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CHAPTER 11

SUBSIDISING THE SUPPLY OF RENTAL HOUSING

11.1 Introduction

In the long history of attempting to ensure housing affordability in Britain, the most constant theme has been that of supporting the provision of housing to be let at sub-market rents and allocated administratively. This has mainly involved the provision of supply subsidies to local authorities and social sector organisations. There has been only very limited use of direct subsidies to other providers[i]. In this chapter we therefore concentrate on understanding the nature of these subsidies and how they have impacted on the supply of affordable housing and the rents charged for these properties. We also compare the development of our policy approaches to those in other countries, notably in Europe where there has generally also been a long history of government involvement.

The objectives of social housing provision appear simple: to ensure that everyone is adequately housed, and that housing does not limit their capacity to obtain the other necessities of life, or to take advantage of life's opportunities. Social housing can help to achieve these goals by increasing total provision, allocating to those in need, providing rent and/or income subsidies to those unable to afford adequate accommodation and by effective management and support, including enabling access to jobs, services and a safe and secure environment.

Many commentators in the past assumed that once minimum physical standards were achieved the task would have been complete. The reality has proved to be very different as aspirations, standards and social objectives have expanded and the increased capacity to implement different forms of intervention has opened up other opportunities. Here we stress how these factors have modified the role of social housing over time.

The case for social provision is disputed[ii] but is generally based on three strands of reasoning:

- In the face of supply shortages, government-sponsored housing is the easiest way of increasing supply rapidly, especially where government controls at least some land and infrastructure provision and has risk-free access to finance;
- The social housing provided can be allocated in line with government priorities and identified housing needs; it can also enable more appropriate management standards unconstrained by profit motives;
- At the political level it is often seen as more acceptable than subsidising private suppliers to deliver additional housing. Equally, it can support macroeconomic objectives by reducing housing market volatility and may be a factor in voting behaviour.

In looking at how the role of social housing has developed, it is important to recognise that, historically, supply subsidies were the only means to deliver assistance, as the mechanisms did not exist to support income related subsidies[iii]. Thus, it was only in the 1970s and 1980s when data improved and computerisation started to be put in place that housing allowances began to be introduced.

11.2 Defining Subsidy

While economists will normally define subsidy as being the difference between what someone pays for a good - in the case of rental housing, the rent and associated charges – and the market price of the resources that go into the product, governments tend to define subsidy in terms of the financial instruments and the contributions that they make towards provision, including in more sophisticated systems the opportunity costs of resources, such as land, that may be provided in kind.

Given this approach it is inherent that subsidy and finance are often closely related to one another and it is usually the case that what is measured is the financing cost rather than the economic subsidy[iv]. Equally in order to understand the overall picture it is necessary to understand how rents are determined, which is often itself closely related to financing choices. In turn these rents and the availability of finance help to determine the total amount of subsidised housing provided.

In the main, supply subsidies are seen as coming from government, both national and local in the form of grants and revenue support. In the housing context, they may include subsidies in kind, most notably when land is provided sometimes without even a transaction being noted, let alone a price being charged. More generally, subsidy can come from a whole range of sources not just from government. Charitable organisers and employers have often played some role in social provision across countries and over centuries. Equally because housing is an asset it may be that earlier generations of housing and its occupants help to pay for later supply, as their rents rise above the direct costs of provision. Other actors – notably landowners - transfer their land and sometimes other resources at below market price as a result of compulsory purchase or planning obligations. In addition, cash and other contributions may come from developers, particularly in the form of support to new building and regeneration, further reducing direct costs.

Direct payments to social landlords can be either in the form of revenue subsidies (that is, annual payments) or capital grants from central and local government. But subsidies also include reductions in interest rates and other costs of production as well as access to public sector borrowing at below market interest rates. Government guarantees also reduce the costs of finance.

The effect of these direct and indirect subsidies to production and the maintenance and improvement of the stock is to reduce the costs that have to be covered by borrowing and rents. The resultant difference between actual rents for the properties and the rent these properties would attract on the private market measures the extent to which households benefit from the subsidies that have been made available[v]. Income-related subsidies to tenants then help to support the flow of rental income and thus maintain viability and enable additional investment.

11.3 A Short History of National Support for Social Rented Housing

11.3.1 Local Authority Provision

While local authorities were given the powers to build social housing in the latter part of the nineteenth century, this was not accompanied by any national subsidy. So, in 1918 only perhaps 1 per cent of the total housing stock was owned by social landlords, with the vast majority of households accommodated in the private rented sector, where rents were controlled at 1915 levels. At that point, the Housing, Town Planning, etc. Act 1919 (the Addison Act) made housing a national responsibility and obliged local authorities to provide council housing with the help of government subsidy. As a result of this and subsequent Acts in the inter-war period, local authorities built over one million homes, in part offset by slum clearance in the private sector, so that by 1939 social housing accounted for 10 per cent of the total stock.

In the immediate post-war period, the emphasis on public sector provision increased very significantly and accounted for around half of all completions through to the early 1970s. There were two main strands – local authority provision, often built on authority owned or compulsorily purchased slum clearance land, plus new town development corporations which bought land in undeveloped areas and were able to fund infrastructure and multi-tenure housing by borrowing against the value uplift of urbanisation.

National revenue subsidies to local authorities were open ended and varied with costs; authorities could also provide additional subsidies from the local rates. Rents were set to cover the local authority's annual costs of provision less these subsidies (that is, to break even on authorities' Housing Revenue Accounts). As a result of this generous approach, by 1971 when arguably the numerical shortage of housing in England and Wales had been overcome, almost 30 per cent of all households lived in social housing[vi].

Starting in the late 1960s the position changed, as government tried to control incomes and prices – including local authority rents. Inflation however increased rapidly so rents fell in real terms leading to major difficulties for providers in funding basic repairs and maintenance. In response, the Conservative government tried, first, to force rent rises (but the policy suffered from the fact that the increases were in absolute terms at a time of rapid inflation) and, secondly, to substitute more targeted income-related subsidies for general supply support. The subsequent Labour government, as a result of its Housing Policy Review in 1977, brought in a new form of residual subsidy system. Then, the new Thatcher government from 1979 further restrained local authorities by making it illegal to subsidise rents from local taxation and 'deeming'[vii] increases in rents (and indeed costs) to limit national subsidies. The Thatcher government also revoked local authorities' rights to borrow against the Housing Revenue Account, a restriction which remained in place until 2018. So hardly any new local authority construction occurred between 1980 and 2018.

Even so, subsidies to local authority landlords continued in place to cover any difference between deemed rental income and deemed expenditure. But as new output declined in the 1980s outstanding debt also fell, and this tendency was reinforced by lower interest rates in the 1990s and 2000s. As a result, increasing numbers of authorities found their Housing Revenue Accounts in surplus, so that they were no longer eligible for national supply subsidies. These authorities were then required to use this income to pay for the rent rebates to lower-income tenants. Since the late 1980s therefore supply subsidies to local authorities have mainly been limited to support for renovation under the Decent

Homes Programme from 2000. More and more authorities moved into a position of 'negative subsidy' – that is, they made a contribution to central government, which was then reallocated to areas still eligible for subsidy. To address these issues in a more structured fashion, the Coalition government which came into power in 2010, reallocated debt across authorities. This gave some authorities headroom to borrow to invest in social housing again – although generally for improvements in the existing stock. Finally, in 2018, the Conservative government lifted the cap on Housing Revenue Account borrowing, so that local authorities are now free to borrow to build again. In this context, however, it should be noted that the only national subsidy is the right to borrow through the Public Loans Board at low risk interest rates.

11.3.2 An Increased Role for Housing Associations

While charitable organisations and employers have had a role in providing affordable housing for centuries and local authorities in some areas encouraged housing associations to build by providing free or cheap land, a formal national subsidy framework to encourage housing associations to increase their role in social housing was not put in place until the 1970s. The legislation was introduced by the Conservatives but passed into law unchanged by the Labour government of 1974. The first subsidy arrangement was over-generous in an inflationary world as it provided for a residual subsidy to cover the gap between first year 'fair' rents[viii] and costs into the future. Not surprisingly the government soon started to claw back the resultant surpluses.

The financial framework under which housing associations operated changed dramatically in 1988 when rent control for new lettings was abolished in both the housing association and private rented sectors. Importantly, the 1988 Act gave associations the right to borrow on the private finance market and the power to set their own rents at levels that would cover costs and build reserves to ensure that they could borrow on the market at relatively low-risk interest rates[ix]. They were also enabled to bid for subsidy in the form of capital grants to provide affordable homes. Housing associations thus became the only providers of new social housing based on a mixed funding regime of capital grants together with market-provided debt finance. Technically the subsidy is a loan which is subordinated to the borrowing from financial institutions, repayable only on sale of the property (which requires special permission). This technicality reduces the costs of private borrowing and also in principle gives central government the capacity to claw back subsidy (as indeed was done in the 1980s).

Funding from the private sector initially came from a relatively small number of financial institutions involved in the provision of mortgages across the housing sector. The risk premium was originally quite high at over 200 basis points above LIBOR. However, it declined rapidly, to between 30 and 70 basis points, in part because of the safety net of housing benefit, in part because of the comfort provided by the regulatory regime, and because of continuing capital subsidy, and the fact that rents were usually well below market levels and so could be increased in the face of financial difficulties. Since the Global Financial Crisis housing associations have found retail debt finance less advantageous. As a result, associations have moved more to the bond market both directly and through aggregators where they have been able to raise large-scale finance at very competitive rates.

When the system was first put in place average capital subsidy rates were running at over 90 per cent. Through both increases in rents and competition between housing associations for subsidy, the proportion of costs paid by subsidy fell to around 50 per cent. However, in 2010, the new Coalition government introduced a system which enabled subsidy rates to be significantly lowered. This was based on an Affordable Rent regime by which rents were to be set at up to 80 per cent of market rates in the local area. Also, in 2011, the Localism Act introduced a new form of tenancy for social landlords called 'flexible tenure' which enabled the use of fixed term tenures for new tenancies; these were generally set at five years after a probationary period. These flexible tenancies have become the norm in Affordable Rent properties in many local authority areas – although the evidence is that households meeting contractual requirements can expect to have their contracts renewed.

The introduction of the Affordable Rents model was a core element in the Coalition government's policy to reduce supply subsidies. The October 2010 Spending Review announced a reduction in the capital funding available up to 2014/15 for the development of new social housing to £4.5 billion (down from £8.4 billion over the period of the previous Spending Review which included additional post-financial crisis support). Local authorities were also enabled to build using this scheme after the introduction of self-financing in April 2012. Social landlords could thus offer a growing proportion of new social sector tenants intermediate rental contracts that are more flexible, at rent levels between current market and traditional social rents. The terms of existing social tenancies and their rent levels remained unchanged.

The main objective of the new regime was to provide a mechanism by which affordable housing output could be maintained without large-scale capital grant. The existing use values of homes built or transferred from the social rented stock into the Affordable Rents regime would be higher than for the existing social rented stock, enabling higher borrowing levels. Further, the additional finance raised from the higher rents could be reinvested in the development of new affordable housing or improvement of existing units. The 2011-15 Affordable Homes Programme (AHP),which included affordable home ownership as well as affordable rented properties, generated around 190,000 additional units - a little less than 40 per cent of the annual output achieved by its predecessor, the National Affordable Housing Programme (NAHP), but with only 'about one-sixth of the annual public subsidy in grant'[x]. A further programme under basically the same rules was put in place for the next three years with a budget of £2.9bn which was supplemented the following year with additional funding for social rented properties and the expectation that 275,00 affordable homes would be built by 2021.

A final twist has been, for the first time, to introduce limited government guarantees for housing association borrowing from 2012-2015 and then again from 2019, further to increase borrowing capacity and therefore the ability to build. This mirrors policies found in a number of European countries.

11.3.3 The Role of Social Sector Housebuilding

Figure 11.1 summarises the tenure pattern of new building in the post-war period and disaggregates further the information in Figure 6.2. It shows how local authority building was re-started much more quickly than private development, reflecting government priorities. Then for twenty years the social and market sectors produced relatively similar output rates (although it should be remembered that slum clearance was also a significant factor affecting net supply). It also clarifies how local authority output stabilised and started to fall well before the Thatcher government and how the role of housing associations increased after the 1988 Act. Finally, it reflects the fact that market output did not expand consistently to offset the reduction in social sector numbers - partly because of the reductions in subsidy available; partly because numerical shortages had been overcome; but also because of market and regulatory failures.

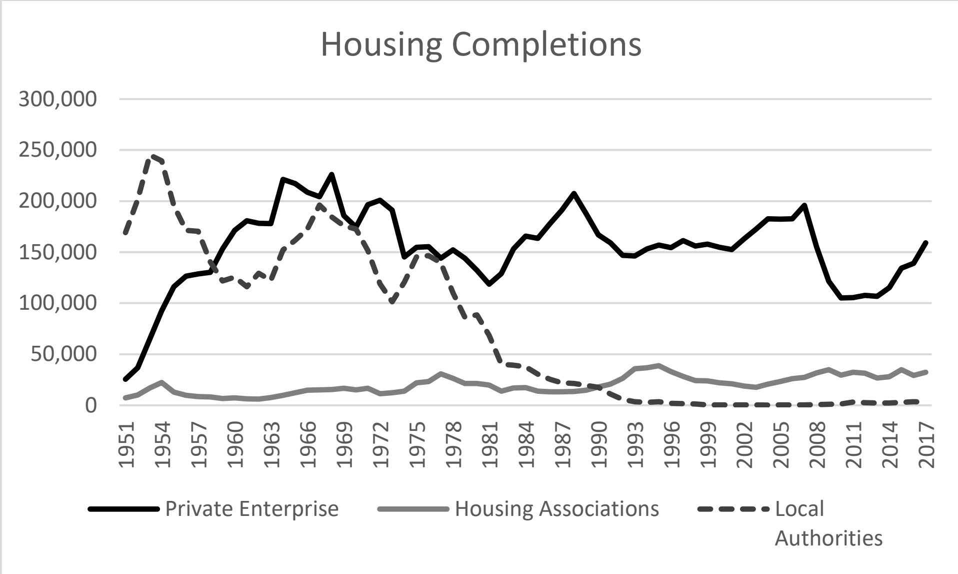

Figure 11.1: Housebuilding by Tenure 1951 – 2017 (Nos, UK)
Source. Ministry of Housing, Communities and Local Government

Since the turn of the century the attributes of the affordable housing provided mainly by housing associations has changed very significantly (Figure 11.2). Low-cost homeownership schemes, mainly in the form of shared ownership, which had been in place as an option since 1980 were increasingly favoured by governments of both colours but in the last decade there has also been a major shift toward affordable rented properties (as described above) at the expense of social rented homes. The figure also shows that the number of 'affordable homes' has increased very much more than the housing completion numbers by tenure would suggest. On this broader definition, there have been about 55,000 new affordable homes per annum since the mid-2000s, but around 40 per cent of these units have been for low-cost shared ownership or, increasingly, for intermediate rental, at rents of up to 80 per cent of market levels. These initiatives are not generally affordable to the lower-income households without additional demand side subsidy.

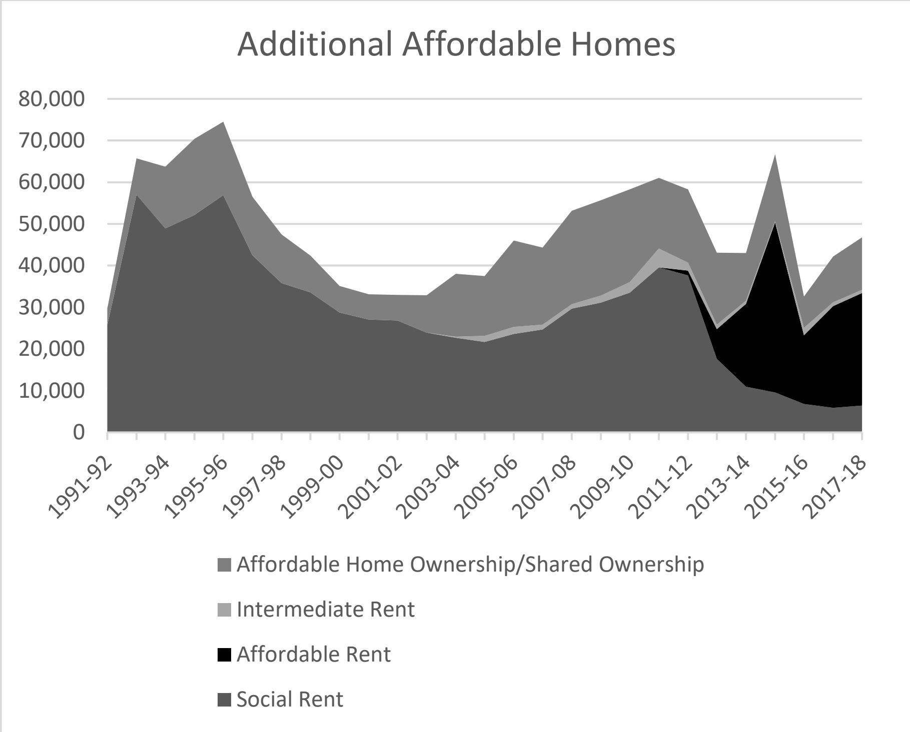

Figure 11.2: Additional Affordable Homes 1991/92 – 2017/18 (Nos, England)
Source. Ministry of Housing, Communities and Local Government

11.4 An Additional Complication: Policies to Change Tenure within the Existing Stock

There have been two main government policies which have resulted in large-scale changes in ownership of subsidised housing – the Right to Buy which has transferred over two million dwellings from the council sector initially to owner occupation and large-scale voluntary transfers from local authorities to housing associations.

11.4.1 Right to Buy

The Right to Buy was introduced in 1980 across the UK and enabled local authority tenants to purchase their properties at a discount on the market price which increases with the length of time the purchaser has been a secure tenant. The scale of the discount has varied over the years and for different types of property but was initially between 30 per cent and 60 per cent and in England is now 35 per cent plus 1 per cent for each additional year over five in a secure tenancy[xi]. This policy alone has reduced the social sector stock from its 1979 level by around 20 per cent. Table 4.1 showed how significantly the Right to Buy impacted on the stock of socially rented housing, especially in the

1980s and 1990s. However, it should be remembered that the majority of tenants who purchased would have remained in their property for a considerable time, so the impact on potential tenants was by no means immediate. The big problem was that there was little capacity to replace losses over time.

In terms of subsidising lower-income households, what did it mean? Basically, the original scheme transferred the revenues from sales straight to the Treasury and, so, these funds were lost to tenants as a whole and were simply eaten up in general government expenditure. Over time this was modified to allow local authorities to retain some of the receipts in order to fund the replacement of lost units. This is a complicated process and authorities have not always been able to spend their receipts effectively, but at least some subsidy remains in the sector.

However, from the point of view of the tenant, there was a transfer from the remaining social tenants to the individual purchaser, who also obtained a different mix of rights and responsibilities. Those buying were often at the upper end of the spectrum of incomes in the social sector and so it was a windfall to the relatively better off. Importantly, the scale of the transfer in many areas added an additional tier to the owner occupied market allowing younger and lower-income households to buy. But over time a significant minority of Right to Buy dwellings have been transferred to the private rented sector, where rents are often very much higher than in the social sector and where the tenants may be eligible for income-related subsidies. At the worst the local authority leases the properties back to provide temporary accommodation for homeless households at a premium cost.

11.4.2 Large-scale Voluntary Transfers

In addition to concentrating new building in the housing association sector, the Conservative government introduced a policy of large-scale voluntary transfers, by which all or part of a local authority's housing stock is transferred, through a privately debt financed management buyout, to a newly formed housing association. The objectives were at least four-fold: first, ideologically it was thought that specialist housing providers would be more efficient than local authorities with their wide range of responsibilities. Secondly, by introducing private finance into the system there would be external pressure to help ensure efficiency. Thirdly, over time rents could be raised providing a larger revenue stream to support borrowing and investment; and, fourthly, despite the fact that in some cases dowries were paid to enable the housing stock to be brought up to standard, the Treasury did receive significant revenues which could be used for general purposes. But, again, there were implications for the scale of income-related subsidies required to support tenants as this process enabled rents to increase significantly.

As a result of both new construction and transfers, the housing association sector, which owned only 1 per cent of the total housing stock in 1979, accounted for over 10 per cent of the total stock in England in 2017. Local authorities owned over five million units, 93 per cent of the social housing stock in 1979, while in 2017, either directly or through Arms-Length Management Organisations (ALMOs), they owned less than 40 per cent of the social sector stock, accounting for only 7 per cent of the total stock.

Ownership of social housing is now spread among some 1,650 registered providers, most of which are housing associations together with around 165 local authorities which have not transferred any or all of their stock to housing associations. Local authorities generally only own social rented property within their own boundaries. The majority of housing associations own only in one or two local areas, but a small proportion hold dwellings across the country. The largest association owns approximately 125,000 units. Among housing associations, between 10 and 15 per cent are involved in building new accommodation. At the other extreme some only manage stock for other organisations. Housing associations are increasingly organised in group structures which bring together large-scale voluntary transfers, traditional associations providing for general needs, those providing for special needs, and subsidiaries operating in the intermediate and market sectors.

11.5 Rent Regimes for Social Housing

It is clear from the discussion above that over the decades there have been many different forms of rent regime in place. In the local authority sector, the approach until the 1980s was fundamentally that of charging cost rents (less subsidy where applicable) pooled across the whole stock so that the Housing Revenue Account would remain in balance. These rents were sometimes constrained by rent freezes which limited the local authority's capacity to undertake repairs and maintenance. Evidence on rent structures showed that individual rents were highly correlated with the age of the dwelling and had no direct relationship to market rents or to the quality of the dwelling (although some authorities used a points system to reflect dwelling attributes). Rent levels were increased by reducing subsidy in line with notional rents and once the local authority was no longer eligible for subsidy by requiring them to cover an increasing proportion of the costs of rent rebates[xii].

In the housing association sector, from 1974, there was a quite different regime based on private sector 'fair rents'; this was in place until 1988 when associations became free to set their own rents as long as they remained below market levels. As such, association rents were generally much higher than those for local authority properties, especially as all new build became concentrated in this sub-sector.

In the early 2000s, the Labour government decided to introduce a rent restructuring regime across the whole of the social sector, so that by 2012, individual rents would be determined by a formula based on the nominal earnings of local workers, dwelling size and property values. The objective was to ensure, at least in principle, that rents would be set coherently across the sector and would not be related to the original construction funding as in the past. However, these new 'target' rents still had little direct relationship to the market or tenant valuation of the stock because of additional constraints. Those in smaller dwellings pay relatively high rents, while those in large dwellings and in high-priced areas are disproportionately protected from market pressures. Under this regime, rents in the local authority sector rose about in line with inflation. In the housing association sector, they rose somewhat more rapidly but well below average income increases. However, rent structures, while different from the past, continue to have limited relationship to market rents – although what the rent buys is anyway very different from what is available in the private rented sector in terms of location, type of unit, quality, and security of tenure.

For average rents the implied subsidies, based on comparisons with market rents, are higher for family housing and particularly low for small units; they are particularly high in London and to a lesser extent in the South East and southern Britain, while rents can be close to (or even higher than) market levels in northern regions.

At the same time as the rent restructuring scheme was introduced, the Labour government enabled housing associations to provide intermediate rented housing with rents up to 80 per cent of market levels aimed at those who would not be eligible for social rented accommodation but needed some subsidy to be able to afford adequate accommodation. This approach has now been applied to rent determination more generally[xiii]. Properties provided through the Affordable Rents Programme are based on the same principles, of a maximum of up to 80 per cent of market levels. This applies for those bidding for grant under the Affordable Homes Programme. Across the country affordable rents tend to be between 20 per cent and 25 per cent above social rents. Only London and the South East lie outside this range, with affordable rents in London being 40 per cent higher than social rents and those in the South East around 30 per cent higher. Social rents are also highest in these regions.

Comparisons between affordable and market rents are complicated by the fact that the latter are measured gross of service costs while affordable and social rents are measured net. Even so, average affordable rents are above 80 per cent of the market in the three northern regions plus the East Midlands. The reasons why the ratio is above 80 per cent is mainly a compositional issue but does suggest that the 80 per cent rule is being followed quite closely in these regions. The next group of affordable rents between 70 per cent and 80 per cent lie more in the centre of the country. London is the massive outlier with affordable rents still running at less than 50 per cent of market rents.

A final complication is that as part of the new regulatory approach to rent setting introduced in 2002, average rent increases were to be set by the regulator. Initially these were set at the growth in the Retail Prices Index plus an additional 0.5 percentage point, (RPI + 0.5 per cent), to allow for relative cost increases. In 2013 the government put in place a ten-year rent regime to begin in 2015 based on the Consumer Prices Index, (CPI+1 per cent), to provide greater certainty for the sector. That certainty was short-lived. In the Summer Budget of 2015, the Chancellor announced that rents in social housing would be reduced by 1 per cent a year for four years resulting in a 12 per cent reduction in average rents by 2020/21. The measure was forecast to save £1.4 billion, primarily through reduced housing benefit expenditure. Around 1.2 million tenants not in receipt of housing benefit in the social rented sector were expected to gain by £700 per year at 2015 prices[xiv]. Housing associations stated that this would negatively impact on their development programmes, but the evidence appears to be that, instead, they have managed to reduce costs rather than output. In 2017, the government announced that increases to social housing rents will be limited to the CPI plus 1 per cent for five years from 2020. Further consultation on a new rent direction took place between September and November 2018. The response to the consultation was to confirm this position.

Overall the evidence on rent determination and the outcomes from the range of financial subsidy systems is that (i) in almost all areas there is some subsidy although it is much lower in low demand areas than in pressure areas such as London; (ii) the extent of subsidy has generally been reduced since the early 1970s when rents were subject to rent controls (although the increases have been significantly offset by income-related benefits for the majority of tenants); (iii) there is very little consistency in how individual rents are set and regulated increases can sometimes be higher than market rent rises in similar areas.

11.6 Other Subsidy Approaches

One of the effects of the current rental arrangements is that existing tenants are implicitly paying more towards the social sector's new build programme as rents are increased to 'affordable' levels, valuations are upgraded, and more borrowing is made possible. In addition, housing associations have become increasingly involved in building for the market sector as a means of cross-subsidising social and affordable development. This further increases their borrowing and exposes them more to the risks of market downturns. However, these risks are mitigated to some extent by the wider range of options now available – for example, associations can transfer unsold properties into private renting which they operate themselves; they may also be able to transfer for sale properties into shared ownership or even rent to buy. Even so, rating agencies and indeed aggregators such as The Housing Finance Corporation have shown some concern.

However, the main source of non-governmental subsidy to affordable housing has been from landowners in the form of Section 106 planning obligations, introduced nationally in the Town and Country Planning Act 1990. The Act allowed local planning authorities to negotiate contributions from developers (in cash and kind) towards the infrastructure and community facilities needed to support new development, and affordable housing was formally included for the first time by making it a 'material consideration' for the granting of planning permission. The agreements are implemented through enforceable private contracts between planning authorities and developers. The affordable housing provided must be in line with the local authority's Local Plan which identifies the need for affordable housing in the area and the mix of that housing (including social rented/low cost home ownership) which should be provided. As long as developers fund contributions by paying less for land, obligations become a *de facto* tax on development value borne by the landowner, locally negotiated and 'hypothecated' for local needs – in effect a hybrid charge and tax.

In 2016/17 about £4bn's worth of planning obligations were for affordable housing, with over 50 per cent of this total located in London and the South East[xv]. Other national subsides are not allowed to be combined with planning obligations, so there is a trade-off between numbers achieved and the depth of subsidy needed per unit. In 2017/18 almost half of the 47,000 plus affordable homes delivered were under Section 106 with nil grant[xvi]. Inherently, the system tends to favour low-cost home ownership and intermediate tenures – although 60 per cent of the relatively small number of social rented houses was also delivered in this way.

11.7 International Comparisons

The most common definition of social rented housing across countries is in terms of ownership, for which most countries can provide data. Owners include mainly local authority and non-profit housing organisations, although in some countries the range of owners is becoming more diverse. However perhaps a more useful definition relates to the terms on which the housing is provided and let: in this context it is normally defined as housing which has been provided with the assistance of subsidy, is let at below market rents and is allocated administratively.

11.7.1 Social Housing in Europe

Here we look first at Europe where social housing has been a significant element in overall provision. In particular, after the Second World War during the development of welfare states, housing was considered to be an important pillar of the contract between the state and its citizens especially in North Western Europe. In most of these countries social housing was open to a large proportion of the population. It was also an acknowledged entitlement in the socialist Central and Eastern European countries. More generally, social housing was seen as an effective means of overcoming shortages arising from war damage and rapid urbanisation for example in Italy and Portugal. Large-scale housing schemes also helped re-build construction industries and increase employment. The exceptions were in parts of Southern and South Eastern Europe, where the model was often very different, limiting social provision to local initiatives and at the national level concentrating on regulation and self-support mechanisms[xvii].

Thereafter, social housing systems have evolved quite differently across Europe[xviii]. They now differ in size and in the degree to which they target specific groups: typically, low-income and socially vulnerable households and sometimes key workers. Ownership and institutional settings vary as does the relative importance of different levels of governance – state, region, municipalities – and their degree of cooperation.

Over the last thirty years we have seen the decline of social housing in many European countries as the range of housing opportunities has increased and political regimes have changed. Even so, perhaps the most fundamental rationale for the continuation of traditional social rented housing has been that in Western/Northern European countries it is local authorities that retain the legal responsibility, often first introduced in the nineteenth century, to ensure their populations are adequately housed. In this context there remains a small group of countries where social housing accounts for more than a fifth of the housing stock led by the Netherlands at around 1 in 3; and followed by Austria, Scotland and Denmark. There is then a middle group which includes England, France and Sweden[xix] at over 15 per cent; while across the rest of Europe the proportion ranges from around 10 per cent down to almost nothing.

The Netherlands, France and Germany provide good examples of the different ways that social housing is delivered. The Netherlands are perhaps the closest to Britain in their approach in that they use market finance very effectively. The country has the highest proportion of social housing in Europe all provided by housing associations with financial guarantees by government. Even so, the costs of finance have been comparable to those in the UK where no overall guarantee exists[xx]. The private and social sectors are treated equivalently and all rents below approximately 700 euros per month, based on a points system, are controlled. Above that level they are freely determined. Housing associations are generally financially strong and able to invest quite widely, although these powers have lately been restricted. The sector is financially stable and is making net contributions to the Exchequer. France has had a consistently strong commitment to social housing including a continuing special circuit of subsidised housing finance. Local housing providers are similar to housing associations with strong links (sometimes including ownership) to local authorities. Over the last decade France has managed to maintain both funding and the scale of the sector. Germany on the other hand has privatised almost all the social sector stock either by large scale sales to private equity or because social housing subsidies have traditionally been time limited. While formally the sector is relatively much smaller than in the past, a proportion of those units that have transferred are let at sub-market rents. In all three countries land continues to be made available by local authorities or on mixed tenure sites to enable additional social housing to be provided.

11.7.2 Eastern Europe

The socialist model was one of state ownership with the allocation of housing and related services implemented by municipalities and employers. Even before 1989 this model had begun to change in some Eastern European countries. Thereafter privatisation and, where relevant, restitution became the norm, to the point where most such countries now have only a tiny municipal rented sector with very few resources even to maintain that stock and little capacity to raise rental revenues[xxi]. Problems of under-investment in the existing stock, particularly relating to energy efficiency, have been transferred to the private sector where many households have few resources to address them. Policy makers across transition economies are looking to develop new models of housing and energy support but these are mainly in their infancy.

11.7.3 European Overview

European housing policies have generally moved towards more market-oriented models since the late 1970s. Liberalisation of both rental and credit markets together with the privatization of social dwellings has occurred in most countries. Targeting has become a core theme, both in terms of these smaller investment programmes and through the shift towards income-related subsidies. Universalistic models have been questioned and reoriented towards more targeted approaches.

A major concern across much of Europe is that of the residualisation of social rented housing. It occurs in countries which still maintain a universalist approach such as Denmark and the Netherlands, where mid-income households largely tend to prefer – and can afford – homeownership. It is inherent in countries where policy directly targets low-income and vulnerable households such as the UK and Ireland. This increased residualisation raises issues of economic sustainability for social landlords: unless income-related allowances are particularly generous, the lower the income of the tenants, the lower the rents that can be charged and the higher the risk of inadequate cash flows to maintain the properties and to invest in new stock. Concentrating allocations on vulnerable, or 'problematic', tenants raises similar issues of social and political sustainability. Recent migration waves and the refugee crisis have contributed to increasing housing demand in the social sector in many countries and is resulting in a range of initiatives to expand provision, although mainly on a short-term basis.

Overall, in countries such as the Netherlands, France and the UK, where there is embedded capital in the social sector, it appears to be relatively resilient and to have the potential to play a greater role in meeting housing needs. In countries with either less of a history of social housing or where the traditional state sector has been dismantled, alternative sources of funding (such as free land on market developments in Spain) are sometimes being made available and in others, notably in the transitional countries, there is growing political will to introduce new policies. But these initiatives are relatively limited.

11.7.4 Social Housing in Market-based Economies

Typical examples are North America and Australia/New Zealand. These countries have long histories of public and social housing but the proportions of households accessing this type of subsidised housing are usually quite small. In general, the emphasis has been on supporting homeownership rather than rented housing. Even so there are significant initiatives to develop affordable housing both through national policies and local initiatives.

The US introduced the Low-Income Housing Tax Credit system (LIHTC) in 1986 which has, since that date, generated some 2.6 million units for very low-income rental housing. The housing is privately developed, owned and operated; privately financed through lenders and equity investors; and privately managed by developers from both the non-profit and for-profit sectors. It works by giving private developers a tax incentive to invest in eligible projects which can be transferred and traded. For the fifteen-year compliance period a majority of units must be let to households with incomes below 60 per cent of the area median income. Federal funding is given to state allocation agencies who then make the individual allocations. Once an allocation of LIHTCs is awarded to a project, a developer may sell the tax credits either through direct investment in the project or syndication. Investors in LIHTCs have very different motivations: banks are enabled to meet requirements under the US Community Reinvestment Act which is designed to encourage them to meet the credit needs of low and moderate-income neighbourhoods within the communities in which they operate. Other investors invest directly for the returns generated, while still others invest for tax sheltering purposes. Returns are low because the investment is in the credit not the housing and because of competition for that product. It is regarded as an exemplary programme which has successfully applied market discipline to the public–private partnership structure of the enterprise. Moreover, while there have been periods of cut back there are also periods when funding has been increased.

In Australia the introduction of the National Rental Affordability Scheme (NRAS) in 2008 represented a significant shift in the provision of housing assistance, for the first time leveraging private investment in the supply of affordable rental housing (at 20 per cent below market levels) at a national scale.[xxii] It was a mixed market approach, able to integrate affordable rental accommodation within wider market developments. The allocation decisions were based on a combination of financially feasible project applications and state government directed housing priorities, and the approach worked well in delivering quality and spatial objectives. NRAS generated nearly 30,000 units in the six years up to 2014. Despite positive assessments, concerns about complex administration, poor targeting and administrative delays then resulted in the discontinuation of the scheme.

Australia, New Zealand and Canada all have planning policy instruments, which enable identified land to be used for social housing with implicit cross-subsidy from market provision, with varying success[xxiii]. More generally it is how land can be provided which helps determine the capacity to provide affordable housing. Hong Kong and Singapore, both of which have very successful housing policies, achieve this in part by land nationalisation and continued state commitment to affordable housing. Many other countries struggle with both ineffective planning regimes and inadequate finance[xxiv].

11.8 Conclusions

Social housing, owned by the state, local authorities or non-profit organisations, has been the traditional approach to providing affordable housing for both lower-income working and vulnerable households, concentrated in urban areas. It was the core mechanism for dealing with post-war shortages in Europe especially in countries that were committed to a welfare state model of support, but it was equally important as an element in the 'social wage' in more socialist countries. In rural environments on the other hand self-build and family support tended to dominate.

The biggest problem in terms of affordability is that sub-market rents must inherently always generate shortages and it is often the more vulnerable or the newcomers who are excluded. Income-related housing support – which has only been regarded as administratively practicable since the early 1970s is one way to address this issue – and we turn to this in the next chapter.

The second major issue is that as incomes rose and with it the demand for housing and freedom of choice, owner occupation became the preferred tenure for the majority of stable and secure households and social housing tended to become more residualised. Shortages of funds for improvement and regeneration in many countries have made at least some parts of the sector undesirable and generated ghettos of poverty and vulnerability.

Yet it remains the case that state provision and subsidy are one of the most effective ways in which additional new housing can be provided. This is the major reason why there has been a resurgence of interest from the UK government over the last few years in increasing social housing investment to meet government targets, using mixed methods of finance and land provision as well as direct grants. This aspiration is reflected in a range of reports aimed at supporting the expansion of social housing. For instance, the latest report from Shelter *A Vision for Social Housing* [xxv]calls for an average of some 150,000 social homes to be provided per annum over the next twenty years. All that is currently missing are the resources.

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CHAPTER 12

SUBSIDISING THE HOUSING COSTS OF LOWER-INCOME TENANTS

12.1 Introduction

There are two main discussions that have taken place concerning the principles associated with subsidising the housing costs of low-income tenants: is there a case for housing specific subsidy; and if so, should that be directed at people or dwellings? There is a further question about whether subsidy should cover those in owner-occupation. None of the issues are straightforward. Within the housing literature there is general acceptance that housing-specific subsidies are necessary; in other words, we cannot solve the problem simply by modifying the income distribution or by regulation. Once this is accepted, a core element of the housing subsidy debate has been about whether it is better to use supply side subsidies to increase the provision of sub-market rental housing and to limit the rents charged or whether it is better to provide income-related demand side subsidies to help individual households obtain the housing they need. This debate has also been strongly linked to the more political question of how important the government's role (at national as well as local level) should be in providing the dwellings and setting the appropriate allocation principles. In other words, the debate is significantly a reflection of the post-war European experience of large-scale government ownership of housing.

Within the welfare literature, however, the discussion is more around how housing costs modify both the structure and cost of social security overall and therefore how they can impede more fundamental objectives. These include how to ensure both an efficient market for housing and sufficient support so that households can afford adequate housing as well as the other necessities of life. As such the debate has tended to be more about affordability in the marketplace, although the issues are just as relevant in the context of mixed housing systems.

Within the housing literature as noted in Chapter 11, the starting point in advanced economies has always been supply side because of the capacity to deliver. But as demand side subsides have become increasingly important the issues become more intertwined with those of general welfare principles as well as more practically on the capacity to target assistance.

Finally, the issue around whether support should be available to households in all tenures or be restricted to tenants: In principle, this argument tends to be around the view that owner occupiers are buying a different product, including investing in an asset which is not generally regarded as a necessity of life and therefore should not be assisted. At a more practical level, owner-occupiers are generally better off and, even when their incomes are low, often have both assets and relatively low housing costs because they are elderly and have paid off their mortgages.

In the UK, as in many other contexts, our housing policy includes a bit of everything, in that we support socially owned housing at below market prices through supply subsidies and allocate that housing mainly to lower-income households; we provide income-related benefits for both social and private tenants; and we give, increasingly limited, support to owner-occupiers who suffer sudden income loses.

12.2 Supply versus Income-Related Subsidies

We noted in Chapter 11 that one reason for subsidising the supply of housing for lower-income tenants was that until the 1970s there was little capacity to deliver income-related benefits which took account of both the detail of household requirements - in terms, for instance, of household composition – and of their housing costs. This was a very practical reason for choosing to subsidise housing and one which was accepted by most Northern European countries. As computerisation became more straightforward and data became more available, the introduction of housing-related benefits for all eligible tenants became a possibility and many European and other more developed countries saw this as an option[xxvi].

Once the option existed there has been considerable debate in the literature about the relative merits of supply and demand side subsidies - with academics from more market-oriented economies normally taking the view that targeted income-related benefits are to be preferred to public sector investment, while others see a mix as the better approach in practice[xxvii]. The arguments for demand side subsidies are (i) that they enable the market to respond to the increased capacity to pay among those in receipt of housing allowances and so expand supply of appropriate housing, including using the existing stock more effectively and (ii) that subsidy can be more effectively targeted on those in housing need; in particular it can ensure that all those in need are assisted and can adjust assistance as household circumstances change.

The arguments for supply side subsidies include that (i) the market is generally rather unresponsive, so rents may rise as a result of demand subsidies rather than supply be expanded; (ii) non-profit social landlords - both local authorities and social landlords more generally - have wider objectives than private landlords which include meeting the needs of low-income and vulnerable households and residence-based services in particular can be most cost effective to deliver than separately through the market (iii) government can specify what should be provided, where and for whom in line with politically agreed social objectives.

A core issue is whether this should be an either/or debate or if the more appropriate approach is some mixture of the two. In practice, supply subsidies are always limited, so that there are 'insiders' who are receiving support and 'outsiders' who are dependent on the market. So, if the objective is to ensure everyone eligible for assistance is helped this must entail a mixture of demand and supply side approaches – which indeed is the case in most European countries.

Since the 1970s there have also been political pressures across countries to cut back on supply subsidies in part because numerical shortages had been overcome but also because it was seen as increasingly possible to provide income-related benefits for those not accommodated in social housing and indeed for those unable to afford even social sector rents. These payments to individuals are available to a greater or lesser degree in most Northern European countries[xxviii] and have become increasingly important as rents go up to support additional borrowing to maintain social sector investment. In particular, the revenue from these demand side subsidies provides a relatively secure income stream to social providers which helps to reduce the cost of funds.

12.3 Housing and Welfare

In the UK the question of how to develop housing-specific income support had been part of the debate around the form that social security in general should take, initiated in the Beveridge Report in 1942[xxix]. When Beveridge published his report on developing an effective post-war social security system, he recognised that the objective of ensuring that everyone would be able to achieve a reasonable standard of living through the national insurance system he was proposing was put at risk by 'rents' - because of the extent to which the costs of minimally acceptable housing varied across the country. No other element of the necessities of life was seen as having variations that were significant enough to undermine the nationally based system.

He stated that:

'The attempt to fix rates of insurance benefit and pension on a scientific basis with regard to subsistence needs has brought to notice a serious difficulty in doing so in the conditions of modern Britain. This is the problem of rent. In this, as in other respects, the framing of a satisfactory scheme of social security depends on the solution of other problems of economic and social organisation.'

He further argued that a flat-rate benefit with an average allowance for housing would leave people in more expensive homes with income below a subsistence level, once they had paid their rent, and people in cheaper homes with a surplus. The alternative – of paying the actual rent as part of the insurance benefit – was seen as creating perverse incentives for people to move into more expensive accommodation just before they retired.

When the Labour government introduced the national insurance system an allowance was included for rent but this did not vary with actual rent payments. This was an acceptable approach for most tenants were already relatively protected. Problems of housing affordability were addressed in the public sector through below market rents based on 'pooled historic cost' – that is, setting rents plus government and ratepayer subsidy to cover the annual costs of building and maintaining the housing within each local authority area (see Chapter 11). Moreover, subsidy favoured higher cost areas so variations across the country were much less than those observed in the market sector. In the private rented sector, the vast majority of the stock was subject to rent controls with rents increasingly below market levels. In the main this left uncovered only households in furnished accommodation not subject to rent control and those unable to access housing effectively at all, who often lived within another household.

12.4 The Introduction of Rebates and Allowances

When rent rebates and rent allowances were introduced in the early 1970s, the basic principles underlying their introduction attempted to answer the question put forward by Beveridge: how to address variations in rent not just between regions but also between individual households.

The immediate reasons for the move towards income-related benefits were fourfold:

- The government wished to introduce a new form of rent determination in the social sector more related to the value of the property[xxx], while at the same time, legal judgements had made it clear that rent must relate to the property and not to the household living in that property (so income-related rents were ruled out);
- the government was also looking to raise average levels of public sector rents so that they could more effectively cover management and maintenance costs and take account of general inflation in an environment where new building was seen as less important;
- rent controls were being modified and to a significant extent dismantled in the private rented sector; meaning that more and more households were paying market rents which were out of line with their reasonable capacity to pay; and
- it was becoming practicable to obtain the data necessary to make individual assessments and to administer the system reasonably effectively. Local authorities were given that responsibility.

The result was a scheme that not only took account of individual circumstances but meant that housing support was seen as a 'residual' taking the strain within the overall system. The principles behind what became the housing benefit system were that (i) social security rules would determine the income necessary to cover basic needs for each type of household at national level (that is, with no allowance for variations in costs across the country); (ii) housing costs would be treated separately, because rents varied so greatly both spatially and between similar households; (iii) all those who paid rent were eligible to apply for benefits; and (iv) the rebate or allowance would cover the whole rent (and allowable service charges) where the claimant's income was equal to the basic needs allowance. Above that level a proportion of every additional pound was withdrawn until income reached a point where the system presumed that rent could be fully paid by the tenant.

Thus, under the scheme all tenants were able to obtain the minimum income required to meet the full range of essential needs; the subsidy withdrawal rate above that level was designed to ensure some limited incentive to work or to work longer hours; and basic housing standards could be achieved.

This approach meant that Beveridge's concerns about the distortionary effects of households' housing decisions were left unchecked except to the extent that in the private rented sector some basic limits on the size of the dwelling in relation to household needs were introduced. The assumption made was that people on low incomes had few housing choices, so the incentive to live in a more expensive dwelling/area was rarely implementable.

In principle this made sense in the public/social sector as dwellings were administratively allocated (although it removed any incentive to move when household circumstances changed, in particular when less space was required to meet basic occupancy standards). In the private rented sector, there were incentives for new tenants to come to an agreement with the landlord to pay a higher rent and claim the benefit (as all increases in rent were covered in full). Equally the incentive to move to a cheaper area was limited as was the incentive to find a smaller unit. These were a matter of concern but not seen as important enough to break the principles. In particular, the numbers on benefits were not expected to be large enough to push up rents in general. Another issue however was that, if you could find accommodation, the state would, at the limit, simply pay the whole rent so there was a built-in incentive to form separate households. To the extent that people took advantage of this, it meant that both more housing was required and the costs to government were increased[xxxi].

12.5 The Current Situation

12.5.1 The Allocation of Subsidy between Supply and Demand Instruments

Perhaps the most important statistic in the context of supply versus demand subsidies is that in 1975/76 supply subsidies accounted for 82% of all government housing subsidies with only 18% going to income related support. In 2015/16 just 4.3% of the total bill went on supply subsidies, while 95.7 % was spent on housing benefit and mortgage interest support. The overall totals during that period also rose by some 15% in real terms - measured in 2016/17 prices – so housing benefit accounted for more than the total subsidy bill forty years earlier[xxxii]. Of course, this does not reflect the extent to which housing associations and other social landlords have been able to use past subsidy and rent increases to provide additional housing and so underestimates the value of supply subsidies in economic as opposed to financial terms. However, it does make clear that there has been an extraordinary shift away from the direct subsidisation of bricks and mortar towards support for individual households. It can be assumed based on past estimates that this shift has probably gone far too far in terms of the relative value for money for government achieved by supply versus demand side subsidies[xxxiii].

12.5.2 The Changing Composition of Housing Benefit Payments

Even though the scale of total housing benefit payments has grown so much and is only now apparently coming more under control, large numbers of policy changes have limited the availability of income-related housing support, changing the picture almost out of recognition. In terms of the eligibility rules, younger people aged under 35 are now generally only eligible for a shared accommodation rate (although under Universal Credit that will increase to a one bed self-contained unit).

In the social rented sector, the situation has remained as envisaged in the1970s for the majority of tenants - in that a social rent for the housing allocated to that household is presumed to be reasonable and therefore fully covered. The exceptions are those who are subject to either the overall welfare cap - where any reduction is concentrated in housing benefit - and/or the spare room subsidy charge. In 2015, the government announced a four year 1% per annum reduction in rents in the social sector (Chapter 11). This helps those paying all their own rent themselves but was of no value for those on benefits - it simply helped government by reducing the Housing Benefit bill[xxxiv].

In the private rented sector, a different approach, based on a Local Housing Allowance (LHA), has been taken. This uses the distribution of rents for those not on benefits in defined 'Broad Market Areas' to determine the maximum support for which tenants are eligible; the current rule is set to enable tenants to claim for rents only up to the third decile of the rent distribution for the relevant sized property in that area. This provides some incentive to move within the area but more generally leaves large proportions of households paying a proportion of their rent even if they have no non-benefit income[xxxv].

In 2015 the government also introduced a four-year freeze on the determination of local housing allowances, which determine the maximum support payable to private tenants. This inherently means that as actual rents go up, those paying around or above the third decile set at the beginning of the freeze will not be compensated for any increase.

A further change, which is clearly causing very significant hardship to lower-income households,[xxxvi] is the transfer of Council Tax benefits (which are based on similar principles to housing benefit) to local authorities, without transferring additional funding. Local authorities may opt to introduce schemes that cover up to 100% of Council Tax for eligible tenants as was the case in the past. However, many are requiring contributions of between 10% and 40% - and sometimes higher. In turn this is leading to court orders which, of themselves, increase the costs that households have to pay and at the limit lead to evictions.

Austerity policies underlie many of these changes but there is also an attempt to increase incentives to move to cheaper accommodation or to cheaper locations. Importantly the principle of ensuring that 'residual' income is enough to pay for other basic necessities has been undermined very significantly. Rather it is now implicitly assumed that people have choice and, therefore, it is their own decision to use money for housing rather than other necessities.

12.6 The Importance of these Changes

A report by the Institute for Fiscal Studies (IFS) published in 2017[xxxvii], gives the best estimates currently available of how much some of these changes have impacted on lower-income tenants. They showed that among private renters in the bottom 40% of incomes, the fraction whose housing benefit does not cover all of their rent has increased quite steadily, from 74% in the mid-1990s to 90% in the mid-2010s. The biggest change occurred among low-income working-age households with children, where it rose from 63% to 90% over the same period. In the social housing sector, the increase has been concentrated in recent years, jumping from 56% in 2010–2012 to 68% in 2013–2015.

The IFS estimated that reforms since 2011 have cut the housing benefit entitlements of 1.9 million privately renting households and 600,000 social renting households– in other words two-thirds of low-income private renters and one-sixth of low-income social renters are now affected. This and other evidence show that, based on the principles of our system of social security, we are facing a growing problem of poverty, in that payments do not cover what the system itself determines is the required minimum income for a reasonable life. The evidence also shows that, given current housing circumstances, most tenants probably cannot reasonably be expected to adjust their location and housing consumption to enable them to cover other costs.

12.7 Overseas Experience

The OECD Affordable Housing Dataset developed in 2016 [xxxviii] reviews the range of housing allowances available across OECD countries. It suggests that most countries have at least one housing allowance system in place and many have more than one. Private tenants are nearly always covered but social tenants may be excluded if their rents take account of income as in the US and Australia. In most North Western European countries, housing support has been developed that makes an allowance for housing costs within mainstream social security benefits. Housing allowance systems are based on the 'gap' principle whereby, for a given income, the housing allowance meets a certain proportion of rent above a minimum contribution and up to a maximum level. In circumstances where unmet housing costs take residual income below the social assistance (what we would call social security) minimum, the social assistance system itself often steps in. The clearest example of this structure is in Germany, where housing allowances (Wohngeld) are available for people in work or in receipt of social insurance (unemployment) benefits. Those dependent on social assistance on the other hand receive support for housing costs from that system.

The biggest difference with the UK, however, is that most other Western European systems are more generous in that their welfare systems are based on a proportion of earnings[xxxix].These higher benefits in countries such as Germany, Sweden and France allow most people to pay for their accommodation, with a top-up available if necessary. In part this is possible because rents are generally a lower proportion of income in most of Europe (particularly Germany) except for areas of housing pressure. But it is also the case that, because of higher social security benefits in relation to earnings, a basic standard of residual income can generally be maintained while enabling a proportional approach to additional support.

In comparison, it is argued that in the UK we have a system where jobseeker's allowance and income support are set at very low levels, and so housing benefit must often cover almost all housing costs[xl].

12.8 How the Tenure of Housing for Lower-Income Households has Changed

The biggest structural shift in where low-income households live has occurred as a result of the decline in the social rented sector and the rapid growth of private renting. In 1979 when social housing was at its height, over one third of dwellings in Great Britain were social housing. While some poorer households (especially single people, those who had moved areas, or those who were living in high housing pressure locations) found it difficult to obtain social rented housing, the large majority of such households were accommodated in low-rent dwellings, owned mainly by local authorities. Importantly so were many better off households[xli].

Private renting in 1979 accounted for little more than 11% of all dwellings and about a quarter of the tenants were living rent free. Some groups of marginalised households were private tenants but much of the sector consisted of new entrants to the housing market, those renting by virtue of employment or older tenants who were still protected by rent control[xlii]. More generally it was seen as almost an inferior sector which might be expected to continue to decline.[xliii] However as the sector was deregulated and became more and more market oriented it was seen more as a tenure of choice, mainly for the young and mobile because of easy access and low costs of moving. Such households might well be prepared to share and to live in relatively low-quality housing before moving on to more stable accommodation[xliv].

Since 1979, there have been massive changes in tenure structure which have affected lower-income households as much as the better off. At the turn of the century social housing had declined to around 21% of dwellings in Great Britain and had, as a matter of policy, become far more concentrated on housing lower-income and more vulnerable households. The private rented sector, however, was actually smaller in proportional terms at less than 10% in 2001 and accommodated a mix of those choosing the tenure, mainly for mobility reasons and those unable to find appropriate accommodation in the majority sectors.

Since the turn of the century the picture has shifted again, in a way not predicted by policy makers or most commentators, towards a far greater role of private renting. By 2017 over five million dwellings in Great Britain were privately rented, accounting for almost 20% of the total stock. Rates of growth have been similar across not just England but also Wales and Scotland. In London this has resulted in more than one in four households being private tenants[xlv]. At the same time, social renting has further declined to little over 17%. Moreover, the majority of these dwellings were owned by housing associations where rents were generally higher than in the local authority sector.

At the present time the growth in private renting has shown signs of slowing and perhaps to a very limited degree reversing. And, while there is considerable pressure towards increasing new build in the social sector, this has so far only helped stem the decline. If anything, therefore, the options available to lower-income households are probably still becoming worse, at least in high pressure areas notably London.

12.9 The Suitability of the Private Rented Sector for Lower-Income Tenants

The private rented sector in the UK (as compared to many other countries with different regulatory systems) has not been seen as suitable for most family households or indeed for older or single households who are looking for longer-term stable accommodation. The main reasons for this view of the sector relate to the regulatory framework under which the private rented sector operates, which is based on Assured Shorthold Tenancies (ASTs) which run for a minimum of 6 months – among the shortest in the world; they enable market-determined rents both at the beginning of the tenancy and within the tenancy and no-fault eviction at the end of the tenancy. Thus, at worst, the tenants face continual uncertainty about how long they can stay and what they are going to be paying and find it hard to complain about anything wrong with the property as this may increase the chances of having to leave. The situation changed very considerably in Scotland in 2018 where the law now requires indefinite tenancies and the removal of no-fault eviction - although the impact of the changes is not yet clear.

The make-up of the private rented sector in 2017/18[xlvi] shows that the view of its role as for younger, single, more mobile households no longer reflects reality[xlvii]. It is indeed still the sector accommodating the largest proportions of single people with sharing households making up somewhat over a third of the sector. However, approximately 20% of those in the private rented sector are couple households with dependent children – just above the overall national average and well above the proportion in the social rented sector, at 13%. Lone parents with dependent children account for over 10% of those in the private rented sector as compared to less than 6% overall - and not that far below the 13% found in the social sector.

The other major attribute of those in the private rented sector is that 77% of private tenants are in work as compared to 60% for households overall and only around 40% of social tenants. This reflects the age structure of tenants in the sector and its rapid growth over the last two decades. The available data (mainly from the English Housing Survey and the Family Resources Survey) do not, however, make it easy to distinguish between lower-income households potentially in shorter term need – for whom private renting might be acceptable - and those likely to require assistance throughout their lives who would probably be better accommodated in the social sector.

The issues of affordability in private renting are as much about high rents as they are about low incomes, in part because these high rents mean that even those on above average incomes may be eligible for assistance; this in turn implies that the marginal rate of 'tax' is extremely high when benefits are withdrawn as incomes increase. In the social sector the issues are far more about low incomes as rents, while they have grown in real terms, mainly remain well below market levels.

12.10 Homelessness

At the limit, households may not be able to find suitable accommodation which they can afford and may become homeless[xlviii]. This is an area of policy where at least in principle there is a fairly well-defined framework. Unlike many other countries, since 1977, there has been clarity about where responsibilities lie: local authorities were given well-defined duties to ensure that defined categories of homeless and potentially homeless households would be supported into longer-term secure accommodation. Within this framework local authorities have freedom to achieve this in ways that they regard as locally appropriate. But what has sometimes been lacking are (i) the administrative capacity to make the system work effectively and (ii) the resources to pay for what is required.

For many people, certainly for instance in the United States, homelessness is perceived as meaning that someone does not have a roof over their head. In the UK, people in this position are designated as street homeless or indeed roofless and treated in a more holistic fashion. A count of people sleeping rough in this way is undertaken on a particular night each year. This count shows increasing numbers in England since 2010 - from well under 2,000 to around 4,700 in November 2018[xlix]. This does not fully reflect the scale and nature of the problem, in part because people are difficult to find and in part because, in practical terms, it is how long someone is sleeping rough that matters most to their health and wellbeing. What is very clear is that, while this type of homelessness is the most obvious, the problems are usually not simply about having a roof over their head but relate to other health and social care issues. Housing policy in this context mainly consists of trying to provide hostel accommodation and organise the support necessary for each individual. Problems are associated with engagement as well as the severity of the difficulties – only rarely is there an issue of eligibility for social support. Current policy initiatives, as in many countries - notably the United States and now Australia and New Zealand - include Housing First which sees providing a stable, secure home as a necessary first step to addressing other issues[l].

The more general definitions of homelessness for policy and resource purposes in the UK mainly relate to whether authorities have a duty of care. The legal definition set out in the Housing Act 1996, which has been used in law since 1977, provides a clear test of who is or is not homeless. Someone is homeless if: they have no accommodation that they are entitled to occupy; or, they have accommodation they are entitled to occupy but it is of such poor quality that they cannot reasonably be expected to occupy it. Until 2018 local authorities had to treat someone as homeless, if they are threatened with homelessness within 28 days but under the Homelessness Prevention Act 2018 this has been extended to two months in the expectation that this will give both the local authority and the household more time to prevent the homelessness occurring. Some 70% of households for whom a local authority accepts a duty of care are at the time of acceptance living in London.

The vast bulk of the recently recorded increase in statutory homelessness is attributable to the sharply rising numbers made homeless from the private rented sector, with relevant cases having quadrupled in England since 2009/10, from less than 5,000 per year to over 18,000. As a proportion of all statutory homelessness acceptances, such cases had consequentially risen from 11 per cent in 2009/10 to 31 per cent by 2015/16, remaining at this unprecedented level in 2016/17. The Local Housing Allowance reforms in 2011 which limited housing benefit appear to be a major driver of this association between loss of private tenancies and homelessness. More generally, among homeless households, there are increasing numbers of what might be called mainstream working people who are simply unable to find and maintain suitable (or even unsuitable) accommodation. Affordability is increasingly seen as the cause of rises in the statutory homeless.

Two big issues arise here: is it the government's responsibility to pay the costs and do the problems have to be solved where they are identified? This second point is a version of the Beveridge issue – does current location dominate issues of cost and indeed opportunity? On the question of payment, the government, in practice, defines temporary accommodation provided for homeless households as social housing - and so does not apply any restrictions to the rent covered. However, those who are in work and homeless must pay the relevant proportion of their income towards the rent. There are a range of sources of central government subsidy but, even so, local authorities feel that their own costs are increasing. The new Homelessness Reduction Act 2017 puts a great deal more emphasis on prevention to try to limit the numbers of acceptances. This makes sense as long as there is some potential in the local housing system to find more, lower priced, accommodation. However, in London and some other parts of the country this prerequisite simply does not exist.

On the second issue, while case law makes it clear that people should not be moved long distances from their children's schools or from other necessary support systems, there is an increasing emphasis on accommodating those in need of temporary accommodation away from the authority in which they are declared homeless. In London for instance around 40% of homeless families presenting in 2017/18 were accommodated outside their borough. This may in some cases give households increasing job and housing opportunities but is very much against the traditional principles set out in the 1977 Housing (Homeless Persons) Act.

Overall it is too early to say whether the Homelessness Reduction Act will be successful. There has certainly been an immediate sharp decline in the numbers of households who are accepted as homeless after prevention has failed. However, it is accepted that the statistics are still experimental and it is not clear whether this is a short term effect or indeed whether those accepted will end up staying in temporary accommodation for longer.

Homelessness is a problem that is increasing across many countries significantly because of affordability issues[li]. On the whole it affects a relatively small proportion of lower-income households, and policies to alleviate the problem often receive a more than proportionate level of funding. Overall, however, homelessness remains a clear and increasingly concerning symptom of housing market and wider economic and social tensions.

12.11 Overall Implications

The nature of the relationships between housing and affordability has significantly changed as a result of three main factors:

- The relative decline in the social sector where rents are below market levels, although it should be noted that rents had risen consistently in real terms until the four-year government determined decline;
- The growth of the private rented sector as accommodation for family and vulnerable households as well as for those for whom it is a matter of choice; the insecurity of such accommodation; and notably the high rents, especially in London, which have put pressure on household budgets; and
- Changes in policy which mean that it is no longer the case for large proportions of those in receipt of benefits that they have (after allowing for housing costs) sufficient residual income – in the government's own terms – to cover their necessary expenditures.

Together with increasing job insecurity and income maldistribution these three factors have worsened the situation for large numbers of lower-income households while, in the main, providing fewer opportunities for such households to improve the conditions they face. In terms of income support for lower-income tenants the fundamental question remains as to whether we can solve or alleviate the Beveridge conundrum of rent variation within a nationally based system that is itself not particularly generous, while leaving in place appropriate incentives. At the present time there appears to be a stronger emphasis on modifying these incentives – yet it is not obvious that lower-income tenants have as much choice as policies imply – so people are left with inadequate income to support a normal life. The alternative would be to aim to move towards a more generous social security model as is found in many European countries – but this looks unrealistic. Even more fundamental is whether income inequality (excluding welfare payments) can be mitigated in order to reduce the overall costs of assistance.

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[i] In any general statement of this type there are always exceptions; for example, a tenure neutral flat rate subsidy for new build in the inter-war period. Equally there are some private sector providers of social housing who are eligible for subsidy.

[ii] Galster (1997), Yates and Whitehead (1998).

[iii] Elsinga et al (2014), Scanlon et al (2014), Whitehead (2003).

[iv] An additional complication for government is that given public borrowing constraints the opportunity cost of government borrowing may be seen to be significantly greater than mechanisms which allow the borrowing to be off the government's balance sheet. So value for money for government may differ from the direct cost of finance.

[v] Although as we note elsewhere market rents are also not necessarily market clearing rents and are themselves affected by differential tax regimes and income related subsidies.

[vi] Holmans (2005).

[vii] Because so many local authorities refused to raise their rents and so continued to be eligible for subsidy the government decided to 'deem' notional increases in both costs and rents reflecting their view of appropriate increases (Wilson,1998).

[viii] Fair rents applied to most new lettings in the private rented sector after 1965 – they were set by independent tribunal with the objective of removing the scarcity element from market rents. They applied to housing association rents as associations were technically part of the private sector.

[ix] See for example Whitehead (1999).

[x] Wilson and Bate (2015).

[xi] The Right to Buy policy was UK wide but since 2018 no longer applies in Scotland or Wales.

[xii] Wilson (1998).

[xiii] Ellis and Whitehead (2015).

[xiv] Wilson (2019).

[xv] Lord et al (2018).

[xvi] Ministry of Housing Communities and Local Government (MHCLG 2018).

[xvii] Allen et al (2004).

[xviii] Hegedüs et al (2013), Scanlon et al (2014).

[xix] Although there is formally no such thing as a social sector in Sweden.

[xx] Priemus and Whitehead (2014).

[xxi]Hegadus et al (2013).
[xxii] Rowley et al (2017).
[xxiii] Gurran et al (2018).
[xxiv] RICS (2019).
[xxv] Shelter (2019).
[xxvi] Department of the Environment (1977).
[xxvii] See for instance the debate between Galster and Yates and Whitehead in the mid-1990s in Galster (1997) and Yates and Whitehead (1998).
[xxviii] OECD (2016).
[xxix] Beveridge (1942).
[xxx] Fair Deal for Housing (Command Paper No. 4728) published in 1971 set out the government's approach to rent setting in the social sector and was implemented in 1972. At the same time rent rebates were introduced followed in 1973 by rent allowances for most private and housing association tenants. In practice because rent increases were specified in money terms rents actually fell in real terms because of rapidly rising inflation but their introduction enabled change over the following decades.
[xxxi] Hills et al (1991), Hills (2001), Kemp et al (2002).
[xxxii]Stephens et al (2018).
[xxxiii] Holmans and Whitehead (1997).
[xxxiv] Ellis and Whitehead (2015).
[xxxv] Rugg and Rhodes (2018); see also Rhodes and Rugg (2018) for a more quantitative analysis using English Housing Survey data to examine vulnerability more broadly.
[xxxvi] See, for example, Murphy et al (2018) who clarify the costs of the reduction in the Council Tax payment allowance for low-income Londoners.
[xxxvii] Joyce et al (2017).
[xxxviii] OECD (2016).
[xxxix] Kemp (2007).
[xl]Griggs and Kemp (2012).
[xli] Holmans (1970).
[xlii] Whitehead and Kleinman (1986).
[xliii] Beckerman (1965).
[xliv] Whitehead (1994).
[xlv] Udagawa et al (2018).
[xlvi] English Housing Survey Headline Report 2017/2018.
[xlvii] Rugg and Rhodes (2018), Udagawa et al (2018).
[xlviii] Housing (Homeless Persons) Act 1977.
[xlix] Ministry of Housing, Communities and Local Government (2019).
[l] See for instance the Housing First: England website hfe.homeless.org.ul.

[li] FEANSTA (2018).