receipts. Since April 2004, 75 per cent of the money from all authorities (both with debt and debt-free) goes back into a central government pool and is then redistributed to areas of greatest housing need.

### Preserved Right to Buy

LA tenants who become housing association tenants as a result of stock transfer keep the Preserved Right to Buy (PRTB) as long as they stay in the same property. This operates under the same terms, and with the same discounts, as the Right to Buy in that area. They may also have Right to Acquire (see below) if the stock transfer took place after 1 April 1997. If they move to a different property owned by the same landlord they may retain the PRTB, but they lose the PRTB if they move to a property owned by a different association (although they keep their entitlement years).

<sup>1</sup> There remain around 27,000 “secure” tenants of non-charitable housing associations who have the RTB. This is because following the introduction of the “assured” tenancy in The Housing Act 1988, housing associations stopped granting “secure” tenancies, so people who became tenants of non-charitable housing associations after this date do not have the RTB. Charitable housing association tenants have never had the RTB.

### **Box 11.2 The Right to Buy, Preserved Right to Buy, Right to Acquire and Cash Incentive Schemes (*continued*)**

The decision about where receipts from such sales go varies between transfers. The association always retains part of the receipts to compensate for net loss of income, but the remainder of the money can go to the local authority or remain with the association (a broadly 50-50 sharing arrangement is not uncommon for a limited period). PRTB receipts to LAs are treated as a deferred sale receipt so are not part of the RTB pooling process. The terms of stock transfer from a local authority to a housing association – including any government “gap funding” – take account of the PRTB receipts that go to the association.

#### **Right to Acquire**

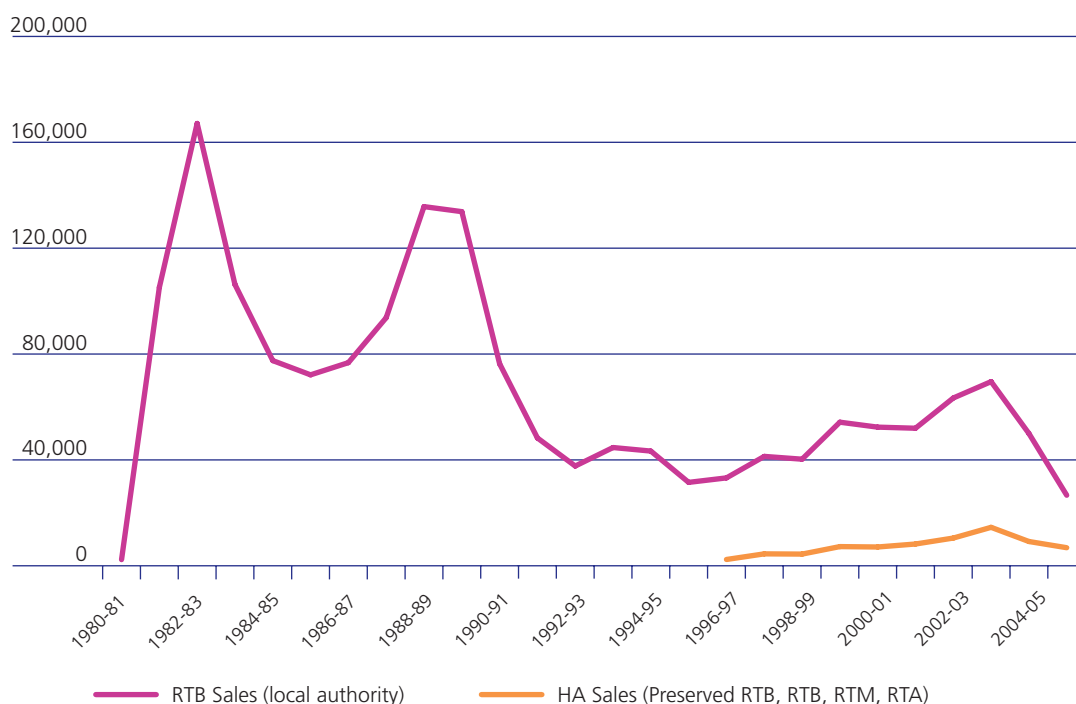
The Right to Acquire (RTA) was introduced in The Housing Act 1996 and gives eligible housing association tenants a statutory right to purchase the property in which they live at a discount. The discount for RTA is a flat rate amount across all properties irrespective of value or length of tenancy, which varies between £9,000 and £16,000 depending on the local authority area. Association tenants who have been in social housing for at least five years (previously two years) have the RTA, but only if the property was built or purchased with public funds after 1 April 1997 or the property transferred from the council sector after that date. Some properties are exempt from the RTA, such as sheltered housing or those in designated rural areas (generally communities with a population of under 3,000).

If an association tenant with the RTA moves to another housing association property, they will keep their RTA entitlement years, but they will only be able to exercise the RTA if the property qualifies for it. RTA receipts are treated differently from RTB ones, as the proceeds are put into a special fund for each association and then the Housing Corporation decides exactly how it should be spent (which must be on replacement social housing).

#### **Cash Incentive Scheme**

The Cash Incentive Scheme involved some local authority landlords offering financial help to council tenants to help them buy their own home on the private housing market, thus vacating their existing social housing unit. It was significant in the mid to late-1990s but it no longer receives specific central government funding, although the statutory powers remain. It is still offered by some local authorities with their own funding.

The Right to Buy has had a huge effect on the UK housing market. As Figure 11.4 shows, through most of the 1980s an average of around 100,000 sales were made by local authorities under the scheme each year. This fell to between 30,000 and 50,000 per year in the 1990s, but peaked again at over 60,000 in 2002-03 and 2003-04 (as people registered their interest in advance of tighter limits on discounts), before falling rapidly in the most recent period. Overall, more than 1.7 million sales were made by English councils under the Right to Buy in the 26 years from 1980-81 to 2005-06 and a further 174,000 by housing associations under related rules (such as the “Preserved Right to Buy”).

**Figure 11.4** Right to Buy sales since 1980-81

RTB Sales: Communities and Local Government live table 671.

Housing association sales: Note that approximately 100,000 units were sold between 1980-81 and 1996-97, which have not been illustrated.

The Right to Buy has been controversial since its inception. For this analysis, three effects are relevant. The first is its long-run effect on the supply of social housing lettings available to new tenants, which is discussed in Section 12 (in the short-run most of those purchasing under it would not have moved, so sales would not immediately affect potential vacancies). The second is its effect on either stabilising some areas by making it more likely for some better-off tenants to remain, but in others leading to a decline in the upkeep of properties and private lettings to sometimes disruptive, but weakly supervised, private tenants (sometimes including those evicted from social tenancies in the same area).

The third is the relative generosity of the available discount by comparison with remaining as a social tenant, paying a sub-market rent. It is important to realise that by exercising the Right to Buy or its equivalent, a tenant sacrifices the future advantage of that sub-market rent, and hence of the economic subsidy. The longer they would have remained as a tenant otherwise, the greater the value of that future subsidy (see Table 6.4). It is hard to be precise about this trade-off, but Steve Wilcox plausibly suggests that the median prospective time as a tenant for Right to Buy purchasers can be taken as around 15 years, and that discounts of up to between 30-35 per cent would then represent “reasonable value for money” for the public sector in terms of the comparison between the value of the capital receipt when the sale is made and the future flow of net rents (after costs) if the sale had not taken place.<sup>49</sup>

<sup>49</sup> This is the value to the public sector as a whole – rules on what happens to capital receipts mean that for the particular landlord selling, the balance is often much less favourable. For an individual who expected to receive Housing Benefit in future (for instance, after retirement) the benefit of purchase would be lower.

Average Right to Buy discounts were above this level in England until recently, at around 50 per cent between 1988 and 1998, but by 2005 had fallen to 30 per cent.<sup>50</sup> By 2006, the maximum discounts in London were estimated to be below 10 per cent of market values, and to be between 28 and 40 per cent in the rest of the country.<sup>51</sup>

The implication of this is that in most of the country, the overall level of discounts for Right to Buy purchasers is of roughly equivalent value to remaining as a tenant, paying a sub-market rent. From the public sector's point of view, the receipts after discount could theoretically be invested until the date when the property would otherwise have become vacant and would by then have built up enough to finance a replacement (in practice, of course, this has not been done in the past). Judged purely in these terms the system now leaves a neutral incentive as to whether to buy or not. However, in the areas subject to the housing market pressure limits, the incentive is now for people not to exercise the Right to Buy and to remain as a tenant with, for those who do so, a likely higher long-run public sector cost. After the bulge in applications after the tighter limits were announced, the number of sales has fallen rapidly.

Another, much smaller form of assistance into home ownership for social tenants are "cash incentive schemes" of one kind or another. Such schemes give a capital sum to tenants who relinquish their tenancy (see Box 11.2) to move elsewhere, thus releasing a unit for someone else. Such grants are rare, and generally not very generous by comparison with Right to Buy discounts. Total spending across England has been around £10 million per year since 2001-02. Up to 2004-05, around 500 grants were made a year, averaging between £15,000 and £18,000. At present rather more grants – around 1,500 per year are being made, overwhelmingly in London – with an average value of around £7,000.<sup>52</sup> While such grants may represent good value for money for the public sector where a tenancy is given up that would otherwise have remained, they carry obvious dangers in reinforcing polarisation, as the tenants – likely to be better off – who take up grants, leave the area (unlike the Right to Buy, where purchasers generally stay put at least for some time).

### Intermediate Tenures

By contrast with the declining role of improvement grants to owners and of the Right to Buy, an increasing proportion of public housing support has been directed towards Low Cost Home Ownership through "shared ownership" or "shared equity" schemes (see Box 11.3). Under these, in one form or another people (not necessarily existing social tenants) buy *part* of the equity in a property, while either renting the rest of it, or sharing in gains in value with a lender in return for lower initial payments. The advantage to the purchaser is that they get a first step on the property ladder – with the ability to "staircase up" to owning a larger share later on – when they might otherwise not have been able to afford to buy.<sup>53</sup> The advantage to the public sector is that the level of capital grant required is roughly half that

<sup>50</sup> S. Wilcox (2006), "A financial evaluation of the Right to Buy", figure 2, *UK Housing Review 2006/2007*, London: Chartered Institute of Housing.

<sup>51</sup> Communities and Local Government calculations.

<sup>52</sup> Communities and Local Government live tables.

<sup>53</sup> For more detailed discussion see the *Report of the Shared Equity Task Force*, HM Treasury and Communities and Local Government, December 2006.



required for a housing association to produce a unit to let at a normal social rent (see Table 11.7). The way in which the net benefit to purchasers varies between the different schemes and between them and Right to Buy purchasers is discussed further in Section 18.

**Table 11.7 LCHO and SHG rates per unit by region 2003-04 to 2006-08 (£000s)**

	LCHO grant per unit			Social Rent grant per unit		
	2003-04	2004-06	2006-08	2003-04	2004-06	2006-08
East Midlands	21.1	21.7	20.1	48.7	43.8	44.2
East of England	27.0	23.2	14.7	49.1	48.2	39.6
London	48.1	46.8	42.3	96.2	100.9	100.7
North East	28.3	34.5	18.7	53.7	57.8	60.4
North West	27.6	30.5	33.7	55.6	63.8	63.2
South East	28.7	26.9	18.3	61.0	58.9	53.7
South West	21.8	18.5	19.0	40.5	41.0	44.2
West Midlands	24.5	31.6	20.3	53.9	56.2	49.7
Yorks & Humber	33.4	28.6	26.6	50.3	53.1	52.8
<b>National</b>	<b>35.0</b>	<b>31.1</b>	<b>26.8</b>	<b>65.5</b>	<b>66.9</b>	<b>61.1</b>

Source: Housing Corporation.

### Box 11.3 Low-Cost Home Ownership and intermediate tenure schemes

The Government and social landlords offer a number of schemes to help social tenants and other specific groups (including public sector “key workers” in London, the East and the South East) to become home-owners through equity sharing. These schemes involve either conventional shared ownership (part buy, part rent), or a shared equity mortgage. Under shared ownership, the purchaser buys part of the home, under a shared ownership lease, and pays a capped rent on the remainder, usually to a housing association. Gradually, further shares may be purchased and the property owned outright. With a shared equity mortgage, the purchaser owns the whole property, but another party (an association, a private lender, or both) has an interest in the value of the property through an equity loan. So for example if a property is purchased with a 75 per cent conventional mortgage and a 25 per cent equity loan, when the property is sold, the lender of the equity loan is owed 25 per cent of the sale price.

#### Earlier low-cost home ownership (LCHO) products

Since the 1980s until the recent introduction of the “HomeBuy” schemes, apart from Right to Buy, conventional shared ownership was the most important form of LCHO in England, although it remained small-scale. Shared ownership homes could be new or renovated flats or houses which were sold through housing associations. Prices varied according to location, but were expected to be within the means of those people who could not afford to buy on the open market. In addition, a Do-it-Yourself version of shared ownership (DIYSO) was introduced in the 1990s which involved consumers choosing a house to buy, with a housing association, on the open market. This was replaced by the HomeBuy equity loan scheme in 1999, which does not involve the more complex shared ownership lease arrangement.

**Box 11.3 Low-Cost Home Ownership and intermediate tenure schemes (continued)****Social HomeBuy***Who is eligible?*

Existing social tenants of participating landlords, both local authority and RSL. Some, but not all, properties which do not qualify for the Right to Buy/Right to Acquire schemes (see Box 11.2) may be offered for sale under Social HomeBuy. There are some exemptions, including properties in designated rural areas and groups of properties for people with long-term disabilities or special needs.

*What is the deal?*

Tenants of participating landlords are able to purchase a minimum initial share of 25 per cent of their home. The remainder of the equity is retained by their landlord who can charge a rent of up to 3 per cent of the capital value of the part of the property the landlord continues to own. Buyers receive a discount on the initial share purchase. This will be the Right to Acquire (RTA) discount (generally between £9,000 and £16,000 depending upon the local authority area, see Box 11.2), pro-rata to the share purchased. The discount is only available on the first share purchased, and so is more valuable to those initially able to buy a larger share. Use of the RTA discount levels also means that Right to Buy (RTB) offers better terms for those eligible and able to take it up, as the RTB discount is higher in most areas and the discount is offered on the value of the whole property not just a share of it.

In houses, shared ownership tenants are responsible for all of the repairs and maintenance, and for flats they are required to carry out the internal repairs while contributing financially to external repairs carried out by their landlord. If the shared owner carries out improvements to the house or flat which add value to the property, then this is taken into account when they want to buy a further share.

**New Build HomeBuy***Who is eligible?*

- Existing social tenants and those on the waiting list identified as being in priority need for social housing.
- “Key workers” in London, the South East and East. “Key workers” are people who are employed by the public sector in a frontline role delivering an essential public service in health, education and community safety where there are serious recruitment and retention problems, such as police officers, nurses, teachers.
- First-time buyers prioritised by the Regional Housing Boards, based around categories such as local connection, income below a certain level and so on (for example someone who has lived or worked in the district for two years and is not currently an owner-occupier, with a household income of under £50,000).

**Box 11.3 Low-Cost Home Ownership and intermediate tenure schemes (continued)***What is the deal?*

It enables people to buy a share in a new-build property of a minimum of 25 per cent, through a shared ownership lease. They pay a rent on the un-owned share capped at 3 per cent of the value. Under New Build HomeBuy purchasers can buy additional shares (“staircase up”) in tranches which are a minimum of 10 per cent of the value of the property. Shared owners are financially responsible for all repairs and maintenance, irrespective of the share purchased. In addition to Housing Corporation funding, up to 15,000 new properties are being funded through English Partnerships’ First Time Buyer Initiative under the New Build HomeBuy brand.

**Open Market HomeBuy***Who is eligible?*

The same categories as for New Build HomeBuy.

*What is the deal?*

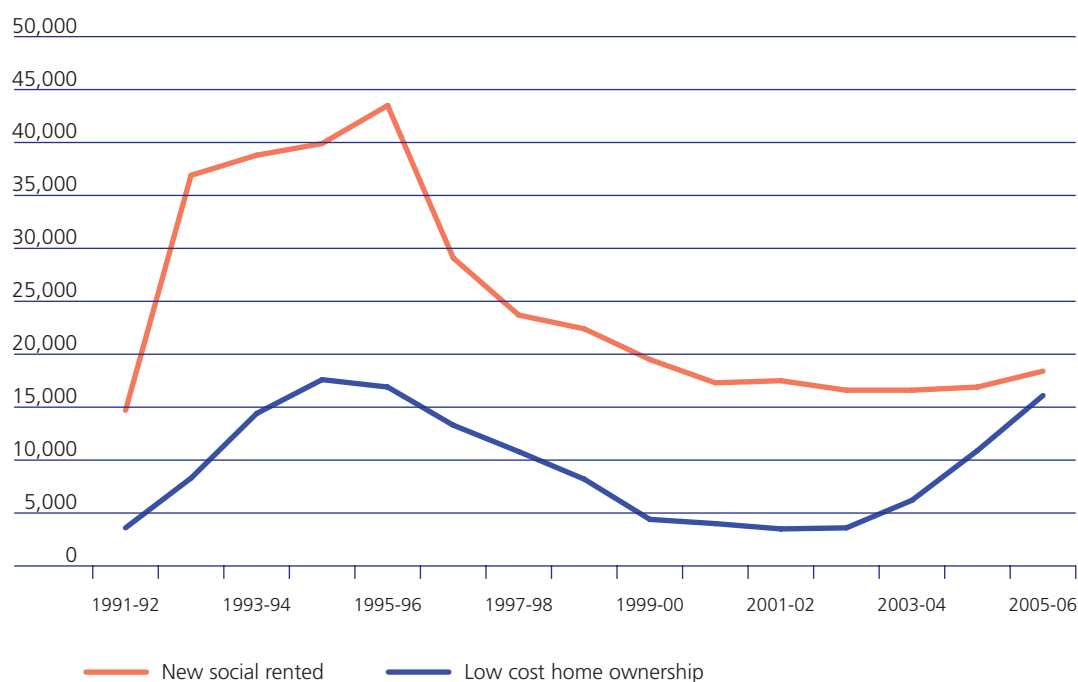
Until October 2006 an eligible buyer was given an equity loan from the Government (through a housing association acting as a HomeBuy Agent) of up to 25 per cent of purchase price, which could be used to buy suitable property. There were no ongoing interest charges on the equity loan, but when it was repaid, the purchaser paid back 25 per cent of the current value of the property.

Since October 2006, under Expanded Open Market HomeBuy, HomeBuy Agents offer equity loans of up to 12.5 per cent of purchase price (on the same terms as before) alongside another equity loan of up to 12.5 per cent of purchase price from one of four participating lenders. The lender will also provide a conventional mortgage for the remaining 75 per cent of purchase price. There are no interest charges on the lender’s equity loan for the first five years and charges are capped at 3 per cent for a further five years.

**Private developers and other organisations e.g. community trusts** may sometimes provide reduced price homes which can help people onto the housing ladder without any grant subsidy. These include affordable housing such as shared ownership provided on market sites as a developer contribution to meet planning obligations, with conditions guaranteed by a section 106 agreement (see Box 6.1). It can also include low-cost market housing (i.e. housing provided at slightly reduced price).

Despite the recent growth in numbers, so that almost as many units are now being financed in this form as new fully rented social units (Figure 11.5), the overall scale of this “intermediate” sector remains small. Looking back over the last 15 years, a total of almost 150,000 shared ownership units of one kind or another have been financed in England<sup>54</sup>. Even if none of them had been subsequently purchased outright (which, in fact, many will have been), this still represents only around 1 per cent of the total owner-occupied stock.

**Figure 11.5** Numbers of Low Cost Home Ownership and new social rented units since 1991-92



Source: Communities and Local Government statistics

While these schemes are aimed at helping people become partial owners and increase their equity stakes in properties, others are aimed at allowing people to *reduce* their equity in housing when they are older, for instance to meet particular needs or to boost income. Some housing associations (such as the Joseph Rowntree Housing Trust) run “flexible tenure” schemes that allow owners to “staircase down” in this way. At a larger scale are commercial “equity release” schemes run by insurance companies that pay people a lump sum in return for a later claim (at death) on their property. More than £1 billion was released each year in this way in 2003 and 2004, with roughly 20,000 households being paid an average of around £50,000. While in the 1990s the majority of such sales were “reversion sales”, where the insurance company gained an *equity* stake in the property, the majority in recent years have been “mortgage sales”, where the owner keeps all of the equity, with the value of the release building up as a mortgage loan. As a result, the number of properties where the equity interest is in effect shared between the owner and the insurance company is again limited to a few thousand, rather than constituting a significant intermediate tenure.

<sup>54</sup> The numbers include Tenants Incentive Schemes, Do-it-Yourself Shared Ownership, HomeBuy (of different kinds), Key Worker Living Shared Ownership, Challenge Fund Sale, and Shared Ownership.

## Summary

People's housing costs are supported in other ways as well as through provision of social housing (or favourable tax treatment). Of these, Housing Benefit is by far the largest in scale. While this is by definition well-targeted in distributional terms, it has a significant impact on incentives to work and save. Because of the very steep withdrawal of benefit as recipients' incomes rise, Housing Benefit is a major contributor to the "poverty trap", where people's net incomes rise by only a very small proportion of any rise in gross earnings. The higher the rent paid, the wider this zone. As a result, although the level of someone's rent has no effect on their net gain from working at all, it can make a large difference to their net gain from *extra* earnings. For example, a couple with two children paying a typical private rent of £120 per week would gain only £23 if their earnings rose from £100 to £400 per week (as a result of reduced benefits and tax credits and higher tax and national insurance). However, if they paid a typical social rent of £60, the gain would be twice as much, £55 per week. For those in temporary accommodation, with very high rents paid through Housing Benefit, these disincentive effects extend to even higher earnings levels.

Direct assistance to owners, in loans and grants for improvements and means-tested assistance with mortgage costs (as opposed to through favourable tax treatment), is much smaller in scale. Home ownership is also supported by Right to Buy discounts (which have become more restricted in recent years) and by a series of Low Cost Home Ownership schemes, which allow people to purchase just part of the value of a property. The first of these has had a major effect on the housing market, with nearly 1.9 million social homes purchased under it or related schemes since 1980. The total of people helped into shared ownership of one kind or another is much smaller – about 150,000 since 1991.

## 12. CHANGING PRESSURES

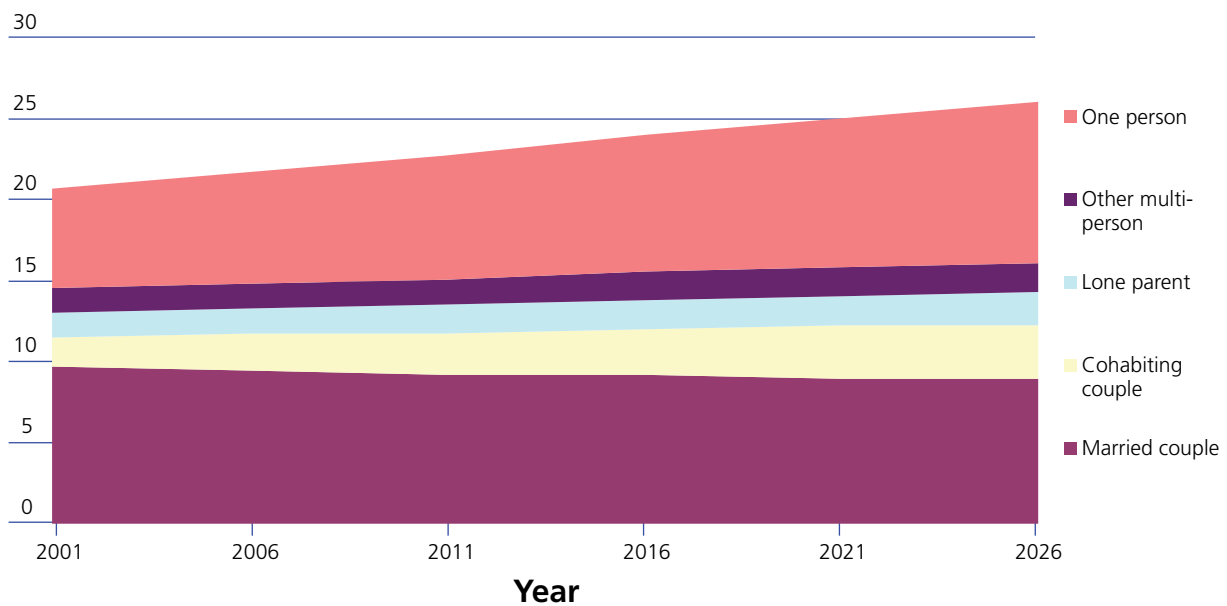
The focus of this report is not on producing projections of future need, either for housing as a whole or for new social housing units in particular. However, any consideration of the future role of social housing has to be made within the context of whether social housing is likely to be in increasing or declining demand in the years ahead. This section discusses three factors that affect the pressures within which the sector operates.

### Demography

Most obviously, current projections are for the population of England to continue to increase, and for the number of households to increase more quickly. Figure 12.1 presents the most recent official projections of the number and types of household over the next twenty years.<sup>55</sup> As well as an increase in population from 48.6 million in 2001 to 54.0 million projected for 2026, average household size is expected to fall from 2.37 to 2.10. As a result, the number of households would rise from 20.5 to 25.7 million. Most of this growth is expected to come in single-person households, reflecting greater longevity for single elderly people, and partnership break-up for younger people. By 2026 on these projections, 9.9 million households would consist of single people living by themselves, compared to 6.2 million in 2001. In terms of sheer numbers of dwellings, such projections imply strain on the housing system as a whole over the period, with the increase over the whole 25 year period in the number of households, 5.2 million, being 30 per cent greater than the 4.0 million increase over the previous 25 years (see Figure 4.1). However four-fifths of the expected increase comes from single-person households. This changing composition of household type, and the fall projected in household size, raise questions about the type and size of dwelling required, and about the potential for using the space within the existing stock in different ways (for instance through conversions).

Such projections are uncertain in many respects: we do not know exactly what will happen to life expectancy and mortality rates, for instance, or to the effects of changing social attitudes and behaviour. Nor do we know what will happen to the increased proportion of the population who become single-person households as a result of the end of relationships, and then the rate at which they repartner. There is also some circularity between the number of available dwellings and the rate of household formation – greater supply in relation to demand may allow the formation of households to be faster than otherwise, lower supply may delay household formation. Whatever the uncertainties, however, there is no indication that demographic change as a whole will *lessen* the pressure on the housing system compared to the last twenty years – quite the reverse.

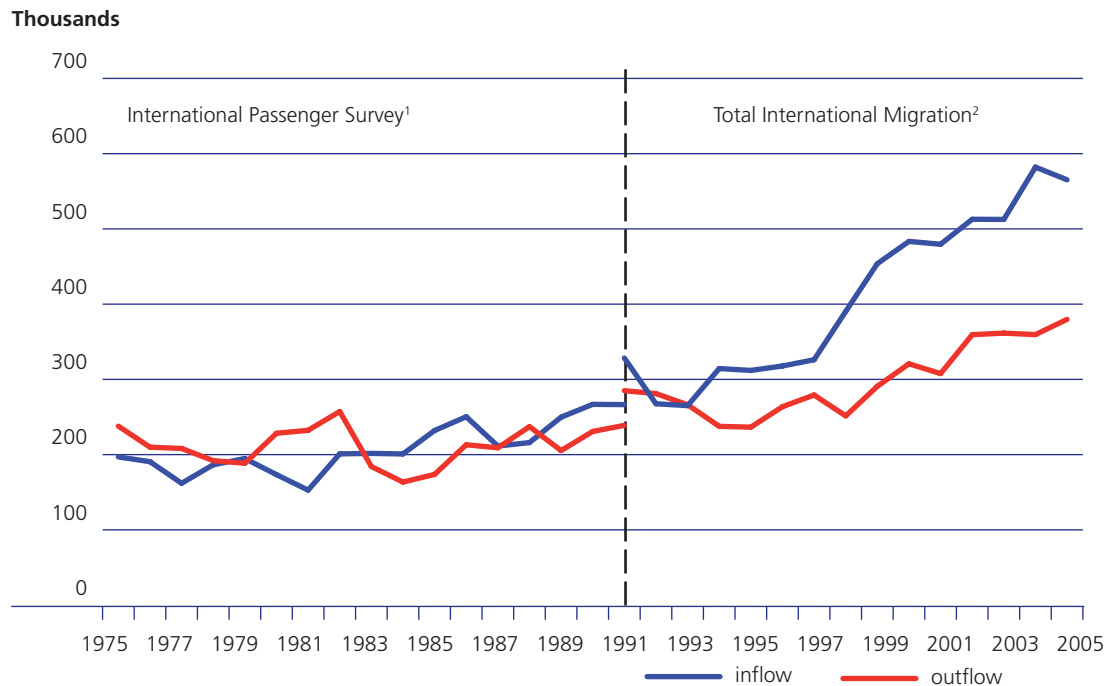
<sup>55</sup> These projections were made by Communities and Local Government using the Government Actuary's Department's "2003-based" population projections. The most recent projections have increased the projected population somewhat, which would further increase the number of households.

**Figure 12.1** Household projections, 2001 to 2026 (millions of households)

Source: Communities and Local Government.

The impact of migration patterns is particularly uncertain. The projections shown in Figure 12.1 assume a net rate of in-migration of 124,000 per year over the period as a whole. In the last five years, however, the net rate of in-migration has been 177,000 (see Figure 12.2). Clearly if this were sustained for the next twenty years, the overall size of the population in England would be larger, and with it the prospective number of households. The implications of migration for demand for *social* housing are largely indirect. As Box 12.1 explains, only certain categories of foreign nationals have the right to request social housing, and acceptance then depends on meeting needs-related criteria. The restrictions on European Economic Area (EEA) nationals, for instance, to those who are in employment and/or self-sufficient limits the extent to which they can simultaneously demonstrate need. As a result, most of the foreign nationals who do gain access through “homelessness” categories are likely to be refugees. In the nine months from October 2005 to June 2006, 3,045 (or 5 per cent) of the 61,300 statutory homelessness acceptances by local authorities were recorded as being of foreign nationals, 71 per cent of these coming from outside the EEA and therefore likely to be primarily refugees. In most parts of the country, only 2 per cent or fewer of homelessness acceptances were of foreign nationals, but in London, 14 per cent of the 13,500 acceptances were.<sup>56</sup>

<sup>56</sup> *Communities and Local Government P1E Housing Returns.*

**Figure 12.2** International migration flows, 1975 to 2005, UK

Source: Office for National Statistics.

Notes:

1 International Passenger Survey estimates between 1975 and 1991.

2 Total International Migration estimates between 1991 and 2005.

This does not, however, mean that social housing is unaffected by the rate of immigration. First, new immigrants – whether legal or illegal – are most likely to find accommodation in the private rented sector in one form or another. This demand is likely to mean that private rents are higher than otherwise (although note that private rents have not in fact risen particularly fast in the last ten years – see Figure 8.2). Second, some recently arrived workers may be prepared to live in what would otherwise be seen as overcrowded conditions, and so put less pressure on the housing market than others. Such overcrowding may not show up in official statistics and may indeed not be seen as an immediate policy priority. However, over time, as some become settled both they and the rest of the society of which they become part are less likely to see such conditions as acceptable. Third, if people who arrived for what they may originally have thought would be a short period settle and form families with children, or indeed fall into need for other reasons, they may then qualify for access to social housing.



### Box 12.1 Immigration and access to housing

Foreign nationals' access to social housing and homelessness assistance is restricted. Very broadly, foreign nationals from outside the European Economic Area (EEA) are not eligible (unless granted permission to stay in the UK which is not conditional on them having "no recourse to public funds"). EEA nationals will be eligible unless they are economically inactive and not habitually resident here, seeking work, or here for a short-term visit. Foreign nationals who do have access to social housing are assessed against the same needs-based allocations criteria as UK nationals (see Box 2.1).

#### EEA<sup>1</sup> Nationals (excluding A8, Bulgaria and Romania) and Switzerland

Migrants from the EEA are generally expected to be economically active or self-sufficient. Jobseekers and those here for a short-term visit are not eligible. Those working will be eligible (and in some circumstances would retain their "worker" status if they have to stop working, e.g. because of illness/accident – but see also A8s below). The self-employed will also be eligible. Those here for other reasons will be eligible if they are self-sufficient and habitually resident.

#### A8 nationals (the eight Eastern European countries that acceded to the EU in 2004)

A8 nationals have the same general rights as other EEA nationals, except that for a transitional period, existing EEA Member States can restrict access to their labour markets. For a transitional period, the UK requires A8 nationals to register their employment until they have worked here continually for 12 months. During this period they are treated as a "worker" only if they are actually working in accordance with the registration scheme. This means that, during this period, they would not retain 'worker' status for any reason while they were not actually working, and would need to be self-sufficient

#### A2 nationals: Bulgarians and Romanians (acceded to the EU on 1 January 2007)

As for A8 nationals, A2 nationals have the same general rights as other EEA nationals, except that for a transitional period existing EEA Member States can restrict access to their labour markets. The UK has introduced transitional arrangements which are more restrictive than those that apply to A8 nationals, this includes continuing to require A2 nationals to seek permission to work in the UK. Broadly, Bulgarians and Romanians who qualify for the Highly Skilled Migrants Programme, or who have particular qualifications, will be able to seek full access to the UK labour market. Other migrant workers will continue to need to have an employer seek permission to employ them, and they will be required to hold an Accession Worker card. The latter will be treated as an EEA "worker" only when they are actually working in accordance with the Accession Worker card. As for A8s subject to registration, A2s required to hold an Accession Worker card will need to work continually for 12 months before having full access to the UK labour market.

<sup>1</sup> Families with minor dependants under 18, who were in receipt of support under section 95 of the Immigration and Asylum Act 1999 at the time appeal rights were exhausted, continue to receive support in accordance with section 94(5).

**Box 12.1 Immigration and access to housing (continued)****Asylum seekers**

The support needs (including accommodation) of asylum seekers, who would otherwise be destitute, are met by the Home Office. Support is available to asylum seekers from the time they claim asylum in the UK to the determination of their claim. Asylum support accommodation is provided through contracts with housing providers, including private landlords and some local authorities.

If a person's claim for asylum is successful (or he or she is given permission to stay for other humanitarian or human rights reasons) his or her asylum support, including accommodation, will end after 28 days and while his leave to remain is extant he will have the same rights as a UK national, in respect of access to mainstream provisions (including social housing) and the right to work.

Where their asylum application is refused, failed asylum seekers without minor dependants under 18 will be evicted from the accommodation provided as asylum support and expected to leave the country.<sup>2</sup> Failed asylum seekers who do not leave the UK voluntarily may be removed by the Immigration Service. Failed asylum seekers who are temporarily unable to leave the UK due to circumstances beyond their control, may be provided with further support until the barrier to their leaving is resolved.

Asylum seekers with a need for care and attention due to age, illness or disability, may be eligible for support from the local authority under social services legislation.

<sup>2</sup> Families with minor dependants under 18, who were in receipt of support under section 95 of the Immigration and Asylum Act 1999 at the time appeal rights were exhausted, continue to receive support in accordance with section 94(5).

**Affordability**

Section 8 above showed the way in which house prices have doubled in real terms in the last ten years, while both social and private sector rents have both risen faster than prices, but more slowly than incomes. The level of house prices in relation to incomes obviously makes it harder for people to get on the owner-occupation ladder in the first place, and then to trade-up once they are owners. Many factors drive house prices, including what have historically been large, essentially speculative, short-run swings as people either rush to get on the ladder or hold back if they think prices are slowing down, in each case increasing the sizes of the swings. But fundamentally, the housing stock in England is in relatively fixed supply which is unresponsive to price changes – increases in demand, for instance as incomes and the size of mortgage people can service rise, tend to show up in price rises rather than as additional supply.

A first question is therefore whether supply changes are likely to have any major effect on the overall long-term level of house prices.<sup>57</sup> This has been investigated as part of the analysis behind the 2004 Barker Report and the Government's response to it.<sup>58</sup> Figure 12.3 shows the ratio of house prices to earnings since 1974, looking specifically at the points that cut off the bottom quarter of house prices and the bottom quarter of earnings (the ratio of "lower quartiles"). From a level of around 3.5 in the house price dip of the mid-1980s, the ratio stayed just below 4.0 through most of the 1990s, but has since risen very fast to reach over 6.0 by 2005.

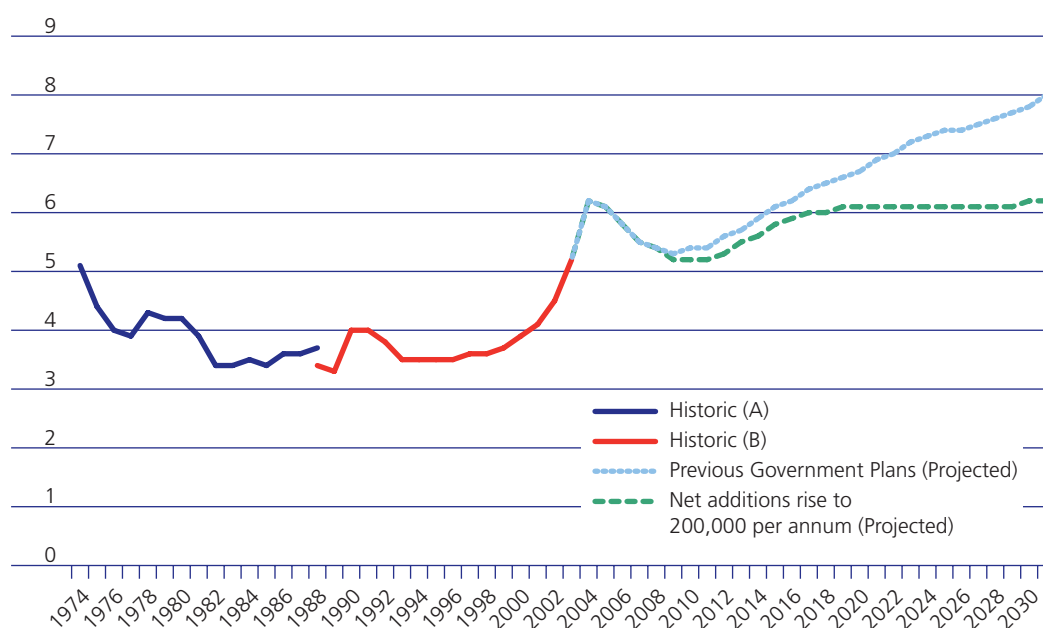
The dashed lines show the size of the ratio in the next 25 years projected using a model of supply and demand produced by a consortium led by Reading University.<sup>59</sup> This kind of exercise is not intended to predict prices in any particular year, but to look at the effect of changes in factors such as interest rates and the level of new building. Over the next ten years – over which any changes in the rate of building have relatively little effect – the model projects a fall in the ratio, essentially implying that existing prices are above their long-term trend in relation to earnings. The top line shows the model's projection of what would happen if house-building had continued under previously committed government plans, with a temporary boost from new building under the "Sustainable Communities Plan" until 2016. At this rate – below the rate of new household formation projected in Figure 12.1 – house prices would continue to rise in relation to earnings, with the ratio by the end of the period reaching nearly 8.0. The other line shows the projected impact of an increase in net additions to 200,000 per year, in line with the Government's ambition in its response to the Barker Review of Housing Supply in 2005. It suggests that in the medium-term this would stabilise the ratio at its current level. Only if house-building increased further would the ratio begin to fall in the long-run, and even then only slowly. As a corollary, unless new building for a sustained period was well beyond the kinds of level discussed as feasible in the recent debate, there is little in this kind of analysis to suggest that affordability pressures will get much easier, even if new building increases significantly from previously planned levels.

<sup>57</sup> And then prospectively on private sector rents – but as the history of the last ten years described in Section 8 shows, the relationship between house prices and private rents is complex: if private landlords expect a good return by way of capital gains, they may be prepared to accept lower rental yields as a percentage of capital value.

<sup>58</sup> *Review of Housing Supply: Final Report*. K. Barker, March 2004, and *The Government's Response to Kate Barker's Review of Housing Supply*, HM Treasury/ODPM, December 2005.

<sup>59</sup> *Affordability Targets: Implications for housing supply*, ODPM, December 2005.

**Figure 12.3** Historic and projected affordability ratios  
(Lower quartile house price to earnings ratio)

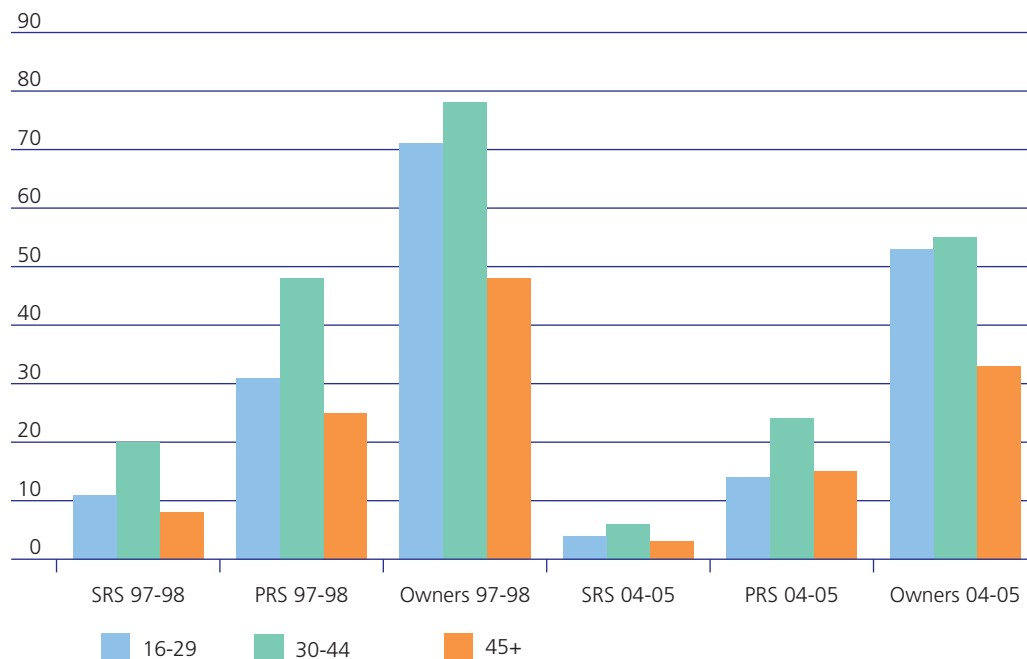


Source: Historic data (A) based on Survey of Mortgage Lenders and ONS (B) based on Land Registry and ONS data. Projected data from Communities and Local Government Affordability Model (see: *Affordability Targets: Implications or Housing Supply*, ODP, December 2005).

But it is not only house prices that determine whether people can afford to buy (and their ability to provide a deposit). That also depends on their incomes, savings, and the amounts they are prepared, or able, to borrow. Figure 12.4 shows the proportions of households of different ages in each tenure able to “afford” to buy a house at the lower quartile of prices in 1997-98 and 2004-05, assuming that their mortgage outgoings did not exceed 25 per cent of their gross income.<sup>60</sup> As one measure, focussing on those aged 30-44, in 1997-98 48 per cent of private tenants could “afford” to buy in this sense; by 2004-05, higher house prices meant that this ratio had halved. For social tenants of this age, the proportion had fallen from 20 to 5 per cent. Getting into owner-occupation is harder than it was. However, the fact that this kind of calculation is not the whole story is illustrated by the way in which a significant proportion of *actual* owner-occupiers cannot “afford” to buy according to this kind of calculation – also doubling from 22 per cent of those aged 30-44 in 1997-98 to 45 per cent in 2004-05. Some of these will have purchased when house prices were lower, but equally, in reality, some people borrow much more than the benchmark implies, or are able to put a deposit towards purchase (see below). None the less, the measure gives a benchmark for the extent to which “affordability” in this sense has deteriorated.

<sup>60</sup> The model assumes a 25 year repayment mortgage.

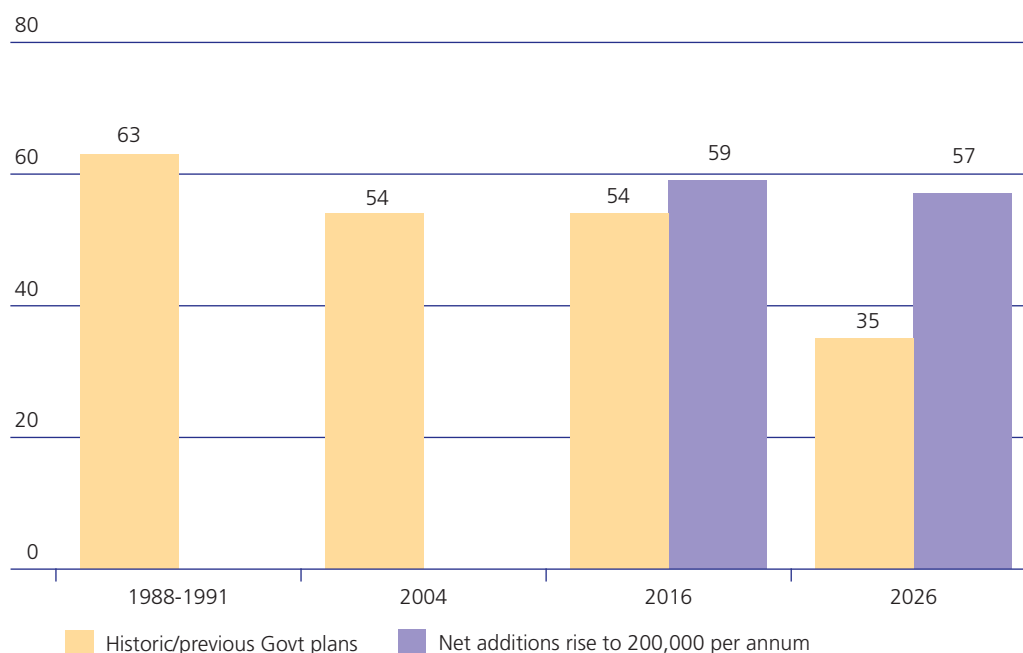
**Figure 12.4** Proportions able to afford to buy, by tenure and age (using constant income shares): 1997-98 and 2004-05 (%)



Source: Communities and Local Government analysis, HCA (uses mortgage interest rates of 5.2% in 2004-05 and 6.25% in 1997-98). See text for definition of "able to afford".

This kind of analysis also shows the impact of different levels of house prices resulting from different scenarios for future building for "affordability". Figure 12.5 shows the proportion of all 30-34 year-old two-earner households who would *not* be able to afford a mortgage large enough to pay for an average-priced flat under the same assumptions. This approach suggests that in the late 1980s, 63 per cent of such households could "afford" to buy. By 2004, only 54 per cent could do so on these terms. The way in which the position has not deteriorated faster reflects the impact of much lower interest rates, partly offsetting (and partly driving) the much higher house prices. Under the scenario illustrated in Figure 12.3, with building at a level consistent with previous government plans, but with a boost from the Sustainable Communities Plan until 2016, the proportion of these households able to "afford" to buy stays at 54 per cent, but it then deteriorates further as the house price rises shown in come into effect. If, by contrast, building increased to the 200,000 rate also illustrated in that figure, the proportion rises slightly and stabilises just below 60 per cent.

**Figure 12.5** Affordability for 30-34 year olds  
(couples, householder aged 30-34) (%)



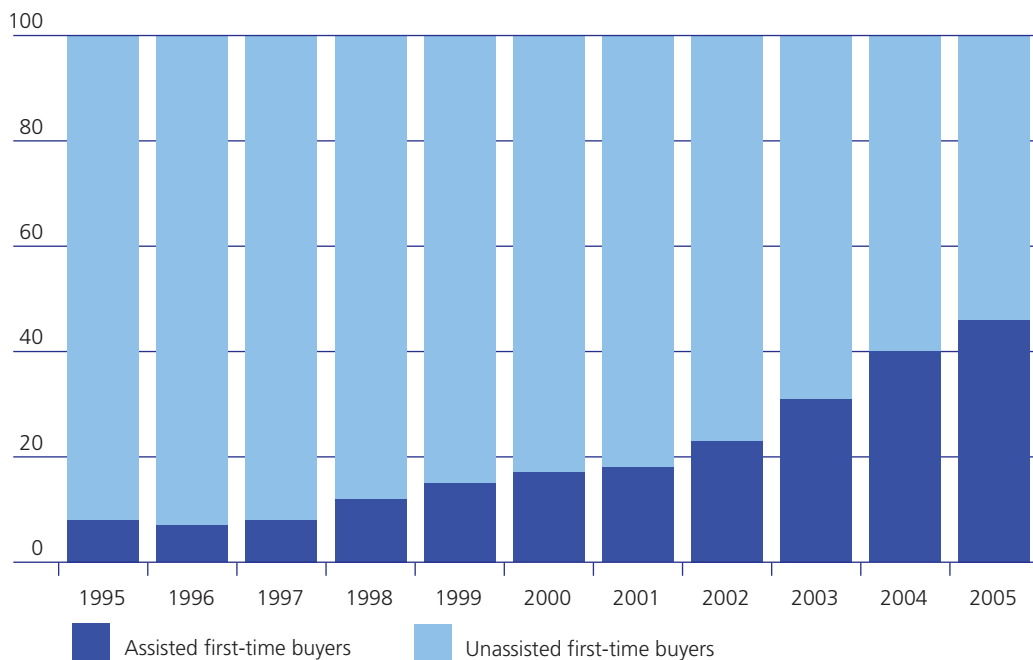
Source: *Governments Response to Kate Barker's Review of Housing Supply: The Supporting Analysis*, ODPM, December 2005.

Again the conclusion is that even an increased long-run building rate of this level is only enough to stabilise affordability problems, not to transform the difficulties people face in the market.

But there is a paradox. Self-evidently, existing owner-occupiers have managed to purchase somehow or another, despite the way in which house prices have grown faster than incomes: for most of the period from 1983 until 2002 there were more than 100,000 first-time purchases every quarter; it is only since 2003 that the numbers have fallen below this.<sup>61</sup> A clue to what is going on – and to the long-run pressures – is given by Figure 12.6. This shows the proportion of first-time buyers aged under 30 who received help in the form of a gift or loan from friends or family towards their deposit, between 1995 and 2005. Fewer than 10 per cent reported such help in 1997. By 2005, nearly half of them were receiving such help. For those who were assisted, the average deposit was £34,000, compared to only £7,000 for those who were unassisted. While personal savings may be part of the reason for the difference, it seems likely that the assistance was responsible for the bulk of it – representing more than a year's worth of average income. That those entering the housing market are increasingly relying on this kind of help, as well as what they can borrow on their own incomes, is part of the reason why the house price-income ratio has been sustained at such high levels. Purchase is being made "affordable" by what in many cases will be intergenerational transfers.

<sup>61</sup> Source: *Survey of Mortgage Lenders*: Council of Mortgage Lenders, National Statistics and HM Revenue and Customs.

**Figure 12.6** Proportion of first-time buyers under thirty receiving assistance with deposit, 1995-2005 (%)



Source: CML *Housing Finance* 03/2006, using data from Survey of Mortgage Lenders, National Statistics and Inland Revenue.

Notes: 1 data for 2005 cover the period January to August  
2 figures exclude Right to Buy transactions

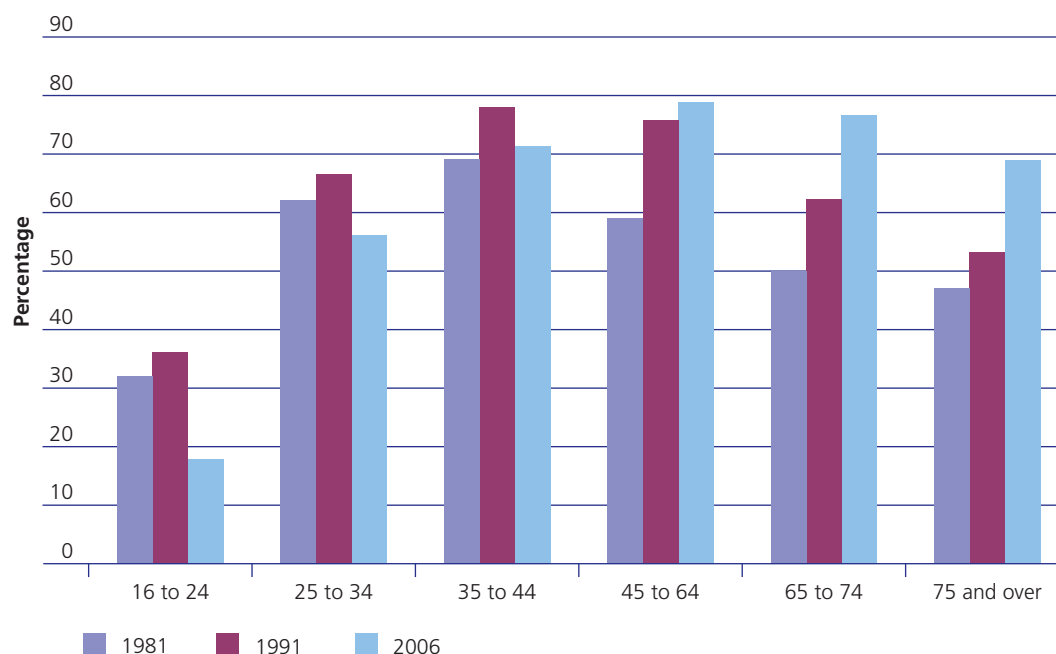
We do not know whether this trend will continue, or whether it is a response to high house prices, rather than a driver of them. But there is certainly the potential for it to do so. Figure 12.7 charts the level of owner-occupation by age group since 1981. Crucially, amongst those aged over 75, while fewer than half were owners in 1981, by 2006, more than two-thirds of them were. While some will use their housing wealth for things such as paying for long-term care, over the next decade or so, many of these older owners will bequeath their property (typically already around £100,000 per individual with net housing wealth in 2002),<sup>62</sup> often to their children, currently in the 45-64 age group, of whom nearly 80 per cent are themselves owners. Some of these may use the capital they receive to generate income in retirement or to pay for their own care needs, but others may pass it on to the next generation to help them become owners. When Alan Holmans examined this process in 1997, he found that housing inheritances being used to help sons and daughters purchase houses was at that time fairly rare. Indeed, his projections then of the long-run effect of “last time sales” was that they would outstrip the number of first-time buyers and *depress* house prices in the long run, as equity was withdrawn from the housing market.<sup>63</sup> But since then, as Figure 12.6 shows, assistance from somewhere with the deposits of younger purchasers has increased considerably. We could be seeing the beginnings of a new way in which housing wealth cascades from generation to generation. This kind of process could support very high house prices: as the eldest generation dies and leaves property to its children and

<sup>62</sup> Pensions Commission analysis of English Longitudinal Survey of Ageing.

<sup>63</sup> Holmans, A. (1997), *Housing Inheritance: Current trends and future prospects*, London: Council of Mortgage Lenders.

grandchildren, this would provide the core of the increasingly large deposits that getting on to the housing ladder would require, while the availability of those deposits would – given an inelastic supply of housing – help sustain high house prices.

**Figure 12.7** Percentage of age group that are owner-occupiers, 1981-2006



Source: ONS Labour Force Survey, based on age of household reference person.

If everyone were an owner, if house prices were even across the country, and if patterns of inheritance were even between individuals in a generation, such a process might cause relatively few problems. But none of these is true. Some may inherit a part share in a property in a low-cost region, while others may end up inheriting the whole of a house in London. But the strongest implications are for those outside the cascade altogether: people whose parents and grand-parents are tenants, and (given the low levels of financial wealth amongst older non-tenants) with few assets to bequeath. Their ability to get on the owner-occupation ladder is set by their own incomes and savings, putting them at a permanent disadvantage by comparison with what would become, in effect, a class of owner-occupiers supported by intergenerational transfers.

### The supply of lettings to new social tenants

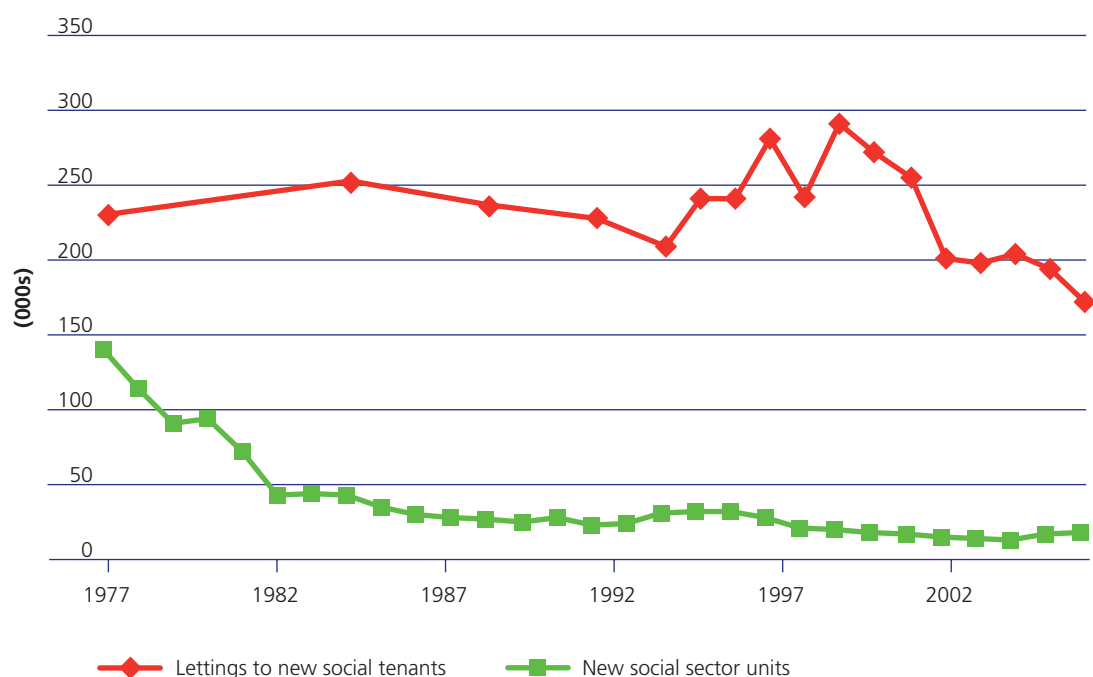
It is sometimes assumed that the level of new building of social housing dictates the rate at which new households can enter the sector. But, as Figure 12.8 shows, this is far from the case. Throughout the period from 1977-78 to 2000-01, the supply of social lettings for those newly entering the sector oscillated around 250,000 each year<sup>64</sup>. This is in some ways

<sup>64</sup> Figures based on Survey of English Housing drawn from S. Monk *et al.* (forthcoming) *The demand for social rented housing – A review of data sources and supporting case study analysis*, Cambridge University, table 5.13, and Communities and Local Government *Housing Statistics*.



remarkable, given the fall of more than 100,000 units per year in completion of new social dwellings also shown in the figure, and the scale of the Right to Buy over the period. But in fact, it is turnover of *existing* dwellings as tenants move elsewhere or die that creates most of the potential for new tenants to enter the sector. But there has been a very sharp decline in the number of lettings to new social tenants since 2000. By 2005, these were 170,000, down from 290,000 as recently as 1998.<sup>65</sup> Homelessness acceptances have fallen by less than this over the period since 1998 (see Figure 14.1 below). The implication is that the squeeze on the ability of the sector to let to new tenants from outside the homelessness route has tightened even faster than the fall in new lettings overall.

**Figure 12.8** Number of households newly becoming social sector tenants in last year, and new social sector units 1997 to 2005



Sources: Lettings to new sector tenants: Monk *et al.* (forthcoming), table 5.13 and Survey of English Housing. New social sector units: Communities and Local Government, live table 244.

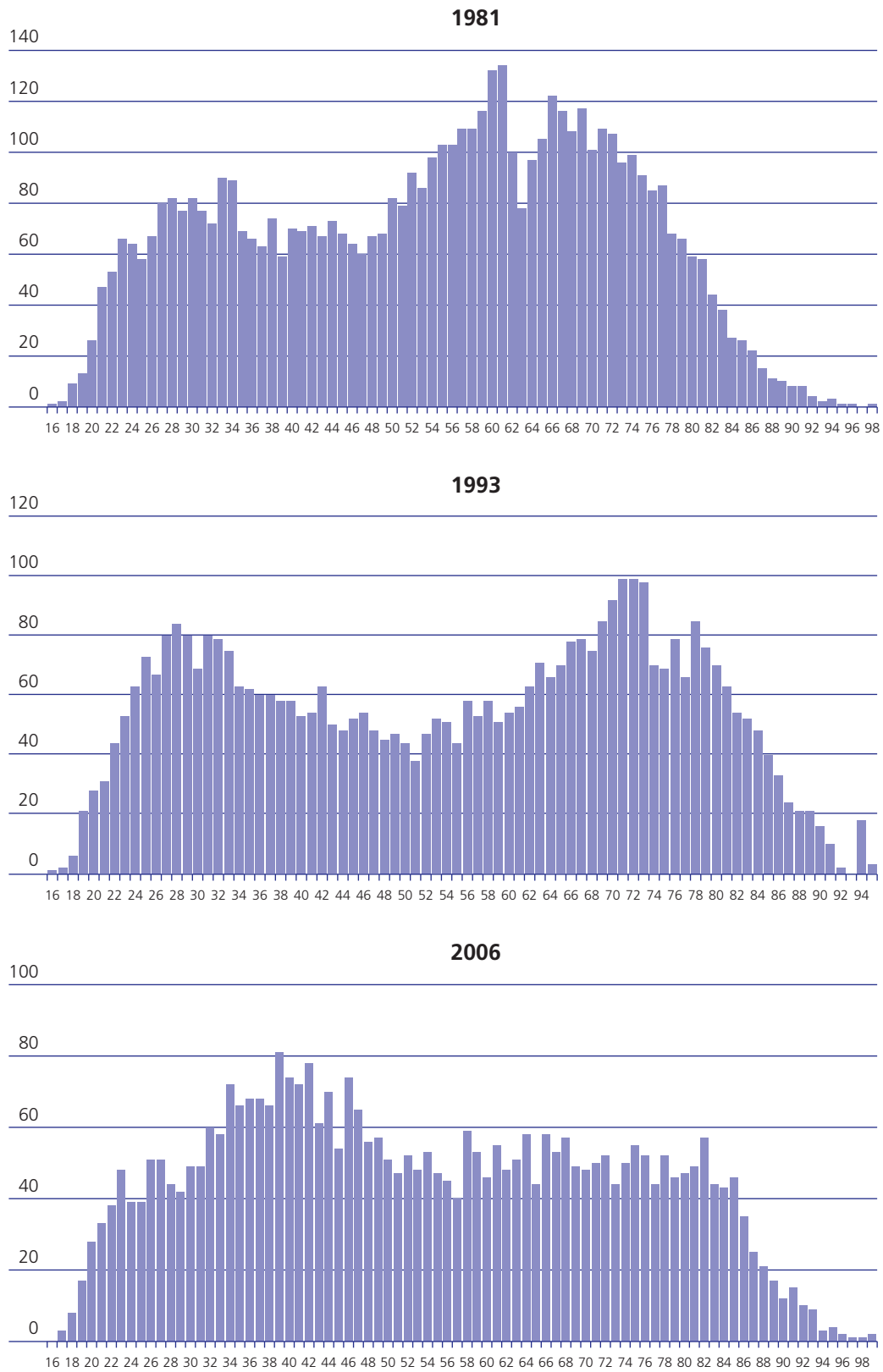
Two drivers of this have moved sharply against the supply of new lettings in the last few years. First, it has become more difficult for tenants to move out; as Figure 12.4 showed, while 20 per cent of social tenants aged 30-44 could have “afforded” (on the specified

<sup>65</sup> Other sources for recent years suggest that these figures may understate the *level* of new entrants to social housing each year, but that the long-term *trend* shown here is correct.

criteria) to move into owner-occupation in 1997-98, this proportion was down to 5 per cent in 2004-05. Second, the social tenant population has become younger. Figure 12.9 compares the age profile of social tenant householders in 1981, 1993, and 2005. In both of the earlier years, there was a considerable bulge of tenants in their sixties and seventies – indeed, there was a peak amongst those born in the early 1920s that can be seen moving through the age range. This age structure meant that a significant proportion of the social stock turned over as a result of tenants dying. The much more balanced age structure in 2005, however means that a smaller proportion of tenants is elderly, and this source of new supply has diminished rapidly. In part this is a long-term consequence of the Right to Buy: some of the people who would now have been social tenants in their seventies purchased their properties twenty years ago. There was not such a large effect on the number of lettings available for new tenants at the time, but now the properties are passing through inheritance, rather than becoming available for new lettings.<sup>66</sup>

<sup>66</sup> There is, of course, also a partly offsetting effect on the *demand* for social housing, as the inheritors of property may then have some of their own housing needs met.

**Figure 12.9** Age of head of householder in social rented sector, 1981 to 2006 (000s)



Source: Labour Force Survey.

## Summary

Several factors will affect the demand for and supply of housing, particularly social housing, in the next few decades. First, the number of households is expected to grow more rapidly in the 25 years from 2001 than in the previous 25 years. The bulk of this growth is expected to be in single-person households, whose needs will be different from those of larger households. Second, the ratio of house prices to household incomes is at an historic high. Looking ahead, econometric models suggest that an increase in new house-building of the scale now being debated might stop the house price to income ratio rising in the long run, but would not in itself lead to house purchase becoming any more affordable (or less unaffordable) than it is now. Third, a notable feature of the last nine years has been a rapid rise in the proportion of young first-time buyers who are doing so with assistance from family or friends. Those who are assisted can afford deposits that are greater than others by the equivalent of more than a year's average income. As the proportion of the elderly who are owners increases, there is the prospect of housing inheritances becoming steadily greater, potentially fuelling a cascade of housing wealth through the generations, helping to support house prices that would be hard to sustain on the basis of mortgages alone. If this occurs, it will make the position of those outside such a cascade – those whose parents and grandparents are tenants – increasingly difficult.

Finally, part of the pressure on social housing was relieved in the 1980s and 1990s by the supply of vacant properties, resulting from some moving out of the sector and from elderly tenants who died. However, in the last five years the number of lettings available for new social tenants has fallen rapidly – from about 250,000 each year in the 1980s and 1990s to 170,000 in 2005 – as it has become harder for existing tenants to afford to move out and as the age structure of tenants has become younger.

Both sides of this equation of (uncertain) long-term demand and supply factors would be expected, other things being equal, to increase the pressure on social housing over the coming years.

## PART 4: WHAT ELSE COULD WE DO?

### 13. FUNDAMENTAL REFORM OPTIONS

Many aspects of the picture revealed by the data in the previous two parts are positive: *overall* housing conditions in England have continued to improve over the last decade; the number of dwellings has kept pace with the number of households; we are enjoying more space per person on average within those dwellings; there has been rapid improvement in the number of homes that meet the latest “decent homes” standard. Within the social rented sector there has been particularly rapid progress on the physical standard of the stock. And in terms of a fundamental aim of social housing – affordability – the nearly four million social tenant households have been protected from what could otherwise have been the impact of the doubling of real house prices in the last ten years. Talk of a general housing crisis is clearly wrong, and it is all too easy to forget the proportion of housing which in the past failed to meet far more basic standards than we expect today, and the extent to which many of the indicators of stress in the housing market are much lower than they were ten or twenty years ago.

However, the evidence also shows that there are problems. In terms of general housing conditions, the obvious problems include: neighbourhood conditions and perceptions of safety across deprived neighbourhoods, regardless of tenure; the recent growth in overcrowding at the bottom end of the housing market in London; the rise in the number of people living in temporary, if usually self-contained, housing; affordability problems for those who have recently purchased owner-occupied property (or simply cannot afford to start on the property ladder) or who are paying high private rents in the high demand areas.

But the focus of this report is on social housing, and here the evidence suggests problems, particularly when one measures up the social housing sector as it is today with some of the principles and key aims and justifications for social housing provision identified in Section 2:

- First, a fundamental justification for social housing – and certainly one which comes first when members of tenant groups discuss the reasons for social housing – is the experience of very poor landlords within the private rented sector, and of poor conditions and lack of security for vulnerable tenants. But while one can point to better physical conditions for vulnerable households in social housing, the levels of and recent rises in dissatisfaction with their accommodation and their landlords on the part of social tenants is disappointing if the very first aim of social housing should be to provide a better quality of housing than would otherwise be provided by the market.
- Second, an advantage of direct provision of housing through social landlords is that its location does not have to be driven by market pressures, and so it offers a way of avoiding what might otherwise be intense area – or even regional – polarisation by income. But the evidence in Section 9 suggests that the combination of so much social housing having been originally built on estates, and then access to that

housing becoming increasingly dominated by those with the greatest needs, has been in itself a driver of area polarisation, rather than a solution to it.

- Third, a strong reason for charging sub-market rents is the potential benefit they have in reducing the width of the “poverty trap”, protecting incentives to work, and giving tenants fewer worries about their housing costs as they move into work. But the evidence in Section 10 suggests that we are failing to make the most of this potential advantage, and rates of worklessness in social housing have risen and remain strikingly high, even allowing for the difficulties that many tenants may face in the labour market as a result of factors such as low levels of qualifications.

And while some of the potential advantages of social housing are not being realised, some of the downsides of a rationed system discussed in Section 2 certainly are apparent, not least the difficulties in moving within the sector, particularly between areas or for job-related reasons.

All of this suggests that there is a need to think about ways in which we could change the model of provision we have followed for the last quarter century. But we have to do so in a context in which the pressures on the bottom of the housing market in general and on social housing in particular are likely to intensify with the combination of faster household growth, the advantages in the housing market of those who stand to inherit some form of owner-occupied property, and the recent rapid decline in the number of existing social units to *relet* to incoming tenants.

As Box 13.1 sketches, some of those who gave opinions to this review put forward ideas for quite radical recasting of policy, and only a few argued that the issue is simply greater supply, without any changes to the sector. This section discusses some of the most fundamental options that might be applied. This is not to say that such ideas are necessarily being advanced by many, or that they would be justified. Some of the options could involve huge financial and physical upheavals for millions of households. However, thinking through what might change at the most radical end may give insights into both the disadvantages and advantages of directions of change that might be pursued more modestly, either in degree or for particular groups that need support with their housing. Section 14 discusses the actual experience with three particular recent reforms which may suggest more generally applicable lessons.

### Box 13.1 Stakeholder views: Housing professionals

The quotations below give a selection of points raised at events organised for this review by the Chartered Institute of Housing (CIH). A panel of around 30 housing professionals mainly from Southern England was held in London and met twice, and a panel of around 30 mainly from Northern England met in Sheffield. The panels included people from a wide range of organisations including local authorities, housing associations, charities, and private developers. To access a wide range of views the CIH also organised a month-long “webforum” and points made from this are also included.

Participants argued that social tenants are not all the same and government policy should reflect this. They suggested that we need a system which makes offers tailored to different needs, but within a voluntary context with the right incentives, so that individuals are responsible for making their own decisions. Many stakeholders felt that it was important to “un-bundle” the package that is available to those in housing need so that there is not just one model on offer:

*“There was broad agreement that an improved menu of tenancies was potentially attractive: people don’t always need/want security of tenure at all or for life.”*  
(Summarising one part of the discussion at the London stakeholder meeting)

*“Social housing tenants are not one group/type of people, but many in many different circumstances, and market ‘failures’ mean more people with a range of housing aspirations are unable to afford housing on open market.”* (CIH webforum)

*“We have become too focused on tenure – we need more flexible systems that blend rents and mortgages – so we can improve lives at the individual level.”*  
(Sheffield stakeholder meeting)

People argued that it is important to get allocations policy right. Given the way that the stock is arranged at present, social housing cannot just be for the most vulnerable and needy as this will increase residualisation and damage the creation of sustainable mixed communities:

*“Allocation policies are very important in the mix debate – particularly where most lets go to homeless households. You can build or destroy a community through allocations over time.”* (London stakeholder meeting)

*“National homelessness policy is in direct competition with housing management/ respect and mixed communities agendas.”* (Sheffield stakeholder meeting)

*“The fact of awarding priority for problems in current housing gives people a disincentive to find other solutions, i.e. renting privately... If they sort themselves out, they lose any chance of offers of social housing.”* (CIH webforum)

*“The notion of social housing just for the poor and vulnerable is not the right answer as it will lead to residualisation/ghettos, will destroy life chances and will make it impossible for people to manage.”* (London stakeholder meeting)

**Box 13.1 Stakeholder views: Housing professionals (continued)**

It was suggested that social landlords and local authorities need more support and sustained funding from central government to bring housing and employment services together. However there was disagreement about whether social landlords are the right people with the right skills to provide this extra support for improving life chances:

*“It is difficult to finance employment projects from housing funds, especially the Housing Revenue Account – what has to happen is to pull together multiple funding streams – and this is very time-consuming – particularly when they all have different timescales, conditions and reporting mechanisms.”* (London stakeholder meeting)

*“There is a problem in matching revenue and capital funding packages. It’s relatively easy to get private sector capital involved, but virtually impossible to work in partnership with the Learning and Skills Council to get revenue funding.”* (Sheffield stakeholder meeting)

*“Housing policy can’t ensure sustainable communities (e.g. when a major employer in an area closes, then housing policy can’t solve this) – the answer is partnerships – for example, a strong Local Strategic Partnership.”* (Sheffield stakeholder meeting)

*“Social housing is more than just providing the housing – it’s also about helping people into employment through skills development. But this help needs to be continuous.”* (London stakeholder meeting)

Stakeholders in both the North and South emphasised the importance of recognising regional differences in the economics of housing when developing policy. For example, social housing plays more of a regenerative role in more economically depressed parts of the country. It is also important not to forget the differences in rural areas as provision of affordable rural housing is vital to keep some communities alive:

*“Social housing’s position in the market and the interplay with the private market is different in different parts of the country – in some places social sets the standard – in others it’s the ‘dregs’.”* (London stakeholder meeting)

*“This bonus of regeneration and improving the economic justification of the North is what social housing is for.”* (Sheffield stakeholder meeting)

There was a clear view that ownership is not everything, even for those who can afford it and it isn’t the right solution for everyone:

*“Right to Buy mustn’t imply that it’s ‘wrong to rent’.”* (London stakeholder meeting)

*“And Right to Buy doesn’t always create sustainable communities. We are now seeing some of the worst housing being the Right to Buy stock where someone could afford to buy it, but can’t afford to do it up.”* (Sheffield stakeholder meeting)

*“Upward/social mobility should not be measured by ability to become a homeowner, not least because of the financial costs and potential reduction in quality of life associated with homeownership by low income households.”* (CIH webforum)



**Box 13.1 Stakeholder views: Housing professionals (continued)**

Housing organisations (both local authorities and housing associations) could do a lot more and act more strategically if they had freedom to use their assets better:

*“The sector needs to have freedom to use assets/public subsidy more creatively – e.g. by abolishing the Housing Revenue Account.”* (London stakeholder meeting)

*“Landlords have to be able to manage their property portfolios effectively if we are going to get more and better mixes and places.”* (London stakeholder meeting)

Mixed communities are about more than just tenure:

*“Is the ownership of the assets the key to mix? Right to Buy may mix the tenure but it doesn’t necessarily change the underlying social conditions – people are still living in poverty; they just happen to be owners not renters.”* (London stakeholder meeting)

*“The best way to achieve mix is to get a good school in the area.”* (Sheffield stakeholder meeting)

*“The key barriers to economic and social mobility lie in inequalities in education, health and employment, all of which can be compounded by poor housing conditions.”* (CIH webforum)

The issues surrounding security of tenure and problems of “welfare dependency” were debated, with a range of different opinions:

*“The biggest barrier for those in social housing is a support system which encourages dependency on others, rather than allowing for people to take control of their own lives.”* (CIH webforum)

*“People might define ‘security’ as meaning self-respect, being able to plan for your own future – giving people the freedom and wherewithal to plan for their own future might be far more important to them than a secure social housing tenancy for life.”* (London stakeholder meeting)

*“The last thing we want is for social housing to become short-term repositories for people who are passing through to something better in another place.”* (CIH webforum)

*“If we accept that all members of society need stable and secure housing, social housing should provide the alternative to those not able to own their own homes not as a safety net for those who are deemed to have no other options.”* (CIH webforum)

*“Those on low income find security of tenure a very important platform of stability.”* (London stakeholder meeting)

## Market or “economic” rents

For those most persuaded of the virtues of the market and most sceptical about the ability of non-market provision to succeed, the lesson of the analysis above will be obvious: rationed provision at a sub-market price is doomed to fail, and the way forward would be to abandon the attempt. In particular, rents should be set by the market, not by bureaucrats, and consumers – tenants – should be free to make the trade-offs between quality, price and location that they make with other products and services. Landlords giving poor value for money would find themselves losing custom and profits and become subject to market discipline. To be sure, those with less income would end up with lower housing standards than those with more, as in other parts of life, but at least they would have made the trade-offs that would allow them to get what they valued most within their limited resources, rather than having those choices imposed on them. Crucially, if social rents were closer to “economic” levels (of the kind illustrated in Table 6.4), less – or even no – subsidy would be required, so social landlords could greatly increase supply (financed by borrowing), and prospective tenants would no longer be subject to such tight (or in the limit, any) rationing constraints.

Given the very large gaps between social rents and private or even economic rents, particularly in London and the South East, such an approach would, of course, be very alarming for those currently living in social housing.<sup>67</sup> One defence would be to argue that Housing Benefit would be allowed to take the strain – yes, rents would rise for existing and prospective social tenants, but for the majority on low incomes, Housing Benefit would rise to offset the cost, on average at least. The downsides of this – present in degree from any move towards higher rents – are the reverse of many of the issues discussed in Section 2:

- If more reliance is put on Housing Benefit as a result of higher rents, the poverty trap is inevitably widened (and/or deepened) and incentives to work reduced,<sup>68</sup> which is unhelpful if a key concern is the level of worklessness in the social rented sector. Simply assuming that the vast majority of tenants would remain without paid work anyway would seem a very pessimistic approach.
- As a corollary, higher-income tenants might be more likely to leave the property they were occupying at its new, less advantageous, higher rent, exacerbating area polarisation problems.

<sup>67</sup> Such a large change would itself change the “market”, of course, so that the end result might not be quite as large an increase as the current difference between social and private rents.

<sup>68</sup> Note that while changes could be made to the “taper” in Housing Benefit, for instance reducing the rate of withdrawal as income increases to improve incentives at some earnings levels, that would be at the expense of widening the income zone over which withdrawal occurred, and so affect a greater number of people, so such a change would not remove the fundamental impact of higher rents.

- If the aim of the reform was to transform all rented housing into a market sector, this would only make sense if the Housing Benefit system were based on flat-rate allowances, rather than adjusting pound for pound with any change in rents. But given the variations in rents for similar households in similar property within the social sector, this would mean significant gains for some and losses for others, even if on average lower-income tenants were protected. As moving house is expensive and disruptive, it would be hard for some of those hit by the greatest rent increases to adjust to them.

A way of mitigating the problems would be to introduce some form of “transitional protection”, such as setting market rents for *new* tenants only, allowing existing ones to continue to pay rents set according to the same kinds of rules as now. This would be at the cost of slowing the impact of reform and of creating large differences in treatment between similar households depending on their date of entry. This could exacerbate mobility problems for existing tenants – the continuing non-transferable, and now not to be repeated, right to pay a low rent would be something people would be even less likely to give up.

A more sophisticated approach to protecting existing tenants would be to raise rents to market levels, but to give existing tenants a marketable equity share in the property they were occupying (and so the right to pay a lower rent as part-owner). The market would still operate, but the prospective losses to existing residents would be offset by being given a property right equivalent to them. As this would be marketable, they would not only be no worse off, but could use this lump sum in other ways that better reflected their own choices.

This last suggestion raises the question of who benefits from the greater flow of income from increased rents, whether they affect new tenants only or existing ones as well? The flow of income to social landlords would be vastly increased, while in one way or another, the cost of benefits to the state would also rise.<sup>69</sup> Obviously, the Treasury would only be happy with such a move if it had a way of capturing the newly arising surpluses, at the point of change, at least (for instance, from housing associations that did not have large development programmes). How this could be done in a way that did not undermine the rationale of a market-driven reform is not obvious. If all of the impact of a rise in rents is somehow taxed away, in what sense is a market being established? But if some of the surplus lies where it falls, the reform could end up with a net cost to the taxpayer after allowing for increased benefit costs.

One observation from all of this is that while there would be daunting impacts from this kind of move in parts of the country, in others there would be much more modest effects. The analysis in Section 8 suggests, for instance, that social rents in the North may on average be only around £10-20 per week below those that would give an “economic” return on housing assets. The costs of moving towards a system which would involve far fewer of the downsides of rationing would be much lower there than in, say, London, where social rents may be around £70-80 below economic levels.

<sup>69</sup> Not just because Housing Benefit costs would rise, but also because the effect on retail prices would increase the cost of payments linked to the RPI, further reducing the net gain to government from higher rents.

## Variable grants and vouchers

From a different perspective, a key reason for providing social housing at sub-market rents is a distributional one, to compensate for the considerable differences in resources – financial assets and human capital as well as current income – available to some but not others. The granting of a social tenancy to those with particular needs gives the right to a continuing flow of benefits – the subsidised rent – but with the downside that this is tied to one kind of housing, with only limited opportunities to move. If this is a key objective – and it certainly is one of increased salience as inheritance of owner-occupied property grows – then it could in theory be tackled more directly. Instead of an assessment of needs leading to the granting (or not) of a social tenancy, it could lead to a capital grant, or to a right to a flow of year-by-year “vouchers”, which people could use far more flexibly. This could either be restricted to being spent on housing – for instance, as a (possibly large) deposit on purchasing a property, or to pay rent within a competitive rental market – or untied, and so available for other uses that the beneficiary thought more important.

While thinking of social housing policy as simply a branch of “asset-based welfare” may seem outlandish, this is not so far from the approach already being taken towards low-cost home ownership. In most of the low-cost home ownership schemes (see Box 11.3), people effectively benefit from access to a low-cost asset, but may have some freedom over where to spend it (as with Open Market Homebuy), and certainly have the right to sell and move elsewhere, in contrast to the “tied” benefit that comes with a social tenancy. Access to these schemes is limited to those meeting certain income and other criteria, so it would not be such a change in principle to widen their scope as at least a partial alternative to the traditional social housing route. Part of the experience with these suggests that some people given the choice, prefer such flexible support, even if its effective cost of provision is much less than that of a traditional social tenancy (Table 11.7).

A distinction here from approaches that rely on offsetting higher rents through greater Housing Benefit is the way in which such help changes with people’s circumstances. Housing Benefit is intended to change immediately someone’s circumstances change, and this is one of the reasons for its sharp disincentive effects (as well as for some of the difficulties in running it). By contrast, the benefits from capital grants or a flow of fixed vouchers can be retained as people’s circumstances improve (but, by the same token, do not adjust to changing circumstances, which could include greater needs or lower income). In other words, the approach offers something different from traditional social housing (where the level of support is relatively insensitive to household circumstances, but can be retained if income rises) and Housing Benefit (where entitlement is tailored precisely to circumstances, but which is removed if income rises).

## Time-limited support

It is not obvious, however, how one would calculate just how large a capital grant (or supply of vouchers) different households might be entitled to in such a system, and if this were run as a one-off calculation, at lot would ride on it, and on the initial assessment of circumstances. This would bring its own potential disincentive effects, and some of the same worries of how people “prove need” we already face with social housing. A way of reducing the stakes would be to make an assessment that brought entitlement to fixed support (such as through vouchers) for a certain period, such as one to five years. In between assessments, people would know where they stood without worrying about any immediate loss of support if, for instance, they found work. The trade-off though is that the longer the fixed benefit period, the greater the stakes at each reassessment, but the shorter the period, the quicker the adjustment to better (or worse) circumstances.

Again, a system of this kind may sound outlandish, and indeed it is not so far from some US schemes where tenants pay rents that depend on their initial incomes, but are adjusted periodically if those incomes change. But it is not so different from suggestions made by some in the course of this review that we should move away from permanent security of tenure for social tenants towards tenancies that are reviewed periodically, with such reviews possibly leading to a higher rent and lower effective subsidy and/or to people being required to move if they were found to be “under-occupying” a property. Such suggestions have two motivations. The first is to focus the greatest support on those who “need” it most. The second is about stock management – with extreme pressure on social landlords, particularly from families needing more bedrooms, the ability to move “empty nest” couples or single people might be a way of reducing overcrowding. A threat to the security of tenure of existing tenants who have taken it for granted would be controversial, to say the least. It would also have some side-effects which could reinforce some of the key problems described above:

- The threat that a tenancy might end, or rent increase, if someone’s circumstances improved would be an unhelpful disincentive to moves towards economic independence (or at least to what was reported at the time of each review).
- If tenants who become better-off lose their right to a tenancy and have to move, the system could institutionalise polarisation.
- If the level of rental income depends on their tenants’ future incomes, landlords’ future finances become correspondingly uncertain, making it harder for them to borrow.
- Unless parallel pressures were put on owner-occupiers who “under-occupy” property (such as through more steeply graduated council tax between bands or other charges that made occupying larger property more expensive), it would seem strange in equity terms to be concentrating on the relatively small number of social tenants with larger amounts of space, particularly as it is the owners who have benefited from the increases in value that housing market pressures have created.

While these are strong arguments against a system of review based on coercion or removing advantages, they are not arguments against *incentives* and *options* that might be open to tenants as their circumstances improved. Already on a limited scale, some landlords do offer grants for tenants who are prepared to move to smaller properties, although the size of these is usually rather small compared to the effective value of what is being given up. If some of the new entrants who might have been entitled to traditional social housing prefer the (lower cost to the public sector) low-cost home ownership options because of the flexibility and asset ownership they offer (and hence the potential to use it later in a different way if they choose), the same might be true of *existing* tenants whose circumstances have improved. Again, this is not entirely a new idea – where tenants exercise the Right to Buy at a discount which is lower than the prospective future value of subsidised rents, they are making exactly such a trade-off. Prospectively this offers a gain to both sides – support in a form that the tenant prefers and lower long-run cost to the state. If such options can be exercised without moving, they may help retain tenants whose circumstances improve within an area, helping the extent to which it has mixed incomes. Section 18 below returns to this kind of idea.

### Flat-rate benefits

A final variety of radical reform is concerned with the benefit system as well as social housing in itself. This starts from the observation that there is often little trade-off between the price that tenants pay and the size or value of the property they occupy. This can result either from the relatively flat rent structures within social housing or from the operation of the housing benefit system, where (until the experiments with local housing allowances discussed in Section 14) a higher rent can simply mean higher benefit. This both blunts incentives for efficient occupation of the stock, and also means that those who do end up occupying the least valuable property have little gain from doing so. One of the original aims of “rent restructuring” (see Box 8.1) was to produce more coherent relativities between rents within the social sector, and this was seen as a necessary precondition of reforms of Housing Benefit for social tenants that would move towards fixed allowances with less dependence on actual rent paid.<sup>70</sup> If rents bear little relation to the value of what was occupied, giving a “shopping incentive” through flat-rate housing allowances would be both of limited value in incentive terms and potentially unfair as people received windfall gains and losses from the difference between a flat-rate allowance and their actual rent. Incentives to move to different kinds of property are also of limited value if it is not, in fact, possible to move, and if tenants have little choice over where they live. Conversely, though, if one is trying to construct a system which allows more mobility and choice, systems that embody some kind of trade-off between the net cost and quality are likely to make them more effective. At present, however, the rent restructuring process is still incomplete, and even when complete will embody only small differentials in rents between different sizes of property or locations.

<sup>70</sup> Department of the Environment, Transport and the Regions (2000), *Quality and Choice: A decent home for all*, p.115. The rent restructuring formula (Box 8.1) in fact produces rents that vary relatively little across the country, rather than giving a high weight to capital values.

## Summary

Given the pressures within social housing and some of the problems arising from its essentially rationed nature, it is hardly surprising that some advocate fundamental reforms that would result in a much more market-based, less rationed system. If rents were closer to “economic” levels, less, or even no, central government subsidy would be required, and social landlords could much more easily increase supply. But such changes could risk losing the potential advantages of social housing outlined at the start of this report. The side-effects of such reform and the higher rents they would entail, particularly in high-cost regions, could be damaging both to promoting work incentives and to achieving more mixed-income communities. They would also have major effects on existing tenants, and it would be difficult to construct systems of compensation that prevented large losses to some (although it is possible to imagine arrangements in which the grant of an “equity share” to existing tenants gave equivalent compensation). However, thinking through ways in which packaging support for people in different situations in ways that are not limited to traditional social tenancies, begins to suggest directions in which more modest reforms could both increase the options available and make better use of very scarce and pressured resources. The same package is not necessarily appropriate for all those needing housing support in all parts of the country. At the same time, if fundamental reforms are rejected because social housing *potentially* avoids some of the problems of a pure market, it becomes even more important to ensure that it actually *does* do so, and that the problems outlined above are tackled.

## 14. THE EXPERIENCE WITH RECENT REFORMS

### Local Housing Allowances

Since it was established in its current form in 1988, Housing Benefit has been fundamentally based on covering the whole of a claimant's rent, less an amount depending on their income. For private sector tenants, this has been subject to limits – such as the Local Reference Rent or the Single Room Rent – depending on local rent levels and the size of household (Box 11.1). Anyone with rent above it would therefore have benefit based on the limit itself, but for those actually paying lower rents, benefit is based on actual rent.

Since 2003 the Department for Work and Pensions has been experimenting with an alternative system, where benefit is based on *fixed* allowances for all tenants, rather than depending on actual rents for some of them. This was introduced (for private tenants only) first in nine “pathfinder” local authority areas in 2003 and 2004, and then in a further nine areas in 2005. Extensive evaluations have been carried out in these areas, the results of which are now becoming available.<sup>71</sup> Following this experience, the Government announced in the 2006 Green Paper, *A New Deal For Welfare: Empowering People to Work*, that a version of the reformed system would be introduced for all tenants in the deregulated private sector. National roll-out is expected to take place in 2008.

The aim of this reform is to simplify the system, and to create a situation where claimants both take more responsibility for paying for their housing and gain when they are paying less for their housing than the fixed allowances. It is a move in the direction of introducing more of a trade-off between costs and quality for private sector claimants. As such it potentially has benefits in terms of supporting individual choices, but it also carried potential dangers, evidence on which is discussed below.

Table 14.1 shows the levels of Local Housing Allowance applying in September 2006 in a range of the pathfinder areas. As with the Local Reference Rents shown in Box 11.1, the allowances vary considerably between areas and size of household, for instance from £65 per week for accommodation with two “habitable rooms” (living rooms or bedrooms) in Hull in September 2006 to £480 per week for accommodation with six such rooms in Wandsworth. These allowances have been based on the mid-point between the highest and lowest private rents in the “Broad Rental Market Area” (based on the “locality” used to set the Local Reference Rents). In the future, with national roll-out of the reforms, allowances will be based on median rents in the area (which may be lower or higher than the system in the pathfinder areas).

<sup>71</sup> Available on the DWP website at <http://www.dwp.gov.uk/housingbenefit/lha/evaluation/>.



**Table 14.1 Local Housing Allowances, September 2006 (£/week)**

	Number of habitable rooms <sup>1</sup>					
	Shared	2	3	4	5	6
<b>Hull</b>	42	65	83	94	100	108
<b>Leeds</b>	50	83.5	101	113	123.5	137.5
<b>Coventry</b>	50	92	113	121	126	150
<b>Salford</b>	55	84	96	105	111	129
<b>St Helens</b>	61	84	98	106	118	137
<b>Norwich</b>	68	99	122	133	145	176
<b>Brighton &amp; Hove</b>	75	139	171	213	247	290
<b>Guildford</b>	85	150	179	208	251	323
<b>Wandsworth</b>	90	206	268	318	409	480

Note 1. Habitable rooms include living room(s) and bedroom(s).

It is too early for evaluation results to have emerged on all potential aspects of the reforms, but the evidence so far suggests the following:

- The switch to a system where tenants usually receive Housing Benefit in cash and then pay their landlord (rather than it being paid “direct” to the landlord) is argued to have had benefits in terms of financial inclusion, with more tenants opening bank accounts, for instance.
- This could have led to a problem of greater rent arrears, but there is no evidence of this: nearly all the private tenants affected prioritised rent payments.
- As the landlord does not necessarily know that a tenant is receiving Housing Benefit, access to accommodation has been easier for some tenants, who might otherwise have been excluded.
- Tenants like “knowing where they stand” in benefit entitlement even before they move into a property. In principle, this should also make the work of Jobcentre Plus easier in advising people on what their incomes in different situations would be, although there is no evidence that this advantage has actually been realised. It is too early to say whether there have been any effects on people’s labour market behaviour.
- There is no evidence that the “shopping incentives” in the new system have greatly affected behaviour. However, there is some evidence that there is more negotiation between tenants and landlords over the rent, and tenants appear to have taken property more closely matched to their household size. There is no evidence of tenants ending up in inappropriately small accommodation to keep the difference from the allowance (fears of which, being, of course, one of the justifications for specifically housing-based assistance discussed in Section 2).

- There have been some administrative advantages from local authorities not needing to know individual rents, but there has been no major impact on HB administration as a whole: the ways in which benefit should change with every change in circumstance are unchanged, and administrators also need to assess which are the vulnerable cases where benefit should continue to be paid direct to landlords.

Overall, the experience with the pathfinders has been positive, with moderate advantages to those involved with the system, and the adverse side-effects that might have been feared have not materialised. As some tenants already had limits on the rents on which benefits have been paid, it has meant that by and large, they could only gain from the new system. As a corollary, the pathfinder system has had a net cost to government.

With this positive experience, the Government has decided to extend the system across the private rented sector nationally (in Great Britain, with Northern Ireland likely to follow). There are, however, some important differences in the national roll-out from the pathfinders:

- While some of the pathfinder authorities brought all HB recipients into the new system immediately (with benefits in terms of administration), in the national roll-out only new recipients and those who move house will be brought into the new system.
- The basis for the Local Housing Allowances will change, as described above, which will mean that they are sometimes below and sometimes above what were Local Reference Rents, depending on the shape of the local rental market (DWP estimates that the majority of claimants will gain under the national roll-out compared to the current system).
- In an important difference from the pathfinders, the maximum difference between the LHA and actual rent will be £15 per week. That is, the most tenants could gain from paying a rent below the LHA would be £15. This limitation is designed both to reduce public spending and to control the number of cases where tenants might be seen to be making large gains from the fixed allowances while paying a low rent. By the same token, of course, this restriction reduces the extent to which the system gives stronger trade-offs and choices to tenants, and reduces the administrative simplification it introduces (as local authorities will still need to know individual rents in order to impose this restriction).

There are currently no plans to extend a system of a similar kind to tenants within the social rented sector.

## Choice-based lettings

A second area of modest reform in recent years has been the introduction of “choice-based lettings” (see Box 14.1). For some readers, it might seem remarkable that a system affecting such a large part of people’s lives should have been run in a way that did *not* allow very much choice to prospective tenants, but most lettings in the social rented sector have been based on what are tellingly described as “allocation systems”. Usually, as each property becomes available for letting, the tenant with the highest priority for that size of accommodation would be allocated the property, with the option to accept or reject it (and only a limited number – sometimes only one – of such “offers” to accept or reject before dropping down the queue). By contrast, with choice-based lettings, vacancies are advertised through similar routes to private sector lettings (such as newspapers and websites as well as landlord offices). Prospective tenants can then “bid” for the property by a certain date, and it will go to the person with the highest priority (such as the longest waiting time within a “band” of need category).

The system was introduced following the 2000 Housing Green Paper. By April 2006, 32 per cent of local authorities had introduced it, and were typically applying it to three-quarters of their lettings. A further half of authorities planned to do so soon, and the Government aims that all authorities should be applying the system to at least part of their lettings by 2010. The spread of the system in housing associations has been slower, but by the end of 2005, 77 English associations were using the system. The introduction of the system has been monitored over the last few years, and the results are strikingly positive:<sup>72</sup>

- Applicants generally prefer the system and the choice and element of control it gives them (with the exception of some frustrated bidders who have continued unsuccessfully to bid for many properties, failing to achieve them because of their lower needs ranking or waiting times).
- It often results in faster relet times for vacant properties, and to less turnover once tenants take a tenancy (typically 10-20 per cent less within the first year).
- As a result, although choice-based lettings systems have large set-up costs, they can result in considerable (hundreds of thousands of pounds per year) net cost savings to authorities in later years.
- A fear was that the statutorily homeless would end up in the lowest-demand properties. In fact the reverse has happened (with some authorities offering support to vulnerable applicants with the bidding process).
- However, the overall number of applications for lower-demand property has increased, as people see that they have greater chances of successful bids for it (or lower waiting times).

<sup>72</sup> For a summary, see *Monitoring the Longer-Term Impact of Choice-based Lettings*, Communities and Local Government Housing Research Summary 231, 2006.

### Box 14.1 Choice-Based Lettings

The Government introduced its choice-based lettings (CBL) programme in 2001 as a pilot. In 2002 it set councils the target of introducing choice-based lettings by 2010 for people looking for affordable housing, with an interim target of 25 per cent of local authorities by 2005. Rather than being “allocated” a property, under CBL people looking for social housing and low-cost home ownership “bid” for the properties they want – more like those renting or buying in the private market. The properties are advertised widely in the neighbourhood, for example in the local newspaper, through a special magazine, or on a website. Applicants can then see the full range of available properties and can apply for any home to which they are matched (e.g. a single person would not be eligible for a 3-bedroom house).

In order to decide who should get priority when bidding for a property, many local authorities operate a banding system which groups people in order of needs as defined by the allocations legislation (see Box 2.1), although some authorities still use a points system. For example, the Locata West London scheme<sup>1</sup> has four bands: Band A (emergency/top priority), Band B (urgent need to move), Band C (identified housing need) and Band D (other). Applicants can then bid for an appropriately sized property, and will be given priority first on their banding and then on their waiting time while in that particular band (their priority date). For example, Band A would trump all other bands but if two people from Band A were bidding for the same property then the one who had been waiting longest while in that band would get it. The key determining factor in this process is level of need, but once someone is in a high enough need band then waiting time becomes more important, so applicants can make the choice whether to hold on for a better property or settle for a less good one earlier. As part of the bidding process authorities provide feedback that helps applicants to assess their chances of success in subsequent applications. This is important as otherwise applicants can bid fruitlessly for properties which they have no chance of getting, particularly those in the lower needs bands.

The Government is encouraging local authorities and housing associations to set up CBL schemes which go across local authority boundaries and enable tenants to bid for properties in other areas. There are three ways that this can be introduced:

1. Exchange – partners exchange a quota of properties on a “like-for-like” basis
2. Quota pool – partners put a quota of properties into a “pool” which is available for cross-boundary moves e.g. the West London Locata scheme. In these schemes, applicants get to see a selection of properties in the neighbouring borough (e.g. 10 per cent) which the system selects at random, with monthly monitoring to track the gains and losses to each partner in the scheme
3. Unitary – a common waiting list and policy across the participating local authorities, with adverts generally open to all matching registrants e.g. the Homefinder scheme in Devon and Cornwall.<sup>2</sup>

<sup>1</sup> This includes the London Boroughs of Brent, Ealing, Harrow, Hillingdon, Hounslow, Hammersmith & Fulham and housing associations Ealing Family, Paradigm, PCHA, Thames Valley, Shepherds Bush, Acton, Notting Hill Housing and Westway Housing Association Ltd.

<sup>2</sup> This scheme includes the Districts of West Devon, Restormel, Caradon and North Cornwall.

- Another fear was that choice-based lettings would exacerbate problems of neighbourhood ethnic segregation. Again, if anything, the evidence is of the reverse, with more dispersal.
- In some areas the system appears associated with longer-distance moves within local authority areas.
- The system appears to work effectively in both high- and low-demand regions.

Summarising the research findings, the authors suggest that,

“Choice-based lettings represents a radical departure in the traditionally rather paternalistic world of social housing. Although it implies some transfer of power to the customer, the CBL concept has caught the imagination of many housing staff. It has been embraced by numerous landlords as symbolising a commitment to modernisation.”<sup>73</sup>

This success is in some ways all the more remarkable, as it has come within an environment in which access to social housing is becoming more restricted as the number of available lettings has declined (Figure 12.8), and as needs-based criteria have become more important within even non-homelessness lettings (Box 2.1). The “choice” in choice-based lettings is a highly constrained one, and for restricted groups, but even this change appears to be having positive effects.

One aspect of choice-based letting that is at present rather limited is the extension of schemes to allow “cross-border” choices. There are a few sub-regional schemes in operation – in parts of London and Cornwall – where applicants from one authority area are allowed to bid for vacancies in another.<sup>74</sup> Some of these systems work through a simple exchange process – a successful applicant going one way across a border has to be matched by another going the other way. Others offer a quota of properties into a common pool – typically 10 per cent of their vacancies – from which applicants from any of the participating authority areas can bid. In Cornwall, authorities are running a “unitary” system, where applicants are (generally) able to bid within a common pool across several local authority districts.<sup>75</sup>

<sup>73</sup> *Ibid.*, p.10.

<sup>74</sup> With the oddity that an applicant may have to prove a “local connection” to the first area, before being allowed to bid for a property in another.

<sup>75</sup> Communities and Local Government is encouraging the further development of such sub-regional schemes, and is providing additional funding for them to be established.

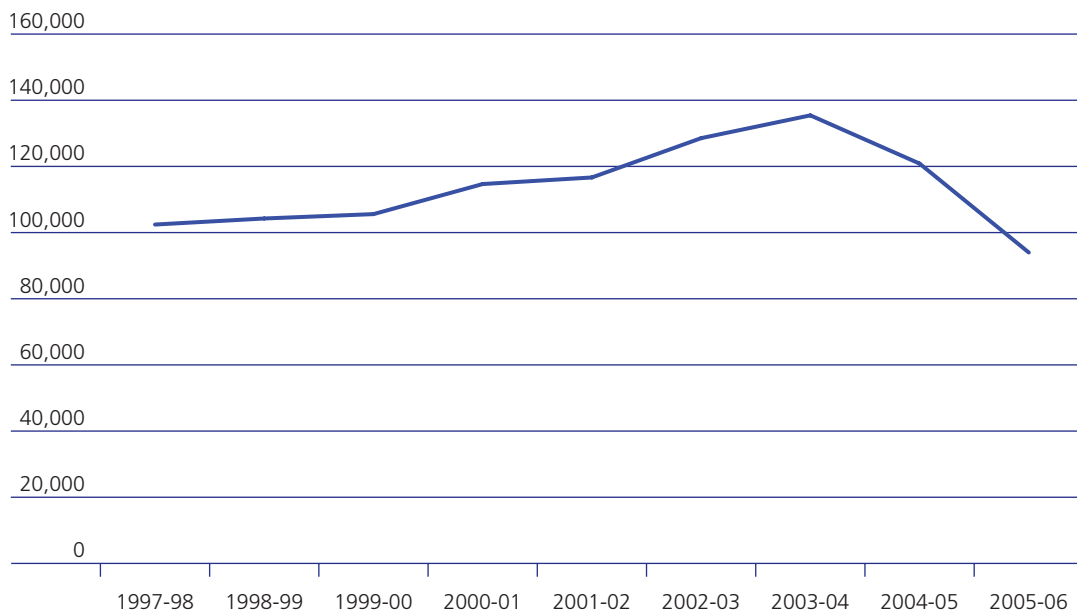
## Preventing homelessness

A third initiative of the last few years is the “preventing homelessness” strategy. Following the 2002 Act, local authorities have been encouraged to take a more proactive approach to people who might be at risk of becoming homeless, with a particular emphasis on early intervention. As Figure 14.1 shows, in the last three years, this strategy appears to have had a remarkable success. From an annual figure of 135,000 households being accepted as homeless during 2003-04, the rate had fallen to about 95,000 in 2005-06, and is expected to be around 80,000 in 2006-07.

Strategy towards homelessness is, of course, one of the most sensitive and important parts of housing policy. In the last two decades it has become an increasingly tense area: local authorities administer the rationing of a scarce, often desperately needed, but also valuable resource, granting of a secure tenancy at a below market rent. To gain this access, people in particular categories (Box 2.1) have to satisfy authorities that they are in “priority need”. While homelessness allocations are only a minority of all social housing lettings, they are a much higher proportion of lettings to *new* tenants, excluding those moving within the sector. Suspicions of queue-jumping or engineering circumstances to gain such access abound, with the homelessness “route” sometimes perceived as a fast-track to a social tenancy. In reaction, applicants may feel scrutiny of applications has become tighter, and those in genuine need feel harshly treated. The preventing homelessness strategy has tried to change the emphasis from a rationing role towards one which tries to tackle something closer to the root of the problem. Approaches used include:

- Improving housing advice and explaining to those who are applying to be registered as homeless both what their options are and a realistic assessment of them (such as the prospective length of time in temporary accommodation before being given an offer, and the likely characteristics of that offer).
- Where someone has problems getting access to private rented accommodation because of the cost of deposits and rent-in-advance, 87 per cent of local authorities now offer rent deposit schemes.
- Mediation with landlords (for instance, if someone is facing eviction because of arrears or other problems) or with family (if, for instance, a young person or a lone parent has reported that their parents are on the point of throwing them out).
- Respite options while permanent safety arrangements are made for people who have been subject to domestic violence.

Some authorities – such as Cheltenham and Bournemouth Borough Councils – now offer what they see as “housing solutions” services – offering a range of options and advice, not just for those in greatest need, but for anyone with a housing problem.

**Figure 14.1** Statutory homelessness acceptances (annual)

Source: P1E quarterly returns, Communities and Local Government.

The success of this strategy is important in its own right, but it has potentially greater significance too. It suggests that when people are offered options and advice, the best solution for them is not necessarily the queuing and rationing access route to a permanent tenancy. In some ways this is remarkable – simple, and low-cost interventions such as advice or the offer of a rent deposit are being taken up, rather than the prospect of something with a very high long-run cost to the public sector. It also suggests that much can be gained from going closer to the root of *why* people have a problem in accessing decent housing. Section 17 below suggests that this philosophy could be taken further in helping people tackle the lack of *resources* which puts them in such a weak position in the housing market.

## Summary

The experience with three particular recent initiatives has been encouraging. The Local Housing Allowance pathfinders have put more private tenants in a position where they can make trade-offs between their housing spending and what they get, simplifying the system, but without evidence that people are choosing unsuitably small accommodation in search of a larger saving. Even within the heavily constrained access to social housing that we have today, “choice-based lettings” have proved popular with applicants, have speeded relet times, reduced turnover from new lettings, and have saved local authorities money as a result. The “preventing homelessness” strategy, through opening up simple low-cost options such as rent deposits, advice, mediation and support has led to a significant fall in the number of people pursuing the statutory homelessness route of access to social housing.

These initiatives have several things in common. At their heart they treat those in need of housing support in a more adult way – moving towards a system where people make more of their own choices from a wider range of options, providing support when people need it. In particular, they do not start from the assumption that there is a single solution, to be chosen by administrators on behalf of those who make it to the end of a rationing process. The progress they have made suggests that such principles could be applied more widely.



## 15. THE IMPORTANCE OF THE EXISTING STOCK

In thinking about policy options for the future of social housing one fact stands out from the analysis in earlier sections – the importance of the *existing* stock and of *current* tenants by comparison with newly built stock and incoming tenants. It seems likely, even if there were a sustained increase in the rate of building new social housing, for instance, that we already have 90 per cent of the stock we will have in ten years' time. Yet the focus of policy and of the policy debate is often overwhelmingly on the new stock and on access routes to social housing. This seems unbalanced, not just because it means that too little attention may be being given to the needs and lives of the nearly four million households already living in social housing, but also because mistakes in managing and looking after the existing stock can entirely offset the benefits of getting things right on the new supply. A failure to maintain property adequately, to prevent decline in neighbourhood conditions, or to keep an income mix that would avoid stigmatisation of an area that led to just one per cent of the stock effectively being lost would offset more than a year's new production. The history of the last thirty years is that such mistakes have been made all too often.

This is not to argue that new supply does not matter: the pressures outlined in Section 12 show how much it does. But it does suggest that simply having policies which, for instance, ensure that new social housing is built as part of mixed-income areas will do little to reduce the overall level of geographical segregation of social housing. Policies such as shared ownership schemes have helped expand the range of options available in the housing market, but their total scale is still tiny by comparison with the existing traditional owner-occupied or social rented stocks. The "preventing homelessness" strategy is helping support a flow of those newly arriving in housing need, but their numbers are small by comparison with the number of existing tenants, whose support needs do not necessarily end once they have been allocated a property. Offering more choice to those coming into social housing through choice-based lettings matches properties better to the preferences of those entrants, but over the same period, the ability of existing tenants to move home has, if anything, diminished.

If this need to rebalance the attention of policy is accepted, there are strong implications for the priorities of policy towards social housing, some of which are explored in the next three sections. This report on the aims of social housing is not the appropriate place – and the time available for this review has been too short – to make recommendations about management issues or about the structure of social landlords, but there are several areas that it would be important to give attention to:

- The levels and growth of dissatisfaction of social tenants with their accommodation, landlords in general, and repairs services in particular suggest that it is not enough to get the physical condition of individual properties right. The recent attention to the long-run condition of the social stock and success in moving towards the "decent homes" standard is a precondition of providing a better quality service than tenants could otherwise purchase in the market, but is not enough by itself. See Box 15.1 for the key concerns and suggestions from consultation with people involved in various tenant groups.

### Box 15.1 Stakeholder views: Tenant consultation

The text below provides a selection of some of the individual views expressed at a tenants' consultation event organised as part of the review held at the National Communities Resource Centre at Trafford Hall. Around forty current tenants from a cross-section of regions and social housing types (local authority, Tenant Management Organisations, and housing associations) attended this event.

Tenants at the event wanted more tenant and community empowerment, with real engagement and honesty from central and local government. They felt that this should be backed up by sustained investment if it is to work properly. They also wanted increased community control with more trust between central/local government and tenants / community activists / third sector volunteers:

*"More real community empowerment – don't just pay lip service to tenant involvement. Better dialogue between councils and tenants"*

*"Central and local government need to be honest with tenants and trust them more"*

*"Change attitudes among tenants – less waiting for things to happen and be part of the change process"*

Many participants argued that the Government needs to build more social housing and stop selling off the existing stock, or if it is sold off, make sure the proceeds are reinvested in provision of new units.

There was a strong feeling that we need to reduce the stigma attached to the sector, for example by getting rid of the term "social" housing:

*"Try to create a new vision of social housing as (not as a last resort) but of choice (not stigmatised) – use a better word than 'social'"*

Participants said that there should be a fairer, more transparent, allocations system. Landlords should also have the ability to evict anti-social tenants and reward good tenants:

*"Waiting list times are terrible. Some people might never get to the top of the list. Points system means people lie to get extra points – that's also unfair."*

*"Priority for family members keeps communities/extended family networks together and offers care for elderly and social supports. It seems unfair to tenants that their family members have to move away while newcomers get in."*

*"Reward 'good' tenants and give incentives for all to look after their properties"*

**Box 15.1 Stakeholder views: Tenant consultation (continued)**

Tenants at the event also argued that the Government needs to restructure the benefit system to make it easier to go into work, for example having less steep/immediate withdrawals of benefits, allowing people to do voluntary work, etc. In addition some suggested that perhaps social housing itself does not help, and that landlords should do more to help tenants back into work:

*“People are scared of working because their benefits stop. Need help for the first few months while get on your feet.”*

*“Social housing doesn’t encourage people to get off unemployment, because they get their rent paid, no aspirations. Rent is very cheap and benefit system means there’s no point working.”*

*“Enable tenants to get into work through training schemes”*

Tenants at the event felt that owner-occupation is not everything and that some people do not want the responsibility of owning long term, especially if they are in low-paid work or are unemployed:

*“Not everyone wants to be an owner-occupier. Why presume young people want to buy – not all do. Benefits of being a tenant are that there is less responsibility e.g. repairs, for those who can’t afford them or have insecure jobs.”*

*“People don’t want the responsibility of owning bricks and mortar over long-term – it’s not just paying for it, it’s keeping it up as well”*

There was also a feeling that the single social housing “offer” was not right for everyone and that more personal choice and flexibility would be a good thing, although there were varying views of how things should change:

*“Provide a wider range of social housing to cater for all needs, i.e. single young mum should be in supervised accommodation, not a 3 bed house which is more acceptable for older members of society”*

*“Introduce service menus so tenants can choose which they want and pay accordingly”*

*“Social housing should be a stepping stone not a permanent home, except for elderly, people with disabilities etc. Prioritise based on whether need is temporary or permanent. Offering social rented housing for life is a disincentive to get into work, etc”*

*“Security of tenure for life is a basic/fundamental right. It isn’t right to threaten people with the loss of their homes.”*

- One of the advances of the last decade has been the way in which more social housing is run on a basis which treats it as a capital asset, taking account of long-term repair needs or depreciation, rather than on a “cash book” basis. The process of transfer of council housing to newly established housing associations has been part of this: not only has this meant more concentration on the landlord function, but it has also meant the finances of the new landlords being established on a long-term sustainable basis. Ring-fencing of local authority landlord accounts helped ensure that efficiency savings made within housing, stayed within housing. The development of Arms Length Management Organisations (ALMOs) for properties remaining in council ownership has allowed concentration of focus at a smaller scale. Ways of ALMO finances also developing in a way more appropriate to the management of capital assets are also now being explored (see Box 15.2).
- The limits on mobility once people are within social housing appear to be tightening. There has never been much scope for movement *between* areas, and existing “mobility” schemes are tiny in scale (Box 10.1). Recent court judgements and the concept of “cumulative preference” (Box 2.1) may make it harder for existing tenants to move *within* the stock, unless they can prove high levels of need. The observation that such a tiny number of social tenants – a few thousand each year out of nearly four million – are able to move at all for job-related reasons, even within the same area, is a testament to the way in which people can get locked in to a particular property.
- It may be that the tightening affordability pressures in the private housing market mean that most social tenants have no realistic option but to stay put. However, if the quality of management is low and tenants have little mobility and choice, the sector will remain a long way from being the “sector of choice” that many social landlords aspire to. Frustration and resentment against perceived better treatment of others are recipes neither for easy management nor for good community relations. It is striking that, for instance, dissatisfaction with space standards is much higher for social tenants than for owners or even private tenants with the same space per person.

### Box 15.2 Arms Length Management Organisations (ALMOs)

An Arms Length Management Organisation (ALMO) is a company set up by a local authority to manage and improve all or part of its housing stock. The company is owned by the local authority and operates under the terms of a management agreement between the authority and the ALMO. An ALMO is managed by a Board of Directors which includes tenants, local authority nominees and independent members. The housing stock remains owned by the council and tenants remain secure council tenants.

ALMOs have been established as an alternative route for managing council housing and delivering “Decent Homes” for those local authorities for which a Private Finance Initiative scheme or the transfer of the stock to a housing association might not be financially viable or attract enough tenant support. ALMOs can only be established with the consent of the Communities and Local Government (CLG), which requires that councils have consulted their tenants and leaseholders and can demonstrate their support for the ALMO proposal. In addition an ALMO must demonstrate that it is providing a high standard of service before getting extra funding. CLG offers funds to ALMOs rated 2\* (good) or 3\* (excellent) by the Audit Commission's Housing Inspectorate (see Box 15.3 for an explanation of the Audit Commission's star ratings).

ALMO funding takes the form of permission for local authorities to borrow, on which CLG effectively pays the loan charges through the Housing Revenue Account subsidy system (Box 6.1). Funding for ALMOs that have qualified since 2004-05 includes a 5 per cent supplement for environmental and other works to enhance the sustainability of the investment in “Decent Homes”. ALMO funding from CLG is additional to funds from other sources (e.g. the Major Repairs Allowance) that councils invest in Decent Homes. By August 2006 there were 56 ALMOs managing over 700,000 homes, representing almost one in three council properties.

#### Self-financing authorities

The report by the National Federation of ALMOs and the Chartered Institute of Housing, *ALMOs – a new future for council housing*, in April 2005 set out a range of ways in which councils and their ALMOs could become self-financing. Self-financing would remove councils from the Housing Revenue Account Subsidy system, under which funding decisions are taken annually. This could improve long-term business planning and lever in more investment. Self-financing would cover housing management, maintenance, improvements, asset management and capital investment.

Communities and Local Government is currently testing this with six high-performing local authorities (three with ALMOs) to establish the circumstances in which self-financing could provide value for money for authorities and the Exchequer. The six pilot authorities will develop 30 year business plans in which they will demonstrate the added value and opportunities that self-financing could bring if they were freed from the constraints of the HRA subsidy system. However, participation in this modelling exercise does not imply any commitment by government to approve a scheme and support it to go live.

At the heart of some of the shortcomings of social housing, despite the crucially important role that it plays is the problem discussed at the end of Section 2. Tenants, particularly those with low incomes, often face barriers and costs to moving, which can put them in a weak position compared to landlords in the private sector. This is one of the key rationales for using not-for-profit landlords instead. But in a rationed system with provision at a sub-market price, social tenants also have limited “exit” power if their landlord provides a poor service, as they would also lose the advantage of a sub-market rent if they did move. Two approaches can try to moderate this imbalance. The first is regulation and inspection (see Box 15.3). The second is to give tenants more “voice” power to influence how their housing is run and what to do when things go wrong. The importance of doing this is recognised in the recent Local Government White Paper.<sup>76</sup> There are many options here – the very title of the 2002 report of the independent commission on the future of Birmingham’s council housing, *One Size Doesn’t Fit All*, tells the story by itself.<sup>77</sup> Giving tenants more control and influence can mean setting up entirely new tenant controlled bodies to do so, as when WALTERTON and ELGIN Community Homes took over some of Westminster’s council housing in 1992. It can mean exercise of the “right to manage” to create Tenant Management Organisations (TMOs), with ownership retained by the council, but management controlled by tenants, as with the Bloomsbury TMO in Birmingham. Or it might simply mean more localised management services, with ring-fenced budgets, where it is easier for local residents to get a handle on what the choices and trade-offs are in using available resources, as with ALMOs. It could mean tenant power to insist that another social landlord takes over management of their homes if things go awry. Or it could mean more responsiveness to tenant choices over simple things such as exactly how bathrooms and kitchens are modernised. The recommendations of the recent report by the National Consumer Council’s Tenant Involvement Commission summarised in Box 15.4 point to the range of possibilities, even without radical change.

### Box 15.3 Audit Commission inspections

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively and delivers high-quality local services for the public. Within the Audit Commission, the Housing Inspectorate inspects and monitors the specific housing performance of a number of bodies and services. These include local authority housing departments, local authorities administering Supporting People programmes, arms length management organisations (ALMOs) and housing associations:

- For local authorities these inspections are only carried out where necessary, with their more general Comprehensive Performance Assessment (CPA) used to decide where to inspect, to ensure that the intervention is strategic and is targeted at the worst performers.

<sup>76</sup> Para. 2.47 says that the Government will create more opportunities for tenants to become involved in the management of housing and will simplify the “Right to Manage” process.

<sup>77</sup> *One size doesn’t fit all: Community housing and flourishing neighbourhoods*, Independent Commission of Inquiry into the Future of Council Housing in Birmingham, December 2002. The report proposed the creation of a variety of types of “community-based housing organisations” in different parts of the city to fit local conditions and tenant preferences.

**Box 15.3 Audit Commission inspections (continued)**

- For the Supporting People programme the inspections are carried out on a rolling programme to ensure all 150 administering local authorities receive an inspection, although any future inspections beyond that are likely to be risk-based.
- ALMO inspections are focussed on whether they meet the funding condition of getting an award of at least two stars from the Housing Inspectorate.
- The inspection of housing associations has moved from a rolling programme to a risk-based approach agreed with the Housing Corporation annually.

In all cases the Audit Commission's key lines of enquiry (KLOEs) set out the main issues which they consider when forming their judgements on the quality of service. 14 of these are housing-related, most covering the whole sector, but some specific to housing associations or to local authorities' statutory housing functions.

The Housing Inspectorate carries out an on-site piece of work which may focus on more than one KLOE. This investigates the service and makes an assessment of:

- a. How good is the service, with a rating of 0\* to 3\*;
- b. What is the direction of travel/prospects for improvement, with a rating of excellent, promising, uncertain or poor.

The Inspectorate does not publish a league table of assessment scores as their assessments are risk-based and only target specific problem areas at the relevant time. So comparisons across all published inspection scores need to be treated with caution as they are not comparing like with like and provide no more than a snap-shot in time for those who have been inspected. That said, in 2006, of local authorities whose housing services had been inspected in the last 6 years, 22 per cent had Good or Excellent services (2\* and 3\*) and 78 per cent Poor and Fair (0\* and 1\*), reflecting that the Inspectorate increasingly only inspects where there are problems. Of those authorities, 66 per cent had Excellent or Promising prospects for improvement, with 34 per cent being classed as Uncertain or Poor.

For housing associations whose housing services had been inspected in the last 2 years, 31 per cent had Good or Excellent services (2\* and 3\*) and 69 per cent Poor and Fair (0\* and 1\*). Of those, 75 per cent had Excellent or Promising prospects for improvement, with 25 per cent being classed as Uncertain or Poor.

ALMOs (selected according to different criteria) gained significantly higher ratings with 82 per cent having Good or Excellent services (2\* and 3\*) and only 18 per cent Poor and Fair (0\* and 1\*). 84 per cent had Excellent or Promising prospects for improvement, with only 16 per cent being classed as Uncertain or Poor.

### Box 15.4 Key messages from the Tenant Involvement Commission

The Tenant Involvement Commission, set up by the National Housing Federation and chaired by Ed Mayo, chief executive of the National Consumer Council, was launched on 15 March 2006 and focussed on how tenants see their housing associations and what tenants want from them. The Commission drew on a consultation with all those involved with housing, which attracted 120 responses, and a forum with about a hundred tenants. The main message was that tenants wanted their relationship with landlords to be a kind of partnership based on customer service, mutuality and business success. The four key messages from tenants which were published in the Commission's report, *What Tenants Want: Report of the Tenant Involvement Commission* (National Consumer Council, 2006) are that housing associations should:

- Get the basics right and go the extra mile

Tenants felt that the first and foremost role of a housing association should be to be a good landlord, and that only after this is achieved should they branch out into wider community development activities. That said, the "dream landlord" would do both, whilst also offering genuine choice to tenants and listening to their basic needs rather than having a paternalistic "get what you are given" culture. Very few tenants were aware of how to find out how their landlord compared with other landlords regarding service provision.

- Give tenants a choice

More than nine out of every ten tenants at the Tenants' Forum said that they would like to have more choice in service provision. This choice should go beyond choice-based lettings (Box 14.1) and be about having choice in a wider range of services such as appointment times and picking contractors. Some tenants would also like the option to pay more for additional services such as purchasing equity stakes, additional security or more modern and individualised bathrooms and kitchens. However, when bringing in more choice tenants felt it was important not to marginalise vulnerable groups.

- Make involvement personal

Tenants want opportunities to be involved in the decision making process, with a minority wanting to be actively involved in all decisions. Many reported apathy with the process unless their housing association could show them that their involvement would really make a difference.

- Be accountable

Few tenants know how to complain to an external body about their housing association or what to do if their landlord doesn't deal with their complaint. They also believe it is important to have tenants' representatives on the management boards of housing associations and for the Audit Commission to introduce performance indicators on landlords' communications with tenants and how they deal with complaints and incidents of anti-social behaviour.



It is striking that while such exercises suggest that tenants would like more choice over things such as the trade-off between rents and levels of service, social landlords report themselves more and more constrained by centrally-set rent levels – particularly as housing associations adjust their rents to “restructured” levels (Box 8.1). It would be more difficult than in the past, for instance, for a social landlord to agree with tenants that it would be better to have higher rents to pay for energy efficiency improvements so that people could make larger savings on fuel bills. The Government has a clear interest in this kind of decision – after all, it would pay the cost through higher Housing Benefit for the majority of tenants receiving it – but the current lack of flexibility in the way rents are set would appear to act against the sorts of choices that bodies such as the Tenant Involvement Commission are calling for.

While some of the challenges in improving conditions within parts of the existing stock may seem daunting, change is, however, possible with sustained effort and attention, even on some of the most difficult estate-built areas in the country, as the recent report, *Turning the Tide: Twenty five years on twenty estates*, demonstrates (Box 15.5).

### **Box 15.5 Twenty-five years on twenty estates: Turning the tide?**

This report by Rebecca Tunstall and Alice Coulter of the London School of Economics with support from the Joseph Rowntree Foundation published in November 2006 is based on research carried out on twenty council estates in England over a 25 year period. The estates have been tracked through visits and interviews in 1982, 1988, 1994 and 2005. In 1980, the estates were all unpopular, had serious management problems and many also had physical problems. The research since has tracked their progress and this latest project comments on the whole period, with a focus on the last ten years. Its key findings included:

- In 16 of the 20 estates, housing managers and residents felt that there were improvements between 1980 and 1995 and that these were built on and maintained in the period 1995-2005. In the remaining four, past progress had halted or reversed, and two of these faced plans for major redevelopment.
- Key changes in the estates over the 25 year period included: improved popularity, more diverse housing ownership, new housing management organisations, management reorganisation and improved performance by housing managers, significant regeneration and investment in many of the estates and major redevelopment in six cases.
- While concentrations of unemployed residents, lone parents and children increased in the estates over the 1980s, in the 1990s the trends reversed, and unemployment levels on estates halved.
- Over the same period, educational performance at secondary schools serving the estates improved and improved faster than average for their local education authorities. Levels of crime and residents’ concerns about crime on the estates decreased, although to some extent concern about anti-social behaviour replaced it.

**Box 15.5 Twenty-five years on twenty estates: Turning the tide? (continued)**

- In 2001, the Government pledged to end gaps between different areas, so that, “in 10-20 years, no-one is significantly disadvantaged by where they live”. Gaps have narrowed between the estates and their local authorities and the national average, for example on employment, unemployment, popularity and educational performance. However, significant gaps remain on all measures, and the gap on economic inactivity has increased.
- Over the 25 years the estates have become more typical of social housing, for example in terms of resident employment patterns and profiles, but social housing as a whole has also become more marginalised.
- This evidence shows that it is possible to make progress over the long-term, but narrowing the gaps takes sustained commitments of capital funding, revenue funding and attention from central government, housing managers and residents’ groups. Fully closing the gaps to meet the neighbourhood renewal pledge is likely to take more than 10 or 20 years.
- There are clear signs that these 20 estates are ‘turning the tide’, with the impact of dramatic redevelopment, national trends like high levels of housing demand, higher employment and lower crime, and cycles of positive knock on effects. However there are also risks that these improvements might be threatened by a loss of local and national policy priority, or nationwide falls in demand for housing and employment.

**Summary**

Much of the focus of the policy debate and of social landlords is often on the flow of new units, and the treatment of new entrants to social housing. Yet even over a ten year period, what happens to the existing stock and current tenants will be far more important in determining the success of social housing. A stronger focus on the existing stock and current tenants highlights both the advantages of recent policy shifts that have meant more attention to the physical condition of existing property, but also of getting management right in a way that reverses recent trends in dissatisfaction. At the heart of some of the problems is the limited “exit” power of tenants paying sub-market rents, who cannot take their subsidy with them. To tackle this, the varied options for tenants to use more “voice” power need to be strengthened. As the recent Tenant Involvement Commission put it, a “dream landlord” would first and foremost get the basics right, but would then “go the extra mile” in offering genuine choice to tenants. Social landlords report themselves increasingly constrained, however, in the choices that they can make between, for instance, rents and levels of service.

## 16. MIXED-INCOME NEIGHBOURHOODS

The current government has an objective of promoting the existence of mixed-income communities,<sup>78</sup> and actively promotes an income mix within new housing developments. The reasons for this kind of strategy lie in factors such as: avoiding stigmatisation; potential declines in the quality of services (both private and public) in very low income areas; protection of neighbourhood conditions; better links to economic activity for all those living in mixed areas; and more generally, avoiding part of society being cut off from the rest of it. Ultimately, this is part of achieving the government's very ambitious objective that, "within 10 to 20 years, no-one should be seriously disadvantaged by where they live".<sup>79</sup>

Evidence from the experiences of what are generally *new* developments is encouraging for these kinds of aim, without over-exaggerating the extent to which people from different backgrounds end up mixing socially. A recent summary of evidence from twenty case studies suggested that the "mixed-income communities studied were overwhelmingly judged successful: they were not characterised by the problems often linked with exclusively low-income areas".<sup>80</sup> And yet the analysis in Section 9 shows that the bulk of existing social housing is not in mixed neighbourhoods – two-thirds of it is still in areas originally built as council estates, and nearly half of it in the most deprived fifth of areas (Figure 9.3). As the previous section stressed, simply ensuring that new social housing is built as part of mixed developments will do little to change the overall picture over the next decade. This section therefore looks at the spectrum of interventions and policies that might be used if priority were given to reducing the extent to which social housing is often a contributor to geographical polarisation, rather than an instrument that could reduce it, as suggested in Section 2. Discussions and consultation for this review suggest six potential approaches.

### 1. Large-scale remodelling and rebuilding

Ultimately, the design and condition of certain areas may justify what can amount simply to knocking an area down and starting all over again, and this has indeed been the strategy for a number of the most difficult estates of predominantly social housing over the last two decades. Such redevelopments can be designed to ensure that what is then rebuilt has a mix of tenures within it, and is attractive to those with higher incomes as well as to those gaining access to social housing. In the best examples, new social housing may be indistinguishable from private housing.

In central planning terms, this is in some ways the easiest option. It is obviously, however, the most expensive. This is not just in financial terms – the costs of demolition and rebuilding with less net gain in new units than there would be for entirely new developments. It is also

<sup>78</sup> See, for instance, Communities and Local Government, *Planning Policy Statement 3*, December 2006, p.6.

<sup>79</sup> *A New Commitment to Neighbourhood Renewal: National strategy action plan*, Social Exclusion Unit/ Cabinet Office, January 2001, p.8.

<sup>80</sup> *Mixed Communities: Success and sustainability*, Chris Holmes, Joseph Rowntree Foundation, *Foundations*, March 2006.

the cost in terms of the disruption, if not complete dislocation, of existing communities – which may accrue over a large number of years as parts of an estate are successively demolished and tenants decanted between them, living through prolonged rebuilding. Such dislocation does not only affect tenants – owners in the area, either through the Right to Buy or through other routes, may also find their properties purchased and redeveloped, with compensation levels that may not be high enough to purchase the newly built dwellings in the same area. In the end, few of the original residents may end up living in the area that has become “mixed”, despite part of the rationale having been to help the lives of those residents.

While this may be unavoidable in some places, its sheer cost means that it is hardly an option for diversifying, say, the half of the social housing stock that is in the most disadvantaged fifth of all neighbourhoods. Other options are therefore needed, if all or most of the existing housing is to be retained.

## **2. Allocations policies**

The combination of social housing originally being built as estates with the concentration of new entrants being from those who are most disadvantaged over the last quarter century has contributed greatly to the present degree of polarisation. Often those who have been in the weakest position have ended up allocated to the least desirable housing, and certainly those with the most options have used them to move out of it as quickly as possible. In other parts of Europe, access to social housing is far less concentrated on those in greatest need, with a much wider range of income groups eligible, and as a result the sector as a whole is less stigmatised, and its composition less concentrated on the poorest. If there were far more social housing, it would be easier to open it up to wider groups, and indeed that is the objective put forward by many commentators. But the scale of what would be needed for there to be enough social housing – particularly in areas such as London and the South East – for a large change in the mix of new entrants is daunting, and the pressures described in Section 12 are not going to make this any easier. However, at the least, it is worth examining the way existing allocations and access policies work to try to reduce the extent to which they are sometimes an engine of polarisation, even within the social housing stock. The experience of choice-based lettings, which appear, if anything, to have resulted in fewer vulnerable households ending up in what had been the lowest demand areas is instructive (Section 14).

## **3. Diversifying the social rented stock: Like-for like sales and market renting**

If social housing were “pepper-potted” across different kinds of neighbourhood, the fact that social tenants tended to have low incomes would not necessarily create less polarisation on the ground. The assumption behind both the management of, and policy towards, social housing has been that a social landlord builds a unit, and then keeps ownership of it in perpetuity, often matched by the idea that once a tenancy has been taken up, the tenant will stay there for life.

And yet, it does not have to be like this. New social units do not have to be newly built – as the experience of housing associations in London and elsewhere that purchased and renovated “street property” in the 1960s and 1970s shows, often regenerating neighbourhoods as they did so. But the same principle can be used to diversify existing stock. The Joseph Rowntree Housing Trust’s “SAVE” (Selling Alternate Vacants on Estates) scheme is a very interesting model. In the 1990s, the trust became concerned that its New Earswick estate in York – in many ways previously a model housing development – was becoming residualised and stigmatised. Grants from what was then the Tenant Incentive Scheme had encouraged better-off tenants to leave, and new tenants from council nominations were overwhelmingly in the greatest need. To counter this, the Trust started selling alternate properties that became vacant on the estate, and using the proceeds to replace them with new homes elsewhere. The first few sales were at prices that did not allow “like-for-like” replacement, but within a few years as the composition of the estate has changed, prices have risen to the level where each sale generates the capital needed to replace it with a unit elsewhere in York. The overall number of homes provided by the Trust has not diminished, its stock has been diversified, and the income mix in the original estate has improved.

In principle, other social landlords could do the same. Others managing housing or other property buy and sell assets so that their holdings match their current markets, and there is no reason why we should not apply the same principle to social housing, now operating in a very different world for the 1950s and 1960s when much of it was built. Of course, New Earswick may be a special case given its history and location – initially, at least, most landlords would need funding to cover the gap between the sale price of a unit in a predominantly low-income area and existing property in a (somewhat) more prosperous area of town. But such funding would be justified if it was part of a determined attempt to reduce polarisation, and the example suggests that over time it would raise the value of a landlord’s overall holdings.

If they tried to do this, local authorities might face financial problems as a result of current funding rules, however. While “like-for-like” replacement is allowed within local authority capital funding, they rule out selling to someone who then lives in the property. This seemingly strange restriction is designed to avoid councils getting round the rules on Right to Buy sales, which require 75 per cent of the capital proceeds to be contributed to a central pool. If we were to use this route as part of a strategy to reduce geographical polarisation, rules of this kind would have to be re-examined.

An alternative strategy for diversifying stock would for a social landlord to let some of the vacancies that arose on its estates at market rents, and use the proceeds from these again to purchase property elsewhere. If this helped change the reputation of an area, it would then be the landlord that benefited from the rising property values. Structuring this in a way that did indeed create like-for-like replacement might be complex, and it has been beyond the scope of this review to examine the subsidy issues involved, but it is hard to see the objection in principle. After all, we know that in some parts of the country there clearly *is* a rental market for property on social housing estates through the very existence of illegal sub-letting. This could be mobilised as a way of promoting more mixed communities in a formal way, but generating resources to provide social housing elsewhere, rather than generating private returns.

#### 4. Densification and infill

While demolition of existing social units to create entirely new developments has the problems described above, there are many areas where land is available within what have been predominantly social housing areas for which there can be a demand for building private housing through infill, increasing the density of the area as it happens. Such moves clearly have to take careful account of protecting the amount and quality of open space for existing residents as well as the potential disruption caused by building (even if on smaller scale than with comprehensive redevelopment). However, not only can such schemes improve the income mix in an area and its economic vibrancy without displacing existing residents, the sale of land can release resources for renovation of the existing stock, low cost home-ownership, or new social housing. From consultations for this review, potential for this kind of initiative is not confined to high demand parts of London – where the greatest pressures also bring the greatest potential returns where land can be made available – but also exists in Northern cities, such as Leeds or Sheffield.

It would be possible to use this kind of approach in combination with diversification strategies. Where vacant land was made available for private development, part of the agreement made with the developer could include passing some of (or more of) the new units to social landlords in return for some vacant units within an existing predominantly social housing area, thereby improving the income mix within both the new and the old areas.

#### 5. Retaining higher-income tenants

All of the approaches above are concerned with attracting new residents some of whom have higher incomes into an area. But part of the lesson of the last 25 years has been the problems caused by failure to *retain* within an area those who might have alternative options. The lack of mobility within social housing is a problem, but exit of those who might have a lot to offer an area is a symptom of other problems. Rather than seeing the presence of those with higher incomes in social housing as a failure of targeting, it could rather be seen as a success in achieving a quality of service that meets one of the fundamental objectives of the sector, making it genuinely one of choice. The policy areas discussed in Sections 15 and 17 could both contribute to this objective:

- All of the points made in Section 15 about promoting the quality of the basic landlord function are crucial. Beyond this, neighbourhood conditions – including safety and the quality of local schools – may be crucial in holding people in: one of the Directors of *Housing* involved in consultations for this report put improving the local primary school as the top priority for improving conditions for local residents, rather than additional resources simply for housing. This raises the issue of who should be responsible for “neighbourhood management”. Social landlords may often be the local actor with the biggest stake and greatest capacity in an area, sometimes the only one. However, they will not always be, and as with other suggestions for diversifying their role, this has to be consistent with delivering the basic landlord function effectively.

- Retaining tenants whose circumstances improve within an area does not necessarily mean that they have to remain as tenants on the same terms as when they moved in. In some areas an important advantage of the Right to Buy has been the way in which some of those who might otherwise have moved out have remained within an area, but other approaches may have the same effect. Section 18 discusses the advantages of widening the range of housing options available, including to existing tenants. Devices such as the ability to build up an equity stake in a property could help tenants build up assets without necessarily having to move, providing what Duncan Maclennan has described as a “route to buy”.<sup>81</sup>

## 6. Improving the incomes of existing tenants

All of the above approaches are based on diversifying the kinds of *people* living within an area, or at least offsetting tendencies for areas to polarise between those with low and those with higher incomes. But there is a much more basic approach to which the others could be complementary. Ultimately, it is promoting the improvement of incomes and supporting the livelihoods of *existing* residents, and removing the barrier to them doing so, that will be most important. After all, many social housing estates *did* have more of an income mix in the past, precisely because more of their residents had better incomes from work. Section 18 discusses whether there are ways drawing on the analysis earlier in this report that could help to achieve this.

<sup>81</sup> Duncan Maclennan (2006), “UK housing policy reform – a global perspective” in *Rethinking Social Housing*, ed. T. Dwelly and J. Cowans, London: Smith Institute.

## Summary

If we are to ensure that social housing is no longer located in predominantly low-income areas, it is not enough just to ensure that this is true of the comparatively small amount of newly built stock (although this is of course important to avoid replicating the mistakes of the past). Six approaches could contribute to achieving this within the existing stock:

- Large-scale remodelling and rebuilding may sometimes be the only alternative, but its high cost and the impact on existing residents and communities make it of limited use as a way of improving the income mix in the areas where a large proportion of social tenants live.
- Examining the way allocations and access policies work to try to reduce the extent to which they are sometimes an engine of polarisation, even within the social housing stock. The positive experience with choice-based lettings could contribute further to this.
- Like-for-like sales and purchases (such as in the Joseph Rowntree Housing Trust's Selling Alternate Vacants on Estates scheme) or using the proceeds of market renting of existing properties to finance purchases in other neighbourhoods to diversify the stock of social landlords.
- In different parts of the country there is potential to use vacant land within predominantly social housing areas to bring in both new stock for sale, low-cost home-ownership or market renting through infill and to generate resources to improve the existing stock or provide new affordable housing.
- Retaining higher-income tenants through high quality management, improving neighbourhood conditions and services, and diversifying the options open to them. Their retention could be seen as success in making the sector genuinely one of choice, rather than as a failure of "targeting".
- Most fundamentally, however, the income mix within an area will be changed, if the incomes and employment prospects of existing residents can be improved.



## 17. SUPPORTING LIVELIHOODS

Poverty rates for people living in social housing remain double those for the population as a whole.<sup>82</sup> For social housing residents of working age such high poverty rates reflect the fact that only one third are in full-time work, and fewer than half have any paid work (Figure 5.4). As Section 10 discussed, part of such a high level of worklessness can be explained by the individual characteristics and labour market disadvantages of many residents, but not all of it. The lower rents in social than private rented housing increase the potential returns to tenants from working (see Figure 11.1), but it is hard to find evidence of the impact of the positive incentives this should give.

One of the striking features of consultations for this review has been the extent to which we tend to think of housing and employment policies in separate boxes, and deliver support for them through separate routes. Someone who arrives at a “Jobcentre Plus” office gets *work-related* support, but those involved in delivering it may have little knowledge of, for instance, the impact of recent housing benefit reforms for private tenants. Someone who arrives at a local authority’s housing department because they are unable to secure a roof over their head may get support with a series of *housing* options, including potentially a route to a permanent social tenancy at a sub-market rent. However, solving the housing problem will usually have little or no connection to employment support. Similarly, discussing neighbourhood regeneration, participants in consultations suggested that Jobcentre Plus offices and local Learning and Skills Councils were often the most difficult agencies to engage.<sup>83</sup>

Such separation is hardly surprising given that the agencies involved have their hands full delivering their core functions. And yet both housing and employment problems and solutions may be closely connected. The root cause of being unable to afford decent housing will often be the lack of a livelihood. Fear of the loss of support from Housing Benefit can be an important barrier to seeking work. On the other hand, social landlords are often key actors in neighbourhood renewal, including promoting local employment and skills – “in business for neighbourhoods”, as the National Housing Federation slogan puts it.

Social housing has a potentially key role: the stability and sub-market rents it offers should help people make the transition to work. But it is not obvious that we are making the most of these advantages (ones that come at significant cost given the value of sub-economic rents suggested in Table 6.4 or the grant rates for new developments shown in Table 11.7). At the same time, the evidence reviewed in Section 10 suggests that social tenants have great difficulty moving for job-related reasons. There is a fundamental conflict here: low rents help work incentives, but at the same time if rents are below market levels, a rationing

<sup>82</sup> 44 per cent of those living in both local authority and housing association housing had incomes below 60 per cent of the national median in 2004-05 (after allowing for housing costs), compared to 20 per cent for the population as a whole. The rates specifically for adults of working age were 45 and 44 per cent for the two sub-sectors respectively (Department for Work and Pensions, 2006, *Households Below Average Income: An analysis of the income distribution 1994/5-2004/5*, Leeds: Corporate Document Services).

<sup>83</sup> The 2006 Local Government White Paper proposes that both Jobcentre Plus and the Learning and Skills Councils should be included in the list of bodies with a statutory duty to co-operate with local authorities in drawing up Local Area Agreements (para. 5.25).

system will be required, and it is hard to make such systems compatible with easy mobility. Sub-market rents are good for reducing the “poverty trap”, but may create a “residence trap”. The discussion in Section 13 suggested that resolving this conflict is particularly difficult in high cost parts of the country.

It is outside the scope of this report to suggest detailed ways in which employment promotion could be reformed, although it is striking that just as the recent reforms in the housing sector described in Section 13 have shown successes from approaches involving individualised advice and support, so have recent employment initiatives dealing in particular with groups often classed as “economically inactive” such as lone parents and long-term recipients of incapacity benefit.<sup>84</sup> However, there are five areas where housing-related policies could move in directions that might help them play a more effective role in supporting employment.

### **(a) Housing Benefit**

Leaving aside for the moment the fundamental trade-off between rent levels and the depth of support needed from Housing Benefit, a recurring theme in this area is the combination of *lack* of knowledge of how the system works (in particular that tenants might continue to receive some Housing Benefit after moving into part-time or low-paid work), and the *fears* that it would take a long time to sort out payments both on a move into work and if a job failed to work out.<sup>85</sup> The first of these may be tackled when someone comes into contact with any of the agencies that give people calculations of what their net income would be if they took a particular kind of job by comparison with their income out of work. But such calculations are complex, and differ between family types. For many it will be general impressions of what has happened to others that will shape their opinions. In this, and in fears about what would happen if they moved into work, the rapidity with which Housing Benefit reacts – in theory at least – to each change of circumstance may be unhelpful.

The recent reforms to Housing Benefit that have produced the fixed Local Housing Allowances for private tenants have not included any change to this aspect of the system. If Housing Benefit were run in a way where payments were fixed for a longer period regardless of changing circumstances (as is already the case for some lone parents with “benefit run-on” as they move into work), it might give both reassurance to those receiving it and reduce the administrative burdens of frequent reassessments and recovery of overpayments (where someone failed to report a change of circumstance in time). Easier administration could help speed changes when they were needed and reduce common perceptions that changes in circumstances carried a high risk that payments would become unstable for a prolonged period.

There is, of course, another trade-off here. The longer the period that Housing Benefit is fixed for, the greater the stability as someone moves into work, and the less difficult its administration. On the other hand, if someone’s circumstances *deteriorate*, lack of rapid

<sup>84</sup> Such as the DWP’s “Pathways to Work” pilots and the New Deal for Lone Parents.

<sup>85</sup> C. Turley and A. Thomas (2006), *Housing Benefit and Council Tax Benefit as in-work benefits: Claimants’ and advisors’ knowledge, attitudes, and experiences*, DWP Research Report 383, Leeds: Corporate Document Services.

adjustment to what may now be a greater entitlement could cause hardship and exacerbate the danger of arrears building up. The balance between these is a difficult one, but the case that the current immediate (week by week) adjustment is too fast seems persuasive.

A related issue is how Housing Benefit is paid. For many recipients benefit is paid direct to their landlord. As a result, some tenants do not know what their rent level actually is. How they would cope with having to pay rent – possibly large in relation to their other income – if they were in work may be one of the daunting factors.<sup>86</sup> In the Local Housing Allowance reform pathfinder areas the move to payment of Housing Benefit to private tenants rather than landlords (in most cases) appears to have been successful, and without the adverse impact on arrears that some had feared. In the light of this experience, extending this rolling back of “rent direct” to social tenants could be reconsidered. This is not just a matter of the “financial inclusion” pay-offs that the Local Housing Allowance pathfinders found when tenants were paying their own rents, but also part of what would be needed if social tenants were in a position to make more choices about their own housing, including trade-offs between factors such as location and price.

### **(b) More integrated support?**

As Section 15 stressed, the primary responsibility of social *landlords* is to deliver landlord services effectively. These services, for which tenants pay rent, would not normally include helping their people find paid work, although there are certainly some social landlords who do go the “extra mile” (as the Tenant Involvement Commission put it) in raising funds from elsewhere to support local employment as part of neighbourhood renewal. However, if one of the justifications of sub-market rents is to help improve work incentives, the social housing *system* as a whole should be run in a way that makes the most of this potential benefit. There may be a particular role here for local authorities in their “enabler” rather than landlord role.

First, local authorities are already playing a more varied and proactive role as part of the preventing homelessness strategy, but this is usually in terms of explaining people’s housing options. While in certain crises it would hardly be appropriate to point people towards employment support services when the immediate priority is a roof over their family’s heads, for others helping them explore their wider options beyond housing may well be appropriate. Depending on their situation, routes through to training and employment support may give better long-run outcomes for some than offering an often slow route through to a permanent social tenancy, with the assumption that once achieved that is the end of support needs. For young people in particular, many would argue that “foyer” type provision combining employment support and accommodation while they get themselves on their feet is more appropriate than the presumption that a route to a permanent social tenancy is the best solution. But for others as well, when an immediate crisis is past, for instance in the wake of partnership breakdown, later contact to ensure that people are using services that can help them build an independent livelihood may be valuable. The Department for Work and Pensions “Pathways to Work” pilots amongst other initiatives has shown the value and cost-effectiveness of personalised support for people with labour market disadvantages,

<sup>86</sup> This is reported by some of the parents living in low-income neighbourhoods to CASE’s neighbourhood study (see A. Power, forthcoming, *City Survivors*, Bristol: The Policy Press).

including many social tenants. As well as helping people get closer to being ready for employment, such programmes may help widen the horizons within which residents are prepared to contemplate work.

At the same time, it is not clear that those responsible for running employment support make the most of the way in which sub-market rents in social housing help improve the return to work. It is notable that one successful US employment support experiment aimed at residents on public housing developments, “JOBS Plus” explicitly combined employment-related services (including training) with changes to the way public housing rents were set designed to remove or reduce the way rents normally rose when tenants found work.<sup>87</sup> The combination of the two, where it was implemented, markedly increased residents’ earnings and had positive effects on employment. One lesson from this is the advantage of the combination of employment services with the incentive of rents that remain low as incomes rise. A second is that rents that rise with incomes – as was normal in these US public housing projects – acted as a barrier to employment. A third, however, was that implementing this kind of integrated housing and employment programme was difficult, and not achieved on all the experimental sites. “Joined-up” working sounds attractive, but is not always easy to implement.

A current UK example of a similar approach is the “Working Future” pilot project in East London led by the Greater London Authority and the East Thames Group. This also combines employment support and training with improving the returns to work through reduced rents. In this case the project is aimed at reducing the severe disincentives facing families living in temporary accommodation leased by local authorities from the private sector while waiting – sometimes for several years – for a permanent social tenancy. The normal situation is that Housing Benefit would cover the rents involved, in these areas averaging £300 per week. But this leaves the families facing a very wide poverty trap (far wider than that illustrated for a £180 rent in Figure 11.1). In the Working Future project, as an alternative, a block grant is paid to allow local authorities to charge the families involved rents at social housing levels *immediately*, while they are still in temporary accommodation.<sup>88</sup> This is cost neutral for the public sector compared to current arrangements in the cases where the families would *not* have moved into work (although has a net cost for those who would have done so in any case despite the large benefit loss).

This particular project is small scale (involving 100 families), and in its early stages, so to is too early to draw any conclusions from any evaluation of it. Its near “cost-neutrality” is compared to the very high cost of current arrangements for providing temporary accommodation. But its design already suggests an important lesson: if people need help to secure decent accommodation in part because of lack of income from paid work, it is perverse to put them in a position where for several years they face severe *disincentives* to work through the combination of high rents and Housing Benefit withdrawal.

<sup>87</sup> See H.S. Bloom, J.A. Riccio and N. Verma (2005), *Promoting Work in Public Housing: The Effectiveness of JOBS-Plus, Final report*, New York: Manpower Development Research Corporation ([www.mdrc.org](http://www.mdrc.org)).

<sup>88</sup> Other organisations are exploring other ways of converting the prospective flow of Housing Benefit for temporary accommodation rents into finance for new long-term social housing under “temporary to permanent” schemes.

### (c) Local employment

One of the features of the low-income areas in which much social housing is located is that through one route or another quite substantial amounts are spent *on behalf* of local residents through public services and cash transfers, creating employment somewhere, but very often not for the residents themselves. Housing, both in regular landlord services and new construction work, is one of these potential local employers, but skills gaps and other barriers mean that social tenants are not in these jobs. Some social landlords are making strenuous efforts to address these problems, for instance through links to construction skills training programmes and “intermediate labour market organisations”, navigating their way through what one person reported to this review could be up to seventy different funding streams to support people into work. Resident Services Organisations (RSOs) have been established to achieve the same result for regular repairs and maintenance. But there is clearly more potential for public services of all kinds, not just housing, to generate local employment.

More generally, whether or not residents are living in social housing, the areas in which much social housing is located have high levels of worklessness, and have been the subject of a series of area-based initiatives to try to change this. As the previous section concluded, the most effective way of creating a “mixed-income neighbourhood” is to improve the incomes of existing residents, which is the aim of many regeneration initiatives, some of which involve local social landlords. A particularly interesting recent initiative, the “Working Neighbourhoods Pilot”, has been operating in twelve sites across the country since April 2004, covering almost 24,000 residents. This offers, using a variety of local partners, intensive work-focussed support at both individual and neighbourhood levels. The packages, tailored to local needs, include: accelerated access to New Deal or Employment Zone support and training; more frequent work-focussed interviews for residents and their partners receiving Income Support and coming on to Incapacity Benefit; a flexible fund of £1 million per year for each site; and retention payments for people who move into and then stay in work. Use of the funds included additional help with developing personal and vocational skills, specialist provision such as with childcare and counselling services and support to address mental health problems or problems related to substance misuse.<sup>89</sup> The pilot’s interim evaluation found that the pilots had a number of initial successes, with relatively high levels of customer satisfaction and significant flows into employment by participants. The final evaluation showed that job entry rates were 13 percentage points higher in the pilot areas than in the sites used for comparison, with gains for participants in terms of “soft outcomes”, such as gains in self-confidence and motivation, and in job search techniques. It concluded that the flexibility of the pilots had been important, and that there were lessons to be learnt in terms of: the time needed for initiatives to bed-in and to succeed with “non-traditional” hard-to-reach client groups; the importance of the skills and level of staffing of teams; and attention to *demand*-side measures to overcome worklessness.

<sup>89</sup> S. Dewson, (2005), *Evaluation of the Working Neighbourhoods Pilot: Year One*, DWP Research Report No. 297; S. Dewson, et al. (2007), *Evaluation of the Working Neighbourhoods Pilot: Final Report*, DWP Research Report, February.

### (d) Mobility

Section 15 already suggested that part of offering a high quality landlord service should include options to move where this is possible. However, the pressures within which social housing is currently operating are making this more and more difficult, not just between areas, but also for existing tenants within their landlord's own stock. In particular, Section 10 presented evidence that only a few thousand social tenants a year succeed in moving within the sector for job-related reasons, out of a total of nearly four million. Even within current constraints this seems an astonishingly low proportion. It is not the case that one tenant's inability to move means that another tenant gets the job. Instead, lack of ability to move means that potential workers and potential jobs are poorly matched, lowering the overall level of employment. Two things would help:

- The first would be including job-related reasons (including, for instance, potential childcare support) and the fact that an existing tenant transferring within the existing stock creates a vacancy behind them as factors in establishing priorities for who can move.
- The second would be expansion of choice-based lettings onto a basis that covered wider areas, building on the experiments already taking place in parts of the country. Ultimately one can imagine a substantial proportion of all choice-based lettings occurring within cross-authority, sub-regional pools, with a quota available for longer-distance moves.

### (e) More fundamental reforms

All the suggestions above are made within the existing framework of social housing provision, and hence within the constraints of a heavily rationed system. In discussing more fundamental reforms that would reduce the degree of rationing, Section 13 pointed to the problem of the trade-off between moves to less deeply subsidised rents, lessening the rationing constraints, and the extension of the poverty trap that this would entail. It is notable that both the Working Future pilot and the US JOBS Plus programme described above both embody moving in the *opposite* direction in order to support employment. However, the analysis in earlier sections also suggested that this trade-off is much more problematic in high-cost parts of the country than in those where social rents are already not so far from levels that would give landlords an economic return on their assets. A potential direction of reform could therefore be to explore moving towards social rents that did indeed give an economic return on assets in those areas (albeit still below private rents within them, reflecting the lower value of the stock involved). The impact of this on whether it did, for instance, improve supply, tenant choice and mobility in these areas could then be explored before considering whether there would be overall benefits from further geographical extension.

Two issues would need to be addressed even with such a gradualist approach to fundamental reform. The first is that "low-cost areas" are not neatly geographically defined.

Regions that have relatively low levels of economic subsidy to social housing as a whole contain popular city neighbourhoods or pressured rural locations that are actually high cost. Economic rents within such smaller areas would cause just the same problems as they would within high cost regions as a whole. It is possible to imagine a reform that coped with this through a combination of extending a form of Local Housing Allowance into the social sector in the relevant region, while social rents continued at sub-economic levels in parts of the region where an economic return would put them above those allowances. It would, however, require careful design of both subsidy systems and Local Housing Allowances, to say the least.

Second, if rents were higher, even if this were to a limited extent on average, existing tenants who were not receiving Housing Benefit would end up worse off than now. As with any change of this kind, it could be “grandfathered” by applying new rent-setting rules only to new tenants, but this could exacerbate mobility problems. Or existing tenants could be given some form of marketable property right, for instance in the form of an equity share, that would offset the impact of higher rents. Again, the design of such transitional arrangements would not be entirely straightforward, however.

## Summary

This section has explored five directions in which housing-related policies might evolve to give better employment outcomes for social tenants and from the resources involved in providing social housing. The first four of those could occur within the existing framework for providing social housing, the fifth would mark the start at least of a more radical shift.

- *Housing Benefit:* Both tenants’ and sometimes employment staff’s knowledge of how Housing Benefit operates can act as a barrier to seeking work, if people do not know that it may continue in low-paid or part-time work. Less rapid adjustment of entitlement to changing circumstances could help both stability of income on a move into work and reduce the administration involved. The financial inclusion benefits found in reverting generally to paying Housing Benefit to private tenants rather than to their landlords suggest a case for re-examining whether this should be extended to the social sector.
- *More integrated support:* Housing and employment support tend to operate in separate boxes, but often what initially appears as a housing problem may have its roots in problems in the labour market. For some young people, for instance, combined employment and skills support with accommodation of the kind offered by foyers may be more appropriate than routes to a permanent social tenancy. For others, the stability and sub-market rents that social housing offers should help work incentives, but both housing “enablers” and employment services could capitalise more on these advantages, as some current experiments are beginning to do. Initiatives such as the Department for Work and Pensions’ “Pathways to Work” pilots have shown the value and cost-effectiveness of personalised support for people with labour market disadvantages. From the employment perspective, paying

for temporary accommodation through individual Housing Benefit at sometimes very high rents gives unhelpful disincentives for those who may end up living in it for several years.

- *Local employment:* There is clearly more potential for public services of all kinds, not just housing, to generate local employment. Social landlords can be important partners in neighbourhood regeneration programmes designed to improve links to work and skills. Initiatives such as the Working Neighbourhoods pilot show the potential for employment initiatives to work at a neighbourhood level, but also the issues involved in their implementation.
- *Mobility:* Job-related reasons (including, for instance, potential childcare support) and the fact that an existing tenant transferring within the existing stock creates a vacancy behind them could be included as factors in establishing priorities for who can move. Expansion of choice-based lettings onto a basis that covered wider areas, building on the experiments already taking place in parts of the country would also help mobility to some extent, but within what remains a heavily rationed system.
- *More fundamental reforms:* Thorough-going reforms to increase social rents to much less deeply subsidised levels could reduce the rationing constraints within which social housing operates. However, in high-cost regions, this could greatly extend the poverty trap and worsen work incentives. In relatively low-cost regions, the impact on incentives would be much smaller, although even in such regions very careful design would be needed to cope with higher cost areas within them and to offset impacts on existing tenants.



## 18. OFFERING A VARIED MENU

If one were to caricature a traditional model of social housing in Britain, it would involve three forms of inflexibility. First, the presumption would be that a social landlord would build a new house or flat and then own it and rent it out to social tenants in perpetuity. Second, potential tenants would enter through a route which resulted in some gaining a valuable long-run benefit (a secure tenancy at a sub-market rent) while others got nothing. Third, once someone took up a social tenancy they would remain in the same property for life, as a tenant, on essentially unchanging terms.

This is, of course a caricature. While, as discussed above, *work-related* mobility is extremely low, nearly 5 per cent of tenants do move within the sector each year for other reasons. Others move out of the sector altogether. Most importantly, many social tenants do have the option of exercising the Right to Buy (or one of the related schemes described in Box 11.2) and then either staying put as an owner or eventually selling the property and moving elsewhere. There are also more options now on offer to those approaching local authorities or housing associations for help with housing, including shared ownership schemes of one kind and another, or other support such as for rent deposits in the private sector. And social landlords do vary their portfolios to some extent, most obviously in the context of large-scale regeneration and remodelling schemes.

But as a description of what happens generally across the sector, the caricature is not so far from the truth, and one of the frequent calls in discussions for this review was for there to be a more varied “offer” to prospective tenants than the standard secure tenancy, and for social landlords to offer a wider range of housing options (see Box 13.1). Such calls have two different, but related kinds of motivation. First, people’s needs differ and their circumstances change over time. What may be the best solution at one moment may not be at another, and some might prefer support to come in a different form from others. Second, the “standard” social housing offer is quite an expensive one. If some people do not need so much support, or if their circumstances improve later on, there might be savings from a less generous offer (for example with less subsidy or for a fixed period), allowing available resources to stretch further.

Some of the drawbacks with suggestions for withdrawing support as people’s circumstances improve (as opposed to giving people options and incentives) have been discussed in Section 13. However, both of kinds of motivation – together with people’s observed preferences – suggest that there may be gains *both* in terms of more nearly meeting people’s aspirations *and* in value for money from public support in developing a wider range of options both for those newly coming into the system in need of housing support and for existing tenants. To put it at its simplest, if a family *prefers* a shared equity option where the effective value of public subsidy is £15,000 to obtaining or remaining in a social tenancy where the net present value of the future sub-market rent is £30,000, both they and the public sector benefit if the former option can be arranged.

More generally, as the stylised representation in Figure 3.1 suggested, housing support tends to be concentrated in three forms, Housing Benefit, the value of sub-market rents for social tenants, and the favourable tax treatment of owner-occupiers. Despite the proliferation of schemes, the aggregate scale of “intermediate” options, such as shared ownership of one form or another, is still quite small (although the recent report of the Government’s Shared Equity Task Force sets out new plans for “well over 160,000 households to have been assisted into home ownership through either private or public shared equity products by the end of 2010”).<sup>90</sup> While both the underlying economics and public perceptions of the prospective returns mean that where people can afford it, most are likely to try to become full owners of a property if they can, there is a substantial proportion of the population who could not afford this given the current level of house prices (unless they receive help from elsewhere).<sup>91</sup> Equally, there is a proportion of social tenants whose incomes are high enough to have a margin over rent payments that might be available to build up savings or asset ownership in some form. On the face of it, there is considerable scope for broadening the scale of intermediate options between renting and full ownership.

### Motivations for encouraging equity sharing options

In considering what a wider range of intermediate options might look like though, policy-makers need to be clear about which of a variety of motivations are most important, as these affect the appropriateness of different solutions:

- As an optional extra for tenants with more resources to build up savings in the form of housing equity, paying more to do so.
- As a more flexible alternative to support through sub-market rents tied to a particular property.
- As a way of making mobility easier by giving support in a transferable form.
- As a way of spreading assets to groups in the population with low wealth.

The first of these would suggest schemes that are essentially unsubsidised. The second and third motivations suggest a subsidy comparable in value (to the person taking advantage of it, at least) to conventional social housing. The fourth suggests effectively subsidising the option, as would be the case if tenants were, for instance, *granted* an equity share for each year they were tenants,<sup>92</sup> something which is not so far from the way that build-up of Right to Buy discounts has operated in the past.

This variety of potential motivations helps explain why the variety of ownership schemes on offer to tenants have such different terms (see Boxes 11.2 and 11.3). In most parts of the country, exercising the Right to Buy<sup>93</sup> brings a discount which is more valuable than

<sup>90</sup> *The Report of the Shared Equity Task Force*, HM Treasury and Communities and Local Government, December 2006, p.49.

<sup>91</sup> S. Wilcox (2006) *Affordability and the intermediate housing market*, York: Joseph Rowntree Foundation.

<sup>92</sup> S. Hill, M. Lupton, G. Moody, and S. Regan (2002), *A stake worth having? The potential for equity stakes in social housing*, London: Chartered Institute of Housing/ IPPR.

<sup>93</sup> Or Preserved Right to Buy for tenants of property transferred to housing association ownership.

remaining as a tenant, relating back to the 1980s aim of creating a “property-owning democracy”. For tenants with the Right to Buy in “housing market pressure” areas or tenants of recently-built housing association property with the “Right to Acquire” (RTA) the discount available may be less valuable than remaining as a tenant (but the flexibility offered may still lead some to take it up). For other social tenants, the new “Social Homebuy” option gives a discount on *initial* purchase of an equity share (pro-rata in value to RTA discounts, but with no further discount if someone then “staircases up” by purchasing another share, making the concession less valuable than the others (but still opening this route up to tenants who did not benefit from the other rights).<sup>94</sup>

This variety of terms may be understandable in terms of their different motivations, but it has three drawbacks. First, it means that tenants in otherwise very similar circumstances have, through what may be the accident of when they became tenants of and of which kind of social landlord, rights of considerably different value. Second, it is, to say the least, hard to explain the differences between the schemes and the value of taking each out. If the aim of policy were to encourage more use of a varied menu of housing options, this complexity is a problem. Third, the value of different rights may limit mobility within the social rented sector – unless they had no future prospect of exercising the Right to Buy or its equivalents, tenants with those rights may well avoid moving to the million or so older housing association properties where they could not be used.

A radical option would be to examine ways in which common equity purchase rights could be applied *across* social housing on – presumably after a transitional period – common terms.<sup>95</sup> This might imply reducing the value of prospective Right to Buy discounts for some tenants (something which has, of course, already happened in market pressure areas), but giving *more* valuable rights to those who would currently only be eligible for Social Homebuy. The latter would, of course, have to be financed from somewhere. If this route were explored, the key issue would be the overall intention: would it be to allow equity purchase on terms that were generally neutral with remaining as a full tenant, or would the intention be positively to *encourage* asset build-up in this way? Neutrality might imply less generous terms than historic Right to Buy discounts; positive encouragement might imply systems where any equity purchase was matched with a grant of additional equity in a more generous way than implied by neutrality.<sup>96</sup> A standardised equity purchase right for all social housing tenants, whether they live in council or housing association property, would be consistent with the recommendations of the Law Commission’s 2006 *Renting Homes* report, which has called for a single social tenure.

<sup>94</sup> As well as variations in effective discount for those buying different initial shares under Social Homebuy, there are also differences across the country in the value of taking it up as a result of the relationship between the rents charged on the unpurchased share (up to 3 per cent of its capital value) and those that are implied by “rent restructuring” formulae for those remaining as a tenant.

<sup>95</sup> Equalising the value of purchase discounts across the sector as a whole would not imply removing restrictions on purchase in particular areas, such as small rural communities where replacement would be very difficult.

<sup>96</sup> In developing such a scheme it would be worth bearing in mind – and avoiding – the reasons why the former “Rent to Mortgage” scheme had such low take-up.

## What would a “more varied menu” look like?

As the discussion above makes clear, there are already elements of a more varied range of options available, and some social landlords are explicitly marketing them as such (see Box 18.1 for one example). Some local authorities see their role as providing a “housing options” or “housing solutions” service, building on both the preventing homelessness strategies and the availability of low cost home ownership options. The issue is whether these developments can be extended more systematically, and particularly to existing as well as prospective tenants. The availability of more options operates at two stages:

- At the point where someone presents themselves as being in housing need. For some, a route through to a traditional social tenancy may be the most appropriate, for all the reasons discussed in Section 2. But for others, quicker, more flexible support may be more appropriate. For those with some margin above the ability to pay a social rent, the low cost home ownership options such as “Open Market Homebuy” may be both preferred by them, but also cheaper than the long-run cost of social housing. In many cases, links to employment support as discussed in the previous section could be important.
- For existing tenants, and for new tenants in later years, a system of regular review every few years could run through whether someone’s circumstances had changed to allow them to take up a different part of the “offer”. This could range from simple saving through additional payments on top of rent, to part equity purchase (on more or less generous terms depending on the resolution of the issues raised in the previous sub-section). In general one might expect tenants to be able to take advantage of options that involved them building up a bigger equity stake over time. However, there are others – some elderly tenants, for instance, who would benefit from the ability to “staircase down”, to draw out part of the equity they had built up when they needed it (as is possible in some “flexible tenure” schemes).

Whether this kind of development is seen as just systematising what is already available for some or as a radical recasting of social housing into a product where part-ownership is much more common, advice and support in navigating through people’s options is crucial, and highly valued (see Section 14). One advantage of only having a single product on offer is that not much has to be explained; varied options for something as important to people’s lives imply much more help and advice.

At the same time as more options are opened up to tenants, there is the linked issue of what responsibilities should go alongside them. One housing association chief executive talked of the way in which tenancy agreements gave tenants “fifteen rights and only three responsibilities”, with even those being hard to enforce. There is clearly a balance to be struck here between the security that social housing can offer tenants, and the rights of other tenants not to suffer the effects of anti-social behaviour or of rent arrears putting pressure on landlord finances. Management issues of this kind go beyond the scope of this report, but the incentives from wider options could have a role to play: one of the most interesting experiments of recent years tackling such problems has been the Irwell Valley Housing Association’s approach of concentrating on rewarding *good* behaviour through its

“gold service” scheme, with impressive effects on outcomes such as rent arrears.<sup>97</sup> One approach would be to link entitlement to extra options to tenants of the kind described above to similar criteria.

### **Implications for landlords**

Moving beyond the idea of a standard social housing product potentially offers benefits for tenants and better value for money from public resources. But it also makes the position of providers more complex, as do ideas that would encourage social landlords to buy and sell property to diversify their portfolios more often (Section 16), or of more engagement with, for instance, employment services (Section 17). Some would argue that the ability and motivation to carry out such diverse functions is precisely the strength of having social landlords by comparison with private for-profit landlords. But others would point to the danger that resources – both financial and staff – could be diverted away from delivering the core landlord services that Section 15 argued were paramount. The Shared Equity Task Force has raised the issue of where the surpluses resulting from people “staircasing up” in shared ownership schemes should lie, suggesting that leaving the proceeds with the sponsoring housing associations may not lead to the best use of resources.<sup>98</sup>

Some of these tensions are reduced through the separation between the “enabling role” of local authorities and the landlord function. Providing “housing options” and advice services is an enabling role (although one that can be contracted out, of course). Equally, “group structures” can allow separation of traditional social landlord functions from those involved with, say, low cost home ownership, or market renting of some properties. But it is not so hard to blur the edges of different activities, particularly where they use common staff and resources (as may well be efficient), and it is hard to “ring fence” the risks being taken in different parts of such organisations. Such problems and dangers are, however, already part of the landscape: one of the challenges for the Cave Review of social housing regulation is to establish a regulatory structure that protects the interests of traditional social tenants, while allowing such diversification of landlord activities.

<sup>97</sup> See ODPM (2003), *Incentives and Beyond? The transferability of the Irwell Valley Gold Service to other social landlords*, available on the Communities and Local Government website.

<sup>98</sup> *Report of the Shared Equity Task Force*, paragraph 5.18.

### **Box 18.1 Notting Hill Housing's Home Options Service**

As an example of the ways in which some social landlords are now offering a wider menu of options, Notting Hill Housing is currently piloting a variety of options which they are offering to social housing tenants and low income households in their area. They are marketing these through their new "Home Options" service. This service is a one-to-one advice and information service that links the current financial position of customers to realistic housing options. It also offers advice on money matters and management and assistance from the beginning to the end of the home-buying process. The options offered include:

#### **Rent Plus (12 month pilot scheme begun in April 2006 for 100 tenants)**

The aim of this programme is to encourage social housing tenants to save, possibly with the ultimate goal of home ownership, and to promote financial inclusion. Tenants who participate in Rent Plus must pay their weekly rent in full and an additional amount of at least £10 per week by Direct Debit. For tenants who keep up the payments for a whole year they will get a bonus of three weeks' additional payment and if they keep their home in a good condition and do not call on the repairs service they will get a £300 bonus. If a tenant chooses to put their money towards buying a home, for example through Social HomeBuy (see Box 11.3), then Notting Hill Housing will give them a further 10 per cent bonus.

#### **Social HomeBuy**

This allows tenants to purchase shares of 25 per cent or more of the equity in the property where they live with an initial discount (for more details see Box 11.3).

#### **Ten Per Cent Shares (pilot scheme offered on ten homes in East and West London)**

The aim of this programme is to give access to the property ladder for low income households and encourage an attitude towards investing. In the pilot, those participating will purchase 10 per cent of the home and pay rent on the remaining 90 per cent of unsold equity. These rent payments will rise by a pre-determined amount each year and the homes are sold on a 125 year lease. This scheme is open to anyone, although applicants are prioritised based on current tenure, job and income.

#### **Notting Hill Living – Market renting**

Notting Hill Housing are now providing non-grant funded homes at market rents. This scheme offers a greater degree of security and better quality housing and management than many private landlords and offers tenants the option to buy a share in their home at a later date. Rents would be around £255 per week for a two bedroom, two bathroom flat and the flats would be let on a 12 month lease.

#### **Affordable City Living**

This is a new range of apartments aimed at the 'intermediate market', i.e. who are priced out of the housing market but are unlikely to get access to social housing. These will be sold at a discount market value starting at £100,000 for a studio and £130,000 for a 1-bed apartment, with Notting Hill Housing retaining a stake in the property. For properties built on land invested by the public sector at no cost, the sale value will be discounted to a price which covers the build costs, on-costs and profit margin.

## Summary

One of the frequent calls in discussions for this review was for there to be a more varied “offer” to prospective tenants than the standard secure tenancy, and for social landlords to offer a wider range of housing options, as some are doing already. Looking at the scale of different kinds of housing support at present, there appears in particular to be considerable scope for broadening the scale of intermediate options involving partial equity purchase.

Under present arrangements there are large differences between the values of purchase rights open to different kinds of social tenant, raising problems of equity and complexity, and sometimes acting as a barrier to mobility within the stock. A radical option would be to review ways in which common equity purchase rights could be applied *across* social housing on common terms. The generosity of the terms available would depend on policy-makers’ key objectives: simply offering a more flexible alternative to the value of remaining as a social tenant might imply less generous terms than historic Right to Buy discounts; positive encouragement might imply systems where any equity purchase was matched with a grant of additional equity in a more generous way than implied by neutrality.

Offering a “more varied menu” to tenants and prospective tenants applies at two stages:

- At the point where someone presents themselves as being in housing need, for some, a route through to a traditional social tenancy may be most appropriate, but for others, quicker, more flexible support may be the most appropriate way of meeting their needs. For those with some margin above the ability to pay a social rent, low-cost home ownership options may be both preferred by them, but also cheaper than the long-run cost of social housing.
- For existing tenants, a system of regular review every few years could run through whether someone’s circumstances had changed to allow them to take up a different part of the “offer”. This could range from saving through additional payments on top of rent, to part equity purchase. Subsequently, some could benefit from the ability to “staircase down”, to draw out part of their equity when they needed it. Eligibility for such options could be used as an incentive to avoid rent arrears or other problems, as with the Irwell Valley Housing Association’s “gold service” scheme.

With more varied options, advice and support in navigating through them is crucial. At the same time, if social landlords are playing more varied roles (which some already are), issues arise of how to establish a regulatory structure that protects the interests of tenants, while allowing such diversification, which it would be helpful for the Cave Review to examine.

## 19. CONCLUSIONS: ENDS AND MEANS

Social housing plays a crucial role for nearly four million households in England. It gives many families stability and security in a fundamental part of their lives. The quality of housing it provides is usually significantly higher than tenants with low incomes could afford in the private sector. The existence of social housing has protected affordability for its tenants even while real house prices have doubled in the last decade. Social landlords often play a leading role in the renewal and regeneration of some of the most deprived parts of the country.

In one sense, then, the answer to the core question asked of this review, what role should social housing play in 21<sup>st</sup> Century housing policy, is clear: there is no reason why social housing should not continue to play this vital role, and in considering policy change its benefits should not be put at risk.

However, the evidence reviewed in this report suggests that in terms of some of the key reasons for using social housing to achieve housing policy aims, the outcomes are at present disappointing. In part this reflects the sheer pressure the sector is under as alternatives become less affordable and as the supply of social housing available to relet declines. But the evidence suggests that more could be done to achieve better outcomes for existing tenants and for others in housing need.

Fundamentally, one can identify six reasons why social housing (taken here as provision by not-for-profit landlords at sub-market rents) can be a more appropriate response to those in housing need than alternative forms of support:

- Worries about how *untied* cash transfers would be spent (leading to poor housing affecting individuals themselves in the long-run, but also other family members, neighbours and the neighbourhood).
- Worries about *quality* in the private sector, particularly for those with low incomes.
- Worries about *value for money* of public support if “demand side” subsidies simply push up the price of a fixed supply of housing.
- Worries about *work and savings incentives* if support via means-tested benefits (especially Housing Benefit in high rent areas) leads to wide poverty traps.
- Worries about *geographical segregation* if housing decisions are left entirely to the market, leading to communities polarised by income.
- Finally, there may be *equity* reasons for subsidy to social tenants to balance the advantages of those in other tenures (such as favourable tax treatment or access to inheritance).



Social housing can thus have advantages compared to other policy instruments in terms of: its *affordability*; its *quality* compared to the private sector (including the role of social landlords in promoting good neighbourhood conditions); its potential for supporting the existence of *mixed-income communities*; and in giving a *base* on which people can build the rest of their lives (through the security it gives and the better incentives facing those paying sub-market rents).

However, the evidence reviewed above (especially in Sections 8-10) suggests that we are not fully realising the potential advantages of social housing in terms of three of these respects.

- Social housing has remained affordable, protecting nearly four million households from what might have been the impact of doubled house prices.
- There has been important recent progress with the physical standards of the stock, but there is disappointing evidence on tenant satisfaction, space standards, and neighbourhood conditions (especially in areas originally built as flatted council estates).
- The combination of much social housing having been built in the 1950s and 1960s as estates (originally containing families with a mix of incomes) and the increasingly needs-based access to the sector since the 1980s has exacerbated polarisation on the ground, rather than countering the effects of market forces.
- Households living in social housing have high levels of worklessness. While some of this would be predicted given the characteristics and labour market disadvantages of many tenants, it is hard to see the results of the incentive advantages of sub-market rents. A striking factor is the very low rate of work-related mobility within the sector.

In thinking through the directions policy might take to address these problems there remain perennial trade-offs where objectives conflict:

- Reducing costs by restricting provision to the most needy *versus* supporting a social mix (if provision is concentrated in particular areas) and giving incentives (if subsidised provision is withdrawn from those whose incomes rise).
- Reducing subsidy costs and achieving better value for money through higher rents *versus* maintaining work and savings incentives.
- Limiting the “poverty trap” through low rents and security of tenure *versus* the consequent rationing and creation of a “residence trap”.
- Providing the secure base on which people can build their lives *versus* potentially encouraging “welfare dependency”.

- Using landlord reserves to reduce the public cost of new supply *versus* resources needed for husbandry of the existing stock and services to existing tenants.
- Encouraging social landlords to take a wider and more varied role *versus* the need to focus on the core landlord function.

The answer to the fundamental question of who social housing should be for depends on the priorities driving the balance struck between these trade-offs, as well as the resources available (including the existing capital stock). At one end – in some ways the direction policy has followed in England in the last quarter century – is a “residual model”, where social housing is concentrated on those in greatest need. This has lowest immediate public cost, but creates problems for supporting mixed communities, for incentives and for social mobility. At the other lies a more continental European ideal with social housing as a “tenure of choice” for a broad spectrum of the population (as in, say, Denmark or the Netherlands). This approach is good for avoiding stigma and supporting mixed communities, but obviously comes at much higher cost and, for some, social housing provision may not be the best use of available resources.

The reality is that social housing should probably be for “as wide a group as we can afford”, but that the resources available are likely to mean that this is still heavily constrained. Indeed, looking at the pressures discussed in Section 12, these constraints are becoming tighter.

However, in designing policy for the sector, one of the encouraging aspects of the discussion in Sections 15-18 is that making progress in one direction is not necessarily in conflict with progress in another. Indeed, some potential objectives may reinforce one another. Promoting and sustaining mixed-income communities may help reduce negative “neighbourhood effects” and improve labour market integration. Measures that support the livelihoods of existing residents help the income mix within the areas where they live. Offering a wider range of options to existing residents as their circumstances improve could hold in some people with the greatest economic potential. Offering a wider range of options to those newly presenting with different degrees of need may both allow available public resources to stretch further and better meet varied preferences and needs.

It is also encouraging that recent reforms appear to have had positive effects without the downsides that might have been a consequence of them. The Local Housing Allowance reforms to Housing Benefit in the private sector have given tenants more personal control and certainty, but without leading to escalating rent arrears or people choosing inappropriately small housing (to use the fixed allowances for other purposes). Choice-based lettings, despite operating within the context of a tightening flow of lettings available for new entrants to social housing, have allowed better matching of property to people’s preferences, without worsening polarisation. The preventing homelessness strategy has offered people options, support and advice, resulting in a significant reduction in the number of people choosing the highest cost route through statutory homelessness provision, and offering the prospect of smaller numbers in expensive temporary accommodation. All three reforms treat people in a more adult way, where they make more of their own choices from

a range of options, with support to do this, moving away from systems dominated by “allocations” of what is sometimes seen as “free housing”. These results suggest that policy could move further in this direction.

This report suggests four directions in which policy could travel in coming years and where debate is urgently needed about the most effective ways in which policy could better achieve the underlying objectives of social housing and of housing policy more generally:

1. **Increasing the attention given to the existing stock and tenant population.** Successes and mistakes with the existing stock dwarf the impact of the flow of new units, but policy and landlord focus is often much more on new stock. The quality of management is crucial, suggesting the primacy of ensuring that the core landlord function is delivered effectively. A fundamental problem in a rationed, subsidised system is that tenants lack “exit power” over providers, suggesting the need to strengthen options that give them “voice”. “Quality” in housing includes the ability to move; this is becoming increasingly difficult and constrained. As a corollary of its importance, it is essential to think about the existing stock in achieving aims such as promoting mixed-income communities (see 2 below). If there are benefits from offering a wider range of options to potential new tenants, such options could be opened up to existing tenants as well (see 4).
2. **Supporting mixed-incomes within existing communities.** While efforts are being made to ensure that new housing supports a social mix, there has been much less progress with the existing stock. Large-scale remodelling and rebuilding of estates may sometimes be justified, achieving a better mix as a by-product, but the cost and disruption to communities rule it out as a general approach. Other measures that could be considered include: examining allocations and access policies, building on the choice-based lettings approach; encouraging landlords to diversify their stock, such as through like-for-like sales and replacement or market renting and use of the proceeds for provision elsewhere; using vacant land for diversifying infill (subject to protecting the quality of open space); retaining higher-income tenants within an area, both through management quality and through the possibility of a different “offer” as their circumstances improve (see 4); and most fundamentally, policies that support the paid work options and incomes of existing residents.
3. **Supporting livelihoods.** A striking feature of policy delivery is that we think of employment and housing in separate boxes, and yet what appears as a housing problem may have its roots in the labour market. Thinking through the links between the two suggests that progress could be made through: Housing Benefit reforms that involve less rapid adjustment of payments as people’s circumstances change; more links between employment and housing support services, not just through “foyer” arrangements for young people, but taking more general advantage of the way in which social housing should help work incentives; improving the extent to which services provided *for* people in low income neighbourhoods involve employment *of* local residents; improving mobility arrangements so that work-related reasons count as a factor in establishing priorities of who can move; expanding the geographical basis of choice-based lettings; considering more fundamental reforms that would reduce rationing constraints in relatively low-cost areas, while protecting work incentives in high cost areas.

4. **A “more varied menu” for both prospective and existing tenants.** The idea of there being a more varied “offer” than a standard social housing tenancy could be seen as systematising what is already there for some, or as a radical recasting of social housing. At the point where someone presents themselves as being in housing need, for some a route through to a traditional social tenancy may be the most appropriate solution, but for others, quicker, more flexible support will be. For those with some margin above the ability to pay a social rent, low cost home ownership options may be both preferred by them, but also cheaper than the long-run cost of social housing. But for existing tenants also, a system of regular review every few years could run through whether someone’s circumstances had changed to allow them to take up a different part of the “offer”. This could range from simple saving through additional payments on top of rent, to part equity purchase. Within this, a radical option would be to review ways in which common equity purchase and discount terms could be applied across social housing. A corollary of wider options is more support and advice, as well as a regulatory structure that protects tenants, while landlords diversify their roles.

How far in each of these dimensions policy moves will depend on priorities and, in some cases, on available resources. But if social housing is to fulfil its potential, new approaches are needed. At their root we need to move beyond an approach where the key function is one of rationing and trying to establish who is *not* eligible for social housing to one where the key question is “How can we help you to afford decent housing?” and “Here are your options”. Within this, housing in itself is not the only issue. The overall policy aim may remain achieving “a decent home for all at a price within their means”, but historically we may have given too little attention to the last part of that – doing enough to support people’s livelihoods and so boosting the *means* at their disposal.

## Annex

### Terms of reference for John Hills' aims of social housing assessment

Housing is central to the quality of life in our communities, to fulfilling people's aspirations, to the economy and to the environment. Substantial progress has been made since 1997 and we must continue to deliver, for example on increases in the overall supply of housing. But the Secretary of State also wishes to step back and ask what role social housing can play in 21st Century housing policy.

Specific questions to be asked include:

- Is social housing the most appropriate response for all those presented as in housing need? Who should social housing be for?
- To what extent should social housing contribute to other objectives whilst also continuing to play a vital role in responding to need? Other possible objectives include:
  - helping create genuinely mixed communities;
  - encouraging social mobility and opportunities, including in the labour market, for people to get on in their lives;
  - being more responsive to changing needs and enabling greater geographical mobility.
- What are the possible trade-offs between these different objectives and how could they be reconciled?

These questions need to be addressed in the context of:

- the CSR Reviews, the Barker Review, the Housing and Regeneration Review and Michael Lyons's Review of Local Government;
- the need to make the best use of existing assets given the unavoidable constraints on public expenditure;
- the high demand subsidised accommodation, significant levels of unmet need and the impact this is having on the housing stock; and
- ensuring effective community participation in changes that affect their homes and communities.

Remit:

- to carry out an independent assessment covering the above issues;
- to participate in a programme of events to be organised by the CIH to give a range of organisations and individuals an opportunity to input into the assessment, and to report on the ideas put forward;
- the assessment will assess different objectives and implications for the direction of travel on reform, but will not make specific detailed policy recommendations;
- to report the findings to the Secretary of State.

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